



## Top Retailers Compete with True 1-to-1 Marketing

Analytically derived offers—individually generated, timed and delivered across multiple channels—are driving double-digit gains

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FICO is helping several major US retailers lead the industry into the new era of integrated multichannel 1-to-1 marketing. These retailers are the first to generate individualized offers from precise analytic recommendations that pinpoint not only which specific products customers are most likely to buy, but *when they are most likely to make the purchase*. Early results include 10 to 20 times higher redemption rates among customers receiving individually targeted and timed offers compared with control groups where customers receive the same generalized offer.

*How are today's top retailers enabling true 1-to-1 marketing? This paper highlights their analytic best practices.*

Unlike the familiar coupons that print out after a purchase—which consumers must remember to bring on their next trip to the store—these are relevant e-coupons and offers, based on customer purchasing behavior and preferences, can be generated both before and after purchases. They can be delivered via email or mobile phone, or preloaded into an individual's online shopping account. The same personalized values are available no matter where and how the customer chooses to shop.

The new methods not only benefit consumers through greater promotional relevance and redemption convenience, they are also transforming the industry in ways that are enormously advantageous for retailers and suppliers. Offers are mathematically optimized to balance customer purchasing propensities and timeframes with business objectives and constraints—e.g., maximize redemption rate but make offer only to customers who haven't purchased in this category over the past six months. Trade dollars and market development funds are invested more efficiently and produce higher returns.

This white paper:

- Examines how top retailers are gaining more value from their unique transactional data by using advanced predictive analytics to go beyond current levels of segmentation and response modeling to precise 1-to-1 marketing.
- Explains the central role of optimization in balancing customer-level predictions with business objectives and constraints to pinpoint the best offer from an enormous number of complex possibilities.
- Discusses how to accelerate time-to-ROI by using rules management to rapidly deploy and coordinate relevant offers across multiple channels. The paper also looks at ways to push performance higher through rapid-cycles of learning that enable predictive analytics and optimization to adjust to changing customer behavior and market trends.

## » INSIGHTS

### » These retailers know the “secret” to successful integrated multichannel marketing

Well before the recession, technological and social developments were reducing the effectiveness of broadcast ads, Sunday circulars and other mass-marketing approaches. The tough business environment has accelerated the movement of retailers away from these traditional methods, forcing them to innovate more targeted ways of communicating with customers and spurring interest in emerging new direct marketing channels.

The leading US retailers discussed anonymously in this paper are not occupied solely with channel development however—*their primary focus is on developing cross-channel offers that are relevant to each customer.* As one marketing VP for a big-box retailer explained,

***“We expect to see significant revenue driven by stronger customer relationships and relevant messaging. Our goals include having our communications welcomed by our customers and that each contact makes them feel better about our brand. We believe that relevant messaging is the key to achieving these goals, and that the FICO solution is a key enabler.”***

#### What is a relevant offer?

The meanings of “relevance,” “personalized” and “customized” have evolved over the past decade as marketers have pursued the grail of 1-to-1 offers and the technology has developed to make this ideal finally achievable. Here’s how FICO defines these terms today:

A **relevant offer** is one that pertains to me, an individual consumer. It reflects my needs, likes, preferences and past behavior. It’s also an offer that appears to me at a time when I am inclined to pay attention to and welcome it. For example, as I begin to think about buying a notebook computer sometime in the next few months, I receive an attractive offer for one.

Relevant offers are **personalized** and **customized**, but in a more profound way than ever before. I receive my notebook offer via email, while my friend receives his via a mobile device. My offer is a suitable for a CPA, while his offer is nirvana for a gamer. These differences aren’t added onto or subtracted from the same base offer, however. Each offer is generated independently, for me, for my friend, and for millions of other customers, based on our historical transactional behavior patterns and other data about us that the retailer has access to or has collected.

The ability to generate relevant offers at scale—to millions of customers and encompassing thousands of products in stores nationwide as well as online—can boost marketing ROI in multiple ways. Offers can be optimized to enhance customer loyalty, raise response rates, improve margins, enlarge share of wallet or increase trips to the store. Moreover, by presenting customers with offers that are genuinely relevant, retailers preserve and nurture their most precious assets in the era of integrated multichannel marketing: customer loyalty, attention and permission for the next contact.

Retailers that invest in direct channels without also investing in the analytics necessary to achieve relevance are likely to be disappointed with the results.

Consider what happens when a consumer receives offers of absolutely no interest from a particular retailer. That consumer is likely to ignore future offers or even opt out of future communications. The result is that not only the current offer fails to elicit a response, but also that the consumer’s withdrawal of attention and permission prevents any future possibility of success.

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### Case study #1: Increasing sales and loyalty

A large retailer, with a tiered loyalty program, launched a campaign with the goal of increasing both sales and membership in its top tier.

**Highlights**

- Individually targeted and timed e-coupons automatically loaded onto loyalty cards for use during in-store and online shopping.
- Customers also able to browse their offers on the web and at in-store kiosks.

**Results**

- Individualized offers were redeemed at rates ranging from 10 to 20 times that of control group receiving generalized offers.
- Double-digit increase in upgrades to top-tier of retailer's loyalty program.

### Case study #2: Lifting incremental sales without price incentives

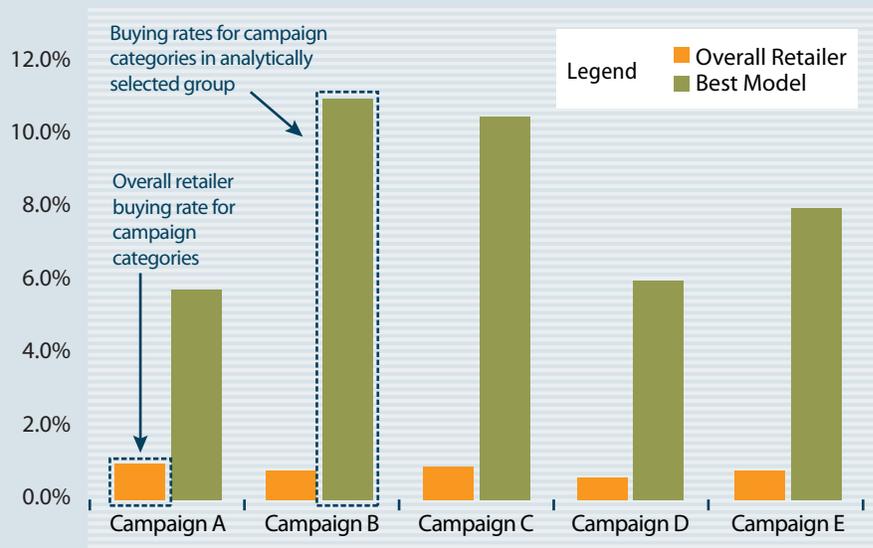
A leading retailer wanted to improve sales of big-ticket items without price incentives.

**Highlights**

- Predictive analytics and optimization used to select individuals with propensities to purchase specific big-ticket items within campaign timeframe.
- Promotions delivered via email.
- Five campaigns, each testing three different optimized models, were launched in rapid sequence, with results analyzed for learning and refinement between iterations.
- Constraints included making offers only to individuals who had not previously purchased in the product category.

**Results**

- Up to 9 times ROI on some of the campaign promotions.
- Campaign-over-campaign results doubled.



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» How do you make relevant offers?

What are the key enablers for this kind of 1-to-1 marketing? Here is an overview of essential capabilities that were little more than wishful thinking a decade or so ago, when the ideal of personalization first emerged as a hot topic for retailers. Today, these capabilities are real and proven, and implementation best practices are well-established. For one big-box retailer, it took just four months from signing the contract with FICO to implementation of the first campaign.

**Generate individually targeted and timed offers at scale**

Advanced predictive models, based on these deep insights into consumer purchasing patterns, are enabling top retailers to perform segmentation with far more granularity than has ever been practical before. The retailers discussed in this paper are effectively creating segments of one: Karen Jones is most likely to purchase these products within these time windows. Instead of blanketing their customer base with the same set of promotional discounts, they're sending Karen relevant offers at the right time—i.e., for product(s) Karen is probably already thinking about buying.

**Case study #3: Improving ROI from trade marketing spend**

Working with this retailer, as well as with its top-ten consumer packaged goods (CPG) suppliers, FICO identified customers with high, medium and low propensities to buy specific products, then helped them design appropriate campaigns for these segments.

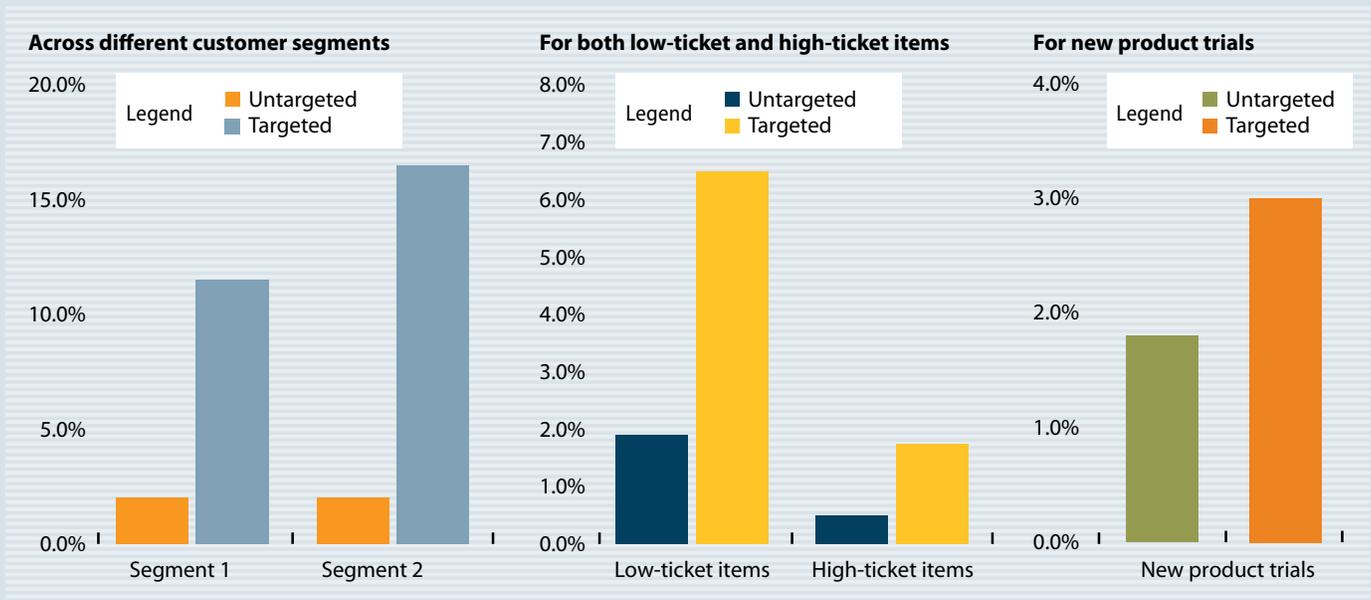
**Highlights**

- Campaign objectives for high-propensity customers: increase percentage purchasing the targeted products; upsell higher value items; shorten buying cycle; drive cross-sales.

- Campaign objective for medium-propensity customers: establish repeat purchases.
- Campaign objective for low-propensity customers: get them to try products they have never purchased before.

**Results**

- Individually targeted offers delivered results that were 2-4 times higher across nearly every campaign.



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With this ability to determine individual purchase propensities and timeframes, retailers can provide suppliers with greater visibility into customer demand, and engage them in discussions that go beyond what the funding level is going to be for promotions in the next period. Together retailers and suppliers can conceive highly targeted campaigns that make more efficient use of trade budgets or market development funds by directing these investments into communications with customers most likely to buy.

In addition, because precision analytics identify more opportunities to reach consumers when they are likely to be receptive, success depends less on a handful of holidays and events. Trade budgets can be better allocated to deliver more consistent results throughout the year. It's an approach that enables brands to develop more sustained relationships with consumers and also works well for retailers that compete by offering low prices or good value every day.

### Optimize offers to balance customer needs with multiple business objectives and constraints

While determining the right offers and timeframes for individual customers requires analytic precision, identifying **offers that best balance the needs of customer, retailer and supplier is exponentially more complex**. Advanced optimization techniques, nevertheless, rapidly pinpoint optimal decisions for millions of customers.

Decision modeling is the foundation for this type of optimization. Models mathematically map the intricate relationships between numerous inputs (including customer propensity scores), multiple business objectives and constraints, a range of possible retailer actions and customer reactions to these.

Customer data is run through the decision model, with the optimization algorithm(s) applied to pinpoint—for a given objective and with specified constraints—the best offer recommendations. For example, the objective of a campaign might be to achieve the highest incremental sales that have a positive margin. Additional constraints might be that the campaign will target a maximum of 2 million customers and stay within the combined budgets of Supplier A, which has a promotional budget of \$5,000, and Supplier B, which has a budget of \$10,000. Only customers who have not purchased the item in the past 120 days will be targeted. Customers whose local store does not carry the promotional items must be excluded.

Constraints can also be used to shape individual customer offers in ways that serve very specific campaign aims. For example:

- Encourage consumer trials in new product categories (exclude customers who have purchased in this category during the past 180 days).
- Encourage increased purchase/usage frequency (include consumers who purchase this product less than four times a year).
- Encourage customer loyalty while increasing return on finite resources (make highest value promotions only to best customers).

The result of this process is the identification of the best customers for this campaign and, for each customer selected, the generation of an optimal offer—optimal because it best balances all of these complex factors. FICO works with retailers to explore the optimized decision space by adjusting objectives and/or constraints to observe how customer recommendations and overall results change. This process reveals the key drivers for top business goals and helps retailers select the best optimal operating point for their business.

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### Case study #4: Increasing margins

A large home improvement retailer wanted to test the impact of customized web landing pages on purchase rates. The hypothesis was that sending customers emails with links to relevant content would increase purchases over the retailer’s current practice of sending everybody seasonally appropriate promotions.

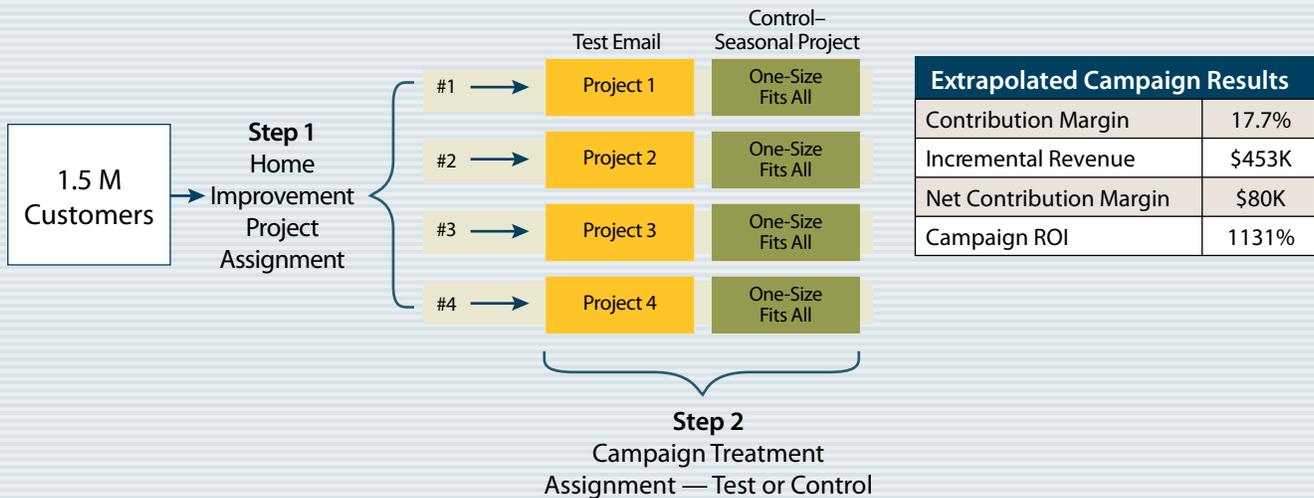
#### Highlights

- Predictive analytics determined customer propensities to purchase products in four categories: paint, kitchen, flooring and garage. FICO also used analytics to identify products these customers would be likely to purchase together or in a sequence.
- Analytic insights guided creation of four web landing pages, each featuring a home improvement project.
- Optimization used to assign individual customers to one of these pages.

- Several different optimization objectives tested, including: maximize sales of products in the project category and maximize average expected margin.
- Volume constraints for each product category incorporated into the optimizations to ensure number of recommendations in each category were balanced against sales objectives and product volume capacities.

#### Results

- Initial test, involving total of 1.5M customers: Targeted promotions produced \$453K in incremental revenue compared with control group of customers receiving generalized seasonal promotion.
- Projected \$80K bottom-line contribution from rolling out campaign to full customer population *after both marketing costs and corporate overhead subtracted.*



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### Deploy individualized offers via coordinated multichannel actions

Once the retailer has chosen an optimal operating point, individualized customer recommendations may be deployed simultaneously across multiple channels for integrated marketing campaigns. In practice, leading retailers are tending to start 1-to-1 marketing in a single or limited number of channels, prove the effectiveness of the approach, then expand into other channels. A big-box retailer launched its program through email, then added an online application. Another retailer loaded individualized offers onto customer loyalty cards, and now makes these offers available on the web and through in-store kiosks.

Whatever the number of channels and sequence of implementation, integration across channels is essential. Customers should receive the same optimal offer whether they come into the store, shop online, contact the call center or make a mobile purchase. Coordination ensures that the consumer is receiving multiple impressions of one message instead of different messages that could create clutter and confusion.

### Drive performance higher by learning, systematically and scientifically, from one campaign to the next

From a competitive point of view, one of the most powerful aspects of 1-to-1 marketing is that the accuracy of offer recommendations continually improves as customer response and campaign result data is fed back to the analytics. Moreover, this tight feedback cycle enables predictive analytics and optimizations to reflect how customer behavior is changing in response to economic conditions, market trends and competitor actions.

The retailers discussed in this paper are generally collecting customer-level response data daily from transactions, and generating new propensity scores for their customers on a regular basis, ranging from days to weeks. Predictive models are being updated every 90 days to factor in changes in aggregate consumer behavior.

In addition, FICO is helping clients establish systematic test-and-learn processes that drive continual improvement. Such testing, for example, has shown where propensity score cutoff points need to be for cost-effective campaigns.

#### FICO Retail Solutions

**FICO® Retail Action Manager** is a marketing decision application that uses predictive analytics combined with integrated optimization to make high volumes of individual customer recommendations. Analyzing vast quantities of customer behavioral data, Retail Action Manager predicts not only which products customers are likely to buy, but also when they are likely to buy them. It combines these customer-level predictions with retailer business objectives and constraints to pinpoint the optimal decisions for achieving an overall goal, such as maximizing redemption, revenue or margin. The analytic processes can encompass millions of customers and hundreds of products, stores and e-channels. Flexible outputs (recommended upsell and cross-sell offers, store planning scenarios, merchandising strategies, etc.) can be delivered through multiple channels via FICO® Precision Marketing Manager, as well as third-party applications that incorporate business rules.

**FICO® Precision Marketing Manager** is a next-generation precision marketing platform that drives revenues through precise customer targeting, cross-channel campaign integration and dynamic delivery of personalized, relevant offers. Interactive channel management, powered by the industry-leading FICO™ Blaze Advisor® business rules management system, supports personalized consumer engagement on the web or mobile devices, including gathering data, responding to customer choices and pushing promotions in real time. Retailers can easily add promotional incentives, such as sweepstakes and e-coupons, from third-party providers. Precision Marketing Manager also offers dynamically configurable registration and login services and loyalty tracking solutions that enable consumers to collect and spend points for awards based on their online activities.

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» **The new “standard” for retail competitors**

As the economy continues to recover, both consumers and retailers will relax some of the cost-cutting measures they adopted in response to financial stress. It often happens, however, that negative pressures on business performance force innovations that become standard operating procedure going forward.

The innovations discussed in this paper mean that you can pinpoint the 50 customers with a propensity to purchase a particular product over the next 30 days, and deliver a precisely crafted and timed offer directly to them. You can use advanced analytics to make complex trade-offs across customers, suppliers, products, stores and channels fast and efficiently—with the assurance that you are mathematically identifying the best choices.

The retailers we’ve discussed are leading the way onto new competitive ground. Are you ready to join them? Find out by downloading a free copy of a new Aberdeen Group Report, ***Offer Optimization in Retail: Understand the Mindshare on What Consumers Really Want.***

The Insights white paper series provides briefings on research findings and product development directions from FICO. To subscribe, go to [www.fico.com/insights](http://www.fico.com/insights).

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