RETAIL MICRO-MARKETING STRATEGIES AND COMPETITION

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Retailers who shift their focus from the visible side of loyalty marketing – cards and schemes – to the information these unlock, gain the intangible asset of insight. However, in a marketing context where competitive advantage and value creation are increasingly information-based, knowledge is no longer the goal, but a prerequisite for action. Micro-marketing champions who have accumulated data analysis experience are now breaking new ground by using insight to compete.
Our study of 40 micro-marketing oriented European retailers indicates that there are two basic micro-marketing strategies, that is, two ways of leveraging insight for competitive advantage:

- a "micro-macro" approach;
- a "micro-micro" approach.

Retailers adopting a micro-macro approach leverage customer information to improve and/or innovate the macro variables of the retail proposition: range, layout, store format, service, promotion and communication.
Sainsbury's approach to store format development is a case in point. Utilising its customer data warehouse, the British retailer is able to segment its customers into 10 key groups based on buying behaviour. This data is being used to develop store formats that provide appropriate product ranges, service levels and promotional activities to local customers. The retailer's total store area has been divided into three formats, not only according to their size but also by the way in which customers use them and shop in them. The pilot store of Crawley (Sussex), was revamped in 2002 to focus on the segment of cash rich, time poor consumers seeking meal solutions. Floor space devoted to fresh food was doubled, core ranges of grocery basics were enhanced for top-up shopping, promotional ranges were reduced, a coffee and deli counter was positioned at the front, giftware and health & beauty ranges were expanded. The success of the pilot led to 94 renovated stores in a year.
An analogue case is Boots' upward re-positioning as a consequence of customer profile analysis run on the Advantage Card database. The existence of a 3 million strong segment of high profile customers was revealed, who were not properly addressed by the current positioning and communication strategy. The actual and prospective value of the segment justified a revision of the retail mix, from communication style to store range.
In both cases, information was used for *differentiation* purposes, to adapt the retail product (the store) to customer needs in a way that set the retailer apart from competitors. Information has led to a "new" retail product that is offered to the customer base as a whole; in other words, micro analysis inspires macro marketing action.

Retailers adopting a micro-micro approach, instead, target a specific segment of customers with a dedicated marketing activity, while discriminating against those who don't fall within it, for the duration of the activity itself. There are two basic targeting choices, when the micro-micro approach is used:

- "targeting for retention/extension" (also referred to as "defensive promotion"; see Shaffer and Zhang, 2002), when the retailer targets a segment of loyal customers, either on its own or in partnership with a manufacturer, aiming to retain customers or to change their behaviour in its

favour. Being systematic and long term, this choice results in a sort of *monopolistic discrimination*;
- "targeting for acquisition" (also known as "offensive promotion"), when the target is a segment of marginal customers (e.g. less profitable shoppers or occasional ones), with the aim of winning them away from competitors, be them rival retailers or product brands, as discussed below. Being short term and variable, this choice recalls *competitive discrimination*.

In 2001 the Italian retailer Nordiconad and two manufacturers - Pampers and Plada, leaders in baby care and baby food – partnered to launch the "Special Baby Card", a club within the retailer's card scheme, providing benefits, information and discounts to mothers who purchased Pampers and Plada products in Nordiconad stores. It was a retention and extension promotional activity targeted to a segment of the retailer's loyal customer base. Such promotional activities appeal to both retailers and manufacturers because they develop brand and store loyalty simultaneously.
Likewise, Interdis, another Italian retailer, joined forces with Kraft to launch a targeted coupon-based promotion aimed to increase both the retailer's own label share and the partner brand's share (Milka, Kraft's chocolate brand). The records of customers who had purchased in the chocolate category over the past six months were extracted from the database, and a coupon was mailed to purchasers of Milka chocolate products offering free Sidis (Interdis' own label) fruit juice for the purchase of three Milka chocolate bars. It is worth pointing out that only multi-brand chocolate purchasers were selected for the coupon mailing, on the premise that it would easier, and less aggressive, to try and attract multi-brand customers, rather than chocolate lovers who were loyal to a rival brand.

Tesco and Sainsbury, in a lifelong fight over customer loyalty, recently engaged in acquisition actions, despite the disruptive potential. In October 2002 Sainsbury was accused of sending vouchers to households who were known to hold a Tesco Clubcard and to live in key areas where competition is fierce, in order to lure them away; as for Tesco, it retorted by announcing that it would accept Sainsbury's coupons in its outlets. Targeting marginal customers for acquisition purposes can be destabilising, especially in concentrated, oligopolystic markets such as the UK; only retailers who are able to withstand harsh competitive pressure should get involved.
Indeed, examples of acquisition targeting are emerging in Italy too. Last year, the above mentioned Nordiconad and Procter & Gamble developed a joint micro-promotion aimed to increase the market share of Swiffer (Procter's brand) within its category. Coupons were selectively mailed to loyal purchasers of Pronto, the rival brand of floor cleaners, in an attempt to make them switch to Procter's product. Both Nordiconad and its partner were surprised by the results: Swiffer moved from follower to leader position in the category and, three months later, was still holding it.

In sum, loyalty cards and related technologies make individual purchase history information accessible, enabling sophisticated segmentation that can lead to very precise targeting. This, coupled with the secrecy and viability of new direct media make the micro-micro approach efficient, effective and potentially aggressive. The aggressiveness of such an approach can be reduced when targeting is aimed at retention and extension, i.e. the retailer targets a segment within his loyal customer base. When the target is a marginal segment of customers, the acquisition effort could spark violent reactions in the channel, as in the Tesco-Sainsbury's case discussed above.
Adopting a micro-micro approach, moreover, requires a retailer to have the right organisation in place, marketing culture, analytical skills and the ability and momentum to develop partnerships with manufacturers. It is not a strategy for everyone: according to our survey, only 18% of Italian retailers are planning to adopt micro-micro strategies, whereas 68% favour a micro-macro orientation.

The impact of micro-targeting on vertical relationships

As far as vertical relationships are concerned, the micro-macro approach is rather neutral, in that retailers' differentiation efforts do not involve any single industrial brand in particular nor do they open relevant partnership opportunities.

On the contrary, the micro-micro approach focuses on specific, responsive and actionable target segments with promotional activities that necessarily involve specific product brands, therefore commanding manufacturers' attention, be it for partnership involvement or be it for fear of being discriminated against (as happened to Pronto in the Nordiconad/P&G case). The micro-micro approach has relevant vertical effects; it can open partnership opportunities, but the nature and duration of such partnerships depend on the retention or acquisition nature of the action in question.

By choosing to concentrate on one's own loyal customers, and to target a few large, relevant segments among them, retailers reduce the aggressive potential of micro-marketing and marketing costs associated with segmentation and communication. As far as vertical relationships are concerned, such an approach can lead to durable partnerships, as in the cases of Nordiconad/Pampers/Plada and Interdis/Kraft. Prerequisite for durable partnerships is however, the willingness of both parties to share marketing information. This is confirmed by our survey, where Italian retailers declare that the "ideal partner" for micro-targeting is not necessarily the market leader, but a supplier who is willing and active in two-way information sharing to develop win-win promotional activities.

Targeting marginal segments, on the contrary, can start harsh reactions by rival retailers, as in the Tesco/Sainsbury's case, and by discriminated suppliers, as in the Nordiconad/Procter&Gamble case. The latter is a good example of the complex competitive effects an apparently harmless coupon-based promotional activity can have, when it is supported by micro-marketing insight.

In the mentioned case Pronto, Swiffer's rival brand in the category, is likely to react by partnering with another retailer to develop a similar action. As a consequence, horizontal competition between the two manufacturers increases, and the same happens to the variability of the two brands' market shares.

In fact, retailers receive no benefit when tying promotional activities at category level to the same product brand over time, but strive to maintain marketing independence from suppliers by alternating different partners. For the same reason they have little interest in helping the leading brand to further expand its share in the category sell-out; rather, they engage in promotions that favour the follower or other minor brands, to curb the leader's power.

Targeting competitor's customers, in sum, opens opportunities for vertical partnerships that benefit both parties in the short run but, in the long run, such orientation will lead to a scenario where spot partnerships abound and suppliers migrate from retailer to retailer in search of promotional opportunities.

An intervention by the Competition Commission is another risk that should be considered. In the Nordiconad/P&G case, if the latter was a category leader, it could be accused of abuse of dominant position, since it leveraged the retailer's information to increase its share in the category by explicitly attacking a competitor; the former could be accused of restricting competition, for its conduct altered the usual inter-brand competitive game.

In a nutshell, micro-targeting decisions impact on competition and conflict at both the horizontal and vertical level, and pave the way for different forms of vertical co-operation. Despite manufacturers' interest in targeting competitors' customers, only a few retailers are likely to engage in such a risky approach. It comes as no surprise, therefore, that Italian retailers assign only 14% of their micro-marketing budget to acquisition, while 86% is devoted to retention and extension. Ninety-five per cent of respondents have confirmed that micro-marketing is more effective when it is retention and extension oriented; when it comes to acquisition., macro-marketing is preferable. Marketing managers facing targeting decisions should not decide on the ground of redemption and success probability alone, but also take into account competitors' likely reactions and the impact on vertical relationships over time.

Conclusions and stimuli for future research

The goal of the paper was to start a debate about the effect of a micro-marketing approach on competition. We argue that retailers' attitude to targeting will determine the impact of micro-marketing on competition, on balance of power in the channel and on consumer welfare, and we regard these as three relevant areas of future research.

New dimensions of competition in retailing

In a marketing context where competitive advantage and value creation are increasingly information-based, micro-marketing (customer specific marketing) is the driving force transforming retail competition. In fact, micro-marketing:

- restricts the borders of the competitive arena – the relevant market - to the category, to the store's local market, to a limited number of players and to the target segment of customers;
- provides new competitive tools;
- encourages short term vertical partnerships;
- targets different customer segments over time.

In such a micro-competition scenario do co-operation and conflict blur towards co-opetition? How will the competition authorities throughout Europe approach and regulate micro-competition?

Balance of power in vertical relationships

In a marketing context where power is more and more information-based, micro-marketing, unlocking relevant customer knowledge, reinforces the retailer' role as channel leader. Information is a peculiar good, since its value can be increased by sharing and the owner is not deprived of it in the process. As a consequence, a retailer's power is not diminished with information sharing but, conversely, the more he is able to manage the information distribution process, the greater the chance that his role will be reinforced.

Micro-marketing provides new tools to manage intrabrand competition that impact channel relationships. Using micro-targeting for horizontal competition (against other retailers) generates vertical partnerships that will result in horizontal and vertical tensions leading players to pursue new partnerships, in a sort of circle where the micro-marketing champion steers the rudder and picks the route and the passengers at will.

Which retailers will take advantage of this opportunity? Will it be large, marketing oriented multiples or small ones, whose size allow them to develop micro-marketing actions and go unnoticed, protected from retaliation? Micro-marketing could be the only sustainable strategy for small firms to counteract price wars by large competitors, as Woolf (2001) has indicated with the Dorothy Lane case.

Consumer welfare

Micro-marketing provides retailers and manufacturers with accurate customer insight that can be leveraged to improve and innovate products and services, thereby creating value for consumers.

When a micro-micro approach prevails, retailers pass the value produced by increased competition and by suppliers' contributions down to consumers, but the distribution of such value is likely to vary widely across the customer base and over time, as a consequence of micro-segmentation, micro-targeting and micro-pricing (see also Clarke, 2000).

Will current approaches measuring consumer welfare be adequate when such selective and variable distribution of value is commonplace?

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