CLIMBING THE LOYALTY LADDER WITH SUPERQUINN'S CUSTOMER LOYALTY PROGRAMME[1]

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INTRODUCTION

The new SuperClub Loyalty Scheme had been rolled-out to much fanfare and publicity. Frank Murphy, creator of the original SuperClub Loyalty Card and initiator of its most recent developments, felt confident that the new improved scheme, would in time make all the difference to Superquinn. Trading conditions were getting tough. The sheer volume of new store openings was fuelling the competitive intensity between all players. The arrival into the Irish market of Aldi and Lidl, two hard core limited range discounters, hadn't helped. The discounters were offering rock bottom prices for their own brands and, judging by their market share, many consumers found the quality acceptable. In fact it seemed that price had become central to the competitive strategy of all operators and, unfortunately, Superquinn was perceived to be at the high end of the price spectrum. Legislative restrictions were pitched against the multiple operators in a bid to establish a level playing pitch for symbol retailers. These restrictions limited the size of stores and limited the scope of price wars by outlawing below cost selling.

Retail margins remained very tight against a backdrop of rising operating costs, especially for the smaller Irish players. Furthermore, smaller Irish players just didn't have the same buying power as some of the multiples. Despite acknowledgements from all sides that Superquinn supermarkets had superior customer service and an excellent fresh food offer, market share has remained static for a number of years. A

1 This case is intended as a basis for class discussion, rather than to illustrate either effective or ineffective management practices.

slight improvement was reported recently, which was good news.

The value proposition seemed to be changing – consumers were more demanding and less tolerant. The Irish consumer was showing increasing signs of butterfly shopping and Superquinn and other grocery retailers were coping in individual ways with this propensity to shop across a number of different outlets. The consumer was becoming increasingly sensitive to price amidst the media attention that 'Rip off Ireland' was receiving. The 'national grumpiness' that a recent Behaviour & Attitude survey revealed had definitely fed into the grocery sector – getting the value proposition right was a key issue for the future.

Later that week a meeting was scheduled to review Superquinn's marketing strategy. Loyalty schemes had been getting a bad press of late, and some of those at the meeting would play devil's advocate and question both the detail and the relevance of the loyalty scheme. Was SuperClub really their best marketing option? Should they do some things differently? Frank knew he would be challenged on these issues.

SUPERQUINN

Feargal Quinn founded Superquinn in 1960. He opened his first shop in Dublin in premises of less than 200 square metres with a staff of just eight people. Today, Superquinn employs more that 5,500 people and has a sales area of over 40,000 square metres. The company owns 19 supermarkets and nine shopping centres. (See **Appendix 1** for *Store Locations and Store Size).*

Much of the business philosophy underpinning the Superquinn business model was learnt by Feargal during his summers as a teenager when he worked at his family's holiday camp business. His father had one simple success measure: how many customers at the camp signed up to return the following year?

When Feargal opened his first supermarket this principle of getting the customer to return, the *Boomerang Principle,* became the cornerstone of his business philosophy and remains at the heart of the company to this day. Some industry experts would say that it has been this culture of customer loyalty that enabled Superquinn to hold its position in a fiercely competitive and increasingly internationalised grocery retail market.

Superquinn's mission statement is *to be a world class team renowned for excellence in fresh food and customer service*. Superquinn is long recognised within the sector as providing excellence in customer service. It employs more staff than many of its competitors in order to deliver a high level of personal service to its customers. It keeps a close eye on its customers' needs through conducting consumer panels in every shop. Feargal himself has traditionally walked the shop floor of at least one of his stores every week, meeting and talking with the customer, and has spent regular stints packing customers' bags. Services such as crèches for shoppers, the removal of sweets from the checkouts, bag packing, rainy day umbrellas, internet shopping (Superquinn was the first to introduce internet grocery shopping in Ireland), and more recently, trial based 'drive thru' shopping are examples of Superquinn customer initiatives. In the last five years Superquinn became involved in the supply of products to convenience store formats. However, it was only involved on a supply basis and not directly involved in the operation of these stores. It became unhappy with the standards and withdrew from this venture. It also experimented with banking and withdrew from this in 2002.

Its dedication to the provision of fresh foods is reflected in its international reputation for innovation. In fact Superquinn pioneered the idea of in-store bakeries, where customers could see the bread being baked. Over the years a range of specialist fresh food departments has been developed including delicatessens, pizza kitchens, pasta kitchens, salad kitchens and even sausage kitchens. In addition there is a wide range of fresh fruit, vegetables, meat, bacon and seafood. However, because of the glass-house nature of retailing, within a short time most innovations are copied by competitors. (See **Appendix 2** for *A List of Superquinn's Awards*)

Superquinn's market share has remained in the region of 8 per cent for the past several years in a market valued at €5.35 billion. However, its market share has recently shown a 0.3 percent increase which the company attributes to recent Christmas promotions and the opening of a new 170,000 square foot centralised distribution operation in Blanchardstown, Dublin.

Recent consumer research concluded that Superquinn's strengths are perceived by the average consumer to lie in the areas of bakery, staff, hygiene, fresh fruit and vegetables, fresh meat and speedy queues. In fact, Superquinn was the only European supermarket to experience an increase in sales of beef during the BSE crisis of 2001. This increase was directly attributable to consumer confidence in the quality of its meat products. This is due to the DNA traceablility of its fresh meats which allows the store to trace the farm and origin of the animal. However, this has rendered Superquinn's meats more expensive than its competitors' fresh meats as Superquinn spends €200,000 annually on traceability.

Superquinn is seen as weak in offering cheap prices, value for money, convenience of location and own label. In contrast, the typical Superquinn shopper is most particularly concerned with excellence in almost all aspects of service, rather than with cheap prices and value. The factors that the typical Superquinn customer places most priority on are cleanliness, courteous service, fresh food, speedy queues, good staff, good layout and excellence in fresh meat.

THE CREATION OF SUPERCLUB

SuperClub, a points-based loyalty scheme and the brainchild of Superquinn's financial director, Frank Murphy, was launched in 1993. It is a much cited anecdotal mantra among the retail sector that it is ten times more expensive to recruit a new customer than to hold on to existing ones. Superquinn's core strategy has always been to focus the business on persuading the customer to return and building customer loyalty. The early 1990s was the genesis of SuperClub. Superquinn began to explore how it could build on its relationship with the customer and apply Feargal's boomerang principle even further. This, the company believed, to be the best strategy for success in a market characterised by very tight margins. The Groceries Order Act (1987) limited the extent to which Superquinn could offer rewards to customers on an individual basis. A loyalty programme that would identify Superquinn's customer base and allow them to reward its most valued customers on a cumulative basis emerged as the solution. After three years of extensive research of loyalty schemes in the USA and Europe, Superquinn designed its own loyalty scheme, using a banking database model as a prototype. Three years after the launch Superquinn began to work closely with the Retail Strategy Centre in North Carolina. The centre is headed by Brian Woolfe a world-renowned guru on loyalty issues and he provides Superquinn with advice on data analysis and on how to make the best use of the database information. (See **Appendix 3** for *Loyalty Programmes in Context*).

From the outset, the purpose of SuperClub was to grow Superquinn's business through rewarding loyalty among the stores' most valued customers and encouraging other customers to become more loyal to the stores. Superquinn defines its customer as someone who has shopped in any previous12-week period. SuperClub was designed purely to reward customers for shopping at Superquinn but in particular to reward its better customers better. It was not to be used in a predatory manner to attract new customers into the stores. The company is convinced that in the long run it is far more successful to identify its better customers and reward them and let them spread the word to their next door neighbours, who in turn may become loyal customers of the future.

In designing the scheme, Frank and his team explored how they could reward the customer in a way that was valuable and meaningful to the customer in a cost- effective manner for the company. In designing SuperClub, therefore, every aspect was intended to be as customer-friendly as possible. Points belonged to the customers to do with as they wished. They had no expiry date and could be transferred easily to other club card members – in fact customers could even set up standing orders to manage such an operation. Points were awarded on the value of groceries purchased and could be exchanged for a wide variety of gifts contained in the SuperClub gift catalogue, money-off vouchers and free flights on five different airlines. Hundreds of in-store promotions gave the customer many additional opportunities to earn bonus points. Where these additional bonus points are product based, the supplier may fund the cost of the points in certain cases. The actual monetary value of points was not revealed to the consumer and this gave Superquinn a lot of flexibility in negotiating cost price deals with suppliers of gifts for the catalogue thus passing on further benefits to the customer.

In a bid to maximise the offering to the consumer, Superquinn invited other non-competing retailers such as Atlantic, Easons and Texaco to become members of the scheme. SuperClub was launched initially with five partner companies, a figure which eventually increased to sixteen. SuperClub Target Marketing (STM) was formed to manage the scheme and is a wholly owned subsidiary of Superquinn. Each partner offered SuperClub points as an incentive to its customers and each partner paid for points issued. This was a shared cost system, all partners paid a membership fee to STM and an annual fee which covered the costs of all points rolled out by them.

To help off-set the programme's costs much of Superquinn's promotional spend was moved into funding the scheme. Superquinn, traditionally big spenders on bus and poster advertising, reduced their media spend by two-thirds and diverted this money straight to funding SuperClub. Superclub also raised additional revenue through the provision of services to other companies e.g. market research services and direct mail campaigns. The system was run from the outset with a high degree of automation thus limiting the number of people required to operate the programme to six.

At the time of its launch, SuperClub was the first multi-retailer loyalty scheme in the world. SuperClub has since been the model for similar schemes in Ireland as well as Brazil, Scandinavia, Portugal and South Africa. The Irish consumer appeared to be ideally suited to such a scheme. Where the American consumer is said to be a deal-chaser looking for instant gratification, the Irish consumer behaves more like a magpie preferring to gather points into the future in order to earn a bigger reward. Evidence of this was certainly reflected in the legendary Green Shields Stamps promotions that ran for many years – Ireland had the highest uptake of any country in which the programme operated.

In the first twelve months, the numbers signing up for membership of Superclub was three times in excess of what was originally anticipated. The points awarded each week averaged 20 million and some 14,000 gifts were redeemed each week. Ninety six per cent of all points administered are redeemed by customers. The scheme encouraged existing customers to spend more in the store and attracted new customers into the store.

Even in the early stages, Superquinn was able to use the database to its advantage. In Superclub's first month of operation a list of the top 100 point earners was generated. The printout showed that there was a high number of guesthouse operators on the list. On the basis of this data, they approached Bord Failte for a list of guesthouses and sent a loyalty card to every guesthouse in Superquinn localities offering double points for six months. The result was a huge success. Today, some 450,000 households are members and over 800,000 cards are in circulation, over one-quarter of all households in Ireland. Since its launch in 1993, over 20 billion points have been given out and at any time, there are over 100 million points waiting to be converted by members into gifts.

SuperClub uses promotional points to shift customer traffic to quieter, less busy times of the day or week or simply to promote particular departments within the store. Individual decisions come out of the individual store Points are also used to build the frequency of visits. Various promotions are designed to run for six week periods during which customers can avail of additional points if a minimum spend is achieved in each of the six consecutive weeks of the promotion.

Goof points were introduced to reward customers with 100 points for finding any of fifteen common store level problems or goofs such as a wobbly trolley, out of date merchandise on the shelf, or lengthy queues at the checkout while other checkouts remained closed. Essentially, customers are rewarded for becoming in-store quality control inspectors. The programme has been so successful that is has become a permanent feature and the original fifteen goofs have now been expanded to anything the customer finds wrong in the store.

New members are joining the programme all the time. However, at the same time other members are leaving. A key objective of Superclub is to ensure that the level of overall members is not falling and, ideally, is rising. It monitors this through a 'Bath Tub Analysis'. If the level of the bath tub is falling, Superquinn conducts research to identify the key issues behind its customer defection.

Despite its many successes, there were down sides to the original SuperClub scheme. Working with multiple partners created an administrative burden and often staff employed by partners were less than diligent in offering SuperClub points. Texaco alone had some 350 outlets throughout the country. The high turnover of staff working in forecourts and other employments meant that Superquinn was constantly trying to educate and motivate partners' staff to issue SuperClub points. The learning curve was very steep. When the economy began to dip, and costs needed to be cut, for some of the partners SuperClub was a soft cost-cutting option. The change from punts to euro had complicated the points system and by 2003 the company believed it was time to modify the SuperClub programme.

After extensive research and investment in world-class technology, a new revitalised SuperClub programme was launched in August 2003. The traditional currency of Superclub points was replaced with Supercents. This was designed to make it easier for the customer to calculate the value of their Supercents. Previously 630 points roughly converted into €5. With the new programme 500 Supercents is worth exactly €5. A team of six individuals continue to manage the Superclub scheme through the subsidiary company, STM. The original SuperClub catalogue and the fifteen trading partners of the old SuperClub were discontinued.

SuperClub entered into a single alliance with Argos. The Argos catalogue replaced the SuperClub catalogue, although the procedure remained similar. Customers exchange their points for an Argos voucher at any Superquinn outlet; this is then redeemed against their chosen item at any Argos outlet. Argos benefits from increased footfall of customers visiting their stores and in many cases these customers buy other items in addition to those they originally set out to purchase.

SuperClub and Argos technology are compatible and the scheme is now completely electronic. Customers have a pin number that they key in at the check-out to pay for their shopping. The new scheme was launched with hundreds of in-store promotions that offered customers further opportunities to earn additional Supercents. Customers essentially have three choices with their Supercents: they may take their Supercents and use them against the value of their shopping, either at the checkout or while shopping online; they may save their Supercents to avail of gifts from Argos at a later date; or they may transfer half of their Supercents collected to their SuperClub account and discount the other half from their bill.

Superquinn's customer database information is closely guarded. Information about sales and product performance is shared with suppliers, but customer names and addresses are never divulged. If a supplier wants to organise a direct marketing promotion, it does so through STM. Superquinn retains Brian Woolfe as a consultant to SuperClub. They take a recency, frequency and spend approach to analysing customer behaviour and favour the Diamonds, Rubies, Opals, Pearls and NoIds (DROP'N) method of customer categorisation. (See **Appendix 4** for *Best Practice in Loyalty Schemes*)

- Diamonds and Rubies are Superquinn's best customers. Database information indicated that some 40 per cent of its customers were classified as diamonds and rubies and these actually accounted for some 80 per cent of its business. To lose one of the *Best Customers* was equivalent to losing some 20 other shoppers. The company interpret a decline in the *Best Customer* numbers as usually indicating that part of its current offering (service, friendliness, assortment, price and cleanliness) is disappointing its core customer constituency and needs immediate investigation and correction.

  The data from its *Best Customers* is now increasingly being linked to its category management systems and shelf plannograms. If its *Best Customers* buy a lot more of a certain product, then that product receives a lot more shelf space. Merchandisers now check with *Best Customer* data to see their spend pattern before a decision is made to delete or replace a product.
- Opals and Pearls are Superquinn's Potential Best customers (PBCs). They usually split their shopping between Superquinn and its competitors. Pearls are occasional customers and buy most of their products from competitors. Targeted offers to this group usually result in a poorer response than from the Diamonds or Rubies.

However, as drop-in infrequent shoppers their individual transactions can be profitable. The objective with PBCs is to transform them into *Best Customers* and to ensure that over time they remain loyal to the store and don't defect to competitors.

- New customers and Reactivated customers are grouped into one segment because consumer behaviour of the two groups is very similar. The average new customer shops for only half of the quarter (as new ones are joining each week during the whole quarter) and they have a high drop out rate.

THE GROCERY RETAIL MARKET IN IRELAND

The Irish grocery retail market is currently estimated to be worth in the region of €5.35 billion. The market is comprised of three categories of players – multiple supermarket operators, symbol groups and independent outlets (See **Appendix 5** for *A Profile of the Key Players in the Industry*). The market has become highly concentrated with the three large multiple operators, Tesco, Dunnes and Superquinn, controlling some 53% of the market. The symbol groups and the discount multiples account for 30 per cent and the independent operators account for the remaining 17 per cent of the market. Commentators predict that both the multiples and symbol groups will continue to drive industry concentration.

Operating margins in Ireland are in the region of 3.5 to 5 per cent. This figure is considerably lower than the UK figure of 6 to 7 per cent but comparable with the rest of Europe. Low margins have been attributed to the low level of own brand penetration, higher transportation costs as a result of Ireland's peripheral location, the smaller scale of many of the operators and the intensity of price competition in the market.

The symbols are generally independently owned retail outlets that operate under a symbol name and co-operate to achieve economies of scale in purchasing and marketing. Their basis for competition has traditionally been convenience but increasingly they are competing directly with multiple operators. The primary symbol groups are Musgrave and BWG.

The multiple operators dominate the grocery sector in a number of key areas. Superquinn, Dunnes and Tesco are the exclusive operators of loyalty cards in the Irish market (See **Appendix 6** for *Loyalty Card Penetration in the Irish Market*). They are also the dominant force in the own brand sector. The current figure of 18 per cent penetration of own brands is lower than the UK level of 39 per cent but is rising. The arrival of the discounters is expected to drive own brand penetration further.

The most significant recent entry into the market has been from the German discounters Aldi and Lidl. Since their arrival both operators have embarked on an aggressive expansionary strategy. Their basis for competition is a low price 'no frills' private label offering both in food and non-food categories. They have received widespread consumer acceptance. This is reflected in their market share which is reported to be in the region of 5 per cent. The emergence of the discounters in the sector has profoundly changed both competitive dynamics and consumer behaviour. Shifts in market share suggest that the price differential between the discounters and other players has become significant enough to result in consumer defection to the cheaper outlets.

A recent Behaviour and Attitudes survey puts the average typical weekly spend on grocery shopping at €123. This represents a 3 per cent increase on a previous survey conducted twelve months earlier. (See **Appendix 7** for *Average Weekly Grocery Spend*). The survey found that where people's spending has actually increased by 3 per cent, they believe that they are spending 19 per cent more that they were a year ago.

THE MANAGEMENT CHALLENGES AHEAD

Frank and his team had some hard decisions to take. Did the loyalty scheme contribute enough to growing the business, or would the energy, time and money spent nurturing the scheme be better deployed elsewhere? When the original loyalty card was introduced it was lauded as an innovation, but you could argue that loyalty schemes had run their course; it was doubtful that any loyalty scheme would be attractive enough to entice new customers into a store. It was debatable whether a loyalty card had the ability to reduce 'shopping-around'. Should they focus their efforts and resources elsewhere – into reducing prices, developing a wider range of own brands or introducing a smaller format store to compete with the trend towards convenience shopping? It was important that groupthink didn't get in the way of incisive analysis. Frank marshalled his arguments and began to jot down some ideas…….

APPENDICES

APPENDIX 1
SUPERQUINN STORE LOCATIONS AND STORE SIZE

Shops	**Size in Sq. Mtrs**
Finglas	2,919
Sutton	2,408
Northside	2,508
Walkinstown	2,850
Ballinteer	2,335
Bray	1,803
Blanchardstown	2,800
Knocklyon	2,873
Sundrive	2,295
Naas	2,150
Blackrock	2,839
Swords	3,753
Lucan	4,912
Kilkenny	3,050
Carlow	3,065
Clonmel	2,760
Dundalk	3,513
Waterford	4,153
Limerick	4,200

APPENDIX 2 LIST OF SUPERQUINN'S AWARDS

- International Accenture Global Electronic Marketing Award 2003
- Institute of Grocery Distribution : Unilever Award 2002
- Best in Ecommerce Innovation - Global Retail Technology Forum 2002
- Institute of Grocery Distribution : Unilever Award 2001
- FAS Excellence Through People Awarded to Superquinn Blackrock
- PARC, IIT Training Award
- CERT, Ireland's Best Award for Superquinn Swords
- Certified by National Council for Vocational Awards
- Institute of Grocery Distribution : Supply Chain Excellence Award 2000
- FBD Insurance/Checkout Magazine, Supermarket of the Year 1998, 2000 & 2001
- British Council of Shopping Centres Award.
- National Hygiene Award.
- National Sausage, Checkout and Bakery Awards.
- The John Sainsbury Award.
- Global Electronic Marketing Award for SuperClub 1997
- Bord Glas/Checkout Magazine Fruit and Vegetable Retailer of the Year Award 1998.
- FMI International Award of Excellence.
- ESB Energy Award
- Meat Matters City Sizzler Award.
- Memorex Telex/Business & Finance - Computer Professionals of the Year.

APPENDIX 3
LOYALTY PROGRAMMES IN CONTEXT

Customer Loyalty programmes have been around in one form or another for quite some time. Cooperatives were rewarding their customers for their purchases some 150 years ago. The *Frequent Flyers Programme* by South-western Airlines in the US and, in Europe, the *Green Shield Stamps* programme, marked the beginning of loyalty schemes as we know them today. Technology has revolutionised such schemes and has resulted in a proliferation of schemes throughout the last decade. Technology has made them much easier to use and to administer, and has opened up opportunities for relationship marketing and targeting customers.

Types of Loyalty Schemes

A *Points* based loyalty scheme allows customers to collect points on the basis of their spending in store. The key advantage of this type of scheme lies in its flexibility to influence consumer behaviour, its ability to increase or decrease store traffic and frequency of store visits etc. The greatest potential weakness of such a scheme is in its costs. Points based schemes, which offer 1 point for every Euro spent, are essentially costing 1 per cent of sales. However, the schemes generally cost slightly less than 1 per cent of sales, depending on the retailers' gross margins e.g. a gross margin of 20 per cent on a product would result in the points on that product costing .8 per cent of sales. For points-based schemes to break even at the very least, they must result in an increase in sales within the store. The industry norm for redemption of points is 80 percent. Initially Superquinn provided for 90 percent but had to increase it to 95 and then to 96 per cent due to extremely high levels of customer redemption.

Priced-based loyalty programmes generally have lower costs than points-based schemes. The most common manifestation of these schemes is in the two-tiered pricing model where a wide range of advertised and unadvertised items are sold at a reduced price to customers who present their loyalty card at the checkout. Regular shelf prices are charged to those customers without a loyalty card. Such schemes are common in the US and the UK retailer Boots has used this system profitably and successfully for some years now.

Coalition schemes are said to be the way forward in loyalty marketing as they facilitate more, and easily collected points. They also allow for the high costs of running the schemes to be shared among the partners. Nectar, a coalition loyalty programme, was launched in the UK in September 2002. The programme partners are Sainsbury's, BP, Barclaycard and Debenhams, Vodafone, Ford and other retailers. It has overtaken Tesco in terms of size and is operated by a third party operator, Loyalty Management UK, including its direct marketing and promotion activities.

By letting the sponsors share marketing, database and administration costs, Nectar massively reduces the costs in running a loyalty scheme. Payback (a similar multi-company scheme in Germany) boasts 40% overall cost reductions.

The top five loyalty programmes among British retailers are Nectar, Boots Advantage Card, Tesco ClubCard, Airmiles and WH Smith. The Tesco Clubcard and Nectar loyalty programme are the two largest schemes among grocery retailers in the UK. Tesco's clubcard scheme has been in operation since February 1995 and in that time it has certainly moved on from a mere direct marketing database to one that uses its customer information to drive its operations and move towards information-rich relationship retailing. Tesco is also a partner member of Airmiles, a loyalty programme founded in 1988 by British Airways which now has more than 100 partners.

APPENDIX 4
BEST PRACTICE IN LOYALTY SCHEMES

Best practice in loyalty schemes suggests that the first step in identifying truly loyal customers lies in segmenting the customer base according to three key factors - Recency, Frequency and Spend. Recency refers to how long ago a customer last shopped in the store; Frequency refers to how frequently the customer shopped in the previous 12 week period and Spend refers to how much the customer spent during that period. On the basis of this RSF model shoppers are segmented into categories according to their loyalty status as follows:

1 *Those who shopped for the first time in the quarter. These are known as First Time New Customers*
2 *Those who were active both in the quarter and the preceding quarter. These are Pre-existing Active Customers.*
3 *Those who have been inactive (they didn't shop in the preceding quarter or quarters) but returned to shop this quarter. These are Reactivated Customers.*

Pre-existing Active customer are then classified according to how much they spent in the quarter and further segmented into Diamonds, Rubies, Opals, Pearls and Noids or DROP'N for short.

APPENDIX 5
KEY PLAYERS IN THE IRISH GROCERY RETAILING MARKET

TESCO IRELAND

Tesco first entered the Irish market in 1979 through the acquisition of a small discount chain, Three Guys. During the 1980s it opened some 30 stores throughout the country. However, by 1986, Tesco decided to pull out of the market, selling the business at an estimated loss of £16.2 million. Its failure in the Irish market at that time is reported to have been due to a combination of factors such as poor site selection, failure to adapt its trading format to suit the needs of the Irish consumer, over-sized stores and an over-reliance on British products.

In 1997 Tesco announced it would re-enter the Irish market paying £630 million for Associated British Food's (ABF) 78 Quinnsworth/Crazy Prices stores in the Republic and 34 stores belonging to the Stewarts Group in Northern Ireland. Tesco's re-entry was preceded by extensive consumer research and its business strategy was devised to fulfil the key customer requirements highlighted through this research process. Its strategy for entering the Irish market successfully was based on a number of factors: a thorough understanding of the needs of the Irish consumer, supporting local Irish producers, introducing the Tesco own label range of products, and using its supply chain competencies to pass on competitive prices to the consumer. Today, Tesco claims to source 60 per cent of its product from Irish suppliers and farmers with plans to increase this percentage even further in the future.

Tesco's parent company, Tesco PLC.UK is one of the top ten UK retailing companies and the number one supermarket operator in Britain. Tesco Ireland is the number one supermarket operator in Ireland with an estimated market share of 24 per cent, although disputes surrounding market share are a common feature of the market

It offers both food and non-food items throughout its stores. It currently has 77 stores located throughout the country.

The Tesco loyalty programme is the well-established Tesco Clubcard, a points-based programme in which points earned on purchases are converted into money off vouchers which are then mailed to the customer each quarter. Vouchers may be redeemed against food and non-food items. Additional money-off coupons and special offers are also included in the quarterly mailing to customers.

Tesco offers an extensive own label range of products both in the value and premium end of the market. Tesco has recently announced plans to improve the packaging of its value range of own-label products to include pictures, while still retaining its traditional red and blue colours. Some commentators believe that this may be a strategy designed to compete with the German discounter products. Tesco's internet shopping service now covers some 70 per cent of the Irish population. It operates sophisticated central distribution centres and has recently moved into petrol retailing in Ireland.

A recent Behaviour and Attitudes survey identified Tesco as having particular strengths in the areas of selection of brands, a good frozen food section, a strong off-licence section, good toiletries and good own label options. Their main weaknesses lie in their fresh meats, staff and services.

DUNNES STORES

Dunnes Stores, a family-owned business in operation since 1944, is one of Ireland's wealthiest and most successful companies. Dunnes' market share is reported to be in the region of 22 per cent, the second largest market share after Tesco. Dunnes has some 87 stores throughout the Republic of Ireland and 27 stores in Northern Ireland. However, they have closed the food outlets in the north to focus on drapery and homewares. They also have retail operations in the UK and Spain. Dunnes operates in food, drapery and household goods and also has a strong own brand presence. Its 700 plus St Bernard own brand range is estimated to account for some 33 per cent of sales.

Dunnes launched its points based loyalty programme – The Value Club Card in June of 1997 in what is reported to have been a pre-emptive strike against the imminent arrival of Tesco into the market. The programme secured enormous acceptance from the outset. Points are earned on groceries as well as purchases of drapery and household items. Points are converted into money-off vouchers that are mailed to the consumer each quarter and may be redeemed against groceries, drapery or household items. Additional money-off coupons and special offers are also included in the quarterly mailing to customers. Dunnes withdrew their loyalty card from Northern Ireland in 2002 citing the high cost of implementation as the main reason for the card's withdrawal.

A recent Behaviour and Attitudes survey found Dunnes to have a particular strength in having the cheapest prices, offering value for money, own label options and a good off licence. Its weaknesses are in regard to perceptions of their bakery, their fresh meat offering, their fresh fruit and vegetable and the quality of their staff.

Dunnes' basis for competition has traditionally been a focus on low price and value for money. Its advertising slogan 'Dunnes Stores Better Value' has been a consistent feature of its communication for many years. However, following Tesco's entry into the market, Dunnes placed greater emphasis on its Irish origins with the slogan, *'The difference is, we're Irish'*. Their current competitive strategy is to maintain and improve this position through investing in new stores, refurbishing and extending existing stores, recruitment, and new product development. The company has not yet announced any formal decision on its intention to invest in central distribution.

LIDL AND ALDI

After only four years in the Irish marketplace, Lidl has become the largest discount retailer in Ireland. Recent figures put its market share at 3.5 per cent. It has pursued an expansionary strategy since its arrival and now has some 64 outlets in Ireland, 26 of which are located in the North. It has plans to increase the number of stores in Ireland to 100 in the future. Some 30 per cent of all shoppers claim to use Lidl stores at least once a month and 6 per cent choose them for their main grocery shop. All evidence points to a particularly strong period of expansion ahead. Aldi have been slower to roll out their offering in Ireland. A key feature of their competitive strategy is offering non-food items at vastly reduced prices to entice shoppers into the store.

Lidl relies heavily on print advertising and is the eighth highest advertiser in Ireland. It advertises in regional newspapers on a weekly basis usually with an emphasis on its non-food offerings. It has a 300,000-sq. ft. distribution centre at its headquarters in Newbridge, County Kildare, and it plans to open new distribution outlets in Cork and Belfast in the future.

A recent Behaviour and Attitudes survey found Aldi and Lidl's main strengths to be in the areas of cheap prices and value for money. The typical Aldi/Lidl Shopper is primarily concerned with getting the cheapest prices, good value and a good selection of frozen foods.

MUSGRAVE SUPERVALU-CENTRA

Musgrave SuperValu-Centra (MSVC) is the retail franchise division of Musgrave Group, Ireland's largest grocery and food distributor. The group owns the franchises to the Supervalu and Centra retail group. It established these retail brands in 1980 in a response to the declining independent retail sector and, essentially, to secure its future as a wholesale operator.

Today there are 203 SuperValu supermarkets and 270 Centra convenience stores and supermarkets. The company employs over 1,500 people in Ireland and a further 14,000 people are employed through the franchise stores.

The franchise stores are mostly independently owned by the retailers who operate them. SuperValu operates in every one of the thirty-two counties and Centra operates in every county in the Republic and is currently expanding in Northern Ireland.

Between them, SuperValu and Centra retailers account for 22% of the grocery market in the Republic of Ireland and for 72% of Musgrave Group sales. SuperValu accounts for 10% of the Northern Ireland market.

The company buys in bulk for the stores and provides a range of support services to independent retailers, including marketing and advertising, location strategy, store design, information technology expertise, financial management systems, and visiting professional advisers.

MSVC was the first grocery retailer to introduce centralised distribution in Ireland. In 1997 MSVC built a new state-of-the-art chill warehouse and distribution centre at Fonthill Road in Dublin, as well as new chill warehousing at the existing distribution centre in Cork. The company operates a fleet of 80 chill trailers on a 24-hour basis, seven days a week.

A recent survey found that SuperValu's key strengths lay in the areas of convenience, its reputation for fresh meat, service and good quality staff. Its weaknesses were in the areas of prices and value for money.

APPENDIX 6
LOYALTY CARD PENETRATION IN THE IRISH MARKETPLACE

Operator	**Date of introduction**	**No. Of members**	**Description of card**
Superquinn	May 1993	800,000	Points Based
Dunnes	June 1997	900,000	Points Based
Tesco	October, 1997	800,000	Points based

APPENDIX 7
AVERAGE WEEKLY GROCERY SPEND

Average Weekly Grocery Spend

Main Shop	**2002**	**2003**	**% Growth**
Dunnes	117	123	12%
Tesco	117	131	3%
Supervalu	125	123	-2%
Superquinn	137	150	9%
Aldi/Lidl	123	133	8%
Any symbol group	102	103	1%
All Shoppers	119	123	3%

Source: Behaviour and Attitudes, How Irish Consumers are adapting to change, Oct. 2003