

# JOE BERRY AWARD 2023

ENTRY – JBA-23-124

**Topic # 4B - Maintaining Loyalty in Crisis**

**Presentation #2**

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## **EXECUTIVE SUMMARY**

Businesses should *not* fight to maintain customer loyalty in a crisis. Customer churn is a natural cycle of shopper behaviour. Instead, businesses need to focus on customer acquisition to drive growth. Those who don't will decline.

The effects of rising inflation are driving customers to expand their brand repertoire to include cheaper brands, private label, and products from discount retailers. As customers aim to save money, brands lose share. To maintain share, businesses need to win an equal number of customers to 'keep the bucket full.'

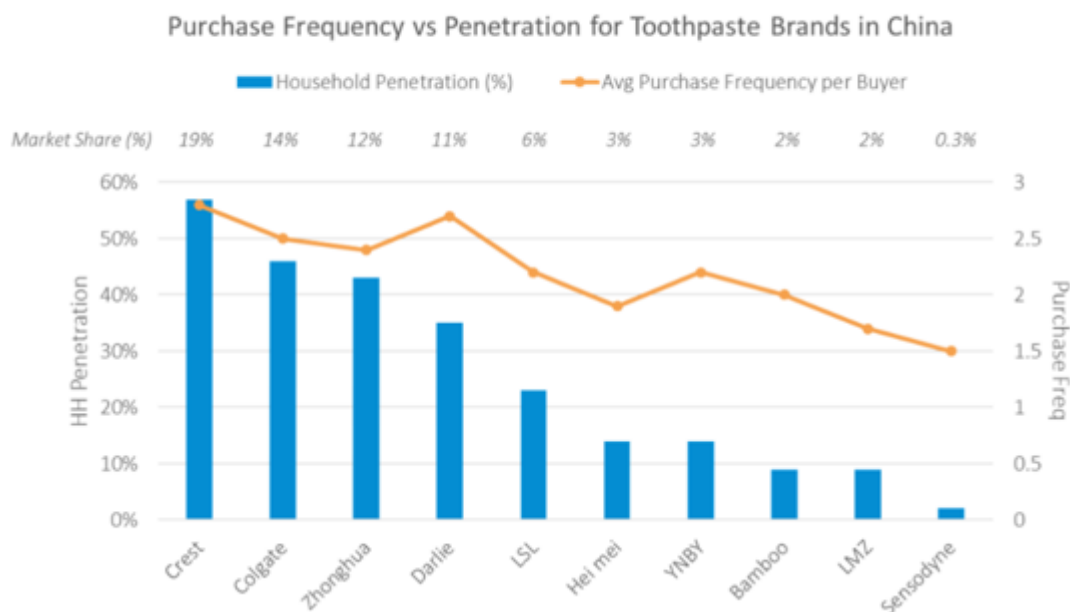
With today's 'dichotomy of customer' in mind, I will assert that businesses can unlock growth in a crisis by overcoming 'four barriers to penetration' via relevant acquisition strategies.

Furthermore, to successfully amplify these strategies, I will stress supplier/retailer collaboration. By working closely with retailers, suppliers can influence 'right-price-right-range' strategies that reflects shifts in customer purchase behaviour and therefore keeps customers 'coming through the door'.

## PENETRATION IS MORE IMPORTANT THAN LOYALTY

One of the empirical laws of marketing, 'Double Jeopardy' states that “brands with less market share have so because they have far fewer buyers and that these buyers are less brand loyal. So essentially “as market share declines, both penetration and brand loyalty drop together”. However - *here's the clincher*, “penetration drops at a much faster rate relative to loyalty”<sup>21</sup> (Fig 1)

(Fig.1)<sup>1</sup>



Therefore, a strategy focused on maintaining customer loyalty during a crisis doesn't make a lot of sense, it won't improve declining market share.

On the other hand, a strategy focused on growing household penetration is shown to be more effective. “Rather than encouraging current customers to purchase more, it's easier to get non-customers to purchase once.”<sup>22</sup>

Loyalty is still important for growth; it just doesn't play the largest role in increasing share. Hence, customer acquisition is vital.

<sup>21</sup> <https://peelresearch.com/how-brands-grow-part-1-the-double-jeopardy-law-explained/>

<sup>22</sup> <https://www.marketingscience.info/effective-brand-growth-acquisition-or-retention/>

## TODAY'S DICHOTOMY OF TWO CUSTOMERS

A robust acquisition plan must reassess changes to customer behaviour.

### The Persevering-Prospect

Rent or mortgage is a cost for 70% of Australians.<sup>23</sup> The Reserve Bank of Australia has recently passed nine consecutive interest rate-rises. Consequently, creating mortgage stress in the market. Skyrocketing rental prices have accelerated rental stress. With 2.54 million Australians devoting 31-60% of their income to rent.<sup>24</sup> It goes without saying that household budgets have been impacted. Consequently 'Persevering-Prospects'<sup>25</sup> are spending less on discretionary items, down-trading to cheaper products and turning to private-label and low-cost retailers.

### The Opulent-Optimist

On the flip-side the current economic environment has contributed to the rise of the 'Opulent-Optimist' who "don't feel the impact of inflation and want to live the life they missed out on during the pandemic". 'Optimist's' value "products and services that enhance their current lifestyle. They resonate with idealistic narratives: personalization and targeting to who these individuals want to be."<sup>26</sup>

Within Australia, 'Optimists' over-index in a micro-generation coined 'The Zillennial', (born 1990-2000) who growing up online have money to burn. What makes Zillennial's optimistic is their spending power. Around one-third still live at home, and they have jobs. This combination gives them disproportionate amounts of disposable money.

With both customers considered, I will now explore four barriers to penetration (Fig 2), along with relevant strategies that can propel acquisition in a time of inflation.

(Fig 2.)

Four customer barriers to penetration	
1. Don't think of it	2. Not relevant to me
3. Can't afford it	4. Can't see it

<sup>23</sup> <https://www.aihw.gov.au/reports/australias-welfare/home-ownership-and-housing-tenure>

<sup>24</sup> <https://www.savvy.com.au/2-72-million-australians-at-risk-of-rental-stress-survey/#:~:text=According%20to%20the%20Australian%20Institute,of%20their%20income%20on%20rent.>

<sup>25</sup> <https://www.mintel.com/consumer-market-news/global-consumer-trends/>

<sup>26</sup> <https://www.mintel.com/consumer-market-news/global-consumer-trends/>

## 1. DON'T THINK OF IT

To overcome the 'don't think of it' barrier businesses must build 'mental availability.'

### **Advertising**

If you're a marketer, I bet inflation has you worried not only about your household budget but your marketing budget too! Cutting marketing budgets is an easy way for businesses to save money - but at what cost?

Advertising plays a strategic role in a business's ability to drive 'mental availability' by "communicating a memorable set of distinctive brand assets." It enables big brands to "box out small competitors and grow customer penetration and market share. For small brands, it is to develop different and effective customer acquisition campaigns to steal market share from bigger rivals."<sup>27</sup>

By compromising on advertising spend, the customer's choice can become a simple one based on price alone. This is problematic for businesses as it results in lost sales and corrodes long-term attributes like brand-equity and saliency. During a crisis business *must* continue to invest to grow penetration and market share. (Fig 3)

(Fig 3.)



<sup>27</sup> <https://business.linkedin.com/marketing-solutions/content-marketing/b2b-trends/the-loyalty-lie>

Instead of cutting budgets, businesses should focus on better ways to communicate value. Inherently, this will attract new customers and remind existing customers too.

For ‘Prospects,’ ‘value-for-money’ communication is effective. E.g., Decathlon communicates ‘Low price, great value’ by choosing not only to focus on price but what it represents in terms of customer experience.



Conversely idealistic messaging is key for ‘Optimists.’ Retailer, JD Sports does this well. Recognizing that their “customers are motivated by desire rather than economics”<sup>29</sup> they produce campaigns that “seeks to inspire the emerging generation.”<sup>30</sup> (This ultimately addresses the relevancy barrier too!)



<sup>28</sup> <https://insidefmcg.com.au/2022/09/20/mitey-makeover-vegemite-launches-range-with-qr-scannable-labels/>

<sup>29</sup> [JD Sports says shoppers ‘motivated by desire, not economics’ | The Independent](https://www.independent.co.uk/business/news/jd-sports-says-shoppers-motivated-by-desire-not-economics-2022-09-20)

<sup>30</sup> <https://www.idplc.com/investor-relations/our-strategy>

<sup>31</sup> <https://www.inspiredprinting.com.au/id-sports/>

## 2. NOT RELEVANT TO ME

Relevancy is vital to successfully connect with customers.

### ***Personalization***

Personalization is “a strategy to deliver specific, individualized consumer experiences based on behavioral, demographic, and geographical data.”<sup>32</sup> Personalized marketing is fundamental in driving acquisition as it enables businesses to deliver authentic customer experiences. E.g., Amazon uses personalization by suggesting related products based on past purchases.

COVID expedited personalization. With bricks-and-mortar stores affected, digital transformation accelerated, allowing businesses to capture rich customer data. Businesses must act on and understand this data to drive acquisition. Research shows “companies that excel at personalization generate 40-percent more revenue from those activities than average players.”<sup>33</sup>

When it comes to ‘Optimists’ and ‘Prospects’, personalization empowers businesses to reach new customers through segmentation. E.g., for ‘Prospects’, penetration can be boosted by sending triggered promotional offerings for ‘like-products’ customers haven’t bought before. As for ‘Optimists’, businesses can target this group by offering benefits. E.g., beauty retailer Mecca drives penetration of new products by offering top-tier members access before launch.

Leveraging retailer loyalty programs through 1:1 promotions/incentives is a great supplier/retailer tactic to drive penetration through personalization. Via ‘Woolworths Rewards’, suppliers can target new shoppers and competitor shoppers. This is an effective way to recruit new buyers as offers sent are relevant and incentivized. It’s also profitable, the Woolworths 1:1 program delivering an “ROI typically 2x traditional ‘yellow’ (high/low) promotions.”<sup>34</sup>

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<sup>32</sup> <https://www.exclaimer.com/blog/personalization-in-marketing-success-2023/#:~:text=Personalization%20is%20a%20strategy%20to,that%20meet%20individual%20consumer%20preferences.>

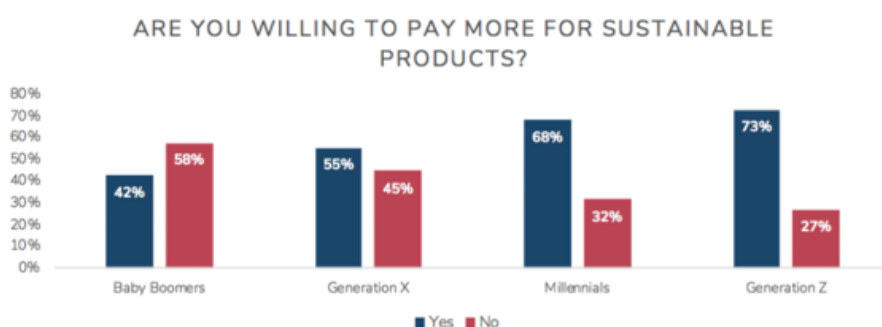
<sup>33</sup> <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/the-value-of-getting-personalization-right-or-wrong-is-multiplying>

<sup>34</sup> Hepworth, J (2023) ‘Woolworths Interview’ Interview with JBA-23-124. February 2023, Australia

## Corporate Social Responsibility (CSR)

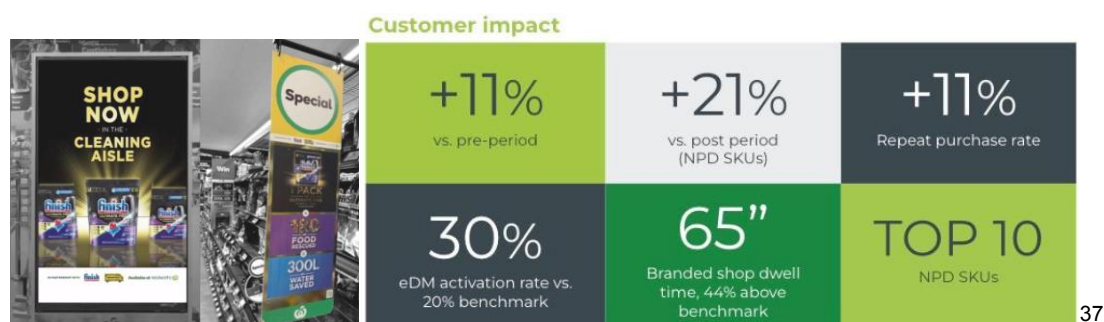
CSR drives customer relevancy. In fact, it can be more effectual than advertising when it comes to attracting interest. “This effect emerges from ‘generalized reciprocity’ whereby customers reward an organization for the indirect benefits provided to them when its CSR activities positively impact on their society.”<sup>35</sup> ‘Optimists’ are the most influenced by CSR with most believing it’s worth paying more for. Fig 4.<sup>36</sup>

(Fig 4.)



Customers expect CSR initiatives from both suppliers and retailers. A brilliant way both can collaborate is through running ‘promotions-with-purpose’. For example, in 2022 Reckitt’s executed a ‘Woolworths Rewards’ point giveaway alongside a donation to Oz Harvest to support the launch of ‘Finish Material Care’. The promotion saw customer uplift of +11% vs. prior period with 69 million liters saved.

Such collaborations prove effective to drive customer relevancy and commercial success.



<sup>35</sup> <https://www.emerald.com/insight/content/doi/10.1108/ASR-09-2017-0007/full/html>

<sup>36</sup> <https://www.agilitypr.com/pr-news/public-relations/sustainable-retail-expectations-on-the-rise-with-gen-z-shoppers/>

<sup>37</sup> <https://mealsonwheels.org.au/can-loneliness-create-connection/#:~:text=Buy%20any%20Glen%20%20or,you%20can%20hold%20on%20to.&text=2-Purchases%20during%2028%20September%20to%2025%20October%202022.,from%20Aug%20to%20Dec%202022.>



### 3. CAN'T AFFORD IT

To overcome the 'can't afford it' barrier, pricing strategies play an important role.

#### **Price Pack Architecture (PPA)**

“The essence of PPA is to provide customers a viable selection of products at price points they are willing to pay,”<sup>38</sup>

Effective PPA can impede down-trading accelerated by inflation and drive growth via price mix E.g., Coca-Cola's value collection (Fig 5). With inflation hurting bottom line, PPA can also help facilitate cost savings (e.g., smaller pack - higher cost/ml).

By collaborating with retailers, suppliers can influence right-price-right-range activity with PPA that is reflective of customer needs and therefore improve market share.

(Fig 5.)



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<sup>38</sup> <https://www.iriworldwide.com/en-us/insights/publications/price-pack-architecture>

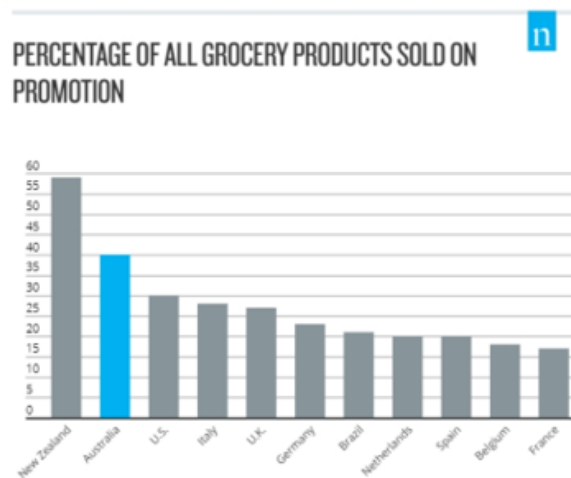
<sup>39</sup> <https://p2pi.com/how-cpg-marketers-are-battling-inflation>

## Promotions

Cost of goods has increased to unprecedented amounts and profit gaps have resulted in many businesses implementing cost price increases. Ultimately this has caused customer defection in the market, particularly amongst 'Persevering-Prospects.' Compelling promotions can help encourage these lapsed customers back and encourage trial. However, to be effective these promotions need to work smarter, not harder.

Australia has the second highest retail 'sold on promotion' volume in the world with approximately 40% of sales sold on high-low promotions (Fig 6)<sup>40</sup>. Absurdly, "48% of these sales would have happened anyway", promoted or not. "Relentlessly promoting products with no regard for sales uplift is a difficult strategy to sustain."<sup>41</sup> Instead, suppliers and retailers need to work together to create effective promotions that aid acquisition. By doing so promotional savings can be made and reinvested into other acquisition strategies.

(Fig 6.)



<sup>40</sup> <https://insidemcg.com.au/2018/08/09/retailers-and-suppliers-wasting-over-a11bn-on-discounting/>

<sup>41</sup> <https://www.retailbiz.com.au/offline-retailing/australian-retailers-are-squandering-11-3bn/>

#### 4. CAN'T SEE IT

To convert more customers, businesses need 'physical availability' across multiple touchpoints.

##### ***Omnichannel***

Shopping journeys are no longer linear. Did you know,

- "60% of Woolworths customers who shop in-store start their shopping journey online or in apps?"<sup>42</sup>
- Coles omnichannel customers "spend 2.1 times more than customers who shop only one channel?"<sup>43</sup>

Australians expect businesses to find them at every touchpoint. Consequently, a great omnichannel experience is important to "attract customers that still shop in-store, but do most their research, and some of their buying, online."<sup>44</sup>

Delivering customers an integrated shopping experience that offers convenience and ease of purchase is key. It unlocks not only 'physical availability' but 'mental availability' too.

For example, the Woolworths omnichannel experience provides value to 'Prospects' by enabling them to browse digital catalogues and check for 1:1 specials on the 'Rewards' app – i.e. personalization! As for 'Optimists', it provides convenience benefits such as online recipes and 'Direct-to-Boot.'

Suppliers can engage and inspire customers across multiple touchpoints through retailer omnichannel. E.g., in 2021 Dettol ran a Woolworths 'Bat-Bowl-Dettol' campaign in-store and online. The omnichannel integrated campaign saw Dettol sales increase by 200% with 54% of new-to-brand customers in-store acquired.<sup>45</sup>

Omnichannel is the way forward. Retailers and suppliers must join forces and invest in all customer touchpoints to create best-in-class customer experiences.

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<sup>42</sup> <https://www.cartology.com.au/content/cartology/en/home/news/06222021-digital-is-the-new-front-door.html>

<sup>43</sup> <https://www.itnews.com.au/news/coles-charts-the-rise-of-omnichannel-shopping-561165#:~:text=In%20its%20half%20year%20results,during%20the%20most%20recent%20quarter.>

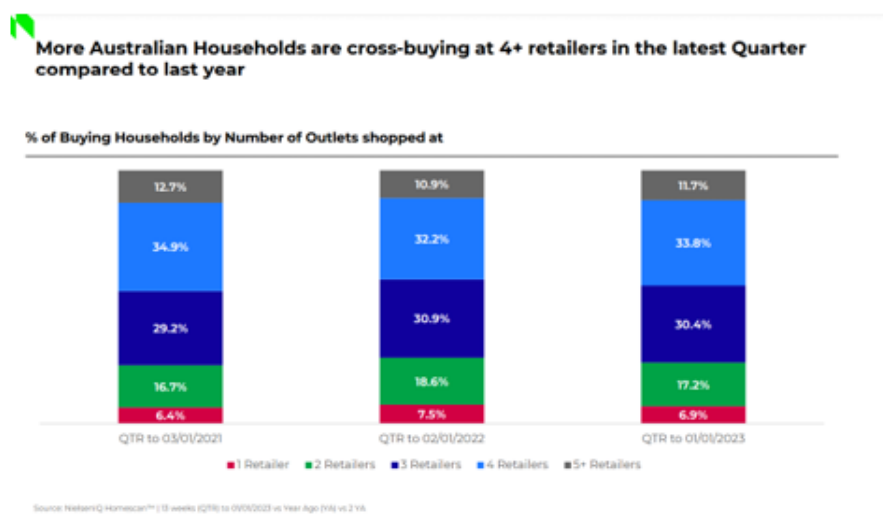
<sup>44</sup>

<sup>45</sup> <https://www.cartology.com.au/content/cartology/en/home/news/29032022-omnichannel-retail-media-reckitts-dettol-sales-surge.html>

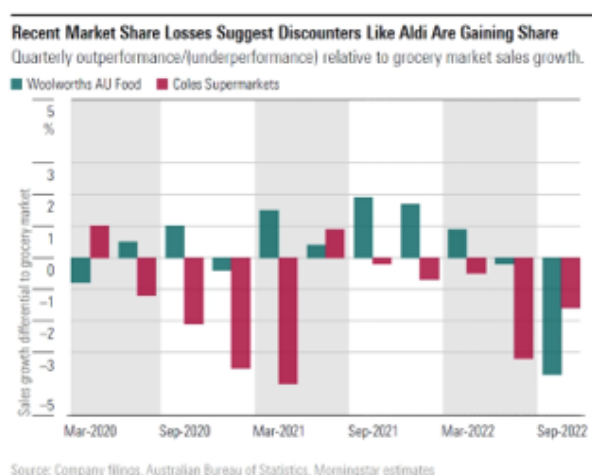
## Physical Availability

Evidence shows that more Australian households are cross-buying at four plus retailers vs. a year ago<sup>46</sup> (Fig 7), and that discounters are gaining momentum<sup>47</sup> (Fig 8). Rising consumer prices are pushing more shoppers particularly 'Prospects' towards cheaper retailers like Aldi. To reach those customers businesses must make their products easier to buy by building 'physical availability'. To do this businesses need to adjust their distribution priorities and ensure wide distribution, with presence in discount stores.

(Fig 7.)



(Fig 8.)



<sup>46</sup> Source: NielsenIQ Homescan™ | 13 weeks (QTR) to 01/01/2023 vs Year Ago (YA) vs 2 YA

<sup>47</sup> Source: Company filings, Australia Bureau of Statistics, Morningstar Estimates

## CONCLUSION

“Want loyalty? Get a dog”!

Customer loyalty is changing and will continue to do so. Any efforts made to maintain loyalty will have minimal impact. For customer acquisition not retention drives growth. Businesses that accept that it's a game of acquisition will prosper. Those who don't, won't.

The implication? Businesses need strong acquisition plans. Not only will they drive customer growth, inherently a well-thought-out plan will optimize future retention too. Win, win!

For businesses to create strong acquisition plans, inflation, and today's dichotomy of customer ('Persevering-Prospect' and 'Opulent-Optimist') must be considered. Once considered, businesses must overcome the 'four barriers to penetration' and implement relevant acquisition strategies to drive growth. Including:

### 1 Don't think of it

- *Maintain advertising investment* to unlock 'mental availability'.

### 2. Not relevant to me

- *Personalization* to deliver relevant connections with customers.
- *CSR* to leverage 'generalized reciprocity'.

### 3. Can't afford it

- *Price pack architecture* to impede down-trading and drive market share.
- '*Smarter*' *cost effective promotions* to encourage trial and offer value.

### 4. Can't see it

- *Best in class omnichannel experience* to provide convenience and ease of purchase across multiple touchpoints.
- *Wide distribution* to build 'physical availability.'

Finally, to optimize the above strategies suppliers and retailers must work together. By doing so, category strategies can be implemented that reflects shifts in customer behaviour and therefore keep valuable customers coming through the door.

At the end of the day, all paths to profitable growth, lead to acquisition!

Thank you!