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Evaluating direct-mail effectiveness in building sales and attracting new customers

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Evaluating Direct-Mail Effectiveness in Building Sales and Attracting New Customers

An Independent Research Project
in partial fulfillment of the degree
Master of Business Administration

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Abstract

This independent research project describes the direct-marketing efforts of Ukrop's Super Markets through its Ukrop's Valued Customer® Program, with special emphasis on the "zip code test" conducted in August, 1989. The purpose of this test was to acquire new Ukrop's Valued Customers from a population of non-Ukrop's customers.

While the test did yield a positive net present value, in evaluating the post-test shopping behavior of the two test groups and the control group, the author determined that there were no long-term benefits from these test mailings. Recommendations for improvements (if Ukrop's undertakes a similar campaign in the future) include additional and more timely follow-up after the mailing to determine *why* customers who received the mailing did not respond.

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Purpose

The purpose of this research paper is to evaluate the effectiveness of the direct-mail measures used by Ukrop's Super Markets, Inc. to attract new customers. For the purposes of this paper, new or non-customers are defined as those residents within our shopping area who do not possess a Ukrop's Valued Customer Card.

Ukrop's maintains a mailing list of over 211,000 households in and around the Central Virginia area. The mailing list contains names and addresses of persons participating in Ukrop's Valued Customer Program, a free "electronic coupon" program. This mailing list is updated each month based on returned mail and "change of status" forms completed by customers.

Through the use of Ukrop's Valued Customer Program, Ukrop's has been able to identify customers, detect general as well as specific changes in shopping behavior, and address those changes. These abilities were never available before the inception of Ukrop's Valued Customer Program; they are still unique in the grocery industry.

This paper will briefly outline Ukrop's motivation for developing the Valued Customer Program, review previous uses of Ukrop's aggregate information in tracking customer movement, and highlight the results of targeting customers in areas where data showed our customer base was eroding.

Finally, I will review Ukrop's most aggressive use of direct mail: to attract new customers. By comparing response rates for different groups, including a control group, and applying a financial analysis to determine whether the program paid for itself, I will summarize our efforts and make recommendations for effective future uses of Ukrop's Valued Customer database as a marketing tool to attract new customers.

Introduction

Ukrop's Valued Customer Program made its debut February 1, 1987 at Ukrop's 7803 Midlothian Turnpike store. The one-store launch of this new electronic coupon program was the final test following more than a year of planning, programming, and preliminary testing.

Described as an "electronic coupon" program, Ukrop's Valued Customer Program soon drew the attention of grocers and manufacturers across the country, and occasionally from as far away as England, Japan, and Kuwait.

At the heart of the program is a small red, white, and blue card which looks like a thin credit card. On the back of the card is a series of black vertical lines, a computerized representation of the customer's account number.

Like products with Universal Product Codes (UPC's), Ukrop's Valued Customer Cards have a bar code readable by scanning terminals (cash registers). When the cashier scans a customer's card, the terminal will identify the customer's Valued Customer number (in the same way it identifies a particular product), and instantly access the month's and week's Valued Customer savings available on products the customer purchases.

Even if they do not present their card, Valued Customers can still access the automatic savings their Ukrop's Valued Customer Card provides. Ukrop's designed the card so that a customer's account number is a combination of his/her telephone number plus the store's three-digit identification number. In addition to the computer-readable series of lines, the card shows the human-readable numbers which correspond to the customer's UPC code. If for some reason the scanner does not "read" the card, or if the customer has forgotten his/her card, the cashier simply keys in the store's

code plus the customer's telephone number, and the terminal activates the customer's account of Ukrop's Valued Customer coupons and appropriate savings on the products purchased.

Although seemingly simple, activating these savings involves a complex computerized system. At Ukrop's headquarters, UPC's of participating products are "linked" to the savings amount to be deducted. This information is transmitted weekly to all stores and the "electronic coupon" amount is deducted automatically each time a customer who has presented a Ukrop's Valued Customer Card purchases a participating product.

More than 90% of Ukrop's transactions begin with a customer presenting his or her Ukrop's Valued Customer Card. (This number jumps to more than 98% if express-lane transactions are excluded from calculations.) A customer's card is valid in all Ukrop's Super Markets.

"The Valued Customer Program was not part of a grand plan of ours," says President and CEO Jim Ukrop. "We just happened to be lucky enough to be in the right place at the right time."¹

Although the family-owned chain is reluctant to consider itself a technological front runner, its decision in the late 1970's to install front-end scanners in all stores, and its commitment to maintaining price integrity and customer confidence in scanners made it the perfect test ground for the electronic coupon concept.

Ukrop's partners in the development of the Valued Customer Program were Citicorp Information Business (a subsidiary of Citibank located in Stamford, Connecticut), and POST, a software company from Wake Forest, North Carolina. POST has since changed its name to StoreTec, and is now a member of the Citicorp family.

During the development process, Ukrop's and Citicorp evaluated and

tested several different names and concepts for the card before reaching consensus on Ukrop's Valued Customer Card — the name all agreed best expressed Ukrop's feeling toward its customers and the ability of the program to deliver savings and value. Providing value for customers is a central theme of Ukrop's business, now estimated to represent 30 - 34% of the Metropolitan Richmond area's grocery market.

Ukrop's Valued Customer Card was designed to make customers' shopping easier and more convenient (and thereby build sales, product movement, and customer loyalty) while leveraging Ukrop's front-end scanning system capabilities.

"We were interested in the program because we have always used 'in-ad' coupons as an important tool to build our business," continued Jim. "With the Valued Customer Program, our customers 'win' through extra convenience and savings, manufacturers 'win' through increased display space, increased sales, and exclusivity in the program for an entire month. And we win, too, because it increases customer loyalty and sales, and because the Valued Customer Program is electronic, there's almost no misredemption of out-of-date, incorrect, or invalid coupons."²

This "win-win-win" situation has delivered what Ukrop's estimates is a 9% incremental increase in sales since the program began. Ukrop's has modified the program since 1987, as customers and vendors have recommended improvements. Ukrop's also has developed extensions of Ukrop's Valued Customer Program to include ventures into target marketing.

"We've always wanted to be the place that people think of when they think of food," says Ukrop. "Nowadays, customers seem to be even busier than ever, and time has become a precious commodity. With our Valued Customer Program, we can help our customers save time and money . . .

and still offer what we believe is the freshest and highest quality food available.”³

A Review of the Literature

Shopping for food has changed. Different lifestyles, different store formats, and increased mobility have changed the way Americans buy the food they eat. The proliferation of fast-food restaurants and the expansion of their menus have offered alternatives never before available; increasing numbers of shoppers are buying complete meals outside the supermarket instead of planning a meal from ingredients they purchase inside the supermarket. (FMI Trends survey 1989)

Surveys and studies from grocery industry trade publications, articles from marketing periodicals, and academic papers and speeches provide a good foundation for understanding the complexity of shopping for food.

National Trends in Grocery Shopping

Annually the Food Marketing Institute surveys “Customer Attitudes and the Supermarket.” In 1988 and again in 1989, the leading features which determined a shopper’s choice of supermarket were [high] quality produce, fruits and vegetables, good variety or wide selection, [high] quality meat, good/low prices and courteous, friendly employees. In both years’ surveys, at least 92% of all respondents reported that these attributes were *very important* or *somewhat important*. (FMI Trends Survey 1988, 1989)

A closer look at food-shopping trends reveals the increasing importance of convenience. In 1987 and 1988 surveys, 85% of working women surveyed said that it was “*very important* or *somewhat important* to save time when they shop.” (FMI Trends survey 1988)

Nationally, 41% of all grocery shoppers who switched stores reportedly did so because the "new store is closer, [more] conveniently located." (FMI Trends Survey, 1989) Convenience, however, is not synonymous with location.

"Convenience doesn't just mean proximity. A supermarket doesn't have to be right next door to be convenient. [Supermarkets] must find other ways to enhance the image of convenience they try to project, both in the store and in the advertising. [Supermarkets] must develop an image of convenience that's strong enough to draw significant number of shoppers past supermarkets closer to home."⁴

In the Richmond, Virginia area, convenience is indeed a factor. Media General's biannual Market Analysis of "How Grocery Buyers Rate the Various Grocery Chains in Metropolitan Richmond," shows that customers are more likely to shop stores nearby. In all cases, respondents gave the most favorable ratings for "convenience" to those stores they *shop most* or *shop regularly*. Without exception, the stores these respondents *never shop* were given the least favorable ratings for convenience. (Media General Market Analysis 1989)

While convenience is unarguably important, the once highly touted "one-stop shopping" concept may not be. Nationally, this format has lost its appeal: in 1988, 70% of all respondents rated one-stop shopping "very or somewhat important"; in 1989 only 67% felt as strongly. While 30% of all grocery shoppers make only one trip to the supermarket each week, working women visit the supermarket an average of 2.3 times per week, compared to an average of 2.2 times per week for non-working women. (FMI Trends survey 1989)

In Richmond, 90% of respondents reported that they regularly

shop two or more stores. (Media General Market Analysis 1989)

Where Does Ukrop's Stand Relative to these Surveys?

The Media General Market Analysis (the most comprehensive super-market survey in our trade area), uses a negative rating technique. In 1989 Ukrop's received the fewest negative ratings of all competitors in most of the same categories FMI had determined were of greatest importance to grocery shoppers. Only 6% of respondents gave Ukrop's negative ratings on the quality of produce and meat; 7% downgraded Ukrop's selection of brands, and only 1% responded negatively when asked about Ukrop's "friendly, courteous salespeople."

Where Ukrop's percentage of negative ratings was largest was in the area of "Value." Sixteen percent of respondents replied that Ukrop's values "were not good." Eighty percent of all participants in the survey answered this question; of these respondents, 29% *never shop* at Ukrop's, and 37% *shop sometimes* at Ukrop's. By contrast, only 8% of those who identified Ukrop's as the store they *shop most* and 19% of those who identified Ukrop's as the store they *shop regularly* felt that Ukrop's values were not good. This rating was also highest (at 21%) in the East End of Richmond, where Ukrop's has only one store, (and according to the survey, the weakest penetration of market relative to other areas of Richmond).

In Summary

Given that Ukrop's cannot quickly build new stores in order to be more convenient to customers, and given our hours (8:00 a.m to 9:00 p.m. Monday - Saturday vs. competitors' 24-hour, 7 days-a-week formats) our only available approach is offering convenience *in the store*.

Ukrop's has enjoyed increasingly favorable ratings for convenience and selection in the biannual Media General surveys, despite limited operat-

ing hours and Ukrop's singular policy not to sell alcoholic beverages. Given that we were unwilling to alter these aspects of our operation, we asked ourselves: could we attract our competitors' customers to use us, and if only as their second choice initially, could we later cultivate regular shoppers from them?

Ukrop's marks in the areas of meat, produce, selection, appearance and courtesy have shown that we outperform the competition; however, the 1989 survey brought to glaring light the perception of Ukrop's with respect to "value." Because of the strong negative feelings many non-shoppers or infrequent shoppers held about Ukrop's value, we saw a need to better communicate our values. We needed a plan to combat those negative perceptions and to attract these same infrequent or non-shoppers as we sought to strengthen our share of market and increase our sales.

(These same negative perceptions of Ukrop's value had always been present in previous Media General surveys, and were factors in building the original framework for Ukrop's Valued Customer Program and selecting its name.)

Coupons

Price and convenience are the two most important determinants of store selection, according to Manufacturers Coupon Control Center. While 45% of respondents said price, 40% said convenience. (Supermarket Business September 1989)

Citicorp's initial telephone survey in 1986 to test shopping behaviors and evaluate opportunities for what would become Ukrop's Valued Customer Program found that those respondents who consider themselves primary Ukrop's shoppers are more likely to redeem cents-off coupons every

time they shop than are non-Ukrop's or non-primary Ukrop's customers. (Ukrop's Courtesy Card Survey Benchmark Wave Report, Lieberman Research, 1986)

Follow-up interviews with members of the focus group reinforced this high coupon usage, but underscored this usage with guilt feelings if they did not use the coupons which all agreed were readily and abundantly available. (Lieberman Research, Inc., October, 1986)

Coupons are a powerful draw, but they are not necessarily powerful enough to change customer behavior. Even "double-coupons" may not be the answer.

"This [Manufacturers Coupon Control Center] study confirms the findings of many previous studies . . . double couponing does almost nothing for those customers who do not regularly use coupons. Offering double coupons will not transform nonusers of coupon into coupon clippers."⁵

Paper coupons have several drawbacks. Ukrop's devotes fifteen to twenty hours per week at its corporate office to recording transfers of paper coupons from twenty stores, preparing and then packaging these coupons for shipment to a coupon clearinghouse. Of the \$50,000 in coupons submitted by Ukrop's for payment in an average week, \$400 or \$500 of expired, torn, or invalid coupons are rejected and returned. After writing follow-up letters to manufacturers, eventually Ukrop's receives payment on about half of these rejected coupons.⁶

"Coupon use is already showing signs of nearing a plateau. It is not expected to decline to 100 billion in the next ten years, but it may drop to 175 billion from the current 250 billion," predicts Dr. Robert Blattberg, Graduate School of Business, University of Chicago.⁷

Of the 221.7 billion coupons dropped in the United States in 1988,

only 3.2% were redeemed. An estimated 80% of these redemptions came from loyal customers who likely would have purchased the item anyway — without any additional inducement. (Forbes, July 10, 1989)

If that news weren't bad enough . . . according to long-time coupon fraud artist Larry Krasnick (now behind bars), more than 50% of all supermarkets misredeem coupons, and at least one-third of all coupons are misredeemed, either fraudulently by organized groups or larcenous customers, or unintentionally by careless customers or cashiers. (Supermarket Business, September 1989)

Nationally, this type of coupon fraud may be as low as \$500 million or as high as \$1 billion in a \$3 billion industry, according to postal inspector Rick Bowdren.⁸

The industry is recognizing these problems and organizing committees and focus groups to evaluate and recommend improvements for coupon processing (Supermarket Business, December 11, 1989)

"Two or three years ago, the industry was debating whether coupons should remain at all," recalled J. Byron Felter, group vice president, sales, Quaker Oats Company, at FMI's Midwinter Executive Conference, January 1990. "Retailers have wanted to get rid of them and manufacturers have said they were no longer as valuable as they should be."⁹

Opportunities for Improvement

Recognizing this ongoing "love-hate" relationship, Ukrop's designed the Valued Customer Program for our customers, for manufacturers, and for ourselves. For customers, Ukrop's Valued Customer Program would deliver the savings our customers told us they wanted without the extra clipping and hassles they did not.

Leiberman's benchmark research also helped Ukrop's in developing

the phrase used to communicate Ukrop's Valued Customer Program's key features: "Automatic Savings without Clipping Coupons."

For manufacturers, Ukrop's uniquely integrated computer system to link products and corresponding electronic coupons became a key selling point. Ukrop's introductory industry piece reassured manufacturers:

"There is no opportunity for redemption of fraudulent coupons or expired coupons, and the computer will not redeem a coupon for an item which the customer has not purchased. Ukrop's Valued Customer Program is uniquely *performance based*: we believe that our misredemption rate will approach zero."¹⁰

For Ukrop's, the Valued Customer Program was an instant success. During the seven-month test at the company's Buford store, more than 10,000 households enrolled.

The Need for More and Better Information

"Today's retailers are primarily reactive, not proactive marketers, because they have little information on their present customers," believes Don E. Schultz of Agora, Inc., and Northwestern University. "But this reactive approach provides the food retailer little control over his or her future.

"[Traditional] marketing concepts and approaches simply don't, won't, and can't fit the dramatically different and increasingly competitive marketplace of today and tomorrow."¹¹

For years direct mail cataloguers have been able to identify and describe their current customers and use this information to attract future customers.¹² L.L. Bean among others has refined this practice to an art-form, successfully expanding its catalogue business and increasing sales.¹³

Consumer product producers have seized on this type of marketing opportunity to attract "the other guy's" customers. A recent campaign by Seagram's Glenlivet Scotch included direct-mail pieces to 500,000 known Scotch drinkers. Unlike other campaigns, Seagram's directed this mailer to drinkers of other brands with the goal of attracting new Glenlivet drinkers. The results? Responses came in from 10,000 new customers, or a 5% return. (Forbes, July 10, 1989)

Grocery retailers are taking note.

"We think that electronic marketing programs such as frequent shoppers are another way to leverage our investment in technology,"¹⁴ said Jane Rice, vice president information systems at Ralph's in California.

Vons, Ralph's nemesis in the highly competitive Southern California market, expects to reap such benefits as convenience, value, and saving customers time from its implementation of a frequent shopper and electronic marketing program. (Supermarket News, June 26, 1989)

In its variety of applications, electronic marketing is being acknowledged as more than computer games. From megacorporations like Procter & Gamble to manufacturers to retailers, computers are beginning to emerge from under the mountain of paperwork and coupons and other traditional means of promoting products.

On the Right Track

Building a database, getting to know your customers, and using that information to better take care of current customers and attract new customers is a viable action plan, now spreading to in the grocery industry. Accuracy of information and speed of service are of the essence. While the customer waits for the retailer to meet her needs on request, nothing prevents her from window shopping, or buying, somewhere else.

With only three years of experience in electronic marketing, Ukrop's is nonetheless recognized as the industry expert. (Supermarket Business, September, 1989) Electronic marketing may offer the retailer the opportunity to get to know his or her customer and to tailor a marketing plan to reach the particular needs of his/her customers. Paradoxically, computers and technology are allowing retailers to regain the closeness and personal appeal of the neighborhood corner grocery of yesteryear.

Media

Nationally, the use of newspapers as the source for grocery price information has declined, with only 34% of all shoppers reporting that they "look in the newspaper for grocery specials *pretty much every time*." In the South (the region which included Virginia in the FMI survey), this number was slightly lower at 33%, and among working women (nationally), the number was even lower at 29%. (FMI Trends survey 1989)

Media General's statistics are somewhat more optimistic, revealing that for customers who shop regularly in two or more stores, (90% of the sample) 43% *regularly* and 20% *sometimes* read food store ads in the newspaper. For shoppers who regularly patronize one store only, these statistics were 33% and 19% respectively. (Media General Market Analysis 1989)

Ukrop's Decision to Try Direct Mail

With these relatively low numbers for newspaper readership, and given Ukrop's historical reluctance to spend heavily on electronic media (television and radio), direct mail seemed the best medium for delivering our message.

Ukrop's used a rented mailing list to introduce the Valued Customer Program in the test store in February, 1987.

Initial Direct Mail Targeting Programs

In May, 1988, Ukrop's made its first venture into using the Valued Customer database to specifically target groups of customers.

This first test targeted "lost" Ukrop's customers who had previously shopped primarily in one Ukrop's location. Over 300 customers whose shopping had declined following the opening of a competitor's conventional supermarket near the affected Ukrop's location received a letter and coupons. Within one month after the mailing, 24% of these target customers had resumed their pre-competitor's-opening" shopping patterns.

Our second test came in January, 1989. After learning that a competitor would be opening a new 96,000 square foot "super store" in the center of five high-volume Ukrop's stores, Ukrop's developed a plan to monitor our Valued Customers' shopping behavior in those five stores.

Segmenting those customers into cells according to their dollar expenditures, Ukrop's monitored the sales patterns prior to the opening and for several weeks following the competitor's opening.

In early January, 1989 Ukrop's mailed a special letter to approximately 3,000 customers whose Ukrop's purchases had decreased since the competitor's opening. In one half of these mailings, we included a series of coupons which we invited customers to use in our stores. In the other half, customers received only a letter.

Following this mailing, 22% of Ukrop's customers returned. Results from this mailing showed that there was no significant difference in the response rates of those customers who received coupons and those who did not.

Ukrop's third venture into targeted mailings followed later in 1989, after a competitor's conventional supermarket opened in a location near

three Ukrop's stores. Again we monitored pre- and post-opening activity. In addition, for this mailing, Ukrop's identified a control group of customers from the sample of those customers whose purchase activity had declined. Our mailing to 1,800 residents inviting them to return to Ukrop's netted a 15% improvement over the control group.

"We have learned several things from these tests," said Jim Ukrop. "Targeting appears to work — we were able to recapture lost customers in every test. . . . [but] so far, the most we have done is recapture lost customers."¹⁶

Opportunities for Additional Marketing Applications of the Database

Following the successes of these three "test" mailings, Ukrop's decided to undertake a more ambitious project: to launch a direct mail campaign to bring in *new* customers, not merely to retrieve "lost" customers.

This project was the first use of our database as the means to learning which residents in our market area were *not* currently our customers. For the purposes of this study, we defined non-customers (and potential *new* customers) as those persons/households in our marketing area who do not possess a Ukrop's Valued Customer Card.

Our first targeted attempt to attract non-customers became known as the "Zip Code Test," because in building our sample, we evaluated our areas of penetration by zip code and then targeted households in four zip codes for the project.

Hypotheses

Based on our previous experience with the first three direct-mail tests to regain "lost customers," Ukrop's believed that we could achieve similarly successful results through a direct-mail campaign to recruit new customers by describing the benefits and conveniences of shopping at Ukrop's and offering a monetary incentive.

In order to test the success and effectiveness of this campaign, we established two null hypotheses.

Hypothesis 1: there is no difference in purchasing behavior between the control group and groups receiving the direct mail solicitation from Ukrop's.

We also wanted to compare the costs of the mailing versus the benefits derived from acquiring new customers. To perform this cost/benefit analysis, we constructed our second hypothesis.

Hypothesis 2: margins generated by newly acquired Ukrop's Valued Customers do not yield a positive net present value.

The "Zip Code Test"

For our first mailing to non-customers, we identified zip codes where our penetration of households with Ukrop's Valued Customer Cards was greater than 35%, but less than 60%. We set these ranges to include those areas where we had a strong representation (indicating a presence of Ukrop's location(s) which made shopping at Ukrop's convenient), yet offered potential for growth. In some zip codes in our marketing area, over 80% of all households have a Ukrop's Valued Customer Card.

From our list of fourteen zip codes which met this criteria, we selected four zip codes for the mailing. We expected that this mail campaign potentially would affect seven of Ukrop's "key" stores, with some possible slight effects felt in our other stores.

We built a list of 7,000 households by crossmatching our Valued Customer database against a rented list from Donnelley Marketing. We then randomly divided these 7,000 non-customers into three cells.

Cell 1 households received a letter, an application for a Ukrop's Valued Customer Card, two 20% discount cards to be used on any purchases up to \$100 at Ukrop's, and a map to Ukrop's locations. [See exhibit 1.] We invited customers to fill out the application, bring it in, and use their temporary Ukrop's Valued Customer Card as well as their discount cards while they shopped in our store. (Theoretically, recipients could redeem their discount cards without filling out an application for a Ukrop's Valued Customer Card.)

Cell 2 households received a letter, an application for a Ukrop's Valued Customer Card, instructions to visit Ukrop's to *pick up* two 20% discount cards to be used on any purchases up to \$100 at Ukrop's, and a map to Ukrop's locations. [See exhibit 2.] Office personnel were to distribute

discount cards to customers who presented a completed application for a Ukrop's Valued Customer Card.

Cell 3 households comprised the control group. These households received no mail pieces from Ukrop's.

Ukrop's hoped to compare the results from Cells 1 and 2 against the control group to determine the net benefit of this campaign. We hoped that any difference in response rates between Cells 1 and 2 would help us to determine the "slippage": the use of the discount cards by recipients who did not fill out an application. We also hoped to learn whether we needed to mail the discount card or whether we simply could ask customers to come in to pick up their discount cards. Further, was the 20% discount enough? Was it too much? Was it a factor at all?

The Goals of this Mailing

Certainly Ukrop's primary goal was to increase the number of Valued Customers in our market area; however, since we considered this project a "test," we set no numerical goals: our secondary goal was to learn.

Redemption of Discount Cards

Over the four-week period during which discount cards were valid, customers in cell 1 redeemed a total of 98 discount cards and customers in cell 2 redeemed a total of 42 discount cards. (Ukrop's allowed one cell 1 customer to redeem a card on September 8.)

Cell 1 customers outredeemed cell 2 customers, both in terms of the number of cards and the dollar amount of discounts received. [See exhibits 3 and 4.] On almost every day during the test period, cell 1 customers brought in more cards, spent more money in total, and with the exception of two days, outspent cell 2 on average. [See exhibit 5.]

Even though the average cell 2 customer spent less during his/her visit, he or she was more likely to return to Ukrop's during the second discount card redemption period. Fifteen cell 2 customers (or 36%) used their second discount card, compared to 24 of cell 1 customers (24%).

The potential abuses against which Ukrop's had hoped to guard by testing the cell 2 mailing concept (asking customers to come in to the store to receive their discount cards instead of delivering these cards directly to their homes) did not seem to be a factor. Only one cell 1 customer used a discount but never submitted an application.

Only one customer redeemed four discount cards instead of two. Since she was a cell 1 customer, (and all four cards were cell 1 cards) we can only conclude that she received an additional pair of discount cards from a neighbor or friend. This slippage did not occur at store level.

There were nine current Ukrop's Valued Customers who received the mailing and redeemed their discount cards — even though the mailing was specifically designed to reach noncustomers. Since all of these customers had received their original Ukrop's Valued Customer Card in 1987, when

the program was just beginning, we assume that these persons are and have been Ukrop's customers for some time. This slippage probably occurred because of flaws in the purchased mailing list and the deduplication processes, particularly if these customers had listed their work phone number instead of home phone number on their original Ukrop's Valued Customer Card application.

Surprisingly, eight persons who were not on our mailing list submitted the specially coded applications they could have received only through the mailing. These applications were all submitted during August — during the period when the discount cards were valid — but none of these eight persons redeemed a discount card.

Altogether, we saw very little misuse of the cards beyond the “loop-holes” we overlooked in designing the test. There were two instances when customers redeeming these cards received a discount greater than \$20, but we believe these instances were due to cashier error rather than intentional abuse.

Because cell 2 customers did not respond as quickly as cell 1 customers in redeeming their cards, and did not spend as much over the first twenty weeks of data collection, and since there were very few abuses of the discount cards, we can conclude that the delivery of discount cards via mail (as in cell 1) is the more efficient means of attracting noncustomers, outweighing any risks about which Ukrop's had been concerned. Since cell 1 customers required no additional attention in the stores (compared to cell 2 customers who had to ask in the store office for their cards and needed the attention of an office clerk or manager), delivering cards as we did in cell 1 would save time in the stores.

Without evaluating the magnitude of the impact of the cards, we can

say that the cards accomplished their purpose — to draw noncustomers into our stores, and to encourage a repeat visit.

Seasonal Factors Affecting Sales

During the twenty weeks following this mailing, several external, competitive, and seasonal factors affected sales. These factors should have equally affected all three cells; however, their influence does merit comment.

The State Fair of Virginia drew large crowds September 22 through October 2. The weeks of the state fair are characteristically slow weeks for grocery sales. Explained one Ukrop's manager, "If a customer has a dollar, he can only spend it one way. During the Fair, people just don't buy groceries."¹⁶

The week following the State Fair of Virginia was the week of an 8-page Ukrop's color circular (newspaper insert) -- what Ukrop's calls a "Super Sale." Although historically sales are higher companywide during Ukrop's Super Sales, during this post-State Fair week, total purchases in all three cells fell; average purchases to customers in all three cells also fell.

As the fourteenth week began, Ukrop's faced new competition: on Sunday, October 29 a Food Lion store opened across the street from Ukrop's Ashland store — one of the "key" stores Ukrop's expected would reap benefits from the 20% mailing. This new store was the fourth Food Lion to open in the Ashland store's shopping area in four months.

Coincidentally, Ukrop's opened its twentieth store and featured a Super Sale during this week. The aggressive radio campaign and 12-page color circular which announced the grand opening October 31 and the series of accompanying grand opening specials in all Ukrop's stores may have counterbalanced the sales loss typically associated with a competitor's

opening.

On December 4, Ukrop's featured another 12-page color circular. During this "Holiday Super Sale" total purchases by customers in cells 1 and 3 increased, while total purchases by customers in cell 2 fell. Average purchases by customers in each cell followed these trends.

Results of the Mailing

Ukrop's mailed 4,667 letters to cell 1 and cell 2 households July 31. Of these 4,667 pieces, 562 were returned by the post office.

Of the remaining pieces which were delivered, between 2 and 5% seemed to attract new customers, as measured by the number of new Ukrop's Valued Customer applications received during the first four weeks of the promotion. (See chart 1.)

Completed Applications During First Four Weeks

	Pieces Mailed	Pieces Returned	Pieces Delivered	Applications Received	Response Rate
CELL ONE					
Zip 23227	1000	137	863	32	3.71%
Zip 23228	998	120	878	31	3.53%
Zip 23237	336	29	307	14	4.56%
TOTAL CELL ONE	2334	286	2048	77	3.76%
CELL TWO					
Zip 23227	1000	143	857	27	3.15%
Zip 23228	997	108	889	36	4.05%
Zip 23237	336	25	311	9	2.89%
TOTAL CELL TWO	2333	276	2057	72	3.50%

Chart 1

Because the original response rates were so disheartening, Ukrop's knew we would have to look deeper into the numbers. (Unfortunately, at the time we did not conduct follow-up interviews [by telephone or otherwise] to test recall, to test whether the recipient had opened the enve-

lope, to find out *why* responses had been so unspectacular. So much time lapsed before we took action that the only course of action was a posterior analysis of what *had* happened, without, perhaps, knowing *why*.)

In order to evaluate the effects of the mailing beyond the discount period, Ukrop's measured activity among all cells' customers for twenty weeks following the July 31 mailing. In all cells, Ukrop's saw increases in all areas measured

- number of customers shopping per week
- number of visits (sessions) per week
- average amount spent per customer per week
- average order (session) size
- total purchases by cell per week

A closer examination of the numbers revealed some surprises. During week 1, for example, fifty-seven cell 1 customers and forty-seven cell 2 customers visited Ukrop's stores. [See exhibit 6.] These initially high "entry levels" suggest that these individuals had been shopping to some extent at Ukrop's, although probably not to a great extent, since over 90% of all dollar sales are "carded." Perhaps delivering an application and temporary Ukrop's Valued Customer Card to these customers' homes did overcome whatever reluctance or inertia had prevented them from having already signed up for a Ukrop's Valued Customer Card.

Although initially more cell 1 and 2 customers visited Ukrop's stores more frequently and purchased more during their visits, the differences among the groups became less distinct over time. [See exhibits 6, 7, and 8.] The numbers of cell 1 and cell 2 customers shopping remained above the number of cell 3 customers until the holiday season, when cell 3 customers' visits jumped dramatically, and continued to climb. A possible explanation

for this increase is Ukrop's reputation for quality and selection, and shoppers' willingness to "splurge" for special meals and special occasions during the holidays.

Though more erratic, average sales for cells 1 and 2 remained greater than average sales for cell 3 — with one exception at week 13 — before the holidays. Again, low pre-holiday purchases at Ukrop's possibly made cell 3's holiday purchases more dramatic by comparison.

Seasonality aside, by the eighteenth week, as many cell 3 customers were visiting Ukrop's each week as were cell 1 or 2 customers. These customers were also spending as much each week (on average) as were cell 1 or cell 2 customers. [See exhibit 8.]

Based on these results and observations, Ukrop's could, over the long run, affirm Hypothesis 1: there is no difference between spending rates among customers in cells 1 and 2 and customers in our control group.

The behavior of cell 1 and 2 customers, particularly the additional sales Ukrop's enjoyed in the early weeks of the test, does, however, suggest an initial benefit to the mailing. How large was this benefit and did it cover the costs of the mailing?

To test the validity of the second hypothesis (that margins created by newly acquired Ukrop's Valued Customers did not yield a positive net present value), we assigned Ukrop's discount rate of 15% to this project. (Although not a true cost of equity, 15% is the rate Ukrop's uses to analyze all projects.) Over a period of one week, using a 52-week year, this discount rate becomes .00288.

While grocery industry surveys have consistently shown average after-tax profit margins of 1% on sales, we used a 6% margin on sales to evaluate this project. Since Ukrop's is beyond breakeven at all stores, and since no

new associates were hired or additional operating expenses incurred to accommodate these new customers, and since the increases in store activity were small relative to total store sales, Ukrop's assigned a 6% rate. (Again, this rate had been previously established and used for evaluating the company's projects.)

Discounting the 6% profit on total sales per cell across the first twenty weeks following the mailing, Ukrop's did not generate a positive net present value in either cell 1 or 2. (Cell 3 customers were essentially "free," since Ukrop's incurred no incremental expenses to attract them and encourage them to sign up for a Ukrop's Valued Customer Card.)

Because the calculations yielded a net present value which was small, even though negative, we extrapolated sales in cells 1 and 2 to try to determine at what point the project might yield a positive net present value. For this extrapolation, we needed to determine a rate of sales growth appropriate to predicting future sales (and profit margins) from cells 1 and 2.

During the twenty-week period, total cell sales had grown at a compound rate of 2.9% for cell 1 and 3.2% for cell 2. Because of seasonally high pre-holiday sales and the severe winter weather, we knew that sales over this period had grown at a rate which was unsustainable beyond the holiday period. (See exhibit 9.)

Instead, we calculated a growth rate for all seven "key" stores for the weeks December 18, 1989 through January 22, 1990. Our model assumed that sales for cell 1 and 2 customers would continue in weeks 21 and beyond at the same growth rates we saw at our "key stores" for these post-holiday weeks. This rate is .955.

Using this growth rate to project sales from week 21 forward, we find that the mailing achieves a positive net present value for cell 1 at the 27th

week, for cell 2 at the 34th week. Taken as a whole, the entire project (cells 1 and 2 together) achieves a positive net present value after 29 weeks. [See exhibit 10.]

Conclusions

Did the project achieve its primary goal of attracting new customers? Yes, it did, especially in the short run, but not dramatically over and above what sales we probably would have realized in the long run if we had done nothing.

Did customers in cell 1 and cell 2 respond differently because of the difference in the delivery of the discount cards? Cell 1 customers did respond more quickly, particularly in weeks 1 and 3, the first week that customers could use each discount card. Since the differences between the two groups are less distinct over time, we can conclude that the differences in the short run are because in cell 1 we delivered the discount cards directly to the customers' home.

After the fourth week, (the final week discounts were valid), there seem to be no consistent differences between cells 1 and 2. There are, however, differences between these cells (taken together as a group) and the control group, cell 3.

Because there was neither an offer made nor an incentive given to cell 3, one would reasonably expect these customers to show less activity than customers in cells 1 and 2 during this four-week discount period. In fact, this expectation is correct.

However, following the initial four weeks, behavior does not show dramatic differences. Cell 3 customers continue to come in and sign up for a Ukrop's Valued Customer Card — presumably for factors general to all

customers in all stores: word of mouth recommendations, newspaper ads, radio spots, dissatisfaction with other [competitors'] stores, or overcoming some ignorance of the program or reluctance to carry another card.

Except for the initial boost in cell 1 and 2 activity, over the long run there are no measurable differences in sales trends among the groups. Ukrop's invested over \$7,000 for this initial boost, when the evidence suggests that over time, we likely would have enjoyed these customers' business anyway. If cell 3 is an accurate representation of the market as a whole, then Ukrop's *could* expect new customers to enroll as Ukrop's Valued Customers at an ongoing rate which parallels cell 3's enrollment rate. The nice part of this plan is that it is essentially free — or at least adds no incremental expenses to Ukrop's current costs of supporting Ukrop's Valued Customer Program.

As for the amount of the incentive, without valuable follow-up information which could be gained only through a post-mailing interview, we can only speculate that the incentive was not a significant attraction. Supporting this speculation are three important factors:

- low redemption rate
- low average discount amount (dollar value) received by customers who did redeem discount certificates
- low percentages of customers who returned to use their discount card during the second two-week redemption period

If a \$20 incentive is not sufficiently compelling to attract new customers, can we then conclude that these nonrespondents have strong reasons for shopping elsewhere? These reasons we can ascertain only through follow-up interviews; currently we do not have enough information to thoroughly evaluate the amount of the incentive.

Recommendations

The zip code test did achieve its secondary goal: we learned. We did not thoroughly explore the many possible reasons for the low response rate, because of the time we allowed to lapse between the mailing and our realization that customers had not been overwhelmed by the invitation and incentive. Indeed, we learned how much there was to learn.

If Ukrop's conducts this type of mailing in the future, we should establish procedures to quickly follow up with at least a segment of those persons who do not respond. Although we know that there are a variety of compelling reasons for people to shop in Ukrop's competitors' stores (hours, alcohol policy, locations, friendships and affiliations) we will not know how and if Ukrop's can address these issues unless we ask. While Ukrop's Sunday closings and no-alcohol policies may be nonnegotiable, Ukrop's cannot afford to assume that these factors are the primary or only reasons why people elect to shop in our competitors' stores.

But should Ukrop's conduct this type of mailing in the future? Certainly the project does not impair sales, but we find no conclusive evidence that over the long run the program enhances sales.

Yes, the program pays for itself. But given that this approach does not generate significantly higher incremental sales (or presumably loyalty) in cells 1 and 2 versus the control group, Ukrop's probably should not incur the additional expenses.

If, on the other hand, Ukrop's approaches this type of mailing as a research-gathering project, then the additional learning may justify the expenses. Ukrop's could conduct a follow-up survey to nonrespondents, asking for answers to a fairly short series of questions:

- Do you remember receiving a Ukrop's envelope?

- Did you open it (why or why not?)
- Why did you decide not to accept the offer [or redeem the certificate]?
- Do you currently shop at Ukrop's?
- Why not? or Why don't you have a Ukrop's Valued Customer Card?
- What changes would Ukrop's have to make in order for you to consider making Ukrop's your primary supermarket?

A follow-up survey of this type could provide valuable information, although the value would be difficult to quantify. It would, however, help us to better understand the needs of our "noncustomers," so that we could understand what would be involved in reaching them, and whether we wanted to undertake the additional expenses, effort, and perhaps changes in order to make Ukrop's their first choice for food.

Endnotes

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2. Ibid.
3. Ibid.
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5. "Have Coupons Will Shop — if Price is Right." Supermarket Business, December 11, 1989: 10.
6. Teresa Holloman, Coupon Processing Clerk, Ukrop's Super Markets, interview with author, January 23, 1990.
7. "A tale of coupon fraud." Progressive Grocer, August, 1989: 13.
8. Ibid.
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10. "Ukrop's Valued Customer Program: An Invitation to Participate," September, 1987: 2.
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13. C. Roland Christensen et al., Business Policy Text and Cases. (Homewood, Illinois: Richard D. Irwin, Inc., 1987), 137.
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Ukrop's

Where people and food come first.

*Valued Customer*sm

Dear Neighbor,

Ukrop's Valued Customer Program gives you **automatic savings without clipping coupons**. To introduce this program to you, we have an exciting special introductory opportunity for you to **save 20% the next time you buy groceries**.

Ukrop's

Where people and food come first.

Valued Customer

*Automatic Savings each time you shop...
without clipping coupons!*

Ukrop's

Where people and food come first.

Valued Customer

These Valued Customer Coupons are valid August 1 - 31, 1989

	Coupon Value	Your Price		Coupon Value	Your Price
FROZEN ENTREES & VEGETABLES			Frozen Sweets & Breakfast Treats		
<i>New!</i> Healthy Choice Dinners, 10.5 - 11.75 oz.	\$.80	\$2.49	Hood Light Ice Milk, all half gallons	\$.90	\$1.99
Weight Watchers Beef, Chicken, or Cheese Enchiladas, 8.87 to 9.93 ounces	\$.60	\$1.69	Weight Watchers Novelty Desserts		
Weight Watchers Beef or Chicken Fajitas, 6.75 ounces	\$.60	\$2.09	• Chocolate Mousse Bars, 21 ounces	\$.45	\$2.34
			• Ice Cream Sandwiches, 16.5 ounces	\$.45	\$1.40
			• Chocolate Treats, 16.5 ounces		

Ukrop's

Where people and food come first.

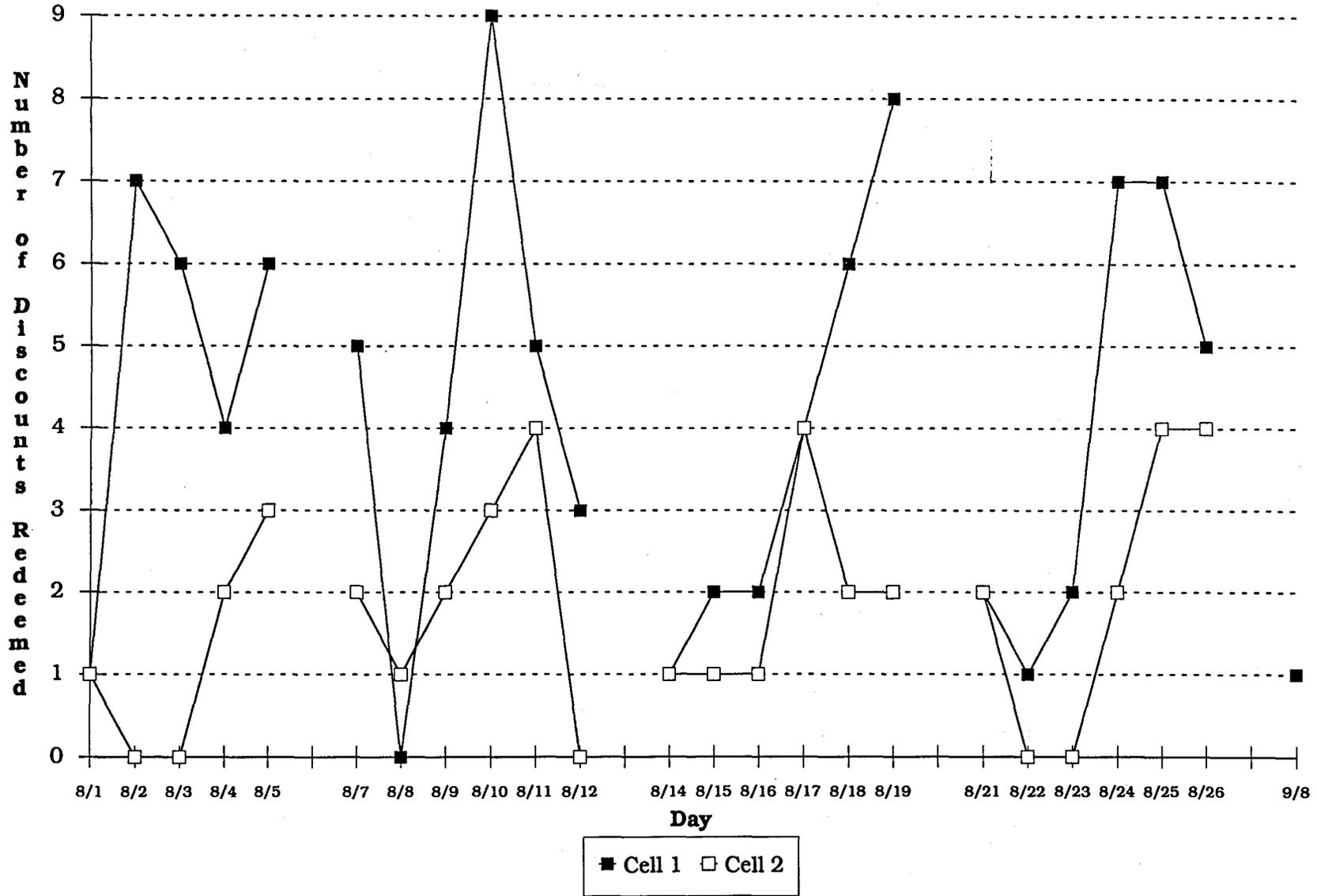
Automatic Savings each time you shop... without clipping coupons!

Valued Customer

Where people and food come first.

Ukrop's

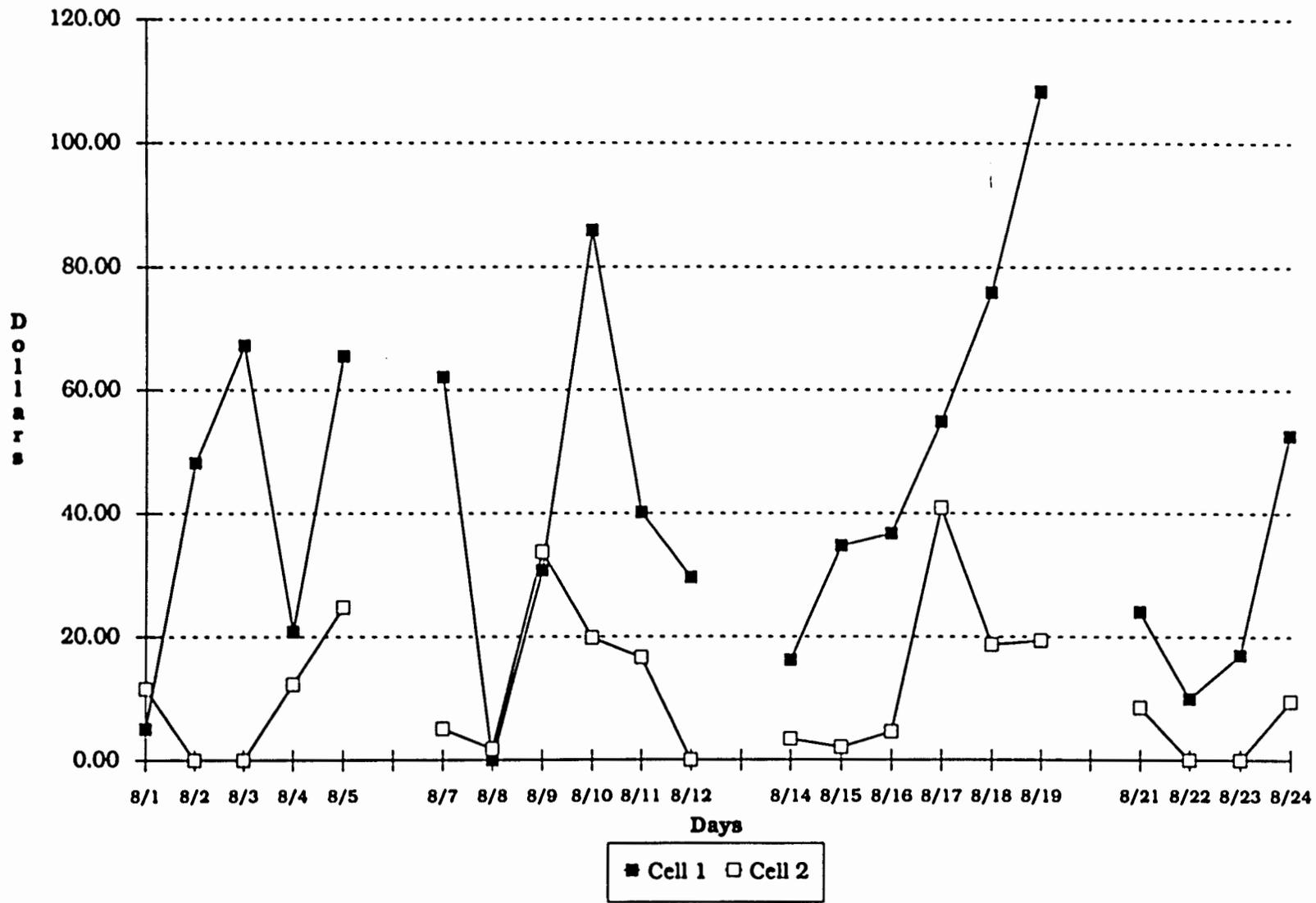
Discount Redemption by Day in Cells 1 and 2



March 22, 1990

Exhibit 3

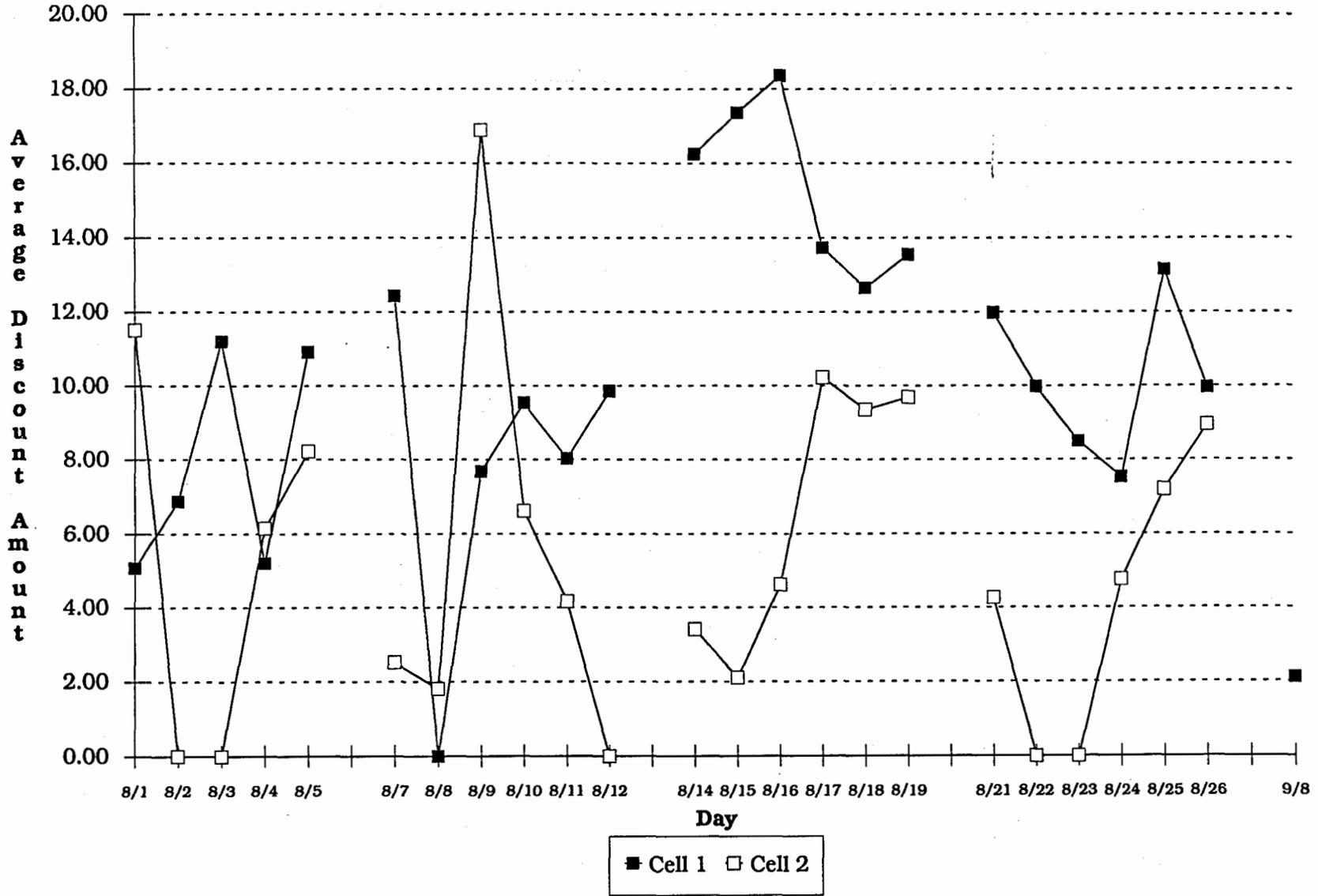
Total Discount Amounts Given by Day in Cells 1 and 2



March 22, 1990

Exhibit 4

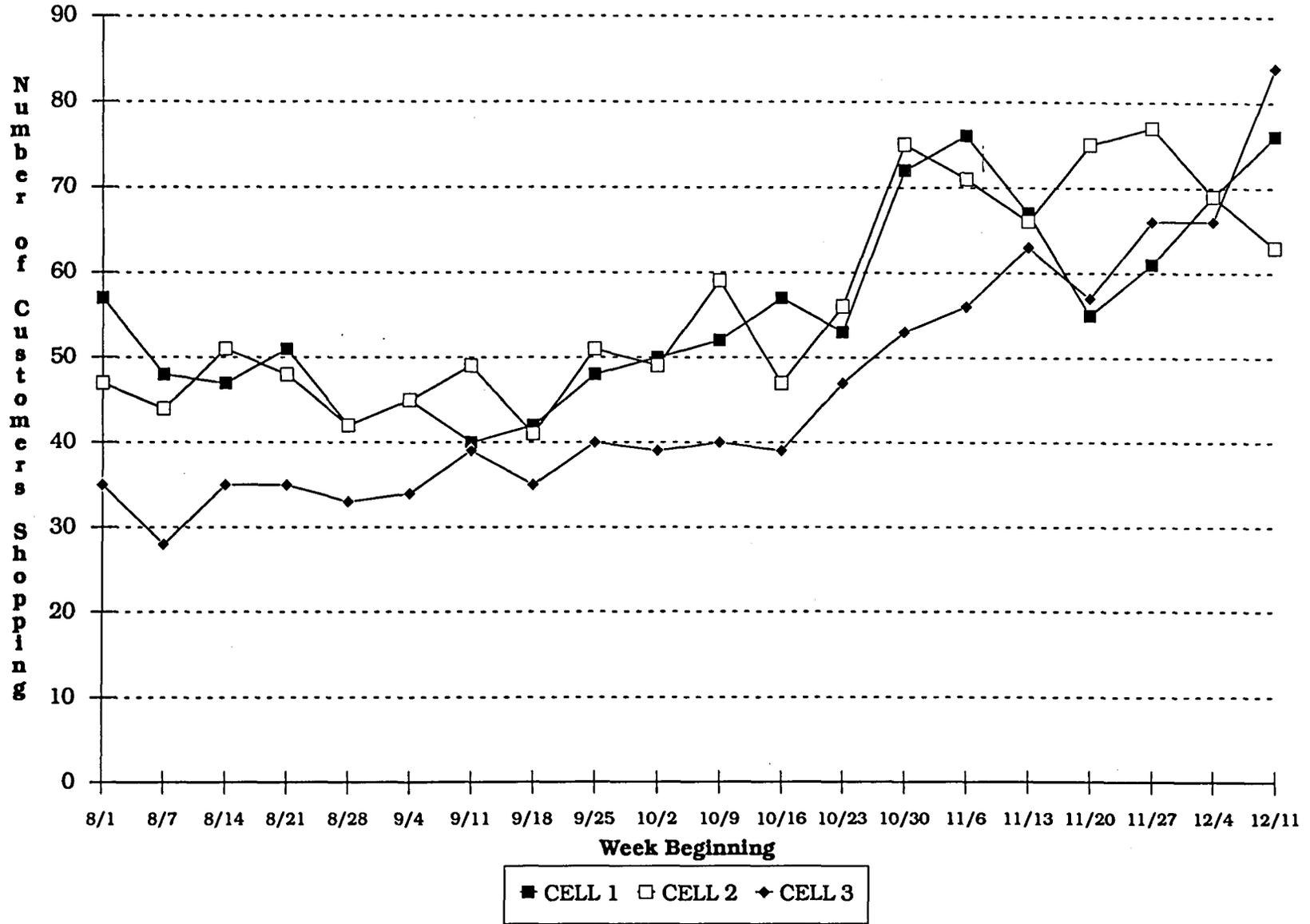
Average Discount Amount by Cell by Day



March 22, 1990

Exhibit 5

Number of Customers by Cell Weeks 1 - 20

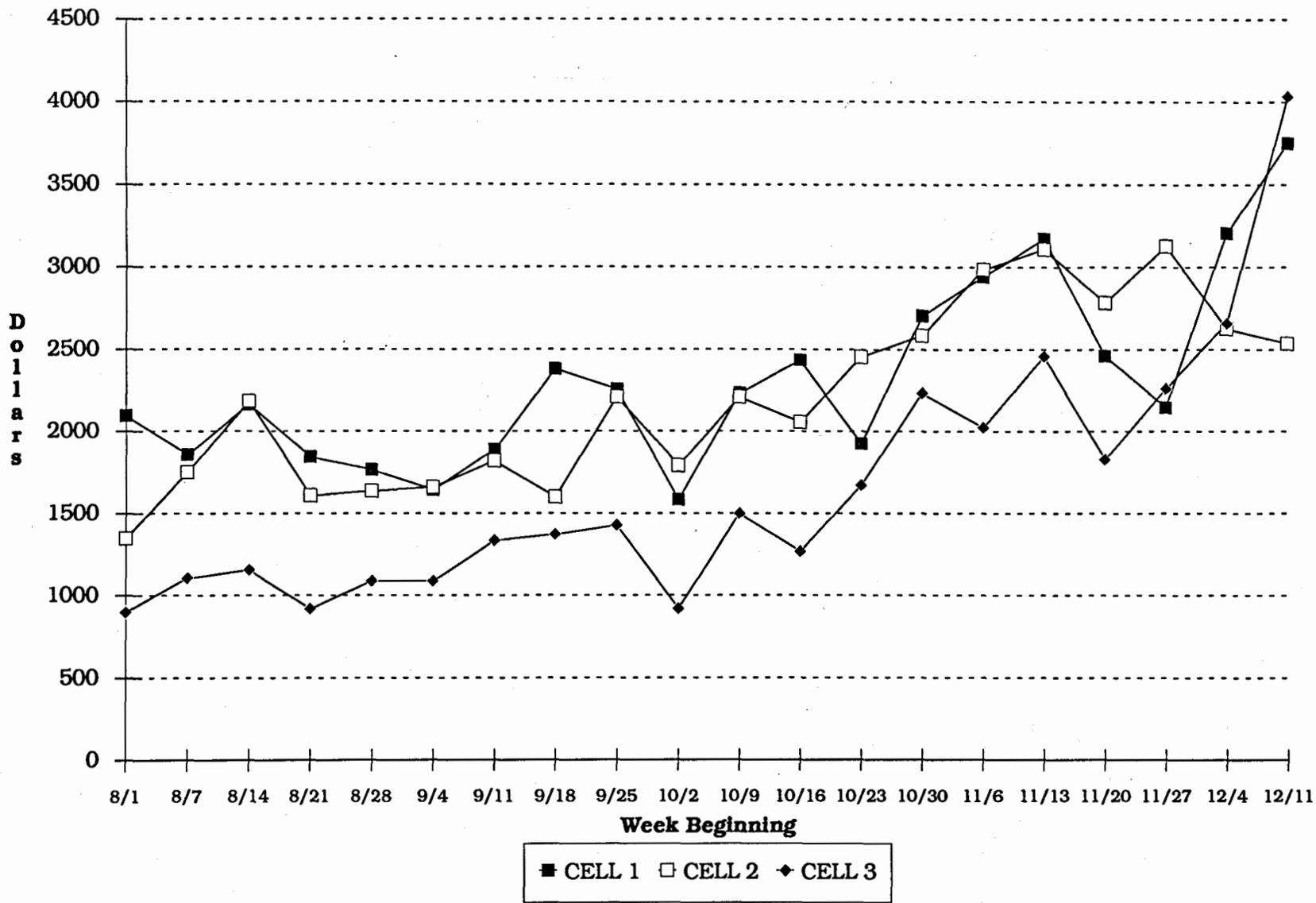


March 22, 1990

Spivey 36

Exhibit 6

Total Purchases by Cell Weeks 1 - 20

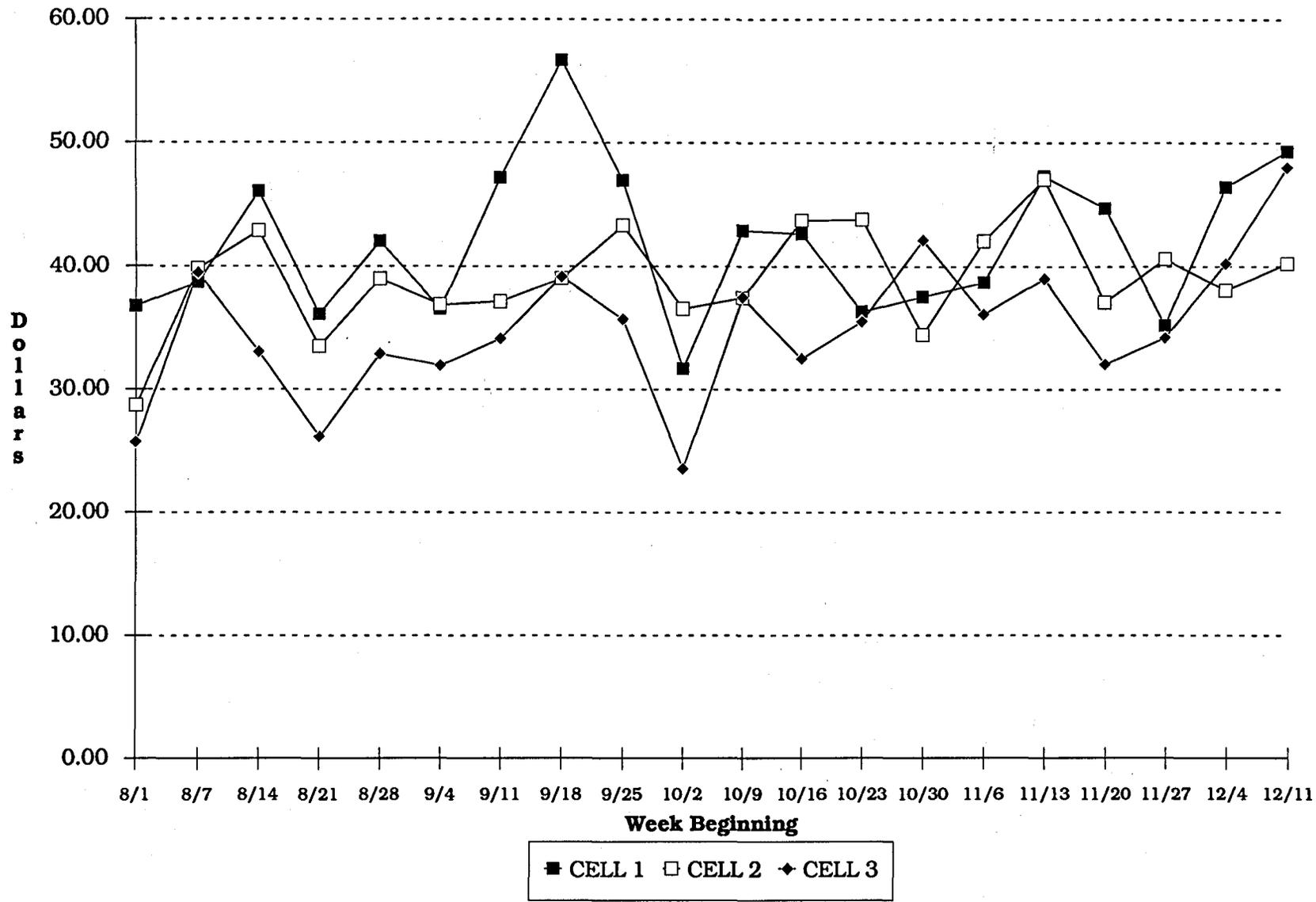


March 22, 1990

Spivey 37

Exhibit 7

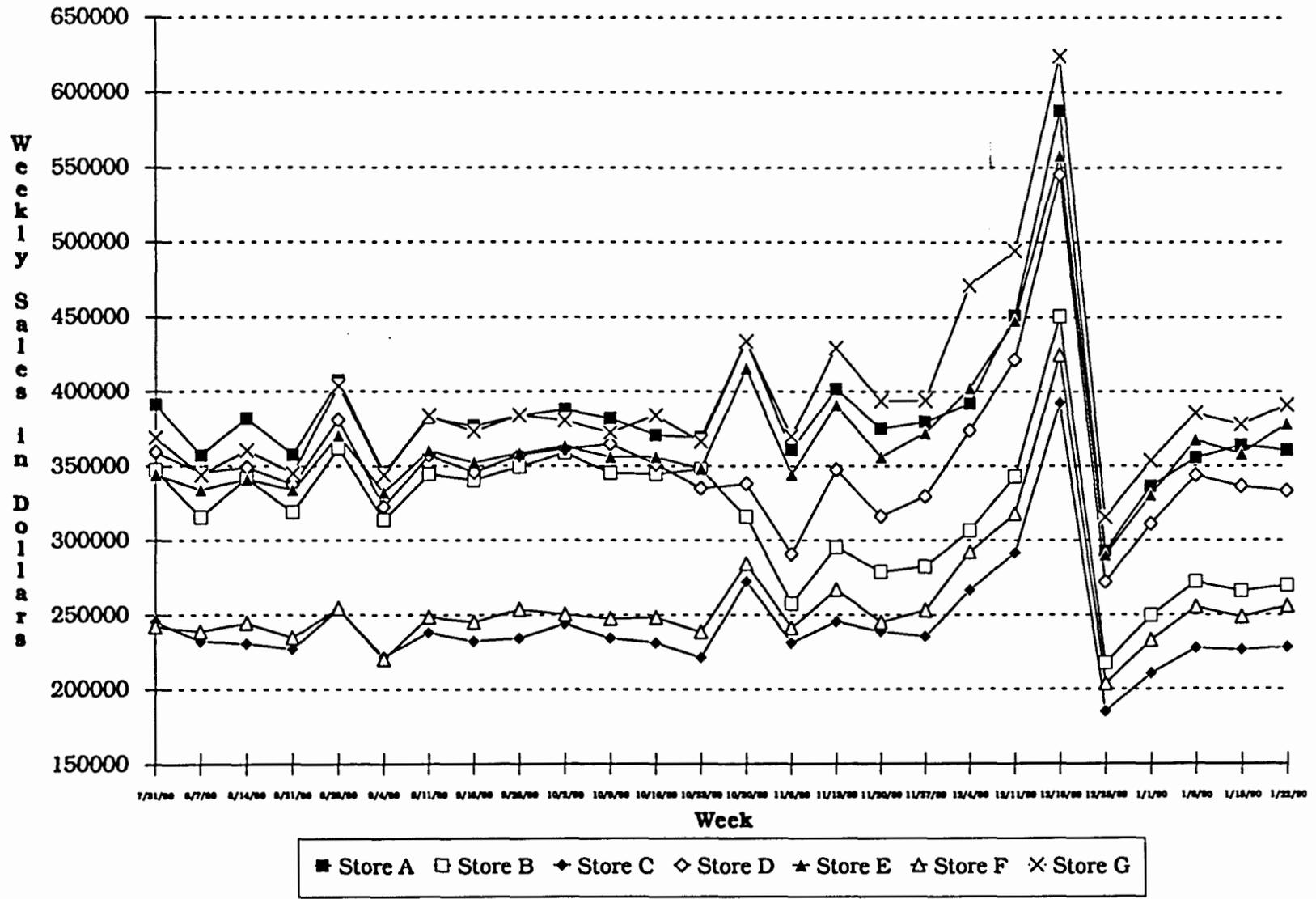
Average Weekly Purchases by Cell Weeks 1 - 20



March 22, 1990

Exhibit 8

Sales in Key Stores Week 1 - Week 26



March 22, 1990

Spivey 39

Exhibit 9

Analysis of Data Weeks 1 - 20 and Projections through Week 35

CUSTOMERS	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	57	48	47	51	42	45	40	42	48	50	52	57	53	72	76	67	55
CELL 2	47	44	51	48	42	45	49	41	51	49	59	47	56	75	71	66	75
CELL 3	35	28	35	35	33	34	39	35	40	39	40	39	47	53	56	63	57

SESSIONS	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	63	51	51	57	47	52	50	48	60	62	64	71	65	83	93	84	69
CELL 2	49	48	57	62	46	53	57	49	61	54	76	58	72	91	85	79	90
CELL 3	38	30	41	35	36	39	44	42	45	45	51	45	64	66	71	80	63

AVERAGE SESSIONS	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	1.11	1.06	1.09	1.12	1.12	1.16	1.25	1.14	1.25	1.24	1.23	1.25	1.23	1.15	1.22	1.25	1.25
CELL 2	1.04	1.09	1.12	1.29	1.10	1.18	1.16	1.20	1.20	1.10	1.29	1.23	1.29	1.21	1.20	1.20	1.20
CELL 3	1.09	1.07	1.17	1.00	1.09	1.15	1.13	1.20	1.13	1.15	1.28	1.15	1.36	1.25	1.27	1.27	1.11

TOTAL PURCHASES	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	2097.3	1857.9	2167.2	1844.3	1766.4	1644.8	1888	2380.9	2255.8	1584.2	2231.3	2432.4	1926.3	2706.3	2943	3172.7	2461.5
CELL 2	1349.5	1752.4	2186.1	1609	1638.4	1659.9	1820.2	1600	2209.2	1791.3	2209.9	2056.8	2454.3	2585.9	2988.2	3107.9	2783
CELL 3	899.37	1105.3	1157.6	916.32	1085.4	1085.4	1332.5	1371.4	1428.6	918.11	1499.3	1268.3	1672	2235.3	2025.1	2458.4	1827.9

NET PROFITS @ 6%	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	125.84	111.47	130.03	110.66	105.99	98.69	113.28	142.86	135.35	95.05	133.88	145.94	115.58	162.38	176.58	190.36	147.69
CELL 2	80.97	105.14	131.17	96.54	98.30	99.60	109.21	96.00	132.55	107.48	132.59	123.41	147.26	155.15	179.29	186.47	166.98
Combined	206.81	216.62	261.20	207.20	204.29	198.29	222.49	238.85	267.90	202.53	266.47	269.36	262.83	317.53	355.87	376.83	314.67

AVERAGE PURCHASES	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	36.79	38.71	46.11	36.16	42.06	36.55	47.20	56.69	47.00	31.68	42.91	42.67	36.34	37.59	38.72	47.35	44.75
CELL 2	28.71	39.83	42.86	33.52	39.01	36.89	37.15	39.02	43.32	36.56	37.46	43.76	43.83	34.48	42.09	47.09	37.11
CELL 3	25.70	39.47	33.07	26.18	32.89	31.92	34.17	39.18	35.71	23.54	37.48	32.52	35.57	42.18	36.16	39.02	32.07

AVERAGE NUMBER OF SESSIONS	7/31	8/7	8/14	8/21	8/28	9/4	9/11	9/18	9/25	10/2	10/9	10/16	10/23	10/30	11/6	11/13	11/20
CELL 1	33.29	36.43	42.49	32.36	37.58	31.63	37.76	49.60	37.60	25.55	34.86	34.26	29.64	32.61	31.64	37.77	35.67
CELL 2	27.54	36.51	38.35	25.95	35.62	31.32	31.93	32.65	36.22	33.17	29.08	35.46	34.09	28.42	35.16	39.34	30.92
CELL 3	23.67	36.84	28.23	26.18	30.15	27.83	30.29	32.65	31.75	20.40	29.40	28.18	26.12	33.87	28.52	30.73	29.01

Estimated NP 0.06
 Annual rate 0.15
 Weekly rate 0.0029

Outflow	CELL 1	CELL 2	CELL 3	Totals
Media Post	1626.7	813.33	813.33	0 1626.7
Printing	1277.5	638.77	638.77	0 1277.5
Printing	3256.3	1628.1	1628.1	0 3256.3
Art Design	1670.6	835.28	835.28	0 1670.6
TOTAL	7831	3915.5	3915.5	0 7831

NPV AT 15% ANNUAL, MARGIN OF 6%	12/11	12/18	12/25	1/1	1/8	1/15	1/22	1/29	2/5
CELL 1	-1218.7	-1133.9	-940.85	-757.01	-581.94	-415.23	-256.49	-105.32	38.619
CELL 2	-1357.7	-1294.2	-1163.6	-1039.3	-920.87	-808.13	-700.77	-598.54	-501.2
Combine	-2576.4	-2237.5	-1914.8	-1607.5	-1314.9	-1036.3	-770.92	-518.27	-277.68

Analysis of Data Weeks 1 - 20 and Projections through Week 35

11/27	12/4	12/11	TOTALS
61	69	76	1108.00
77	69	63	1125.00
66	66	84	924.00
73	86	92	1321.00
87	88	84	1346.00
77	84	91	1087.00
1.20	1.25	1.21	23.77
1.13	1.28	1.33	23.83
1.17	1.27	1.08	23.38

			Projections														
11/27	12/4	12/11	12/18	12/25	1/1	1/8	1/15	1/22	1/29	2/5	2/12	2/19	2/26	3/5	3/12	3/19	3/26
2148.8	3205.6	3749.5	3580.72	3419.59	3265.71	3118.75	2978.41	2844.38	2716.38	2594.15	2477.41	2365.93	2259.46	2157.78	2060.68	1967.95	1879.40
3126.9	2626.4	2535.7	2421.58	2312.61	2208.55	2109.16	2014.25	1923.61	1837.04	1754.38	1675.43	1600.04	1528.03	1459.27	1393.61	1330.89	1271.00
2259.8	2657	4034.6	3853.05	3679.67	3514.08	3355.95	3204.93	3060.71	2922.98	2791.44	2665.83	2545.86	2431.30	2321.89	2217.41	2117.62	2022.33
11/27	12/4	12/11	12/18	12/25	1/1	1/8	1/15	1/22	1/29	2/5	2/12	2/19	2/26	3/5	3/12	3/19	3/26
128.93	192.34	224.97	214.84	205.18	195.94	187.13	178.70	170.66	162.98	155.65	148.64	141.96	135.57	129.47	123.64	118.08	112.76
187.62	157.58	152.14	145.30	138.76	132.51	126.55	120.85	115.42	110.22	105.26	100.53	96.00	91.68	87.56	83.62	79.85	76.26
316.55	349.92	377.11	360.14	343.93	328.46	313.67	299.56	286.08	273.21	260.91	249.17	237.96	227.25	217.02	207.26	197.93	189.02

11/27	12/4	12/11
35.23	46.46	49.33
40.61	38.06	40.25
34.24	40.26	48.03
29.44	37.27	40.75
35.94	29.85	30.19
29.35	31.63	44.34

2/12	2/19	2/26	3/5	3/12	3/19	3/26
-408.5	-320.23	-236.18	-156.137	-79.921	-7.3449	61.765
-48.575	169.58					

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