LOYALTY

How will Tesco's debut in the United States impact business on other retail segments?

By Stan Pohmer

> Many would say the United States is already over-stored, with more than enough retailers to satisfy consumers' every possible want and need. And it's even more infrequent that one comes in with visions of entering a relatively mature and seemingly stagnant sector through new store construction, rather than through merger or acquisition.

Sometimes there are lessons to be learned from outside of our industry that can be applied to our businesses. Just because the idea or concept wasn't invented here doesn't mean it won't work in floriculture/horticulture, and in many cases our learning curve is shortened because they've done all of the trial and error legwork so all we have to do is apply their principles of success to our own businesses. This might be a good case in point...

Because of the tremendous size of the U.S. marketplace and the saturation of retail storefronts, it's not often a new competitor with national scope intentions enters our market, especially one who doesn't have roots in this country. Many would say the United States is already over-stored, with more than enough retailers to satisfy the consumers' every possible want and need. And it's even more infrequent that one comes in with visions of entering a relatively mature and seemingly stagnant sector through new store construction, rather than through merger or acquisition.

Learning From Supermarkets

You don't need a Ph.D. in marketing or economics to see that the supermarket industry is in both a survival mode and in chaos. Supermarket sales growth is essentially a function of population growth and the state of the economy. We're not seeing rapid population growth, and supermarkets compete against the fast food and restaurant retailers (when consumers are flush with money in good times, they eat out more; when things are tough, they eat at home more).

Fifteen years ago, Wal-Mart wasn't in the food business — today it is the largest single retailer of food in the United States. Since there hasn't been organic industry growth, Wal-Mart's success came at the expense of its traditional competitors. The existing pie has been sliced up into progressively smaller pieces as Wal-Mart gained market share, or, as they say in the food industry, "share of stomach."

The offshoot of this market churn is that it has forced traditional retailers to become better, more efficient and more focused operators to survive. They needed to merge and consolidate, manage their business processes more intelligently, use their resources smarter and work harder to define who they were and what their point of differentiation was from the Wal-Mart behemoth. Wal-Mart wasn't sitting still while the traditional retailers struggled to re-define themselves; the boys from Bentonville, Ark., kept adding new twists and flavors, taking the lead in expanding organics and "green" products and promoting this as their point of differentiation to consumers, forcing the traditional retailers to play catch up at the same time they are trying to re-position.

Sounds a lot like what the independent garden centers (IGC) have had to do when faced with the growth of the mass market in our industry, doesn't it?

Bring In A Pinch Hitter

Now back to the supermarket industry. Tesco is one of the top-five retailers in the world, but it hasn't made inroads in the United States, until recently. For the past three years, Tesco studied our market and our consumer, looking for the perfect format that will allow the company to enter our already over-stored retail arena.

It elected to make its entry with a hybrid format, a mix between a 7-11 and a small supermarket, focused on fresh and prepared foods in an environment that offers convenience. Tesco plans to open 100-300 stores in the next few years, initially in the Western U.S. region, but the short-term goal is to take this strategy national and use it as a springboard to gain entry into other mass retail formats. Tesco will be a formidable competitor to retailers that are still trying to carve out new identities in what people thought was already a hyper competitive world. But, as the carnival barker once said, "You ain't seen nothing yet!"

One might wonder how Tesco plans to capture or, rather, take away market share from the existing retailers. Retail analysts at JP Morgan Cazenove made a pretty bold statement when they concluded that Tesco's most significant competitive advantage wasn't its scale, its buying power or its range — it was its loyalty program. In the U.K., Tesco has its Clubcard that gives back 1 percent of spend back in vouchers, plus a set of targeted coupons in a mailing every three months, something similar to what U.S. grocers do with their loyalty programs. But Tesco's idea of loyalty goes far beyond plastic cards; it's a core value approach that permeates everything they do.

Tesco's Fundamentals

1. The first fundamental tenet is that short-term goals must align, and be subservient, to long-term goals. What is long term in its vocabulary? Tesco's core purpose, or the one fundamental core value that is an in-

grained part and driver of their culture, puts it in very simple terms: To create value for customers to earn their lifetime loyalty. Tesco measures the success or failure of promotions and strategic investments on customers over months and years, not just the response to a sale of a given item on a given weekend or shopping trip. Tesco looks at the cumulative effect and impact of everything it does over time as the key benchmark of its performance.

2. The second element would be considered revolutionary and anathema in the minds of most U.S. retailers. Discounts offered are a "thank you" for loyalty first, and a driver of sales second. Tesco refuses to accept supplier marketing money because it feels the benefit of this is skewed too far to the supplier's side, and taking it would be counter-productive to building true loyalty with customers.

3. Another element is in promotions — "less is more." They don't mail flyers or circulars more than once a month, and all mailings must pass the "smell test" of senior executives; if in their judgment the perception of the ad is that it's about profit for Tesco, the ad is scrapped. The company has reduced the number of in-store promotions so it can focus on quality, emphasizing under-served customer needs, and driving long-term sales growth as a result.

4. Tesco truly believes customers aren't fools and they don't like to be duped. A good customer "journey," or shopping trip, creates trust; a bad one destroys it. Without trust there can be no loyalty.

5. Think the unthinkable, and act on the result. Tesco uses customer data to challenge the status quo and conventional wisdom. The company has recognized that it's far more profitable to generate sales growth from existing customers than it is to try to attract new customers. This can only be accomplished by building loyalty.

Will Tesco Work?

Will Tesco be successful in the United States with its new ideas and principles? No one knows for sure. But one thing you can take to the bank is it will be bringing a new and different approach to consumer marketing, a totally committed focus on the customer and building customer loyalty. If nothing else, its business model will be studied under a microscope and, if successful, emulated by other retailers very quickly.

Tesco, with more than 3,200 stores in 12 countries, has succeeded where many others have not; in the U.K., they butt heads against Wal-Mart's ASDA format and are gaining market share at ASDA's expense. Perhaps this might have something to do with how the company approaches and interfaces with its customers, how it focuses on building lifetime value for and with its consumers.

Apparently Tesco's customers are responding to this approach. Maybe there are pieces of Tesco's strategy and thinking that you could employ to reinvigorate and develop your own strategies and approaches that could benefit your customers and build stronger loyalty that will benefit you for a lifetime...

Stan Pohmer is president of Pohmer Consulting Group, Minnetonka, Minn. He can be reached at spohmer@pohmer-consulting.com or (952) 545-7943.

LearnMore!
For more information related to this article, go to www.lgrmag.com/lm.cfm/lg080715