

STOP WASTING YOUR MARKETING DOLLARS:

HOW ONE-TO-ONE PERSONALIZATION OF INCENTIVES CAN DELIVER MEASURABLE, PROFITABLE RESULTS

AN
RIS NEWS
eBOOK



Unlocking Profitability.
One Customer at a Time.™

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RETAIL INFO SYSTEMS NEWS



Retail is quickly returning to its service-first roots thanks to a host of new customer touch points. Retailers have more information than ever before, giving them the ability to provide shoppers with the tailored experience they desire — with everything from content, to offers, to marketing messages personalized for each customer. But many of these same forward-thinking retailers are wasting precious marketing dollars by continuing to take a traditional approach to their promotional strategies.

A study by the **Incentive Federation** found that U.S. businesses spend over \$15 billion on non-cash customer incentives. Combine that with the multitude of discounts and coupons offered by most retailers, and there is a massive amount of money being spent each year to influence customer behavior. But just how much of this money is being wasted — i.e. being given away to customers who would have purchased regardless of the incentive?

A truly individualized approach to promotions allows retailers to incent customers to perform net new valuable behaviors, while optimizing their marketing spend. Contrasted with traditional programs where precious marketing dollars are all but wasted on efforts targeting the masses, or at best, large segments of customers, one-to-one personalization of incentives has the ability to drive measurable results and yield a positive return on investment.



Amount U.S. businesses spend annually on non-cash customer incentives.

Source: Incentive Federation, "Incentive Market Study"



The more retailers get to know their customers, learn what motivates them, what they like, what they avoid and how their interactions change over time; the better they are at connecting with those customers. In fact, the overwhelming majority (over 88%) of retailers recognize that the pursuit of long-term loyalty is essential to success and can only be achieved by gaining a better understanding of customers, according to a *RIS News*' "Winning the Loyalty Game" report. This intimate knowledge of customers not only results in greater profitability and loyalty, but also provides valuable insights on shopper behavior and patterns that retailers can leverage to activate future incentives, rewards and program optimizations aligned with driving more profitable customer behaviors.

88%

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Source: RIS News, "Winning the Loyalty Game"





In order to be consistently successful in today's hyper-competitive environment, retailers need not only data, but actionable insights to bring together the right content with the right offer and incentive at the moment an individual customer is most likely to take action. When this level of shopper insight is achieved, appropriate marketing strategies can be crafted to continually connect with shoppers on a one-to-one basis and move the promotional marketing investment from a cost center to a profit center, delivered via a real-time, iterative process of intelligent customer engagement.

Mass marketing was, at one time, the go-to strategy for building a brand and awareness, and it certainly continues to



A one-to-one personalized marketing approach, delivered in real-time, based on real-time customer interaction data is the new driver of customer lifetime value and profitability.

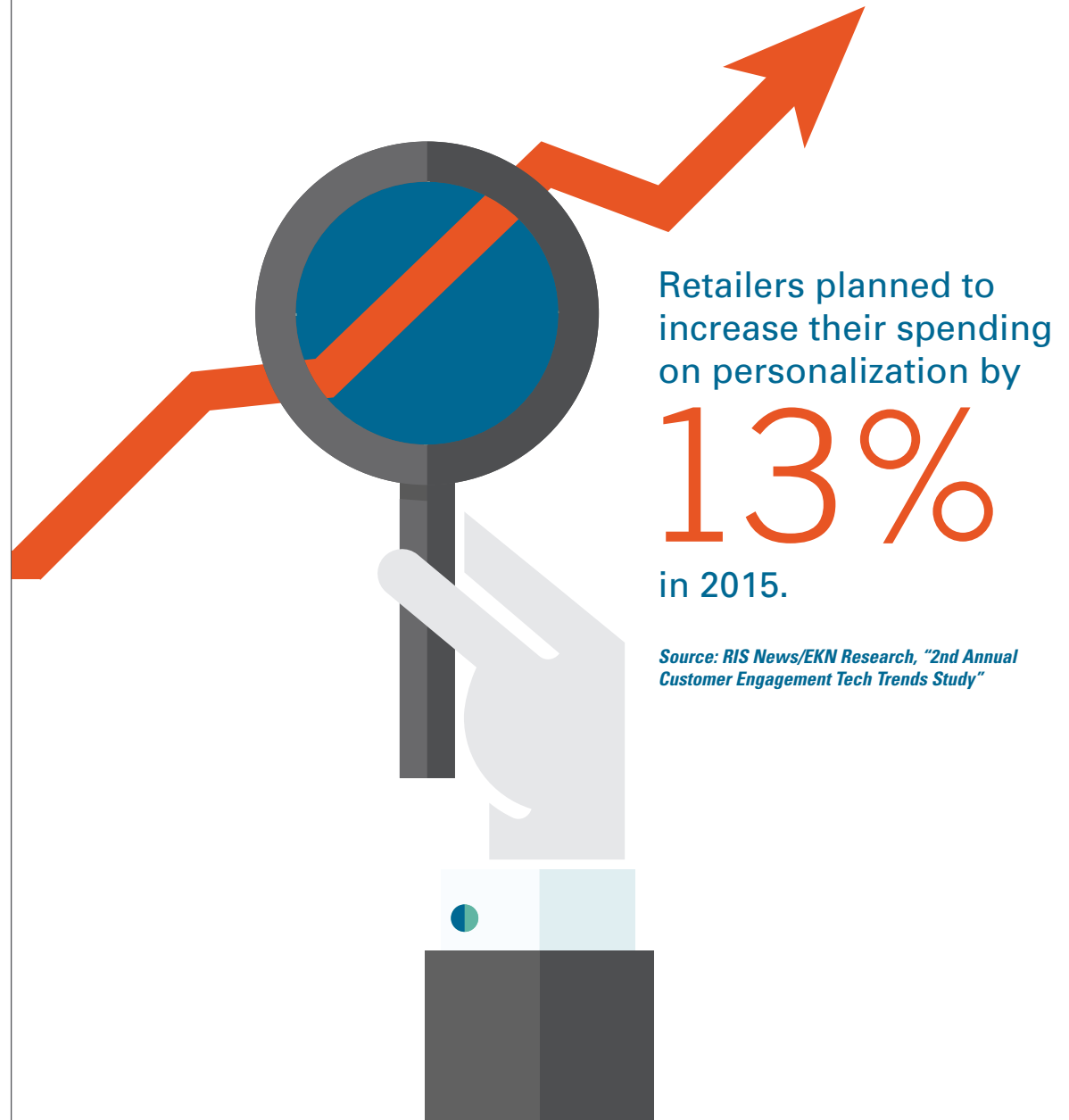
have its place in the marketing toolbox. But by today's advanced analytics standards, it's highly inefficient. Today many retailers use a segmented approach and this can deliver better response and conversion rates. However, that still leaves a lot of marketing inefficiencies — and untapped customer profitability — on the table.

Even with the wealth of new technologies and customer (and other) data available, a segmented approach to personalization can still fall short today as the philosophy of "birds of a feather flock together" no longer delivers the optimal results. Quite frankly, it fails to meet customers' expectations of being understood and treated as individuals. One example of this is offering a particular segment of shoppers a



\$10 coupon based on the purchase of \$100 worth of product. This may deliver a 50% conversion rate, but how much of that lift is incremental? How much more lift could have been delivered if each of those shoppers were offered differing amounts based on their propensity to spend? What if they were offered a choice of rewards?

Additionally, a segmented approach is more reactionary than proactive. It is predicated on an established customer base and doesn't offer much value or insight when it comes to unknown shoppers, who may browse your e-commerce site but not log in. This results in missed opportunities. A one-to-one personalized marketing approach, delivered in real-time, based on real-time customer interaction data is the new driver of customer lifetime value and profitability.





It's been an interesting evolution for retailers. Small, independent neighborhood stores had the advantage of knowing their customer by name and their purchase preferences. If the store manager needed to move some merchandise, they knew just who had young children, liked to cook with olive oil or always bought a certain brand of running shoes. What holds true then, and still does now, is that a deal personally offered makes a customer feel they got something special

"Engagement is great. But if it doesn't monetize to conversion you're probably not achieving relevancy."



**PETER GOLD, CHIEF DIGITAL
MARKETING OFFICER,
MARKETAMERICA | SHOP.COM**

— just for them — at the moment they were engaged. And keeps them coming back.

Coupons and discounts, the stalwarts of mass purchase incentives, often come up short in generating profit. Tracking redemption can be onerous and tracking overall impact on category performance and specific consumer behavior is an even bigger challenge, as is determining what part of the marketing budget is really driving customer loyalty. Additionally, these methods cut into profit margins by rewarding customers for something that they were going to do anyway. By taking an individualized approach to incentives — whether that is through loyalty rewards, discounts or promotions — and only driving incremental behaviors, profits are guaranteed.



IS THIS TYPE OF INDIVIDUALIZED PROMOTIONAL MARKETING TRULY ACHIEVABLE TODAY?

While retailers planned to increase spending on personalization technology by approximately 13% in 2015, according to *RIS News/EKN Research's "2nd Annual Customer Engagement Tech Trends Study,"* the fact is retailers must justify the ROI of every expenditure. This is in the face of the myriad of challenges affecting modern marketers today including:



- A lack of data, or access to that data
- A plethora of data, without actionable insights
- A cautiousness about eroding a customer's trust by falling on the "creepy" side of personalization
- The potential high costs of technology investment
- Competing IT priorities

So where should a retailer start once they've decided they want to implement this type of individualized solution? Peter Gold, chief digital marketing officer for marketamerica|SHOP.COM, an online retailer selling over 87 million products,



believes in simplicity first, and then adding on more as the customer becomes increasingly comfortable with the shopping experience. “There’s so much you can do today that you couldn’t do even six months ago,” says Gold.

The goal for SHOP.COM is to get a first-time user to browse the site and make a purchase. By leveraging insights gathered on site visitors, predictive models can be used to individualize the entire visitor experience, including one-to-one personalized incentives. By focusing on individual customers, Gold can target incremental behaviors and understand the ROI of each dollar spent. “Engagement is great,” Gold says. “But if it doesn’t monetize to conversion you’re probably not achieving relevancy.”

Retailers looking to move to the next generation of promotional marketing by activating real-time, individualized incentives will need to focus on five key attributes. While some of these capabilities may be available in-house, retailers often find that a third party solution provider is able to bring the expertise in many of these areas to bear:

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Highly qualified data scientists who can organize and analyze disparate sources of customer data (legacy, transactional and interaction).

A technology platform that combines predictive analytics with real-time data.

Omnichannel capabilities to deliver real-time messages.

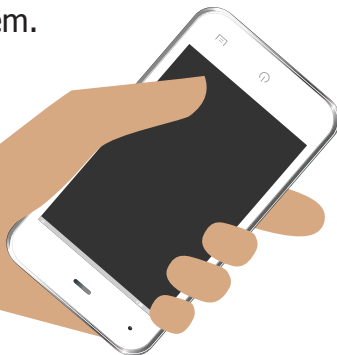
A culture of testing and learning that enables stakeholders to disregard opinion and emotion and stay focused on quickly adjusting strategies to generate desired outcomes.

The ability to measure the incremental lift generated by the marketing program, and thus ROI.



A new level of customer engagement with a highly personalized experience is becoming the norm — today's most successful retailers have already raised the bar on what customers expect and technology has raised the bar on what retailers can deliver. Yet there's one constant that's as critical for omnichannel retailers as it is for the neighborhood corner market: the need to run a profitable business.

Whether a retailer has 10 stores or 1,000 — volume, profit and customer loyalty across in-store and online must come together under a cohesive strategy, orchestrated by progressive and responsive technology partners. Today's customer has so many choices and so much information available at their fingertips. Retailers must seek out and engage with shoppers the same way those shoppers are constantly exploring the myriad of options available to them.



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A one-to-one personalized promotional strategy can make a big impact on a retailer's bottom line. An implementation of Exchange Solutions' intelligent customer engagement capability by a large e-commerce business was piloted in 2013 with the objective of increasing engagement and profitability across four key behaviors for the business: buying products/services, membership renewals, referring friends, and writing reviews. Pilot results delivered a measurable increase in the targeted customer behaviors, leading to a full roll-out of the program to the company's three million plus customers.

This program is now driving over 10% more activities at a 25% lower cost per activity than the company's former marketing efforts. On an annualized, fully-scaled basis, the solution is creating over \$13 million in enterprise value per year. Continuous optimization has enhanced the results for each behavior and additional valuable customer behaviors are being added over time. And the fees for the program are 100% performance-based, guaranteeing measurable, profitable ROI.

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RETAILERS WHO ASK THEMSELVES THE FOLLOWING QUESTIONS WILL BE BEST PREPARED WHEN EVALUATING AND SELECTING A PARTNER PROVIDING ONE-TO-ONE PERSONALIZATION SOLUTIONS:

PROFITTT

Profitable — does it provide a measureable return on investment?

Real-time — does it capitalize on opportunities when customers are already interacting and engaged, rather than presenting irrelevant offers based on historical transactional or behavioral data?

Omnichannel — does it work seamlessly across all channels to provide customers with cohesive experiences, rather than inconsistent ones often caused by siloed data and disparate systems?

Favorable to the bottom line — is the provider so confident of the solution's ROI that they can offer a performance-based fee structure?

Incremental — does it only incent customers for doing new things? If the answer is yes, the results will save precious marketing dollars by eliminating rewards for actions customers would do anyway.

Treats each customer as unique — stop giving away marketing dollars by incenting all customers the same. Does it offer different incentives of different values depending on customer propensities and what the individual customer's behavior is worth to the business?



About Exchange Solutions

Founded in 1996, Exchange Solutions improves customer lifetime value for Retailers through smarter loyalty programs, individualized offers, and website optimization, powered by AI & advanced analytics. They have 20 years of experience working with multiple high-profile clients across various verticals and geographies. Exchange Solutions has offices in Boston, Massachusetts and in Toronto, Ontario, Canada. To learn more visit www.exchangesolutions.com

For More Information

To find out how Exchange Solutions can help you improve your conversion rates, maximize customer lifetime value and reduce churn, all while increasing profitability, please contact:

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