

Measured Marketing: An Update, One Year Later

A speech given at the Food Marketing Institute's Markettechnics Conference in Houston (February 1995)

by R. Scott Ukrop (February 20, 1995)

Although we've had an electronic marketing program at Ukrop's Supermarket since 1987, we are just at the starting point in Measured Marketing! With the Ukrop's Valued Customer or UVC program, we subscribe to Brian Woolf's recommendations of rewarding the right customer. We are looking to reward our customers and enhance our relationship with them by offering them increased savings on the products they buy or are likely to buy.

We've only just begun...

I say that we are just getting started with Measured Marketing because we only began collecting consumer purchase data this past year. Prior to that, we ran an electronic-couponing program that enabled customers to save without clipping coupons. Although such a system was fairly revolutionary in 1987, it is common-place now. Customers present a card and receive additional savings on specific products.

Because the program provides benefits to our customers, our suppliers, and to Ukrop's, it has remained the focal point of our marketing efforts over the years. Our customers save on items throughout our store without having to clip coupons. Our suppliers benefit from a month of display exclusivity in their category and a listing in our monthly newsletter. These activities, combined with the lowest retail price in town (as the savings go directly to the customers), give the manufacturers significant incremental sales.

Ukrop's benefits by reducing the handling cost of thousands of paper coupons resulting from responses to our ads and more important, by maintaining an active mailing list of our customers. This mailing list enables us to communicate with over 290,000 households in the Richmond area!

Cards replace phone numbers

Last year about this time, we began to enhance our UVC program with two major changes. We required customers to present their UVC cards rather than just recite their phone numbers to take advantage of the electronic discounts, and we began tracking their purchases. We had used phone numbers as the basis for customer account numbers since the inception of our program in 1987. This facilitated the process as it allowed customers to receive the electronic discounts even if they didn't have their UVC card with them.

Phone numbers brought with them a series of problems, however. The concern for privacy, for example. Saying the phone number out loud in the checkout line disturbed many customers. Keeping track of changes was another. Customers would move to another address and then give their new phone number, of which we had no record. A number of other customers just gave their phone numbers while never submitting an application form, which still gave them the electronic discounts! And finally, we had mis-keys by cashiers which created unidentified customers in our system. The combination of these problems prompted us, last year, to issue new cards to customers with new permanent numbers, and we requested customers to present their card on each visit.

Sweepstakes

To encourage this change in behavior, we added new benefits or incentives to the program. First, we converted all in-store vendor sweepstakes to be a function of our card. Customers were automatically entered in the sweepstakes whenever they used their UVC card, and they received even more entries by buying the sponsors' products.

We gave away cruises, vacations, jeeps, and gift certificates. Our vendors liked this new feature because they could tie in their promotions to actual sales of their products. And our stores liked it because they no longer had to keep up with "entering" pads, boxes, and pens for the sweepstakes. However, we did provide entry forms for customers to mail in their entries, if they didn't want to make a purchase.

5% off certificates

For those customers who said they had never won a contest, we offered yet another incentive. Those households which spent over \$1,000 between June 1st and December 31st last year received a certificate good for 5% off any grocery order.

Golden Gift program

As another incentive, we also converted our annual Cash Back to the Community Program, our Ukrop's Golden Gift program, to the card. By using the Valued Customer card, our customers no longer needed to save receipts to give to their favorite non-profit organizations. Their card, in effect, collected the amounts they spent for them. We then issued customers a Golden Certificate in their personally addressed, monthly newsletter. This certificate showed the amount of their total purchases which they, in turn, could give to their participating organization—instead of a pile of register tapes, as in the past.

Targeted offers in monthly newsletter

Our final new benefit was the hardest to communicate, but it was our underlying goal. We wanted to reward our customers through our monthly newsletter with targeted offers. These offers would be for substantial savings on the products they were buying or would be likely to buy. We down-played this concept because of the complexity involved in communicating it to our customers. We intended to rely on word-of-mouth. We wanted our customers to see for themselves that each month, in the newsletter, there was something substantial for them. Once they began to see these useful, relevant offers, they would be sure to use their card every time they shopped and tell their friends and neighbors about the extra benefits.

Communicating the changes

We communicated these changes and new benefits through a series of TV and radio ads, as well as in our stores and newsletters. And to make sure our own associates were on board with the new program, we conducted a series of two-hour meetings for over 1,000 cashiers and courtesy clerks at our Support Center. The advertising and associate training really paid off. The card usage rates did not change substantially, and actually increased over time with 60% of our transactions and 87% of our sales now covered by the card.

Tracking customer behavior

The second major change we made last year was the ability to track our customers' purchase behavior. We installed MarketExpert, developed by RMS, a group of former Citicorp people with whom we'd had the privilege of working in our original Valued Customer program.

MarketExpert allows us to track the data that Brian Woolf detailed in his Measured Marketing report. It also allows us to set up behavior groups that represent the areas in which our customers are buying. These behavior groups can consist of total spending, total dollars spent by each household, a store, a department, category, sub-category, all of the

manufacturers' products, a group of products defining a lifestyle, such as low-fat items, children's items or infant items or chocoholics. Or a single UPC or group of UPC's—however we wish to define them. These groups allow us to track households and target them based on their purchases within these groups.

When the card is used at the checkout, all the purchases fall under these various behavior groups, and we begin to get a picture of the customer's shopping habits. For example, we can see if the customer is a heavy meat purchaser, or if the customer buys sugar-free items, what stores the customer shops in and how often, if the customer responded to a particular offer, and if the customer buys any, say, Coca-Cola products.

Customer specific targeting

Through targeting, we are looking to reward those of our customers who shop with us. We design the offers as a way of saying thank you for buying a particular product at Ukrop's. We can vary each newsletter to include the offers that will be the most meaningful to a particular household.

Some of these offers might, for example, include a diaper manufacturer giving away baby-wipes after so many diaper purchases, a hot dog manufacturer rewarding his top customers with free dogs for Labor Day, a manufacturer inviting his best customers to a special night at the ball park with the top customer throwing out the first pitch, a Caesar salad mix to top romaine lettuce purchasers, free baby juice to most frequent baby food purchasers, or a free cake to our most frequent greeting card purchasers. Obviously, there are all sorts of ways to reward customers and thank them for their loyalty.

New insights from our database

MarketExpert also allows us to analyze customer transactions in ways that we never previously had at our disposal. We know that 87% of our total sales and 60% of our total transactions are identified or covered with the card. We've learned that we have over 310,000 active households who have shopped with us since June of last year, and over 252,000 customers who have shopped with us in the past twelve weeks.

We know that the top 10% of our customers account for 40% of our total sales and have recently visited our stores 1.8 times per week. We know that 58% of our customers have bought Nabisco products. We've learned that 18.6% have never shopped our HBC department, but on the bright side, only 58 households of our 90,000 top households have never shopped that department. And we know that 1.6% of our total active households have not returned since the first week in June, and 3.6% have not returned since Christmas week.

Better information leads to better decisions

As you can imagine, these numbers begin to give us a clear picture of our business and enable us to manage it more effectively. With this information, we can determine our advertising reach and see what offers brought in new customers to the category. We can also measure which advertising efforts appealed to which segment of our customer base—our loyals, our splits and our infrequents. The sky and, perhaps, our disk space is the limit as to what we can track and study to enhance not only our marketing efforts, but also our merchandising, procurement, and operational efforts.

Our numbers are no different

In the short time that we have been looking at the data, we have had a few surprises. First, our numbers are no different from everyone else's! We had always assumed that because we have some unique offerings and a different marketing strategy, our data would be different from what Brian reported in his study. In fact, the numbers are pretty much the same. A European retailer with whom we shared some numbers reported the same Recency, Frequency and Spending figures for his different customer groups.

We found that 50% of our customers shop, at most, every other week with us and that our attrition rates are close to what Brian reported (and much worse than we suspected!). We can now use this information to try to change the direction of these numbers.

Beware of averages

However, I urge you to beware of averages. In looking at our customer data, we have traditionally looked only at average item values, average order sizes, and straight customer transactions. What do these averages really tell us? As one store manager remarked to me the other day, "If you have one foot in the fire and one foot on a bed of ice, the average is pretty comfortable!" The same is true for what we've learned of customer transactions.

In January, the average customer spent \$148 with the UVC card, or \$37 per week. However, the top 10% of our customers spent on average \$471, with a range of \$350 to \$3,000 for the month. On the other hand, the bottom 10% spent an average of \$8 with a range of \$0.50 to \$14.50 for the whole month. Clearly, the average hides a lot about the diversity of spending within our individual groups, notwithstanding the diversity of all of our customers. We can now see past the averages and begin to see the impact the different sets of customers have on our business.

Customers like different offers

Customers like to be treated like the individuals that they are. We were pleasantly surprised that our customers did not mind receiving different offers than those of their neighbors. This had been a major concern in our organization. Customers accepted the fact that the offers were based on their purchases. Word-of-mouth has been a great tool in spreading the new benefits of the program. We intend to capitalize on this word-of-mouth as we randomly send out the majority of our various rewards in the form of surprises in our newsletters.

Although the idea of treating customers differently ran counter to the way we have always done business, when we see that 30% of our customers contribute 76% of our sales, we know that all customers are not equal! We can now recognize and reward the customers who are with us day in and day out—those customers whose business is central to our success!

Our 5% certificate to those customers who spent \$1,000 is a good example of how we are now differentiating our customer offers. After six months, 80,000 households qualified for the offer. When you consider that 80,000 represents fewer than 28% of our 290,000 active households, perhaps we should be alarmed! However, we know that these 80,000 households contributed to over 73% of our sales during those six months.

Even our best customers love offers

Everyone loves an offer! We were relieved to see that our top customers, who had been receiving the best targeted offers in our newsletters each month, are also the top redeemers of these offers. For a while, I was afraid that the big spenders would not care about coupons, but this has not been the case. Our biggest spenders represent 60% of the users of these offers.

Manufacturer participation

We have found that manufacturers "want in." At first, most manufacturers said to us: "Can you give me the list of all of my competitors' customers?" We told them that wouldn't be any fun! Instead, we showed them the contribution that their top customers make to their sales and we encouraged them to reward those customers. Through substantial offers with which they can control their liability and target directly to their users and potential users, they can thank their top customers and make their split customers want to be loyal customers of their products.

The targeted offers have proven a great tool for the smaller manufacturers who cannot afford some of our other programs. The coupons lead our customers to the items on the shelf, possibly past displays of their larger competitors. It has been fascinating to see the interest peak within certain categories when one manufacturer finds out we are working with his direct competition.

Surveys vs. behavior

The mouth is mightier than the pen! As much time and effort as we had put into our newsletter to get our message out, it wasn't read as much as we had thought. Surveys showed us that our monthly newsletter readership was extremely hot, but too often, we learned, people tell you what you want to hear. The targeted offers have given us a measurement tool to test the readership of the newsletter, and we have seen the readership go up as each month our customers say, "What's in it for me?" However, customers see what they want to, and it has been a real lesson dealing with over 290,000 households one-on-one. Almost as challenging as dealing with the Post Office!

Segmented customer research

Market research shows that you care. By segmenting our customer base, we can target our research and evaluate different products and programs according to users, non-users and the different degrees of usage.

For example, we gave our top Kitchen customers a dollar off their next Kitchen purchase and asked for suggestions on items we should make in our Kitchen. Through targeted research, we can get the information we need to serve our specific group of customers better.

Not only does this research help us enhance our relationship with our customers, but the very act of speaking to specific customers about the items they buy also shows we care.

The challenge ahead

At Ukrop's, Measured Marketing one year later has been a real eye-opener as we begin mining the expansive amounts of data that we have. Our challenge ahead is to make the Ukrop's Valued Customer Program even more worthwhile and to make the best possible use

of our information, serving our customers the best we can, so that they will always want to keep coming back.

Source: *Customer Specific Marketing (p. 231, ff.)* by Brian Woolf
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