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Retail Details: Best Practices in Multi-Channel Integration

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A J.C. Williams Group Report Commissioned by Abacus and DoubleClick

Executive Summary

“We’re a multi-channel retailer.” In recent years, this has become a statement used by many prominent retail executives, suggesting that their company is reaping full benefits of integrating their store, Internet, and catalog channels. However, qualitative research with leading retail executives reveals that multi-channel integration has progressed somewhat in the past two years, but is slower than desired by many in the industry.

As consumers increasingly demonstrate their multi-channel shopping behavior, and the sales volumes of direct channels (Internet and catalog combined) grow rapidly for tri-channel retailers, retail executives cannot deny their need to tap into the potential of multi-channel leverage. As one retailer stated, “We are interested in driving customers to our company...rather than any specific channel.” However, this attitude is not shared across the organization, and most retail organizations are not structured to

achieve integration benefits. Therefore, significant resources need to be devoted towards proving the case for integration and educating those who do not believe in multi-channel leverage. At the same time, multi-channel retailers who have embraced integration continue to pull away from their competitors, as they accelerate their growth by efficiently focusing on profitable customers, not trying to “sell” their colleagues on why they should expend energy on channel integration.



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Retail Multi-Channel Integration Trends (versus two years ago)	
Progress has been made in...	Impediments still exist in...
<ul style="list-style-type: none"> ■ Financial allocations ■ Senior level buy-in to give integration higher priority ■ Tailoring merchandise strategies by channel ■ Integrating customer data 	<ul style="list-style-type: none"> ■ ROI models and measuring cross-channel influence ■ Store operations' cooperation to integrate (regional and store level management) ■ In-store communications to promote multi-channel solutions ■ Integrated customer data integrity

“Education is the only way to improve the communication between the channels and optimize the response across them.”

Objectives/Methodology

Abacus and DoubleClick sought to gain insight into key issues multi-channel retailers will be facing over the next two to five years, and commissioned J.C. Williams Group (a retail consulting firm with expertise in multi-channel strategies) to investigate those issues that are of highest priority to them.

J.C. Williams Group used a Delphi process to uncover the high priority issues and enlisted 36 individuals from across North America to share their views and experiences. The participants ranged from multi-channel retail executives, industry analysts, and academics.

Participating Retailers, Retail Analysts, and Academics

1-800-Flowers, Gymboree, Patagonia Anthropologie, Henry's, Publicis Networks Army and Air Force Exchange, Home Depot, Red Envelope, Bass Pro Fishing, Hudson's Bay Company, Ryerson University, Bombay Company, J.Crew, Santa Clara University, Borders Group Inc. Kenneth Cole, Sears, Crate and Barrel, L'Occitane, Shop.org, E-tailing Group

Lipson Alport Glass & Assoc., Sixth Line Solutions, Forrester, Lands' End, Surefit Franklin Covey, Lego, Timberland, Genesco, Limited Brands, Victoria's Secret, Godiva, McMillian/Doolittle, Williams-Sonoma

Participants discussed 14 topics via an online bulletin board focus group. These types of focus groups are becoming a common way to engage executive level marketers who might be hindered from participating in traditional focus groups due to geography, time pressures or sensitive information on their company. Each participant was assigned a pseudonym to maintain anonymity. The anonymous environment allows for depth of discussion yet respects proprietary information. During two 48-hour sessions, participants were asked to log onto the moderated bulletin board discussion as often as possible to share their views and insights, as well as ask questions of their fellow participants.

The bulletin board discussion was broken into two rounds. Upon completion of the

“The brick and mortar corporate mentality is that catalog and web are simply a larger store. Educating for change is difficult.”

first round, the list of 14 topics was narrowed to six, for a more detailed discussion in the second round. The six topics were subsequently classified under the following headings of: Data Gathering, Organization Structure, Marketing Campaigns, Customer Segmentation, Catalogs, and Profit and Loss Allocation.

Results from the two rounds of bulletin board discussion were analyzed by each participant’s response to the topic areas, the industry sectors in which they operate, the channels in which they operate, and their tenure as multi-channel retailers.

Key Findings - Organizational

The organization’s structure was cited in many of the priority topics as a barrier. Marketing campaign coordination across channels, revenue and cost allocation, and ROI measurement all continue to be challenging within existing organization structures. However, the commonly found structure of an integrated direct division (catalog and Internet) has improved integration efforts. A combined “direct P&L” carries greater weight in the organization. Nowhere is the lack of corporate alignment more pronounced than in the Store Operations division, where skeptics of multi-channel leverage are still common:

- The channel that is most established has the greatest input into decisions on multi-channel integration. Because of this, it is difficult to communicate the interdependence of channels in businesses with disproportionate strength in one channel, most often the Stores organization.

- The greatest challenge to effectively allocate channel sales and costs are rooted in the inability to measure cross-channel influence (i.e., consumers who shop in one channel, and are influenced to buy in another). Some businesses merely make their best estimate of this influence in lieu of accurate data, while others have integrated their Internet and catalog P&Ls and choose to not attempt to accurately measure each channel’s ROI.
- One effective solution cited was the elimination of inter-channel competition by restructuring by retail brand instead of by channel, and ensuring that management compensation is weighted to overall brand goals, not those of each channel.

Key Findings - Merchandising

One of the most encouraging signs that integration benefits will be realized is that Merchants within leading multi-channel retailers appear to understand the multi-channel growth opportunities. The volume and margin opportunities from targeting loyal multi-channel shoppers are significant enough to tailor assortments to the strengths of each channel, and try new merchandise. Given that they are the owners of the business lines, their importance as allies in integration efforts is invaluable:

- While most retailers agree that a set of core products needs to be available through all channels, different channels provide retailers with the chance to vary their product offering. Still, many retailers buy their merchandise with only the store channel in mind, do not take

“Our biggest asset is our brand and our continued focus remains building the perceived value around that...not going head-to-head on price.”

advantage of the unique merchandising opportunities in the direct channel, and often miss revenue opportunities due to poor inventory management to match each channel’s demand.

- Leveraging catalog assets by implementing online clickable catalogs was cited as providing high return on investment.

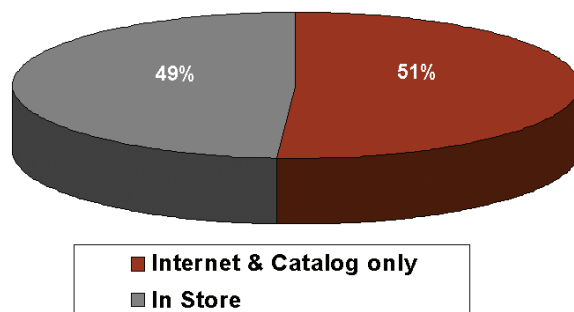
Key Findings - Branding and Marketing

- Cross-channel marketing techniques require an organizational structure that promotes such behavior. Channel managers should be encouraged (and

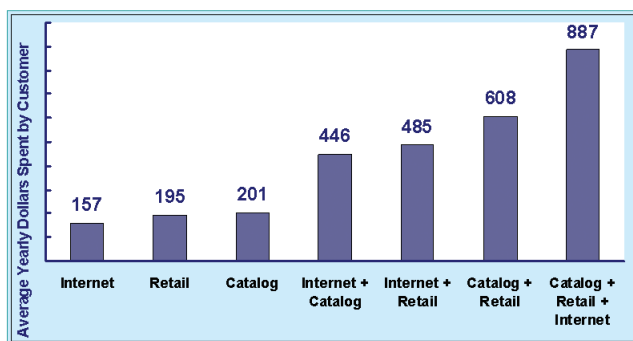
rewarded) to promote other channels and make more customers multi-channel customers. Instead, they often feel threatened by the perception that other channels will cannibalize their sales.

- While the goal of focusing on High Value Customers (HVC) is often stated, it is common that each channel identifies their HVCs instead of true corporate High Value Customers. The resulting inaccuracies could negatively affect CRM strategies for many retailers.
- The ability to tailor the marketing mix to achieve optimal marketing ROI is the goal of most marketers. Some retailers cited their successful testing of various communication messages and media mix, driven by integrated customer data. This has resulted in strong lift in sales within a single store’s trade area, while becoming more efficient (e.g., substituting email for direct mail to drive store traffic).

In the Williams-Sonoma Fall 2003 Catalog, approximately one-half of all items could only be bought from the internet and in their catalog.



An analysis of JC Penney’s customer spend by channels, shows that a well executed multi-channel strategy is exponential, not additive.



Source: JOP Figures: DFWIMA presentation, 2003

Key Findings - Analytics

- Retailers with integrated data collection systems tend to identify their customers as more multi-channel oriented than they originally thought. Retailers are also increasingly integrating external data (like census figures) with their internal databases to get richer insight. However, when not used correctly, the proliferation of data sources available to a retailer can lead to data overload with important findings getting lost amid the sea of numbers.
- Segmentation of multi-channel customers tends to be rooted in RFM metrics.

Most retailers cited their ability to segment their email database is limited, yet holds great potential that they have only started to tap into.

Conclusions

- Most retailers are still very silo-based in function – each channel is responsible for its own sales and there is little incentive for them to promote one another. Senior management involvement in achieving alignment starts by educating each channel on the benefits of multi-channel integration. The problems of multi-channel alignment are similar to internal branding challenges facing many of the same retailers. The payoff for alignment can be substantial, as we often note from observing great retail brands.
- The trend among retailers to invest in inventory management and price optimization technology will have great benefits for those with integrated merchandising strategies. The ability to match supply and demand for each channel will become less of an art and more of a science. The bottom line

“Obtaining accurate data from brick and mortar remains a challenge until we can get web-enabled point of sale.”

“We sent an e-mail to a customer base for a particular group of stores. Many of the customers for those stores received direct mail postcards...a customer could have received both. For that group of stores we saw the next day same store sales up by more than 25%... That particular campaign resulted in a 1% response rate at the store level. The ROI of that campaign taking out COGS, etc. was 47 to 1.”

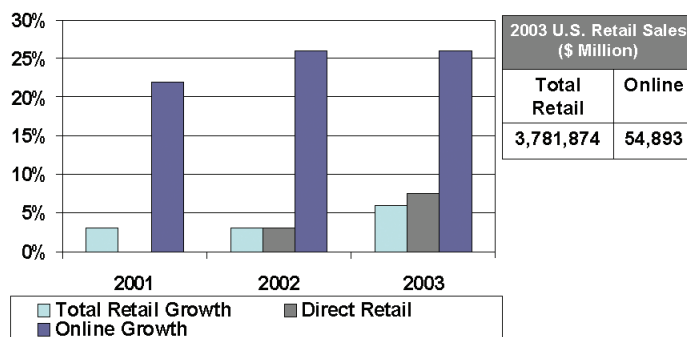
benefits of greater revenue and gross margins across all channels will have the greatest positive effect on multi-channel integration efforts.

- Consumers’ multi-channel behavior will only increase over time and retailers should aspire to increase the share of total shopping trips their customers are making in the category, regardless of which channel those trips are in. Consistent brand experiences, regardless of channels shopped, provide the customer with the type of familiar experience that will lead to increased multi-channel purchasing behavior.

- Many retailers are only at the beginning stages of marketing campaigns that demonstrate multi-channel leverage. Test marketing campaigns that target high value customers and encourage their multi-channel shopping may provide regional and store managers with incentive to embrace integration

The online channel continues to show the most significant growth.

Total, Direct and E-Commerce Sales Growth (U.S.)



2003 U.S. Retail Sales (\$ Million)	
Total Retail	Online
3,781,874	54,893

Source: U.S. Department of Commerce

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initiatives. Leverage the rich customer data gathered in catalog and Internet channels to drive a mix of online and offline shopping behavior at a local level.

- Effective use of data collected leads to increased sales across channels, as well as a better experience for the customer. When retailers make good use of their data, customers see the value of providing personal information to the retailer via tailored offers and other value-added solutions. Increasingly, outstanding retailers rely on providing total solutions to their customers, not just selling them products. Accurate, complete customer data will be the foundation for solution-focused retailers.

Note: Retail Details is the first stage of development in a multi-channel retail case study program conducted by J.C. Williams and commissioned by Abacus and DoubleClick. The data from these focus groups is being used to guide the structure of the case studies. If your company would like to consider joining the program and future focus groups or being profiled in one of these case studies, please contact: James Okamura at jokamura@JCWG.COM or Kathryn Koegel at kkoegel@doubleclick.net. Participating retailers in this program receive access to all data/reports generated and an executive presentation of results.

For information on Abacus direct marketing solutions, call 1-303-410-5100

For information on DoubleClick marketing solutions, call 212-683-0001

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