

**REAL CRM: CASE STUDIES OF CUSTOMER CHAMPIONS**

## How a Supermarket Can Be a Corner Shop

By Jeff Cannon

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A mammoth grocer like Tesco, the United Kingdom's largest supermarket chain, doesn't seem the best fit for a country once known as a nation of shopkeepers. But there is a link between Tesco's superstores and the corner shops of the past: Tesco actually knows its customers.

That knowledge comes through a combination of personal interaction and smart use of customer data. Part of the genius of Tesco is the way it ties together the various part of its business. Nick Siragher, a CRM analyst at the **Hewson Group** in England and a frequent Tesco shopper, says that it presents a unified face in its store design, branding, customer loyalty programs, and Web sites. Its **Tesco.com** online shopping service, for example, is based from local stores so Web customers are ordering not from some vast warehouse but from the store down the street. "They've crossed a difficult barrier for a supermarket," Siragher says, "where it's very difficult to have a relationship with a customer. They've done in it such a way that they've made a major supermarket almost like a corner shop."

Tesco has seen an unlikely and dramatic rise from its origins as a down-market supplier competing against venerable UK grocers like Sainsbury and Safeway. It's no longer the underdog, with nearly a thousand stores in Europe and Asia. But size isn't the only change—observers say that Tesco has evolved into one of the most respected, trusted brands in the United Kingdom.

Tesco's dominance can be traced in part to its original selling point, lower prices—or, at least, the perception of lower prices. The company has focused on dropping prices for price-sensitive items such as milk, cheese and eggs to the tune of £1.2 billion (US\$1.9 billion) over the past five years, including a £80 million (US\$130 million) price drop in January.

Price alone doesn't account for the customer loyalty that Tesco enjoys, especially since its prices are now comparable to competitors like Sainsbury. The company attributes the loyalty to a tight focus on the customer. "The whole philosophy is in balancing the business in favor of the customer," says Crawford Davidson, director of Tesco's Clubcard loyalty program. That comes down to a mixture of company culture and—remember this, because it'll come up later—customer insight.

Tesco's executives try to discover first-hand what it means to serve customers. Every one of its senior managers and executives spends a week a year working in Tesco stores, checking out customers and stocking shelves. Tesco chairman Sir Terry Leahy worked at the fish counter and the warehouse. The program results in new proposals for better customer service, such as one that called for the barcode to be printed on both sides of cases of beer so customers have to spend less time at cash registers waiting for their goods to be scanned.

## Not Just the Human Touch

But the corner shop culture isn't necessarily about the human touch. Tesco shoppers Siragher and Tony Craddock of **Round**, a CRM strategy consultancy, say that Tesco employees aren't overly warm to customers. That brings a noteworthy contrast to one of Tesco's most potent competitors, Wal-Mart, which entered the UK grocery market through its acquisition of grocery and clothing chain Asda. Wal-Mart is known for its greeters at the door and its personable customer service, something Tesco hasn't shown any signs of copying. "They're not gushy. You don't get hugged as you come in the door," Craddock says.

Smiles are easy enough for a company to come up with if it wants to make them a part of the business model. But it's harder to know what customers want, where they want it and how much they're willing to pay for it. "They can copy the gimmick, but they can't copy the deeper knowledge," Craddock says.

Which gets to what is really the heart of Tesco's customer culture: data.

Almost everything it does is informed by customer spending information gathered by Clubcard. "Right to the top of the organization, the business believes in the data and earning customer loyalty," says Clive Humby, chairman of **dunnhumby**, the company that does much of the analysis of Tesco's loyalty card data. Tesco's Clubcard loyalty program is almost legendary in the grocery world [see "**Tesco: A Retail Customer Divisibility Champion**"]. A third of the UK's homes use the program. Tesco gets 85 percent of its revenue and 62 percent of its sales through Clubcard.

## Customer Insight Means Confidence

What makes Tesco different from almost everyone else is the extent to which it uses the data. "Other businesses spend more time agonizing over decisions. We take that data and act on it immediately," Davidson says. But Tesco's data means that it can be reasonably sure how its actions will affect customers, so it can act without fear.

Tesco's analysis showed, for example, that about a quarter of its customers are higher income and that, moreover, it was losing some of their spend to upmarket competitor Marks & Spencer. One of the problems was that Tesco didn't have the high-end products to compete for the upmarket customers. It used its data to develop an entire

### Tesco's Secrets of *CustomerThink*

- When in doubt, balance the business in the customer's favor
- Get executives personally involved in customer service
- Deliver a branded customer experience, regardless of channel
- Use low prices selectively, not as the primary value proposition
- Make customers partners in data collection activities
- Mine loyalty program data for customer insight, then act!

private-label product line, Tesco Finest, which lured the big-spending customers back.

Grocery chains typically need at least 10 percent distribution of a product before it makes sense to market it. But the distribution often doesn't come until there's marketing to back it up. Tesco's data helped it get around that paradox with new products—it can tell where it has holes in its product range, then commit to both product distribution and marketing at the same time. "We can make leaps of faith into new products," Davidson says. "But they're not really leaps."

Tesco has divided its customer base into six major "dimensions" based on customer shopping patterns, such as finer foods, healthy, convenience, and price-sensitive. Each of those are divided into smaller segments—healthy shoppers, for example, consist of those looking for organic food, those who eat healthily, and those looking to lose weight. Tesco can then send customized marketing messages to those people through direct mail, cash-register messages and its Web site.

Tesco by the Numbers	
Revenue	£25.7 Billion (US\$41.6 Billion)
Stores	978
Countries of Business	10
Employees	260,000
Tesco.Com Sales	£356 Million (US\$576 Million)
Tesco.Com Profit	£400,000 (US\$650,000)
UK Households in Loyalty Program	One-Third
Food Lines Introduced Last Year	3,500

The data can offer short-term boosts in sales through more targeted advertising. But it also lets Tesco take action that can develop long-term loyalty. Tesco found through surveys that customers resented the candy stands that tempt young children. They also wanted the stores less cluttered, with fewer off-shelf displays. Both kinds of displays are big sources of impulse purchases, so grocery stores tend to hold onto them regardless of customer complaints. Tesco analyzed its customer information to see how customers would react, and realized that the increased loyalty would offset lost sales. "The effect of customers shopping here rather than elsewhere balances it out," Davidson says. Tesco removed all of the candy stands and half of its off-shelf displays, and had its best holiday season yet last year.

Customer insight isn't measured only in data; observers say that Tesco also conducts qualitative research to understand its customers. "They know more than any firm I've ever dealt with how their customers actually think, what will impress and upset them, and how they feel about grocery shopping and dealing with Tesco," says CRM expert Jim Barnes, Executive VP of **Bristol Group**, a Canadian marketing communications and information firm.

Tesco uses that insight to develop specialty programs that meet customers' interests. It's launched, for example, clubs devoted to young mothers, kids and healthy living, with events and Web content aimed at club members. Barnes says it's doing so because it recognizes the centrality of those topics to its customers, and wants to be associated with that. "Tesco wants to mean more to customers than just a great supermarket," he says.

## Spread It Around

Tesco is building on its knowledge of the customer to move into other lines of business. It's driving the success of Tesco.com, the biggest online grocery operation anywhere. Tesco.com is doing more than £15 million (US\$24 million) in business a week. The key to Tesco.com's local distribution model is knowing which markets are the most promising. "If you know how big of a market is in an area, you can figure out how much investment to make," Davidson says. That's expensive data to come by, normally—but Tesco already has the information. It knows which customers are most likely to choose online delivery, and where the greatest concentration of them lies. It was able to use the data to build up its online function incrementally. The result is that while Tesco doesn't have dot com capabilities for every store, it still covers 95 percent of the UK's population.

Another new business is Tesco Personal Finance, a bank that it launched both online and in its branches. After just five years of operation, the bank is profitable. Davidson says that's because its loyalty card data resulted in customer acquisition costs less than half of the industry average. Moreover, Tesco could mine its information for customers with high income and credit and tailor offers for them—an important feat in an industry where banks typically lose money on all but a small percentage of their customers.

Inspired its success with the bank, Tesco is launching a number of related businesses, such as a Tesco online travel service. But that may be one of Tesco's biggest potential risks. The further it moves away from its core business, the less customers are likely to trust them. "If they have a Tesco brand of everything, they dilute the brand," Craddock says. There's potential conflict between Tesco and the companies that actually run the side business—Tesco Personal Finance, for example, is run by the Royal Bank of Scotland, and the travel service will be run in partnership with a large UK travel agency. "The people who support the brands are not part of the Tesco culture," Craddock says. That also goes for the bank's data and customer service systems.

The key to managing that expansion comes back to customer data. If Tesco's current performance is an indication, it's not likely that the grocer will be overstepping its bounds too far. More likely, it will be giving customers only—and exactly—what they want. •

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