



BUILDING TARGET CORPORATION'S CUSTOMER LOYALTY PROGRAMME THROUGH TESCO'S CLUB-CARD SCHEME

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ABSTRACT

Today, marketers and business owners prefer to provide loyalty programs because they have the ability to improve customer retention for a specific operation. The purpose of this study is to analyze the impact of the major retail loyalty scheme; Tesco's Clubcard, on customer loyalty and consequently suggest a retail loyalty scheme for Target Corporation. The paper is based on literature reviews from journal articles, books and online news, related to the research area. The paper takes a case study approach, discussing Tesco's Clubcard scheme factoring how customers earn rewards, the deals offered to them, the Dunnhumby impact, how effective was the scheme, and Target Corporation's Loyalty Scheme factoring the RED card program, information tracking systems and where Target Corporation lacks in the same. It is suggested that Target Corporation consider a rewards program that is not limited to usage of debit or credit cards only. It's becoming difficult to cater to all the customer demands as the average customers are becoming smarter and aware. There is need for exploring multiple channels of delivering promotional deals to customers. Influence form Tesco's loyalty scheme can help Target to reduce its cost on promotions and most importantly increase the customer loyalty towards the company.

KEYWORDS: Loyalty programs, Tesco Clubcard, Target RED card, reward programs, customer retention, retail chain

SUBJECT

Building Target Corporation's Customer Loyalty Programme through Tesco's Club-card Scheme.

INTRODUCTION

Companies around the world are now focusing on loyalty programs more often than ever before. Organizations began to understand the importance of retaining existing customers and chose to implement a system directed specifically at building customer loyalty.

A loyalty program is a marketing system instituted by a business that rewards purchasing behavior, thus increasing the customer's desire to stay loyal to a company. A loyalty program may offer convenience, store credit, prizes, or any other benefit that would entice the loyalty of a customer. While the specifics of each program may differ, the premise remains the same.

Loyalty programs serve a dual function: to incentivize new clients to stick around after purchasing your product, and to make sure that existing loyal clients still feel as if they are valued by your operation. The more a customer feels appreciated by a business, the more he or she is likely to prefer that company and to recommend it to others. This, in turn, carries on in a word-of-mouth cyclical nature that continues to achieve growth for your business. Such programs may also serve as an excellent source for customer data in terms of purchase activities and be used for generating tailor made promotions for each individual customer, via meta data analysis.

Loyalty programs are important part of the retail industry as brand switching is very common in this sector. This is mainly due to the increased competition and price sensitivity of products in the market. Tesco is a good example of an effective loyalty scheme implemented in the retail industry.

Tesco Clubcard loyalty scheme was first introduced in 1990s Britain, where there was a growing demand for keeping loyal customers in large supermarkets such as Tesco. As of today, Tesco has managed to advance its Clubcard scheme by making it available outside UK and by increasing the services where it can be used. It is considered to be a prime example of a successful customer loyalty scheme that uses big data analysis.

Large retailers like Target Corporation still lag behind in building loyal customers. The strategies used by Tesco to increase its loyal customers are analyzed in this paper. These can

be adopted by Target for building its loyal customers and to create a customer centric relationship for the company.

Literature Review

Rowley (2007) in his study titled Reconceptualising the strategic role of loyalty schemes has the objective to report a case study analysis of the major retail loyalty scheme, Tesco Clubcard, with a view to exploring how loyalty schemes can be used to add brand value. The methodology used for the study was case study analysis and evaluation of secondary data collected through desk research. The paper talks about the complexities associated with designing loyalty schemes that work for different organizations with a range of different types of interactions with their customers. Findings suggest that the predominant focus of research on loyalty schemes needs to be shifted from a pre-occupation with the concept of loyalty, and the design of reward schemes and to seek to undertaken further research into how loyalty schemes can add value to the business.

Turner and Wilson in their study titled Grocery loyalty: Tesco Clubcard and its impact on loyalty have the objective to identify the impact of the Tesco Clubcard on customer loyalty and to contrast customer perceptions of the Clubcard and staff to identify which factor has the greater impact on customer loyalty to store. The methodology used for the study was Quantitative analysis of responses collected from 60 randomly selected Tesco Customers based on a set questionnaire. The paper talks about investigating the influence of the Tesco Clubcard on customer store loyalty. Results indicate a positive moderate relationship between the owning of a Clubcard and loyalty to store; and between the Clubcard returns and customer loyalty. No significant relationship between Tesco staff and customer loyalty was found.

Jennifer (2005) in his study titled Building brand webs: Customer relationship management through the Tesco Clubcard loyalty scheme has the objective to re-conceptualise the role of loyalty schemes by focusing on the role of loyalty schemes in branding and brand webs. The methodology used for the study was a case study-based approach. The paper talks about Tesco Clubcard building relationships on additional dimensions, through: the option to collect Clubcard points through transactions with other retailers; the option to use reward points with a range of leisure and associated outlets, and, the e-loyalty element of the scheme accessible through the internet. Results indicate that the multidimensional approach to relationships builds a visible relationship web that is central to marketing communication and

brand building associated with the Tesco brand. Both brand perceptions and experiences are built as customers make choices regarding the paths through which they will travel. The brand web operates at the three levels of experience, community, and customer data and knowledge.

Gillies, Rigby and Reichheld (2002) in their study titled the story behind successful customer relations management have the objective to analyse the efficiency of typical customer relations management tools and the importance of customer loyalty programmes in the same. The methodology used for the study was subjective analysis of secondary data. The paper talks about building robust customer strategies, aligning the organisation with its customer strategies and the right tools for it. The authors opine that typical customer relation management tools often fail to deliver benefits that are commensurate with their cost, although results show that in some cases, a 5% increase in customer retention boosts lifetime customer profits by 50%. The increase can even go up to 90% in some industries like insurance.

Rohwedder (2006) in her study titled U.K. Retailing: How Tesco uses detailed data to buffet Wal-Mart's Asda; 'Clubcard' is vital weapon against U.S. titan has the objective to identify the strategies behind the success of Tesco's loyalty scheme and how it competes with US' Wal-Mart. The paper talks about Tesco's Meta data handling techniques and how it gives tailor made promotions to individuals. Tesco gives discounts to customers in exchange for their personal details and then tracks each individual's purchases to form a database that tells Tesco who wants and what and for how much. For customers, the card offers additional discounts for every purchase they make. . If a member spends GBP 300, she gets a voucher for GBP 3 off any purchase. Tesco says 95% of these vouchers are redeemed, suggesting they help entice shoppers to return.

Ha (2007) in his study titled how customer loyalty programs can influence relational marketing outcomes: using customer-retailer identification to build relationships has the objective to develop a model of customer loyalty program success that builds a strong and positive customer-retailer relationship. The methodology used was creating a variable equation model using experimental design, self reporting scale and median split method. This study proposed a model that two socio-psychological factors in relation to a customer loyalty program (loyalty program distinctiveness and identity relevance) would influence consumer membership identity and their responses to the loyalty program. Results indicate that consumer perception of identity salience as a member of the loyalty program evoked by

distinctiveness and identity relevance relating to the loyalty program positively influences consumer attitude toward the retailer, customer-retailer identification, and satisfaction.

Lacey (2003) in his study titled customer loyalty programs: strategic value to relationship marketing has the objective to develop a customer loyalty model that examined loyalty at the level of the individual customer and identified the drivers and manifestations of customer loyalty. The methodology used for the study was self-report measures of respondents' perceptions. The paper talks about customer relationships devoted to relationship marketing implementation. Findings across multiple contexts found empirical support for customer loyalty program membership as having significantly positive effects on customer commitment and trust, as well as on the antecedents and consequences of customer loyalty.

MATERIALS AND METHOD

The method used for this conceptual paper is based on literature reviews from journal articles, books and online news which are related with the keywords and research area. This paper takes a case study approach. The paper suggests the framework for building customer loyalty through loyalty schemes by considering the example of Tesco's Clubcard scheme. This paper tries to understand the effectiveness of the loyalty programs by retailers and suggest similar methods to Target Corporation to expand the company's loyal customers.

TESCO LOYALTY PROGRAM: TESCO CLUBCARD SCHEME

Tesco Clubcard is the company's loyalty scheme with a reward system that embeds multiple relationships, extending beyond the simple relationship between Tesco and their customers. The scheme introduces customer and other business to each other, through a brand of relationship web, and thereby builds brand experiences and value. The following are the brand building aspects of Tesco Clubcard.

Earning rewards

Customers can earn points through meeting everyday needs and undertaking everyday activities. Clubcard points can be earned by:

- Making purchases in Tesco stores, including petrol stations, and coffee shops. One Clubcard point is earned for every pound spent.
- Making purchases online through Tesco's official website tesco.com.
- Using a credit card for purchases from Tesco.

- By shopping with the following companies: Beefeater, Dollond & Atichison, Alleders, Travelcare, Johnsons, Marriot, and National Tyres etc.
- Recycling mobile phones.

If the customers have earned over 150 points, they receive Clubcard vouchers, together with a copy of the magazine. Apart from vouchers, members are also sent coupons for items that the database suggests that they have purchased recently. On every 3 months customers of Tesco are sent a Clubcard statement regarding the purchases and suggestions.

Clubcard deals

Using Clubcard Deals doubles the value of the vouchers when they are exchanged. Premium Clubcard customers get four times the value of their Clubcard vouchers when exchanged for Deal tokens. The tokens can be used in the following locations: Theme parks, Restaurants, Attractions, Zoos and Safari parks, Museums, Sightseeing, Holidays, Sports and Leisure, Airlines etc.

These Deals makes Tesco looks like a lifestyle option than just a retailer. Being offered such a wide range of deals creates a perception that Tesco is the hub of a wide range of relationships. The companies that are listed in the Clubcard gains exposure and otherwise published through Tesco channels. It is thus providing an introduction in the relationship between customers and Tesco's business partners.

Once the Clubcard programme became successful, Tesco expanded its offer to include other products, such as discounting prices on fuels. This expansion is meant to promote the services advertised and provided by Tesco as well as to keep the customers loyal to the Company.

This entire strategy of Tesco leads customers to experience the service added values of Tesco. So as far as the customer is concerned Tesco had moved ahead from a convenience everyday brand to an experience brand. This has eventually led to form loyal customers of Tesco and is seen a good customer relation strategy by any retailer.

Role of Dunnhumby

Tesco bought 53% stake of Dunnhumby in 2001 for 30 million pounds, increasing this to 84% in 2006. Dunnhumby provides analytical software for retail price optimization and for promotions planning of Tesco. The company analyses data collected through the Clubcard to

implement price targeting and to personalize customer service, thus bringing the customer closer to the company.

Dunnhumby's offices in Ealing, just outside London, receive data on 15 million Tesco shopping baskets every week. For each item, Dunnhumby's computers note when and where it was purchased, and whether it was bought during an advertising campaign or in-store promotion.

Each product is scored on 50 different dimensions which ranges from price to the size of the package. The system looks for customers whose shopping baskets have similar combinations of scores. Dunnhumby classifies shoppers in six segments. The Finer Foods segment is made up of affluent, time-strapped shoppers who buy upscale products. Traditional shoppers are homemakers with time to buy ingredients and cook a meal. Tesco uses Dunnhumby's segment analysis, to get a grasp of what kind of people are buying their products and to know the consumer preferences.

Effectiveness of the Clubcard scheme

In the five year period following the implementation of the Club Card program, sale of Tesco have increased by 52% and is still growing at a rate higher than the calculated industry average. The store openings and expansions have increased Tesco's floor space by 150%.

In 2013, Tesco has used its Clubcard to analyze the eating habits of its customers, and thus use this information to conquer the obesity problems in UK. This has also helped the company to understand the needs of its unique customers. Appropriate product suggestions are given to the customers on basis on the data analysis. This makes customers feel valued and thus they show more loyalty towards the company.

Tesco's rollout of an ethnic-food line called World Foods shows how customer data can shape decision-making at almost every step of the way. The idea got its start when Clubcard records showed shoppers at a small store in the town of the Slough region weren't buying full meals. It was known that most people in the town have South Asian or Arab roots. Tesco decided to replace the store with a supercenter with products from different parts of the world that could cater to the needs of diverse people in that area. The analysis given by Dunnhumby showed that 36 % of Slough shoppers where buying goods from World foods line. This figure roughly matched the proportion of Sloughs non white population. Thus the loyalty programs by Tesco proved beneficial for the company to know its customers and to cater to their needs.

TARGET CORPORATION LOYALTY SCHEMES

RED card Program: Gives 5% cash back on all purchases and free shipping on online when using RED card. The customers' Debit Card is connected directly to bank account and Credit Card works as a normal credit card in this scheme.

Information Tracking System: Tracks consumers by assigning them a Guest ID, whenever a purchase is made using a credit card or a coupon, a survey filled out, refund mailed in, customer help line called, or e-mailed opened, and it is recorded and linked to Guest ID. Target can also buy data from data aggregators and credit card companies about your ethnicity, job history, etc. Target hired Andrew Pole in 2002, to analyze this data and predict life events; for example, pregnancy from a mother's shopping habits and then to target the ads and couponing around the same. From 2002 to 2010 Target revenue increased from \$44 Billion to \$67 Billion due to this scheme. Overall it is a very effective system. However, it does not track cash purchases, if family uses multiple credit cards, and doesn't consider demographic data of the customer. And the company can't promise the misuse of data as most of the analysis is outsourced to external agencies.

Gaps in Target's Scheme

10% of households account for \approx 50% of total sales, yet RED cards only account for 14% of total sales, meaning, most of top households have still not adopted the RED card. The possible barriers may be the commitment of adopting a Credit/Debit Card, easier or "free" rewards program will allow for more revenue extraction from this group. The scheme couldn't attract a larger section of the society.

While current tracking of Target Corporation customers is effective in predicting consumers life stages, this process of data collection is accumulated over time, and requires proper matching with the Guest IDs. The company may not have access to consumer's mailing or email address leading to only one channel for customers to receive coupons, at the point-of-sale. There is no clarity or transparency to consumers of how the results of the purchases, have built their relationship with Target, or how they have earned savings. Consumers may buy through a variety of mediums, credit, cash, debit, and there are costs associated with purchasing data & increased government regulation on information that credit card companies are allowed to disseminate.

RESULTS

For Target Corporation, there is room for improvement, which can be captured through a rewards program that does not require the usage of a credit or debit card. Target needs to find a way to improve its customer loyalty to reach beyond the current 10% of customers who account for almost half of its sales. Implementing a rewards and loyalty program is one way to gather information on how to increase this loyal customer base.

Target's tracking lacks the value to consumer, and a new reward system should be formed that will help convey that through. There is a need for multiple ways for consumers to receive coupons and savings, through email, mail, mobile app or websites with reward's sign-up process. More chances to receive deals will increase the perceived value of target rewards, leading to more coupons redemption, giving motivation to increase purchases. Rewards allows for early tracking on customer spending, and the ability to offer coupons in the early stages of spending. Reward Card offers way to identify the loyal consumers and also add to the target experience through exclusive benefits or prices leading to increased differentiation.

Once a loyalty program is established, the company can move from its old performance reporting to building a basic customer language and to use the language to gain a detailed customer understanding. If CRM is approached correctly and applied effectively, marketing spending can often be reduced. For Tesco, the media effectiveness of the Club Card Program has allowed them to save money on promotions and increase sales at the same time. Thus adopting a similar loyalty scheme can help Target to reduce its cost on promotions and most importantly increase the customer loyalty towards the company.

DISCUSSIONS

Today, marketers and business owners prefer to provide loyalty programs because they have the ability to improve customer retention for a specific operation. Customers appreciate loyalty programs because these programs usually provide added incentives for making a purchase, with the rewards increasing with more purchases, or depending on the size or scope of the item purchased. Because of this, using a loyalty rewards program in the company's marketing strategy will help to provide the company with access to a bigger portion of your customers' wallets.

It's becoming difficult to cater to all the customer demands as the average customers are becoming smarter and aware. Customers expect value for money, at all costs. Moreover, they want to be appreciated for their patronage. Keeping these smart customers in mind, loyalty

programs should be designed along with customer retention strategies. This will help to keep the competition in control and act as motivators for customers to continue using the same service or product. Moreover, customer loyalty programs provides database for further customer relationship management that can be accessed by the company for future planning.

The concept of rewarding a customer with better prices or services is to encourage them to repeat their behavior. If the concept is rightly executed, a customer loyalty program can dramatically increase profitability for the company. Retaining existing customers is relatively easy on the budget than targeting new ones. A cost incurred on any loyalty program that promises to retain customers is money well spent. So companies like Target should focus on its loyalty programs as it can drastically increase the customer base and sales for the company as it has done for Tesco through Tesco Clubcard.

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