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Simon Hay, chief executive of dunnhumbyUSA poses in their offices, Thursday, Nov. 13, 2008, in Cincinnati. DunnhumbyUSA is a data-mining consumer research operation that helps companies like Kroger Co. specifically tailor their advertising to the customer. (AP Photo/AI Behrman)



## Kroger uses loyalty data to target coupons

By DAN SEWELL – 1 day ago

CINCINNATI (AP) — Lisa Williams has never liked sorting through coupons, and she no longer has to at Kroger Co. grocery stores.

Every few weeks, coupons arrive in Williams' Elizabethtown, Ky., mailbox for items she usually loads into her cart: Capri Sun drinks for her two children, Reynolds Wrap foil, Hellmann's mayonnaise. While Kroger is building loyalty — with 95 percent of a recent mailing tailored to specific households — Williams is saving money without searching through dozens of pages of coupons.

"I'm not that big a coupon-clipper," she said. "It seems like a lot of coupons you see are (for) things that you never use."

Although the recession has revived penny-pinching, Americans are still redeeming only 1 percent to 3 percent of paper coupons. In contrast, the nation's largest traditional grocery chain says as many as half the coupons it sends regular customers do get used. Kroger's part ownership of a data mining firm allows it to put the reams of information its shopper cards collect to use in more ways than other retailers do. And one way is to give shoppers coupons mainly for products they regularly buy.

Simon Hay, chief executive of dunnhumbyUSA, the data-mining and marketing operation Kroger co-owns with a London-based company, said targeting promotions becomes even more important in a recession.

"In a growing economy, you might get lucky because there is more money around," he said. "But if there is less money around, the question is how can you be absolutely certain that you've got the right offers in the right places?"

Many retailers have loyalty cards and some offer "instant coupons" at checkout based on buyers' habits. But dunnhumby — named for founders Clive Humby and Edwina Dunn, who are married — is about more than coupons. Kroger uses dunnhumby's consumer analyses, which the data firm augments with customer interviews, to guide strategies for promotions, pricing, placement and even stocking variations from store to store.

"You know you're going to sell milk, but not all stores sell milk in the same ratio," said Kroger President Don McGeorge. "Tide detergent sells everywhere, but not evenly everywhere. In some areas, Gain sells more."

DunnhumbyUSA has signed up such other big clients as beverage maker Coca-Cola Co., home improvement chain The Home Depot Corp., consumer products maker Procter & Gamble Co., department store chain Macy's Inc. and food makers General Mills Inc. and Kraft Foods Inc.

While Kroger says individual treatment builds loyalty by making customers feel appreciated, there can be a Big Brother feel to the targeting.

Kroger shopper Joyce Grosshenrich of Cobden, Ill., recalled deducing from her mailings that her buying habits were being tracked. She decided the discounts were worth the trade-off.

"If it was anything else, it might be different," she said. "But it's groceries, so what the heck, who cares who knows what I eat?"

John Verdi, staff counsel for the Washington-based Electronic Privacy Information Center, said retailers should accumulate as little data as they need to provide discounts — and ensure it won't be stolen or misused.

Hay said it is crucial for his company to protect customers' privacy by using the information dunnhumby gathers only to help retailers understand buying habits.

"We understand that this is long-term, and if we do anything to exploit that relationship, then we destroy the value for our clients," said Hay.

That value has been noted. Scott Mushkin, a Jefferies & Co. analyst, cited Kroger's "superior customer knowledge" in October, saying stocking and promoting the right products creates

loyalty and drives profitable sales.

"This level of personalization is a direct link to our customers no other U.S. grocery retailer can replicate," David B. Dillon, Kroger's chief executive, told investors Dec. 9. Kroger reported then that sales rose 9 percent in its third quarter, although it expects sales to slow as the recession lengthens.

McGeorge declined to say how much of dunnhumbyUSA's annual revenue of some \$200 million lands on Kroger's ledger other than to say, "It's not an insignificant amount."

Kroger invested in dunnhumby and formed dunnhumbyUSA five years ago when it resolved to make better use of its shopper loyalty cards, first issued some 10 years ago and now in the hands of 55 million people.

"Our problem was that we didn't have the expertise to turn that data into insight," said McGeorge.

In London, supermarket chain Tesco PLC — dunnhumby's majority owner — was already employing Dunn's and Humby's math and marketing skills to do just that. Now, for manufacturers such as Coke and Kraft, Hay said, dunnhumbyUSA analyzes sales activity to track customer response to new items and even to advertising and promotions such as in-store taste tests.