Consumer Loyalty & Petrol Retail in India

For the petroleum retail sector in India, recent years have seen fundamental changes in the way business is being done. The sector has moved away from being government-controlled, a move that has brought new levels of competitive threat and customer focus. With the going having gotten tough, the smarter players have caught on early that the best way to do business is to lock customers into a habit they can't break. Loyalty programs are 'in' with each of the big players wooing wallet shares with loyalty card programs.

This paper outlines the growth of loyalty programs in the petroleum retail sector in India, focusing on the evolution of the pioneering 'PetroBonus' program, the first and largest in India, which virtually created the market for loyalty programs in the sector.

The Indian Petroleum Sector

Three companies – Indian Oil Corp. Ltd. (IOCL), Bharat Petroleum Corp. Ltd. (BPCL), and Hindustan Petroleum Corp. Ltd. (HPCL) dominate the petroleum retail sector in India with about 93% market share between them. These players cater to a market of about 40 million vehicles (approx. 77% two wheelers, 13% cars in 2002) on Indian roads with a retail network of over 15,000 outlets across the country.

> Until 1999, the Indian oil and gas sector was state controlled under an Administered Pricing Mechanism (APM) that controlled the production pattern, capital expenditure, and pricing of petroleum products. All the companies were state owned and private investment in the sector was not allowed. Reacting to the growing need for boosting domestic production levels, the Indian government has been steadily deregulating the sector, as

With the deregulation of the sector in 1999, and the ongoing process of divestment of the government stake in the business, the sector has seen itself exposed to new market forces. The competitive threat is bigger. With private players entering the fray, the pricing is increasingly market driven and consumers are demanding more.

Significantly, the existing players have recognized the need for them to quickly evolve to be marketing driven, service driven and, ultimately, relationship driven and have condensed decades of evolution into a three- to four-year time frame. It has been a leap from the Neolithic to Neo and many of the intervening stages have been neatly bypassed.

The Changing Retail Experience- Prelude to Loyalty

The changing retail experience and the rise of loyalty programs have seen parallel development in the Indian context.

The retail experience, until recently, was bare bones, with the gas station being nothing more than a place to tank up, and cash the preferred payment mode. In recent times, however, the outlets have seen a complete facelift, with new multi-fuel dispensers, better trained attendants, and service elements. The product offering has widened to include blended fuels, branded fuels, high-octane fuels, lubes, groceries and more. The outlet itself is expanding to include grocery stores, cafes, bank ATMs, internet kiosks, etc., giving the customer more reasons to spend time and money at a location that offers more than just fuel. Credit cards, debit cards and loyalty cards are also widely accepted.

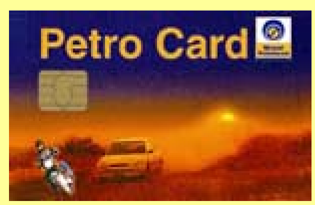
> Walk into a petrol pump today and one could, in addition to buying fuel, buy groceries, coffee and snacks, ice cream, medicines, send a courier, access the Internet, draw cash at an ATM, make a bill payment, buy a cell phone SIM card and more.
>
> On the highways, the pumps are the 'home-away-from-home' with a *Dhaba* (a restaurant), lodging arrangements for truckers, a saloon, and even

The outcome of these changes is that the urban consumer is getting used to a radically different experience at the petrol pump that is translating into higher service expectation. Consumers are being given reasons to build preference among the three companies (IOCL, BPCL and HPCL) and their brands. As consumers have begun to express their preferences, the companies have entered an inevitable battle for business through relationship-building initiatives, including loyalty programs.

A Good Start

The pioneer was BPCL with its 'smartcard'-based PetroBonus program, launched in September 1999. When developing the program, BPCL had no significant local examples to go by, except the frequent flyer programs being run by the airlines. Given the high investments to be made in program design, systems, branding, marketing, POS upgrades, etc., the risks were considerable, but BPCL did not introduce the loyalty program uni-dimensionally.

BPCL partnered with DIREM, a loyalty marketing consultant, to focus on loyalty program development and management, and simultaneously upgraded retail forecourts, introduced grocery stores (In&Out stores) and other outlet facilities in a phased manner, together with a fuel purity guarantee (Pure For Sure) and investments in technology.



The PetroBonus program required members to preload cash onto their smartcard, thus allowing cashless transactions. Transactions also earned points that could be redeemed for rewards from a catalogue. The program had no tiers.

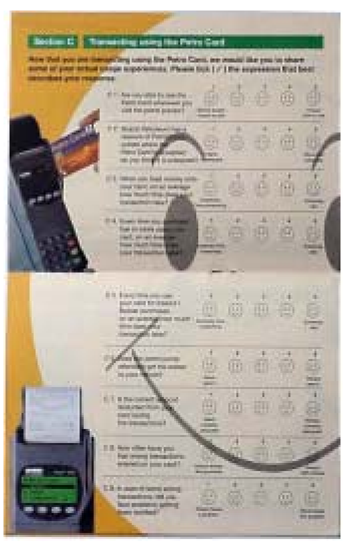
PetroBonus was launched in September 1999 in Chennai and quickly grew to become the largest card-based consumer loyalty program in the country (outside the credit card industry), with a member base of about 1.2 million card-holders across 43 cities in August 2003.

A Blueprint For Success: The PetroBonus Story

The very fact that the fundamental proposition and working of PetroBonus has required so little change is a testament to the meticulous planning that went into it in the initial stages of program development. BPCL didn't just get a head start in launching the program early, but also built up every aspect of loyalty program management that continues to give it immense returns.

Capture and use of data is the fundamental driver of loyalty success, a principle that BPCL caught on to early. Data capture of the profile and transactions of each member converted an anonymous customer base to an increasingly 'known' member base, a shift that opened up many doors over time.

A year into the program, BPCL initiated a monthly analytics publication for monitoring program health and identifying specific campaign opportunities that could be mined from the member database. This publication prepared by the analytics division of DIREM (the PetroBonus program manager) led to numerous data driven campaigns. For instance, BPCL started segmenting members by activity level and created targeted communication and offers to activate members, driving up revenues within the existing member base. Data analytics also identified opportunities to change fueling patterns, leading to campaigns that increased fueling on Sundays and during non-peak hours of the day. A profiling exercise and a customer satisfaction survey led to invaluable insights on the members and the wrinkles in the service that could be ironed out.



In addition to the analytics driven campaigns was the luxury of the volume of member database. BPCL could launch a new product, a new fuel blend, a new facility at its outlets, a new partnership, and reach out to its best customers in a targeted, intelligent fashion. This was relationship marketing paying off in the best way possible, as the economics of going direct started to become attractive in addition to the immense marketing benefits. For instance, when BPCL launched its high-performance fuel 'Speed' in mid 2002, it could immediately make an offer to specific segments of PetroBonus members who fit the Speed target audience profile, offering them bonus PetroMiles for fueling up with Speed. The luxury of having a database of members, an open channel to communicate with them and an accepted and widely used program currency mechanism to reward them proved an enormous advantage to BPCL in marketing many products and services.

On the branding front, the strength was in three well-defined brands that were built: the program brand " PetroBonus," the card brand " PetroCard" and the program currency " PetroMiles." This gave BPCL the flexibility to extend the program, the card and the currency to strategic and tactical partnerships or promotional activities as required. For instance, the PetroMiles currency also extends to BPCLs fleet card program, SmartFleet. PetroBonus also offered a co-branded card for Amway members.

BPCL also focused on using new interactive media to improve the PetroBonus experience while improving efficiencies. BPCL created a dedicated website for PetroBonus and used the web and e-mail for surveys, online campaigns, points statements, rewards catalogues, etc., in a two-pronged strategy of e-mail database building and widening of the online and e-mail offering. With the mobile boom, SMS-based services are on the rise.

The situation today is that PetroBonus has reached a critical mass that gives it immense power, with the road ahead seeing technology and analytics playing an ever-greater role in increasing operational efficiencies and deepening the relationship with the customers through interactivity and flexibility. There are problems to be sorted out for sure and the competition nipping BPCLs feet could well have an advantage in being leaner. This competition, as it turns out, is not just from similar loyalty programs by other petroleum companies, but equally from the emergence of co-branded programs with banks, which are shaping this quickly-maturing market.

The Second Wave

For the other two players, IOCL and HPCL, customer loyalty programs did not happen until mid 2002. Both of these companies focused their initial marketing efforts on building their retail outlet brand and services before launching a range of card based programs. Also, both companies took the co-branded route, tying up with banks that were also looking to launch their petrol loyalty programs.

The entry of the banks into this space brought about the next wave of loyalty programs, with a fresh set of offers for the customers. The credit and debit card based programs offered the customers all the facilities of a regular credit/ debit card in addition to a host of specific services including transaction fee waivers, surcharge waivers, insurance coverage, discounts, increased point earnings opportunities, fuel for points, etc. These programs leveraged the wide acceptance of the credit/debit card as a payment device and an established reader network. The

The Fleet Card phenomenon:

A classic case demonstrating the power of data analytics to drive strategic initiatives is the launch of India's first fleet card program, Smartfleet.

Analysis of PetroBonus data showed a segment of members with abnormally high usage. It turned out that this segment was that of fleet owners who were giving PetroBonus cards to their truck drivers for fuelling up.

After understanding their distinct needs of fleet owners, BPCL designed and launched the SmartFleet program in early 2001, a smartcard format found relatively few takers, with most new launches preferring to ride on the existing card reader network of the magnetic strip-based credit/debit cards.

Two other developments in basic program formats were the introduction of Fleet card and Network loyalty programs. On the Fleet card front, BPCL was again the pioneer, launching SmartFleet in February 2001, followed by IOCLs PowerPlus in January 2002. These programs gave fleet owners the option of giving drivers pre-loaded cards which allowed better MIS, transaction tracking, and points earnings. Network loyalty also came into the picture when IOC launched a co-branded card with MyShoppe, a network loyalty program with a number of retail chain affiliates.

The second wave gave the arena vitality as companies launched programs with fundamentally different formats, giving the consumer an array of options to choose from. At a time where evolutionary patterns seen in western markets are getting replicated in India but with a shortened timeframe, this is a good indicator that one will see companies quickly launching every possible structural variant and then heading towards a period of maturity that gives them a chance to improve efficiencies and then reinvent themselves.

Careful With That Axe

While all three major players in the petroleum retail sector have at least three card-based loyalty programs up their sleeves, the indicators are that it’s a bit of a winding road to maturity. We’re still in the “ launch every option” phase, and one can expect a variety of new offerings that will strive to widen the net to capture new prospects and focus on becoming the “ second card” in the pocket that slowly edges out the old card through aggressive and innovative marketing.

The drivers that determine program success are also changing. For most of the players today, coverage is the key driver. The more cities and outlets they launch their program in, the larger their member base naturally grows. After coverage begins to hit a plateau, data and analytics will take center stage as companies plunge into the deep end of data mining for elusive insight to drive their campaigns. Technology upgrades will feed the efficiency and interactivity demand. New partnerships will move towards more niche segments that target lifestyle or special interest groups. Finally, creativity and innovation will bring the sizzle that gives the market vitality.

In the large and complex market that India is, direct and loyalty marketing can thrive in the many opportunities present. The fast-growing urban population is getting increasingly Westernized, but the diversity within the people remains an opportunity for micro-segmentation and targeted campaigns to follow. Petrol retail has tasted blood with loyalty programs, and the many miles to go are sure to be marked by initiatives that make marketing history.

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