

# Integrated DR Marketing for Multi-Channel Retailers

## Getting Started

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## Summary

Digital media now impacts the majority of retail purchase decisions. Most multi-channel marketing organizations are unprepared to exploit opportunities associated with this change, relative to their pure-play online competitors. This document recommends strategies for multi-channel retailers to maintain market share.

Razorfish and Google believe that by taking practical steps to integrate digital into their existing acquisition and retention efforts, multi-channel retailers can quickly improve direct response (DR) results and achieve line-of-sight toward sustained advantages over pure-online competitors.

## How We Shop Now

It's been four years since online penetration surpassed newspaper readership. Surveys have shown conclusively that most offline purchases are preceded by some digital "touch." Roughly a third of consumers habitually conduct online research before shopping in stores.

Intriguingly, it's also been shown that customers who interact with brands online before purchasing offline buy more than customers who don't. A Harvard Business School study showed that this lift increases significantly with the number of online touches pre-purchase.<sup>1</sup>

Trends impacting digital's effect on in-store shopping are accelerating. U.S. broadband penetration is beyond 60 percent<sup>2</sup>, while 20 percent of U.S. mobile devices can browse the internet<sup>3</sup>. Fast mobile connections not only facilitate digital research on-the-go, but also enable new shopping behaviors and services, including location-based offers, mobile-based loyalty programs and in-store payment via mobile device.

Brand favorability has for years been flowing to providers of information-rich experiences and user-centric design, such as Apple, Ikea and Sony. Customers are bonding with their favorite digital brands. Nimble digital operators selling books, video subscriptions and shoes definitively fended off online challenges from multi-channel rivals, even as the more established companies deployed what looked like the same digital offering as their upstart competitors.

## How We Market Now

If the essence of DR marketing is tracking the results of individual media placements, it can fairly be said that online's impact on offline sales exists almost entirely outside its scope. Cross-

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<sup>1</sup> Abraham, Magid, "The Off-Line Impact of Online Ads." Harvard Business Review, April 2008

<sup>2</sup> FCC study "Broadband Adoption and Use in America," Feb. 2010

<sup>3</sup> The Nielsen Company, Nielsen Wire post, June 4, 2010

channel effects are rarely tracked. Important as it is to the crucial matter of influence, the shift in consumer behavior toward information-rich digital experiences is not something retail DR organizations are designed to address. The explanation is simple: DR organizations are organized by channel.

With a singular sales channel, the question of advertising influence on purchase behavior can be answered through simple scientific testing: Count how many people who receive the catalog order from the catalog. With multiple sales channels, problems are more complicated but remain straightforward: count how many clipped the store coupon and came to the store, count how many received the catalog and ordered from the catalog, and study the effect of overlap to see if it's worthwhile to do both.

These examples are intended to illustrate DR marketing's foundation in a world of independent causes and effects, separated by geography or demography in reproducible tests. They explain why a suite of especially trackable new channels – online media, search and email – were treated by DR organizations as independent and controlled: See how many who click the banner ad purchase online.

Consumer behavior research proves beyond reasonable doubt that this assumption is faulty. When online behavior impacts offline sales in significant ways that are not tracked, the measured impact of all DR media is inaccurate.

There is no off-the-shelf fix. It's difficult to measure the impact of “both,” as with couponing and cataloging, because online and offline media are tracked differently. While paid search can be geographically targeted and tracked, there is no traditional “demographic” element within it. The problem of interdependence is even more complex. Imagine trying to test into the right mix if clipping a coupon made some prospects more likely to receive a catalog. This is the effect that online media and email have on search ad consumption.

The daunting challenge of integrated DR causes considerable worry within established multi-channel retail organizations. In the world of pure-play online retail, marketing departments are moving more quickly to face their smaller, but nonetheless non-trivial task of optimizing the three major digital channels together. They are combining data sets, and testing into multi-touch contact strategies to maximize return on ad spend across online media, search and CRM. They will be well positioned for a spike in mobile-enhanced shopping.

There is little reason to expect multi-channel retailers' online divisions to match the ability of online players to enact integrated online-only DR. Because the question of offline impact renders any online-only solution sub-optimal, it's not in their interest to try.

Because the only alternative is to lose share, Razorfish and Google believe that multi-channel retailers must take immediate steps to address the problem of integrated DR.

## Recommendations

Multi-channel retailers have significant assets to bring to bear against pure-play competitors: greater brand recognition, a fleet of stores their customers enjoy visiting and an established DR organization with reams of purchase-history data. Growing share will require leveraging all three in digital. Here we'll focus on the last: How to start building an integrated DR program on the foundation of an existing, offline-focused DR process.

From the marketer's point of view, the desired endstate is a hub-and-spokes model with an accessible purchase-history database at the center. In this goal scenario, every channel goes to market with the same customer segmentation and line of sight into recent history. ROI is computed according to an attribution model of cross-channel sales influence. Channel managers pursue and measure against several goals simultaneously – not just cost per sale, but cost per new customer, cost per repeat purchase, cost per win back, etc. Wherever marketers can't close a sale, they'll aim to advance a prospect down the funnel.

Many large retailers require significant infrastructure upgrades to enable accessibility of their purchase-history data. Building the business case for these upgrades calls for a series of incremental steps.

To increase organizational awareness of the opportunity at hand, Razorfish and Google recommend a two-part, iterative process of (1) discovering high-value, cross-channel behaviors and (2) testing into multi-channel profile-to-purchase models.

Step One begins with tracking a single multi-channel behavior path, using one of these three established methods:

- Couponing: Deploy an online-only offer for use in stores
- DMA Test and Control: Geographically separate online efforts and measure all impacts
- Loop closing: Use online activity for multi-channel attribution through the use of a Primary Key. This can be accomplished by matching credit card numbers, and/or by driving store customers to an online activity (opening an email is enough)

Step one of the iterative process is completed by calculating the relative profitability of tracked multi-channel customers. Compare their profitability to that of a sample of online-only customers, and to a sample of offline-only customers.

Step two involves hypotheses on how to maximize high-value behavior, and testing. While the DR organization's knowledge of contact strategies and merchandising will help in brainstorming ideal sequences, workflows that encourage collaboration among experts from various silos may increase the likelihood of innovative contact strategies.

Repeating this two-step process will gradually produce new profile-to-purchase knowledge, and increase confidence in the predictability of cross-channel models. It's in the context of several iterations that proposals to support integrated marketing with database-infrastructure changes will make the most sense.

Measuring impact of initial testing on brand perception goals might also help support the case for a transition to integrated DR. It's worth noting that integrated DR incentivizes optimization of the user experience toward satisfaction. To the extent that cross-channel marketing supports a growing behavioral trend, it is inherently customer-centric.

Through loyalty programs, the consumer habit of trading (however consciously) behavioral data for better service has become ingrained. Updating this classic marketing strategy is a must for multi-channel retailers facing pure-play digital competition. It starts with an open-minded assessment of how your best customers behave.

## Conclusion

In eight years of experience consulting with multi-channel retailers, Google and Razorfish have met none who doubt the significance of online activity for in-store sales. How to quantify the impact and allocate resources appropriately is a challenge that must be met if multi-channel retailers are to maintain share against pure-play online competitors.

We believe the best solution for DR organizations is to adapt existing metrics to the reality of current consumer behavior. We encourage every advertiser to test and evaluate predictability across, as well as within, channel silos. We expect advertisers to invest in whichever tactics work best. A renewed commitment to measurement and experimentation will reveal the role online advertising should play in multi-channel prospecting and retention.

## About the Authors



Adam Heimlich is a Group Search Director of Razorfish's East Region, and the Search Marketing Discipline Lead for the agency. He joined Razorfish in 2006 to helm the search team serving Capital One, and later guided search strategy for Victoria's Secret, Ralph Lauren, Starwood Hotels and Schering-Plough. Before Razorfish, Adam worked at the search agency iCrossing, where his clients included Citibank and Fairmont Hotels. Adam originally learned search marketing in 2002, at an electronics e-tailer, Partsearch Technologies. His entry into online marketing followed eight years in print media.



Brett Goffin has been at Google for 7 years and holds the title of Head of Industry, Retail. In this position, he focuses on the strategy and execution of effective online campaigns which help Fortune 500 retailers connect with consumers. Prior to his current role, Brett held the title of Head of Trade Promotion. In this role, he was in charge of applying the concept of trade promotion to Google's sales and product strategy, and helped retailers figure out how to attribute the impact of online media to offline store traffic and sales.

Brett is an industry leader who has represented Google publicly at numerous industry events, including Shop.org's Annual Summit and the Sporting Goods Manufacturer Association Sport +Technology Convergence. Additionally, he is on the board of directors of the Electronic Retailing Association where he previously chaired it's Education Committee and was co-chairman of the Retail Council.

Prior to Google, Brett was in rich media technology sales and was an Account Group Director at the interactive agency, Beyond Interactive where he worked on accounts such as GlaxoSmithKline, Reebok, Canon, and Verizon.

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