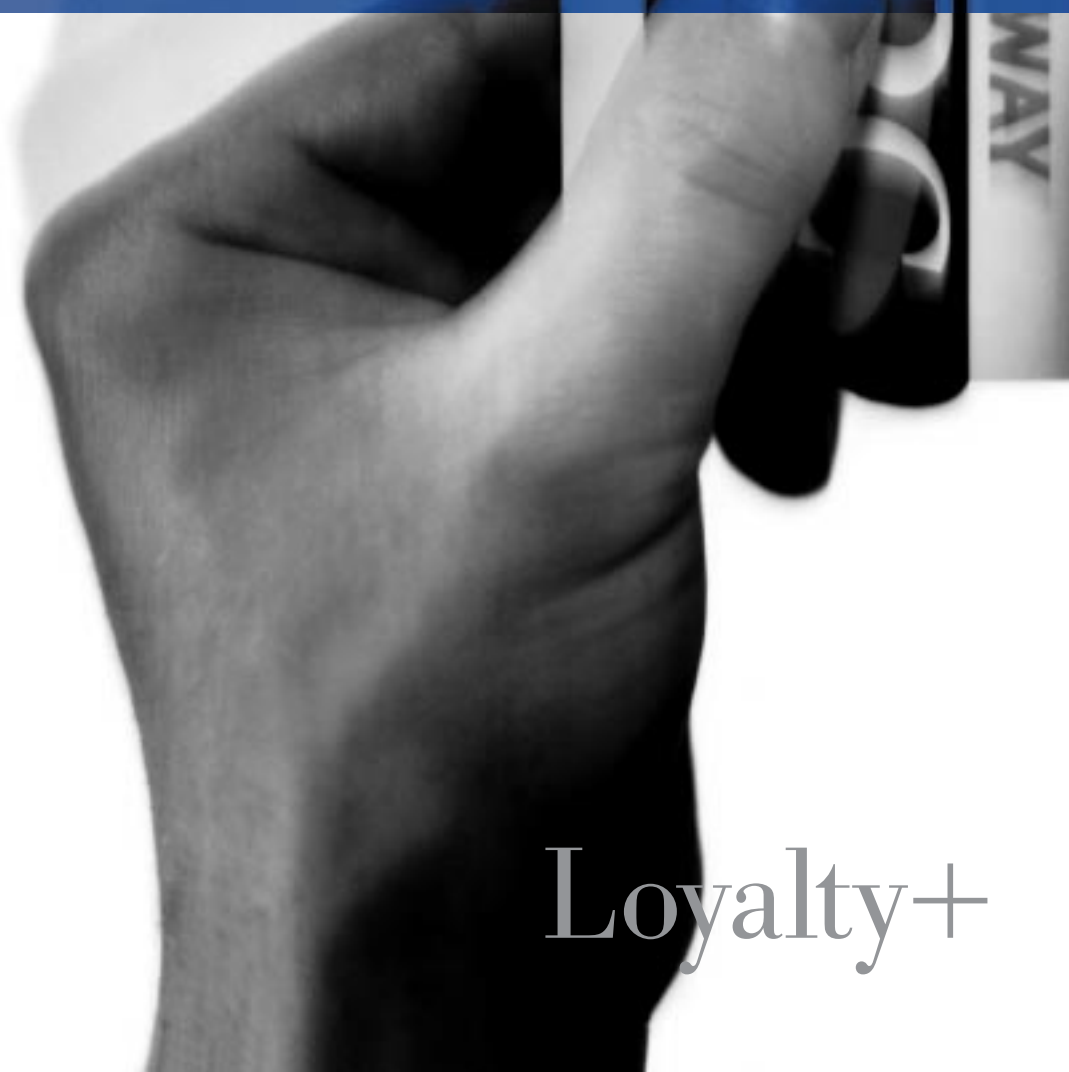
IBM Global Retail Industry

e-business solutions for Retail Customer Relationship Management

CRM solutions from IBM



e-business

Loyalty+

In the ultra-competitive retail industry, customer satisfaction rarely guarantees loyalty. New sales formats, increased diversity of products, the availability of new distribution channels, industry alliances and many other factors are forcing retailers across all segments to find new ways to differentiate themselves and strengthen marketshare.

As a result, many retailers are trying to identify, develop and retain their most profitable customers, using the principles of e-business – in particular customer relationship management (CRM). Retail CRM Solution is simply a disciplined method for using customer information to:

- Refine insights into customer wants and needs.
- Develop targeted value propositions based on the implications of these wants and needs.
- Focus marketing and other company resources on those customers that provide the most value to the retail enterprise.

The IBM approach to e-business and Retail CRM builds on these three basic tenets with a total solution offering designed for multichannel, customer-focused retailers.

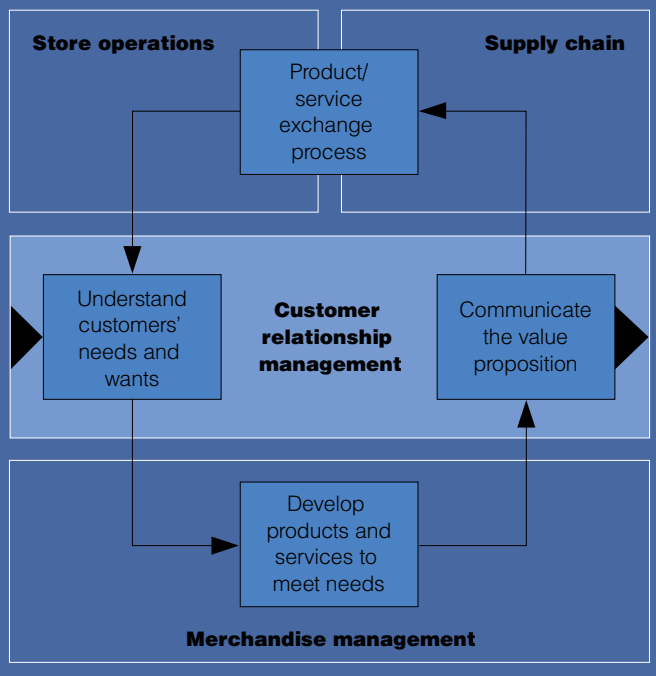


Figure 1 – CRM in the Retail Industry

Retail CRM: A proven strategy for improving loyalty and profits

The strategic objective of e-business as a whole – and Retail CRM specifically – is to build relationships with profitable, desirable, loyal customers. Ideally, retailers develop such close relationships with their customers that the retailers can anticipate customer needs, create personalized communication, and deliver the right products at the right time for the right price: all of which builds consumer loyalty (see Figure 1).

Retail CRM includes a variety of tactics, from aligning distribution channels with changing consumer lifestyles to using customer profiles to drive marketing, merchandising and service decisions. Overall, however, Retail CRM focuses on three goals, each with its own particular strategies.

1. Customer acquisition.

- Locate and attract the most profitable customers.
- Use customer information to design and develop products and services that appeal to prospective customers.
- Offer personalized or mass-customized service.

2. Customer development.

- Deliver exactly what customers want, where and when they want it, to maximize profits and revenue.
- Understand customer value and lifecycle to prioritize marketing and service resources.
- Use multiple channels for marketing, sales and service transactions in order to improve service and reduce cost.
- Increase the "share of customer spend" through greater penetration of retail products to the individual consumer or household.

3. Customer retention.

- Build and sustain customer loyalty.
- Use customer information to target promotional offers and cross-selling activities.
- Recognize customers as individuals at all customer-contact points.
- Extend the range of products and services in which each customer participates, in order to build stronger ties between customers and retailers.

Effective customer relationship management produces dramatic results

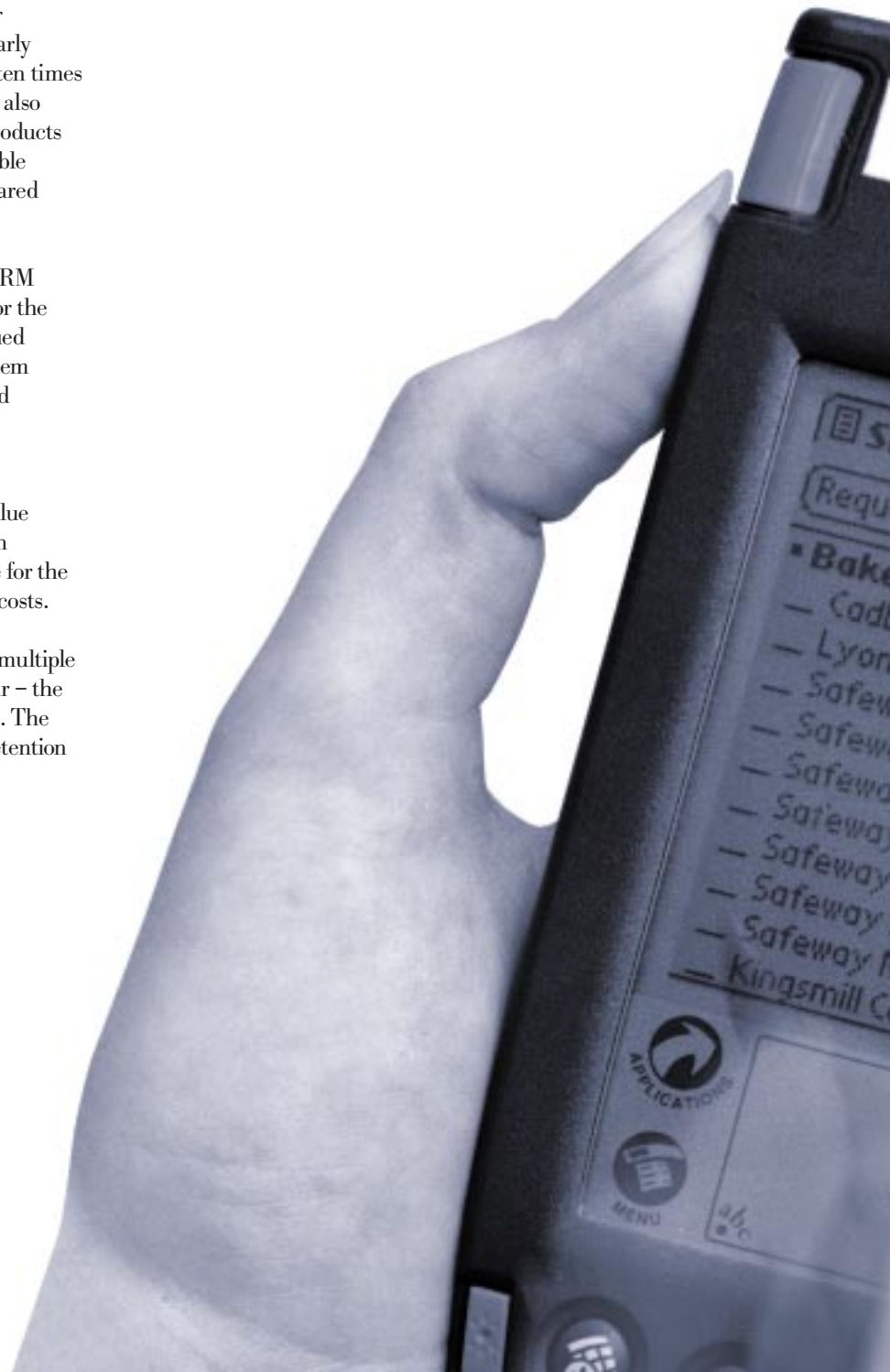
And over time, Retail CRM initiatives actually reduce costs and increase profits. Here's why: loyal customers are typically less sensitive to price, so the more loyal they are, the more they shop at your store, and the more profits your stores generate.

By the same token, marketing to loyal customers is far less expensive than acquiring new ones. Research clearly demonstrates that developing new customers is up to ten times more costly than retaining existing ones. Retail CRM also reduces the cost of distribution, because delivering products through the optimal channel mix for the most profitable customers will maximize the total return when compared with traditional mass-market distribution.

It is essential to understand that a successful Retail CRM program in no way compromises the level of service for the majority of retail customers. Rather, it recognizes valued customers for their exceptional loyalty, and rewards them with additional offers, services, bonuses, discounts and other benefits.

Everyday customers benefit from Retail CRM too. Personalization, for example, is not limited to high-value segments. With Internet sales and mass-customization techniques, retailers can provide personalized service for the vast majority of customers – without incurring heavy costs.

Simulation exercises performed by Bain & Co. across multiple industries have shown that Retail CRM will be – by far – the greatest source of competitive advantage in the future. The simulations showed that a 5% increase in customer retention results in profit increases of up to 125%.



Retail CRM case study: Safeway

Safeway – one of the UK's "big five" supermarket chains – launched its Easi-Order scheme in February 1999 at its Basingstoke store, located southwest of London. The company equipped 200 of its most loyal customers with PalmPilots, each of which includes a Symbol Technology scanner.

Shoppers can now use the PalmPilot to order specific products or select items from a personalized shopping list, which includes all the items the user has previously purchased with a Safeway loyalty card. The PalmPilot downloads the personalized list automatically when connected to the telephone. Once the shopper makes his or her selections, the PalmPilot transmits the final shopping list to the store, where it is assembled and prepared for customer pickup customers at a prearranged time.

Retail CRM case study: Boots the Chemists
Boots the Chemists, a UK pharmacy, beauty and gift chain, launched its Advantage loyalty program in 1997 with smart cards for shoppers and an attractive menu of rewards. More than 10 million cards were issued in the first year alone, and Boots attributed a 4% sales increase to the program. To get even more business value out of the information the company was collecting, Boots turned to IBM to establish a customer database.

IBM built a customer analysis system and campaign management application for BTC. The solution runs on an IBM RS/6000 SP and the DB2 Universal Database system, on the AIX operating system. After 18 months of operation, more than 1.2 terabytes of customer and transaction data has been accumulated.

"We were always confident that the loyalty data would have a real impact on the business," said customer insight strategy manager Helen James. "And that has happened – the information really is changing the way we do things. From our traditional POS data we knew what was being sold, where and when. Now we can determine what different groups of customers are buying and monitor their behavior over time."

IBM e-business solutions for Retail CRM: A multichannel, customer-focused approach to building loyalty

IBM's total e-business solution for Retail CRM combines powerful deep computing with customer loyalty, relationship management, business intelligence and multichannel retailing options such as e-commerce, physical stores, kiosks, call centers and mail. We also provide the skills and methodology to pull it all together. So you can listen to all your customers better and use what they say to make fast, profitable decisions.

IBM created this e-business Retail CRM Solution according to four guiding principles:

1. The solution must allow a single, consolidated view of the customer, with the ability to access and update customer information easily.

2. The single view of the customer must integrate information from every "touch point," including the physical store, catalog, Web site, telephone, fax, e-mail or physical mail, as well as customer- and retailer-initiated interactions.

3. No one IT application, package or suite of applications will meet all the requirements, and today's best-of-breed solutions may be tomorrow's outmoded tools. Solution components will change over time. So, the architecture must not rely on the unique capabilities of a specific application.

4. The business processes and analysis needs related to Retail CRM are just as fluid as the solution components. The architecture must be flexible enough to accommodate retailers' changing needs.

The heart of the solution is a customer data warehouse. It accommodates the full range of customer transactions and interactions from any number of touch points in the multichannel retail world. Yet it is flexible enough to integrate several analysis tools. It can scale to handle the large volumes of data generated by customer interactions at every touch point. And it acts as both a data repository and the mechanism by which a range of tools and applications work together seamlessly.

The IBM solution conducts a continuous and dynamic flow of customer information into the data warehouse, where it is combined with other business intelligence data, then analyzed using a number of tools. The analysis results drive decisions about marketing, merchandising, customer service and store planning, which in turn affect incoming customer data.

Best-of-breed tools are used consistently and wherever possible. For example, the same query tool can be used for customer analysis, precampaign analysis and campaign response analysis. But no matter how powerful the technology or methodology, IBM recognizes that industry-specific content is a must-have. Which is why the solution includes a retail-specific customer data model and analytic reports.

Retailers have already implemented many of these solution components in piecemeal fashion. However, the true benefits of Retail CRM are best realized with an integrated approach.

Developing an e-business solution for Retail CRM in the real world

Although it is clear that Retail CRM offers significant benefits for retailers, developing the actual solutions requires careful planning and consideration. That is why IBM implements the e-business Retail CRM Solution using a proven, four-step e-business roadmap (see Figure 2):

- TRANSFORM core business processes
- BUILD new applications
- RUN a scalable, available, safe environment
- LEVERAGE knowledge and information.

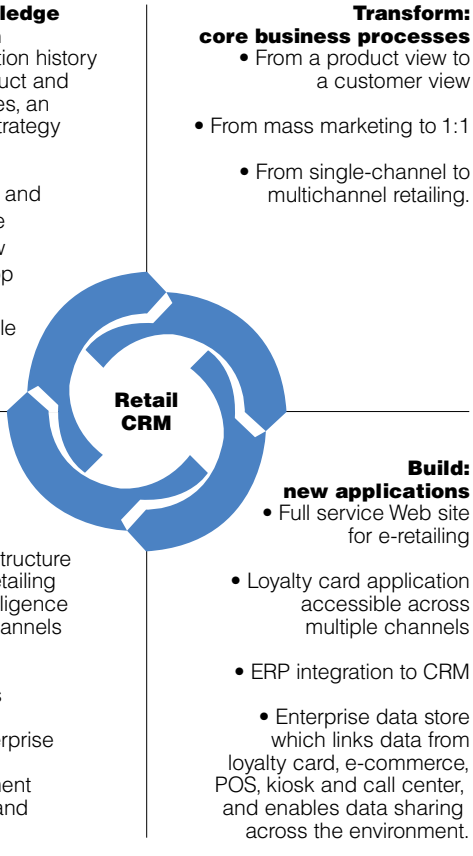


Figure 2 – IBM's e-business Retail CRM Solution: Roadmap

The Retail CRM scenario

A shopper's favorite apparel store is Clothing Central in New York City. She maintains a strong relationship with a specific sales associate at Clothing Central, and spends a considerable amount of money in this particular store, per visit and per year.

While the shopper is traveling on business to Chicago, she realizes she must stay longer than expected. As a result, she needs to expand her wardrobe immediately. She knows there is another Clothing Central in downtown Chicago, so she decides to visit.

When she arrives, Clothing Central is busy and crowded. To preview the latest merchandise without surveying the entire store, she simply swipes her loyalty card at a kiosk. The card associates her unique customer number with her history of shopping with Clothing Central. The kiosk system instantly recognizes her as a top-tier customer and produces a personalized script. The script serves as a shopping aid within the store, and reminds the shopper that she can reach a customer service representative for in-store help by picking up a phone at the kiosk.

After locating the new clothes she needs, the shopper approaches the sales counter. When the sales associate swipes her loyalty card, she is offered a special discount on a limited-edition jewelry line created by Clothing Central to accent the clothing line she regularly purchases. She is also reminded about her hosiery club membership, which entitles her to a free pair for every 10 pairs purchased. And the sales associate introduces her to a new arrival of Italian shoes that complements the outfit she is purchasing today.

When the shopper arrives home in New York City, she receives a call from her regular sales associate at Clothing Central. First, the associate asks about her satisfaction with the shopping experience in Chicago. Then the associate inquires about her new purchases, and informs her of a new line of apparel that will be available for her to preview on her next visit.

This customer scenario illustrates how IBM's solution approach helps ensure:

1. A single, consolidated view of the customer that can be accessed and updated easily.

2. Integration of customer information with new data from every "touch point," including the physical store, catalog, Web site, telephone, fax, e-mail or physical mail, plus customer- and retailer-initiated interactions.

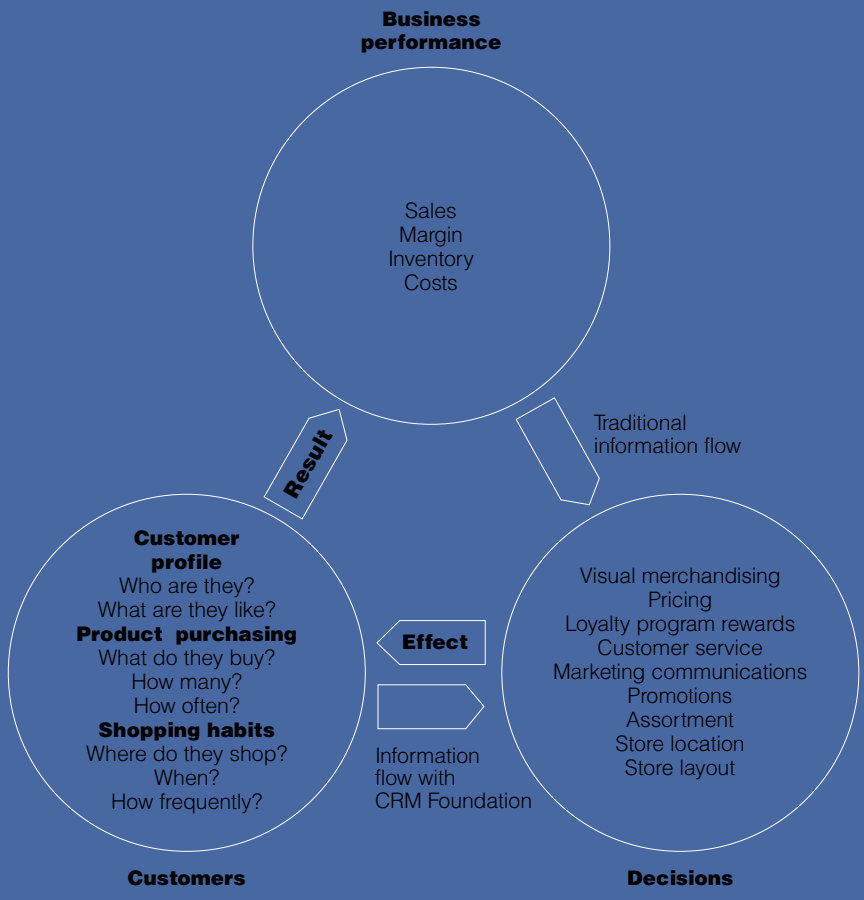


Figure 3 – CRM Foundation: A new dimension for decision-making

TRANSFORM core business processes

For many retailers, this is the most challenging phase. It requires retailers to rethink the business processes they have depended on for decades to grow sales and increase profitability. However, when you consider how drastically consumer attitudes are changing, this step is absolutely critical. The transformation involves three business processes:

- From a product view to a customer view.
- From mass marketing to a 1:1 approach.
- From single-channel to multichannel retailing.

Traditionally, retailers used a product view to understand customer wants and needs. Inventory was closely monitored. Retailers took note of which products sold the most, what price they were sold for, and what time of year they were sold – then reordered and restocked accordingly.

Shifting to a customer view, however, takes customer knowledge to a much deeper level. It means finding out up front what customers want most, how they want it, when and where they want to buy it and how they want to pay for it. With this information, retailers can do more than meet basic expectations – they can exceed customers' highest expectations. This drives satisfaction up, builds loyalty and can increase customer spend when customers become aware of attractive products they did not know were available.

One-to-one marketing helps retailers recognize top-tier customers – those who visit most frequently and spend the most money – as individuals. This enables direct, personalized communication, which makes it clear that your retail enterprise is committed to providing the right products and services at the right time, on the customer's terms.

To support the promise of one-to-one delivery, many retailers are moving from a single sales channel to multichannel retailing. In this scenario, the bricks-and-mortar store becomes one of many sales channels. Other channels include the Web, kiosks, catalogs and call centers. One-to-one communications also affects customer service processes. For example, customers that buy in person may want customer service onsite, while those that buy from a catalog want equally satisfying service available to them over the phone, or through a Web site.

Solutions, services and people to help you TRANSFORM

IBM offers several tools to help retailers complete their transformation to Retail CRM. The most important is CRM Foundation, the data warehouse that is the linchpin of the IBM e-business Retail CRM Solution. With CRM Foundation, retailers gain the environment in which they can channel customer data from multiple touch points. And they change the way retail decisions are made (see Figure 3).

CRM Foundation includes a retail-specific customer file that supports customer and behavior analysis; a starter set of metrics and templates, plus reports that help you examine customer dynamics (defection, development and segment migration), campaign and promotion effectiveness, customer behavior, product purchasing quantity and frequency, and customer and purchase profiles.

IBM business consultants know retail – and CRM. They start with the business problems you need to solve, examine your current strategies, and create a solution that aligns with your broader strategic objectives.

BUILD new applications

The second step toward a successful launch of Retail CRM is very straightforward: implement e-business applications that enable you to gather information about customers, combine it with other business intelligence and share it throughout the enterprise. These applications may include:

- Loyalty Card Programs. Customers provide detailed information about themselves in exchange for a unique customer number. This number is recognized throughout the retail enterprise to track the customer's purchases and buying behaviors, as well as reward the customer for store loyalty.

- Campaign Management. To determine which tactics work best with your most loyal customers, retailers need to measure and monitor a long list of daily activities related to marketing campaigns, including: planning, setup and control; definition of objectives; campaign cost and budget analysis; name selection and campaign execution; scheduling; content determination; and vendor/supplier relations.

- Full-service Web site. A dynamic Internet presence allows customers to browse products, make secure purchases and receive services online. Each interaction gives retailers another opportunity to capture customer data.

- ERP Integration. Tying Retail CRM to inventory and other enterprise resource planning systems can help ensure timely delivery of products and shorten response to changing customer needs. It is also a vital component of offering personalized products for consumers.

- Data Store. This enterprisewide information repository allows retailers to integrate data streams from POS, kiosks, call centers, Web sites and loyalty card programs. Integrating information helps establish a single view of the customer. In other words, information about specific customers exists in one location that can be updated and maintained centrally.

Solutions, services and people to help you BUILD
IBM offers a long list of e-business solutions that help retailers capture customer information on an integrated, enterprisewide level:

- Electronic Marketing: This solution helps retailers create a card-based loyalty program that rewards customers for return visits and increased spending – in exchange for valuable personal and financial information. What's more, it allows retailers to control electronic marketing from the POS, including enrollment and identification, electronic coupons, coupon processing and loyalty point totaling. Retailers can also use the Electronic Marketing Enterprise solution to make sure customers receive loyalty rewards no matter which store they visit.

- Campaign Management: IBM offers three options for marketing campaign management. For retailers who want to establish effective management tactics immediately, we can deliver proven software packages from IBM or IBM business partners. For those who need to evaluate their needs on the front end, we can help you conduct a workshop to define and prioritize your overarching requirements. For retailers who want to implement campaign management independently, we provide specifications and designs to help you quickly build your own campaign management tools.

- Net.Commerce: Establish effective, high-end e-commerce activity with this set of software. Net.commerce provides everything you need to conduct business over the Internet in a secure, scalable package. Complete e-commerce capabilities include catalog or storefront creation, payment processing and integration with other business systems.

- Call Center: IBM offers a complete range of call center technologies, computer telephony and voice processing products for managing the customer relationship lifecycle.

- Systems Integration: The benefits of Retail CRM multiply quickly when you integrate systems across your enterprise. Our teams of technicians have the hands-on, practical experience to help you implement solutions and connect them to other business systems on a global scale.

RUN a scalable, available, safe environment
No Retail CRM system, no matter how elaborate, will produce measurable financial impact if it is not built according to a sound information technology infrastructure. To run a scalable, available, safe environment, retailers need to make sure Retail CRM systems meet a number of criteria:

- 7x24 retailing: To satisfy the customer, stores – virtual or otherwise – need to be available whenever customers want. That means having the IT support necessary to run Retail CRM systems 24 hours a day, capturing information on a global scale across multiple channels.

- Information Access: As we will see in the next phase, various decision-makers in the retail enterprise need to analyze the customer data that Retail CRM collects. This requires a business intelligence environment – one that decision-makers can access anytime, from anywhere.

- Security: Customer information must be kept absolutely secure. Customers that can't trust a retailer with their personal information will never become loyal to that retailer. In the same way, retailers must protect what they learn about their customers from the competition. Security of customer data is also a major legal issue in many countries.

Solutions, services and people to help you RUN

Not only can IBM establish a global Retail CRM solution, we supply the reliable software, middleware and hardware retailers you need to offer 7x24 retailing. We provide security applications to safeguard valuable customer data. And we offer expert consultants who can make sure the entire infrastructure is built efficiently from the start and optimized for performance.

- Software: The proven DB2 Universal Database is scalable from NT to mainframe, accessible through the Internet, and supports Retail CRM with text, image, sound, video and more. It provides everything you need to establish a data warehouse quickly and cost-effectively.

- Middleware: MQSeries and MQSeries Integrator give retailers the ability to connect Retail CRM and other business applications across traditionally incompatible environments. Customer information may be exchanged with absolute assurance across more than 25 different operating platforms.

- Hardware: IBM hardware, including the S/390, AS/400, RS/6000 and Netfinity servers, gives retailers affordable options for supporting Retail CRM, UNIX applications and high-volume Web serving. IBM storage systems offer the highest reliability for 24x7 computing, and IBM networking hardware provides the "plumbing" for connecting people and information systems while handling larger and larger traffic streams. On the back end, Tivoli Enterprise helps manage computing resources from a central location.

- Security: Vault Registry is a highly secure, integrated registration and certification solution that allows retailers to establish the level of trust needed to conduct e-business with confidence on the Internet. The eNetwork Firewall controls external access to enterprise resources, selectively restricts access to the enterprise by knowing the source of asset requests, and facilitates secure communication with selected partners by setting up virtual private networks.

LEVERAGE knowledge and information

The fourth step lets retailers take all the information about customers and put it to work. This analysis provides the most measurable impact for retailers. It fuels better marketing, merchandising, customer service and store-planning decisions, and helps retailers deliver the right products at the right time, anywhere in the world.

Analyzing customers' transaction history can help determine their service, channel, contact and product preferences. Discovering customer preferences provides the information necessary to anticipate their needs, develop merchandise and service plans that exceed their expectations, and build loyalty among your most profitable customer segments.

Solutions, services and people to give you LEVERAGE

Once retailers start the flow of customer information into a data warehouse, analysis turns raw data into true customer knowledge, which is fuel for profitable decision-making. The IBM e-business Retail CRM Solution includes a wide range of analysis applications, from basic reporting to sophisticated data mining for segmentation (grouping customers by shared characteristics), scoring (understanding the likelihood of customers performing certain actions) and prediction (forecasting future customer actions):

- Intelligent Miner: Intelligent Miner helps recognize and validate important retail patterns and trends, so you can identify and extract high-value information from vast amounts of data.

- Lotus Notes and Domino: These product families help distribute vital information gleaned from Retail CRM analysis to individuals, small groups or entire project teams around the globe.

- Business Partner Solutions: The IBM Retail CRM architecture incorporates a number of Business Partner solutions for data analysis, statistical packages and mapping tools.

- Business Intelligence Consulting: With business intelligence consultants from IBM, you can be sure you are leveraging the data that Retail CRM systems provide to build the largest possible competitive advantage.

IBM: Dedicated to Retail

The IBM e-business Retail CRM Solution extends beyond the range of basic customer data analysis and campaign management. Customer data analysis is just one information resource that can help drive more profitable decisions in merchandise management, customer service management, supply chain management and channel planning.

IBM's Retail CRM Solution addresses the entire organization's needs, from the boardroom to the IT shop. We have the experience, the global resources and the proven technology to help you succeed.

For executives, IBM's e-business Retail CRM Solution provides:

- A single, enterprisewide view of your most profitable customers, including information drawn from all touch points.

- Proven methods for satisfying targeted customer groups and increasing loyalty among your best customers.

- The ability to understand customer behavior and measure the results of marketing, service and merchandising changes.

- More effective promotions that integrate data from marketing, customer service and merchandising sources.

- Faster response times in a dynamic, demanding market.

- Fast Implementation and a proven approach.

- Longevity: Long after the solution is in place, IBM will be there to provide ongoing support and strategic guidance.

For the IT function of your retail organization, IBM's e-business Retail CRM Solution provides:

- mplementation that builds on your current investment in architecture and systems infrastructure.

- An approach that is grounded in solid IT processes.

- Scalable and open solutions.

- Phased implementation that minimizes disruption to ongoing operations.

IBM's presence in retail spans nearly 90 years, beginning at the very inception of the corporation in 1911, when retailers used IBM scales, time clocks and punch-card tabulators to manage their business and service customers. Some 60 years later, IBM revolutionized retail forever with the announcement of the first electronic POS terminal in 1973, the same year that IBM introduced the Universal Product Code (UPC). Never again would retail be the same. As a worldwide leader in retail POS – with over 1.4 million POS systems shipped to over 100 countries across the globe – IBM remains at the forefront of providing technology solutions for retailers.

Today, we are also leading the way in retail e-business, with enterprisewide solutions for e-commerce and business intelligence. With a 30,000-patent portfolio that includes more than 60 retail-specific patents, and an extensive worldwide network of retail professionals and Business Partners, IBM is uniquely qualified to provide the solutions retailers demand to navigate today's complex global marketplace.

Find out more today.

For more details on IBM's solutions for CRM in retail, please visit www.ibm.com/solutions/retail. To assess how well your enterprise is positioned to build loyalty with CRM, please participate in our online CRM in retail study at: www.ibm.com/solutions/survey

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