Should Tesco Change Its Clubcard?

Quite simply: yes.

by Brian Woolf (November 24, 2014)

In recent years, Tesco has seen a decline in its UK market share. In recent months, it has disclosed significant accounting irregularities causing a major profit write-down and restatement. The latter is likely linked to the former. As a result, the newly appointed CEO, Dave Lewis, is deeply immersed in how to slow the market share erosion and begin rebuilding profits. A number of investment houses have suggested eliminating Tesco's Clubcard program as a quick way to increase its profits and stock price. Customer comments in the major newspapers range from appreciation of the Clubcard to calls for eliminating it completely and transferring the savings into lower prices. No one, to my knowledge, has expressed how Clubcard could be improved for the benefit of the customers, Tesco, and the shareholders. Thus, here is one approach.

The Competitive Scene

The UK is "over-stored" according to Graham Ruddick, the Telegraph's Retail Editor (12 Nov 2014). Yet the four major food retailers (Tesco, Sainsbury's, Asda, and Morrison's) have all kept adding stores, as have the two discounters, Aldi and Lidl. The last two have achieved strong sales growth results over the past two years while sales at the majors, as a group, were basically flat to down. To help their price images, each of the four majors has introduced some form of price matching against the others. Morrison's, the last to offer price matching has extended its price matching to include the two discounters. How long price matching will continue is unknown for the downside of matching prices without also matching productivity and costs locks one into a competitive disadvantage against the low-cost operator.

Tesco's Recent History

From the press reports on Tesco's travails, it seems that in an effort to maintain profits (for bonus purposes?) while sales drooped, the company booked promotional allowances as income in advance of the performance period, increased the number of items stocked (to boost profits from slotting allowances?), and cut back on employee store hours. All three practices are now being reversed.

What is surprising is that during this challenging period, nothing has been mentioned suggesting that Tesco turned to its much-vaunted Clubcard database to identify those customer segments where sales problems were occurring or to rebuild sales by making under-the-radar offers to selected customers. To an outsider, it appears that financial short-termism trumped intelligent customer marketing.

The publicity surrounding Tesco's fall from grace has shaken customer trust. There is no single silver bullet to solve the company's problems: each key element of the business (selection, quality, value, cleanliness, structure, communication, etc) needs to be reviewed and revitalized.

Tesco Clubcard

The Tesco Clubcard is one of those key elements. I don't think it should be jettisoned to satisfy the short-term needs of some in the investment community, for two reasons: information and merchandising.

Information: As management rebuilds the company, it's critical that they can measure their improvement via the source of their sales: their customers. It will need to know, for example, the ongoing changes in the single most important customer number, their Best Customers. Increasing the number of customers spending over, say, £50 week (ie, customers doing a significant part of their weekly shop with Tesco) signals that the company is meeting their needs effectively. It indicates that the company is strengthening customers' reasons to return. The converse applies if Best Customer numbers are declining.

Well-presented customer data, which comes from any good clubcard program, is an enormously powerful business monitoring and navigation tool. It can show, for example, which customers are new or reactivated, which are increasing and declining in sales, which are price sensitive and which aren't, and which customers populate various purchasing profiles. The well-known book, *Scoring Points*, clearly addresses its sub-title, "How Tesco is winning customer loyalty" by using its Clubcard data. Discarding such a proven business builder would be short sighted.

One senses, however, that in recent years management may have placed less reliance on its customer data to understand the changes occurring in the marketplace and to influence its merchandising decisions. If so, Clubcard customer information needs to be brought back to the center of corporate decision-making and not left in the Marketing department. Not having (or using) customer data is like running a business with just total store sales with no departmental breakout.

Merchandising: A great opportunity exists for Tesco to lower costs and improve its price perception using its Clubcard. The current core program rewards members with one point for each £1 spent. Vouchers are mailed quarterly to customers, eg, a customer with 500 points receives one for £5 (ie, each point has a rebate value of one penny). These vouchers may be used towards a subsequent purchase. Alternative redemption options are also offered. For example this Christmas, using a £5 voucher in designated Tesco departments will generate an additional £5-off. Similar stepped-up offers using vouchers at other businesses, such as amusement parks, are also available.

As evidenced by the price matching programs of the four majors and the surging sales of Aldi and Lidl to the majors' detriment, pricing has become a critical competitive issue. Therefore, Tesco should refine its Clubcard program to reflect that reality by integrating the Clubcard with its merchandising program. How?

1. Change the reward on purchases from one point per £1 spent to one point per £2 spent. Sainsbury's recently announced a similar cut on their Nectar card.

2. Eliminate price matching. Apply the money to some crazy priced items instead. Be memorable, not a mimic.

3. Instead of points being used for rebate vouchers, allow members to redeem them at any time on a selection of 10-20 basic everyday items at "crazy prices". For example, one US retailer has, over the past year, offered its clubcard members' everyday basics such as bananas (up to 5lb) for 9¢ lb with 100 points; a half-gallon of milk for 49¢ with 200 points; and eggs for 12¢ dozen (ie, 1¢ each) with 200 points. There is no limit on how many of these items a customer can buy provided she has the appropriate number of points. This loss-leader approach not only rewards regular customers but also takes the prices of these selected items dramatically below both the other majors and the two discounters. To boost customers' point balances (at no cost to the retailer), some weekly specials are offered with bonus points in place of price reductions along with many of the short and long-term promotional offers from manufacturers. Tesco could also sidestep one of the gripes of UK customers about multiple pricing (eg,3/£4), by offering instead 50 or 100 bonus points. This could be positioned as a member's reward when a customer buys 3 of a selected item.

Closing Comment
This is just one broad-brush framework of how Tesco might revitalize this key part of its business. Its memorable prices would differentiate Tesco not just from the other majors but also against the discounters, encourage customers to spend more of their food budget with Tesco, and actually lower the company's Clubcard cost.

In all businesses, programs need to be reviewed and renewed from time to time. This just may be Tesco's time.

About the author…

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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