

## INTERNATIONAL REPORT

## Danke Schoen

How Germany is poised to become the next loyalty power center in Europe

BY RICK FERGUSON



**FOR A MICROCOSM OF THE BATTLE** over retail marketing strategies currently being waged around the world, look no further than the battle between arch-rival grocery retailers Aldi and Metro AG in Germany.

On the surface, the battle is simply a replay of the age-old Everyday Low Price (EDLP) model of retailing versus the loyalty-marketing model. But the outcome of this battle, as well as the tactics and strategies developed to wage it, may find Germany soon eclipsing the United Kingdom as the power center for loyalty marketing in Europe.



Based in Essen, Germany, Aldi Group is the quintessential German grocery retailer. Founded in 1946 by brothers Karl and Theo Albrecht, Aldi built its empire by essentially serving as the German Wal-Mart, aggressively leveraging its distribution network and no-frills in-store approach to provide the lowest prices possible to its customers. Aldi buys cheap real estate in depressed suburban areas, operates a bare-bones warehousing system, staffs its drab, wide-aisled stores with skeleton crews and fills them with commodity and private-label grocery items stacked up on wooden pallets. The company doesn't

advertise; its sole form of direct communication to its customers is a weekly newsletter called the *Aldi informiert*. Once so derided as a low-class operation that customers joked about food stamps being the grocer's official currency, Aldi is now a German institution, with a 2002 survey by German market research institute Forsa revealing that 95 percent of blue-collar workers and 88 percent of German professionals shop there regularly. So successfully has the company executed the EDLP model that Wal-Mart exited the market altogether—the company's German stores were acquired by Metro AG in 2006.

According to Steve Gray, CEO of Emnos, the data analytics arm of Munich-based loyalty-marketing company Loyalty Partner GmbH, the success of Aldi is indicative of the brutal environment in which German retail marketers must operate. According to a recent Verdict Research report, the main players in Germany's €131 billion grocery market, Aldi, Lidl, Netto, Norma, Penny and Plus—discounters all—hold a combined 42 percent market share. By 2012, one in every two Euros in German grocery retailing will be vacuumed up by discounters.

"Germany is the home of discounters," says Gray. "The German retail market is characterized by incredible price competition. In the U.S., margins favor suppliers, and in the U.K., they favor retailers. In Germany, however, margins are so low that it's essentially a zero-sum game."

Verdict Research agrees. Daniel Lucht, senior analyst at Verdict and author of the report, said the "price-conscious nature" of German consumers is present in "every sector of the German retail universe." There are, however, warning signs that the EDLP ship may encounter rough waters ahead. The 2007 VAT hike from 16 to 19 percent dampened 2008 growth for many retailers. Due to rising food and fuel costs as well

as general inflation, Aldi itself was forced to raise prices this year. These price pressures have forced many retailers to contemplate the unthinkable—marketing based on something other than price.

### **The loyalty marketing mix**

Aldi's chief rival in the discounting wars is Neckarsulm-based Lidl Stiftung & Co. KG, which operates under the Lidl, Handelshof and Kaufland banners. But to find a retailer diametrically opposed to Aldi's business model, we turn instead to Düsseldorf-based Metro AG. Metro, Europe's third-largest retailer behind the U.K.'s Tesco and France's Carrefour, operates hypermarkets under its Real banner throughout Germany and 90 more in Poland, Russia, Romania and Turkey. At a mere 350 store locations in its home country, Real is dwarfed by Aldi's estimated 4,100 locations and Lidl's 2,800. Its full-service retail format likewise means that it can't match its discounting rivals on price alone.

Faced with such brutal price-based competition, Metro responded by placing its enterprise focus squarely on the loyalty-marketing model. In 2000, Real became a founding member of the PAYBACK coalition loyalty program, Germany's most successful loyalty program. Real now claims 8 million of the program's 22 million cardholders who drive more than half the grocer's checkout transactions through the coalition card. Every Real hypermarket in Germany is equipped with a "Punktomat"—a kiosk where PAYBACK cardholders can check their points balances and print immediately usable vouchers. Punkt, by the way, is German for "point."

that dispense customer-specific beauty advice, and even a pair of robots that wander around the store answering questions and dispensing special offers via a touch-screen interface.

The Future Store isn't just for show. Said Metro CEO Dr. Eckhard Cordes upon the store's opening, "The concepts and technologies that prove successful here in Tönisvorst will be introduced successively at stores belonging to our sales brands. Consequently, the Real Future Store is strategically important for the future development of the entire group."

But it is the company's solid support of the PAYBACK program that has enabled Metro to hold their own against the entrenched discounters. Whereas Aldi collects zero customer data—the chain has no loyalty card, doesn't accept credit cards and only recently began accepting debit cards—PAYBACK offers Metro deep insight into its customer behavior.

PAYBACK boasts 60 percent penetration into Germany's 36 million households, generates 16 billion Euros in annual sales for their sponsors, and drives a 90 percent redemption rate for points earned by members. With 96 million direct mailings and 140 million email newsletters sent to its members annually, the program also functions as the largest marketing communications platform in Germany.

"If you're not a discounter, then you need an effective way to compete," says Steve Gray. "Therefore, companies such as Metro know they have to invest in customer insight and loyalty as a competitive differentiator."

What provides that competitive advantage for Metro is the coalition model and its ability to provide access to cross-shopping behavior patterns. In addition to Real, PAYBACK also hosts sponsors such as BP's Aral brand and its 2,600

## **Punkt Rock**

PAYBACK uses multiple communications vehicles, from email newsletters to direct mail to "Punktomat" in-store kiosks where members can check point balances and print immediately usable vouchers. Punkt, by the way, is German for "point."



## Germany in Brief:



<b>Population:</b> 82.37MM (July 2008 estimate) -0.044 percent population growth rate (2008 estimate)	<b>Literacy:</b> 99 percent over age 15 can read and write
<b>Birth Rate:</b> 8.18 births/1,000 population (2008 estimate)	<b>Factoid:</b> Germany produces more than 5,000 varieties of beer. <i>COLLOQUY</i> has tried most of them.
<b>GDP:</b> \$3.32 trillion (2007 estimate)	<b>National this and that</b> <i>Holiday:</i> Unity Day, Oct. 3
<b>Unemployment:</b> 10.8 percent	<i>Motto:</i> "Einigkeit und Recht und Freiheit" ("Unity and Justice and Liberty")
<b>Consumer inflation:</b> 2.3 percent (2007 estimate)	<i>Symbol:</i> oak leaf

*Bird:* white stork (likely unrelated  
to birth rate)

*Flower:* it is not edelweiss (there or  
in Austria), despite *The Sound of  
Music*

*Animal:* black eagle

*Anthem:* "The Germany Song" (we're  
not kidding: "Das Deutschlandlied")

**Sources for the stuff we didn't know  
already:** The CIA (they know everything)  
*World Factbook*, The U.S. State Dept.,  
random web searches, the ever-reliable  
Harold over in suite 32.

fuel retail outlets, Metro's Galeria Kaufhof department stores, the DM pharmacy chain's 850 stores, and Vodafone, along with dozens of other brands. With a total of 8,000 partner stores in Germany, *PAYBACK* offers those sponsors unprecedented insight into customer behavior and a potent marketing platform to encourage cross-sponsor shopping among its members.

Given this successful loyalty platform, it comes as no small surprise that German marketers still lag behind their U.K. counterparts in effective use of customer data. Andreas Berninger, Managing Director of Loyalty Partner Solutions, the new technical operating arm of Loyalty Partner GmbH, says that retailers still face a learning curve in the effective use of customer data.

"What we see are a lot of companies collecting data, but they don't use it," says Berninger. "Retailers are just now starting to use customer data for category management and pricing optimization. But there is an increasing realization that companies need to get and use this data."

*PAYBACK* sponsors are leading the charge toward more effective data usage. BP Aral has worked with Accenture to develop bonus offers to encourage cross-sell behavior

in its fuel, bistro and car wash product areas. DM, long known as a customer-focused retail brand, has partnered with beauty products manufacturer L'Oréal to leverage information from *PAYBACK* to optimize product selection—one recent hair color launch quickly became DM's #2 seller in the category within three months. In fact, L'Oréal knows so much about DM customers' beauty product purchase behavior that they designed a pre-stocked cosmetics shelf package that can be installed in new DM stores in 15 minutes.

### Tausend Dank (A thousand thanks)

*PAYBACK* certainly isn't the only loyalty game in town. CAP Customer Advantage Program GmbH, a joint venture of Deutsche Telekom and Arcandor, operates the rival *Happy Digits* coalition program, which includes Quelle, Karstadt, Tengelmann, and Best Western Hotels as sponsors. *Happy Digits* claims 21 million member households and 30 million cards in circulation, which makes it the second largest program in market. Shell's *ClubSmart* program, Lufthansa's *Miles and More* and the *Ikea Family* program are just a few of the other programs making inroads in Germany's discount-rich market environment.

Given this burgeoning interest in customer insight, Loyalty Partner is leveraging its experience as a successful coalition operator to evolve itself into a full-service loyalty and data analytics firm with global aspirations. Andreas Berninger says that launching Loyalty Partner Solutions as a proprietary loyalty practice was a natural evolution of the company's core business.

"We've seen interest from companies in Germany and across Europe who look to Loyalty Partner for solutions because they know that we have ten years' worth of experience running *PAYBACK*," says Berninger. "The market for loyalty solutions and services is growing, and Loyalty Partner Solutions allows us to provide CRM and loyalty solutions for different types of industry sectors."

In addition to launching a private-label loyalty practice, Loyalty Partner plans on launching a *PAYBACK*-based loyalty coalition in Poland by Q2 2009. With a coalition that rivals *Nectar* in the U.K. and an analytics arm to compete head-to-head with Dunnhumby, Loyalty Partner is leading the drive to move Europe's loyalty-marketing capital from London to Berlin. For Steve Gray of Emnos, there's never been a better time to be a loyalty provider.

"*PAYBACK* is strong and successful," says Gray. "In the U.K., *Nectar* is a successful business, but so is Tesco's *ClubCard* and Boots' *Advantage* program. Whether via coalition or single-brand scheme, the market for customer loyalty services is absolutely growing. Retailers are looking to exploit the insight contained within their loyalty programs." ✍

*Rick Ferguson is Editorial Director for COLLOQUY. He is often seen hoisting a flagon at the Hofbräuhaus in Cincinnati, Ohio, the sister city of Munich, Germany.*