Solutions for Enabling Lifetime Customer Relationships

Pitney Bowes Software

Customer-centricity in Retail: Improving the Customer Experience

WHITE PAPER:

RETAIL

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ABSTRACT

EXECUTIVE LEADERS ACROSS ALL INDUSTRIES CONTINUE TO FACE THE MOST DISRUPTIVE MARKET CONDITIONS IN DECADES. LARGE RIVALS COMPETE BY AGGRESSIVELY BUYING MARKET SHARE. NEW ENTRANTS BENEFIT BY STAYING NIMBLE IN THE FACE OF MARKET SWINGS AND CARVING OUT NICHE OPPORTUNITIES.

FOR RETAILERS, THE TOUGH ECONOMY HAS FORCED ORGANIZATIONS TO RELOOK THEIR TRADITIONAL FOCUS ON BRICK AND MORTAR. THE GROWTH OF E-COMMERCE HAS DISRUPTED CONVENTIONAL RETAIL STRATEGIES; AND, SUCCESS CAN BEST BE MEASURED IN OVERALL CUSTOMER PROFITABILITY RATHER THAN IN COMPARABLE STORE SALES. NOW, RETAILERS MUST THINK ABOUT CLICKS AND LIKES AND TWEETS AS WELL AS IN-STORE INVENTORY. CUSTOMER RETENTION IS THE NAME OF THE GAME, WITH SATISFACTION AND LOYALTY SERVING AS THE NEW BENCHMARKS. IT IS NOT ENOUGH FOR A RETAILER TO MERELY KNOW WHO THEIR CUSTOMERS ARE; THEY NEED TO UNDERSTAND THE CUSTOMER'S PAST BEHAVIOR, CURRENT PREFERENCES AND PREDICTED NEXT ACTIONS. CUSTOMER-CENTRICITY IN TODAY'S MARKETS REQUIRES A COMPREHENSIVE VIEW OF EACH CUSTOMER THAT SPANS ACROSS LINES OF BUSINESS AND BUSINESS CHANNELS—AND A NEW WAY OF THINKING ABOUT CUSTOMER VALUE.

THIS WHITE PAPER PROVIDES THE LATEST INFORMATION ON HOW RETAILERS CAN CREATE A MORE EFFECTIVE APPROACH TO CUSTOMER-CENTRICITY WHILE BUILDING GREATER COMPETITIVE ADVANTAGE.

MORE THAN AMASSING DATA POINTS, RETAILERS NEED TO GAIN INSIGHT TO BUILD REVENUE.

The customer has more power in today's retail landscape

Executive leaders across all industries continue to face market challenges. Competition continues to accelerate; and, in retail, large chain stores compete by aggressively buying market share through acquisition, while small specialty and pop-up stores often lack the cost efficiencies of their larger competitors. New digital buying options fragment the retail purchase process, giving customers the ability to shop anytime, from anywhere. Digital shopping opportunities make it challenging for retailers to keep and build store traffic without big price incentives—however, these discounts can hurt overall profitability.

While total retail sales reached $4.7 trillion in 2011 in the largest year-over-year increase since 1999 (U.S. Commerce Department), retailers continue to close stores. At the same time, they create new formats and reformat old stores in an effort to balance revenue generation with cost control. And, as customer retention and acquisition become more important, retailers struggle to understand how to create opportunity from each customer interaction. Retailers often find that creating that interactive dialogue with customers can be difficult to implement within a timeframe that makes sense to that customer and their experience.

In this new environment, many retailers find themselves moving away from the traditional focus on increasing year-over-year same-store sales. They are putting more effort toward building customer satisfaction, loyalty and overall lifetime value. In fact, a recent study from the National Retail Federation/KPMG reports that 67% of retail companies rank customer satisfaction as their top strategic initiative for 2012[1].

Yet, the idea that customers are important company assets is not necessarily new. For example, a Fortune 500 company claimed in 2001 to have just three strategic imperatives, one of which was "creating a customer-centric culture to better satisfy and serve our customers." A Wall Street analyst reported at the time that one of the firm's executives stated, "We have a heightened sense of urgency and a clear focus on the customer, and we are working as one unified team to make retail history." However, then, and now, companies often claim customer-centricity without successfully acting on it. For example, Kmart, the company quoted above, a year later filed for the largest bankruptcy petition of any retailer[2].

Being truly customer-centric is increasingly difficult as channel options increase and customer expectations grow. Where it was once sufficient to collect and share customer data points across a line of business for better target marketing, now true customer-centricity means an ability to react in real-time, both inbound and outbound, and share data all across the organization's growing lines of business and channels of operation. Becoming more customer-centric requires retailers to engage in ongoing two-way dialogues with customers—shifting the focus from campaigns to customer lifetime value. And being customer-centric requires knowing each customer, and being able to interact with them in a way that reflects their preferences, their past behavior, and their anticipated next behavior.

Retailers recognize that today's customers are looking for a great experience, no matter which channel they are using to shop. The numbers of touchpoints per customer is exponentially larger than even a decade ago. This provides retailers with more data to work with in trying to build more profitable relationships with their customers. However, it also creates a greater data-management challenge.

Historically, retailers have turned to couponing and discounts as one tried-and-true method of building in-store sales volume. However, we have also seen these tactics backfire as customers come to expect discounts and only shop with coupons, defeating the retailer's primary goal of increasing revenue. Couponing is a one-size-fits-all tactic and doesn't really reflect the individual customer's actual product preferences.

Many large retailers lack the technology to adequately capture that data, much less mine it They know that shopping habits have changed. They want to engage in a dialogue with customers across multiple channels, especially given the increasing frequency of shopping done via web and mobile apps. Yet, to accomplish this task, retailers need a way to collectively manage, integrate and analyze multiple communication streams—and many find they lack this full complement of capabilities.

Building the right infrastructure can facilitate the capture of pertinent information at every customer touchpoint and make that information available across categories. Even with limited capital budgets, retailers can make the right technology investments upfront to reap benefits for years to come.

But, before making infrastructure investments, they need to answer four critical questions:

- Who is my customer?
- What experience do I want to provide to ensure my customer is satisfied and loyal?
- Does my business model deliver that optimal customer experience?
- Does my technology support the consistent delivery of this great customer experience?

Retailers must recognize that not all customers are alike

Retailing can be complex, with its many different products, distribution and promotion methods and its different customer profiles. Yet all retail customers share the desire to be treated well. Customers want to be known and appreciated with products and service that reflect their preferences and habits—this is the essence of successful relationships.

> "In an effort to build customer engagement, capture wallet share and accelerate sales growth, retailers in 2012 will focus on a number of customer-centric functions, including IT and ecommerce investments, enhancing customer service initiatives and, building on their mobile platforms [3]."

Over the past decade, interactions between customers and retailers have grown increasingly fragmented, making it challenging for retailers to understand which customers represent the greatest revenue potential. The customer-centric retailer is able to distinguish between customer types and design communications strategies that can deliver maximum impact against the right customers—many retailers, however, struggle to make these distinctions. Even when retailers do understand nuances among customers, there can be lag time between insight and action, which diminishes the relevancy of the actions when taken.

CUSTOMER-CENTRIC RETAILERS KNOW THE VALUE OF EACH AND EVERY CUSTOMER.

Finding the right customers requires insight into customer performance and profitability that can guide strategic decisions on customer investment and resource allocation. All retailers have both profitable and unprofitable customers. Some customers and customer segments drive net income, while others destroy it[4]. The key to increased profitability lies in recognizing and acting on the difference.

Retailers often lack sufficient customer insights to drive informed strategic decisions on customer segmentation, resource allocation and cross-channel opportunities. They may also lack the strategy, collaboration and executional capability across channels to optimize the impact of advertising, promotions and discounting, to eliminate redundancies, and avoid inconsistencies in customer communications.

Customer insight begins with data—but not just any data. The data must first be organized and cleansed, validated and standardized—and only then should it be analyzed. For large retail organizations, especially those with multiple brands, customer data can be spread out across many systems. Retailers must gather customer information from across the organization, ensure that it is of high quality and fit for use, and then employ sophisticated analytics to achieve enhanced insight.

Technology can disrupt or enhance

Retailers often struggle with customer visibility, lacking a 360-degree view. This happens when retailers can access customer information within one channel, but cannot connect this information to other points of customer interaction. For example, when a customer reaches the call center, the phone rep may have basic customer information such as name, address and whether the customer has a store credit card. They may even have a record of the customer's last purchase. But frequently the phone rep does not know what marketing incentives that customer has received or the history of their past purchases. In these cases, the rep won't be able to effectively cross-sell or upsell. A variation of that same scenario plays out in-store: if the salesperson doesn't know that Ms. Smith purchased a new suit last month and may need a new blouse or accessories to go with that suit, or that Ms. Smith paid full price for that suit, or that her favorite perfume is Chanel No.5, this again represents a lost opportunity for effective cross-sell or upsell.

Predictive analytics can help create cross-sell and upsell opportunities at the point of sale. It's possible for a salesperson to view a customer's recent activity as well as past behavior online through a tablet, computer or mobile device. The salesperson can then make real-time recommendations for additional purchases, either in store or during the shopping cart experience online.

Moving from CRM to customer-centricity

In a more customer-centric approach, the retailer shifts its thinking beyond channel performance to focus on customer performance—and gathers data input from other sources besides billing. By integrating and consolidating internal insight with external data sources, retailers gain a more holistic view of each customer. And, by acquiring analytic capabilities to predict both customer churn and propensity to buy "best next product" offerings, retailers become able to identify customer segments based on profitability and concentrate on best customers for more effective acquisition, cross-sell and upsell opportunities.

A customer-centric approach requires ongoing communication across a substantial period of time. To capture and keep customer attention, experts in customer-centricity attribute their success to:

- Consciously considering—and selecting—which campaigns NOT to send to customers
- Prioritizing communications to ensure that they are truly aligned with customer needs
- Making outbound communications clearer, quicker and more to the point
- Being better prepared for informed interactions when customers and prospects contact them
- Listening and applying customer feedback to continually improve the customer experience

There are, however, some strategic factors related to the above tactics that need to be ironed out prior to launching a campaign or sending communications. Predictive analytics is one of the more powerful tools at the disposal of the retail marketer. To start, giving direction on the "best next offer" that should be presented to the consumer. Up-sell: knowing ahead of time if they have a propensity to spend more on a higher quality version of what they want to buy; or Cross-Sell, more of a propensity to buy across the isle and try something different. This can further be leveraged by utilizing not only in communications to drive traffic and future purchase, but within the POS system itself at the time of purchase.

When ready, the retail marketer can combine real-time interactions with a 3-D view of the customer. A 3-D view of the customer is:

- An understanding of what they have done with you historically
- What event is taking place now between you and your customer
- What your insights have told you that they need next or want to do next.

> "Harnessing the vast amounts of customer data they have at their disposal to create unique consumer interactions will be critical, especially as digital sales grow. Clearly the retailers who master the one-to-one customer approach, and who also leverage the full potential of e-and-mobile commerce platforms, will be in a much stronger position to gain wallet share [5]."
>
> -Mark Larson, KPMG's global head of retail

This will enable the retailer to most appropriately address the current interaction, which will provide a great customer experience, which will lead to increased customer satisfaction and loyalty.

All too often, companies over-invest in low value/low potential customers and under-invest in high value/high potential ones. Most companies frankly don't know the difference or have the strategy or executional capability to differentiate investment and treatment. A retailer's survival depends on the future profitability of existing customers and the ability to attract and retain profitable new customers in the future.

Let's look at an example: A major online computer retailer in budget-cutting mode wanted to reduce the number of catalogs sent on a monthly basis. After analyzing their customer database, they discovered that many catalogs went to prospects that had never made a purchase, not even a piece of software or an accessory. Mailing to these "Lost Causes" just drained the marketing budget. Using predictive analytics and uplift modeling enabled the retailer to more finely segment the database and mail only to likely purchasers. By focusing on the "Persuadables", the retailer actually increased sales per catalog while reducing actual number of catalogs mailed for a net increase in profitability.

In general, when retailers continue to use a blanket approach to customer communications, they experience a lower ROI on their investments. Further, reyling on mass couponing to drive sales can be counterproductive, especially electronic couponing where too many irrelevant messages are prompting more and more customers to "opt out."

CUSTOMER-CENTRIC RETAILERS CAN TAKE ADVANTAGE OF NEW ANALYTICAL TOOLS THAT DELIVER THE RIGHT INCENTIVES TO THE RIGHT CUSTOMERS.

Building lifetime customer value in retailing

A retailer provides value to a customer in terms of products and services, and a customer provides value to a retailer in terms of a stream of profits over time. In that sense, customers are assets in which a retailer needs to invest. At the same time, as with any investment, the retailer needs to assess potential return. Since some customer segments drive profits and others do not, investment in customers should vary by their profit contribution and potential.

Customer profitability is influenced by three factors: customer acquisition, margin and retention. These are the critical drivers of the growth and overall profitability[6].

Customer Acquisition: The cost to acquire a new customer can be significant. It makes economic sense to spend $X to acquire a customer only if the value of that customer to the company over the lifecycle is more than $X. Yet, most retailers do not have a good handle on value at a customer level. They employ a blanket approach that relies on a mass advertising including TV ads, radio, billboards, promotional events and web activity. They do not know the characteristics of their best customers, and cannot therefore develop highly targeted acquisition programs to find the next "best customer" look-alikes.

Customer Margin: Margins suffer under this type of acquisition approach. By focusing on growing the numbers of customers without distinguishing between different customer types, discounts are often widely offered. These discounts squeeze margins—and, in the case of customers that would buy with or without a discount, they leave money on the table. They also tend to appeal to customers who are more price-sensitive and less brand loyal. Focusing only on margin at point-of-sale does not address the broader issue of customer lifetime value.

Customer Loyalty: Analyzing the retail industry shows that the cost of acquisition is generally much higher than the cost of retaining existing customers. Therefore, a retailer should focus on retaining existing customers—and attracting customers that it can profitably retain. While most retailers have a general idea of their lapse rate, many lack the ability to understand and target the customer segments that offer the greatest potential value over time.

Many retailers also misdirect their retention efforts. For example, when customers call to cancel credit cards, customer service reps (CSRs) armed with proper technology can separate the profitable from the unprofitable, and focus on retaining the best. With real-time access to customer information, CSRs can recognize valuable relationships and offer incentives or rewards to convince high-value customers to stay. The problem is that many retailers do not provide this insight to their CSRs. The CSRs thus invest every bit as much effort with each caller, and offer incentives and rewards equally among profitable and unprofitable customers.

Five actions that can increase profitability and lifetime customer value

Traditionally, retail marketing treats all customers the same, investing a set amount in acquisition marketing and minimal efforts toward retaining frequent or loyal customers. Customer information is often warehoused without formal data quality protocols; once a customer list is created, the only updates are for new customer adds.

Starting from this baseline, five specific tactics can be particularly productive in increasing retailer customer knowledge, building revenue, improving campaign ROI, and boosting customer satisfaction.

Used independently, these tactics described below, each have significant value. Used together, they offer an even greater return—in fact, increasing individual customer lifetime value by as much as nine percent.

Action: Data Quality

The simplest way to build better customer value is to be certain you have correct information about your customers. This means getting rid of duplicate records and cleaning up the records retained. This process significantly improves your customer knowledge, eliminates useless data, reduces your overall marketing spend. Data quality is an ongoing challenge. Staying on top of it offers tremendous value.

DATA QUALITY
Increased Customer Knowledge

Action: Preference Management

With the proliferation of different channel options, retailers have more ways than ever to reach out to customers. However, customers have specific preferences for how they receive information—and they are more likely to take positive actions as a result of communications that meet their preferences. Knowing these preferences and managing multichannel marketing can enable retailers to use less expensive channels more effectively and to improve the impact of their communications overall, increasing customer satisfaction. Revenues and ROI improve as well.

PREFERENCE MANAGEMENT
Increased Customer Satisfaction

Action: Value Segmentation

Leveraging customer knowledge enables retailers to further segment their customer base by need and value. Retailers can see that different segments represent different revenue and profit potential. Marketing efforts can be focused in on the more profitable segments. This can reduce marketing costs overall and/or improve the effectiveness of marketing spend. Either way, it improves customer satisfaction where it counts—and overall marketing ROI.

VALUE SEGMENTATION
Increased Marketing ROI

RETAILERS CAN BUILD LIFETIME CUSTOMER VALUE THROUGH CUSTOMER-CENTRICITY.

Action: 1:1 Dialogue

Concentrating on the most profitable customers, creating more personalized offers, and offering incentives only to “persuadable” customers who would not buy without them, enables retailer to create a stronger connection with their customers—and a better return on their marketing investment. Retailers can also design valuable loyalty programs to reward those frequent—and profitable—customers who represent greatest profit potential. With this tactic, retention levels increase, generating more revenue, better ROI and improved customer satisfaction.

1:1 DIALOGUE
Increased Revenue Opportunity

Action: Experienced Interactions

To provide a great customer experience, the new battleground for retail success, retailers, the key is in creating real-time dialogues. In each interaction where the customer is using the channel and device they prefer and the retailer has recognized that customer personally, the potential for strengthening customer relationships is increased. Fueling that dialogue with real-time input on the customer’s past behavior and preferences can enable the retailer to anticipate the best next action, and deliver the best brand experience for that customer based on that channel.

EXPERIENCED INTERACTION
Improved Customer Experience

Used together, these actions can increase customer lifetime value by as much as nine percent.

Make a difference in your bottom line

How much difference can they make to a retailer's bottom line? Conservative estimates indicate that, starting with a baseline customer lifetime value (CLTV) of $310 retailers can see a nine percent increase, or $27 per customer among high-value customers. With a customer base of 4.75 million, assuming 25% high-value customers, the results can be over $32 million in that segment alone.

Organize around customers and reap long-term benefits

By this point, it would be a fair question to ask, "Who are the companies that execute customer centricity?" In fact, there are a few well-documented examples of organizations that have shifted their strategy, operating model and execution from products to customers and have harvested the results ever since. Some of these leaders include Harrah's Entertainment, Apple, American Express,

QUICK TEST: GAUGE YOUR CUSTOMER-CENTRIC FOCUS AGAINST THESE QUESTIONS

1. Who in your company "owns" the customer?

Which one, specific, identifiable person is responsible for understanding a designated customer segment thoroughly, designing and executing value propositions that are better than your competitor, staying aligned with lifetime customer value contribution, and ultimately driving shareholder value? The truth is, at most retailers the answer is that no one person owns the customer—or, as one executive recently said "lots of people own the customer." Yet, when everyone owns the customer, no one really does.

2. Who is accountable for the profitability of customer segments?

Most organizations lack the insight into customer profitability necessary to identify the high-value customers within their customer portfolios. It is not intellectually honest to claim that the company is customer centric if no one understands its different customer segments, perceives which are driving shareholder value, or is responsible for segment performance.

3. How significantly does your organization differentiate its interactions with different customers?

True customer-centric leaders understand the importance of a mutually beneficial value exchange and treat customer segments differently based on their respective value contribution[7].

RETAILERS CAN LEVERAGE TECHNOLOGY TO INCREASE THEIR CUSTOMER-CENTRIC ADVANTAGE.

Cisco, Four Seasons, Royal Bank of Canada, and Southwest Airlines. These leaders manage their customer segments extraordinarily well and that's the primary reason they continue to deliver shareholder value quarter after quarter[8].

Retailers who adopt a customer-centric approach typically do so because they see it provides a better customer experience. At the same time, they benefit further because customer centricity often increases the lifetime value of the customer relationship. A better experience prompts customers to remain loyal and can prompt customers to shop and buy more. Thus, customer-centric tactics can both increase corporate revenue and profits and decrease marketing expense.

Turn to Pitney Bowes Software

Pitney Bowes Software is a communications management company unique in the customer insight and data optimization space.

Experts in hybrid communication strategies, Pitney Bowes Software can help retailers strike the right balance between physical and digital communication channels. With a 90 year heritage in technological innovation, they bring new methods to customer experience, marketing strategy and consumer communications to help power the retail marketer to enable lifetime customer relationships.

Pitney Bowes Software provides the most comprehensive offering in support of great customer experiences from optimized direct mail, fluid store operations, to social and hyper local marketing through:

- Advanced contextual analytics
- Data, location and business quality and intelligence
- Social-Mobile-Local marketing via the most accurate geo-coding and data
- Real-time customer interactions that are predictable
- Fusion based communications strategies

TO LEARN MORE ABOUT CUSTOMER-CENTRICITY, SPEAK WITH THE CUSTOMER EXPERTS. CONTACT PITNEY BOWES SOFTWARE AT 800.327.8627 OR VISIT WWW.PB.COM/SOFTWARE.

ENDNOTES

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