

Posh Retailers Pile on Perks for Top Customers

by Vanessa O'Connell

Hey, big spenders: Luxury retailers are going to new lengths to secure your loyalty.

This week, Nordstrom Inc. rolled out a "tiered" rewards program, giving shoppers a chance to earn perks such as free shipping, specially packaged trips to places like San Francisco and Miami, and access to "red carpet" events and store openings, if they spend enough on their Nordstrom card at the store. In the past, Nordstrom rewarded them only with points toward less-glamorous spending credits, known as Nordstrom Notes.

The key is to understand the relative price sensitivity for each segment. This is critical as you make investment decisions in the current economic climate.

Rivals are ramping up their loyalty programs, too. Last fall, Saks Inc.'s Saks Fifth Avenue introduced a Saks World Elite MasterCard, which lets shoppers earn points on dollars spent outside the store toward benefits such as free fur storage and dinner at the captain's table on a luxury cruise line. Neiman Marcus Group Inc.'s Neiman Marcus this year is offering its InCircle rewards participants the chance to buy a limited-edition Lexus car with five million points. It's also testing a credit card that lets shoppers earn points on dollars spent outside Neiman stores. Both stores aim to broaden the appeal of their programs: For shoppers, it's easier to rack up points on a card that can be used anywhere than on a traditional store card.



The 2008 Lexus LS600h L, a reward in Neiman Marcus's loyalty program.

The offers reflect a growing emphasis by luxury retailers on getting a "greater share of wallet" from their 100,000 or 200,000 top spenders, rather than trying to attract new customers. With department stores overall losing market share, their goal is to increase the profits generated by their best customers. At Neiman Marcus, for instance, the top 100,000 customers each spend more than \$12,000 a year at the store, while other shoppers spend an average of about \$600 a year there, according to Customer Growth Partners, a consulting firm.

Despite the glamorous perks, these programs carry some downsides for shoppers. In many programs, including those of Nordstrom and Barneys New York, a shopper's level of rewards is based on spending in a calendar year, meaning you have to re-qualify all over again in January. Also, some loyalty programs let you redeem points only once a year. Generally, the stores automatically convert points into gift cards or spending certificates and send them to customers at the end of the year, although a few will send them more often than that, if requested. Bloomingdale's issues them monthly, as earned.

The new rewards programs up the ante for such customers, particularly at the highest spending levels. Nordstrom, for instance, has long used a single formula to dole out points for everyone: Shoppers got one point for every dollar spent outside of Nordstrom on one of the retailer's cards (which include Visa cards), and two points for each dollar spent at a Nordstrom store. While it still offers points toward Nordstrom Notes, the retailer hopes shoppers will see the extra rewards offered at higher tiers as an incentive to spend more.

In Neiman's InCircle program, which has 20 different tiers and a top tier of five million points, shoppers usually get one point for each dollar they spend, but at the highest tiers, the point-earning formulas are more generous. Neiman tweaks the rewards -- which include trips, cars and designer clothing -- every year to keep them fresh. The "Rewards Issue" of the program's glossy Entrée magazine recently featured a model in a Russian red fox stole from fur designer

Polgeorgis on its cover -- described as a \$1,500 value, free to those who earn and redeem 50,000 InCircle points. At the end of each year, Neiman sends reminders that spending more can help shoppers qualify for better benefits.

Last year, Neiman, which has long taken only its own card and American Express cards at its stores, expanded its loyalty program to include spending at sister store Bergdorf Goodman.

The programs can pay off for retailers. At Neiman Marcus, the more than 100,000 shoppers in its In Circle loyalty program spent \$1.3 billion last year, accounting for almost half of its business. "The firepower of these customers is incredible," says Neiman CEO Burt Tansky. Both membership and average spending per participant are growing, Neiman says.

Membership in the top two of Bloomingdale's three rewards tiers has grown by 20% in the past 18 months, says Frank Berman, vice president of marketing. The store's strategy is "take care of your best people; they are worth more than acquiring twenty new ones," he says.

Robin Hopkins, of Alexandria, Ala., acknowledges spending a little more to move up to a higher tier in rewards programs. The 42-year-old mother of two, who works part-time, participates in a number of rewards programs, including InCircle from Neiman Marcus. But, she says, "I am not a \$10,000 spender. If I really wanted to get something in particular, I would just buy it," rather than trying to earn it through a retailer's reward program.

To get started at most retailers, you have to apply for one of the store's credit cards, which often have interest rates of 18% or more -- an awful deal if you're not paying off the balance in full. (Nordstrom is an exception in that it offers points for spending on Nordstrom debit and check cards, as well.) Other things to keep in mind: In some instances, the so called rewards aren't free, but rather discounts on travel packages or other offers. For instance, Bloomingdale's offers a three-day spa trip to its Insiders -- at a cost of \$1,560 per person, which it describes as a 20% discount off the trip's regular price.


Nordstrom restructured its program following six months of focus-group study and surveys. Its conclusion: People are less interested in discounts and more interested in perks, such as attending Nordstrom grand opening celebrations, being pampered during private shopping parties, concierge services and free alterations and shipping.

Still, Neiman, Saks and other retailers say gift cards remain the most popular reward redeemed. Barneys New York, a unit of Jones Apparel Group Inc., shuns trips, merchandise and other fancy rewards, and simply sends out gift cards based on point levels.

For retailers, the programs can be costly to operate. Milton Pedraza, chief executive of the Luxury Institute, a consulting firm, questions whether, in the long run, they make more sense for the stores than the traditional perks such as personalized service for the best customers. Even so, he says, his wife participates in the Neiman's InCircle program, and notes that it "definitely makes her more loyal to Neiman for online purchasing in particular."

Joining the Club
Comparing the perks and downsides of retailers' loyalty programs.

Retailer/Program	Number of Tiers or Levels	Sample spending-certificate reward for \$20,000 in annual spending at store	Points for spending outside the store?	Comment
Nordstrom Fashion Rewards	4	\$800 in Nordstrom Notes	Yes	Tiers top out at \$20,000 in annual spending, but you can choose among many credit and debit cards; points are good for three years on inactive accounts. Biggest rewards include a chance to design your own party at Nordstrom.
Barneys New York Free Stuff	5	\$1,000 "Free Stuff" card	No	Program is relatively simple: Points are automatically converted into Barneys gift cards, with no ceiling. Points expire Dec. 31 of each year. Barneys card interest rates can top 18%.
Neiman Marcus and Bergdorf Goodman InCircle	20	\$500 gift card	No	Top reward, with 5 million points, is a Lexus 2008 L Launch edition; but even participants with as few as 5,000 can get complimentary gift wrap. Points expire at year end and can be redeemed any time during the year.
Bloomingdale's Insider	3	\$600 in spending certificates	Yes	Bloomingdale's upgrades shoppers each month based on spending levels on their Bloomingdale's cards. Those spending \$1,000 or more in a calendar year earn rewards certificates sent automatically by mail in \$25 increments.
Saks Fifth Avenue SaksFirst	4	\$900 gift card	Yes	Some top-level spenders can redeem points for gift cards quarterly. Other rewards include free fur storage for one year for people spending more than \$10,000 annually at Saks and discounts with Saks partners such as British Airways.



Shoppers can browse through retailer magazines for reward options.