

Forecasting 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 CUSTOMER-BASED FORECASTING

Current economic conditions and increasingly demanding consumers are making retail planning and forecasting a more daunting task than ever before. On the cost side, merchandise-mix and inventory-management decisions are benefiting from new techniques and technologies such as Radio Frequency Identification (RFID). On the revenue side, however, internal challenges often limit what can be done to provide more accurate, timely and relevant forecasts. Is there access to the customer data we need, when we need it, across all of our touch points? Are new emerging customer segments appropriately represented in our projections? Are old traditional segments over-represented?

Developing customer-based forecasting capabilities can instill confidence in revenue-related forecasts, and inform marketing decisions aimed at driving revenue growth, especially in a slumping sales environment. Here are some ways to improve intelligence and gain deeper insights into future customer behavior.

FORECASTING SAME STORE AND COMP STORE SALES

Same-store forecasting has traditionally been the domain of the Finance department, while customer data has usually remained the responsibility of Sales and Marketing. There are real benefits for retail marketers in working with Finance to combine these data sources, especially in today's competitive climate where any new insight can provide a marketing edge. Integrating all of your internal data with key external industry sources such as historical category data can point to important and leading indicators in the marketplace that might otherwise not emerge from a purely departmental approach.

An important and often overlooked part of any sales forecast is an analysis to determine if new customers exhibit different buying patterns (and potential value) than established customers. New customers need to be separately studied to project future behavior and then combined with similar forecasts for established customers as part of the overall analysis. Are your forecasts based on outdated assumptions about customer behavior? Can you afford to continue making those assumptions?

Greater levels of confidence in your sales forecasts will help in the short-term by supporting inventory management and merchandising-mix decisions. Longer term, customer-infused sales forecasts will help determine your store portfolio, plan for expansion and focus capital spending on initiatives to make existing stores more productive.

How could you benefit from a two-tiered same-store sales forecasting capability? How could a supplementary forecast help you as retail marketer better allocate future marketing spending?

TRACKING NEW SHOPPERS

The number of past-month shoppers is another common and important metric used by many retailers. Recently, many retailers are experiencing serious declines in the percentage of these frequent shoppers as customers either delay or decide against future purchases. Exacerbating the problem of fewer shopping visits is a trend to shopping at fewer stores. According to TNS Retail Forward



ShopperScape™ shoppers continue to pare retailers from their consideration set, with the average number of retailers visited during the past four weeks close to all-time lows in June 2008.

Retailers struggle with customer frequency metrics, since shopping habits are often difficult to change once established. What's needed are programs aimed at new customers early in their relationship, before their shopping habits with your brand have settled in. There are bottom-line turnaround benefits in identifying the percentage of new customers who can be persuaded to change their expected purchase behavior.

Start by developing a month-by-month analysis that groups first-time customers together as cohorts, so that the percentage of the group returning to shop each subsequent month is tracked and measured. The cohort analysis will identify differences in past-month shopping incidences across channels, timeframes and seasons, all of which can lead to smarter marketing communications aimed at entrenching shopping habits that will benefit your brand for years afterwards.

A New Shopper Tracking capability leads to a range of other insightful analysis, such as:

- Percentage of new shoppers spending more
- Percentage of new shoppers spending less
- Changes in the repurchase cycles among new shoppers

As an example, shopping center and soft goods retailers have found that monthly shopping incidence is strongest among the two youngest shopper segments – i.e. ages 18-24 and 25-34 – and tends to increase along with household income. If you sell in these categories, are you systematically flagging new customers to your brand from these segments? And how could tracking their activity each month as a cohort group and maintaining year-to-date spending behavior on your database help pinpoint specific opportunities to provide incentives to shop more frequently?

FORECASTING CUSTOMER SPEND

Across almost every retail category, consumers are spending less and – perhaps more importantly – are in no mood to start spending more anytime soon. According to a recent TNS Retail Forward ShopperScape study, half or more of the respondents indicated that they are buying fewer things, shopping less often, and postponing purchases. If you've built a customer-centric value model, does it reflect the level and extent of these changes in shopping behavior?

Start by asking yourself the question: how many “customers” do I no longer have? How many customers have not made a purchase in the last twelve months? Six months? How many of them should you stop considering a “customer”?

These questions have important significance for retailers trying to predict what future revenue to expect from their existing “customer base,” especially given current retrenchments in consumer spending. Lapsed or inactive customers will over-represent your forecast if included as current customers. Make sure that your projections in fact based solely on customers still active with your brand.



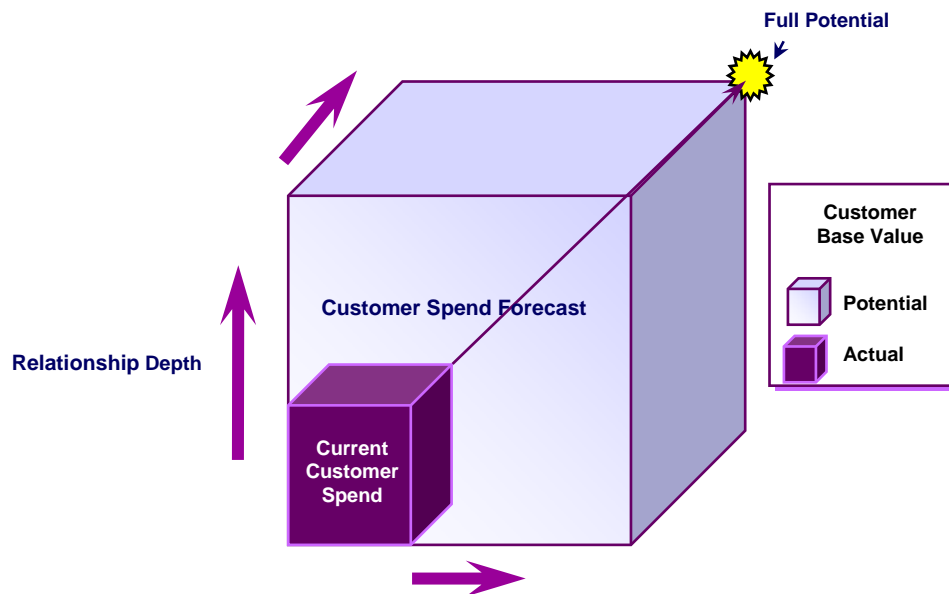
As part of forecasting customer spend, you also need to be able to predict the number and total value of purchases for each established customer over the next twelve months. With that analysis, you can then create a Future Purchase Intensity Score for each customer based on the forecast.

A cautionary note here: once you have developed a scoring model to predict future spending potential, you need to resist the urge to just focus on the highest potential group. What will it cost to attract these customers to spend more with my store? Would it be more profitable to focus on customers with high (but not highest) potential? Your sweet spot may not in fact be automatically the top percentiles.

The final part of the analysis considers each customer's receptivity to promotional offers, based on previous transaction activity, and assigns a Responsiveness Score. Together, these two scores can lead to a more targeted and timely set of marketing activities aimed at your active and established customer base.

Retailers can help turn around their sales and marketing performance by using forecasts of spending at the individual-customer level to drive a range of marketing programs across retail categories. Supermarkets, for example, can identify customer patterns for both immediate-consumption and stock-up (or fill-in) shopping and target website or email promotions accordingly. Home improvement chains can find specific customer segments that will actually grow in revenue, in contrast to the overall softness predicted for the category in the immediate future. And apparel retailers, faced with predictions that nearly half of female shoppers plan to curtail their spending on clothing from a year ago, can focus on increasing their share of the "other half" of the market.

How could individual-level customer spending forecasts support your marketing decision-making? What additional revenue opportunities could you create from targeting customers with high Future Purchase Intensity Scores? What improvement in response rates could you gain from using Responsiveness Scores to help determine targets for direct-response campaigns?





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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