

# The impact of tesco club card



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Since 1950s various efforts been put in to gain and increase customers loyalty. Customers' satisfaction, retention and customer focus are now key ingredient to any marketing strategies of any organisation. Now it does not matter whether an organisation is manufacturing concern or offering services, main focus of marketing strategies is to satisfy customers, retain them and make sure they are loyal to gain competitive advantage (Richeld, 1996).

The very purpose of this research is to look into details the impact of Tesco club card on customer loyalty behaviour toward Tesco. First step to move forward is to study the literature that will play important roles to achieve objective of research and will also act as guidance while conducting methodology part and expressing recommendation and conclusions. Study of literature will also help to understand the customers' loyalty behaviour to loyalty programs in general and Tesco club card in specific.

Tesco was established in 1919 by Jack Cohen in East London. It started its journey from a grocery stall and now it has become international grocery retail chain. Tesco has around 2, 300 retails stores all over the UK and are named as Tesco Extra, Tesco, Metro, Express, One Stop and Home Plus. Tesco was the only food retail store, who introduced the facility of online shopping till November, 2006.

## **Literature Review**

In this section focus will be on the literature to get the answers of research questions and that also relates to objective. The concept of relationship

marketing, significant areas related to customer loyalty behaviour and how they relate to Tesco Club card will be discussed.

## **Relationship Marketing**

Relationship marketing shifted customer's approach from transaction to relationship (Rowley, 2006). Customer relationship marketing (CRM) is an ongoing process to develop and retain relationship with customer by providing value to customers and retain them for life time (Kotler, 2004). Segments are targeted for mass marketing and relationship marketing develops an individual relationship with customers (Gronroos, 1996). CRM provides the organisations with the opportunity to interact with customers on individual basis and develop products and services proffered by customers (Pepper & Roger 1995). Where customers desire that their changing needs and demands should be responded in a timely manner, CRM can play a vital role to develop long lasting relationship with the customers ( Murphy, 2007).

Traditionally marketing always stressed on attracting new customers but now it is believed that revenue can be enhanced by retaining existing customers instead of striving for new ones (Richard, 1998). Relationship marketing enables organisations to achieve competitive advantage and retain customers for long term (Kotler, 2004). The reason marketing is becoming more customer oriented could be because it is less expensive to retain existing customers instead of attracting new customers and existing customers also refer their friends and family members one they are satisfied with product (Belch, 2003).

Tesco offers a variety of services for example Tesco Express to provide convenience to customers, facility to buy online. Customers, who keep club card Tesco sends them vouchers and coupons. Use of emails to intimate about new offers related to product and services.

Nevertheless, importance of new customers can not be ignored. A balance need to be maintained between existing and prospective customers. Figure below shows CRM Customer loyalty ladder:

CRM Customer Loyalty Ladder (Source: Payne, 1993)

Payne (1993) argued that most of the service sector organisations focus on the lower part of ladder that wants to attract new customers. The focus should be on making them a regular customers, then supporters and in the end advocates of organisation and services i. e upper most step of the ladder. However shifting the loyal ladder is not an easy task to do. This will require provision of services beyond customers' expectations this will change customers' satisfaction level as a result shift from customer to advocate. It shows that retention of existing customers will automatically bring new customers.

Till late 1970s basis for rivalry among business was product features. Now top businesses realised that though features of product are the basis for doing business but association with customer is core need for business success (Buttle, 1996).

It was noted that companies adopted different strategies in different economic condition to attract customers. For example, in good economic

conditions organisations tried to attract customer with high quality products. In economic downturn emphasis was on price and offering rewards to customers.

Another relating work is presentation of consumer contact and consumer focus matrix. In the matrix if both the factors (customer contact & customer focus) are high organisation will be winner and customers will be satisfied. On the other hand if both the factors are low organisation will be loser and customers will be dissatisfied. In case factors are low the company will lose the customer and will cause the customer to switch to some other brand or company (Almaim, 2003).

Source: Nasser Almoaim, Mustafa Zinhi Tunca, Mohamed Zairi, 2003

In current credit current situations companies are using different tactics to cope with economic condition and customers' buying power. Tesco, for example, offering high quality product at low prices and using club card to maintain the strong bond with the customer over long run. Study of this customer-Tesco relationship also relates to researcher objective i. e impact of Tesco club card on customers' behaviour and how it supported Tesco to attain a leading position in UK retail sector.

### **Advantages and disadvantage of relationship marketing**

CRM strengthens the relationship among financial, social and technological aspects of an organisation and enhances revenue and reduces operational expenses (Murphy, 2007). CRM helps organisation to gain competitive edge and provide services that are perceived by customers a value for money and helps to retain customers for long term (Marandi, 2003).

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Little and Marandi (2003) pointed out following disadvantages of relationship marketing:

In efforts to build relationship there might be loss of controls on resources, operations and behaviour.

As future is unpredictable and people moods and priorities keep on changing which are difficult to predict. Such changes and variation in customers' mood may affect the customer-organisation relationship.

CRM put greater emphasis on existing customer that could cause the company to ignore the other available opportunities.

Company's intense efforts to develop relationship with customer may give rise the customers' expectation to increase to unrealistic level.

## **Customers' Loyalty**

Customer satisfaction and their persuasion to repurchase a product is called customer loyalty. According to Reichheld (1996) cost of losing a customer is very high. Evaluation of customers' liability depends upon repurchase, cross purchase, price tolerance, recommendation to others (Saren, 2007).

Bandyopadhyay (2000) and Buttle (1996) gave two different views about customer loyalty. Bandyopadhyay is of view that customer's loyalty depends upon their long term attitudes to an organisation or brand and specific physical circumstances related to a transaction. On the other hand Buttle is of view that it is not mandatory that a customer will always remain loyal to a company, he may if undertaking a major buying decision might get information from competitors and may switch to another company. For

instance companies like Tesco, Pc World and Curry offering computers and computer equipment at their stores contrary to Dell and IBM who are offering home delivery services at competitive prices. These factors also affect customers' loyalty and their behaviour.

Kotler (2004) identified different stages in buying process:

Source: Kotler, 2004

Assael (1997) identified different factors that have significant impact on customers' buying behaviour:

Source: Assael (1997)

**Application of this model on Tesco suggested that if customers are buying groceries they will come under habitual buying. On the other hand, if they are buying a computer or LCD this might affect their loyalty because it will come under complex buying behaviour.**

Depending upon attitude and behaviour customers' loyalty can be distinguished in six ways (Basu, 1994).

Monopolistic Loyalty ( no other options for customers)

Inertia loyalty

Loyalty based on location – Convenience loyalty

Customers sensitivity to price – Price loyalty

Customers response to rewards offered – Incentive loyalty

Brand effect – Emotional loyalty

**Tesco Express is an example of convenience loyalty. Use of Tesco club card and voucher are an example of incentive loyalty. Sale of Tesco's own brand and other brand may give rise to emotional loyalty.**

While discussing customers' loyalty quality of product and service can not be ignored. SERQUAL model (Parasuraman, Zeithaml and Berry, 1995) can be used for evaluation of quality of customer services.

The SERQUAL Model; Source: Parasuraman, Zeithaml and Berry, 1995

There are five gaps and five key dimensions of SERQUAL model. There were some limitations identified in this model by some researchers. Researchers raised reservation on five dimensions of model and of view that it might not be applicable to all service sectors hence the results produced might not be reliable.

Buttle (1996) stated that SERQUAL model does not take into account financial, statistical and psychological aspects and application of five dimensions can not be generalised.

SERQUAL model does not cover all the feature of service quality and as a result is less reliable (Gronros, 2001).

## **Kano Model of Customer Satisfaction**

In this model Kano (1996) depicts categorisation of customer perception towards different attributes to products and how these attributes affect customers' satisfaction. The layers of customers' satisfaction like basis,



performance and excitement are identified. Attributes which form the basis of a specific product need not to be revealed to customers because of their clear nature. Performance attributes are the expectation of a customer from a product or service that can lead to customers' satisfaction or dissatisfaction. Excitement attribute which is at the top of curve does not affect customers' satisfaction level but if they are present it will cause customers' happiness.

Kano Model of Customer Satisfaction Source: Kano Model of Customer Satisfaction (1996)

## **Retail Sector and Customers' Loyalty**

In British retail sector almost every big chain using customers' loyalty cards as a marketing strategy. A large number of sales happened at particular time span like Christmas period and loyalty card helps to understand these changing trends in sales pattern and will also help to measure the customers' potential value (Peppers and Rogers, 1995). If customers' expectations are higher, company will face difficulty in satisfying them and these expectation vary customer to customer and only pertinent to a specific customer. Meeting these expectations will lead to customers' loyalty and they will repurchase and revisit the retail store (Little and Marandi, 2003).

## **Tesco & Tesco Club Card**

In UK Tesco Plc holds 30% share of grocery market, along with ASDA & Sainsbury's market share (Anon1, 2007). It established its branches in 14 countries and 470, 000 people in employment. Approximately £1 in every £8

spent on grocery is spent at Tesco (Nils Pratley and Julia Finch, The Guardian, Thursday 6 January 2005).

Loyalty card is a way to gain customers' loyalty, retain them on long run basis with enhancement in revenue and company's income (Gronroos, 1996). Concept of Tesco club card is fairly simple for each pound you spend you get one point and these can also be gained through many other means like internet purchasing, gas stations, insurance and use of Tesco credit card (Turner & Wilson). Voucher value is rounded to 50pence and it can be used within 2 years. Tesco also started green club card points which is helpful environmentally and shows Tesco commitment toward social responsibility.

Once a card is swiped it transferred points and details of shopping list to central database. Database issues the reward in a way that keeps customer happy. Frequency with which customers are buying a specific product is also considered while issuing the vouchers. There are about eight million distinctive vouchers with every club card to assure that customers get suitable rewards (BBC, 2007). Mainly use of club card was just to increase sales volume but it also benefited Tesco to understand their customers their changing preferences that helped Tesco to gain customers' loyalty and develop a long term relationship with them.

Success of one thing can not be judged without comparison. ASDA also introduced ASDA club card but that couldn't really take off and Safeway introduced ABC card that they discarded later on. Its not just the reward but there are other factors are also involved in success of Tesco club card. Those factors are like store location and opening and closing times. The most

significant example is Tesco express and Tesco metro in residential and high street areas. Beside this their international expansion according to customers demand is very precise that gives them competitive advantage upon competitors (BBC, 2008).

## **Conclusion**

It won't be wrong to say that Tesco club card revolutionised the technique to for customer retention. It also helped to attract new customer beside this enabled the company to gain competitive advantage. Use of club card helped Tesco to understand customers' behaviour and facilitate customers in making buying decisions. Tesco is offering a wide portfolio of products. In making decision which product to introduce, retain or remove from the shelves club card data base can be very helpful. Still there is a lot of space for improvement and opportunities that will be discussed in coming sections of this report.