

Store Marketing 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 touch points?

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

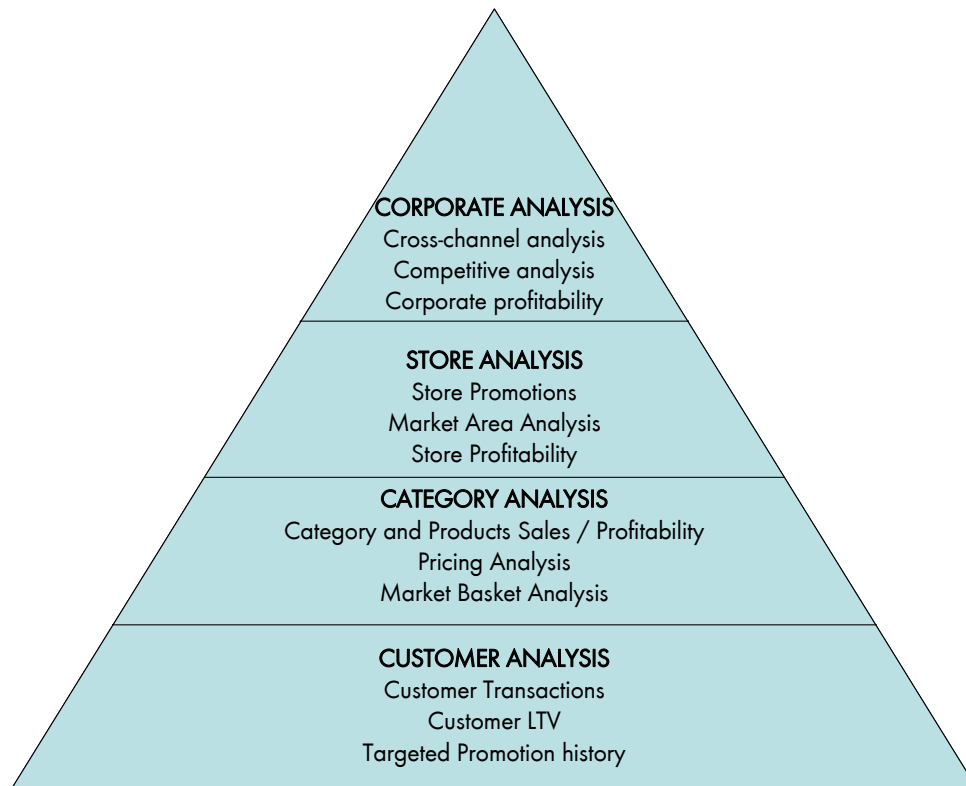
We are a fifteen-year old database marketing agency that provides actionable customer-based insights to inform marketing strategies, and powers marketing campaigns with customer-state technologies that enable highly-personalized communications across all touch points.



TURNAROUND CONCEPTS FOR CUSTOMER-BASED FORECASTING

While online sales continue to grow for most retailers, they remain a relatively small percentage of total sales for those with bricks-and-mortar investments. And with long-term leases and large investments in leasehold improvements, retailers are increasingly nervous about weaker in-store traffic across most types of shopping venues. Retail vacancy rates for malls are now the highest they have been since 2001, and for strip centers the highest since 1994.

Sales and discounts drive traffic, but at the expense of margin, and at the risk of creating consumer expectations that the “sales price” is the “regular price.” How can customer-level data help turn around the “markdown” mentality that seems to be driving virtually every marketing effort to lure customers into stores? The key is applying a multi-tiered analytical approach, based on a foundation of customer data which supports higher-level aggregations of category, store and corporate data. Each of the following concepts demonstrates how maintaining and mining this hierarchy of data can improve your marketing effectiveness.



RETHINKING NON-STORE MARKETING TO DRIVE IN-STORE TRAFFIC

Retailers spend significant amounts of their marketing budgets on “non-store” marketing programs, specifically coupons and free-standing inserts (FSIs). Yet the vast majority of these programs are not customized in any way to reflect regional or local differences in shopping behavior. These marketing dollars can and should be working harder and smarter for you, especially during a time when every marketing dollar spent is under scrutiny.



This lack of variability in traditional marketing programs has been driven largely by the desire to maximize the reach of media buys; media companies and media buyers have promoted the idea of uniformity as the most cost-effective way to achieve reach. By having one national FSI, for example, production costs could be kept as low as possible. However, with the current economic pressures facing media properties, advertisers have the leverage to push for a more targeted approach that can boost traffic based on more localized conditions. In order to execute on this, retailers must be able to develop a data-driven strategy for their non-store marketing.

Your own customer data combined with third-party industry data on category sales can help you tailor the content of your coupons and FSIs and increase in-store traffic. Start with the categories that represent a significant amount of your current budget for these forms of advertising and perform a geo-demographic analysis of your customers' spending patterns across these categories, based on a defined geographic trading area for each store or cluster of stores. Then use third-party data to identify total household spending for these categories across the same geographic areas for your stores.

The result will be a store-by-store analysis of where the amount spent by your customers for that category is either over- or under-indexed for that specific geographic market. For example, if you offer personal-care products, you could create a category-based, store-by-store analysis that would look something like this:

Personal Care Products	Percent of your Customers that purchase weekly			Percent of your Customers that purchase monthly		
	Percent of Store Market that purchase weekly	Index	Percent of Store Market that Purchase Monthly	Index	Percent of Store Market that purchase monthly	Index
Store 1	25%	0.8	50%	0.9	45%	0.9
Store 7	25%	1.0	50%	1.1	55%	1.1

Such an analysis would identify what geographic markets show higher levels of spending for these products per household than you are currently getting from your own customers at each of your stores. Armed with that information, what changes to your coupon, flyer or FSI distribution can you make to target more personal-care product offers to these markets?

USING "COMPLETER SET" ANALYSIS TO DRIVE STORE TRAFFIC

A marketing analysis can identify patterns in your transaction date where one type of purchase naturally follows another. Statistically, certain customers with specific transactions can accurately be predicted to make subsequent purchases in hours, days or weeks after the first one. 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.

For larger-ticket items, these "completer sets" represent an opportunity for store-based, "local manager" communications to customers to attract repeat visits to the store. As opposed to a number of other related-purchase items, these "second-step" purchases are not as likely to be put off by consumers deciding to cut back their level of spending.



Such an approach works across a number of marketing activities. For example, “value bundles” can be created around particular categories to present the consumer with an opportunity to buy a complete solution to a particular need, at one convenient price. Actively mining your customer data to identify opportunities to create and market value bundles will help demonstrate value to your customers and contribute to an increase in average ticket size.

STORE CONSOLIDATION

New-store openings have traditionally been a key part of achieving year-over-year revenue targets for retailers. Today, few retailers have the luxury of considering store expansion, and instead are trying to avoid having their own store closings be the next business news headline. The U.S. Department of Labor forecasts that there will be 25% more store closings in 2008 vs. 2007. Yet even before the current economic downturn, many analysts had begun to predict diminishing returns from new-store openings. Retail Forward has even speculated that the frontier for expansion of traditional formats is already rapidly declining and will be almost gone by 2015.

Store consolidation can, however, provide new opportunities for retailers to market to customers affected by a store closing in their area. What is the next closest store to the one that is closing? Can you reasonably expect the same type of purchase behavior from customers in the next-closest store, or should your marketing messages focus on lower-frequency categories (e.g. monthly vs. weekly purchases)? What percentage of those customers currently shop online at your website, and how can you accurately predict which customers you can convert to new online customers for your brand?

SHOPPER SEGMENTATION / PARTNER PROGRAMS WITH VENDORS

As a retail marketer, you’ve undoubtedly developed shopper segmentations in the past, and used those analytical tools to help inform advertising and branding decisions. If those segmentation tools were also applied to your customer database, you might also have used them to communicate differently to your specific target segments.

Recently, the focus has shifted to applying customer-centric segmentation models to reconfigure stores by emphasizing merchandise that appeals to the dominant shopper types who live in the trade areas of these stores. Best Buy, for example, has found that comp-store sales growth in the converted stores outpaced the rate of growth in the balance of the chain by over 50%. With results like that, it’s no wonder that many other retailers are seriously looking at shopper segmentation as a way to become less product-focused and more customer-focused in store.

An increasing number of retailers are going the next step further to share their own shopper segmentations with their manufacturers and vendors to develop more precise in-store marketing programs and merchandising initiatives. With that information, your trade partners can surgically direct investments and resources to those retailer-defined shopper segments that align best with their own brand segments.

Shopper segmentation can be used not only as a “carrot” to share with manufacturers and vendors but also as a “stick” to point out how their brands perform versus store averages in each of your



shopper-defined segments. Based on this, you can pare back SKUs that are not relevant to the shoppers who predominate in that segment.

How can shopper segmentation help drive your own store-based marketing and merchandising initiatives and achieve higher store-sales growth?

PRIVATE-LABELING AT THE STORE LEVEL

For many retailers, merchandising opportunities exist to develop private-label brands for specific geographic markets or store clusters. What unique market-area dynamics, combined with your knowledge of customer buying behavior, can be used in creative ways to help create and nurture consumer affinities with “their” stores?

Consider ways that your individual stores can leverage other popular local establishments (e.g. restaurants, coffee shops, other local retailers with complimentary product lines to yours) to develop unique merchandising and display formats. The chain store Target is breaking new marketing and merchandising ground with its Tide POP displays and fabric samples in-store. Are there similar opportunities to use your own customer data to create unique in-store environments?

STORE-BASED MULTICULTURAL MARKETING

As retail marketers struggle to find ways to reach and attract consumers in these difficult economic times, the question needs to be asked: is the term “general market” outdated? Multicultural populations in many of the top DMAs continue to increase as a percentage of the total population. In Los Angeles, for example, the three major multicultural groups (Asian, African-American and Hispanic) now account for 62% of the population, and in New York 45% and growing. The Hispanic market alone is projected to represent 30% of the US population by 2050.

How has your marketing strategy changed to adapt to the new multicultural reality? There are a number of ways to respond, but perhaps the most important is to look at how cultural insights about your customers can drive store-level marketing and merchandising decisions. For example, the incidence of multiple shopping visits per week among Hispanic consumers is over twice that found among all shoppers. How does your merchandising mix by store reflect the differences in shopping frequency and requirements for purchases among different multicultural markets?

Along with visit frequency, there are a number of other differences to consider when comparing the shopping patterns of multicultural markets to the total-shopper market. These differences include:

- The relative importance placed on being able to buy everything at one time. This is more important to multi-cultural shoppers
- The tendency to know which brands of products they are going to buy before going shopping. This is far less the case among multi-cultural shoppers. (Source: TNS Shopper 360)

In considering ways to reflect and respond to the needs of these market segments in your stores, many of the traditional ways that have been used to generate store traffic will need to be revisited, and in many cases revised. For example, recent research indicates that the use of loyalty cards – long a mainstay of many retailers’ marketing programs – is much less prevalent among multi-cultural consumers, many of whom are sensitive about providing personal information. Similarly, coupon



redemption rates tend to be lower in these segments, since many of these consumers are concerned about not knowing how these coupon offers actually work and fearful of attracting attention to themselves at the point-of-sale if their purchases do not meet the coupon terms and conditions.

Another reason to focus more in-store and merchandising attention on key multi-cultural markets is the relatively younger age profile of these market segments compared to the American population as a whole. For example, the Hispanic market now represents the largest teen population in the United States, and 88% percent of those teenagers were born here (source: US Census Bureau)

Younger shoppers, obviously, represent longer-term sales potential, but, not quite so obviously, are also the ones less likely to retain their current “bargain-based” shopping behavior when economic conditions improve. Recent studies indicate that Generation Y consumers (those born between 1982 and 2000) are the most likely to revert back to national or high-end brands as the economy improves.

Multicultural customers also represent an opportunity for retailers to build relationships through their online and e-commerce assets. Given their age profile and relative purchasing power, many are both active online visitors and frequent in-store shoppers. To effectively serve this market, many retailers will need to ramp up their efforts to track and dynamically respond to customer behavior across channels.

In summary, multi-cultural marketing represents a number of potentially lucrative new opportunities to change the way that retailers market their stores. How is your store’s merchandising and marketing initiatives changing to reflect the importance of these segments to your business?

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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