

February 15, 2012

Canadian Tire's 'funny money' dilemma

By MARINA STRAUSS

From Thursday's Globe and Mail

Even as it launches a loyalty card in N.S. offering deeper discounts, retailer is reluctant to give up an important piece of its past

In the high tech era of Groupon and mobile apps, Canada's oldest loyalty program is a relic of the past.

But even as Canadian Tire Corp. CTC-T tries to reinvent its paper currency rewards, the retailer hangs on to its "funny money" - defying every rule in the modern loyalty-program playbook.

On Feb. 24, Canadian Tire Corp. will launch in Nova Scotia a test of a loyalty card that offers holders as much as 650 per cent higher discounts than its coupons - along with a stronger business model for the retailer. But the program will still allow customers to use Canadian Tire money for rewards on purchases with cash or a debit card.

The retailer's reluctance to ditch its Canadian Tire money, which was a pioneering loyalty scheme when it was conceived 54 years ago, highlights a dilemma the company has wrestled with for years. Its paper currency fails to deliver what contemporary corporate electronic loyalty programs are designed to do: track customer purchasing patterns to help customize marketing and pick products for the shelves.

Instead, the multihued Canadian Tire money, bearing a picture of the frugal Scotsman Sandy McTire, requires the chain to pour money into producing and handling its coupons in a digital age.

Even so, Canadian Tire clings to its paper money because it serves as an important marketing tool for the retailer, especially among its older customers who feel deep connections to the currency.

"There's more to it than just someone enticing people with a richer program," said Rob Shields, senior vice-president of marketing at Canadian Tire. "Customers' loyalty to the brand and Canadian Tire is much stronger than an economic offer."

Canadian Tire holds on to a piece of the past even as it attempts to entice customers to switch to a faster and more efficient electronic system with richer rewards. Its funny money helps it get a buzz - just last month it was the source of YouTube and other social media chatter when a folk singer accepted Canadian Tire currency for admission to his performances.

But now the retailer's test in Nova Scotia is expected to provide further evidence that an electronic loyalty program can bring more rewards for both consumers and the company, putting more pressure Canadian Tire to re-think its loyalty to the coupons.

"They want to be careful about not alienating their very strong base of customers who have grown fond of their currency," said Kelly Hlavinka, managing partner at customer loyalty researcher Colloquy, which is owned by the parent of Air Miles. "But it is time for Canadian Tire to get pretty serious about making the shift."

The economics of the rewards suggest that it may be time to switch. Canadian Tire spends less than 1 per cent of its operating costs on making and handling the fake currency, estimated David Marcotte at consultancy Kantar Retail.

And the retailer's pilot loyalty card is expected to lift sales about 2 per cent by encouraging customers to return more frequently and buy more each time, Mr. Shields predicted.

Canadian Tire will give its Nova Scotia customers a strong incentive to move to its new Money Advantage card, offering users 1 per cent back on their purchases and 3 per cent back on purchases made with its Options MasterCard. That far exceeds the 0.4 per cent rewards on purchases made with old-fashioned Canadian Tire money, or 2 per cent back on purchases made with the Options MasterCard. (In the rest of Canada, purchases made with the Options MasterCard provide 1.37 per cent back.)

Still, the stakes may be even higher for Canadian Tire when U.S. discounter Target Corp. launches its stores in Canada by early 2013. Target runs a popular Red Card loyalty program that provides its holders 5 per cent rewards. A Target spokeswoman said it hasn't finalized its rewards program for Canada. "But it's going to be big competition," predicted Leigh Benatar, an executive vice-president at loyalty specialist Brand Keys in New York.

At the same time, Canadian Tire is showing a commitment to its long time customers who collect Canadian Tire money, Mr. Benatar said. "It's a service to the non-electronic, non-digital public," he said. "But honestly, today's digital consumers prefer electronic transactions. You're talking about the younger generation. In this way, they're serving both."

Mr. Shields said a new loyalty card doesn't necessarily mean lower costs for the company, which still has to market the new card to customers. The Canadian Tire money speaks to the retailer's history and brand, including anecdotal family tales about parents tucking the bills into a stocking.

And yet, even some devotees of the funny money recognize the power of modern rewards programs. Roger Fox, past president of the Canadian Tire Coupon Collectors Club, has been collecting the money since he was a teenager, but the 67-year-old retiree never uses it when he shops at the stores.

Instead, he whips out his Options MasterCard, because it generates more than three times higher rewards. "The loyalty program as it stands, as far as store purchases go, is really not even worthwhile," he said. "It is pretty sad."