

“Less is more!”*

*Ludwig Mies van der Rohe, 20th century German architect

or the turning point for retailing from mass media marketing to a segmented approach

CUSTOMERS' LIFESTYLES
AND CONSUMPTION PATTERNS
FINALLY RECOGNISED
Retailers more effective
by changing the way they see
and act on customer needs

Spending less money and using less energy, while increasing the average basket, margins, cross-selling, loyalty-building, etc. Although this vision might seem idyllic to specialist and food retailers, it's a reality for those retailers which have opted to leave behind product centric mass media marketing in favor of marketing based on what they know about their customers. Let's be clear about this. We're not talking about futurology or idealism, but about a radical change of viewpoint which uses the "nuggets" of information contained in millions of cash register receipts collected by retailers. Just one change is needed to move into this new golden age, starting at the top of the pyramid, and that is to establish a "customer centric" culture at every level of the retailer, from the board of directors and general management right down to the stores themselves. Customer Centric Retailing (CCR) finally reveals the submerged part of the iceberg, i.e. knowledge about customers' lifestyles and buying habits. It incorporates this in all plans and operations involving direct marketing, loyalty-strategy, promotions and product assortment, private label brands, store and category management. Within a few weeks, a 5% sample of the customer base is all it takes to reveal relevant customer families for the brand, and watch all the performance indicators turn green.

by Nick Afonsky, Senior Vice-president,
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So, are you ready to enter a new era?

The age of mass marketing is well and truly over. Whether a retailer is targeting ten million, ten thousand or ten customers, the customer's need for recognition is exactly the same. These consumers bombarded with messages are tired of receiving promotions which don't interest them or, even worse, not being informed about those which do. For their part, retailers are fed up with spending a fortune on poorly targeted and ineffective marketing campaigns, seeing no increase in casual customer traffic or in their average shopping basket, and not rewarding their loyal shoppers adequately.

Eight good reasons to make the move to customer centric retailing (CCR) quickly

- *Align operations strategically.*
- *Combine the benefits of RFM segmentation with customer lifestyles.*
- *Know which groups of customers buy what, where, how often and for how much.*
- *Stop wasting millions giving offers and discounts to consumers who don't want them.*
- *Identify cross-sell opportunities in terms of groups of products and families of consumers.*
- *Express the latent knowledge contained in your transaction and customer history, regardless of the distribution channel (hypermarket and supermarket, specialised, on-line, catalogue).*
- *Free up the shelves for growth products and remove dormant products.*
- *See the first benefits of CCR within the first few weeks.*

A radical change of mindset

Must we continue to accept this situation, where both parties are losing out? Clearly, the answer is no! Do we have the means to change the hand we've been dealt within a short space of time? The answer is a resounding yes, and here's how.

The basis of this complete transformation is primarily cultural. Most retailers find it difficult to stop thinking purely in terms of "products" for the simple reason that it works in mass food retailing and most other retail formats. But is a product-centric approach enough anymore? Shouldn't we ensure that what works well today becomes something which will exceed all expectations tomorrow? If the drive towards Customer Centric Retailing comes from the general management, the virtuous circle of knowledge about customer behaviour starts to work immediately, at every level of the company. At this point, three overlapping phases are necessary.

“One retailer boasted that he had 2,500 customer profiles in his database! This is perfect for analysis and for theory, but near impossible to use to execute an operational marketing plan”

At the heart of customer behaviour

Firstly, adapting the retailer's commercial strategy. Most of the time, retailers divide their customers into multiple categories based on the RFM (recency, frequency, monetary) model. In fact, one grocery retailer boasted that he had 2,500 customer "segments" in his database! This is perfect in theory, but how do you apply an operational marketing plan in such cases? To be quick and effective, the best option is to select a sample of customer data (from cash register receipts, Internet transactions and loyalty cards). Analysing 5% to 20% of this data history is enough to segment relevant and representative purchasing patterns in a few weeks. The strength of the 5one CCR model is that it maintains the retailer's organisation and information system, at the same time as adding a "shopping behaviour" dimension to the undifferentiated data provided by the RFM analysis. This happens gradually, through test and learn phases applied to specific periods and samples.

“The strength of the CCR model is that it maintains the retailer’s organisation and information system, by proceeding gradually, through test and learn phases applied to specific action plans.”

Data mining

This is where the second key element of the CCR virtuous circle, namely technology, comes in. In fact, new generation software such as 5one Shopper Centre captures these data and, with the help of powerful mathematical models, reveals what makes up the average shopping basket. These data are processed anonymously, without undermining customers’ confidentiality or privacy. Finally, the retailer builds up a picture of its five, six or seven broad families of shoppers, their behaviour and preferences. For instance, by cross-referencing its data with data from service stations in ten European countries, one FMCG brand discovered that its customers often bought Red Bull as well as its mineral water products. The marketing department immediately put together a promotional offer for energy drinks and sales soared. In another field, analysing the sales of Portugal’s leading food retailer showed that families, its key segment, were buying a lot of high priced chocolate-flavoured cereals. The retailer therefore decided to produce and sell a similar product under its own brand in order to increase category performance, profitability and customer satisfaction.

-20% — **1/3**

We need to do away with the infernal cycle of “20% off for everyone” when it is possible to cut the number of promotions by 30% at the same time as increasing sales by 5%.

5%

Segmentation in action

The final part of this virtuous circle which we create for our clients relates to support. How did customers react to the new cross-sell offers? Has the average value of a shopping basket risen? Has there been an increase in footfall or spend among infrequent customers? Gradually, an action plan devised according to categories of priority customer segments is built up and refined, with differentiated events and offers. In fact, one British chemist brand gained the equivalent of one week’s additional sales through a targeted coupon programme. The leading South African health and beauty retailer increased the value of its average basket and customer footfall by redefining its marketing and communications strategy based on insights generated from its 10 customer segments.

This is the key to the success of new “customer centric” retailing. That’s why a European beauty retailer increased sales of its facial products in its test stores by 1.2%. Why a service station chain generated an extra 7.2 million in profit in its stores in the space of one year. Why the leading UK video games retailer saw its campaign response rate rise by 25%. Why the leading South African food and clothing retailer increased its sales by 7%, reduced its fresh product losses by 15%, saw its returns following communication campaigns rise by 30% and resulting sales increase by 100%.

So, are you all set for the new era in retailing?

The Basics

The Customer Centric Retailing approach is the new face of specialist and food retailing, no longer guided by products but by business insights about customers' buying habits and lifestyles. Without upsetting the existing organisation and information systems, this change of outlook aligns operational plans to the strategy and to the actual expectations of the retailer's customers. By spending less and targeting their actions, shops are seeing their sales indicators, margins, average baskets and loyalty grow within a short space of time.

About

About 5one Marketing Ltd

5one, a wholly-owned subsidiary of LaSer since April 2007, is one of the leaders in the field of "customer-oriented" sales strategy consulting. With offices in London, Paris, Cape Town and New York, 5one helps its renowned clients, including Ocado, BP, Modelo Continente, AS Watson, Game, The co-operative, Woolworths SA and ICI Paris XL, to enhance their customer portfolios.

www.5one.co.uk

About LaSer

LaSer is a European service company in the field of intermediation and customer relations. LaSer develops customer portfolio management and enhancement solutions on behalf of retailers and brands, including data marketing, range of cards and associated services (insurance, credit, etc.), and provides individuals with financial and everyday services.

LaSer is owned in equal shares by the Galeries Lafayette Group and BNP Paribas Personal Finance. Based in Europe, LaSer employs 9,800 staff and achieved a turnover of 1.6 billion in 2010.

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