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Tesco.com: Defining the online shopping experience for the UK consumer

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Abstract

This is the story of how Tesco.com, advised by EHS Brann, came to dominate the UK's online grocery shopping market, with a 65 per cent market share, at a profit, becoming in the process a worldwide phenomenon. It records the areas of challenge (recruitment, conversion, retention, loyalty, reactivation, modelling, distribution, measuring), the ways in which each challenge was met and the results in each area, against target and/or control.

Tesco.com has not yet achieved its objective of overtaking Amazon to become the UK's number one online shopping site, but it has no competitor in sight for the number two spot, and claims to be closing the gap on the leader as well as outperforming it on profitability. In Vol. 2, No. 4 (April–June 2001) of *Interactive Marketing* a Best Practice paper by Peter Sleight took a broad look at the online grocery business through the medium of Tesco.com. This case study (which won the bronze medal at the IDM Business Performance Awards for 2003) looks with a narrower focus at the recent performance of Tesco's phenomenally successful online business.

Keywords: Tesco, customer focus, convenience, consistency, metrics, loyalty

Introduction

Tesco.com, with EHS Brann, was the winner of the IDM's 2003 Business Performance Awards bronze medal. Home shopping, in response to offers by catalogue, by direct mail or in mail-order advertisements, is a long-established phenomenon in the UK, but it has for a long time appeared that its use is largely confined to a relatively small range of products — books, music, videos, collectibles, clothes and latterly a range of specialist foods. Above all, home shopping did not appear to have much function in an area such as grocery shopping, where the range of consumer tastes, and of products available to meet those tastes, is so vast.

The arrival of the internet signalled a revolutionary change in this perception: for the first time it was possible to offer the consumer, in his/her own home, the same (or even greater) range of choice, with full visual display, that he/she could get in his/her supermarket — and without the travelling, the crowds and the carting of shopping bags he/she had endured weekly hitherto. With two-thirds of UK homes now switched on, here was an outstanding chance for an early entrant to seize the initiative and expand its business at a stroke.

Or so it seemed — not only to Tesco, but to its numerous and powerful

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Problems old and new

competitors, as well as a growing number of retailers across the board. There were of course problems. Some of these were familiar problems in a new context — problems of inventory control, of distribution and of customer loyalty. Others were entirely novel, like problems of site navigation. Still others were the level of hype, over-expectation and dysfunctionality surrounding the internet in the public consciousness, which all too readily led to disappointment and reluctance to venture further on the part of the consumer. This is the story of the emergence from the pack of competing grocers of one outstanding supplier to sweep the board — Tesco.com.

Background

By 2000 Tesco, already the UK's biggest offline grocer, was poised for take-off in the internet stakes after a period of testing on a restricted scale. So were a number of its direct competitors (Safeway, Waitrose, Asda, Sainsbury's) as well as partial competitors like Dixons, HMV, Virgin Wine and Mothercare.

The competition

Tesco.com was, however, beginning to edge ahead of the pack. While most of its competitors remained, through late 2000 and 2001, at the level of around 300,000 unique site visitors a month, Tesco.com passed 500,000 for the first time in October 2000 and, unlike the competition, was still climbing. (The ultimate target was, of course, Amazon.co.uk, already at well over a million visitors per month by late 2000 and set to double a year later.)

Convenience and consistency

The objective

Tesco's marketing objective was to become the UK's number one internet shopping destination, at a profit. The challenge was to offer Tesco.com's customers the most *convenient* experience possible and to do so with *consistency*. Tesco regards customer convenience as key. But inconsistent performance — one bad experience — will switch customers off much faster than in an offline environment.

Meeting the challenge

Table 1 provides a brief summary of the objectives in each area of the business and how they were achieved. A more detailed discussion on some of the core areas is set out below.

Recruitment

Two main active media were used (e-mail and direct marketing) and two passive media (in-store promotions with advertising, and web advertising). For the first two, many different lists were tested. Cold lists were profiled against Clubcard data (which includes transactional, life-stage, attitudinal and geodemographic information) to identify potential dedicated customers.

In the event there was a fifth medium, over which Tesco had no control — word of mouth. This accounted for a third of all new customer registrations. A further third came from in-store promotions, with e-mail, web advertising and direct marketing accounting for the rest.

Table 1: Tesco's objectives and results

	Objective	Results
Recruitment	To optimise media and offer strategy so as to maximise the volume of potentially profitable new customers registering on the site, at a cost not exceeding £20 per customer.	The target of £20 per customer has been bettered, and now stands at £19. Three million visits were received via web advertising in 2002, at a cost of 21p per click (down from 29p). These accounted for 21 per cent of non-food orders. A fortnightly TV campaign in the pre-Christmas period in 2001 brought about an uplift in new registrations, and recovery of lapsed customers, of some 20 per cent compared with the previous year.
Conversion	To design customer communications, both online and offline, that will maximise the conversion of registrants into online shoppers.	Customers who registered but did not shop within 26 weeks received a mailing pack. This typically pulled close to 2.5 per cent, yielding a cost per conversion of £8.
Retention	To design customer communications, both online and offline, that will improve customer retention among new site visitors as well as producing increased shopping frequency and basket value among established customers.	A retention e-mail to 155,000 'cautionary/developing' customers resulted in the redemption of 10,000 e-coupons. A mailing to the 'developing' segment produced three or more visits among 50 per cent of the segment base, giving a £969,000 revenue uplift versus control.
Loyalty	To design online forms of communication that will cement customer loyalty and offer opportunities for up-selling and cross-selling.	A cross-sell mailing for the Mother and Baby warehouse produced sales of more than £500,000. Recipients of this mailing were subsequently more than 2.5 times as likely to make further purchases — a demonstration of the lasting effect of communications (see also retention above).
Modelling	To construct models that will predict the possibility of a customer lapsing.	
Reactivation	To design communications, both online and offline, that will revive customers in danger of lapsing, and reactivate those who have lapsed.	
Distribution	To design an ordering and distribution system that will get products to customers accurately and at a time of the customer's choosing, at an affordable price.	Tesco.com took an early decision to supply its customers from local stores, rather than from a central warehouse (the solution preferred by most of the competition). The company believes that this was a key decision both in cost control and in enabling it to meet its delivery commitments in a timely manner.
Measurement	To monitor and measure rigorously all marketing activity in order to maximise efficiencies and drive business.	

Various trial incentive offers were used, including free delivery (normally charged at £5) or money off first and subsequent shops.

Each set of recruitment results was closely monitored and analysed to determine which lists/media/offers would return the best return on investment.

Conversion

Many customers register but do not shop online immediately. A special communication programme was devised for these persons, to help them over any barriers they may perceive which prevent them from taking the plunge. This programme can be conducted by e-mail and/or direct mail, and includes relevant offers and information. Moreover, when a registrant does come to conduct a first-time shop, the system recognises the situation and produces a personalised homepage to guide the user through this new experience.

Critical points

Retention

Tesco uses a classic 'recency, frequency, value' model to classify customer commitment on six levels: 'dedicated', 'established', 'developing', 'cautionary', 'logged-on', 'logged-off'. The aim is to take each new registrant from the 'logged-on' status through the other levels until she becomes 'dedicated'. The most critical period with new customers is the period leading up to the fourth shop; analysis shows that danger of lapsing is greatest prior to this point.

Problems of the first shop

One of the problems is that a customer's first shop can take some time, while the customer becomes conversant with the layout of the site, and, in some cases, with the technicalities of the medium. Tesco.com is careful to point this out at the outset, and for all shops after the first provides a short-cut in the form of 'My Favourites' — a list containing all items from previous shops, both online and offline. This allows customers to tailor their baskets without starting from scratch each time, and, together with increasing familiarity, ensures that the customer's time is not wasted.

The key to retention remains customer convenience, and to this end a number of other devices have been incorporated in the system.

- Previewing of delivery slots. Customers must be able to choose a convenient time for delivery. It makes sense to allow them to book a slot *before* completing a big shop and then finding, perhaps, that a convenient slot is not available. This is now the *first* thing that a customer does on each shop.
- Evening and weekend deliveries. The number of such slots has been increased in view of high demand: after all a major incentive for online shopping in the first place is a busy lifestyle, especially during weekdays.
- Speed of download. Customers hate staring at a screen waiting for a download. Page design therefore seeks to minimise download time, and this is monitored daily.

Communication

Loyalty

Communication, both online and offline, continues through the customer's life with Tesco. This includes hints and tips on best use of the site, recipes, special offers and money-off coupons for £5 or £10 in the next shop, or up to £50 spread over three shops in a limited period. E-vouchers, which can be redeemed electronically, are also used.

Tesco offers a far wider range of goods than just traditional groceries, so there is a need to introduce shoppers to other parts of the warehouse — wine, clothes, electricals, personal finance. This need is met by a weekly online newsletter covering the entire product range: key tests include html versus text; content-rich versus offer-based; timing and targeting.

The business result

It is clear from the results in Table 1 and the overall business results outlined below that Tesco's strategy is indeed a success. Tesco.com receives some 100,000 orders a week on more than 20,000 product lines. This amounts to some 65 per cent of market share, making the company

Profitability

by far the biggest online grocery retailer in the UK. Customers of Tesco.com have increased their overall spending with Tesco by 21 per cent: they tend to do a large shop online, and top up in the store. This is an important finding for companies that fear cannibalisation of their bricks-and-mortar business by the virtual world. By March 2003 turnover was running at £400m per annum. More importantly, the business is now profitable. Profits in the first half of 2002 amounted to £1.9m. Tesco.com has not yet achieved its objective of becoming the UK's number one online shopping destination. Amazon still holds that position, but Tesco, throughout 2001/2002, outperformed them in both growth and profitability. No other UK online retailer is in sight.