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Multiple Channels, Multiple Challenges

A Fine Day for Multichannel Marketing

By *Melissa Dowling*

There's no question that multichannel marketing is here to stay, but now that you're marketing in two or more channels, how do you manage your business? That was the question on the minds of more than 50 attendees who gathered in New York on June 27 for the first-ever Multichannel Marketing Day event. Sponsored by MULTICHANNEL MERCHANT, sister publication "Direct," and marketing services provider Experian, this half-day intensive program focused on various aspects of managing the multichannel business, from demand metrics and e-mail campaigns to organizational issues and click-stream analysis.

Panelists in the first session, titled "Database Marketing from the Top," included Michael Grant, principal of database consultancy Michael Grant Direct Marketing in Scarsdale, NY; Rebecca Ackerman, vice president of marketing for home décor cataloger The Company Store (part of Weehawken, NJ-based multititle mailer Hanover Direct); David Manela, vice president-channel development for New York-based upscale gifts cataloger Vivre; and catalog merchandising consultant Alyce Goodman of Goodman Marketing in New York. A second session, moderated by **Christopher French, managing director of New York-based investment research firm Winterberry Group**, covered the optimal organization of the multichannel business and included panelists Tony Chivari, vice president of marketing for New York-based general merchant Spiegel, and Caryn Gray, business and strategy consultant for Experian.

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Multichannel marketing means providing multiple points of interaction with customers, said Christopher French, managing director, New York-based direct marketing investment research firm Winterberry Group. That means merchants have to offer multiple media channels, multiple ordering options, and multiple returns and customer service points, which can all translate to multiple headaches. So how do some companies manage it all?

Not surprising, integration is key. Merchants have to align all of the operational element, so that, for instance, stores accept Web returns, said Caryn Gray, business and strategy consultant for marketing data and services provider Experian. Marketers tend to concentrate on creating demand for product without fully understanding the channels. By focusing so much on the front end and using the different channels to sell, marketers have created what Gray calls "bulimic" shopping behavior. "Customers shop and shop and hoard things, and then they purge by returning products," she said.

Tony Chivari, vice president of marketing for general merchandise cataloger Spiegel, used another word to describe the secret to multichannel harmony: synchronization. Too many companies are "left with the vestiges of the dot-com bust and manage the Website separately," he said. "You have to use the channels you have to get customers to use the other channels."

You must also make sure the database is in synch when dealing with multiple channels, he added. For example, because customers can input their name and address info any way they choose, "the data doesn't come in clean." He advised viewing data less on a media basis and more on a customer basis. "Monitor data constantly, at fairly short intervals."

Breathing Life into Lifetime Value

You know you should be calculating the lifetime value (LTV) of your customers, but are you doing it? (If not, you're not alone 39% of respondents to a MULTICHANNEL MERCHANT Benchmark Survey on Databases say they don't know or are not sure of their catalog's lifetime value of a customer.) Database consultant Michael Grant called LTV the "Holy Grail" of marketing analysis. As you probably know or could guess, the objective of calculating LTV is to quantify the profit contribution over the customer's lifetime or some shorter period of time following the acquisition.

Many catalogers that don't track LTV say it's because they don't have the time, the expertise on staff, or the resources to hire a professional to do it. In that case, Grant suggests trying what he dubbed "the poor man's lifetime value," which involves looking at just one year of activity of recent buyers. This simple process helps you determine what you can spend to acquire a customer while ensuring payback in a year. All you need are the results from the prior year, cancels and returns, cost of goods sold (COGS), and the marketing and operations expenses.

Say you have 1,166,667 current buyers and you do 15 mailings a year. Your total demand is \$60,557,387, and your net sales are \$54,501,649. Subtract the marketing costs (\$9,625,000), the COGS (\$24,525,742), and operations costs (\$8,175,247) for a contribution of \$12,175,660. Divide that by your 1,166,667 current buyers, and you'll come up with a one-year LTV of \$10.44 per customer.

Grant said to keep in mind that every customer is different and that the LTV varies by such factors as original source, channel of acquisition, first product purchased, and season. The method focuses on general payback, but remember that LTV calculations will help balance acquisition cost to subsequent profit contributions.

Vive Vivre

Which came first, the catalog or the Web? For luxury items merchant Vivre, the catalog indeed came first -- in 1996, to be exact. When the company decided to bring its offer online in 2001, it struggled to integrate the new channel with its existing catalog model. Vivre, which has experienced 100% growth in Web sales every year since 2001, reported a 56% year-over-year sales increase in all channels for the first quarter of 2005 and was up 20% year over year for the second quarter. What has Vivre learned from its online expansion?

According to vice president-channel development David Manela, it's important that all departments of an organization embrace the new channel: "Every single element of the company is behind the Web infrastructure." He offered three tips for making this happen:

- 1) Work to dissolve the tech bottleneck. Your database shouldn't be like a black box -- you need flexibility. Provide training in programs such as Excel and Access, so that everyone understands the numbers.
- 2) Don't trust year-over-year Web comparable sales. Always conduct back-end analysis each season, breaking down the origin of the name and channel, and reconcile the data before moving forward. You should also analyze unmatched orders, identifying differences such as where

buyers came from, when they bought, what they bought, and how much they spent.

3) Adding a new channel means a new corporate psychology. You may have to break the circle of routine, realigning priorities so that the whole organization is involved in the new channel.

Manela also stressed the importance of realizing a new channel's impact on the company's seasonality. For instance, Vivre found that the Website caused spikes in monthly demand during its slower periods, such as winter and summer. And he pointed out that you must understand and control the new channel's impact on the overall business. For example, while Vivre's revenue per catalog circulated went up steadily from 2001 through 2004, so did its cost of acquisition.