

# Tesco vs Nectar: i best in class britannici

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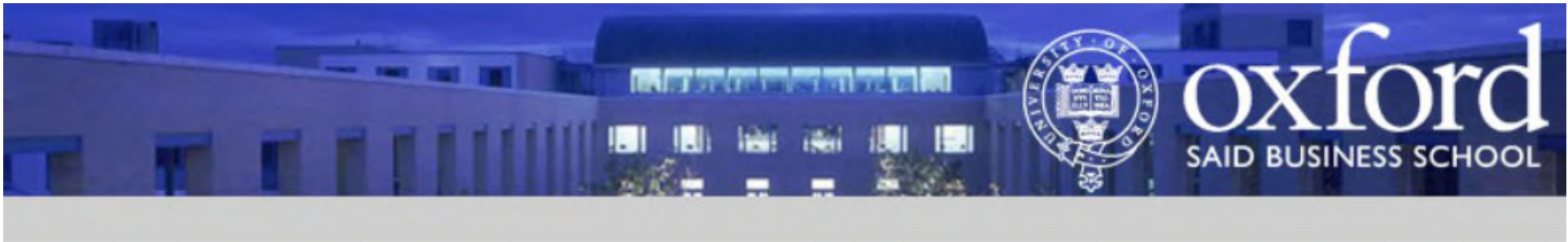
*University of Oxford, UK*



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Templeton College





## Outline

- The retailing context for loyalty and customer relationship management
- The “Big 5” UK Loyalty Schemes
- Tesco vs. Nectar
- Who will “win”?
- Lessons for the European loyalty arena



## Pressures on would-be loyal consumers and the companies seeking their loyalty

- Increasingly competitive and transparent markets
  - A wider range of formats, offers and channels
  - Increasing price transparency
- Smarter consumers
  - Better informed/more wary
  - Keener focus on value for money
  - Meeting consumers' aspirations
- The accountants and marketing effectiveness



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SAID BUSINESS SCHOOL

## Format and channel diversification

**TESCO**

Every little helps

**TESCO**  
*Express*

**Groceries**

Shopping  
delivered to  
your door



**Sainsbury's**  
making life taste better

Sainsbury's  
to you



click here  
to shop online



**ASDA**

part of the WAL\*MART family



**Waitrose.com**

*“Grocery retailing in the UK is a classic oligopoly, with the top three or four firms accounting for around 60% of the market. Those companies are fighting for an overall UK grocery spend of £65bn a year. In such a fierce climate, there's a constant search for smart weapons to gain an edge.”*

# Price transparency: low inflation



## Euro rise sparks deflation fears

The record rise of the euro against the dollar and sterling has sparked fears that it could push eurozone countries into deflation.

Economists are now urging the European Central Bank (ECB) to cut interest rates when it meets on 5 June.



## Germany denies deflation threat

German officials and economists have flatly rejected a warning from the International Monetary Fund (IMF) that Europe's largest economy is at risk of falling into a deflationary spiral.

German Chancellor Gerhard Schroeder said neither his government nor its influential panel of economic advisors - the so-called Five Wise Men - saw any danger of deflation.



Gerhard Schroeder: Unperturbed by deflation



# Price transparency: Internet

amazon.co.uk

product search

go

customer service

my details

my orders

department stores

## Toshiba SD220 DVD Player

[Toshiba](#)



Was: £139.99

Our Price: **£119.99**

You Save: **£20.00 (14%)**

**Availability:** usually dispatched within 24 hours.

[See larger picture](#)

[Technical Data](#)

ASIN: B000066JPC

Amazon.co.uk Sales Rank: 2

This item can only be delivered within the [UK and Republic of Ireland](#)

Find out more about our [Delivery Rates and Returns Policy](#)

[Fax Machines](#)

[Hi Fi Systems](#)

currency

Your [basket](#) contains:

Your basket is empty

Subtotal: £0.00

[change basket](#)

[go to checkout](#)

[pricing policy](#)

### Toshiba DVD Player, SD220E

Web Reference: 230165409

Stock Number: 824 81406

[▶ 1 year guarantee](#)

[▶ extended warranty available](#)

10 in Stock

Giftwrap available at checkout

£179.00

[add to basket](#)



## ‘Top of mind’ for food retail CEOs in 2004

Issue	% respondents choosing topic	Ranking	
		2004	2003
1) Food safety/security	57.4	1	2
2) Customer loyalty and retention	54.6	2	1
3) Formats, services, assortment	53.6	3	3
4) Technical standards/supply-chain efficiency (e.g. ECR, GCI, RFID)	48.3	4	4
5) Retailer-supplier relations (e.g. trade costs, product development, joint planning)	47.9	5	not included
6) The retailer as a brand	36.8	6	8
7) Internationalisation of food retailing	33.5	7	6
8) Employee/management recruitment and retention	30.1	8	7
9) Global recession and consumer demand	28.7	9	5
10) Regulations (e.g. store openings, pricing, product labelling)	28.2	10	not included
11) Consumer health and nutrition	23.4	11	not included
12) Accountability (corporate social responsibility & governance)	17.7	12	11
13) Environment/sustainable development	12.0	13	9

# Pressures: smarter consumers

- Keener focus on value for money
  - Looking harder at the ‘soft benefits’
- Better informed/more wary
  - Diminution of trust
  - Consumer privacy concerns
- Meeting consumers’ aspirations

Last Updated: Thursday, 5 June, 2003, 07:22 GMT 08:22 UK

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## Bank loyalty costs consumers

Bank customers have been warned that they could be losing up to £1500 a year by failing to shop around for financial services.



The survey by Which magazine found that if consumers wanted the best deal then they should avoid buying all

### Hidden cost of loyalty schemes

Savvy consumers shop around



For consumers, rewards may come at a price.

Credit card firms are finding customer loyalty schemes expensive to run and are passing these costs on to consumers, according to a new report.

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### The cost of Nectar loyalty



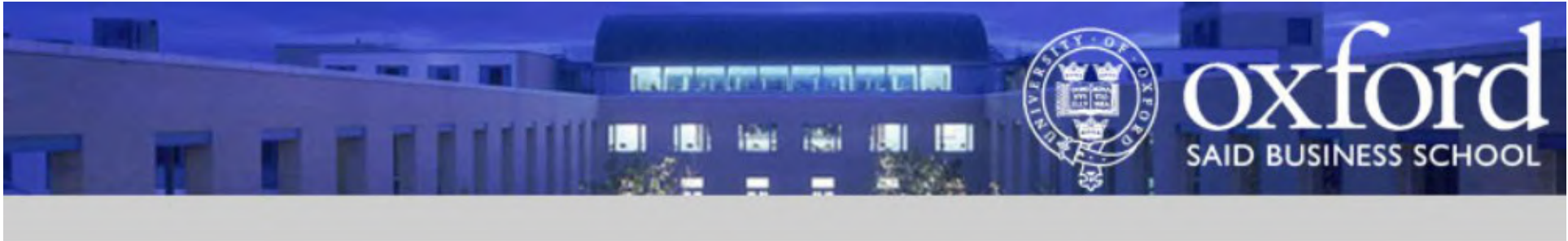
### Analysis

Briony Hale  
BBC News Online business reporter



Woolstone has proudly announced it is joining the Nectar loyalty card scheme. But brand loyalty is falling out of fashion and analysts are questioning whether Nectar is worth the money it costs to run.





## Value for money?

- *Nectar is the latest points scheme to encourage credit card spending. But with rewards worth as little as £12.50 for £5,000 worth of spending, why are we getting so excited? (Consumers' Association, 2003)*



## How much is that free flight?

	Points plus taxes and charges	Amount spent to collect points	Estimated time to collect points
<b>Paris (return fare £76[1])</b>			
Air Miles [2]	450 + £27.50	£5,265	8 months
Nectar [2]	6,000 + £28	£5,850	9 months
Buy & Fly [3]	390 + £25	£1,341	12.5 months
<b>New York (return fare £210[1])</b>			
Air Miles [2]	6,800 + £65.70	£79,625	10 years
Nectar [2]	36,500 + £64.30	£35,750	4.5 years
Buy & Fly [3]	2,500 + £60	£9,011	6.7 years

[1] Cheapest return fare we found, including taxes, for weekend in March 2003

[2] Based on spending £45 a week in the supermarket, £20 a week on petrol, and £390 a month on a credit card

[3] Based on spending £20 a week on petrol and £24 a month going to the Odeon cinema, and buying OK! magazine (£1.95) weekly



# Consumer privacy concerns

## C.A.S.P.I.A.N. Consumers Against Supermarket Privacy Invasion and Numbering

### Legend

**X** - This market currently registers and numbers shoppers

**XX** - This market currently registers and numbers shoppers and requires state ID or social security number for discounts.

- Click here to see an image of the market's register

= Click here to see a response from the supermarket

- Confirmed that this market currently has no shopper loyalty program

= Management has made a conscious decision not to initiate a registration program at this time

= Management has promised not to initiate a shopping card

<a href="#">Safeway</a>		1,075		<a href="#">Info Apply</a>
<a href="#">Kroger</a> (as well as <a href="#">Dougherty's</a> , <a href="#">Kroger's</a> , <a href="#">Clear Choice Foods</a> , and <a href="#">You'll Love It!</a> )		165,000 employees		
<a href="#">Safeway Supercenters</a>		1	Sewersley, PA (Philadelphia area)	1/2/2009 A reader tells us they are to open a new store!
<a href="#">Safeway Club</a> (A Division of Wal-Mart)		445	48 U.S. states (All but VT and OR)	<a href="#">Apply</a>
<a href="#">Safeway-Low Food Stores</a> (Each store independently owned and operated)		900+	36 States	One store reports: "Safeway will never have a frequent shopper card." <a href="#">See store's website</a>



**We're watching you**



## Research-led lobbying

### Card focus shifting

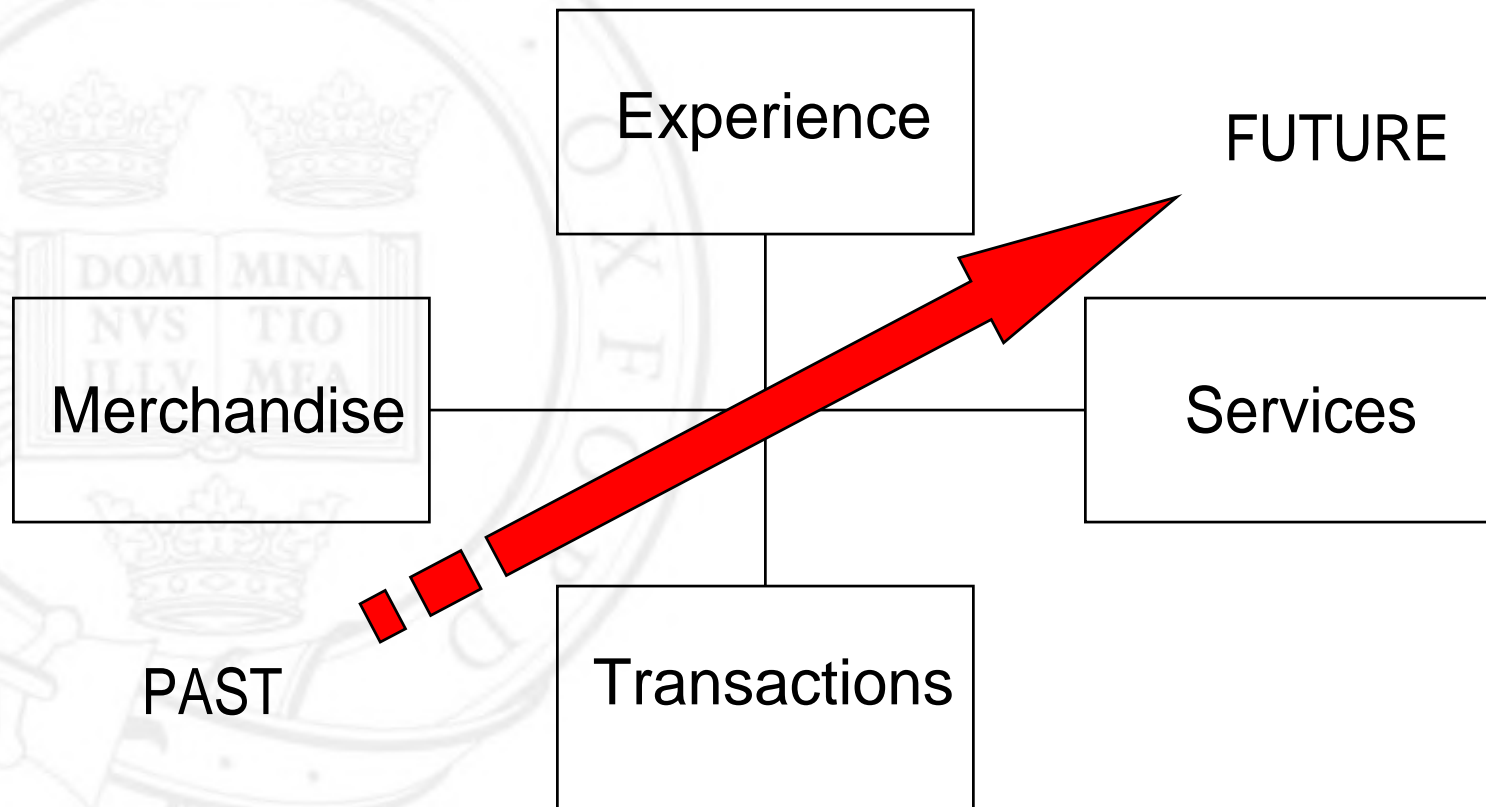
#### *Future discounts to be tied to purchase history*

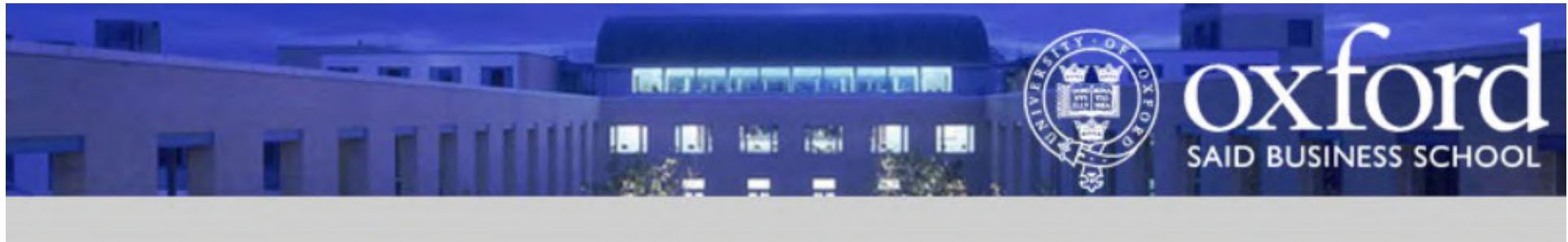
For the past year CASPIAN has been warning consumers that the "two-tiered" programs that are now in place are going to evolve into "multi-tiered" programs where only the most profitable consumers will receive the best discounts. Two new card programs appear to have started down this path, which is likely to cost most of us at the checkout line.

[<< click here for more information >>](#)

Item	Non-card stores	Card stores	Difference	Percentage
Ritz Crackers	\$2.29	\$3.44	\$1.15	50%
Wishbone Salad Dressing	\$1.89	\$3.24	\$1.35	71%
Ocean Spray Cran-Grape	\$2.22	\$3.37	\$1.15	52%
Chex Cereal	\$2.89	\$4.44	\$1.55	54%
Pillsbury Brownie Mix	\$1.29	\$2.15	\$0.86	67%
Dawn Detergent	\$1.94	\$2.99	\$1.05	54%
Chips Ahoy Cookies	\$2.42	\$3.44	\$1.02	42%
DiGiorno Pasta	\$2.62	\$3.49	\$0.87	33%
Chicken Helper	\$1.59	\$2.54	\$0.95	60%
Wheat Thins Crackers	\$2.29	\$2.94	\$0.65	28%
Totals:	<b>\$21.44</b>	<b>\$32.04</b>	<b>\$10.60</b>	<b>49%</b>

## Meeting consumers' aspirations: services?





## Pressures –the accountants

- Increasing expenditure chasing the same customers leads to concern over retail marketing effectiveness
- “the faith in money as the language of business undermines confidence in an activity which cannot be measured wholly in those terms”
- Risk evaluation in a financial management context: loyalty card ROI



## The 'Big 5' UK Loyalty Schemes

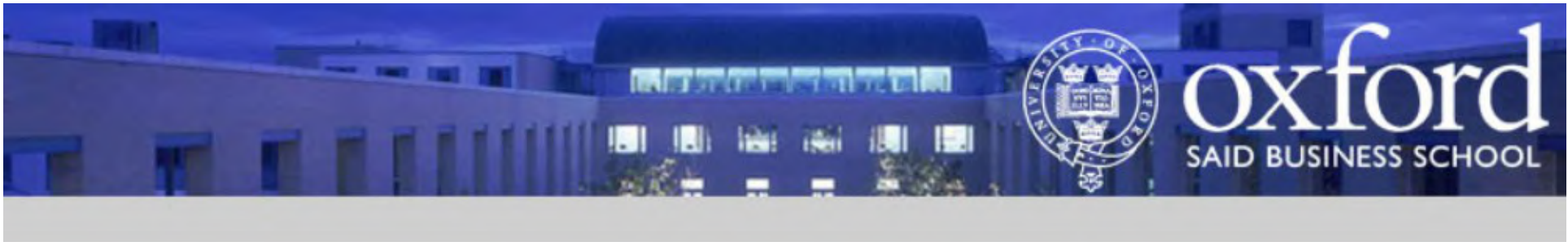
<i>Name</i>	<i>Date Launched</i>	<i>Card holders</i>	<i>Partners</i>
Air Miles	1988	6mn	100 partners
Tesco Clubcard	1995	13.5mn	Redemption only
Boots Advantage	1997	14mn	None
WHSmith Clubcard	1997	>1mn	None
Nectar	2002	17mn	Sainsbury, BP, Barclaycard, Debenhams, Vodafone, Ford, Argos

# Tesco Clubcard

- First UK supermarket scheme
- 13mn active cardholders
- £1bn in vouchers and coupons sent out
- £4 of every £5 spent in store by Clubcard holders
- Six different variations of Clubcard magazine sent out
- Recent statements with as many as 1,000,000 variants







## Tesco Clubcard

- Strengths
  - First-mover advantage
  - Single brand orientation, with point-earning partnership brands
  - Acquired data analysis expertise (dunnhumby)
  - Ten years' data and experience
  - Cross-selling opportunities within Tesco categories (e.g. personal finance)
- Weaknesses
  - Single brand dominant
  - More expensive and higher risk
  - No cross-selling opportunities outside main brand
  - Poorer reach than coalition
  - No knowledge of 'non customers'

*"We have been able to predict future sales at six months to 98% accuracy"*

## Nectar

- First successful UK coalition scheme
- 17mn cardholders in 12.5mn households (55%)
- 90% actively collecting
- 50,000 new accounts per week
- *“Nectar has an enormous amount of brands on board: they can’t all be idiots”*



Sainsbury's

BARCLAYCARD

DEBENHAMS



thresher  
group



adams



e ENERGY

all:sports

WINEMARK\*



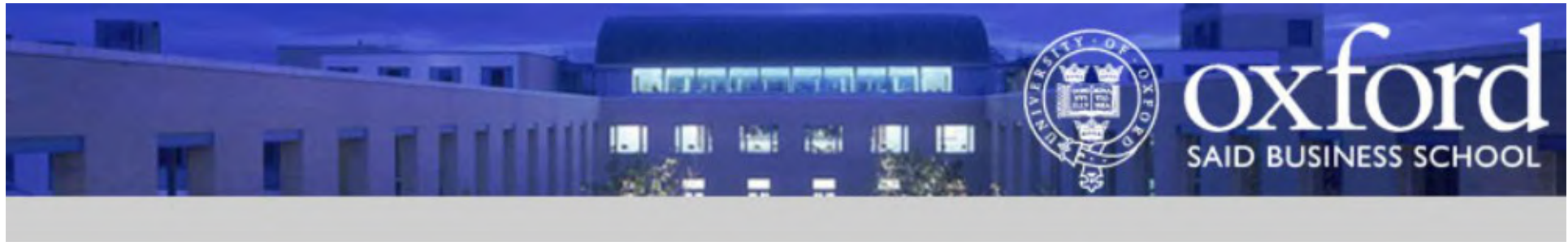
## Nectar

- Strengths
  - Single piece of plastic
  - Many strong brands
    - 5,580 participating outlets
    - 5,000 points/yr average
  - LMUK: Independent company
  - Cross-shopping analysis possible
    - Average member collects with 2.24/8 sponsors
    - 1.27mn collecting with four or more sponsors
- Weaknesses
  - Who owns the Nectar brand?
  - What happens at the end of a contract?
    - E.g. Air Miles
  - Member product strategies
  - Redemption rates
  - Consumer behaviour
  - Translation into long term market share?
    - E.g. BP experience



## Lessons for the European loyalty arena

- Starting with trading stamps imported from the USA and coupon based continuity schemes in the mid 1980's:
  - Shell Smart
  - Argos Premier Points
  - GM card
  - ICA Kundkort
  - Cofinoga Carte
  - Statoil Premium Club
  - American Express Rewards
  - Loyalty Partner 'payback'

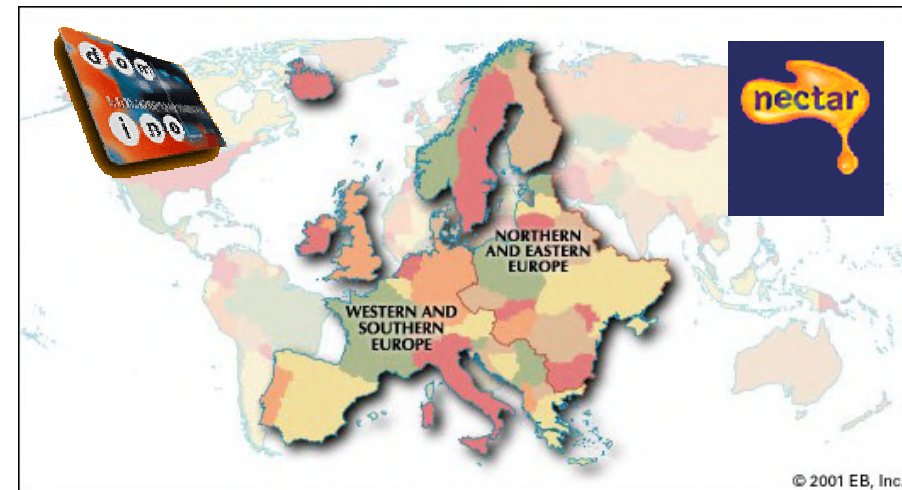


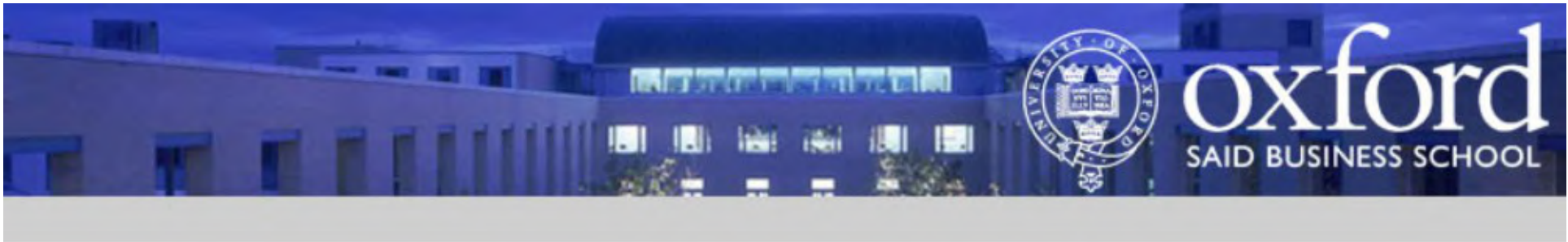
# Loyalty Lifestages

Loyalty Life Stage	Data Toddler	Data Adolescent	Data Adult
<b>Customer Information</b>	Invisible customers	Capturing transactions	Advanced customer segmentation & scoring
<b>Program Status</b>	Determining ROI	Comparing ROI to forecast	Enterprise-wide CRM initiative
<b>Customer Database</b>	Fragmented data	Program-specific datamart	Multi-dimensional data warehousing
<b>Analytical Tools</b>	Basic reporting tools	Advanced reporting, basic analytical tools	Advanced analytical tools

## Lessons for the European loyalty arena

- Rationalisation
- Consolidating coalitions
- Led by supermarkets
- Data protection
- Customer fatigue
- ROI focus
  - Financial
  - Customer insight
- Potential of new technology
  - RFID, mobile, wi-fi





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