

1:1 Retailing

Bringing the Personalized Experience to Life In-Store

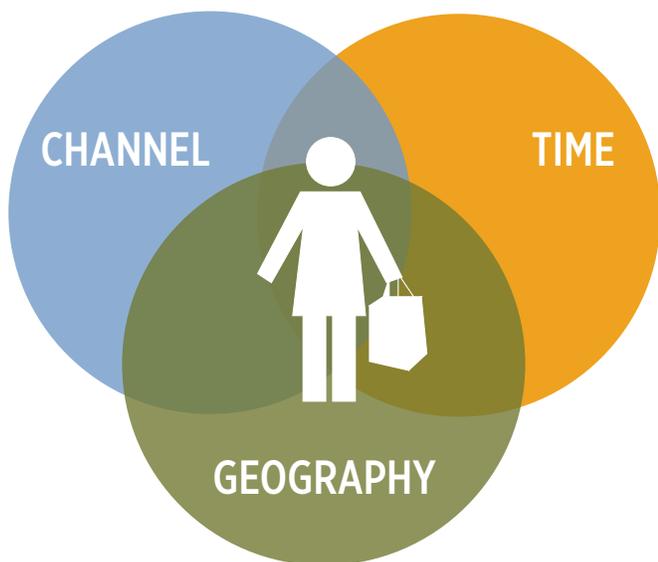


One-to-one retailing means that no matter where, when or how a customer interacts with a retailer, the retailer will respond in a manner personalized to that individual customer.

If technology has given us anything, it's a world increasingly focused on the power of one. From news to music to advertisements to credit card rewards, companies of all kinds are using an unprecedented amount of consumer data to craft personalized recommendations and experiences.

So it's no surprise that retailers are increasingly seeking to provide customers with this personalized level of interaction they've come to expect in other areas of their lives, developing pervasive, personalized relationships and experiences which extend across all of a customer's visits, channels and locations—one-to-one retailing.

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Until now, these personalized experiences have predominantly existed online, where technology has already enabled a shift in retail marketing from segments to individuals. And retailers' websites are increasingly able to recognize return shoppers, connect with customers' social networks, use predictive analytics to recommend products, and offer personalized pricing or promotions.

These one-to-one marketing efforts have paid off online. One academic study across industries found that one-to-one marketing increased click-throughs by 62%. In the retail realm, Amazon gets 59% of its sales from repeat customers, roughly double its brick-and-mortar competitors, thanks to its use of advanced analytics to cultivate a personalized experience on its site. It should also come as no surprise that Amazon's conversion rate is nearly double many of its competitors', according to comScore.

In the same push for personalization, retailers and brands have made great strides in their ability to offer personalized products—from Converse to M&Ms.

But few physical store experiences provide even the most basic elements of this personalization. Although providing a seamless, individualized experience across channels is one of the industry's biggest opportunities, that promise often stops at the store's entrance.

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Until Now

Similar to how the advent of cookies and JavaScript in the early 2000s fueled an explosion of innovation in personalized digital marketing, new technology now allows retailers to bring economically viable one-to-one retailing experiences to the brick-and-mortar world and will bring a similar burst of innovation to the in-store customer experience.

One-to-one retailing means that no matter where, when or how a customer interacts with a retailer, the retailer will respond in a manner personalized to that individual customer. What will this look like from the customer's perspective?

1. Stores will know who they are—their preferences and purchase history—while they are physically in the store.
2. Stores will know what product they are handling while in the store.
3. Stores will provide the same rich brand storytelling and social media integration now found online.
4. Stores will let customers interact directly with in-store technology to receive personalized recommendations based on their historic preferences, the product they are holding, store location and inventory.

Providing these types of personalized interactions will create a tremendous competitive advantage. We all know that the U.S. is currently over-stored and competition between retailers is only getting fiercer for a limited consumer dollar. Winning retailers will be those who make what is within

their existing doors more productive. In his book, *The New Rules of Retail*, my colleague Michael Dart makes an overwhelming case for increasing productivity in part by creating experiences that foster connections with consumers on a deeper, neurological level. Creating these personalized experiences and relationships goes hand in hand with providing exclusive merchandise and promotions, which will help stave off showrooming in general merchandise categories and improve customer loyalty for differentiated retailers.

Many retailers are rushing to implement technology that only their sales associates can use, such as mobile POS, working under the assumption that freeing up associates will allow them to cross-sell and better assist customers. But mobile POS technology has limited ability to influence conversion rate and basket size. Instead, Kurt Salmon recommends retailers prioritize customer interaction with technology to enable one-to-one retailing engagement with the customer.

A recent Kurt Salmon study of several specialty apparel retailers found that engaging with customers on even the most basic level made those customers nine times more likely to try something on. And when a customer tried something on, she bought it 52% of the time. Imagine what a truly integrated, personalized, technology-enabled experience could do—and one that doesn't rely on exploding staff-

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ing ratios. Focusing on improving engagement and creating a personalized experience using customer-facing technology should be priority number one for many retailers.

Why Now?

To date, one-to-one retailing has required one-to-one associate-to-customer ratios to facilitate close interaction with customers, understand their individual needs, and help them navigate a retailer's brands and offerings. This limited the practicality of the one-to-one approach to big-ticket items like cars, high-end jewelry and couture fashion.

But as suddenly as JavaScript and cookies transformed online retailing by allowing one-to-one personalized experiences, several new technologies are now enabling retailers to rapidly transform the physical retail experience with investment economics that can make sense across even the largest store networks.

This new technology gives retailers three new key capabilities necessary to bring one-to-one retailing to life in the physical retail environment:

1. Real-time knowledge of the customer and where they are shopping in the store
2. Knowledge of which products they are handling in the store
3. Ability to communicate personalized recommendations, services and offers tailored to the customer's location and history while they are in the store

1. Who is shopping and where?

Geofencing, or creating a virtual "fence" around a set physical space to monitor movement near and within it, helps retailers track customers' movements around and within the store's four walls.

Combine that power with a loyalty app or smart card and you've got the ingredients for a truly personalized interaction with your customer. Not only can retailers push offers to customers when they're near or entering the store, but this idea can extend to any given display or fitting room. By knowing who is in their store, retailers can use individual purchase history or customer profiles to dynamically change recommendations, visual merchandising presentations or promotions.

2. Which products, lifestyles and services are they exploring?

In the store, RFID allows retailers to see exactly which products each customer is handling or trying on at a given moment. Beyond that, RFID allows a retailer to

But beyond the traditional periodic store redesign, analytics will move to driving real-time decisions.

know exactly what items, sizes and styles they have in stock in the store or backroom. Combine this with the geofenced loyalty app or smart card mentioned previously and retailers have tools analogous to the power JavaScript and cookies brought to the digital retail world—the power to make tremendous shopping recommendations and offers. And with each tag costing less than 10 cents, RFID has become an affordable part of the solution supporting one-to-one retailing. It's no wonder that leading retailers from Macy's to Saks Fifth Avenue are rushing to adopt RFID.

3. How can we communicate our recommendations and offers?

The final requirement to enabling a physical retail environment as richly personalized as its online counterpart is deploying displays capable of dynamic content and interaction. Only a year or two ago, installing and communicating interactively with immersive video displays in a retail environment was prohibitively expensive. And without enabling the “who and what” elements discussed above, even if retailers installed digitized signage, it fell short of the personalized customer engagement of 1:1 retailing.

But now, the cost of display technology is dropping rapidly, enabled by an explosion of innovation in both display (like touch foils and tablets) and reliable low-power communication (like Bluetooth 4.0 and RFID). Retailers can now create interactive displays quickly

and cheaply. More importantly, personalized store experiences enable significant sales and margin improvements, creating attractive returns on the investments required to deliver them.

Behind the Scenes, Bringing Analytics to In-Store Retailing

For years, retailers have been able to analyze how individual customers moved throughout their websites and apply that knowledge to help develop better experiences and boost conversion. Now, technology is enabling this type of analysis in stores via video, mobile and product/RFID analytics. Tracking individual customers' movements through the store can help design better store layouts and more interactive experiences by unlocking the data that shows whether certain areas of the store are too out of the way, are too crowded or don't have enough sales associates, among other issues. But beyond the traditional periodic store redesign, analytics will move to driving real-time decisions.

Three Big Benefits ...

Creating one-to-one retailing experiences will improve customer engagement. This increases traffic, conversion rate and basket size far more than implementing employee-facing technology alone.

One-to-one retailing drives increased basket sizes in two different ways: increasing the frequency of upselling offered and increasing the quality of the offers themselves.

Traffic

Successful one-to-one retailers will use integrated channel communications to bring customers into stores with targeted events and promotions. The immersive experience will then begin right at the store threshold, drawing in higher traffic from customers looking for a new experience as well as increased loyalty revisit rates.

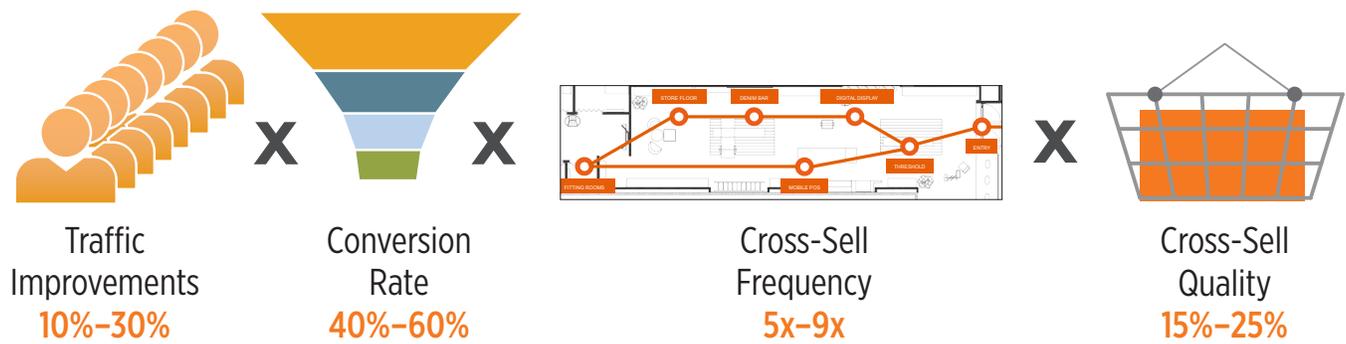
Conversion Rate

The more time a customer spends in a store engaging with the retailer, the more likely they are to make a purchase. For example, Kurt Salmon studied the behavior of several specialty retailers’ customers and found that 45% of customers walked into the store and left within two minutes without ever engaging with the products or sales associates. But when customers were engaged by an associate or started interacting with the products, they were nine times as likely to try something on. And once they tried on a product, they had a 52% chance of buying it. So we determined that by engaging with just 30% more customers, the retailers could increase their conversion rates by 50%.

Basket Size

One-to-one retailing drives increased basket sizes in two different ways: increasing the frequency of upselling offered and increasing the quality of the offers themselves. Today’s physical retailing experience does a woeful job of educating the customer about companion products or upselling. While digital retailers can guarantee 100% of shoppers see alternatives and companion products to “complete the look,” only 8% to 15% of shoppers in the stores of the specialty retailers mentioned above were upsold—dramatically lower than what the management of those stores expected. Yet when the retailers could find the staffing and time to do it, 75% of customers who were offered additional items converted, and their average basket size increased by 25%. Imagine the benefit of upselling to more than that 8% to 15%. Then imagine tailoring those offers dynamically based on what that customer has previously purchased from you combined with what they have been handling in your store. Providing seamless, endless-aisle recommendations to customers on the floor or in the fitting room should be part of every retailer’s in-store strategy.

1:1 RETAILING BENEFITS



Source: Kurt Salmon study of consumer behavior, n=147

*Retailers who act now to **develop compelling, personalized in-store experiences will capture both the customer's imagination and wallet.***

... But Hurdles Remain

Successfully implementing one-to-one retailing across channels will bring about significant changes, and not just within the store's four walls. In fact, the greatest hurdles to creating a truly personalized one-to-one retailing experience lie outside store operations themselves.

» Organizational structure.

Most retailers don't have an organizational structure that lends itself to supporting one-to-one retailing across channels. For example, recent Kurt Salmon interviews with 25 senior executives revealed that 56% of retailers don't have a common definition of customer service across channels, and 68% don't even have a single owner of that customer experience across channels and functions. This approach encourages each channel to grow separately, making it difficult to cultivate a common experience and nearly impossible to coordinate merchandising, marketing, pricing and promotions across channels, time and geography.

Instead, take a page from retailers like The Gap, which recently underwent a reorganization to make itself channel agnostic. The change will put the North American, international, online, outlet and franchise divisions under a single global head for each of the company's brands.

» Merchandising and planning.

Retailers will need to fundamentally change the way they think about developing a localized assortment, forecasting demand and visually merchandising stores. Creating a truly personalized experience will also require revisiting the existing pricing strategy and planning for personalized promotions, and in some categories, dynamic pricing.

» Information technology.

Significant technological updates will be required to support all these in-store improvements, both to the technology that directly faces the customer and the underlying systems to make everything work. These tools, such as product information management, distributed order management and customer relationship management systems, help handle an increasingly unwieldy amount of customer data and use it to drive better decisions.

The technology is here, and so is the consumer demand. Retailers who act now to develop compelling, personalized in-store experiences will capture both the customer's imagination and wallet, while retailers who wait will soon be struggling to catch up and remain relevant. Fifty-two percent of retail executives surveyed by Kurt Salmon said one of their biggest capital expenditures for 2013 is remodeling existing stores with an eye toward improving the customer experience. Retailers who are not focusing on creating a personalized, cross-channel experience will be passed by those who are. ❖

AUTHOR

Al Sambar has nearly 20 years of experience advising the world's leading retailers and consumer products companies. Kurt Salmon is actively working with retailers and brands to pilot these new physical retail experiences. If you are interested in learning about bringing these experiences to life in your stores, please email him at al.sambar@kurtsalmon.com.

Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.

A handwritten signature in black ink that reads "Kurt Salmon". The signature is written in a cursive, flowing style.

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