

# Use The Data

Retailers are using their data to maximize consumer segmentation

By Kit Davis

**“USE THAT DATA!”** That’s the customer relationship management (CRM) battle cry — or it should be. Most retailers have a wealth of customer data collected via loyalty programs, Web-shopping surveillance tools, surveys and other methods, but many fail to slice it and dice it; to segment and use the data in a meaningful way. This is changing, however, as Federated Department Stores and others begin performing thorough and scientific analyses of customer information.

#### Federated High-End Stats

Paul Coleman, director of marketing statistics for five divisions of Federated Department Stores, shies away from terms such as “CRM” and “segment,” saying, “We build mathematical models that sometimes include demographic data. These models then order our mailable universe by the customer’s

Federated has demographic information about customer age, income, type of vehicle and so on. The data models help Federated determine who gets the start-of-season catalogs and who gets the later mailings advertising deep discounts.

For help analyzing its abundant data the retailer has turned to SAS for business intelligence software and services. “SAS allows us to go into the data, choose appropriate variables and whittle down the database,” Coleman observes, pointing out that Federated is flexible in its use of statistics and mathematical models. “Because our customer base is constantly churning, the

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value.” He adds, “We use high-end statistics as opposed to decision-tree modeling.”

Federated Department Stores operates more than 450 stores in 34 states. It’s the parent company of Macy’s, Bloomingdale’s, and five regional chains that the company is hybridizing to nationalize the Macy’s name: Bon-Macy’s, Burdines-Macy’s, Rich’s-Macy’s, Lazarus-Macy’s and Goldsmith’s-Macy’s.

Federated has more than 150 mathematical models to use in putting together its mailing campaigns and these are based on 850 variables Coleman says. Some of the variables are statistics about types of customers. For example, there is a demographic of fashion-conscious customers who buy the latest style regardless of price, and a demographic of price-conscious shoppers who prefer sale items.

The models may also include data about the repeatability of customer business, the likelihood of response to promotions and the number of items typically purchased. In addition,

data is constantly being refreshed. As the model ages, we rebuild the model,” he reports.

“In two years we’ve found that each division using optimal models can increase profits by 2 percent to 5 percent for an event,” Coleman says. “This can represent tens of millions of dollars for a single event.” Coleman calls his company’s approach “more rigorous and more reliable” than conventional CRM. “Anything else is just guessing,” he concludes.

#### Duane Reade’s Prescription

As the first chain drugstore in the U.S. to introduce a customer loyalty card program, Duane Reade is a CRM innovator. “We have our own data warehouse of information from our Duane Reade Dollar Rewards card,” says Craig Breslin, the company’s director of merchandise control. “We’ve been collecting data for five years.” Duane Reade is the largest drugstore chain in the metropolitan New York City area, with 241 stores.

In the past, the company used loyalty

card information — via spreadsheets — to recognize its best customers, to help target direct-mail campaigns, to maximize non-pharmacy sales growth via merchandising programs, and to help identify possible locations for new stores. “Now we have new and better ways of looking at the data,” reports Breslin.

The retailer currently segments CRM data by customer spending and geographic regions. For example, the company examines data about which customers buy which items in which stores. The same customer might shop during a workday lunch break in downtown Manhattan, and on weekends in an outlying area. Duane Reade tracks what items the same customer buys in different stores at different times.

In addition to CRM, the retailer is embarking on CDM, or customer demand management. CDM delivers valuable insights into consumer behavior via data from various sources, such as POS, market basket, loyalty, syndicated and panel data. CDM can help the chain segment and rank customers, make more intelligent merchandising decisions, increase basket size and raise profitability of various customer segments.

The retailer is currently using CDM to better understand customer preferences and set prices accordingly in different geographical price zones. The new program is facilitated by DemandTec software, which is being rolled out across 40 merchandise categories at Duane Reade.

“Having the right data helps us give customers what they want and keep

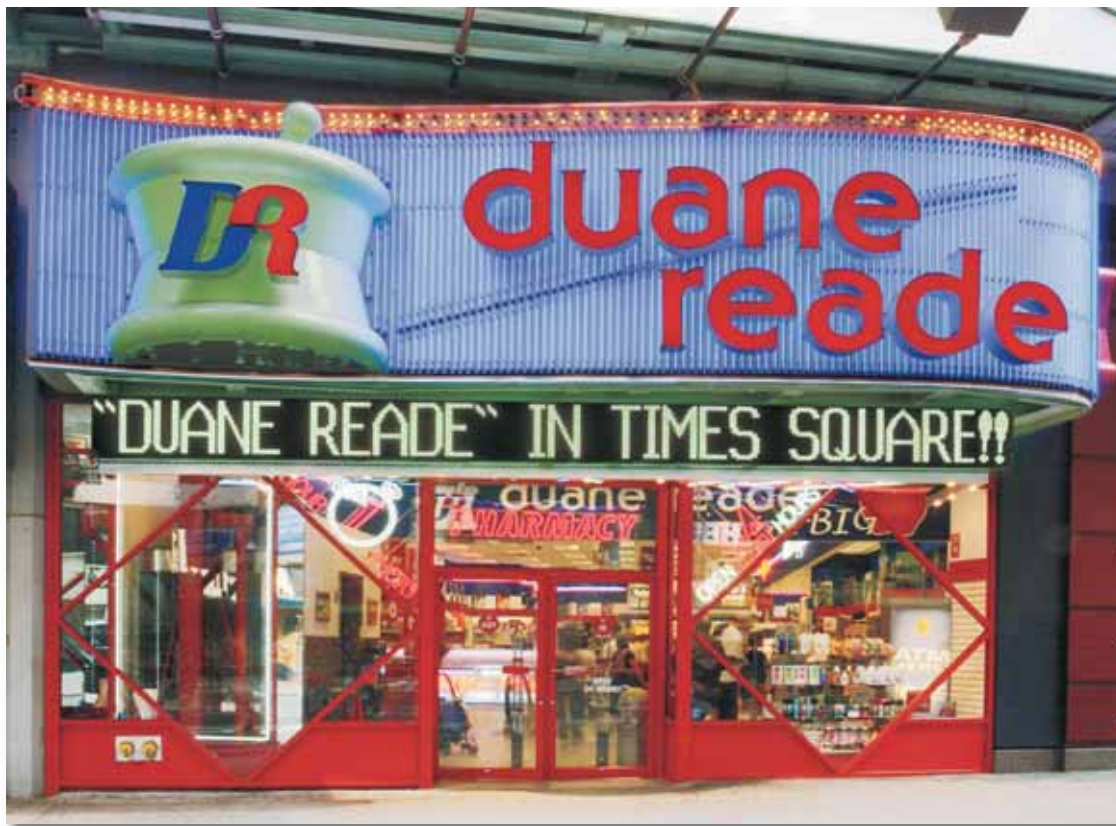
them happy. Our focus in the future will not be on category management but on customer management,” says Breslin. “We’ll improve our business and the way we operate our business.”

#### Multi-Channel Male

On April 1st, big and tall men’s apparel retailer Casual Male announced that it took the first step in implementing a new CRM system when it signed a five-year, \$6 million contract with NSB Group. The retailer, which operates 482 Casual Male Big & Tall stores, Casual Male Web and catalog businesses, 58 Levi’s Outlet by Designs and Dockers Outlet by Designs stores, and 21 Ecko Unlimited outlet stores, has previously outsourced its CRM function.

“We feel that we will truly be able to offer our customers the best service by implementing these NSB solutions in our stores,” says Dennis Hernreich, COO/CFO for Casual Male Retail Group. The new CRM system will help the retailer capture customer information, manage it, analyze it and use it to enhance the customer’s multi-channel retail experience, regardless of whether the shopping takes place in-store, online or via catalog.

“Thou shalt know thy customer.” It isn’t the eleventh commandment, but for retailers perhaps it should be. CRM and related programs can help retailers obey this commandment. By so doing they can reap many rewards, including greater customer loyalty, enhanced profitability and improved competitive position. **RIS**



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