Transforming retail marketing with analytics

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Retailers need to develop a loyal customer base and market effectively to them. But customers increasingly shop in multiple channels and formats, and have more choices than ever before. Using analytics to target customers with personalized marketing can transform the retail environment, building brand loyalty and increasing sales.
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Maximizing loyalty
challenges and opportunities

Analytics transforms retail marketing by personalizing ever interaction with consumers, building loyalty across channels and increasing the bottom line through increased sales.

“We have a unique opportunity to be both customer- and product-centric in the way we manage our marketing campaigns in our different store formats.”

Chief Information Officer, Leading European Retailer

As retailers battle for market share, the competitive landscape is changing. Consumers are increasingly turning to multiple retail formats, from big box warehouses and hypermarkets to local convenience locations. The rise of online and mobile shopping channels has created a new group of customers that use more than one channel—using them at different times or combining them by ordering online and picking up in the store for instance. With the growth of social media, retailers see a multiplier being applied to customer influence—happy customers (and unhappy ones) can influence more people. Meanwhile the product selection is changing rapidly with new products, new packaging being released constantly by suppliers, and retailers increasingly offering their own private label brands alongside branded products.

To sustain profitable growth in an increasingly competitive environment, retailers are re-focusing on their customers. Sustaining and developing customer loyalty is a top priority. Generating customer satisfaction and building loyalty has traditionally involved a focus on high-profile elements of the customer experience such as product selection, employee attitude and store layout. Forward-looking retailers are also focusing on the relationship they have with customers in their marketing, developing more targeted loyalty and coupon programs. Done well, these programs generate sales and build loyalty. Analytics is at the core of successful loyalty programs.
Maximizing results

Increase sales

Increasing sales, especially comparable store sales, is always top of mind for retail executives. This means attracting new customers, encouraging return visits from existing customers, and increasing average basket size. Taking market share from competitors, and protecting existing market share, requires the right mix of product, placement, pricing and promotion.

Build brand loyalty

Loyal customers are the backbone of any retail business. Building loyalty, keeping customers coming back, drives organic growth. Turning new customers into loyal customers means increased sales now and into the future. The growth of social media acts as a megaphone for these loyal customers, lowering customer acquisition costs by allowing customers to recruit more customers. Customer loyalty helps drive ongoing traffic to existing channels for repeat purchases and profitable relationships.

Optimize multiple channels

Loyal customers are increasing loyal to a brand, not just to a particular channel or store. With the explosion of online retail and the fragmentation of retail formats, maximizing the value of each retail format and optimizing across all channels rather than within an individual format offers huge potential. Retailers that can engage customers across multiple channels and create a seamless multi-channel relationship with those customers can see greater returns and lower operating costs.

But building a loyal customer base across a wide variety of channels and formats, and increasing sales to that customer base, is more complex than ever before. Creating a single view of a customer across channels, understanding and serving key customer segments, maximizing marketing investments, and managing inventory all become more complex in a multi-channel world. Constantly changing consumer buying patterns and new products mean that retailers must be able to react quickly and accurately, focusing their marketing spend where it will do the most good.

Manage marketing budgets

Retailers are under pressure to demonstrate more proven value out of their marketing budgets, especially advertising budgets. An increased focus on ROI has made traditional approaches to advertising and blanket marketing less appealing. Marketing budgets are smaller and marketers are looking to go beyond traditional advertising to use a variety of marketing techniques -- targeted promotions, coupons, product placement, loyalty programs, etc. -- to market effectively while spending less.

Deal with competition

This pressure on marketing budgets comes at a time when online retailers and the online channels of traditional retailers are increasingly competitive. Combine this with the expansion of formats by their traditional competitors and the expansion of many retailers into new markets and most retailers face more competition. With more choices available to consumers, retailers must also worry about the impact of customer opinion, now much more effective thanks to the success of social networks in spreading commentary and experiences.

Handle change

Consumers are not only more vocal and more sought after, they are also less predictable. Purchasing patterns are changing rapidly and continuously, with trends moving faster than ever through different demographics. Purchasing power is shifting between generations and groups are moving to different channels, different formats. The constant introduction of new products has spread from technology to almost all sectors, with new packaging options as well as new formulations. Constant
change has become the norm, making the interpretation of historical patterns harder, and decreasing the time a retailer has to respond.

Changing demographics, changing products and increasing channel choice has made managing product mix more complex for retailers. Making sure the right product is available in-store or online without increasing inventory levels on less productive items is a constant challenge. Being able to use inventory from one channel to fulfill another, integrating inventory management across channels, is key.

Integrate disparate systems

Finally the reality of most retailers is that a combination of inorganic growth and applications focused on specific channels and specific functions has created a network of disparate systems. A coherent picture of sales, products and customers across these systems is hard to develop, reinforcing a tendency to manage channels and product lines independently.

Retailers can transform their marketing campaigns to increase sales and build loyalty even in a rapidly changing, multi-channel world. In the next section, we'll see how this transformation can be achieved.
“In the past, buyers often made decisions based on gut feel. Now, they can see relationships among the data that they couldn’t before. With this insight, we can adjust our floor planning based on customer buying patterns and target the most-likely buyers for each promotion.”
Russ Rosen, Chief Information Officer, Rooms to Go

“Based on the monthly invoice, we determine a personalized proposal for each customer. With the help of data mining, we make general suggestions and less obvious ones, which produce a high conversion rate.”
Rudi Meijer, Business Analyst at De Bijenkorf

For retailers to meet these challenges and deliver on these opportunities, they must embark on a journey, using information and analytics to optimize decisions and processes throughout their business. Each step on that journey moves them closer to delivering relevant, effective, personalized marketing to consumers. No retailer is going to get there in one step and each step must pay for itself—in terms of reduced costs or increased revenue. But by taking the information they have and focusing on how it can enable data-driven marketing, retailers can transform their operations and their results.

Each step on this journey—integrating disparate data sources to give a complete picture, creating a customer-centric perspective, micro-segmentation and ultimately personalizing marketing—creates value and improves outcomes. Each retailer will have a different journey but no matter where a retailer finds itself today, it can set out to take steps that will improve its marketing.
Data-driven marketing decisions

Integrate information

Retailers have traditionally kept information in multiple databases with different regions or different divisions storing their own sales data, for instance, and product data managed separately. To build a customer perspective and then use that perspective to better target customers, this must change. The first step for most retailers, then, is to integrate their sales and product data.

Sales data from all brands, all formats and all channels must be combined so that sales numbers can be analyzed store-by-store, channel-by-channel. Regional databases, or country-specific databases, must be integrated into a single trustworthy source suitable for analysis. Granular sales data must be captured so that analysis of sales by time of day or for “the week before Thanksgiving” is possible. Product data must be normalized so that the same product on the website and in stores can be identified.

ROOMS TO GO is the #1 independent furniture retailer in the US. Data from different regions was stored in different databases, preventing the analysis of buying patterns across the chain and making it hard to match-up customer data across locations. Rooms to Go integrated their data into a single data warehouse, enabling reports on top selling product packages by store, region, category and customer type.

Product data must also be organized so that different packages of the same product (a family size, a regular size and a travel size, for instance) can be identified and this product hierarchy used in reporting and analysis. This information changes constantly with new products and updated products, so retailers must have processes and systems in place to keep this information up-to-date while maintaining the history of changes to allow historical comparisons. Similarly, the information must allow store brand products to be matched with name brands and similar products from multiple brands to be compared. Retailers must be able to see movements from one brand to another as well as overall sales for similar products.

A LEADING EUROPEAN RETAILER, offering brand name and private label products through a wide range of retail formats from hypermarkets to convenience stores, handles 2.5 Million products from 80,000 suppliers with more than 30% of them needing to be updated each month. The company created a single source of accurate product information that supported all of its downstream systems. This improved information quality and reduced costs related to data quality—the cost of entering a new article was reduced from €60 to €10, for example—with total savings estimated at .2% - .4% of the company’s annual net sales. The integrated product information also reduced lost sales due to out-of-stock situations and eliminated delays in new product introduction.

The transformation journey

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Data-driven marketing decisions

Build a customer perspective

Once a solid base of information exists about products and sales the next step is to match it to customers. Understanding the purchase patterns of each customer segment, each customer, is critical to long term growth in retail. This understanding must cut across channels, across formats, even across brands to be useful.

Debenhams is one of the most successful retailers in the UK with nearly 150 stores. A key marketing task is to analyze customer shopping habits to drive marketing campaigns and store-opening promotions. Multiple data sources were limiting the effectiveness of this approach so Debenhams integrated their data. This enabled them to apply a customer perspective and conduct basket analysis to see which offers were generating sales, which products were being purchased together and understand why some lines sold better. Being able to predict customer behavior let them design new campaigns that increased revenue and reduced response time.

Tying all sales data to specific customers can be complex. The same customer might buy products with different credit cards over time and over channels. Customers who pay cash can be particularly challenging. Loyalty cards and programs can be used to pull information together by giving customers a reason to identify themselves at all times. Developing an information set that ties purchases and baskets, to specific customers and accurately grouping those customers into households requires information from inside and outside the organization to be integrated, cleaned and maintained.

De Bijenkorf, part of Venex KBB N.V., is a trend-setting department store with outlets in 12 major Dutch cities. Each store offers approximately 750,000 different items from the fashion, cosmetics, accessories, home, media, sports, and food sectors. De Bijenkorf used its information to develop customer profiles and customer groups. It put this analysis to work cross-selling using trans-promotional marketing on customer statements. It also used this new segmentation to focus the mailings of its magazine, sending it only to loyalty card customers in segments that seem likely to respond, allowing it to reduce mailing costs by 30% without reducing overall response.

Most retailers have additional data sources that should be integrated at this point. Additional marketing information from third parties such as coupon providers can be integrated to see what offers have been made to customers and how they have responded. Marketing survey data and loyalty promotion history may exist for some customers and this should be integrated also. Finally demographic and psychographic data can be purchased to enrich the information set being used for decision making.

This customer-centric information set allows the creation of customer personas or profiles. Retailers can begin to see the kinds of customers they have and use this understanding to enhance their marketing campaigns, store layouts and more.

Develop micro-segments

Rich, customer-centric information positions retailers for data mining and micro-segmentation. Using the information they have assembled, retailers can build models that predict future customer behavior and develop fine grained segmentation or micro-segments. Predictive models can assess the likelihood that a particular customer will return to a store, will respond to a particular kind of offer or use the web channel. Combine these predictions with the rest of the customer information available and data mining techniques can find similar groups of customers. Customer segments like loyal online shoppers or local shoppers can be developed and refined to create actionable micro-segments.
Data-driven marketing decisions

A LEADING EUROPEAN RETAILER had a vision of delivering compelling promotional offers based on each consumer’s unique profile that was integrated with existing loyalty programs. As a first step, they brought all data together across retail formats and across channels to reveal customer purchasing patterns. By tracking transaction history, the company can obtain analytic insights on not only which products customers buy, but which promotions they are most likely to respond to, who its most profitable customers are, what products they buy now, and what products they would be willing to buy if the incentive was right.

Retailers can use these segments to develop cross-channel campaigns—targeting specific groups based on their overall profile, not just on their behavior in one channel or the basket of goods they just purchased. They can analytically manage the tradeoffs between campaigns and channels segment-by-segment. They can develop prescriptive behavioral clustering that steers marketing and merchandising, enabling effective marketing resource optimization.

Personalize marketing

The pot of gold at the end of the rainbow, though, is truly personalized marketing. Marketing offers so precise, so targeted that customers think they were developed just for them. Retailers can use analytics and information to create these personalized offers and deliver them through the most effective channel. Customers who get regular bills or statements can get trans-promotional offers delivered in that context. Point-of-sale offers can be precisely timed and targeted. Mobile devices and other delivery options can be considered, tested and used appropriately.

YVES ROCHER, a leading French retailer of cosmetics, faced the challenge of multiple channels and overlapping marketing and loyalty offers. A customer might be eligible for a loyalty offer, have downloaded a web coupon and heard a “discount word” on the radio. This made it hard for retail staff to ensure the price was handled correctly at the point of sale. In addition, they needed a better way to get loyalty offers to the customer. Yves Rocher replaced their POS devices with Linux-based terminals and developed a rules-based system that allowed all the pricing rules to be defined by the marketing department and then downloaded into the terminals. All relevant offers are correctly combined at the point of sale. This system also takes the customer’s loyalty card and applies loyalty offers. Using purchases and loyalty history, it prints an incentive offer designed to bring the customer back to the store on the card itself—the cards are re-printable so the customer sees the offer that will be made when they return.

Automation and integrated analytics ensure that this personalization does not come at the expense of agility and responsiveness. Retailers must be able to constantly update and rapidly refocus these campaigns. They need to develop real-time monitoring of effectiveness as well as the ability to change campaigns to respond to competitors, news, even the weather. The marketing disciplines of test and learn, A/B testing and experimentation must be rigorously applied in this new approach. Personalized marketing is very effective but it requires strong monitoring and management discipline.

A LEADING EUROPEAN RETAILER’S marketers, for instance, can craft sophisticated promotional programs using analytics to target particular small groups of customers and particular products. They can take all their promotional tools such as coupons and loyalty program incentives and analytically determine the optimal mix. Micro optimization integrated with the loyalty program enables them to personalize these offers and an integrated infrastructure allows them to print these optimal offers at the POS.

Retailers at this level are recreating the corner store using analytics. Taking all the information they have about all their customers, analyzing it and then using it to understand each individual customer. In the same
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way that the owner of a corner store knows every customer, their preferences and their needs, a larger retailer can use analytics to deliver the same sense of connection at scale: a corner store with thousands, hundreds of thousands or even millions of customers.
“Our new model for managing promotional campaigns gets us closer to our customers, gives us greater control and vastly improves our overall effectiveness.”
Chief Information Officer, Leading European Retailer

“Without analytics unlocking a wealth of data for us, there’s simply no way we could meet business needs or deliver on our objectives.”
Andre Grant, Commercial Insight Analyst, Debenhams,

Any retailer, no matter what its current use of information might be, can move toward personalized, data-driven marketing. Those at the beginning of the journey can look at integrating data to enable comparisons and planning across channels and formats. Those with a solid information platform can bring a customer perspective to this information, identifying and linking all information around a common definition of a customer. With customer information in hand, retailers can dive into customer personas and increasingly fine-grained segmentation that allows more precise targeting of marketing. Innovative retailers can use advanced analytics to recreate the corner store, delivering tailored offers and incentives that are personalized to each customer based on their past behavior and their likely future behavior.

Retailers are in a never-ending struggle for customer spending. Targeting customers precisely, personalizing every marketing interaction is an effective tool for building, extending and retaining the customer loyalty that drives sales.
About Decision Management Solutions

Decision Management Solutions provides consulting and implementation services for all aspects of decision management. Decision Management improves business performance by identifying the key decisions that drive value in your business and improving on those decisions by optimizing your organization’s assets: expertise, data and existing systems.

Our end-to-end, decisions-based approaches and methodologies address key business priorities, such as cost competitiveness, differentiation, customer retention and growth. We offer an array of consulting services for companies, ranging from advice about adopting decision management strategies to tactical support for successful implementation projects.

Decision Management Solutions is led by James Taylor, a leading expert in decision management. James has over 20 years experience in developing software and is the foremost thinker and writer on decision management. James has experience in all aspects of the design, development, marketing and use of advanced technology. He has consistently developed approaches, tools, processes and platforms that others can use to build more effective information systems. In addition, Decision Management Solutions has an extensive network of industry and implementation partners.

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