



## Practical experience: Case Study Galeria Kaufhof

Kaufhof Warenhaus AG, based in Cologne, is part of the METRO Group and is one of Europe's leading department store chains. With its innovative Galeria concept, the company presents itself as a modern lifestyle provider with the slogan "Ich freu' mich drauf!" ("I'm looking forward to it!"). With over 140 branches in Germany and Belgium, Kaufhof brings in sales of around Euro 3.6 billion (net, 2006). In 2004, the company celebrated its 125th anniversary. Kaufhof Warenhaus AG originated as a small textile shop opened by the young merchant Leonhard Tietz in Stralsund in August 1879

### 1) Milestones for the PAYBACK card at Kaufhof

Up to 2000: Galeria Card as stand-alone card.

October 2000: Kaufhof is founder member of the cross-industry customer loyalty programme PAYBACK (together with its Metro affiliate real).

2001: The cross-industry customer management project is set up within the company. In this project, an infrastructure is gradually established for analytical and operational customer management tasks (primarily between Marketing and IT).

2002: With the repeal of the Law Governing Discounts, the company's commitment to couponing measures, and therefore the significance of the medium of direct marketing, was stepped up. The basis for this was the company's decision to grant discounts exclusively to customer cardholders, instead of to all its customers. This has remained the foundation of its differentiated discount strategy to this day.

2004: The introduction of the "Galeria" brand relaunch was the starting point for establishing segmented dialogue marketing that focuses on customer value and remains to this day the basis for the Kaufhof direct marketing strategy.

#### *Multi-partner or stand-alone?*

Kaufhof decided to join a multi-partner programme for two reasons: firstly, because a multi-partner programme reaches significantly more participants, which justifies the investments in systems and know-how; and secondly, because a multi-partner programme offers clear cost advantages for the service processes which can be used by all partners.

### 2) Scope of functions and integration in customer management

#### *Evaluation and use of customer data*

Both customer master data for self-acquired cards and purchasing data are collected by Kaufhof Warenhaus AG. The data is evaluated in the analytical customer management, campaign management and reporting departments.

Firstly, the details are aggregated and the data merged in a data mart by the analytical customer management department. On the basis of this data mart, multivariate methods are used to perform analyses which support decision-making for diverse corporate divisions.

The systems for the direct marketing campaigns are set up in the campaign management department. The target groups for the measures are also generated here, primarily based on the results of the analytical customer management process. Response models are also generated to collect the campaign results.

The reporting comprises the creation of aggregated key-data reports for different issues and corporate divisions.

The customer data is always analysed and evaluated on the basis of anonymous datasets. Master data and purchasing data is not merged during the analysis. The data acquired and processed in this way forms the basis for the direct marketing. The analytical customer management department also performs an increasingly key role in various corporate processes e.g. product range optimisation, branch management, strategic marketing and controlling.

The analytical and operational customer management systems are already very highly developed. In order to orient the individual processes to strategic customer management goals, the direct link between customer-focused analyses and corporate strategy will increase significantly in the medium term.

Kaufhof has very broad and ambitious overall goals. The customer card data is used to support decision-making in diverse corporate divisions and is intended to support practically all the elements named under 2.2. The customer card can also be used to promote short-term sales generation.



#### *Derivative uses*

The key derivative uses of the card, according to Kaufhof, are the opportunities it offers to optimise the product range and the sales management process, increased market penetration, acquisition of market share, and the possibility of reducing advertising costs.

#### *Benefits for the customer*

Participants in the customer loyalty programme benefit from advantages such as discounts. The analysis and segmentation processes also offer card customers the benefit of receiving offers and information relevant to them – unlike undifferentiated mass marketing. Kaufhof is also building on the emotional benefits of a customer-oriented strategy, particularly for its best customers to whom the company shows its special appreciation through high-quality dialogue, and who benefit from further advantages like special events and special product offers.

### **3) Success of the customer card programme**

Long-term analyses have shown that the break-even point was reached relatively quickly and investment in the customer card programme can now be regarded as an extremely positive move. For direct sales management using cost/benefit criteria, no other medium is so successful for Kaufhof as the customer card. The cross-industry nature of the programme offers a large number of potential new customers to approach. Positive effects on customer loyalty and targeted churn management have also been demonstrated.

The sales slip figures of the card customers are on average higher than those of non-card customers. The card customers appear more loyal to the Galeria-Kaufhof brand. However, the question of whether better customers are more likely to use the customer card per se is one that cannot be answered.

In the long term, it is assumed that the customer card programme, together with detailed knowledge about the company's own customers, will provide Kaufhof with a fundamental set of guidelines to aid its evolution from a purchasing-focused to a customer-focused company.

The customer card and direct marketing measures have generated competitive advantages in terms of portfolio differentiation and targeted discounts. These have helped secure market share, even in times of price focusing and cut-throat price wars. The fact that the company can enter into a dialogue with card customers is not to be underestimated when evaluating the success of a customer card, as this allows it to address customers in a differentiated manner. This advantage alone significantly improves the company's opportunities, particularly for marketing.

The following results from a study by Glusac are also very helpful in evaluating the success of the Kaufhof customer card programme:

*\* The acquired values are based on a scale of 1-6 (example for customer satisfaction: 1 = completely dissatisfied; 6 = very satisfied).*

**Customer satisfaction** Members of PAYBACK are more satisfied with the services of Kaufhof than non-members (mean value 4.7 vs. 4.1)\*

**Intention to make additional purchases** Members are much more likely to make an additional purchase than non-members (mean value 4.0 vs. 3.2)\*

**Intention to purchase again** Members are much more likely to purchase again than do non-members (mean value 4.4 vs. 3.4)\*

**Price sensitivity** Members are less price-sensitive than non-members (2.3 vs. 2.1 reversed scale, high value > low price sensitivity; difference is small but significant; overall, Galeria Kaufhof customers are highly price-sensitive

**Further recommendation** Members recommend Kaufhof to others much more frequently than do non-members (mean value 4.4 vs. 3.4)\*

**Customer loyalty (aggregation of all components)** Members display much greater customer loyalty than non-members (mean value 4.0 vs. 3.3)\* Source:

Glusac, N. (2005): *Der Einfluss von Bonusprogrammen auf das Kaufverhalten und die Kundenbindung von Konsumenten (The influence of bonus programmes on purchasing behaviour and how to secure the loyalty of consumers.)* Wiesbaden: Deutscher Universitätsverlag, p. 212 ff.



#### Loyalty Partner GmbH

Loyalty Partner GmbH has built up unrivalled know-how through the successful development and operation of PAYBACK, the biggest bonus programme in Europe. The experts in customer management now serve numerous companies through three subsidiaries – PAYBACK, emnos and Loyalty Partner Solutions. The chief focus of the highly individualised customer management solutions is maximum customer orientation. Using this basis, all operational and communicative activities can be tailored precisely to the needs of customers. This increases customer satisfaction and the company's profitability in the long term.

Loyalty Partner was founded in 1998 by Alexander Rittweger. Together with Martin Hollenhorst (CFO) he is today in charge of a company with offices in Munich, Dusseldorf, London and Paris and a workforce of 500.

More information: [www.loyaltypartner.com](http://www.loyaltypartner.com)

**Source:** Kundenkartenprogramme im Customer Relationship Management, Institut of Electronic Business, Berlin, Januar 2008  
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