

# Who's Afraid of Wal-Mart?

**Pueblo Supermarkets faces down Wal-Mart by winning the hearts, minds—the loyalties—of its shoppers.**

by

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It has become conventional wisdom that the opening of a “big-box” store can drain 30 percent or more of sales from a retailer in its trading area by the end of year one, certainly by the end of year two.

Most retailers wring their hands and match prices in an attempt to fight the fire with gasoline, wrongly thinking that someday they’ll be able to raise prices and customers will stick with them, which of course they don’t. Or, they instruct the staff to smile relentlessly and run television commercials with a jingle about their customer service.

What’s the solution? The solution is to win the hearts and minds of customers. How do you do that? You do it by knowing customers’ wants and needs beyond the price on the box and by creating opportunities for customers to satisfy their wants and needs.

A study by a group of researchers from Carnegie Mellon and Northwestern, soon to be published in the journal *Marketing Science*, and recently previewed in the October 8th *Pittsburgh Post-Gazette*, found that the arrival of a Wal-Mart within a few miles of a supermarket chain resulted in an almost immediate 17 percent drop in sales.

Research in the Hardware and Home Improvement Industry confirms that most

independent hardware stores lose about 30 percent of their business in the first year of a big-box landing.

Such a fate has not befallen Pueblo Supermarkets, which has faced down Wal-Mart and lived to tell about it because they not only have a customer database, but they actually use it.

Pueblo Supermarkets had been the largest supermarket chain in Puerto Rico for 40 years. It enjoyed little competition for most of that time—until the early 1990s when Wal-Mart expanded to Puerto Rico. Over the next ten years, Wal-Mart opened nine Wal-Marts, nine Sam’s Clubs and four Supercenters. In 2002, Wal-Mart bought the number-two supermarket retailer, Amigo, and set about lowering Amigo’s prices, Wal-Mart style.

It was no surprise that by 2003, Pueblo had lost more than a third of its market share. Changing ad agencies and increasing television, radio and print spending did nothing to impede the declining sales.

Pueblo had a “loyalty card,” but not a “loyalty program.” The loyalty card provided discounts to card-holding customers on a few thousand items and that was it. Focus group research revealed that consumers had lost their connection with Pueblo. Consumers said they were aware of the advertising, yet the ads failed to



persuade consumers to shop at Pueblo as they once did. After Amigo went to everyday low pricing, even with promotional circular pricing and loyalty-card discounts, Pueblo customers continued to perceive Pueblo as the higher-priced supermarket.

It is often the case that retailers only make a serious commitment to changing the way they do business when their backs are up against the wall. By 2003, Pueblo's back was part of the wall.

The first thing Pueblo did was to use their loyalty database to identify best customers and give them a reason to believe that Pueblo wanted their business. This is not a unique idea, but in retail it is rarely implemented. The study quoted in the *Pittsburgh Post-Gazette* states, "researchers found roughly 70 percent of lost revenue could be traced to just 20 percent of the store's customers ...Armed with such data, supermarkets facing an incoming Wal-Mart or other discounter should identify the big spenders and their preferences so they can be lured back with special promotions."

In the case of Pueblo, the top 30 percent of customers are responsible for about 75 percent of sales. How do you convince your best customers to increase their visits when they are being wooed by lower-priced competitors? You create higher perceived value. How do you create higher perceived value and generate a higher return at the same time? You decrease unnecessary spending on un-targeted media and concentrate spending on targeted activities and promotions.

This is how Pueblo did it:

■ 1. (a)Redesigned the Loyalty Card Program with new features, most prominently, a tiered points program (1 point per \$1 spent) offering incentives to customers

to shop more often— (b)households that reached 600 points received a 6 to 12 percent discount in one favorite department for the entire calendar year—(c)those households who reached 1500 points received a 6 to 12 percent discount in a second favorite department (different discount levels by department based on margins).

■ 2. The new program, with a new visual vocabulary, was launched in television and print advertising, with high profile in-store signage, and most importantly with a mailing to all existing cardholders explaining the new program and featuring a replacement keytag (we've learned that a keytag in a mailing can double or triple the response).

■ 3. In the mailing, customers were asked for their birth month. With this information a monthly program was created to mail a birthday "thank you" to the top 30 percent of customers who provided their birth month. Customers received their choice of cake or ice cream and discounts on Blockbuster rentals.

■ 4. Quarterly, customers were mailed a statement describing their level of participation and discounts earned, along with information about new features of the program and new products and services available at Pueblo.

■ 5. Using the data, lapsed customers in each segment of the top 30 percent were identified based on their average number →



← of monthly visits. Any household that had consistently been a top-30 percent customer and did not shop for one month was in danger of jumping ship. Therefore, lapsed households were encouraged to reach the next level of rewards via mailings with special offers focused on the customer's favorite department.

■ 6. Year-end holiday promotions using direct mail provided special points and rebate incentives that carried into the new year—these incentives were based on individual household purchase behavior.

■ 7. A series of “impetus” mailers resulted in incremental spending by segmenting top spending customers who were uncharacteristically in the bottom rung of high-margin departments like meat and produce. Pueblo offered them incentives to expand their shopping to include those departments.

According to Supermarket Industry studies, more than 65 percent of all grocery chains have a customer database. If you shop at all, you know that the database is mostly used to indiscriminately issue private label coupons to drive more sales of generic cereal, for example. Or the database is used simply to promote mass mailings to seize more deal dollars from manufacturers.

These activities have nothing to do with customer purchasing habits, wants or needs. As a result they do nothing to build a relationship with the customer. Following that logic, when a big-box shows up, the retailer has no hold on the customer.

The perceived value of the program to the customer (a large 6-12 percent discount in their favorite department) was on average only a 2% discount on the total basket from the store's perspective.

Yet, the fact that customers knew they would

get a hefty discount in their favorite department caused them to increase their visits and average ticket. Customers who selected meat as their favorite department wouldn't visit another store to buy meat. When customers came to Pueblo to buy their meat (on a visit that may have previously gone to another retailer) they also purchased staples like milk and bread and as a result, increased their average ticket and annual spending.

The ongoing mailings and in-store activities rebuilt the connection that customers felt towards Pueblo and its Puerto Rican heritage in the face of non-local competition.

Pueblo also learned that it's not just more intelligent use of data and marketing that wins in the face of lower-priced competition. Pueblo used the launch of the new Loyalty Card Program as the basis for engaging their staff and improving customer service. Pueblo invested in extensive training not only about the new program but also about Pueblo and the areas in which it excels versus the competition. They created new uniforms that improved associates' self-esteem.

For the first time, store associates had a reason to smile, to give customers some good news about their points and discounts as they flashed on the register and to recommend how they could earn further benefits.

Pueblo realized that the store environment offered a low-cost media opportunity to refresh the look of the stores and reinforce the benefits of the Pueblo Card. Signage in the store emphasized the benefits of the new program. The concept of department specific discounts provided

Pueblo with an opportunity to talk about the quality of products in each department and the superior assortment versus

competition, as a way of helping customers choose their favorite department.

Pueblo has only scratched the surface of what can be done when there is a corporate commitment to do business based on a customer centric, data-driven approach. Loyalty programs done right become customer relationship programs that create a bond with the brand—a formidable weapon to fight the big-box advance. ■

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During his 20 years in advertising Spencer worked in many areas of the industry from media planner to agency head, and on brands from American Express to Uniroyal. He won an Effie award for his work on Coca Cola brands. He won a Fortitude award working with Ted Turner on the launch of CNN Headline News. Spencer did his graduate work at Syracuse University where he received a master's degree in journalism and advertising. He received a bachelor's degree in communications from Ithaca College. Spencer can be reached at [spencer@iiooc.com](mailto:spencer@iiooc.com).

