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Data over discounts: Why good data drives retail success better than price reductions

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Introduction

In an interview with CNBC in November 2016, the retail legend Allen Questrom claimed, "The sale has become a cancer" for department stores.[1] Questrom, who spent 40 years working in retail, helped save four of America's major department stores from the brink of failure—so he definitely knows a thing or two about retail best practices. He explained that many department stores have become too dependent on sales and that "sale cannot be the only driver." To attract customers, and particularly the millennial and Y generations, Questrom cites product, presentation, excitement in stores, and customer service as critical drivers. There is, of course, another crucial piece to driving success and attracting buyers (particularly from the younger generations) and that is data.

Questrom mentions in the interview that those from the millennial and Y generations aren't looking for the aspirational as previous generations were, but rather seek inspiration. One of the best ways to provide today's shoppers with inspiration is to know who your customers are, what they like, where they live, how to reach them, and how your business can act on all that information to align your products with your customers' needs and interests. Whether your brand operates as a brick and mortar, an online store, or both, the ability to capture and use data has changed the world of retail and data is quickly outpacing the discount in terms of driving revenue and enhancing marketing efforts. An impressive ninety-six percent of retailers now use data to power business opportunities.[2]

Run out of days, run out of discounts

Discounting your products and services can only get you so far. Developing a loyal customer base is far more important. "Run out of days, run out of discounts," says Questrom. He goes on to explain that relying on discounts to drive business is unsustainable. Using sales and ever-growing discounts to get your customers into your stores and purchasing makes them become dependent on sales. If your customers are only compelled to act when there is a 20 percent discount or a buy-one-get-one-half-off deal, they start to expect discounts all the time and may actually put off a purchase until they can get the item at a better price—and that means that retailers are potentially losing money, even as sales increase and store traffic spikes.

Discounts can be addictive. While it's easy to point at promotions-addicted customers, we cannot overlook that retailers provided them with discount after discount until they got hooked. In a guest blog for Upstream Commerce, Scott Francis, President of Strategic Pricing Solutions, warns, "retailers need to be careful they don't end up with lower sales and lower margins by using a high-price, big discount strategy...certain retailers have trained customers to realize their regular prices are meaningless, and in-fact highly inflated; and the customers rarely buy anything at full price from them."[3] He explains that high-price, big discount stores must beware of inflating the original prices to the point where their sales are comparable to the net prices at a competitor. When sale prices are similar to net prices at a competitor, customers no longer feel they are getting a bargain on higher quality goods and are likely to start shopping at the competitor.

In some cases, neither the retailer nor the customers are addicted to sales and this discounting strategy works. Doing a thorough analysis and looking at the numbers is the only way to understand whether the big discount strategy is effective or not. Retailers that are generating incremental margin from promotional activities can feel confident that their approach to discounting is successful. Normally they achieve this success by setting an acceptable range of margin and sticking to it. For retailers afraid they may have fallen into the discount addiction trap, however, there is still

hope. The addiction can be overcome by slowly cutting back on discounts while making an effort to keep customers engaged and coming back to the store for great products and excellent customer service.

Certain retailers have trained customers to realize their regular prices are meaningless

The demise of one-size-fits-all discounts

As the trend toward personalization in marketing continues to become more sophisticated, it is easy to look back on the days of one-size-fits-all marketing with something akin to nostalgia for simpler times. Back in those days, a brand might come up with a couple of different offers based on broad categories like gender or age, but that was as individualized as it tended to get. Once technology became available that allows retailers to gather more information about their customers and access it easily, the world of possibilities that data promises quickly opened up to them.

In their guide to "A Brief History of Personalization: Past, Present, Future," Tnooz and Boxever teamed up to explore the beginnings of the trend toward personalization:

> According to Gartner, the term 'relationship marketing' was first used by Leonard Berry, professor of marketing at Texas A&M University in the early 1980s. His thinking was that marketeers of the day needed to start thinking beyond the sale and consider their brand's relationship with its audience.[4]

Thinking "beyond the sale," and considering the brand's relationship with its customers meant that retailers had to understand who their customers were, and how to reach them. In its early stages, personalization meant collecting customer contact data and connecting with those customers on a more regular basis via mail and email. Though personalization has moved beyond simply knowing who your customers are and how best to reach

them, contact data is still the foundation of any marketing personalization efforts.

Contact data underpins a retailer's ability to achieve a single customer view, which is the key to successful personalization. A customer's name, email address, mailing address, and phone number are essential elements that allow retailers to match records from one database to another, such as linking the customer record from an Ecommerce platform to their corresponding record in a POS system. Making sure that the information in each database is accurate is essential to matching the information in ways that help create a unified customer record. With a single customer view, retailers can create personalized marketing campaigns that target customers appropriately, based on reliable data.

Once retailers started to adopt the model of relationship marketing and began using data to customize their customer communications, the trend quickly caught on and before long, personalization became a standard customer expectation. A study by Infosys found that 78 percent of consumers are more likely to be a repeat customer if a retailer provides them with targeted, personalized offers. Furthermore, the CMO Council reported that more than half of U.S. and Canadian consumers consider ending their loyalties to retailers who do not give tailored, relevant offers.[5] With customers placing such emphasis on targeted and personalized offers, you cannot afford not to know who your customers are and what they like. The one-size-fits-all discount will simply no longer cut it.

Do you know if the customer data you use is accurate? We can help you be sure that you have the right information to reach the right people.

Learn more

The rise of data-driven discounts

Now, we aren't saying retailers should get rid of all sales or discounts. Discounts are still a fundamental piece of retail marketing and can certainly be a strong way to attract customers to your store, encourage them to buy, and drive an immediate spike in sales. When you do offer discounts, however, relying on data to inform them is crucial. Welcome to the data-driven discount.

Your customer data is one of your greatest assets as a retailer. Knowing who your customers are, how to contact them, where they live, and what they like to buy can help you customize your campaigns to make sure you are maximizing the return on investment for all your marketing efforts. You can use the records in your database, real-time data, and data from third parties to understand your customers and make discounting decisions that will ultimately increase revenue and margin.

Your database

When determining your discount strategy, use your data to inform when you offer discounts, who you offer them to, and how much to offer. Segmenting your database allows you to provide more targeted offers based on the customer's buying history and preferences. To help create your segments, consider things like:

- How often does this customer shop at my store?
- What products does she usually buy?
- When did she last purchase?
- How much does she typically spend?
- Where does she live?

How you specifically segment your customers will depend on your industry and what you are trying to achieve. For some industries—such as car dealerships—the segmentation may be strongly influenced by demographic and psychographic factors like income and lifestyle. For other industries—such as a cosmetics retailer—the segmentation is driven more effectively by behavioral factors like loyalty and usage rates.[6]

How you choose to segment will also depend on your goals for that campaign. If you are trying to build overall brand awareness, your segmentation choices may be broader, whereas if you are trying to sell products to specific demographics, your segmentation may be narrower. Regardless of the factors that you choose to use, segmentation will make it easier to determine which discounts to offer whom, and how much to offer. While one segment on your list might be motivated by a small percentage off deal, another may require more aggressive discounts before they purchase. Having access to your customer's buying history and preferences can help you determine which segment they belong to and devise discounts that appeal to each, while making sure you are not offering greater discounts to a group that might have bought without such added incentive.

Looking at your data, and specifically the ways that you can segment it, can help set you up for a successful discount strategy. Even with the aid of data, however, getting your discount strategy right may require some trial and error. That being said, segmenting your data helps you make better choices that increase the chance of your trial offers resonating with your customers and ultimately increasing sales.

See our findings on customer experience and unified commerce from our recent survey with Boston Retail Partners.

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Real-time data

Timing is everything—so make sure you get it right. When it comes to discounts, giving the right offer at the right time can make all the difference, and real-time offers can be especially effective. For that reason, real-time data is revolutionizing the world of retail. Smartphones allow retailers to instantaneously connect with customers. Retailers can prompt customers to self-identify via webpages or apps on their mobile devices to provide offers or information. Mobile technology also allows retailers to collect data on in-store traffic by using apps to understand where customers are lingering longest. Knowing where customers dwell in the store enables retailers to deliver targeted offers on the products a customer seems to take the most interest in.[7] Delivering discounts in real time helps you reach your customers (online or in store) and capitalize on their interest while you have their attention, helping to encourage them to make a purchase.

Retailers can use real-time data to understand what customers are trying to do at that moment and use that information to determine an appropriate response. Depending on where the customer is along her buyer journey—exploring options, comparing products, determining price, getting opinions from friends, checking out reviews, etc.—the retailer can react accordingly. Let's say a customer is shopping for a new dress. First she visits your store, then goes to check out options at a few competitors' stores. With mobile technology, you can know when she is no longer in your store and that could trigger real-time marketing—an email, an in-app offer, or targeted advertising—to try to attract her back to the store. If she moves to the stage of checking reviews online and your competitor has somewhat better reviews, immediately offering a discount could help convince her to go with your better value product, as the cost savings would outweigh the difference in quality.

Real-time data is especially effective for online retailers. In addition to sending targeted ads at the point of purchase, retailers can also use real-time data to target customers who are about to or who already have abandoned their cart. According to "A Better Way to Stop Cart Abandonment: Real-Time Offers," a guide published by Ecommerce solutions provider Conversions on Demand, real-time abandonment pop-up windows lead to four times more sales than recovery emails. While recovery emails see a success rate of about six percent—which is nothing to thumb your nose at, real-time abandonment offers have a success rate of approximately 27 percent.[8]

Real-time discounts help to increase the likelihood that a customer who is considering a purchase gets the extra push they need to actually buy. By visiting your store—either in-person or online—the customer has already shown interest in your products and is therefore more likely to make a purchase. Getting the real-time discount can sometimes be just what your customer needs to commit.

know what your customer base looks like and build out personalized profiles. Personalized customer profiles help you make the best choices for your marketing, advertising, merchandising, and discount strategy.

In addition to helping achieve a single customer view, enriched data can help you increase business performance and improve customer experience. When you know who your customers are, you can more accurately target your segments to provide custom offers, personalized messaging, and tailored experiences. Providing your customers with the content and experiences that suit their preferences helps lead to increased engagement and conversion. The more personalized and relevant the content you send—including discounts, promotions, and offers—the more likely your customer is to engage and make a purchase. When your customers consistently have positive experiences interacting with your brand, you are likely to see higher levels of loyalty.

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Third-party data
Whether you are trying to learn more about your existing customers or trying to gain insight about potential customers, third-party data can provide the information you need to make smart marketing decisions and successfully increase sales. With a wide range of attributes available to append to your existing data, such as estimated household income or credit card use, you can fill in the gaps of information that will help you really get to

Getting personal

There are many ways to personalize your marketing and encourage customers to buy. Consumer information and geolocation data, which can come from a combination of information from databases, real-time data, and third-party data, provide many ways to personalize content. Retailers can personalize their marketing based on any number of points:

- Product selection
- Trigger events
- Purchase history
- Social media activity
- Psychographic preferences
- Typical demographics based on zip code
- And many more

Let's take trigger events, for example. If you have customers fill out their birthday when they sign up for emails, you can easily send coupons or a little greeting to help make their birthday more special. But did you know that even if your customer didn't provide you with their birthdate, you can still find the information? With simply the customer's name and email address, you can append their birthday data attribute from a third party. Experian Data Quality's enrichment solutions provide access to birthday information, along with more than 900 other data elements.

Get to know your customers and increase engagement with our enrichment solutions.

Learn more

Doing away with discounts?

By leveraging your data, you may be able to understand your customers so well that you can do away with discounts altogether. While the discount strategy works successfully for some companies, you will find books and dozens of articles online denouncing the discount and discussing how discounting only cheapens the perception of your goods and services. So how do you attract new customers and keep existing customers coming back without depending on discounts? Here are a few suggestions:

1. **Add value.** Leave the discounting to off-price retailers who specialize in it, like the TJX companies or Nordstrom Rack. In recent years, retail trends have changed and retailers have to decide how they want to play—value-add or discount.[9] There's no middle ground anymore, meaning there is not much room for value-add with frequent discounts. So unless you are an off-price retailer, focus on the value that your

products provide to the individuals to whom you are selling. A great way to help move your products without discounting is to provide something additional when your customer makes a purchase at full price. This could be free shipping, free samples, a gift, lifetime warrantees, superior customer service, or even a store credit card that provides your customers with a deal on credit, while encouraging more spending at your stores. Get as creative as you want, so long as the perks will not depreciate the value of your full-priced goods.

2. **Perfect your presentation.** Whether you sell your goods online or in a store, presentation matters. When you have a better understanding of your target customers, you also have a better understanding of how to merchandize your products, how to layout your store, and how to depict your overall brand. Knowing more about your customers helps you take your merchandising to the next level. Retailers who

really understand their customers know how to cater to their needs and preferences. They will merchandize the products that are most relevant to their buyers in a way that appeals to their tastes—based on data on the customer's lifestyle, region, interests, and shopping habits. Anthropologie is a retailer that really focuses on presentation to create a more enjoyable and memorable shopping experience. While the Anthropologie aesthetic of mood lighting and a bit of whimsy remains consistent across its stores, its hallmark window displays are all unique to their regions, designed by local artists.

3. **Make stores exciting.** While the convenience of online shopping continues to entice more and more shoppers, the brick and mortar space continues to make up the majority of sales. As stores compete to hold onto their share of the market, making the shopping experience more exciting for customers has become a focus. In-store entertainment, sometimes even referred to as retailment: the combination of retail and entertainment. Some retailers have really embraced the whole notion of retailment. The New England furniture retailer Jordan's Furniture, for example, offers a number of attractions—from light shows to an IMAX theater—and uses the motto "not just a store…it's an experience" to describe the entertainment offerings that make shopping for furniture a fun outing for the whole family.[10] On a national level, Nieman Marcus is another retailer making the in-store shopping experience more exciting. Their Memory Mirror allows shoppers to take videos and stills as they try on clothes, making it easy to compare one outfit to the next, check out the outfit from every angle, and instantly see what the item looks like in different colors.

4. **Emphasize customer service.** Aside from offering great, high-quality products, one of the best ways to build a loyal customer base is through excellent customer service. Excellent customer service makes for a great shopping experience and keeps customers coming back. Great customer service has become an expectation for customers, so some retailers are taking steps to differentiate themselves through enhanced customer service. Talbot's strives to give each customer a personalized shopping experience through Concierge for Talbots. Concierge is a program that equips each store associate with iPads to give them instant access to product data, customer information, and delivery information to help ease the shopping experience and ultimately help the retailer increase sales.

5. **Communicate intelligently.** When you know who your customers are, what they like, and where to find them, it makes it much easier to create messages that will catch their attention. With the right data, you can also learn your customers' preferred mode of communication, so you'll know if it's better to send them an email, a text message, or direct mail to their homes. Consumer and geographic data provide retailers with the information they need to customize messages and designs of their marketing communications. If, for example, you send out a holiday email campaign, one that features an image of individuals in wintry gear surrounded by snow will resonate far better with audiences from the Northeast than with those from the South. Using data to optimize your content helps you deliver relevant messages to the right people, in the right form, at the right time. And that's a great way to get the most out of your communication.

Your data provides the insight you need to make the right choices in each of these areas. Making sure that your data is in great shape provides you with confidence in those decisions.

Conclusion

While most retailers include discounting in their pricing strategies and marketing efforts, they are relying more and more on data to make the right choices and maximize their sales. As customers come to expect highly personalized experiences, and as a clearer divide emerges between those who add value and those who offer discounts, data will remain a central concern for retailers. Retailers who have sophisticated insights on their customers will continue to come out on top, since discounting or not, personalization is now the name of the game in retail. And the more you rely on data to inform decisions and strategies, the more important it is that your data is accurate, up to date, and provides a 360-degree view of your customers. The amount of data available will continue to increase and shape retail trends, so the sooner you start proactively managing and leveraging your data, the better set up you are for success, both now and in the future.

Improving your data quality can help you better understand your customers and make better marketing and pricing decisions. We can help you get there.

Get in touch

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