

# Cross-Selling for Competitive Advantage



A Part of the Turnaround Series for Retailers

# FULCRUM



## ABOUT THE TURNAROUND SERIES FOR RETAILERS

American retailers have come under tremendous financial pressure as beleaguered consumers curtail their spending, many seemingly paralyzed by the daily headlines of economic doom-and-gloom. The impact has been swift and devastating. At least 14 major chains have sought bankruptcy protection over the past 12 months, and many others are struggling.

Falling for a fourth straight month, U.S. retail sales plunged a record 2.8% in October 2008, according to the Commerce Department. With sales down and not likely to recover quickly, retail marketing budgets are under more scrutiny than ever before.

In these economic conditions, retail executives need to perform a balancing act across all parts of their operation. According to a recent McKinsey Quarterly article, retailers are reporting more attention to ways to reduce costs and increase liquidity, while also looking to invest in service to gain market share as well as accelerate short-term promotional efforts to generate store traffic.

Clearly, it is no longer business as usual. But how is your marketing strategy changing, really? What new customer insights are you uncovering to help attract more visits to your store or your website, and to generate more sales? What system improvements have you made to deliver more timely and relevant messages to your customers across all of your touchpoints?

In response to the unprecedented and pressing challenges facing retailers today, Fulcrum Analytics has released its "Turnaround" series of Position Papers to help marketers rethink traditional approaches to a range of topics, including Cross-Selling, Forecasting and Store-Based Marketing. Each "Turnaround" paper provides a number of different ways to take advantage of your customer and prospect data to drive immediate results. While many of the "Turnaround" concepts are best practices for retailers at any time, the applied thinking presented in these papers is especially relevant now.



The key principle behind all of our "Turnaround" concepts is the connection between Customer Management, Store Operations, Data Management and Inventory Management in shaping and driving retail marketing. Those areas of responsibility remain separate and siloed within many retailers today. How much of a turnaround you can achieve will depend in large part on how successful your organization becomes in linking these functions in the future.

## ABOUT FULCRUM

We are a fifteen-year old database marketing agency that provides actionable customer-based insights to inform marketing strategies, and powers marketing campaigns with customer-state technologies that enable highly-personalized communications across all touch points.



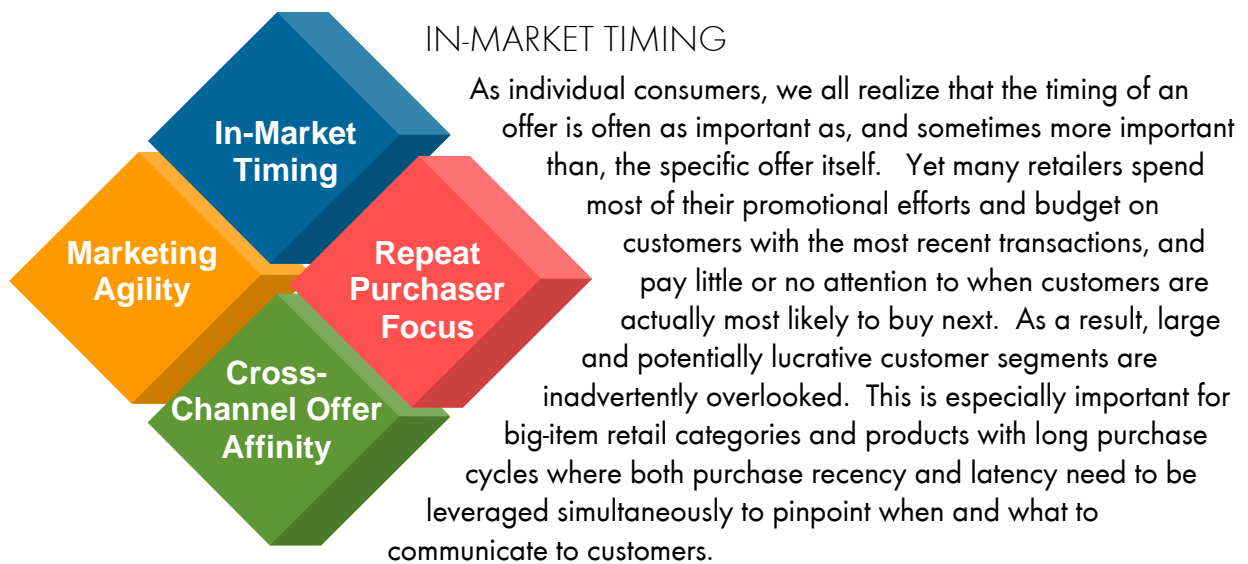
## TURNAROUND CONCEPTS FOR CROSS-SELLING

Many retailers have learned how to leverage their data to help identify opportunities to increase their share-of-wallet by cross-selling additional products and services to established customers. Analysis of product sales data helps drive merchandise selection and placement decisions in store, in the catalog and on the website. Analysis of data collected on individual customers helps determine relevant direct marketing offers.

Yet many retailers remain disappointed with the results of their cross-selling efforts to deepen and broaden their relationships with established customers. Response rates have remained flat or actually declined. Average order sizes remain unchanged or are actually decreasing. Tinkering with the current approach will no longer provide incremental improvements.

Average order value online has essentially remained flat from October 07 (\$149.35) to October 08 (\$148.38). Average items per online order over that same period have declined almost ten percent (5.48 vs. 6.07) (Source: Coremetrics)

Fulcrum recommends building a new foundation for developing your cross-selling strategy, based on the following cornerstone concepts:



In-market timing strategies begin with an understanding of the relative importance of intentional vs. impulse spending decisions. Although it is admittedly difficult to capture and record the nature of transactions this way, it is helpful at even a conceptual level to consider how this dynamic plays into every purchase decision at both the category and product level. As an example, a customer's camera purchase can be represented by one of the four statements in the diagram below. Transactions that fit the statement in the top two quadrants are influenced for the most part by the store's branding efforts and that of the manufacturer, along with the in-store and website user



experience. However, in the other purchase scenarios, analytics can help a retailer complement the brand strategy by identifying and targeting in-market customers by category.

		Product Level	
		Impulse Spend	Intentional Spend
Category Level	Impulse Spend	"I just decided to buy a camera and this brand."	"I planned to buy this brand, but just decided to buy a camera now."
	Intentional Spend	"I planned to buy a camera and just decided to buy this brand."	"I planned to buy this brand of camera, and I did."

Many retailers who have developed an ability to anticipate when customers are interested in buying have done so by building a standalone model, and then face the logistical challenges of working with multiple models to account for both choice and timing in any customer's purchase decision. Your analytics department or vendor needs to have the capability to take both of these dimensions into consideration in one integrated modeling framework.

Closely linked to the issue of Offer Timing is Offer Frequency. Making the same offer more than once to target groups is an accepted and often necessary practice to squeeze the most return out of your marketing programs. However, we have all experienced as consumers the multiple and seemingly never-ending offers from marketers of subscription-based services, as a top-of-mind example. Yet many retailers are also guilty of the same wasteful practices, not knowing "when to quit." Your cross-selling programs need to include discrete predictors to control the frequency of solicitations at either the individual or customer segment level.

In-market timing strategies also can significantly benefit from analyzing and anticipating your competitors' plans. Consider adding and regularly refreshing database and model variables that capture what your competitors are offering, both when and in which markets. This type of data can then help you adapt the timing and cadence of your marketing offers either to pre-empt or to strategically react to your competitors' offers.

Competitive advantages can also be achieved by identifying when to delay a promotion. In contrast to a "first-in" promotion strategy and the hoped-for "lag effect" or carry-over benefit on sales, a "next-in" promotion strategy can take advantage of a "lead effect" in situations where customers are holding off purchases and waiting to see what sales or specials are launched. In this scenario, your competition's promotion helps generate interest while your promotion is timed to generate the sale.

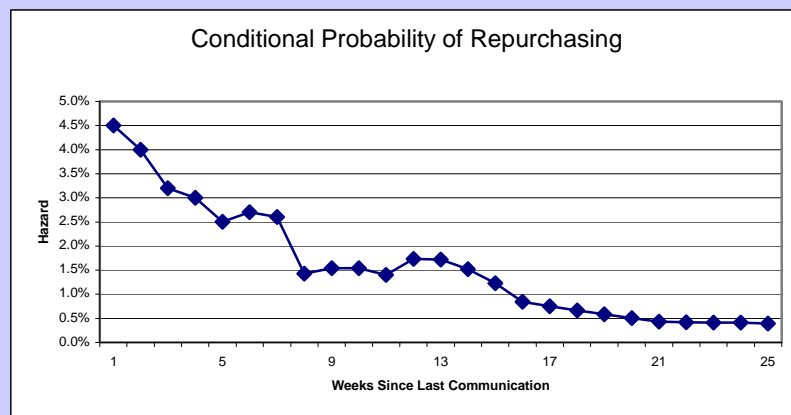


How could your cross-selling results improve if you were able to not only anticipate what each customer or segment is interested in, but when their interest will be highest? And to eliminate individual customers or segments from further solicitations of the same or similar offer when they are no longer interested? And do both while also taking into account your competitors' plans?

## USING ADVANCED ANALYTICS TO FIND THE RIGHT TIMING

Empirical studies have shown that identifying when a customer is "in the market" is one of the top predictors of customer behavior. A paper by Fulcrum published in 2007 DMA Analytical Journal documented several case studies where a jointed model that simultaneously predicted product choice and timing provides significant a improvement in targeting.

In the example below, the probability of repurchasing is high initially, but declines precipitously over time. Note that there are local peaks in response around weeks six and twelve. This pattern provides business insights and impetus for investigating optimal follow-up communication timings that coincide with these peaks to further simulate or reinforce customer repurchase propensities.



## REPEAT-PURCHASER FOCUS

Every retailer has a percentage of single-transaction customers, but few retailers design and implement specific strategies to increase their number of repeat customers. Aside from the data management issue of identifying a first-time customer (not an insignificant issue in itself for many retailers), the other challenge is deciding what exactly to offer these customers to encourage a second purchase. Even with the limited data that you will have on file for these customers, an analysis can identify at either the individual or segment level the specific second-purchase decisions with the highest potential acceptance.

How many of your existing customers are one-time purchasers? On average, how much incremental revenue per customer is created with each new repeat purchaser?



## CROSS-CHANNEL OFFER AFFINITY

Every retailer knows the importance of delivering consistent messaging across customer channels, and many are in the process of making significant strides in this area. Almost half of retailers recently polled by Retail TouchPoints are planning a multi-channel response strategy over the next 24 months, providing customers with the ability to pick their preferred communication platform.

Yet despite widespread consensus that cross-channel integration is critical, many retailers struggle to find and deploy practical strategies to infuse more cross-channel intelligence into their marketing programs. In many cases, the concept of “offer affinity” affords retailers an immediate opportunity to provide meaningful communications to customers across channels.

“Offer affinity” is based on a marketing analysis that finds a pattern of one type of purchase naturally following another. To use a home improvement example, a purchase of deck lumber would have an intuitive follow-up sale of deck stain, but an analysis of transaction data could point to other “missed purchase categories” such as joist brackets, and flashing.

Finding these “potential pairings” is something that in-store merchandising display departments have studied and reacted to for years, but now that kind of intelligence can inform both offline and online customer communications. For example, a registered online customer who has just bought X receives an offer for Y the next time they visit the website.

Customer needs vary considerably by shopping occasion – what they want to accomplish when they visit your site may be very different from time to time. Predicting shopping occasion tendencies can deliver richer and more immersive experiences for your customers online.

A recent retailer study by Aberdeen points to an average 25% improvement in gross margin contribution by delivering unified customer experiences through channel process integration. How would your cross-channel gross margin improve if you could make personalized offers across touchpoints based on previous transactions through any channel?

## MARKETING AGILITY

A decade after the launch of marketing automation systems to execute and measure direct marketing strategies, many retailers remain locked into campaign-centric views of their marketing programs. The demands of today’s marketplace require that retailers be able to respond to smaller and smaller segments of customers with increasingly targeted and timely offers. The question needs to be asked: is the construct of a “campaign” as marketers have traditionally known it still appropriate for how customers expect to be communicated with today?

Your database marketing platform needs to provide a cross-channel marketing management solution that provides a high degree of customization at either the individual customer or segment level. Such a platform will allow you to transform the way you think about marketing, breaking out of the traditional campaign-centric view to truly deliver customer-centric marketing.



## LET'S GET STARTED WITH SOME TURNAROUND THINKING FOR YOU

The challenge is daunting: how to get consumers to shop more and spend more when most today are actually tightening their purse strings. To accomplish that will require different approaches to developing personalized offers and delivering them through the preferred channels and devices customers have selected. At Fulcrum, we're confident that we can help you implement any of these approaches and concepts to positively impact both customer profitability and gross margin.

Every retailer engagement with Fulcrum starts with a "Stock Taking Day," a full-day review of your current marketing activities to take inventory of your current issues and opportunities. At the end of Stock Taking Day, an initial set of recommendations are provided to specifically meet those issues and take advantage of those opportunities.

Stock Taking Day is provided free to your organization in exchange for committing the time and resources of key members of your marketing team for the day.

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