

Building a Sustainable Marketing Relationship

CASE STUDY - SAINSBURY'S

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Executive Summary

This report has been compiled as part of the assessment for module BMSW5007 - Building a Sustainable Marketing Relationship, by Mihaela Fodor, at the request of lector Maria Heffernan.

The purpose of the report is to critically analyze the impact of the marketing research on the marketing relationship and to study how the retailer Sainsbury's applies these strategies to reach a sustainable market relationship with its customer.

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1.0. Introduction

At the end of 20th century and beginning of the 21st, the development of internet and social media created new channels of communication between companies and their customers, making it easier for information to reach its destination. This signaled changes in shopping behavior, with customers positioning predominantly in two main segments as value driven (that select products and services based on how much these meet their expectations – value for money) and purpose driven (which are choosing the products based on how these align with their personal value and opinions) (Haller, et al., 2020).

This required that the companies become more visible and align to the customers' expectations in the market in terms of values, pricing, products and services quality, environment and social impact and sustainability in order to remain competitive on their market segments characterized by very dynamic and fast changing expectations of the stakeholders in the market. (Basaran, 2018).

Identifying and understanding the needs and values of the customers and gaining their trust became a priority of the companies to be able to take critical actions and develop marketing strategies designed to make the brands and their products more attractive and create a high quality relation with the clients and improve the brand's market share (Morgan & Hunt, 1994). However, some specialists argued that marketing relationship provide unclear results (Palmatier, et al., 2009) , because often does not meet the expected results (Henderson, et al., 2011) or even has a negative impact on performance (DeWulf, et al., 2018) as not always the customers, in despite of good relationship with a brand.

Recent studies have shown that the share of business of a specific brand is determined by the levels of trust and satisfaction of the customer in the brand that generates commitment to the brand. The trust and satisfaction of the customer provide the level of the relationship quality and can only be reached through constant communication and a high level of expertise. However, there must be a mutual system of values between the customer and a brand in order for the relationship to have the desired effect (Vieira, 2014). The decision making process focused on the customers' needs, preferences and values was defined as customer centrality (Blythe, 2009)

This work analyses how Sainsbury's is collecting data, analysis and evaluate it in terms of the needs and expectations of the customers in efforts to improve its marketing relationships and make it more sustainable.

2.0. Main Findings

2.1. Sainsbury History and Data

Founded in 1869 by JJ and Mary Ann Sainsbury, the chain was focused on providing accessible products to its clients. It rapidly expanded to 128 shops on 1928. With a customer and employee oriented strategies, investments were undertaken to improve access and increase the quality. By 1950, the chain was expanded to 250 shops which led to a real revolution by implementation of self-service together with a computerized stock control system continued until 1980 (Sansom, 2010).

In 1973, the company went public at a value of £495 million with 14.5 million shares and the employees were encouraged to become shareholders. A variety of joint ventures were formed with different brands to expand the product range to energy (Sainsbury Energy), financial services (Sainsbury Bank - (Sainsbury's Bank, 2022)), mobile services (Mobile by Sainsbury's), pharmaceuticals (Sainsbury's Pharmacy), auto parts (Sainsbury's Euro Garages Partnership), and more. While SavaCentre was absorbed into Sainsbury's format in 1999, other ventures, such as Homebase, were sold (Homebase generated £969 million in sales). (Homebase, 2 022),

In the 1990's, Sainsbury started converting its stores into superstores in response to increased competition from ASDA and Tesco. There were also mistakes during this period, such as deteriorating relationships with suppliers, which preferred Tesco due to their attitude. As a result of Sainsbury's attempt to respond to the expansion strategies of Tesco and other supermarket chains but dismissing innovation, the chain lost his position as the market leader. Despite Tesco introducing a loyalty club card in 1995, introducing new shop formats and expanding into non-food retail, Sainsbury's management dismissed these innovations failing to see its benefits. Sainsbury's reported its first profit fall in 25 years and started to focus on building strong customer relations.

Together with BP, Barclays and Debenhams, Sainsbury started the NECTAR loyalty scheme in 2002. In 2018 they purchased NECTAR and gained access to data regarding the purchasing behavior and patterns for over 18 million customers from United Kingdom (Vandeveldel, 2018).

At the same time Sainsbury continued its expansion through the creation of TU, a clothing dedicate retail brand which by 2022 became the 6th largest clothing retail brand by volume in UK and was present in over 400 stores. In 2017, TU also launched a dedicated online platform for its products. (Sainsbury's, 2022).

In 2016, in the attempt of becoming a “multiproduct, multichannel retailer”, Sainsbury became the owner of Argos and Habitat brands dedicated to home retail products (BBC Business, 2016). In the offering statement it was specified “an attractive proposition for the customers and shareholders of both companies, establishing a platform for long-term value creation. The move was an opportunity

to bring together two of the UK's leading retail businesses, with complementary product offers, focused on delivering quality products and services at fair prices, through an integrated, multi-channel proposition.” (Sainsbury(J) PLC, 2016).

In the Strategic Report issued for the year 2021/2022 (J Sainsbury plc, 2022), (Sainsbury PLC, 2022) the following performance markers were communicated:

Increase with 3.4% of retail sales

increase of underlying profit before tax with 104% to £730m

36,9% retail operating profit growth compared with the previous year and 6.9% against 2 years prior

£854m statutory profit before tax compared with a loss of £164m in the previous year and profit of £278m compared with 2 years prior

- 3.1% increase of TU Clothing sales compared with the previous year
- 80% of Argos sales are made online
- Increase of online groceries sales from 23% in 2019/2021 to 39% in 2021/2022

In 2022/2023 Interim Financial statement (Sainsbury PLC, 2022), for the first half of the year 2022/2023, Sainsbury PLC reported the following highlights

- An increase of groceries sales with 9.3% in the first half of the year compared with the first half of the previous year
- A decrease of general merchandise sales in the first half of 2022/2023 with 6.1% but an increase in 2nd quarter with 1.2 compared with the similar periods of the financial year 2021/2022.
- Underlying profit before tax £340 million
- Financial services profit of £19 million

2.2. Data collection

In order to build a sustainable relationship, any company needs to build channels of communication where the customers can provide information regarding their values system, their needs and expectations. This information is used to define the company brand and core values and establish its marketing strategies based on the targets and goals they want to achieve. Each company develops its own personalised system of data collection, using combinations of research methods based on the profile and financial power.

Sainsbury uses a sum of data collection methods and sources in order to gather relevant information regarding the customers' needs preferences, expectations. One of the most important data collection channels of Sainsbury's is **the loyalty system – Nectar** in which they have invested £60mln

in 2018 and the **online shopping platform and software**. While the loyalty program provides a rewarding system for loyal customers, providing preferential and personalized value for the customer and increasing commitment and involvement with the brand, it also helps with gathering information like personal data (name, age, card details) and long term shopping behavior patterns like price and products preference, frequency of operations, locations preference (store or online), budgets, offers impact and customer engagement (Meyer-Waarden, et al., 2023). **The online shopping platform** provides data regarding the purchasing impulses and needs in relation with brand, seasonality, and price and spending patterns, products and offers reach, purchasing frequency in the online environment. By adding also the home delivery system, Sainsbury's gathers also vital information about the customer personal data and improves accessibility. (Zhang, et al., 2007)

Another way to collect data by Sainsbury is **in shop** through **the self-checkout system and POS system – basket tracking** and **online** - through **surveys** regarding the purchasing impulses, shopping experience, products (Meuter, et al., 2000).

Social media is another important tool used by Sainsbury's to gather relevant data regarding the customers' preferences and feedback about the brand and products. Receiving information about the customers' point of view in terms of purchasing and post purchasing and how the behavior of the clients change following the company's activity and decisions is relevant towards the future strategies (Tafesse & Wien, 2018) . Furthermore, defined as "*a group of internet-based applications that allow the creation and exchange of user generated content*" (Kaplan & Haenlein, 2010), social media provide excellent platforms for interaction and inform the customers about the brand's core values, strategies and products and promote them in a strategic way designed to direct the customers towards the company, by showing them the benefit of a close positive relationship and real-time interaction (Katsikeas, et al., 2016).

2.3. Data analysis and evaluation

Through analysis and evaluation of this data, Sainsbury's can adopt important marketing strategies, in terms of segmentation, pricing, differentiation, ethics and sustainability and to align the brand to customers' expectation with the purpose of attracting and retain customers and gain market share by developing a long term relationship based.

2.3.1. Market segmentation

Because of the diversity of customer characteristics, needs and preferences combined with the multitude of options in term of the offer existent in the current retail market, identifying the market segments into distinct groups of customers (Dickson & Ginter, 1987), based on these characteristics

is essential for the optimization of the decision making process of the company, increase the performance for each market segment (Chernev, 2012).

Segmentation is made based on **customers characteristic** based on geographic, demographic, economic, sociologic, psychologic features of the customer and the **behavioral patterns**, based on the expectations and preferences of the customers (Kotler & Keller, 2011) In this sense, Sainsbury's analyses the collected data and takes marketing decisions regarding products structure, promotions based on the customers identified groups. Such an example is the social media where product promotional campaigns like recipes based on Sainsbury's products are regularly published.

2.3.2. Pricing strategies

The pricing strategy of a company has proven paramount in terms of increasing profitability of the company. Together with a good quality, a fair pricing can help retaining the customers, by satisfying their needs and exceeding the expectations (Monroe, 2003) (Storbacka, 2011).

The decision making regarding the pricing must consider three important aspects – **cost**, **competition** and **customers** in order to reach an effective pricing strategy (Avlonitis, et al., 2005).

Sainsbury's uses the collected data considering all these aspects by creating promotional offers for loyal customers through the NECTAR loyalty scheme and matching rivals' prices for different products (see Aldi price matching campaign). Also, they monitor the impact of the customers' behavior in relation to the price changing generated by each campaign and the competitors' strategies and make adjustments to their prices. The pricing strategy is reflected also in the mission statement of Sainsbury - to provide quality products at an affordable price – which enhances the trust and loyalty of its customers.

2.3.3. Differentiation

However a good pricing strategy is not enough considering that companies are operating in a competition environment with access to the same level of technology. Differentiation is required in terms of products and services, which provides a good incentive for the companies to diversify the brands and products types of high quality matching and exceeding the alternatives in the market which allow them to gain competitive superiority in the market share and a better image (Davcik & Sharma, 2019).

Therefore, Sainsbury's, acting on this principle since its start, continuously improving its offer with new products. This allowed them to keep the first place in UK retailing sector until 1995 when,

due to the decision to not expand in the non-food retail market, Sainsbury lost the 1st place in the retailing sector in favor of its main competitor, Tesco.

However, since then Sainsbury changed its strategy and relaunched its differentiation strategies by purchasing different well established brands like Argos and Habitat or launching its own brands such as TU. They also diversified the product range including also services from banking, insurance, mobile technology and home delivery. This allowed them to successfully retain the 2nd place in a dynamic market with strong competitors such as ASDA, Mark and Spencer and others.

2.3.4. Ethics and Sustainability

With the development of the internet, the impact of the economy in the social and natural environment became more and more visible. This started to influence the customers' behavior impacting the way a brand is perceived through the morality and ethics of their actions in society which impacted also the performance. In 1969, Henry Ford II stated that *"The terms of the contract between industry and society are changing...Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions"*

. After the 1960's the public started to ask for a change in how companies were operating which determined multiple researchers to focus their attention in the direction of the corporate responsibility. One of these researchers, Archie Carroll (1979), proposed 4 dimensions of the responsibility used to consider the performance of a company – economical, legal, ethical and philanthropic (Carroll, 2000). While the first two, economical and legal responsibilities underline the responsibility of the company to provide jobs, discover resources and produce goods to satisfy the needs of the consumers, pay taxes, sustain technological progress, earn profit for the owners while obeying the laws, the last two introduced new concepts like contributing to social aspects not related directly to their activity and prove social involvement in different areas of social interest like education, environment protection, health system, social assistance in diminishing the impact of social problems (homelessness, pollution, famine, disability, etc.) – Corporate Social Responsibility (Smith & Quelch, 1993). These changed the way that customers were taking decisions about their purchase options.

Throughout time, Sainsbury used data collection, analysis and evaluation to identify social and environmental problems and to participate in alleviate the effects of these problems. These aspects are visible in their actions through involvement in UN Climate Change Conference COP26, implementation of renewable electricity, different social causes where they participate to raise funds for social causes like food poverty, support for government disability programs employee support and education. One of the programs is focused on improving the quality and accessibility of the food they

provide. Sainsbury practices an active transparent CSR program showing the desire to have a positive impact on the society and natural environment (Sainsbury's, 2023).

The future plans of Sainsbury's, published in the latest report underline the desire of the company to increase its implication in CSR activities together with the authorities and other social entities in order to improve the life of its customers, putting them in the center of actions of the company.

3.0. Conclusion

Through marketing research - data collection, evaluation and analysis provides a good basis for any company to take informed, strategic action in order to increase their performance and improve the image of the brand and create a long term relationships with their clients.

Marketing relationship provides a measure of the company performance and helps in adopting efficient strategies to attract more customers and increase the market share of the company and its profits.

Sainsbury's policies are based on these marketing processes in a sustained effort to increase the connection between the brand and its existing customers and gain new customers by satisfying their needs and preferences and exceed their expectations. This allows them to have a 15.3% market share of grocery stores in UK, holding the second place after Tesco (Bedford, 2023) and building a long term sustainable marketing relationship with the customers.

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