ENTERPRISE CUSTOMER MANAGEMENT

Can you afford not to take the leap?

BRAND LOYALTY

WHITE PAPER

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In order to answer that question, one must understand what Enterprise Customer Management (ECM) is and what sort of leap is required to practice ECM.

For one thing, ECM is far from being just about a Loyalty Rewards Program. ECM at its core is an organizational-wide approach whereby a brand begins to better and more profitably engage with its customer segments by harnessing customer behavioral, transactional and social data to help inform optimal decision making across the brand's enterprise.

ECM is still somewhat of an evolving discipline that is grounded in placing the customer at the center of all organizational decisions. It is not a function of just one department of a brand. It is the responsibility of every department, from the very top to the bottom of the organization, to place the customer at the center of every business decision. Adopting an ECM strategy does not happen overnight and it is certainly not for the faint of heart. It is a long-term commitment that requires a defined plan, committed and highly focused leadership, and buy-in at every level of the brand in order to yield enterprise-wide success.

When an organization undertakes the strategic decision to build and launch a customer loyalty program, it essentially is making a long-term commitment with its customers to offer them hard and/or soft benefits in exchange for their patronage, and the right to collect customer demographic, transactional and social behavioral data. That opportunity to collect data does not come without high expectation by a brand's customers. The 2014 Loyalty Report, conducted by Bond Brand Loyalty, uncovered that privacy is a leading reason why people choose not to join a loyalty program (56%), second only to fees (68%). About one-third of those surveyed were concerned about how brands use their personal information, and were unsure why programs require it (up slightly versus one year ago, from 29% to 32%). This suggests that brands must inform members of how and why their information will be used to enhance their experience with the brand.

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Ultimately, data collection is the key reason why brands should be offering loyalty programs. **Loyalty programs will yield a lift in sales and likely margin in year one (if designed properly), but then what does a brand need to do to foster growth in sales, margin and share of wallet of customers after that first year?** The answer is simple: collect, securely store and analyze customer data to optimize and solidify the relationship with its customers. Today, many brands use customer demographic, transactional, behavioral and social data strictly for marketing purposes. They generally use this data for some or all of the following purposes:

- Identify customers
- Build customer segments and understand customer segment preferences
- Evaluate each customer segment's worth and targeting
- Monitor and influence transactional and brand interaction behaviors
- Optimize marketing and promotional campaign/offer investments
- Measure marketing and promotional campaign/offer impact by segment
- Fine-tune the marketing communication mix

A loyalty program's data strategy should be delivering enterprise-wide benefits and results. Confining the use of data to one department is not just limiting, but quite frankly just short-sighted.

These are all very good uses of data for marketing purposes to drive and optimize a brand's sales. However, brands that use such data solely for these purposes are not maximizing the value of their data asset, and are certainly not amortizing the large cost they have incurred to build, launch and manage a customer loyalty program. This significant investment in data collection and utilization should be amortized across multiple areas of the business, in order to yield a far better return on investment. More specifically, a loyalty program's data strategy should be delivering enterprise-wide benefits and results. Confining the use of data to one department is not just limiting, but quite frankly just short-sighted. Arguably, marketing as a discipline is simply one of many means of facilitating connections between brands and their customers.

To really understand the efficacy of data across the enterprise, let's look at the high-frequency retail sector, specifically grocery and pharmacy. Data can and should be used more broadly across organizations to better inform areas such as:

- Merchandising
- Operations & Customer Experience
- Real Estate

#1 Customer Data and Merchandising Opportunities

Category managers in high-frequency retail environments tend to be product centric and reliant on aggregate sales data, as well as vendor product information and experience. Customer data as an overlay onto product or category unit movement data allows category managers to be far more strategic in their buying, placement and pricing of products in their categories. Below are a number of ways in which category managers can utilize customer data to make better merchandising decisions:

Promotion Optimization

Understanding how each customer segment responds to a product promotion can provide category managers with tremendous insights. Traditionally, metrics such as unit movement, sales and margin are used to assess the success of a category or product promotion. With customer data, it is possible to dissect results to really understand who the promotion did or did not appeal to and even why. It provides a deep and rich understanding into the impact of the promotion beyond just the aggregate product or category results. One can drill down right to the customer segment or individual to uncover responses to the promotion. The insights gleaned from such analyses can be vital and facilitate excellent campaign learnings that can allow retailers to create more relevant and targeted promotional offers and content in future campaigns to the right customer segments, in the right way.

Pricing Optimization

Offering a one-price-fits-all solution can lead to margin erosion. Different customer segments place different values on price discounts. As an example, a grocer might have a number of customer segments that it appeals to, including convenience, price-sensitive, price-insensitive, quality seeking and scratch cooker customer segments. Understanding the key drivers of the customer relationship allows the grocer to invest differentially against customer segments and minimize investment dilution. For example, placing cased soda on the front page of a circular might drive traffic to a store, but could have a number of detrimental financial and customer experience effects that are not fully apparent to the grocer by simply examining aggregate campaign sales data. The “price-insensitive” segment will always purchase soda, regardless of whether it’s on sale or not. “Cherry pickers” are not loyal and might only buy soda when it’s highly discounted and buy nothing else. Often they will purchase as much as they can jam into a shopping cart and slow down checkout lanes, while high-value customers wait to pay. Typically, these price deals are lost leaders and are promoted to induce cross-shopping behavior. As for these “cherry pickers”, the grocer would be far better off to keep these negative-margin customers out of their stores. Having customer data at your fingertips allows a retailer to identify which offers should be extended to which segment and which offers should not be extended to other segments. Additionally, customer-level data allows the retailer to access and understand the impact of these types of promotions on cross-sell activity, right down to the product, in order to validate the efficacy of promoting a lost leader campaign.

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Another benefit of customer data for category management is the ability to deliver different pricing by segment, in order to understand the minimum price discounting required. For instance, if a jar of peanut butter has a regular price of $5.99, inducing one segment to purchase might require a $0.50 discount to stimulate a purchase vs. another segment that requires a discount of $1.50. Without customer data and the ability to reach out directly to the customer level, a category manager might have issued a blanket $1.00 discount to all customers. This could have led to an over investment in the less-price-sensitive segment and an under investment in the more-price-sensitive segment. Understanding segment pricing sensitivities through advanced data analytics allows a category manager to optimize his/her pricing decisions in an effort to protect margin erosion and maximize unit movement. The same holds true for bonus loyalty points. Optimizing investment in points by segment can result in greater investment efficiency and delivery of offers directly to segments to maximize purchase behavior change.

Store Layout

Understanding how best customers shop your store is critical. A number of high-frequency retailers use best customer transactional basket analysis to inform department locations, category/product adjacencies and planogram decisions. Having the right product in the right location can be critical to driving sales. For instance, if a retailer's best customer segment is "time starved" and therefore price insensitive, understanding how that customer shops the store and what products and categories he/she shops for is highly valuable. If that customer expects to quickly pick up products he/she needs, building a merchandising layout to better suit that customer will ensure the retailer retains that high-margin segment. Additionally, building natural category and product level adjacencies will lead to enhanced cross-sell results, and many more natural and convenient cross-promotional opportunities. This is especially important if the retail brand caters to a high proportion of these customers.

Category Protection

Leveraging data to understand the key drivers of specific customer segments is vital to retaining your best customers. For instance, through advanced data analytics and resulting insights, a drug store retailer was able to identify key product drivers of the relationship between that brand and its core young female customers. This segment is fundamental to the retailer's business as the head of household purchasing. Can you guess which products were germane to retaining the shopping loyalty of this vital customer segment? Advanced customer data analytics served up shampoo and conditioner. Having the right shampoos and conditioners at the right price ensured that customers in this important segment shopping the store would index high across most other categories in the store when these product needs were met by the retailer. Talk about finding a needle in a haystack. Consequently, the retailer used this incredible insight to reshape its category management strategy. It is no accident that this retailer has the largest breadth and depth of shampoos and conditioners, positioned prominently, and they are often on deal. The retailer is a destination for these products and has helped to ensure that this core customer segment consolidates her shopping across categories at this drug store retailer.

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A similar activity was carried out by a regional grocer who was losing share to Walmart. Advanced analytics determined that the key to the relationship of a highly valued customer segment of the database came down to one SKU, "ground beef". Walmart sold ground beef at a significant discount and, as a result, the grocer was experiencing a large drop in ground beef sales, as well as a reduction in sales in stock-up and other periphery categories. Customers were flocking to Walmart for ground beef and were also purchasing stock-up items, such as paper products and cleaners. Armed with this data, the grocer created a campaign aimed at these lapsed customers. It was highly targeted and focused on the merits of its higher-quality ground beef and the inferior quality offered at Walmart. The grocer provided customers with targeted offers for ground beef, as well as stock-up offers and bonuses. The grocer was able to attract a significant portion of lapsed customers back to purchase ground beef and stock-up items, and many continued to do so in perpetuity. In the absence of customer-level data, it would be impossible to identify the key driver of the relationship, the core reason for attrition and the associated impact on other categories.

New Product Development

Understanding best customers' needs allows retailers to launch products that meet the needs and wants of their most valued customers. Engaging best customers and offering new products is a great way to recognize their loyalty and have them advocate on behalf of the brand. Through social media, there are significant opportunities to have passionate and loyal customers amplify the praises of these products and spur recommendations to purchase by other customers.

Product Delisting

From time to time, category management must go through a product rationalization process. As new products come to market, there is a need to delist older, slow-moving products and replace them with new sought-after products. That all makes sense: move old slow-moving products out and replace with new high-demand and fast-moving replacements. Not so fast. What if one of those slow-moving products is critical to a high-value customer segment? Delisting that product might encourage that high-value customer to shop elsewhere for that product and perhaps shift his or her entire shop to a competitor. In the absence of customer segment data, category management might make a quick and costly decision. With a customer segment filter, category management now needs to access the benefit/risk more holistically before making the decision to delist, in order not to alienate an important customer segment and risk sales attrition across the store.

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As you can see, customer data can play an integral role in helping category management build a better store and shopping experience for key customer segments in an effort to maintain and grow the strategic and financial relationship with high-value customers.

#2 Customer Data and Operational and Customer Experience Opportunities

Enhancing store operations and customer experience can be facilitated by the intelligent use of customer and transactional data in the following ways:

- Customizing store formats
- Optimizing service levels to differentiate
- Customized service for best customers
- Fuel sales generation opportunities
- Improve employee productivity
- Generate greater accountability for profit

There are endless ways to harness data to maximize operational efficiencies and deliver exceptional and differentiated service experiences.

Customized Store Formats

Retailers that have sufficient transactional and behavioral data about their customers can begin to build store formats based on their core customers' shopping preferences. In other words, if certain core customer segments are thoroughly known, the store's product assortment and customer experience can be tailored to the needs and wants of critical customer segments. In the grocery sector, it is not uncommon to build different store formats that appeal to different customer segments. These stores are operationalized based on the needs of the core segments. Super stores, traditional stores, express stores and discount banners are just a few of the formats that are out there. Within the stores, customer segment demographic, transaction and attitudinal data are used to merchandise the store according to the needs of the core segments the store is appealing to. Such detail is often brought to life in the look and feel of the store, merchandise assortment, pricing and service-level experience.

Optimized Service Levels

As a best practice, a retailer should provide all customers with a high degree of good customer service in order to build loyalty. With that said, wouldn't it be useful to know when your best or most valued customers shop your store? By examining data and recognizing time-of-day shopping patterns, retailers can begin to understand when their best customers are in their stores or shopping online. Using this data, retailers can build special time-specific experiences that are tailored to the needs and expectations of these customers. For instance, if a drug store chain knows that its best (or highest value) customers place a premium on service experience and shop its stores between 5-8 p.m., then it can staff accordingly to ensure it has its most experienced and knowledgeable Pharmacists and Cosmeticians ready to proactively provide product knowledge, and exceptional customer advice and experiences. Using geo-targeting and clienteling tools, these highly valued customers can be more readily identified and engaged by sales associates, in order to provide an elevated customer experience.

Enhanced Sales Generation

At retail, typically sales are measured at an aggregate level and dissected down to the specific department and category. Understanding which customer segments are driving those sales is very crucial. Conversely, understanding which segments are under penetrated provides great insights as to where growth can come from. Harnessing this knowledge is of paramount importance and can allow retailers to make more precise investments to grow sales and profitability. For example, if your very best customers are spending virtually as much as you can expect them to spend at your store, your strategy may be to keep them happy and simply retain that level of spend. If your next best customer segment has a 10% upside opportunity and a high probably to do so as they are spending a portion of that gap at your competitor, then shifting investment against this group may make good sense. Divesting investment against a segment that has "cherry picking" tendencies might be better used for other segments that drive both sales and margin growth. These strategies are fueled by capturing customer-level data, understanding the value of each segment to the business, then developing investment strategies that leverage customer-level business intelligence.

Improved Employee Engagement

Historically, retailers conduct customer service audits to better understand their customers' perceptions of service levels during their shopping experience. With customer-identifiable data, it is rather simple to link a customer shopping experience to current and future transactions of that customer. Capturing a negative shopping experience by a customer in social media and linking that to current and future transactional activity of that same customer can easy allow for labeling the experience and linking the impact to sales transactions. More precisely, if a pharmacy captures a negative brand post on Facebook by a member of its loyalty program, it can intercept the message and measure the impact it might have on that customer's future transaction activity/inactivity with the brand. More importantly, it can intervene and attempt to remedy the situation. Social media tools allow retailers and other brands to link stated experiences with current and future transactions. This is a powerful tool for brands to measure employee engagement with not just all customers, but most valued customers. It allows brands to hold employees more accountable by customer segment. The ability to identify a highest value customer at store level provides the employee with a cue that he or she better do everything possible to deliver an exceptional customer experience for that customer segment. Reports can be generated by segment, by store, right down to the employee level. It might seem a little creepy for an employee, but a highly useful monitoring tool for a brand.

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Profit Accountability

Profitability by customer segment becomes a new business metrics for brands that can identify their customer segments. In a retail environment, traditionally stores see profitability at an aggregate level. With customer segment data, a retailer can now begin to track profitability by customer segment to see where the opportunities for growth exist. Using this data, a retailer can make better decisions as to where to make investments at store level to grow profitability by segment.

#3 Customer Data and Real Estate Opportunities

Retailers invest millions of dollars designing, building, stocking and managing new store locations. These are long-term investments and require strong business intelligence before a new store can be approved for construction. Historically, store real estate decisions have been made based on a number of key aggregate factors, such as but not limited to population base, new housing starts and projects, the competitive mix, cannibalization of other stores of the brand, customer accessibility, zoning laws, taxation rates, human resource pool and costs. All of these traditional inputs are very vital, however brands that are armed with customer-level data have a real strategic advantage, as they can couple the traditional inputs with a number of very insightful customer-level data points. These customer-level data points include the composition of customer segments in the vicinity of the proposed new store location: current and potential value, brand avidity, attitudes, preferences and potential cannibalization of each segment. The combination of traditional and customer-level inputs/metrics allows for much better decision making for store locations and a higher probability of long-term success for planned new store locations. Additionally, gathering and studying segment information will allow for the provision of an enhanced and more relevant store experience for key customer segments, thus resulting in a more profitable, long-term outcome for the new location.

We also know that closing down a store location can come about as a result of a number of factors, such as changes in population bases and competition, reduction in new housing starts, cannibalization from other stores of the brand, reduced access to the store, operational issues at store level, increased operating costs and a reduced qualified resource pool, just to name a few reasons. Understanding the composition of customers impacted by an eventual store closure can minimize the impact on the brand and its sales. Customer-level data can help to:

- Identify the true impact of the store closure on sales and gross margin dollars by customer segment
- Foster a proactive dialog with high-value customers, so they are not caught off guard
- Shift high-value customers' business to other stores in the chain with an incentive
- Track customer impact over time and utilize data for modeling for other potential closures

The same practice can be exercised for brands that are renovating their stores and creating temporary disruption to the customer shopping experience. Identifying high-value segments and providing advanced notice and fostering a dialog can mitigate attrition. Additionally, offering an exclusive incentive during renovations can have a very positive outcome on the customer's relationship with the brand in perpetuity once the store reopens.

In Conclusion

With all of the merits of adopting an ECM strategy, why have many companies not jumped on the ECM bandwagon? Is it lack of vision, fear, disbelief, short-term sightedness, or just other business priorities taking precedence? Well as mentioned earlier, ECM is not for the faint of heart. It is a long-term strategic commitment that requires top-down and bottom-up commitment across all company departments. It is clearly a major shift in the way business is conducted where the customer is at the center of every decision across all departments. It requires a significant change in corporate operations, philosophies and much more:

- Changes to people's roles, accountability and even compensation
- An overhaul of existing processes
- New technology tools and adoption
- New disciplines
- New complexities
- Fully integrated cross-functional coordination
- New success metrics
- A new culture
- An environment that promotes test and learn
- Incremental investment

The journey to ECM is a long and winding road that can take 2-3 years and sometimes longer to perfect, and requires an immense degree of patience, leadership and commitment. Not all organizations have the stomach for such a vast undertaking. Some organizations commenced with bite sizes of ECM as a way to test, learn and grow, and have adopted elements of ECM. However, to do it right, it really does require a holistic commitment to change. Those brands that persevere are the ones that fully optimize their data asset and reap the full suite of rewards of an ECM strategy, therefore positioning their brand for success today, tomorrow and well beyond.

ABOUT THE AUTHOR

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Richard is a highly accomplished and visionary loyalty and CRM professional who has enriched the relationships between some of North America's most iconic brands and their customers for over two decades. He possesses a unique breadth and depth of experience that includes client-side and agency roles, building award-winning customer loyalty and CRM programs, and leading strategic marketing and promotional campaigns. He has a passion for retail and customer management, with a proven track record of harnessing customer and transactional data to deliver enterprise-wide solutions that drive company sales and profitability.

ABOUT BOND BRAND LOYALTY

Bond Brand Loyalty, a Maritz Company, is a leader in building brand loyalty for the world's most influential and valuable brands. We make the world more rewarding for customers, richer and more resilient for brands, and extremely profitable for our clients. We build measurable, authentic and long-lasting relationships through a combination of services that include loyalty strategy, customer experience, market research, insights and analytics, live brand experiences and proprietary loyalty technology platforms.

Download the Loyalty Report

The Loyalty Report is based on a comprehensive survey of nearly 6,000 consumers that captured ratings for over 160 loyalty programs. CLICK HERE to Download.

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