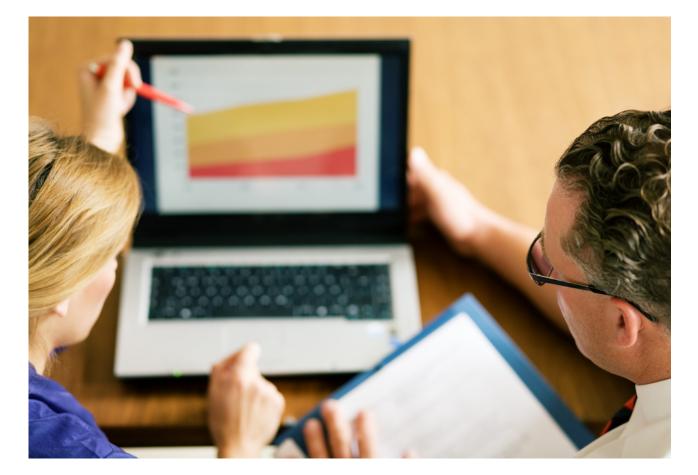# New Insight: Finding Retail Marketing Insight from Within Your Database

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Finding Retail Marketing Insight from Within Your Database

Retailers today face any number of formidable challenges, both in acquiring and retaining customers. More choices for consumers, expanded technologies, growing competition and an unstable economy – all serve to bring dramatic changes to the way consumers shop and make purchases, as well as how retailers keep up.

This white paper discusses how retail marketers can extract insight from within the marketing database to improve bottom-line results.

Introduction

The increased acceptance of multichannel marketing among consumers presents challenges to retailers but, more importantly, a real marketing opportunity for those that can track and learn from shoppers' habits.

How can retail marketers know what customers want, what their channel preferences are, how much they will pay and how often they will shop? The answers lie in extracting insight from within the marketing database.

Finding Insight in Data

Today, retailers seem to be replete with data. In recent years it has become standard practice for data to be collected at nearly every point of a transaction, which is a good best practice to follow. However, the sheer volume of raw data likely is overwhelming, especially if a marketer doesn't know how to connect the data to inform marketing decisions.

The answers to a retail marketer's questions lie in extracting insight from within the marketing database.

Extracting business insight from raw data is possible through the establishment of a sound analytics process and by professionals that are expert at data discovery, analysis and strategy. This paper serves to share education on each of the three steps as well as provide a data insight case study for a Harte-Hanks retail client.

Data Discovery

While retailers generally are knowledgeable about their overall business, it's not uncommon for them not to know nearly as much about their customers, how they behave – and why. There are retailers that have access to a great deal of data but don't necessarily maintain a database. They may be able to report overall sales, sales by product and sales by period, but don't know such critical data as sales by customer. Without such knowledge, building targeted programs that will deliver marketing ROI is virtually impossible.

The first step in turning raw data into marketing insight is data discovery. This step enables the data analyst to understand fully the details surrounding all aspects of the data that is available. The analyst begins with a high-level assessment of data sources, looking to answer such questions as:

- Who/what is covered and for what period of time?

- How many records of each type are there?

- At what level are the records stored (for example, customer or household, order total or basket detail, etc.)?

- What is the overall table structure?

- How do the various tables relate and connect?

- What fields are contained within the tables and what do they mean?

Once the overall environment is understood the analyst extracts data required for an analysis of customer behavior. Typical data extracts come from such sources as:

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- Customer master file – a list of all customers (name, address, phone, email, store shopped and transaction date)

- Transaction file – by linking the transaction file to the customer file, marketers can understand how frequently customers shop, how much they spent in total, what channels they use, what type of store (brick and mortar or online), shipping methods used and more

- Transaction detail – the analyst dives down deeper into the baskets to see what specifically is being purchased, how much is spent per item, the margins, whether coupons were used (what type and from what mailing), etc.

- Contact history – here the analyst can see how often, by what channels, and with which offers customers are contacted by the retailer to determine the impact on purchases

- Store table – a list of stores along with addresses and other information such as open/close date, square footage, store type, district and region

- Product hierarchy – this data enable the analyst to roll up the purchase detail information to the category and department level to more easily see overall purchase patterns

Data Analysis

Once data has been extracted the real work begins. The analyst first puts the data in a logical structure. An initial investigation is aimed at ensuring the integrity of the data as it has been pulled together. As an example, the customer view is compared to transaction data so that patterns are revealed. Interpretation of patterns are informed by past experience.

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The analyst will examine the data to determine how many transactions match to customers in order to answer such questions as: What is happening to unmatched transactions? What are loyal members spending on average? In which departments and sub-departments are shoppers buying? What might be the opportunities for cross-shopping?

The analyst will develop a marketing opportunity analysis by looking at sales, visits, baskets and coupon redemption – by customer – to determine an RFM (Recency / Frequency / Monetary Value) view. Based on both a prior knowledge of the retailer's business, the industry and the patterns found in the data, groups of customers are then created. The analyst can then investigate behavior similarities and differences across groups with the goal of pinpointing actionable findings. One desired output is the identification of low-hanging fruit – profitable customers that can be cross-sold, for example.

At this point the analyst is looking for answers to the following types of questions:

- How do groups of customers differentiate themselves – what types of customer segments do we have?

- What characterizes frequent shoppers – basket size and composition, spend, timing, seasonality?

- When should we talk to the different customer segments?

- How often should we talk to them and through what channels?

- Based on the shopping behavior of the different segments, how can we optimize the marketing spend against each group (profitable versus unprofitable)?

- How has past contact history impacted sales patterns and customer segment migration?

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Data Strategy

Such a systematic approach improves triggers and targeting. It helps retailers find insight into what to market to whom and when. Consider that a retailer has two groups of one-time visitors. Some of those fall into the "will never see again" category. Others will shop with the retailer again. Through data analysis, it can be determined which customers have the potential to spend more. The resulting data will help a retailer create a strategy for determining how much a customer is worth and how much they will be worth over time. From there, differentiating communications and contact strategies can be created.

What retail marketers need to know that their data will reveal

- <u>Frequency</u> – how often does a customer shop with you?

- <u>Spend</u> – how much does a customer spend with you?

- <u>Frequency / spend correlation</u> – does an individual customer spend more when they shop more, or did they make only a one-time, large purchase?

- <u>Retention </u>– what is the retention rate over time? What is the average time between purchases?

- <u>Profitability</u> – how profitable are high-spending customers? Will coupons incentivize high spenders to spend even more?

- <u>Basket contents</u> – what is in individual baskets and what is the impact upon frequency? What product recommendations can be made? What groupings can be suggested to increase cross-selling efforts? How does basket size influence repurchase rate?

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Case in Point

National retailer deploys modeling and analytics to prioritize product line marketing opportunities

The retailer described here is one of the largest specialty family footwear retailers in the Western Hemisphere. Its revolutionary idea: selling shoes in a self-select environment. More than 50 years later, the retailer serves millions of customers through its powerful network of more than 4,500 stores, in a variety of retail settings.

The company had added designer brands to its assortment in a limited number of stores and early indications were that designer product turns over more quickly. It turned to Harte-Hanks to answer these key questions:

- Who is the "designer customer?"

- Where does she shop and what else does she buy?

- How much will she buy?

Success Defined

Harte-Hanks knew the retailer would be able to more effectively allocate its designer product line as a result of developing a statistically reliable, scalable modeling and analytics process.

The retailer needed evidence of the potential for attracting new customers with designer products. Insight derived from modeling and analytics would drive critical functions such as merchandising and store layout and design. The result of this project would be a roadmap that would help store operations make informed decisions about where to expand, and conversely, where to pull back designer products from which stores.

The Harte-Hanks Solution

Harte-Hanks developed three customer-level regression models for each designer brand for stores that carried each brand. The team applied the model to every prospect within the trade area, scoring the population and ranking each store.

Each model identified prospect "look-a-likes" in store areas that did not carry the designer brands. All stores were ranked based on the number of potential buyers within each store's trade area. Since each customer was assigned a score representing her probability of purchasing a designer brand, the model was also used for assigning a list for prospect mailings.

Finally, the model sized the opportunity based on the probability of prospects to purchase a designer brand in each store trade area, applying a discount factor, average basket and transaction totals.

The model helped the retailer gain valuable insight into its designer product market. It was determined, for instance, that designer product purchases generate a higher basket than a normal basket; designer purchasers visit more often, and they exhibit a higher repeat purchase rate. What's more, designer purchasers are slightly older and more affluent than the average customer.

As a result of analyzing the modeled data it was determined that, if rolled out to the "right" stores, designer products could conservatively generate $13 million in incremental sales. Harte-Hanks recommended a tiered rollout and trade-off analysis to determine the total impact on merchandising and store design layout.

Successful Results Quantified

As a result of Harte-Hanks' modeling and analytics work, the retailer could accurately prioritize store selection for its designer brands and:

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- Maintain designer sales in saturated areas that have a relatively low number of prospects;

- Cross-sell and prospect designer brands in areas with a high number of designer sales and large number of prospects;

- Load the trucks and prospect in areas with low (or no) designer sales and a high number of prospects; and

- Exit or exclude designer products in areas with low (or no) designer sales and a low number of prospects.

Other findings: designer products appear to create significant opportunities for cross-sell with complimentary categories, including handbags and accessories, a fact which also impacts merchandising and store layout decisions.

Conclusion

Data is powerful and has the potential to provide tremendous insight that can be used to inform future marketing strategies and tactics. Savvy retailers would do well to mine their existing marketing databases to drive profitability in any economic condition.

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