

me?

As a shopper at Petco.com clicks on pages showing cat food, the pet supplies retailer can make an educated guess about which cross-sell offers to feature. But there would be less guesswork if Petco knew that the same customer had visited a Petco store in Syracuse, N.Y., last week and purchased a self-cleaning CatGenie Cat Box for \$300.

For that customer, an accessory like the CatGenie Washable Granules might be just the thing. And, knowing that the same customer has bought dog food at that Syracuse store for years, the site could also feature the spring closeout offer on fleece dog vests.

That's the level of personalization Petco Animal Supplies Inc. hopes to offer on its site this year. It's the product of an initiative that combines in a single customer database not only what a customer has purchased in stores and online, but also information about what products she viewed on the web site and which e-mails she responded to.

Petco already has used the data store to test personalized e-mail campaigns, and the results make the retailer confident that the project will pay off, says John Lazarchic, director of e-commerce. "E-mail campaigns that are personalized have the highest response and conversion rates, with some campaigns up to 100% more effective than generic e-mails," Lazarchic says. "Even if web site personalization is half as successful, it will be well worth the work and expense."

Data silos

Many retailers would like to follow Petco's lead, but find their efforts stymied because customer data is held separately by store, e-commerce and catalog/call center systems. Nonetheless, a growing number of multi-channel retailers are creating cross-channel data repositories, and using them to provide more relevant offers and improved customer service.

Driving these efforts are the growing numbers of multi-channel consumers who want to receive offers that matter to them. 64% of consumers said they went online to do research before making a purchase within the past three months, including 77% of those with incomes of \$75,000 or more, according to a study by e-commerce vendor Sterling Commerce.

And the best thing a merchant can do to ensure repeat patronage is "provide special offers based on my prior purchases," said 59% of respondents last year, in a survey by interactive marketing firm DoubleClick Performics and research and consulting firm The E-Tailing Group.

But technical and internal political issues prevent many retailers from sharing data across channels. While a survey last fall found 75% of retailers collect customer-specific data in stores and 45% online, the most common way that data is stored is separately by channel, an answer given by half of merchants responding, according to Retail Systems Research.

"They're collecting a tremendous amount of information about customers, but haven't figured out how to share that across channels yet," says Brian Kilcourse, managing partner at the research firm.

Why? Lack of both time and senior-level support, suggests a study released in January by the Direct Marketing Association, a trade group. In that survey, the top two challenges to cross-channel integration were "time required to evaluate promising practices" and "difficulty in measuring return on investment," each chosen by 84% of respondents. Close behind, at 83%, was "organizational culture does not support integration."

Some have overcome the obstacles, such as Petco, which expected to complete this spring merging store and web data into a single customer data mart. Lazarchic says there are three main tasks: collect the customer data, gather it all in one database and then figure out how to use it.

For many multi-channel retailers, he says, identifying store shoppers is difficult because many transactions are anonymous. Petco has the advantage of a long-standing



loyalty program called PALS that has signed up millions of customers with offers of discounts and rewards. When a PALS member makes a purchase, that information goes into the file for that customer.

For Petco, the toughest piece was creating the customer data mart, which took an internal team six months to complete, Lazarchic says. Each customer's profile will include, besides online and offline transactions, information drawn from analytics provider Coremetrics Inc. about what the customer searched for and viewed at Petco.com. "Before we only knew what you purchased," Lazarchic says. "With the Coremetrics data we'll know your interest and intent."

The customer profile has 150 or more data points. Petco not only tracks what type of pet a customer owns, but whether he buys premium or organic food, and which purchases he makes in store versus online.

It's all aimed at making offers relevant. "If a customer buys 40-pound bags of dog food in the store because he doesn't want to pay shipping charges, I want to keep marketing messages for store stuff store-specific," Lazarchic says. "But if he's buying three and a half pound bags of cat food online, I'll send him online cat offers. I want to keep it specific by channel and pet type."

More design work

In terms of making use of the integrated customer data, Petco initially will use it to produce customized monthly e-mails. Each e-mail can be personalized with up to 12 items the customer has purchased or shown interest in.

What consumers think of personalization

Which of the following personalization techniques impact your likelihood to buy again from any specific merchant?

Special offers based on prior purchases	59%
Reminder with incentive to return to a site	33%
Recommendations based on prior purchase	29%
Limit content to product categories I have shown interest in	16%
Greet me by name	15%
None of the above	20%

Source: DoubleClick Performics/The E-tailing Group, Q2 2007 data

In the second phase, Petco will customize the web pages visitors see based on their profiles. Customers who have made online purchases in the past or signed in to their PALS

account can be identified by cookies placed on their computers.

"The biggest challenge is the amount of creative you need" for targeted home pages, says Lazarchic. "If I know you're a cat customer, the center theme of the home page and the offer shouldn't be dog-focused, it should be cat-focused."

Lazarchic expects to be sending personalized e-mails using the new data store by May.

20 touchpoints

Just slightly ahead of Petco in implementing a cross-channel customer data strategy is Recreational Equipment Inc., which expected its new customer data warehouse to go live last month. Project planning began three years ago, and implementation took 18 months.

The REI project was more complicated than most because the company had customer data in 20 databases. Not only did REI

store data separately for store, web and catalog, but also for its Adventure tour business, clinics and other activities.

A customer could be in one database with an old address and e-mail address, and another database with newer information. And, like most companies, much of the information was flawed, with names misspelled, invalid addresses or duplicate data, such as a customer identified as Jim in one file and James in another. AMR Research Inc. estimates 30% to 50% of customer data in multiple systems across retail companies is dirty, and REI's data quality was on that order, says Jennifer Cofer, business intelligence analyst for the customer data warehouse project.

"We had to clean all that data, so it's standardized," Cofer says. "It's been a bit of a nightmare. But the end result is nirvana."

Once fully functional, the data store will let REI deliver highly targeted messages, such as to a customer who signs up for an Adventure canoe trip. "We'll know what supplies they'll need and from their transaction history we'll know what they've already purchased from REI," Cofer says. "Then we can target e-mail them to let them know what they might need for the trip, along with promotional coupons."

"Before we could see this information, but we couldn't tie it together," says Ben Viscon, online



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merchandising manager. "We could see what you bought online, but to see what you bought from retail we'd have to look into separate places." REI can track most store purchases to an individual by member number because the 3.4 million active REI co-op members—who receive annual dividends based on their purchases—account for about 85% of transactions.

The data store will maintain the last six years of transaction data, plus the current year's. Members eventually will be able to access their data online, perhaps next year, Cofer says. Four full-time REI staffers will maintain the database, ensuring data quality and helping REI departments use it effectively.

Implementation required 15 to 20 REI employees and outside consultants, including six working full-time. To facilitate easy communication, the company moved the team into a single building and tore down cubicle walls to create an open space.

"We all just sat next to each other, with a big table down the middle. If we needed to have a meeting, we just turned our chairs around and rolled in," Cofer says.

POS problems

While not all projects have the scope of Petco's or REI's, other multi-channel retailers also have integrated customer data into a single repository in the last few years. Several of those projects required upgrading store point-of-sale systems so they can more easily capture data and exchange it with other systems.

Other retailers will likely have to do the same, based on a January survey of 175 retail companies by Aberdeen Group that found 60% have POS systems older than five years, with 35% being older than 10 years.

The obstacles posed by old POS systems can be as simple as requiring a store clerk to switch to a different screen to capture a customer's e-mail address, making it less likely an employee would take the time. That was the case at women's sportswear retailer Title Nine, which deployed a POS system from Micros Retail that provides space for e-mail address and phone number on the main screen. Micros also provides the retailer's centralized data store, implemented last April.

Having a single vendor for POS software and the data warehouse makes data integration simpler, says Dave Finnegan, chief information officer at stuffed animal toy retailer Build-A-Bear Workshop Inc., which uses systems from NSB Group, now part of Epicor Software Corp.

NSB also provides the sales audit feature that checks each transaction

for mis-keyed transaction amounts or invalid SKUs. Build-A-Bear plans to add more data-cleansing technology that, for instance, suggests valid street names as customers type in addresses on the web, minimizing spelling errors.

Build-A-Bear, which operates 370 stores in the U.S. and abroad as well as BuildABear.com, has made headway in identifying customers in store and online with a loyalty program, the Stuff Fur Stuff

Club, that offers rewards based on a combination of online and offline purchases. In less than two years, 5.6 million customers have signed up, Finnegan says.

Just ask

Title Nine store associates ask for customer information at check-out, and explain that being in the retailer's database allows customers to return or exchange items without a receipt, check out previous purchases, and receive advance notice of sales.

In the past year, the retailer has captured customer data on 70% of transactions in stores, and 94% overall, and has e-mail addresses for 75% of customers in its data warehouse, says Renee Thomas-Jacobs, chief financial officer. Still, the retailer is considering introducing a loyalty program that would have "every customer clamoring to identify themselves, regardless of channel," Thomas-Jacobs says.

Having data about many customers' cross-channel behavior opens up the possibility for more effective marketing for the growing chain, which just opened its tenth store and also sells via catalog and the web.

The retailer now knows that 30% of orders from customers who live near stores are placed online, which means the retailer could market to those online customers via e-mail rather than by mailing expensive catalogs, Thomas-Jacobs says. However, she says the retailer would move prudently before taking someone off the mailing list, making sure, for example, that the customer is opening and responding to e-mail offers.

2nd Wind Exercise Equipment Inc., whose 104 stores in the upper Midwest account for most of its sales of treadmills and other exercise equipment, has begun feeding



Adam Lindquist, director of business development, 2nd Wind: "If a customer buys a treadmill to rehab from a heart problem, I know what kind of information would be useful to them."

Going online before offline

(percentage of respondents who went online before making a purchase in the previous three months)

All respondents	64%
College graduates	78%
Consumers 25-34	77%
Household income of \$75,000+	77%

Source: Sterling Commerce

customer data collected in stores into a data warehouse maintained by Juice Media Worldwide's JuiceMetriQs product, which then uses e-mail marketing to drive additional sales, including online.

The first e-mail after a purchase thanks the customer and asks for feedback on the buying experience. If customers respond, "we'll send them a teaser e-mail based on what they bought, saying, 'Here's information we think will be valuable to you, and, by the way, people who bought this typically bought this and this,'" says Adam Lindquist, director of business development at 2nd Wind.

The third e-mail asks the customer why he made the purchase, such as to lose weight or because he is rehabilitating after a heart attack. "If it's because of rehab for a heart problem, I know what kind of information would be valuable to them about that purchase," Lindquist says. He says the personalized e-mail program begun early this year has lifted open rates by 150%. Under consideration are personalized web pages that would use the information 2nd Wind has gathered to provide relevant content to individual customers.

Personalized service

For some retailers, the improved service made possible by a fuller view of the customer is as important as more effective marketing.

Take Intermix Inc., a New York-based fashion boutique with

22 stores, which has been consolidating cross-channel customer data for two years, since shortly after launching its e-commerce site. The retailer includes in each customer's file which designers she likes and what types of garments she buys, then uses that data to craft relevant e-mails. "We have a less than 1% annual opt-out rate, which tells us we are providing information the customer finds relevant," says Don McNichol, director of e-commerce.

And because McNichol's online customer service team has access to a complete history of what a shopper has bought online and in stores, those representatives can work with store employees to provide superior service.

"Customer service reps call store managers all the time. They say, 'Hi Cindy, this is a best customer, hold this for her.' That's the power of multi-channel retailing and having a little more information so you can service them to the next level," McNichol says.

That improved customer experience is also the main benefit of cross-channel data for Genius Jones Inc., which sells designer children's furniture, toys and apparel from two stores in Miami and online. Using technology from CoreSense Inc., the retailer tracks a customer's orders online and in store, including e-mail exchanges with the customer and notes made by company employees about contacts with the shopper.

While only its South Beach store is open on Sunday, an employee

in that store can take a call from a frustrated customer, access her order history and provide accurate information, regardless of where the order was placed, says Daniel Kron, owner of Genius Jones. And if someone who walks into a store can't remember the model of the stroller he bought online, an employee can look up that purchase via the POS system and help him find matching accessories.

What it costs

Of course, all these pieces required to provide an integrated customer view cost money. REI's customer data warehouse project required a multimillion dollar investment. Loyalty software licenses cost at least \$450,000 for a retailer with sales of more than \$250 million and as much as \$1.85 million for retailers with sales of more than \$5 billion, says AMR. And implementation costs at least as much, the research firm says.

Sending segmented e-mails cost \$2 per customer when delivered to at least 5,000 customers, including the cost of creating the message and the e-mail itself, says Lindquist of 2nd Wind. Personalized URLs cost 25 cents apiece just for domain names, and, with the cost of creating content, such a program could run into hundreds of thousands of dollars for larger retailers, he says.

"That's why relevancy is so important, because it's going to add up quickly," Lindquist says.

"Relevance" is such an important word to Lindquist that it's posted on his office wall, and the goals of highly targeted marketing and personalized service are how he and other retailers justify the cost of better understanding their customers. Given all the choices consumers have today, retailers who stick with irrelevant and impersonal do so at their peril. ●

don@verticalwebmedia.com