

2010

The Role of Loyalty Cards in Market Towns



Hannah Bowden

Action for Market Towns' Research Consultancy, amt-i.

3/1/2010

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INTRODUCTION

Objectives

Action for Market Towns' (AMT) research and consulting division, amt-i, conducted the following research to understand the role of loyalty cards in market towns and how they can be used to maximum effect.

The report reviews a number of existing loyalty card schemes in market towns and offers recommendations for those thinking of starting a scheme of their own. It concludes by considering how the use of loyalty cards in towns compare with industry best practice and how independent businesses in market towns may use them to remain competitive.

About amt-i and Savvy

amt-i is the research and consulting arm of Action for Market Towns, a national charity and membership organisation dedicated to promoting the vitality and viability of small rural towns in the UK. Loyalty specialists, Savvy UK Ltd sponsored this piece of research to help those involved in engendering loyalty in market towns to make an informed choice.

amt-i has conducted this research without bias and the current report offers an objective summary of the options available to towns. Recommendations are based on our own social objective of providing practical support to those working to help towns to thrive.

Methodology

Literature Review

A literature review of the current loyalty card schemes in place and any existing research done into these schemes was conducted by amt-i. The literature review was based on a general internet search and AMT's case study database search. A range of news articles, academic reports, electronic journals and case study entries were reviewed.¹

A brief review of two major national loyalty schemes was conducted. Tesco was selected as an example of industry best practice because of the success of the Tesco Clubcard. It was also selected as the development of a large out of town supermarket is often seen as detrimental to independent trade in town centres. Boots was also selected because they are often located in market towns and have had success with their own loyalty card.

Qualitative Research

11 telephone interviews with loyalty card project leads and other stakeholders were conducted. The sample was selected via the amt-i promotions survey and from the literature review. The sample was self selecting to an extent as not all those invited to interview wanted to or were able to participate. amt-i aimed to conduct these interviews with people from market towns that have an even spread from a geographical and typological perspective. The results of these interviews were analyzed using a representational approach (Swift '96). Following the work of Worthington and Hallsworth¹ the analysis anchored the findings by type of technology.

Note on Terminology

Throughout this report the term 'businesses' is used to refer to retail and service outlets in market towns that may be part of a loyalty card scheme.

¹ See References

Technology Overview

In 1999 Worthington and Hallsworth published their report “Cards in Context”² which reviewed local loyalty cards in the UK. This report categorised the approaches by type of technology adopted. Building on this work, the current report also categorised the schemes reviewed by type of technology. The technology typology to emerge in the current research differed from earlier work because no magnetic stripe payment or non payments style cards were found to be currently used in market towns³.

The typology adopted was as follows:

- ‘No tech’, a card or plastic card, possibly with a serial number but not necessarily with one. This category was used to describe schemes which used a single card without stamps and for folded cards which are designed to collect stamps.
- ‘Low tech’, a card with bar code which could potentially be scanned automatically at point of sale (but that was not currently being used in this way)
- ‘Hi tech’, a card with an integrated chip which is used in conjunction with a ‘reader’ which automatically tracks customer visits.

The function of a loyalty card is to encourage repeat spending by offering rewards when repeat spending takes place. Any card that provides this functionality may be called a loyalty card, be it high, low or ‘no’ tech.

² Worthington, S. And Hallsworth, A., Cards in context- the comparative development of local loyalty schemes. International Journal of Retail & Distribution Management (1999) Vol: 27 Issue: 10 Page: 420-429

³ This research is not exhaustive and such cards may be in use. Barclays are known to offer a rewards payment card <http://www.barclaycard.co.uk/personal-home/cards/goldfish/index.html> and targeting market towns with this approach. A detailed review of this card was beyond the scope of the current research.

THE ROLE OF LOYALTY CARDS IN MARKET TOWNS

Definition

A loyalty card allows each participating business to identify and reward repeat purchases therefore encouraging return visits.

Marketing and Promotions

Town-level marketing increases footfall into a market town by communicating local attractions, events and features and highlighting 'special offers' such as late night shopping and free parking. Individual businesses contribute to this marketing effort themselves, through the special offers and events they might initiate. This marketing is typically done via websites, email, direct mail, posters and leaflet drops. These large scale promotional efforts are often packaged as a "Shop Local" scheme.

Planning and Capital Investment

Capital investment and planning can make a town more attractive through shop-front refurbishment, improving parking, street furniture and many other capital-intensive projects. Over the long term planning can improve the mix of businesses and facilities available in the town.

Loyalty Cards

Promotions, planning and capital improvements are often initiated with the purpose of increasing footfall in market towns, getting as many people as possible to 'make that first visit'. Loyalty cards motivate them to come back by offering a reward that they can expect to receive on a later visit. Loyalty cards are often introduced as part of a wider programme of promotions but don't have to be. Often cards which convey a discount on presentation are used in conjunction with the other promotions described above but these are not loyalty cards in the true sense because they do not track customer spend and therefore are not able to reward repeat purchases.

REASONS FOR IMPLEMENTING LOYALTY CARDS

The following themes emerged when towns were asked about their motivation for introducing a loyalty card:

- External threats including competition from out of town or edge of town shopping
- Promote/Increase/encourage footfall/trade
- Study/Health check showing spend outside town by local people and/or the need to support local businesses
- Desire to increase a sense of community amongst local businesses
- Publicise and celebrate independent business in the town
- Retailers already operating their own loyalty cards
- Need to be as competitive as possible

“Small towns need to find a way to keep themselves in the forefront commercially, this is one good way”

REASONS GIVEN FOR CHOSEN APPROACH

No Tech or Low Tech	Hi Tech
Thought Hi Tech was too costly	Wanted a loyalty scheme rather than a discount scheme
Didn't want to ask traders to pay	Easier to keep track of rewards
Businesses/retailers were assumed not to want to buy a terminal	County Council recommended
Didn't want 'Co-opertition'	Can monitor spend patterns
Majority of businesses opted for no or low tech approach	Use as a marketing tool

'No Tech' or 'Low Tech' schemes focused on the perceived cost of a loyalty scheme with particular focus on the card itself. Hi Tech responses focused on the benefits of their chosen approach. In some cases where the Hi Tech approach was considered too costly, the actual costs had not been reviewed.

One town appeared to assume a Hi Tech approach allows customers to collect points in one business and 'spend' them in another, similar to the national Nectar card, which they described as 'Co-opertition'. However, this is not how Hi Tech cards have been used to date in market towns. Customers collect points and can only 'spend' them in the same outlet.

The response that pointed out the difference between a loyalty scheme and discount scheme recognised that a loyalty scheme encourages *repeat spend* in local businesses whereas a discount scheme rewards customers on their first and every visit. In the first instance customers have to demonstrate loyalty to earn their reward, in the second there is no need to be loyal to a particular outlet, customers could walk into any shop or service businesses signed up to the scheme and get the same discount, even if they never return.

The ability to monitor spend patterns and use this data as a marketing tool given as reasons for choosing a Hi Tech approach, echoes the finding from the literature review of industry best practice. Key to the success of national retailers' loyalty card schemes is the ability to match personal details (name, address etc) with buying habits. This allows national retailers to offer targeted promotions by mail or email which gets customers back in store. The potential to earn points on purchases increases spending once they get there. See customer data section below for more details on this point.

IMPLEMENTATION

The steps that towns with existing schemes have taken to implementing their loyalty cards are summarised below. This list is an aggregation of all of the activities that different towns undertook. It is offered as a guide from which you can pick the approach which is best for your town. It is not necessary to implement all of the steps.

Idea Generation

- May be generated by reading about other towns and or prompted by market towns Health check.
- Idea proposed at business or council meeting.

Working group established (For more information see the operations section)

- Options researched; what other towns have done
- feasibility study may be conducted (e.g. by Chamber of Trade) or specialist advice sought (e.g. from Trading Standards)
- Market research may be conducted

Stakeholders Identified and contacted

- The most important stakeholders are the local business community, they may be contacted through the Business Forum, Chamber of Trade or by visiting local shops or service outlet
- The Public Sector are an important source of potential funding, advice and support, they include Town, County, District, Borough Council, Regional Development Agency and Local Strategic Partnerships. Contact details can be found on the internet or in the local telephone directory.
- Market Town or Community Partnerships were key stakeholders in most of the schemes but not all.

Consultation and Networking

- Consultation with business and customers
- Personal networking with or amongst businesses
- Reviews at business network meetings if business group initiated

Funding (for more information see the funding section)

- Private investment and sponsorship sought from local business
- Grants from public sector

Promotions Rolled Out

- Promotions, particularly with local press.
- Some develop websites or add information to existing town sites.

Launch

- Cards printed/purchased & distributed
- May be purchased by businesses directly from card vendor or via central distribution point such as the market town partnership.

OPERATIONS

- Most schemes either had a volunteer working group or steering group of between 3 and 12 people.
- Some schemes had one or more full or part time council officer(s) working on the project
- Set up time was reported as between a few weeks and 6 months depending upon the scope of the scheme and amount of dedicated staff.
- To administer and maintain the project, some schemes employ a part time administrator or use existing town council staff time.
- In others self selected businesses act as admin points for the whole scheme or every business has point of sale material and can issue cards.

PROMOTION

All the schemes used one or more of the following promotional techniques:

- “Z” card
- Posters
- Business Directory
- Website
- Magazine
- Local Radio
- Posters
- Leaflet in newspaper
- Bags

“The residents immediately took to the idea of the loyalty scheme”

The key themes which emerged in considering promotion were:

- Personal contact with businesses or between businesses if the scheme is driven by a business group, is very important.
- Promotion is vital but a loyalty card scheme can still work without a high cost integrated programme of promotions.
- Point of sale is an important element and has been shown to be successful without other promotions.
- Promotion is twofold, promotion to participating businesses and promotion to customers.
- Promotions need to be carefully considered at the start and long term.
- Local press are an excellent source of free publicity and have been found to be keen to run positive stories about local businesses fighting back against adversity.

COSTS

This research found wide variation in the amount of funding reported, between £560 and £200,000. This significant variation in costs was predominantly due to the scope of the scheme, with the loyalty card being only a small part of the total cost.

Larger programmes may include;

- Promotional literature and merchandise e.g. bags
- Business Training
- Streetscape work
- Website/Town 'Portal'
- Business Directory

Most of the schemes anticipated or reported a minimum level of 2 hours per week of administration support to maintain it, with the associated cost implications. One Hi tech scheme had been left to 'tick along'.

No Tech schemes have low costs to start and typically offer cards to customers for free. However, the cost of providing immediate discounts is difficult to quantify 'hidden' cost for most of the No Tech schemes. One 'No Tech' scheme interviewed which used a card and stamp approach did not offer immediate discounts but a later reward of a cinema ticket. The cost of the cinema ticket was subsidised by the council as the cinema was council owned.

Although the high tech schemes typically charge a monthly rental for the smart-card readers, they also normally require customers to buy a card and the revenues from card sales mean that the net costs of the No Tech and High Tech schemes appeared to be broadly comparable.

FUNDING SOURCES

Public Sector Sources:

- Town/ District/County/Borough Council
- Regional Development Agency
- Local Strategic Partnership

Private Sector Sources:

- Chamber of Trade & Commerce
- Local businesses/retailers
- Corporate Sponsorship

Key themes:

- Public sector money often used to promote the scheme
- Private sector funding or investment was reported as follows:
 - No Tech or Low Tech Charge Businesses membership fees typically used to fund scheme administration
 - In Hi Tech Schemes retailers buy cards and charge customers to make a small profit which is used to offset the cost of a smart card reader rental
 - In one Hi Tech scheme investment by businesses in card reader rental could be considered 'match' to public sector grants.
 - Private sector sponsorship was reported in both Hi Tech and No Tech Schemes.

“We wanted to introduce the concept of value, people literally buy in to the scheme, it’s an emotional commitment”

CUSTOMER REWARDS

No Tech

In all but one of the schemes reviewed the rewards offered were described as either retailer dependent or at the discretion of the business. Most No Tech cards focused on providing discounts when shoppers showed their card, irrespective of whether or not this was their first or later visit. Typically discounts are issued at the point of sale when the customer shows their card. One offered free cinema tickets. In the schemes that offered discounts businesses could use their discretion on the following:

- Percentage discount offered
- Discounts only applied to specific items

In most cases other promotions were used in conjunction with No Tech or Low Tech card discounts, these rewards required additional methods of recording repeat purchases such as cards with stamps or books/spreadsheets where purchases and/or customer card numbers were recorded at point of sale. The other rewards offered in these cases included:

- Money off vouchers
- Monthly draws

Hi Tech

All high tech cards offered a point earning system where a number of points had to be accumulated before any reward was given. Points could be 'saved up' and exchanged for a range of rewards but was often money off vouchers they could use on their next visit. This too was retailer dependent with the following variations:

- Minimum purchase level before points start to accrue
- Restrictions on how vouchers can be spent

CUSTOMER DATA

- All of the schemes reviewed, record customer data, except one, which tracked use through a unique trader stamp.
- All No Tech and Low Tech Schemes collected basic customer data such as name, address and email via an application form.
- Hi Tech cards were sold with and without application forms to collect customer data.
- Some schemes that employed No Tech and Low Tech had experimented with manually collecting customer data at point of sale.
- Some No Tech and Low Tech schemes have collated customer data into a database and can cross reference with data manually collected at point of sale by using card's unique serial number.
- Customer data collected at point of sale can be used for marketing but the offer to cross reference this was not taken up widely by the one No Tech scheme which reported on it.
- One Hi Tech scheme is collecting customer data via the card directly into a database but did not report on how it is being used.

What makes it possible to enjoy such customer insight from the data analysis at these retailers are their loyalty schemes through which they are able to collect personal details on their customers and to link this with the purchases that they make in-store.

- Money week⁴

⁴ Davis, G. How Tesco became Britain's top supermarket. *Moneyweek* (May 2007) [online] accessed Jan 2010 at <http://www.moneyweek.com/news-and-charts/how-tesco-became-britains-top-supermarket.aspx>

OUTCOMES

Key words used to describe market town resident's response to a loyalty card scheme of all types were:

- Positively
- Very Popular
- Accepted and used

Only one scheme formally evaluated the outcome, most relied on informal interviews and indicators such as number of cards in circulation and continued business support:

- Some No Tech schemes reported a mixed response from the business community with some retailers not promoting the card.
- One No Tech scheme which was part of an extensive programme of promotions and formally evaluated reported that 80% of businesses said people's awareness of their business had increased
- Businesses in the Hi Tech schemes continued to support and promote the loyalty card.
- Businesses reported increase in trade and people spending more during informal interviews in one Hi Tech scheme.

Only Low Tech Schemes reported some issues or anticipated issues with their schemes, these have been translated in to the table below:

RISK/ISSUE	REPORTED MITIGATION
Disagreement on appearance of Logos	Make it clear what sponsors are getting for their money
Fraud	Clear terms and conditions
Easy for cardholders to forget about card	Imperative that promotions are maintained
Health & Safety to do with stamping cards	Allow customers to stamp themselves
Local people come in anyway and then get discount	Scheme where you earn points by spending more then 'burn points'
Funding run out so need to streamline	Use website as promotional vehicle
Took businesses time to decide on offers	Not reported

IMPROVEMENTS AND EXPANSION

Both Low and Hi Tech Schemes reported looking at increasing the scope of their scheme to include other businesses such as farm shops, manufacturing and attractions. One No Tech Scheme suggested that they should move from a discount card to a loyalty card.

The Low Tech Scheme said they are considering:

- Town loyalty vouchers in a currency type approach.
- Other point of sale technology that will allow automatic tracking of customer data

Hi Tech schemes are looking at:

- Increased use of customer data around customer spending patterns, particularly to review seasonality
- Using the card for cashless parking

HINTS AND TIPS

Key Themes to emerge were:

- The most important theme for both Hi, No and Low Tech schemes was for face to face interaction before the scheme is begun.
- Secure support from local businesses and influencers from the outset.
- Get as much local press and other help (e.g. design work) as you can for free.
- Dedicated project management helpful
- Promotion and marketing are key.

SUMMARY AND RECOMMENDATIONS

This report has examined the role of loyalty cards in market towns, looked at existing schemes and introduced some key concepts from a brief review of industry best practice. Loyalty cards were defined as allowing a business to identify and reward repeat purchases, therefore encouraging return visits.

Implementation

None of the towns interviewed reported formally planning the scheme as a whole or drawing up a formal marketing plan. It is assumed that this was done to a greater or lesser degree and it is proposed that plans, at least for the first year with clear costs and budgets are an important step in implementing a loyalty scheme.

Costs

This research has found that cost is a big factor in the choice of card but that this is often not thoroughly researched. The ability to offset costs of Hi Tech cards through card sales should be considered. Before making the choice of approach, be sure to get all the information on costs direct from the source. Factor in 'in kind' contributions that may need to be paid for in the future such as free printing or web development and remember the 'hidden' cost of discounts and rewards too.

Funding

Loyalty card schemes have been successful in securing grant funding and private investment to date. Ensure that sponsors know exactly what they are getting for their money and have a succession strategy in place for when grant funding ends to so that your loyalty card doesn't just 'fizzle out'.

Promotions

Whilst most schemes were heavily promoted, one “Hi Tech” scheme was launched with a budget of only £2000 for promotions. The minimum promotions that can support the launch of a loyalty card scheme are in-store point of sale materials. These could be a Z card and posters, leaflets etc. It is important to promote the card to businesses in person initially.

Customer Rewards

Customers love discounts and rewards. Both appear to work, but are good at different things. The former is good for short term promotions, particularly on items that businesses want to clear. The latter is required to encourage repeat businesses. The best examples are from successful national retailers. They cleverly use discounts and special offers as short-term promotions to pull people in, alongside a long-term loyalty scheme to motivate them to keep coming back by offering a future reward. This is the recommendation for market towns.

Customer Data

When considering loyalty card schemes and industry best practice the keys to success are:

- Recording personal details such as name, address and email
- Tracking customer spending patterns i.e. what they buy and how often
- Having the ability to link personal data with spending pattern information.
- Proactively using this information by sending out targeted promotions.

Outcomes and Risk Management

Outcomes of Loyalty Card schemes alone have not been formally measured. Keeping in touch with local businesses, informal feedback and continuing support are common gauges. Risks associated with security of personal data that is collected through application forms and potential fraudulent use of 'No tech' cards with stamps, may be mitigated with formal data protection and fraud prevention policies which are clearly communicated. As long as no personal data is held on the card, the cards carry no risk to personal data.

Improvements and Expansion

No and Low tech schemes were looking at improvements in tracking customer visits. Hi Tech schemes were considering use of customer spending patterns and cashless parking. One Low Tech scheme is looking at more point of sale technology and considering the use of currency style vouchers. Given the high profile local currencies launched in recent years in market towns, the question of how loyalty cards 'fit' with the option of adopting a local currency is a good one. Tentatively it may be suggested that loyalty cards and local currencies can complement each other and need not be mutually exclusive. Indeed loyalty cards could function as a form of local currency. For further investigation of this area, the forthcoming book from Transition Guides "Local Money" is anticipated to be a good place to start.

CONCLUSIONS

Industry research has found that highly successful retailers such as Tesco and Boots attribute a great deal of that success to their Loyalty cards. Independent businesses in Market Towns are fighting back against the threat of national retail chains. Loyalty cards have a key role to play in this fight.

Although not formally evaluated, the general consensus of opinion amongst market towns interviewed is that they appear to increase trade, generate good PR, help local businesses to feel a sense of community and support and improve relationships between local businesses and Town Councils, where the latter initiate the scheme.

However, it is important to carefully consider your budget, the means for sustaining that budget and the level of commitment from the business community. Large integrated programmes of promotion cost a lot of money to set up and are difficult to sustain long term. They are typically funded by public sector grants which are not continuous.

This research indicates that discount based schemes in market towns may work within a larger programme of promotions but that over time businesses stop promoting the card and the scheme fizzles out when the grants used to fund the larger programme dry up.

To remain viable cards that offer a discount must 'evolve' into true loyalty cards which track and reward repeat purchases. The data generated by tracking customer purchases may be used to carefully target discounts but these should be short term. This is what the most successful national retailers do - let's beat them at their own game.

APPENDIX: LOYALTY CARD SCHEME SUMMARY TABLE

Card Type	Media	Longevity	No. of cards issued	Cost of card to customer	Cost of card to retailer	No. of businesses	Mix of businesses
No Tech	Plastic Card.	To launch Easter 2010	None yet	Free	Free	Up to 75	Retailers and services
No Tech	Folded Cardboard card & stamps.	Ran for 9 months from..... Plan to re launch in March 2010	4,000	Free	Free	22	Private market traders and Boots the Chemist
No Tech	Plastic Card.	1 year. Planned pilot stage finishes in March 2010	2,500	£2.50	£1.50	50	Regional and independent traders
No Tech	Plastic card with serial number.	Launched June 2006. Still going. Future uncertain.	10,000+	Free	Free. Cost 50p each to produce	143 in 4 market towns	Retail and services
Low Tech =	Plastic card with bar code. (Credit card style and key fob)	Launched august 2009. Still going.	1800-2000	Free	Free. Cost 33p each to produce	47 (30 to start)	Retail and services
Hi Tech	Smart card with Integrated chip	5 years and the scheme is still going strong, it was expected that it would only last for 3 years	7,000	£5.00	£2.50	30	Retail and Services
Hi Tech	Smart card with integrated chip	Launched June 2007. Still going.	3000-4000	£5.00	£2.50	14	Predominantly fashion but a mix of retail and services
Hi Tech	Smart card with integrated chip	Launched July 2009. Still going.	2000	£5.00 -	£2.50	17	Retail and Services

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<http://www.google.co.uk/search?hl=en&source=hp&q=shop+local&meta=&aq=f&oq=> (not useful, all bigger centres)

<http://www.bigbarn.co.uk/>

http://www.thanet.gov.uk/business/shop_local_card.aspx

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Acknowledgments

Thank you to all interviewees from market towns already involved in loyalty card schemes or soon to launch a scheme.

Thanks to Mike King, Senior Research Consultant, amt-i, for assistance with interviews.

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