SWOT ANALYSIS OF SAINSBURY'S SUPERMARKET

RAJA SHARAH FATRICIA*)

*) Dosen Jurusan Manajemen Fakultas Ekonomi dan Bisnis Universitas Jambi

Introduction

Sainsbury's is the second largest supermarket chain in the UK after Tesco. However, Sainsbury's has been losing market share to its competitors, the biggest grocery retailer, Tesco and ASDA, the US retailer, which has a market share of 17% now. Hence, in order to increase its market share, Sainsbury's made a new strategic step by joining Nectar Loyalty Program.

The Nectar loyalty program is a crucial part of the strategy of Sainsbury's. The retailer was convinced that a strong and attention-getting new rewards program could help in improving current market position. The main advantages of using the Nectar Card were based on the ease of achieving rewards by collecting points into one combined account. After one year, Nectar's collector base was already bigger than the collector base of its largest competitor, Tesco. In addition, based on the satisfaction survey, most of the Nectar's collectors rated Nectar as better than other loyalty programs. Nectar offers Sainsbury's detailed information about what their customers are doing day-to-day. Sainsbury's can use this information to decide which stock to convey in which stores. The Nectar also helps Sainsbury's in better and more efficient targeting of its customers.

The Nectar program that is based on partnership among various sponsors has some advantages and some drawbacks compared to a single vendor loyalty program, like the program of Tesco. Sainsbury's, as the most important sponsor, has profited from the participation in the program in customer lift, acquisition, retention and up-selling. Now, it is highest time for Sainsbury's to decide, whether Nectar is the most suitable strategic approach to respond to recent changes in its market position Therefore, the problem statement originating from the case study is as follows:

Should Sainsbury's stay with the Nectar loyalty program in order to gain market share of 5% and increase average share of wallet of its customers by 10% in the upcoming 5 years?

CHAPTER I Internal Analysis

1.1. Financial performance

The internal analysis starts with an overview of the past sales and profitability. This can indicate whether past strategies were successful and can help in the evaluation whether strategic changes are needed. The evaluation of financial performance of Sainsbury's is based on its market share. At this moment, the market share for Sainsbury's in the U.K. grocery retailing industry is about 17%. Unfortunately, during the past years Sainsbury's had been losing share to its competitor namely ASDA. It resulted in lower financial performance due to diminishing revenues.

1.2. Business Characteristics

In the UK grocery market, Sainsbury's occupies a middle market position. It offers moderate-high quality products for a reasonable price. Sainsbury's claims its product

offerings are of a higher quality than Tesco's and ASDA's and hence some margin of premium pricing is warranted.

In addition, distinctive business characteristic of Sainsbury's is its partnership with the Nectar loyalty program. There are 13.5 million collectors of this program, which is very large amount of clients when compared with other loyalty programs. Sainsbury's is the main sponsor of the Nectar program, which costs them 120 million pounds on a yearly basis. This is a huge investment. However, the program offers a lot of advantages. Sainsbury's has access to a database on 13.5 million collectors; where not all of these collectors are Sainsbury's customers. This access could be beneficial for Sainsbury because it gives the opportunity to target the non-customers of Sainsbury's in order to improve consumer acquisition rate acquisition rate.

1.3. Customer Satisfaction

Customer satisfaction, also referred to as cumulative satisfaction, includes all of a customer's experiences over time with a product or service provider (Johnson and Fornell, 1991). Especially in the retail industry, satisfaction is considered to be an important driver of customer loyalty (Martensen et al. 2000). Regarding the customer satisfaction, Sainsbury's currently had some issues with the rollout of a new supply chain infrastructure. These problems left Sainsbury's with a reputation for poor product availability. Hence, there was a decline on customer satisfaction. Conversely, with respect to the Sainsbury's Nectar loyalty program customers were satisfied enough.

CHAPTER 2 External analysis

2.1. Competitor Analysis

Retail chain

In U.K. grocery retailing industry, Tesco is the most powerful chain with 26% share. They have built up an image of a low-cost positioned store in shopper's mind in UK. Tesco has a strong loyalty program, the Clubcard, which has the second largest collector base (first one is Nectar). Clubcard involves other business partners under only Tesco's terms and conditions and only to serve Tesco's customers. Tesco makes a lot of investments in Clubcard and uses it to build brand and maintain customer relationships.

ASDA is another main competitor of Sainsbury's which has about 17% share and this number is continuously growing. Owned by retail giant Wal-Mart, ASDA has focused on developing its price-cutting strategy and is recognized as a low-cost retailer. It does not have a loyalty program.

The fourth national chain in UK is Morrison, which does not offer loyalty card either. Safeway cut off its five-year-old loyalty program and believe cutting price meet customers' expectations. Waitrose and Marks & Spencer are positioned as providing high-quality food.

Convenience store

These small stores are operating at downtown sites. They are supplying totally 20 percent of grocery needs, however are steadily losing share to supermarket chain.

Convenience stores could be a good target to attack for Sainsbury's. Firstly, Nectar could provide customer information about non-shoppers of Sainsbury's, so Sainsbury's would have an advantage in exploring new market over other chains including Tesco. Secondly, Sainsbury's has a position of relatively high quality products which are

likely to meet customers' needs in downtown, as they are assumed to be in favor of high quality product for less price-sensitive consumers. Lastly, since these stores are already losing share to supermarkets, it shows they are vulnerable and supermarket chains are more preferred.

Competition from other sponsors
Though there is no direct competition between Sainsbury's and other Nectar sponsors, Nectar partners also sell products that overlap with the offer of Sainsbury's (e.g. BP). Sharing services from Nectar has intensified competition among them over a Nectar collector. These competitions remain a threat to Sainsbury's and should be closely monitored in the future.

In conclusion, main competition of Sainsbury's comes from large retail chains. This retailer however differs from its direct competitors with respect to market position (middle) and being a part of multi-sponsors loyalty program. Convenience stores are the competitors that Sainsbury's could attack. For other sponsors, Sainsbury's should be cautions while cooperating with them.

2.2. Environmental Analysis
Loyalty programs are getting popular
Nowadays, many industries are turning their strategy from product-focus into customer-oriented and then relationship-focus. Loyalty programs are set up to maintain the relationship between customer and firm all over the world. In UK, many retailers have also joined followed this trend. In grocery sector, Tesco is running its own program (Clubcard). Sainsbury's has terminated its old stand-alone program and has become the dominant sponsor of Nectar. ASDA and Safeway ended their own loyalty program and decided for price-cut strategy and direct discounts.

2.3. Customer Analysis
After ASDA and Safeway terminated their loyalty program, customer has fewer loyalty cards. It has been proved in many studies that customer participation in one loyalty program may cancel effect of another. Leenheer (2007) has quantified this influence in his research. British customer has up to two loyal cards, as there are not a lot of loyalty programs yet present on the market. So the effect of loyalty program on share of wallet is still attractive.

Table 1. Influence of multiple loyalty program membership on share of wallet (Leenheer, 2007)

Number of competitive LP-memberships	△ SOW*
0	.053
1	.048
2	.039
3	.033
4 or more	.0244

*Average predicted change in share-of-wallet due to becoming a member of the focal chain's program (keeping everything else constant).

Households are hard to be persuaded and reluctant to share information for nothing. The failure of a loyalty program of Air Miles in 1991 showed customers are unwilling to get involved in complicated process of redemption. Customers in U.K are assumed to share this characteristics.

CHAPTER 3 Loyalty Programs

3.1. Theoretical issues of loyalty programs

There are several advantages and drawbacks in adopting loyalty programs in general. In this part, a theoretical framework of pros and cons for using loyalty programs is developed, and then the differences between normal vendor and multi vendors are elaborated.

Loyalty means faithfulness, and unswerving devotion (Nunes & Dreze, 2006). While studies and numerous articles have stated that loyalty programs cannot create everlasting true loyalty, and none of these programs results in a perfect world, each can generate that little extra that can provide a retail marketer with potential tactical weapons (Leenheer et al, 2007; Dowling and Uncle, 1997). So being, loyalty programs that base rewards on cumulative purchasing, attempt to enhance retention (Lewis 2004). Leenheer et al. (2007) indicates that customers will buy more after they obtain rewards, possibly as an effect of the positive linkage between the characteristics of the reward and the urge of earning another reward. Another advantage is that loyalty programs are an effective defensive method of retaining customers which are already loyal to a company (Liu, 2007), Disadvantage of loyalty programs is that when a number of loyalty programs in a market is growing, the actual effectiveness of the program in measured in new memberships is decreasing (Noordhoff et al, 2004, Liu & Yang, 2009). This issue could be effected by another drawback, which states that successful loyalty programs are fairly easily copied by competitors (Uncles et al, 2003), which also implies that a loyalty program is not a good instrument for gaining and sustaining a long-term competitive advantage.

3.2. Loyalty program among grocery retailers

Among the largest grocery retailer chains, only Tesco and Sainsbury's are involved with loyalty program. According to Leenheer and Bijmolt (2008), a grocery retailer should adopt loyalty program. Firstl, grocery retailer has high assortment homogeneity which results in strong tendency to switch between retailers. In this situation, loyalty programs are preferred over price promotions because it creates natural switching barrier. What's more, high purchase frequency, competitiveness in the market, diverse profitability of customer, large size of company all contribute to grocery retailer's adoption to loyalty program.

3.3. Effects of loyalty program

Loyalty program are proved to be have a positive effect on retailer. Magi (2003) examined 4 chains and a few independent stores totalled 35 grocery stores in a Swedish town (similar situation as in UK) and found that a customer with a member card of a chain will have higher share of both purchase and visit. It is in line with Leenheer and colleagues (2007) study which shows that after ruling out the endogeneity of self-selecting member who are already loyal to chain, loyalty program still has significant

yet small effect on increasing share-of-wallet. Especially, loyalty program membership based on "exogenous factors" could significantly increase share-of-wallet. In Nectar, 88 percent of collectors are still active and 300 points are collected on average per customer after inflation of signing up. Customers' interest in this delayed rewards shows this program is based on exogenous factors. In the long term, the possession of a loyalty card has a positive effect on customer lifetime duration and customer SOW at the store level as proved by Meyer-Waarden (2007). What's more, a strong positive effect of customer knowledge on customer loyalty was found (Leenheer & Bijmolt, 2008).

3.4. High Cost of loyalty program

Loyal program is an expensive investment. Part of this investment is fixed, such as card registration system, data warehouse system. Therefore larger loyalty program will benefit from large-scale. To get attention and sign up more customers, expensive promotions are brought in. What's more, there is no charge for membership. It is, to some extent, responsible for the fact that 12% of collectors never activate their accounts. To maintain a loyalty program, more margins have to be charged and methods such as direct mailing is used. Furthermore, there is an exit barrier in loyalty program. So it asks for long-term investment.

3.5. Loyalty program VS. Price cutting

Zhang (2000) claimed that front-loaded promotions are more profitable in inertial markets while rear-loaded promotions are more profitable in variety-seeking markets. Unlike food chain, in which a majority of customers is indifferent or resent to product variety (Givon, 1984), groceries have a variety of categories and are more likely to benefit from loyalty program than from price cutting. What's more, as mentioned in previous paragraph customers have a higher tendency to switch to competitor chain in grocery sector then food sector. Price cutting increases only profit in short term while loyalty program sets up barriers to retain customer and will have long-term positive effect. Loyalty program generates also great deal of customer knowledge which not only enhances the relationship between customer and firm, but also helps company target customers more efficiently. For example, in an over two year period research, initially light and moderate buyers participating in a loyalty program increased transaction size and frequency within three months, while heavy buyers brought the most benefit to the program, but transaction size and exclusive loyalty didn't change.
Currently, Sainsbury's faces the challenge of evaluating its current loyalty strategy. Therefore, it is wise to have an overview about a single-vendor loyalty programs and multi-vendors loyalty programs. This analysis is presented in the appendix 1 for clearer perspective and it is elaborated based on certain characteristics which are adopted from different authors and derived from the case in case of absence of scientific research.

3.6. The effectiveness of Nectar Loyalty Program

Liu and Yang (2009) argue that in studying loyalty program performance, it is important to recognize that loyalty programs do not operate as separate entities in an isolated environment. Their success depends not only on the programs themselves but also on other facilitating or inhibiting factors present in the environment. Therefore the nectar loyalty program will be analyzed by using the conceptual framework of Liu &

Yang (2009). They develop three sets of factors that represent the main market entities involved: the focal loyalty program, the consumers (i.e., target market), and rival programs and firms (i.e., competition).

Program-related factors
Program Design: Participation Requirements
•Convenience of participation---- Nectar distributed enrollment kits, consisting of a card and a mail-in registration form, to the stores of its sponsors.
•Cost of participation---- No administration cost
Program Design: Point Structure
•Point issuance/ratio---- People can earn points by shopping with the sponsors of the program, such as Sainsbury's supermarket. After collecting a certain amount of points, they can redeem what they have collected. More than 50% of all points were earned at Sainsbury's and about 80% of all points redeemed were redeemed at Sainsbury's, irrespective of where they were earned.
Program Design: Rewards
•Cash value --- two points for every £1 spent at Sainsbury's
•Aspirational value---- Nectar offers enclosed in points update mailings (PUMs) in order to give info to their collectors about accumulated points balance and show them what they can get at the moment and what they can get if they spend more money. PUMs present two kinds of personalized rewards that could be achieved in the future: aspirational reward for a much higher amount of points than a current balance and motivational reward that is possible to get soon after some more expenditures.
•Variety of options---- two ways of redeeming the points: directly during the checking out at the end of visit at Sainsbury's or directly from Nectar after phoning in its call center or by visiting website, in response two mailed offers. The rewards come from sponsors and reward suppliers. There is big variety of rewards.
•Brand–reward congruence: Rewards are brand-congruent.
•Reward form (cash versus free product): Nectar offers both kind of opportunities- cash or free products/services. Nectar provides an application form that customers might obtain an offer to earn bonus points.
Program Management
•Utilization of consumer information---- Sainsbury's gathers information about the collector's transaction in other partners shops (sponsor name, transaction date, number of points earned) and extra product-level information for purchases in its own stores. However, the level of this information utilization is still low.
•Organizational support - Sainsbury Brand Manager try to generate regular reports in terms of Sainsbury's performance and its competitors' products. Therefore, Sainsbury built a joint venture with Taylor Nefson Sofres, the world's largest survey research form, to track the product-level purchase behavior of a panel of a million Nectar collectors in Sainsbury.

Consumer- related factors
Purchase Segmentation
• patronage level --- 13,5 million active collectors from 10 million collector households, 50% of all points earned at Sainsbury's and 80% of all points earned redeemed at Sainsbury's

•Perceived effort advantage--- high user satisfaction (59% of Nectar users rated this loyalty program as better than other loyalty programs, and 39% as the same), thus the shoppers are convinced that it is worthy to be a part of the program

Consumer Traits

•Demographics---- U.K. market

•Shopping orientation---- various shopping orientations visible among the shoppers of Sainsbury's as the retailer has a broad offer of products, the consumers could be segmented later on the basis of shopping orientation as no information about current segmentation approach is available in the case

•Future orientation---- not applicable

•Variety seeking---- Customer's attitude towards product differ from product category. Since each grocery retailer sell products of many categories, the retailer has both customers indifferent or passion on variety.

•Price sensitivity---- customers are generally price sensitive on the British market as the low cost retailers are gaining more and more market share. However, there are still customers that are willing to pay higher prices for better products. Getting more insight into price-sensitivity of the Sainsbury's consumers can help the retailer better segment the market.

Competition-Related Factors

Competition: General

•Market position (e.g., market share)---- Sainsbury's is the second largest supermarket chain in the UK after Tesco with 17% of market share

•Product substitutability (within category)---- Since grocery has a large variety of product categories, it has a large amount of competitor besides grocery retailer. These products are also sold in convenience stores. The same product can be bought in different retailers for different price: Tesco and ASDA have a image of low-cost, they also provide lower quality products. Safeway also offers good deal. Waitrose and Marks & Spencer is positioned as selling high-quality food for richer consumers.

•Category expandability (outside category)----not applicable

Competition: Loyalty Programs

•Loyalty program saturation--- Large retail chains occupy about 80% of market share. 43% of market share is covered by companies that have a loyalty program. Saturation is a about 53.75% (43%/80%).

•Loyalty program differentiation----Clubcard is built under Tesco's terms and serves customers of Tesco with limited number of , while Nectar is a multi-sponsor program.

•Loyalty program order of entry ----nectar do not have entry barrier, everybody can join.

Based on the review of Liu and Yang's (2009) framework in effectiveness of Nectar loyalty program, it can be concluded that Nectar still has some lacking in certain related factors in building its effectiveness. For example low level of utilization of information, low organizational structure, poor distribution channel and lack of consumer segmentation. However, it has some good points. For instance, it offers good program design and reward structure. Nectar also has a different loyalty programs (multi vendors), that what makes nectar distinctive from other loyalty programs.

CHAPTER 4 SWOT Analysis

4.1. Strategic options

In order to come up with useful strategic options only the most relevant strengths, weaknesses, opportunities and threats are taken into consideration. The decision about importance of various factors was taken on the basis of confrontation matrix. The complete SWOT table and complete confrontation matrix is presented in Appendix 2 and 3. Table 3 presents conforntation matrix of the most relevant strengths, weaknesses, opportunities and threats.

Table 2. SWOT confrontation and derived strategic options

SWOT CONFRONTATION		OPPORTUNITIES	THREATS
		O1 Nectar is a substantial source of market intelligence O2 Customer base of Nectar covers non-shoppers of Sainsbury's O3 LMUK has a lot of experience with multisponsor loyalty programs O4 High rate of spontaneous consumer awareness of Nectar and high level of consumer satisfaction with the program O5 Nectar consumers are spending significantly more than non-Nectar consumers O7 Shared marketing costs with other sponsors and LMUK	T1 Customers are very interested in price-cuts T2 Biggest competitor on the market – Tesco – has a very successful loyalty program (Tesco Clubcard) T3 Nectar makes customers more loyal to a loyalty program than to particular retailer T4 Nectar sponsors sell products overlapping with Sainsbury's offer
STRENGTHS	S1 High bargaining power of Sainsbury's in the program as a dominant sponsor S2 More than 50% of all Nectar points were earned at Sainsbury's, 80% of points were redeemed at Sainsbury's	**Use Nectar for better market segmentation, targeting, consumer acquisition and retention (S3,S4, O1,O2,O3,O4,O5,O7)**	**Develop own loyalty program that connects Sainsbury's better with its consumers (S4, T3,T4, T5)**
WEAKNESSES	W1 Nectar is a big investment for Sainsbury's W2 Recently bad reputation for poor product availability W3 Bargaining power of Sainsbury's within the program decreases due to decreasing dominance of this retailer in Nectar) W4 Sainsbury's doesn't have complete control over Nectar	**Try to enhance the current position of Sainsbury's within Nectar and use it for better prediction of consumer needs and preferences (W2, W3, W4, O1, O3, O4, O5, O7)**	**Drop the loyalty program strategy and try to focus on better assortment, various price cuts and customer-involving activities (T2, T4, T5, W1, W3, W4)**

4.2. Confrontation matrix

On the basis of strengths, weaknesses, opportunities and threats mentioned earlier in the internal and external analysis the confrontation matrix is created in order to come up with useful strategic implications for Sainsbury's. The matrix depicts the relevance of combinations of various strengths/weaknesses/opportunities and threats. The most important combination of factors is indicated with the number 1 (very important), less relevant confrontations were designated with numbers 2 (important) and 3 (not so important) respectively. The assumptions about the importance were based on the feasibility of use of a certain confrontation as a crucial element of the marketing strategy.

Table 3. Confrontation matrix.

	O1	O2	O3	O4	O5	O6	T1	T2	T3	T4
S1	1	1	1	2	2	2	1	1	1	1
S2	2	1	2	1	2	2		1	1	1
W1	1	1	1	1	1	1	1	1	1	1
W2	1		3	3	3	3		1		
W3	3		3	3	3	3		1	1	1
W4	2		2			2		1	1	1

4.3. Strategic options and Evaluation Criteria.

As it is visible in the afore presented SWOT confrontation matrix there are four strategic options originating from the analysis. Closer look at the table inclines to limit the number of strategic options to three, as two of them concentrate on keeping Nectar within Sainsbury's marketing strategy and exploiting advantages originating from this program in order to improve customer acquisition, retention, segmentation and targeting and moreover use it as a tool for predicting consumer needs and preferences. Hence, the SWOT analysis ends up with three following strategic options:

Option 1. Keep Nectar as a marketing tool aimed at improving the performance of the retailer on the British market.

Option 2. Terminate the relationship with Nectar and reintroduce the solo Sainsbury's loyalty program that helps to better connect with customers.

Option 3. Stop using loyalty programs as marketing tools and concentrate on price promotions and customer-involving investments aiming at bettering the position of Sainsbury's on the highly competitive market.

The derived options have to be evaluated on the basis of real and perceived customer value proposition, feasibility, relevance and sustainability (Aaker, 2007). There are also further evaluation criteria that should be taken into consideration originating from the market challenges that Sainsbury's has to face:

A) Sainsbury's should stop losing market share and gain 5% in the coming 5 years thanks to the chosen strategy – weight 0.4

B) Sainsbury's should improve its recent bad reputation caused by the bad product availability – weight 0.3

C) Increase the customer's average 'share of wallet' by 10% for Sainsbury's – weight 0.3.

All the evaluation criteria are equally weighted except for last three which together has the same weight as any other criterion previously stated.

4.4. Evaluation of the Strategic Options.

Option 1. Keep Nectar as a marketing tool aimed at improving the performance of the retailer on the British market

The Nectar program provides real and perceived customer value proposition to the customers shopping at Sainsbury's. This loyalty program gives the shopper the opportunity to collect points for every bought product at Sainsbury's and other sponsors and moreover be rewarded for repeated purchases. The customer satisfaction rate is also very high – 59% of the customers evaluated Nectar as a program that is better than the competitive ones, 39% placed Nectar on the equal position with the other loyalty programs present on the market. This strategy is also highly relevant to the market as the biggest competitor in the UK – Tesco – is using a loyalty program for developing relationships with its shoppers. Strategic option 1 scores high also on the sustainability criterion – thanks to the implementation of the Nectar program Sainsbury's gets access to the enormous database of Nectar (Nectar is the largest loyalty program in the UK). Furthermore, the retailer gets also information about non-shoppers – customers that are currently buying from other sponsors. This advantage of Nectar can help Sainsbury's to gain more market insight and target with its offer the shoppers who are living in the catchment area of the chain but are currently not shopping with this retailer. As it was previously argued (p. 4&5), according to the study of Leenheer and Bijmolt (2008) British retail market is a sector highly suitable for loyalty programs. Moreover, further studies of Magi (2003), Leenheer et al. (2007), Meyer-Waarden (2007) (for more see p. 5) corroborate the positive effect of customer loyalty programs on behavioural loyalty, customer lifetime duration and consumers' share-of-wallet. In addition, Leenheer and Bijmolt (2003), Nunes and Drèze (2006) and Mauri (2003) notice another source of sustainable competitive advantage on the market originating from the gathered customer data that could be transformed into information and consequently used for strategic marketing decisions. The shoppers' data help also customize the offer of the retailer and develop more personalized relationships with individual customers (Nunes & Drèze (2006)). A loyalty program can furthermore accelerate the loyalty life cycle – new customers could start behaving as the retailer's most profitable ones because of the enhanced loyalty and positive relationship with the chain (O'Brien & Jones, 1995). This strategic option scores also high on feasibility as Sainsbury's is already a dominant sponsor of Nectar and the only change that has to be implemented in the current approach is to try to connect the customers closer with this retailer within Nectar and use all the advantages resulting from participation in this loyalty program to greater extent.

In addition this strategic option should be also evaluated highly on three subsequent criteria. Being a part of Nectar gives access to a huge database of non-shoppers of Sainsbury's and this market insight could be used in further strategy while attracting the customers not only from biggest market competitors – ASDA and Tesco, but also

from convenience stores located in the downtown. The data gathered from customers can also lead to improving the assortment decisions and Sainsbury's could have the opportunity to enhance its performance and consequently reputation in this field. Good strategic approach can increase the customers' share of wallet for Sainsbury's thanks to staying with Nectar – shoppers tend to spend more at this retailer when they collect the points from other sponsors as well. Hence, the chain has to take care that the customers are more and more involved in the program and that their loyalty to Sainsbury's enhances in the meantime. The loyalty that arises from Nectar is a loyalty more to the program that to particular retailer. Thus, on the last evaluation criterion this option scores mediocre as some effort is needed from Sainsbury's to meet this criterion.

Option 2. Terminate the relationship with Nectar and reintroduce the solo Sainsbury's loyalty program that helps to connect better with customers.
A lot of advantages coming from this option come also from the previous one. However, the perceived customer value proposition could be evaluated as mediocre – Tesco has a loyalty program that is similar in design to Nectar – it contains also accompanying services offered by Tesco, such as banking, telecommunications, petrol stations, Marriott hotels and even electricity. Only the program with broad scope of services could be able to compete with Clubcard – this is also proven by the customer satisfaction rates that Nectar gained and the previous market position of Sainsbury's Reward Card. The level of relevancy, real customer value proposition, sustainability and feasibility is rated as high (for the reasoning see strategic option 1). However gaining the market share could be harder with this approach as the Sainsbury's gets much less insight into preferences and needs of the non-shoppers and therefore the gathered market intelligence in this case is lower. Thus, this option scores mediocre on evaluation criterion A (see the list of evaluation criteria – p.9). The solo loyalty program gives the insight into customer behaviour, thus the assortment decisions could be improved on its basis (high score on criterion B). The loyalty created by solo program is a loyalty to Sainsbury's, hence this option gets also high score on criterion C.

Option 3. Stop using loyalty programs as marketing tools, concentrate on price cuts and customer-involving investments aiming at bettering the position of Sainsbury's on the highly competitive market.
This option has a high real and perceived value to the customer as shoppers nowadays are very interested in price cuts and various promotions. The other marketing activities such as competitions, festivals, shopping nights could enhance the customer's experience in the store and increase the consumer engagement. These reasoning leads also to the conclusion that this approach is relevant to the market. However, it probably will not lead to sustainable competitive advantage on the market. The lower tier of the market is already occupied by two retailers that compete with verve. Therefore this option scores low on sustainability and mediocre on feasibility as the only possible strategy on this highly competitive market is to differentiate oneself from the competitors. Sainsbury's found a good market position occupying the middle tier and selling better quality products than those that could be found in lower-tier retailers for slightly higher price. On the other hand, selling better products for too low price could lead to lack of indispensable resources. Losing this point of differentiation could lead to further decrease of market share (low on criterion A). However, the low prices and

engaging marketing activities could attract more consumers to the shop and make them buy more frequently (high on criterion C). It is hard to evaluate the strategy on criterion B, but it could be assumed that with good management and constant sales monitoring the assortment of the chain could improve (thus, high on criterion B).

Table 4 summarizes the evaluation of strategic options. All in all, option 1 is chosen as the best fitting to the current situation.

Table 4. Summary of evaluation of strategic options

Str. Option / Evaluation Crit.	1	2	3
Real Value to Cust.	HIGH	HIGH	HIGH
Perceived Value to Cust.	HIGH	MEDIOCRE	HIGH
Relevance	HIGH	HIGH	HIGH
Sustainability	HIGH	HIGH	LOW
Feasibility	HIGH	HIGH	MEDIOCRE
Stop losing market share (weight 0.4)	HIGH	MEDIOCRE	LOW
Improve assortment (0.3)	HIGH	HIGH	HIGH
Increase 'share of wallet' (0.3)	MEDIOCRE	HIGH	HIGH

CHAPTER 5 Implementation

There are several new ideas that should be implemented in the process of use of Nectar cards at Sainsbury's in order to improve the overall performance of the program and enhance the customer loyalty. First of all, it is of focal importance that Sainsbury's gains more control over Nectar as a dominant sponsor. At the moment the position of this retailer within the Nectar network is very strong therefore the bargaining power in negotiations with LMUK, the administrator of the program, is high. Nectar should be used by Sainsbury's as a more independent marketing instrument. Hence, the retailer should offer more price promotions than those that are presented in Points Update Mailings issued by LMUK. Therefore, it is advisable for Sainsbury's to issue own promotional coupons sent via mail to the customers and customized on the basis of the shopping behaviour. Moreover, Sainsbury's should be able to reward its consumers not only for general loyalty to Nectar, but also for loyalty for this particular retailer. Thus, the chain should introduce extra rewards and incentives for repeated shoppers at its own stores. In order to do so, Nectar has to provide Sainsbury's with information about points gained not only in all the sponsor shops, but also individually at this chain of groceries. Having this information, the retailer would be able to divide the customers into various tiers (at least three (Nunes & Drèze, 2006): Pearl, Emerald, Diamond). Kopalle et al. (2007) have found that program tiers create a point pressure effect on both price conscious and service-oriented customers. Moreover, this approach can prompt shoppers to make additional purchases as the ones that are in a danger of slipping to a lower tier or are close to attain next level status will be more willing to spend (Nunes & Drèze, 2006). According to 80/20 law 80% of revenue typically

comes from only 20% of shoppers (Dowling & Uncles, 1997). However these individuals are already heavy spenders, it is still possible to improve their loyalty level and connect them closer with the chain while offering special status and unique rewards. But the strategy should not only focus on this top tier, since, as Magi (2003) argues, many costs of operating a grocery are already fixed, thence in order to make the use of the store capacity a sufficient level of in-store traffic has to be created. This could happen by attracting not only the most profitable consumers, but also the light shoppers. As Liu (2007) has found light users has changed their behaviour significantly because of the participation in the loyalty program, thus it seems reasonable to develop separate strategy for them.

Furthermore, Sainsbury's should closely monitor the consumer behaviour of the shoppers and on the basis of these observations segment customers on the basis of their food preferences. This approach is currently used by Tesco (Berman, 2007). Segmenting consumers on the basis of what they are usually buying in the store gives opportunity to personalize contacts with the clients and to customize the price promotions offered to the individuals. This approach has a potential to further increase customer loyalty.

Proper segmentation of the shoppers is one of the consumer-related factors affecting the loyalty program effectiveness (Liu & Yang, 2009). Therefore it has to be executed with a lot of attention and focus. In order to do so, in accordance with resource-based view of the firm (Liu & Yang, 2009), the loyalty program needs other complementary resources, both internally and externally, that could enhance its performance and align it with other company's activities. Hence, Sainsbury's should develop closer relations with Taylor Nelson Sofres (research company) and assign in its own management team certain people responsible for implementing the outcomes of the data mining in company's strategy.

Moreover, Nectar gives the retailer the possibility to get the insight in the non-shoppers behaviour. Sainsbury's gets the information about their shops of choice and how many points they gain there with their transactions. This information is sufficient to develop a promotional campaign aiming at attracting these customers to Sainsbury's – the retailer knows what are their products of interest and can send them promotional coupons containing these products and some other common top-sellers of the chain. Also special awards for spending a certain amount of money in a given period should be offered to the group of non-shoppers. Subsequently, their following consumer behaviour should be closely monitored and some new incentives could be used to make them more engaged in shopping with Sainsbury's.

Last but not least, Sainsbury's should implement also upselling techniques in its strategy. Purchase history of various customers could be analyzed and consequently similar products from higher tier of the market could be offered for a discounted price. This could make the customers try new things and probably, when they get convinced about their quality, purchase more expensive products in the future.

Appendix
Appendix 1. Single-Vendor Vs. Multi-Vendor Loyalty Programs

Characteristics	Single-Vendor Loyalty Programs	Multi-Vendor Loyalty Programs
Number of sponsors	1 main sponsor	Two or more sponsors level sponsors
Cost	On the sponsor's own account, actual cost only	Shared with other sponsors
Target groups of marketing activities based on the loyalty scheme data	Own customers	Own customers, Other sponsors' customers, Non-customers acquired via the administrators[1] acquisition offers
Marketing planning	For current customer groups	For current customer groups, for considering future target groups derived from the data of other sponsors
Communication activities for the scheme	Within the own marketing activities	Shared with other sponsors
Collecting Points	Save credits points slow	Save credits points quicker because the program has a wider application than single-vendor programs (Lenheer et al, 2002)
Customers involvement	Low customers involvement	Customer is likely to be higher involved with the program and more aware of the incentives and benefits provided. (Lenheer et al, 2002)
Loyalty	Lower customer loyalty	Customer Loyalty is larger than one single vendor (lenheer et al, 2002)
Effectiveness	More effective	-Less effective, if consumers have competitive loyalty program memberships because these consumers might identify less strongly (Lenheer et al, 2002) -less effective, because multi vendor loyalty programs reward customers too easily (sharp & sharp, 1997)
Customer retention	Attract own consumers	Likely to attract some new light buyers to any brand in the scheme. These will be consumers of heavy buyers of other brands in the program and hence see benefit from the program (Sharp&sharp, 2007)

Appendix 2 Complete SWOT

Internal	External
Strengths S1 Sainsbury's is second largest supermarket chain in the UK S2 Good positioning on the market – middle position with premium prices for higher quality products S3 High bargaining power of Sainsbury's in the program as a dominant sponsor S4 More than 50% of all Nectar points were earned at Sainsbury's, 80% of points were redeemed at Sainsbury's	**Opportunities** O1 Nectar is a substantial source of market intelligence O2 Customer base of Nectar covers non-shoppers of Sainsbury's O3 LMUK has a lot of experience with multisponsor loyalty programs O4 High rate of spontaneous consumer awareness of Nectar and high level of consumer satisfaction with the program O5 Nectar consumers are spending significantly more than non-Nectar consumers O6 Collectors' spending at any one sponsor increased with the number of sponsors the collector patronized, they were also found to be less likely to defect O7 Shared marketing costs with other sponsors and LMUK O8 Saving costs on loyalty program administration while outsourcing it to LMUK
Weaknesses W1 Nectar is a big investment for Sainsbury's W2 Recently bad reputation for poor product availability W3 Bargaining power of Sainsbury's within the program decreases due to decreasing dominance of this retailer in Nectar W4 Sainsbury's doesn't have complete control over Nectar	**Threats** T1 Strong competition on the market with Tesco and ASDA gaining market share gradually T2 Customers more interested in price-cuts than in collecting points T3 Biggest competitor on the market – Tesco – has a very successful loyalty program (Tesco clubcard) T4 Nectar makes customer more loyal to a loyalty program than to particular retailer T5 Nectar sponsors sell products overlapping with Sainsbury's offer

Adapted from Aaker, 2007

Appendix 3. Complete confrontation matrix

	O1	O2	O3	O4	O5	O6	O7	O8	T1	T2	T3	T4	T5
S1	2	2	2	2	2	2	2	2			2		
S2	2	2	2	2	2	2	2	2	2	2			
S3	1	1	1	2	2	2	2	2		1	1	1	1
S4	2	1	2	1	2	2	2	2			1	1	1
W1	1	1	1	1	1	2	1	2	2	1	1	1	1
W2	1		3	3	3	3	3	3	2		1		
W3	3		3	3	3	3	3	3			1	1	1
W4	2		2				2	2			1	1	1

References

Aaker, David A., and McLouglin, Damien. 2007. Strategic Marketing. European Edition. Est Sussex: Jon Wiley & Sons, Ltd.

Berman, Barry (2006), "Developing an Effective customer Loyalty Program," California Management Review, 49 (Fall), 123-148.

Dowling, Grahame., and Uncles, Mark, (1997), "Do Customer LoyaltyPrograms Really Work?" Sloan Management Review, 38 (Summer), 71–82.

Givon Moshe, (1984), "Variety Seeking Through Brand Switching" Marketing Science, 3 (Winter), 1-22.

Johnson, Michael D., and Fornell, Clase, (1991). "A framework for comparing customer satisfaction across individuals and product categories," Journal of Economic Psychology, 12 (June), 267-286.

Kopalle, Praveen K., Neslin, Scott A., Sun, Baohong, Sun, Yacheng and Swaminathan, Vanitha, (2007). "A Dynamic Structural Model of the Impact of Loyalty Programs on Customer Behavior," Marketing Dynamics Conference 2007, [available at

http://mba.tuck.dartmouth.edu/pages/faculty/scott.neslin/loyalty%2001-31-07.pdf]

Leenheer, Jorna. Bijmolt, Tammo H.A. (2008), "Which Retailers Adopt A Loyalty Program? An Empirical Study." Journal of Retailing and Consumer Services, 15 (November), 429-442.

Leenheer, Jorna., Van Heerde, Harald J., Bijmolt, Tammo H.A. and Smidts, Ale (2007), "Do loyalty programs really enhance behavioral loyalty? An emperical analysis of accounting and program design and competitive effects," Discussion paper, Tilburg University.

Leenheer, Jorna. Bijmolt, Tammo H.A., van Heerde, Harald J. and Smidts Ale (2004), Do Loyalty Programs Really Enhance Behavioral Loyalty? An Empirical Analysis Accounting For Self-selecting Members," International Journal of Research in Marketing, 24 (March), 31-47.

Lewis, Michael, (2004), "The Influence of Loyalty Programs and Short-Term Promotions on Customer Retention," Journal of Marketing Research, 4 (August), 281-292.

Liu, Yuping, (2007), "The long-term impact of loyalty programs on consumer purchase behaviour and loyalty," Journal of Marketing, 71 (October), 19-35.

Liu, Yuping, and Yang, Rong, (2009), "Competing loyalty programs: the impact of market saturation, market share and market expendability," Journal of Marketing, 73 (January), 93-108.

Mägi, Anne W., (2003), "Share of Wallet in Retailing: the Effects of Customer Satisfaction, Loyalty Cards and Shopper Characteristics." Journal of Retailing, 79 (summer), 97-106.

Martensen, Anne, Grempty,Setnholdt and Kristensen, Ka, (2000) "The drivers of customer satisfaction and loyalty: cross-industry findings from Denmark." Total Quality Management, 11 (July), 544-553.

Mauri, Chiara, (2003), "Card loyalty: a new emerging issue in grocery retailing," Journal of Retailing and Consumer Services. 10 (January), 13–25.

Meyer-Waarden, Lars, (2007), "The Effects of Loyalty Programs on Customer Lifetime Duration and Share of Wallet," Journal of Retailing, 83 (April), 223-236.

Noordhoff, Corine, Pauwels, Pieter, and Odekerken-Schröder, Gaby, (2004), "The effect of customer card service: a comparative study in Singapore and The Netherlands," International Journal of Service Industry Management, 15 (November), 351-364.

Nunes, Joseph C, and Drèze, Xavier,(2006), "Your loyalty program is betraying you," Harvard Business Review, 84 (April), 124-131.

O'Brien Louise, and Jones, Charles, (1995), "Do Rewards Really Create Loyalty?" Harvard Business Review, 73 (May), 75-82.

Sharp, Byron and Sharp, Anne, (1997), "Loyalty Programs and Their Impact on Repeat-Purchase Loyalty Patterns," International Journal of Research in Marketing, 14 (December), 473-486.

Uncles, Mark D., Dowling, Grahame R, and Hammond, Kathy, (2003), "Customer loyalty and customer loyalty programs," Journal of Consumer Marketing, 20, 294-316.

Zhang, Z. John, Krishna, Aradhna and Dhar, Sanjay K. (2000), "The Optimal Choice of Promotional Vehicles: Front-Loaded or Rear-Loaded Incentives?" Management Science, 46 (March), 348-362.