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Building The Perfect Offer

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The early days of a downtown department store hanging a sign in the window with the latest discount price on a popular item have disappeared. While many retailers and even customers might grow nostalgic for the simplicity of those days, modern complexities have made retailing faster and sleeker. Sales opportunities and complexities have grown with each new channel, new customer, new technology, and new ability to offer products. Now, instead of focusing on one channel to extend offers, most retailers have to communicate and manage offers across the web, email, mobile, social, live agents and in-store via point of sale. The effectiveness of these offers will get a retailer a positive hearing in the court of public opinion of social media, which so far has a huge but hard to measure upside.

Extending and evaluating the results of an offer is the most underrated thing a retailer does in the world of multi-channel commerce, and the most important. That offer represents the mechanism through which customers will ultimately make the decision on whether or not to pull the trigger on a purchase. Unfortunately, for many retailers, this all important lever continues to be sent without testing, process evaluation or overall analysis.

First, however, let's define what an offer is. An offer is often confused with a promotional offer, consisting of the retailer giving away something to attempt to incite a purchase. If we go back to classical marketing, and look at the 4Ps of product, price, placement, and promotion, an offer actually consists of a combination of all these elements.



and may or may not offer a price discount. In fact, a strong offer optimization program would help a retailer enhance margin, not diminish it.

This white paper will present a roadmap for offer optimization, including the rewards of using automation to increase customer engagement and best practices for achieving this more profitable process of interactions.

This new retail offer optimization process consists of three basic building blocks:



Offer management: When a retailer creates an outbound offer it must consider the entire catalog and how it will address various multi-channel touchpoints. The direct mail offer will be different than an offer communicated via mobile phones. Likewise an offer that will attract response to a web site or contact center will need to have different elements. Offer management demands that retailers plan for the touchpoint, the budget necessary to manage the offer.

Offer optimization: This is where the offer is married to the customer segment or individual customer. The offer that goes to a frequent customer will be different than an offer that attracts new customers. The offer that goes to the “moms with young kids” segments will be different than the “retired” segment. An offer that goes to someone that does not require promotions to purchase is different than an offer that goes to a customer that does. A different offer or message would go to someone who has just responded to a previous offer or strategy and made a purchase.

Offer delivery: Here retailers push the offer to the proper channel. It is the third building block and can only be effective if retailers have first managed the touch points and budget, and then synched with the customers and segments. Delivery is a complete equation: touch point + customer + delivery mechanism.

Aberdeen senior analyst Sahir Anand said strategies for offer optimization and optimization start with data. “Customer behavior-based promotions start with collecting data about the customer, including demographics, purchase history, and offer redemption, among other criteria,” he wrote in *Offer Optimization In Retail*. “The next step is to use the customer data in a BI application to conduct deeper segmentation of buying affinity, customer preferences and customer wallet share.”

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—Sahir Anand, Aberdeen

As Anand pointed out, business intelligence and customer intelligence is a critical challenge for retailers. For as many opportunities as the multi-channel retailing world provides, the retailer that ventures into it without the proper analytics capabilities and sufficient customer knowledge will find that it is continually sending irrelevant offers multiplied by their multichannel usage.



Connecting Offers To Engagement

The need for retail offer automation is underscored by several general market trends and independent research. The first is in email. It is still an effective offer delivery mechanism. However, the sheer volume of emails that retailers send to their customers is staggering. According the “Retail Email Blog,” 2009 saw record email volumes from retailers. Top online retailers sent an average of 132 promotional emails to each of their subscribers, a 12% increase over 2008 — and 39% increase over 2007. That means top online retailers sent more than twice the amount of offers to customers over the past two years. But they didn’t necessarily learn anything from the results of those offers. In fact, a recent post from Return Path noted that many large retailers are sending on average 10 emails per month to past customers who haven’t opened an email from them in over a year.

According The Aberdeen Group, the email deluge is one of the factors that make offer optimization essential. Retailers need to ensure that promotions are effectively targeted towards the ideal customer segment whether that segment is defined by demographics, location, or specific needs. In fact, Aberdeen found that the two main drivers for increased business intelligence at retail were the need to accurately predict customer demand (33%) and the need to improve promotion effectiveness (39%). Managing promotion effectiveness can also help the retailer improve margins.



That's why the connection between offer automation and customer engagement deserves so much attention. Email marketers have done a great job of convincing retailers that irrelevant messaging will lead to alienation and a break in learning dialogues. But the same principle holds true for all channels of communication. Deliver irrelevant web content, send unrequested direct mail, or ask a customer for information you've already requested and their relationship with you will weaken. If a retailer keeps sending the same offer, or worse, a less relevant offer, it risks customers disengaging completely.

Again analytics are the key. Offer automation requires a sophisticated level of analytics. According to a Jeff Zabin, CEO of Gleanster, multi-channel campaigns produce different types of data at different frequencies and levels of granularity. Considering that marketers often struggle to define success in a single channel, it's not surprising that 43% of marketers surveyed find measuring results across multiple channels challenging.



Offer Optimization In Action

The difference between a retailer that has enough analytics and data capability to execute offer automation and one that doesn't can be the difference between keeping and losing a customer. Suppose a sporting goods chain wants to follow up a recent back to school program with a POS and email initiative that offers customers

discounts for winter sports equipment. Those discounts and those offers need to be based on past behavior in order to be relevant and effective.

If the new offers are relevant and compelling customers will want to spend more time, want to return for more purchases and will send them more information. Customer engagement becomes stronger. But that sporting goods chain also needs to know the specifics behind failed offers. Maybe an offer failed to email customers because prices were too high. Maybe in-store coupons should have been redeemable online. Maybe "forward to a friend" discounts just didn't hit the mark. But unless the offers, and all the elements of an offer, are analyzed, a retailer will never know how to optimize. A cycle of broken customer engagements begins.

To illustrate the multichannel connection, suppose that a retailer has already defined the customer behavior through its various channels and has developed the ability to analyze customer behavior in each channel. Let's look at the major components.

The first is email. After defining its most potentially effective target list, technology now exists for us to cut through more simple metrics like delivery rate, open rate, and response rate. Now we can tell within days or hours whether or not the offer was

was researched, moved to a wish list, recommended to a friend or used to research another product. And of course the retailer can know whether it led to conversions. Go one step further and the technology can extend a new offer to email customers that analytics have determined to be potentially more relevant. Beyond that, the offer optimization systems can actually extend several different follow up offers depending on the customer, the customer behavior and the potential for conversion.

So the offer is critical and the manner in which it's communicated needs to cut across all channels. But retailers need to hone in on the effectiveness of that offer. While the average modeling company considers a .10% lift in response a win, companies that employ offer optimization regularly achieve ROI up to 1,600% for their efforts.



Offer Optimization Best Practices

Retailers need to embrace the following six best practices in order to automate offers and maximize customer engagement:

Suppose the second part of the back-to-school offer centers on in-store POS. In this case, the POS system in place can recognize loyalty cards, or even couponing patterns for different purchases. Even something as simple as a new pair of soccer cleats can be met with an offer on the receipt that has analyzed the current purchase, tying the offer to the next logical purchase, and even driving the customer toward digital content. That offer process will also need to involve customer service reps. As a key point in coordinating multichannel retailing, live agents need to have the intelligence to act on the offers marketing departments put into the field.

1. Integrate Relevant Email Metrics:

Retailers have been aggressive about using email. They have built lists effectively, and become more adept at measuring open rates and influence on future purchases. However, retailers need to go much deeper into the elements of each email in order to truly make this strategy work across channels. Instead of tracking simple open rates and the size of the list that received the email, retailers need to track the more complex nuances of email. There are at least 20 separate elements to each email campaign and offer response is perhaps the most important.

2. Increase Customer Initiated Contact:

Customers drive interactions with their channel choices. They not only have more touch points, but they drive the timing of the interactions with them as well. Retailers need to encourage the quality and quantity of that contact first, and analyze the contact second. Example: If a fashion retailer encourages feedback to a call center, point-of-sales personnel, and an in store rep, that feedback needs to reside in the same database. That database can then yield the proper differentiated offer strategies, further honing the effective potential of that offer. Then the offer itself can be analyzed for effectiveness and potential optimization to a broader audience.

3. Drive Web Sourced Leads:

Offers served up via online ads, responded to via web visits or even gleaned from onsite customer behavior can be analyzed and then optimized. However, retailers too often focus simply on driving traffic to their web sites instead of driving traffic to an actual offer. Traffic analysis and optimization is different and significantly less profitable than offer analysis and optimization.



4. Improve Offer ROI:

Retailers have made progress with their content strategy and contact strategy right down to the return on investment they expect from each. But the offer goes largely without expectation. Part of the problem that needs to be addressed here is the campaign-based mentality of email programs. If retailers can look at offer communication beyond a simple email dialogue, they can understand that the offers they extend to customer groups is a multi-channel process than can be optimized continually until the targeted ROI is achieved.

5. Avoid Black Box Solutions: Many marketing optimization solutions are self-contained and automated. This means that marketers cannot dive deeply into what is working, and alternatively what is not, and quickly look at gaps in offer strategies.

6. Test: This is one of the more difficult areas of multi-channel offer optimization. In order to get to the level of testing the offer, companies need to first test response rates to see if potential customers will bet to the offer and then respond to it. In order to master this process, retailers need to understand the channel they are testing within and how it fits into the integrated whole.



Offer Optimization: The Multichannel Connection

As retailers move toward offer management and optimization, it's important to understand how it connects to multichannel retailing. As mentioned earlier, retailing is more complex by the month. For example, if the aforementioned sporting goods retailer started planning a holiday 2010 promotion next week, it could extend offers for different products through brick-and-mortar locations, a social media fan site, web pages, direct response TV, microsites connected to digital ads, email, direct mail catalogs, and mobile and social apps. As part of the campaign planning it makes sense that the offer extended from the retailer would change or be optimized based on the channel and the customer's history interacting with and buying from that channel. That planning depends on customer analytics.

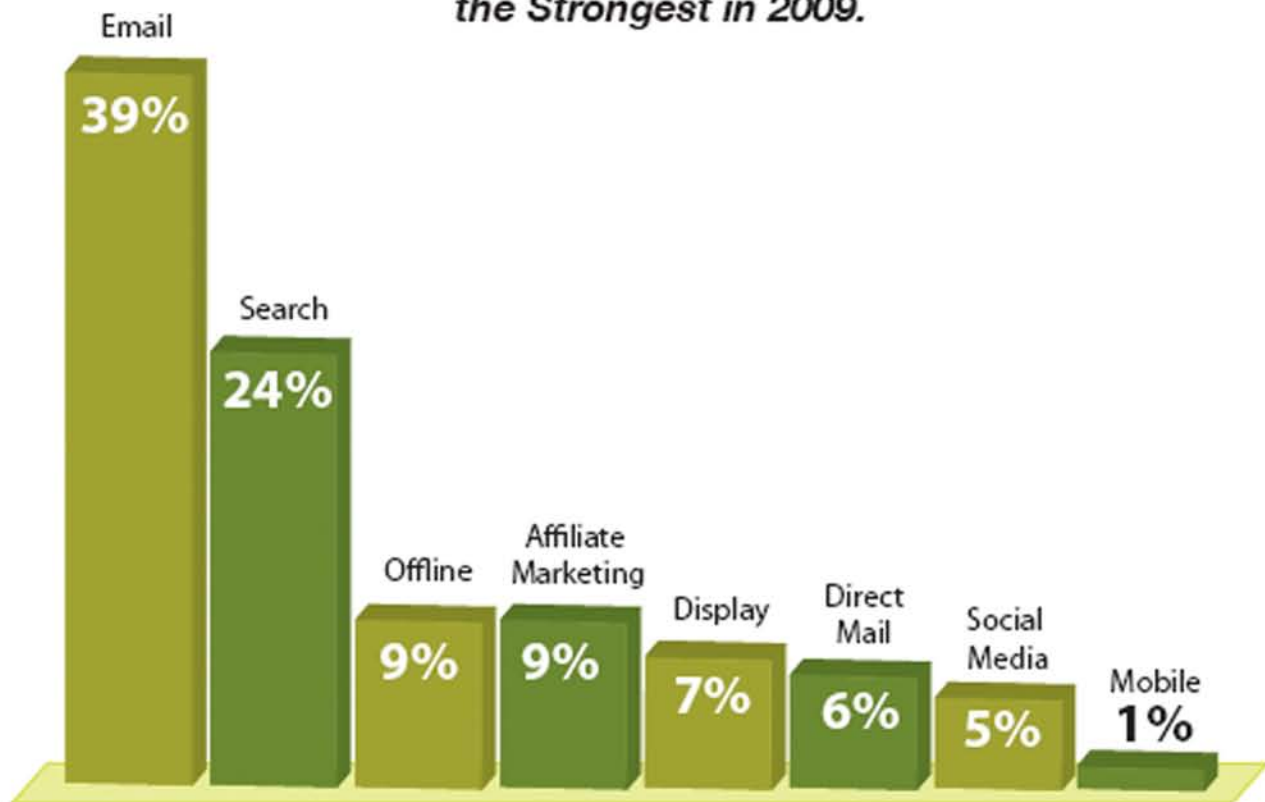
Too many retailers send the same offer to all channels because they either lack the analytics or lack the sophistication to act on the knowledge gleaned from them. Suppose the sporting goods chain knows that 30% of its revenue is generated online. It should know that 56% of its customers shop exclusively online, and 37% of all customers will opt-in to further communications via email. It should know that its Facebook page has attracted 13,576 fans, but no actual purchases so far. At that level, the retailer will know the revenue split it should aim for with its marketing and the offers it carries. It will know more about the ways in which customers interact with their business. It will have at least defined its multi-channel landscape.

On a positive note, the vehicles that carry offers to customers are continuing to attract the most budget increases. A newly released Datran Media survey of executives at Fortune 500 companies, publishing companies, media agencies and ad agencies found e-mail and search regarded as the digital channels that worked best to communicate offers last year. Conducted in December in conjunction with the Direct Marketing Association E-mail Experience Council "and other media partners," the survey asked respondents to identify the digital channels that "performed the strongest for your company in 2009." Email got the most mentions (cited by 39%), followed by search (24%), offline (9%), affiliate marketing (9%), display (7%), direct mail (6%), social media (5%) and mobile (1%).

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The case for reaching customers in the multichannel world is strong. To be competitive though, this knowledge of multichannel retailing is not enough. Most retailers can improve or optimize their message delivery methods. They can cut back on search, change their email messaging, and re-allocate offline dollars almost in real-time. Retailers for the most part are locked into a campaign mindset, ingrained by years of seasonal planning that dates all the way back to the early days when offers were communicated by signs on the window. The next step for competitive retailers is analyzing and then optimizing the offer carried within the delivery channels.

Digital Channels That Performed the Strongest in 2009.



Case In Point: Offer Optimization In Action

Although still new to retail and consumer products industries, offer optimization has already proven successful in other industries. For example, Suddenlink Communications has successfully deployed cross-channel offer optimization. Suddenlink is the seventh largest cable operator in the United States, serving approximately 1.3 million residential customers and thousands of commercial customers in Arkansas, Louisiana, North Carolina, Oklahoma, Texas, West Virginia and elsewhere.

Extending offers and analyzing responses to these offers has proven to be competitive differentiators for the cable provider. Its challenge was to create a more predictable sales process thereby improving the quality and consistency of Customer Service Reps' (CSRs) ability to sell to customers placing inbound service calls. Suddenlink needed to provide CSRs with more intelligence to support each customer contact, including more reliable caller information and the offer and messaging that is most likely to close a sale. In addition, once proven successful, offer optimization would be extended to all channels, including the web, door to door sales and retail.

During a 60-day deployment, Pluris Marketing, in conjunction with Suddenlink, developed a modeling platform to help predict likelihood of response across all Suddenlink offers. Several hundred offer variations were entered into Pluris' offer optimization solution, including specific messages for each customer segment along with channel-specific messaging.

Optimization algorithms were developed to normalize expected outcomes and align the various offers and offer mix attributes for each customer. A simple integration method was used to feed data to the CSRs' desktop with minimal impact on Suddenlink IT resources. Upon roll-out, order rates for CSR's using the Offer Optimization solution increased more than 34% over a control group and Suddenlink and Pluris Marketing then extended the solution across other channels.

"Suddenlink requires a cross-channel solution to improve top-line sales because their marketplace is getting more competitive every day," said Bob Fetter, Pluris SVP of Marketing "Pluris' approach allows their reps to improve the sales process so that it is more relevant to the customer, making it a win-win for everyone."

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Conclusion

Not three years ago a retailer would be considered ahead of the curve if they tracked email metrics like open rates, and responses and did some A/B testing of subject lines. But now retailers need to respond to a world that integrates multimedia and encourages multi-channel purchases. This makes understanding the customer in all its various segments and behaviors an essential capability. Analyzing the effectiveness of each communicated retail offer is the next frontier of marketing metrics for retailers, and the automated systems necessary to do it are now in place.

Offer optimization demands that retailers return to the simplicity of promotions used by the corner store, yet integrate robust analytics to understand the motivations of their customers. If retailers embrace offer optimization they must work from the customer and offer first, not the product first, or the campaign first. Also, if retailers apply offer optimization tools and processes, their analytics will be more specific and actionable.

For example, the ability to know which customers

are more likely to respond to a free shipping offer to spend incremental dollars, versus which customers will not respond to free shipping at all, will ultimately support top and bottom line strategies. Free shipping, without the incremental dollars generated to pay for it, is a classic example of an offer extended without the proper analysis.

While retailing has become infinitely more



complicated since the days of simple discounting, current market conditions call for a return to simplicity in one key area: the offer. It is the most important thing a retailer does and possibly the least sophisticated in light of today's retail technology advances. Most retailers have made progress in employing customer data, but they have not embraced the next phase

of customer information analytics, which is analyzing the offer. If they can do that, retailers can increase revenue, increase customer engagement metrics, and position themselves to be more competitive in the multi-channel world.





PLURIS

About Pluris

At Pluris, we enable marketers to optimize the value of each consumer engagement – anywhere and as it happens - resulting in higher conversion on sales, marketing, and service interactions. We help marketers to better understand consumers, generate key insights from their behavior, and engage them in the most effective way across traditional and interactive messaging channels.

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