

Shoppers' Optimum program to offer less for more

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Drugstore chain denies changes to rewards formula linked to new generic drug rules

Shoppers SC-T popular rewards program is about to get less rewarding for its members - and more lucrative for the retailer - just as new generic drug rules start to squeeze the retailer's bottom line.

Changes to Shoppers' Optimum loyalty program mean that its members will have to spend at least \$800 before they begin to receive benefits, up from \$700.

At the highest reward level, consumers who spend \$9,500 will now be allowed to redeem \$170 in discounts on future purchases. That means they'll have to buy about \$56 worth of products for every dollar in rewards, compared to \$50 today.

The Optimum program is important to Shoppers, Canada's largest drug store chain, because its members spend 60 per cent more on their purchases than non-members. The retailer generates two-thirds of its non-prescription "front store" sales from the cardholders, and it is considered one of the most successful loyalty programs offered by any Canadian retailer.

But drug store chains with a large Ontario presence have been under pressure ever since the provincial government announced radical changes to the pricing and sale of generic drugs, a major driver of profit for pharmacies. Shoppers has warned that the new generic laws will force it to adjust its business model to make up for the losses; other provinces are expected to consider similar generic provisions as they look to save on health care costs.

The rewards changes take effect on July 1, the same day that generic reforms are enacted in Ontario.

"It's something that Shoppers Drug Mart has to do, given the upcoming legislative [generic] changes," said **Kathleen Wong**, a retail analyst at **Veritas Investment Research**, who is an Optimum member herself. "They're not going to make as much profit as before. They have to try in various areas to be more proactive."

However, Tammy Smitham, a spokeswoman for Shoppers, said the loyalty program revamping isn't tied to the new generic rules, which ban generic producers from giving pharmacies professional allowances for stocking their goods. The rewards overhaul isn't material to Shoppers' financial results, she added.

Rewards members are venting their frustration. One blogger on SmartCanucks.ca complained that it will cost more to get less under the new regime. Another called it a disappointment that Shoppers has to find other ways to generate profit now that Ontario is outlawing generic rebates.

Shoppers last made changes to its rewards program in January of 2006. Since then, the drug store chain has provided members with more rewards opportunities, Ms. Smitham said. With almost 1,200 stores today, it's added 324 stores over that period. It's stocking more merchandise, including high-end beauty products and electronics.

Shoppers has also stepped up considerably the number of promotions it runs, such as "20 times points" weekends and other bonuses for spending more, she said. "Members are redeeming more than they ever were before."

Even with the cutbacks, Shoppers has the most rewarding loyalty program among Canadian retailers, **Ms. Wong** said.

She, for instance, now buys her cosmetics at Shoppers, rather than department stores, so that she can collect points towards other purchases. Beauty products carry gross margins of 50 to 70 per cent, about twice or more the margins of other products such as food and shampoos.

She also tends to shop at Shoppers on "20 times points" days, so that for every \$1 she spends, she gets back 200 points instead of the regular 10 points. "Most Optimum members go to Shoppers on those multiplier days to accumulate points. That [rewards change] would have an impact."

Optimum Plus members like herself, who spend more than \$1,000 a year at Shoppers, lose another perk on July 1: an extra 10,000 points - worth \$15 - when they reach the maximum reward level.