

Tesco the customer relationship champion marketing essay



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The Tesco story dates back to 1919 when Jack Cohen, an ex-army man, setup a grocery business in London's East End. In 1924 Cohen purchased a shipment of tea from a company named T E Stockwell. He used the first three letters of this company's name, added the ' Co' from his name and branded the tea ' Tesco.' Reportedly, he was so enamoured of that he named his entire business Tesco. The first store under the Tesco name was opened in 1929 in Burnt Oak, Edgware. The company grew rapidly in the years that followed, and evolved into a general food retailing outfit. By 1930, around 100 stores were operating under the Tesco Label[1].

Realising that the self-service mode of running supermarkets prevalent in the USA worked out much cheaper than the traditional mode of and enabled companies to offer their merchandise at lower prices, Cohen decided to adopt the same for Tesco stores. In 1948, the first self-service Tesco was opened in St Albans. Over the next few years, Tesco grew to 400 stores – many of which were purchased by Cohen from other smaller shopping store chains in the country. In the early 1960s, the company began selling clothing, household goods and fresh food in addition to groceries. Tesco pioneered the large format stores concept in the UK with the launch of a 16, 500 sq. Ft. store in Leicester in 1961[2].

A Master in CRM:

Every three months, millions of people in the UK receive mailers from the country's number one retailer, Tesco. Nothing exceptional about the concept – all most all leading retailers across the world send out mailers/magazines to their customers. These initiatives promote the store's products, introduce

promotional schemes and contain discount coupons. However what sets Tesco apart from such run-of-the-mill initiatives is the fact that Tesco mass-customises these mailers.

Every mailer has a unique combination of articles, advertisements related to Tesco's offerings, and third party advertisements as well. Tesco ensures that all of its customers receive mailers which contain material suited to their lifestyles. The company has worked out a mechanism for determining the advertisements and promotional coupons that would go in each of the over 150, 000 variants of the mailers. This has been made possible by Tesco's world-renowned CRM strategy framework. The Clubcard scheme (launched in 1995) laid the foundations of this CRM framework that made Tesco post growth figures in an industry that had been stagnating for a long time. The data collected through Clubcards formed the basis for formulating strategies that offered personalised services in a cost-effective manner[3].

CRM – The Tesco Way:

Tesco's efforts towards offering better services to its customers and meeting their needs can be traced back to the days when it positioned itself as a company that offered good quality products at extremely competitive prices. Even its decision to offer premium end merchandise and services in the 1970s was prompted by growing customer demand for the same.

In 1994, the company launched the 'One in Front' scheme to reduce the time customers had to spend waiting at check-out counters. Under this scheme, Tesco store personnel ensured that if there was more than one

person at any counter, another counter would be opened for the person in
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the line. In this way none of the customers have to wait at the check-out counters. Of course, it is not possible for Tesco to adhere this policy during peak trading hours. Nevertheless, this effort to improve customer was appreciated by customers[4].

The biggest customer service initiative (and the first focused CRM drive) came in the form of the Clubcard which was launched in 1995. This initiative was partly inspired by the growing popularity of such schemes in other parts of the world and partly by Tesco's belief that it would be able to serve its customers in a much better (and profitable) manner by using such a scheme. Tesco knew that at any of its stores, the top 100 customers were worth as much as the bottom 4, 000 (in terms of sales). While the top five percent customers accounted for twenty percent of sales, the bottom twenty five percent only accounted for only two percent. The company realised that by giving extra attention to top customers (measured by the frequency of purchases and the amount spent), it stood to gain a lot[5].

In May 1994, Tesco began testing the Clubcard loyalty scheme at two of its stores for a period of six months. The scheme started off like any other loyalty card scheme. Customers became members by paying a joining fee and providing personal details such as name, address, date of birth, e-mail, family composition, dietary requirements and product preferences.

Impressed with the program's results over six months, the company introduced the scheme in all of its stores by February 1995. All the transactions were linked to individual customer profiles and generated over 50 Gigabytes of data every week. The analysis of the data enabled Tesco to accurately pin-point the time when purchases were made, the amount

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customer spent, and the kinds of products purchased. Based on the amount spent and the frequency of shopping, customers were classified into four broad categories: Premium, Standard, Potential and Uncommitted. Further, profiles were created for all customers on the basis of the types of products they purchased. Customers were categorised along dimensions such as, Value, Convenience, Frozen, Healthy Eating, Fresh and Kids[6].

Tesco also identified over 5, 000 need segments based on the purchasing habits and behaviour patterns of its customers. Each of these segments could be targeted specifically with tailor-made campaigns and advertisements. Tesco also identified eight ' primary life stage' need segments based on the profiles of its customers. These segments included ' single adults,' ' pensioners' and ' urban professionals' among others. Another classification of customers developed from the insights generated through data mining.

Using this information regarding the classification of customers, Tesco's marketing department devised customised strategies for each category. Pricing information and product related decisions were taken after considering the preferences of customers. Also, customers received communications that were tailored to their buying patterns. The data collected through the Clubcard scheme allowed Tesco to modify its strategies on various fronts such as pricing, inventory management, shopping analysis, customer acquisition, new product launches, store management, online customer behaviour and media effectiveness.

The data generated by Clubcard was used innovatively, e. g. special attention given to expectant mothers in the form of personal shopping assistants, priority parking and various other facilities. Tesco also tied up with airline companies and began offering Frequent Flyer Miles to customers in return for the points on their Clubcards.

Reaping the benefits:

The data collected through Clubcard allowed Tesco to target individual customers (the rifle shot approach), instead of targeting them as a group (the carpet bombing approach). As the customers receive the coupons which matches their buying patterns, over twenty percent of Tesco's coupons were redeemed – as against the industry average of 0.5 percent. Customers falling in different categories receive mailers which are specifically for them. The mass customisation of these mailers also attracted third-party advertisers, since it assured them that their products/services would be noticed by those very customers they plan to target. Naturally, Tesco recovered a large part of its investment in this exercise through revenues generated by third-party advertisements[7].

When Tesco discovered that around 25 percent of its customers, who belonged to the high income bracket were defecting to rival Marks & Spencer, it developed a totally new product range, 'Tesco Finest' to lure back those customers. This range was then promoted to affluent customers through personalised promotions. As planned, the deflection of customers from this segment slowed down considerably.

From Customer Service To Customer Delight:

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To sustain the growth achieved through the launch of Clubcard, Tesco decided to adopt a four pronged approach: launch better, bigger stores on a frequent basis; offer competitive prices (e. g. offering everyday low prices in the staples business); increase the number of products offered in the Value range; and the focus on the remote shopping services (this includes the online shopping venture). To make sure that its prices were the lowest among all retailers, Tesco employed a dedicated team of employees, called ‘ price checkers.’ This team checked and compared Tesco’s prices with those of other companies on a weekly basis. The company even helped its customers to compare prices by providing the information on [Tesco. com](http://Tesco.com)[8].

Recommendations:

Even though Tesco’s CRM efforts have resulted in superior financial performance and market share, the company has to look at its customer service standards. Tesco have spent so much time improving the way their stores look, the range of products they sell and their service processes that they may have temporarily overlooked the impact that their people can make on customers through their behaviour, they need to re-address this issue. Tesco should launch initiatives like ‘ Every Customer offered Help’ (ECOH). As part of ECOH, all employees should be given clear instructions about the way in which they are expected to deal with customers.

Employees at the check-out counters, for instance, should be asked to be very particular about greeting the customers, offering the help to the customer and finally, wishing customers a good day. Store managers should be empowered for making the ECOH initiative successful, and they should participate whole-heartedly in the scheme.

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Tesco should also realise that Clubcard initiatives was just one part of the overall thrust on CRM and customer enhancement is needed to survive and excel in the intensely competitive British retail industry. Tesco therefore have to take host of initiatives in its stores to further the thrust given to customer service. Tesco should also introduce new scheduling system for the store employees to increase customer satisfaction levels.

Tesco should also make it mandatory for all employees (including top level executives) to spend some time every year in the stores to help them to get acquainted with the nuances of customer service. This program will help Tesco employees to ingrain customer service as a company philosophy in all employees and it will also result in the development of many innovative ideas. Unlike Asda's customer service program, Tesco's program should not require employees to get 'too personal' with customers, as Asda have posted employees at the entrance doors to greet customers.

To ensure that its CRM efforts are backed by a strong operational framework, Tesco should pay special attention to controlling costs and streamlining its supply chain. In association with its suppliers, Tesco should try to remove all non-value adding costs. Tesco should also collaborate with its suppliers to develop a 'Lean Thinking' approach, which should focus on smart and efficient working.