

Perfect Grocery
MSBA 5507.1 Summer 2022 Practice Midterm

Perfect Grocery (“Perfect”) is an established independent mid-tier grocery chain operating predominately in Iowa. It was founded by the Best family in the 1920s. Starting with the Great Depression, they have shown a commitment to the communities they serve through difficult and good times. The Best family still owns Perfect.

While a few are wealthy agricultural families, most of its customers are working class rural and small town residents, who appreciate the value Perfect provides. Customers welcome the fact that Perfect endeavors to keep prices reasonable. As a result, Perfect is proud to call a significant majority of the residents of the communities it serves customers.

Perfect’s customer base is also remarkably diverse. As a consequence, it offers products tailored to various ethnic communities, like small farm owners and workers who immigrated from Southeast Asia after the Vietnam War and tries to stock foods that hold religious significance during their various religious holidays.

There are areas that senior members of the Best family wish they could improve. For instance, in a few wealthier communities they serve, the grocery offerings are healthier, and they’re able to offer more fresh fruit and vegetables and grass-fed meats. In lower income communities the economics unfortunately don’t justify healthier options.

In independent surveys, Perfect’s brand rates significantly higher than many other grocery chains, in part, because of its hugely popular and effective customer loyalty program (the “Program”). Through the Program, Perfect collects extensive customer data (e.g., location, frequency, purchases, etc.) which it uses to provide incentives, target advertising and successfully run joint marketing programs with key grocery vendors.

Part of the Program’s success is its privacy program. After consultation with their outside legal and accounting professionals, the privacy program was based on Generally Accepted Privacy Principles. While the privacy program nominally meets regulatory requirements in the Midwest jurisdictions Perfect operates in, the heart of the Program is its robust preference capability. The preference capability provides a mechanism for customers to tell Perfect their interests and needs, as well as detailed demographic information if they choose to provide it. Very few customers decline to provide the information requested because they trust Perfect, and Perfects makes the information broadly accessible to employees so that they can better cater to customer needs.

In particular, one Program preference feature has proven immensely popular. Customers can choose certain products that they wish to receive incentives on (e.g., a particular packaged food or beer), and if they achieve certain purchase levels for that product, they receive additional discounts on that item. In some of Perfect’s lower income communities, this leads extended families, and others, to band together and aggregate purchases to maximize the discount. In

addition, another popular feature is aimed at union members, who are prevalent in several communities served by Perfect. During challenging times like layoffs or strikes, Perfect offers union members exclusive discounts and mails them coupons.

The written privacy policy, which is available on Perfect's website, provides:

- That it collects personal information to operate the Program, including tracking and providing benefits to customers. The data collected can include (depending on how the customer completes the preference profile),
 - Personal identifiers like name, address, telephone number, loyalty number, driver's license number and birth date, union membership, and/or email address,
 - Detailed purchase information, and
 - Location information tracking the stores visited.
- That the information collected is shared with:
 - Service providers who support the Program offering, and
 - Business and advertising partners who support its business.
- That it retains customer information for only as long as it is needed.
- That it will not sell personal information to third parties without providing notice first and an opportunity to opt-out.

Perfect does not operate a pharmacy as part of its business, in part, because it doesn't want the regulatory hassles associated with that business.

Perfect has a security director who works for the CIO, but it does not have a privacy officer. Privacy is handled by the law firm retained by Perfect, who for privacy matters, interacts with the security director. The essence of recent legal advice from the law firm is watch out for the unauthorized access/breach notification laws, develop and deploy internal policies governing security and privacy, and start training employees on the policies.

To date, Perfect has not had a serious security breach and it passed a Payment Card Industry (PCI) assessment (which was focused only on its point of sale technology, which is fairly new). The CIO is only beginning to contemplate using cloud services. While the CIO and the security director talk frequently, the primary focus of their conversations is budgets. Security often plays second fiddle to other customer facing and operational IT needs, and they haven't found the resources to heed the law firm's advice.

Perfect's customer facing security policy is part of its privacy policy, which was drafted by the marketing department. It states:

- Perfect take security seriously.
- Protecting your data is of the highest priority to Perfect.
- Perfect employs all reasonable means to secure your data.
- For more information, contact Perfect at the address on our website.

The newer generation of the Best family (“Next Gen”) is increasingly dissatisfied with the performance of Perfect. As the family grows, individual distributions each family member receives decrease. According to Next Gen the business has fundamental problems, including low margins and what they perceive are limited growth opportunities in the Midwest.

Because of Next Gen pressure, Perfect recently hired Bob Frank, an experienced corporate development director. Bob spent most of his career in the insurance industry doing acquisitions. He is very aggressive, and his personal motto is “think out of the box and don’t wait for permission.” Bob is focused on two initiatives: (1) monetize the Program data and (2) develop new regional markets.

Very quickly, Bob found a small regional grocery chain in the central valley of California, which Perfect acquired after receiving Board approval. It has approximately 100,000 customers in California predominately congregated around six small agricultural cities. While the acquired entity doesn’t have a loyalty program per se, it does have a data base of customer information, which it started collecting around 2000. Bob and Mike Smith, Perfect’s marketing director, can’t wait to bring the new customers into the Program. The idea is to import the new customer data directly into the Program, register the customers automatically in the Program and mail loyalty cards to every new customer. The CIO is under pressure to deploy the Program as fast as possible to the new the customers, which isn’t easy given the data files don’t appear to have been cleaned-up since the acquired company started obtaining the data. The CIO is certain there is a lot of inaccurate data contained in the data files.

With respect to monetizing the customer information in the Program, Bob is convinced a deal can be struck with insurance providers. The Program is rich in data and has never been purged. Bob thinks insurance companies can use the data to help set rates on numerous insurance products they offer in the markets that Perfect serves. For instance, by zip code health insurance providers can understand whether people eat healthy foods, or whether their diet is unhealthy, or if they consume significant amounts of alcohol, all of which can affect health outcomes. The data also might be of interest to car insurers, or even personal liability or home insurers (higher alcohol consumption might be an indicator of more accidents). Bob even thinks insurers might be interested in providing discounts to customers who are willing to show they eat a healthy diet or limit their purchases of alcohol. That might be valuable to some of Perfect’s customers.

Bob hasn’t shared his idea for monetizing the Program data broadly to Perfect’s executive team and Board or asked permission to move forward. He’s afraid they’ll be skeptical since their experience is only grounded in selling groceries. Besides, it’s not clear who he should ask. However, he does share his idea with Mike, who sees merit in it.

Bob and Mike contacted two regional insurance carriers and pitched a pilot focused on helping the insurance companies assess the Program data. They even discuss what the data might be worth. The two insurance companies agreed to participate in the pilot in record time since Bob

did not require any agreements. Bob and Mike are excited about the opportunity since practically every dollar Perfect gets for Program data will drop to the bottom line. From their perspective, the Program data is far more lucrative than the “groceries.”

Because the CIO is under significant pressure to integrate the acquired grocery chain, Bob and Mike decide to go it alone with respect to the pilot. Luckily, Mike has a replicated copy of the Program data on a server under his desk that he and his small team use to analyze the data. Based on a subset of customers taken from the server, Mike sets-up a database on the AWS cloud without IT’s assistance. Bob and Mike plan to use it as a demonstration platform to allow the two insurance companies to assess and manipulate the Program data on the AWS platform in a sand-box (an environment in which the data can be “played” with). The data subset includes all of the demographic information held by Perfect, along with one years’ worth of purchases, for the customers included in the subset. While it does not have purchase history, Bob and Mike also provide a sample of the California data, so that the two insurance companies can get a feel for the new customers. Bob set’s up two user accounts on AWS. One account and password he shares with Mike, and the other he shares with the two insurance companies, assigning them the same password.

To facilitate matters, Bob decides to hire your firm, Big Data Consulting, to help him monetize the data and improve the Program, to make it even more valuable. He is incredibly excited when he meets you and your boss. Bob begins the conversation by saying enthusiastically, “Everything is moving so fast. It’s very exciting. Someone has even extracted data from the AWS database and must be playing with it outside of our environment.” Bob wants to know from your firm whether you can see any potential issues with what Perfect is trying to do. He also wants you to look over the horizon – a few years out to be safe, so he can get ahead of any problems.

Back at the office, your boss looks concerned. He wants to talk with Bob on Monday night, July 12th. Your boss needs a memo outlining the key issues before he meets with Bob. He requires the analysis by 6:00 p.m. You quickly schedule a meeting with Mike by phone and learn all of the above facts.

In the memo (limited to issues covered in the first five classes), your boss wants:

- A concise, to the point, recitation of the key issues, organized logically. No need to be repetitive (one issue may touch on multiple topics (e.g., ethics, security etc.)).
- For each issue,
 - Explain the issue, the topic(s) it relates to and why it is important,
 - Reference relevant rules, concepts or principles you’re applying to the issue,
 - Provide a brief analysis of the issue based on the facts you know (and what additional key facts you would like to know), and
 - Possible solutions.
- No more than 5 typed pages (preferably Word), single spaced and using 12 point font.