

COLUMNS

## Why luxury retailers should watch Whole Foods' new loyalty rewards pilot

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By **Fred Thompson**

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After more than 30 years in business, Whole Foods launched its first customer loyalty rewards pilot this September. This decision runs counter to some competitors' recent moves to exit loyalty programs, and the conventional wisdom is that Whole Foods is betting on this strategy to remain competitive by improving its ability to engage customers, build relationships and enhance customers' experience while they shop.

So why is Whole Foods such an interesting company for luxury marketers to monitor?

It is not the simple fact that it launched a program – the grocer's increasingly pressured competitive position almost demands that it not pursue business as usual.

Whole Foods has enjoyed the prestige and margins of luxury brand positioning for years by stocking rare and exclusive items, remaining near the top of category price points, offering high-touch design and personally identified service and opening locations in affluent ZIP codes.

Increased pressure from major industry competitors and mass channels is eroding Whole Foods' product differentiation. Pricing premiums are harder to defend and many

of Whole Foods' customer experience differentiators are being adopted as competitors respond to changing customer preferences.

Sound familiar?

Whole Foods needs to do something different to maintain its leadership position.

The more interesting lesson for luxury marketers is how Whole Foods is thinking of structuring the program to appeal to its customer base, many of whom are luxury retail's best customers.

Breaking out of the industry-standard loyalty approach

The grocery industry's loyalty offerings are relatively undifferentiated in general: two-tier pricing and fuel rewards incentives are common elements.

These incentives generally drive very high participation rates (90-plus percent sales running through the program), decent sales lift for grocers (5-10 percent range) and fantastic volume increases for fuel partners (standard 15-20 percent increase in fuel gallons pumped).

What these programs have not done is engender genuine customer loyalty to the grocery brands.

Today's shoppers expect more than just access to discounts and fail to respond to programs that lack differentiation or any emotional connection.

Incentives need to reinforce the brand, preferably by aligning with a differentiating product or customer experience. Whole Foods' answer?

A blend of personalized rewards and enhanced experiences, allowing members the choice of using a rewards card or mobile application, and the chance to easily integrate with Apple's mobile payment system.

Whole Foods appears to have recognized early in the process that differentiating its loyalty strategy will be key.

Customers have high expectations for this brand, and this level of differentiation forces competitors to grapple with how to respond given their current loyalty structure and partnerships.

Embracing and scaling experiential rewards

Whole Foods has a tremendous opportunity to create excitement through the inclusion of experiential rewards – singular experiences offered exclusively to members.

Rewards such as personalized services and access to special events provide options that members cannot get anywhere else.

Experiential rewards have particular appeal for millennials – those in the key 18-29-age bracket.

In September, when we asked 1,034 U.S. consumers about reward program benefits in the

grocery category, 69 percent said an expert session with a nutritionist or chef would entice them to shop more with favorite grocer. Among millennials, 84 percent indicated their strong interest.

Those findings could easily apply to exclusive in-store experiences for members, such as cooking classes from a professional chef or consultation with a nutritionist about a shopping list.

This builds beyond the special event and invitation approach that traditional luxury retailers have used, and we should expect to see more retailers, particularly in luxury, evolve their programs to move in this direction.

Energizing the executive team around loyalty

Moving down this path for Whole Foods is a marked change from its previous resistance to published loyalty programs. The next challenge it faces is the successful execution of the program and pivoting of internal groups in embracing this data to transform business as usual.

Consumers remain wary about the concept of Big Data. A 2013 customer service survey by us indicated that 77 percent of consumers saw no benefits from sharing data with businesses.

Further, 89 percent thought that sharing only benefits the businesses.

This is a significant headwind that Whole Foods will need to address at launch.

Customers will need to perceive quick benefits for sharing their information to enable the program to find a foothold.

Additionally, the Whole Foods organization has an opportunity to thrive by taking a broad enterprise approach in aligning against the new customer data, employing customer-centric retailing with each touch point.

The right enterprise loyalty strategy can de-commoditize grocery shopping, helping the company enhance the customer relationship and generate long-term success.

LUXURY RETAILERS should watch Whole Food's launch with interest.

High-profile new programs such as this are rare, and many public lessons learned are likely to be shared.

*Fred Thompson was partner and retail practice leader at [LoyaltyOne Consulting](#), Toronto, at the time of publication. He is no longer with the company.*