Opinion piece

The Shop

Tim Phillips

is one of the authors of *Scoring Points: How Tesco Continues to Win Customer Loyalty*, published by Kogan Page, £25, www.kogan-page.co.uk

Journal of Database Marketing & Customer Strategy Management (2007) **14**, 143–145.
doi:10.1057/palgrave.dbm.3250045

In recent years, we've become accustomed to criticism of Tesco for being a faceless corporate bully, 'The supermarket that ate Britain' in the words of the famous *Independent* newspaper headline. On one hand, the simple facts of Tesco's retail dominance can't be denied: £1 in every £8 spent on retail in the UK is spent at Tesco.

But if the 70 or so opposition groups to Tesco that have sprung up object to the retailer because they think it does not listen to the views of ordinary customers, they may be missing the point. There's an alternative point of view, that Tesco is successful precisely because it can listen directly to its customers — not primarily through the intermediary of a focus group (though it runs thousands of them every year) or a blog or newspaper headlines, but by looking directly at what they buy, the trends in what they do, and acting on those trends. Its raw data comes from Clubcard — its loyalty scheme — that tracks around three quarters of the spending in Tesco stores, and the information which dunnhumby, Tesco's partner for 10 years of data analysis, can glean from it.

Investment Bank JP Morgan Cazenove Limited issued a surprising research report on 31st August, 2005 that credited Clubcard as the engine of Tesco's growth. 'Contrary to popular belief, Tesco's most significant competitive advantage in the UK is not its

scale,' the authors wrote, 'We believe Clubcard, which conveys an array of material benefits across virtually every discipline of its business, is Tesco's most potent weapon in the ongoing battle for market share.' It is no surprise that Tesco is now the majority owner of dunnhumby.

Most people in the UK know Clubcard well. Eleven million households use it every week. It's well known that Clubcard data shapes Tesco's strategy, from the product mix to store opening hours — but fewer people know that Tesco is helping its suppliers to see the benefits from Clubcard by sharing the same data with them. The question for those suppliers is: can they act with the same efficiency on the information they are getting?

The mechanism through which Tesco shares data is known simply as 'The Shop'. It's an extranet, using a browser interface which paying suppliers log into with a password. The data they receive is anonymous, but otherwise is exactly what Tesco sees: for access to it, the 40 or so customers in the UK (and 20 or so in the US who use the same service which dunnhumby has built for retailer Kroger Inc.) pay an annual fee that dunnhumby describes as 'tens of thousands of pounds' — the fee is negotiated to reflect the amount of access that suppliers will require: most

Tim Phillips
29 Drysdale Street
London
N1 6ND, UK
Tel: +44 020 7739 8830;
e-mail: tim@timphillips.co.uk

buy a single category or set of categories relevant to their business.

The scale of the data is, even for the most sophisticated suppliers, unprecedented. 'We're accustomed to syndicated data sources, panels with somewhere between 75,000 and 85,000 consumers. To try to get a quick read on a brand's performance, it's almost impossible. But here we're sitting on the data from 42 million households,' says Dave Worden, who consults with Kroger suppliers for dunnhumby US.

The sales data held in The Shop are as young as 10 days. Subscribers can interrogate the information stretching back 104 weeks allowing them to see seasonal ebbs and flows in their sales performance. Users request a data set, according to time, the products they want to compare, and adding in details like subsets of customers or regions in which they want to do their analysis. The information may take several hours to come back, but it is then in a suitable format to model using their data analysis tools, or even in a spreadsheet.

The Shop uses a set of custom-built analytical tools that brands can buy into to help them build reports on how their products are performing in Tesco stores. The breakthrough is that it can link that performance to Tesco's customer segments, which are based around lifestyles as well as demographics. So suppliers can see how well their products are selling to healthy eaters and compare it to the performance among families with young children. It can examine whether TV advertising in different regions is producing a long-term sales bump, and who is responding. It can see whether its new launches are taking sales from its own products, or from rivals — and which rivals are mostly affected. It can even see the effect of Tesco own-brand competitors on its sales, and which customer segments prefer their brand.

The most compelling example of how The Shop changes the business of retailing in the most keenly fought battleground: promotions.

The dirty secret of retail promotion is that it is extremely hard for a supplier to find out whether a promotion is working until it is finished. Suppliers can see a boost to sales rate, but there are many reasons the sales rate may shoot up. Existing customers may simply be stocking up. 'Cherry pickers' may switch from their preferred brand during the course of the promotion. Customers may be switching from the supplier's own products. A discount price may be encouraging price-conscious shoppers to try a premium brand for a short time, but with little intention of changing their shopping habits. All these would be successes judged by sales rate — but better data exposes the promotions as failures.

This is the benefit of The Shop. Suppliers can see data that is less than two weeks old, but grouped by Tesco customer segments: it can compare the bump in the sales rate among bargain hunters and its target segment. It can see whether those customers have switched from a rival supplier or from its own brands. As dunnhumby UK managing director Steve Gray explains, 'It can see whether 1,000 people are buying one product each, or whether one person is buying 1,000.' It can also track how many of those 1,000 people become repeat purchasers.

In short, it can know whether it is achieving its goals, and by extension, whether its promotion is working. With around 8,000 product launches in the promotional calendar, that's worth knowing.

The problem? With this knowledge comes responsibility to act on it. For many subscribers to The Shop, it is one thing to be able to see what return they might achieve — but if a promotion is failing, can they improve the situation by acting quickly?

'It begs as many questions as answers,' says Gray, 'but marketers can learn things they would never have been able to learn any other way'.

'We sometimes have the problem that the marketers don't have the knowledge to derive the benefit they could get from a report,' says Worden. 'We also see that they don't have the time to do anything about what they have learned'.

The lesson for large suppliers is that they need to be able to act on what they learn. At the most basic level, this means a whole new level of management thinking: first, there needs to be a clear expectation of how they want a product to perform, not just overall, but in various customer segments. Armed with this information, it begs the question, 'can we perform better?' An example is whether consumers would defect from a product if suppliers reduced the number of pack sizes available. There's some evidence that we might be wasting a great deal of retail space offering too much choice: in the US, dunnhumby managed to reduce the 'yellow fats' space allocated in Kroger stores by 50 per cent, with no reduction in sales, simply by looking at how consumers responded when their usual product wasn't offered.

It also begs the question, 'who do we want to promote to?' By creating a more detailed description of success or failure, the data offers potential — provided that suppliers are prepared to face up to failure, and admit that while they might have sold a lot of product, in the long term their business isn't better off for it.

And finally, for suppliers to be able to act on the insight they have, they need to give the power to change. Supply chains may be more efficient, but in this case they also need to be more flexible. Management also needs to be more flexible: for example to change price points immediately. That requires the data to be the engine of decision making, not simply something that validates decisions that have already been made.

'Decision making in most suppliers is not optimal at all,' says Gray, adding that too much 'gut feel' can lead suppliers to make the wrong business decision. One example he gives: if you want to change customer behaviour, it is more profitable to target customers who already buy your product. Promotional activity designed to switch customers from rival brands is revealed to have much lower effectiveness (logically, customers who buy from a rival have already made their decision not to buy your product; customers who buy your product are rarely 100 per cent loyal, but the data shows they are easier to incentivise to increase their loyalty). And yet brand switching is one of the strategic justifications for promotions, and so is the target of much promotional money. Until The Shop, there was little hard data that could put figures on how much of this money is being wasted. Now the responsibility lies with suppliers to act on the data. This insight has already led Procter & Gamble to alter its promotional strategy in the UK; most other suppliers are yet to follow suit.

The results can be spectacular: when Kettle Chips was a young brand in UK supermarkets, it chose to use Clubcard data to target its marketing more effectively to customers who were more likely to buy the product long term. A mailing of just 250,000 households across the entire UK brought a sales uplift of 36 per cent.

Even if suppliers are unable to find the budget for The Shop — or commit to the analysis and management rethink that retailing based on accurate customer habit data provokes — there's another reason to subscribe. When you see the sales data, you can also see how your competitors are performing. If your competitor is a subscriber to The Shop, that supplier probably knows more about your customers than you do.