

Customer insight in action at Tesco

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UNDERSTANDING DATA IS ONE THING
 FIGURING OUT HOW TO DO WITH IT IS ANOTHER

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Agenda

- Why is customer insight important today?
- Introduction to dunnhumby
- Insight in action at Tesco
- The development of Lifestyles
- The Clubcard Statement case study

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The legacy of 20th century corporate growth is one size fits all – the customer had no voice in the board room

- Mass production
- Focus on products not people
- Cost saving
- Mass communication – broadcast advertising
- Direct Product Profitability

The result is that most business sectors are seen as indistinguishable commodities by consumers

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The planets are aligned for customer insight



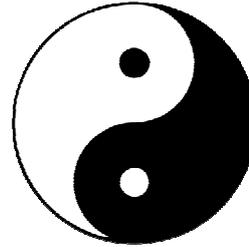
- Business need
- Customer expectation
- Powerful, cheap IT
- Data critical mass
- Skills availability

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However analytics on its own is not enough, a balance of science and softer skills is required

- Dispassionate analysis
- Data and statistics
- Computers
- Discipline and rigour



- Passionate advocacy
- Intuition
- People
- Creativity

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Two Speeds to insight led success



- Express
 - Set the corporate value
 - Hire the people
 - Build the system
 - Set the process
- 1-2 years

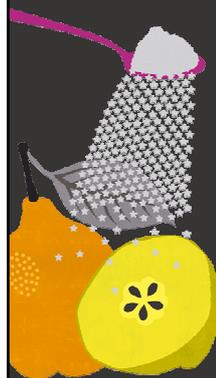


- Stopping train
 - Run a pilot
 - Measure the benefit
 - Try to spread it
 - Scale over time
- 3 years to never

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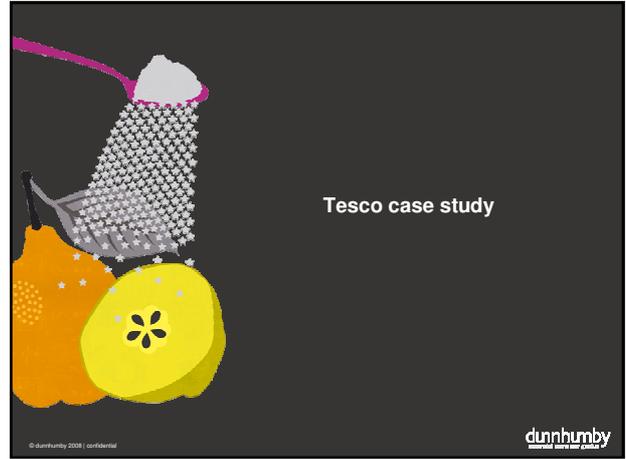
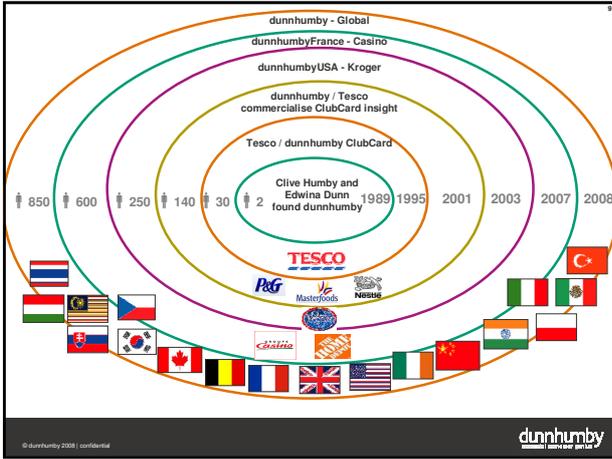
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Introduction to dunnhumby



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About Tesco...

- Formed in 1924
- The UK's largest food retailer
- Operating stores in all formats – convenience, high street, super markets and hyper markets.
- Operating in 13 countries around the world
- The world's leading internet grocery retailer
- Tesco Personal Finance has over 5 million accounts

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Tesco strives to be a truly customer focussed business

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

Sir Terry Leahy
Chief Executive

Tesco has a core aim “to understand customers better than anyone”

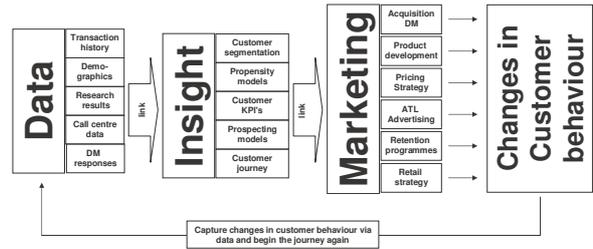
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The Clubcard scheme is a “Thank You” to loyal customers and a mechanism for understanding customer behaviour

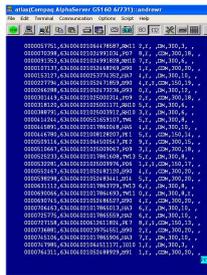


Launched in February 1995
 For every £1 spent, 1 point is earned = £0.01
 Customers statement mailed 4 times per year with their vouchers
 80% of transactions are made using a Clubcard
 In total, customers have received rewards of well over £2 billion

dunnhumby's blueprint for business success through customer centricity



The challenge is to translate raw data in to a clear picture of a customer



data



Miss Jones

Your shopping behaviour can explain a lot...



- Miss Jones
- ... is a busy young lady
- ... looks after her health and loves fresh produce
- ... drives to the supermarket on a Saturday morning
- ... reads "Hello" magazine
- ... has a cat
- ... doesn't pay attention to the price of products
- ... does look out for promotions

Tesco have the opportunity to know 13 million customers as well as we now know Miss Jones

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Lifestyles is a tool that helps Tesco have a better understanding of their customers

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“You are what you eat”

What would you associate with someone who bought a lot of Tesco Value Baked Beans Multi-Packs?

- they are interested in price
- they buy own label items (including the Value brand)
- they may be buying for a family

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“You are what you eat”

What would you associate with someone who bought a lot of fresh peppers and chillies ?

- they buy fresh food
- they may be vegetarian
- they may be adventurous cooks, and enjoy having dinner parties

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Products are categorised using Lifestyle Dimensions

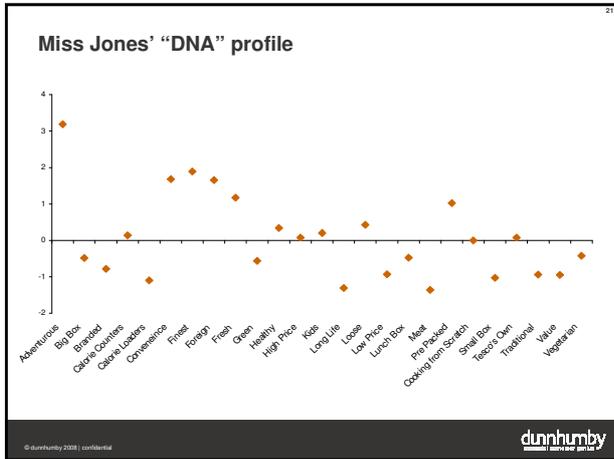
Each product is categorised using a series of attributes

- Low Price
- Tesco Own
- Value range
- Multipack
- Long life
- Fresh
- Loose
- Vegetarian
- Adventurous
- Healthy
- Tesco Own
- Pre-packed
- Convenience
- Small pack

25,000 products are flagged in this way, We look for the balance of key attributes in each customers shopping ...

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Lifestyles are used throughout the business:

- **In analysis** - we use lifestyles to understand more about our customers in a variety of situations:
 - Which groups of customers are doing well - who do we need to do more for?
 - Who responds to mailings?
 - Who likes which Promotions?
 - Which customers do we lose to competitor impacts?
 - Do our store ranges meet the needs of our customers?
- **In range and space decisions** - The store range can be adjusted based on the lifestyle of the customers around it i.e. larger Finest ranges in areas where we have more customers in the upmarket Lifestyles
- **In new store planning** - Lifestyles is used to understand the type of customers who live have around a new store. This enables us to set up the store and range to meet their needs
- **In Customer communications...**

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The Clubcard Statement is at the heart of Tesco's contact strategy

- 13 million customers mailed every quarter
- Each Statement delivers in excess of £100m 'Reward' to customers
- Significant impact on revenue 4 x per year
- A valuable tool for suppliers – helps off set costs
- dunnhumby provide **targeting** and **coupon sourcing**

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The Statement explained..

Clubcard vouchers

"Reward" coupons

"Incentive" coupons

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The coupon allocation process

Coupons
300+ coupons
Targeting rules
Exclusion rules
Issue targets

Customers
20 million customers de-duped
Shopping behaviour and Lifestyle

Eligibility

Prioritisation

Balance check
Coupons checked against others within current & past statements

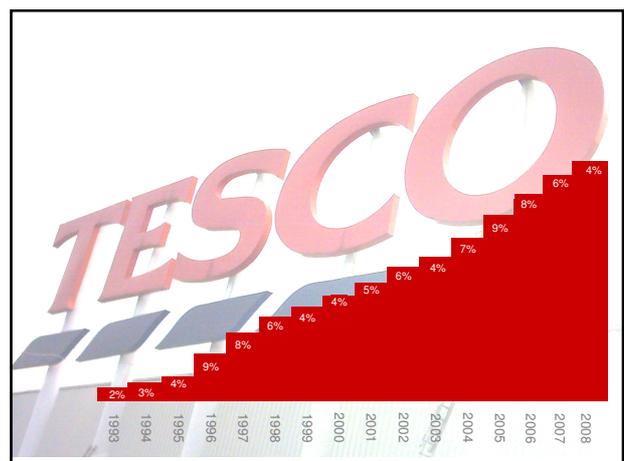
Quality Control
Coupon counts
Exclusion double checks
Rule validation
"1 in n" and VIP manual check

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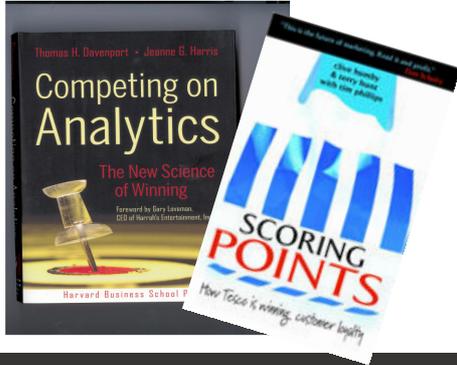
The coupon targeting creates fantastic results

- 7 million variations of product coupon offers
- Significant impact on revenue 4 x per year
- Individual coupon redemption around 20% with highs of 50%+
- (this compares very favourably to the Direct Marketing industry average of less than 2%!)

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Further information can be found in “Competing on Analytics” and “Scoring Points”



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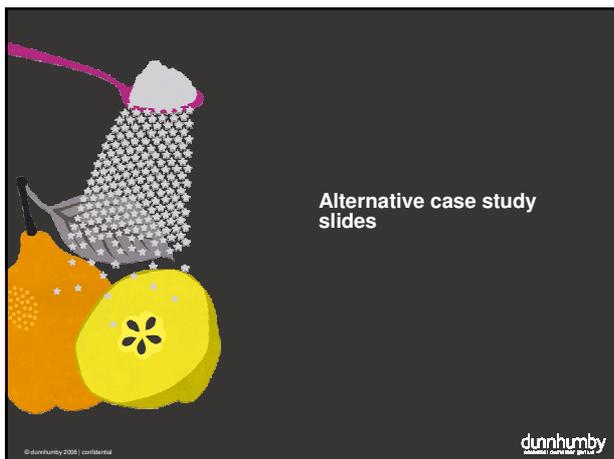


Thank you

Contact: giles.pavey@dunnhumby.com

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- **In range and space decisions** - The store range can be adjusted based on the lifestyle of the customers around it i.e. larger Finest ranges in areas where we have more customers in the upmarket Lifestyles
- **In Customer communications** – what are the best offers for each customer? Identifying opportunities for special interest clubs. Targeting communications on new products to customers who are likely to find them most relevant.
- **In new store planning**.....

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Lifestyles is used with Geodems to model new stores

- Potential customers for a new Tesco store are made up of existing Clubcard customers from nearby stores and non Tesco customers.
- Geodems are used as a basis of a model to predict the Lifestyle for non Tesco customers.
- This model is then fed into the gravity model used to project the likely makeup of customers living within the identified drive time
- The projected combined Lifestyle profile is used to understand the type of customers who will use the new store. This enables us to set up the store and range to meet their needs