SERVICE MARKETING ASSIGNMENT
- MK353 -

Assessment of Relationship Marketing:

TESCO

CLUBCARD

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The Loyalty Card schemes at TESCO
- a good example for poor relationship marketing ?-

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Assessment: Relationship Marketing

Until recently the study of marketing was concerned only with the functions necessary to carry out market transactions such as buying and selling. Marketers focused mainly on the procedures necessary to execute those functions. Marketing itself was considered as a ‘bag of tricks’ that persuade customers to buy products. There was little concern about things such as creating customer loyalty, receiving customer feedback, or treating customers as prized individuals.

As Marketers evolved, they began to realise that this traditional marketing-mix approach did not seem to be working properly anymore since the application of the theory is not able to secure customer loyalty. Therefore a new approach to marketing was needed to cope with the new market environment.

Relationship Marketing

Relationship marketing (RM) is an emerging paradigm of business strategy that focuses on the systematic development of ongoing, collaborative business relationships as a key source of sustainable competitive advantage. These relationships can be both internal and external to the firm. In RM, managing sales transactions for short-term results is giving way to building long-term customer value through managing relationships. The key to attaining a higher share of each customer's life-time business is the systematic development and management of co-operative and collaborative partnering relationships with customers, suppliers, competitors, and other divisions within the firm.

The term “zero defections” is often used in RM to describe the nature of these relationships which are interactive and mutually beneficial. Although many consider this an idealistic goal, “zero defection” policies help give birth to real growth in areas such as customer satisfaction and retention.

Employee retention is equally important. Internal marketing is just as important as external marketing, and both involve interactive processes. Employees should be treated as internal customers. If the staff is able to work together in a positive energy environment, then the firm will attain an inner sense if continuity. This, in turn will help to create role familiarity, colleague familiarity, product familiarity, customer familiarity, and culture familiarity, which will help the firm save time and money. Familiar employees create more efficient output. If they enjoy their job, work moves more rapidly. They are then able to be retained as pillars within the company. These type of employees are more motivated and have more allegiance to the company, thus providing needed stability. When customers see this, it helps to make their buying experience more enjoyable, and they are more likely to spread their satisfaction by "word of mouth", the most powerful advertising tool available.

Steps of relationship development (Palmer 94, p.163).

1. awareness
2. exploration
3. expansion
4. commitment

Service Quality in RM

RM aims to build a long-term interactive relationship between providers and customers. In order to create lasting relationships, firms have to initially attract customers but to keep them as well. Having good quality products is obviously the best way to prevent a relationship from breaking up, but when products are defective it is crucial to insure that the customer does not defect, and this can be done with solid service quality. The service quality concept focuses on maximising profitability through increased customer satisfaction. Its goals are the three R's of RM: relationship, retention and recovery.

The concept of "good customer"

One new phenomena in addition to the three R's introduced by RM is the increasing focus on one-to-one relationships. Relationships are characterised by a stronger connection and interaction than with impersonal mass marketing. This is often accomplished by a personal nature, so that the firms can provide customised services to customers tailored to their needs and liking. The development of the ability to do that requires huge investments of human and financial resources, such as up-to-date databases on customers and hiring and training employees. Providing high quality services to keep the customers happy (and loyal) is also a costly procedure.

These expenditures have to be justified either by lower costs, increased resources, higher sales or some other positive factor to be gained. In other words, the company has to be selective when investing in customers. The firm has to segment the market and identify those customers who provide utility to it, those who are likely to do profitable business with it over a long period of time. Some customers should be allowed to defect while others should be retained, and the company should channel its efforts towards those who offer greater future benefit. Instead of following the market share blindly, the provider should develop a ‘quality share.

Identifying the ‘right’ customers requires refined methods of customer evaluations, but generally speaking the right customers are those who value the relationship as an important asset and who appreciate and are willing to pay fairly for the resources the company commits to solving his problem. In order to maintain accurate data about customers and their buying preferences, patterns, and habits, many companies are compiling massive databases of information. It is important that corporations act responsibly with these customer databases. All too often the corporation benefits more than the customer from healthy relationship marketing, and databases are a prime example. Companies ask for loyalty, friendship and respect, but often don’t reciprocate when they publicise or distribute private information about consumers to the public. One way to maintain the “good customer” is to respect his/her privacy.

The 3 R’s of Relationship Marketing

Relationship

Relationships in RM can be characterised as linked and interdependent, where both parties are interested in the other’s well being. Each party has expectations and mutual obligations. It is voluntary and mutually beneficial where both parties remain satisfied thus loyal.

A loyal clientele enhances a firm’s profitability through

- revenue growth through repeat businesses
- lower cost due serving experienced customers
- employee retention
- positive word-of-mouth advertising

Benefits to the customers are:

- security in a turbulent environment
- reduces risk associated with purchasing
- customised services
- Familiarity with operations

Retention

Retention focuses on how to keep existing customers, since as the emerging rule of thumb in services area says it cost five times more to attract a new customer than to keep an existing one. These retention efforts, however, should be focused on the right customers, who are already making and are likely to make a long-term contribution to the successful operation of the firm.

Recovery

Recovery relates to the ability of the company to recover from mistakes made in delivering the service. The mistake, in this case, has led the customer to defect, and the firm must discover how to regain the customers business. The level to which a company will recover depends on two things. One is the importance of the customer, other is the severity of the error. Accordingly, the recovery can range from a simple apology to a “whatever it takes” policy. The more valuable the customer the more the firm will do to compensate him in order to keep the relationship functioning. It is extremely important for firms to recover from mistakes even in those cases when the customer is lost, because the negative consequences of not doing it can far outweigh the cost of rectifying the error. Word-of-mouth is the most powerful marketing tool, and negative Word-of mouth is the most devastating as far as the companies’ image is concerned.

Downfalls of Relationship Marketing

Despite the advantages that Relationship Marketing provides, there are a few downfalls. When RM is done to excess it can be extremely costly. The data collection process and research costs involve expensive technology and many man-hours. These added costs must be passed on to the consumer, which may lower their satisfaction or force them to purchase somewhere else altogether.

RM is effective when other competitors have lower quality service. It is especially effective if a company can diversify it's relationship with the consumer from that of other companies. However, when many company's all engage in the same RM practices (as in Loyalty Cards) the diversifying effect is so minuscule that the RM costs provide no competitive advantage. In this case consumers would not prefer one company over the other unless one company was without the service-causing a competitive disadvantage. This situation just raises the cost of goods in exchange for a relationship that is more beneficial to the firm that the customer. It also provides an opportunity for competition to undercut the markets pricing with a "no frills" structure.

Summary

RM seems to be redefining the success factor in most business arenas, but first and foremost in service intensive areas. It has created a new paradigm by shifting the orientation from production efficiency to the customer needs and their satisfaction. It has made the buyer/supplier relationship more direct and personal so high-tech also becomes 'high-touch'.

In the future the companies will seek success in the existing customer base selling more to them rather than try to find new customer for their products. Customer loyalty and the large investment needed to develop the necessary information capabilities can create a sustainable competitive edge over competitors. In markets where RM is has attained a state of uniformity, companies may be forced to find more cost effective ways of diversifying. All in all, Relationship marketing has clearly provided customers (both internal and external to the firm) with more enjoyable environment to accomplish their objectives (working or shopping). Whether it is economically practical for businesses and the economy in general has yet to be determined.

Example: The TESCO CLUB CARD

Role of consumer loyalty

Clubcards were originally designed to increase consumer loyalty. A high degree of loyalty among customers does not only ensure sales, but it also makes long-term planning much easier. Customer loyalty is a crucial and elementary step in ensuring the long term stability of the company. Evidence from the Check98 survey, however, seems to suggest that there is an equalising effect that occurs when all companies have the same loyalty scheme.

The history of Clubcards in the Irish supermarkets

Superquinn introduced the first Card of this kind in 1992. They are an extremely consumer conscious supermarket with excellent customer service, but they have fallen behind in the Loyalty Card world. Despite SuperClub's presence in Ireland since 1992, it took the entry of TESCO to make indigenous grocers think really hard about the Loyalty-world. Dunnes has also entered the Value Card market effectively, and has created an extremely competitive RM environment.

Different concepts - but are they really different?

Both Dunnes Stores and TESCO loyalty schemes offer roughly the same benefits - a 1 % savings which can be used to purchase more goods, plus posted-out money off coupons. The advantages these two systems have over the SuperClub (Superquinn) is that they offer a better return - 1% as against 0.45%, money instead of gifts, with rewards available every quarter (Check98). So these schemes are quite similar to each other. There are further "innovations" like offering customers special deals for shopping at off peak times, or setting up a special reward scheme for big spending customers, but all in all, there are no important differences between the systems. So one very important aspect in attracting loyal customers, uniqueness, isn't present any more since Superquinn isn't the only grocer with such a scheme. From many consumers point of view, it may be more advantageous to just discount the 1% from the beginning. This would enable firms to cut the information technology costs, as well as those costs associated with managing, researching, and updating the Club Card programs. In reality, consumers might just prefer lower prices, rather than paying a higher price and getting 1% back. Clearly firms benefit more from these programs than the consumer, and in the long run the relationship may be damaged if consumers feel they are being used for the demographic and buying pattern information that they pay the firms to provide.

Profile of Loyalty Card Holders

Until the beginning of 1997 Superquinn was the only grocer who offered a loyalty card. But in 1997 Dunnes Stores also introduced such a scheme and since the entrance of TESCO onto the Irish market now the attribute of 'uniqueness' is definitely gone. Figures 1 and 2 show the penetration of loyalty cards in Ireland (Check98).

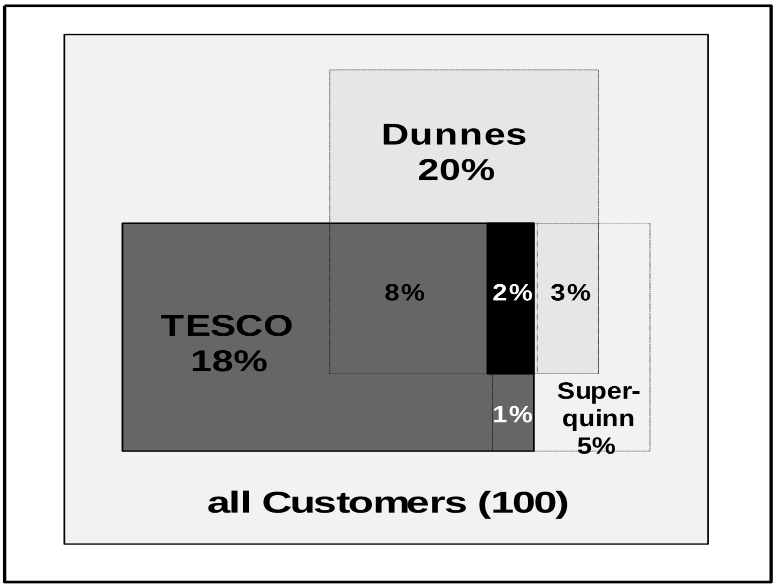

Figure 1:

Ownership of Loyalty Cards

how to read the diagram:

e.g.: 18% of all Customers just own a TESCO Card; 8% own both Tesoc and Dunnes; 2% own all three etc.

This data reveals that roughly six out of every ten shoppers have signed up for Loyalty Card programs. Dunnes store card are clearly the most popular, but among Dunnes Value Card, and TESCO Club Card owners approximately one out of every three shoppers hold a competitor's card, with as many Dunnes shoppers holding a TESCO car as vice versa.

Although the profile of grocery shoppers in Ireland in Ireland is 80% female and 20% male, nine out of ten owners of loyalty cards are female, predominantly in the 35-49 age bracket with children. These are the shoppers that incur the largest weekly grocery bills (see Figure 2).

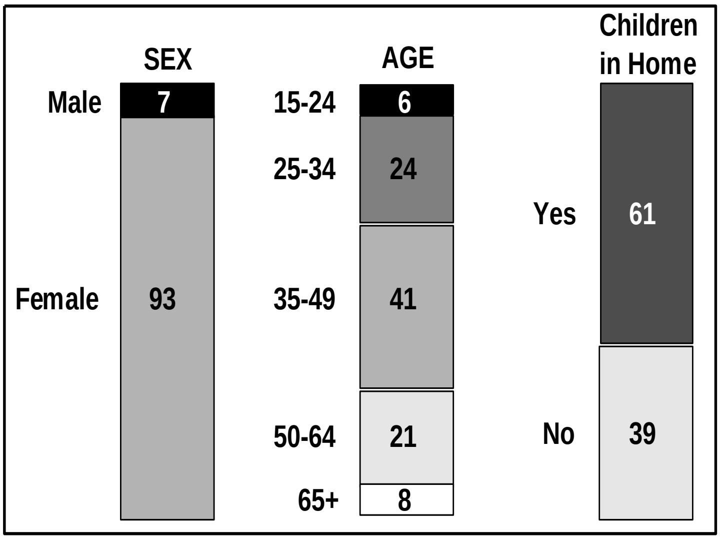

Figure 2:

Demographic Breakdown of Loyalty Card Owners

Are Club Cards a cost effective way to increase sales?

In the following, the advantages and disadvantages of the Club Card system will be described to answer the question weather this system provides any real progressive advantages.

The advantages for the company

The advantageous for the company are quite obvious, but only at first glance.

- Loyalty. If one regards the basic idea and the reasoning behind it, the loyalty of the consumers is expected to increase. But this is just the theory. In reality many of the customers do have more than one Card as shown in figure 1 (Check98) and so it is more than doubtful if the loyalty really increases by a substantial measure.

But even if the loyalty does not increase, than there is still the information effect and the advertising effect.

- information effect. The company gets a quite good impression of the average customer. What she buys, when, how much and so on. This makes customising and targeting more effective and shows the effect of advertising or promotion campaigns.
- advertising effect. The publication of the amount of money, given away after each quarter is very good and self paying promotion for the company.

The data provided to firms in conjunction with the investment in powerful and expensive technology allows management to perform complex queries. This data mining involves seeking patterns, trends, and relationships in the stored information for use in highly targeted promotions. This provides companies with the tools and skills to build better relationships with the customers and a more thorough understanding of what those customers want. Information Technology teams can then also interpret customer data to analyse market segments, looking for ways to gain competitive advantage with more highly directed marketing programs. In general, these cards can help companies move away from scatter gun marketing to a more focused approach.

Is there an advantage for the customer?

The supermarkets advertise heavily the one main advantage for the customer: Money back.

But is this really an advantage? At this point it is important not to mix up the image the card might have with the real advantages and disadvantages they offer.

A good image only means, that the basic idea (money off) is welcomed and also that the PR department has done their job quite well.

Real advantages and disadvantages on the other hand decide whether the system will be successful or not. TESCO (and the same is true for Dunnes Stores and Superquinn) will only get loyal customers if they, the customer, realise real advantages. These advantages must not only be worth the effort, they also have to be unique and superior to the ones the competitors offer.

Even if the image of loyalty card is quite good, there are no real advantages for the customer. It is the customer who has to pay for the gifts and vouchers and it would be very naive to think, that she does not realise this. In addition to the higher price cost of the goods purchased, the customer must also sacrifice time (opportunity cost). She certainly would prefer to get the products cheaper right at the shopping or to get advantages the competitors do not offer. But as she has no chance she arranges herself with the system and uses the card. Despite this, it is not usual in Ireland to show dissatisfaction directly. A similar study in Germany for instance would show the dissatisfaction of having to play this game much more clearly.

With the method of Loyalty-Cards, there are only additional costs produced and these costs too have to be paid by the customer and there is no equivalent return.

Beside this very doubtful advantage of money back, there are several additional disadvantages for the customer.

- The information effect (see above) doesn't make customising and target marketing really easier, because it only calculates and connects who buys what, when and how much, but not the most important question of all when a company really wants to meet the customers wants and needs: Why? This system just creates a naked consumer. She gives information without any real return like for instance a customised products would be. Now one could argue with shopping conditions like opening hours etc. but to improve these, a Club scheme is not necessary at all. Very similar buying pattern information could be attained through the use of the checkout scanners.
- The advertising effect (publishing the amount of money, which is given away every quarter) is good and cheap promotion for the company, but only as long as the customer do not ask where this amount of money comes from. At this point a grocer runs danger to reach the opposite effect.

All in all, it is more than doubtful if there is an advantage for the customer at all. The disadvantages are obvious, but the advantage of getting 1% off is very doubtful, especially because this one per cent was paid by the consumer initially. Furthermore, the consumer becomes exposed to the possibility of direct mailings, and if companies don't act responsibly with their lists, consumers could find themselves facing more junk mail every day.

Summary: Do Club Cards represent good relationship marketing?

If one compares the gains and losses for the company and the customer it indicates that the user of the card is obviously is not the winner.

Some benefits to the customers (see page 4) are hardly present and/or irrelevant in the grocery sector and other benefits as ‘customised services’ isn’t implied by the companies yet.

From the customers point of view additional costs are created without an real advantage; no Card holder gets access to any kind of extra or other service or product: The diversifying effect is minuscule (see page 5)

Although Loyalty Cards seem to be very popular (56% of all customers), this may only be a reflection of consumers who have to deal with the scheme. The best they can do (and many customers do so) is to use more than one card even if this is contriving the aim of getting a loyal customer.

From a strategical point of view this policy it is very dangerous, too because it prevents the changes which are necessary to gain a long-term competitive advantage. If one day a low-price-high-quality company (like e.g. ALDI) should decide to enter the Irish market, it would be the end for many Irish grocers. TESCO has already to deal with ALDI as a competitor in the UK. Companies like ALDI can provide real advantages with everyday low pricing systems while offering high quality goods. In this alternative, there is a clear and present advantage to the consumer.

Result:

The slogan “more value for your money“ is probably only valid for the marketing company, who created it. So, this system might be considered a good example of poor relationship marketing.

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Appendix: TESCO CLUBCARD - Terms and conditions