

The Merkle logo features the word "MERKLE" in a bold, blue, sans-serif font. A red swoosh is positioned above the letter "E".

**MERKLE**

A Customer Relationship Marketing Agency

# An Integrated Approach to Retail CRM

MERKLE THOUGHT LEADERSHIP SERIES

## An Integrated Approach to Retail CRM

### Introduction

Retailers face intense performance pressure from a host of sources. These include increased competition for new customers from aggressive competitors, declining customer loyalty due in part to a saturation of programs and cost/value conscious consumers, and pricing and discounting pressures that consumers have been trained to search for, enabled by new media. The need to be relevant to the customer is more vital than ever as consumers take control of the ways they choose to engage with your brand. The digital revolution is enabling this shift from a marketing push to consumer pull, while simultaneously propelling an increase in marketing complexity due to the convergence of multiple media. Retailers need to transform to leverage customer behaviors and engagement and need to react quickly to create relevance and trust with today's consumer.

The changes required to achieve this transformation are not trivial yet can be approached systematically for quick wins and long-term growth. Retailers must develop, implement and integrate more advanced technology and analytic and strategic approaches to maximize marketing ROI. This paper presents a basic framework for thinking about the key areas of focus and provides cases studies to show how improved technology, analytics and strategy can increase program ROI.

**Competitive advantage in the future will be created by those organizations that can most effectively understand, track, engage, measure and influence consumers at the individual level over time.**

### Retail Challenges:

Retailers continue to face these key challenges:

- Identifying and knowing the shopper through a 360° view
- Driving incremental store traffic and demand through effective marketing
- Increasing customer loyalty by better management of the relationship

While this is by no means an exhaustive list of critical issues confronting today's retail marketer, these challenges are common to all companies. This paper briefly discusses solutions to address these issues through the simple paradigm of "customer strategy as a business strategy."

### Creating Retail Value with CRM<sup>1</sup>

To create a customer-centric retail CRM strategy, there are three key tiers to consider. This approach combines retail CRM strategy, analytically driven marketing tactics and a robust marketing technology infrastructure to improve return on marketing investment (ROMI) (see figure 1). Integrating each of these elements creates the opportunity to address each of the key challenges faced by today's retailer. This starts with the foundational technology infrastructure to identify the customer, integrate all the data assets about the customer, and provide easy access to that data, which can be analyzed to uncover key insights. Based on the access to quality, complete

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<sup>1</sup> Merkle takes a broad view of CRM that is more expansive than the marketing technology approach pursued in the 1990s. For more information on our perspective on CRM, please refer to the following documents:

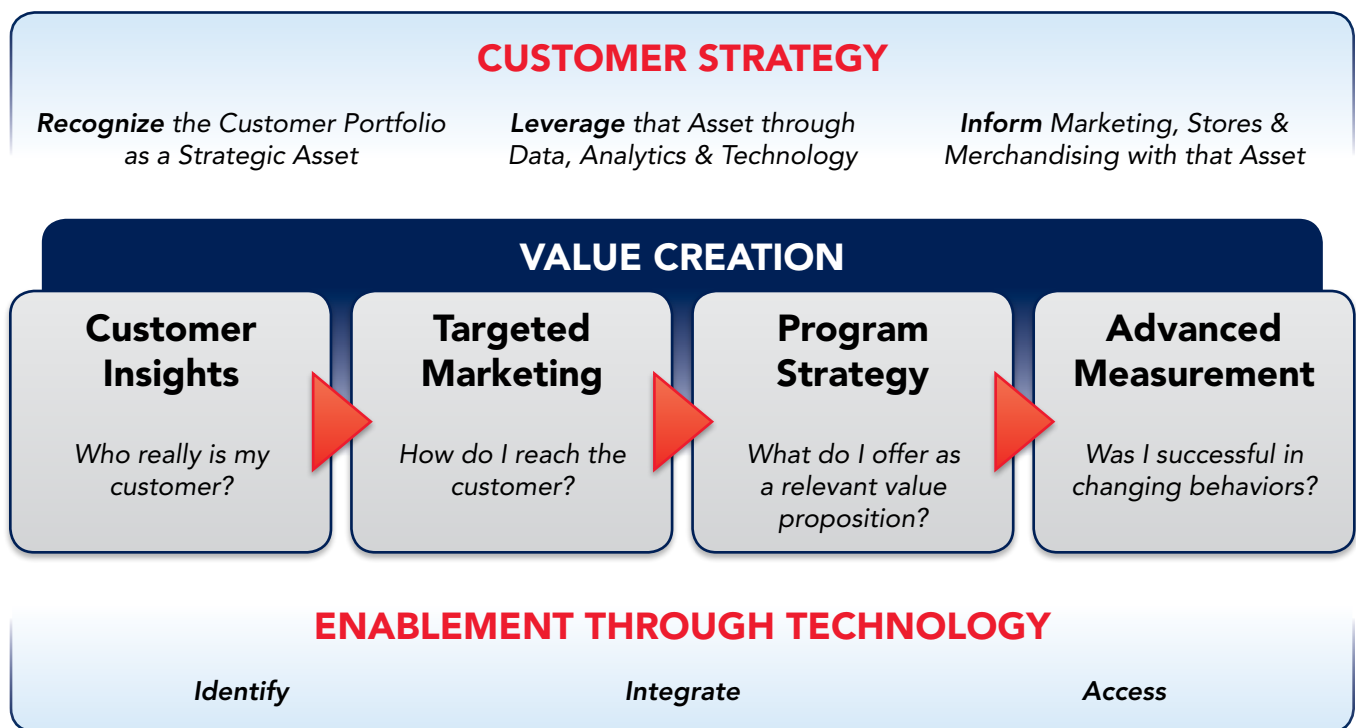
[Merkle's CRM 2.0 White Paper \(click to download\)](#)

[Merkle's CRM 2.0 Retail Point of View Paper \(click to download\)](#)

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data, we can apply advanced analytics to create marketing programs designed to positively change customer behaviors. To close the cycle, measurement and attribution solutions ensure that we know what is working and what is not, so we can continually update and adapt marketing levers. This basis of technology-enabled analytics is the foundation to building relevant retail CRM strategies to inform not only the marketing function, but also drive insights to store operations, merchandising and customer service applications and touch points.

Figure 1: Creating Retail Value with CRM



### 1. Technology Enablement

In order to enable retail value creation and CRM strategy, it all starts with an integrated technology platform to facilitate customer management across media and channels. A complete retail marketing technology platform essentially enables the following three core functions:

- **Identification:** An identification process to link transactions to individuals
- **Integration:** A customer data integration process that leverages offline and online data to bring disparate data sources together and manage the 360° view of the customer
- **Access:** System and user access points and applications including campaign management, reporting, analytics

Going forward, to drive world-class CRM and facilitate the value creation process, the technology platform needs to transform into a true marketing enabler as opposed to what is often a constraint to growth and progress.

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### 2. Value Creation Process

The value creation process is the maximization of customer value over time. To do this, retailers must have access to advanced analytics to leverage the data about the customer deep experience about the industry to properly apply the analytic outcomes. This combination will create a differentiated and strategic competitive advantage to achieve business goals through development of specific customer-centric programs. Begin with analyses to help understand the dynamics of the customer lifecycle, to determine which customers are delivering the most value for the organization, and identify the key behavioral characteristics of high-value consumers. From those insights, retailers should create analytically informed targeting solutions based on predictive models to help identify customers with a high propensity to exhibit these high-value desired behaviors. These consumers are then targeted for integrated, multi-media communications designed to increase their long-term value as we redeploy resources previously allocated to less effective categories. All programs are measured to determine incremental ROI, while intensive multivariate testing will drive ongoing program improvement.

### 3. Retail Customer Strategy

At Merkle, we leverage our Integrated Customer Marketing (ICM™) framework to guide clients through the complexities of maximizing customer value. The framework focuses on optimizing the customer lifecycle, marketing spend and campaign performance to drive long-term customer value. The primary premise in ICM is that the customer portfolio, the combination of existing and potential customers, is a retailer's most strategic asset. In our opinion, competitive advantage that drives shareholder value will be created by those organizations that can most effectively understand, track, engage, measure and influence consumers at the individual level over time.

In order to leverage the customer portfolio and ultimately to monetize it, retailers must first start by understanding key business challenges, long-term goals and pain points. Then, benchmark those current practices and existing capabilities to industry best practices using retail-specific CRM roadmaps. Based on the outcomes of this process, identify high-priority initiatives that will most improve customer value. The initial focus is on "low hanging fruit" that will quickly enhance program performance and improve ROI with a longer-term goal of driving incremental customer lifetime value.

## Case Study Examples

To illustrate these principles, below is a list of Merkle client case studies that address each of the three challenges outlined above.

### 1. Customer Identification using Analytics & Technology

#### Background

A major fashion retailer with separate distinct brands had limited insight into the customers purchasing through its retail channel. One of the brands of the retailer had a loyalty program to identify consumers, but otherwise there was no data capture process in place. The retailer was unable to tie a significant number of POS transactions to consumer address information. This gap limited the client's ability to understand its customers and communicate with them on an ongoing basis.

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<sup>2</sup> For more information on ICM™, please refer to the following position paper:  
[Merkle's Integrated Customer Marketing White Paper \(click to download\)](#)

## An Integrated Approach to Retail CRM

### Challenge

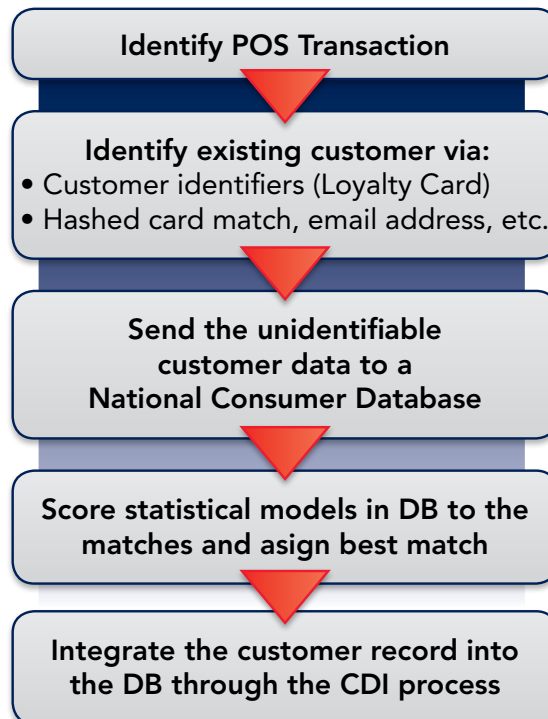
Significantly enhance the client’s ability to identify customers who buy through the brick and mortar channel to enable increased customer understanding, ongoing communications and improved marketing measurement.

### Solution

An advanced analytical solution was developed to match information captured at POS to a known customer. The solution incorporated a national consumer file of over 240MM individuals and 120MM households, as the source of address information. The solution included the following key steps:

1. Start with the POS transaction and through multiple methods, and identify possible consumer matches. Depending on the name, there may be multiple consumer matches, which requires further refinement to identify an accurate match.
2. Apply a predictive **POS Matching Model** to identify the consumer most likely to be the client’s customer.
3. Apply a **Matching Confidence Model** to determine the expected accuracy of the match for the selected consumer.
4. Embed the solution into the marketing database prior to the customer data integration (CDI) process that performs hygiene and merge processing, where high confidence matches were integrated into the database, but marked separately in the solution.
5. Test high confidence matches through direct marketing offers.

The following graphic summarizes the basic process.



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### Results

This approach provided significant benefits to the Retailer. Key outcomes across their unique brands included:

- New Database Additions
  - POS matchback added 400,000 targetable customers to the database in just 5 months.
  - POS matchback accounted for up to 11% of all identifiable consumers in the database.
- Marketing Results
  - Catalogs mailed to newly sourced POS names achieved between a 7% - 12% response rate, which is on par with other house file names captured through other means. This resulted in incremental revenue they were not getting prior to this process.
  - The new POS sourced names delivered incremental dollars per book over the control by 10-15%.
  - This new process is growing the house file faster than ever before. The new names are now available in the database for ongoing, multi-channel communications. Over time, the incremental revenue delivered from these names will improve the return on investment of their CRM investments.

## 2. Advanced Analytics to Improve Targeted Marketing

### Background

A fashion multi-channel catalog retailer wanted to increase the efficiency and effectiveness of its catalog budget across all of its brands. Brand-specific catalog mailings were a significant component of the marketing budget for driving incremental demand to both retail and e-commerce. The existing catalog targeting strategy was based on traditional RFM selections supplemented by model scores based on cooperative behavioral data. Although the current targeting methodology produced positive results, there was a significant opportunity to improve performance. This assessment was based on the historical experience of achieving superior results by combining advanced analytics with a deep understanding of the business problem and innovative approaches to using data in the modeling process.

### Challenge

Significantly outperform current targeting methods for the catalog, their largest single marketing expenditure.

### Solution

Merkle developed new customer models using our best practices methodology and the following 5-step approach:

1. Data management and preparation
2. Exploratory data analysis
3. Model development
4. Model validation
5. In-market testing

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The key to Merkle’s success was an approach based on understanding the business problem and designing a customized analytical solution to maximize results. In this case, Merkle used three key innovations to improve results.

- Redesigned the model structure to leverage a 12-month sampling process to balance several months of data while incorporating seasonal indicators which provided interactions to account for the monthly changes of the retail environment.
- Incorporated a segment-based modeling technique to separate models for New, Active and Inactive customers – all of whom behave and react differently to marketing stimulus. Retail and direct sales were modeled separately to leverage the unique differences in the two channels.
- Created new derived variables such as customer density and penetration, drive time and store footprint, and interaction terms to account for product purchase by channel type.

### Results

The new targeting models significantly outperformed the existing selection methodology for all brands. The client realized significant gains in both response rate and dollars per book. The table below provides the lift attained by the new models.

Brand	Increase in Response %	Increase in Dollars / Book
Brand 1	99.9%	80.8%
Brand 2	38.2%	35.5%

All results are based on controlled tests and are statistically significant.

## 3. Customer Segmentation to Drive Retail CRM Strategy

### Background

This client is a trusted and diversified information-technology supplier and partner, and sells a comprehensive portfolio of products and services directly to customers worldwide. Recognized by Fortune magazine as one of America’s most admired companies, this client designs, builds and delivers innovative, tailored systems that provide customers with exceptional value.

### Challenge

Create a segmentation solution to drive overall customer management across sales, service and marketing and embed that into the culture of the organization to shift into a customer-first mindset.

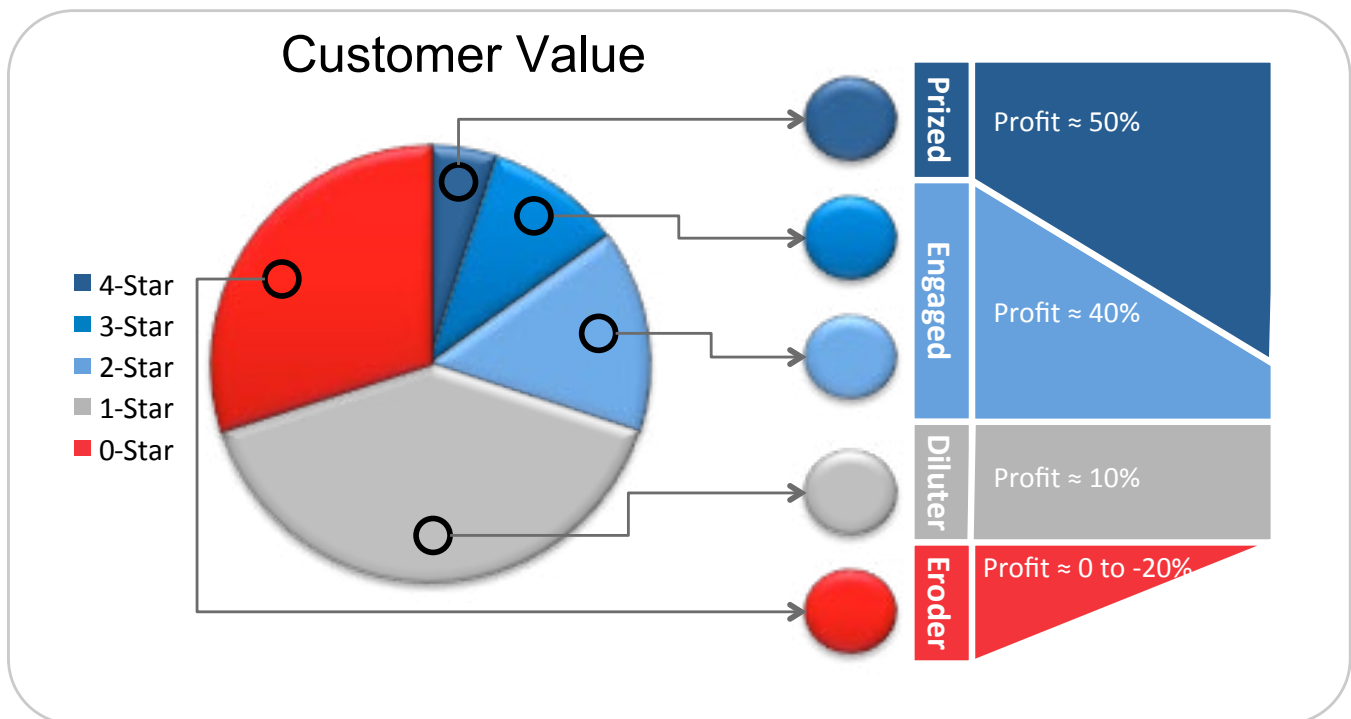
### Solution

The following framework was developed to manage multiple customer segmentation systems into a single cohesive view. This framework includes three dimensions of customer information – customer lifecycle, customer value and a demo/needs-based segmentation. The three dimensions are used for both macro strategy development and micro tactical application.

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Role		Customer		
Macro Level	<ul style="list-style-type: none"> <li>Guides macro investment decisions</li> <li>Guides the contact strategy</li> <li>Informs unique treatments based on relationship stage</li> <li>Ability to effectively track consumers through their lifecycle</li> </ul>	Lifestyle Segments		
		Acquisition	Development	Reactivation
Micro Level	<ul style="list-style-type: none"> <li>Guides investment allocation decisions</li> <li>Guides program development</li> <li>Provides ability to identify / size / target / measure / track over time</li> </ul>	Demo Segments	Value Segments	Demo / Pareto Segments
		Demo Segments / Needs-Based Segments		
	<ul style="list-style-type: none"> <li>Product development</li> <li>Tailored messaging, offers, and communications</li> </ul>			

For example, the Value (Pareto) segments guide investment decisions for the client's new, active, and inactive customers, while also providing a lens for quarterly Customer Portfolio Assessments.



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Below is a list of the actual current and planned applications of Customer Value for this client

- Sales, Services, & Order Mgmt Alignment
  - Current: Agent dashboard integration, call center queue logic
  - Future: Differentiated treatments, concierge service, order processing
- Acquisition Channel Optimization
  - Current: Evaluation of channels
  - Future: Optimization within and across channels, direct mail and email optimization based on Pareto and LTV
- Lifecycle Management
  - Current: Solution and program development based on customer insights
  - Future: Differentiated treatments, migration strategies
- Portfolio Management
  - Current: Quarterly customer portfolio analysis for value creation
  - Future: Expanding to small business segments and additional regions globally

### Results

This segmentation framework has led to engagement and influence across the enterprise including sales, online demand generation, customer lifecycle management, and customer portfolio management. As a result, terms like “Pareto” and “4-Star customers” are now part of the everyday vocabulary at the client. The insights generated from the segmentation lens provided an effective tool for identifying risks and opportunities across all customer interactions. One of the initial findings was a \$30M+ opportunity related to cancellations and returns that is now being addressed.

Two very tangible outcomes from this solution were based on new insights driven through improvement measurement using customer value.

**Insight 1.** In this first view, affiliates drove a significant number of online transactions and orders, but due to the lack of insight and consistent measurement of affiliate performance, improving results from this channel were difficult. By applying the customer value lens to the actual affiliate performance, we were able to see that the top affiliates bring in five times as many 4-Stars and one-fifth as many 0-Stars as the bottom affiliates, and we can see clear themes forming among the top and bottom groupings.

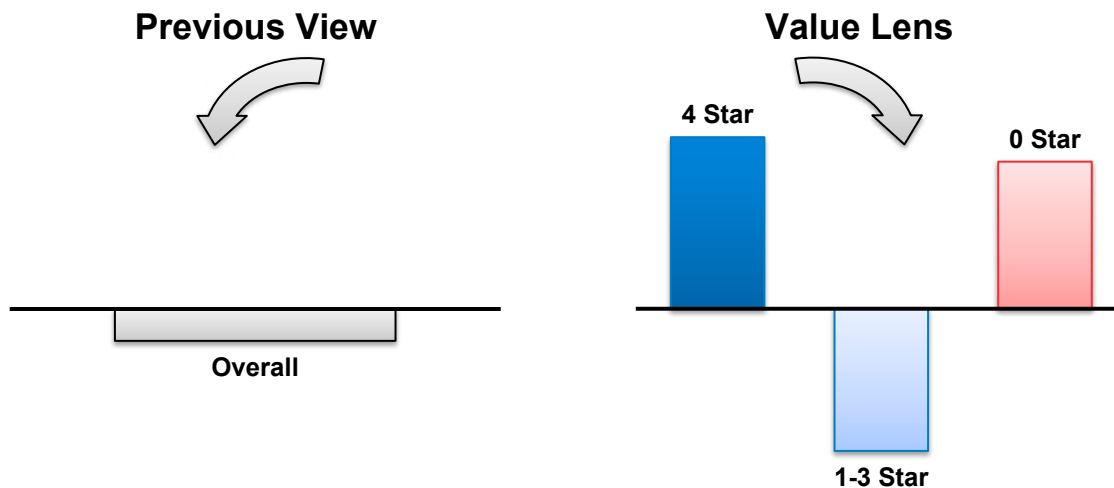
Site ID	Index Compared to Overall				
	4 - Star	3 - Star	2 - Star	1 - Star	0 - Star
Affiliate #1	143	156	157	120	39
Affiliate #2	167	146	132	106	47
Affiliate #3	129	120	103	91	86
Affiliate #4	108	120	119	96	86
Affiliate #5	117	98	98	97	96
Affiliate #6	98	92	92	96	108
Affiliate #7	81	98	98	93	112
Affiliate #8	75	79	93	97	119
Affiliate #9	70	71	76	97	129
Affiliate #10	62	67	74	90	138

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From this, we were able to increase the commission rates for some top affiliates, resulting in improved revenue stream for more attractive offers to the top customer value groups. In addition to this, the bottom affiliates are now being targeted for end-of-life products and coupons, and incentives and commissions were reduced to minimize promotion expenditure. The results of these changes to the affiliate program had a profound impact to gross margin from that channel. Although overall demand was slightly deflated from the changes to the program (by 5%-10%), gross margin increased by over 500% to plan through the elimination of less profitable customers and the increase of 4 star customers.

**Insight 2.** Customer value was then integrated into the customer satisfaction process, which leveraged Net Promoter Score (NPS) as the primary metric. By integrating customer value into the primary research, new insights were revealed. In the example below, which shows an indexed NPS, we see that overall NPS is starkly different from that view created by the value lens.

The value lens uncovered a much more troubling problem than originally thought, but one we could now address before the long term health of the portfolio was impacted



Without the customer segmentation framework, these insights and the opportunities created from them would not be possible. The segmentation solution is the foundational tool for retailers to fully maximize the asset that is the customer portfolio.

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### How Merkle Can Help You

Our strategically-led and analytically-driven retail marketing solutions deliver measurable ROI by enhancing customer value. We will drive more traffic into your stores, deliver more profitable customers to your online sales channels and ensure your marketing budgets are operating at peak performance. Merkle has successfully leveraged its retail marketing databases to create analytically-driven consumer marketing strategies that drive results. We can do the same for you.

Want to find out how we can help? We like a good challenge. Bring us your biggest marketing challenge, and we'll help solve it supported by empirical evidence delivered through our advanced customer analytics and expert business strategy. Our services extend far beyond insights and technology. We deliver actionable solutions that produce demonstrable value, time and time again. Don't wait another minute to start achieving breakthrough results. Engage Merkle today, and we'll help you start making smarter, more profitable marketing decisions.

### About the Authors

Bo Chipman leads a client team that is responsible for managing complex CRM engagements in the Specialty Retail vertical. These engagements involve the integration of multiple Merkle services, including strategy, analytics, technology and creative services. He began his tenure at Merkle as an analytical team lead and has served as the principle strategy consultant for several major clients, including Dell and AARP. He has worked across a wide array of vertical industries. Clients past and present include AARP, Bose, BMW, Dell, DIRECTV, The Limited, Mead Johnson, P&G and Samsung. His work with clients includes CRM program strategy, technology requirements, consulting on analytical projects related to CRM measurement, consumer targeting and email engagement. Bo has more than 14 years of DbM and consulting experience, including serving as a Senior Technical Consultant at KnowledgeBase Marketing and as Senior Engagement Manager for Navigant Consulting. Bo started his marketing career with Customer Management Services. Bo holds a MA in Political Science from the University of North Carolina – Chapel Hill.

Ron Park has over 17 years of experience in advanced analytics and database marketing. As Chief Strategy Officer for the Retail Practice, Ron is responsible for applying Merkle's Integrated Customer Marketing framework to the retail marketing function, enabling companies to leverage the strategic asset that is the customer portfolio. Ron has led key engagements with retailers like Walmart, Urban Outfitters, and Dell. He has helped clients better define a CRM strategy internally, improve marketing results through better targeting results and defined by processes and approaches to marketing campaigns. Ron's has also co-led Merkle's analytic function where his area of focus is developing cross-vertical practices including marketing mix optimization, segmentation, digital analytics, offshore outsourcing, analytic consulting and market research. Prior to joining Merkle, Ron has held positions at Hostway, a leading web hosting company for small businesses, InfoWorks, a member of Rapp Collins Worldwide, and Market Knowledge, now part of Equifax. Ron holds an MS in Applied Math from DePaul University and a BA in Economics from the University of Chicago.

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### About Merkle Inc.

Merkle is the nation's largest and fastest growing customer relationship marketing agency. For more than 20 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. By combining a complete range of marketing, technical, analytical and creative disciplines, Merkle works with clients to design, execute and evaluate Integrated Customer Marketing™ programs. With more than 1,400 employees, the privately held corporation is headquartered near Baltimore in Columbia, Maryland with additional offices in Boston, Chicago, Denver, Little Rock, Minneapolis, New York, Philadelphia, Seattle, Hagerstown, MD and Shanghai. For more information, contact Merkle at 1-877-9Merkle or visit [www.merkleinc.com](http://www.merkleinc.com).

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