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The Power of Points:

An Interview with Richard Schenker, Founder, Loyal Strategy Consulting

Richard Schenker:

Richard Schenker is a leading expert on loyalty marketing and the original architect of Canada's most popular points program PC Optimum.



“Open, Shop, Scan, Earn” shouts the banner headline on Shopper Drug Mart’s promotional email, listing all of the latest “exclusive” opportunities to rack up points in its famously popular PC Optimum Program.

Click on the “Get My Offers” button and you’re immediately taken to a web page where you can scroll through a list of bonus points offers on a wide range of promoted products. At the very top of the page is a running tally showing the total points accrued over the lifetime of the membership along with the sum of actual dollars saved. For an avid collector those savings can amount to a couple of thousand dollars per year, a big enough incentive to turn point collection into an obsessive habit.

Shopper’s Drug Mart is owned by Canada’s grocery conglomerate Loblaw and is the leading pharmacy retailer in Canada. PC Optimum members can earn points at all of the Loblaw-owned stores as well as at program partner Esso. A savvy program member is able to maximize points by stocking up on select

promoted items at Shoppers as well as by taking advantage of “20 times points” events which they can then redeem for big food savings at any of Loblaw’s banner stores. In times of rising food inflation, those savings can make a substantial difference in the grocery budget, giving members a powerful reason to stick with the program and consolidate their grocery shopping.

Loblaw inherited the Optimum program when it bought Shoppers in 2014. The program had been launched 14 years earlier to great fanfare and success. Within six weeks of its launch in January 2000 the program blew past its first-year enrollment target of six million members. In 2018 Loblaw chose to merge its own PC Plus loyalty program with Optimum to form Canada’s largest points program. Since then it has become one of the world’s most successful loyalty programs with 17 million members (equalling about 40% of the Canadian population).

The question, of course, is whether the Optimum program – like any points program – should even be thought of as a “loyalty” program. It does very little to instill feelings of true brand loyalty. Mostly it serves as a barrier to exit. A lot of Loblaw customers ridicule the store (especially on Redditt) for its perceived price gouging and accuse it of profiteering at their expense – but at the same time they love the points program because of the money it saves them. As one member who is in the top one per cent of Optimum points earners says, “My biggest incentive is to avoid being ripped off”.

Ever since the airlines first began their frequent flyer programs in the early 1980s, points programs have become pervasive across many different consumer sectors - retail, travel, hospitality, gas stations, quick serve restaurants, food delivery and much more. Today almost all Canadians belong to one or more programs – the average

is around 14 – although they may only be active in half of them. Although these programs can be very pricey to operate and can lead to a pretty hefty balance sheet liability due to deferred redemption, they do deliver results. Every shopping metric is boosted through the halo effect of points currency: basket size – share of wallet – cross-category buying - average receipt size - churn – and, most importantly, incremental recurring revenue. In other words, the member base grows more valuable each year due to higher spending without having to give away margin on mass flyer promotions or needing to compete directly on price at the shelf level. The discounts go only to loyal shoppers, not to bargain hunters sniffing out the best deal.

Yet despite the power of points to influence where and how often customers choose to purchase, these programs, for the most part, foster strictly “give-to-get” relationships. The customer has agreed to terms of membership that are entirely based on their spending behaviour. The opportunity these programs are missing, according to loyalty expert Richard Schenker, is to deepen the emotional bond with customers by encouraging ongoing engagement beyond point collection. Members would love to get more than cash savings. What they really pine for is special treatment: entitlements, privileges, status recognition, access to one-of-a-kind events– anything that can turn the tedious chore of shopping into an experience they can actually look forward to. That way the program becomes a more meaningful part of their lives and not simply a “way to avoid being ripped off”.

Richard was the principal architect behind the original Shoppers Drug Mart program. He later went on to serve at LoyaltyOne, where he worked on the coalition Air Miles Reward Program, and most recently was Managing Director at Bond Brand Loyalty. Today he runs his own loyalty consultancy practice.

SS

Stephen Shaw (SS): You got your start at the Hudson’s Bay Company, once the crown jewel of Canadian retailing. How did you feel when it finally closed its doors?

RS

Richard Schenker (RS): Really sad to see an institution that’s 355 years old just rot away so quickly. I think it was primarily because the organization as a whole did not innovate. And it was late to the e-commerce game. Quite frankly, the private equity organization that owned them¹ was more interested in how they could extract equity out of the leases.

SS

A lot of people our age grew up shopping at HBC. They did get the retail experience right at the time.

RS

They did. And certainly in the 90s when I worked there, The Bay was the department store. I think about the strength of the Bay Card, the Bay Card Dollars program that I brought in as their first loyalty program. I think about their strong merchandising, their price guarantees, the iconic “scratch and save” - they were hitting all the marks with the shopper and they were definitely a destination for Canadians for all of their shopping needs, whether that be soft goods or hard goods.

SS

You left the Bay to join Shoppers Drug Mart in 1997. When you made that move, were plans already underway to launch a unified points-based loyalty program?

RS

I went there to determine whether the organization needed a unifying loyalty program. At the time they had three different programs. They had the Cosmetics Club, which was a very beloved program. They had a Seniors Program. And they had a Baby Program. And of course in the back of the store they had Health Watch, which engendered a tremendous amount of loyalty. But they had nothing to unify that whole customer experience. So my role was to determine: A) Do they need a unified loyalty program, and B), if so, what would that look like and what is the strategy behind that? What is the design? What’s the value proposition? And most importantly, what are the financials to substantiate the need for that type of investment?

SS

From the start, were you thinking a points-based program or was it a blank slate at that point?

RS

It was a blank slate. Back then, point programs were ubiquitous. So there certainly was a leaning towards points. But what was most important in the design of the program was to deliver value and instant gratification to customers in a very simple manner. Because if you took a look at most of the programs of the day, they were fairly complicated. Air Miles was a complicated value proposition with varying earn rates at partners and varying redemption rates. So Shoppers was looking for something that was simple and unified.

SS

It was “earn and burn” from the start, right?

RS

The way the program worked was once you hit a certain spend threshold, you’d redeem instantly at the point of sale. And keep in mind, back then with most points programs, you didn’t see your points update right away. Even with Air Miles you had to wait 24, 48 hours. With Optimum, that technology was built in. Shoppers was actually doing a

complete overhaul of all their point of sale equipment. So it was the right time to build a unified loyalty program with one IBM point of sale system so customers could actually see what they're earning in the moment, whether it was base points, bonus points, or other types of initiatives, and they could redeem in the moment. So that was really the hallmark of the program. Most other programs had some level of lag time in terms of earn and burn. Whereas we had customers coming in and redeeming by their second transaction because of the number of bonus points they could earn right across the store.

SS

Were you inventing this from scratch? Or did you emulate other best in class loyalty programs like Tesco in the U.K.?

RS

In fact the Executive Group at Shoppers actually went over the pond to visit Tesco and Sainsbury as well as Boots. They came back evangelical around the whole notion of proprietary loyalty and the need to build in instant gratification. We took a lot of inspiration from Boots and Tesco, who were leaders in loyalty design in the U.K. at the time.

SS

It took a couple of years to get your program off the ground. How much of that time was spent planning and design versus deployment and testing before you finally rolled out the program in 2000?

RS

We piloted the program in three cities, Kingston, Halifax, and Calgary, with different rewards. Those pilots went on for about 16 months. And then we launched on September 10, 2000, which makes this the 25th anniversary of the program. There was a lot of tension around whether Shoppers should build their own proprietary loyalty program or take the easier route and join the Air Miles reward program or another coalition program like Aeroplan. But I think the sentiment of the day was that Shoppers really wanted to own the data because the value is in the collection and utilization of that customer data.

Getting back to your question, there was a lot of time spent educating and convincing the Executive Group about the merits of loyalty simply because at the time Shoppers was very much a conventional merchant: Bring the goods in, pile them as high as you can at the right price and move them out the door. And they were masters at that. So a lot of effort went into schooling the Executive Group about customer centricity – convincing them to buy into the whole notion of loyalty, and the value of data. And then of course

a disproportionate amount of time was put into the actual strategy, the design, the value proposition, and of course a lot of rigour around the projected efficacy of the program.

SS

Was there a moment where you thought, okay, I think the bosses have got it? Or was it a slow, gradual build to convince them?

RS

I would say it was a slow, gradual build. But I think the turning point was when the Executive Group had the opportunity to meet their counterparts at Tesco and Boots. They were drinking the Kool-Aid by the time they came back – “Okay, let's go ahead, let's build this, let's pilot this.” Having said that, there were a lot of check-ins with the Executive Group. Neil Everett, who was the CMO at the time, and myself spent a lot of time with them and the Board every step of the way. The late CEO David Bloom, may he rest in peace, was very, very hands on and for the right reasons because this was a huge undertaking for the organization. Once you get into these loyalty programs it's very hard to get out of them. So you want to make sure you're making the right decisions. Because with the money that was spent building out all the technology you could be opening new stores where you get a certain known return on investment. Whereas loyalty is a little bit more murky in terms of what you're going to get. So yeah, it was a very intense period of time.

SS

You launched it in 2000 and it was an instant hit with customers. In your gut at the time, did you envision that kind of immediate success? Or was that a surprise? Were there some sleepless nights along the way?

RS

Oh, I think we had lots of sleepless nights. We had actually established some very, very lofty goals in terms of enrollment rates and scan rates and increases in sales and basket size and all the usual loyalty metrics. But we also had control stores. And we did this in a very methodical way. So all eyes of the company were on these pilots. And we made sure that we spent a lot of time in the pilot markets. We didn't just launch the program and let it go. We were in the stores constantly making sure that we were fine tuning the program. And needless to say, we overshot all those lofty goals.

The Executive bonuses were actually tied to the success of the program. Some of the compensation at store level was tied to the success of the program. So when this program was launched, the entire company was behind it.

I remember David Bloom took all other initiatives off the table for the first eight weeks of the launch to make sure that everyone was solely focused on this program. And the results that we expected to get in the first year were achieved in six weeks. It was quite miraculous.

SS

What were the main factors behind the success of the launch?

RS

First of all, Neil Everett assembled a great team. I happened to be the ringleader but I had a very lean team working with me as well as a lot of cross functional people within the organization from IT, technology, operations, merchandising. We were all focused on this and we all worked together. This was not just the loyalty team building the program. We brought merchandising into the fold to listen to what their concerns are, make them part of the solution. And once they provided solutions to problems, they stood behind the program. So that was very, very critical.

I think the passion of the Executive group was unwavering and their support of the program was critical to the success of the program. And then I would say at the store level the associate owners' conviction around the program because they saw in the pilot what this program could actually achieve.

Lastly, I would say the front line store employees. Shoppers did a wonderful thing. They included employees in the program which was a costly decision to make. Because think about it, they were getting a staff discount. Now they're getting a discount with Optimum Points. But it was the best thing that Shoppers ever did because these people became evangelical about the program. We didn't really need to train them even though we went through formal training. They were experiencing the program firsthand and they were telling the customers with such passion and excitement how to get to their reward levels quicker. It was really incredible because it fostered such strong bonds between cashiers and customers who would otherwise rarely talk. So it was almost infectious in terms of the enrollment and participation of the program.

SS

Today PC Optimum is acknowledged as the number one loyalty program in Canada. What makes it so popular with shoppers?

RS

I think one of the things that Loblaw's did a really good job at was keeping the essence of the program intact. It's simple to participate in, easy to understand, provides value, instant gratification. So people get to the rewards very quickly and

they save money. And, you know Shoppers Drug Mart is not the cheapest retailer in town.

The value proposition is slightly different at Loblaw's and their associated companies, where they don't have a base offer, but they have primarily bonus offers. But they've also done a really good job around personalization of offers, introducing customers into adjacent categories, introducing new products to customers, private label products, and I think customers appreciate the value that they get. And when this program was acquired by Loblaw's, it represented probably the largest female database in the country. So this was a real strategic asset for Loblaw's. So it was a win-win situation for Loblaw's to one, acquire Shoppers Drug Mart, but two, acquire the Optimum program because it was a very valuable database. And as, you know, the primary shopper of Loblaw's is a female shopper.

SS

You left Shoppers in 2003 and went to Loyalty One, better known as the owner of the Air Miles program. You were there for many years. Why did it go into a tailspin and ultimately was acquired by its main sponsor Bank of Montreal (BMO)?

RS

Yeah, so I was very fortunate to be there during the good days. The program was growing, had lots of sponsors. It was a real force to be reckoned with. I think what happened was a number of things. The program became less customer centric and more focused on financials. The organization did a couple things to mitigate the financial risk. They broke up the currency into "cash miles" and "dream miles" to manage their liability, coupled with expiry dates. That created an uproar in our industry where all of a sudden the provincial government came in and started putting mandates around what you can and you can't do around expiry. So Air Miles unfortunately got a lot of negative press.

There were some allegations around potential manipulation of what rewards customers were seeing or not seeing. Not sure whether that's fact or fiction but needless to say, perception is reality when it comes to customers. And I think customers started to not see the value in the program. And when customers don't see the value, sponsors and partners don't see the value. So all of a sudden you saw an attrition of partners - LCBO, Sobeys, Metro.

BMO, a founding partner of the program, probably had the most to lose because they had a large installed customer base of credit card holders, so they decided to buy the

program². And they're actually doing some really good things with the program right now. I like the direction they're going in and I think there's future viability with this program. Sean Stewart, the new CEO, has done great work to restore credibility.

I think the challenge with Air Miles, and I hear it quite often, is it's always referred to as "your parents' program" and it doesn't necessarily appeal as much to the GenZ consumer. Having said that, I think the organization is taking steps to become more relevant, more hip. They've created different ways of partnering, not sticking to the old ways of partnership. They introduced card linking. So as their grocers left, they said, you know what, we're going to think out of the box. We're going to find ways to fill the category, perhaps not to the same level, but make sure that our customers are still earning in those categories. They're doing deals with CPG companies where you can do automated receipt scanning so that you can actually earn points very easily, whether you're shopping at a partner location or not. So they're looking at modernizing the program and I hope that they continue to be successful.

SS

Let's just talk generally about the loyalty market in Canada. It's sizable, as we all know, and it's still growing. I've read some projected growth estimates that over the next few years it's going to grow at a rate of 12% annually. How can it possibly grow any more than it already has?

RS

Yeah, good question. I think there are a few forces at play. One would be immigration. A lot of these programs are targeting new Canadians. Banks as an example have very specific programs. But I also think that many programs are starting to get more clever around their value propositions and trying to entice customers away from the me-too loyalty programs.

A recent study I saw from Bond Brand Loyalty reported that the average Canadian has about 16 or 17 loyalty programs in their wallet or in their digital wallet, but only participate in half of them. There is still a lot of program apathy where people sign up for programs but don't participate in all of them because they're not demonstrating relevant value. It's not necessarily about acquiring more members. It's about optimizing the relationship with existing members and creating greater stickiness to the brand proper. I always say that the role of a loyalty program is to build loyalty to the brand, not to the loyalty program.

SS

Are you seeing companies start to appreciate that fact and move in the direction of making the program part of their overall customer experience strategy?

RS

What most loyalty programs don't do a good job of is appealing to our emotional drivers. There's the drive to bond as human beings. We want to come together and bond with each other over things that matter to us. And loyalty programs by and large don't do that. And then there's this whole drive to learn and create betterment for ourselves, betterment for our families, our communities and the world at large.

I'll give you an example of that. Sephora - a brand that I used to work with when I was at Bond Brand Loyalty, helped them redesign their program - they have something called a "Beauty Insider" forum where members can come together to share tips and tricks about beauty regimens, get advice, do virtual try-ons with their friends and peers and get advice from beauty advisors. What a great way to make the loyalty program a hub to bring like-minded people together.

SS

Should a loyalty program fall under the oversight of CX management?

RS

So you never want to be in a situation where the program trumps the brand. The program needs to be in support of the brand and has to encompass the CX strategy. When I'm working with clients to build a loyalty program from scratch, the first thing we do is we look at the existing customer journey. How might we reimagine the customer journey through the embodiment of loyalty mechanics that will help drive not only transactional stickiness, but emotional stickiness to the brand?

SS

So it's really about designing a CX strategy, not as much a loyalty strategy, is that fair to say?

RS

That is fair to say because at the end of the day you need to look at the customer CX journey to determine how a loyalty program might play a role. Many organizations unfortunately say we need a points program, we need a discount program. Getting into a point discount program is a zero sum game. All it does is it drives margin erosion. The key is to really understand what your core customers' needs are. How might I infuse compassion into the experience? How might I save my customers' time? How might I impart knowledge? How might I celebrate memories? How might I create peace of mind for customers? What access can I give them? How might I motivate them or inspire them to create

betterment for themselves and the community at large?

SS So let's talk about building a loyalty program from scratch. Where do you start?

RS First you really need to understand why do you even want to get into loyalty. We go through a lot of executive interviews across the organization because a loyalty program should service all of the parts. So really understanding what are the objectives of the organization, what are the desired outcomes. Also we want to get a sense of what's happening within the competitive set to understand where the opportunity is. That's very critical. And then, do a deep dive around the existing ecosystem of assets.

Voice of customer is absolutely paramount. Really understanding what impact this program will have on customers, both from a transactional and emotional perspective. When I'm working with clients, I often run co-creation sessions with customers to actually help design the ultimate loyalty solution.

SS You must also have to set some baselines around the level of loyalty.

RS You're absolutely right. Whether that's frequency, basket size, lifetime value, all those important metrics.

SS If the decision is to proceed with a rewards based program, how do you go about figuring out the financials?

RS You build the baseline financials: you look at the potential incrementality, you project that out, you do some litmus testing with customers: Yes, we're going to get this kind of lift - we're going to get this level of scan rate in the program. But ultimately organizations have to take a leap of faith.

SS One other question on the mechanics: Does the program belong in marketing or operate independently?

RS That's a really interesting question. I think there's good arguments across the board. Way back in the day when I was dealing with A&P³, it was actually sitting in the technology team, which is very bizarre. I think it should sit in marketing because at its core it is a marketing tool.

But it has to be used across the organization. So if I'm a retailer I want to make sure that the loyalty program is not just being used to spit out offers, it should be used in CX to make decisions around how do I staff my store; when do my best customers actually come into the store; what sort of experience should I be providing? I also want to make sure that loyalty data is being used to make decisions around real estate. Where should I put my next store?

SS How do you see loyalty programs evolving?

RS I think loyalty programs are going to get smarter and smarter because of the advent of AI. Hyper personalization. Dynamic rewards. You may be offered different types of rewards at different reward thresholds. Fraud detection. We're going to see AI agents playing a much greater role in proactively managing the customer relationship, negotiating offers, recommending rewards, ensuring maximum value for both customers and businesses. So I see many changes coming as a result of AI. But I think we have to be careful. Because what AI can't offer is that human touch.

¹ American real estate investor Richard Baker's firm, NRDC Equity Partners, acquired HBC in 2008 and took it public in 2020.

² BMO acquired the AIR MILES Reward Program in 2023 after its parent company, LoyaltyOne, filed for bankruptcy.

³ In 2005, Metro acquired A&P Canada from its U.S. parent company and rebranded it under the Metro banner.



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