5 Steps to Increasing Profitability of Your Retail Customers

eBook

Exchange Solutions

THE CUSTOMER ENGAGEMENT EXPERTS™
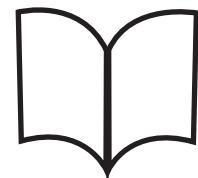
The Key to Increasing the Profitability of Your Retail Customers

Intelligent customer engagement is an innovative technology-based marketing approach that helps retailers drive higher acquisition, retention and profitability from their customers. Regardless of how valuable any one customer is to your company today, they have "behavior gaps" which, if closed, can increase the profitability of your business.

Exchange Solutions' intelligent customer engagement programs identify and value key customer behavior gaps, then lever targeted incentives to close those gaps. Intelligent Rules ensure that this is done in an economically rational way to drive profitability and positive ROI. Customers are offered choices of incentives to create true one-to-one engagement.

The Need for Intelligent Customer Engagement

The challenge with traditional loyalty and engagement programs is that customers are generally treated the same, with the same offers and benefits, and are often rewarded for behaviors that they would already undertake, which cuts into margins. Even when offers and benefits are differentiated, this is done based on broad customer segments, rather than on an individual customer level with a view to driving incremental behaviors.

On the other hand, an intelligent customer engagement program creates a different set of behavior and incentive rules for each one of your customers — not a one-size-fits-all approach. By doing so, you can manage the "value exchange" between the company and each of your customers, so that incentives are given on an individual customer basis, and only for valued incremental behaviors.

What is Value Exchange?

Value exchange is a way to describe an interaction between a company and its customers. When a company wants a customer to perform a behavior that has value to the company (e.g. write a review of a product, invite a friend, check-in to a retail location, buy a product or service), they can offer an incentive that has value to that customer, in exchange for performing that behavior. This is a value exchange.

After all, when you break your customer relationships down to the level of individual behaviors, you will find there are additional behaviors that almost all customers — even your most loyal — can undertake that will create value for your company. It just may not be the same set of actions as other customers. So why incent all your customers for the same set of behaviors? With an intelligent customer engagement program that facilitates true one-to-one customer engagement you can motivate each customer to undertake those behaviors that will truly create measurable value for your company.

For example, if you're a drug store retailer looking to increase revenues, there are a number of behaviors you can encourage your customers to perform. You could incent a customer to purchase from a new category, such as cosmetics. Or you could incent shoppers to visit your store more frequently (and spend more in the process). If customer A already buys cosmetics but shops infrequently, then an intelligent customer engagement program would incent this customer to come into the store more regularly.

Conversely, if customer B shops often but does not venture into the cosmetics aisle, then an intelligent customer engagement program would incent this customer to purchase cosmetics products. By taking this "one-to-one" approach, you would be rewarding both customers for incremental behaviors — for closing their "behavior gaps" — but only paying for activities that create positive ROI for your company.

This eBook is going to walk you through 5 practical steps to employ the concepts behind intelligent customer engagement in order to increase the engagement from your customers, drive them to undertake more profitable behaviors and thereby maximize the ROI from your customer base.

Five Practical Steps to Increase Your Customer Engagement (and Profits)

Creating an intelligent customer engagement program requires some careful thinking, analysis and design before any best practices can be implemented into your business's processes and technology.

Here are five practical steps to help get you there:

1. Recognize which customer behaviors are valuable to your company

The first step in creating an intelligent customer engagement program is to understand the model of customer's "full potential" and their "behavior gaps" — the desired behaviors they are not currently performing — across a range of behavior categories that matter to you. Some behaviors may drive increases in revenue, such as increasing basket size, purchasing higher margin products or services, or increasing the frequency of visits to — and spend in — your store.
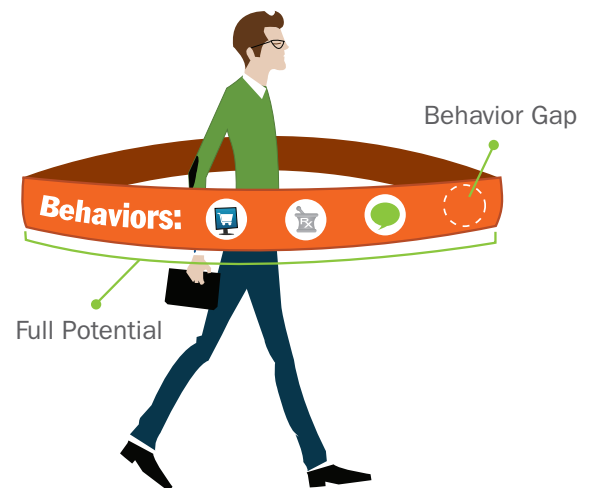
Other behaviors may drive a lower cost-to-serve, such as redirecting customers to use an online channel, changing their method of payment or encouraging them to use different customer servicing options. Still others may drive indirect value — social media activies, writing reviews of your company, brand advocacy or getting customers to refer your products or services. The question you should ask is: What does "full potential" look like across all the different dimensions of a customer's behavior?

2. Define the value of those behaviors

The second step is to understand what value each of these behaviors would represent to your company if you could successfully motivate each one of them. This typically requires behavior valuation models that can capture the continuous nature and complexity inherent in many types of consumer behaviors. For example, a retail bank would value a $10,000 savings account more than a $1,000 savings account, or a $200,000 mortgage more than a $100,000 mortgage, or a credit card with a high monthly spend and a revolving credit balance more than one that doesn't have any of these attributes. Similarly, a retailer would place more value on purchases in product categories where the customer is not active and/or have higher margins. Understanding behaviors in this way helps to reveal what are the true drivers of value to the business and is key to versioning incentives down to the individual level. Every business may be unique in terms of the behaviors that are relevant, or the value drivers around those behaviors. But the need to understand them is not. Without this understanding, a company cannot truly leverage the power of intelligent customer engagement.

3. Decide how much of that value you want to share with the customer

Once you can quantify how much each behavior is worth to your organization on an individual customer basis, the next step is to decide how much of that value you want to invest in the customer in order to encourage the desired behavior. For example, let's say you identify that for a particular customer, a certain behavior — for example increasing their average basket size — is worth $100 in margin to your company. If you were to invest 25% of that value with the customer that would mean that you are willing to give the customer a targeted incentive worth $25 to drive that behavior. Depending on how that $25 is expressed to the customer — as a choice of cash-back, points, reward items, free shipping, etc. — the customer might perceive the value of the reward as being worth more (or less) than $25. But the cost to you will never be more than $25.
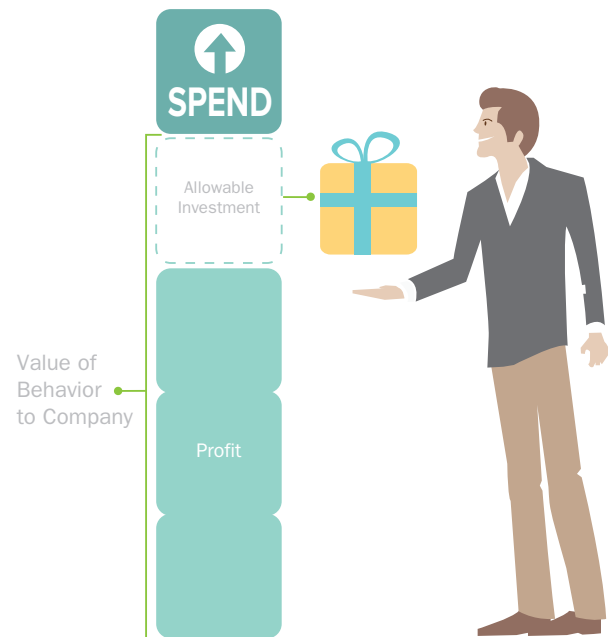
The great thing about this approach is that the proportion of value that you decide to share with the customer is directly related to the ROI that they are able to drive for the organization. For example, a 25% allowable investment implies a 300% ROI on the behavior from a program direct cost perspective. Providing a customer with a choice of targeted incentives that represent a portion of the value they could potentially create for you is a rock-solid way of controlling risk. It allows you to pay only for performance, after the behavior is complete.

4. Target the incentives to the customer

Once you've determined how much you are willing to invest in order to drive a particular behavior with a particular customer, the next step is to ensure the incentives are targeted to the customer's preferences and are of value to them. For example, let's take the example of the customer increasing their average basket size by $100. If you've assigned a 25% allowable investment to this behavior, that means you're willing to give the customer the equivalent of $25 in incentives for performing that behavior. The key, however, is ensuring that the incentives provided to the customer are relevant to them.

In this example, based on the customer's recent purchasing activity or clickstream data, you may know that this particular customer has young children in diapers, or that they love lipstick. Awarding a customer a "random" incentive, or awarding all customers the same incentive across the board does not harness the power of intelligent customer engagement, and will dramatically reduce the effectiveness of your customer engagement program. However, providing the customer with a choice of targeted, highly valued incentives creates a true value exchange which can increase both customer engagement and loyalty.
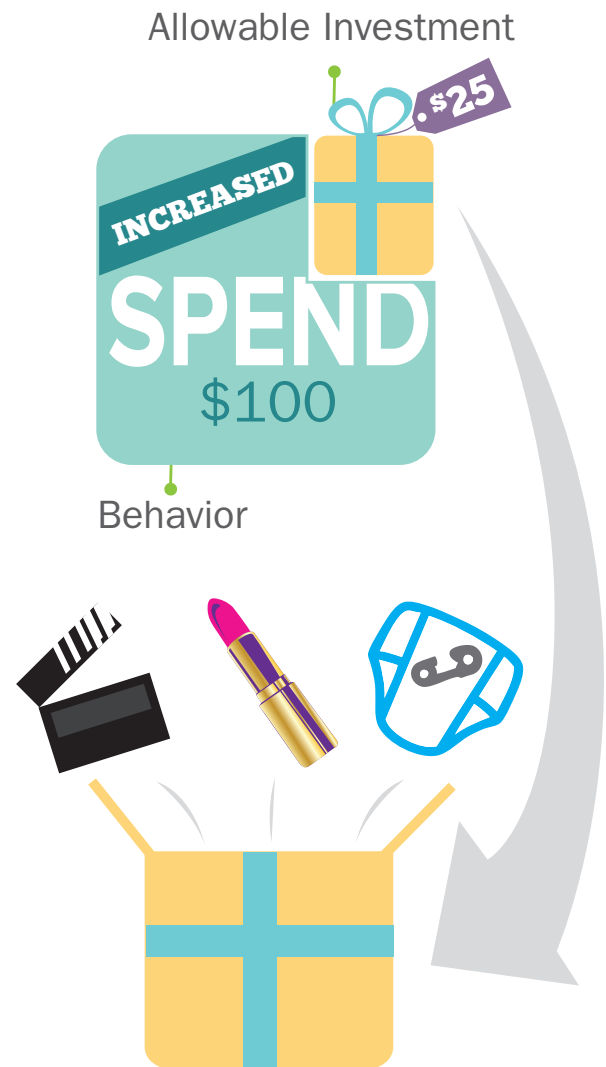
5. Increase the perceived value of the incentive

Targeting incentives to individual customers is one important element of intelligent customer engagement. Augmenting the value of those incentives in customers' eyes is another. One way to achieve this is through supplier relationships. In the above example, for the consumer who needs diapers or loves lipstick, sourcing either of these incentives from your suppliers for 50 cents on the dollar, allows you to inflate the perceived value of the amount you are willing to invest in that customer's behavior. This in effect turns your $25 investment into $50 of perceived (customer) value.

Using your sourcing buying power or partnering with suppliers to offer "levered rewards" is a great strategy for creating value for consumers.

Unlocking the Power of Value Exchange

In the end, an intelligent customer engagement program combines two types of customer-level insights:

1. An in-depth understanding of the incremental customer behaviors that create the most value for your organization, and

2. Combining past and real-time customer data to provide each customer with a choice of targeted incentives that they are likely to find valuable.

In this way, you create value for both parties.

Next Steps

The five steps described above are the basis to begin mapping out what an intelligent customer engagement program might look like for your organization. The next part of the puzzle to consider is the execution capability — the "how."

In some cases, turning the blueprint into a working program may mean upgrading your existing program with intelligent customer engagement capabilities. In other cases, it may mean building an entirely new program from scratch.

Exchange Solutions, an IBM® Business Partner, has 18 years of experience, designing, building and operating intelligent customer engagement programs for retailers, financial services organizations and online businesses. Our managed services platform integrates seamlessly with IBM's Smarter Commerce solutions, allowing companies to get to market quickly. Our patented Value Exchange Optimization™ approach ensures that our programs drive incremental profitable behavior.

As an IBM Business Partner that has achieved the Ready for Smarter Commerce validation, find out how Exchange Solutions can help you leverage other IBM Smarter Commerce Solutions and increase your customers' engagement and profitability.

Business Partner **IBM®**™

Ready for
Smarter Commerce

About Exchange Solutions

Exchange Solutions designs, builds and operates intelligent customer engagement programs that improve customer acquisition, retention and profitability by identifying and closing high-value "behavior gaps". Intelligent Rules target each customer with a choice of economically rational incentives to drive that incremental behavior change.

Exchange Solutions' cloud-based platform permits rapid implementation in all channels, customized to each client's needs. Its proprietary approach and in-market experience deliver quicker results, better ROI, and deeper customer engagement than traditional engagement or loyalty programs.

Exchange Solutions is a partner with IBM, and has achieved Ready for Smarter Commerce validation. From our locations in Boston and Toronto, we have been helping leading retailers, financial institutions and online businesses create sustainable and profitable communities of engaged customers for 18 years.

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