MEASURED MARKETING

A Tool to Shape Food Store Strategy

Using Electronic Marketing to Create Loyal Customers

A study conducted for the Coca-Cola Retailing Research Council by Brian P. Woolf

Contents

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Introduction

Fiscal Health Warning

You should be warned in advance that:

Electronic marketing will be best for your company's fiscal health if:

- You make it the core of your marketing program.
- You measure your customer activity.
- You are prepared to make different offers to different customers (while continuing to treat them all with equal courtesy).

Your fiscal health will probably suffer if:

- You make electronic marketing a clip-on program–just another offering bolted onto your existing marketing program.
- You elect not to differentiate your customers.
- You enter the program thinking that selling your data to manufacturers will provide a significant source of income.

In a Nutshell

The purpose of this study was to research the effectiveness of card-based preferred customer programs, commonly referred to as electronic marketing, and to learn why food retailers have had such a range of experiences with electronic marketing, from well-publicized failures to quietly guarded successes.

We found that electronic marketing:

- *Is not for everyone*
- *Is practiced in many forms*
- *Is most effective when used as a means to an end*

That end is the collection of detailed customer information to be used in continually improving a company's results. This practice of gathering relevant customer information, analyzing it, using it to make appropriate marketing decisions, measuring the results in customer terms, and followed by a continual repeating of this process is called Measured Marketing.

To stress this critical element of electronic marketing, we have titled our research report, *Measured Marketing.*

Objectives

This report has several objectives:

- *To share what we found*
- *To help you evaluate whether Measured Marketing would be advantageous to your company, and if so*
- *How to introduce and use it effectively*

The report is intended to be another step in our understanding of how to be more effective food retailers.

Three Types of Companies

Reviewing our discussions with over 80 food retailers, we found that each fell into one of three distinct groups. Those who:

- *Have not yet introduced electronic marketing*
- *Have introduced electronic marketing but have let it fade*
- *Have introduced electronic marketing and continue to be great believers*

The distinguishing characteristics of each group were:

- *Have not yet introduced electronic marketing*

EDLP Operators. Most of the Every Day Low Price operators we spoke to told us that they thought offering discounts on certain products for certain customers didn't mesh with their philosophy of running a simple, standardized, minimum exception operation with no specials.

Show Me! Many companies told us that they are interested in electronic marketing, and have looked hard at companies who have introduced it, but to date have not seen enough benefits to warrant proceeding with it themselves.

Differentiation. Some companies did not feel they should offer different prices to different customers.

MIS Priorities. Various companies told us that they had more urgent Management Information Systems priorities than electronic marketing.

Equipment. The variety and age of front-end systems in some companies were such that they felt it would be too costly to get electronic marketing off the ground.

- *Have introduced electronic marketing but have let it fade*

Sales. A number said that they saw no sales increase after they introduced electronic marketing.

Costs. Others noted the high cost of the program because of the mailings, statements, etc., involved in their programs.

Wrong Incentive. Some found that offering points for catalog items didn't excite customers about their program.

Sale of Information. Many were disappointed to find that they weren't able to sell their information to manufacturers after budgeting for such income.

Vendors. Various executives mentioned the manufacturer support for the program that they had originally expected did not materialize.

- *Have introduced electronic marketing and continue to be great believers*

Sales. Most said that their sales and gross profits had increased as a result of introducing electronic marketing.

Costs. Some explained that electronic marketing did not cost anything extra as it was paid for by reductions in their mass media advertising (i.e., they simply reallocated advertising dollars).

Customers. Various companies told us their program allowed them to provide better service to their best customers.

Communications. Many mentioned how they were now communicating more effectively with their customers.

Integrated Benefits. Others described how their electronic marketing program was an integral part of a total customer package with such benefits as courtesy cards, paperless checks, and video rentals which differentiated them in the marketplace.

This report draws on the experiences and viewpoints of members of all three groups of companies.

I: *Key Customer Information Now Available*

Yesterday's Information

Food retailers capture each of their store's sales and transactions totals and from this data calculate their average transaction. An example of this information is:

	Average Per Week:	
	No. of Transactions	12,000
x	Average Transaction	$16.67
=	**Store Sales**	**$200,000**

Yet little is known about the customers that comprise these sales. Most retailers, for example, can't answer such questions as:

- *How many different customers are creating my transactions?*
- *How often, on average, do my customers shop each week in my stores?*
- *How loyal are my customers?*
- *For how many years does my average customer shop at my stores?*
- *How much does each customer spend in my stores over that time?*

Now, with Measured Marketing, the answers to these questions are readily available.

Currently, most food retailers base their promotional and advertising strategies on who they *think* their customers are and what makes them respond. But now, with Measured Marketing, this guesswork can be replaced by facts which lead to a more efficient use of advertising and promotional monies.

To illustrate some of this additional information now available, the above data can now be recorded by a food retailer as follows:

Today's Information

	Average Per Week:	
	No. of Customers	7,000
x	No. Visits per Week (VPW)	1.00
=	No. of Transactions	7,000
x	Average Transaction	$25.00
=	Customer Sales	$175,000
	No. of Unidentified Transactions	5,000
x	Average Transaction	$5.00
=	Unidentified Sales	$25,000
	Store Sales	**$200,000**

This example drawing information from, say, a preferred customer card-based program shows that the average store has 7,000 identified customers who shop on average once per week, spending $25.00 on average on each visit. In addition, each store had 5,000 unidentified transactions with a $5.00 average transaction size.

We see above that 87.5% ($175,000) of the sales are identified by individual customer! The sorting and analysis of this customer data provide the factual basis for today's new marketing strategy and tactics.

When you first receive such data for your company it may sweep aside previously held opinions about your customers. We confess that a number of our previously held balloons of opinion were popped when we studied the customer data of the half dozen or so supermarket companies we found that actually had such information available.

We found that even though the sea of sales looked so tranquil, beneath the calm surface there was enormous turbulence.

What we found in the companies we researched in depth:

Their customers were not as loyal as we would have expected

During a 12-month period:

- Over eighty percent (80%) of their customers shopped less than once a week in their stores!
- Their average customer shopped their stores only about once every two weeks!
- The top 4% of their customers (based on total spending) shopped their stores about 1.6 times a week!

Their stores were hemorrhaging customers

- Their stores lost 25-50% of their customers over a 12-month period, suggesting a great deal of churning and turning. (Note: this figure is somewhat higher than what customers *say* when questioned on the subject. According to the FMI *Trends 93* report, 24-29% of customers surveyed say they switched grocery stores each year in 1989-1993.)

There was a great deal of split shopping

- Their customers shopped about once every two weeks, yet according to recent annual surveys conducted by the Food Marketing Institute, the average shopper visits a supermarket 2.2 times each week. This suggests a great deal of split shopping.

Their best customers not only visited their stores more often but also spent more on each visit

We ranked their card customers, from biggest to smallest spenders, and then divided this list into ten equal parts, or deciles. One company, highlighted in Table 1, exemplifies our findings. We discovered that the top 10% of its biggest spenders visited their stores more often (1.78 times per week, decile 10) than their "typical" customer (0.32 times a week, decile 5) and their lowest spending 10% (0.10 visits a week, decile 1). This, of course, was not too surprising. But what was, was that the top spending 10% also spent more on *each* visit ($40) than the typical ($19) and the lowest spenders ($5)!! (This combination readily explains why the top 10% customers provided over 40% of sales, as shown in Table 4.)

Table 1: Customer activity by decile

Decile #	Visits Per Wk	Avg Trans	Avg Per Wk	Annual 52 Wks
10	**1.78**	**$40**	**$71**	**$3,674**
9	1.20	29	35	1,830
8	0.88	25	22	1,148
7	0.64	22	14	733
6	0.47	20	9	480
5	**0.32**	**19**	**6**	**313**
4	0.24	16	4	205
3	0.18	14	2	129
2	0.13	11	1	74
1	**0.10**	**5**	**1**	**29**
Total	**0.59**	**$28**	**$17**	**$862**

This finding, to the degree it is applicable to your company, suggests that there is a very important group of customers who shop frequently and spend a high amount per visit that you need to identify and look after very carefully.

Read: The top 10% of customers using a customer card visited this chain 1.78 times a week, spending an average of $40 on each visit. This translates into $71 per week (i.e., 1.78 x $39.69 = $70.65), and $3,674 if annualized over 52 weeks. *Read also* the Visits Per Week (VPW) and Average Transaction per customer columns from bottom to top to see how shopping frequency and average transaction increase hand in hand. Note that this does not say that *all* of the most frequent shoppers are automatically the highest spenders but that, as a general rule, they are.

We found it interesting that many of the above characteristics were valid both for those companies who tracked their customer activity through a card-based customer program and for those who tracked their customer activity through their check activity. In addition we have found patterns similar to Table 1 in other retail industries. We look forward to further research on the subject and urge interested readers to analyze their own data and measure their own performance.

Obviously, those companies who have such information can adapt their marketing strategies to their own unique customer realities and gain a competitive advantage over those who don't have this understanding.

Low Shopping Frequency

The low customer loyalty to these companies, as measured by their customers' shopping visits per week (VPW), surprised us. In discussions with various industry executives, many thought that their customers shopped with them on average at least once a week and a few thought their average customer shopped with them close to twice a week.

Our findings suggest much lower numbers. We saw a consistent pattern of customers shopping about *once every two weeks* (i.e., 0.5 times per week) when measured over a 52-week period. As one would expect, higher weekly shopping frequencies occur when measured over shorter periods. This is seen in Table 1 which shows 0.59 customer visits per week during one quarter. In discussing this finding with one food shopper, the following shopping pattern was outlined:

"I go to supermarket A about once a week, to supermarket B about once every two weeks, to supermarket C and a warehouse club (for food) about once every three weeks, and to supermarket D about three times a year." Translating this shopper's estimates into visits per week to buy food we see, as shown in Table 2, a shopper who visits food retailers 2.22 times per week on average, yet visits Supermarket A, the preferred food retailer, only once a week!

Table 2: Shopper's estimated VPW

	VPW
Supermarket A	1.00
Supermarket B (1/2=0.50)	0.50
Supermarket C (1/3=0.33)	0.33
Warehouse club (1/3=0.33)	0.33
Supermarket D (3/52=0.06)	0.06
Total visits per week	**2.22**

This shopper's habit of visiting five food stores on some sort of cycle reinforces the notion of low average visits per week to any one company. While we are not holding out that this shopper typifies the "average" shopper, the shopping pattern clearly illustrates how split shopping among stores by customers could be occurring today.

On that specific issue, the shopper above offered this comment: *"Why should I be loyal to any one supermarket? They do nothing different for me after shopping there for several years than someone coming in off the street and shopping there for the first time! They still don't even know my name!"*

High Customer Defections

To some degree, this customer's shopping pattern and comments help explain the biggest surprise of all in the companies researched: their *customer defection rate of 25-50%*. Part of this loss is, of course, due to regular household moves. But a larger loss is due to unexplained reasons. We hypothesize that given the split shopping and the lack of strong reasons to be loyal to any one supermarket company, it's relatively easy and penalty-free to change shopping frequencies at different food stores, not to mention stop shopping at one supermarket company altogether. Thus the high incidence of defections.[1]

Table 3: Defection rate example

No. Customers in Q3, 1993	1,000
Of these specific customers:	
No. still shopping us (in Q3/94)	700
Defections	300
Defection rate	**30%**
Retention rate	70%

To measure customer defection rates on an ongoing basis, we have found the method in Table 3 to be very helpful. It is based on year-to-year comparisons, thereby avoiding seasonal distortions.

1 It is fair to challenge these seemingly high defection numbers with the assertion: "Surely part of the defection rate is accounted for by customers who just stop using their customer card during the year!" as, indeed, one management group challenged us when we shared their annual defection rate with them. In their case, we followed up by examining the year-to-year changes in their average transaction size of both their card and non-card users and found that no material difference existed that would suggest that a large number of cardholders had simply stopped using their cards (although we agree that there must have been some). If such a change had occurred on any significant scale, then the dramatically lower non-card average transaction would have increased at a much higher rate than that of the average cardholder transaction due to higher spending cardholders switching classification.

The 30/75 Rule

The company described in Table 1 had some other results that were typical both of those companies studied in depth and of many others we researched who had less extensive customer data available. We found that the top 30% of their customers (deciles 8-10) provided 77% of the sales, as shown in the following table. This is very close to the rule of thumb that emerged from our research: *30% of the cardholders will account for approximately 75% of their sales!*

Table 4: Spending by decile

Decile #	*VPW #*	*% Sales*	*% Cumulative*
10	1.78	43%	
9	1.20	21%	64%
8	**0.88**	**13%**	**77%**
7	0.64	9%	86%
6	0.47	6%	91%
5	0.32	4%	95%
4	0.24	2%	97%
3	0.18	2%	99%
2	0.13	1%	100%
1	0.10	0%	100%
Total	**0.59**	**100%**	

The above table also shows that while the top 20% of the customers provided 64% of the sales, the bottom 20% provided only 1% of the sales!!

This table clearly demonstrates that all customers are not equal. This logically leads into making different offers to different customer segments as a way of maximizing customer retention and profitability.

Card Members Spend More

The same company exemplified another rule of thumb: its average card-base customer transaction was about four times that of the non-card transaction ($28 v $7). A dramatic difference! We found that the ratio of card-holder to non-cardholder average transaction value ranged from 3:1 to 5:1, depending upon what percentage of transactions the card members were of the total transactions. (The lower the percentage, the lower the ratio).

How Customers Shop and Spend

Another simple way to look at data to help our understanding of how customers shop is to group them according to how frequently they shop and how much they spend on each visit. The annual results of two companies have been merged in Table 5 to give us the following profile:

Table 5: Visits and amount spent per visit

Customer visits per week	*Average amount spent per visit* Under $30	$30-60	Over $60	*Totals*
Over 1.00	**6%**	7%	**3%**	17%
	11%	21%	**14%**	45%
0.50 - 1.00	8	8	5	20
	6	11	13	30
Under 0.50	**30**	20	13	63
	6	9	10	25

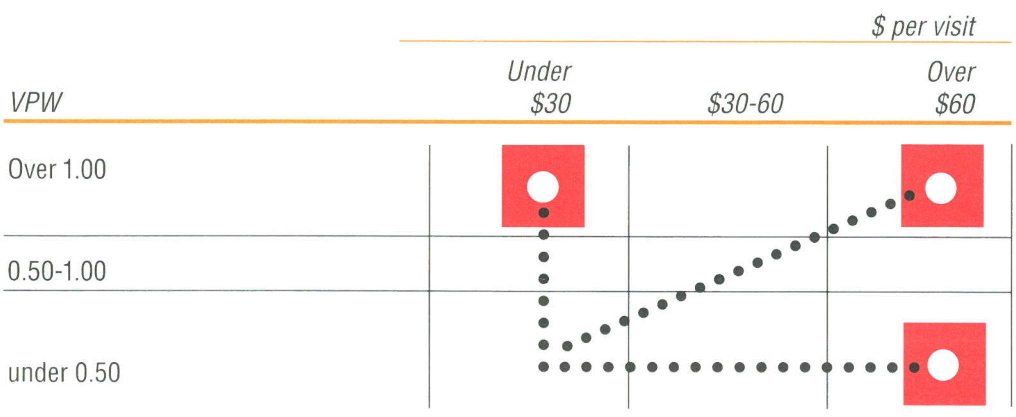
Read: Customers who shopped on average over once per week and spent less than $30 on each visit (on average) comprised 6% of the customer total and 11% of customer sales.

We see, in the bottom left-hand cell, that 30% of their customers shopped less than once every two weeks (i.e., under 0.50 times a week), providing only 6% of customer sales! The ideal, of course, would be to have had all customers shopping at least once a week and spending over $60 per visit (as 3% of the customers did, providing 14% of sales!)

The Quo Vadis Matrix

It's common to find, as in Table 5, a large percentage of customers in the bottom left-hand cell (indicating a low shopping frequency and low spending per visit). *The big question for a food retailer is: in which direction is this group of customers likely to move?* (Out or in? If in, will they shop more often per week, or spend more per visit, or both?) This directional question is illustrated in the following table, appropriately called the Quo Vadis *(whither goest?)* matrix. It demonstrates in a simple way what food retailers are constantly trying to do: bring new customers into the store and then, through a wide variety of marketing efforts, encourage the customer to shop more frequently, spend more on each visit or, ideally, do both. The matrix is an excellent way to measure progress towards such critical goals.

Table 6: The Quo Vadis matrix



Read: In which direction will the low spending, infrequent customers (i.e., less than one visit every two weeks and spending under $30 per visit) move?

Life Time Sales (LTS)

We can also calculate how much customers spend with us during the weeks (or years) that they shop with us. By multiplying the number of visits per week by the amount spent per visit by the number of weeks they shop with us, we can calculate the amount of the customers' Life Time Sales. For example, the LTS of a customer who shops on average once every two weeks for 4 years and spends an average of $45 per visit is $4,680 ($45 per visit x 26 visits annually x 4 years = $4,680). This provides an excellent tool with which to measure customers.

Certainly, the emphasis on satisfying customers is heightened when one thinks of each of them spending thousands of dollars in our stores over a number of years (their Life Time Sales) rather than just seeing them as individual transactions when they shop.

How Fewer Defections Improve Sales

The importance of increasing the first two components of Life Time Sales, the visit frequency and amount per visit, is evident from Table 5. The importance of measuring and managing the defection rate follows.

Assume that your average customer spends $1,000 per year. Then 1,000 customers would generate $1 million in sales in the base year. However, if your defection rate is, say, 40%, then the following year your sales from these customers will be only $600,000 (40% fewer customers than 1,000 is 600 customers multiplied by $1,000 each is $600,000). The year after that they will produce $360,000 in sales (360 customers x $1,000 each). The impacts of 40%, 30%, and 20% defection rates over a five year period are shown in Table 7. As seen on the last line of the table, sales will be about 20% higher when the defection rate is 30% rather than 40%, or 20% rather than 30%! Reducing defection rates can significantly impact sales!

Table 7: Impact of defections on sales

1,000 customers spending $1,000 per year

Defections	**40%**	**30%**	**20%**
Year	*Sales ($k)*	*Sales ($k)*	*Sales ($k)*
1	1,000	1,000	1,000
2	600	700	800
3	360	490	640
4	216	343	512
5	130	240	410
LTS (5 yrs)	**2,306**	**2,773**	**3,362**
Sales increase		**20%**	**21%**

What's So Magical About Customer Information?

As discussed, some very valuable pieces of customer information are now available to those who have card-based or similar marketing programs. We are able to move from the oceans of averages (and opinions) we have dealt with in the past to the more solid ground of hard customer data. This quantifiable customer information is important to us because:

1. *It provides the economic rationale to differentiate offers among customers.*
2. *It gives us a method to calculate our profit contribution by customer.*
3. *It opens up the opportunity to use Customer Category management.*
4. *It creates an opportunity to gain a competitive advantage.*

- *It provides the economic rationale to differentiate offers among customers.*

To the degree that our best customers, compared to our other customers, visit our stores more often per week *and* spend more on each visit (as in Table 1), it can be shown that they are more profitable and therefore deserve special consideration, assuming that our goal is to retain them, the source of the majority of our profits.

- *It gives us a method to calculate our profit contribution by customer.*

If we are using some method of collecting customer transaction data, then we can approximate each customer's profit contribution. The degree of accuracy of this will, of course, depend upon the level of detail of the data that we capture. This can be illustrated with a simple example:

Table 8: Customer profit contribution

Customer: **Mrs. H.I. Shopper**

	$	%
Sales	$2,500	100.0%
Gross Profit (Initial)	700	28.0%
– Markdowns ("specials")	(75)	-3.0%
– Store Coupons redeemed	(10)	-0.4%
– Double Coupons cost	(25)	-1.0%
= Gross Profit (realized)	590	23.6%
– Variable Labor Cost*	(35)	-1.4%
= Profit Contribution	$555	22.2%

*Variable Front-End Labor costs only

An analysis similar to Table 8 can be done on every customer showing his or her sales, markdowns and double coupon costs, realized gross profit, variable front-end labor cost, and profit contribution! This, in turn, allows us to group categorize customers, which is the foundation of Customer Category Management.

• *It opens up the opportunity to use Customer Category Management*

Once the profit contribution by customer is known, even if only approximately, the opportunity opens to develop marketing plans very specifically around customers, similar to those currently developed around products in Category Management. For example, the company in Table 1 could categorize its customers into five groups and manage each group differently. One way to accomplish this could be to mail different coupons to the different groups. Targets for visits per week and average transaction could be established for each group and measured and managed accordingly, as shown in Table 9 below.

Table 9: Customer targets

Decile	*Visits per week (#)*		
#	*History*	*Target*	*Actual*
9-10	1.49	1.59	
7-8	0.76	0.81	
5-6	0.40	0.42	
3-4	0.21	0.21	
1-2	0.12	0.09	
Decile	*Average Transaction ($)*		
#	*History*	*Target*	*Actual*
9-10	$35.52	$37.00	
7-8	23.80	24.50	
5-6	19.30	19.50	
3-4	15.33	15.33	
1-2	8.57	9.57	

• *It creates an opportunity to gain a competitive advantage*

Understanding our customers' dynamics–how often they visit us each week, how much they spend, how different groups of customers respond to various economic and ego rewards offered, the profit contribution of various customer groupings, their defection rate, and identifying in advance when various customer types are likely to defect–can yield much greater marketing knowledge than in the past. The difference is like fighting one battle in the dark and then putting on night vision goggles to help fight the next one. You have a much clearer understanding of what's happening out there in the dark. Companies with this deeper insight of the marketplace can obviously gain a competitive advantage. Those who can see into the marketing darkness and measure the drivers of their business, their specific customer dynamics, will have an advantage over those who only know the output of those drivers, their aggregate sales. The mother of all marketing battles may be reduced to a very lop-sided contest!

Can a company have a preferred customer program without using all this customer information?

Yes. In fact, in many companies we observed, their preferred customer card program was primarily an electronic shelf discount program. It was, along with other programs such as weekly specials and bonus buys, just one of a number of promotional programs offered to customers. However, in our opinion this approach is more likely to lead to disappointment than joy because it neither makes the program central to the company's marketing strategy nor uses the information available as a by-product.

II. *The Purpose of a Business*

> **"The purpose of a business is to create and keep a customer"**
>
> **–Levitt**

Defining a Business

All business activity should be directed to accomplishing what we understand is the purpose of our enterprise.

In *The Marketing Imagination*, Theodore Levitt tells us, "The purpose of a business is to create and keep a customer."

Ten years earlier, in 1973, Peter Drucker reminded us in his book *Management* that "all customers have to be satisfied in the answer to the question *What is our business?*"

Adapting these two ideas to our industry, the purpose of a food retailer can be defined by the ***RASP*** factors:
Retain existing customers.
Add new customers.
Satisfy all customers.
Profitably.

Food retailers nod their head in agreement with this definition. Yet, until recently, they have not been able to measure the first two factors, the retention and addition of customers. Now Measured Marketing gives us that opportunity to quantify how successful we are in accomplishing these factors. Of course, besides retaining customers, our objective is for them to shop with us more frequently than in previous years (which in turn as our studies suggest, should lead to higher spending on each visit!) In addition, besides adding new customers, we would like to add them at a faster rate than in previous years.

Disappointments

Electronic marketing was introduced into food retailing with these underlying retention and addition goals in mind. Unfortunately, the degree to which it succeeded or failed is largely unknown because the specific customer components were not being measured. Most companies that were disappointed with electronic marketing because they "saw no change in sales" do not know the individual factors contributing to their disappointment. Did the defection rate of their existing customers improve or worsen after they introduced the program? Did the visits per week and average transaction size of existing customers increase or decrease? Were new customers attracted to stores at a faster or slower rate than in the past? Were they building relationships with existing customers but experiencing higher than usual defection rates due to competitive and other reasons? Seldom does any new marketing program start perfectly. Normally, much tinkering and refinement are required to get it on course. Without the answers to these questions should we be surprised that some early efforts were disappointing?

In addition, we must ask another question. Even if the answers to the above questions had been available, how representative would they have been? We saw some companies whose card-based programs comprised 15-25% of their total transactions, accounting for less than 40% of their sales, while others comprised over 70% of transactions, providing more than 85% of sales. It is reasonable to assume that to measure the success of any such program, particularly when membership is free, a high degree of customer usage is required.

The Purpose of Measured Marketing

Building on the above, we can state that:

The purpose of Measured Marketing is to capture the majority of customer transactions and sales, through electronic marketing and other means, with the goal of measuring and monitoring existing and new customer activity, and using this information to improve the company's marketing strategy, tactics, and results.

Note that this does *not* say *all* transactions or *all* sales. For two reasons. First, not all shoppers are customers if we define a food retailer's customer as someone who is or has the potential to develop a relationship with us extending over a number of visits. For example, a visitor from out of town is more likely to be a "shopper" than a "customer." Second, the cost of gathering all transaction information may be prohibitive. It is quite possible that the cost of gathering the last 5% of specific sales data may not only be very expensive but also only of marginal value.

Evaluating Measured Marketing

To provide a framework for evaluating Measured Marketing, there are four primary steps to take (before investigating equipment and software options, developing a marketing plan, and doing an economic feasibility study).

Those steps are:

Decide:

- *What you want to accomplish.*
- *How you will capture customer data.*
- *How much customer data to collect.*
- *How you will measure success.*

- *Decide what you want to accomplish*

Your goals might include, for example, the following:

Retention: To improve the retention rate of existing customers.

Frequency: To increase the frequency of store visits by existing customers.

Addition: To increase the addition rate of new customers.

Sales: To capture information from at least 85% of total sales.

Transactions: To capture information from at least 50% of total transactions.

Life Time Value: To improve the LTV of customers.

Costs: To cover the program's costs by reallocating advertising expenditure.

- *Decide how you will capture customer data*

In our research, we found that a preferred customer card-based program is not the only vehicle to capture customer data. In fact, we discovered five primary methods, ranging from simple and low-tech to simple and higher-tech. The five primary ways are:

1. *Sweepstakes*
2. *Stamps*
3. *Checks*
4. *Phone numbers*
5. *Customer cards*

Each has its benefits and limitations. The first two methods listed are excellent vehicles for an operator to start gaining an idea of what customer information is available without any heavy commitment on his or her part. The later methods demand more commitment of resources but yield much greater information.

- *Sweepstakes*

The names and addresses of customers can be gathered at regular intervals, such as each April and October, by having customers enter a sweepstakes for, say, five or ten times the amount of their purchase. The cashier records the amount of each purchase on an entry form and gives it to the customer to add his or her name, address, and phone number and place it in a sweepstakes entry box. After the drawings, the customer data can be collated, including the frequency of purchase and the amount of each purchase, as well as what percentage of transactions and sales the entrants comprise. Then, with each subsequent sweepstakes, customer files can be matched for retention and defection rates and changes in shopping frequency.

This is usually the least expensive option, but it also is the least accurate. However, for companies wanting to get a feel for the magnitude of their defection rate without embarking on a large-scale program, this option is a good place to start.

- *Stamps*

One program that can build sales while providing a customer profile is this offspring of trading stamps. A specially designed adhesive stamp is generated for each dollar of sales and given to the customer who affixes it to a pre-printed sheet which has space for, say, 30 stamps. Each completed sheet can be redeemed for, say, one of ten items in the store which are heavily discounted for such purposes. For example, with one completed sheet, a customer might be able to buy a dozen eggs or a loaf of bread for 10 cents. On the back of the sheet the customer enters his or her name, address, and phone number, for participation in an attractive weekly or monthly sweepstakes.

Besides learning how much each customer is spending with you over time, an absence of sheets being redeemed suggests that a customer has stopped shopping with you. This is particularly so if your stores are experiencing redemption rates in excess of 90%, as we saw at one company with such a program. The stamps method is a simple but highly effective way to begin gathering customer data and learning about who your individual customers are, and how much they spend on average each week in your stores. The dramatically low prices on certain products provide a simple but attractive hook to keep customers coming back to your stores. The stamps method does not, however, let you learn how often customers visit your stores.

- *Checks*

Check transactions commonly comprise a high percentage of sales, percentages comparable to many card-based programs that we saw. Therefore, capturing customer data from checks cashed, together with the purchase date and amount of each check, can provide supermarket operators with an excellent profile of their bigger spending customers.

One company we visited is planning to merge its check transaction details with its scanner purchase data to build a detailed purchase profile of its customers. Yet another food retailer has tied together its check verification reader with a coupon dispenser, instantly issuing each customer a unique set of coupons based upon how often that individual customer has shopped in their stores during the previous six months and how much the customer has spent! Different coupon combinations are programmed depending on how the retailer wishes to differentiate among the three primary customer types: the loyal customer, the split shopper, and the cherry picker.

This approach does not even capture customers' names and addresses! Its goal is to influence each customer's future behavior through various coupon combinations, based upon their past behavior measured using the MICR number on their checks as the identifier. Of course, customers names and addresses could be manually correlated to the MICR code if required.

- *Phone numbers*

Many non-food retailers, typically those with a small number of items per transaction, ask for each customer's phone number before ringing up their transaction. The phone number is keyed into the store's point-of-sale system and matched against national databases which provide the name and address of the person listed for each publicly listed telephone number. A history file of each customer is then built using his or her telephone number as a unique identification number.

One major non-food retailer who introduced such a program in the late 1980s has the sales and gross profit history of 20 million customers! This company has used this information to cut back significantly on traditional advertising media and has placed a heavy focus on more selective, targeted direct mailings to their known customers. For example, low-spending customers receive a much smaller mailer than the heavy-spending customers. This company also analyzes each mailing's responses to see how future mailings can be made more effective.

Given the greater shopping frequency of customers at food stores, many operators express concern that customers may become annoyed about being asked for their phone number on each visit. To minimize this risk and to cause customers to want to provide their phone numbers, signs in the store could indicate that those customers who, say, spend over $500 before October 25 can buy a Thanksgiving turkey for five cents a pound. In exchange, of course, the operator gains valuable customer database information.

- *Customer cards*

The most common form of customer identification in food retailing today is a bar-coded plastic card. The card is presented for scanning because, typically, it triggers discounts on selected items throughout the store only to those customers who present the card. Many, but not all, operators currently capture selected customer data for subsequent marketing and analytical purposes. It is not unusual for such cards to be described and even promoted as preferred customer cards because of the preferential prices and other special considerations, such as check-cashing privileges, that certain cardholders are offered. This option is usually the most expensive of the five customer data collection methods, but it is also the vehicle to yield the maximum customer data.

All five options above have a role to play on the retailing stage. However, because the card method provides the greatest potential for gathering information, we shall discuss only this option throughout the rest of this report to illustrate the issues involved with Measured Marketing. You will, however, be able to easily transfer the concepts and lessons to the other options.

- *Decide how much customer data to collect*

Food retailers can choose how much data they should collect. Even though we know retailers who are using extremely detailed customer information to improve sales and profits, we caution that it takes time to get to this level. We advise that you start swimming close to shore before venturing into deeper water! And that you start at Level 1 before moving to deeper levels!

Level 1:
Total amount spent per visit

Level 2: Departmental

Level 3: Category

Level 4: SKU

Level 1: Total amount spent per visit

Each identified customer's transaction amount is recorded along with the transaction date and where the system allows, the amounts of the markdowns and coupons redeemed. Even though this is the basic level of information, it can provide such an enormous wealth of customer information that a company can stay on this level for a number of years before even considering moving to the more detailed levels. Most of the illustrations in this report are based on information available at this level.

Level 2: Departmental

Here, the information captured in Level 1 is broken into departmental totals which allows us to understand each customer's shopping patterns by department. This is valuable for providing a more accurate profit contribution figure (because it reflects each customer's actual departmental activity) as well as for targeted marketing activities.

Level 3: Category

Category information collection is simply a variation of departmental information. Selected groupings of products are aggregated and tracked by customer. The categories may be either a store's traditional categories such as soft drinks, dog food, and cereals, or they may be specially defined groupings such as all diet products sold. Often such detail is obtained so that the retailer can work directly with manufacturers for targeted customer mailings. Of course, customer category activity allows an even more accurate profit contribution figure per customer and it provides the platform for the inter-relationship between Product Category Management and Customer Category Management. We saw powerful customer relationship building occurring at this level, demonstrating the enormous value of customer information and even though we encourage companies to plan towards this goal we advise against trying to reach it overnight! Such a wealth of information can be gained at Level 1, and it should be digested and used before rushing to this level.

Level 4: SKU

This is the deepest level of data, as it captures details of each item purchased by each customer in each transaction by either Stock Keeping Unit (SKU) or by the product's Universal Product Code (UPC). This is the ultimate in detail, because besides knowing exactly when and what each customer is buying, which may be used for finely honed target marketing, it can also yield the most accurate reading of direct customer profitability.

However, this level has two drawbacks: information overload and cost. Only when a food retailer is using the data from Level 3 effectively and can see clearly how such enormous additional detail will be put to beneficial specific use should this option be seriously considered, for it requires dramatically more computer resources and storage needs. To illustrate, consider the computer resources required to track, by customer, the product movement in a typical supermarket today with 30,000 SKUs, 40% of which may sell fewer than a case each month. This caution, however, is not necessarily applicable to retailers outside of food retailing which carry significantly fewer SKUs with higher average selling prices per item.

- *Decide how you will measure success*

What measurements and reports will you use to know how you are succeeding with your goals? Some criteria have already been suggested. Others, including Segmentation, Customer Tracking, Targeted Testing, Direct Customer Profitability, and Customer Budgeting, follow in a later section.

III. *Success Criteria*

Measured Marketing: A Success Checklist

1. Short term look. Long term hook.
2. Narrow and deep or broad and shallow?
3. Vehicle of value or truckload of tinsel?
4. Core or clip-on?
5. Pivotal placement.
6. Net price or coupon amount?
7. The divinity of simplicity.
8. Clipless coupons.
9. Keep selling the sizzle.
10. Employee enthusiasts.
11. Feedback creates champions!
12. Make joining easy.
13. Nurture the newlyjoineds.
14. Sales flow with egos.
15. Umbrella programs.
16. Start small. End tall.
17. Turnkey test.
18. Employee involvement.
19. Experience rather than incentivize.
20. Benchmark.

Marketing and Operational Practices

Another step in evaluating Measured Marketing is to consider the marketing and operational issues involved.

In our study, we witnessed a wide diversity of practices which resulted in a large array of results and experiences. We found that company size is not a prerequisite for excellence. The operations that impressed us covered the gamut from a single-store operation to one of the ten largest supermarket chains!

To illustrate what we consider successful practices, let us assume that your company plans to use a bar-coded plastic card for customer identification, available free of charge to any customer, and that your objectives are those as set out earlier, i.e.:

Retention: To improve the retention rate of existing customers.
Frequency: To increase the frequency of store visits by existing customers.
Addition: To increase the addition rate of new customers.
Sales: To capture information from at least 85% of total sales.
Transactions: To capture information from at least 50% of total transactions.
Life Time Value: To improve the LTV of customers.

Because these major goals revolve around collecting the majority of our customer transaction data and then using this information to measure performance improvement in various ways, one key objective is to have customers present their cards at the beginning of *every* transaction whether they go through the regular or express lanes or through any subsidiary checkout system, e.g., pharmacy, prepared foods, or video rental. This objective is included in the thinking behind the following checklist.

1. Short term look. Long term hook.

One of two requirements is necessary for customers to want to present their cards for *all* of their transactions, regardless of the order size: either a short term *look* where they *see* instant savings as a result of using the card on each transaction *or* a long term *hook*, in the form of economic and/or ego rewards for their accumulated purchases or number of visits over time. An example of how the *look* is accomplished is through discounts on selected items or on the total purchase. One example of how the *hook* may be achieved is by offering gift certificates of increasing values when the customer's cumulative spending (from the date they first use their card) reaches certain milestones such as $2,500, $5,000, $10,000, $20,000, and $40,000. This accomplishes two objectives: it provides a reason to present the card for every transaction, and it acts as an enticement to customers to keep coming back to your stores rather than splitting their shopping. As your customers' cumulative sales and therefore, their potential rewards build, the *hook* makes it worth their while to drive past competitors to return to your stores!

2. Narrow and deep or broad and shallow?

Customers love a bargain! The bigger the bargain, the more they love it! An awesome offer always takes precedence over a dismal deal! Therefore, one of the best ways to ensure that customers remember to bring and present their cards is to provide economic incentives (i.e., bargains) for doing so. Thus, having fewer, more popular items with deep discounts for card members is better than having many items with small discounts, if you want customers not only to present their card willingly but also to recognize the value of the program. In practice, this means that the most dramatic specials in the store should be only for those customers who present their card as they check out. We found too many companies offering secondary items on their card programs and expecting first class results; instead, as one would expect, they received secondary results!

"Having fewer, more popular items with deep discounts...is better than having many items with small discounts"

In addition to offering the most dramatic specials only to those who present their cards, benefits for card presenters can be increased further if the majority of your promotions are moved, over time, to being available only to those who present their cards. This allows you to show even bigger savings on the bottom of the register tapes of these customers which in turn increases the card's value and, therefore, its usage.

Not all promotions should be for card customers only, however. Some offers should be available to all shoppers because this, hopefully, avoids forcing the transitory shopper to apply for a card. Alternatively, as one successful practitioner of Measured Marketing already does, you can get around this by offering two prices on each promotional item: one price for those who do not present their card and a lower price for those who do!

For operators who continue to offer double and triple coupons after introducing their card program, we recommend refining your offer so that such coupons can be redeemed only by those presenting their cards. In this way, you can develop a profile of such customers, assess their profitability, and then decide whether continuing to offer double or triple coupons is in your best interests.

3. Vehicle of value or truckload of tinsel?

Food retailers operate on very narrow margins. There are limits to what can be spent in a preferred customer program on such components as the plastic identification card, the promotional material and the customer mailings as well as an allowance for the additional markdowns on selected items. For maximum impact, allocating more of the budget towards the value (i.e., markdowns) elements will outperform allocations for the tinsel elements (e.g., beautiful multi-colored plastic cards, monthly statements or mailings to customers in glossy envelopes)! In addition, limiting the number of items a customer may buy at the special price to, say, five per visit, allows even sharper pricing while decreasing the sales to customers who visit a store and buy large quantities primarily of those items with deeply reduced prices.

4. Core or clip-on?

The implementation of the above three success criteria will automatically cause the program to be the core of your marketing strategy rather than a clip-on activity. Only when Measured Marketing is at the center of your marketing programs, collecting the optimum amount of customer information to be analyzed and used in subsequent decisions for making the various marketing efforts more effective, will you receive the program's maximum benefit.

One corollary of this concept is that you should always be in stock on the items which now form the core of your marketing program. Regularly checking their shelf availability becomes extremely important.

5. Pivotal placement.

If Measured Marketing is to be at the core of your marketing efforts, then this should be abundantly evident to customers as they walk through your store. In particular, the special value products for preferred customers should be pivotally placed throughout the aisles rather than being bunched together in clusters. Customers should be reminded of the program with special offers and simple, clear shelf talkers as they walk every aisle of the store. One company, for example, deliberately places a "hot" item every 30-50 feet throughout their stores. This acts as a constant reminder to customers of the values being provided. Thus, shelf location should be an important consideration when products are being selected for the program.

In addition, do not overlook the perishables departments when considering placement. Many programs currently focus their card members' markdowns on the grocery department and ignore meat and produce. These departments can readily be included by offering special prices on fixed weight items (e.g., 10 lb. bag of potatoes) or say, one pound free with any package of five or more pounds (e.g., if ground beef is $1.00 per pound, a card customer receives a fixed $1.00 discount on any packet of ground beef showing a retail value of $5.00 or more). This approach neatly steps around the problem of random weights and increases the attractiveness of the program.

6. Net price or coupon amount?

Value is relative. Therefore, any special value offered to preferred customers should be made in such a way to maximize its relative value in their eyes. Customers *know* when a product's price is a great value. Customers also know that many coupons offered in the Sunday papers are for 50 cents. Therefore, as a general rule, the shelf bib-tag should highlight the net special price of the product (e.g., net price $1.80) rather than the markdown value (e.g., 30 cents) because it highlights a better comparative value to the customer. Exceptions, of course, can be made if the markdown is high and is shown as, say, "Save $1.00" or "Save 40%."

7. The divinity of simplicity.

The program must be simple in the customers' eyes–from the application form, to understanding why presenting the card with each and every transaction is in their best interests, to using the card and experiencing the benefits. Building the program around 3-5 key benefits such as even lower prices, no minimum purchase necessary, mailings of free coupons, and say, a discount of 10% at 20 well-known local retailers, is preferable to loading in lots of benefits of ho-hum value which tend to clutter and confuse the clarity and distinctiveness of the offering. Similarly, structure the program to minimize any front-end slowdown. For example, avoid making any promotional offer which requires the manual recording of any item or transaction by the cashier.

8. Clipless coupons.

If store coupons are offered in print advertising, automatically deduct them for customers presenting their cards. Customers love this and consider it a real benefit of the program. (Manufacturers are much less enthused and usually require a different redemption rate on these!) Clipless coupons are an excellent example of simplifying the process (and saving labor at the front-end at the same time!)

9. Keep selling the sizzle.

Like any new program, Measured Marketing can grow stale over time. To avoid this, change the signage on a regular basis; don't wait for shelf talkers to become dog-eared and tatty. Introduce new infomercials. Change elements of the program over time and explain how the changes benefit the customers. Have occasional surprises on the program. Act as though you are engaged to the customer rather than married to her! That means you will constantly be trying harder!

10. Employee enthusiasts.

Those companies in which employees are enthusiastic about the program find it easier to sign up customers and keep them loyal. Therefore, a complete buy-in of the program by employees is very important. When this is accomplished, it is not just another program that is left to checkout operators "to sell." Customers should be able to ask any questions regarding the program of any employee. In fact, customers should be encouraged to do so. (Given the number of part-timers and employee turnover levels among retailers, this is another reason to keep the program simple and focused!)

Various ways to develop employee enthusiasm include involving the employees in the testing of the program and seeking their suggested refinements before launching the program; providing a special discount to employees who use the card when they do their own shopping; and providing either "Ask me about the program" buttons or name badges with the same design as the card for all employees.

11. Feedback creates champions!

Focus on the field rather than hiding the data at headquarters! Employee enthusiasm will be reinforced if employees know how they are performing compared with their peers. Each month all employees in each store should know, for example, their store's customer retention rate compared with other comparable stores in the company. They should know each week what their card members' percentage of transactions and sales are compared with other stores. Ideally, the names of each store's top 20 customers should be listed in the breakroom or backroom so employees can get to know who their real employers are!!

In addition, as customer retention rates usually have a high correlation to profits, incentives to employees based on store retention rates would reinforce the feedback loop even further.

12. Make joining easy.

The barriers to joining the program should be absolutely minimized, regardless of the day or time the customer wishes to join. Clear, easy-to-read, and easy-to-understand signs should be visible throughout the store, explaining the benefits of membership and how and where to join.

"Satisfying customers' ego needs is as important as satisfying their economic needs"

Application forms should be easily accessible at all times. These forms should request the minimum of information (name, address, phone number, number in household) rather than lots of additional demographic and lifestyle data (which can be obtained in later surveys, if they are considered really important). Obviously, applications for check-cashing privileges require additional specific information.

Ideally, customers should receive a plastic membership card immediately so that they can, on that very same visit, experience the benefits of presenting their card as they check out. We live in an instant pudding society, and customers have come to expect that the best companies do these sorts of things immediately. Remember that our customers are interested in their perspective, not our problems.

13. Nurture the newlyjoineds.

"As the twig is bent so does the tree grow" is an old truism which applies well to customer relationships. Shortly after each customer signs on for the program, your relationship can be reinforced by sending them each a short letter welcoming them to the program, highlighting again its benefits as well as some of the distinctive differences of your company, seeking any necessary corrections to their name and address in your records, and providing the newlyjoined with *a reason to return* in the form of, say, a questionnaire covering their next visit (with a gift certificate which they can redeem at the same time). In the early stages particularly, providing new customers with *reasons to return* to your stores is vitally important in strengthening your ties with them.

14. Sales flow with egos.

Everyone possesses a combination of economic and ego drives. Many of the practices already mentioned are centered on satisfying the customers' economic needs. Satisfying customers' ego needs is as important as satisfying their economic needs, especially when it comes to building long-term loyalty. Providing customers with various forms of recognition through your program both provides an added reason for them to drive past competitors to shop with you and acts as a barrier against their defecting. Two simple examples of catering to your customers' ego needs include the *flash factor* and *seeking their advice*. We know from our observations of gold credit cardholders and airline premium cards the importance of the *flash factor*. Many people like to express their importance by flashing their special card. Thus food retailers can, as at least one food retailer already does, provide different cards to customers according to how much they have spent since they joined the program. Cashiers are extra sensitive to such customers as they check out. In addition, accomplishing these different card levels can trigger special recognition in the form of special coupons, gifts, or acknowledgment letters.

Such a program can also work to your economic advantage. Given the amount of customer churn and turn, we encourage you to consider the desirability of offering a free thin plastic card immediately upon application and a different (thicker? better quality? different color?) only when the customer has spent, say, $1,000 with you. In our observations, giving a high-cost, high-quality card to everyone who applies has not been a wise economic decision because of both the low shopping frequencies and high defection rates of customers experienced by many food retailers.

Customers always welcome someone sincerely seeking their advice. Some companies invite their best customers to be members of their advisory boards. Not only does this ensure you are receiving feedback from your biggest spenders, but it provides a vehicle for company employees to meet and get to know your best customers.

15. Umbrella programs.

A program can be enhanced by enlisting non-competing retailers and services to accept your card and give the bearer, say, 10% off anything bought in their stores. Some food retailers have found that these other retailers, such as drug stores, florists, dry cleaners, car wash units, and fast food chains, not only will give a discount but will pay an advertising fee to help you publicize the program!

If you pursue this type of program, we stress again the divinity of simplicity. It is so easy to complicate the offering with different discounts and different conditions in our eagerness to sign up participants under our umbrella.

Heading Down the Right Path

For those about to start with Measured Marketing, the following initial guidelines are suggested:

16. Start small. End tall.

Move cautiously at first. Test your plan in selected stores with employees and where appropriate, selected customers. Take weeks rather than days. Set up your measurement systems before rolling out your program. Ensure that your MIS department and/or service bureau is handling the information processing well. As the best measure of your defection ratio comes from comparing the same quarter's results year to year, ideally you need at least 15 months of summarized customer data to achieve a good reading of this critical measure. During your early days, understand what your reports and statistics are saying and what they might mean if the program is rolled out through the whole chain. Test targeted mailings to selected groups of customers. Measure their effectiveness in terms of changes in those customers' visits per week and average transaction size along with an estimate of any change in their retention rate. Evaluate which mailings are cost effective.

In addition, during this test period, do not expect more than limited vendor assistance towards your program.

17. Turnkey test.

If the limited test approach is adopted, there is great merit in seeking an outside service bureau to process all your data and provide you with the appropriate reports. This may seem a little more expensive, but it probably is not because it avoids diverting the resources of your Management Information Services department. The heavy involvement of your MIS department can be delayed until you decide whether you wish to roll out the program on a large scale.

18. Employee involvement.

As earlier indicated, before launching your program publicly, test it for a few weeks with your employees. Provide them with cards. Give them a list of selected products in the store at lower prices for members (if that is the option you choose), but do not show the two prices on the shelves, as this will confuse customers. Then seek your employees' feedback and suggestions. Not only will you gain additional ideas on the program while you debug the program, but your employees will be able to explain it more readily to customers once the program is launched. You might even invite selected customers to participate in the same test to gather their perspective.

19. Experience rather than incentivize.

Let customers experience the program rather than offering incentives to join. For example, rather than offering a free pound of bacon to those who sign up for membership, show at the sign-up table something like: "Here are 10 reasons why you should join! (1) $1.00 off any L'eggs; (2) $1.00 off any pack of rib-eye steaks priced at $5.00 or more; (3) $1.00 off a gallon of ABC ice-cream; (4) $1.00 off a pack of XYZ cigarettes; etc." Then the customer, on the same trip that he or she signs up for membership, experiences the benefits of club membership.

Many companies have offered items, such as a loaf of bread or a dozen eggs, to customers as an incentive to sign up for their card. Their subsequent advice: don't do it! They found that it wasn't necessary! Customers readily sign up for such free programs. However, a positive variation of this is when you arrange for another retailer to provide the incentive! One operator, for example, arranged with a restaurant to provide a "buy one meal, get one free" certificate to all who joined during his program's opening weeks.

Further, avoid giving away all the benefits of membership up-front. Drip-feed incremental incentives into the program over time. This keeps the program fresh and reminds customers that you continue to seek new ways to serve them better.

20. Benchmark.

Learning from the experiences of others has been a common characteristic of food retailers over many years. Measured Marketing should be no exception, particularly as it is relatively uncharted territory for the industry. Seek out several non-competing supermarket companies and set up a share group or information exchange relating specifically to this subject. Compare performance statistics. Where are you ahead? And behind? Seek the reasons. Exchange the results of your different marketing tests. Discuss competitive responses. Share operational and other problems. The more we learn in the early stages of the program, the more successful our long-term prospects are likely to be.

The R^2 Litmus Test

In reviewing any promotional element of your Measured Marketing program, you may ask whether it meets the R^2 test:

- Does it provide a *reason* to present the card with each transaction, and/or
- Does it provide a *reason* to return.

IV. *Special Issues and Concerns*

Some significant special issues arose during our research that require addressing in this report. They are:

1. EDLP
2. Privacy
3. Program name
4. Operational issues
5. Equipment concerns
6. The manufacturer's role
7. The customer database
8. Competitive considerations

1. EDLP

Almost without exception, Every Day Low Price (EDLP) operators told us that they thought electronic marketing was not compatible with their no (or only a few) promotional prices marketing strategy. They were probably correct if they were describing electronic marketing as simply a shelf discount program on selected items. On its own, such a card-based program would appear to add more costs than benefits to the EDLP operator.

Yet, conceptually, there appears to be great merit in marrying the elegant cost-saving simplicity of an EDLP operation with the sales-building appeal of a customer program which focuses on strengthening the loyalty and, therefore, the Life Time Value of one's best customers.

The benefits of gaining a deeper customer understanding through Measured Marketing, together with the soft benefits of strengthening customer bonds, should cause EDLP operators to re-examine their opposition to this type of marketing program.

Two possibilities immediately spring to mind which appear compatible with the low-cost, simple philosophy of the EDLP operator. First, discounts in the form of, say, gift certificates of varying amounts could be issued to customers based upon their cumulative purchases (both over the short and long terms). This, in effect, gives a discount to the best customers while maintaining the simple one shelf price strategy. This addresses one of the weaknesses of the EDLP philosophy which is that it has no preferential treatment for larger, more profitable customers. Currently, the EDLP operator averages his costs over all customers, large and small alike. Receiving some form of discount could provide a reason for best customers to keep returning and not to defect with a significant part of their business to the warehouse clubs.

The second possibility is to strengthen the differentiation in favor of the biggest spending customers by charging an annual membership fee in exchange for an immediate cash discount with each purchase or for some form of rebate based upon the amount purchased. Obviously, the fee amount and the discount structure would have to be balanced. For example, in exchange for a $20 annual membership fee, the customer receives 10% off all purchases in excess of $250 during each quarter.

This path is unlikely to provide the same range of customer information as the first option, but it should appeal to many of your best customers, that minority who generate the majority of your sales and profits. Fee-based systems keep processing costs lower (because not everyone will sign up), yet provide significant insights into many of the higher spending customers. In many respects, a fee-based program combines the best of both worlds!

Of course, tying in a courtesy check-cashing card to either of the above programs would further reduce the effective cost of the program while increasing its value!

"Customers seem willing to give information if the need for the information is explained"

2. Privacy

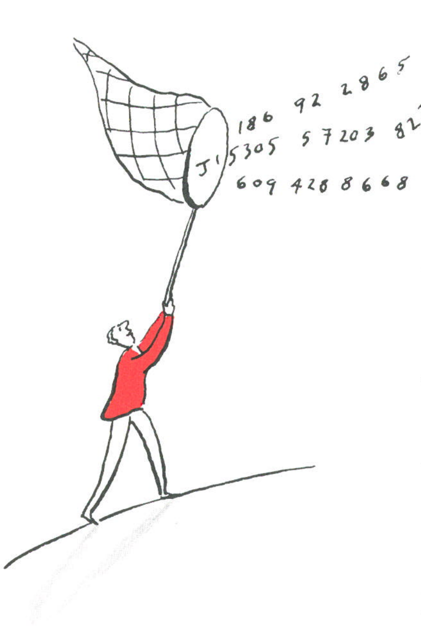
George Orwell's best selling novel, *1984*, describes chillingly the specter of Big Brother watching over citizens and knowing personal details of everyone's lives. This Orwellian concern is a valid one, and state legislatures have been active in recent years in defining what customer information may be sold or passed by one company to another. This process continues with different states enacting different requirements. Their current basic thrust appears to be that no secondary use of a customer's name should occur without that customer's permission.

We were impressed with the seriousness that we saw food retailers take to protect the privacy of their customers. We know of no food retailer, for example, that sold its list of customers, a common practice in some other industries. Some operators mailed their customers manufacturers' coupons, but the manufacturers were not given the customers' names and addresses. This level of responsibility augurs well for the industry.

However, that will not stop the natural concern of customers, when retailers request information from them, as to what will happen to their information. How safe will such information be with the retailer? Thus, it is crucial that this is clearly and honestly addressed up front when requesting personal customer information.

Customers seem willing to give information if the need for the information is explained. For example, there is merit in clearly stating on the application form that customers' names and addresses will never be sold to, or shared with, any other company. Yet the customer should be told that manufacturers' coupons may be mailed from time to time by the retailer. In addition, the application form should carry an opt-out clause allowing the applicant the right not to be mailed anything. (In fact, the Consumer Protection Act of 1992 basically demands this.) It follows that there should be a simple process for anyone to opt out at any time for any reason after joining the program.

The number of customers who elect to opt out is very small–less than 2%, we were told. However companies may find that some customers will want to take advantage of the program yet do not wish to disclose their name and address at all. One retailer honors this situation by issuing a special card, with no name or



address, only a membership number. In this way this special group of customers receives the in-store benefits of membership, i.e., special prices on selected products, but no direct mail can ever be sent to them. Obviously, their cards could not be used for check-cashing purposes. In the company's computer files these customers are identified only by their unique number.

When setting up a customer-based program, one of the first practical issues that confronts a retailer is each customer's unique identification number. The best unique identifier is a person's social security number. The next best is his or her driver's license number. However, the use of these two identifiers are becoming questionable as some states are contemplating banning their use for such purposes. One alternative is the customer's telephone number. The limitation with phone numbers of course is that many people change their phone numbers over time. Many companies, therefore, simply use a sequential numbering system when giving applicants their identification number.

One rule of thumb to keep in mind when thinking through this sensitive subject is to ask yourself: What information about myself or my family would I feel comfortable about giving to one of the stores where I shop? *What explanations and assurances would I want to see to make me feel comfortable about giving information beyond what I provide on my personal checks?*

3. Program name

Many stories abound regarding the names of companies' customer programs. Some executives said that including the word "club" had some of their customers expecting really low prices, comparable to warehouse clubs. Others were concerned about defining the program's name too narrowly or too strictly so that, over time, the activities may not reflect the name. Still others were sensitive about including the word "preferred" in the name thinking that some customers (not those on the program!) may be offended. Like the selection of a company's trading name, it would seem appropriate to come up with a name for the program that will last for a number of years.

As some card program names may be registered, we recommend that you check whether the name you have selected can be legally used.

4. Operational issues

The biggest operational issue that we saw revolved around the customer who didn't bring his or her card and still wanted the discounts. As expected, we saw the full range of operational responses. From keying in the customer's identification number by the cashier (a phone number, which the customer provided); to the cashier swiping her own card to ensure that the forgetful cardholders (and not infrequently, non-cardholders) received any applicable discounts; to a no-card, no-discount policy. In the last mentioned case, this policy was so well publicized both to card members and employees that there were seldom any problems with its implementation.

The point is that in any program in which joining is free, and few, if any, penalties are enforced for not bringing the card, some cardholders are likely to stop bringing their cards. This creates both additional work at the front-end and possible inaccuracies in information collection, a critical element of the program. Therefore, carefully thinking through how you intend to handle this issue in advance and clearly announcing and implementing it would be to your advantage.

A second, lesser operational issue is whether there will be a limit on the number of items that can be purchased of those products specially priced for card members. Most companies covered in our research have a limit of 4-5 on any such product. Once again, if a limit is set, then clearly announcing and consistently implementing the limit are essential.

In addition, companies outside of food retailing who have been practicing Measured Marketing for a long time tell us that no matter what program a company starts, it will change over time for myriad reasons. Be prepared for the changes and keep the whole organization aware of them, preferably before they occur!

They also tell of the great value of instant information, rather than having to wait days (or weeks) for information about different parts of the program.

5. Equipment concerns

Proper point-of-sale (POS) registers equipped with scanners and software are the first equipment considerations. Software capable of receiving and accumulating customer purchase data is readily available from most register equipment manufacturers.

A major decision arises for those with somewhat obsolete register systems. Converting or upgrading POS systems can be extremely expensive. This decision alone can make Measured Marketing too costly to implement for some retailers. Conversely, for some companies Measured Marketing becomes the momentum needed to push technological advancement to the top of their capital expenditure lists.

Once the POS system is capable of tracking customer purchase data, communications equipment is needed to transmit the information collected to the "host" (computer at headquarters or another site) where the database resides.

Many companies already transmit scan data and have a communications link established. For those companies, only a program to identify and transfer the specific customer purchase data file is needed to send the data to the database.

A "host" computer housing the database software is normally the final destination for the Measured Marketing data. For one-store operators, the database usually resides on a personal computer within the store.

6. The manufacturer's role

In the mid to late 1980s, great hopes and expectations were held out to food retailers by various service companies that their POS equipment could be programmed to capture customer transaction data for which manufacturers would pay a high price. Just as some of these service companies stumbled on this assumption, we found a number of retailers with their own customer card-based programs who were very disappointed after being seduced by the same hope.

Executives of major food manufacturing companies to whom we spoke told us that they saw limited value in the customer and product data from individual supermarket companies because the supermarket operators did not have a sufficiently deep penetration of their trading areas. "If I want an understanding of what's moving in a marketplace, IRI or Nielsen gives me the best view," one senior marketing executive told us. What his and other food manufacturers to whom we spoke are looking for are answers to questions like:

- *What are the characteristics of users of my products (such as income and age)?*
- *What happens when offers are made to supermarket customers with such characteristics? (So that when offers are successful, they can find consumers with similar characteristics in other parts of the country and replicate the offering.)*
- *What is the life cycle of my products? (Just as diapers have a customer life cycle, so do many other products such as coffee, orange juice, and dog food.)*
- *What is happening in the marketplace outside of the supermarket that impacts the movement of my product within the supermarket?*

Given the amount of split shopping by consumers, manufacturers prefer information on the total market to that of an individual chain. Thus, an opportunity appears to exist for a service to gather product or category information from all stores in a market area to sell to interested manufacturers.

We learned that while manufacturers and food retailers have many common goals, their goals do not completely coincide. For example, retailers want to increase the sales of their profitable items, whereas manufacturers want to increase the sales of their products, regardless of the margin the retailer is adding. Thus, with Measured Marketing, as with all marketing programs, the common ground between manufacturer and retailer must be found and optimized.

In those cases where retailers offered special price reductions on selected products to customers who present their card as they check out, we found strong manufacturer interest and support. In effect, the manufacturer equated such programs to promotional programs. In many, but by no means all, cases we saw arrangements comprising one or more of the following three elements:

- *The manufacturer pays a fixed participation fee for each item promoted to cardholders for a one-or four-week promotional period. In some cases, this was an exclusive fee for a whole category.*

- *The manufacturer reimburses the retailer for an agreed amount per promotional item actually sold during the four weeks (e.g., x cents per item sold, as measured by scan data). The retailer in turn lowers the price for card members by this or a greater amount.*
- *The manufacturer pays the retailer an agreed amount per promotional item sold as a coupon handling fee.*

Another area of great common interest is where the manufacturer pays a processing fee to the retailer to mail selected customer groupings certain of the manufacturer's coupons. The retailer does not disclose the customers' identity to the manufacturer, but may disclose their shopping profiles, e.g., heavy or light ketchup users. This is the area of greatest growth potential between retailer and manufacturer. Yet caution is advised. It is not automatically a pot of gold for the retailer and should be very carefully evaluated unless a retailer is very comfortable with his or her accomplishments at Level 1.

The above arrangements coincide with the common interests of manufacturer and retailer. However, one area where full overlap of interest is still being sought is clipless coupons. According to both retailers and manufacturers, generally the coupon redemption rate increases by more than a third when such programs are introduced. Therefore, manufacturers often cut back on the coupon handling fee for such electronically generated coupons.

Other areas where manufacturer and retailer interests do not completely overlap include what products are offered to card customers and instances in which retailers are testing Measured Marketing in only a few stores. In the former case, the retailer wants to offer fast movers at a reduced price, whereas the manufacturer may be offering discounts on items that are slow movers and may even be on the retailer's potential discontinued item list! In the latter case, the manufacturer may consider it a poor use of resources to sponsor a retailer's test project. Obviously, no definitive guidelines can be prepared for these two situations. They can only be resolved building on the trust and relationship already established between the retailer and the manufacturer.

Many retailers asked us: "Are the markdown allowances we receive for special prices to card members incremental dollars from the manufacturer or does the manufacturer simply switch monies from one pocket to another?" We received no clear, consistent answer from manufacturers on this. However, one common thread we heard was that manufacturers are interested in Measured Marketing because it leads to the more efficient use of marketing monies which leads to *reducing* their total marketing budget. This suggests the answer to the retailers' question: that manufacturers, like retailers, do not wish to increase costs to accommodate this new marketing vehicle, but will rearrange their budgets to accommodate this and other emerging programs.

In our opinion, manufacturers and food retailers have the most to gain by working together on discovering new and better ways to sell more effectively to the ultimate consumer. As both manufacturers and retailers build their consumer databases and gain a deeper insight into their customer dynamics it seems highly probable that both will benefit from an ongoing exchange of findings and ideas, without infringing on the privacy of individual customers.

7. The customer database

The layout of your database will depend on how much customer detail is captured. Nevertheless, avoiding data overload is essential for success.

For companies that require just the basics, such as the name, address, and phone number of the customer, this information is stored in a general customer information file. This area of the database grows in proportion to the amount of information requested on the customer application form and is updated only when personal information from the customer changes.

"The essence of marketing strategy is differentiation"

The database of a supermarket operator who concentrates on understanding the information at Level 1 will obviously be much smaller than that of a company which collects and maintains customer purchase data by category or by UPC number.

The data collection for Level 1 is simple and very manageable. The customer's identification number, visit date, and total amount of purchase are the minimum information needed to track customer activity. From this minimal amount of data, defection rates, visits per week, and other shopping habits of your customers can be analyzed efficiently.

As your Measured Marketing program evolves, so will your database. Complete foresight of all applications and information requests from members of management is, of course, unrealistic. Therefore, as much flexibility as possible should be incorporated into the database design.

8. Competitive considerations

The essence of marketing strategy is differentiation: positioning your company distinctly and positively in the minds of your customers. Also, it is to your advantage to have your competitors meet you in an arena which plays to your relative strengths. For example, if you are a promotional operator up against an every day low price operator, it is to your benefit if you can entice or force the EDLP competitor to advertise weekly specials in the newspaper because this undermines his economics and blurs the clarity of his offering in customers' eyes.

Taking the surprise initiative in the marketplace is usually the best move, provided it is well executed, because it sets the frame of reference for customers to judge the imitators' and competitors' counter moves. It follows that those second and third into the market should offer something distinctly different from the initiating company to give the customers an effective choice. Therefore, no one Measured Marketing program can be plugged into every situation. Strategy must take account of the relative strengths and marketing positions of those in the marketplace.

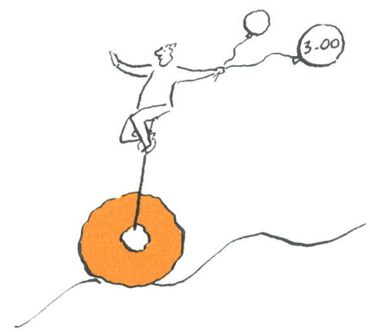
As a general principle, stealth marketing is always more successful than overt marketing because of the difficulty competitors have in understanding the nature and extent of the actions and offers of the stealth marketer. Thus, making different offers to different groups of card members through the mail is always much more difficult to combat than an open newspaper campaign.

There is a battle for wallet space. Cards considered more valuable are carried. The rest are relegated to the back of a drawer, possibly never to see the light of day again! Differentiation is crucial if you want your customers to value, carry, and use your card.

Three competitive differentiating options to consider, some of which have already been discussed, include:

- *Straddle pricing*

The nub of straddle pricing is to have one set of prices below those of your competitors for your loyal customers and another set for your infrequent shoppers. For example, one of your competitors may sell donuts at $3.00 a dozen. You could straddle that price by offering donuts at $2.50 a dozen for card users and $3.50 a dozen for non-card customers.



Thus, if you elect lower pricing for your card members with a limit of 4-5 items at that lower price, you could gain a strong relative price image by undercutting the major advertised products of your competitors each week and highlighting these in your stores. Similarly, some of the price advantage of warehouse clubs could be neutralized by selecting some of their food items and offering your customers a matched or lower price per ounce and highlighting your offer.

Straddle pricing has also worked very well where a competitor enters the market territory of just one of your stores. That store can practice straddle pricing as long as is necessary to neutralize the effect of the new entrant to the market, without affecting the pricing structure of your other stores.

- *Rewarding bigger spenders*

Locking in your existing customers as well as those attracted from competitors has been an elusive goal for a long time. One possible way to lock in the bigger spending customers is to offer them (as some companies already have) a $20-25 gift certificate for every $400-500 of purchases recorded with their customer card over, say, a six week period. This certainly is attractive to customers, but it is not a cheap program. In addition, at the end of the offer the retailer may need to provide a further *hook* in case of any strong competitive counter-offensive.

A variation is to offer points on cumulative purchases over a certain period. For example, all customers who spend $500 or more between January 1 and October 25 could be offered a gift certificate for a free turkey at Thanksgiving (with turkeys offered in November to other customers at a more normal price). In addition, Christmas Spree gift certificates of varying amounts could be offered to those spending higher amounts.

Yet another variation of this would be to send customers gift certificates each time their cumulative purchases pass each $1,000 or $2,500 mark. At certain thresholds, the amount of the certificate could automatically increase.

These options have three inherent advantages: they simplify store merchandising (no two-tiered pricing); they reward customers for driving past competitors to shop and thereby adding to their cumulative purchase total; and they act as a defection deterrent to those who are already regular shoppers as that would mean they lose the potential of receiving gift certificates and various non-monetary forms of recognition that may go with increasing levels of cumulative spending.

- *Fee rather than free*

All supermarkets currently provide free memberships to their card programs. This compares with warehouse clubs that have fee memberships. This opens the opportunity for a supermarket to introduce a program with an annual fee. Because gathering customer information is important, one possible way to introduce a fee program is to offer it in addition to your free program, either on a low-key selective basis to your best customers or on a well-promoted, open-to-everyone basis. Obviously, the value in joining would have to be apparent to customers– possibly some richer variation of the preceding option. The great benefit to food retailers is that a fee-based program quickly self-selects those customers who are serious about shopping in their stores for at least a year. This is, of course, a customer segment that requires understanding, monitoring, and nurturing.

V. *What to Measure and How to Use the Results*

Key Measures

The wealth of customer information that can flow from the various levels of detail can be overwhelming. We outline here some of the more important measures available and how they can be used.

What Is Critical?

Obviously, priority must be given to measuring the effectiveness of Measured Marketing. The best barometers for this are the customer defection rate (or its complement, the retention rate), the average number of visits per week, and the average transaction value ($). From these three pieces of information, we can calculate the Life Time Sales of our customers, one of the single most important indicators of our company's economic health, as shown earlier in the report. Therefore, readings of these business indicators will reflect the degree of success of our program.

To ensure a high confidence level in the above measures as well as the effectiveness of the program itself, we need to measure the majority of our sales and transactions. This can be monitored weekly by readings at each store of the percentage of the total sales and transactions coming from our card-based customers. For programs with no joining fees, capturing at least 80% of sales and 50% of transactions would provide a high confidence level.

Three critical measures:

1. Customer defection rate
2. Average visits per week
3. Average transaction value

Segmentation

Customers can be segmented into various groups based upon their visits and amounts spent to provide us a profile of our customers. This segmentation is best understood in the form of a matrix. One segmentation matrix was shown earlier in the report; another is illustrated on the following page. This new frequency and spending matrix differs from the earlier matrix in that it introduces the element of time. Along the left-hand side is the shopping frequency of customers in each of the last three periods. A second difference is that it sorts customers into groups based on how much they spent during the 12-week period (rather than in each transaction), as seen across the top of the matrix.

The value of this customer segmentation is that it gives us a snapshot of our current customers who provide the majority of our sales. For example, we can quickly see what percentage of our customers shop frequently with us and what percentage are infrequent shoppers. This provides a benchmark for our marketing efforts as similar snapshots can be done at, say, quarterly intervals, and changes in the matrix can be quickly identified. This should, of course, trigger either a reinforcement of, or refinements to, our marketing plans.

Best Customers

To strengthen the relationships between store personnel and their customers, the names of all or some of the customers populating the "best" cell of the matrix for an individual store can be printed out and sent to each store. The store team can then make an active effort to get to know or at least acknowledge their best customers when they are in the store which should, of course, strengthen the relationship between customers and employees.

Table 10: Frequency and spending matrix

Sample Supermarkets Inc. — For 12 weeks ending 12 Sep, 199X

Showing % customers (top line) and % sales (bottom line)

Shopped at least twice in 4-week period?				*Amount spent by customer in 12-week period*				
				over $720	*$360-720*	*$180-360*	*under $180*	
Row #	*Per. 7 7/18*	*Per. 8 8/15*	*Per. 9 9/12*	*avg. per wk. over $60*	*avg. per wk. $30-60*	*avg. per wk. $15-30*	*avg. per wk. under $15*	*Row Totals*
1	yes	yes	yes	**5%** **25%**	8% 20%	9% 12%	4% 2%	**25%** **59%**
2	no	yes	yes	0 1	1 3	2 2	3 1	6 7
3	yes	no	yes	1 2	1 2	2 2	3 2	7 6
4	no	no	yes	0 0	0 0	2 2	5 2	**8** **5**
5	yes	yes	no	0 2	1 2	1 1	2 1	4 5
6	no	yes	no	0 0	0 1	2 2	3 1	5 4
7	yes	no	no	0 1	1 1	2 1	4 1	**7** **5**
8	no	no	no	0 0	0 1	2 1	36 5	**38** **7**

Highlighted: Miss Fort Knox (row 1)
Miss Potential (row 4)
Miss Take (row 7)
Miss Ing (row 8)

Figures rounded to nearest whole number.

How to read the above matrix:

Row 1 records all customers tracked who shopped at least twice in each of the past three 4-week periods, as indicated by the "yes" notations in the three cells on the left. Of these regular, frequent customers the *biggest spenders* (those who spent over $720 during the 12 weeks, i.e., those who spent over $60 per week on average) comprised 5% of all customers tracked and 25% of their sales, as seen in the first highlighted cell. In addition, in Row 1, all customers shopping at least twice in each of the three consecutive periods comprised 25% of all customers tracked and 59% of sales, as seen in the second highlighted cell. Because of their loyalty and high share of sales we call customers falling into this category Miss Fort Knox!

Row 4 records those customers who have just appeared on our radar screen as frequent customers. As seen in the cells at the left of Row 4, they shopped twice or more only in the latest 4-week period ending Sep. 12. Thus we call any customer appearing on this row Miss Potential! The Miss Potentials comprised 8% of the customers, yet only 5% of the sales, as seen in the third highlighted cell.

Targeted Testing

The customers in individual cells can be targeted for mailings of various offers to encourage, say, increased shopping frequency. Results can be compared on a before and after basis, along with a non-mailed control group, to assess the cost effectiveness of the mailing.

Customer Tracking

Yet another by-product of using the matrix classification is a tracking program of customers to understand our customer dynamics better. The customers in any cell of, say, either six months or a year ago, can be profiled for the latest quarter to see in which cell they currently fall. (We were surprised at the amount of customer churning and turning we found in the few companies that we analyzed along these lines.)

"Companies should master the basic reports first"

The above reports are what we consider the basic reports. The information is readily available, simply by capturing the date and amount of the majority of our customer transactions.

After mastering the basics...

A kaleidoscope of information options and actions open up when a food retailer's customer activity is captured. The greater the level of detail, the richer the information and the wider the range of possible actions. However, each additional level of information usually comes with an incremental price tag. Therefore, we strongly suggest that companies should master the basic reports first, before attempting to mine all the lodes in the mountain of customer information that stands before them.

Depending upon the amount of detail that is captured, some of the other measurement possibilities to consider include:

- *Direct customer profit (DCP)*

As shown earlier, if a significant proportion of the markdowns and coupons are identified by customer, then the DCP can be calculated. This allows us to see which of our customers are profitable. Also, it allows us to track the shopping habits of our cherry pickers. What is their profitability to us? Are they regular or infrequent shoppers? If infrequent and of low profitability, do they later convert into "average" customers? The answers to these and similar questions can assist us in refining or even radically changing the structure and nature of our promotional offers.

- *Customer budgeting*

Once we are comfortable with our customer matrix, we can begin budgeting our annual sales at the driver rather than the output level. We can budget, either for each store or the average store, how many customers we expect to lose, how many we plan to add, and the changes in shopping frequency and spending that we expect to take place among those who stay with us. Such measurements will make customer service and satisfaction real issues for employees because the results of their efforts can be frequently measured as well as recorded in the monthly management reports.

- *Best customer profiles*

Best customers can be defined in various ways. Some define them as those customers who have spent over $3,000 in the last 12 months. Others define them as those who have spent over $500 in the last 12 weeks, and yet others, as those who have shopped at least 12 times in the last 12 weeks. However defined, a group profile of these customers can be drawn up so that differentiating characteristics may be identified. This information can be used for targeted advertising and mailings to non-shoppers with similar profiles as well as used as input in the site selection of new stores. One successful operation we saw arranges for vendor coupons to be included with its monthly mailer to active customers. Not all customers received the same coupons. They were mailed according to each customer's activity level, with the best customers receiving the best coupons. This program was popular with both the vendors and the customers, who looked forward to their monthly mailing.

- *Household spending per capita*

If the number of members per household is captured and household purchases are aggregated, then another way of measuring our success in the marketplace is to calculate our customers' weekly per capita spending by household size. This can be looked at in two ways: either by comparing, among our stores, the per capita spending by household size, or by ranking customers by per capita spending within each household size. Both approaches will identify opportunities for building sales. By way of illustration, one small group of stores we studied had weekly per capita spending by household size as shown in Table 11.

Table 11: Spending per capita

No. in HH	*Per Capita Per Week*
1	$19.58
2	$12.92
3	$9.83
4	$9.35
5	$7.90

The per capita spending per household size varied from approximately $20.00 per week in one-person households to only (approximately) $8.00 per week in five-person households. An operator processing such information can ask himself: How do these compare with national averages? Do we have a better opportunity in marketing to small or large households?

The national weekly average per capita spending in supermarkets in 1991 and 1992 was approximately $21, according to a report in *Supermarket Business* (Sep. 1993). Obviously, these figures will vary according to the geographic area of the country and the age and income profile of the customers, but it does create a new window through which to view our customers. For example, do larger families spend less per capita than smaller ones, and if so, by how much? The answers, again, can be incorporated into our criteria for store site selection and provide targeted marketing opportunities.

- *Category analysis*

The moment a food retailer starts capturing customer transactions at category level is when many manufacturers become seriously interested in the retailer's customer database.

Typically, the retailer invites the manufacturer to define what he wishes to be included in a category and negotiates a fee which covers category data for a specific period as well as participation rights in regular mailings to customers based upon their shopping profiles. For example, a ketchup manufacturer may include a coupon of one value to the low and medium users of his product and a coupon of a different value to heavy users. Another may include several coupons to all customers tracked who are above-average users of low calorie and lite-type products throughout the store. The possibilities appear endless. In our opinion, this is another area where the retailers' and manufacturers' interests strongly coincide.

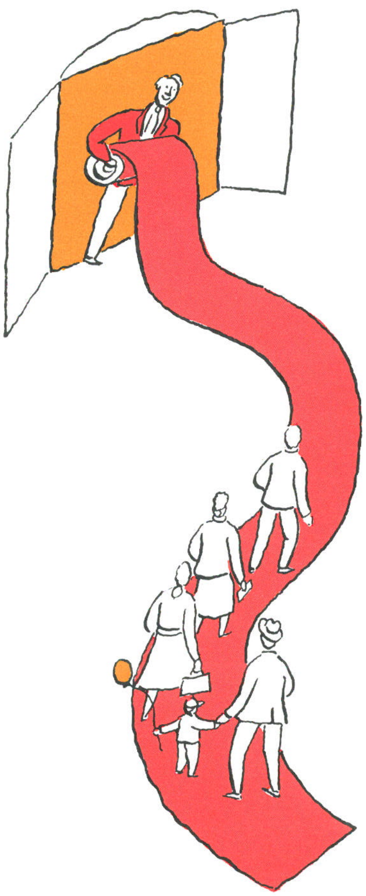
Some excellent software packages are available to allow you to get into this activity quickly. However, before committing significant resources to this, it would be prudent to receive prior commitments from a number of vendors for at least the first few months of such an expanded program.

We see this as where most advanced Measured Marketers will gravitate.

- *Customer purchase intensity*

Capturing category data also permits the calculation of a customer's purchase intensity index. For every $100 of spending, we can measure, for example, in which categories our best customers have a high index (i.e., where their purchases per $100 spent are significantly higher than the average customer). This permits better category management in that such categories can be expanded to strengthen the store's relationship with its best customers. Categories with a low purchase intensity index among a retailer's best customers could be considered candidates for serious review. The customer purchase intensity can, of course, be significantly refined when customer purchases are captured by stock keeping unit (SKU), even if in only a selected number of stores.

VI. *What's It Going to Cost?*



Card Program Cost

For the average supermarket today, a basic card-based program to achieve what has been discussed in this report will cost $14,000-20,000 per store in the first year. The cost will be less, if it's built incrementally on a courtesy card program and more, if a lot of features and/or mailers are added, or if a lot of computer upgrading is required. (For assumptions see the table on the next page.)

Is such a program cost justifiable?

It depends. It depends on your answers to questions such as:

1. How much is this detailed customer information worth to you?
2. Will you reduce your current advertising costs to offset some of these costs?
3. How much will it help you increase your customers' Life Time Sales?
4. Is your point-of-sale equipment readily adaptable?
5. What are the major elements of your plan?

At the same time, the ***soft*** benefits should be seriously weighed. Consider:

• *Communicating in the shade*

One of the great benefits of knowing who your customers are is the ability to communicate with them, primarily through the mail but also in person. Over time, you can explain what you stand for, what makes you different from competitors, and what you do to see things from a customer's viewpoint. This communication, because it is much more personalized than your company's claims and statements in the mass media, is also more believable. This process, away from the *glare* of the media and your competitors' view, builds a valuable basis of trust.

• *Neutralizing the negatives*

From time to time, food retailers receive both warranted and unwarranted negative media attention. The retailers' response in the mass media has not been conspicuously successful. The chance of explaining the retailer's side of the story is stronger if a relationship has been established with customers through some ongoing direct communication program, as is often established in card programs.

• *Two-way customer communication*

Another real benefit of setting up some type of preferred customer program is the opportunity to seek feedback from your customers. If, for example, you wish to strengthen your bond with, say, the top 20% of your customers, you can seek their opinion on any aspect of your stores, or those of your competitors. Such insights about what your customers like about your stores today and what they want from you tomorrow, as well as what they like and dislike about your competitors, can be immensely valuable as you differentiate yourself more clearly in the marketplace. However, retailers should be cautioned that if they invite feedback, they may indeed be overwhelmed with it, as one operator advised us. Experience suggests that customers will respond to the retailer's request for feedback, but only so long as they believe that the feedback is seriously sought by the retailer.

Table 12: Initial Cost Assumptions

Line #		Basic Cost Assumptions per store	Your Company est. per store	Notes
1	Avg weekly sales	$200,000		
2	/ Avg customer sale	$20.00		
3	= Avg weekly trans	10,000		
	Cards sign up (# members)			
4	First month	6,000		
5	+ Next 11 months	6,000		
6	= Total first-year members	12,000		
7	x Card cost	$0.25		
8		$3,000		
9	+ Newlyjoined mailings	$4,800		
10		$7,800		
11	+ Maintenance	$2,600		
12		$10,400		
13	+ Incremental labor	$5,200		
14		$15,600		
	One-time costs:			
15	+ Connection costs	$1,000		
16	+ Database software	$500		
17	First-year costs	$17,100		
	Other (specify):			
18				
19				
20				
	Total			

Explanation of Table:

1. Assumes a store doing $200,000 per week with 10,000 transactions.
4. About half the first year's sign-ups will occur in the first month with a good free-card program. Total first-year sign-ups are often 100-120% of average weekly transactions.
7. Plastic cards vary in cost from $0.20 to $0.35 depending upon its thickness (10-30mm. is the typical range), the design work and number of colors involved, whether the customer's name is printed on the card, and the quantity ordered. Note that, in addition, some companies add a magnetic strip to their cards for paperless checks and other credit activities. As this is unnecessary for Measured Marketing purposes, it is excluded from these

assumptions. (This could be a significant additional cost depending upon its specifications. The extra cost could range from $0.20 to $0.60 per card.)

We have also assumed the majority of the cards are thin rather than thick and are given out in the store rather than mailed at a later date.

9. Assumes a letter to each new customer within a month of joining (12,000 customers x $.40 = $4,800 for cost of letter, envelope, stamp, etc.)
11. Allows $2,600 for any maintenance and transmission costs of data.
13. A provision for the incremental labor (at store and headquarters) for the program. Any savings resulting from switching to clipless coupons is included in this figure.
15. A one-time cost per store for software to allow the cash register to transfer data to the database.
16. A one-time cost for database software to analyze the customer data.

Excluded from our assumptions, but should be considered in yours, are:

• *Sales.* We have made no provision for any sales increase. Successful introductions of which we are aware generally have seen an initial one-time sales gain which was usually maintained over time. Your provision for any sales gain, and the resultant impact on gross profit dollars, must be based on your program components and any expected competitive response.

• *Gross profit changes.* We have assumed that by integrating Measured Marketing into the core of the marketing program, promotional and markdown monies will be rearranged, but will be unchanged in the overall level of the gross profit percentage. However, the successful programs with which we are familiar have seen this figure rise.

• *Signage.* We have assumed that as Measured Marketing becomes the core of the marketing program, its signage would therefore become part of the regular signage program.

• *Advertising.* We have made no provision for switching any of the existing advertising expenditure to cover many of these costs, although some successful conversions have.

Special Note:

One alternative is to contract with an outside service bureau for the provision of cards and the processing and analysis of information. This option could possibly cost more than the above assumptions. If so, the cost is likely to be offset by it being a relatively risk-free exercise, which can be initiated much more quickly, and by the service bureau's experience which may be particularly helpful in the early days of the program.

VII. *Is Measured Marketing for You?*

Thinking it Through

Earlier we suggested that you think through the answer to four key questions regarding Measured Marketing:

1. *What do you want to accomplish?*
2. *How would you capture customer data?*
3. *How much customer data do you want to collect?*
4. *How would you measure your success?*

Then we covered the major marketing and operational issues involved as well as some approximate costs of a card-based program.

"Measured Marketing must become the core of your marketing strategy to be truly successful"

We have stressed that Measured Marketing should be considered a strategic decision rather than just another marketing program. In our view, it must become the core of your marketing strategy to be truly successful. As such, it will have ramifications for your whole company. It will require real corporate cohesion among all departments, from Marketing, to MIS, to Operations, as they will all be impacted by the program.

As various companies have advised us, a multi-year transition period is highly likely. Initially, it is common to experience some resistance from store personnel, merchandisers, and vendors, who are comfortable with the status quo and/or do not fully understand the program. In the second year some quiet resistance is still likely, with the non-believers still working behind the scenes to abort the program. Usually, however, by the third year, the program has had enough visible success that everyone claims to be its parent!

During our research we came across two special situations which will require creative solutions if a retailer wishes to introduce a successful Measured Marketing program. In some areas certain minority groups were extremely reluctant to sign up for a card-based program. Some retailers theorized that one of the possible reasons was because they were apprehensive about what may happen to their names and addresses.

The second, and more common, problem was that of the seasonal and transitory customer, as one might find in tourist areas. Consider, for example, the "snowbirds" that flock to Arizona and Florida each winter. They come for varying lengths of time, they may come only once or come many times over a number of years. Paralleling their movements are the associated seasonal service workers. These migratory shoppers can comprise a significant proportion of a food retailer's sales, yet the retailer struggles with how a cost-effective Measured Marketing program can ever be developed for such situations. Or whether the attempt is even worthwhile!

Neither of these two situations have easy solutions, although we feel that practical solutions will emerge over time. What they highlight to us, once again, is that no generic program is suitable for all situations at all times, and we must always start the analysis of every marketing proposal with as deep an understanding as possible of our marketplace.

Some Closing Thoughts

Measured Marketing has five major, distinct elements:

1. *Strategy–the path and package.*
2. *Processing–collecting the data.*
3. *Measurement–the reports and statistics.*
4. *Analysis–understanding what the reports are saying.*
5. *Action–taking action to improve performance based upon the analysis.*

The degree of success will vary with the degree of excellence with which each element is accomplished.

The strategic implications of Measured Marketing are significant. Being able to track customer activity in detail, or "marketing with a memory" as some marketing experts describe this process, allows many more options in redesigning your whole marketing strategy. For example, if you find that your split shoppers yield the greatest return on your marketing investment, then you may craft a strategy focusing primarily on them with significantly less emphasis on the cherry pickers.

We wish we could state that Measured Marketing will automatically improve the performance of every food retailer. It won't!

We all know that this depends upon your competitive dynamics, your strategy and cost structure, and how well you design and implement the program.

However, we do feel confident that Measured Marketing can give a food retailer a competitive advantage, as some practitioners have achieved already, but it comes only with a well-conceived, well-executed program, nourished with patience and much hard work. We recommend it for your serious consideration.

For Your information:
A summary of the food retailers interviewed and/or visited for the study

Number of Stores in Company	*Number of Companies*	*Number of Stores (1992)*	*Total Sales (1992) ($ billions)*
over 500	6	7,310	$76
50-500	40	5,625	74
10-50	22	475	9
under 10	15	74	1
	83	13,484	$160 bn

The Coca-Cola Retailing Research Council

Research Projects Commissioned By The Coca-Cola Retailing Research Council

Measured Marketing
A Tool to Shape Food Store Strategy 1993
Brian P. Woolf, Retail Strategy Center, Inc.

New Ways to Take Costs Out of the Retail Food Pipeline 1992
Mercer Management Consulting

Strengthening Your Relationships with Store Employees 1991
Robert M. Tomasko, Washington, DC-based consultant to
Arthur D. Little, Inc.

Supermarket Merchandising for the 1990's 1989
Booz, Allen & Hamilton

Assessing and Capturing the Soft Benefits of Scanning 1988
Professor Robert Blattburg, Graduate School of Business,
University of Chicago

Improving Store Manager Effectiveness 1986
Human Synergistics, Inc.

Managing The Large Food Store Of The Future 1984
Arthur D. Little Co.

Lessons From Japan 1983
Michael O'Connor

Planning Your Financial Growth in the 1980's
A Financial Planning Model for Food Retailers 1982
Robert D. Buzzell, William E. Fruhan, Walter Salmon

Product Improvement Techniques & Strategy
For The Supermarket Industry 1981
Professor Bobby Calder, Graduate School of Management,
Northwestern University

The Impact of Energy on Food Distribution in the 1980's 1980
John Morrissey, Senior Vice President, Super Valu Stores, Inc.

An Economic Analysis of the Distribution Industry
in the United States 1980
Arthur Andersen & Company

Social Trends and Food Retailing 1980
SRI-International

The purpose of the Coca-Cola Retailing Research Council is to identify major research needs in the food distribution business and conduct studies designed to bring wholesalers and retailers, both large and small, practical guidance on how to address these issues. The Council has operated since 1978 and in that time has produced 13 major reports, including this study, on a broad range of topics.

This report is based on research conducted by the Retail Strategy Center, Inc., on behalf of the Coca-Cola Retailing Research Council. Interviews, both on-site and by telephone, were conducted with over 80 food retailers of all sizes and experiences with the subject. Discussions also took place with manufacturers, service companies, consultants, and retailers outside the food industry who have had experience with various aspects of Measured Marketing.

Both the research and the writing of this report was conducted under the direction of Brian P. Woolf, President of the Retail Strategy Center, Inc., Greenville, South Carolina. Telephone: (803) 458-8277.

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