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A compilation of Peppers and Rogers Group articles and ideas on Customer Based Initiatives in the Retail Industry

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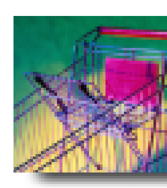

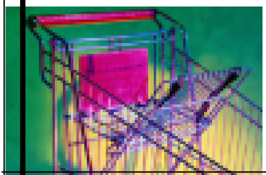

the **RETAIL**
INDUSTRY

Customer Relationship Management has become a viable business strategy across all industries, including the retail industry. Peppers and Rogers Group has assembled its most relevant and actionable content about this industry, highlighting articles and case studies published on our Web site. The following is the Best of Peppers and Rogers Group thinking about retail.

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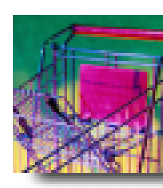
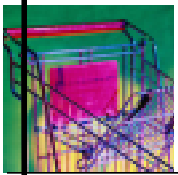




From the Store to the Web and Back Again

BY JANE ZAREM

Personalization drives value to online retail.

January-February 2002

With fewer dollars available for marketing programs, communicating the right message to the right customer at the right time is vital for retail businesses to survive, compete and grow. To ensure that process, "a unified view of the customer is critical," according to David Schneider, executive VP of consulting and education for NuEdge Systems, a CRM-solutions provider based in Waukesha, Wis. (nuedge.com). "Consumers are educated today, regarding both the brands and the shopping options available to them. They want the ability to shop in a company's retail store one time, its catalogue the next time and online another time. And they don't view that as three separate businesses, but as one company."

Leveraging combined customer information to provide appropriate, timely messages to customers is also a more cost-effective way for a retailer to do business. "A lot of companies are still silo-driven," notes Schneider, "which will be a critical factor in the next 12- to 24-month timeframe. Retailers that have established separate Web divisions need to centralize and unify their data."

Bridgestone/Firestone's database "a godsend"

Having a unified database "was a godsend" when Bridgestone/ Firestone (firestone.com) had to deal with a massive, high-profile tire recall in 2001, according to Jim Stahulak, manager of database/Internet marketing for the Bloomingdale, IL-based company's Retail and Commercial Operations division. "It gave us the ability to contact specific customers and arrange focus groups to better understand their attitudes and how the news might affect their loyalty."

The focus groups were followed by a full telephone survey of customers identified through the database. "We learned that as long as the relationship between the customer and the store was good, the news wasn't going to change their impression of our brand or their loyalty to our products," says Stahulak. "Customers actually thought we handled the recall very well. Then we communicated those results to our stores."

The exercise also exposed customers who hadn't visited Bridgestone/Firestone's stores for service. "They didn't know we could change their oil, check their brakes and tune their cars," says Stahulak. "They thought we just sold tires."

Retail and Commercial Operations, one of six corporate divisions, oversees some 2,200 company-owned retail stores nationwide that sell tires and provide automotive services to consumers. Customer records are centralized in one database, using NuEdge Systems' Campaign Manager software.

Prior to investing in its database system, Bridgestone/Firestone had identified and segmented customers who paid with a bank card, dropped those names into a mini-relational database, and sent them a promotional mailing. "We got very significant results and that led to the decision to roll this out for all our customers," reports Stahulak. "Now, we capture all the data (name, address, phone number, vehicle information, transactions, and method of payment) when the customer drops off the vehicle for service, so we mine a lot of information." All stores are company-owned and utilize the same point-of-sale system, which makes the process easier. Determining where to have a vehicle serviced depends, in large part, on the trust factor. To build trust, Bridgestone/Firestone store managers send personal communications to each customer after a service visit. The notes also provide information to customers about what can go wrong with their vehicles, with the goal of avoiding major repairs. The centralized database system, which the company installed six years ago (and upgraded to the NuEdge System three years ago), is key to helping the company conduct those activities.

E-commerce vs. e-communication

Although the e-commerce channel is increasingly more important, it varies from business to business. Creating a place for customers to research information, compare products, and find a retail location to buy a product is more appropriate for some businesses than actually transacting the sale online.

"People have to bring their vehicles to our stores for servicing," says Stahulak, so [Bridgestone/Firestone] will never be able to do true e-commerce, as a cataloguer or department store can. But we can use our site (mymastercare.com) to provide information about stores and products and help customers better understand their vehicles." Customers can also access vehicle service history online. To those who opt-in, the company sends email reminders for scheduled maintenance and plans to send email thank-you's or coupons to its most loyal customers.

The centralized database system is key to helping the company conduct those activities.

Competitors, such as Goodyear, have not yet gotten to that level of personalization, according to Stahulak, although Goodyear sends oil-change reminders. But Goodyear has both franchised and company-owned retail stores, which utilize different point-of-sale (POS) systems, he says, making it a much more complicated endeavor.

"All the information we're capturing on our site or gathering through the POS system is driven back to our datamart for further analysis and data-mining," says Stahulak. "We can then truly assess whether the online customer is a better customer for us than one we get through other forms of advertising. That will also prove the benefit of our Internet investment. Once we have those numbers, we'll do a full-blown public-relations effort and ad campaign to promote mymastercare.com."

Other planned initiatives are to provide communication according to customer preferences-mail, email, telephone, or cell phone-and allow customers to make service appointments online and then drop the vehicle off. "In the very long term," Stahulak says, "maybe we'll service the vehicle on the customer's own premises!"

J. Crew's clickstream initiative

For multi-channel retailers like New York City-based J. Crew Group-which has 170 retail stores in the U.S., 70 outlets in Japan, a catalogue division, and an e-commerce Web site - the ability to track and segment customers is extremely important. "We see, for example, a huge migration from the catalogue to the Internet," says Jayson Kim, senior director of Web marketing applications. "It's important to know who's doing that, why they're doing it, and what's driving that business. That was our main reason for implementing a CRM application. In order to perform segmentation for customer analysis and to take action on it, we needed a central repository for all our customer data."

J. Crew hired Kim to leverage its existing front-end applications to enable personalized content on its Web site. "To me," Kim says, "personalization is segmentation. The problem was not figuring out how to do it technically on the front end. Rather, it was understanding, on the back end, who the customers were, what kind of content to deliver to them, and how to get that into a format that we could actually leverage on the front end." One frustration Kim encountered in his quest for a solution was that many CRM vendors expect companies to simply overlay their data onto an out-of-the-box schema.

"Fundamentally, all data is proprietary to the company," says Kim. "A set of tables that will work for J. Crew's customer data wouldn't work for Nordstrom's or The Gap. I can think of 50 to 60 kinds of direct marketing and buying attributes that can be associated with a customer and as many different ways of slicing and dicing them and analyzing the data. You can't simply snap a component onto existing applications, create a data feed to 'slurp' information from various repositories, cleanse and scrub it, and put it into an environment in which the company can work. In my opinion, the only route is to create a data warehouse."

"It's important to know who's doing that, why they're doing it, and what's driving that business."

J. Crew wanted to collect historical transaction data from all its channels, put it into an enterprise-wide data warehouse, and incorporate clickstream data from the Web. So Kim sat down with DigiMine Inc. of Bellevue, Wash. (digimine.com), to look at the data, see where it resided, and figure out how to get it into a repository that would work. "It took six or seven months to do that," he says, "but now, we have a data warehouse and a true, complete, holistic picture of our customers. We can track each individual across multiple channels."

Consider CRM implementation a continuous work in progress, Kim advises. "When building a data warehouse, it's very important to architect one that's flexible and extendable. Your schema will change over time," he notes, "whether you go to the next level with personalization, change the systems and repositories from which you pull information, or have a new promotion and must accommodate new tables or fields. It can be difficult to extend an out-of-box solution."

The fact that J. Crew has three integrated, leveraged channels drives "a very healthy Internet business for us," Kim adds, "a symbiotic relationship, one to the other." J. Crew has 100 percent of its catalogue inventory available on the Web. Nevertheless, merchandising on the retail level and on the Internet is different. "If I were to select gloves, a typical retail merchandiser might suggest a matching scarf or belt on a cross-sell/up-sell list. But that's subjective 'merchant logic.' With a data warehouse," he points out, "the data drives the recommendations."

Basically, J. Crew uses algorithms to generate product recommendations based on browsing and purchase activity. If a visitor adds an item to the shopping cart or gets to a selling page for a particular item, the recommendations displayed are based on the intuitive algorithm that looks at product affinity. "We're currently testing this and seeing a bump, although the data could be skewed because of the Christmas selling season," says Kim. "Once we're out of the peak period, we plan to do an A/B split to measure the performance of a certain group of users that is shown the data-driven recommendations vs. another group that is not."

This is where clickstream and browser-behavior analysis comes into the picture. "Clickstream analysis is relatively new in the retail industry, and probably less than 5 percent of all major companies are actually using it," Kim speculates. "Most companies haven't even spent much time looking at their logs. The only way to analyze the gigs of clickstream data you gather is to understand how to write the algorithms and how to segment your customer base. And that's the single, most-important reason why most companies have difficulties: Nobody wants to spend the time." It's important, however, to do click-stream analysis and do it correctly. Otherwise, when a person isn't registered online and doesn't select preferences, the store can't know what product the user was browsing the day before.

When starting this project, Kim literally spent day after day, month after month fine-tuning an approach before writing a single line of code. "At least 70 percent of my work was on the strategy and operational challenges," he says, "literally working across multiple departments, with technical issues being only 30 percent of the effort."

Personalization as an online strategy

"Case studies show that individualized communication will generate a 25 to 50 percent higher response rate than mass communication," notes Schneider. "The dollars available today," he advises, "are best spent by companies who are going after their existing customer base, retaining those customers, and cross-selling or up-selling products," what he calls expanding the internal share of wallet.

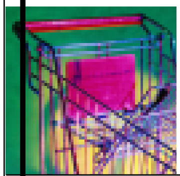
"I can think of 50 to 60 kinds of direct marketing and buying attributes that can be associated with a customer ."

Online personalization can be achieved through regular content on the site, or via email, with special promotions and offers. J. Crew is heading toward delivering dynamic personalized content to the end user in near real time based on preferences, "but it's quite difficult to accomplish," says Kim. "Let's say you logged on yesterday and were looking at sweaters, but you didn't make a purchase. When you come back today, we should display a 20 percent discount on that sweater to encourage you to buy it. Alternatively, we can program the system to wait two weeks and, if you don't come back and make that purchase, email a free shipping coupon or discount. That's a personalization delivery system that can actually work to turn browsers into buyers."

Most companies try to deliver personalized content based on implicitly derived data to any anonymous user, Kim suggests, and the reason they fail is technical. The hardware to accommodate the kind of system required to profile and continuously update the profiles of hundreds of thousands of different users in real time would be prohibitive. Instead, Kim aims to do browser-behavior segmentation offline, then bring it to the front end completely outside the real-time environment. The next time the user comes to the site, the system will recognize the person as someone who viewed sweaters the prior day. The segmentation model must be refreshed almost daily, with gigs of data pumped into the front end. Not yet active, this will be phased in as part of J. Crew's personalization initiative.

"The purpose of personalization is to target the 80 percent of customers who are non-buyers and convert them into customers," says Kim, "and that's our goal at jcrew.com. We know our customers, and we have a solid approach to understanding their preferences. Clearly, the next evolution on the Internet will be to become more customer-centric. Sites will be more customized and personalized, with inventory geared around the customer's preferences rather than: 'Here's our inventory, go pick what you want.'"

That will lead, of course, to more loyal customers, who will give that retailer a larger share of their spending. "With an e-commerce operation the size of J. Crew's, when you swing the customer conversion rate a fraction of a point, you're talking about an immediate payback of your investment in a project like this. If we can increase the lifetime value of our customers, then obviously we have a huge win." ■



Nike's "Smart" Loyalty Program

BY JANE ZAREM

Loyalty-club members of the Nike store in Toronto to reap the rewards of their loyalty on the spot.

March 2002

Some time in the not-too-distant future, when customers swipe their smart cards, Web-enabled cash registers will print out real-time offers and information on items customers are most likely to buy. That's a logical extension of the convenience and informative power people are experiencing when buying online.

Something similar to that is already in operation at Nike's Canadian flagship store in Toronto. Its Air Max Club loyalty program operates via in-store point-of-sale (POS) terminals. Each time a participating customer makes a purchase and swipes his membership card, points based on pre-tax dollars spent are immediately awarded and indicated on his receipt. "It requires minimal effort by either the customer or the retailer," explains Kerry Fleiser, retail marketing coordinator at Nike Canada Ltd. "And the customer can redeem points on the spot for a gift certificate commensurate with the point value."

The Nike Toronto program, which has 12,000 members, was installed by Ernex Marketing Technologies, Inc. (ernex.com), headquartered in Vancouver, British Columbia.

"There's only one way for retailers to create a relationship with their customers," says James Christensen, Ernex president and CEO. "They need to get the customers to say who they are, and loyalty programs do that. Our difference is that the experience is in the store, rather than a month later in the mail."

Besides dollars spent, customers are rewarded on how often they frequent the store, which locations they use, or even the time of day they shop. Retail cashiers could be alerted to a most-valued customer by a screen message that appears when the card is swiped, indicating a special thank you or prize for that particular customer. Point multipliers might be included, as well, based on any typical CRM or one-to-one factor. An endless number of options can be programmed into the system.

The data is mined as if the person were receiving a mailer, explains Christensen. "If she is a more recent member or a more frequent buyer, whether she has spent less money or more-whatever parameters the company wants to use-we can populate our response database to reflect that."

No data warehouse needed here

This type of program is a way for "boutique" retailers or individual stores in a chain to gather useful customer data without having to build a data warehouse or launch a full corporate initiative. "This program is unique to the Nike Toronto store," Fleiser notes. "Members fill out personal information when they join, giving insight into who our Nike Toronto customer is, what they like to buy, and how much they buy. It also gives us the capability to reach targeted groups of people in our marketing campaigns."

Nike Toronto uses the tracking data Ernex supplies to analyze member spending against general customer spending. The result: program members spend about 50 percent more per average purchase. "Air Max Club members are willing to buy that extra piece or spend a little more, because they know they're going to be rewarded down the line," suggests Fleiser.

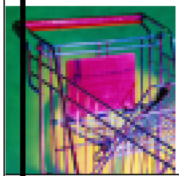
Studies conducted by Ernex further indicate that the response rate for POS communications is similar to the same offer in the mail, but the POS message is 10 to 20 times less expensive, according to Christensen. There's no need for monthly statements, a reward catalogue, or other costly back-end items. "Some loyalty programs are so expensive," he contends, "that they turn into [broad] acquisition and marketing programs. Our program is so inexpensive that the participants can truly be treated as top customers."

Nike Toronto created direct mail and in-store marketing campaigns to help hold members' interest and to try to spark interest in others who haven't joined because Internet communication is not yet part of the mix. (Except for an FAQ description of the program on Nike's Canadian Web site nike.ca, the division isn't set up for e-commerce.)

"Members are willing to buy that extra piece because they know they're going to be rewarded down the line."

Fleiser envisions more for Nike Toronto's loyalty program in the future, such as email marketing, online program updates, and other real-time marketing communications. Ernex has, in fact, recently launched a product where the back-end host (which communicates to the point-of-sale) is fully Internet-capable. In that scenario, the participating customer making a purchase earns points, perhaps wins a prize, receives a thank-you message on the receipt, receives a verbal message from the cashier- and receives an instant event-based email (which could go to a cell phone or PDA device) to reinforce the sale. The system hasn't yet been sold to an Internet-based client, however. "Our fee is transaction-based, and we haven't found an e-commerce site with enough volume to make it work," says Christensen.

The Internet scenario can back up a bricks-and-mortar program, however, by delivering extra messages, facilitating program adjustments, or allowing members to look up points online. "Customers expect to find program information online," he maintains, "and retailers should want to deliver that." ■



Driving Value from the Catalogue Customer

BY ERIC YODER

1to1 magazine

Catalogues give retail companies an internet presence.

November-December 2001

Clients and prospects often approach catalogue consultant Stephen R. Lett with what they feel is a great idea. Within, say, five years, they would like to drive all orders to their Web sites and be totally out of the expensive business of producing, printing and mailing catalogues. "I tell them to go find another consultant, because that isn't going to happen," says Lett, president of Lett Direct Inc. (lettdirect.com), which specializes in circulation and marketing analysis. "The Internet is not a field of dreams-you build it and they will come. The catalogue is the primary driver of traffic to the Internet. [Customers] wouldn't necessarily be on the Internet if they didn't have the catalogue and the Web address that it provides."

Virtually all cataloguers are now taking orders, fielding customer inquiries, identifying retail outlets and providing order tracking on the Web, among other services. Yet, not only has there not been an offsetting reduction in hard-copy catalogues, but during that same time, the number of catalogues mailed annually has grown 19.7 percent, from 13.2 billion in 1995 to 15.8 billion in 1999, according to U.S. Postal Service figures. That growth continued in 2000 to about 16 billion, says Ann Zeller, VP of information and special projects for the Direct Marketing Association .

"Our members say that right now, about 11 percent of their total revenue comes from their Web site, says Zeller, who oversees the association's annual report on the convergence of catalogues and e-commerce. "They're predicting that, in three years, that will be more like 30-35 percent. While there's a lot of hype about the Internet, the emphasis still is on the traditional catalogue business."

Catalogue is king

Advertising, email promotions, affiliate programs and other marketing efforts are used to direct people to a Web site, but cataloguers and industry experts say the most effective means for getting Internet customers remains the catalogue itself. In a recent study by Pitney Bowes in conjunction with Peppers and Rogers Group, 34 percent of respondents said direct mail contributes the most to establishing a relationship with them and keeping them informed and involved with a business. Only 4 percent said the same of email and only 2 percent of the Internet.

Says Lett, "It's hard to generate new buyers off the Internet without mailing catalogues. How do they find you? If I rent a bunch of mailing lists and mail them the catalogue and offer them the 800 number, the fax number and the Web site from which to order, as a new buyer they may migrate to the Internet. But it's the catalogue that has gotten them there."

One-to-one opportunities...

Rather than cutting mailing costs, the best opportunity the Internet provides is to integrate online operations with the catalogue business and bricks-and-mortar stores, for companies that have them. An integrated approach to the customer-sometimes called "three-tailing"-can help cataloguers gain fuller insight into the indicators that traditionally have driven their marketing strategies: the "RFM" model of recency of last purchase, frequency of purchases and total monetary value of the customer to the company.

Cataloguers also can use their online arms to gather demographic data about current and prospective customers that might not otherwise be available. And that information is automatically collected in a digital format for ready analysis, saving the effort and potential errors involved in inputting data from call or mail-in orders.

With customer and prospect information properly compiled, cataloguers can send out more personalized messages. While the industry for years has used customization in its mailings-for example sending out different catalogues or slightly different versions-the cost and difficulty of truly personalizing mailings remains an impediment. The online environment presents much lower-cost opportunities for customization.

...and challenges

"There's certainly a major desire to get involved in one to one. Cataloguers see the opportunities there," says Bill Dean, president of W.A. Dean & Associates, a catalogue consulting and analysis firm in San Francisco. "The problem for a lot of them is that they have a lot of legacy systems that were used for order processing and customer service back when they were a mail and phone operation and those systems were not one to one.

"A fair number of them have [done] a good amount of legacy-system rewriting to get into one to one. It's the usual situation: the larger ones who have the understanding and have the where withal to pour the money into it from a capital viewpoint are doing it quite extensively."

34 percent of store shoppers looked for or bought something they had seen on the company's Web site.

Catalogue analyst David Leibowitz, managing director at Burnham Securities in New York, says many cataloguers also have to engage in remedial work on their business practices before taking full advantage of the [one-to-one] opportunities before them. "The issue is what they're doing with their existing files-how often do you purge a name for lack of a purchase, how do you get your first-time purchaser to become a repeater, what do you do once you have your purchaser identified to get him or her coming back for more, if you have multiple catalogues, are you cross-referencing customers as well as merchandise? "Any large cataloguer is probably awash in data," he adds. "Whether the cataloguer even appreciates what they have in the way of data, and if they have structured this data in a manner which makes it usable, is a big question mark."

Says Zeller, "It's a lot of going back and figuring out how to do it all over again so that it works. Cataloguers last year had a very different Web operation versus their paper fulfillment and their other operations. One of the key things they're looking at this year is putting all those systems together in real-time."

The potential payoff for putting the systems together properly is significant. A report last year from the National Retail Federation found that 51 percent of online shoppers looked for or bought something online that they had seen in a catalogue, and that they spent 20 percent more on an annual basis from the catalogue, compared with the retailer's other catalogue customers. Similarly, 34 percent of store shoppers looked for or bought something they had seen on the company's Web site and they, on average, spent 33 percent more in-store on an annual basis, compared with the company's typical store customer. Forty-three percent of online shoppers also bought from the company's catalogue, while 59 percent also bought from its stores, the report said.

Not doing CRM well can cause a reverse reaction. A March 2001 report by Jupiter Media Metrix found that poor online customer service would cause 70 percent of online buyers to spend less money at that retailer's offline store.

Macy's cuts back

One cataloguer that is cutting back is Macy's, which has reduced its print-catalogue mailings by 30 to 40 percent in recent years, according to Kent Anderson, president of Macys.com and the Macys.com catalogue in San Francisco. "Essentially, the Web site is a store and we've converted the direct-mail strategy to be more supportive of an electronic store environment than a true stand-alone catalogue type of business. We've tried to integrate them in a different way," he says.

Poor online customer service would cause 70 percent of online buyers to spend less money.

"Part of our strategy was to use direct mail to drive customers to the Web site, because the assortment you can show in a catalogue is less than what we have available. We've tried to develop a branding and a messaging that says here's great things from the Macys.com [catalogue], but there's more available online and here are the tools and ways in which to access it. That's working very well. The sales and the eyeballs that we're driving to the Web site via the catalogue, and the conversion and "plus" sales are very encouraging," he says. At Macys.com, visitors can fill out a form that asks age, gender and family status and which product lines are of the greatest interest, plus whether the visitor soon plans to buy a home, take a vacation, have a baby or get married. The information is appended to the customer database and is used primarily to target emails. "It can influence the catalogue mailing strategy, but the ability to customize our catalogues one to one per se, we don't have," Anderson says.

Macys.com also tracks order information for catalogue and emails and appends that to the client file. "If you say you have an interest in housewares but we see that you've been buying underwear, pants and socks, we would track that data and begin to send you offers for those categories also," he says. Clickthrough rates on emails, where the recipient goes to the site to check out the item being publicized, are, on average, in excess of 10 percent; 2 to 3 percent make a purchase, Anderson says.

Miles to go before they sleep

Despite such successes, catalogue companies and industry experts agree that there still is much to be done in many areas. One of those areas is customer satisfaction: only about half of consumer cataloguers even measure it despite the relative ease of doing so online, according to the latest DMA figures.

For example, The Sharper Image has considered adding a survey to its site but remains undecided, says Julie Hopkins, director of direct marketing and advertising. "The philosophy of The Sharper Image is to make the shopping experience as easy for the customer as possible. There's a question about whether asking those types of questions will make it more clunky or difficult for the customer to order," she says.

However, Macy's.com has started doing more customer satisfaction measurement with pop-up windows at the end of a purchase asking the customer to rate the Web experience. The company also is surveying customers through a questionnaire, and Anderson recently sent out email under his own name to the client base asking for input. The main feedback, he says, was to make the site as easy, simple and fast as possible.

Meanwhile, the company noticed on its own that many customers were in effect being turned away-for example, when they searched for an item the site didn't carry. So, instead of a message saying the search failed, such visitors soon will get one showing addresses, phone numbers and directions to the company's nearest brick and mortar stores that do carry the items they were looking for.

Gathering email addresses is priority

Another area of potential is viral marketing, a major way cataloguers in the past got prospect names. It was de-emphasized in recent years as companies turned increasingly to renting outside lists and moved much of their order taking to call centers, where time limitations prevented reps from asking customers to recommend names of others who might want the catalogue.

Cataloguers are making concerted efforts now to gather email addresses of customers and potential customers by tracking who visits their sites, and are asking for email addresses during call-center interactions. But they are "missing the boat," Dean says, by failing to encourage customers to send email addresses of friends and family members, especially given the ease of sharing email addresses.

One thing the Internet isn't doing is making catalogues obsolete.

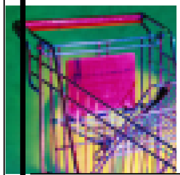
"They're just barely getting back into it on the e-marketing side," he says. "I think they're missing phenomenal opportunities to encourage gathering more names and then doing a better job of notifying you that [a friend] recommended you, to help make you more willing to look at that email."

Because the online-offline combination is still relatively new, information is lacking in several key areas. These include such metrics as learning from customer behavior on a site, tracking inbound and outbound email by purpose and result, and measuring the rate of online sales returns-a key measure of profitability. Similarly, the science of segmenting buyers and relating activity in one channel to the others-for determining how one could boost another or whether one is siphoning business from another-is still in development.

"There has been no uniformity of experience when cataloguers go on the Web," says Burnham's Leibowitz. "Some companies discovered they can attract first-time viewers or even first-time buyers on the Web, but when the same customer is given the opportunity to receive a hard-copy version of the catalogue and order by mail, they frequently do. If you're dealing with an existing customer from your catalogue who chooses to look at the Web site, that individual might very well order from the Web site that they are familiar with. That which they are unfamiliar with is a very dicey issue."

Experts agree that the Internet is changing catalogues in several important ways. It gives customers more options and makes it easier to do business with the company. It allows faster, cheaper and more personalized offers. It generates the possibility of creating valuable multi-channel customers. And it offers potential savings on marketing and transaction costs by converting a catalogue buyer to an Internet buyer. But one thing the Internet isn't doing is making catalogues obsolete.

Says The Sharper Image's Hopkins, "We believe our catalogue is our strongest advertising tool. Our catalogue and some of our other marketing activities are driving people to the Web. Our Web site is another ordering mechanism for our customers that's equivalent to retail or mail order, so we need to do the proper advertising to drive people to the Web site. It's really the customer's choice where they feel the most comfortable coming to us and ordering, whether it's retail, Web or mail order. ■



The Secrets of Successful Loyalty Programs

BY DON PEPPERS

Customer information can aid in the development of loyalty programs for retailers.

inside 1to1®

October 22, 2001

Why do some loyalty programs succeed while others fail? Brian Woolf, president of the Retail Strategy Center, may provide the answer in his recently published second book, Loyalty Marketing, The Second Act. "Loyalty programs tend to do well in the first year," he explains, but like good theatre, "you have to find ways to keep filling the seats." That, says Woolf, "has less to do with the value of points or discounts to a customer, and much more to do with a company's use of data mining to improve the customer experience."

Collecting customer data is one thing, but turning actionable data into a customer-focused strategy can be a whole new ball of wax. Woolf believes it's because top management hasn't figured out what to do with all the information gleaned. "You have all this information sitting in a database somewhere, and no one taking advantage of it," he says.

So a company that offers loyalty discounts or points, but fails to properly analyze and act on that data, is forced to compete on price alone; and it has to keep offering more and more rewards in order to keep customers away from competitors with similar programs. "You need to mine the information to create not only relationships but also an optimum in-store experience." Here, says Woolf, "the best loyalty programs use the customer data to improve not only promotions, but also store layout, pricing, cleanliness, check-out speed, etc." Firms that do this, claims Woolf, are able "to double their profits." When these elements are not addressed, "all you're doing is teaching the customer to seek out the lowest price."

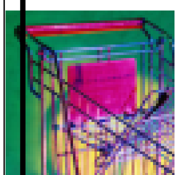
"You need to mine the information to create not only relationships but also an optimum in-store experience."

Points or Discounts?

So which form of currency makes for a successful loyalty program? Points can generate loyalty — just look at Tesco's wildly successful Clubcard program . But the points system can also be a significant cost. Woolf says Tesco chose points primarily because it's the typical m.o. for loyalty programs in the UK. But in general, discounts are a more effective means of "buying" customer information and generating loyalty. "Two tier pricing — one price for an anonymous shopper but a lower price for the loyalty card carrier — makes money immediately," says Woolf. "The 20 percent or so of sales that are not on the card go through at full margin, while the discounts on the rest of sales represent a fair trade-off in terms of loyalty and strategic customer information." As a result, the two-tier discounting model "is almost always more profitable than a points strategy," he argues.

In addition to discounts, leading loyalty programs are learning to emphasize frequency of purchase. For example, says Woolf, "Charlotte, NC-based Harris Teeter is running a promotion where if a customer spends $35 or more in eight of 10 weeks, he receives a 10 percent coupon that can be used on the future purchase of his choice." Programs like this, says Woolf, "help the chain learn what it needs to improve the in-store experience, and at the same time gives the customers another reason to keep coming back."

I've known Brian Woolf personally for years, and have a high degree of respect for his work. His new book is definitely worth the read. But be careful: it's primarily a book about the mechanics, benefits, and tactics involved in grocery-based loyalty marketing programs. Not all of the principles are easily transferable to other retail categories.



Sports Authority Hits a Home Run with Technology and Training

BY JO BENNETT

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A mix of training, tools and technology is turning staff members into pseudo-consultants.

Fort Lauderdale, Fla. -based Sports Authority closed out the year 2000 as the number one retailer within its peer group, according to Sporting Goods Business-nearly doubling what the runners-up (who include Champs and Dick's Sporting Goods) brought home.

However, sustaining any kind of a lead-or more importantly, profitability-is no easy task in the retail business. Today especially, retail consumers are price-conscious, and hence fickle. Even when Martin Hanaka became CEO in 1998, the company was in the profitability doldrums, having not hit the black for two years. It had initially emerged on the retail scene with a game plan that essentially consisted of blitzing every major U.S. market with its typically cavernous stores.

In a prescient move, Hanaka scaled back expansion plans in favor of a more focused approach to boosting the bottom line. The new plan wasn't to compromise Sports Authority's "biggest selection/lowest-price" business model. Instead, among other initiatives, it began fortifying existing stores by bringing a "ringer" into the game: A mix of training, tools and technology, to start striking up relationships with customers and equip staff to become, in a sense, consultants within its existing markets.

The training component of the game plan

Rob Van Craenenbroeck moved from human-resources management into the newly-designated role of director of training and customer service in 2000. The reason for integrating those responsibilities into a hybrid function? "We wanted to maximize synergies from feedback that we were getting from customer service, so that [learning] could help shape our training program," he explains.

Van Craenenbroeck's task was to help develop a training program for employees that emphasized scouting out customers' needs. "The company mined its resources to learn, 'What does the customer really want from us?'" he explains. "We learned that we had an obligation to educate consumers around the industries or products we offer. That's what they wanted when they walked into our stores." In other words, if someone is really interested in fitness, and thinks a treadmill will help them achieve their goals, is that the product they should be using in the first place?

How is this big-league retailer instilling its customer-centric goals in a workforce that's highly represented by young adults who aren't committed to retail as a long-term career objective? These days, says COO Jim Tener, "We have a much more formal, organized approach to training."

First, sales associates are eligible for a series of certification processes in the company's nine product-knowledge categories. (The organization plans to expand these categories to encompass a greater number of more finely-segmented categories "as resources become available," says Tener.) Training starts with videos and literature that are followed up by quizzes; this then progresses to a classroom environment, including role-playing to specific scenarios. Every employee doesn't necessarily qualify to complete the entire training program-so of course, every employee doesn't score the merit pay that Sports Authority rewards its most customer-focused staff. "The more you learn, the more you earn," he notes.

The goal is to cultivate advisors who can help guide shoppers toward the best choices, according to their needs. "We're trying to help them tell the whole story, as opposed to just saying, 'If you want this model, here are the features and benefits. Do you want to buy that or not?'" says Van Craenenbroeck. Instead, the communication would be: "So, if you decide on a treadmill, here's how you use one safely. Here's how you turn one on. Here are some hints on how you can make it last longer."

Technology on the roster

Tools and technology-many emphasizing Sports Authority's "Get out and play" mantra-are also helping employees interact with customers and learn about the products they're recommending, while helping the retailer achieve its objectives. For instance, some stores have interactive "sports stadiums," where customers can gauge their performance in activities such as kicking a soccer ball, or swinging a golf club.

Similarly, some stores sport in-store audio, and in many cases, video programming from digital media provider, RMS Networks, Inc. (rmsnetworks.com). Dubbed WTSA (The Sports Authority Network), content revolves around teaching customers about available products and how to use them (such as tips on that elusive perfect golf swing). These initiatives are designed to educate shoppers; but, osmosis-style, they provide floor staff with knowledge about the products they sell. For example, "People have told employees that particular programming spots have helped them gain an understanding about activities they're interested in, and likewise, employees have told us that the information has enhanced their understanding of products and selling," says Tener. Behind the scenes, CRM initiatives are also being served up in the hopes of

Retailers Still Shifting Focus to Customers

inside 1to1 February 4, 2002

Retailers have yet to fully leverage data to build customer relationships, according to a new study by Blue Martini Software. The survey of National Retail Federation Show attendees finds that 45 percent of retailers do not have a data warehouse and cannot identify their Most Valuable Customers. The bulk of retailers' IT budgets have been spent on product-related systems such as supply-chain and inventory solutions. Retailers have typically used the capabilities of new technology to improve efficiency, but have barely scratched the surface on improving effectiveness.

Efficiency is vital, but companies can hold on to customers more effectively by using data intelligently to identify and interact with their MVCs. Price becomes less important to customers if they have a good relationship with a company. Knowing this, Blue Martini found that 60 percent of those who don't have data warehouses would like to and 100 percent of survey participants plan to invest in retail CRM activities this year.

helping the company and its sales associates gain a better understanding of customers. In 2000, Sports Authority slashed general-advertising spending to $30.8 million, down from $51 million in the previous year-and explored more targeted approaches to communicating with customers. During the 2000 holiday season, for instance, Sports Authority tested Harte-Hanks' Allink Agent campaign-management system. Recent shoppers-identified by credit-card data and phone numbers submitted at checkout-were sent customized email and direct-mail offers based on their purchase history. The conversion rate: a whopping 10 percent.

Those numbers certainly move product, but more important, the technology helps the company compile a database of customer behaviors and preferences, the core element of any relationship-building strategy. The next challenge is figuring out exactly how the information being collected will be used to improve sales associates' in-store efforts, according to Tener.

Getting into the line-up

Securing employee buy-in for any corporate-down vision is a workout in itself. But the process is easier if you can easily and efficiently winnow out the candidates that shouldn't make the team in the first place-those who aren't necessarily predisposed to a winning service ethic. To aid in the hiring process, Sports Authority now uses "Smart Assessment" kiosk systems from Unicru, Inc. (unicru.com), to streamline the employee-applicant screening process. The results on the investment are difficult to quantify, explains Tener, but, "it's worked well enough that it's now a major interviewing step," he says.

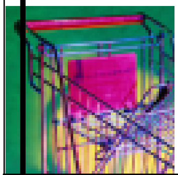
Once employees make the cut, the next step is keeping them focused on the customer-relationship vision. Not surprisingly, money talks. In addition to tying the company's certification levels into compensation, in many stores, when a sales associate helps a customer out with a selection, she can affix a coded sticker onto items purchased to get credit for that sale.

To monitor, benchmark and reward performance on the store level, Sports Authority has also instituted a Customer Perception Index. Released quarterly, the index is a composite of customer feedback on every level. "Whether it's from comment cards, surveys, emails, or telephone interactions, we take the customers' perceptions seriously, and use that data to benchmark how well we're serving them," says Van Craenenbroeck.

Hey, and is that Derek Jeter down the aisle, or just some friendly sales associate? That's up to the customer to find out. To make the interaction personal, individual stores are empowered to develop fun, interesting, employee- and customer-involvement programs. Each store has a "Get out and play" panel, and how they get employees and customers involved "is up to their imagination," says Tener. For instance, during the 2000 "subway series" in which both New York baseball teams competed for the major-league championship, many stores on Long Island and in New York City rallied employees to dress up as members from each team.

The scorecard

The bottom line: customer-relationship strategy is working. "It's not about selling the most expensive product, it's about selling the right product to the right consumer," says Van Craenenbroeck. "In the end, that builds relationships, and hopefully they will be comfortable enough where they will recommend us to a friend. We think that's a solid way of doing business."



The Holy Grail of Retail

B Y S T E V E W I L E N T

Channel options propel retail into an evolution.

1to1 magazine

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Evidence shows that bricks-and-mortar stores are still the leading channel through which most consumers buy products, and analysts are backing that up. Boston-based AMR, for instance, published a report late last year entitled, "Retailers Must Make Their Stores Centers for Multichannel Commerce," which argues that, while consumers are increasingly moving toward channel bundling (read: using more than one channel to make a purchase decision), bricks-and-mortar stores are still the heart and soul of retail. In fact, an early draft of the report carried the title "Retail's Future is in the Store, Not the Net."

What's more, the energy expended on building online stores often far exceeds the scale of the channel. Figures from the U.S. Commerce Department show that $25.8 billion in online sales in 2000 accounted for less than 1 percent-.8 percent to be exact-of all retail sales. And even though AMR predicts that online retail sales will reach $100 billion by 2003, it will represent just 3 percent of all retail revenue.

However, analysts also say that retailers will increasingly rely on e-tailing to offer better, more personalized service, as well as to learn more about their customers' buying habits and product preferences, both online and off.

E-tailing raises the bricks-and-mortar bar

Consumers who've had a taste of shopping online will want to have similar conveniences and functionality when shopping offline. To satisfy that demand, traditional retailers will have to adopt elements of e-tailing that put a common face on the shopping experience across all channels, yet still make stores the ultimate focus of personalized marketing. Retailers such as Borders and Kmart have made strides. Kmart installed 3,500 Bluelight.com kiosks in more than 1,100 locations. BlueLight, a software company that Kmart acquired last year, sells 250,000 of its parent company's products, including all of the 75,000 or so that are available at the retail store (and all BlueLight products can be returned to Kmart).

"The kiosks are there to enhance the in-store shopping experience," says Steve Feuling, Bluelight.com's chief marketing officer. "For instance, customers who drive a small car can order large items, such as Martha Stewart garden furniture, and have it shipped to their homes instead of renting a truck and doing it themselves."

Although existing BlueLight kiosks offer specials to online customers based on their buying habits, such personalized marketing is not yet available via other channels. Feuling says the companies are looking at a range of options for making Kmart/BlueLight shopping a "highly personalized" experience, both on- and offline.

More than getting online

Retailers have an economic incentive for engaging their customers-before they shop at a store, while they are there and after they leave. According to Jupiter Research, consumers who use multiple channels were expected to spend $7 in stores for every $1 they spend online in 2001. Jupiter also estimates that Web-influenced spending-sales made in a store that were in part the result of online "window shopping"-will account for 24 percent of all consumer spending by 2005, or $632 billion. For consumers, choice is about service and convenience, as well as value. Returning online purchases at offline stores is the service most desired by consumers; picking up items ordered online at offline stores is also important, Jupiter reports. Retail customers also want:

- Service representatives available to help find items in stores when an item is out of stock online
- Help to look up offline purchases when they're calling online; and
- Store managers and service agents who can access online accounts while a customer is in a store.

"For companies that adopt this kind of technology, it's a two-fold proposition," says Ben Ream, a retail applications analyst at AMR. "The first and most obvious is that they don't lose the sale. The second and perhaps more meaningful value proposition is that a customer can go to a retailer with the confidence of knowing that, even if that pair of 32-33 Levi's isn't in stock at that particular store, his need will be met."

"If you remember that it pays to know your customer, you'll do pretty well."

The challenge in providing such services is that e-stores must collect and use customer data from all channels-stores, Web sites, catalogue-order desks and service centers. The flip side is that having such data, combined with data analysis, customer-relationship management, promotion management and merchandise planning software, gives retailers the tools to further personalize the multichannel shopping experience.

Maintaining a consistent experience

Recreational Equipment Inc., a Seattle-based outdoor equipment supplier, was one of the first retailers to use Web-based kiosks; the first was installed in 1997 in a Bellevue, Wash. store; all 60 stores had them by 1998. This year, the company is improving the kiosks with high-speed lines for better performance. It also deployed Web-based point-of-sale (POS) systems in 1999, in part to upgrade older equipment for the year 2000 date change, but also to give a view of customer data to sales personnel at POS stations.

REI is also on the leading edge of personalization. The company is working with software vendors Documentum Inc., which makes a content-management tool that will help personalize REI's Web site, and Personify Inc., which provides Web-based behavioral profiling and analysis tools to aid in making sales pitches. The implementation should be completed by 2002.

"The biggest benefit is that the customer has a consistent experience across all of our channels," says Joan Broughton, VP of online and direct sales. "They feel that REI is paying attention to them and that they are given the best service, whether they choose to shop online, over the phone, or in the stores." A customer who has a history of purchasing skis, for instance, might be alerted to a sale on related products or an upcoming ski clinic, even if the current transaction involves no ski equipment.

"As we go along, we will find new ways to integrate the channels," says Broughton. "It comes down to the fact that, what works in the store works well online. If you remember that it pays to know your customer, and if you don't put the cart before the horse with a lot of glitzy technology, you'll do pretty well."

e-Sign here, please

Like REI, retailing giant Federated Department Stores Inc. is also targeting customers at POS stations, but with customer-facing iPOS signature capture terminals from @pos Inc. Federated is the Cincinnati, Ohio-based parent firm of Macy's, Bloomingdale's, and eight other regional retail chains around the U.S., with 2000 sales of about $18 billion. In the last three years, Federated has installed roughly 34,000 signature-capture devices in its stores.

Signature-capture technology has been around for years, but has been troubled by hardware that wears out quickly in the hands of consumers. Federated noted improvements in the latest systems but was more attracted by the iPOS's Web-based terminal screens, called pads. In addition to a place for customers to electronically sign credit receipts, the pads can display a variety of data and images, from customer surveys to targeted promotions and personalized messages.

Steve Stockett, Federated's senior VP for store systems development, says the pads help make transactions more efficient. More importantly, they encourage customer interaction throughout the time they spend at a POS making a purchase.

"We try to get the customer to the pad at the beginning of the transaction," says Stockett. "The first thing we do is scan the credit card-we don't wait until the transaction is almost over. Then the screen comes up with your name, tells you about the transaction, and then lets you sign on the pad, before the transaction is complete."

This does more than shorten the transaction time: It's an ideal time for a personalized pitch for another product. "The Amazon.com approach is to tell you that the people who bought this book also bought these five books," says Stockett. "We're looking to use that same approach. You buy a pair of pants, and we show you the five most popular shirts or ties or shoes purchased by other shoppers who bought that same item."

Sales associates point out the list of related products on the screen and mention that the list is printed at the bottom of the sales receipt, further reinforcing the message. Another benefit of capturing signatures electronically is that the signatures themselves serve as a means of identifying individual consumers. The @pos software collects and analyzes as many as 32 different attributes about the signature-how fast it is made, how much pressure the signer uses, the shape and slant of letters, and so on. The data compiled from several signatures is used to build a signature token, or a profile of an individual's signature.

Determining the authenticity of a signature has obvious advantages in preventing credit-card fraud. For now, Federated is using tokens to identify its employees, but will soon begin collecting customers' tokens. This has particular utility in a department-store setting, because the POS system can determine which signer on a multiple-signer department-store credit card is making a purchase.

Only 18 percent of multi-channel retailers are able to track customers across channels.

It's a significant factor to know whether the woman in the household is buying her own clothes, but also men's clothing. Or whether the man is buying his own," says Stockett. "This lets you target your "marketing messages differently-say, based on the sex of the purchaser. The technology provides an avenue to talk with customers directly via the pad," he adds. "There is a lifetime of opportunity with this technology."

One customer, one view

Meeting the consumer demand for synergy between retail channels with kiosks and Web-enables POS terminals is relatively simple, compared with uniting the back-end data systems in far-flung enterprises. According to Jupiter Research, only 18 percent of multichannel retailers are able to track customers across channels. This is largely due to the difficulty of integrating corporate infrastructures. REI was at an advantage, because it had long kept customer data from on- and offline channels in a single database, but other companies are struggling with integration.

"Many retailers operate their catalogue and store divisions as separate business units," says Carol Ferrara, director of CRM research at Gartner. "Merchandising, management and infrastructure and applications are all separate, and in some cases even the IT groups are separate. That will not continue to be effective or efficient."

The Web kiosks we mentioned earlier in this article are a first step in unifying multiple channels, Ferrara says, because they are most easily tied to existing business applications, and perhaps are merely providing in-store access to existing Web storefronts. The next step is often the replacement of aging point-of-sale systems with Web-based systems that give sales associates access to information about customers and products as they carry out transactions, as REI and Federated have done. Building a single view of a customer that encompasses data from all channels is the hard part.

"Combining business units is a huge challenge, a huge undertaking," says Ferrara, "and the challenge will be met incrementally-not overnight." AMR's Girard agrees: "For multichannel retailers, it's more complex, but they also can get a much broader view of interactions with customers."

"This is disruptive technology," says Girard. "It will have the same magnitude of an impact as the change from department stores to mass merchants brought about, in terms of the way stores are going to relate to their customers and offer a different value proposition."

Disruptive, because retailers must deal not only with customer data obtained through several channels, but also with corporate data integration and communication with suppliers. "Most supply-chain initiatives either end at the distribution center or they stop at some headquarters function," says Girard. "They don't really get back into the store. Now we're going the last mile between the supply chain and the retail store, and it can be done at the customer-specific order level."

Retailers rely on packaging, signs and store associates to convey information about their products to customers in the few feet between the shelf and the shopping cart. With Web sites, kiosks, wired POS systems, and other customer-facing electronic media, e-stores convey that information in a personalized way. ■

About Peppers and Rogers Group

Founded in 1993 by Don Peppers and Martha Rogers, Ph.D., Peppers and Rogers Group is a management consulting firm recognized as the world's leading authority on customer-based business strategy. It is dedicated to helping companies compete and win by identifying differences within the customer base and using that insight to maximize the value of each and every customer relationship.

Recognized by the World Technology Network as having played a significant role in developing the field of CRM, Don Peppers and Martha Rogers, Ph.D., are the co-authors of the revolutionary *The One to One Future* and a series of business books that further develop the unique one-to-one methodology espoused by their firm. Peppers and Rogers Group is headquartered in Norwalk, Connecticut with a domestic and international network of 16 offices, employing over 150 employees diversely experienced across all industries. For more information about Peppers and Rogers Group, visit their web site at www.1to1.com.

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