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Imagine the Possibilities

**Multichannel retailers use affinity programs,
broadband to build on-line shopper loyalty**



Imagine the Possibilities

Multichannel retailers meet to learn how to build loyalty, increase sales

By Deena M. Amato-McCoy

In the future, 45% of the \$2.3 trillion U.S. retail market (excluding travel, automotive and prescription drug sales) will be influenced by the Internet or transacted on line, according to JupiterResearch, New York City. Yet, the number of new on-line shoppers will continue to slow. Thus, for multichannel retailers to attract and retain their on-line shopping base, it is critical for them to develop loyalty-building strategies.

Eager to learn how to create a new vision of loyalty, multichannel retailers from the East and West coasts attended the first-ever "Imagine the Possibilities" retail forums sponsored by Memphis-based FedEx and *Chain Store Age*. Two invitation-only events, in San Francisco and New York City, each attracted approximately 50 multichannel retailers of various genres, sizes and maturity hoping to learn about emerging trends, competitive strategies and new customer expectations and behaviors.

Regardless of the locale, the message was clear: Building shopper loyalty will increase on-line sales.

"By combining the growth of high-value goods, globalized trading and more efficient retail supply chains, it is no wonder that the Internet continues to transform global selling and sourcing," Gene Huang, Ph.D., chief economist of FedEx, revealed to an eager audience in May in New York City.

And this transformation is just beginning. On-line sales are expected to increase by 18% this year, rising at a compounded annual growth rate (CAGR) of 12% through 2010, according to JupiterResearch. While 6% of purchases will be conducted on line, JupiterResearch expects that 39% of sales will be influenced on line but transacted off line.

"This could be research or purchases," Patti Freeman Evans, senior analyst for JupiterResearch, said at both forums. "That said, the Internet is also prompting off-line sales for multichannel retailers."

Yet, multichannel retailers still have their work cut out for them. "By 2010, we will see a 3% growth in totally new on-line buyers," Freeman Evans revealed.

"There will not be many new fish jumping into the boat, especially as more 'boats' debut on line," she added. "With so many more choices and not that many new fish, it is increasingly important to build loyalty among your existing customer base."

Building loyalty has many benefits. Besides decreasing customer-



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Patti Freeman Evans,
senior analyst, JupiterResearch

acquisition and related marketing costs, a defined loyalty vision will attract—and retain—faithful, profitable shoppers.

JupiterResearch is so bullish on the idea that it has created a framework to help retailers. Called the Three Pillars of Loyalty, the strategy encourages retailers to drive loyalty by focusing on frequency, spending, and trust and advocacy.

"Loyalty is a choice," she said.

"Shoppers are making a sacrifice to shop with you rather than someone else," Freeman Evans added. "It is an inherent emotional bond. However, this emotion is often missing."

The Three Pillars

The first step to building loyalty is to understand a shopper's frequency. To encourage frequency, retailers should generate ongoing interaction with customers based on each type of product sold.

"When there is strong frequency, retailers can encourage repeat visits, educate shoppers about the brand and get them to love you," she explained to retailers during both forums.

By understanding how often a shopper visits, retailers can determine the potential level of their loyalty. However, there is a caveat: Frequency does not equate to loyalty.

"Frequency is not an emotional bond," Freeman Evans said. "In fact, this is a sticky point where a more-savvy retailer can still poach this customer."

That said, retailers must also focus on what the consumer is spending. Alone, spending doesn't indicate a shopper's loyalty. "Chances are, if they find a better deal, they will spend money with another retailer," she advised. By communicating with profitable shoppers, however, retailers are building the foundation to loyalty.

Chains need to tie the first two components with the final pillar: trust and advocacy. "This is the glue, the emotional bond, that holds the retailer-consumer relationship together," she said.

By using quantitative measures, retailers can assess the strength of the emotional bond they have with shoppers. "This is where you build enough trust with them that they choose to keep coming back."

By combining all three components, retailers can determine their loyal customer base and evaluate how to market to them.

"It is a complex task," she added. "But if retailers analyze consumer behavior in these categories, they can segment shoppers, learn who their loyal consumers are and the benefit that these faithful customers bring." ►

The Power of Partnerships

Affiliate marketing programs help retailers build on-line sales cost-effectively

As the pool of new on-line shoppers continues to dry up, multichannel retailers need to create new tactics to attract new customers. Some may want to take a lesson from eBay.

eBay is constantly attracting new customers. In fact, the site had 77,000 unique visitors in June 2006, according to Media Metrix. And rather than secure merchandise through the pure-play company's signature on-line auctions, 35% of eBay's business now occurs from formal purchases vs. auctions. By using strategic affinity programs, eBay and many other multichannel retailers are successfully acquiring customers and building sales.

Simply stated, affinity programs are partnerships. One company establishes a relationship with another on-line Web site (often called "publishers" or "partners") that complements their business. Through this partnership, the publisher adds links to their site to drive traffic to a merchant.

After clicking on one of these links, the shopper is directed to the hosting merchant's Web site to purchase the item. If the shopper places an order, the affiliate partner displaying the link receives a commission.

"Affinity marketing has been around for ages. However, the key is to partner with a company that can uniquely benefit you and make you more unique in the marketplace," Patti Freeman Evans, senior analyst for JupiterResearch, explained during both "Imagine the Possibilities" forums sponsored by Memphis-based FedEx and *Chain Store Age*.

"Rather than build a category they do not know, retailers partner with a company that has expertise in their desired area," she added.

For example, Macys.com is an advocate of affiliate marketing. Macys.com, which began testing affinity programs in November 2003, was on target to achieve 15% of its sales through these partnerships during 2005.

Similarly, eBay is partnering with Bose to sell exclusive merchandise to its shoppers. "Since eBay is highly brand-oriented, they are enabling Bose to control the product dialogue and the team is successfully selling full-price merchandise," Freeman Evans explained.

Multichannel chains of all sizes are cashing in on the affinity marketing frenzy. For example, Sacramento, Calif.-based Java City Coffee has percolated a unique affiliate program with Delta Airlines.

"If a Coffee Club member is also a Delta SkyMiles member, they receive 5 SkyMiles for every dollar spent at javacity.com," said Meghan Ryan, Java City Coffee's direct marketing manager, and an attendee at the San Francisco forum. Members can earn up to 1,000 bonus SkyMiles when they spend \$50 or more at the site.

Not a bad deal since 53% of Coffee Club members are also Delta SkyMiles customers. Since launching the partnership in May 2003, Java

City has awarded nearly 5 million SkyMiles miles and, "We are still awarding miles," she added, noting that Java City also created an exclusive Delta-blend coffee that is served across domestic flights.

While many multichannel retailers are tapping FedEx for their shipping services, FedEx can also help retail partners embark on their own affinity programs. Using its proprietary software, FedEx enables its retail partners to connect with Zoovy, a company that provides integrated



Attendee Meghan Ryan, above, talked about Java City Coffee's affinity program. FedEx's Wendy Dawson noted ways that retailers can improve their marketing partnerships.



e-commerce solutions.

Among their services, Zoovy integrates retailers with premier on-line marketplaces, including eBay, Froogle, Amazon and Shopping.com. In addition, Zoovy can provide merchants with reporting, inventory and customer-relationship-management tools, and advanced cross-selling features.

FedEx makes this integration even easier by enabling its retail partners' FedEx checkout to integrate with the checkouts tendering operations of eBay sellers, and other marketplaces such as Shopping.com and Overstock.com.

"With seamless integration to Zoovy, tracking numbers are automatically stored in Zoovy Order Manager and sent directly to the customer," Wendy Dawson, retail and e-commerce consultant for FedEx, said at both forums.

"They get faster shipping because users print FedEx airbills directly from Zoovy's order manager. There is no need to export shipping information, or switch applications," she added. "The system also tracks exactly which employee shipped the package, providing better order integrity." ►

Broadband Boom

Broadband could be catalyst for new retail experiences

Today, 64% of on-line users have a broadband connection. That figure will rise to 87% by 2010, according to JupiterResearch. While telecommunications alone will not spur additional e-commerce sales, network speed will enable retailers to improve the shopping experience.

"Computing power doubles every 18 months, and the replacement cycle continues to shorten," Gene Huang, Ph.D., FedEx's chief economist, told 50 on-line retailers during the "Imagine the Possibilities" forum held in New York City in May. The conference was sponsored by Memphis-based FedEx and *Chain Store Age*. "Similarly, the Internet revolution continues."

Huang recalled how the evolution of technology breakthroughs is also speeding up. "In the past, the average length between breakthroughs for inventions like the electronic radio, television and so on was 21 years," he said.

"However, as the Internet spurs more work and entertainment solutions like PDAs, WAP-enabled cell phones and cable DSL, research and development is increasing and the amount of time these evolutions require is shortening," he added.

As more "connected" households are trading in dial-up networks for broadband to fuel personal-communication devices, retailers are in a unique position. "Retailers strive to communicate their brand and to deliver the same personalized experience both on line and off line," said Patti Freeman Evans, senior analyst for JupiterResearch, during the forum.

"Some people predict that broadband will drive more retail sales. We disagree," she stated, noting that on-line shopping patterns are pretty well-established.



JupiterResearch's Patti Freeman Evans and FedEx's Gene Huang were featured speakers at the 'Imagine the Possibilities' forum in New York City.

"The fastest-growing traffic to sites remains on Monday, Wednesday and Friday, between noon and 2 p.m.," she said. "While we do not expect broadband to shift these sales patterns, broadband can change the way they deliver new media and messages."

For example, this bigger pipeline gives retailers the chance to upgrade site content "with more rich text and graphics," Ken W. Pasley, director, wireless systems development, FedEx, told retailers during the San Francisco forum in April. "It provides the opportunity for a more intimate connection with the shopper."

Of course, retailers should not abandon the idea that less is more. "By giving customers too many choices or a cluttered Web site, you are killing the experience," he added. "Don't add enhancements just because you can. Instead, upgrade sites based on what will benefit your shoppers." ▶

The Wireless Nation

New telecommunications networks are spurring on-line commerce opportunities. As wireless standards evolve worldwide, mobile commerce is becoming commonplace across different countries. And shoppers are taking advantage, purchasing merchandise such as cans of soda, event tickets and other goods right through their cell phones.

While the United States is not quite at this level, robust networks are attracting consumer attention and upping the ante for retailers. Realizing the importance of wireless technology, FedEx recently added several new wireless applications to support customers and couriers as they ship packages.

"We developed a Bluetooth-based customer-assistance device that our couriers carry. The FedEx PowerPad is like a Blackberry on steroids," Ken W. Pasley, director, wireless systems development for FedEx, quipped during the "Imagine the Possibilities" forum held in

San Francisco in April. The forum was sponsored by FedEx and *Chain Store Age*.

The Microsoft and Intel-based unit communicates with a wireless printer and several other external devices, like courier cell phones



Ken W. Pasley, director, wireless systems development, FedEx

and FedEx drop boxes. Using the Cingular GPRS wireless backbone, couriers are able to connect to FedEx's dispatch server and corporate systems in near real time.

"We can send messages to couriers, update their routes, track packages and provide delivery information in near

real time," Pasley explained.

"It is still uncertain if this trend will increase retail sales," he added. "However, the convenience of using mobile technology could increase incremental sales."