

# Building Customer Loyalty in Grocery Retailing



Project IV May 1993

A study conducted for

The Coca-Cola Retailing Research Group — Europe

by Coopers & Lybrand

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The Coca-Cola Retailing Research Group, Europe comprises leading European grocery retailers sponsored by the Coca-Cola company to conduct original research into key topics in grocery retailing.

Previous studies published by the group are:

- I Staffing Supermarkets in the 1990s
- Food Retailing in Europe post 1992
- III Grocery Distribution in the 90s strategies for fast flow replenishment

Copies of these studies are available from

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Coopers & Lybrand and Coca-Cola would like to thank the following companies for their help in providing information for the study:

case study	nature of loyalty scheme	country
Albert Heijn	Steady Customer Fund	Netherlands
Caprabo	Card Scheme	Spain
ICA	Card Scheme	Sweden
Monoprix	Home Shopping	France
National Market Research Agency (Taylor Nelson AGB)		UK
REWE	Increasing Customer Ties	Germany
Superquinn	Total Approach	Ireland
Tesco	Customer First	UK
Ukrops	Valued Customer	USA
Vons	Vons Club	USA

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# Chapter





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### 1.1 Introduction

This report presents the findings of a study commissioned by the Coca-Cola Retailing Research Group, Europe (CCRRGE) to examine best practice approaches to customer loyalty in grocery retailing.

The work was conducted by Coopers & Lybrand between May and September 1992.

The study centred on ten case studies in the USA and Europe – Chapter 2 discusses the methodology used.

Customer loyalty is a broad subject as every action a grocery retailer takes must promote loyalty, or it is probably not adding value. Therefore, to avoid becoming too general, the study concentrated on so-called focused customer loyalty schemes, but in the context of their fit with a retailer's overall trading approach.

### 1.2 Project objectives

The objectives specified by the CCR-RGE were:

- To prepare detailed case studies of best practice applications of focused customer loyalty schemes in food retailing.
- To understand specifically the role of non-focused retail practices in building and retaining customer loyalty.
- To evaluate rigorously the cost effectiveness of implementing focused customer loyalty schemes versus nonfocused practices.

### 1.3 Project rationale

The rationale for looking at customer loyalty can be seen at two levels.

First, because of its manifest importance as a building block for success in grocery. Very simply:



number of customers

X ... their loyalty X

... their purchasing importance in the market

size of business

Furthermore, loyalty is particularly important in the above equation as no grocery business can rely on one-off visits. Taylor Nelson AGB data for Sainsbury and Tesco (market leaders in the UK) shows that, for both, their most loyal third of customers account for around two-thirds of turnover.

However, at a second level, focused customer loyalty schemes are now receiving significant attention in grocery retailing, for perhaps five main reasons:

- The competition for loyalty is hotting up, as grocery coverage nears saturation across Europe and North America, and as head-on competition between major players intensifies. Therefore the question of what drives loyalty, when customers have a clear choice of good quality stores, becomes more pressing.
- Grocers are looking for the answer to 'what next?' In the last twenty years grocery competition has spanned all the main elements of the retail mix such as location, store environment, product range, price and customer service. Inevitably players are looking for the next competitive dimension.

- Advancements in IT are opening up more possibilities. The scope of what is achievable costeffectively, in say data management and information capture at the point of sale, creates the potential to apply this data to help increase loyalty.
- Peer industry pressure and customer expectations are increasing. The arrival of loyalty schemes in markets such as air travel and credit cards, as a major part of the competitive landscape, inevitably prompts the question, 'when will they reach grocery?'.
- The perceived wisdom about the importance of loyalty is growing. Numerous studies, across many markets, suggest that the cost of customer retention is invariably much less than the cost of customer attraction. Although in grocery the question is as much about shades of grey (the difference between say 80% and 20% loyalty) as about either having a customer or not having one.

These factors prompted a high level of interest within the CCRRGE to examine leading grocery retailers' approaches to loyalty, and in particular to look at the role of focused loyalty schemes.

### 1.4 Key issues

Given the above, the main issues that the CCRRGE was interested in were:

- What is 'best practice' in customer loyalty in grocery?
- What are the success factors and pitfalls of focused loyalty schemes?
- Will it be a competitive necessity in the 1990s for grocery retailers to have focused loyalty schemes?
- If grocers adopt focused loyalty schemes as a core element of how they compete, where will this path lead?

These questions are addressed directly in Chapter 5 'Comparative Findings'.

### 1.5 Report structure

The remaining sections of this report are:

Chapter 2 Report Summary

Chapter 3 The CCRRGE Study Approach

Chapter 4 Case Studies

Chapter 5 Comparative Findings

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# Chapter





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# Chapter 2

### **Report Summary**

The study was based around ten case studies in Europe and the USA. The central task was to examine best practice in customer loyalty in grocery with particular reference to so-called focused customer loyalty schemes.

We define a focused customer loyalty scheme as:

'an initiative where a specific mechanism is used to incentivise the customer to give a higher share of his/her grocery spend to a retailer—over and above that warranted by the attractiveness of the retailer's core offering of location, product, service, price etc.'

This summary is organised in chapter order, first highlighting the main lessons from each case study (2.1) and then identifying the key lessons from across the case studies (2.2).

# 2.1 Key lessons from the individual case studies (Chapter 4)

The case studies represent a mix of different approaches and styles which provide a series of individual insights, as follows on the next page.

In addition the Taylor Nelson AGB Superpanel for the UK provides an overview of customer loyalty patterns in the UK. Whilst the same patterns will not necessarily be replicated, the data defines a benchmark to be looked for in other markets:

- For both the leading multiple grocers, J Sainsbury and Tesco, the most loyal 30% of customers account for nearly two thirds of total store turnover;
- Overall, J Sainsbury and Tesco only have a 30% 'market share' among their customers implying a major opportunity to upgrade the loyalty of their customer base;
- However, 'loyal' and 'non loyal' shoppers have radically different shopping patterns (loyals make significantly fewer trips and spend more per trip) although both spend about the same in total on grocery;
- Therefore to upgrade loyalty means for many customers persuading them to change their total shopping behaviour and for most of the rest it means switching their choice of usual store;
- These tasks are potentially difficult, requiring powerful incentives, which emphasises the underlying importance of winning customers in the first instance; for example, when a change in their demographic status triggers a change in their shopping protocol.

case study	loyalty scheme or approach	key lesson
Albert Heijn – Netherlands	Trading stamps for shares scheme	Highlights the potential to create a double tie with shoppers as both customers and shareholders
Caprabo – Spain	Payment card	Shows the defensive strength of being first to establish card-based relationships with customers
ICA – Sweden	Payment card	Supports the experience of Caprabo. Shows that in the Scandinavian market the retailer is seen as a more acceptable provider of payment services than the bank sector
Monoprix – France	Home shopping	Identifies the potential role of home shopping in giving the customer more options – but shows that the economics have yet to be proven in grocery
REWE  - Germany	Series of 64 trading improvements	Emphasises the importance of getting the overall retail offering right in a systematic manner and not relying on loyalty 'gimmicks'
Superquinn – Ireland	Overall approach to loyalty	Identifies the importance of customer loyalty as the everyday responsibility of all staff – with this responsibility starting at the top
Tesco – UK	'Customer First' customer service programme	Reinforces the importance of ensuring that key fundamentals such as customer service are of the requisite standard
Ukrops – USA	Membership Club	Shows the potential for a club relationship to be built over time
Vons – USA	Membership Club	Suggests the flexibility and power of establishing an ongoing club relationship with customers

# 2.2 Comparative findings across the case studies (Chapter 5)

The overall conclusions are ordered around three key questions:

- 'What is best practice in customer loyalty in grocery?'
- 'Will it be a competitive necessity in the 90s for grocery retailers to have focused loyalty schemes?' and
- 'If grocers adopt focused loyalty schemes as a core element of how they compete, where will this path lead?'

# 2.2.1 What is 'best practice' in customer loyalty in grocery?

Below, we propose criteria for a model 'best practice' loyalty scheme, but first the role of customer loyalty schemes needs to be put into a broader context:

- Customer loyalty schemes are not a durable substitute for a competitively deficient retail strategy. If a retailer's core strategy is weak then a loyalty scheme may suppress the symptoms but is unlikely to be a cure. It was a very strong theme of the case studies that customer loyalty had, first and foremost, to be an ongoing goal of all staff and of all trading activities;
- The most successful customer loyalty schemes are an integral part of retail strategy they are not 'bolted-on' (indeed, the word 'scheme' is not helpful); the key risk of a 'bolted-on' scheme is that it encourages tactical rather than genuinely loyal shopping;
- There is no 'holy grail' of customer loyalty that can be identified 'once-and-for-all'; customer loyalty schemes have to be seen in an ever changing competitive context, if a market competes by loyalty scheme then there are likely to be both winners and losers.

Against this background, we suggest that a model 'best practice' customer loyalty scheme would meet **IDEAL** criteria:

### Individual

meeting the needs of each customer as an individual, (see Superquinn). What will happen more and more is a case of 'back to the future' with the personal service of the small grocer being combined with the scale advantages of the supermarket and superstore. IT is a key potential facilitator of this, but there is a risk of the costs of data management running ahead of the benefits.

### Defensible

not easily negated by competitor activity, (see ICA). Loyalty schemes can easily lead to an arms race as competitors seek to have the best offer.

### **Emotive**

building a sense of belonging and affinity between retailer and customer, (see Albert Heijn and Caprabo).

### Added value

enabling the retailer to better meet customer needs growing the market rather than sharing it out differently, (see Ukrops).

### Long term

offering a sustained stream of benefits for customer and retailer as a core part of the retailer's strategy, (see Vons).

# 2.2.2 Will it be a competitive necessity in the 90s for grocery retailers to have focused loyalty schemes?

The short answer is 'no', as a loyalty scheme is not essential to running a grocery operation.

However, 'no' is only a partial answer – loyalty schemes can offer offensive advantages for competitive gain and for many, depending on competitive circumstances, they might become defensive imperatives. Therefore the key question is as in 2.2.3 below.

# 2.2.3 If grocers adopt focused loyalty schemes as a core element of how they compete, where will this path lead?

The one certainty about a focused loyalty scheme is that it will add an on-cost to the business. Everything else 'depends' ... on competition and the quality of execution.



Broadly there are three possible outcomes in a market that moves towards 'competition by loyalty scheme':

- all players win
- all players lose
- mix of winners and losers.

Whilst it is an obviously subjective judgement, we believe that a 'negative sum game' is quite likely, largely because loyalty schemes can be expensive and are often easy to imitate.

However, there is a strong chance of there being one or two net-winners. This means that it is probable that many grocery markets will, indeed, move more towards 'competition by loyalty scheme', as someone seeks to preempt a winning position. In this respect, the 'first-in' has the best chance.

The implications for individual grocery retailers are therefore:

### either

strike hard and early to create a defensible platform;

#### or

prepare contingency plans now to counteract someone else's preemptive strike;

#### or

adopt a stealth approach by aiming to build up a loyalty scheme without competitors noticing its impact or without being so provocative as to trigger a major competitive response;

in any event, it is important to meet **IDEAL** criteria, or to deviate from **IDEAL** criteria only for well thought through reasons. Regardless of what happens with loyalty schemes, we expect grocery marketing to have an increasing emphasis on the individual.

## **The CCRRGE Study Approach**

# Chapter







# Chapter 3

## The CCRRGE Study Approach

### 3.1 Introduction

This chapter describes the main definitions used and the structure of the case studies:

- 3.2 Definition of Customer Loyalty
- 3.3 Definition of Customer Loyalty Schemes
- 3.4 The Case Study Approach

# 3.2 Definition of customer loyalty

We have used two definitions. The first is quantitative, so that loyalty can be measured. The second is qualitative, to describe the essence of what loyalty means for retailer and customer.

The **quantitative** definition is:

'the proportion of a customer's (or customer's in total) expenditure across a given range of products spent with a particular retailer over a defined time period.'

Loyalty therefore is measured as a retailer's 'market share' among its customers.

Customers can then be segmented into strata based on share, eg

• primary customers – say, more than 70% share

- secondary customers 40% to 69% share
- tertiary customers less than 40%

The next question is: 'What products are included and over what time period?'

The Taylor Nelson AGB UK case study, in Chapter 4, looks at ten equal strata over a 12 week period, across all grocery product fields, classifying those who are over 80% loyal as 'high loyal'.

The **qualitative** definition is:

'customer loyalty occurs when a customer believes that a particular retailer is the best suited to meet his or her core needs for a range of products and that the retailer is expected to maintain into the future this preferred position as the customer's 'usual store'.'

Implicit in this definition are a number of points which define the essence of loyalty:

• To be 'loyal' a customer does not have to spend a certain minimum proportion of his or her grocery spend at a particular store. We believe that grocery customers tend to have a clear idea of their 'usual

### The CCRRGE Study Approach

store'. This is the benchmark they use to compare other stores - which get used more or less often depending on circumstances.

- Customers tend to see their usual store as offering more than the sum of its tangible parts such as location, product, price, service and quality. This is manifested in:
- a strong sense of trust and allegiance to the store;
- an affinity with the store's image and values:
- a sense of sharing the lifestyle of the people who are perceived to shop there:
- an expectation that the store will stay true to its values and image; and
- an expectation that the store will constantly improve and continue to earn its preferred status.

### 3.3 Definition of customer loyalty schemes

We define a focused customer loyalty scheme as:

'an initiative where a specific mechanism is used to incentivise the customer to give a higher share of his/her grocery spend to a retailer - over and above that warranted by the attractiveness of the retailer's core offering of location, product, service, price etc.'

The distinction with the retail offering is often blurred, but nevertheless useful.

The figure opposite illustrates some of the many variables along which loyalty schemes can be differentiated.

This study is not a detailed microreview of the wide range of loyalty scheme permutations. Instead, it looks at the lessons of how different players have approached loyalty and loyalty schemes.

### 3.4 Case study approach

The project is based on the following case studies selected to provide a balance of geography and type of scheme or approach.

# Chapter 3



### Customer loyalty schemes can take many forms

Variables that define the role of customer loyalty schemes

small scale	<b>←</b>	large scale
tactical	<b>←</b>	integral part of the overall retail strategy
price orientated	$\longleftrightarrow$	quality orientated customer incentive
transaction or sales promotion based	$\longleftrightarrow$	relationship based
customer is anonymous	$\longleftrightarrow$	customer identified individually
short term (finite)	$\longleftrightarrow$	long term (open ended)

### Variables that define the mechanics of customer loyalty schemes

Collection or accumulation based scheme	Yes/No
Card based	Yes/No
Card acts as payment card	Yes/No
Membership scheme based	Yes/No
Electronically organised	Yes/No
Coupon or discount based	Yes/No
Database marketing used	Yes/No
Defined time period for life of scheme	Yes/No
With third party support	Yes/No

### The CCRRGE Study Approach

In addition, a case study has been made of Taylor Nelson AGB's UK panel data to provide a customer based perspective across a major grocery market.

The reason for concentrating on case studies was to focus on practical examples rather than theoretical possibilities – allowing the lessons to be driven by the direct experience of leading grocery retailers.

The project does not therefore consider loyalty schemes in non-grocery markets or review exhaustively all known loyalty schemes in grocery.

The case studies were compiled by Coopers & Lybrand based on face to face interviews and management information supplied by each participant.

# Chapter









### Case Studies

### **Chapter 4 Case Studies**

The case studies in this Chapter are ordered as follows:

### Retailer

4.1	Albert Heijn	page 1
4.2	Caprabo	page 18
4.3	ICA	page 26
4.4	Monoprix	page 3
4.5	REWE	page 3
4.6	Superquinn	page 4
4.7	Tesco	page 5
4.8	Ukrop's	page 6
4.9	Vons	page 7
4.10	Taylor Nelson AGB	page 8

Case studies 4.1 to 4.9 are drawn from individual retailers in Europe and the USA. 4.10 balances these by looking at consumer-based data across a total market.

## **Case Studies - Albert Heijn**

### 4.1 Albert Heijn - Steady Customer Fund

### What the case study covers

This case study describes one initiative, the Steady Customer Fund, whereby customers acquire shares in the parent company by collecting trading stamps. This is an interesting approach to customer loyalty; tying in the customer as both customer and stakeholder.

### Market background

Albert Heijn, part of the Royal Ahold Group, is the leading food and drink retailer in Holland with a 26% market share.

It is recognised by consumers for quality, good service, innovation and trustworthiness. Its core trading position is 'watch the pennies' based on a successful trading stamp scheme which has been running for over 20 years. This existing scheme has enabled Albert Heijn to gain a thorough understanding of consumers and their motivation. The 'Steady Customer Fund' builds on this established scheme.

In Holland, trading stamps are a key customer loyalty mechanism used by all major food and drink retailers.

### Albert Heijn's approach to loyalty

The main objective of the scheme is to increase the share of expenditure at Albert Heijn from existing customers.

The primary aim is not to recruit new customers. Albert Heijn's original trading scheme has proved to be an effective loyalty mechanism. By launching this new scheme, offering a choice of methods, Albert Heijn hopes to extend the appeal of the scheme beyond existing participants (30% of customers).

### The mechanics of the scheme

For every f10 spent customers can buy f1.00 of stamps to be collected in a booklet. A full booklet equates to f49.00 of stamps which can be cashed in for f52.00. This represents a return of over 6%. Experience has shown that the customer typically likes to save stamps and cash them back in when required.

The core customer is female and typically this is her 'nest egg' giving her a degree of financial independence. 30% of customers participate in this scheme.

### **Case Studies – Albert Heijn**

Instead of cashing in the stamps, the new scheme allows customers to exchange three booklets for four units in the 'All Vaste Kanten Fond' or 'Ahold Steady Customer Fund', ie a stake initially worth f156.00 and thereafter dependent on the growth performance of the fund. The fund is a mutual fund with no front-end fees.

As with the existing scheme, the aim is to offer a safe return on investment whilst making the stock market accessible to the average customer, perhaps for the first time. Shareholders can sell their units at any time.

The new scheme has also been extended to Albert Heijn employees and to the founder family. The purpose of this is to endorse the scheme and give it credibility.

To get the fund started f 50 million has been invested by the Heijn family trust and the Ahold pension fund.

The new scheme was launched in February 1992, but there has yet to be a detailed assessment of its success.

### **Potential risks**

Whilst it is perhaps too early to quantify the success of the Steady Customer Fund, Albert Heijn is aware of three major risks:

### Limited control over the share price

The shares issued are those of the group (Ahold) rather than of Albert Heijn. Fund performance is therefore impacted by other Ahold subsidiaries. This lessens the feeling of being a direct stockholder in Albert Heijn. Customers of Albert Heijn may be penalised by the performance of other subsidiaries, although Ahold Shares historically have been very sound.

Albert Heijn, recognising that share values can go down as well as up, have tried to minimise steep fluctuations in the share price (since the investments of the fund consist both of Ahold Shares (approx 50%) and Ahold Treasury notes (approx 50%). The fund manager may deviate up to 5% from an equal mix. However, the customers investing in the Steady Customer Fund are not all conversant with stock market risks. An unknown is the impact that a significant share price drop would have on Albert Heijn's image and on customers' buying behaviour.

### Rewarding already-loyal customers

Another risk is that the scheme rewards already-loyal customers without leading to an increased share of their expenditure.

### Case Studies - Albert Heijn

### 'Just another promotion' syndrome

It is judged important that staff interest and motivation are maintained in the medium to long term. The objective is to make the fund part of the long term culture, synonymous with Albert Heijn, and not be considered as 'just another promotion'. Albert Heijn believe that they have not supported the activity consistently in store since its launch and that a relaunch may be required.

Albert Heijn has extended the scheme to employees in order to increase their interest and loyalty, although it does not believe that take up will be particularly high.

#### Measurement of success

A key challenge for Albert Heijn will be to identify the real effect of the scheme.

With so many short and long term activities, it is very difficult to isolate the effects of one particular scheme.

There are no specific performance measures in place to gauge the effectiveness in terms of increased turnover, profit, average size of shopping basket and loyalty or indeed, to gauge the return on investment (2 years development).

Albert Heijn is however planning to measure a number of elements including:

- take up of stamps
- take up of fund
- qualitative perceptions of customers

Another challenge is whether and how to modernise the stamp collecting mechanism. A number of issues are raised eg should stamp collection be incorporated into a store card /smart card? Should both schemes have the same mechanic, and will it alienate existing participants? What IT systems would be required to manage it?

### Summary of main insights from Albert Heijn

There are a number of lessons to be learnt from both trading stamps schemes:

- The scheme must be consistent with the overall business direction and positioning of the retailer.
- The scheme must offer a perceived customer benefit which is simple and well communicated.
- The customer must see quick, tangible results otherwise interest will probably be lost.
- It is essential that staff are motivated to make the scheme a success.

### **Case Studies - Albert Heijn**



## **Case Studies - Caprabo**

# 4.2 Caprabo - Credit Card Scheme

### What the case study covers

This case study focuses on Caprabo's credit card scheme which is primarily a payment card but also enables participation in exclusive promotions.

### Market background

Caprabo is the leading food and drink retailer in the Catalonia region of Spain, with 52 stores (mostly supermarkets, but with six small hypermarkets) accounting for a turnover of 37bn pesetas (£220m).

Caprabo has experienced dramatic growth in the last few years (+30% 1992 vs 1991; +25% 1990 vs 1989) and is expecting to continue this in 1993 (+20%) and 1994 (+20%). This growth is to be generated by both existing and new stores.

Caprabo has an image of top quality and service at an acceptable price.

### Caprabo's approach to loyalty

Caprabo wishes to develop its leadership position in Catalonia and believes that customer loyalty initiatives can play an important role in achieving this. Caprabo has undertaken a number of initiatives – most of which are designed to increase and maintain customer relationships eg, Freephone number for customers to call in with suggestions, comments or complaints; free packs (worth 18,000 pesetas) for parents of new-born babies and a monthly magazine.

The corner-stone of this strategy is the Caprabo store card which is primarily a payment card but also enables participation in exclusive promotions.

### The objectives of the scheme

The scheme has two objectives:

# • First, to reduce dependence on VISA

Prior to the launch of the card in March 1991, approximately 9% of sales were made with VISA. The advantageous rates negotiated initially (Caprabo was the first food retailer in Catalonia to accept VISA, 5 – 6 years ago) were likely to be squeezed in subsequent negotiation. Caprabo was concerned about increased service charges and wished to redress the balance of negotiating power.

### Case Studies - Caprabo

Whilst the percentage of payments made with VISA is still increasing, today the Caprabo Card is already almost at the same level (estimated to be 9% at end of 1992).

### Second, to create a strong marketing tool

The card provides a strong marketing tool to build customer loyalty among medium-high loyal customers. The card enables Caprabo to collect valuable data on individual customers and their purchasing behaviour. This data can then be used for detailed customer segmentation and targeted communication to individuals. This enables Caprabo to build 1:1 relationships with customers and thereby increase loyalty.

Caprabo believes that it has achieved a sustainable advantage over its competitors by offering a card.

Many of the cardholders have not had a card previously. Research and feedback suggests that customers are pleased to be offered a scheme which 'gives me my own card' (and a degree of financial independence).

#### The mechanics of the scheme

Customers are offered a payment card with a choice of either a credit or debit facility.

Caprabo has reached an agreement with the largest retail bank in Catalonia (Caixa de Pensions) whereby the bank manages all aspects of the card (except marketing). In return, Caprabo pays a service charge to the Bank.

With the credit option (80% of cards), purchases made at Caprabo during the month are billed on the 5th of the following month. The bill must be settled in full.

Extended credit is also available but must be negotiated with the bank. Cash withdrawals are also possible if the cardholder has an account with the bank. The cash withdrawn plus interest must be settled by the 5th of following month.

The debit option (20% of cards) is only available if the customer has an account with the bank. If required, accounts can be debited the same day.

Monthly statements are issued to the customer detailing card payments. These statements are accompanied by inserts, eg information on impending own label launches etc.

Cardholders are also subject to preferential treatment enabling participation in exclusive free prize draws and promotions etc.

## Case Studies - Caprabo

### The benefits of the Caprabo Credit Card

benefit	detail
Convenience	Cashless payments in all outlets
	Cash withdrawal in 2,500 + Caixa ATMS     (account holders only)
Security	Account holders have PIN number for cash withdrawal
	Payment by card is validated by cardholder's signature
Different payment facilities	• Credit
	Extended credit
	• Debit
Rapid and precise control of expenditure	All transactions identified in a monthly statement
Easy to obtain	Fill in the application form and hand in to the local store
Free	No transaction charges or fees
Preferred treatment	Cardholders can participate in free prize draws, promotions etc. Some promotions such as collector schemes run back to back



Other key customer benefits are shown in the table opposite.

Caprabo believes that it is crucial that staff at store level actively promote the card. To this end, a scheme has just been introduced whereby customers of individual stores are asked by a research company for their opinions of different aspects of the scheme in that store eg, about the level and quality of information available. Points are awarded according to the answers. The store managers collect these points and become eligible for gifts eg, televisions, Hi-Fi.

#### Measurement of success

Since the launch in March 1991, 22,000 cards have been issued (as at September 1992). This equates to approximately a quarter of the Caprabo customer base.

The objective is to increase the number of cards issued to 40,000 by 1994 (40-50% of customer base).

Not surprisingly, the most loyal customers have the highest propensity to hold a card. It is estimated that 40% of loyal customers already have one and that a further 25% are likely to take the card.

Caprabo measures the performance of the card in a number of ways.

One of the key performance measures is the size of the average shopping basket. The average basket is 4,500 pesetas; the cardholder's average basket is 38% higher at 6,200 pesetas. This does not in itself show that the card is increasing the average shopping basket of cardholders. However, Caprabo believes that the card is a powerful way to lock in their best customers.

Caprabo estimates that the card generated 1-2% overall sales growth at the end of year 1 and will generate 2-2.5% growth in year 2. Caprabo also measures the promotional costs against the estimated increase in sales/profit.

On this basis Caprabo feels that the card is helping to increase customer loyalty (with an increase in average basket) and most importantly, is doing so profitably. Although this conclusion relies on 'feel' as much as scientific measurement.

In addition, collector schemes run back to back for periods of approximately 4 months. Customers need to spend certain amounts with the card within the promotion period to qualify for different bands of gifts. Purchases are cumulative over the period. The customer receives a statement at the end of each month with the cumulative purchases identified. This helps her plan her purchases for the remainder of the promotion.



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# **Case Studies - Caprabo**

# The effect of the promotions on card sales as a percentage of total sales

	promotion 1 (1.3.91–30.6.91)	promotion 2 (1.7.91-30.11.91)	promotion 3 (1.12.91-31.3.92)	promotion 4 (1.4.92-30.6.92)
no. of card hold- ers (end of period)	12,000	15,000	18,000	22,000
no. of presents claimed	2,275	2,241	4,503	4,570 (E)
cost of promotion as % of total card sales	1.27	0.88	1.13	0.77
card sales as % of total sales	5.25	6.36	8.02	9.48

Promotions have increased card sales as a percentage of total sales. The table above details results so far.

The promotions have increased card sales as a percentage of total sales.

It is estimated that Caprabo card sales will be approximately 9% of total sales by the end of 1992 and 20% by the end of 1994.

# **Case Studies - Caprabo**

### **Future challenges**

The challenge for Caprabo will be to use customer data cost-effectively to build loyalty further.

There has been a deliberate 'softly, softly' policy up to now in the exploitation of customer data. This was to avoid alienation of customers and to ensure that the costs of data management and direct marketing do not run ahead of the benefits.

Caprabo however believes in the long term benefits of entering into a closer 1:1 relationship with the customer. It believes that this constitutes the second phase of the activity with a time horizon of 1-2 years. An example of the way data has been used so far is sending a card to each customer on his/her birthday. This is easily done since the birth date is captured on the application form. This appears to be highly appreciated by the customer.

An example of the way data will be used in the second phase is in personalising offers and promotions according to purchasing behaviour.

### **Key insights from Caprabo**

### The importance of being first.

Caprabo pioneered both payment by VISA in food retailing in Catalonia and the use of store cards. This has generated significant PR and enhances Caprabo's image of quality and innovation. The Caprabo experience suggests that being first with a card can create a defensible competitive edge.

Caprabo believes that competitors are considering store cards but that the barriers to entry are now high (eg in terms of the critical mass of volume and number of customers). Therefore any competition is unlikely to be from individual store cards but rather from a consortium of retailers offering a card. However, such a card would be difficult to communicate and the consumer benefits are likely to be diluted.

The potential of cards in forming ongoing relationships. Caprabo shows that, at best, cards can be used to form longstanding relationships with customers – they offer the customer a sense of belonging and a stream of benefits over time.

# **Case Studies - Caprabo**



# Case Studies - Caprabo



# **Case Studies - ICA**

# 4.3 ICA – Payment Card

### What the case study covers

The case study describes the ICA payment card which is an excellent example of how being first to launch a card payment instrument can build defensible long-term customer relationships.

### Market background

2,800 retailers form ICA, Sweden's largest nationwide network for the distribution of food and groceries.
1991 sales were SEK 57.5m representing a market share of 33%. The stores are owned and managed by private retailers who are members of ICA Forbundet, the ICA Association.

The ICA retailers have a joint company (ICA Partihandel AB) for purchasing, marketing, logistics, accounting and finance, designed to improve the competitive power and profitability of the individual ICA retailers.

#### ICA's approach to loyalty

Since the mid 1980s ICA had been interested in the potential of cards to increase loyalty. This interest originated in response to the following main factors:

- The increase in payments being made by card.
- Control of 'the bank retailer customer' relationship becoming an important issue.
- A desire to build a marketing database to support ICA's commitment to loyal customers.
- Customer research showed that the time taken to process bank card payments at the checkout was a major frustration – therefore ICA wished to reduce this inconvenience.

This led to the development of two card based schemes.

white – a benefits only card, whereby holders receive special offers monthly, eg coupons in return for an annual fee.

**pink** – a combined benefits and payment card scheme without an annual fee.

However it is the pink 'benefits and debit card' that emerged as the best long term prospect and which is the main focus of this case study.

Initially, however, most applicants went for the white card, but on the back of positive PR, consumer accep-

# Chapter 4

# **Case Studies - ICA**

tance and word of mouth, the main thrust has moved to the pink card (although the white card still has a role as a 'penetrator' to bring in customers).

Overall ICA run the card as a customer loyalty system not as a financial service product. The emphasis is primarily on customer benefits:

- to gain interest
- to obviate concerns in Sweden about the use of plastic cards.

The pink card is accepted in all ICA outlets (and also in a petrol chain).

Each month the cardholder receives a statement with an accompanying computer letter. Two coupons can be printed direct onto the letter with a coupon insert as well (up to 12 coupons).

#### The card as a payment system

From the payments perspective, the scheme has given ICA:

• a pioneering lead in retail card payments with the associated PR benefits and the competitive advantage of being first;

- a streamlined national system for handling all card payments, encouraging substitution from less convenient and less secure payment methods;
- control over more transactions and therefore negotiation strength versus the banks (where there is insufficient real competition for retail business). ICA does not need partners to run the system.

### Marketing

Through the monthly letter all cardholders can be targeted by retailers and wholesalers at four levels:

- nationally
- regionally
- distribution centre level
- retailer level

Customers can be targeted according to segmentation data they provide at time of application and according to their card usage.

## **Card operations**

ICA was in a strong position to make a defensible competitive advantage out of the scheme because it could use its own communication system and the facilities of a mail order company within the group, without relying on third party or bank support.

# **Case Studies – ICA**

#### **Number of stores**

means of acceptance	mid 91	mid 92	mid 93	transaction time
Paper voucher	2,400	2,200	1,000 - 2,000	90 secs
Using off-line EFT-POS	600	675	reduci <b>n</b> g to zero	60 secs
Using on-line EFT-POS (PIN)	3 (test)	150	1,000 – 1,500	15 sec max 11 sec off-peak

The card is currently accepted manually in most stores but this will shift strongly to EFT-POS in 1993 – particularly on-line EFT-POS using PINs.

EFT-POS transactions are much faster and the use of PINs makes on-line transactions significantly faster than those off-line.

Currently 40% of all card transactions are paper based and 60% EFT-POS based. Whereas most stores are on the paper system, EFT-POS stores tend to be bigger as well as having higher substitution rates of cards for cash and cheques.

The use of PINS is critical to success as it 'legitimises' the card as a debit system to a credit-wairy population.

In Sweden consumers are generally cautious about the use of credit cards. However, the use of cash machines accessed by PINs, and petrol cards using PINs, is strong. Therefore in the consumers' mind, the use of PINs for the ICA card makes it much more akin to the familiar and acceptable cash card.

Additionally, cardholders can check their available balances on-line.

These two effects have produced major increases in card usage in online EFT-POS stores - by as much as 100%-300% compared to off-line stores.

# **Case Studies – ICA**

#### Measures of success

As of August 1992 there were c 940,000 cardholders with over 1,000 applications per day being received (which compares favourably with a total Swedish population of 8.6m).

This is estimated to be around 50% of ICA's regular customers.

The acceptance rate on applications is high and bad debts have not proved a problem.

80-85% of applications are now for the pink card – reflecting the growing acceptance and interest in the card as a payment vehicle.

The ICA card accounts for a significant and growing proportion of sales, particularly in EFT-POS stores.

The payment profile in ICA stores has changed. The major increase is in online EFT-POS stores which shows the massive future potential.

Recent data shows strong increases in loyalty among customers, particularly among those who were originally less loyal.

# **Payment transaction profile**

	% sales value pre card	% sales value post card	notes
bank cards	4.6	5	
cheques	11.1	10	
cash	84.3	80	nb 60% cash comes from ATMs
ICA card		5	Up to 25% in EFT-POS stores

# **Case Studies – ICA**

# **Changes in loyalty ratings**

customer loyalty group	% increase in loyalty rate per customer	comments
Low loyalty 0% – 33% purchases with ICA	+55	a very high rate of success indeed
Medium loyalty 33% – 66% purchases with ICA	+17	
High loyalty 66% – 100% purchases with ICA	+2	a lower % increase but still important given that these are the most important to maintain

These figures show strong results.

This is against a 10 year background in Swedish grocery of declining loyalty rates.

Available data also shows that users of the card have dramatically higher loyalty than non-users.

#### loyalty rate

non-cardholders	33%
passive cardholders	
(white cards +	
non-users of pink)	63%
active cardholders	

On the face of it, the card has dramatically increased loyalty. However, this data no doubt reflects that the most

loyal shoppers have the highest propensity to hold a card.

Additionally, analysis is not available currently to show the overall profit and loss business case for the card.

Sales data shows much higher annual sales growth from cardholders than non-cardholders. Annual growth from non-cardholders and those who took out cards is:

# ICA sales growth 91 vs 90

non-cardholders	+ 9.9%	
cardholders pre and		
post t <b>aking o</b> ut card	+22.3%	

New cardholders increased expenditure over twice as much as non-cardholders.

# **Case Studies - ICA**

## **Future development**

The inherent flexibility of the system and the potential of EFT-POS suggests that ICA have a major long-term opportunity that is just starting.

The scheme is still developing with major potential along various dimensions:

- the more sophisticated use of the database
- exploiting the consumer attractiveness of on-line EFT-POS
- the range of benefits and services offered
- the size of the cardbase
- the number of other non-competitive outlets accepting the card
- substitution of more costly, less convenient and less secure payment methods leading to a stronger negotiating position.

# Summary of key insights from ICA

The strong customer relationships that can be established with card based loyalty schemes.

The defensibility of these relationships if you are first.

The long-term flexibility of cardbased schemes as a marketing tool, particularly in relation to database marketing.



# **Case Studies - Monoprix**

# 4.4 Monoprix

-'On pense à vous tous les jours' ('Everyday, we're thinking of you')

## What the case study covers

This case study describes Monoprix's overall approach to customer loyalty - with some emphasis on one of its initiatives Télémarket (home shopping). The company philosophy is to live up to the slogan 'Everyday, we're thinking of you'.

## Market background

Monoprix is part of the Galeries Lafayette/Monoprix group in France. They operate town centre variety stores with 80% of their customers being local people or people working in the area. The main catchment area is small (up to 500m). Monoprix faces increasing competition from hypermarkets and supermarkets.

Customers are characteristically reasonably affluent, young urban working families who shop frequently at Monoprix (2.5 times per week), who value time saving and convenience and who are more environmentally aware than average.

# Monoprix's approach to customer loyalty

Monoprix's approach is based on its modern and caring image. All actions conducted by Monoprix must be consistent with this image.

In order to be seen as 'caring', Monoprix puts great emphasis on understanding its customers and their requirements.

The key threat Monoprix faces is the flow of customers moving from 'town' to 'out of town' shopping (eg hypermarkets). It therefore has to compete on service, convenience and on being the 'caring face of retail'. It believes that all its initiatives should be explained carefully to customers and that they must be made to feel good when shopping at Monoprix.

# Monoprix's customer loyalty initiatives

Monoprix has undertaken a number of customer loyalty initiatives. One of the key initiatives is Télémarket, (home shopping) described below.

# **Case Studies – Monoprix**

#### Télémarket

Télémarket was launched seven years ago but has only been 'seriously marketed' in the last 2-3 years.

Télémarket extends the Monoprix offering by giving the customer three options:

- shop at Monoprix in the normal way
- shop at Monoprix and have the goods delivered
- order the goods from home and have them delivered.

With home shopping, the customer chooses his or her order from a catalogue (updated 4 times a year) and either telephones it through or keys it into Minitel (small household terminal linked to 'phone lines' stipulating the desired delivery time within the next 24 hours (8.30 - 22.30 weekdays; 10.00 – 14.00 Saturdays).

Télémarket now has a database of 50,000 names – of which 15,000 are believed to be medium to heavy users – and a turnover of 100 million FF.

However, Télémarket currently loses money. Monoprix estimates a breakeven turnover of 120 million FF.

• As mentioned earlier, Monoprix believes customer loyalty initiatives are fundamental to its proposition. It has undertaken many other activities which it believes are important to develop and maintain customer loyalty, some of which are detailed below:

#### activity

## Continuous and ad hoc research programmes to:

- understand and track image

- understand a particular store's positioning vis à vis its competitors

## description

- annual tracking of image on 30 criteria
- enables segmentation of customers (primary, secondary and occasional)
- tracking of image against competitors
- a store is taken and each department is compared to its local competitors
- this is conducted for medium-large stores

#### results

- this year, tracking showed an improved modernity image but decline in the value for money rating
- this will lead to greater emphasis placed on value
- a store may be repositioned and adapted to its catchment area's requirements
- profits per square metre will be monitored

# Case Studies – Monoprix

activity	description	results
<ul><li>understand a store's service levels</li></ul>	two types of activity:  – customers asked questions on all aspects of service by department  – mystery shopper evaluates check out service	findings are used to drive the staff training programme
– scanning in a representative number of stores	<ul> <li>measures frequency of visits and average shopping basket</li> <li>in addition Monoprix buy INSEE (French National Statistical Institute) statistics by catchment area</li> </ul>	- recently in place - compare own and INSEE data to understand buying behaviour and loyalty patterns
– understand a product category	<ul> <li>analysis in detail of a product</li> <li>identify consumer profile and, buying behaviour</li> <li>evaluate effectiveness of different types of promotion</li> </ul>	have just completed a joint study with a manufacturer which will enable Monoprix to adapt the category to their customer's requirements
– understand a particular brand or product	– as above but for a specific product or brand	<ul> <li>have completed studies on ranges of own label products, eg clothes</li> <li>enables product strategy to be refined, eg different collec- tions for different types of stores</li> </ul>
Development of extensive own label ranges	- Monoprix has been at the forefront of own label development in France	– 95% of clothes and 30% of flood are own label
Development of environ- mentally friendly/caring image	- Monoprix has undertaken a number of initiatives which demonstrate its caring image, eg installing recycling bins for plastics in store, first retailer to stop stocking aerosols with CFC's	– caring images strikes good chord with target audience
Chilled food has lozenge which changes colour if food perished	- Monoprix is the first retailer to put lozenge on chilled food packaging. Lozenge changes colour if food is no longer fresh = guarantee of freshness	Places significant emphasis on Monoprix and suppliers to meet quality and temperature specifications
Customers "gourmet" evenings	loyal customers are invited to select evening tastings	neward for loyal customers.  Appears to be appreciated— one customer tunned up in evening diress!
Development of extensive database	databases allready exist (for research and for Télémarket). Monophis wish to develop and maintain databases further	- fiunther develop marketing benefits - 'individually' target activity
Private store carci		. In test



With Télémarket, service is paramount. Anyone offering home shopping must be sure that they can always meet customer expectations.

Careful pacing is required when recruiting customers. A sudden dramatic increase in demand could negatively impact service levels.

Monoprix does not make a profit from Télémarket today. One of the lessons is not to assume that home shopping (in food and drink) is profitable. Food and drink margins are slim and service levels costly.

Home shopping requires a different set of skills to those required by conventional retailing. It is important to recognise that a home shopping concept must not be run as a 'bolt-on' to retail outlets.

The key issue for Télémarket is whether it will become profitable. If not, even without being profitable, is there a strategic rationale for continuing home shopping?, eg capitalising on customer loyalty spin-offs, marketing opportunities, or product testing opportunities which may generate an indirect return.

# Summary of key insights from **Monoprix**

The overall trading offer needs to be tailored to meet specific needs, through excellent research. Monoprix aims to know its customers and their requirements 'intimately' and therefore believes it can tailor its offer to a specific target audience.

Home shopping is high risk and has potential for returning high rewards in grocery, but its case has yet to be proven.

# **Case Studies - Rewe**

#### **4.5 REWE**

## - Increasing Customer Ties

## What this case study covers

This case study looks at how REWE approach loyalty systematically by concentrating on the strength of their overall offering with a deliberate policy not to rely on promotional gimmicks.

### REWE's approach to loyalty

REWE's approach is based on systematically evaluating trading initiatives rather than on isolated short term promotions as these are believed to encourage tactical shopping rather than loyalty.

The project 'Erhohung der Kundenbindung' ('Increasing Customer Ties') was launched in mid 1991. Projects of this type are launched every two years or so by REWE.

The main aspects of the project were:

• part of a long term strategy of continued experimentation with new products, services and merchandising techniques

- the testing was focused on one store of the 'miniMAL' chain in Giessen, north of Frankfurt
- new initiatives (64 in total) were tested alongside existing ones
- the emphasis is to avoid ad hoc experimentation and allow the benefits to be evaluated, prioritised and then introduced across the group in a planned manner.

#### The measures tested

After completion of the testing project in Giessen, the 64 measures were categorised into those to be adopted as national standards within REWE, those to be optional steps and those to be dropped. The classification was based on their success, measured by turnover for new services and products, as well as customer response to qualitative aspects such as ambience and staff courtesy.

The following pages show which initiatives fell into each category.

# **Case Studies - Rewe**

## Initiatives to be adopted as standard

- new concept for store entrance and exit areas
- installing of automatic doors
- shopping trolleys with deposit system
- new store design and lighting
- reduction of overstocking through smaller storage space
- standardised concept for fruit and vegetable section
- installation of tills with scanners
- expansion of non-food offering and special display stands for same
- installation of a public bulletin board for customer to customer contacts
- management training
- personnel training
- new arrangement of goods in the produce section
- fruit specialities on the right side
- vegetables and potatoes on the left side

- continual checking for product freshness
- widening of Aisle 1, re-arrangement of goods
- new concept for special shelf displays
- name tags for store personnel
- introduction of permanent low prices policy for whole store
- descriptions of exotic fruits and vegetables, recipes
- sale of cookbooks
- expansion of pet food display
- Tschibo brand coffee in self-service
- installation of a new covered bicycle stand
- renovation of building facade
- wall protectors
- repainting of store interior
- frozen food freezers moved on half meter or removal of freezer to allow for more aisle space in the dairy produce section.

# Case Studies – Rewe

# Initiatives to be adopted as optional

- use of storeroom space to set up a new beverage market (sale of cases of drinks). The existing drinks to be redesigned
- magazines, stationary, sweets
- redesign of staff lounge (table, chairs, kitchenette)
- install check-out counters in one single row
- installation of salad bar (a) self-service section for fresh poultry and barbecue meats (b) reduction of shelf space for spices and new placement near the
- reduction of shelf space for eggs (one metre is sufficient)
- new presentation of magazine section
- children's shopping cards
- wide aisles

meat section

- instalment of a special cashier for handicapped customers
- special counter for the removal and disposal of excess packaging material (however, this is now required by German environmental laws).
- new arrangement of 'impulse buys' in the check-out area

- ice cream freezers for Schöller brand products
- instalment of product 'road signs'
- expanded service in baked goods section:
- serving of coffee and sandwiches
- early opening (before regular store hours) to serve the breakfast crowd
- expanded assortment of gourmet products from Kattus and Dittmann, improved shelf presentation
- installation of milk dispenser (for customers who bring their own bottles, a popular feature in many German supermarkets)
- additional display of sweets and caddies geared for the target group schoolchildren
- new general layout for shelf placement and product arrangement
- expansion of convenience products
- instalment of 'sampling stations' for pizza, cheese and sausages/cold cuts
- cold drinks
- LCD price labelling on shelving
- weighing scales built into scanner at check-out.

Measurement of success

The following measures were used to assess the initiatives:

- turnover
- number of customer visits
- average purchase size

Benchmark measures for comparison were:

- year on year growth within the test store
- the performance of other stores within the REWE group during the test period
- five other stores within REWE which had less intensive improvements made

Market research involved qualitative face to face interviews and quantified telephone assessments (213 people) looking at:

- length of time shopped at the store
- appreciation ratings (on a 1-6 scale) of the various initiatives
- spontaneous responses to changes in the test store.

## Initiatives to be dropped

• introduction of new service for putting together gift baskets with customer's choice of products

**Case Studies – Rewe** 

- party platter service (cold cuts, cheese, fruit and vegetables)
- fondue equipment rental service
- advertising via TV monitor
- delivery service
- children's video cassettes (miniMAL)
- provision of photocopy machine
- business card printing service
- children's cinema (miniMAL)
- new smocks for personnel
- fresh juice sampling
- new non-food presenter (for special product campaigns)
- new advertising concept
- travel offers promotion

# Case Studies - Rewe

The initiatives significantly increased store turnover, with the increase coming primarily from more frequent visits by existing customers rather than from new customers or from higher average purchases.

Management information for the test store and 5 other MiniMAL stores (with a lesser scale of enhancements) comparing the 16 week test period in 91 to the 90 equivalent showed the following:

Giessen	5 other
test store	MiniMAL
	stores

turnover	+19.5%	+8.2%	
customer visits	+16.6%	+1.8%	_
average	+2.3%	+6.5%	_
purchase size			

The market research had shown that 96% of customers who shopped in the test store had been shopping there for over a year.

# % customers shopping in store

for 3 months	2%	
for about 6 months	3%	
for a year or more	96%	

There was a particularly strong growth in fresh produce (+46%) as a result of the better service standards provided there.

These figures in combination suggest:

- significant incremental turnover growth in the test store
- that the main source of this growth was more frequent visits by existing customers rather than from new customers or higher average purchases, ie. it was from increased loyalty.

The graphs overleaf show more detailed support for this conclusion.

The turnover improvement was also reflected in improved image ratings on key dimensions.

The chart opposite shows the main measured image dimension improvements among shoppers following the project.

# Summary of key insights from REWE

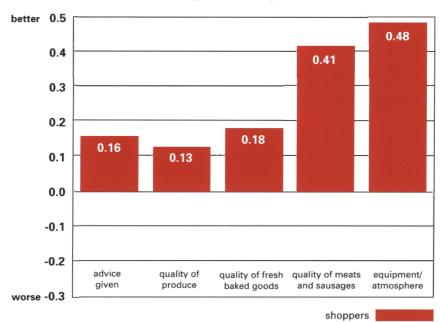
The primary importance of optimising the overall retail offering, and in particular of providing a high standard of service in fresh produce.

The benefits of doing this in a systematic and comprehensive manner

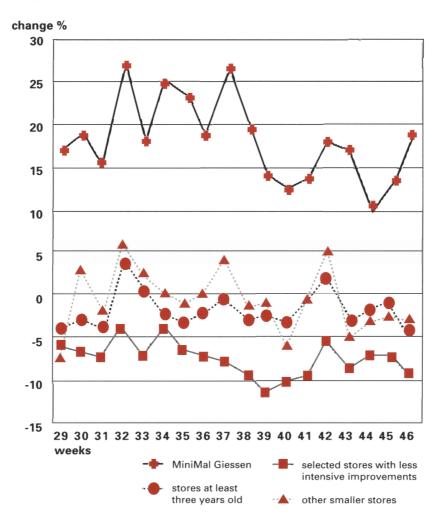
A wary attitude to loyalty gimmicks which could promote more tactical shopping behaviour.

# **Case Studies - Rewe**

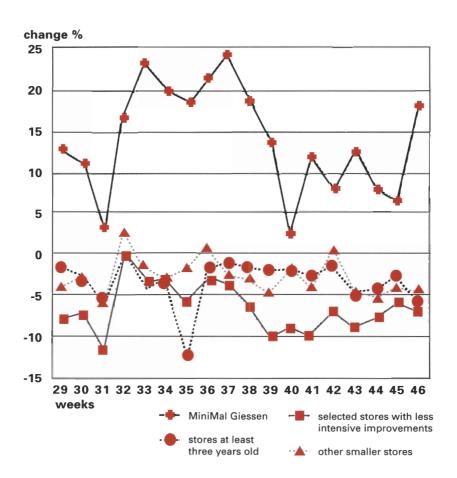
# Image components: greatest differences in August compared to March



# Turnover (weeks 29 - 46 1991)

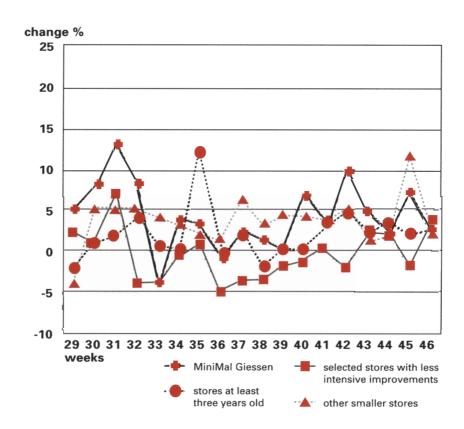


# Customer contacts (weeks 29 – 46 1991)



# **Case Studies - Rewe**

# Average purchase (weeks 29 - 46 1991)



# Chapter 4

# pag

# **Case Studies - Superquinn**

# 4.6 Superquinn – Overall Approach to Loyalty

## What the case study covers

This case study does not highlight a particular initiative – it describes Superquinn's overall approach to customer loyalty. The key lessons centre around the way in which Superquinn have translated 'talking a good game' about customer loyalty into a system of actions and behaviour which work on an everyday basis.

## Market background

Superquinn operates in and around Dublin.

This is a competitive market where most of the players concentrate on price as their main weapon. Price is obviously important for Superquinn, but it is on product and service quality that Superquinn seeks to differentiate itself.

# Superquinn's approach to customer loyalty

Superquinn epitomises an approach whereby the pursuit of customer loyalty is the main mission of the business. This is reflected in Feargal Quinn's description of Superquinn as...

'a company where all the key decisions are based on an over-riding wish to serve the customer better. A company where everyone in it sees the customer as their only business'.

This philosophy is encapsulated in what the company calls the 'boomerang principle', ie the main task is to bring customers back.

The application of the principle has direct and important management implications, for example:

• actions which maximise short term sales, such as selling sweets on the checkout, are sacrificed if they are likely to discourage customers from making return visits. Many of these decisions are courageous and differentiate Superquinn from other retailers who would not risk the short term sales loss

- all business decisions are appraised on the criteria of 'what will this do to help bring the customer back again?"
- decisions taken as a result of this principle are not always quantifiable and often rely on a long term qualitative judgement
- the emphasis of the business is primarily long term, but not to the neglect of the short term.

# How Superquinn's customer loyalty approach translates into actions

As we highlighted above, it is as easy to talk about a positive approach to customer loyalty as it is difficult to translate these principles into action. The means by which Superquinn have achieved this is the central feature of this case study.

There are five main elements that characterise how Superquinn have done this:

# 1. Commitment and example from the top

Feargal Quinn is a visible leader who is seen genuinely to put customers first, eg attending regular customer panels (see page 54). Feargal Quinn's visible commitment acts as an example to his staff, of the behaviour that is expected and rewarded within Superquinn.

I spend about half my time every week on the floor of our shops meeting customers'.

# 2. Existence of a system of 'listening channels' to understand the customer

To respond to customers there has to be the means for the voice of the customer to be heard.

Therefore, integrated into the way Superquinn does business is a listening system comprising various channels:

- customer panels (see inset)
- customer comment forms that allow customers to communicate their views quickly and, if they wish, anonymously
- customer service desks that offer an immediate and personal contact for an enquiry or problem and appeal to customers who find writing inconvenient
- positive response to **complaints** – complaints are treated seriously on the basis that for every person that complains there might be ten who take their business else-

where, and who will spread adverse word of mouth comment

- market research to get a balanced overview of customers' opinions and preferences
- inviting customer enquiries to staff - Superquinn believes that queries and problems are best dealt with by people on the ground, and that it is important that all staff see themselves as being in the business of listening to customers

'the truly customer driven organisation is one in which everyone listens'.

- subscription to trade journals around the world - Superquinn subscribes to all the main trade press worldwide, but rather than have these pile up on a few people's desks, a range of individuals are given specific responsibility to scan one or two titles for relevant items. They are then accountable for delivering one or two business-winning ideas per year.

A key point is that Superquinn does not rely on just one listening channel. The above channels form a system that picks up a great breadth and depth of views and information. Customers can choose the way with which they feel most comfortable to express their views. This choice increases the probability of

Superquinn being aware of the full range of its customers' views.

### 3. The empowerment of staff

There is clear authority for staff to take initiatives - and risk mistakes. Shopfloor staff are closest to the customer. Empowerment translates this customer proximity into customer benefits. Additionally, staff are more motivated and loyal.

# 4. A management information system to appraise the profit impact of initiatives where possible

Superquinn's EPOS system can provide before and after sales and profit assessment of various initiatives, eg those that are product specific.

# 5. Treating each customer as an individual, whilst avoiding the dangers of niche marketing and segmentation

All staff are encouraged to treat customers as real people with names and personal needs. This stimulates an interest in anyone who wants to buy groceries in Superquinn, in contrast to a target market or niche approach which tends to say 'we are not here for that kind of customer', or that we can treat 'this' or 'that' group of customers as being homogeneous or the 'same on average'. The danger

of the 'same on average' approach is that its practitioners do not get genuinely close to the needs of any particular customer.

# Superquinn customer loyalty initiatives

Superquinn does not rely on one or two major 'designed' schemes to lock-in customers. Instead, Superquinn's approach produces a stream of small to medium size initiatives from a range of sources (customers, shopfloor staff, senior managers, trade journals etc).

Table 1 shows an indicative range of these initiatives. Some of these are simple and low cost, and some involve more significant investment, often requiring an act of faith in the initiative's ultimate benefits.

# Table 1 – Illustrative Superguinn Loyalty Initiatives

Specific initiatives designed to increase customer satisfaction as the key to long term loyalty, but where the financial case cannot be proven definitively....

# Superquinn initiative

#### **Playhouses**

## comment/ description

- Free creche facilities at every store
- Customer panels revealed strong interest
- Customer confidence is high by virtue of the fact that playhouses are highly visible and staffed by properly trained staff
- Each playhouse has a capacity limit for safety reasons

#### results

- Very difficult to measure ultimate impact on customer loyalty and profit
- However, in a typical week each creche entertains 600-900 children
- Customer panels indicate a high level of customer satisfaction with the service and it is known that a high proportion are repeat-users

Special parking

spaces for moth-

ers/disabled

#### Superquinn comment/ results initiative description Taking sweets off • An action taken in response to · Reduces profits in the short the checkouts strong feedback from parents A range of trolleys Trolleys with proper baby Customers have phoned in for different needs seats as part of a commitment to advance to book particular make shopping better for trolley types mothers • Two tier basket trolley for superior mobility · 'Family carts' which can take a child and smaller baby • Shallower 'senior citizen' trolley, with a clip board Bag packing service • Helps the best customers in at the checkout particular; supermarkets usually discriminate in favour of their light buyers, eg checkouts for 10 items or less • Initiated as a result of direct feedback that checking out was the most stressful part of shopping and the one that, as the last experience before leaving the store, could leave the most lasting impression Helps speed whole process for the benefit of shoppers and the company Celebrations and • A range of ideas are employed Not directly quantified; based special interest to increase customer enjoyment on a belief that it sustains events and interest eg interest and empathy - halloween treats free carnations on Mothers Day

• Designated spaces for

mothers and the disabled

**Case Studies – Superquinn** 

Superquinn initiative	comment/ description	results
Other mothercare services	Store staff will do the shop- ping for mothers and carry their bags to the car	
	In addition, there is a nappy changing service	
	This all reflects a commitment to mothers and families	
Penalty paid to customers for excessive wait at checkout	Bold move evidencing a commitment to remove a major source of frustration	
Provision of paper hand towels at checkout and at fridges or other areas where cus- tomers might get wet hands		
Willingness to sell half boxes	Policy to sell half boxes of goods such as Cornflakes, if required	Experience shows there is usually someone else who will quickly buy the other half
Provision of scissors to cut broccoli stems	An example of staff taking the initiative having noticed that customers did not like the longer stems of a new source of broccoli	
	Scissors were provided to enable customers to cut off stems and place them in bin	
Provision of scissors to cut grapes	Similar to above following customer feedback of damage to nails from separating bunches of grapes	
Providing umbrel- las for customers	Staff member bought 3 umbrellas to enable people to reach car and stay dry	
	Initiative swiftly copied in other stores	

Superquinn initiative	comment/ description	results
Provision of clear plastic bags for household items	For items such as firelighters and detergents clear plastic bags provide peace of mind that food shopping has not been contaminated	
Scanning equip- ment which facili- tates eye contact between operators and customer	<ul> <li>Scanning equipment was sought that did not require operator to sit at 90 degrees to the customer</li> <li>A key benefit of technology should be to free up time to give to customers</li> </ul>	
Spot fines for out of date products	Superquinn will pay customers £1 if they find an item that is out of date	
Sale of wine on sale or return basis and provision of glasses on loan	Again, a direct result of a customer panel	

Initiatives that demonstrate or symbolise that Superquinn is genuinely customer driven and that this starts with the shop floor staff...

Superquinn initiative	comment/description
Personal identification of charge- hands in departments	Display of photographs and names of shop floor staff
	Customers encouraged to talk to them
	Chargehands encouraged to listen to customers and be responsive to them
No Head office, only a 'Support office'	'Head offices' are symbols of internally, rather than externally driven companies

Superquinn initiative	comment/description
Use of customer names	Store manager expected to know several thousand customers by sight, and several hundred by name
	Occasional days when customers invited to wear name badges
	Staff expected to use customer's name where possible, eg when seeing it on a cheque card
	Customers treated as respected individuals
Photographs of sources of vegetables and grower at time of picking	Integral part of the display to reassure on freshness and origin
Information on time of baking for bakery products	Integral part of the display to reassure on freshness and origin
Staff no-go zones	Blue lines and circles on the floor indicate areas that are for customers only – particularly around the service
	Superquinn will pay £1 to a customer if he/she spots a staff member inside the circle

Initiatives designed to increase customer loyalty and where the benefits can be proven or near-proven...

Superquinn initiative	comment/ description	results
In-store sausage kitchen	<ul> <li>Visible in-store sausage kitchen to evidence 'homemade' quality and freshness</li> <li>A result of customer concern about perceived quality of sausage range</li> </ul>	Strong growth in sales and profits
Flower Promotion		See page 56

Superquinn initiative	comment/ description	results
One price for whole mushroom range	A result of someone on the shop floor taking the initiative, having observed that customers who wanted a selection did not want the hassle of weighing/ calculating a range of prices	EPOS system demonstrated direct payback from this move
Door to door delivery service	Local initiative but being controlled to allow appraisal of costs and benefits	Expectation is that this will not be continued
'Help yourself' fresh salad bar	<ul> <li>Superquinn were very early in introducing salad bars (1982), having picked up the idea from USA</li> <li>When trays become half empty in the evening, contents are transferred to smaller trays to maintain good appearance</li> </ul>	• Proven to be a success
High quality instore demonstrators 'Highlighters'	see page 57	

# Potential pitfalls and future challenges

Superquinn's approach, despite its overall success, obviously carries risks and challenges. The two main ones are:

- maintaining control as the company expands;
- continuing to justify Superquinn's value for money advantage.

The larger and more geographically diverse Superquinn becomes, the

harder it will become to balance staff empowerment with management control, and the less time the chief executive can spend in any one store.

Additionally, as with any company that has prospered in the image of its leading light (Feargal Quinn), ultimately there will be the challenge of succession and of sustaining the culture.

The essence of Superquinn's approach is to treat customers as individuals, and yet currently it does not have detailed individual customer

data systematically held and acted upon. A long term challenge therefore is to use the possibilities of database marketing cost effectively and sensitively.

A key theme of this project is the move back to the treatment of customers as individuals as well as market segments. Superquinn, because of its size and its strong culture has achieved this without IT as an enabling factor. As Superquinn grows, as the cost effectiveness of IT improves and as competitors respond, there is a clear long term challenge for Superquinn to use IT to continue to raise its standards of service and to get even closer to the customer.

#### Recent developments

In May 1993, Superquinn launched a 'Superclub' in association with Atlantic Homecare, McKennas Electric and UCI Cinemas. The Superclub allows customers to collect one Superclub point for every pound spent in a Superquinn store or with any other participating retailer. The points earned can be exchanged for a range of gifts that are presented in a Superclub catalogue. There will also

be opportunities to earn bonus points. As the scheme has only just been announced, it is not possible to analyse the impact it may have on the loyalty of Superguinn customers. This club format, however, allows Superguinn the opportunity to build a marketing database and further exploit the relationship it already has with loyal customers. Superquinn will thus in future be an interesting case study of a broad approach to the execution and management of a loyalty relationship.

# Summary of the main insights from Superquinn

Customer loyalty should be the primary responsibility of all staff - it is not a 'bolt on' to be tackled as a discrete management task.

To translate talk into action requires strong leadership-by-example, a well developed system of listening to the customer and the commitment to act on the results, even if this requires faith in the long term customer loyalty benefits of decisions that have clear short term costs.

Customers act and think as individuals - it is therefore best to treat them as such.

# **Customer panels**

#### What are customer panels?

Regular meetings of around 90 minutes duration with small groups (12-14) of volunteer customers led by Feargal Quinn. These are used as one of the key listening channels for Superquinn to stay close to its customers.

#### How are they run?

Superquinn have eight rules for running customer panels:

- Panel members are chosen to bring a diversity of views rather than being strictly quoted to represent different customer types
  - it is the range of views that is key
- Panel members are not paid
  - no sense of obligation and therefore no bias is created
- The agenda is set by the panel members
  - which allows the issues that are most important to customers to be pursued
- Only one or two people from Superquinn are present
  - this underlines that it is a customer panel
- Willingness to hear criticism
  - panel members are naturally polite and Superquinn has to work hard to emphasise that it wants to hear criticism
- No answering back
  - the channel is a listening channel not a debating channel and so it is important to resist too much time being taken up in responding to what is being said
- Wide circulation of panel feedback
  - to make maximum use of the data and to underline its importance
- Take actions as a result
  - panels are not just there to generate interesting background information, they must lead to decisions and actions - this gives them a genuine purpose for staff and customers

#### What are the benefits?

Customer panel provide a visible evidence of a commitment to customers.

More importantly, they provide first hand views that are proven to be a rich source of improvement ideas

#### What are their limitations?

Customer panels are just one listening channel - they are biased towards shoppers who are already converts to Superquinn. Therefore other channels are needed to understand non-customers and less committed customers.



Chapter 4

# Flower promotion

In a fiercely price competitive market, Superquinn has continuously to tackle the perception that it is very expensive. This is Superquinn's main barrier to customer loyalty. Superquinn aims to be the leader in service, selection and in the quality of fresh foods. Customers tend to spend more in a Superquinn store because the range is greater than in competing stores. Frequently, therefore, customers get confused into thinking that spending more means that prices must be higher. Following research undertaken after the opening of Superquinn's most recent store, it became clear that if Superquinn could encourage customers to shop with them for six weeks or more, they would learn to 'shop the shop' without overspending. This perception of expense would then be overcome, leading to a high chance of retaining the customer in the long term. One of the ways that this was tackled was with the so called 'flower promotion' (the flower being the Superquinn symbol).

The concept is simple. Customers were asked to spend £40 or more each week for six out of eight, and if they did so they would be given £30 worth of groceries free. In practice the scheme was extended by a further two weeks so customers actually only had to buy for six weeks out of ten. One flower stamp was given out each time they exceeded the £45 limit. The colour of the stamp varied each week. To claim the £30 of free groceries, six different colours had to be evident on the claim card, thereby encouraging the customer to come during six different weeks.

The first promotion ran in the new Lucan store which was deemed to be highly successful, but as this was a new store a measurement base was difficult to establish. Currently, Superquinn are operating a similar scheme in three stores, with encouraging results to date. Superquinn established a budget based on its early experiments, to estimate the costs of giving £30 worth of groceries to those customers who are likely to claim. This is costed and charged to the participating shops over the ten week period of promotions. To date, in each shop, the short term increase in sales alone has more than compensated for this additional overhead, and in some cases it has left a considerable surplus.

Additional sales for Superquinn from the scheme come from two main sources:

- Existing customers who part shop with Superquinn, and part with one of Superquinn's competitors, now do more or all of their shopping in Superquinn's stores. Superquinn have evidence of this, particularly where customers bought fresh foods from them but perhaps purchased their dry goods from another outlet.
- The promotion attracted to Superquinn customers who previously shopped with competitors. This is the most clear area where Superquinn can demonstrate sales increases.

# Chapter 4

#### **Highlighters Limited**

In the late 1980s Superquinn became concerned about the standards of the various demonstration companies operating in its stores. Customers saw product demonstrators in Superquinn as Superquinn staff, whereas this was frequently not the case. A number of demonstration companies operated in the Dublin area and their standards of hygiene, food preparation, personal grooming, cleanliness, presentation of the product being demonstrated, and attitude to customers varied enormously. Indeed in certain instances the standards were so poor that Superquinn had to ask the demonstrator to cease demonstrating and leave immediately. These demonstrations, having been organised by suppliers, were proving more and more difficult to control.

Therefore Superquinn set up a new company called 'Highlighters Limited' which would compete by employing first class demonstrators for use, not only in Superquinn stores, but in any other retail or non-retail environment where products could be demonstrated. Considerable research was conduited and the company commenced trading in November 1990. The research started with the various ways that products could and should be demonstrated, the design of a new moveable and collapsible stand which would be long-lasting, retain its good appearance for a considerable period of time and also be capable of supporting cooking equipment such as electric skillets or microwaves.

Highlighters in its first accounts for the period to end of April 1992, ran a revenue deficit which was budgeted for. In its first full year of trading the company was targeted to break even and the accounts to the year ended April 1992 showed a small deficit of £5,000 approximately. Highlighters is budgeted to go into profit in the year ended April 1993, and so far is on target.

The benefit of Highlighters in Superquinn stores is a much more professional attitude towards the customer, creating a situation where each group wins.

- 1 The customer wins because he/she has a better understanding of the product being demonstrated and is very happy with the methods employed, the stands and the standards of courtesy.
- 2 Superquinn benefits by having a much higher standard of demonstrations on its shop floor.
- 3 In the case of suppliers, although Highlighters is more expensive, the results to date have justified this premium price.

Although not a loyalty scheme in itself, Highlighters is one of the significant initiatives that Superquinn have undertaken to improve customer loyalty through the establishment of improved retail practices.

## **Case Studies - Tesco**

#### 4.7 Tesco - Customer First

'our drive to ensure that customer service becomes a company way of life'

#### What the case study covers

This case study describes the 'Customer First' initiative, carried out in 1987 and to be repeated in 1993. Customer First is in essence a customer service initiative, rather than a loyalty scheme, but it demonstrates an approach to loyalty which is about getting the fundamentals right first.

#### Market background

Tesco is one of the two leading national players in the highly competitive UK market. However, whilst it is competitive, the UK grocery market has not yet seen a major long term customer loyalty scheme.

Tesco has a turnover (1992) of £7.1bn (excluding VAT).

As of April 1992, Tesco had some 380 stores with approximately 10.5m sq feet of space.

#### Tesco's approach to loyalty

Tesco's approach to customer loyalty has, to date, been dominated by a commitment from the top of the organisation to make the underlying trading offer highly competitive. Tesco has not invested in a major focused loyalty scheme although a variety of promotions and schemes continue to be run as part of the overall trading strategy eg 'Computers for Schools' in 1992.

In the early-mid 1980's, Tesco invested heavily in improving the quality of its product range and the store environment. However, by late 1986 management perceived a strong imperative, confirmed by market research, to uplift the overall quality of customer service, to match the standards of the product range and store environment and thereby to reinforce Tesco's competitiveness in the market.

Tesco is a large organisation and, it was clear that to significantly uplift the standard of customer service across the company in a short time

# Chapter 4

## **Case Studies - Tesco**

would require a major initiative. This initiative was 'Customer First' – an all round customer service improvement programme that took place between May and September 1987.

'Customer First' is consistent with the overall Tesco approach to customer loyalty described above, representing a strong belief in excellent service as a fundamental for a successful business that retains its customers.

There was a strong feeling that 'Customer First' had 'must do' status and one result was that a detailed business case identifying projected incremental benefits was not constructed – the initiative had to be done.

# The principles behind 'Customer First'

The main principles of 'Customer First' are described below.

# • Customer service is a variable controllable by management –

Tesco's experience is that stores with the best general management tend to have the highest customer service standards. Therefore, customer service is stressed as a key responsibility of store management, in terms of training and motivation.

• **Tight control** – in an organisation the size of Tesco it was believed that

there had to be very tight control over how the customer was served – with relatively little discretion delegated to staff.

- Excellent customer service is for **internal as well as external customers.** 'Customer First' explicitly recognised the importance of excellent customer service within the organisation as an important part of establishing a service culture.
- Scale and Durability 'Customer First' was a company-wide initiative that involved communicating with, and mobilising, 50,000+ staff. Therefore, 'Customer First' had to be conceived, organised and communicated as a major milestone programme with a long term perspective, rather than as a 'flavour of the month'.
- Commitment from the top all communication stressed that 'Customer First' had total board level commitment. The launch of the initiative stressed that customer service could not just be tackled as training in 'smiles and hellos', to be left to the discretion of particular stores and regions.
- Fairness if customer service was to be measured, it was vital that the measures were fair and that the means of measurement were consistent and well executed, otherwise the scheme would fall into dispute.

## **Case Studies - Tesco**

# The mechanics of 'Customer First'

The scheme was set up as a company-wide initiative, involving nearly all staff. In addition to covering external service providers (counter staff, checkout operators etc), it also included the internal service to the stores by distribution, buying, personnel and stock management.

The exercise was finite but with the intention of regular repitition as part of a long term programme.

An excellent standard of service was defined, communicated and staff were trained rigorously in its execution.

Communication was by various means:

- a video featuring all the board members
- roadshows
- training/briefing materials

Training was conducted at store level and organised by the store manager.

There then followed monitoring of customer performance during May-September 1987.

In the stores this was done using mystery shoppers (drawn from senior Tesco staff) who assessed stores, at four weekly intervals, on specific attributes in the following categories:

- handling of customer complaints
- counter service, eg at the delicatessen
- requests for product location
- checkout service
- general store aspects, eg trolley availability

A maximum score of 300 points could be achieved (see overleaf for criteria and weighting of points used by the mystery shoppers).

The results of each visit were fed back to the store manager.

A national league table was published during and at the end of the campaign.

Prizes were on offer for the highest performing stores at the end of the initiative, although it was kudos (or the absence of it) rather than the intrinsic worth of the prizes, that was the prime motivator.

# Chapter 4

## **Case Studies - Tesco**

#### **Success Measurement**

#### There were three main success measures:

measure	mechanic	comment	
Mystery shopper ratings	As described above		
Tracking of customer attributes	Customer ratings measuring various key dimensions of service on a scale	These measures identify changes in perceived service but in themselves do not identify profit benefits	
Overall loyalty figures	Based on the percentage of a person's grocery shopping being conducted through Tesco, with shoppers as a result being categorised as either primary, secondary or tertiary shoppers	These figures are influenced by a wide range of factors	

Points to note about the measurement of success are:

- there was no attempt to measure success in profit terms; the total costs of the scheme were not estimated;
- no success measures were set beforehand, success was judged qualitatively after the event;
- particularly with the overall customer loyalty figures for Tesco, it is impossible genuinely to isolate the specific gains attributable to the 'Customer First' initiative;
- the mystery shopper exercise was not run in competitors' stores to gain benchmark comparisons.

#### Mystery shopper scores

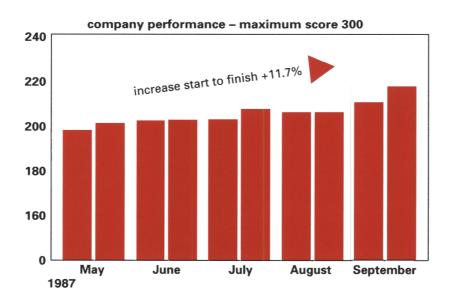
There was a 11.7% improvement in the mystery shopper ratings over the duration of the initiative from 197 points to 220 points.

The maximum points score was 300, so this represented an improvement as a percentage of the maximum possible from 66% to 73%.

No success criteria or targets were defined beforehand, although a retrospective judgement was made that this improvement represented a successful outcome.

## **Case Studies - Tesco**

#### **Tesco 'Customer First' initiative**



#### **Overall loyalty to Tesco**

Overall Tesco shopper loyalty figures for 1987 and 1989 are shown opposite.

The main points are:

- overall loyalty increased by 10% between 1987 and 1989;
- the increase in loyalty was primarily driven by Tesco's better customers. The loyalty of primary shoppers increased by 10 percentage points, whilst the loyalty of secondary shoppers was static and for tertiary shoppers it fell.

However, during this period the proportion of Tesco shoppers who were 'primary' increased significantly (by 6%) suggesting that a migration of secondary to primary, and tertiary to secondary shoppers had occurred.

Clearly these overall loyalty figures are influenced by many factors, including the 'Customer First' initiative. However, there is a strong belief held by Tesco that 'Customer First' was a strong causal factor. The increase in loyalty in 1987-1989 was greater than that of 1985-1987 and its timing fitted well with that of the initiative.

## **Case Studies - Tesco**

#### **Customer service attributes**

The tracking of customer perceptions of Tesco's performance on key customer service attributes showed a near uniform increase comparing before and after 'Customer First'.

Again, the figures do not prove direct causality and again no success mea-

sures or targets were defined beforehand. However, the company believes that these improvements represent success.

Importantly, there was apparently no lapse on these figures after the end of the initiative.

### **Loyalty of Tesco shopper types**

shopper type	1987	1989
All	100	110
Primary	240	250
Secondary	73	73
Tertiary	20	10

**Indexed: total loyalty 1987 = 100** 

## **Proportion of shoppers**

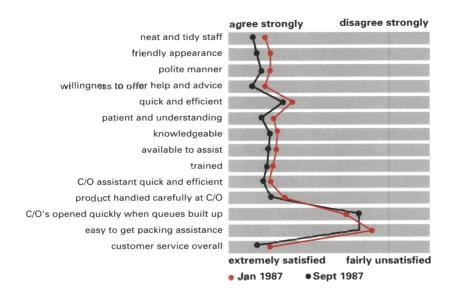
shopper type	1987	% total	1989	% total
Primary	100	33.0	106	35.0
Secondary	67	22.1	70	23.1
Tertiary	136	44.9	127	41.9

**Indexed: proportion primary shoppers 1987 = 100** 

Source: AGB TCA Data

## **Case Studies – Tesco**

#### **Customer service ratings**



#### **Looking forward**

Tesco will be repeating 'Customer First' in the near future, as part of the original plan for a rolling programme of finite initiatives. The principles will stay the same but the mechanics will vary and, in particular, new, higher levels of service will be defined to reflect current competitive and customer pressures.

#### Summary of main insights from Tesco

The importance of first getting the fundamentals right, such as customer service.

The commitment from the top to mobilise and drive through a change programme in such a large organisation.

The importance of tangible measures for key dimensions such as customer service.

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### 4.8 Ukrop's - 'Valued Customer Programme'

#### What the case study covers

This case study examines Ukrop's 'valued customer programme', which is a relatively longstanding card based loyalty scheme. The card is not yet a payment card, rather it is a benefit card, entitling the holder to point of sale discounts and other offers. An important lesson is about how such a scheme, set up as a defensible long term initiative, can develop over time as experience and technology permit.

#### Market background

Ukrop's is a strong, regional, familyoperated supermarket chain in the Richmond, Virginia area. Ukrop's was started in 1937 and currently has 22 stores with sales of around £390m, which is 33% of the market in the Richmond area. Stores range from 18,000 to 58,000 square feet.

Ukrop's is positioned at the top end of the market, offering a variety of products and services, yet the chain is committed to providing value for money to its customers.

Ukrop's feels that there is limited growth potential in Richmond but has no plans to expand out of that geographic area.

#### Ukrop's approach to customer loyalty

Ukrop's culture is based on building relationships with its customers, its employees, the community and its manufacturers.

The Ukrop's Valued Customer (UVC) programme is part of this relationship-orientated approach.

Ukrop's was one of the first supermarkets in the US and the first in Richmond to put a frequent shopper programme in place (five years ago). Ukrop's considered it a natural extension of its service offering and identity.

In addition to building relationships, the objectives of the UVC programme were:

- to provide a vehicle for ongoing communication with customers
- to increase sales, profitably
- to ease the customer's burden of redeeming coupons
- to differentiate Ukrop's from the competition



#### **Elements of the UVC programme**

Although the Valued Customer Programme has evolved over the last five years, the basic elements have remained the same:

#### • Enrol the customer

This starts with the customer filling out an application form with name, address, telephone number and optional demographic information. The customer is provided with a disclosure statement notifying them that their purchase data may be used by Citicorp, Ukrop's data processing service. Ukrop's assigns an identification number (the customer's phone number) and sends out a scannable card and welcome letter.

# • Communicate with the customer

Each month, Ukrop's mails the UVC participants a newsletter which includes new products or service offerings and a list of the different items available for electronic coupon discounts. The list shows the discounted price and the savings by item.

#### Select items and manufacturers for inclusion in the UVC programme

Ukrop's selects 50 or 60 items to be included in the programme, with each manufacturer's product being granted exclusivity in its category. Grocery, frozen foods and dairy provide the bulk of the UVC items. The manufacturer pays a fee to participate

(\$2,300) and a certain amount towards the face value of the electronic coupon. Besides being included in the monthly newsletter, each product is displayed at the front of the store for the entire month. Manufacturer fees cover the costs of running the programme.

# • Offer product discounts through electronic coupons

The customer presents his/her card at the check-out and the associate scans it for the identity number, or the customer tells the clerk his/her telephone number, to be eligible for the UVC discounts. At this point, the POS system does not verify that the customer number is valid because of some previous system performance issues.

After the card is scanned (or the ID number keyed in), the coupon software discounts all electronic coupon items to reflect the savings. The register tape shows the regular price and the coupon savings, as well as total savings for the receipt.

# • Conduct target marketing and mailing (on a limited basis)

The data has been used in a limited but increasing way for target mailings. Ukrop's approach to target marketing will be discussed in more detail later. Because Citicorp owned and stored the data on their own computer system, Ukrop's has had limited access to it.

# Scope and results of the UVC scheme

Currently Ukrop's mails to over 200,000 households in Richmond, which is about 50% of all homes. Ukrop's is penetrating 85% of the households in some zip codes near stores, and 23% in towns as far as 25 miles away from the nearest store.

Approximately 60% of all transactions are made with the UVC card and approximately 95% of transactions excluding express line transactions (Ukrop's have a large express line business because of their deli, cafes and prepared meals). 85% – 90% of all sales are made using a UVC card. Approximately 60% of the customers use the UVC card.

These results have been consistent since the programme's inception.

Ukrop's believes strongly that the programme is successful. However, scientifically identifying the incremental benefits has proved problematic.

Some of this difficulty is due to new store openings and special promotions, including a '50 years' promotion. Cited below are some of the growth indicators for the last five years since the programme began:

- Ukrop's started the programme with a 24% market share, currently they have 33%
- sales were \$280 million (19 stores), currently sales are \$380 million (there has been a recent decline in sales, primarily due to adverse economic conditions)
- UVC promotion item sales are 3-4% of total sales
- margins of UVC products have increased over the years
- the average basket is \$21-\$22 (they do not isolate UVC from non-UVC customer purchases); again, Ukrop's does a lot of express line/prepared foods sales and for these sales people tend not to use their cards (they are not even asked in the express line).

# Chapter 4

## Case Studies - Ukrop's

#### Information management

The UVC programme is supported by changing technology and information systems services, both internal and external.

Ukrop's initially developed the UVC programme in conjunction with Citicorp, who provided the original cost/benefit analysis to justify the programme. They paid Ukrop's for each transaction which they stored on their own computer systems as part of a database service offered to manufacturers. Citicorp would send targeted mailings of discounts of special promotions based on the manufacturer's specific selection criteria.

Ukrop's uses the Super Store Point of Sale software, licensed by Store Tec, in conjunction with Coupon Bank software, provided by Citicorp.

At the beginning of each month, Ukrop's sales directors establish the coupon values, which are then put into a Coupon Bank processor. This system then transmits them electronically to the stores. The store's Coupon Bank is also updated on a weekly basis for the weekly coupons.

At the end of each month, Ukrop's retrieves electronically the coupon

file from each store and uses it to prepare monthly bills to the manufacturers. The coupon redemption file processing capability is also a function of the Citicorp software. Ukrop's sends Citicorp the details of all store transactions on a weekly basis.

With Citicorp getting out of this market, Ukrop's is switching some of its information management, storage responsibilities and new software development to Moore Business Systems, with the eventual goal of bringing the data processing inhouse. The switch to Moore and store level data collection is in line with Ukrop's overall strategy of implementing new UNIX in-store processors in each store.

Ukrop's is also evaluating the level of information they will need to keep in relation to future target marketing efforts. Citicorp has been capturing the shopper information on the UPC level, which Ukrop's feels is too aggressive. They are now defining the future data requirements for capturing shopper information on the basis of total purchases (which can be broken down by department or product category). This will help make the databases more manageable.

#### **Competitive reactions**

The competitive reaction to Ukrop's Valued Customer Programme has varied depending on the competitor's format and market positioning.

Representative competitive reactions to the UVC card include:

- Food Lion, a very price-oriented retailer, chose to pressure manufacturers to get what they perceived to be the same deals Ukrop's was offering with its UVC product coupons. In reality, Ukrop's was taking some of the discounts out of its margins.
- ▶ The Grocery Store, another Richmond competitor, promotes with a slogan 'You do not have to be a member' to get the special pricing.
- Safeway, who have recently entered this market, started their own frequent buyer programme. Interestingly, they sent application forms to Richmond citizens. This application form had a box to check if the person was already in Ukrop's customer programme. Yet in their advertising, Safeway said they were introducing the first and the only customer programme in Richmond.

Overall, Ukrop's believes that the UVC card has been a powerful tool to bind the customer to Ukrop's and that it is hard for competitors to attack the customer relationships that have been formed.

#### **Success factors**

Ukrop's approach the implementation and on-going execution of the UVC programme with the philosophy that it must be 'Win-Win-Win' for customer, manufacturer and retailer. They feel the participants must each perceive the value of the programme in order to continue supporting it. The customer must see the savings and a reason for identifying themselves with it each time they shop. The supplier must realise incremental sales and be willing to pay to participate. The retailer must continue to see both tangible and intangible benefits. They have identified the success factors below for each participant.

#### customer success factors

- Provide perceived savings to customer
- Fit with other merchandising programmes; customer knows to show card
- Convenient way to save; no cutting of coupons
- Provide instant gratification (no accumulating points)
- Customer ID number is the telephone number, customer can get savings without card ie it is easy to participate
- · Provide customer with news and savings through the newsletter

#### manufacturer success factors

- Provide increased product sales; manufacturers pay only for product sold
- · Electronic records assure them of promotion integrity
- Display their product prominently in the front of the store
- · Grant them category exclusivity during the promotion
- · Prevent erosion of their regular prices
- Successfully promote new products

#### retailer success factors

- · Increased customer loyalty which results in increased sales
- Differentiate Ukrop's from competition
- Allow Ukrop's to communicate with their customers every month in a medium free of competition
- Is run to break even; the programme is fully funded by the manufacturer.
- Provide customer and non-customer information
- Provide Ukrop's access to better deals; manufacturers line up to participate
- Must provide the basis for a retailer to do customer target marketing

#### **Potential pitfalls**

The main pitfalls in a UVC-type scheme occur when there are one or more losers amongst customer, retailer and manufacturers, as then the incentive to participate is removed.

Additional areas of concern for Ukrop's have been:

- training both the stores and customers to participate in the programme
- the privacy issues, if not handled correctly
- adding loyalty factors for additional target marketing without incurring costs (this is one of the reasons why Ukrop's are considering using third party promotions, which are further explained below)
- limited access to purchase data if not owned internally; the data may not be timely, accurate or meaningful for analysis and target marketing
- keeping the relationships strong as the programme and roles evolve (eg Ukrop's is in the process of bringing their purchase data storage and processing in-house as well as planning the best way to categorise/store data for their future needs).

# Future role of the UVC programme

The elements of the Valued Customer Programme will remain the same but the card identity is changing and Ukrop's is planning to do more target marketing.

Ukrop's is following a focused approach to developing their target marketing strategy with the following steps:

- define marketing objectives
- segment the customer purchase transaction data
- send customers a targeted message or incentive
- measure the results
- use the results to refine and test again

Once they have a system in place to monitor performance, they will use the customer data for improved marketing and merchandising decision making.

Ukrop's have done some target mailings but plan to expand these to be more customer-specific. The marketing vehicle will primarily be the newsletter, either through customised messages or different incentives/coupons. Past marketing/mailing efforts have included:

- a questionnaire to UVC participants about Ukrop's (there was a 25% plus response rate)
- special shopping incentives for lost customers
- geographically targeted mailings (eg to counter a competitive store opening)
- sending an offer for a free prepared dinner for two to the top 100 customers
- sending a coupon for 25 cents off cereal to people with children

Ukrop's are also considering setting up promotions with third parties such as linking up with an air miles programme to accumulate Ukrop's purchases for mileage. Ukrop's could also tie into a catalogue company such as J Crew where the UVC customer accrues points to be used in this catalogue (GTE is doing it in Texas with the Spiegal catalogue).

Ukrop's also plans to put a magnetic strip on the UVC cards and to use the card for debit and cheque cashing facilities.

## **Case Studies - Vons**

# 4.9 VONS - 'Vons Clubs'

#### What the case study covers

This case study describes Vons frequent shopper programmes. A key lesson is about how the scheme has been tailored to meet the needs of each of Vons's business units and how it fits into Vons's overall approach to loyalty.

#### Market background

Vons is market leader in Southern California (including Los Angeles, San Diego and Fresno) with approximately 23-25% share. Vons is also number 2 in Las Vegas, Nevada. 1991 sales were \$5.3 billion and \$2.55 billion for the twenty four weeks ending June 14, 1992. Vons currently has 342 stores, including 18 Williams Bros stores acquired in January 1992. The company aims to open 15-20 stores per year. In addition they are aggressively remodelling existing stores.

Vons also has a liquid milk processing facility, an ice cream plant, a bakery, a delicatessen kitchen and distribution facilities for meat, grocery, produce and general merchandise. Despite the recession and the competitive Los Angeles market, Vons Companies Inc has been able to

retain and in some areas improve its market share and sales performance.

Vons geographic region is large and ethnically diverse; it is also significantly different from the nation as a whole. The region has 20 million people, representing 8% of the total US population. Projected population growth in the Vons region is three times the national average of 2.5 per cent per year. Hispanics represent more than 31% of the region's population, three times the national average, whilst the Asian population is 2.5 times the national average.

Vons strategy to meet this customer diversity, to compete in its markets and attract a broad customer base is to operate four retail business units (RBUs). The RBUs: Vons, Williams Bros, Pavillions and Tianguis offer different store formats, services and products.

The Vons RBU includes Vons Supermarkets and Vons Food and Drug Stores. They offer a wide variety of supermarket options including groceries, liquor, meat, produce and frequently include flowers and bakery. Vons Food and Drug Stores tend

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## **Case Studies - Vons**

to be larger than Vons Supermarkets and offer a broader range of health and beauty care products as well as a pharmacy.

The Williams Bros stores, located in the central coast region of California, are similar to Vons Supermarkets with a special emphasis on customer service and localised merchandising

The Pavillions RBU focuses on short life products, offering a wider range of products and services such as a gourmet coffee beans, pie shops and sushi bars (in some stores). The stores are geared to people who spend more discretionary income on food.

'Tianguis' is the Aztec word for 'The Marketplace'. These stores offer a wide selection of foods and services tailored to the Hispanic market.

Each RBU has its own marketing and merchandising programmes, including frequent buyer programmes but they utilise central buying and administrative support services.

# Vons approach to customer loyalty

The Vons frequent buyer programmes are considered important but are not the core vehicle for promotions and customer communica-

tion as is the case with Ukrop's. Vons continues to have over 20 pages of free standing inserts (FSIs) of coupons in the Los Angeles Times and local papers.

The frequent buyer programmes have been rolled out as follows:

- the Pavillions ValuePlus Club in 1990, the Vons Club and the Tianguis Club in 1991, with the Williams Bros Club to be introduced sometime in the future. Each programme had the same strategic objectives:
- to solicit new members for the club
- to increase customer usage.

Vons believes that there are four phases to its approach to loyalty and that they are in the third phase:

- 1. Customer enrolment
- 2. Communication
- 3. Relationship
- 4. Action

The mechanics of each club are similar but there are subtle differences in response to market conditions. The main elements are:

# • Enrol the customer into the club

Enrolment starts with a customer filling out an application form detailing personal information such as name,

## **Case Studies - Vons**

address etc. and optional demographic information. The Tianguis application does not include demographic information. Membership is free.

The customer receives his/her membership card with a bar code and a welcome letter. The card serves multiple purposes:

- it proves club membership and eligibility for club electronic coupon discounts
- it can be used for cheque authorisation
- it can be used for electronic funds transfer. Vons is planning to expand the card to be a debit card.

# • Communicate with the customer

Each month, Vons generates a newsletter of items being discounted and the savings per item. The newsletters are available in each store. They are currently not being mailed to the customer because of the postage expense, but originally they were mailed. Vons does target mailings of discount coupons to groups of people matching specific demographic profiles or having specific purchasing history.

# • Select items and manufacturers for inclusion in the club

The number of items and manufacturers have expanded over the last year to 400-500 items a month from approximately 200 manufacturers. More manufacturers participate in the last months of the year. The items are drawn from across all departments with the bulk being grocery, frozen foods, health and beauty aids, general merchandise and deli. There is no product category exclusivity unless the vendor pays extra for it.

The vendor does not pay a fee to participate but pays an \$.08 handling fee for each electronic coupon redeemed, plus the face value of the coupon.

# Club item display and identification

Because of the high number of items included in the programme, they are not segregated in the store. They are identified by special shelf strips and talkers.

Vons is testing the VideOcart technology in one or two stores. This is a computer screen on a shopping cart which displays promotional items, both club and non-club, for the particular aisle that the shopper is walking down. The cart also offers a map of the store, recipes and other Vons promotions.

## **Case Studies - Vons**

#### • Electronic coupon redemption

The customer must present and swipe his/her card to receive the club discounts. After the card is validated, the coupon software discounts all electronic coupon items to reflect the savings. If the card is scanned at the beginning of the shopping transaction, the Point of Sale screen will display each item deduction after the sale.

The register tape shows both the regular price and coupon savings by items as well as a total savings for that receipt for club discounts and other manufacturer and Vons promotions.

#### Information management

Vons, like Ukrop's, is in the process of changing and defining its technology, information systems service and data requirements following Citicorp's exit from this market.

Vons uses the Store Tec Point of Sales software and the Coupon Bank software. Support and ongoing enhancements to this software have been brought in-house.

Vons provided Citicorp with weekly customer purchase data at the UPC level. The volume of Vons transactions was overwhelming; it routinely took 25 hours to process this data and placed heavy data storage requirements on Citicorp.

Vons is currently evaluating bringing the data management in-house. It is also identifying its future data requirements, including the appropriate level of data to be stored and a reasonable record redemption length. They will probably maintain transactions at a product category level instead of at UPC level and will not keep extended history transactions. Vons is encouraging its manufacturers to think ahead in their movement/promotion tracking expectations, so they can accumulate the correct information.

#### Success measurements

Vons feels the Club programmes are successful and are meeting their objectives based on the following measures and indicators:

# • Continued growth of applications

New applicants average 7,000-15,000 a week.

# • Increased manufacturer support

The programme started with 90 manufacturers and 90 items in the newsletter; currently there are 200 manufacturers participating in the programme with 400-500 items included each month. Vons is trying to prove the value of the programme to manufacturers so they will give Vons incremental promotion money

### The Case Studies - Vons

for the clubs, and not take the money from other advertising programmes with Vons.

Manufacturers are expressing increasing interest in partnerships in joint targeted marketing/mailing efforts and even customer database sharing.

25%-40% of manufacturers participate in Vons Clubs.

#### Increasing club sales

Club sales are currently 35% of total dollar sales; the goal is 50%.

Club sales currently represent 25-30% of customer transactions.

35-40% of ad item sales are from the club card.

The average shopping basket is \$16; for club members the average is twice that at \$32.

#### • High redemption rates

Redemption rates for club electronic coupon items are double or triple that of FSI (free standing insert) coupons.

#### • Higher face value of the coupons

The value of the coupon is on average 75% more than the programme introduction. However, they are still lower than FSIs.

#### Brand switching

Based on customer exit interviews, Vons thinks customers make unplanned purchases as a result of Vons Club offers and could be encouraged to switch brands if the perceived value is high enough.

#### Minimal investment

Vons has been able to increase its club membership without spending extra money. People learn about the programme through newspaper articles, displays and word of mouth.

#### Pitfalls and competitor response

At this point there has been limited effort by Vons competitors to set up their own clubs to retaliate. Some competitors have used the slogan 'you don't have to be a member' to get promotional pricing. Vons is aware that Safeway's Eastern stores have a strategic customer programme with quantitative objectives, but they have not seen this in the Western Californian stores.

Vons did not identify any real pitfalls to setting up the club but they felt that they have learned some lessons.

Vons would have invested more money in the programme initially if they had realised how successful it was going to be.

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## **Case Studies - Vons**

They have some concerns about stopping the mailings and wish they had continued them. They had more customer response to stopping them than they had expected.

Vons feels that there is some customer confusion about the card's identity because it is both a cheque cashing card and a club membership card. Customers think they have to write cheques to get the discounts.

Vons has a greater appreciation of their computer systems and data requirements after working with Citicorp. They might have developed the applications and stored the data in-house from the outset if they had understood this better.

#### **Future marketing direction**

As Vons determines it's data requirements during the next year, it will do more target marketing and relationship building with customers and manufacturers.

Vons's marketing approach up to now has not been part of a structured plan. Specific products have been selected, often at a manufacturer's request, and coupons have been sent to those club members with the appropriate demographics or purchasing behaviour, and the sales results have been subsequently analysed. If effective Vons will repeat the process, but has not refined or retested less successful marketing efforts.

Because Vons will probably be keeping data at the category level, it is encouraging manufacturers to plan ahead for specific item/UPC promotions. They hope to identify the item in the POS and track its movement for the month prior to being included in the club newsletter, the promotional month and the month following the promotion.

Vons has identified several target marketing and direct mailing approaches it plans to build on and in some cases, initiate for the first time, eg:

- track specific customer behaviour and target new, lost, active and inactive customers
- use for new item introductions; Vons has done this and feels they have achieved instant results
- offer discounts to upgrade/influence purchasing behaviour such as offering coupons for coffee beans to people who buy coffee, or freshly squeezed orange juice coupons to customers who drink orange juice.

## **The Case Studies - Vons**

The role of the clubs will remain fundamentally the same in the stores. However, Vons will probably direct more promotional energy and money into club programmes and target marketing to club members.

Vons will continue its third party promotions such as offering discounts to Disneyland. They will also be open to establishing third party point accumulation promotions for its club members, possibly with redemption through a catalogue company. Vons are wary of setting up an air miles programme: they have researched this and felt that there was not enough incremental gain. Setting up these promotions will depend on

Vons having the technology and programming skills to support them.

Vons is actively encouraging manufacturers to participate in club promotions, without withdrawing other promotional money. They are trying to increase the value of the individual coupons to be comparable with that of newspaper coupons.

Vons has also been receptive to creating partnerships with manufacturers for joint marketing and mailings, but will not share their database with any manufacturers.

Vons is also planning to expand the card to be a debit card.

### 4.10 Taylor Nelson

- AGB Superpanel
- The UK Market

#### What this case study covers

This case study uses Taylor Nelson AGB Superpanel data to quantify and characterise customer loyalty patterns for the main UK grocery chains. This provides a different perspective to the individual nature of the other case studies.

The data is obviously UK-specific, therefore the same patterns will not necessarily be replicated in other markets. However, the data does define a benchmark to be looked for in other markets.

### What is Taylor Nelson AGB Superpanel data?

Taylor Nelson AGB data is a record of the grocery expenditure of 8,500 representative UK households. The data used in this case study relates to customers' total in-store expenditure, based on till roll receipts, for the 12 weeks ending 5 October 1992. The data records how each panel member allocated their grocery spend by store-chain in the twelve week period.

Further demographic data and product category data are included. (It is important to note that the data does not examine key factors such as the extent to which customers are superstore shoppers or convenience shoppers and their overall choice of stores within a defined drive time).

The analysis here concentrates on loyalty in the two leading multiples (J. Sainsbury and Tesco) and the leading discount chain (Kwik Save). This serves to simplify the data presented whilst giving an insight into differences between types of competitor.

By store-chain, the case study segments customers according to the proportion of their spend with that store. The definitions used are:

80% - 100% share = High loyal

50% - 79% share = Medium loyal

sub 50% share = Low or non-loyal

The data reveals the following key points about loyal and non-loyal shoppers for the three chains.

#### Overview of split between loyal and non-loyal shoppers by store chain

The diagram below shows that:

- for J Sainsbury and Tesco around 70% of their customers are non-loyal
- the loyal 30%, however, account for nearly two thirds of expenditure, with the 10% or so of high loyals accounting for around 25% of expenditure. Loyal shoppers are, in fact, individually worth about 5 times as much as non-loyal ones
- overall Tesco and J Sainsbury have a market share among their customers of about a third, implying a 'leakage' rate of two thirds

- all round, Tesco and J Sainsbury have a very similar loyalty profile. However, Kwik Save evidences some important differences, reflecting its different role in the market, competing primarily on its discounts on branded products rather than on, say, its fresh food range and quality
- Kwik Save has relatively more nonloyal shoppers than J Sainsbury and Tesco. Indeed, only 3% of Kwik Save shoppers are high loyal. Most Kwik Save shoppers use other chains for a major part of their total grocery requirements, eg fresh food. Furthermore, nearly two thirds of Kwik Save turnover comes from nonloyals.

### Summary of key figures

	store-chain's overall mar- ket share among its customers %	store chain's loyalty profile: percentage split of total 'customer: trips: spend' by loyalty segment				
		low-loyal	medium- loyal	high-loyal		
J Sainsbury	33	69 49 35	20 35 41	11 16 24		
Tesco	31	72 49 35	18 35 39	10 16 26		
Kwik Save	20	88 78 66	10 19 27	3 7		

Explanation of table: for Kwik Save, for example, 'low-loyal' customers

- were 88% of all customers
- made 78% of all shopping trips
- represented 66% of total sales

key dimension	differences between loyal and non-loyal shopper
Overall grocery spend of individual shoppers	There is relatively little difference between loyal and non-loyal shoppers – both are roughly of equal importance to the market (although high-loyals in fact spend a little less than medium or low-loyals)
Frequency of shopping	Non-loyal shoppers make around three times more trips per week than high-loyals, eg for J Sainsbury non-loyals make 6.08 trips per week compared to 1.84 trips per week for loyals
Spend per shopping trip	High-loyals spend around twice as much per trip as medium-loyals and around three times as much as low-loyals, eg for Tesco average spend per trip is £24.10, £10.95 and £7.95 respectively for high, medium and low
Demographics	High-loyals are proportionally biased towards the 16-27 and 35-44 <b>ag</b> e groups, larger households, households where the female is working full time and to the C2 social class
Product category expenditure	Loyalty tends to fall away less for categories such as detergents and wrapped bread than for toiletries, fresh meats and vegetables – reflecting presumably both competition from specialist retailers and the need to shop more frequently for fresh food

# Summary of differences between loyal and non-loyal customers across store chains

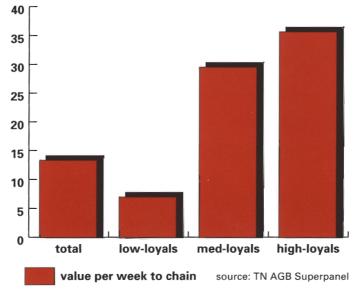
The table above highlights key findings about the shopping patterns of loyal and non-loyal shoppers for a **number of** key dimensions.

The picture generated is fairly consistent across the three chains – loyal and non loyals spend about the same

overall but for loyals the spend is in the form of larger purchases on fewer occasions, whilst non-loyals spend less per trip but make more of them.

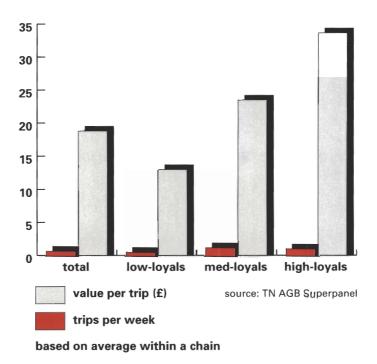
The charts overleaf highlight the differences between loyals and non-loyals in more detail.

## It takes 5 non-loyals to equal one loyal shopper

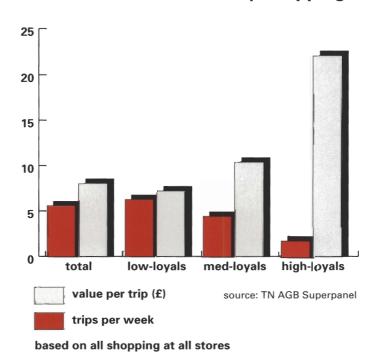




The tendency for fewer, larger trips is especially strong within the chain

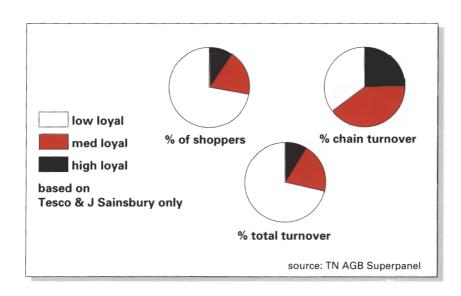


High-loyals spend more per trip, and make fewer trips. They seem to like convenient, one-stop shopping

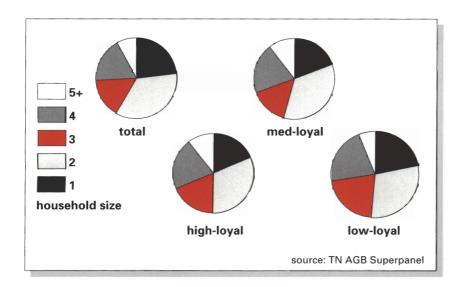




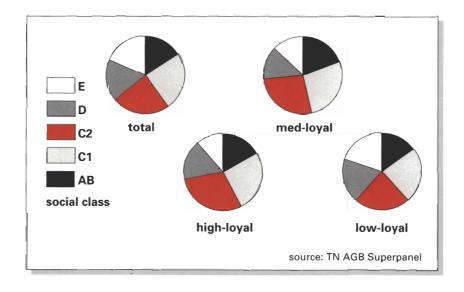
A small group of loyal shoppers accounts for most of a chain's turnover



### Loyal shoppers are larger households



# Loyal shoppers tend to be upscale



# Chapter 4

# The Case Studies - Taylor Nelson AGB

#### Implications of TN AGB data

Grocery shopping is arguably relatively promiscuous. For Tesco and Sainsbury, around 70% of their shoppers are less than 50% loyal and they only have a 30% market share among their own customers. On the face of it there is a major opportunity to upgrade the loyalty rate of this 70%, and in particular of the medium-loyals. This is especially so, given that for Sainsbury and Tesco loyal and non-loyal shoppers spend on average about the same on groceries. It is not as though loyal shoppers are more important to the total market.

However, the figures reveal that loyal and non-loyal shoppers have radically different shopping patterns (loyals make significantly fewer trips and spend much more per trip). This suggests that in seeking to upgrade the loyalty of customers it is important to be aware that:

- for many customers this implies changing their total shopping behaviour
- for most of the rest, it means switching their choice of usual store.

Both of these tasks are potentially difficult, requiring powerful incentives. This emphasises the underlying importance of winning customers in the first instance, for example when a

change in their demographic status triggers a change in their shopping protocol.

(However, it should be noted that the TN AGB data as it stands does not explain the extent to which choice of store determines shopping behaviour, rather than the other way around, in which case customers might quickly modify their behaviour given a more attractive offer).

The overall implications for the design of loyalty programmes include:

- the importance of starting with an incisive segmentation of possible target audiences that identifies their current shopping behaviour, the driving forces behind it, and their attractiveness to the store-chain
- the importance of then developing the scheme so that it is powerful and relevant enough to change the behaviour of target customers in the desired way
- it is also important to have thought through what the desired new behaviour should be. For example the data suggests that for potential loyals it might be better to aim to maximise the size of the shopping basket rather than the number of trips made.

# **Comparative Findings**

# Chapter





#### 5.1 Introduction

This chapter structures the case study findings to respond to the key questions posed in Chapter 1.4:

- 5.2 What is 'best practice' in customer loyalty in grocery?
- 5.3 What are the success factors and pitfalls of focused loyalty schemes?
- 5.4 Will it be a competitive necessity in the 90s for grocery retailers to have focused loyalty schemes?
- 5.5 If grocers adopt focused loyalty schemes as a core element of how they compete, where will this path lead?

# 5.2 What is 'best practice' in customer loyalty in grocery?

In this section we propose criteria for a model 'best practice' customer loyalty scheme, but first the role of customer loyalty schemes needs to be put into a broader context:

- Customer loyalty schemes are not a substitute for a competitively deficient retail strategy.
- if a retailer's core strategy is competitively weak then a customer loyalty scheme may suppress the symptoms but it is unlikely to be a cure it

may even become a 'fix' that develops into a spiralling dependency, eg Green Shield Stamps.

#### case study insight: Tesco

The Tesco case study underlined the importance of getting customer service up to a high standard of excellence as an imperative for promoting loyalty – rather than relying instead on a specific loyalty scheme to cover up for a level of service that was not sufficiently competitive.

- The most successful customer loyalty schemes are an integral part of retail strategy they are not 'bolted on'.
- we have put up a forced distinction between customer loyalty schemes and the rest of a retailer's trading strategy in order to knock it down
- the best loyalty schemes become an integral part of the retailer's proposition, eg ICA and Caprabo
- any loyalty scheme that is obviously 'bolted on' carries risks including:
- encouraging tactical shopping behaviour, which ultimately costs more to control, and
- antagonising the image of the store.

#### case study insight: Superquinn

Superquinn shows clearly that the real starting point is to make customer loyalty the central purpose of everyone in the business. This leads to a series of actions, including loyalty schemes, that are designed to bring the customer back.

- the word 'scheme' is itself not helpful. It implies something which is inessential to the operation of the business; tactical and short term rather than core and long term. Indeed, some of the case studies we looked at cannot really be classified as schemes, they are more about an ongoing approach.
- Customer loyalty schemes have to be seen in an ever-changing competitive context; there is no 'holy grail' of customer loyalty that can be identified once-andfor-all.
- customer loyalty is fundamental to how players compete with each other. As competition is dynamic with players constantly seeking out new advantages, it follows that the pursuit of customer loyalty is equally dynamic. There is not going to be a neat static answer as to what works best.

- competition and the nature of the market vary by place and time. An excellent loyalty scheme in one context could fail elsewhere.
- for example, the case studies have shown how card based schemes have worked well for ICA and Caprabo. This does not mean that card based schemes will work in all markets.
- The essential first step in approaching customer loyalty is to understand the dynamics of customer behaviour.
- for example, in the UK, Taylor Nelson AGB data shows that 'loyal' and 'non-loyal' shoppers have radically different shopping patterns. Therefore any initiative to upgrade customer loyalty must take into account that:
- for many customers this will mean changing their total shopping behaviour
- some customers are more attractive than others
- for most of the rest it means switching their choice of usual store

# 0

### **Comparative Findings**

 furthermore, it is important to understand the economic links between loyalty and profitability, and for the performance measurement and decision making processes of the business to be loyalty-oriented.

Based on the case studies, and given the points above, we believe that a model 'best practice' customer loyalty scheme would meet **IDEAL** criteria:

#### Individual

based on the needs of each customer as an individual, eg Superquinn

#### Defensible

not easily negated by competitor activity, eg ICA

#### **Emotive**

building a sense of belonging and affinity between retailer and customer, eg Albert Heijn, Caprabo

#### **Added Value**

enabling the retailer to better meet customer needs, growing the market rather than sharing it out differently, eg Ukrops

#### **Long Term**

offering a sustained stream of benefits for customer and retailer as a core part of the retailer's strategy, eg Vons.

Looking at each of these criteria in turn:

#### 5.2.1 Individual

The logic of wishing to get ever closer to customers' needs inevitably leads to the understanding of, and interaction with, customers as individuals rather than as market segments, or as the generators of anonymous transactions or shopper visits. (It is an irony of grocery retailing that an industry that is generally very close to its customers does not generally know them as individuals).

Information technology will be the enabling factor in this 'mass individualisation' so that grocers with millions of customers can communicate with them at an individual level.

The combination of scanning data and previously collected segmentation data is of enormous potential power:

- in understanding individual needs
- in understanding whose needs you meet best
- anticipating how needs change
- in understanding where you could meet needs but are not currently doing so.

If you know these things then you can:

- find more of those people you service best
- meet unfilled needs of existing customers
- change your service to a customer as their needs change
- based on the above, build a 1-1 relationship with each customer.

What will happen more and more is a case of 'back to the future' with the personal service of the small grocer being combined increasingly with the scale advantages of the supermarket and superstore.

However, the management challenge is to pace the rate of change so that the benefits of IT investment in 'mass individualisation' stay ahead of the costs.

There is a real danger of the costs of individualisation exceeding the benefits:

- data volumes can be very high, making it important to select the appropriate level of aggregation and data archiving
- system costs can be substantial
- direct mail costs are high in relation to the margins on products sold as a result.

In meeting this challenge, some of the best placed retailers are those who have relationships established with individual customers through cards or clubs (eg ICA, Vons) and whilst relatively little use of individual data is made currently, the platform exists to do much more once the economics are judged to be right.

Superquinn has shown that an individual-orientated approach does not have to be IT-led. The ethos of Superguinn makes it a responsibility of all staff to relate to customers as individuals.

#### 5.2.2 Defensible

Competition by loyalty scheme can easily lead to an 'arms race' as competitors strive to achieve the best offer. Therefore the 'ideal' loyalty scheme must be defensible from attack.

Many loyalty schemes are not easily defensible and often lead to a spiral whereby each competitor in turn develops a bigger and better offer, eg airlines frequent flyer programmes and petrol companies' coupon schemes.

If a market moves to competing largely by loyalty schemes, this can damage the value standard in the market.

It is easy to see how individuals become loyal to loyalty schemes rather than to retailers. Customers are not stupid. If differences in value for money are driven by who has the best current loyalty offer then when the best offer changes, so will customers' loyalty. Customers start to play the game, especially if they have a range of competitors to choose from – each of minimum acceptable quality.

However, cards and membership clubs in particular have been proven in some markets to be defensible for the early entrants who produce an attractive offer. The typical customer might enter into one, or at most two, meaningful card or membership based relationships for their grocery requirements.

The defensibility of such schemes derives from:

- the long term nature of the customer retailer relationship
- the flow of anticipated benefits over time
- the ongoing opportunity to communicate with the customer
- the strong emotive ties of club membership
- the often high costs of establishing a rival offer

- the customer's reluctance to enter into more than one meaningful relationship in a market area
- the symbolic role of a card as evidence of the customers' commitment to the retailer.

The defensibility of card and membership schemes implies that it is particularly important to be the first to launch in a geographic market – as ICA and Caprabo demonstrate.

#### 5.2.3 Emotive

The ideal customer loyalty scheme creates stronger emotional or image ties between retailer and customer.

As rivalries between retailers on the physical or tangible dimensions of competition intensifies, the intangible factors become more important. Customer loyalty schemes are branding opportunities to support and to add to the overall image of the retailer.

# case study insight: Albert Heijn

By offering shares in the company as the loyalty incentive, Albert Heijn have created a double tie with the individual as customer and shareholder

Cards are important in this respect as they symbolise the customer retailer relationship.

#### case study insight: Caprabo

Research has shown that for many Caprabo card holders it is their first card and they are pleased with a scheme which 'gives me my own card'

There is however a danger, as discussed previously, that competition by loyalty scheme detracts from the importance of image and trust and therefore biases customer decisions towards tactical factors.

#### 5.2.4 Added Value

A common theme from the case studies was the view that, for sustained success, loyalty schemes most create win:win situations for customer and retailer.

Customer loyalty schemes must therefore create value if they are to be sustainable. Value can be created by:

customer needs being met more closely

- the price and value of benefits to the customer being greater than the costs to the retailer
- market growth being generated.

Many schemes involve manufacturer participation, in which case the requirement is for win:win:win situations. Of course, if a competing retailer 'loses', the situation is potentially unstable in that the resulting competitive interaction could easily become win:lose:lose between customers and competitive retailers.

Loyalty schemes can easily become 'promiscuity schemes' if they simply switch consumer decisions based on the attractiveness of an ephemeral offer, thereby sharing the market out in a different way rather than growing it.

Many so-called loyalty initiatives, including many couponings, are encouraging promiscuity and tactical shopping behaviour rather than genuine customer loyalty.

'Loyalty scheme' is often a '90s euphemism for what used to be called sales promotion. The same pitfalls apply, such as mortgaging, rather than increasing sales.

# Chapter 5

# **Comparative Findings**

Equally, a loyalty scheme can often be a disguise for price competition. As such, a loyalty scheme can be a clever way of maximising the customer impact of price cuts whilst minimising the direct competitive response.

However, we suggest that the real key is the extent to which loyalty schemes increase perceived quality rather than reduce perceived price. This is the difference between earning loyalty and buying it.

#### 5.2.5 Long term

Customer loyalty will always be a key issue which suggests that loyalty should be managed in a concerted long term manner. This has the following implications:

- in planning a scheme, a retailer needs to have thought through where it will lead:
- is it defensible from attack?
- if it is a finite scheme, will there be a lasting benefit and what is the endgame?
- long term loyalty schemes should become an integral part of how their owners compete

• the best schemes have the flexibility to grow and develop in various directions, keeping one step ahead so that the customer is always interested.

In addition, a major loyalty scheme will probably create a large on-cost for the business to carry. Obviously, the benefits have to be greater than the additional cost incurred.

# 5.3 What are the success factors and pitfalls of focused loyalty schemes?

The IDEAL model prompts a checklist of success factors which can be used to appraise or guide an individual scheme or an overall customer loyalty approach.

The checklist has two levels relating to either competitive strategy or to operational aspects.

As customer loyalty schemes are so varied, not every question is relevant to all schemes.

#### strategy level

#### operational level

#### individual

- Are 1:1 relationships with individually identified customers created?
- Are the target customers right for the business?
- Is it clear what change in shopping behaviour is required from customers?
- Is information about the customer used systematically?
- Are the needs and motivations of customers better understood?

• Are the costs of data management and of communicating with customers understood?

#### defensible

- Could competitors easily and quickly launch a better offer and negate the scheme?
- Is there a risk of getting into a competitive spiral or arms race?
- Is the scheme making up for deficiencies in overall retail competitiveness or reinforcing an already strong strategy?
- Is the scheme a better form of price competition?

- · Are the risks manageable eg
- susceptibility to fraud and error?
- any contingent liabilities built up?

#### added value

- Will the scheme grow the market or share it around differently?
- Will customer needs be better understood and served?
- Is the emphasis on quality?
- Will the scheme be win: win for customer and retailer?
- Is the scheme an integral part of the overall retail strategy?
- Are the economic links between increased customer loyalty and profitability understood and measured?
- Will the benefits outweigh the costs, eg of data management and mailing?
- Will the customer understand the scheme?
- Will the perceived incentive be motivating to the customer in terms of:
- time (eg speed of gratification)?
- quality and quantity of benefits?

#### strategy level

#### operational level

#### emotive

- Will the scheme improve the affinity between customer and retailer in a lasting way?
- Does the scheme fit with the image of the retailer?
- Does the scheme prompt commitment from the customer?
- Will the scheme avoid the promotion of tactical shopping?

# • Are all staff aware of the scheme and committed to making it successful?

#### long term

- Are the long term implications thought through?
- Is the scheme flexible and capable of development to maintain customer interest over time?
- For a finite scheme, will there be a lasting benefit and is the endgame thought out?
- Is customer loyalty genuinely the long term focal point of the business?
- Are the systems and the employee appraisal processes designed accordingly?

• Are there clear measures of success and clear success criteria?

# 5.4 Will it be a competitive necessity in the 90s for grocery retailers to have focused loyalty schemes?

At one level the answer is 'no' in the sense that a loyalty scheme is not essential to a grocery business in the same way that location, product range, price, customer service, etc evidently are.

However, 'no' is **only** a partial answer – loyalty schemes, **pr**ima facie, offer advatages for competative gain. The remaining part of the answer is therefore best considered in the context of the question below.

# 5.5 If grocers adopt focused loyalty schemes as a core element of how they compete, where will this path lead?

The one certainty about a focused loyalty scheme is that it will add an on-cost to the business. Everything else depends on competition and the quality of execution.

If a market shifts strongly to competition by loyalty scheme, a highly competitive situation ensues in which uncertainty surrounds the potential winners and losers. In such an environment, the best way to discover

'where will this lead?' is to firstly define the possible competitive outcomes, and then to consider the conditions which could bring each about. Broadly there are three possible outcomes:

- all players win
- all players lose
- mix of winners and losers.

The table below looks at the conditions which could bring each scenario about if a market moves significantly to 'competition by loyalty scheme'.

#### Where might competition by loyalty scheme lead?

#### conditions that could bring scenario about

outcome

#### all players lose

- Loyalty schemes are not defensible
- Competitive spiral develops
- Customers become very tactical
- Players commit to major costs without thinking through the end-game
- Customers' attention is distracted from fundamentals such as service and range

# mix of winners and losers

- Early entrants launch a highly defensible scheme
- Followers do not react, are slow to react or react weakly
- Early entrants launch a scheme that fails and that is not followed

#### all players win

- Schemes linked to overall strategies of players
- Costs of schemes are not excessive
- Schemes add value for customers and meet IDEAL criteria
- Schemes are not just price wars in disguise (or if they are, they act to limit the scope of the war)
- Customer loyalty in the market reinforced rather than destabilised

# probability of outcome

High

High

Low

The chart shows that it can be potentially damaging for a grocery market to move to competing by loyalty schemes – a possible outcome is a 'negative sum game', in which all the players lose.

The probabilities assigned to each outcome above are obviously subjective. They reflect our view that loyalty schemes are a risky road for a market to go down, largely because they can be expensive and are often easy to imitate.

However, there is a strong chance of there being one or two net-winners. This means that it is quite likely that many grocery markets will move to competition by loyalty scheme in the 90s, at least in part, as someone seeks to preempt a winning position. In this respect, the 'first-in' has the best chance.

The implications for individual grocery retailers are therefore:

#### either

strike hard and early to create a defensible platform

#### or

prepare contingency plans now to counteract someone else's preemptive strike

#### or

adopt a stealth approach by aiming to

build up a loyalty scheme without competitors noticing its impact, or without being so provocative as to trigger a major competitive response

#### and

in any event, it is important to meet **IDEAL** criteria, or to deviate from **IDEAL** criteria only for well-thoughtthrough reasons. Regardless of what happens with loyalty schemes, we expect grocery marketing to have an increasing emphasis on the individual.

Overall, we believe that the advent of customer loyalty schemes presents grocery markets with a significant competitive dilemma.

The dilemma is that customer loyalty schemes will add cost to the industry, but if competition intensifies around loyalty schemes – and there are many pressures for it to do so - whilst there are conditions under which value will be added, it is quite possible that value will be destroyed.

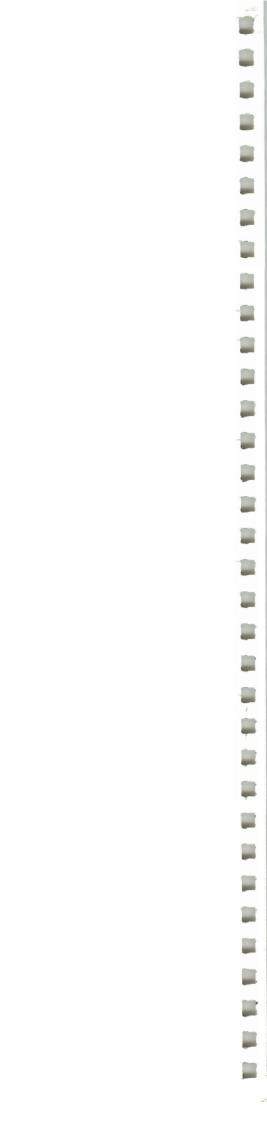
A loyalty scheme 'war' would have similarities with a price war - potentially damaging all round with any winner being that player best equipped to fight a war on that battlefield; ie, usually the player(s) with the lowest cost base for a price war, and, maybe, the player with the best database management for a loyalty scheme war.

#### 5.6 Conclusion

Overall, we believe that the industry must see customer loyalty schemes for what they are – a competitive marketing tool that will work under certain conditions. Customer loyalty schemes must not obscure the pursuit of customer loyalty as a fundamental purpose of a grocery retailers overall strategy.

As the Taylor Nelson AGB data demonstrates, a clear understanding of the dynamics of customer behaviour is the key to designing approaches which win, and then retain customers.





Designed by MCS Design, Coopers & Lybrand Printed in the UK by The White Quill Press, 1993

