

HOW TO HARNESS THE POWER OF PERSONALIZATION

Five Essential Steps To Successful 1-To-1 Marketing



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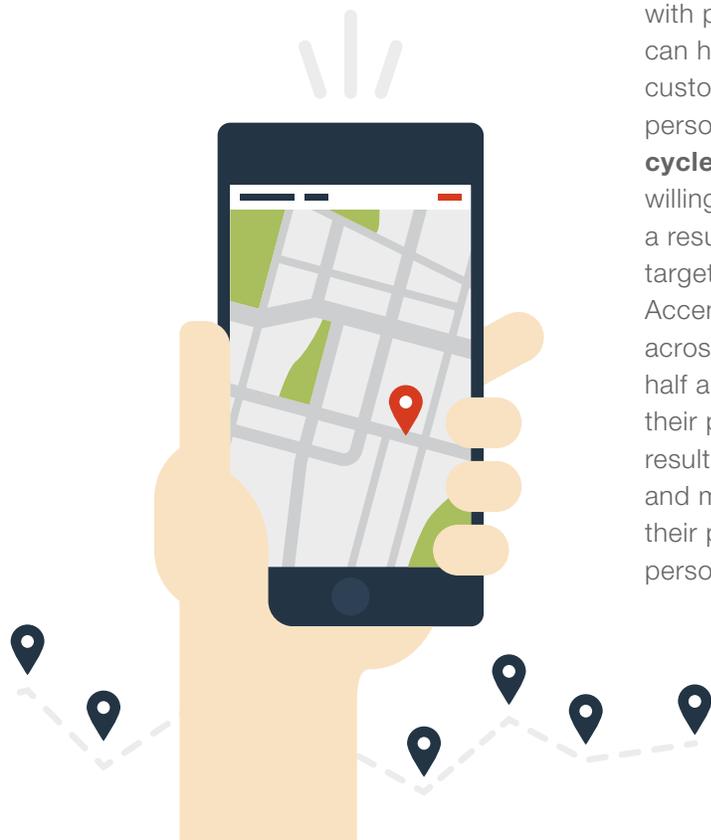
Retailers seeking to harness the power of personalization must play the “Goldilocks” game. They must find that “just right” point between too much personalization (which can feel intrusive) and too little (which can feel, well, impersonal). It’s a big challenge, but an absolutely necessary one for retailers to undertake. Meeting this challenge will deliver substantial rewards, as the increasing availability of customer data allows retailers to continuously refine their ability to find their customers’ personalization “sweet spot.”

Already today, new technologies, along with consumers’ increased willingness to actively or passively share data about themselves, are expanding the possibilities of personalization for a greater variety of retailers, moving well beyond its traditional uses in luxury and highly targeted specialty verticals. **Personalization itself is advancing toward contextualization, incorporating elements around consumers’ real-time locations, activities and intentions.**

Numerous studies indicate that consumers are increasingly comfortable with personalization, and that it can have a positive impact on the customer experience. When done well, personalization can lead to a **virtuous cycle** with shoppers who become more willing to share personal information. As a result, retailers can craft even more targeted offerings. A November 2013 Accenture survey of 15,000 consumers across 20 countries found that nearly half are happy to provide retailers with their personal information as long as it results in a truly personalized offering; and more than 60% would increase their purchases if they were offered a personalized subscription program.

Nearly half of consumers are happy to provide retailers with their personal information as long as it results in a truly personalized offering.

-Accenture



Yet it's also apparent that when personalization is poorly executed — or isn't appropriate to the product, the customer group or both — it can easily be perceived as intrusive rather than helpful. Retailers who misread consumers' readiness for personalized communications risk more than losing a sale; they can alienate their customers and preclude any future sales. "Bad personalization leads to bad experience, which leads to customers going next door," warns Hillary Ashton, VP of Customer Analytics at Manthan Systems.

However, retailers shouldn't let the fear of getting personalization wrong hold them back. For one thing, they need to gain expertise in using the current stream of consumer data, which will grow into a raging river in just a few years' time. Gartner predicts that by 2017, mobile device users will provide personalized data streams to more than 100 apps and services per day, says Gartner Research Director Brian Blau in the January 2014

report *Predicts 2014: Apps, Personal Cloud and Data Analytics Will Drive New Consumer Interactions*.

Generational changes are also making the need for greater personalization more urgent for retailers wishing to obtain a larger slice of wallet from Millennials, according to Ashton. Many of these consumers have come to expect personalized content and offers wherever they are, and this group will be moving further into peak spending years during the rest of this decade.

Retailers are tasked not only with defining what effective personalization means for their customers today, but continuously redefining it as technologies, products and consumer attitudes change. This white paper identifies five essential elements of positive personalization and provides guidance on what's needed for retailers to sharpen their aim.

By 2017, mobile device users will provide personalized data streams to more than 100 apps and services per day.

-Gartner



Five Essentials Of Effective Personalization

I. STRATEGIC DATA COLLECTION AND INTEGRATION

Data collection seems like a simple process: Gather all the data you have on each customer from every channel and touch point, and put it in a centralized data warehouse. As retailers and IT professionals know, the reality is much more complex. This crucial step requires both strategic decision-making and cross-departmental cooperation within the retail enterprise.

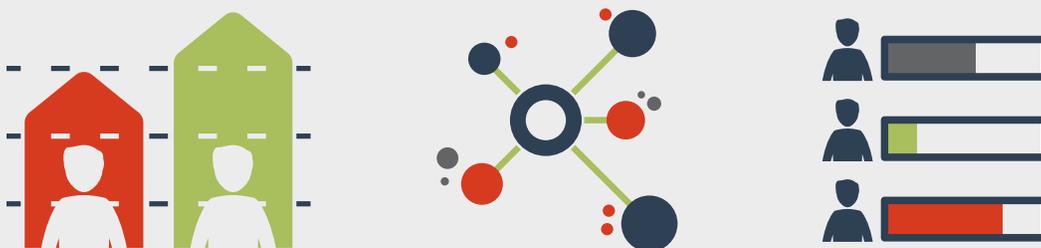
The complexity stems from the fact that all customer data is NOT created equal — and the types and variety of available information continue to multiply. Older, more structured data types (such as purchase histories from customer loyalty programs) have traditionally been managed by IT departments; Web analytics have been the province of the retailer's e-commerce business; and more recently, marketing departments have been accessing newer sources such as

social media activity and geolocation information. These siloed data fiefdoms are one reason why retailers need to strategically decide which customer data is most likely to be relevant, and then work on effective integration techniques. (See sidebar: **“Best Practice: Unify Internal Databases”**)



BEST PRACTICE: Unify Internal Databases

A large U.S. convenience store and travel center company with a wide range of disparate databases, including merchandise and sales, promotions, fuel marts, restaurants and tire-care systems, used Manthan's pre-built retail data model and database to pull all data sources together into a unified database with high data quality. This type of ready-to-load data model drastically shortens the customer engagement process; with other types of solutions, retailers can spend nine to 12 months simply determining the correct data model for their business.



Siloed data fiefdoms are prompting retailers to strategically decide which customer data is most relevant, and then work on effective integration techniques.



Retailers need to “prioritize customer data management,” advises Forrester Research in its January 2014 report *Advance to Next-Generation Personalization*. “Your data management strategies will begin with traditional CDM [Customer Data Management] architectures and support the integration of several customer data sources — packaged applications like CRM and enterprise resource planning (ERP), application logs (clickstream data), and data warehouses — to support a complete view of the customer.”

Once these solutions are in place, benefits include labor savings on reporting tasks and more immediate access to actionable information. Sprouts Farmers Markets, for example, has reported positive results from this strategy. (See sidebar: “**Success Story: Solution Provides Faster Access to Insights**”)

Retailers need to “prioritize customer data management.”

-Forrester Research

SUCCESS STORY: BI Solution Provides Faster Access to Insights

“We didn’t want our people to spend a tremendous amount of time gathering data. Rather, we wanted them to spend time reacting to what the data was telling them. The number of labor hours saved on reporting was significant enough to determine that this would be a No. 1 priority, to move out the spreadsheet and manual gathering of information and move to a business intelligence solution. Everyone instantly fell in love with the ARC system, because it was going to enable them to just come to work and get to work — not come to work, then put all these reports together, and then get to work. Everyone saw the benefits instantly.”



—Steve Black,
Chief Information and Marketing Officer,
Sprouts Farmers Markets

II. TRULY UNDERSTAND YOUR CUSTOMERS USING ADVANCED ANALYTICS

Obtaining a complete, 360-degree view of the customer is essential to any personalization effort. Achieving it includes collecting a combination of traditional data and insights gleaned from new sources, such as real-time and location-based information gathered via mobile devices, in-store traffic tracking and video analytics solutions. (See sidebar: “**Best Practice: Combine Multiple Data Types for Contextualization Capabilities**”)

To figure out what’s needed, consider that customer data is divided into three broad categories:

- 1. Profile Data = Who the customer is:** This includes demographic attributes as well as key value markers such as home ZIP code.
- 2. Historical Data = What the customer has done in the past:** This compilation includes a complete

cross-channel purchase history, along with market-basket analysis. The basics include when and where items were purchased, and in what combinations; more advanced data may include tracking the shopper journey from online research to an in-store sale, and vice versa.

- 3. Situational/Contextual Data = What the customer is doing now:** Real-time data about where a shopper is, what the shopper is doing or what he or she is trying to achieve (i.e., looking for a restaurant at lunch time) is now an integral part of the customer portrait. It’s particularly important as retailers automate messaging that can be triggered either passively — by simple proximity to a store or shelf — or actively, with a customer scanning a 2D barcode on a poster or shelf label.

Obtaining a complete, 360-degree view of the customer is essential to any personalization effort.

BEST PRACTICE: Combine Multiple Data Types for Contextualization Capabilities

Singapore’s largest loyalty program provider aggregates customer information from multiple retailers’ POS data into a single repository, and adds demographic information from its loyalty program to create a behavioral map of the customer using all three coordinates: Demographics + Purchase + Locations. The loyalty program provider creates distinct segments leveraging Manthan’s Customer360 segmentation approaches, including RFM, behavioral clustering and loyalty index.



After retailers have gathered all relevant customer data, they need to perform segmentation, dividing their customer base into logical groupings. Traditional methods of ranking customer value, including RFM (recency, frequency and monetary), can then be overlaid with segmentation based on personality types and life stages, e.g., fashion-conscious professional women who also manage their households; stay-at-home dads; empty nesters; or social media-savvy teens.

Another powerful segmentation criterion is **shopper behavior**. In this example, one group could include shoppers who use mobile devices primarily for browsing/research, while another would contain those who complete their transactions via the mobile device. But, while retailers are striving for a complete cross-channel view of each customer, behavior can differ markedly from channel to channel: A shopper's store visit might stimulate impulse purchases, but an online session could result in a higher overall ticket total.

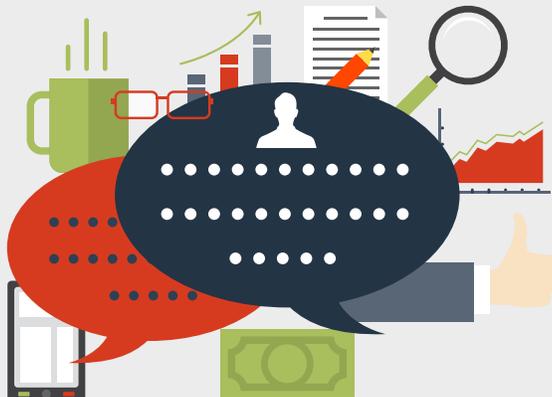
Once segments based on the customer characteristics and behaviors that are most relevant to the retailer are established, **predictive modeling** can forecast how members of different groups will react to various communications, offers and products. This strategy also can be used to assess a customer's lifetime value, lengthening the analytical focus from a single campaign to long-term customer engagement.

Predictive modeling also is helpful in **churn analysis**. Retailers need to know whether newly acquired shoppers are coming back for repeat purchases, as well as when loyal customers are drifting away. Customer value information can help retailers identify that shoppers with low lifetime value may not be worth the effort involved in bringing them back into the fold. (See sidebar: "**Best Practice: Identify Your 'At Risk' Customers**")

Retailers need to know whether newly acquired shoppers are coming back for repeat purchases, as well as when loyal customers are drifting away.

BEST PRACTICE: Identify Your 'At Risk' Customers

An entertainment retailer in Ireland faced high churn rates due to new competition. The company wanted to recognize customers who were likely to churn, as well as those that had recently churned, to re-engage with them to win back their loyalty. The retailer used Customer360 to analyze churn predictors to create a list of "at risk" customers with which to proactively engage.



Learning the markers that indicate when customers are getting ready to leave is a powerful tool, since existing customers are demonstrably more receptive to a retailer's offerings. "The probability of selling to an existing customer is 60% to 70%," according to Marketing Metrics, but "the probability of selling to a new prospect is 5% to 20%."

With churn rates of 20%, which are standard in the U.S. grocery vertical, retaining just 5% of these churners can

have a significant impact on the bottom line. The Food Marketing Institute (FMI) reports that an average customer spends \$3,000 per year on grocery products, so for a small grocery retailer with 200,000 total customers, cutting down the number of churners by 5% means an additional \$6 million in annual revenue.

Combining actionable analytics with automated next best offer provided a strong ROI for a regional grocery chain. (See sidebar: "**Success Story: Measurable ROI From Actionable Analytics**")

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-Marketing Metrics



SUCCESS STORY: Measurable ROI From Actionable Analytics

"We expect deploying actionable marketing analytics like churn identification and automated next best offer will provide us with an \$8 million ROI in our first year of production."

—VP Marketing, Regional Grocery Chain



III. IMPROVE UNDERSTANDING OF CUSTOMER CONTACT PREFERENCES

There's an old expression: "It's not what you say, it's how you say it." The multiplicity of communication vehicles now available to retailers makes how, when, where and on what device messages are delivered nearly as important to personalization efforts as the actual offer. (See sidebar: "Best Practice: Use Stated and Inferred Preference Data in Crafting Communications")

Customer contact preference data includes both **stated** and **inferred** information:

- **Stated preferences** include shoppers' opt-in and opt-out choices regarding e-mail and mobile communications. Retailers may also want to offer other methods for stating preferences, such as an online dialogue box that comes up when a shopper unsubscribes from an e-mail list. While it may not be possible to reclaim these customers, analyses of their responses can provide

clues about the effectiveness of communication strategies. In addition, social media has become a consumer forum for both positive and negative assessments of retailer performance, so it should be monitored and analyzed on a consistent basis.

- **Inferred preferences** involve more subtle forms of behavior tracking. For example, while a shopper may have provided her phone number, in practice she never picks up calls from the retailer (or any non-recognized number). Yet this same customer could routinely open and click through e-mails. As with other elements of personalization, tracking inferred preferences and then incorporating them into future efforts is about more than simply boosting response rates. Consistent failure to honor shopper preferences — even those not stated outright — will anger and/or fatigue even the most loyal customer.

How, when, where and on what device messages are delivered is nearly as important to personalization efforts as the actual offer.

BEST PRACTICE: Use Stated and Inferred Preference Data in Crafting Communications

A leading retailer in Singapore wanted to provide its customers with better experiences that were more personalized. Based on both customers' stated and inferred preferences, a real-time personalization engine was able to identify offers and deliver them to customers in the channel they preferred, thus increasing both response rates and ROI for the retailer's marketing program.



IV. PERSONALIZE OUTREACH TO YOUR CUSTOMERS

Once you've determined the optimal vehicle to communicate with customers, the next step is to determine what to say. Personalization can help retailers avoid the perils of broad assumptions. For instance, it may seem to make little sense to promote diapers to people in their 50s and 60s — unless they're caring for their grandchildren. And while the conventional wisdom is still that household products should be marketed to women, it doesn't apply if your customer base includes a growing contingent of stay-at-home dads. Given rapid societal changes, effective personalization means continuously paying attention to the experiences and needs of your customers in real time.

"Managing customer contacts in an omnichannel world has become a marketing must," said Ashton. "This involves not simply proper handling of opt-out requests but also handling the number of contacts made, along with which channels are used to contact which customers at what time. Greater attention to all these factors is a key driver for both limiting opt-outs and

increasing positive response. A recent customer deployment of a centralized customer contact management system provided an increase of over 5% in response rates."

Marrying business operations with customer preferences to effectively curate offers needs to be the heart of personalization efforts. Some of the key dimensions marketers need to consider in executing best-in-class personalization are:

- Customer history/profile
- Merchandise/product
- Customer location/channel
- Retailer's marketing calendar, e.g., available product, promotions, etc.
- Time dimensions, e.g., frequency of contact preferences
- Customer context, e.g., behavioral triggers such as a purchase or online cart abandonment, or response to call center outreach



"Managing customer contacts in an omnichannel world has become a marketing must."

-Hillary Ashton,
Manthan Systems

There also are indications that long-held ideas about channel preferences need to shift. The 2013 Accenture study reveals that in key verticals such as consumer electronics, apparel and home improvement, shoppers are “webrooming” (looking online, then buying in-store) more than they are “showrooming.” These findings represent “a strong indication that the sheer range of online choices can be overwhelming and that shoppers often prefer to let stores curate their choices for them.”

(See sidebar: **“Success Story: Curation Boosts Response Rates”**)

As retailers increasingly curate their offerings, numerous tools are available to measure the impact and effectiveness of consumer communications. “A/B and multivariate testing tools allow marketers

to test multiple variations of contextual experiences to determine which version better and most efficiently engages with customers and prospects,” noted Forrester. “Many of these tools have expanded to include features to help with greater optimization issues and leverage exploratory, descriptive, and predictive analytical and statistical techniques to drive relevant content, interactions and offerings to end users across channels, campaigns, and ideally the entire customer experience.”

In key verticals such as consumer electronics, apparel and home improvement, shoppers are “webrooming” more than they are “showrooming.”

-Accenture

SUCCESS STORY: Curation Boosts Response Rates

Intelligent offer curation was a key aspect for a leading retailer in delivering a positive marketing ROI. By predicting what offers a customer was most likely to respond to, and creating a next best action/next best offer, response rates increased by as much as 70%.



V. RECOGNIZE THE CONTINUOUS, CLOSED-LOOP NATURE OF THE PERSONALIZATION PROCESS

It begs to be restated: Effective personalization is not a “one and done” process. It’s iterative by nature, with the results of individual campaigns — and even individual interactions — being used to sharpen both high-level strategies and on-the-ground execution.

To become ever more adept at personalization, retailers should set up systems that:

- Establish clear, measurable objectives for each campaign;
- Track execution;
- Analyze results; and
- Refine their actions for future campaigns.

“Contextualization is a largely iterative process, so be patient, take many small steps, always test experiences, and learn from your mistakes as you go,” advised Forrester. “For example, many organizations start small with targeting based on demographic information the customer has provided, or geolocation targeting, and then move to contextualization via real-time decisions based on customers’ click paths.” Such real-time responses require greater use of automated systems, which also allow retailers to scale up solutions that prove successful. (See sidebar: **“Best Practice: Automate Ongoing Analytics Efforts”**)

“Contextualization is a largely iterative process, so be patient, take many small steps, always test experiences, and learn from your mistakes as you go.”

-Forrester Research

BEST PRACTICE: Automate Ongoing Analytics Efforts

“An automated system allows us to free up key resources for high-impact work, and leaves the daily marketing campaigns and reports to run in a ‘lights out’ environment.”

—VP Marketing,
North American apparel retailer



CONCLUSION

Retailers are enthusiastic, and rightly so, about the opportunities personalization provides to enhance the customer experience across multiple channels. Retailers identified “More effective targeting by capturing more detailed customer preferences” as their top marketing opportunity in an August 2013 RSR Research survey, selected by 53% of respondents; it had also been the leading response the previous year.

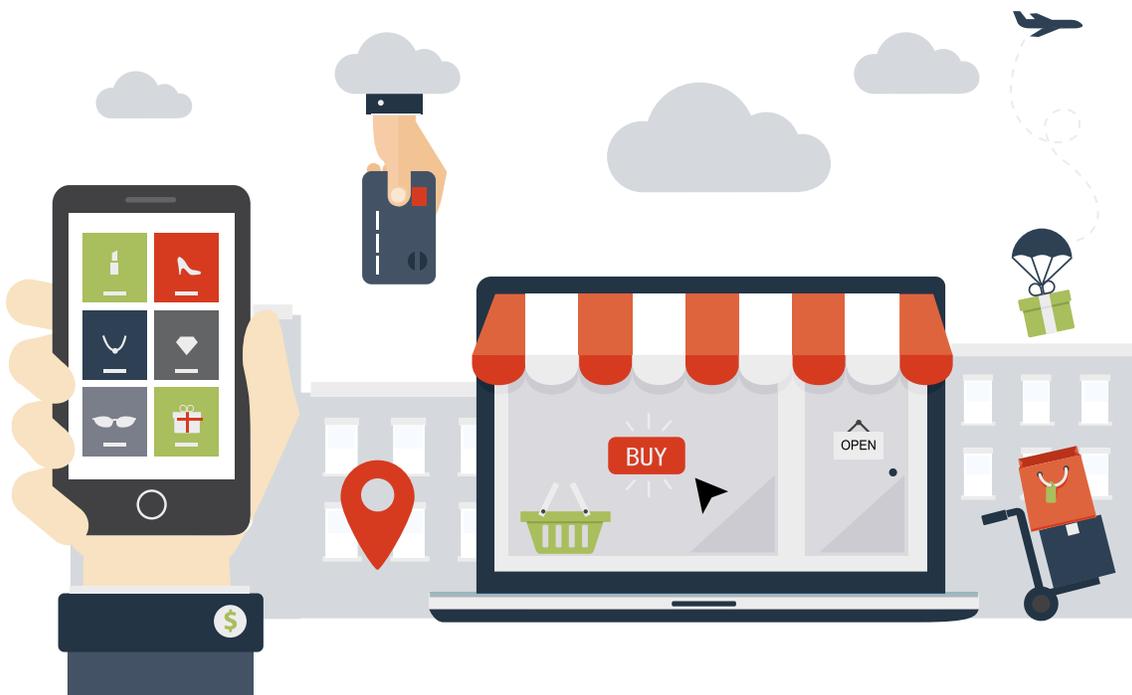
“Retailers now recognize that price and/or product are not enough to differentiate their brand,” reported RSR Managing Partners Nikki Baird and Steve Rowen in *Retail Marketing 2013: Organizational Drift*. “They need to focus on the customer experience to win, and they need to use digital channels not to build a separate customer experience, but to create links between the physical experience and digital realms.”

Manthan’s Ashton notes that retailers can make significant use of information that’s in-house now: “Retailers today are missing opportunities at every turn to convert the data they already have into useful insights that can drive exceptional personalization that can differentiate them from the competition.”

Making personalization truly effective is both a current imperative and an ongoing journey. It should be a thorough, strategically sound, multi-departmental process that incorporates many types of customer data, applies advanced analytics to gain insights, executes across multiple channels, and then uses campaign results and customer reactions to make the next campaign even more contextual, precise and profitable.

“Retailers now recognize that price and/or product are not enough to differentiate their brand.”

-Nikki Baird and
Steve Rowen,
Retail Systems Research





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ABOUT MANTHAN SYSTEMS

Manthan serves as the Chief Analytics Officer for global consumer industries. Manthan’s comprehensive portfolio of analytics products and services enable retailers and their supplier partners to understand and activate the customer’s pathtopurchase journey. Architected with deep industry expertise, Manthan’s solutions combine advanced predictive analytics, actionable insights and unmatched customer knowledge to help retailers identify and drive incremental growth opportunities. Manthan has provided its business building analytics solutions to over 120 leading retail and CPG organizations across 19 countries.



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