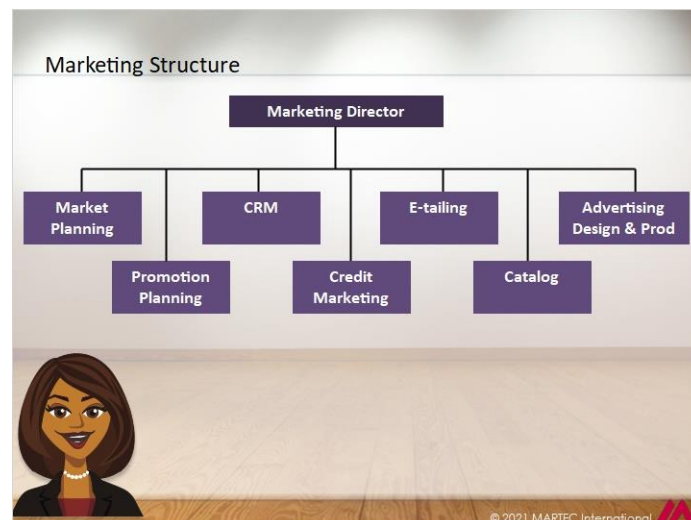


Retail Marketing Module Summary

Marketing Structure



Marketing departments have a planning function that analyzes the market, undertakes competitive research, and develops the market positioning and marketing strategy for the company. There will also be a group of marketing managers responsible for planning the promotion calendar for the coming year or season. As the year progresses, the marketing managers will liaise with the Buying Office to develop the detail for each promotion and to arrange things like the production of advertising and signage, in store promotion materials, any appropriate catalogs or leaflets, etc. They will help prepare instruction packs for the stores to help them implement the promotions.

Some retailers have a frequent shopper or customer loyalty program (CRM program). This will frequently be run by Marketing. Marketing will also analyze the data in the CRM database.

Retailers whose customers have enough visit frequency (generally around 12 times a year or more) may well have their own brand credit card. In this case, Marketing will be responsible for all promotions and marketing to the cardholder base in the same way as if they had a frequent shopper card.

When retailers first create a transaction web site and start selling products to consumers online, the web operation often starts life in Marketing. As it grows, it rapidly becomes a division.

Marketing Activities

The first part of the marketing process is to provide the business with a better understanding of their target customer, the market, potential opportunities, and the competitive landscape. From this they develop a marketing strategy and positioning of the company's offer to their customers.

Marketing also involves increasing sales using the most appropriate mix of advertising, social media, and promotions. Determining the effectiveness of marketing spend is vital. So, a lot of the marketing process involves examining big data to analyze the return on investment for each marketing activity.

CRM or Customer Relationship Management is carried out by the Marketing department. CRM is a strategy of learning more about customers' needs and behaviors to develop stronger relationships with them and increase sales and profitability.

Finally, some retailers run private label credit cards and marketing to and communicating with these customers is the responsibility of marketing.

Customer Relationship Management

Customer relationship management (CRM) is a key strategy for retail marketing teams. It is all about learning customers' needs and behaviors to develop stronger relationships with them. After all, good customer relationships are at the heart of business success.



CRM is a process that brings together lots of pieces of information about customers to understand them better. Effective CRM allows the retailer to treat individual customers, or groups of customers, differently.

The goals of CRM are to:

- Provide better customer service
- Maintain customer loyalty
- Develop assortments customers really want
- Make call centers more efficient
- Cross-sell products more effectively
- Simplify marketing and sales processes
- Discover new customers
- Increase customer revenues.

Loyalty vs. Retention



Customer relationship management recognizes that customers will not return to a specific retailer if they find another retailer who is offering them greater value. And there is a big difference between tactics that merely retain customers to strategies to provide truly excellent service. Good service means different things to different people and even different things to the same customer in different situations. For example, when I'm in a rush at an airport good service is being able to find what I want and pay for it quickly. When I am shopping for a special gift, I may want time for advice, gift wrapping and delivery. So, it is important to decide whether you want to retain customers or to make them more loyal and design your CRM program appropriately.


Loyalty and customer retention are two different things, but both are valid business objectives. There is a school of thought that says CRM programs build retention not loyalty. The only thing that builds loyalty is excellent customer service. An effective CRM program supports the analytics that identify what good customer service means to customers so that it can be provided effectively.

Customers Are Not Created Equal

One of the objectives of CRM is to use the appropriate technology to collect data that will help the retailer to understand what its customers value and provide this value. It is likely that you will have different strategies for different customer segments. There may be some customers you want to discourage, maybe if they are cherry pickers who just buy the promotions and never products at full price. For your top segment who provide a large proportion of your sales you need to find ways to truly delight them and ensure they remain loyal.


The three main variables a retailer can manipulate to improve loyalty are price, assortment, and service.


Customers Are Not Created Equal




All customers are not equal, yet most retailers treat them as if they were

CRM allows you to develop different strategies for different segments





The variables a retailer can manipulate are: Price, Assortment, Service




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Customer Spending by Decile

Customer Spending By Decile

Decile	Visits per Week	% Sales	% Cumulative
10	1.78	43	
9	1.20	21	64
8	0.88	13	77
7	0.64	9	86
6	0.47	5	91
5	0.32	4	95
4	0.24	2	97
3	0.18	2	99
2	0.13	1	100
1	0.10	0	100
Total	0.59	100	



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This chart shows a typical decile analysis. In this case, the top 10% of customers account for 43% of company sales and average 1.78 units per week to the stores. The top 30% of customers account for 77% sales, while the bottom 20% account for 1% sales. These top deciles are your primary shoppers who always prioritize you first when out shopping.

This data can be used in different ways:

- To develop clusters of customers, each with a set of common characteristics.
- To tailor store layouts and web sites to best suit the 30% or so of customers that provide 80% of the sales.
- To tailor the service package offered to suit the most important customer clusters.
- To tailor promotional offers and types of promotions to each customer cluster.
- To support clienteling applications, where sales associates in upscale stores can review customer purchases and suggest other items or services the customer might like to buy.
- To aid in customer retention.

In terms of business growth, the customers in deciles 5 to 7 are secondary shoppers and are the candidates to promote into deciles 8 to 10 if nurtured the right way. Deciles 1 to 2 are the customers to lose nicely if you can. They cost more to service than they are worth.

Strategic CRM



Successful CRM programs follow a four-step evolution. Stage one is often referred to as operational CRM, stages two and three as analytical CRM. Most retailers today are at stage one or two.

Stage One - Operational CRM

The most common vehicles in these early stages are frequent shopper programs or a private label credit card. At stage one, data is being captured, often in exchange for points or discounts that can

be redeemed later. Unless there is significant vendor funding at this stage, the CRM program is almost certainly losing money and eroding net margin.

The growth of e-commerce has meant that customer data capture is now much easier for online customers as retailers capture their name and address automatically to process the payment and arrange delivery. Retailers who use the same payment system in all sales channels with tokenization as their security method (as opposed to encryption) to identify payments from the same card can collect a lot of customer information without the need for a loyalty program now.

Stage Two - Marketing Automation

At stage two, some initial customer profiling is performed to the extent necessary to support targeted mailing and emailing campaigns; perhaps also some telemarketing, depending on the nature of the product. Some revenue may be generated by undertaking mailings on behalf of complementary organizations. If everything is done well, the retailer may be in break-even or even just a little ahead. At this point, the retailer may have sold more merchandise, but very little has been achieved to strengthen the relationship with the retailer's customers. If anything, the retailer may be educating customers to buy only when there is a promotion.

Stages Three And Four - Analytical CRM followed by Strategic CRM

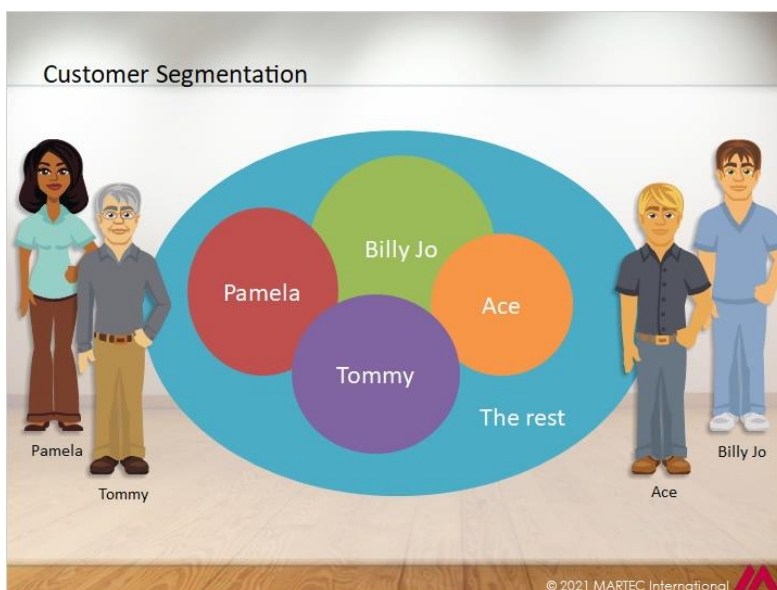
Stages three and four involve in depth analysis of the customer and their behavior. After stages one and two the retailer knows more about how its customers respond to emails and offers. It is now possible to carry out more extensive customer profiling to identify (ideally) three to six customer profiles (or clusters) that are representative of the bulk of the customer base. In doing this, the retailer can build a complete lifestyle portrait of each customer type.

This allows the retailer to move to stage 4, strategic CRM, where there is major payoff. Strategic CRM is where lasting relationships are built, true loyalty is developed, and competitors are further disadvantaged. In stage 4, each of the main operating areas of the business analyses what it does and how it does it, by customer profile, and then implements more customer focused approaches. For example, the buying office traditionally builds merchandise assortments that cover a cross section of price points and a cross section of customer needs. Now though, the retailer can look at the assortment differently. For example, take an assortment for category of 300 SKU's. Each product is examined, and a decision made as to which of the customer profiles it is likely to appeal to.





Customer Segmentation



Customer segmentation is typically done by the Marketing department. It helps retailers understand who their customers are currently. Proper analysis of customer data can help determine profitability and sales expectations for customers in each segment. Usually, the customer segment is given a name (like Billy Jo) and a pen portrait of their lifestyle, priorities, and concerns.

Many retailers then target their assortments, marketing campaigns, and store designs to the needs and desires of specific consumer segments.

In the stores this is evidenced by store layout, service levels, visual displays, store design, etc. Many changes will be made to encourage the customer to stay longer and visit more often. Online this approach is reflected in social media used, web site layout and assortment.

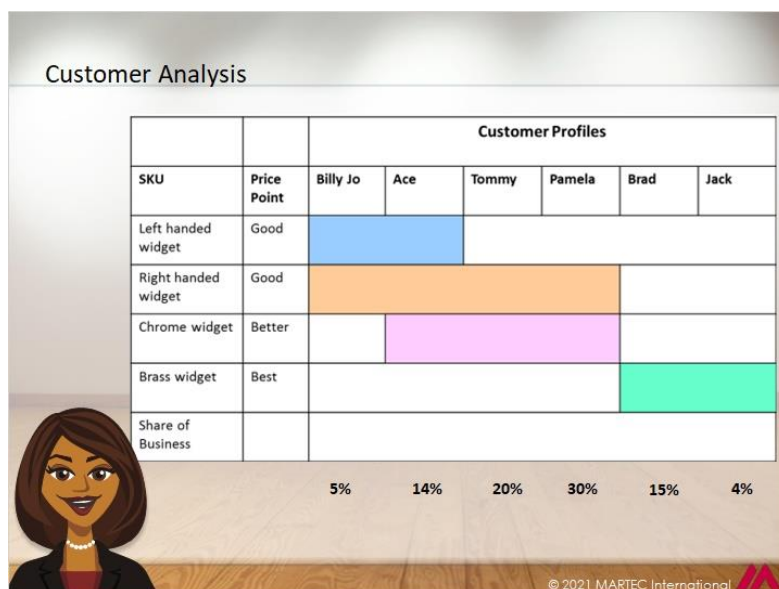
The key is understanding who your customer(s) should be - and CRM programs can provide the detailed level of data required to drive this type of analytics.

Note: In this example, the defined customer profiles account for 88% of the total sales. Reaching 100% is often unrealistic.

Customer Analysis

When this analysis is complete, the results are reviewed as you can see below, and several questions are asked:

- Is there enough choice for customer profile Billy Jo at each price point?
- Is the degree of choice offered consistent with their importance to the category? (In this case, Billy Jo customers account for 20% of category sales).
- Are the price points in line with Billy Jo's expectations and disposable income?
- Where else would Billy Jo profile customers shop? Are the price points competitive with these competitors?



This step is repeated for each customer profile, adjusting the assortment, as necessary. Assuming that the customer profiling was well founded, the assortments should be much better targeted.

This approach gets extended to all the other operational areas of the business.

When the business becomes this focused on the customer, the CRM system is really earning its keep. A healthy ROI should be achieved together with a loyal customer base and strong competitive

differentiation. It is a long journey and most retailers either have not yet started or are stuck in stages one and two, wondering how to go forward.

Summary

To summarize what we have learnt so far:

- Marketing executives are responsible for meeting sales and market share goals. So, their bonuses are usually based on sales, market share, frequent shopper effectiveness and marketing spend.
- The marketing department covers planning activities including market analysis, competitive analysis, understanding the target customers, positioning, and developing the customer offer. Marketing also covers selling activities including advertising, social media, promotions, CRM, and private label credit card management in some companies.
- There is a big difference between customer loyalty and merely retention and wise retailers develop strategies to increase customer loyalty.
- Customer segmentation helps retailers ensure that their assortments, promotions, strategies, and communications are appropriate to each segment.
- Most effort is focused on the top 30% of customers who typically account for 80% of sales.
- More information on customers is now available with e-commerce and this has helped retail marketers gain more detailed customer information to better inform their strategies and personalize their offers.

