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Scoring Points: How Tesco is Winning Customer Loyalty

Tim Phillips, Clive Humby and Terry Hunt

Kogan Page, London, 2003; ISBN: 0 7494 3578 X; 272 pp; hardback; £25

This book is essential reading for all marketers, students of marketing and everyone interested in customer loyalty and customer service. I do not use the words 'essential reading' lightly, because I know that most people drown in the readable material that circulates on the internet. This book is essential because it is the very fullest account of success in retailing in the UK that has been published for a long, long time. More importantly, it is a story of leadership in marketing and of making the idea of 'customer orientation' work — for customers and for staff. Perhaps most importantly of all, it shows that success in marketing (at least in retailing) is not a result of fads and cards, but of a strong, consistent and persistent focus on customers and their needs. The book, 'In search of excellence',¹ made all management consultants and writers chary about lauding companies too much — so many of the praised companies experienced severe problems soon after the book was published. Being regarded as successful in management is a bit like marriages appearing in *Hello!* or other celebrity magazines. However, the Tesco story as portrayed in this book looks like it will run for a long time.

The book does not just tell the story of the Tesco Clubcard, although that is the theme that connects the chapters, which cover everything from the Clubcard philosophy and how it works in practice, through how it is supported by a comprehensive mailing programme, in all its variants (by customer and time of year), to the extension and deepening of Tesco's proposition using card data. More importantly, the book tells the story of how the Clubcard has been used to provide focus to the strong customer orientation of Tesco. Knowledge about customers, gathered through the Clubcard, is shown to be a first recourse for Tesco marketing strategists. The use of this data is shown at its most powerful in the stories about how Tesco took on Asda when the latter tried to undermine the Clubcard scheme by honouring Tesco coupons (by sending especially large coupons to customers of low value to Tesco but thought to be of high value to Asda, to ensure that the promise cost Asda dearly), about how Boots' share of the mother and child market was reduced by Tesco's good analysis (finding that many Tesco customers who were mothers nonetheless preferred to stick with Boots for baby products while

giving Tesco their business as women), targeting and creation of a branding vehicle for mothers (the Baby Club), and about how the success of the Tesco financial services business was created and developed.

The chapter that is certain to be of greatest interest to database marketers is chapter 6, which focuses entirely on data. It focuses on the decisions taken in 1995–1996 on how the data were to be managed, analysed and used. It explains that from very early on, Tesco was aware that unless the data could change the way Tesco worked, the Clubcard would not succeed in fulfilling its concept. This meant changing how the stores were run, and how retail directors and buyers behaved. The challenge was how to get the business to engage and be prepared to change processes or decisions based on a new, more detailed source of customer understanding. The problem was that there was too much data. From the Clubcard's launch, transaction data flooded in. Just transmitting the data between Tesco's IT department, where it was held to run the points accounting database, to dunnhumby, the customer management and insight consultancy, where it was analysed for marketing and business information use, took 30 hours using the highest bandwidth connection then available. Tesco handled data from more than 50 million shopping trips in the first three months, consisting of more than 2 billion purchased items, from the shopping of more than 5 million Clubcard members. Analysing every purchase was beyond the technology of early 1995. So Tesco did not at first try to collect and analyse all the data (though today has it enough capacity to take the information from every basket and use it for marketing and management decisions).

So Tesco let dunnhumby develop the strategy for data analysis. Tesco did not

have the skills in-house to do the job. It took two years to identify the sort of people who were good at analysing Clubcard data. They needed intuition and creativity as well as statistical know-how. The first insight from the dunnhumby team was not to use all data on all customers, but to use samples to achieve a statistically valid picture of customer behaviour. The analysts took 10 per cent of the data once a week, processed it and applied the findings back to the other 90 per cent of the file. At the time, dunnhumby was a five-person company, and Tesco agreed to underwrite the cost of the hardware needed to deliver the analysis at the speed required.

In 1997, Tesco established a Customer Insight Unit, combining the skills of people from its site research team, who made proposals for new store development based on various local information sources with new skills from marketing and commercial. These people were geographers, statisticians who had spent a lot of time understanding how customers would behave. They could see patterns in data and help management understand what was going on and what should be done about it. The Tesco model is based not on geodemographic data but mainly on classic recency, value and frequency analysis of buying data.

Tesco found that in any single store, the top-spending 100 customers were as valuable as the bottom 4,000. This shows the disproportionate impact on each store's performance of the most valuable and loyal few. It led to the decision to run the invitation-only Clubcard events in major stores, as a way to thank the store's best customers. Clubcard had brought it home to Tesco's senior management that this very important minority of customers had been shopping the aisles for years before anyone recognised their loyalty. They might have

switched supermarkets, and Tesco would not have been able to talk directly to them to win them back.

It also became clear to Tesco that data analysis could help them in local store-to-store competition. The analysis also established that the stores with the highest Clubcard penetration were least affected by competitors' attacks. So a table of Clubcard penetration per store was created. The result: in 65 stores, refits and new formats were advertised to the keenest Tesco shoppers using direct mail. The data gave Tesco the opportunity to target its vouchers and coupons to people who really wanted them. Redemption rates for coupons varied between 3 per cent (the rate expected for a pre-Clubcard — completely untargeted mailing), and 70 per cent. But as it became better at modelling the behaviour of its customers, within a year, the target was set at 20 per cent redemption rate.

Chapter 6, like the rest of the book, is also a story of experimentation, of discovering what works and what does not, of finding that success in marketing is as much a question of finding suppliers who share your vision and can deliver what you want quickly and cost-effectively, and finding business partners for giving and redeeming points who are prepared to work within your strategy. It is also a story about how far customer data can take you when you take it seriously, so I recommend that every database marketing supplier buys it for their clients, and every client-side

database marketer gets it for their marketing director!

The book is relatively honest and refreshing in its style — it reads very differently from the many management case studies that appear in the trade press, telling stories of brilliant decisions made, implemented quickly and with stunning results. Although there are occasional passages where one feels that some of the complexities and uncertainties are hidden, on the whole the book describes a journey, beginning with early experimentation, trial and error, and ending with a strong position, but with admitted uncertainties. On the one hand, the most aggressive and best value retailer in the UK, Asda-Walmart, is making strong gains and good profits without a loyalty scheme, and on the other a comprehensive loyalty scheme, Nectar, with Sainsbury's and Debenhams as retail partners, is competing with the Tesco offer. This notwithstanding, I am sure the book will be snapped up by managers at Tesco's competitors and their marketing service suppliers. For even if they do not want to go the full Tesco route, many have a lot to learn from Tesco's story of customer focus and targeting. Essential reading for them, at least!

Merlin Stone
Editorial Board

Reference

- 1 Peters, T. and Waterman, R. (1982) 'In search of excellence: Lessons from America's best run companies', Harper & Row, New York.

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