Strength in numbers

To beat big boxes, 10-store chain builds five-state loyalty model

By Angel Abcede

To pigeonhole the loyalty program created by 10-store retailers Dan Willie and Patrick Lewis as a "David and Goliath" story would be only partially true. What the Twin Falls, Idaho-based petroleum and convenience store operators built about three years ago looks more like 50 Davids joining forces to compete against the big-box Goliaths in their market.

In a time when c-store operators are wondering if loyalty programs are worth the effort and expense, Willie and Lewis have emerged with a model that works—one that has amassed 50 merchant locations, including dry cleaners, flower shops, shoe stores, office-supply stores, restaurants, lube shops, car dealerships, cellular suppliers, even a lawyer and a doctor across five states—to offer customers a reason to stay loyal to their businesses.

Willie, the founder of Oasis Stop 'N Go LLC, and Lewis, a co-owner of the company, had little idea of the potential of their program—called KickBack—until it started to attract other area merchants.

"People were surprised to find that we operated just 10 convenience stores since [our program] had the look and feel of a national brand," Lewis says. "It made us realize that we weren't the only ones being affected by big-box retailers. There were a lot of small businesses being hurt."

That's when sparks began to fly. Not only did adding more merchants to the program increase the number of card-holding customers, but it also gave those card holders a larger variety of places to use the card and earn rewards.

"Buy-in from customers increased immensely," Lewis says. "Now they had one card they could use at multiple locations vs. carrying a pocket full of cards [issued by different merchants]."

KickBack has grown into one of the largest coalition loyalty programs in the country, with more than 50 merchant locations in Idaho, Nevada, Utah, Indiana and Texas. Lewis says he's working to get the program into more than 20 states by the middle of next year.

Photos by Cory Myers

Building loyalty: Surviving in a time of big-box competition led Patrick Lewis (left) and Dan Willie to create a multistate loyalty program.

Out of desperation

KickBack rose out of the impending threat of big-box retailers in the area getting into gasoline. Willie started the company in 1979. By the late 1990s, the big-box threat in the company's market of roughly 50,000 people at the time was palpable.

The first to arrive was Costco Wholesale Corp., Issaqua, Wash., which installed fuel pumps. Soon after came the announcement that Wal-Mart, Bentonville, Ark., was coming with fuel. Then Boise, Idaho-based Albertsons Inc. began seeking zoning approval for two locations. Finally, Cincinnati-based Kroger and its chain of Fred Meyer supermarkets began making room for fuel.

"That's a lot of big players giving away gas in a pretty small market," Lewis says. He calls KickBack "a product of desperation."

He says, "We initially thought that KickBack would be a defensive measure. As it turned out, it evolved into a strategy that has grown our market share, our sales, our gallons and our profit margins."

Future expansion

Part of the expansion plans for Oasis Stop 'N Go's KickBack program include licensing the program to other individuals, who will take on the task of not only accepting the cards at their retail sites but also signing up other merchants to the program.

Still, not everyone will be able to participate. Co-owner Patrick Lewis says businesses with "low-ball pricing strategies" are not invited into the program. The whole point, he says, is to allow other companies to compete against those with low-price strategies. In addition, companies competing in the same channels may reach exclusivity agreements with the KickBack program. Lewis says that will hold true in many markets, but markets exist where it makes more sense for small c-store retailers to join the program so they can compete against cross-channel competitors.

When the company initially began contemplating a loyalty program, it focused on ways to "weather the storm." But, Lewis says, in hindsight that was a mistake.

"Cost-cutting measures, renegotiating purchasing contracts, and rethinking hours of operation in slower stores were some of the projects that we worked on," he says. "We mistakenly thought of these refinements in operational effectiveness as strategies to combat the Wal-Marts of the world."

But, he says, the operators realized two important things: They could tighten their belts only so much, and they could not wait for the storm to pass. "These guys were not going to go away," he says. "And even if they eventually did, we would go broke in the meantime."

How it works

The program benefits both customers and merchants, Lewis says. On the customer end, the cards (handed out for free) allow users to receive a rebate of 1% to 5% of the purchase in the form of points each time they use it. Each point is worth a penny.

Typically c-stores only give 1% due to low gross margins, and restaurants, which enjoy higher gross margins, give 5%. But the merchant decides what percentage to give. Customers accumulate the points until they have enough and want to redeem them. Then they can spend the points just like cash at any participating merchant.

In addition to collecting points, customers also can win prizes every time they use the card. Instant messages appear on the bottom of their receipts, telling them if they have won. They may win free products, points or other items from the KickBack location, or other participating KickBack locations. Every swipe of the card also enters them into monthly drawings and an annual grand-prize drawing. Monthly, members can win one of the prizes worth 25,000, 10,000, 5,000 or 1,000 points. Annually, the card holder may win a grand prize, such as an all-terrain vehicle.

Currently in the county of Twin Falls, the population is 65,500. Of that amount, 45,219 are card-carrying KickBack members, Lewis says.

The merchant also wins with the program. The consumer is required to register his card before being eligible to win monthly prize drawings or redeem any points. That gives KickBack the necessary information to track an individual's shopping behaviors so over time, merchants can study consumer habits and market products more effectively.

By having a better understanding of what a customer will respond to in terms of price, incentives and promotion, Lewis and Willie hope the result will be higher frequency, higher ticket average and increased profits.

The program also takes the focus off low pricing, Lewis says. "Merchants will find that they can actually achieve greater price elasticity because there are now other things to consider in the proposition," he says.

One and only

Exclusivity is also built into the program. Because brand loyalty is the game, a c-store chain that signs up in a particular market is most likely the only c-store chain signed on in that area. Juli Charlesworth, co-owner of Triple J-Mar Petroleum, Wanatah, Ind., is not only signed on to the program, but she also has become a licensee, encouraging other merchants in her area to accept the loyalty card.

"We wanted to make our good customers better," says Charlesworth, who operates three c-stores. "And coupons weren't doing it."

Charlesworth has already signed on other businesses, including a farming elevator company and a high-end garden and gift shop. "The big-box retailers have affected everyone," she says. "The home-improvement boxes affect the farmer's elevator business because they sell lumber, and other big boxes hurt the garden-supply business."

The type of program Oasis began falls into a category called "coalition loyalty," says Kelly Hlavinka, practice leader for Milford, Ohio-based Colloquy, a loyalty-marketing information company. "It builds a sense of community for those in the program and is a way for the merchant to break away [and differentiate himself] from other loyalty offerings."

Other observers agree. Mike Radlovic, CEO of loyalty technology firm TranStar, Claremont, Calif., says creating a unique shopping experience is what can pull a customer into the store. "You want the customer to think of you first," Radlovic says.

Big results

So how has the program worked for Oasis? Three years into the game, store managers say the rewards program is the only reason they're able to compete, in some cases, right across from big-box merchants selling low-cost gasoline.

From 2001 to 2002, the Oasis chain as a whole was up 10% on gallons sold, up 5% on inside sales and up 3% on gross-profit margin. One store, which had the misfortune of having Wal-Mart build a SuperCenter next door, saw a 16% increase in gallons for 2002, an 11% increase in inside sales and a 1% increase in gross-profit margins. All that happened with Wal-Mart averaging 8 cents below the Oasis street posting.

Lewis says that at that particular store, the manager worked hard prior to the completion of the new Wal-Mart, signing up customers to the loyalty program and building solid relationships.

At another Oasis store, the loyalty program was in place for two years before a regional grocery chain down the road decided to install gasoline pumps. In 2002, that store was up 16% on gallons, 10% on inside sales and 9% on gross-profit margin, due to a great extent to the loyalty program.

Through the fall of this year, Lewis says the company is maintaining its new margins with inside sales, and it has increased fuel margins. "Our volumes are holding strong as we cautiously test the price elasticity afforded us by [our loyalty] program," Lewis says. The loyalty program may not be the sole reason for their success, he says, but it was and continues to be a significant factor. ■

Improving relationships: The KickBack loyalty program operates in five states and involves dozens of different merchants.