

Innocent smoothies customer relationship



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Although the 'smoothies' market in the UK enjoyed a period of exceptionally strong growth of more than 150% between 2005 and 2007, this has now been stalled by the impact of the recent economic recession and consumers switching their loyalty to alternative, cheaper pure fruit drinks.

As well as suffering from unfavourable economic conditions, smoothie manufactures have failed to convince UK consumers that the drinks are not full of calories and are not bad for their teeth, despite strong contradictory evidence from the British Nutrition Foundation (2008). The result of all of this is that the smoothies market declined by some 36% between 2007 and 2009 (Mintel Report Sales Brochure, 2010).

The smoothie market is now showing signs of a fragile recovery and Mintel forecasts that improved economic conditions, together with the increased penetration of the children's market, will see the smoothies sector returning to growth soon (Mintel Report Sales Brochure, 2010).

1. 2 Background to Innocent

From its founding vision of 'Europe's favourite little juice company', Innocent has now moved on its goal to being 'the earth's favourite little food company by 2030'. This new vision encompasses food and not just drink and demonstrates how Innocent is moving in parallel with its customer's desire for a whole range of fresh and natural foodstuffs (Innocent Drinks Annual Report, 2007).

The brand leader in the 'smoothie' market, Innocent, has largely been responsible for fuelling the growth in the market and despite the general market downturn, it still commands an 80% market share. However,

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Innocent's market share has been boosted, not just by its own performance, but also by the decision taken by PepsiCo to remove its 'PJs' smoothie brand in early 2009 (Mintel, 2010).

2.0 The Principles and Practice of Customer Relationship Management

This CRM approach to business focuses on the retention of customers and the building of relationships with those customers. The concept of customer retention, as a lower cost option than a constant cycle of customer acquisition and loss, is a discipline that organisations have understood for many years (Rosenberg and Czepiel, 1984). However, some researchers have suggested there is a lack of evidence to support the quantifiable, financial benefits of customer retention (Dowling and Uncles, 1997).

The notion of both retaining customers and enhancing customer relationships, in order to make them more durable and thus more profitable, has also been advocated by academics for some years (Berry, 1983). However, the idea of 'customer satisfaction' as a function of relationship enhancement did not gain favour amongst theorists until the early 1990's (Crosby et al., 1990; Perrien and Ricard, 1995). The term 'customer relationship management' (CRM) to describe an all embracing customer management system was not used until the mid-1990s in the information technology industry and was later described by Ryals and Payne (p. 3, 2001) as 'information-enabled relationship marketing'. The interchangeable nature of the terms 'customer relationship management' and 'relationship marketing' is now generally accepted (Zablah et al, p. 116, 2003).

The successful implementation of CRM practises in the grocery retail sector has been well evidenced in the case of Tesco, which is the UK's leading supermarket chain. Its clubcard customer loyalty programme was first launched in 1995 and now has over seven million members (Tesco website, 2010). The scheme delivers a range of benefits to customers who shop both at Tesco's stores and at its online supermarket and it also provides valuable market intelligence on shoppers purchasing habits, which feeds back into Tesco's marketing planning process (Tesco website, 2010). This enables Tesco to deliver highly targeted and personalised communications via direct marketing which serves to further enhance the relationship with its customer base. A criticism frequently levelled at customer loyalty schemes is that they are not proven to foster loyalty nor do they deliver incremental sales and profits for an organisation (Dowling and Uncles, 1997). Tesco, however, has produced ample evidence that its loyalty scheme does indeed deliver on all of these counts (Humby et al, 2007).

3. 0 Innocent drinks - Customer Relationship Management Strategy

Innocent has largely adopted a traditional approach to its marketing relying heavily on above-the-line promotion to build equity in its brand, which has been successful, as evidenced by its huge market share. Innocent has, however, dabbled in relationship marketing techniques in the past in order to attempt to increase the loyalty of its customers and encourage them to engage with the brand more. For an example, in August 2003, Innocent created 'Fruitstock', which was positioned as a 'free festival for nice people', the 'nice' people in this case being Innocent's customers. The event included

live music and food stalls (Sahlman, 2004, p. 8). Innocent spent nearly one third of its annual marketing budget on the first Fruitstock and repeated the event a year later when it attracted over 80, 000 people (Sahlman, 2004, p. 8)

Commenting on the first Fruitstock, Richard Reed, Innocent co-founder, said, " This event cost about £200, 000 to put on. At this point, I can't prove that it was a good investment. From a hard numbers perspective, maybe we'd have been better off hiring new salespeople. But we are doing things that are hard to quantify. From a hard numbers perspective, why waste time on labels? There are important secondary benefits to things like Fruitstock: We had customers in the 'VIP area' having a great day with their families. Employees could come with their family and friends. It's not just about advertising-it helps with recruiting, PR, and other areas." (Sahlman, 2004, p. 8)

Fruitstock has since been abandoned with Innocent's CRM strategy now focussed on its website and associated newsletter which is sent to over 120, 000 customers. However, Marketing Director at Innocent, Charlotte Rawlins, admits 'We're perhaps not as sophisticated in database management as we'd like to be but we do realise the value of direct contact and are going to make our newsletters more personalised' (Turner, 2008).

Innocent's only structured current CRM strategy is based on its 'family', which is basically an informal club for customers. The benefits of membership seem to be limited to the entitlement to receive a monthly electronic newsletter and the promise of invitations to special events (Innocent website, 2010).

4.0 The Marketing Audit

A marketing audit is a formal and structured review of an organisation's existing marketing activities and market environment.

The diagram below shows the role of the marketing audit in the overall marketing process.

Objectives

Marketing Audit

Analysis

Feedback

Planning

Implementation

Control

Feedback

Evaluation

4.2 PESTEL Analysis

A PESTEL analysis is deployed to enable an organisation to examine the external macro-environment that it operates in, as follows (Gillespie, 2007).

(P)olitical

This refers to government policy in terms of the degree of intervention there is, if any, in the marketplace.

In 2004 the Food Standards Agency in the UK positioned itself to tackle the obesity problem by stating that there was going to be a focus on convincing consumers to seek out healthier food options. It also demanded that the food and drinks industry supported it in this stance (Food Standards Agency, 2004). The Agency did, however, concede that the industry had already made some progress in offering consumers healthier options but urged retailers in the sector to see this as part of their corporate social responsibility and not just as a marketing strategy to gain more business.

Government efforts to promote healthier eating through an increased intake of fruit and vegetables with its '5-a-day' campaign has created an awareness level of 74% amongst consumers with 58% claiming that they have taken action as a direct result (Food Standards Agency, 2008).

(E)conomic

This includes such factors as interest rates, taxation changes, economic status and growth prospects, inflation and exchange rates.

Interest rates continue to be at an all time low with correspondingly lower mortgage payments for most homeowners. However, unemployment, and the threat of unemployment, in both the private and public sectors, has reduced consumer confidence resulting in a curtailment of spending on higher priced, so called 'luxury' items.

(S)ocial

This covers changes in social trends that can impact on consumer demand.

The age profile of the UK population is getting older. Currently 37.9% of the UK population is aged 45 or more. By 2031 this is forecast to grow to 45.7% (Office for National Statistics, 2010).

There is a definite cultural shift towards healthier eating in the UK. 'It is unlikely that we will ever put health before taste, but brands that manage to combine great taste with practicality as well as a positive health proposition, are in an ideal position to win full marks from the consumer'(Quick, p. 3, 2008)

(T)echnological

This examines how new technologies create new products and new processes.

The ubiquitous internet and the rapid onward march of mobile electronic communications devices will increasingly influence the way consumers interact with, and buy, branded products.

(E)nvironmental

Environmental factors include the weather and climate change and how these may impact on the marketplace.

Global warming and climate change are impacting on the UK. With a generally warmer climate in prospect for the future the soft drinks market (including smoothies) may stand to benefit from environmental conditions.

(L)egal

This covers the legal environment and framework within which the organisation and its competitors operate.

There are no current legal issues that may impact on the market.

4. 4 Porters Five Forces

Porter's 'Five Forces' model allows an organisation to examine how its micro market operates (Porter, p. 49, 1980)

The Threat of New Entrants -includes such issues as capital requirements; brand identity and reputation; access to distribution; expected response from existing market players.

Innocent enjoys an 80% share of the UK Smoothies market so it is vulnerable to threats from new entrants. However, the newest entrant into the market and number two in terms of share, Tropicana, has made little headway despite the equity in its brand gained through its fruit juice products and despite a heavyweight promotional spend (Mintel, 2010).

The Bargaining Power of Suppliers -suppliers of everything from raw materials to expertise can exert pressure on a business in different ways. For example they could charge premium prices for a unique, high quality or difficult to obtain ingredient or service.

Innocent sources its raw materials from thousands of farms all over the world so is not particularly vulnerable to the bargaining power of its suppliers. In fact the bargaining power tends to lie with Innocent itself.

The Bargaining Power of Buyers -this refers to the ability of customers to put pressure on a business to reduce its current prices and to not increase prices. This pressure can manifest itself in different ways such as consumers switching allegiance to other brands based on price sensitivity.

Smoothies are sold at a premium price in the fruit juices market. The market for smoothies is very price sensitive particularly during difficult economic times when consumers are liable to seek out lower priced alternatives such as pure fruit drinks.

The Threat of Substitute Products -this threat relates to the propensity of consumers to switch, not necessarily just to direct competitors but also to substitute products.

Substitute products, in the form of supermarket own labels, pose a significant threat to established brands in the smoothie marketplace. The leading brands, such as Innocent, are suffering from consumers switching to own label smoothie and fruit juice products, in the shorter term, due mainly to price considerations. The extent of this switch is evidenced by the fact that the large supermarkets now dominate the fruit juice drinks market with their own brands (Keynote, 2010). The growth of supermarket own label brands is having a big impact on the sale of manufacturer branded, fast-moving, consumer goods (Veloutsou et al., 2004). Supermarket own label brands are no longer just the lower quality and lower priced alternatives to manufacturer brands that they once were as, since the late 1990's, they have been offering a genuine quality option for consumers (Burt, 2000).

Rivalry among Existing Businesses in the Marketplace -this covers such factors as overall growth in the market sector; product differences; brand identity and reputation; the nature and diversity of competing businesses.

Although the smoothies market in the UK enjoyed a period of exceptionally strong growth between 2005 and 2007, this has now been stalled by the impact of the recent economic recession and consumers switching their loyalty to alternative, cheaper pure fruit drinks (Mintel, 2010). Also, smoothies manufactures have failed to convince UK consumers that the drinks are not full of calories and are not bad for their teeth despite strong contradictory evidence from the British Nutrition Foundation (2008).

4. 5 Changes in Consumer Behaviour

The emergence of global brands, such as Coca-Cola and Apple, and the continuing globalisation of world markets, together with the introduction of new technologies, such as the internet, have all enabled consumers worldwide to interact more easily with the organisations from which they buy their products and services (Doole and Lowe, 2008). This, in turn, has fragmented many consumer markets and made them far more competitive than previously. Organisations have to increasingly recognise that the 'consumer is king' in modern business and if they fail to satisfy those customers, organisations are unlikely to generate improved sales revenues and profits (Blackwell et al, p. 10, 2001)

Consumer behaviour patterns in the grocery retailing markets have evolved over the last twenty years and are continuing to change. For example, in the last few years government campaigns promoting healthy eating, such as the

5-a-day campaign, mean that consumers are more educated about the benefits of healthy options in their diet and are, consequently, increasingly demanding healthy food from their retailers. A quote taken from a report by Business Insights re-enforces this viewpoint:

'80. 6% of respondents agreed that over the next 5 years consumers will increase their uptake of functional health products, but will also continue to indulge.' (Kemsley, 2006)

5. 0 Proposals for Improving CRM

5. 1 Intelligence gathering

It has been seen that an integral part of effective CRM is customer satisfaction, which can ultimately lead to customer loyalty. However, for an organisation to truly be able to identify and satisfy the specific needs of its customers, it has to adopt one of the basic principles of market orientation namely, customer intelligence gathering (Kohli and Jaworski, 1990; Ruekert, 1992). The type of intelligence gathered should focus on customer feedback that gives the organisation insight into its market position vis-à-vis its competitors (Ruekert, 1992). The dissemination of the intelligence throughout the organisation is as important as the gathering process (Kohli and Jaworski, 1990).

Apart from its 'family' club here is little evidence to suggest that Innocent is operating an effective customer intelligence gathering system so it needs to consider this as part of its overall CRM programme. Innocent should conduct regular focus groups and surveys of its customers and potential customers to

constantly monitor customer expectations, in terms of product quality and performance.

5. 2 Helping Customers to Adopt a Healthier Lifestyle

The PESTEL analysis has shown that the political and social environments are very much pro healthy eating and drinking habits and, consequently, are conducive to the growth of the smoothie market. Also, the Porter's 'Five Forces' analysis has demonstrated that consumers are not convinced about the health benefits of smoothies. In addition changing consumer behaviour patterns mean that consumers are now more educated about the benefits of consuming healthy products than ever before.

At present, 100% pure fruit juices and smoothies count as only 'one portion' in terms of the criteria laid down for '5-a-day', regardless of how much of either product is consumed (Ruxton, 2008). This is in spite of the fact that research has shown that that pure fruit and vegetable juices, such as those contained in smoothies, offer comparable health benefits to those of whole fruits and vegetables, (Ruxton et al., 2006). The Porter's 'Five Forces' analysis has also shown that consumers are generally not convinced of the health benefits of smoothies.

So there is an opportunity for Innocent to help its customers better understand the health benefits of smoothies and, at the same time, lobby for their support in recognising the true value of 'smoothies' in a '5-a-day' regime. If customers could be persuaded to pledge their support through, for example, signing an online 'petition' in favour of the proper recognition of the value of each 'portion' of smoothies then this would not only galvanise

support for the case for smoothies but also raise customers awareness levels of the health benefits of smoothies. Additionally it would serve to increase customer engagement with the innocent brand. This, together with the inclusion of general healthy lifestyle advice within the Innocent 'family' newsletter, would all work in favour of customer satisfaction with the brand and could all positively influence loyalty.

5.3 Promoting Loyalty through Customer Segmentation

Changing consumer behaviour has been shown to have fragmented markets and intensified competition and the smoothies market is not immune to this trend. This is further evidenced by the 'Porter's Five Forces analysis', which indicates that the smoothies market is facing intense competition from substitute products, in the shape of lower priced, pure fruit juices and supermarket own brand smoothies. In times of intense competition, customer loyalty programmes are often introduced in order to improve customer retention rates through the provision of rewards for customers or certain segments of customers (Bolton and Ockenfels, 2000). Although loyalty programmes have their critics research has shown that they can increase brand loyalty and profit (Caminal and Matutes 1990; Kim et al., 2001).

The PESTEL analysis has also revealed that the UK population profile is forecast to shift increasingly to the over 45's. Innocent currently has little resonance with this market (Intel, 2010) and consequently needs to engage with existing and potential customers in this age group. By targeting this market, Innocent will be able to grow its market share outside of its

traditional core audience, which is the market segment in which there is the most intense competition.

Innocent should, therefore, consider developing a smoothie drink especially for the over 45's, which would have a formula made up of ingredients that have specific health benefits for this particular audience. Research has shown that the over 45's are increasingly conscious of their health needs and are seeking out the so called 'magic foods' which include berries, almonds, and ginger (Starling, 2010). Innocent could easily manufacture a smoothie for this market containing such ingredients, which are natural and would not compromise its commitment to using 100% natural ingredients.

Innocent could then also segment its CRM programme by specifically addressing these customers in its direct marketing activity and it could create a special 'family' of over 45's within its existing overall customer 'family'. By producing a separate newsletter for this audience, with unique and relevant content and incentives, Innocent could, for the first time, start to build relationships with the 'over 45' age group.

6.0 Summary and Conclusions

The smoothies market experienced dramatic growth up until 2007 when the impact of the worldwide economic recession brought the market to a halt. Innocent has retained its market share and continues to be the dominant player albeit in a market that has suffered from declining sales for the last three years. Innocent has achieved its dominance primarily through heavyweight promotional support for its brand. However, this strategy alone is no longer enough to sustain the business in a changed world of

fragmented and globalised markets where consumers demand more from their brands. The marketplace is well set to work in Innocent's favour, however, with the UK government being committed to improving the health of the nation and consumers themselves having become more educated about the benefits of a healthier lifestyle. Nonetheless, consumer scepticism about just how healthy smoothies really are is currently restricting growth of the market. Also, the ongoing tough economic situation is causing some consumers to switch from the premium priced, manufacturer- branded drinks to more affordable supermarket own brands and to other products, such as pure fruit juice drinks, which consumers perceive as having similar health benefits.

So there is a big task ahead for the Innocent brand inasmuch as it needs to persuade its customers of the true health benefits of its products. There is a precedent for the implementation of an effective CRM programme in the grocery retail sector in the shape of Tesco's Clubcard. For Innocent, it is proposed that a much expanded CRM programme could help alleviate the negative effects of the current market conditions that are working against its growth objectives. These health giving benefits are probably the most important attribute that smoothies possess and Innocent, as market leader, needs to demonstrate its leadership qualities by engaging in more meaningful relationships with its customers and persuading them of the healthy nature of its products and campaigning with them for a greater recognition of this factor in the political environment. It is also important for Innocent to broaden its product appeal and establish meaningful and durable

relationships with a market sector it has failed to penetrate to date, namely the over 45's age group.

Underpinning any successful CRM initiative is the gathering of customer intelligence. Innocent needs to invest in this area by conducting more research with its customers using tools such as paper based and online surveys and focus groups, in order to truly understand trends in the marketplace, the nature of its customer's buying behaviour and, most importantly, how its customers relate to the Innocent brand. Only by doing this can Innocent construct and implement a CRM programme that will have resonance with its customers, and potential customers, and will, consequently, deliver an opportunity for deeper, more meaningful and mutually beneficial customer relationships.