

Loyalty Wars in the UK Supermarket Industry (A) (B)

Co-Authors: Weering, E.

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Introduction:

In February 1995, Tesco--the number two UK supermarket chain--launched Clubcard, the first loyalty card in the UK supermarket scene, after a trial of one year in 14 stores. Shoppers could collect one point for every £5 spent over a minimum of £10 per shopping trip. Every three months, these points could be converted into money-off vouchers, sent to the customer's home. The value of the vouchers represented a reward rate of about 1%. In addition to the vouchers, customers would receive supplier-funded coupons in their quarterly Clubcard mailing. Sir Ian MacLaurin, Chairman of Tesco, explained the positioning of the Clubcard:

In Tesco we work hard to develop a close relationship with our customers, in order to serve them well. The Clubcard is a way of thanking them for shopping with us. At the same time, the technology gives us a clearer picture of their likes and dislikes, which helps us to give them an even better service.

Operating costs of the Tesco Clubcard were estimated at £10 million, the costs of the money off vouchers at £50 million. Tesco would have to make an increase in like-for-like sales of 1.5% to 2% in order for the scheme to pay for itself.

UK Grocery Environment

In the 1985-1995 period, UK supermarket results were fed by sales from new outlets. In 1995, the market became saturated, and supermarkets were faced with the problem of static sales. With stricter planning legislation, the traditional route of opening new stores to create impressive sales growth slowed. Instead, supermarkets now had to increase sales from existing stores in order to keep shareholders satisfied. In addition to the problem of stifled consumer spending, there was an increasing pressure on the margins of the supermarkets as discounters--such as Kwik Save, Aldi and Netto--were luring customers away with lower prices.

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