

# Here Comes Tesco

As the U.K.'s leading retailer, with a 30 percent share of the market (almost double its nearest rival), Tesco tops the class of British supermarkets. Given Tesco's recent announcement of plans to start opening c-stores in U.S. markets, its track record warrants close examination.

For starters, Tesco captures one in every eight pounds spent on the U.K. high street. And it has undertaken a successful shift from being a down-market retailer to one with a broadly appealing image and a value proposition that spans low and premium price offerings.

The *Tesco Finest* line — a store brand that started in pre-prepared meals and is now expanding into other categories — has, in fact, achieved quality ratings that

exceed many branded manufacturers' offerings. Tesco shoppers can also choose from two other product lines: *Tesco Value* and *Tesco*.

Tesco has additionally applied this adaptability to its very store format. As access to land for new sites has become scarce and costly in the U.K., Tesco has exploited shoppers' evolving behavior (more varied trips to a greater number of retailers) by expanding into

new formats. Their U.K. offering now includes hypermarkets (*Tesco Extra*), c-stores (*Tesco Metro*) and gas stations (*Tesco Express*), in addition to its core super-market format.

But the retailer's success is not limited just to the U.K.; one-third of its staff and half of its floor space now reside outside the U.K. Tesco is market leader in six of the twelve countries in which it is present, all of which has been achieved with a remarkable combination of focus, flexibility and adaptability.

This experience and flexibility has equipped Tesco well for international expansion. Rather than seek to blindly re-apply their original winning formula — which has been the case with Wal-Mart and Carrefour — Tesco has assessed the local landscape of new markets and adapted accordingly. In Eastern Europe,

this has meant hyper and super markets, while in Asia and now just emerging in the U.S., c-stores have been the point of market entry.

In some cases, Tesco has leveraged its sourcing and supply-chain strengths without a retail offering — Tesco-branded products are available in 90 markets where they don't have a retail presence. The company's focus on the needs of its shoppers has contributed greatly to this approach — and if this means selling live toads to meet the needs of Chinese shoppers, so be it.

## THE TESCO CLUBCARD

Tesco's focus on shopper needs may be most readily apparent in another key initiative for the company, Tesco Clubcard. In the face of skepticism and open criticism from competitors and the media, Tesco has made a successful retailer loyalty card a reality.

The company's management talks of how Clubcard is a way of saying *thanks* to its customers and a tangible manifestation of their philosophy that *Every Little Bit Helps*. The evidence is that Clubcard members — all 10 million of them — appreciate the recognition. Clubcard generates almost \$200 million in annual incremental sales and has paid out almost \$2 billion to its members.

Even more important, Clubcard has made Tesco a data-rich organization and through its partly-owned data consultancy, Dunnhumby, Tesco uses the data to direct its business. Clubcard's regular mailings to its members are an opportunity for truly personalized communication.

The first mailing had just 12 variations, but today there are more than four million significant variations, offering tailored incentives and vouchers to its members. As a result, four out of every five dollars spent is attributable to an identifiable Clubcard member, derived from knowledge of shopper needs and behavior.

Such detailed understanding of individual shoppers has led Tesco to a successful entry into personal finance. Tesco Personal Finance has five-million customers and generated a \$400-million profit for the company in 2004. Half a million people insure their cars through the financing company and 250,000 insure their pets, and the entity issued more than \$2 billion worth of loans in 2004.

**The U.K.'s  
top retailer  
is heading  
for America.  
Are you ready  
to rumble?**

Moreover, Tesco attributes customer knowledge derived from Clubcard as integral to its success in on-line retailing. Tesco is now the largest grocery e-tailer in the world, having realized an operating profit since 1999.

Direct contact with its most valuable customers has also had a profound impact on Tesco's advertising strategy. Before 1993, the retailer was one of the heaviest buyers of TV ad media. But by 1995, with Clubcard mailings having become a marketing medium in their own right, Tesco effectively reduced its pre-Christmas TV advertising budget to zero.

#### THE TESCO EFFECT

Based on the Tesco example, how should American brand marketers be looking to adapt and evolve their shopper marketing strategies?

**Greater Retailer Control.** In their quest for differentiation, retailers will seek to take more control of the shopping experience. We will see more managed environments and a move away from collections of vendor elements, further challenging manufacturers' abilities to engage with shoppers on their terms.

**Industry Consolidation.** Consolidation will continue and it will spread into traditionally fragmented channels, like c-stores. We can already see consolidation and blurring in the pharmacy channel with the Boots Alliance merger and Watson's global expansion.

**Understanding Convenience.** Everything will be about convenience (small c) and identifying the simplest ways for shoppers to achieve objectives. Shopping occasions provide opportunities for different experiences and levels of engagement.

**Channel Blurring.** Channel blurring will continue as retailers seek to meet shoppers' needs and become occasion-focused. For example, the floor layout of Carrefour's Shopi concept is designed to facilitate ease of shopping around the store for three different missions.

**Private Label Growth.** As retailers build their own brands, trust and appreciation will grow, which will readily translate across categories. The wisdom of Tesco's commitment to data that drives insight and improves the offer to shoppers will spread, with greater local product assortments.

**Growing Digital Impact.** Digital technologies will continue to impact many aspects of retailing. Extra's Future Store in Germany is testing messaging that changes when shoppers interact with RFID-tagged products. New communications tools will facilitate

## A Competitive Checklist

What are the key takeaways for manufacturers eager to succeed in this fast-evolving world of shopper marketing?

- Adopt a new business model with joint value creation at its core, shifting the focus from trade funding to investment in shopper-focused growth
- Develop research techniques to glean the right shopper insights, based on ethnography and observational techniques
- Partner with retailers on consumer programs built around occasions, missions and trends, such as health and wellness or indulgence
- Understand how shoppers are segmented and what multi-brand offerings can help meet their overall needs
- Incorporate new measurement and evaluation techniques that shed light on effectiveness and return

ever more customized offerings and delivery of time-sensitive information, such as wine-buying advice on your mobile.

Shopper marketing won't be a flash in the pan. The fundamental drivers are long-term and significant. Equally, the basic principles are of value—being led by the shoppers' needs; collaboration with key customers for mutual benefit; the benefits of a channel-specific focus; and leveraging the store as a medium.

What we will see is an evolution in the overall landscape and increasing sophistication in the strategies, capabilities and tactics employed by all parties. At the same time, the long-standing fundamentals of effective marketing and brand building will remain critical and central to success.

Even without Tesco's formidable presence, these are challenging times for manufacturers and retailers looking to win in an increasingly competitive world. But as in any time of change, new and exciting opportunities emerge for those willing to experiment and take a risk. ■



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