

# Meeting multichannel consumer demands

A road map for implementing a customer-centric model for retail marketing

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## Consumers have rights — and they know it

Today consumers are demanding that every retailer that serves them understands and honors those rights they consider inalienable. They want to shop when and where they like — scanning catalogs, browsing Web sites, watching TV and visiting stores. They expect the best price, an endless product selection and outstanding customer service. And they want their personal preferences matched while their privacy is kept perfectly intact.

### The 10 inalienable rights of a multichannel consumer

1. I want to shop where I want to shop
2. I want the best price at all times no matter how I choose to shop
3. If you don't have what I want in your store, I still want it now
4. If you can't give it to me in 24 hours, I want to see the delivery cycle
5. I want to return products on my own terms
6. I want to be treated as an individual
7. Use my personal information to benefit me, not you
8. Never send me anything that is not perfectly tailored to my preferences
9. I expect your communications with me to reflect my communications with you
10. I expect everyone at your company to understand my entire business relationship with you

In short, consumers want a seamless shopping experience, across all channels, all products and all geographies. For retailers that put honoring multichannel consumers' rights at the center of their operating model, the rewards are significant. According to a Direct Marketing Association/Winterberry Group study, *The DMA 2005 Multichannel Marketing Report*, multichannel shoppers spend 30 percent more per year in stores than single-channel shoppers. Additionally, in a survey conducted by the Aberdeen Group, *The Multi-Channel Retail Benchmark Report*, December 2005, more than 50 percent of retailers reported multichannel shoppers are more profitable. While the value of attracting a multichannel shopper is clear, it is not enough to simply attract this consumer. Success in today's highly competitive retail market requires creating a branded multichannel experience to convert these consumers to long-term, loyal customers.

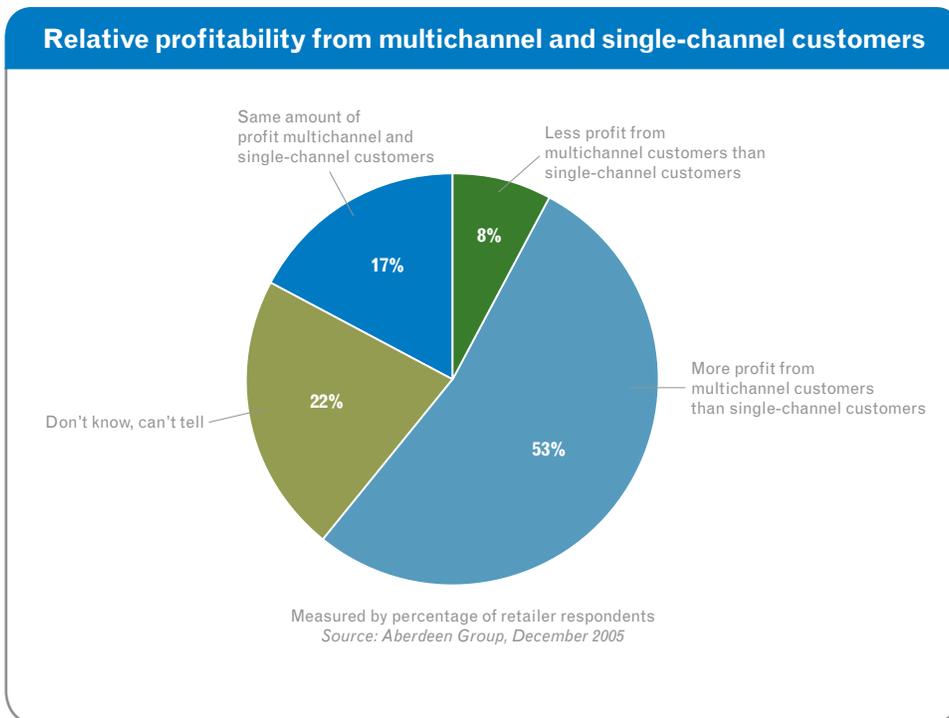
Most retailers have successfully started the multichannel journey. They have launched more than one sales channel and forged a recognizable level of cross-channel service. But few companies are truly meeting multichannel consumers' demands. They have yet to solve the challenge of integrating

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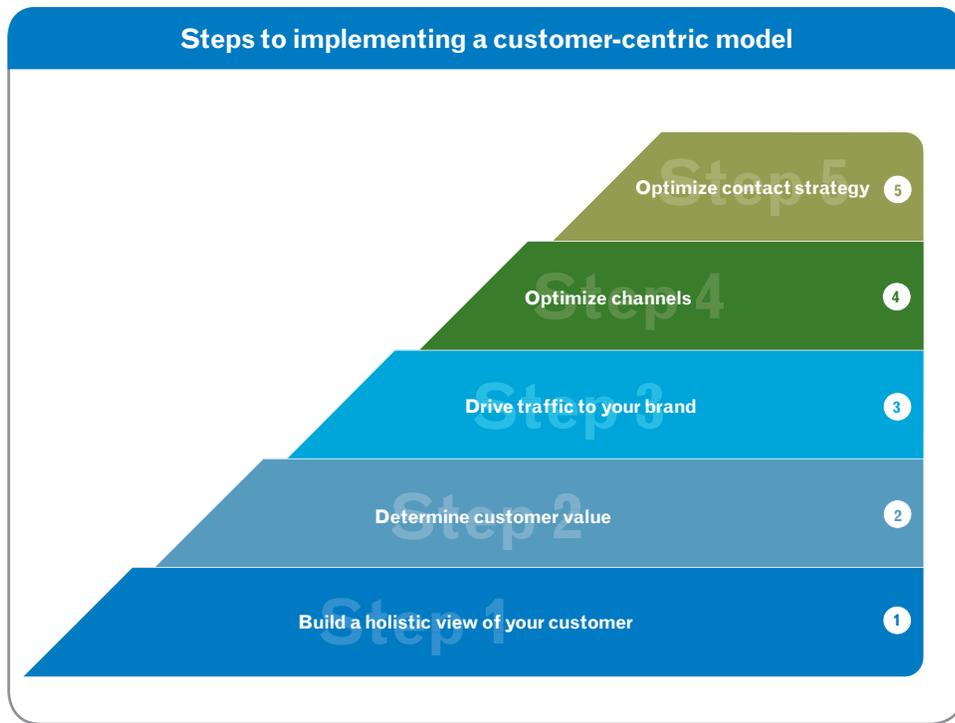
channels to support a seamless customer experience and a cohesive brand image. To overcome the challenges of customer-centric multichannel marketing, retailers need to take a systematic approach to altering their operating model. Success requires a singular management focus that emphasizes integration of the entire business — cross-channel management teams, cross-channel marketing campaigns and unencumbered flow of information among all channels. These efforts must support the goal of using customer knowledge to meet the demands of the multichannel consumer: building long-term loyalty and profitability.

## Customer-centric multichannel retail

Multichannel success demands a change in mindset and operations. To serve demanding multichannel consumers, companies must truly understand who they are, anticipate their needs and preferences, and fuse every channel into a seamless customer experience. Experian® developed a systematic approach that includes five steps to implementing a customer-centric marketing model for retail. The entire process is directed by two mutually reinforcing goals: (1) develop a cross-channel understanding of each customer, including preference for channel, message and communication medium, and (2) use that understanding in an ongoing effort to optimize channels and customer contact to present a distinct and consistent brand to customers.



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## The road there

### Step 1: Build a holistic view of your customer

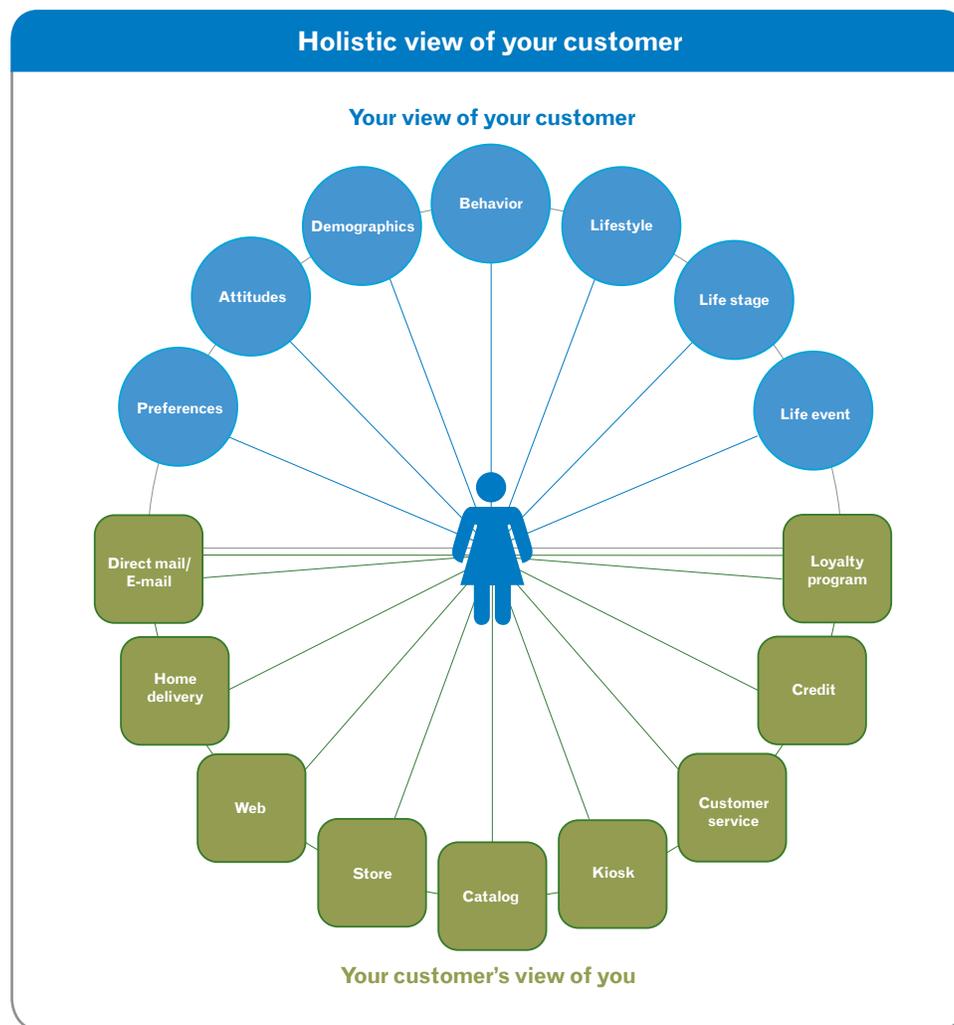
One of the most difficult and yet fundamental steps in the process of building a holistic view of your customer is integrating data across your enterprise. This requires identifying and linking all internal sources of customer data to be able to identify each customer as an individual, regardless of where that information resides in your organization. Not only is this process an important foundation in driving your multichannel strategies, but it is also the basis for creating and delivering a consistent view of your business to your customer. There are four key elements in achieving a holistic customer view. First, companies must identify all internal sources of customer data. Second, they must recognize gaps in knowledge that must be filled with external data. Third, companies must continually maintain customer information to ensure that it is accurate and up to date. Finally, they must make that information available enterprise-wide to drive strategy as well as personalize customer interaction.

While the traditional repositories of customer information result from purchase transactions like customer order management systems and credit systems, retailers need to integrate all internal sources of customer information, including point of sale, loyalty systems, home delivery, gift registries, customer support files and direct-marketing campaign systems. However, many merchants currently are not equipped to capture customer information at every touch-point, especially in the store environment. Investing in point-of-sale systems capable of feeding information to the customer database and creating the appropriate programs and incentives to not merely support but also encourage customer data collection in store, online and in call centers is equally critical to successful customer knowledge management.

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Gathering and maintaining internal and external customer information accurately over time is no small task. In fact, it is so difficult that, according to a recent Aberdeen Group study, *Customer Intelligence Management Benchmark Report*, December 2005, more than 55 percent of best-in-class companies outsource data integration to a third-party firm. The technology behind this process, Customer Data Integration (CDI), is a highly sophisticated, persistent customer identification system. A “universal ID” enables continual updating of your customer records from both internal and external sources, ensuring that your customer information is accurate and current at all times.

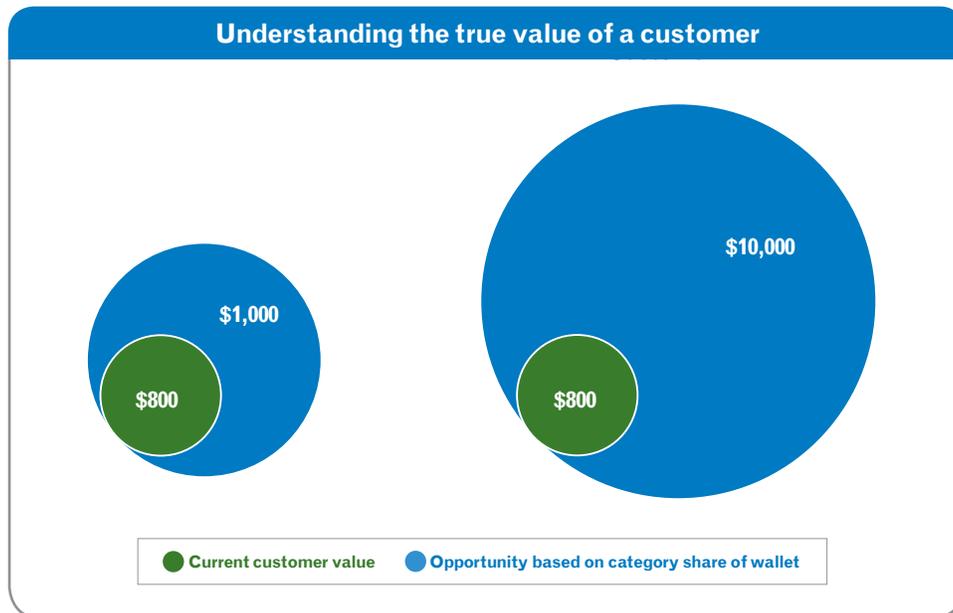
Gathering and linking customer information is critical, but making that information available to your organization is the goal of the customer-centric organization. To accomplish this, you’ll need to house and manage that data centrally. Whether you decide to manage it in-house or outsource it, a centralized customer database is necessary to deliver on the multichannel imperative. Because you’ll be driving operational decisions from a customer-centric perspective, this database must act as your system of record for customer information and be integrated with all your customer touch-point systems.



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## Step 2: Determine customer value

To enable a differentiated customer experience, retailers need to achieve two objectives: identify and profile their best customers and segment their customer database based on potential customer value. While many retailers use different measures to identify their best customers, such as recency of purchase, frequency of purchases or the monetary value of all purchases (RFM), these are simple measures that do not fully take into account the potential value of a customer. Other retailers use more sophisticated lifetime value calculations that measure in present value the potential revenue over the lifetime of a customer minus the cost to serve that customer. While lifetime value is a critical measure to understand the investment required to serve customers profitably, it is less useful in identifying your best customers, namely the customers loyal to your brand.



One technique for determining customer loyalty is through a share-of-wallet analysis. In the example below, two customers spend an equal amount of money with a retailer annually, which makes them look equally valuable. However, when we analyze each customer's spend across the merchandise category, we see a very different picture. While Customer A spends \$800 annually with this retailer, that amount represents 80 percent of her spend in that category. However, Customer B, while spending the same \$800 annually, has a total category spend of \$10,000, which means this retailer has only an 8 percent share of this customer's annual spend. Based on this view, the retailer may want to adjust its marketing investment to try to gain more share from Customer B, who is not as loyal as Customer A but has more growth potential in this category.

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Regardless of what method you adopt, using and managing multiple channels enable you to gather new levels of customer insight into what sets your best customers apart from just average ones. Data gathered in each channel and the insight derived from analyzing this data across all channels is illuminating on several fronts:

- It drives marketing-mix decisions and defines contact strategies, enabling dynamic customization of content, offer and creative, segment by segment
- It allows companies to better group customers according to their overall value to the organization and treat them accordingly
- It provides demographic and psychographic customer profiles for merchandising strategy — both product development and creative positioning

To achieve clear and actionable understanding of customer value, retailers must acquire statistical analysis capabilities and expertise, either in-house or on an outsourced basis; empower the team with the tools and resources to do its job; and make intelligence directly accessible to executives and every customer touch-point. The technological commitment cannot be taken lightly; at a minimum, it involves acquiring a database segmentation model and statistical modeling application and implementing these while ensuring linkage with the company's multichannel database. In addition, the flow of analytical information (segments, profiles, models) into the integrated database, as well as the flow of raw data into analytical systems, should be bidirectional and automated.

## Step 3: Drive traffic to your brand

To the multichannel consumer, the channel itself takes on transparency and becomes secondary to the brand. There is a brand relationship but only a channel preference. However, while the growth of sales and marketing channels offers consumers new shopping choices, it makes reaching consumers even more difficult. Consumers are bombarded with thousands of marketing messages daily, with their attention divided across an ever-expanding array of media, including TV, radio, the Internet, print catalogs, and newspaper and magazine ads. Consumer attention is now fragmented even more discretely by time of day and activity. Consequently, retailers must leverage each of their channels to support brand awareness and drive cross-channel sales.

To successfully build sales, retailers need to build a media-mix strategy that leverages the knowledge of their target customer. In this stage, retailers must combine their value-based segmentations from Step 2 with customer segmentation by channel, media and proximity to a store. Each segment will require a unique contact strategy that includes a specific offer. In the example below, when planning for an end-of-season clearance sale, a retailer can reinforce the weakness of each channel through use of the inherent advantage of the others, maximizing the impact of each communication to drive traffic to the brand.

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While the example below could be supplemented by mass advertising in local newspapers or with local radio and TV spots, multichannel retailing affords marketers the opportunity to make all marketing more measurable — from direct mail, which is rooted in measurement, to mass advertising, which traditionally is difficult to measure. The customer insight derived from data collected across channels can help retailers make better media buying decisions. They can use this same insight to test emerging addressable channels such as cable and Internet advertising to support local sales promotion activities. These new addressable media technologies enable marketers to deliver highly customized and targeted messages where and when consumers will be most receptive.

Example of driving measurable traffic to your brand			
End-of-season clearance sale			
Customer profile			Multichannel communication strategy
Channel preference	Live in a store trade area	E-mail address available	Action
Store	✓	✓	Post card announcing sale; follow-up e-mail(s)
	✓		Post card announcing sale
		✓	E-mail announcing sale
Web	✓	✓	E-mail announcing sale; link to Web site clearance section; follow-up e-mail(s)
		✓	E-mail announcing sale; follow-up e-mail(s)
Catalog	✓	✓	Clearance catalog with store sale insert; follow-up e-mail(s)
	✓		Clearance catalog with store sale insert
		✓	Clearance catalog (no insert); follow-up email(s)
			Clearance catalog (no insert)

Regardless of communication strategy, the organizational challenge to driving brand traffic requires significant training of all customer-facing employees, as well as a structure to measure consumer response across all channels. Sales and customer-support teams will need to be trained to recognize your target customers and leverage the capabilities of all channels to satisfy their needs and build loyalty to your brand. In addition, to measure the effectiveness of your customer segmentation and your marketing campaigns, you will need to establish a process of cross-channel response. Both of these needs can be supported by the deployment of an enterprise-wide business intelligence system that allows information to be analyzed and shared with executives as well as customer-facing employees.

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## Step 4: Optimize channels

After a retailer has created a centralized customer database and has been measuring multichannel campaigns, it can begin to analyze cross-channel customer behavior to ensure that its investments in specific channels are delivering maximum value to customers as well as to the business. There are highly visible examples of retailers shuttering an entire sales channel based on optimization analysis. Most retailers will derive significant value from developing multichannel optimization strategies by using customer insight to drive major investment decisions. When used as the driver, that insight is the impetus for:

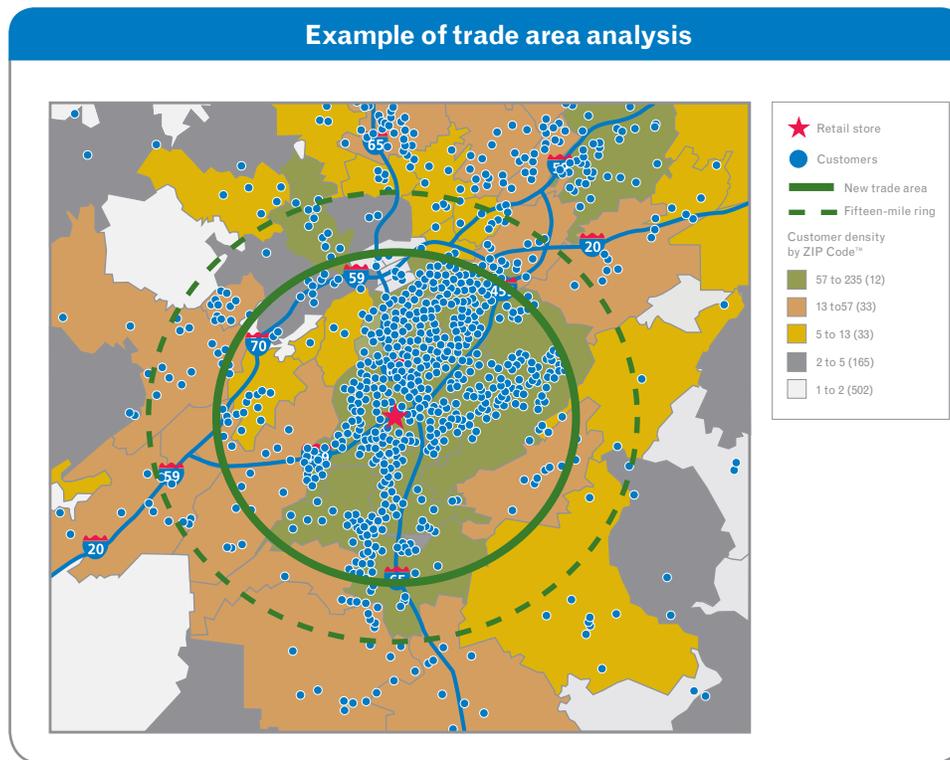
- Rationalizing store mix in a trade area
- Identifying profitable locations for new stores
- Improving inventory management and assortment planning
- Adjusting catalog mailing strategies
- Implementing new customer service options on the Web

Multichannel retailing requires new levels of analysis that add channel criteria into the statistical mix. Each channel must be scrutinized on several fronts: which customers prefer which channels, how each channel contributes to the sales process and what is the return on channel investment. Sales and marketing measurement must be expanded in the form of enterprise-wide, cross-channel response tracking and campaign analysis tools to include the following gauges of channel performance:

- **Channel preference** — Companies must track through which channels customers prefer to purchase and research their purchases. While some consumers communicate regularly across several channels, many will choose a primary channel. Knowing this information will help companies determine ongoing contact strategies and channel investments.
- **Channel mix** — By definition, multichannel consumers interact across several touch-points. Companies must be able to identify which of their customers are truly multichannel consumers. They must measure how each channel impacts the sales process — which channels facilitate product research, which capture sales and how each channel interacts with the rest to create a total shopping experience.
- **Channel shift** — Consumers tend to move across channels for several reasons: store openings, product category or mere convenience. Some migrate most of their shopping preference from one channel to another. Creating a differentiated customer experience requires vigilant tracking of these patterns and integration into a company's contact strategy.
- **Channel ROI** — Companies also must measure the profitability of each channel — how much customer demand for each channel nets relative to its respective operating budget.

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One method of channel optimization involves trade area analysis. This type of analysis involves utilization of multichannel transaction information coupled with a geographic information system to visualize the concentration of customers across a specific geographic area. In the example below, a retailer had defined a trade area for this store as a 15-mile radius. After performing a trade area analysis, the retailer discovered that 85 percent of all customers for this store live within 11 miles of the store. The analysis also highlighted the fact that the customers living inside the 11-mile ring have a life-to-date spend 6 percent greater than customers living between 11 miles and 15 miles from the store.



Finally, the analysis was able to identify which ZIP Codes contained the highest density of customers. Through this type of analysis, a retailer can analyze the store network performance to determine the optimal mix and location of stores in a specific area. It also can analyze the concentration of Internet or catalog shoppers to make better decisions about retail store expansion in new areas and forecast the impact that stores will have on the other channels' sales. Trade area analysis can assist with making decisions about marketing investments by measuring the impact mailing catalogs or e-mail offers are having on store sales and providing a fact base to change catalog circulation patterns. The value of trade area analysis is the alignment of resources to meet the demands of your customers, maximizing the ROI in both channels and marketing.

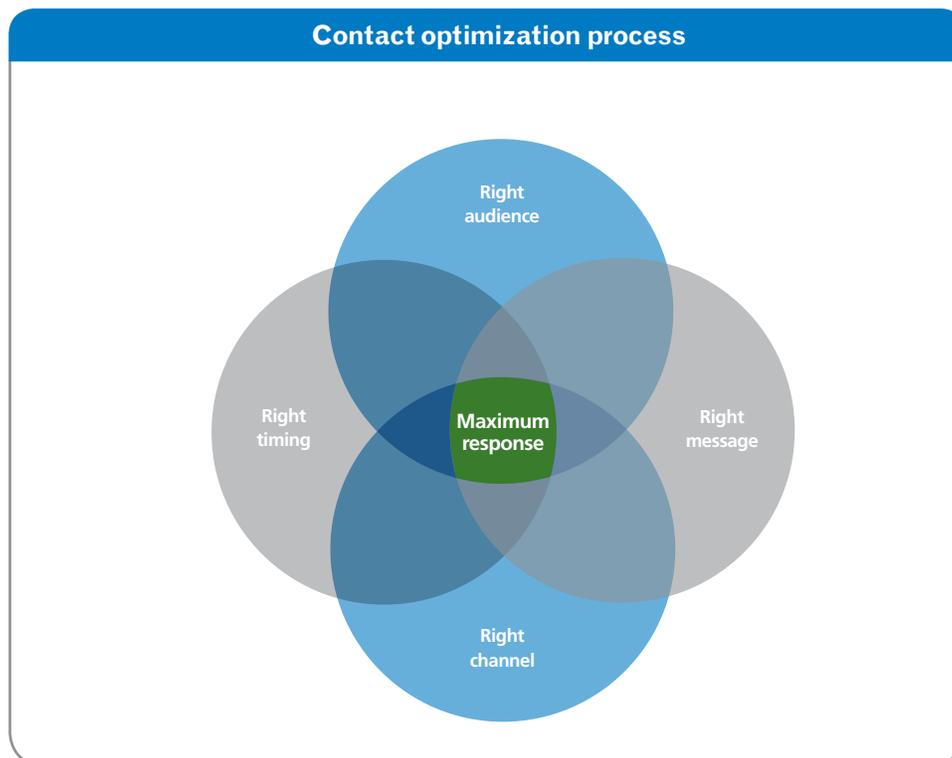
The greatest challenge to success in this phase may be your company itself. Is your business organized into channel-specific silos? Is the culture multichannel friendly? Is there competition rather than cooperation between sales and marketing channel

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teams? The remedy for organizational reform lies in finding the core skills that each channel-specific team possesses and building a unified team on that foundation. Organizations must identify which skills should be transferred across channels and establish an incentive program to accomplish this.

## Step 5: Optimize contact strategy

Once a retailer has gained a deeper understanding of customer shopping behavior across channels, it can begin to focus on creating a customer experience based on personalized contact strategies. Optimizing customer contact requires utilization of advanced segmentation models that go beyond demographic information to understand what attitudes and behaviors motivate consumers to purchase. This type of framework answers critical questions about consumers: Do they value convenience? Do they respond to a strong connection with the brand? Are they motivated by altruism or activism? What channels are driving looks and inquiries, and which channels are netting orders? There are four components to customer contact optimization: research, segmentation, testing and ongoing refinement. This process is used to connect with multichannel shoppers in the most meaningful ways that honor their demands for individualized interaction.



While you already may have developed a good understanding of your customer in Step 3 to improve her multichannel shopping experience, optimizing customer contact focuses on making each and every interaction meaningful to your customer as an individual. Optimizing customer contact means creating a segmentation framework that not only identifies your best customers or prospects, but also

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recommends what messages and offers motivate their purchases, the communication channels they prefer and the times that they can be reached. The segmentation framework is driven by primary and secondary research, survey information and behavioral data. This is combined with enough demographic information to predict what messages and offers will resonate with specific segments, through which preferred channels and at what preferred times to deliver the maximum value of your marketing investment.

Once a contact strategy is established, it can be tested and refined to maximize marketing investments as well as delivery of relevant communication to multichannel consumers. For example, a \$125 million women's apparel multichannel retailer that operates a Web site and mails 35 million catalogs annually targets women aged 35 to 55 and was seeking to understand its customers' basic purchase motivation. By employing an advanced customer contact strategy segmentation framework, this retailer was able to identify two key motivations of customers: price and image. With that understanding, it was able to target specific messages and offers through marketing efforts that resonated with these specific segments. Price-sensitive customers received messages that offered discounts and sales, while image-conscious customers received messages that focused on the latest fashion without promotional offers that might cheapen the brand. This deep understanding of its customers allowed the retailer to improve the return on its marketing investments while improving customer satisfaction.

Implementing a customer-contact optimization process requires the acquisition of a campaign management tool that enables complex, multivariety testing capability. It also requires an analytical organization that can measure the performance of various combinations of messages, channels and timing and recommend the optimal mix for the target customer segments.

## Conclusion

Multichannel consumers view sales channels as transparent and demand that retailers honor their rights as customers. They shop the path of least resistance, precisely when and where they feel motivated without much more than a passing thought given to how, for they assume their channel of choice (given their knowledge and assumptions of those channels) will be up and running, there to serve them when the desire strikes. Meeting the demands of these consumers requires retailers to organize around their brand and arm themselves with the tools and processes to apply a deep understanding of their customers to every channel and at every touch-point.

The five-step process outlined in this paper can serve as a road map for retailers seeking to meet the demands of the multichannel consumer. It is designed to be leveraged by any retailer to move to its next level of multichannel integration and create a better customer experience, while measurably improving business performance.

With continued media fragmentation and the brand experience becoming the dominant influence in retail, it will become more and more difficult to attract and retain the highly valuable multichannel shopper in the future. The time for retail marketers to act is now. While the path may be challenging, the reward for those retailers that successfully execute a customer-centric strategy will be a lasting competitive advantage.

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Steps to customer-centric marketing				
	Objective	Process	Organization	Technology
<b>Step ①</b> Build a holistic view of your customer	Create a holistic view of your customer across all channels	<ul style="list-style-type: none"> <li>Identify all internal sources of customer data</li> <li>Identify gaps that must be filled with external data</li> <li>Capture and integrate data at customer touch-points</li> </ul>	<ul style="list-style-type: none"> <li>Build cross-functional team (marketing, stores, online, catalog, IT and finance) to align cross-channel resources</li> <li>Create incentives to support customer data collection: in store, online and call centers</li> </ul>	<ul style="list-style-type: none"> <li>Implement multichannel customer database</li> <li>Implement CDI process</li> <li>Implement process for ongoing customer data enhancement</li> </ul>
<b>Step ②</b> Determine customer value	Segment customers to identify and predict best customer profile	<ul style="list-style-type: none"> <li>Profile customers to determine key attributes</li> <li>Segment customers into actionable groups based on profiles</li> <li>Perform modeling analysis to apply segmentation to customers, prospects and reactivations</li> </ul>	<ul style="list-style-type: none"> <li>Develop statistical operations group reporting to C-level owner of customer experience</li> <li>Acquire statistical analysis capability (in-house or outsource)</li> </ul>	<ul style="list-style-type: none"> <li>Implement statistical modeling tool</li> <li>Integrate statistical tool with customer database</li> </ul>
<b>Step ③</b> Drive traffic to your brand	Execute direct and measurable marketing programs to drive traffic to all channels	<ul style="list-style-type: none"> <li>Execute marketing campaigns based on segmentation model scores: customer, prospect, reactivation</li> <li>Create cross-channel response analysis</li> <li>Measure response to initial segmentation and refine</li> </ul>	<ul style="list-style-type: none"> <li>Develop training for all associates to communicate programs to engage target customers</li> <li>Develop training for client-facing associates to support cross-channel sales</li> </ul>	<ul style="list-style-type: none"> <li>Implement business intelligence reporting tool</li> <li>Implement marketing campaign management tool</li> <li>Integrate business intelligence and campaign management tool with customer database</li> </ul>
<b>Step ④</b> Optimize channels	Develop programs to optimize sales within channels and across channels	<ul style="list-style-type: none"> <li>Use customer insight to drive store location planning</li> <li>Use customer insight and market intelligence to drive cross-channel promotion</li> <li>Use Web site analytics to drive event-based marketing capability</li> </ul>	<ul style="list-style-type: none"> <li>Create incentives to utilize customer insight to drive strategy</li> <li>Create incentives to support cross-channel revenue sharing</li> </ul>	<ul style="list-style-type: none"> <li>Implement geographic information system</li> <li>Implement Web site analytics tool tied to e-mail</li> <li>Implement real-time decisioning capability at all customer touch-points</li> </ul>
<b>Step ⑤</b> Optimize contact strategy	Develop a contact strategy to optimize communication per customer segment	<ul style="list-style-type: none"> <li>Identify key messages that resonate with specific customers</li> <li>Create communication strategies for customers</li> <li>Test offers, timing and creative to maximize customer interaction</li> </ul>	<ul style="list-style-type: none"> <li>Build brand marketing teams that manage sales across all channels</li> <li>Build cross-functional team of creative and customer insight to support message testing</li> </ul>	<ul style="list-style-type: none"> <li>Implement contact strategy tool</li> <li>Implement message testing capability</li> </ul>

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