

Customer Loyalty – Pile It High and Prosper

The late Jack Cohen piled it high and sold it cheap to become number one supermarket in the UK: John Lidstone reports on Tesco's achievement, the subject of the *Pharmaceutical Times* 2001 Marketing Masterclass, sponsored by Expression.

What has Tesco's customer loyalty programme got to do with the pharmaceutical industry? Precious little, you will say. However, a capacity audience listened fascinated, at the Roof Gardens Restaurant, Kensington in May to a presentation by Clive Humby, chairman of DunnHumby, at the *Pharmaceutical Times* Marketing Masterclass, sponsored by Expression. He described the thinking behind Tesco's hugely successful customer incentive programme, then invited his audience to draw possible lessons for its potential to the Industry.

Clive Humby's company, which he founded eleven years ago, exists to collect and analyse data and then tell its clients what the data mean. One of its major clients are Tesco which now owns 51% of the company. Another is BMW.

In 1965, when I first met the founder of Tesco, Jack Cohen, known in the retail trade as 'Jack the Slasher', his supermarkets were little more than aggressive street market stalls. With the abolition of retail price maintenance in the 1960s, Cohen spent £12m a year on Green Shield trading stamps as a means of taking trade from his competitors. So much so, that the then Lord Sainsbury spearheaded a piece of legislation, the Trading Stamps Act, with

which he hoped to put Cohen and Green Shield out of business. All to no avail. Tesco just grew and grew. Sainsbury did not then heed the writing on the wall. But how has Tesco achieved the position it now holds as the number one supermarketing group in the UK?

Background to the loyalty card strategy

Up to six years ago, Tesco, like its competitors, knew nothing about its customers: who they were; what they brought; how much they brought; what was in their shopping baskets? As Clive put it: 'So many major companies behave like monstrous giants ploughing on with little regard for the customers.'

By implication, he opined, the healthcare industry mirrors this description, throwing out these provocative comments to his audience: 'I cannot believe that doctors don't care about their customers; I cannot believe that doctors aren't also customers; I cannot believe that hospitals and trusts don't apply the principles Tesco has had to apply to get where we are today.' And perhaps one of the most telling of all his challenging comments: 'The pharmaceutical industry deals with and has more data than any other. But, although you've got all this information, you have got no knowledge!'

Before Tesco could embark on a customer loyalty programme, first it had to find the answer to the basic question: 'What is loyalty?' For Tesco it means customer wellbeing. Taking this into the realm of people's eating habits, 'If you look at what people eat, it can affect their insurance premiums.' An issue Clive said his company had been asked to examine for a life insurance company. 'That is not a million miles away from your (pharmaceutical) industry! Think about it. People can get ill from what they eat – for example, obesity.'

Every marketing magazine studied on a routine basis by Clive's company, talks constantly about customer relationship management, (CRM) so familiar to his listeners. 'But,' said Clive, 'you don't want a relationship with Tesco. What you want is for Tesco to understand your needs and anticipate what you want and be able to satisfy them.' How often I have heard Industry sales managers telling their medical representatives that; how often have I always been left with the impression that neither knows what the hell it means.



What does customer loyalty mean?

It is not customer loyalty to Tesco. It should be Tesco's loyalty to its customers. A great many firms treat non-customers far better than their existing ones. If you are a customer of a bank or insurance company, it is impossible to get a bank loan or a mortgage at the attractive terms offered to non-customers. Likewise, if you have a car insurance policy, you will be refused the offers promoted to non-customers by your existing insurance company!

Loyalty, for Tesco, has become a philosophy of reserving the best deals for their loyal customers. Tesco also acknowledges that there is no such thing as an average customer. A few look valuable; a few don't and a large number look as though they spend about £1,000 a year in the store. Clive mentioned how many people thought that Tesco's customer loyalty card was going to be electronic Green Shield stamps. 'If it was just that, giving away one per cent of your turnover, what's the point, remembering what I have said about non-customers? That would have benefited people who only shop at Tesco when price is less than elsewhere.'

The foundation upon which Clive built the case for the Tesco loyalty card strategy was having good data about customers. If the data are used properly, it can change the way you do business. That will make a difference. Just using a club card as an incentive is no better than saying: 'The cost is £1.25 if you pay cash or £1.00 if you use your loyalty card. It gets you no further than the next sale.'

Tesco started card trials at twelve stores in 1995. Today, six years on, Tesco have 20 million users! Of those, 10 million shoppers are active in any thirty-week period; 65% of all Tesco customer transactions are made on Tesco loyalty card.

How was the incentive programme launched?

Customer service commitments are very expensive, so it was essential that Tesco staff understood the implications of the Tesco loyalty club. Tesco had 140,000 educational videos made which were sent out to staff on the Tesco checkouts. This video explained: 'Why we are doing it; what we expect to get out of it; why it is important to understand what is going on.'

Before the club card was launched, Tesco had 15% of the retail food trade. Within six months this rose to 18% coming from competitors such as Asda

and Sainsbury's. But, in addition, Tesco gains a large amount of secondary trade in areas such as alcohol where people had before not bought from Tesco. The Tesco club card was a powerful incentive for them to do so. Initially, the trade and national press were sceptical, reporting that this was just another updated form of the Green Shield trading stamp incentive. And an expensive one at that, an investment of £300 million over three years and 4.5% of company profits.

But now it is universally recognised to have worked. The proof is in the figures. Tesco has 10 million active customers and one third of all homes in the UK are in the Tesco club card scheme. It took eighteen months to break-even on the expenditure and between six and seven months on incremental costs against sales.

Your shopping basket describes you

One of the most intriguing set of facts to come from Clive's presentation was the picture he painted of us as shoppers based on: 'You are what you eat.' Tesco now has accurate people profiles derived from the contents of our shopping baskets, eg, those who are healthy; those who are unhealthy; those who have teenage children; those who have children about to leave home; parents preparing for school half-term; families planning to go on holiday; families returning from holiday; a shopper with a car on a parking meter; someone on a tight budget. From such profiles, customer segmentation has been essential for Tesco.

Until the club card arrived, all Tesco knew about its customers was what they bought, not why. Now it defines customers by major segments such as: single person, young married with no kids, married with babies, married with teenage children, old aged; by can cook, won't cook, daring adventurous cook, by promotion orientation, by fragmented meal families. This segmentation has enabled Tesco not only to identify the needs of these segments, but to aim segmented Tesco magazines at them carrying specific product offerings, reflecting their buying patterns and habits. There are no less than twenty-four of these Tesco customer magazines being circulated.

The price myth

Tesco discovered that about 38% of their customers care about price, based on 700 products

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where price was important. Tesco spent £400 million on price strategies, experimenting with price cuts from 5% to 10%. Data analysis showed that most of the promotions money was going to 'fickle customers' who only shopped at Tesco when prices were cut. Loyal customers were getting nothing back for being loyal. Knowing what loyal customers bought regularly enabled Tesco to cut the number of products on which promotion were mounted, from 700 to 350 and through the loyalty club card, to give incentives to loyal customers who bought products from that list of 350. The saving in promotion spend was invested in price initiatives.

Tesco and healthy food

Clive's presentation sparked off a number of questions that were pertinent to the pharmaceutical industry. The first: Is Tesco interested in 'health' and in promoting health-improving products? Clive: 'Tesco is first and foremost a retailer. We are also socially responsible. How far that social responsibility should go needs to be looked at seriously by us. But you will find very few Tesco promotions on junk food. However, you may find promotions on food you consider healthy. And, for the first time in Tesco's history we have in the company's corporate plan, healthy eating as a core issue. This has implications for our suppliers and the quality of their products.'

There is a perception that healthy food is more expensive than 'junk food'? Clive: 'That is not necessarily true. But, I have to say that the term 'low fat' on a product is not a health term, it is a marketing term and it does not even mean that it is low fat in reality. Remember first that Tesco is not a nutritionist. There are now insurance companies who will give life/endowment rates to people, based on what they eat. Tesco's data can tell people in insurance companies and people working in healthcare what people buy, is what they eat, and this provides a snapshot of whether certain people are eating foods that will lead to obesity.'

By the way, any healthcare company could do such a survey via Tesco databank. For example, 90% of new food products fail and Tesco's databank can spot the winners and losers very quickly. Perhaps that is an area that could be applied to the OTC side of the pharma industry. After all, we have in-store chemists throughout the UK now.



Tesco's financial services

One of the most interesting set of facts presented concerned financial services. Tesco is now the third biggest issuer of credit cards. Tesco has, as its television advertisements illustrate, a range of targeted financial services, based on their customers' buying behaviour. Shopping baskets are good predictors of an individual's buying power. Out of 10 million shoppers, Tesco reckons to have about one million who are Tesco-brand devotees who believe that any product, whether it is food, or financial services with the Tesco label, is better than any alternatives. Customers who go on-line for their groceries total 400,000 and Tesco is now the world's largest home delivery firm! And it gets better; e-commerce shoppers business has gone up by 37% because they buy much more than in-store ones, because they buy less often, in fact Tesco has become a new media.

Conclusion

The background facts given by Clive, were not only interesting for those who attended this memorable *Pharmaceutical Times* marketing masterclass.

First, one of the important lessons learned was how data have been used by Tesco to achieve the number one place it now holds in supermarketing. Another was the application of that data to segment customers and to target them with a rifle aim, rather than with a hit-and-miss blunderbuss. The pharmaceutical industry must change and be much more tuned into those customers who will have future power, patients not just intermediaries. It will be interesting to see which pharmaceutical company will be the first to pick up the challenge what the creative use of data offers and overtake the present leaders? ▲

Expression is also sponsoring the next Marketeer Masterclass 'Doctors are Consumers too' on the 23 October.