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# Tesco Stores Limited: The IDM Business Performance Awards 2006, Silver Award Winner and Innovation Winner Campaign: Tesco Clubcard — Simpler and more rewarding

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## Abstract

Tesco Stores Limited's world leading Clubcard loyalty scheme has been successful for over ten years. Clubcard and the warehouse of data it generates are at the centre of Tesco's retention strategy. In 2003, Tesco observed warning signs that their market dominance was under threat. They responded by conducting research to establish the cause. The customer research revealed that the scheme needed to be updated and refreshed. This case explores how Tesco responded to customer concerns and re-activated their Clubcard scheme with impressive short- and long-term results. *Journal of Direct, Data and Digital Marketing Practice* (2007) **9**, 191–197. doi:10.1057/palgrave.dddmp.4350078

## Preamble

*Readers may remember that as long ago as the Spring of 2001 we published (under our former name of Interactive Marketing, Vol. 2, No. 4) a Best Practice piece on Tesco.com. In fact this piece still, after six years, is the 15th most downloaded article in the first half of 2007 of all the papers we have published. The present Case Study deals not simply with Tesco in its Internet guise, but with the re-launch of the Tesco Clubcard, which has been the foundation of the whole business, on and offline in recent years.*

## Introduction

This case study reveals how Tesco<sup>1</sup> and its agency, EHS Brann, have successfully revived Tesco's Clubcard scheme by re-inventing it over an 18-month period. The scheme's reactivation continues to ensure that existing members are engaged and new members attracted.

Most marketers are aware that Tesco and EHS Brann created the Tesco Clubcard, a world-leading loyalty programme that transformed the grocery retailer's fortunes. From a declining position in 1995, Tesco

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has become the UK's largest retailer and the third largest retailer worldwide.

In the UK, £1 in every £3 spent on food and £1 in every £8 across all UK retail spend is spent with Tesco. Tesco now has 15 million regular shoppers, more than 1,000 stores in the UK and is the world's largest online food retailer, with 70 per cent of the UK's online grocery market.

## Background

'Although Clubcard has existed for over a decade, the advantages that it brings are not diminishing; the scheme has an internal dynamism whereby the more transactions that it stimulates, the better Clubcard becomes at providing insights into the driving forces within the market.'

Cazenove, August 2005

In 1995 Tesco was in a weak secondary position in the UK grocery market. Sainsbury was the market leader. Tesco's market share was in reverse. They had a low share price and were experiencing slow growth. Tesco was finding it increasingly difficult to obtain planning permission for new stores and felt threatened by discounters.

### Clubcard scheme

Tesco and EHS Brann developed the Clubcard loyalty scheme in 1995 as a 'thank you' to customers. Tesco wanted to reward as many customers as possible, encouraging them to return more often and to 'shop more of the store'. Clubcard was launched in February 1995.

Over 11 years Clubcard has changed dramatically in scope and scale. In that time, it has leveraged a huge volume of customer data to continually evolve and stay ahead of competitors.

### Clubcard data are utilised across nearly every aspect of the Tesco business

Clubcard uses customer data to improve both Tesco's offering to customers and returns to shareholders. Clubcard data are utilised across nearly every aspect of the Tesco business. Data helps to identify consumer trends, spending patterns and opportunities for basket building. The customer data are also invaluable for informing new product development and ranging, staff promotions, supplier negotiation and competitor defence activity, as well as format development and site location. The customer knowledge derived from Clubcard scheme data gives Tesco a significant competitive advantage.

By 2003, grocery market competition was becoming intense. Although Safeway had abandoned the ABC card early in 2000, ASDA and Morrisons were aggressively discounting, Somerfield had just launched a new loyalty card and Sainsbury's had switched from their Reward Card to the Nectar scheme. Nectar was launched in the UK in autumn 2002 and attracted cardholders rapidly by offering a wide variety of earning partners. Although Sainsbury's like-for-like sales looked poor in 2003, Tesco was detecting warning signs.

The percentage of Tesco transactions recorded through the store checkout and downloaded onto the Clubcard database is a key indicator



Figure 1: Tesco Clubcard design

of member involvement with the scheme. If cardholders do not see the value in the scheme they fail to use their card. This results in a spiral of decline; the less cardholders use their card, the less accurate Clubcard data become, the less relevant the offers, and, consequently, the less cardholders value the scheme.

The percentage sales value recorded on Clubcard is also important because the scheme is designed to increase the value of cardholders' shopping behaviour. By the end of 2003, Clubcard usage was declining by 2 per cent per year.

Customer research revealed that cardholders were becoming jaded with loyalty schemes in general and were more discerning about the number of loyalty schemes they carried; 'I used to carry them all but now I only carry two — Tesco and Boots'.

At the same time, the research suggested that a minority of cardholders felt that Clubcard had lost some of its vibrancy. Clubcard was in danger of being regarded as old fashioned. The scheme had existed for eight years with the same old, blue card design (Figure 1).

The scheme's earning power and rewards were not felt to be as great as they used to be. Customers perceived them as poor in comparison with competitors, especially Boots' Advantage Card. Clubcard offered fewer opportunities to earn extra points, some purchases carried no points, pounds spent to pounds received was seen as disappointing.

Clubcard Deals was criticised for being confusing and over-complicated, and Cardholders felt Clubcard's in-store profile was much lower than it used to be.

Some urgent action was clearly required to re-invigorate Clubcard to ensure that it retained its place as an exemplary loyalty scheme, at the centre of Tesco's retention strategy and overall success.

### **Re-activation strategy: Clubcard re-invigorated**

The re-activation strategy effectively re-launched Clubcard. Tesco used the insight gained from their customer research to respond to customer concerns.

It was decided to revitalise Clubcard by launching a series of initiatives to address key customer requirements for the scheme to be 'simpler, more rewarding and more modern with a higher profile in-store'.

Workshops and ongoing research ensured that the initiatives met customer needs as fully as possible.

### **Clubcard effectively relaunched**

## Campaign execution

### ‘Simpler and more modern’

In order to modernise and simplify the scheme a barcoded key fob was introduced. Customers often forgot to bring their card with them or felt that getting their Clubcard out in-store was too time consuming, especially the smaller format cards.

### Key fob

From a series of workshops and a global review of competitor loyalty schemes, Tesco identified a barcoded key fob as the ideal format. A key fob is easier for cardholders to remember than a card, with the added benefit that scanning is quicker. Tesco made a significant investment, re-issuing all 11 million Clubcard customers with a new, redesigned, personalised, barcoded card and two key fobs.

This innovation has been spontaneously applauded by customers ever since (Figure 2).

### ‘Simpler and more rewarding’

The scheme’s reward structure was simplified from two layers to one, with all customers getting 4x the value of their ‘Vouchers’ when



Figure 2: The Clubcard key fob



Figure 3: The Clubcard SMART voucher/more valuable Clubcard deals

**Simplification of the scheme's reward structure**

converting them into a Clubcard Deal. This equates to a higher reward level than the one offered by the old scheme.

Tesco also embarked on a project to introduce simple 'Smart Vouchers' that are redeemable online as well as in-store. Through 'Smart Vouchers', cardholders can convert their 'Vouchers' into a Clubcard Deal online, whereas previously they were required to post their 'Vouchers' (Figure 3).

Tesco also increased the number of points in circulation through 'Thank You' coupons and offers from extended Tesco services, such as Tesco.com.

Research had shown that customers on a budget wanted help in managing their shopping bill, especially at Christmas time. A Christmas Saver scheme was introduced to give customers the option of storing 'Vouchers' until Christmas and the ability to top up their account at the till.

**Higher in-store profile**

**'A higher profile in-store'**

A higher in-store profile was achieved by using more prominent point-of-sale communications promoting the Clubcard initiatives and a 'hearts and minds' staff programme to encourage in-store promotion.

The Clubcard scheme re-activation initiatives were launched from May 2004 to coincide with the re-structuring of Clubcard Deals.

The Tenth Birthday staff communication campaign was launched in August 2005. A 'hearts and minds' programme encouraged Tesco staff to promote the initiatives. The staff campaign included point of sale in staff areas, engaging t-shirts, training programmes and staff incentives in all Tesco stores (Figure 4).



Figure 4: Clubcard tenth birthday staff communications

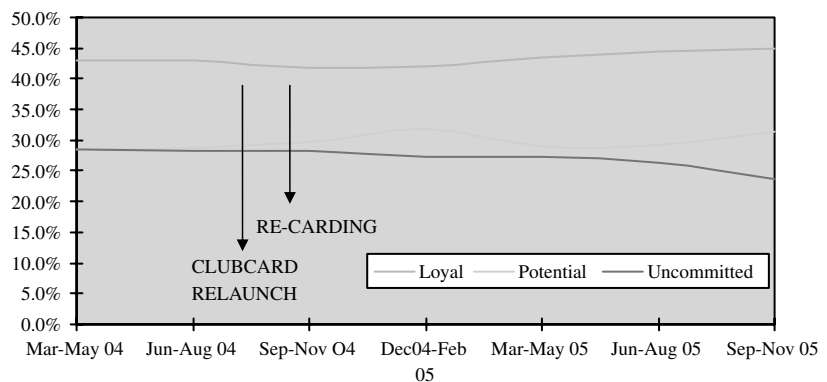


Figure 5: Card usage — all customers

## Results

The results from the initiatives have been spectacular:

- Clubcard Deals has grown massively since the scheme was simplified.
- *Basket and value penetration*: Since November 2004, the percentage of customer transactions has increased from 63 per cent to nearly 66 per cent — nearly 24 million incremental transactions annually through Clubcard. The percentage of value sales has also increased from 72 to 74 per cent.
- The volume of loyal customers is increasing as a proportion of all transactions (Figure 5).
- *Customer satisfaction*: There has been a significant impact on all the key customer attitudes towards issues that were highlighted in earlier research. Overall satisfaction with the scheme has improved significantly (Figure 6).
- Clubcard competitors have suffered (Figure 7).
- *Operational efficiency*: The introduction of the barcoded card and key fob has increased usage and scanning speed. Increased scanning speed means more customers can be processed, smaller

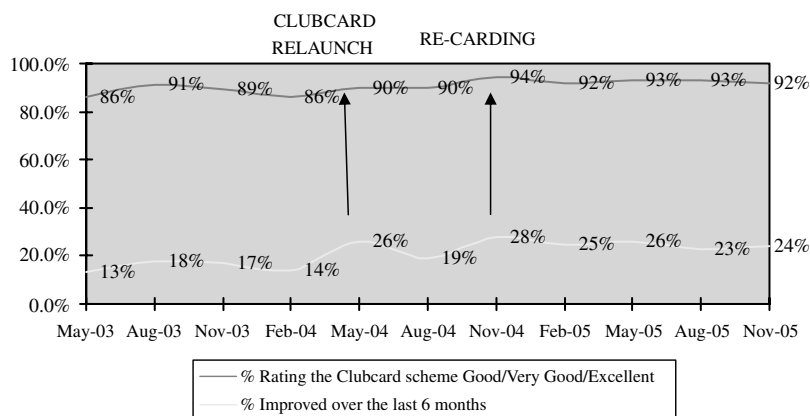


Figure 6: Overall customer satisfaction

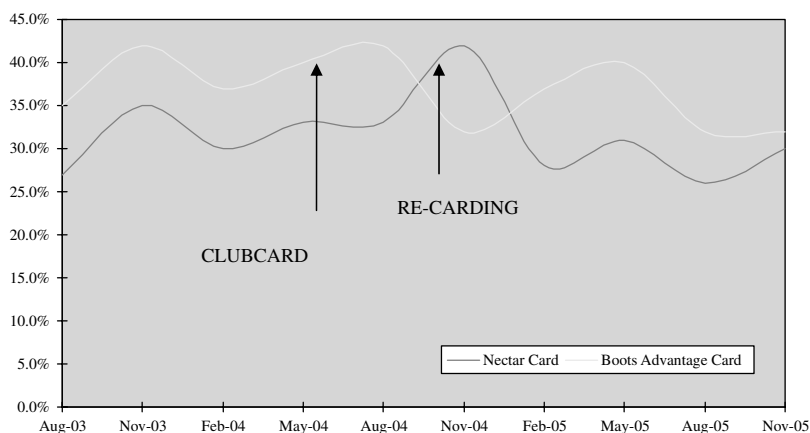


Figure 7: % Clubcard holders using a competitor card in the last three months

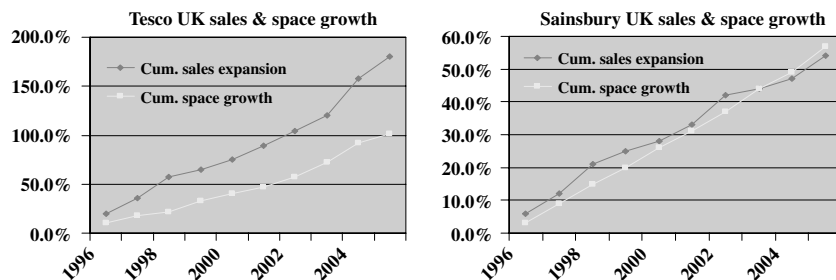


Figure 8: UK sales and space growth comparison for Tesco and Sainsbury

- queues, happier customers and less checkout staff. Operational efficiencies are estimated to be in the region of £8m annually.
- *Clubcard Deals*: Clubcard Deals reached its target of 10 per cent of Clubcard members a full year ahead of plan. The launch revitalised a fairly mature scheme that had been running for more than four years. Over that time, annual growth was around 5 per cent. Clubcard Deals has seen 270 per cent growth since the re-launch.
- *Hearts and minds*: Tesco monitor staff morale on a store-by-store basis. Mystery shoppers are employed to check customer services and specifically staff prompting customers to scan their Clubcard. At the same time, Tesco monitor the basket penetration of staff who are also Clubcard customers. Every staff measure has increased dramatically, with staff basket penetration consistently breaking 66 per cent for the first time.
- Tesco customers ‘shop more of the store’. Scale alone does not account for Tesco’s present position (Figure 8).
- Ongoing benefits arising from Clubcard’s re-vitalisation include further integration of the extended Tesco brand into Clubcard and the identification of more ways in which to say ‘thank you’ to customers using Clubcard data.

### Lessons learned

This case demonstrates the enduring strategic advantage that can be gained from an innovative, well-managed loyalty scheme, incorporated across all customer facing points in an organisation that has datawarehousing at the heart of its business approach.

Tesco have gained a significant competitive advantage by leveraging the vast quantity of data from Clubcard to gain great knowledge and insight about their customers. As the case clearly shows, customer research was invaluable to answer the ‘why?’ questions when Clubcard’s popularity began to wane.

The case shows how far reaching and all encompassing the positive effects of a well-managed loyalty scheme can be but also provides a salutary warning against complacency. Loyalty schemes must be continually reviewed and re-invigorated if they are to continue to emulate early success.

#### Note

1. Tesco Stores Limited is the winner of the prestigious IDM Business Performance Silver Award. Entrants for the annual award are judged on multiple business and marketing criteria by three tiers of judges representing a cross-section of industry and marketing expertise.

**An enduring strategic advantage can be attained**