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Doing More With Data - Retailers are Beginning to Finally Leverage Their Vast Repositories of Transaction Data to Develop More Customer-Specific Marketing Strategies

By Michael Garry

Food retailers may finally be doing something useful with their data.

For years supermarkets have been collecting massive amounts of customer transaction data with the intent of using it to better understand their customers' shopping habits. Armed with this understanding, retailers could do a better job of stocking the right products and tailoring promotions to specific groups of shoppers and even to specific shoppers.

Anyway, that was the theory. The reality has fallen far short, as transaction data essentially gathered digital dust until it was discarded, replaced by new data.

Those days may be over. To survive in today's marketplace, retailers need to treat every piece of customer sales data -- especially that linked to loyalty programs -- as if it were golden. As a result, many are investing in technology that will help them make sense of their data and wring valuable intelligence from it that can boost their bottom lines.

"Both chains and smaller retailers are getting more sophisticated with stealth marketing [via loyalty card data]," said Carlene Thissen, president, Retail Systems Consulting, Naples, Fla. Another consultant, Paula Rosenblum, director of retail research, Aberdeen Group, Boston, would like to see more of this activity. "I would encourage supermarket retailers to do more with their data," she said. "It's mind-boggling that they don't do more with it."

K-VA-T Food Stores, a chain of 87 Food City stores based in Abingdon, Va., is one retailer getting with the program. Though K-VA-T has used database technology from Teradata, a division of NCR, Atlanta, and analytical software from MicroStrategy, McLean, Va., for eight years, the company is in the process of a major upgrade that will enable it to do much more targeted promotions for its loyalty shoppers, said Paul Widener, director of information service, K-VA-T.

K-VA-T uses MicroStrategy to run scorecards that provide historical looks at how stores are performing, as well as the impact of ad campaigns. In customer-relationship

marketing (CRM), K-VA-T has limited its activities to marketing to segments of shoppers based on their level of spending.

But the company now plans to step up its CRM focus over the next two years. "We are moving to one-to-one marketing campaigns that treat each customer as an individual, trying to entice them based on specific shopping patterns," Widener said. "This is a change in how we market to loyalty card holders." To that end, K-VA-T recently hired Ron Benacci as its first director of loyalty marketing.

Benacci will have a lot to work with -- three years of shopping data based largely on transaction logs, as well as promotional and cost data. "We'll look to reward folks, and build loyalty, in areas they are not shopping," Widener said. In the early stages, K-VA-T will continue to employ MicroStrategy for this effort, but it's evaluating other third-party systems for future campaign management.

Besides changes in its applications, K-VA-T is working on changes in its underlying data warehousing technology. In the past, the retailer has built its own data models to structure the data residing in its eight-terabyte Teradata database. Now the company is preparing to implement Teradata's own enterprise data model, which will replace the legacy models by the end of the year. "We built data models as silos that were effective individually but weren't good as a whole," Widener said.

About 60 executives at K-VA-T, including buyers and category managers, make use of the database system. As those users have learned what the data can do for them, demand on the technology has risen -- one of the factors causing K-VA-T to revamp its data model. "If you're not careful in how your database evolves, you'll paint yourself into a corner and start limiting functionality or creating too much overhead on your technical staff," Widener said.

Real-Time Targeting

Associated Wholesalers Inc. (AWI), Robesonia, Pa., a retailer-owned cooperative, is already ahead of the curve and getting better.

For several years, AWI, which serves roughly 1,000 stores (including about 250 full-line supermarkets), has collected point-of-sale transaction data on a daily basis from its stores over a frame-relay connection. That data is funneled into its MarketExpert system, from Valassis Relationship Marketing Systems (VRMS), Shelton, Conn., for analysis. "We keep 18 months of purchase history, and we're thinking of expanding it to two years," said Glenn D. Kriczky, vice president of information systems for AWI.

AWI also employs the sister VRMS database system, TargetExpert, to communicate real-time updates (averaging one-tenth of a second) on points or other continuity programs to POS systems, where they are displayed on the screen or printed on the receipt.

The VRMS database tools give AWI and 65 of its independent supermarkets "the ability to target any group of shoppers," said Matthew J. Miller, AWI's director of advertising and marketing. "It gives us the ability to define shopper lists based on any geographic or demographic information stored in the [MarketExpert] purchase history data warehouse."

As an example, Miller cited AWI's program awarding first-time pharmacy prescription shoppers a \$10 discount off their next grocery trip. "We could use MarketExpert to find people who have not used the pharmacy and hit them with a mailer" promoting the \$10 discount, Miller said. Some AWI retailers also award the discount for every 13th prescription that's filled.

AWI's latest database project is to build a billing history warehouse in Oracle beside MarketExpert and TargetExpert, Kriczky said. "This will include everything a retailer buys from us, every product, invoice and credit. It opens up different avenues of data -- looking at what retailers bought rather than at what they sold."

Meanwhile, the transaction data system is reaping some solid benefits for AWI's retailers. For example, Gerrity's, an eight-store retailer based in Scranton, Pa., one of the more aggressive users of the database marketing technology, has recently used it to offer shoppers at a few stores 5% back on all spending over a six-week period if they spend at least \$40 per week. The purpose, Miller said, was to prevent customer defections to new competitive store openings.

Another proactive retail practitioner of database marketing is Kenny's Market, a four-store retailer in Gettysburg, Pa. In addition to a baby club and pharmacy program, the independent "does a lot of giveaways, and thank-yous to best customers," said Miller, offering as an example, "Buy X amount of meat and get free steak knives."

Kenny's is one of the independents taking advantage of AWI's ability to track purchases of specific customers over time in order to stop mailing the weekly circular to shoppers who don't exceed a specified minimum of purchases set by each retailer. "I get e-mail from people saying, 'I used to get a circular but don't anymore,'" Miller noted.

The real-time capability of the TargetExpert system allows AWI to run a Thanksgiving promotion "right up to Thanksgiving," Kriczky said. "In the old days we had to recap the results two to three weeks before Thanksgiving so we could send out certificates. Now the instant you hit the \$300 or \$400 minimum, you can take your reward right away."

Not every marketing program pans out for AWI. For example, a cross-merchandising program, whereby shoppers received, for example, a free loaf of bread if they bought peanut butter and jelly, was abandoned. "We thought it was cool, but our shoppers didn't," Miller said. Kriczky noted that "you've got to keep it simple."

Moreover, for all the power of the technology, Miller noted that cashier training remains critical for the marketing programs to work. "Cashiers are our liaison to customers," he said. "Without them, the programs would be doomed to failure."

Because of the importance AWI places on its data, the wholesaler has devised an architecture that allows for ample redundancy. The data itself is kept in two pairs of IBM "Shark" disk drive servers, each pair residing in a separate building. "If one Shark is down, the other can keep running," Kriczky said.

Constant availability is another characteristic of the system that is a key to its success. To that end, AWI designed a "timeout eliminator" system that "virtually guarantees that every transaction will work every time," even if the frame relay connection is down, Miller said. "If the line goes dead, TargetExpert will run offline, and the customer will still get [program information]," Kriczky said. "Once it comes back, TargetExpert re-syncs itself automatically."

AWI continually has an eye on upgrading the system. MarketExpert and TargetExpert both run on a Windows server linked to an Oracle database that resides on a Unix system. Kriczky said AWI may upgrade the Unix box to Dell rack servers using Linux. "We're studying this with VRMS to see what the next generation is going to look like."

Big Guys Tackle Data

Several retailers with the largest databases -- those on the list of top 10 chains by sales volume -- are getting more aggressive in their use of card-based data collected via discount programs, according to Carlene Thissen, president of Retail Systems Consulting, Naples, Fla.

In April, one of those retailers, Safeway, Pleasanton, Calif., became the first company to license Retail InSight software, from Lawson Software, St. Paul, Minn., to better understand the buying patterns of consumers based on "macro-data on cross-category buying on different types of shopping trips," Lawson said in a statement.

Paula Rosenblum, director of retail research, Aberdeen Group, Boston, said the Lawson system is able to examine a promotion's "true lift" weeks after the promotion period to see whether the effect was "pantry-loading" incremental sales or a "permanent increase in gross margin sales."

Three large food retailers, whose names could not be revealed, have been leveraging the Loyalty Analytics program offered by Information Resources Inc., Chicago. The retailers have provided two years of transaction log data to IRI, which combines it with household panel data and demographic data, according to Mike Blyth, IRI's global practice leader, customer analytics.

Through analysis of this data, IRI provides the retailers with customer segmentation by product affinity, spending levels and trip type. The results can then be factored into targeting and other marketing activities.

Catalina Upgrades ASP Option

Retailers who wish to outsource the management of their loyalty database management can do so via Catalina Marketing, St. Petersburg, Fla., known for its Catalina checkout coupon program in thousands of stores.

Catalina allows retailers to send it all transaction data through a transaction feed or through Catalina-installed PCs that operate the checkout coupon printers. The primary program is called Retail Direct Online (RDOL), which holds up to two years of transaction data. A few years ago Catalina added RDOL Interactive, which gives retailers faster access to the data and analysis. Both programs run on an application service provider (ASP) basis.

The problem Catalina faced with these programs was that its IT staff was "stretched" by the demands retailers placed, said Eric Williams, Catalina's chief information officer.

To address this difficulty, Catalina recently selected data appliance technology from Netezza, Framingham, Mass., which is used by retailers such as Ahold and Shoppers Drug Mart.

Catalina found that the Netezza system could reduce response time "from an hour to a minute," Williams said. Overall, it gave Catalina's database program "more scale and robustness."

Catalina's IT team is now moving years of transaction data to the Netezza platform. "Every week we launch another retailer on Netezza," Williams said.

Netezza includes, in one package, database, server and storage capabilities, with processing power placed near the data. For analysis, Catalina uses tools from MicroStrategy, Hyperion and SAS.