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**Using of target customer
purchase information in
retail chain management**

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1. Introduction

The competition in the grocery market has been increasing due to the internationalisation of trade. The growth of trade has stabilised and consumers' elasticity to prices has increased. At the same time, there is a demand for better quality and service and increased scepticism towards branded products.

In the changed conditions it is impossible for retail chains to offer everything for everyone. A chain can simply not offer the best quality and service with the lowest price. Therefore it is essential for a grocery chain to recognize its potential target groups, differentiate its services and tailor them to meet the needs of the targeted consumer segments or even the individual consumers (Home 2000, Kotler 2000, McGoldrick 2002).

This article introduces a normative model which concentrates on using the comparative information on a retail chain's customers and information on customer purchase history in the creation of a chain concept. This article concentrates on retail chain's intra-organisational collaboration and the collaboration with suppliers is excluded. The model's aim is to direct and measure a retail chain's processes taking into account the changed conditions. The model draws on different publications on marketing, retail management, customer relationship marketing, process management, consumer behaviour and certain sectors of Efficient Consumer Response, ECR (demand management and management information system). In recent publications (for example ECR Europe 2003) ECR includes also customer relationship management (CRM) which is one of the main issues in this article.

2. Using the information on customer purchase history in the processes of retail chain

Commerce networks are still incapable of delivering exactly what the consumers desire due to the lack of consistent and effective intraorganisational marketing (Jones & Mitchell 2002). The customers and their needs should play a central role in all activities (McGoldrick 2002). However, in retail the consumer seems to be regarded as an individual only on an individual store level. Up to the recent years a live customer with individual needs has remained rather an abstract concept in the chain management's development and management processes. Customer surveys have influenced the publicity of retail groups and chains as well as the development of new sites but the overall business development has remained quite unaffected (Alhava 2001). This chapter will concentrate on the obstacles of a customer-centred approach. First the model's most essential concepts and retail processes are introduced and then the model for minimising the problems discussed above is presented.

2.1. Unifying commerce activities and the consumer needs

Typical common features of different retail chains are joined ownership, centralised management, similar outline of individual stores, and ownership of at least two stores (Stern and El-Ansary 1988, 47). Gist (1974, ref. Kotler 1984) defines a retail chain as consisting of at least two stores with joined ownership and management, centralised purchasing as well as a similar range of products. The different stores also often resemble each other in design.

A retailer's chaining activity is based on its business idea (Vaattinen 1990). In this article, the concept of business idea is summarised in the following questions: what is being sold, to whom and how it is sold (Abell & Hammond 1979, Vaattinen 1990). Another central question of business idea is also where is it sold since the store's location is still one of the most important issues influencing the consumer's choice of a particular store. According to Finne and Kokkonen (1998), the location is in fact one of the most important aspects offering a competitive edge to a store regardless of the store type.

The purpose of a business idea is to make the company stand out from the crowd, not to blend in. At its best the business idea differentiates a company from its competitors and offers it a real competitive advantage (Siukosaari 1997, Davidson et al. 1998). The concept of chaining signifies approximately the same as the business idea and therefore these terms will be used as synonyms in this article.

Market segmentation can be considered as the starting point for developing a business idea. The primary goal is to find out whom the business is supposed to serve (TO WHOM) (Davidson et al. 1998). It is also essential to clarify the needs that the company attempts to satisfy with its product portfolio and services (WHAT and HOW). Thus the future product portfolio is planned at the same time with the customer segmentation (Vaattinen 1990). The location of the stores is naturally also of vital importance (WHERE). When deciding on the location of its different stores, a retail chain has to consider the number of the potential target customers in the area (Vaattinen 1990).

2.1.1. Segmentation (TO WHOM)

The business idea of a retail chain is based on customer segmentation. After segmenting all consumers the chain chooses the right target group for its activities. On the highly competitive market the retail chain has to meet the needs of a particular consumer group in an efficient way (Vaattinen 1990, Finne and Kokkonen 1998). The special nature of the grocery market is highlighted when the target group is defined since the retail chain has to define both the primary and the secondary target groups (Vaattinen 1990, Finne & Kokkonen 1998). The order of importance is defined on one hand by the importance of the current customers from different segments (their purchases, profitability, potential etc.), on the other hand by the objectives of the chain's customer and competition strategies (Alhava 2001).

As discussed above, segmenting signifies choosing the most appropriate target groups whom the chain concentrates on serving. In order to recognize groups requires a different development strategy, the customers within a segment are classified according to desired qualities, such as their value. A retail chain may classify its customer relationships for instance according to their quality (the relationships needed to be protected, developed or changed) or status (key customers, regular customers, potential customers etc.). (Alhava 2001, Gordon 1998, Peppers & Rogers 1999, Schusser 2001, Storbacka et al. 2000)

The chains who wish to resist competing purely on price can build customer loyalty, in the face of fierce price competition, by identifying customer segments with distinct preferences in terms of service, value, convenience and choice, and exceeding customer expectations in the delivery of these attributes within differential retail formats. (Landsverk et al. 2003).

In addition to identifying its target customers a retail chain has to identify its competitors and the competitors' target customers as well as recognizing its own preconditions for competing on the market. (Davidson et al. 1998) In accordance to the chain's business idea the process of segmentation signifies classifying the potential customers of different stores according to the expected profits and advantages (Alhava 2001).

Traditional criteria for segmentation include demographic attributes (age, sex, geographical location), socioeconomic traits (education, family size, income level), psychographic details (life style, attitudes, interests, purchase behaviour) and the profits and advantages sought by the consumer (Kotler 2000). Segments also have to meet the following requirements: countability, identification and homogeneity. They also have to be different enough from other segments and attainable to the retailer's marketing (Davidson et al. 1998, Kotler 1984, Kotler 2000, McGoldrick 2002). Technology and market surveys today offer the possibility to study the customer more closely on a group level and even on an individual level.

Segmentation can be presented as a form of matrix. Figure 1 presents an example of segmentation matrix defined by Hayward (2003).

	Cautious/ conservative	Adventurous / spendthrift	Basic shopper	Sophisticated consumer
Young/single				
Young family				
Older family				
Empty nester				
Retired				

Figure 1. Simplified segmentation matrix (Hayward 2003)

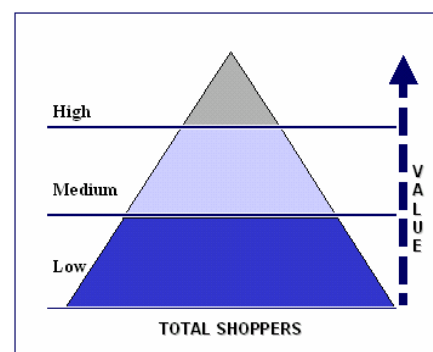


Figure 2. Customer value pyramid (Hallberg 2002, Hallberg 2003, Hayward 2003)

To be able to measure customer relationships a chain needs segmentation concentrating on customer value. A typical example is the widely used customer value pyramid (figure 2) (Hallberg 2002, Hallberg 2003, Hayward 2003). In order to measure and manage the chain concept it is important to combine the different segments depicted above (figure 3). The value pyramid shows what actually happens and the segmentation matrix reflects the reasons and portrays the strengths of the activity. Thus the different processes form an entity which avails in managing and surveying the functioning of the concept of chaining in real time. Individual processes may also require other segmentation criteria. However, this article concentrates on the overall view on different processes.





















	Cautious/ conservative	Adventurous / spendthrift	Basic shopper	Sophisticated consumer
Young/single				
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Empty nester				
Retired				

Figure 3. Combined use of segmentation matrix and loyalty pyramid (Hayward 2003)

2.1.2. The needs of the target group (WHAT and HOW)

The supply and demand of consumable products has changed significantly all over Europe within the last 20 years. A process of individualisation is ongoing: family members consume on individual basis and a consumer's activity no longer reflects his/her age or income. The working culture has changed and as a result consumers have less leisure time than before. People do their shopping in several stores instead of just one and at the same time they spend less money in one store (Soars 2003, Leech 1999). People no longer consume only to satisfy their basic needs; instead they strive at influencing others with their consumption habits (Forsberg 1998). With the changing structure of retail business consumers have a bigger freedom of choice in relation to different stores and product supply. Retail chains, supermarkets and stores have specialised services and their product supply has expanded quite significantly. (Raijas 1997)

2.1.3. Factors influencing the customer's choice (WHERE)

The central aspects influencing the consumer's choice of a particular shop or supermarket are the location, the physical structure of the supermarket (such as the placement of shelves and the width of the aisles), the lighting, the number and location of cashiers, the product lay-out, the assortment of goods (width and depth: for instance the ratio of groceries and supermarket's own branded products), the quality of the products, the price level (pricing), the standard of service, the atmosphere, the publicity (including mass marketing and database marketing), the

different promotions, the staff and the other clients (Mahatoo 1985, Laaksonen 1987, ref. Boedeker 1993, Loudon & Bitta 1993, Rajjas 1997, Aaker 1996, Corstjens 1995, Foxall et al. 1994, Koskinen 1999, Landsverk 2003). Through these criteria a retail chain concretely communicates with the customers enabling an interactive relationship. (Finne 2001, McGoldrick 2002)

2.2. Managing the concept of a retail chain: the different processes involved

A customer-centred approach is generally regarded as problematic in relation to the management of a retail chain. This is primarily due to the lack of efficient intra-organisational marketing function which perceives the customers and their needs as the centre of all activities. (McGoldrick 2002).

One of the central aims of relationship marketing is minimising this problem. In effect the importance of intra-organisational collaboration is strongly emphasized. The customer interface is broad involving often even a large number of part-time marketers in several different functions. A successfully implemented interactive marketing performance requires that all parts of the firm that are involved in taking care of customers can collaborate and support each other in order to provide customers with a good or total perceived quality and make them satisfied. Thus for a firm pursuing a relationship marketing strategy the internal interface between marketing strategy and operations, personnel and other functions is of strategic importance to success (Grönroos 1994).

Customer relationship management (CRM) is based on relationship marketing theories. According to Dyche (2002), the best companies applying CRM philosophy understand how to improve business practices and customer relationships by using CRM technology and customer data as a part of a cross-functional program that also involves process and organisational changes, with the ultimate goal of differentiation through superior customer relationships. According to Rigby & al. (2002) CRM aligns business processes to create a winwin situation: customers receive the shopping and service experience they deserve while the company receives customer loyalty resulting in increased business. In this article the definition of CRM is summarized as: to improve chains performance at every point of contact with its target customers, to make them happier and the company richer (Humby et al. 2003).

Process management also emphasizes the customer-centred approach and the intra-organisational communication. In fact, process management marks a significant change in the company's course of action: instead of a functionalist approach the company's management and organisation is based on process-thinking and emphasising the customer's needs. Process management enables a thorough development of the customer-centred approach since in business processes the customer's needs and their satisfaction are both the starting point and the end result of all activities. New product development and managing the customer base are typical examples of different business processes. Having an internal or external customer and a customer-centred approach in the evaluation of the efficiency of business processes are some of the typical features of a business process as defined in process management. (Hannus 1994).

During the last 15 years, the largest retailers have been concentrated on reinventing the processes that make customers and shop value each other profitably (Harris 2003). According to Frantz (2003), a retail chain may invest large sums of money in optimising technologies without any profit if it does not amend its business processes so that the information offered by these technologies is actually used to profit the company. Frantz claims that the leading retailers have acknowledged the importance of amending the old processes most likely reducing the amount of potential profits or suppress them altogether.

Only few studies have been published on retail business processes and process management. Here these business processes are presented following the traditional 4 P-model (product, price, place, promotion) presented by Kotler. According to McGoldrick (2002), the basis for planning a marketing strategy for retail is understanding the consumer's needs, motives and decision making processes. The most successful companies are the ones that are capable of efficiently establishing a product and service mix which focuses on satisfying the needs of a clearly defined consumer segment or group (McGoldrick 2002).

The concept of retail mix developed alongside with marketing mix

Lazer and Kelley (1961, ref. McGoldrick 2002) defines retail mix as: "The total package of goods and services that a store offers for sale to the public" and "the composite of all effort which was programmed by management and which embodies the adjustment of the retail store to its market environment". McGoldrick states that "this early definition rightly emphasises that retailing is not just about offering products for sale, but a complex product/service proposition". The previous chapter introduced the points of contact and interaction between the customer and the retail store as well as the aspects influencing the customer's choice of store and its location. The figure (figure 4.) below depicts the theoretical processes of a marketing mix based marketing plan which takes these aspects into consideration.

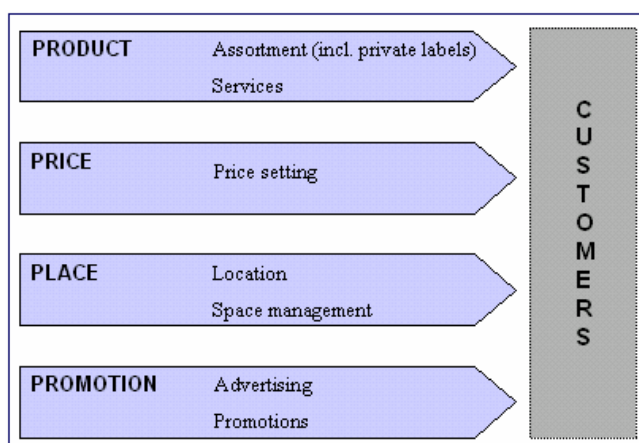


Figure 4. The modified marketing mix based on the factors influencing the customer's choice of store.

Data needed by retailing business processes

A basic enabler for creating consumer value is the availability of detailed and reliable consumer data. Multiple data sources need to be integrated in one data warehouse. The data warehouse content is used for strategy development and implementation, day to day decision support, commercial action evaluation and interactive communication with target customer/customer segments. (ECR Europe 2003)

Accessibility has been a serious problem with the traditional retail segmentation studies. Thus retailers could have not been able to do targeted direct marketing to customer segments. (Finne 2001) Customer loyalty programs have enabled the identification of a single shopper and made it possible collect customer purchase history information about their club members. Emerging technologies and channels will offer new ways for capturing and managing detailed customer data. Customers purchase history information should include at least the identification element “who” and purchase history element “what” to be able to provide a single view of a customer’s buying behaviour. (Finne 2001; Laine 2001) According to Laine (2001) individual level data can be used to build aggregate analysis to mass customise the offer to the customer. It is not only used for analysing customer behaviour and direct marketing purposes, retailers can use it also in other areas, like ranging/merchandising and location planning.

The comparison material used in this article draws on different external sources. The competitor information is gathered from different data on market, such as AC Nielsen’s Scantrack, different panel methods and government maintained register of different stores. Customer information is also completed with sample material on market, found for instance in the Accorn and government maintained regional registers. The comparison material collected from different sources is integrated with customer purchase history into a customer oriented data warehouse (see figure 5).

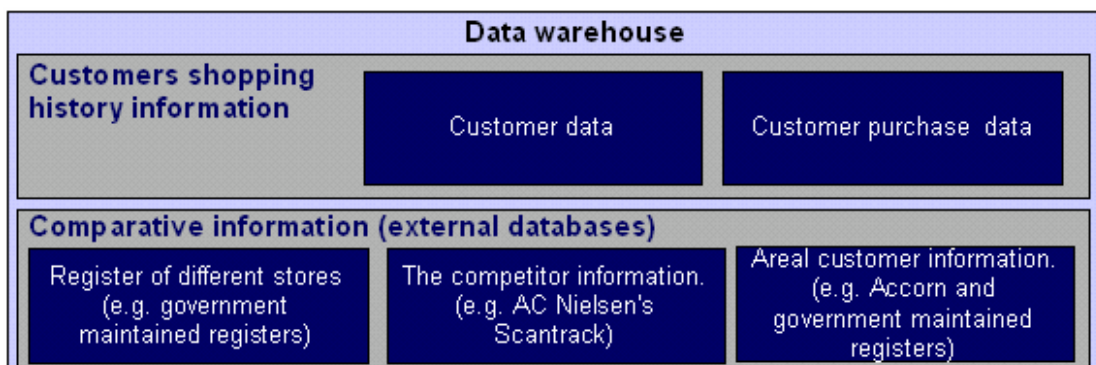


Figure 5. Customer oriented data warehouse

Analysing the data

The data warehouse can be used for simple searches and reports. However, when more in-depth information is required, different analytical methods have to be used. They offer the user the right tools and methods for finding the required information from a great amount of data. The analysis can be direct (when a solution to a specific problem is sought) or indirect (the search results are used to raise problems and a follow-up analysis then concentrates on solving these problems).

In this article CRM is divided into operative CRM and analytical CRM. In the operative CRM the frequent customer programmes play a central role. According to Arantola (2002), these programmes reward customers in a variety of ways for coming back and are usually directed towards large groups of customers. CRM-systems offer the organisations the possibility to form specific customer profiles which enable efficiently targeting marketing promotions for potential customers. As well as being used in surveying the impact of marketing programmes, CRM-systems can also be of great utility when making strategic plans (Harrison 1993, Mann 1990, Shani & Chalasani 1993). Customer relationship analytics makes sense of the mounds of data you're collecting from CRM systems, databases, and transactions. Customer relationship analytical tools can provide a 360-degree view of customers, helping you understand what customers are telling you, who they are, what they need, and more importantly, what they may do in the future. These systems enable fact-based decision making. (Hughes 2001). Analytical CRM enables the organisation to better know its customers and to find new means of yielding value from customer relationships. One of its central objectives is to produce valuable information on customer relationships for everyday decision-making. Analytical CRM integrates the data from different sources into one system which can be used as the basis for decision making.

Data mining (DM) is the central element of CRM (Hughes 2001; Hall 2002). DM enables to mould customer information into a consistent form which can be used for custom development and management. The traditional information systems are not sufficient and intelligent enough for sourcing and analysing customer information from a large sample data in an effective way. As a result, several commercial DM softwares have been developed to meet the needs of the market. The purpose of DM is to enable a company to know its customers better. It is specialised in the analysis of wide databases since the traditional methods are sufficient enough for more limited databases (Cabena et al. 1997). DM helps organisations find previously unknown causes and effects from wide information bases to facilitate their decision-making processes. It enables highly demanding in-depth analyses. The major challenge for this method is to restructure the data into a form which allows an efficient use of algorithms (Huges 1994, Berry & Linoff 2000).

3. Theoretical model for realizing the customer-centred approach of the concept of retail chain based on target customer purchase history

In this chapter a theoretical model of the management of a retail organisation's business processes using customer purchase history and comparative information as the basis of activities is presented. The model depicts the concrete steps an organisation can take to meet the challenges of target group demands in all business sectors. The model presents an entity of business processes which constantly produce CRM-information utilizing the information provided by the chain's concept. This information enables the management of the concept so that it is in accordance with the target group's needs. It also evaluates in real time the functionality of the chain's concept and the different processes involved. The model can be divided into

four main categories: 1) the concept of a retail chain, 2) the processes of marketing mix and the product and service supply they offer for customers, 3) data warehouse, 4) the CRM-process managing the integrity of processes.

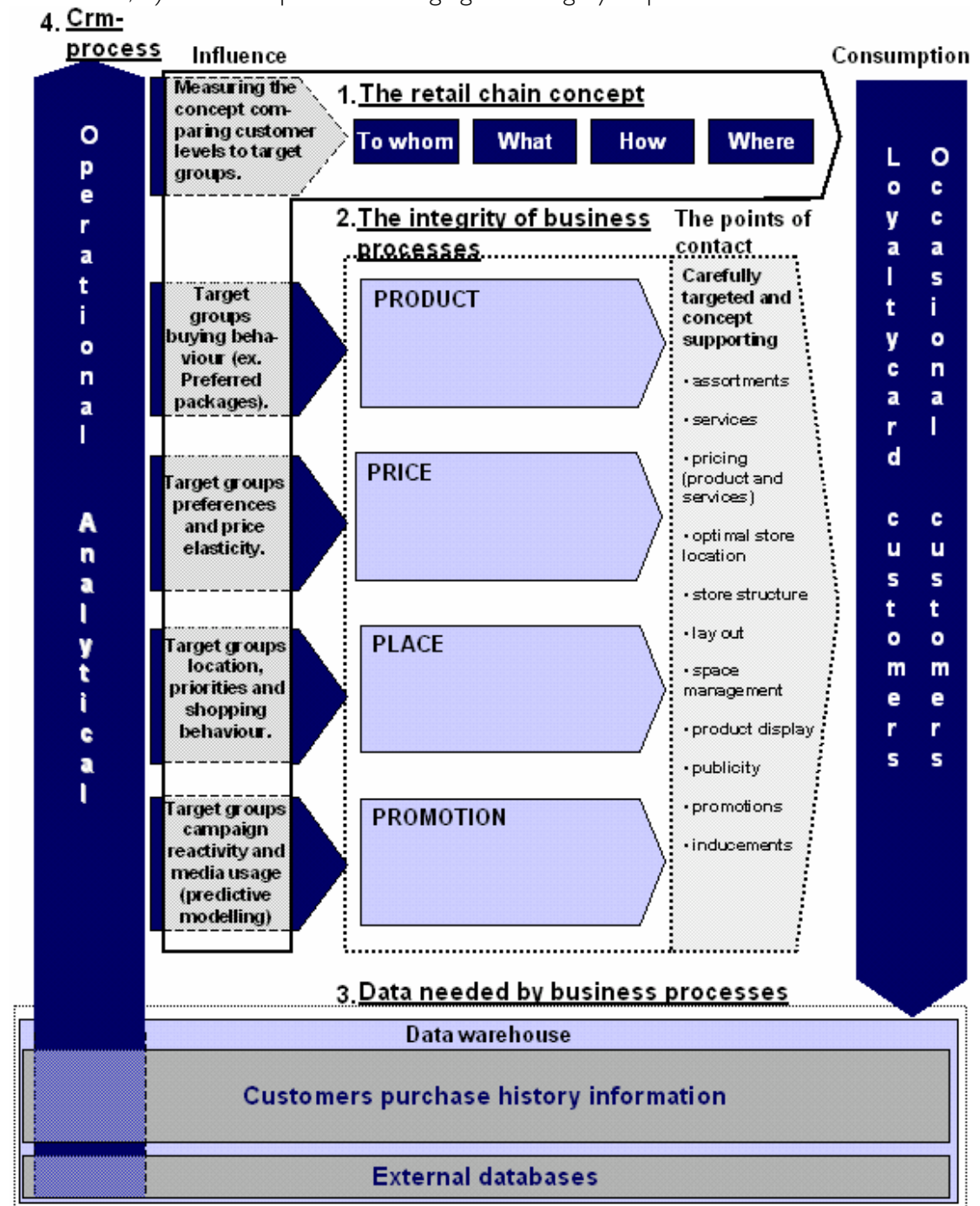


Figure 6. Theoretical model for realizing the customer-centred approach of the concept of retail chain based on target customer purchase history

Figure 6 represents a theoretical model of an integrity of business processes which utilize customer purchase history in the management of a retail chain. Below the different parts of the model will be discussed in more detail. This discussion is followed by a speculation on the model's benefits in relation to both the integrity and the processes.

1. The retail chain concept

The “chain concept” defines a retail chain’s target groups, product and service supply, marketing functions, and business locations. The concept reflects the retail chain’s business principles and offers the grounds for managing the business activities. The chain concept is in fact a process: it has to follow the changes in the environment and in customer needs. However, the cycle of the concept’s changing process is extremely slow. The chain concept gives an answer to the questions: to whom, what, how and where.

2. The integrity of business processes behind the activities that are visible to the customer

The 4P marketing model is defined by Kotler. In this article the model is modified to the needs of retailing. In this article the term “product” includes both the product range and the service concept. “Price” is used to define the pricing of products and services. “Place” refers to the optimisation of store location under the conditions defined by the concept as well as the product group’s internal and intermediate space management. “Promotion” includes publicity and direct marketing, marketing campaigns and the inducements the frequent customer programmes offer for the clients. These four P’s constitute an integrity consisting of customer-targeted product portfolio and services as well as the target customer allocated pricing; all compatible with the concept. In this article the central aspects of the modified 4 P-model are optimal store location (from the target group’s point of view), store structure, management of space, product display, carefully targeted publicity (which supports the retail concept), promotions, and inducements offered for the frequent customers.

It is through these points of contact that the customers interact with the retail chain. The customers include both the frequent customers who carry the retail chain’s frequent customer card and the occasional customers who do not possess this card. The frequent customer card naturally offers the retail chain specific information on the cardholders. This information facilitates customer segmentation and the evaluation of the concept. The information on the occasional customer is used as comparative information, it also offers possibilities to internally optimise the processes.

3. Data needed by business processes (data warehouse)

For efficient and in-depth analysis the data needed by the processes is integrated into a data warehouse. This includes information on customer purchase history and supplementary comparative information. The comparative information consists of the occasional customer’s purchases, information on the competitors and the market as well as on the store network. The databases including information on regional consumer structure are also often used. All this data forms a representative sample for the customer-centred evaluation and optimisation of the concept and its processes.

4. The CRM-process

The CRM-process forms an intra-organisational marketing function which brings the customer into the central position in all activities. The CRM-process consists of an operational function and an analytical function. Operational CRM includes the frequent customer programme and its main function is to evaluate the customer loyalty and value for the organisation. The information collected with operational CRM is used in the formation of a customer loyalty segmentation including factors such as loyalty, the amount of purchases, and the frequency of shopping in a particular store. Analytical CRM attempts to explain the customer development depicted by operational CRM. Data mining is the central element of analytical CRM. Analytical CRM consists, among other things, customer/market segmentation based on for example geodemographic and behaviour-based information.

In relation to the integrity of the processes individual level data is used to build aggregate analysis to mass customise the offer to the target customers. Customer segmentation done on individual customer level enables customized campaigns for target segments. This signifies that the retail chain can proceed from “marketing on the averages” to “marketing on the differences”.

The influence of CRM-process on the retail chain concept and the integrity of business processes (the modified 4P model)

Concept:

When an existing business idea/concept is evaluated and updated the emphasis is on the profitability of the customer segments representing the target groups, on the study of their proportion and on the concentration of activities to serve the customer groups that are most profitable and best suit the organisation’s business idea. The validity of target groups or activities can be measured by comparing the custom levels with the primary and secondary target groups as well as with the rest of the clients. Frequencies and regional potentials can be calculated using the information on customer purchase history and the regional comparative information.

Product

The product and service supply can be constructed on the basis of the needs and desires of the target groups. The planning of new products is simplified when the retailer can survey the target group’s behaviour and analyse the product groups with growth potential. The categories and products which are offered in store can be more carefully analysed. There the process is also connected to the category management.

Price

The possibility to analyse the price consciousness of the target group. The price elasticity and preferred price points of the target group can be more carefully defined.

Place

The regional and positional location of the stores can be based on the number of target group customers living or spending time in the area. The relation between location and target group is especially important for retail chains which use more than one channel, for instance a supermarket and a convenience store.

When planning the use of space inside the categories and the positioning of different product categories in the store, the retail chain has to take the target groups' preferences into account. The space of the categories can be more accurately allocated through the target groups preference information.

Promotion

Marketing will be able to track responses and predict results to particular promotions or campaigns among targeted customer segments. Mass marketing can be directed to the media the target segments use and the regional mail marketing can be tailored according to regional differences. In individually tailored direct marketing the process is taken on an even more personal level. Solutions that bring additional value to the target and customer groups can be used as inducements.

4. Summary

In today's highly competitive environment, retail chains need to have better understanding of their customers: which customers are the most profitable and suitable to the chosen chain concept.

Customer relationship management has created new possibilities to utilize customer purchase history. In this paper a normative model of using the customer purchase history and the comparative information in the creation of a chain concept is presented.

The theoretical model presented in this article is based on the following discussions: Kotler's 4P model, publications on marketing, retail management, customer relationship marketing, process management, consumer behaviour and certain sectors of ECR. The model can be divided into four main categories: 1) the retail chain concept. 2) the integrity of business processes 3) data needed by business processes and 4) CRM-process.

In the end the 4P model has been modified to the retail business and the possibilities of the CRM process in these parts has been presented.

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