



Retail



PAPER  
SERIES

created by *CART*

Paper 2:

# Marketing Communications

CEOs should demand regular measurement of their company's total marketing cost per realized shopper, a powerful new metric available to companies in the Retail 3.0 ecosystem.

## *About*

The Center for Advancing Retail & Technology brings the Retail 3.0™ vision to a live store environment. It is the epicenter of the shopper movement to demand more value from the entire retail supply chain. CART features a learning center on top of its open store format.

[advancingretail.org](http://advancingretail.org)

**The Retail 3.0 Paradox:** Historically, as marketers increased the specificity of direct marketing initiatives, from mass to segments to individuals, production and communication costs increased. It was very costly to create a direct mail piece containing targeted promotions and mail to individual shoppers—higher costs reduced the business gain—perpetuating the role of mass marketing. In the world of Retail 3.0, this historical paradigm is upended. Digital communications reduce costs to near zero; combined with the ability to deliver relevant, personalized content, this new paradigm creates enormous gain for 3.0 Retailers—and penalizes those retailers unable to follow.

The retail environment has become evermore complex; no area better showcases this than marketing communications. Marketing in the world of Retail 3.0 has seen a quantum shift of exponential increases across multiple dimensions. And, to keep it even more interesting, this complexity set in an environment operating at hyper-speed.

No longer is the customer a nameless, faceless construct bombarded by product-focused messaging delivered over mass media channels. Today's marketer has the ability to communicate to: a mass audience; an audience segment driven by demographics, lifestyles, health or wellness concerns; a shopper household; even to the individual shopper.

The **ability** to communicate anywhere along this “audience spectrum” has been accompanied by an explosion in **content** to be communicated. The days of focusing on one product and conveying its attributes and price are long gone. In today’s world, multiple flavors are a fundamental requirement: “green” laundry detergent for the eco-conscious; hypoallergenic for those with skin sensitivities; cold water formulas, favorite scents, value packs—you name it. And this doesn’t even begin to take into consideration content driven by special dietary needs, lifestyle or health interests.

The persistent splintering of mass media into hundreds of television channels and radio stations has reached a new stage of development in the digital world via the web, email, mobile, and social networking sites like Twitter and Facebook. Today’s marketer needs to be cognizant of time and place: is the content and channel mass (e.g., a television commercial), on-demand (an email the shopper can open at the time and place of her choosing), or realtime (a Twitter notification of fresh bread from the bakery oven)?

The growth of social media and networking shows that power has shifted indelibly to the shopper. In these environments, the word-of-mouth communication of yesterday has gone viral and realtime. Marketing relationships have become two-way. Marketers must understand that every moment is a moment of truth. But while this means marketing communications have become considerably more complex, in consequence the marketer has tools and information that far surpass those of even the recent past. The marketer of today can increasingly manage her marketing cost per realized shopper—directly measure the cost of attracting and retaining a shopper. How does a marketer begin to leverage these capabilities? This paper is designed to provide a construct, a framework for thinking about shopper communications and linking those capabilities to business goals.



### Product-Driven or Customer-Focused?

Compare the ability of CVS to communicate targeted promotions and information on the bottom of each shopper's receipt with Walgreen's lack of shopper awareness. Both of these companies are highly respected retailers, but which company is able to realize a significantly higher ROI on marketing spend and effectiveness? Highly efficient targeted promotions delivered to the specific shopper always win out over mass promotions with their attendant shrink and lack of relevancy to any one particular shopper.

During the past decade and a half, as frequent shopper and loyalty programs permeated the fast moving consumer goods sectors, retail companies came to be viewed as either product-driven or customer-focused. Product-driven companies heavily focused on generating promotional trade funds and ad money with minimal attention to what their shoppers actually wanted. Customer-focused retailers encouraged shoppers to centralize spending with their companies, little care given to what products those shoppers may buy. In the realtime world of Retail 3.0, retailers must learn to continuously shift focus between products and customers to optimize value creation.

Take, for example, the 3.0 Retailer who, on late Friday afternoon, realizes his fresh swordfish inventory is far more than needed—an expensive product to shrink out. This retailer can create a promotion lowering its price while supplies last, communicating it to all shoppers coming in the door via an entry kiosk in addition to a Twitter update and email to shoppers regularly in the store on Fridays. Product-driven value creation. Alternatively, take the 3.0 Retailer who desires to recognize his top 100 shoppers at holiday time. This retailer can present those shoppers with a surprise 10 percent savings certificate, communicated via email and the in-store kiosk, and deliver the savings electronically into the transaction at POS. Customer-focused value creation.

### Mass to Attract, Personalize to Retain

It was already seen how CVS leverages the shopper knowledge gained through its ExtraCare loyalty program to provide personalized, relevant marketing communications to individual shoppers, seeking to retain and encourage them to spend more and shop more often. But CVS is also a capable user of mass communication vehicles (e.g., ad flyers, billboards) in promoting its business.

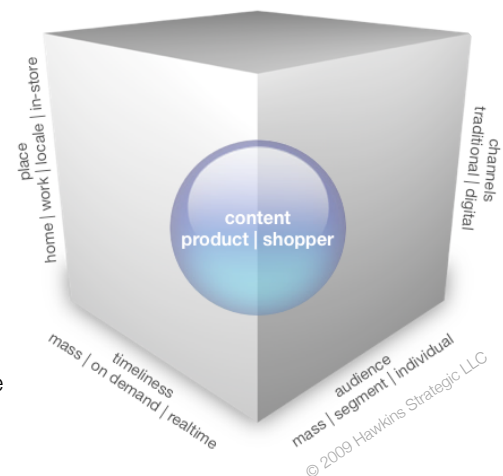
Such retailers approach their mass marketing communications as a funnel designed to capture new shoppers and bring them into the store. Once there, staff members encourage new shoppers to join the store's loyalty program, enabling the company to communicate relevant promotions on the shopper's POS receipt, in addition to email, mobile, or other channels the shopper makes available. Mass communication vehicles can be the most effective in **attracting** new shoppers to a particular retailer, but it is most effective to rely on personalized communications delivered via digital channels to **retain** shoppers. The Center for Advanced Retail Technology at Green Hills regularly uses its weekly ad flyer to communicate mass promotions and marketing programs to attract shoppers. Once in the store, it leverages its personalized marketing system to deliver relevant promotions, driving return trips.

Mass marketing continues to play a valuable role in branding and positioning, in communication of marketing promotions, and in serving to attract new shoppers to the store. But mass marketing can be viewed much more rigorously with regard to ROI and effectiveness when placed in the context of shoppers and shopper behavior.

### A Marketing Communications Framework

A framework within which one can choose appropriate marketing communication channels for a task at hand is increasingly wanting. Hawkins Strategic offers the following simple but practical steps through which marketers should think. The process begins with the message content.

1. Content: Is the goal of the communication to sell a specific product? To retain at-risk shoppers? To educate relevant shoppers to the new line of gluten free products now available? To recognize and reward top shoppers?
2. Audience: Define who the audience is. Is it the population at large, or a specific segment of shoppers? Is the content best suited to a shopper household, or specific shoppers within the household?
3. Channel: With the audience in mind, what are the best communication channels to use for efficiently reaching that audience with a view to the **timeliness** required and the **place**?

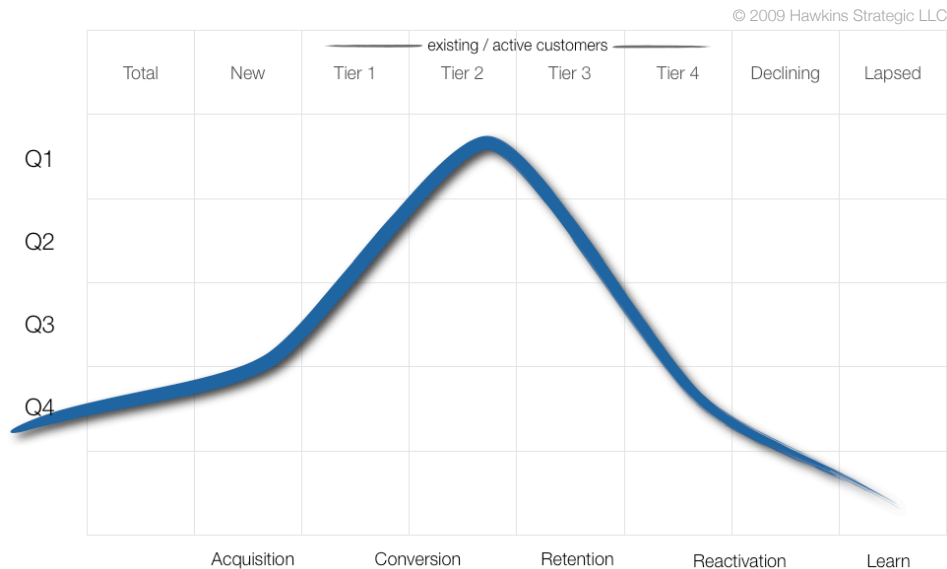


It is our position that the ultimate goal of marketing communications is: first, to attract new shoppers; second, to encourage existing shoppers to spend more and shop more frequently; and, third, to retain and converse with shoppers, particularly those at risk of defecting to a competitor. Given this, the 3.0 Retailer must leverage his shopper data to create a scorecard to holistically evaluate marketing communications and initiatives.

Green Hills regularly runs loyalty-based continuity programs. The most recent program, featuring J.A. Henckles knives from Brand Loyalty, was communicated each week in the ad flyer and promoted in-store, with signage around the store and prominent displays. But Green Hills also leveraged its ability to communicate each shopper's point balance in realtime through its website, weekly emails, entrance kiosks at checkout. Green Hills maximizes program performance by leveraging multiple communication channels, always refining its mass-to-personalized communications ratio.

### Shopper Inventory

A retailer able to accurately identify a large majority of its shoppers to their transactions has the raw material to create a shopper inventory. A shopper lifecycle construct—every retailer has an inflow of new shoppers, existing shoppers, and shoppers declining in shopping behavior due to smaller family size or transition to a competitor—provides the retailer a framework for viewing his customer base. Using absolute spending segmentations, best described in CEO Gary Hawkins's *Customer Intelligence*, as an overlay to the lifecycle concept, the retailer can report a very accurate shopper inventory on a periodic basis. 3.0 Retailers leverage this concept into their management and financial reporting, marketing, operations, and other areas.



This customer inventory provides the foundation for evaluating marketing communications. Let's begin with a straightforward example using that mainstay of retailer marketing, the ad flyer. In this example, the retailer distributes the ad flyer via the local newspaper, which is distributed by postal code. By creating a matrix showing the number of flyers distributed in each postal code, along with the number of new, Tier 1, 2, 3, 4, declining and reactivated shoppers, the retailer is able to truly measure the effectiveness of their ad flyer spend, clearly stating the shrink and associated expense by postal code.

	Total		Existing & Active Customers							Effective Total	Shrink	
	Distributed	Total Cost	New	Tier 1	Tier 2	Tier 3	Tier 4	Declining	Reactivated		No.	USD
Post Code 1	2,056	\$20,313	14	232	254	311	217	35	26	1,089	967	\$9,554
Post Code 2	1,578	\$15,591	27	506	376	369	155	28	43	1,504	74	\$731
Post Code 3	3,893	\$38,463	53	138	266	471	426	19	67	1,440	2,453	\$24,236
Post Code 4	2,404	\$23,752	17	5	8	23	27	2	5	87	2,317	\$22,892
<b>Total</b>	<b>9,931</b>	<b>\$98,118</b>	<b>111</b>	<b>881</b>	<b>904</b>	<b>1,174</b>	<b>825</b>	<b>84</b>	<b>141</b>	<b>4,120</b>	<b>5,811</b>	<b>\$57,413</b>

Numbers annualized for cost, quantity of shoppers, and shrink.

The 3.0 Retailer extends the above concept to encompass all its marketing communications. Where possible, such as with email or kiosk use, the retailer is able to track which specific shoppers are using each channel, and relate this back to their shopper inventory—to know, for example, what percentage of Tier 1 shoppers are leveraging email and its associated costs.

Additionally, by totaling the cost of all marketing communications—ad flyer, television, radio, email, in-store kiosk, etc.—the retailer can begin to measure and manage their total marketing cost per realized shopper. At long last, retailers can truly begin to learn which part of their advertising is effective and which is wasteful. There remains a significant role for mass marketing communications, effective for feeding the funnel, but it is the ability to leverage digital channels to communicate the right promotion to the right shopper in the right place at the right time—and receive feedback!—that permits 3.0 Retailers to outperform their peers.

The growing divide in the retail industry between those retailers who possess shopper-identified transaction data and those who do not, will become a chasm when applied to the area of marketing communications. Those retailers possessing the ability to market to their individual shoppers are able to continuously drive revenue and margin increases much more efficiently than their shopper-unaware brethren.