

# Effectiveness of loyalty schemes in tesco plc



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Traditionally, marketing has focused on market share and customer acquisition rather than on retaining existing customers and on building long-lasting relationships with them (Kotler, 2003). More recently, however, market share has been gradually losing its revered status as marketing's holy grail and the wisdom of focusing solely on customer acquisition (hoping that this effort will compensate for high levels of defection) is now being seriously questioned and considered as very high risk since ever more players enter an increasingly crowded marketplace (Baker, 2000). In response to these changes there has been a new emphasis on defensive marketing, which focuses on holding on to existing customers and getting more custom from them (higher "share of customer"), in contrast to activities which focus on winning new customers. Calls for a paradigm shift to the pursuit of loyalty as a strategic business goal have become increasingly popular over the recent years (Sharp & Sharp, 1997).

Accordingly, in Feb 1995, Tesco changed the way it did business so fundamentally that its effect is still seen in every part of the company. The events changed the way Tesco makes decisions, develop products, manages its stores and, most importantly the way it serves its customers. On that day Tesco launched 'Clubcard', its customer loyalty programme. As a major food retailer, in a competitive market sector, there is always a need for brand loyalty. Customer loyalty schemes were not a new idea when Tesco launched it but Tesco developed a contemporary version of the original concept which went much further in developing an active relationship with customers. Today, Tesco Clubcard has established itself as one of the most successful loyalty schemes over the past nine years, and a key driver of this is that the

scheme in integral to Tesco's stated core purpose, ' To create value for customers'. By understanding its customers more and using this insight to deliver back what the customer wants, Tesco is succeeding in its purpose- to deliver value to the customer and earn their lifetime loyalty. Working with its suppliers, it helps both parties to gain a better understanding of what the customer wants in terms of good value quality products and in-store promotions. Tesco's marketing works because they combine insight with creativity, value and scale.

Every year since 1995, headlines have proclaimed the death of loyalty scheme, usually enthusiastically supported by other retailers whose loyalty schemes are distant memories. Yet Clubcard is never questioned as a strategic priority by the management. Instead, Tesco has responded to the critics by measurably building sales through Clubcard, using the relevant knowledge it creates to improve the way it runs its business.

In short, Tesco hasn't found that its loyalty programme is a costly overhead. Because Tesco made Clubcard work, it can find out what its customers need and generate enough sales by satisfying those needs cover the cost of finding out. Tesco runs Clubcard, and has been doing so since 1995, for no net cost.

## **Aims and Objectives**

### **Aim**

To analyze and examine the concept of loyalty in retail and to assess its effectiveness as a corporate strategy through a Tesco Plc Case Study.

The Purpose of this research is to gain fresh insights into the concept of 'loyalty' and 'customer relationship management' and the part it plays in strategic decision making. It's the strategic implications of loyalty schemes that the project seeks to look into. Objective 5 is in a way the primary objective of the research, all other objectives are necessary to be realized before a thorough understanding of the strategic ramifications of 'loyalty programmes' is acquired. Thus, objectives 1-4 are important stations (intermediate goals) which help reach the final destination or purpose (objective 5).

## **Objective 1**

### **Analyze and define the concept of loyalty and identify the relationship between customer satisfaction and customer loyalty**

Customer Loyalty has been one of the most misunderstood concepts of recent years (Payne, 2002). Unfortunately there is no universally agreed definition of loyalty. Oliver (1999) suggested that loyalty and satisfaction are linked inextricably, but also that this relation is asymmetric, arguing that although loyal customers are usually satisfied, satisfaction is an unreliable precursor to loyalty. This research seeks to define the 'real' meaning of loyalty in retail terms and how it differs to satisfaction.

## **Objective2**

### **Examine the conditions under which customer loyalty enhances profitability**

Some loyalty Schemes are termed as a disguised form of Sales promotion. They are just another way of bribing the customers (Woolf, 1996), It's a '

zero sum game' as profit margins are squeezed to run the scheme (Oliver, 1999). Handling data is like drinking water from a fire-hose (Humpy et al, 2004). Still, loyalty schemes are practiced by big retailers. This study seeks to identify the variables which help make a loyalty scheme successful, and clearly identify the conditions under which loyalty enhances profitability.

### **Objective 3**

#### **Assess the role of loyalty programs in promoting loyalty and building favourable customer relationships**

' Our Customers told us that they prefer pound in their pockets'. (Zaria Pinchbeck, Asda, 2003, cited in Web 1). ' Trying to analyze all the data is madness' (Waitrose, cited in Web 2), ' Dropping the loyalty card is inconceivable' (Russell Craig, Tesco, 2004, cited in Web 3). The market research company Mintel, says that there is mixed evidence that loyalty cards really do promote loyalty. Gary Davies (2004), professor of retailing at Manchester Business School (cited in Web 4), believes that loyalty cards have run out of steam stating that most of us have cards for at least two stores, so that defeats the point [of loyalty]. The UK's top two supermarkets, Tesco and Sainsbury's, both say that loyalty schemes are an integral part of their retailing strategy and insist they remain committed to them. The study seeks to assess the contribution of loyalty programs in creating long-term relationship with the customer.

## **Objective 4**

### **Evaluate the extent to which loyalty marketing makes its contribution to TESCO's success and identify key areas where TESCO outwits its competitors**

The study seeks to point out the parameters TESCO considers to quantify the effect of its loyalty program and assess if those parameters are justified.

Safeway's loyalty scheme (ABC card) started off well but was finally withdrawn four and a half years after its launch. ASDA shied away from rolling out the loyalty card nationwide after having trials at different stores.

TESCO Clubcard was three times more famous than Sainsbury's Saver card and achieved two and a half time greater awareness than any other card.

(Woolf, 2002) TESCO CEO Terry Leahy puts it ' It's not the skill but the will that counts.' This research seeks to examine TESCO's skill and the will which makes its loyalty program stand out and the extent to which it contributes to the retailer's success.

## **Objective 5**

### **Assess whether loyalty marketing should form a part of a retail firm's overall business strategy**

Is Loyalty Marketing dead or is it a vital force to reckon with? Anti-Loyalty lobbyists argue that loyalty programmes are little more than a discount scheme ; that do nothing to engender consumer allegiance. Loyalty aficionados, on the other hand, claim loyalty programmes form the core of their business strategy, enabling them to increase customer value, grow market share, and successfully populate new markets. The research will explore the myth and realities of loyalty marketing and the part it plays in shaping Tesco's overall business strategy.

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## **Scope**

Since the study examines the Tesco Clubcard only, the results cannot be generalized for every loyalty schemes. Future research should seek to replicate the study onto other retailers in order to be able to get a broader understanding of the loyalty effects of customer-loyalty-programmes. Also, this study only examines the loyalty effects of the Tesco Clubcard in terms of its marketplace impact; it does not examine the loyalty effects in terms of the financial impact of the programme. The econometrics of the Clubcard doesn't form a part of the research.

## **Rationale**

The interesting perceptions with contradictory thinking with regards to loyalty in retail and loyalty schemes is what aroused sufficient interest in the author to go in for a research into this elusive concept. Although conventional wisdom dictates that customer loyalty is the most vital aspect of every business because companies live or die from repeat business, in reality, loyalty programmes are surprisingly ineffective and almost 50% of them miss their business objectives partly or completely (Web 5). Yet, most of the major supermarket multiples have already joined the bandwagon, for some, it's a roaring success while for others it turned out to be more than a liability. This tricky tale of retail was what made the author go in for a research on loyalty as no existing literature gave a clear-cut judgment on the subject of customer loyalty in retail. Is loyalty an armoury which came, conquered and died?

## Literature Review

### Loyalty – The elusive phenomena

According to the “ Oxford Dictionary of Current English” (2003, pg 327), loyalty is defined as ‘ being faithful’ or ‘ steadfast in allegiance’ but as Payne (2002) points out customer loyalty has been one of the most frequently discussed and most misunderstood concepts of recent years . This is further evidenced by the fact that some authors use customer loyalty interchangeably with other constructs, including customer repeat purchasing behaviour and customer retention. However, it has been suggested that the construct of customer loyalty differs from the one of repeat purchasing behaviour in the way that it implies an intentional component, i. e. there is always a reason for the customer’s repeat purchase and it does not happen by chance (Hansen, 2000) . The construct of customer loyalty also differs from the one of customer retention in that customer retention has a purely behavioural character, whereas today’s interpretations of the loyalty construct usually include both behavioural and attitudinal dimensions; moreover, while the construct of customer retention considers the marketer as the active party, loyalty focuses more on intrapersonal aspects of customer behaviour (Hansen, 2000) .

Loyalty is seen as something that consumers and customers exhibit towards brands, products, services, stores, as well as salespersons (Laurent, 1997) . The level of attachment a customer feels toward a product or service is a prerequisite to loyalty and that a second factor that marks a customer’s loyalty is repeat patronage. Attachment is shaped by two dimensions: the degree of preference (the extent of the customer’s conviction about the



product or service) and the degree of perceived product differentiation (how significantly the customer distinguishes the product or service from alternatives). The highest attachment occurs when a buyer feels a strong buying preference coupled with a high degree of perceived product differentiation. (Griffin, 2005, cited in Web 6))

The notion of customer-loyalty-programmes is not really a revolutionary idea and it is probably fair to say that the cooperatives' pioneered the modern day programmes already in the mid 1800s (Sparks, 1999). What distinguishes today's customer-loyalty programmes is their ease of use for consumers as well as the degree of technology involved. However, the rationale behind modern CLPs is still the same, to build lasting relationships with customers, and to do so by rewarding loyal and heavy or frequent buyers, in the hope of achieving benefits of loyal customers. The ultimate goal of every CLP, according to Stauss et al. (2001), is to increase general operational profitability by customer retention. However, Butscher (2001) argues that profitability should be considered as a medium- or even long-term goal which can only be achieved if other intermediate goals are reached first, such as building a strong customer database. Most modern CLPs are using some form of membership card which is presented at the point of sale in order to identify the customer and to record the purchase details (e. g. time of purchase, value and type of items etc) and/or the value of the rewards earned. There are various different types of cards issued by and on behalf of retailers, including:

Payment cards: provide a mechanism for customers to pay retailers and are sometimes known as store cards

Reward cards: provide a mechanism for retailers to reward their customers for repeat purchasing and are sometimes called bonus cards or club cards which is what Tesco's club card is all about.

Combined cards: act simultaneously as payment and reward card

## **Building a CLP**

Setting up a customer-loyalty-programme requires careful planning and should include detailed plans and methods for customer identification and registration, segmentation, reward design, and programme maintenance operations. Moreover, setting up a CLP is very resource intensive and therefore the company developing the programme should take it very seriously, i. e. being aware of the time, effort, financial investment and above all, being aware of entering a long-term commitment (Butsher, 2001). In order to be a source of sustainable competitive advantage, the company developing the CLP must always take into account what its loyal customers value, since loyalty is inextricably linked to the creation of value, and then design a programme that directly supports their value proposition Diller H. (2000) The greater the perceived value of a company's goods or services, the greater the loyalty effect. (Bryan, 2002). A value proposition is " the full positioning of a brand , the full mix of benefits upon which it is positioned" and the answer to the customer's question " Why should I buy your brand?"(Kotler & Armstrong, 2001). Moreover, in order to be viable, a CLP must build and sustain noticeable differences in its offerings that are difficult to copy, since a lack of differentiation removes any potential of competitive advantage – which is anything but easy in retailing, where first movers are quickly imitated (Morgan, 2001). Thus, the right combination between soft –

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(e. g. magazine, travel aids, special products, services, events) and hard-benefits (e. g. discounts, rebates, coupons) is essential and Tesco is a champion at this, because it knows fully well that although savings are at the top of the customers' wish list, hard benefits are usually copied by the competition and therefore it considers soft benefits as the key to its loyalty programme as they are less likely to be copied due to their mostly intangible nature. Five elements which determine Tesco's loyalty programmes value are (1) cash value (how much the reward represents as a proportion of spend); (2) choice of redemption options (the range of rewards offered); (3) the aspiration value of the rewards (how much the customer wants the rewards); (4) the perceived likelihood of receiving the rewards; and (5) the scheme's ease of use . In addition to the elements are the psychological benefits of belonging to the programme and accumulating points.

In order to be able to deliver a unique value proposition (that is still in line with an organisation's overall strategy), CLP-managers have to select an appropriate CLP-format which can be further categorized into behaviour-based models, attitude-based models, hybrid models and relationship-based models (Diller H. (2000)). In practice, most CLPs follow the behaviour-based model, focusing on behavioural outcomes such as repeated patronage and targeting immediate benefits for the organisation by providing easily observable - typically economic - benefits to cause the customer to purchase, repurchase, or purchase more frequently the firm's offering . However, this stands in contrast with the long-term character of the relationship-marketing concept and as a result of that, behaviour-based customer-loyalty-programmes have been criticised as dressed-up sales

promotions that are highly questionable as relationship building initiatives which fail to emphasise on emotional elements and do not necessarily lead to greater marketing efficiency and effectiveness.

## **Conclusions and Recommendations**

Tesco's loyalty marketing project has become a pillar of its business strategy and has helped Tesco evolve in its strategic thinking and direction from being an outstanding food retailer to being an information-driven business, constantly searching for ways to act as the value-adding agent for its customers, It's customer information assets uses to allow it to take a strategic approach to customer management. Tesco's loyalty scheme suggests that a loyalty scheme can only have a sustained impact on the bottom line when, from its inception, it changes the dynamic culture of the organization. When the board recognize that loyalty scheme data is the bedrock of their business, then the considerable investment in technology, manpower and other resources really starts to pay dividends.

Companies embarking on a loyalty scheme should make sure that data is analyzed with an eye on desirable economic outcomes and companies should make sure that they establish what they are trying to accomplish with the program and continually measure its performance.