

Selling to Segments

Clustering tools lead to more effective marketing | By Julie Ritzer Ross

NO MATTER HOW EFFECTIVELY RETAILERS REFINE THEIR assortments to suit the needs of individual markets, other customer segmentation initiatives must be undertaken in order to maximize sales, improve customer service and cultivate repeat business.

Considered a subset of customer relationship management (CRM) solutions, customer segmentation tools permit retailers to divide markets or customer bases into groups defined by demographics, spending habits, purchasing history and many other important factors. This enables them to formulate more highly targeted and thus, more effective promotions, marketing programs and sales tactics. Depending on the size of the retailer in question and the number of software licenses purchased, customer segmentation systems carry a price of about \$100,000 to \$1 million or more, according to CIOs.

Customer segmentation tools fall into two categories: those in which data are fit into user-defined groups, and those in which data are analyzed to determine the segments. In the first case, segments are chosen and each data record is assigned to a segment based on boundaries established for that segment. For retailers, examples of segments might include: customers who ordered less than 12 months ago, versus those who have not; single purchasers versus multi-purchasers; customers who have spent a given amount of money in a prescribed period versus those who have spent less than the prescribed amount and customers who reside in one region versus another.

Individualizing Promotions

Outdoor products retailer The North Face has just rolled out CRM software from Datavantage in part to delineate different segments of customers around whom highly individualized promotions will be designed, according to Pat Selby, retail systems manager for The North Face. The company has 10 stores and four outlets as well as an online store and catalog arm.

"By analyzing the customer purchasing information we receive, we will be expanding our own understanding of customer demographics, interests and trends, which will en-

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— Michelle Barth, The North Face

able us to enhance and refine our promotional programs," Selby notes. "We will also provide feedback to our R&D and sales area on product reception as well as expand access to this type of data to our store management and associates for improved product knowledge and customer relationships."



Casual Male is leveraging its customers' demographic information with shopping patterns to improve loyalty.

"Our customers appreciate service and knowledgeable sales associates and want the full The North Face experience," says Michelle Barth, The North Face's director of brand management and licensing. "Our goal in working with (the software) is to be more sophisticated in our approach and how we build relationships with customers."

Reaping New Business

Gardener's Supply, a catalog retailer in Burlington, Vermont, has implemented customer segmentation software to differentiate avid gardeners from casual buyers in accordance with previous purchasing patterns and other factors. Gardener's Supply serves millions of gardeners nationwide, offering everything from seed starting supplies and garden furniture to flower supports and greenhouses.

"While we know our data very well, we wanted to develop better insight and understanding, such as finding unique purchasing patterns and identifying behavior that would help us qualify customers for mailings," says Carrie Baker, customer marketing manager.

The retailer targets avid gardeners and casual buyers with different catalogs. Baker

claims the models produced by the software enable Gardener's to properly segment more than 85 percent of its customers, far more than in the past. As a result, catalog response rates have increased substantially.

Targeting Loyal Customers

Big and tall men's apparel retailer Casual Male Retail Group (CMRG) will soon leverage Connected Retailer Store and Customer Relationship Management (CRM) solutions from NSB to segment customers who patronize its two e-commerce Web sites. Customers will link to their own personalized Web pages that will feature suggested items they might want to order, based on their level of spending and purchasing patterns.

"What we're trying to do is get more intelligent as to who our shoppers are in terms of demographic information and marry that with their shopping history," says Dennis Hernreich, COO, CFO, EVP, Casual Male. In addition to the Web sites and a catalog business, CMRG operates 496 Casual Male Big & Tall stores, 13 Casual Male at Sears-Canada stores and 22 Rochester Big and Tall stores.

Experts believe that as customer segmentation tools become more sophisticated, increasing numbers of retailers will follow Casual Male's lead by enlisting segmentation software in one-on-one marketing efforts. They predict that while most retailers with customer segmentation applications in place may now rely on the technology to divide customers into relatively few large groups, segmenting into hundreds or thousands of groups will become the norm. ■

To better segment its customer base, Gardener's implemented ASA's ModelMAX software. The retailer used manual methods for segmentation; thus, customer response to catalog mailings was poor. A significant amount of money was being wasted on promoting to unresponsive consumers.