



Junction MCR
Multi-Channel Retail - Delivered

The Whys and Hows of Personalization and Customization



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Similarly, 39.6 percent of respondents to the same survey use personalization to improve e-mail response rates, and 93.2 percent found personalization to be a successful technique to improve response rates. Also, lifetime value analysis, demographic segmentation, and hotline mailings were rated slightly higher in terms of success in improving response rate.

However, the use of personalization in the retail environment is not so wide spread. Silverpop, a provider of permission-based e-mail marketing solutions, reported in its "2005 Retail E-mail Marketing Study" that 95 percent of merchant e-mails still do not use personalization in their e-mail communications. Retail merchants are still not making full use of e-mail, the simplest technology that allows personalized communications.

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Evolution of Marketing and Background

Before we discuss the benefits of personalization and customization in detail and develop some real-life examples, it is important to define the terms involved. The term personalization has evolved as marketing has moved from mass marketing to interactive marketing or "conversational" marketing. Interactive marketing is a concept that should not be confused with internet marketing. The Internet is a technology that facilitates customer interaction; interactive marketing is the ability to take what the customer says, and remember that information, and then give back that information to the customer in a way that the customer finds meaningful and is then likely to respond (Deighton 1996).

Using the definition of marketing as a conversation as a starting point, personalization is then the ability to use unique customer information to communication with the customer (Zahay and Griffin 2003). Conversational marketing communication requires a customer database and the ability to access this database across communications channels. To monitor the success of these programs, marketers must be able to access customer information across sales channels in order to get a complete view of the customer before executing marketing programs.

Whereas personalization most often occurs in communications channels, customization is a product-based activity. (The terms customization and personalization are often confused in part from the fact that product customization might include putting the individual's name or initials on a product. Although the technology used might be called

personalization, for purposes of clarity in this white paper, we will say communications are personalized and products are customized). Customization also requires a database of customer information usually collected directly from the customer during the sales process. Customization then involves taking that information and creating an entirely new product for the customers.

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Customization vs. Mass Customization

An example of customization is the technology used by Brooks Brothers to take customer measurements and then transform those measurements a few days later into a suit designed for that specific customer. This type of operation is known as true customization. However, customization typically plays out in the marketplace in terms of "mass customization," where several options are offered to the customer and the product is customized within certain technical limitations.

Build-A-Bear Workshops and the mass customized American Girl dolls are examples of mass customization in the retail environment. However, Nike is able to allow customers to create their own shoe on its retail site within certain guidelines based on style and color. The catalog retailer, Land's End, allows customers to enter in their measurements in the My Virtual Model™ program. Although the company does not produce clothes that are customized for the individual shopper; customers can use the online virtual model to see how existing Land's End clothing styles look on their particular body type.

As technology continues to advance, mass customization options will expand. Disney currently has 4,000 images on zazzle.com, an online customization company that allows consumers to place images on a variety of items from t-shirts to greeting cards. Consumers can also upload their own drawings and create customized items as well. Zazzle estimates that there are trillions of customization alternatives available to its customers at any given time. (Magill 2006).

Strategic Antecedents to Personalization and Customization

From a strategic point of view, Rogers and Peppers suggest if all customer needs are the same, and all customers produce the same lifetime value for the company, then there is no economic benefit to be gained from customized products and personalized offers (Deighton 2000). However, if there are differing needs and a chance to create customers that are truly valuable to the company, personalization and customization might be cost-effective strategies. So, the first antecedent before

starting a personalization and customization program is to perform a customer analysis to determine if the customer base can be segmented in such a way as to make personalization and customization viable strategies for the company. Still, true one-to-one personalization may not be cost-effective and many companies still use traditional targeting and segmentation techniques to create personalized communications and offers for groups or segments of customers.

The second antecedent to personalization and customization is adequate customer data. Without data that can be accessed across channels, customers cannot be analyzed and segmented according to RFM (Recency, Frequency, and Monetary Value) or other characteristics for future offers. In a study of 209 firms regarding the data antecedents of personalization and customization, Zahay and Griffin found that customization requires sales-oriented and specific customer information, and personalization requires specific marketing information such as response to particular marketing offers, and the ability to share information throughout the firm (Zahay and Griffin 2003). Both types of data must be collected in a customer database and integrated and analyzed across channels.

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Additional technology is needed to support personalization and customization efforts, particularly providing access to important customer databases. For example, Enterprise software systems such as Microsoft Dynamics™ AX use a common set of data across channels within a Microsoft SQL Server database. This type of technology is used to share data across other systems and replicate it throughout the company when changes are made in one place. This type of data porting system makes it possible to acknowledge customer information regardless of the interaction mechanism.

Finally, all aspects of the organization must be involved in personalization and customization as viable business strategy choices. Top-management must be involved and give support to the organization to accomplish these tasks.

Data Antecedents to Personalization and Customization

Regarding specific data usage that enhances customization and personalization, research indicates that such data must be relevant to the transaction. Jupiter Research reports that “relevant e-mail campaigns increase net profit by an average of 18 times more than broadcast e-mailings.” Academic research supports the idea that relevant personalization increases click-thru rates (CTR).

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The results of a study presented at the Direct Marketing Educator’s Conference in 2004 using a website for movie reviews and testing the results of e-mail offers using various personalized items collected on that site indicated that **click-through rates for highly distinctive information that is also highly relevant to the transaction were almost 20 percent higher than in conditions where the information was of low distinctiveness or of low transaction relevance.** (White, Zahay, Ørnbjørnsen, Shavitt 2004)

The CTR for high information that is of low relevance, is significantly lower than in all the other conditions. The results reveal a penalty for marketers in using information that is overly personal and not relevant. One explanation for these results is that when information is not relevant to the transaction, customers tend to back out, a term known as ‘psychological reactance.’ This reactance tends to be lower when personalized information is relevant to the transaction.

Also, this particular preliminary study supported the idea **that CTR will be higher, in general, for those individuals with relatively deep relationship perceptions** – regardless of how distinctive or relevant the information is to the e-mail offering. Since one of the goals of interactive marketing is to create customer relationships, then marketing programs such as loyalty programs that enhance the customer relationship are likely to also increase the effectiveness of personalized communications when the two programs are used together.

In fact, Joel Book, Director, eMarketing Strategy for ExactTarget, Inc. reported that Scotts Turf Builder, a lawn and garden care provider, has had tremendous success with dynamically personalized content for its 1,000,000 opt-in newsletter subscribers in one of its loyal segments. Scotts uses data such as zip code, grass type, weather, and weed and insect problem data to personalize newsletters according to time of year and season. For example, when grubs are a problem in a particular area of the country, newsletter subscribers receive information on grub control. Scotts has found in general that subscribers to its Lawn Care Update newsletter apply 16% more Scotts product than non-subscribers and are twice as likely to use the recommended Scotts products vs. non-subscribers.

Return on Investment

The reported benefits of the personalized and customized customer experience include an increase in sales through up-sell and cross-sell opportunities as well as more targeted marketing

orders. While not every company is a candidate for customized products, nearly every firm can utilize some form of personalization. Personalization based on progressively collecting more and more customer information can lead to event and lifestyle marketing. Personalized data used in personalized communications can improve the chances of the order being made at the right time and place to ensure maximum response rate. Appendix 1 provides a summary of technical and organizational capabilities required to personalize communications and customize product offerings.

the Future

Although 64 percent of retailers currently offer the same pricing and promotions across channels, many are still not able to access customer data across multiple sales channels needed to provide dynamic merchandising and maximize up-sell and cross-sell opportunities. Amazon.com continues to be a leader in collaborative filtering technology that allows for such suggestions, but it only has one retail channel. Merchandisers Patagonia and The Gap are currently implementing software that will offer up-sell and cross-sell recommendations based on what is in the shopper's cart. However, these technologies are not currently extended into other channels (Magill 2005). **So, the challenge remains that multi-channel retailers need to provide these same shopping recommendations across channels in order to stay competitive.**

"With JunctionMCR™, campaigns can be analyzed and optimized from order entry, through shipping and returns, and across all sales channels."

If cross-channel personalization is the goal, then again, it is important to have the proper tools to accomplish that goal. The beauty products retailer mentioned in the beginning of this article needed to integrate online and offline customer data to integrate its customer orders. **Currently, over 70% of web merchants indicate that they do not know what percentage of online buyers also purchase from other channels** (Chiger 2006). A great number still do not have the capability to speak to customers' past purchasing patterns and preferences across those channels to increase the success of stand-alone orders and integrated campaigns. Multi-channel retail systems such as Junction Solutions' JunctionMCR™ product provide up-sell and cross-sell information across multiple sales channels through the shared database technology mentioned previously. **With JunctionMCR™, campaigns can be analyzed and optimized from order entry, through shipping and returns, and across all sales channels.** Once the ability to interact in a conversational manner across channels is developed, then campaigns can be planned and implemented using a format similar to the tool provided in Table I.

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Appendix I: Personalization/Customization Readiness Checklist

Data

- Data on past purchases, ability to access across channels
- Detailed customer data
- Data on marketing offers made and responded to timing, method of contact
- Ability to disseminate information about customers through organization including important events, purchases patterns
- Quality data and data management processes

Technology

- Platform to allow for data across channels
- Search capability to find complementary products
- Ability to disseminate information about customers through organization including important events, purchases patterns, regular communication across
- Ability to personalize across channels

People

- Regular communication across departments
- Top-management buy-in

Table I: Personalization Planning Interaction Matrix

INTERACTION TOOL	TARGET SEGMENT	MARKETING OBJECTIVE	FREQUENCY	PERSONAL DATA	SUCCESS MEASURE
E-mail newsletter	Loyalty program members	Retention	Monthly	Name, longevity, past purchases	98% retention rate
Catalog	First-time Purchasers	Convert to second order	Within three weeks of purchase	Name, rst purchase, complementary products	Second Order