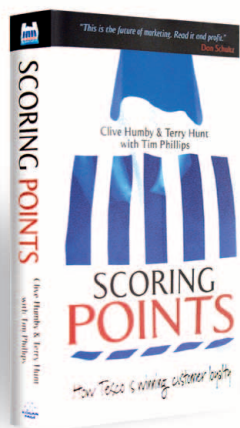


SOUNDVIEW Executive Book Summaries®

FILE: MARKETING



By Clive Humby and Terry Hunt
with Tim Phillips

How Tesco Is Winning Customer Loyalty

SCORING POINTS

THE SUMMARY IN BRIEF

Launched in 1995, Tesco Clubcard is the world's most successful retail loyalty program. Since then, Tesco has transformed its relationship with its customers. Today, Tesco is the United Kingdom's most successful retailer and the world's most successful Internet supermarket. It is also a leader in the financial services market and perhaps the best retailer in the world at managing customer relations. In this summary, you will learn how Tesco went from being just one of three grocery chains in Great Britain, fighting for its share of customers and their wallets, to the undisputed leader. You will see the action behind the scenes as Tesco begins to learn exactly why customers shop at Tesco and what they want from the retailer. By creating the world's leading customer relationship management program, Tesco has learned a lot about what it takes to retain those customers and induce them to spend more. Through its innovative Clubcard, Tesco has learned that rewarding good customers is great for business. What Tesco has learned from its program can serve as inspiration for others just now launching loyalty programs or trying to leverage the information theirs provides into sales.

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What You'll Learn In This Summary

- ✓ How a loyalty program can lead to \$200 million in incremental sales every year.
- ✓ How a loyalty program can help you identify and relate to the needs of millions of customers.
- ✓ How to design a loyalty program that customers want to join and use.
- ✓ How to turn what you learn from customers into useful information rather than information overload.
- ✓ Why getting to know your customers can lead to greater sales and more profit.
- ✓ Why paying attention to segmentation makes good business sense.
- ✓ Why you need a loyalty program to compete today.
- ✓ When it makes sense to expand into related enterprises and how to decide which path is right for your customers.

SCORING POINTS

by Clive Humby and Terry Hunt with Tim Phillips

— THE COMPLETE SUMMARY

Questions of Loyalty

Loyalty, in day-to-day life, implies monogamy: one choice above all others. Retail loyalty isn't like that. There isn't a customer alive who will consider using one shop for every need. When retailers look at winning and keeping loyal customers, the best they can hope for is a little extra goodwill, a slight margin of preference, and an incremental shift in buying behavior. Together, however, these benefits can add up to a massive contribution to a business' financial success.

Types of Loyalty

There are four types of loyalty on which retailers have come to rely. The first is "purge" loyalty in which the retailer slashes prices to make itself the preferred place to shop. The second is "pure" loyalty, which is dependent on a two-way dialogue between the retailer and customer. Next, "pull" loyalty depends on attracting customers by giving a related special offer with a purchase, such as a buy-one-get-one-free deal. It's an inducement to create sales by encouraging customers to buy new items. Finally, "push" loyalty means creating a program to encourage customers to use a way of shopping they haven't used before, such as offering a combined credit card and loyalty card or making prices cheaper on a Web site. Push loyalty is what loyalty programs are all about.

Creating Value

Loyalty programs produce positive results in six ways:

- **Customers make purchases more often, having made a conscious choice to commit to your brand in exchange for a reward when they sign up.**
- **Loyalty programs give you the ability to mass-customize marketing communications.** Using customer transaction data, you can individually target marketing.
- **Loyalty program information is very valuable if it is analyzed.** The data is exact and becomes a high-value asset itself.
- **Loyalty programs let you track trends, giving you early warning of significant changes in how customers are shopping, what they are choosing and what they aren't doing.**

- **Loyalty programs minimize waste by targeting offers to those who are most likely to want them.**
- **Loyalty programs promote trust and open the way to an expanded relationship when it's time to add services and products to the marketing mix.**

Making Loyalty Pay

Loyalty programs aren't cheap — they require a substantial investment in cash. For a large retailer, startup costs can run \$30 million in the first year, and annual costs will run between \$5 million and \$10 million.

Loyalty programs also require a huge investment in time and IT resources. For example, Tesco employs nearly 100 people whose main job is to manage its Clubcard process.

And before you start, consider the cost of stopping. If you don't get it right and have to end the program, customers may perceive your actions as breaking the bargain. Once customers embrace a program, they are likely to be very reluctant to have it taken away. Customers quite reasonably consider that the benefits they received are theirs by right, and react poorly to any perceived reduction in the value they receive from your company.

A related problem is split loyalty. What happens if all your competitors also start loyalty programs? Will customers carry a second and third card, all from the com-

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The authors: Clive Humby is chairman and founder of leading marketing analysts dunnhumby and a visiting professor at Northwestern University, Chicago.

Terry Hunt is chairman of EHS Brann, one of the largest direct marketing agencies in the world.

Tim Phillips is a well-known business journalist who appears on BBC TV and Radio and Sky News.

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For Additional Information on the authors, go to:
<http://my.summary.com>

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Published monthly. Subscriptions: \$195 per year in U.S., Canada & Mexico, and \$275 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2004 by Soundview Executive Book Summaries.

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CHRIS LAUER — Managing Editor
CHRISTOPHER G. MURRAY — Editor in Chief
GEORGE Y. CLEMENT — Publisher

Questions of Loyalty

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petition? The result may be that customers don't have a preference, but all the competitors are saddled with the cost of running the programs.

This may be less of a problem than it first appears. After all, it is unlikely that any customer will never shop at another store. All a loyalty program should expect to achieve is a slightly larger share of what customers would spend without the program. Persuading a customer to use the pharmacy or to buy three bottles of soda rather than one is a small change in behavior, but can considerably boost sales and profitability.

Loyalty Program Basics

Before you decide on a loyalty program, consider the different ways you can structure one. First, you must decide whether the plan will be opt-in or automatic. Generally, you are better off with an opt-in program rather than signing up everyone whose name and address you already know. (This may violate privacy laws in some jurisdictions.)

Next, decide whether the program will be anonymous or personalized. For example, a coffee shop that uses a discount card entitling the holder to the 11th cup free may not need the customer's name and address — its success will be measured in whether there is an increase in sales. A grocery store, on the other hand, may want to gather as much information as possible to better target shoppers.

Will your program be flat-rate or top-down? Flat-rate programs reward all customers while top-down programs give greater rewards to those who spend the most. A top-down example is British Airways, which rewards the most frequent flyers with more and greater benefits, like faster check-ins and better upgrades. Just be sure to think through your approach first — you risk upsetting customers if next year they don't reach the same reward level.

Finally, decide whether your program will feature rewards on demand or on cumulative value. The risk with the second approach is that you can carry, as some airlines do, a large financial liability for accumulated points. But if you use an on-demand system that gives customers a periodic reward, such as a discount at checkout, you don't accumulate long-term liability.

You will also have to decide which rewards customers most value. If you use a points system that allows customers to accumulate miles, points or another unit measure toward rewards, remember that the units they save will have a perceived currency value. If you make changes to the reward plan that devalue the "currency," you will face angry customers.

Another approach is to offer a discount at the register to those in your rewards program. Simply put, you will

Clubcard on Trial

In November 1993, the British press began following the introduction of Clubcard at Tesco. The press reported that soon after a test launch, over 50 percent of customers in test locations elected to join the program. Soon, rumors spread that a Clubcard national launch was imminent. Until then, the grocery chain was struggling to keep up with the industry leaders and needed something to give it a boost.

Tesco tried a rewards program in the 1960s, when it introduced Green Shield Stamps. Though successful for a decade, the gimmick ran its course and became an expensive distraction. Customers began valuing low prices and didn't want to lick stamps for rewards. But the grocer had trouble letting go of the program. Finally the program was replaced by price cuts and larger stores and the public was delighted. Management vowed to continue innovating.

Tesco launched the pilot Clubcard program and was surprised at the results. Within three months, Tesco analyzed the test results and launched a national program. It already had the technology to track every item purchased at all stores and at what price and time. All they needed to capture were the name and address of who bought the goods. Clubcard did that.

have two price lists — one for members and another higher price for everyone else. Yet another approach is to offer information as the reward, such as a newsletter tailored to the customer's interests. Finally, you can give rewards, such as special shopping days or free snacks at the airport. ■

Because We Can

Tesco's experiment with its loyalty program, Clubcard, has been extremely successful. After a pilot program began generating detailed statistics about who spent what, and when and how those customers responded to personalized offers, it became clear the program was an opportunity to overtake the competition. The plan went ahead when executives announced, "We ought to do this because we can."

So urgent was the desire to take advantage of what had been learned in the pilot program that the small group working on the program was asked to expand from a 14-store pilot to all 600 stores within three months. The race for first-mover advantage was on.

To make the 12-week deadline, the team worked over Christmas and in secret. Rumor had it that Tesco's two major competitors, Safeway and Sainsbury's, were also considering loyalty programs. Plans included having

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Because We Can

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over 10 million cards ready for anticipated demand and setting up the system so that every customer who signed up had the card immediately.

Tesco worked hard to impress on staff how important the program was going to be. With staff enthusiasm, management calculated that far more customers would sign up. Everyone from managers to check-out clerks was expected to tell customers about Clubcard.

The last challenge was to get press attention. Three days before the national rollout, the press heard about the national launch for the first time. “Tesco says ‘Thank You’ to customers,” read the press release. A media frenzy followed with radio and television coverage all across Great Britain.

Within days, over 70 percent of all Tesco sales were being recorded and matched to Clubcard holders — 3.5 million transactions a day. Two weeks later, 7 million cards had been delivered to stores, yet supplies were nearly exhausted.

Tesco had calculated that it needed to see a sales increase of 1.6 percent to cover the costs of the launch and the membership cards. The initial sales spike was near 4 percent and then settled well above 2 percent, making the launch a stunning success.

What Made the Launch a Success?

Clubcard is a case study in how to roll out a large marketing initiative quickly, efficiently and with maximum impact. Here are the reasons why:

- **Momentum:** By accepting management’s challenge to move ahead quickly, the team gained first-mover advantage.
- **Simplicity:** The message was right: “Save on your shopping today.” It was simple and direct and a perfect match to the company slogan: “Every Little Helps.”

The Clubcard Effect

Tesco Clubcard team members hoped for a few months to establish the program before their biggest competitor, Sainsbury’s, retaliated with its own offering. It didn’t happen for 18 months. Meanwhile, customers spent 28 percent more at Tesco and cut spending at Sainsbury’s by 16 percent.

The 18 months following the introduction of Clubcard won Tesco time and turned customer data into knowledge it could use to take on the competition. The program let Tesco build customer loyalty by demonstrating that it appreciated their business.

- **Control:** The team in charge was given the freedom to create the program based on the trial data.
- **Involvement:** Everyone, including the front-line staff, was involved.
- **Preparation:** Everything was in place, including phone help lines and the IT infrastructure.
- **Ambition:** Clubcard had to prove itself big to convince shareholders and management that it would work over the long term. It set ambitious yet reachable goals based on early testing.
- **Commitment:** The Tesco board was enthusiastic and committed to making the program work. ■

Data, Lovely Data

Clubcard could have been little more than a targeted discount, as many retail loyalty programs were. But they didn’t survive. The true value of Clubcard is in the data it generates. Tesco recognized that and used it to change the way it does business.

However, making the data Clubcard provided useable was a challenge. At first, there was too much data and too little time — the challenge of analyzing every purchase from every cardholder was wholly beyond the technology available. IT’s technology simply wasn’t there yet. But today, Tesco has the capacity to take the information from every shopping basket processed through its checkouts and use it to drive marketing and management decisions.

The first thing the team did was to create a matrix of data samples to achieve a statistically valid picture of customer behavior. It took 10 percent of the data once a week, processed it, and applied the findings to the other 90 percent. After a few years, the company created a “Customer Insight Unit” filled with geographers, who are statisticians, who have spent a lot of time applying statistics to understand how customers behave. They could crunch through the sample data, see patterns, and then make recommendations.

Measuring Customer Loyalty

Creating a successful loyalty program requires you to match good marketing skills and commercial pragmatism with a hard-headed attitude toward data. This is especially clear in the way loyalty is measured. The basic measurement is known as RFV — recency, frequency and value. Any shopper regularly using a loyalty card can be measured by monitoring how he or she behaves according to a mix of those criteria.

Recency is a simple measure — recording when the customer last shopped. A true sign of customers deserting a retailer is a decrease in a group of customers’

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Data, Lovely Data

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recency behavior. But recency alone is a poor measure of loyalty. It must be combined with a measurement of the type of shopping the customer does.

Frequency is a simple measure of how often you shop — and is a rough guide to how robust the relationship is between the customer and the brand. But it, too, is an incomplete measure.

Value is an indication of the profitability of your customer base. A decline means a smaller basket size, which means more purchases are being made elsewhere. It is more than a measure of the value of a shopping trip — it is a measure of how much “value” the customer perceived the retailer is providing.

The advantage of RFV is that it can be quantified accurately and the information it provides can lead to action. For example, RFV analysis can highlight a group of vulnerable customers that needs more attention.

What Tesco Learned About Data

Instead of building the largest data store it could, Tesco set out to build the smallest store of data that would give useful information. It simply wanted a useable resource to better understand what customers did and to predict what they might do in the future.

Tesco started not from “What would we like to do?” but from “What can we realistically do and still make a profit?” Clubcard became a massive consumer behavior laboratory. Retailers have always experimented with price and range to see what works; now Tesco could measure exactly what worked in any store. When it did something wrong, it knew it in days. When it did something right, it could implement it nationwide in weeks.

Perhaps most useful was segmenting shoppers so that Tesco could target refund offers and coupons to those who really wanted them. In fact, after Clubcard, redemption for coupon mailings went from 3 percent to over 70 percent. ■

For Additional Information about the challenges of using data you collect, go to: <http://my.summary.com>

Four Christmases a Year

One of the most popular features of Clubcard is the quarterly check that customers get as a rebate/reward for buying at Tesco. Four times a year, loyal customers get refund vouchers. Each mailing gives Tesco a sales bump similar to what retailers see at Easter and Christmas. The first mailing to 5 million Tesco customers was an expensive leap of faith which paid off handsomely.

Banana Man

Who in their right mind would buy a half-ton of bananas at their local grocery store? That’s what Phil Calcot did in January 1997. He was a Tesco Clubcard customer who responded to a special offer the grocer made on the fruit. The store offered extra points to be added to the reward voucher customers receive four times a year. Buy a 3 pound bunch, and you would get an extra 25 points on your account. That made the bananas better than free — he earned a profit on each bunch. He bought 942 pounds of bananas and had fun giving them away for free in the neighborhood. When he got his bonus check at the end of the quarter, he had a \$50 profit.

Each mailing includes the earned rewards voucher and additional discounts on individual products targeted at specific groups of consumers. These product coupons achieve redemption rates as high as 70 percent — not bad when you consider that direct mail marketing responses rarely climb over single-figure percentages.

The decision to give customers their rewards through direct mail worked well. Tesco looked at its established retail calendar and integrated Clubcard mailings into it. This way, store managers could gear up with special stock and customers wouldn’t take the benefits for granted. Instead, they would eagerly anticipate their quarterly mailing.

As time went on, the mailings became more complex. For example, the fifth mailing had 100 different letters targeting different customer segments and preferences. By 1999, there were 145,000 variations. Today, the mailings are truly individual with each mailing customized to the specific customer. And each packet contains coupons for four items the customer already buys and two for related products the customer hasn’t bought yet, but which other customers with similar buying profiles have bought. ■

The Quarterly Me

The largest circulating magazine in the United Kingdom isn’t a standard like *Cosmopolitan* or *Reader’s Digest*. Instead, it is *Clubcard Magazine* — with a print run of 8.5 million, four times a year. It’s part of a trend. In 2003, eight out of the 10 highest-circulation magazines in the United Kingdom were titles published by brands as part of their marketing and customer relationship management programs.

Tesco’s emergence as a major media owner happened in much the same way as it became the leader in loyalty

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The Quarterly Me

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programs — it wasn't the first, but it was the most single-minded. It used its new customer knowledge to launch a highly successful magazine. Advertisers are happy to pay five or six times what they would pay to advertise in a regular national magazine.

The magazine is sent free with the quarterly mailing, and is again customized to the segment the customer belongs to. Because it targets the front cover, some of the articles, and the ads to specific groups, it has become known as the "Quarterly Me" magazine.

Advertisers see the value of the expensive space Tesco sells because the grocer can give them real data on the effectiveness of the ad buy. Tesco tracks the product sales before the magazine mailing and after so it can demonstrate the short- and long-term effect. Sales increases by brand run anywhere from 1 to 27 percent.

The first full magazine mailing came in May 1996. Customers didn't know it, but there were five different versions — for students, families, young adults, older adults and those over 60 — depending on the information provided when the customer signed up for Clubcard. The only issue that failed was the student-focused one — mainly because students move too often for the mailing to make sense. To give an idea of how the magazines differed, one Christmas issue aimed at over-60 readers offered a chance to win a trip to the theater and tips on winter gardening, while the issue aimed at young adults offered a chance at a trip to Thailand and a guide to curing hangovers. ■

You Are What You Eat

Tesco encountered some problems along the way. A few years into the program, management was ready to address five main business problems. These were:

- **Price Sensitivity.** How could Clubcard help Tesco set competitive price levels that generated significant sales without starting a price war?
- **Ranging for Customers.** How could Clubcard help Tesco determine the range of goods to make available at stores to satisfy what customers wanted to buy?
- **Range Creation.** Could Clubcard data help Tesco lead rather than respond to emerging customer tastes?
- **Promotions.** How could Clubcard data help Tesco see if promotions were working or whether customers were cherry-picking the best deals?
- **Competitive Attack.** How could Tesco use Clubcard data to take aim at the competition?

The common denominator of these challenges was the need for better quality knowledge of customers. The

analysts knew they had to create robust new groupings of customers, new ways to predict behavior, and a shared language that could easily describe customers.

The Loyalty Cube

Imagine that all a company's customers can be placed at some point in a three-dimensional cube. The first axis of the cube has to be the customer's profitability today. For example, a retiree who cooks from scratch may be very loyal but not as profitable as a less loyal customer who drops by twice a week for a prepared meal and a bottle of wine. The second axis measures future value and contains two elements: how likely a customer will remain a customer and headroom — how much potential there is for the customer to become more valuable in the future. Finally, there is the last axis: championing. Customers can serve as ambassadors for the brand.

Tesco concluded that the differences among customers existed in each shopper's basket: the choices, the brands, the preferences and the trade-offs each made in managing his or her grocery budget. The basket could tell a lot about two dimensions of the loyalty cube. First, it could quantify contribution simply by looking at the profit margins of the goods each chose. Second, by calculating the calories in the cart, it could measure headroom. Just how much of a customer's food needs did Tesco provide?

Tesco set about examining the details of each cart on the presumption that "you are what you eat" and that it was possible to reconstruct the life of a customer by examining the shopping data. The first hurdle was that one cart was not enough since the purchase might indicate a birthday party or a rare dinner party. Tesco used a 10 percent sample of data to model customers from their shopping behavior.

Baskets Become Buckets

Tesco analysts pondered the task of analyzing baskets and came up with a solution — they would analyze a "Bucket." The Bucket was the combination of products that appeared from the make-up of a customer's regular shopping baskets. Each Bucket was defined by a "marker": a high-volume product that had a particular attribute. It might typify indulgence, or thrift, or indicate a tendency to buy in bulk. They then searched for other items bought more often than would be expected in combination with one of the markers. The end result was 80 different Buckets.

Each customer's Bucket score was used as a measure of how he or she liked to shop. Using cluster analysis (a statistical method), Tesco grouped customers with simi-

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For Additional Information on the Loyalty Cube, go to:
<http://my.summary.com>

You Are What You Eat

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lar profiles over a number of variables. Putting the data into three dimensions, Tesco analysts could place the score in three Buckets as a point inside a cube. If those three Buckets suggested a type of customer, then they could see similar shopping patterns.

The next step was to get insight into why customer behavior fit into a particular Bucket. By looking at the clusters, they could answer the why. In all, there were 27 different clusters identified. These became known as the Tesco Lifestyles. ■

For Additional Information about Tesco Lifestyles, go to: <http://my.summary.com>

Lifestyles Become Habits

Lifestyles was not a perfect program. One weakness was that a few of the product Buckets did not seem to help decide which customers were in which clusters. If a product Bucket is going to define you, it should be a significant part of what you shop for, and not all 80 Buckets were equally important. In effect, 80 Buckets and 27 Lifestyles may have broken customers down too much.

The next challenge was to create new customer groupings that were large enough to be cost-effective to use, but with a richness of common interest to paint a meaningful picture. Tesco came up with a plan that it dubbed the “Rolling Ball.”

Project Rolling Ball set about assigning attributes to the food in shopping carts, such as “adventurous.” First, the team defined a few products themselves. Olive oil and the ingredients for Malaysian curries were “adventurous.” The team then looked at who bought these ingredients or foods, and what else they bought, after excluding the items just about everyone buys (bananas and milk, for example). Eventually, every Tesco item received a grade in one of 20 attributes. A food that only the adventurous bought received a high adventurous rating. Eventually, 400 products might earn an adventurous rating, but the last 50 products found by the analysts might have a higher rating in another attribute, such as “fresh.” The statistical ball had rolled into another new attribute category, if you will, and it was thus time to start focusing on finding products for this new attribute.

Grading the foods allowed Tesco to cluster customers into Lifestyle segments. But Tesco went one step further when it discovered that when customers shopped was also important. Adding this data to the mix created an extra segmentation to understand customers — a segmentation that used not only what people bought, but when people shopped. This segmentation was called

Shopping Habits.

Avoiding the Big Brother Label

Any time you collect data on people, some will raise privacy concerns. To avoid the allegation that you are becoming some sort of Big Brother spy into private lives, you may have to do some proactive public relations work. Tesco understood this from the beginning.

One approach Tesco took was to publicize the good that went with learning what people were buying. For example, Tesco was able to demonstrate that it was using the information it collected to do good. Tesco used demographic data to:

- Track sales of allergy-free products and then persuaded the manufacturer to expand the product line;
- Track what non-organic products organic shoppers bought and added to the product line based on actual need;
- Add over 7,000 local products by learning where shoppers preferred locally produced alternatives. ■

Launching a Bank

The next step for Tesco was to launch Clubcard Plus. The idea came from listening to customers who wanted to pay with their Clubcards, too. Tesco’s development team came up with a unique idea — a card that let customers prepay and paid interest on the balance in the account. Clubcard Plus became an interest-bearing savings account. Basically, customers were able to debit money from their other accounts into Clubcard Plus, based on their average shopping bill. The reward was additional loyalty points for using the account to buy groceries and a modest overdraft provision letting customers borrow a month’s worth of purchases at low interest. The plan ended up being the first step in the Tesco Personal Finance program.

To run the new “bank,” Tesco partnered with an established bank. Tesco offered the program to its most credit-worthy one million customers even though its credit risk was minimal (it didn’t want to risk alienating customers by rejecting their applications). The program was a success, with over 60,000 people signing up in the first few months. Those customers then began spending more per trip. Publicity about the program’s interest payments (which were higher than most banks) lead to new customers opening accounts.

Unfortunately, the program didn’t sustain its early success owing to the increasing popularity of bank debit cards that could be used everywhere. Some Tesco customers still use the card, but the company has since expanded into more traditional banking products. It now offers a Visa credit card and loans. The credit card lets shoppers earn extra Clubcard points for all their purchases. ■

Babies, Beauty and Wine

When Tesco looked at the information it was collecting through Clubcard, it discovered that families with babies who bought baby products at Tesco were more valuable than those with babies who didn't. It then set out to convert the non-buyers. It discovered that those non-buyers were spending their baby-product budgets at a leading drugstore, even though they were paying about 20 percent more. To make matters worse, the drugstore began offering its own loyalty program, and because its prices were much higher, it could offer a bigger discount.

To convert the non-buyers, Tesco tried something different — it appealed to the emotional needs of new parents rather than to their rational side. The result was the Tesco Baby Club. Baby Club was opt-in and a soft sell. It positioned Tesco as an expert on baby care. Advice and special offers were targeted to each mother's pregnancy and the age of her child up until 24 months. The result was excellent. In the first two years, 37 percent of all British parents-to-be joined and the retailer increased its share of the baby market by 24 percent. ■

For Additional Information about Tesco's special clubs, go to: <http://mj.summary.com>

From Mouse to House

Customers want convenience as well as good prices. To meet that need, Tesco has begun using the Internet as a channel, letting customers order online through Tesco.com. By 2003, Tesco online had 1.3 million monthly visitors to the site that offers 20,000 grocery items and wines, as well as travel and financial services. Customers can also buy books and CDs, as well as electronics, all delivered by 800 Tesco.com branded delivery vans.

Tesco is now the largest Internet grocery retailer in the world. Tesco experimented with reviving home delivery starting in 1996. The major problem Tesco ran into was that customers were put off by the amount of time it took to prepare the first order.

To solve the problems, Tesco signed on with Microsoft and became the first full-service Internet grocery store. Selecting the order was made as easy as possible. Tesco also chose not to build special warehouses for its online division. Instead, Tesco provides a personal touch — using “personal shoppers” who shop the local Tesco. These shoppers use a special instruction sheet produced by a custom-designed software system that allows them to fulfill six orders at a time, taking the shortest route through the store. The goods are then

A Bigger Deal

Gradually, it became apparent that getting a coupon for a modest amount off your grocery bill four times a year was not enough. Customers wanted something more exciting, so more excitement they got. In 1999, Tesco announced that Clubcard points could be spent on seasonal Clubcard Deals — on anything from hotels to movies. The program launched with publicity boasting “a million cheap tickets” with partners from KLM, Virgin, Eurostar and Disney. High-spending customers could quadruple the value of their points by using them on Clubcard Deals.

delivered to customers at their convenience.

Tesco has learned that it takes two shopping sessions before customers become committed online grocery buyers. But the efforts are clearly worth it. Today, Tesco.com has 380,000 active customers. Of those, only about one-third are replacing regular trips to brick-and-mortar Tesco stores. Another third were regular customers, but now they are spending more per year at Tesco. The rest are entirely new customers.

With the success of its online grocery business, Tesco is looking into expanding its offerings online. It wants to sell more books, music and electronics. Clubcard remains an important part of this marketing strategy because Tesco knows its customers very well. Using Clubcard data, Tesco has been able to look at the similarities and differences between virtual shoppers and those who come in the stores.

What's Next for Tesco?

Tesco has begun expanding its stores into Ireland, Europe and Asia. For example, in South Korea, Tesco has teamed up with Samsung and is offering electronics as well as groceries. In the United States, Tesco is teaming up with Kroger — the fifth largest retailer in the world. The two companies are working to expand Kroger's loyalty program by applying the lessons learned from Clubcard to the American market.

Tesco continues to face challenges. First, it is focusing attention on a segment of its shoppers who haven't benefited greatly from promotions and special offers — those loyal customers who still make meals from scratch. Tesco wants to please these customers with deals relevant to their needs.

Tesco is also experimenting with checkout coupons. Clubcard members receive coupons they can immediately use for items in their carts. The coupons serve as an instant reminder of the value of Clubcard. ■