



**FACULTY OF MANAGEMENT
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DEPARTMENT OF MARKETING MANAGEMENT

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INSTRUCTIONS TO CANDIDATES:

1. Read the case study and article provided.
2. Read the questions carefully and answer only what is asked.
3. Please answer all the questions.
4. Question papers must be handed in.
5. **This is an open book assessment.**
6. Number your answers clearly.
7. Structure your answers by using appropriate headings and sub-headings.
8. Write neatly and legibly.
9. The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

CASE STUDY

Read the case study and answer the questions that follow.

Tesco: The Customer Relationship Management Champion

"Our mission is to earn and grow the lifetime loyalty of our customers"

-Sir Terry Leahy, Chief Executive Officer (Tesco), quoted in Tesco's 1998 Annual Report.

"They (Tesco) know more than any firm I have ever dealt with how their customers actually think, what will impress and upset them, and how they feel about the grocery shopping." ¹

-Jim Barnes, Executive Vice President of Bristol Group, a Canada-based Marketing Communication and Information firm and a CRM expert.

"The whole philosophy is in balancing the business in favour of the customer. That comes down to a mixture of company culture and customer insights."

-Crawford Davidson, Director (Clubcard Loyalty Programme). Tesco

• A MASTER AT CRM

Every three months millions of people in the United Kingdom (UK) receive a communication through the post from the country's number one retailing company, Tesco. Nothing exceptional about the concept – almost all leading retailing companies across the world send out mailers/ magazines to their customers. These initiatives promote the store's products, introduce promotional schemes and contain discount coupons. However, what set Tesco apart from such run-of-the-mill initiatives was the fact that it mass-customised these communications.

Tesco ensures that all its customers received communications that contain material suited to their lifestyles. The company has worked out a mechanism for determining the advertisements and promotional coupons that would go in each

of the over 150 000 variants of the communication piece. This had been made possible by its world-renowned customer relationship management (CRM) strategy framework.

The loyalty card³ scheme (launched in 1995) laid the foundations of a CRM framework that made Tesco post growth figures in an industry that had been stagnating for a long time. The data collected through these cards formed the basis for formulating strategies that offered customers personalised services in a cost-effective manner. Each and every one of the over 10 million transactions made every week at the company's stores is individually linked to customer-profile information. And each of these transactions has the potential to be used for modifying the company's strategies.

According to Tesco sources, the company's CRM initiative is not limited to the loyalty card scheme; it is more of a company-wide philosophy. Industry observers felt that Tesco's CRM initiatives enabled it to develop highly focused marketing strategies. Thanks to its CRM initiatives, the company became the UK's number one retailer in 1995, after having struggled at number two behind arch rival Sainsbury's for decades. By 2011, Tesco continued as the market leader with the company's market share being 30 market share of just 17 per cent.

- **BACKGROUND NOTE**

The Tesco story dates back to 1919 when Jack Cohen, an ex-army man, set up a grocery business in London's East End. In 1924, Cohen purchased a shipment of tea from a company named T E Stockwell. He used the first three letters of this company's name, added the 'Co' from his name and branded the tea 'Tesco'. Reportedly, he was so enamoured of the name that he named his entire business Tesco. The first store under the Tesco name was opened in 1929 in Burnt Oak, Edgware. The company grew rapidly in the years that followed, and evolved into

a general food retailing out-fit. By 1930 around 100 stores were operating under the Tesco label.

Realising that the self-service mode of running super markets prevalent in the US worked out much cheaper than the traditional mode and enabled companies to offer their merchandise at low prices, Cohen decided to adopt the same for Tesco stores. In 1948 the first self-service Tesco store was opened in St Albans. Over the next few years Tesco grew to over 400 stores – many of which were purchased by Cohen from other smaller shopping store chains in the country.

In the early 1960s the company began selling clothing, household goods and fresh food in addition to groceries. Tesco pioneered the large format stores concept in the UK with the launch of a 16,500 sq. ft. store in Leicester in 1961. By now Tesco had become a household name in the UK and was renowned for its competitive prices. However, due to the Retail Price Maintenance (RPM) system prevalent in the country during that time (which prohibited larger retailers from pricing goods below a price agreed upon with the suppliers), companies such as Tesco were not able to compete on price with small retailing outfits.

To overcome this problem, Tesco came up with the idea of 'trading stamps'. These stamps were given to customers in return for making purchases at its stores. After the customers collected a specified number of stamps, they could exchange them in return for cash or gifts. This scheme became very popular and Tesco's popularity and sales soared substantially. While other players in the industry were busy copying this scheme, Cohen worked towards getting RPM abolished. The RPM was abolished in 1964, following which Tesco was able to offer competitively priced merchandise to its customers. Meanwhile, Cohen decided to continue the trading stamps schemes.

Throughout the 1960s Tesco continued to grow through the acquisitions route. It acquired a network of 212 stores in the north of England, and during 1964-65

acquired 144, more stores. Another chain, Victor Value, came under the company's fold in 1968. In the same year, Tesco became the first to formally introduce superstores to the British retailing industry with the launch of its Crawley, West Sussex store.

Though Tesco owed its success till now to its cheap prices model (referred to as the 'pile it high and sell is cheap' model by Cohen as well as industry observers), it had to rethink its pricing strategy in the 1970s. This was primarily due to the fact that customers across the UK were becoming more affluent and were no longer looking only for bargains. There was a growing need for costly, luxury merchandise.

To factor in these changes sweeping the industry, Tesco's management carried out a strategic overhaul of the company's operations. The company closed down many of its stores to concentrate on superstores. The stores that were not closed down were refurbished through better layouts (such as wider aisles) and improved atmospherics (including better lighting). The product mix was also changed and Tesco now began offering a much wider range of goods. In addition, the company renewed its focus on customer service and quality. In line with the product diversification drive, Tesco began operating petrol pumps in 1974. Since trading stamps did not fit in with its efforts to go up-market, Tesco discontinued them in 1977.

Even though Tesco went up-market, it tried to retain its image as a company offering competitive prices. In 1977 the company successfully launched a price cutting campaign named '*Checkout at Tesco*'. By the end of the 1970s the company had emerged as one of the leading companies in the UK. In 1979 its annual turnover crossed £1 billion. In 1985 Tesco launched the '*Healthy Eating*' Initiative, path-breaking move that aimed at conveying the nutritional value of the

company's merchandise to the customer. By now Tesco had also emerged as the largest independent retailer of petrol in the UK.

The 1990s were a period of many large-scale changes at the company. For the first time in many years, Tesco began experimenting with newer store formats. Three new formats, Tesco Metro, Tesco Express and Tesco Extra store, were launched during the 1990s. While Tesco Metro was a city centre store that served the local community of a particular region, Tesco Express was a combination of a petrol pump and a convenience store. Tesco Extra Store was a hypermarket that focused equally on food and non-food merchandise.

This decade also saw the company entering global markets. It entered France in 1994 and Hungary and Poland in 1995. In 1995 Tesco launched the Clubcard loyalty scheme. In the same year, it diversified into a new business through a joint venture (for the first time in its history) with the Royal Bank of Scotland to launch the Tesco Personal Finance (TPF) venture. TPF offered customers a wide array of personal finance services, including the Tesco visa card, cheque deposits, car loans, life/auto /pet/home/travel insurance, loans, bonds, mortgages and pension savings programmes. Tesco classified TPF under the 'Retailing Services' division.

In 1996 the company entered the Czech Republic, and in 1998 it entered Northern Ireland and Thailand. Even in international markets Tesco adopted the policy of offering its services to customers in innovative ways. For instance in Thailand its customers could buy 'tescooters' (scooters) and have them delivered to their homes.

In 1998, after the utilities business was deregulated in the UK, Tesco began offering electricity and telecommunications products and services. In 2000 Tesco established Tesco.com as a wholly owned subsidiary functioning under

the retailing services division. Besides covering all the e-commerce activities for Tesco's customers in general, Tesco.com gave special emphasis to the sale of groceries over the Internet. This service was later extended to customers in Ireland and South Korea.

In 2000 Tesco began operation in Taiwan. The following year the company tied up with a leading supermarket chain from the US, Safeway Inc., to launch an online grocery shopping service for US customers. In the same year Tesco entered into an agreement with leading automobile company, the US-based General Motors (GM). Under this agreement, customers could buy GM cars through Tesco.

In an innovative move the company began offering a large number of organic food products in 2001. In addition, a host of new ranges of food products (such as 'the food Doctor', 'Finest Dips', 'Grab and Go', 'Unwind Range', and 'Finest') were launched in the early twenty-first century. During this period, the company also gave a lot of importance to its non-food businesses. It carried a wide range of merchandise like toys, sports equipment, lighting, furnishing, electrical items and clothing. Many new brands in the non-food segment were successfully launched (such as Cherokee and Florence & Fred).

Continuing its thrust on global expansion, Tesco launched its first store in Malaysia in May 2002. In July 2002 it expanded its presence in Poland by acquiring a chain of hypermarkets named 'HIT'. Tesco's stores network in the UK grew further in January 2003 when it acquired 870 convenience stores operating under the T&S label (the company planned to convert 450 of these stores into Tesco Express stores by 2006-07). For the accounting period ending April 2003 TPF had over 3.4 million customer accounts and earned profits of £96 million. Also, Tesco.com had proven to be one of the rare, profitable dotcom ventures. In 2003 it earned a profit of £12 million.

By mid-2003 the company was operating 2291 stores in the UK, Hungary, Poland, The Czech Republic, the Slovak Republic, South Korea, Taiwan, Malaysia and the Republic of Ireland. Employing around 296 000 people across these countries, Tesco was earning profits in at least eight of the ten countries. In 2004 the Tesco Broadband service was launched and the company started selling music downloads. In 2006 Tesco Direct was launched selling furniture and large electronics items online. In 2007 Tesco launched its First and Easy grocery chain in USA. In 2011 Tesco Bank was launched, an operation run entirely by Tesco replacing the joint venture in financial services that Tesco had been operating in joint partnership with The Royal Bank of Scotland.

During all these years, the number of stores has continued to expand alongside a healthy growth in revenues and net profits. While revenues and net profit stood at £28.61 billion and £842 million in 1999, they were £28.61 billion and 1.36 billion in 2003 and by 2011 they were 67.57 billion and 3.81 billion (Exhibit 1 outlines the position in 2011).

- **CRM – The Tesco Way**

Tesco's efforts towards offering better services to its customers and meeting their needs can be traced back to the days when it positioned itself as a company that offered good quality products at extremely competitive prices. Even its decision to offer premium end merchandise and services in the 1970s was prompted by growing customer demand for the same (refer Table 1 for the company's 'core purpose' and 'values' that highlight the importance given to customer service).

Exhibit 1 Tesco – key statistics 2010

	Revenue (£m)	Stores	Employees
UK	40 766	2715	293 676

Republic of Ireland	2332	130	13 444
Poland	2156	371	24 932
Hungary	1649	205	21 157
Czech Republic	1355	158	12 812
Slovakia	996	97	9105
Turkey	700	121	8038
USA	495	164	4134
Asia	10 728	1419	104 071

Source: www.tesco.com

Various initiatives were taken by the company over the years to improve customer service. For instance, in 1993 – 94 Tesco launched the '*First Class Service*' initiative. Under this initiative, the company gave customer service training to over 90 000 store staff. The programme was an innovative one in that it involved store managers in behavioural service training for the very first time. Instead of being passive participants of a training programme, employees were asked to work out the right approach for their training needs. Using the above approach, Tesco made work teams to carry out regular training programmes focusing on customer service improvement.

Table 1 Tesco – core Purpose and Values

CORE PURPOSE					
Creating value for customers, to earn their lifetime loyalty					
Values					
1. No	one	tries	harder	for	customers:
Understand	customers	better	than	anyone	

Be energetic, be innovative and be first for customers
Use our strengths to deliver unbeatable value to our customers
Look after our people so they can look after our customers

2. Treat people how we like to be treated:
All retailers, there's one team – The Tesco Team
Trust and respect each other
Strive to do our very best
Give support to each other and praise more than criticise
Ask more than tell and share knowledge so that is can be used
Enjoy work, celebrate success and learn from experience

Source: www.tesco.com

In 1994 the company launched the 'One in Front' scheme to reduce the time customers had to spend waiting at checkout counters. Under this scheme, Tesco store personnel ensured that if there was more than one person at any counter, another counter would be opened for the person in the second line. This way, no customers would have to wait at the checkout counters. Of course, it was not possible for Tesco to adhere to this policy during peak traffic hours. Nevertheless, this effort to improve customer service was appreciated by customers.

The biggest customer service initiative (and the first focused CRM drive) came in the form of the loyalty card scheme that was launched in 1995. This initiative was partly inspired by the growing popularity of such schemes in other parts of

the world and partly by Tesco's belief that it would be able to serve its customers in a much better (and profitable) manner by using such a scheme. Tesco knew that at any of its outlets, the top 100 customers were worth as much as the bottom 4000 (in terms of sales). While the top 5 per cent customers accounted for 20 per cent of sales, the bottom 25 per cent accounted for only 2 per cents. The company realised that by giving extra attention to the top customers (measured by the frequency of purchases and the amount spent), it stood to gain a lot.

Work in this direction began in 1994, when Tesco tied up with Dunnhumby, ⁴ a marketing services outfit, to develop, its loyalty programme. In May 1994 Tesco began testing of the Clubcard loyalty scheme at two of its stores for a period of six months. The scheme started off like any other loyalty card scheme. Customers became members by paying a joining fee and providing personal details such as name, address, date of birth, email, family composition, dietary requirements and product preferences.

To ensure the programme's success, it was essential that all Tesco employees understood the rationale for it as well as its importance. So, the company distributed over 140 000 educational videos about the programme to its staff at various stores. These videos explained why this initiative was being undertaken, what the company expected to gain out of it, and why it was important for employees to participate wholeheartedly in the programme.

Impressed with the programme's results after six months the company introduced the scheme in all its stores by February 1995. The stores captured every one of the over 8 million transactions made per week at Tesco stores in a database. All the transactions were linked to individual customer profiles and generated over 50 gigabytes of data every week. Dunnhumby used state-of-the-art, data-mining techniques to manage and analyse the database. Initially it took

a few weeks to analyse the vast amount of data generated. to overcome this problem, Dunnhumby put in place a new software that reduced this time to just a few days. As a result, it became possible to come up with useful and timely insights on customer behaviour in a much faster way.

Table 2 Tesco – Classifying Customers (A)

Shopping Frequency →	Daily	Twice Weekly	Week ly	Start Stop	Now Then	& Hardly Ever
Expenditure ↓						
High Spend	PREMIUM		STANDARD		POTENTIAL	
Medium Spend	STANDARD		POTENTIAL		UNCOMMITTED	
Low Spend	POTENTIAL		UNCOMMITTED			
	FREQUENT		INFREQUENT		RARE	

Source: www.ecrnet.org

The analysis of the data collected enabled Tesco to accurately pinpoint the time purchases were made, the amount the customer spent, and the kinds of products purchased. On the basis of the amount spent and the frequency of shopping, customers were classified into four broad categories: Premium, Standard, Potential and Uncommitted (refer Table 2). Further profiles for all customers on the basis of the types of products they purchased. Customers were categorised along dimensions such as Value, Convenience, Frozen, Healthy Eating, Fresh and Kids. Tesco also identified over 5000 need segments based on the purchasing habits and behaviour patterns of its customers. Each of these segments could be targeted specifically with tailor-made campaigns and

advertisements. The company also identified eight 'primary life stage' needs segments based on the profiles of its customers.

These segments included 'single adults', 'pensioners' and 'urban professionals' among others. Another classification of customers developed from the insights generated through data mining is given in Table 3. Using the information regarding customer classification, Tesco's marketing department devised customised strategies for each category. Pricing, promotion and product related decisions were taken after considering the preferences of customers.

Table 3 Tesco – Classifying Customers (B)

Category	Classification	Characteristics
Up-Market	Finer Foods	Foodies who are time poor, money rich and choose everyday luxury items.
Mid-Market	Healthy	Organics shoppers, fruits and vegetables, weight watchers, etc.
	Convenience	People on the go who do not got the time or inclination for scratch cooking.
	Traditional	Traditional housecraft with time to buy and prepare ingredients.
Cost Conscious	Mainstream	Family type meals, Popular brands, Kids products.
	Price Sensitive	Cost conscious customers who tend to buy cheapest on display.

Source: www.ecrnet.org

Also, customers received communications that were tailored to their buying patterns. The data collected through the Clubcard scheme allowed Tesco to modify its strategies on various fronts such as pricing, inventory management, shopping analysis, customer acquisition, new product launches, store

management, online customer behaviour and media effectiveness (refer Table 4). The company also tied up with airline companies and began offering Frequent Flyer Miles to customers in return for the points on their Clubcards.

Table 4 How Tesco used the information generated by Clubcards

Pricing	Discounts were offered on goods that were bought by highly price-conscious customers. While the company kept prices low on the often bought goods/staples, for less familiar lines, it adopted a premium pricing policy.
Merchandising	The product portfolio was devised based on customer profiles and purchasing behaviour records. Depending on the loyalty shown by customers towards a particular product, the substitutes available for the same, and the seasonality, the product ranges were modified.
Promotion	Promotions were aimed at giving special (and more) rewards to loyal customers. Few promotions were targeted at the other customers.
Customer Service	Extra attention was given to stocking those products that were bought by loyal customers.
Media Effectiveness	The effectiveness of media campaigns could be evaluated easily by noticing changes in the buying patterns of those customers whom the said campaign was targeted at.
Customer Acquisition	The launch of new ventures (such as TPF and Tesco.com) went off smoothly since Tesco targeted the 'right' kinds of customers.

Market Research	While conducting marketing research, Tesco was able to tap those customers that fit in accurately into the overall research plan.
Customer Communication	It is possible to mass-customise communication campaigns based on individual customer preferences and characteristics. Tesco began holding 'Customer Evening' for interacting with customers, gathering more information, and gaining new customers through referrals.

Source: Adapted from an article on www.clarityblue.com

Reaping the Benefits

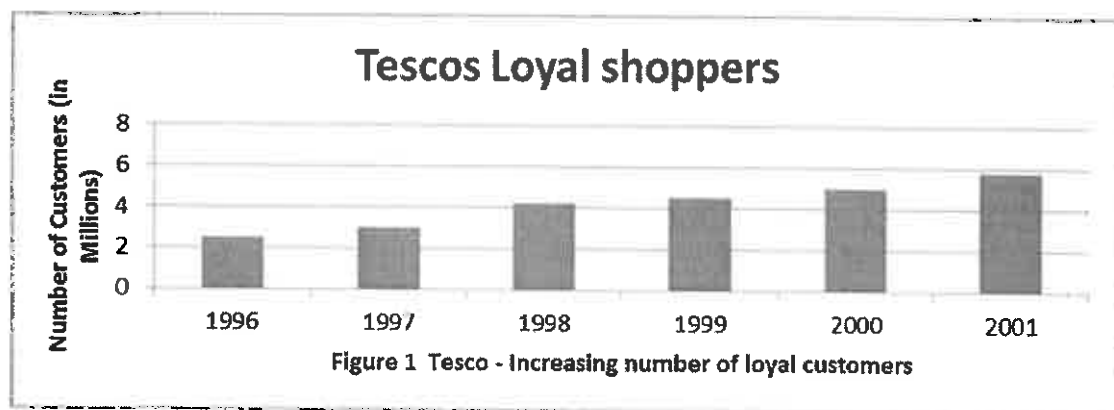
Commenting on the way the data generated was used, sources at Dunnhumby said that the data allowed Tesco to target individual customer (the rifle-shot approach), instead of targeting them as a group (the carpet-bombing approach). Since the customers received coupons that matched their buying patterns, over 20 per cent of Tesco's coupons were redeemed – as against the industry average of 0.5 per cent. The number of loyal customers increased manifold since the loyalty card scheme was launched (refer Figure 1).

The quarterly magazine Tesco sent to its customers at this time was customised, based on the segments identified. Customers falling in different categories received magazines that were compiled specifically for them – the articles covered issues that interested them and the advertisements and discount coupons were about those products/services that they were most likely to purchase. This customisation attracted third-party advertisers, since it assured them that their products/services would be noticed by the very customers they planned to target. Naturally, Tesco recovered a large part of its investment in this exercise through revenues generated by outside advertisements.

The data collected through the cards helped the company enter the financial services business as well. The company carried out targeted research on the

demographic data and zeroed in on those customers who were most likely to opt for financial services. Thanks to the captive customer base, and the cross-selling opportunity, the cost of acquiring customers for its financial services was 50 percent less than what it cost a bank or financial services company.

Reportedly, the data generated by the Clubcard initiative played a major role in the way the online grocery retailing business was run. The data helped the company identify the areas in which customers were positively inclined towards online shopping. Accordingly, the areas in which online shopping was to be introduced were decided upon. Since the prospective customers were already favourably disposed, Tesco.com took off to a good start and soon emerged as one of the few profitable dotcom ventures worldwide. By 2003 the website was accessible to 95 percent of the UK's population and generated business of £15 million per week. In 2011 Tesco.com made in excess £2 billion in revenue.



By sharing the data generated with manufacturers, Tesco was able to offer better services to customers. It gave purchasing pattern information to manufacturers, but withheld personal information provided by customers (such as names and addresses). The manufacturers used this information to modify their own product mixes and promotional strategies. In return for this information, they gave Tesco customers subsidies and incentives in the form of discount coupons.

The Clubcards also helped Tesco compete with other retailers. For instance, if a player such as Asda or Sainsbury's reduced prices on certain low-margin products to pull customers into the store so that they may be motivated to purchase high-margin products later on, Tesco was quick to reduce its own prices on such products. This way, the company ensured that the footfalls in its stores did not decline on account of competitive pressures. When Tesco found out that around 25 percent of its customers, who belonged to the high income bracket, were defecting to rivals Marks & Spencer, it developed a new product range, 'Tesco Finest', to lure back these customers. This range was then promoted to affluent customers through personalised promotions. As planned, the defection of customers from this segment slowed down considerably.

Analysis of the data revealed that Tesco customers were not happy with in-store stands that displayed confectionary. These stands attracted children, who forced their parents to buy the confectionary. Similarly many customers did not like off-shelf displays that were aimed at fueling impulse purchases. Going against traditional retailing wisdom, Tesco decided to reduce the number of such displays, while doing away completely with the confectionary shelves. The company hoped that what it stood to lose in unit sales would be offset by increased customer loyalty (and thereby increased overall sales). Proving its decision right, the holiday season sales for 2002 were the best ever for Tesco, despite the removal of these impulse purchase drivers.

As a result of the above strategies, Tesco was able to increase returns even as it reduced promotions. Dunnhumby prepared a profit and loss statement for the activities for the marketing department to help assess the performance of the Clubcard initiative. Dunnhumby claimed that Tesco saved around £300 million every year through reduction in expenditure on promotions. The money saved thus was ploughed back into the business to offer more discounts to customers.

By the end of 1990s over 10 million households in the UK owned around 14 million Tesco Clubcards. This explained why as high as 80percent of the company's instore transactions and 85 percent of its revenues were accounted for by the cards. Thanks largely to this initiative, Tesco's turnover went up by 52 percent between 1995 and 2000, while floor space during the same period increased by only 15 percent. In 2010 the Clubcard was relaunched offering customers double points which earned customers more than £550 million in total vouchers. Double points encouraged more customers to sign up, resulting in a Clubcard being used with a higher proportion of transactions than before and 18 percent more UK households redeeming vouchers than in 2009. Clubcards operates in eleven of the company's international markets with 15 million card holders (and there now more Clubcard holders overseas than in the UK).

Not only is Tesco's programme the biggest CRM programme in the UK, it is one of the most sophisticated and extensive CRM programmes in the whole world. Commenting on the reasons for Tesco's success, Clive Humby said, 'I think one is that they make sure that consumers get things that really matter to them. So the relevancy of the communication. And two, it was the first one to really use data powerfully. And, as a result, they got a march on their competitors'.

• FROM CUSTOMER SERVICE TO CUSTOMER DELIGHT

To sustain the growth achieved through the launch of Clubcards, Tesco decided to adopt a four-pronged approach: Launch better, bigger stores on a frequent basis; offer competitive prices (eg offering everyday low prices in the staples business); increase the number of products offered in the Value range; and focus on remote shopping services (this included the online shopping venture). To make sure that its prices were the lowest among all retailers, Tesco employed a dedicated team of employees called 'price checkers'. This team checked and compared Tesco's prices with those of other companies on a weekly basis. The

company even helped its customers compare prices by providing information on Tesco.com.

By late 1998, even though Tesco's CRM efforts had resulted in superior financial performance and market share, the company was still not satisfied with its customer service standards. Commenting on the need to improve on this front, Chris Reid, Customer Initiatives Manager, said, 'we have spent so much time improving the way our the way our stores look, the range of products we sell and our services processes that we may have temporarily overlooked the impact that our people can make on customers through their behaviour. We need to redress that.'

The above realisation culminated on the launch of the '*Every Customer Offered Help*'(ECOH) initiative. As part of ECOH, all employees were given clear instructions about the way in which they were expected to deal with customers .Employees posted at check-out counters, for instance, were asked to be very particular about greeting the customers, offering them help and finally , wishing them a good day. Store managers, who were responsible for making the ECOH initiative , participated whole-heartedly in the scheme.

In mid-2001 Tesco acquired a 53percent stake in Dunnhumby. Analysts said it was a clear indication of Tesco's realisation that its growth during the 1990s had occurred largely because of Dunnhumby's expertise. According to www.1to1.com article, 'Tesco knows the customer data managed by Dunnhumby is its most valuable asset'. In the same year, Dunnhumby created a separate retailing division to provide market research services to Tesco as well as suppliers.

Tesco knew that the loyalty card initiative was just one part of the overall thrust on CRM and that customer service enhancement was needed to survive and

Excel in the intensively competitive British retailing market. The company therefore took a host of other initiatives to sustain its leadership position. In 2001-02 Tesco introduced customer Champions in its stores to further the thrust given to customer service. The company also successfully implemented a new scheduling scheme for store employees to increase customer satisfaction levels. Tesco required all employees (including top-level executives) to spend some time every year in the stores to help them get acquainted with the nuances of the customer service. This programme not only helped ingrain customer service as a company philosophy in all employees, it also resulted in the development of many innovative ideas. Unlike Asda's customer service programme, Tesco programme did not require employees to get 'too personal' with customers (reportedly, Asda posted employees at the doors just to greet customers).

To ensure that its CRM efforts were backed by a strong operational framework, the company paid special attention to controlling costs and streamlining its supply chain. In association with its suppliers, Tesco strove to eliminate all non-value-adding costs. It also collaborated with suppliers to develop 'Lean Thinking' approach, which focused on smart and efficient working. The company also followed a continuous stock replenishment policy to ensure at least 99 per cent stock availability. As a result, not only were store shelves stocked adequately at all times, the chances of merchandise getting spoilt in the store backrooms was also reduced.

Commenting on Tesco's approach towards business, an April 2001 issue of *the Economist* stated, 'Irritating though it is to its detractors, Tesco success comes from consistently good management and close attention to what customers want'. Tesco identified long-term growth as the broad strategic goal to be achieved in the future. To do so, it focused on four aspects of its business: 'Core UK Business', 'Non-food Business', 'Retailing Services', and 'International Business'. The 'Core UK Business' addressed the company's commitment to

continue serving its UK customers in an increasingly better manner, while the 'Non-Food Business' business aimed at increasing the company's focus in new areas. In 2003 the non-food business in the UK was estimated to worth £75 billion, of which Tesco had a 5 percent share.

Tesco believed that the market held a lot of growth potential and hence planned to focus strongly on this segment. The success of TPF and Tesco.com prompted the company to seek other avenues for further leveraging the retailing services business. Accordingly, the company decided to launch a fixed line telephone service in the UK in September 2003, followed soon after by a mobile phone service. As far as the focus on the international business was concerned, by 2003 Tesco was already earning 45 per cent of its revenues from non-UK operations. The company planned to explore the possibilities of entering new, profit-able markets and expanding its global network further.

In February 2003 Tesco launched a new initiative targeted at its women customers. Named 'Me Time' the new loyalty scheme offered ladies free sessions at leading health spas, luxury gyms and beauty saloons and discounts on designer clothes, perfumes and cosmetics. This scheme was rather innovative since it allowed Tesco customers to redeem the points accumulated through their Club cards at a large number of third-party outlets. Company official Crawford Davidson remarked. 'Up until now, our customers have used Tesco Club cards vouchers primarily to buy more shopping for the home. However, from now on, "Me Time" will give customers the option of spending the rewards on themselves'.

- **AN INVINCIBLE COMPANY? NOT EXACTLY....**

Tesco's customer base and the frequency with which each customer visited its stores had increased significantly over the years. However, according to reports, the average purchase per visit had not gone up as much as it would have liked to

see. Analysts said that this was not a very positive sign. They also said that while it was true that Tesco was the market leader by a wide margin, it was also true that competitors, Asda, Sainsbury's and Morrison were competing strongly. Given the fact that the company was moving away from its core business within UK (thrust on non-food, utility services, online travel services) and was globalising rapidly, industry observers were rather sceptical of its ability to maintain the growth it had been posting since the late 1990s. *The Economist* stated that the UK retailing industry seemed to have become saturated, and that Tesco's growth could be sustained only if it ventured overseas. However, it also cautioned that UK retailers had usually not fared well abroad and mentioned that Tesco needed to act carefully.

Tesco's growth was based largely on its loyalty card scheme. But in recent years, the very concept of loyalty cards was being criticised on various grounds. Some analysts claimed that the popularity of loyalty cards would decline in the future as all retailing companies would begin offering more or less similar schemes. Critics also commented that the name *loyalty card* was a misnomer since customers were primarily interested in getting the best price for the goods and services they wanted to buy. Research conducted by Black Sun, a company specialising in loyalty solutions, revealed that though over 50 per cent of UK's adult population used loyalty cards, over 80 per cent of them said that they were bothered only about making cheaper purchases. Given the fact that many companies in the UK, such as HSBC, Egg and Barclaycard, had withdrawn their loyalty cards, industry observers were sceptical of Tesco's ability to continue reaping the benefits of the Clubcard Scheme. Black Sun's Director (Business Development), David Christopherson, said, 'Most loyalty companies have a direct marketing background, which is result-driven, and focuses on the short term. This has led to a 'points for prizes' loyalty model, which does not necessarily build the long-term foundations for a beneficial relationship with customers.'¹²

However, Tesco and Dunnhumby refused to accept the above arguments. Dunnhumby sources said that provided loyalty cards were made a part of an overall CRM strategy framework (like Tesco had done), the chances of failure would be minimal. Commenting on the philosophy behind Tesco's CRM efforts, Edwina Dunn said, 'Companies should be loyal to their customers – not the other way round.'¹³ Taking into consideration the company's strong performance since these efforts were undertaken, there would perhaps not be many who would disagree with Edwina.

Source: Wilson, A., Zeithaml, V.A., Bitner, M.J. & Gremler, D.D (2012). *Services Marketing: Integrating Customer Focus Across the Firm*. 2nd European ed. Berkshire: McGraw-Hill.

SECTION A (This section relates to the TESCO case study)

QUESTION 1

Considering the Customer Relationship Marketing (CRM) approach of TESCO, discuss the following questions:

- 1.1 Does TESCO follow a customer centric approach to service delivery?
Motivate your answer clearly. **(5)**
 - 1.2 Critique the relevance of customer retention to TESCO. **(5)**
 - 1.3 Advise on whether an Internal Marketing strategy can be a focal point in the development of a customer centric strategy? **(5)**
- [15]**

QUESTION 2

The 'moments of truth' concept implies that the organisation has the opportunity to demonstrate the quality of its service to the customer. Explain how TESCO builds relationships through service delivery. **(10)**

QUESTION 3

Critique the necessity for TESCO to consider a partnering approach towards customers. **(10)**

QUESTION 4

Service management should be a total organisational approach to ensure that superior service is one of the driving forces of TESCO. Develop a customer service strategy for TESCO based on the following success factors, namely the customer, the service strategy, the people and the systems. Be practical in your approach. **(15)**

SECTION B (This section relates to the article “Bad customer care ruins trust)

QUESTION 1

Develop a Relationship Marketing strategy for the Hyundai dealership in Menlyn that could assist them in improving their relational approach towards customers. Use the following box in your prescribed book to guide your strategy formulation:

Box 1 Transactional versus relationship marketing

Transactional marketing	Relationship marketing
<ul style="list-style-type: none">▪ Do the deal and disappear▪ Push price▪ Short-term thinking and acting▪ Build the business on deals▪ Getting new customers▪ No structure for ongoing business▪ Selling focused▪ Shortterm empathy▪ Incentive for 'doing the deal'▪ Foundation of sale telling and selling▪ After-sales service at additional cost▪ Product service focused▪ Rewards incentives for 'doing deals'▪ The deal is the end	<ul style="list-style-type: none">▪ Negotiate a 'win-win' sale situation and stay around being a resource for better results▪ Promote value▪ Long-term thinking and acting▪ Build the business on relationships▪ Keeping customers▪ Structure created to support relationships▪ Relationship focused▪ Long-term empathy and rapport▪ Incentive for long-term relationship and revenue▪ Foundation of revenue trust▪ After-sales service as investment in relationship▪ People expectations and perception focused▪ Rewards incentives for maintaining and growing relationships and revenue▪ The sale is the beginning

(25)

QUESTION 2

Consult to the management team of Hyundai (South Africa) on the development of a professional recruitment strategy to enhance the hiring of the most skilled and qualified customer centric employees.

(25)

[50]

TOTAL: SECTION A (50) + SECTION B (50) = 100

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Bad customer care ruins trust

A lot of businesses take an unnecessarily long time to resolve complaints

The customer-business relationship is really no different to any other. Just like a good personal partnership, it needs mutual respect, trust and integrity.

And as in a personal relationship, if these values are missing, the association is deemed.

So why does business regularly treat customers badly, ruining relationships and risking brand and reputational damage in the process?

It's been said before but I'll say it again. Mistakes happen, products fail systems come unstuck. It's the way in which these issues are handled, however, that determines whether consumers champion or bad-mouth a brand.

Business should be upfront and honest, and ready to apologise. (Excuses can be left to cabinet ministers).

If suppliers offered more empathy when things go wrong, the volume of complaints from consumers would probably halve overnight.

It's customer service 101, listen, empathise and resolve. And do it quickly.

I'm amazed at how readers who send me their complaints are so grateful just to get a response from me, much less a resolution. They're so relieved to have finally been heard. Whatever the merits of a complaint, something has caused a customer distress.

And that should be enough to trigger action from a supplier. But it's all too often ignored.

As happened to Pretoria resident Adele Hosken who had a problem with Hyundai.

"I must be honest with you" the 35-year-old wrote to Hyundai after the issue was recently solved, "that I am left with the overwhelming impression that if it wasn't for the Sunday Times' intervention I would still be without any recourse from Hyundai".

A sad indictment on a company that says it wants to become the "best loved brand" in South Africa.

Hosken's case was not complicated. In fact, it's one of the most simple car complaints I've had.

'I really love my i30 but I am serious when I say that if someone asks me if I would recommend Hyundai I would think twice'

In a nutshell, Hosken took her 2010 Hyundai i30 for its scheduled 45 000km service at Hyundai Menlyn, Pretoria, in June. When she collected it later that day, there was a crack of about 40cm across the middle of the windscreen.

"my windscreen had no crack whatsoever when I delivered my car in the morning," said Hosken, a programme coordinator and knowledge analyst for an international aid organisation.

She reported it immediately to the service adviser and service foreman, who agreed the crack, had not been noted on the check sheet that morning.

The check sheet lists existing damage to the body of the car, mileage and fuel level before servicing.

The service manager said that if there had been an existing chip on the windscreen when the car was raised off the floor for servicing, it could have caused a crack to develop.

He said Hyundai was not liable for the damage and advised Hosken to ask Glasfit to provide a report on whether the chip was a new or existing one. If new, Hyundai would pay for Hosken's insurance excess when she claimed for a new windscreen.

"What utter rubbish" said Hosken, "I took the car to Glasfit knowing full well that there is no way to verify whether it was an existing or new chip.

"The service consultant said that they had found that when windscreens got damaged in the service process, it was sometimes caused by the fact that the wipers were raised and the bonnet was opened without putting the wipers down which caused the wipers to come crashing down on the windscreen..."

Hosken never got any further on her own, despite twice alerting customer care to the problem – at both dealership and national level – and sending the dealer principal an e-mail complaint.

It was only after she sent her complaint to the Sunday Times that Hyundai apologised and offered to replace her windscreen.

According to general manager of corporate communications, Deon Sonnekus, the dealer principal had not been aware of the case.

"On being presented with the facts, [he] investigated it and it was decided to replace the windscreen. I do not know why this was not done in the first instance," he said.

A few days later, Hyundai's national customer care manager, Corne Theron, apologised to Hosken for the way its dealer had handled the complaint and the "non-resolution"

"This is definitely not the level of service we expect our dealers to give our valued customers and appropriate action will be taken against the parties involved.

"After all, Hyundai wants to become the 'best loved brand' in South Africa but regrettably we fall far short of that if our dealer network continues to render this level of service.

"Theron said as far as Hosken is concerned, there's a "much large systemic problem" in the company; its customer service procedure is "broken".

"I really love my i30 but I am serious when I say that if someone asks me if I would recommend Hyundai I would think twice. Follow-up service is just as important as the actual product," said Hosken.

"My mother is in the market for a new car. It's a toss-up between Ford and Hyundai. My advice would be [for her] to look into Ford as first choice."

Ouch Hyundai, that's got to hurt.