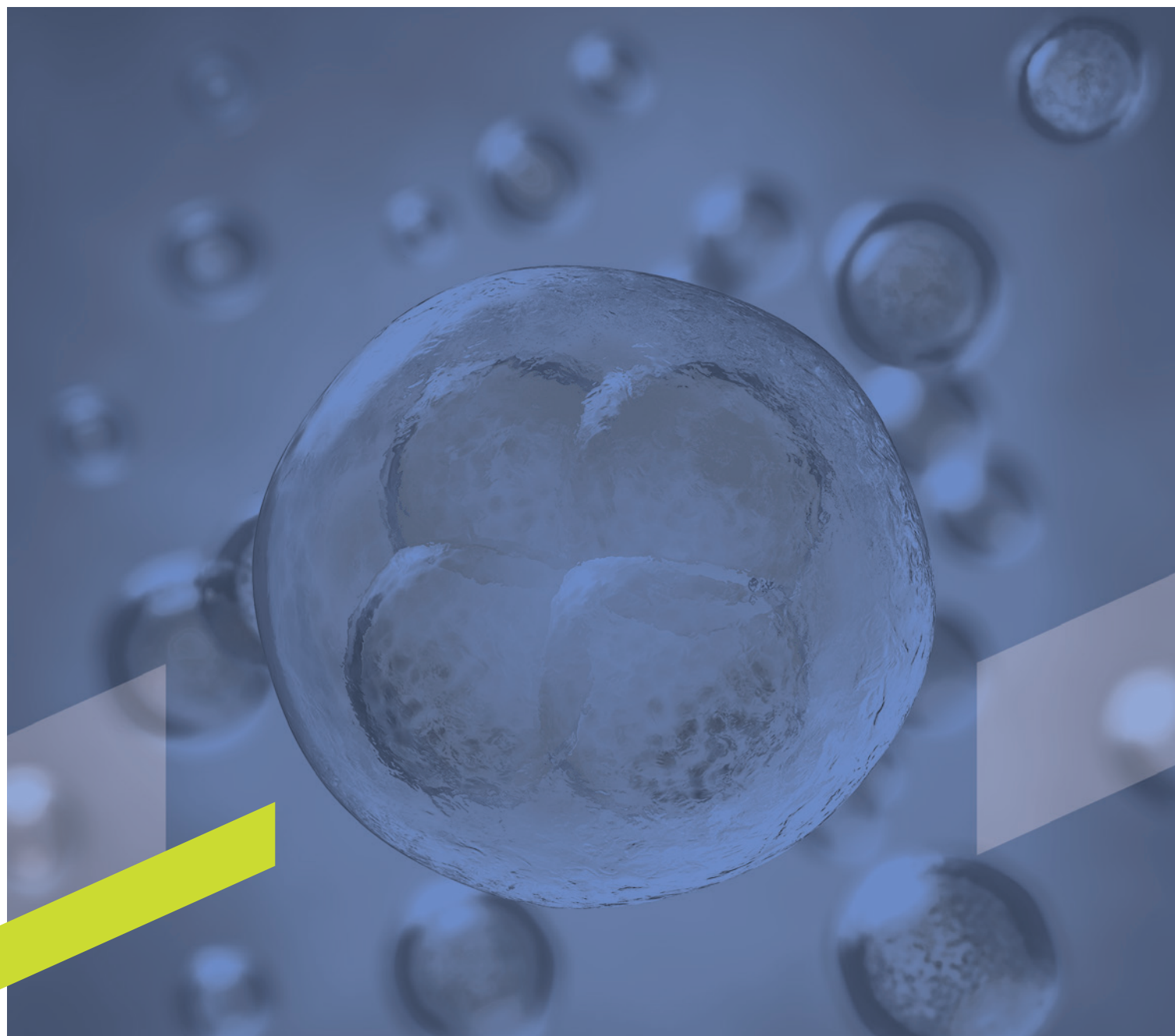


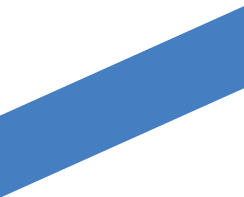
# ERFM: HOW TO UNDERSTAND CUSTOMER ENGAGEMENT BETTER THAN EVER

HOW THE NEW SCIENCE OF SEGMENTATION PROVIDES DEEP BEHAVIORAL INSIGHT



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# A NEW APPROACH TO CUSTOMER ENGAGEMENT

A Royal Mail study found that the number of online-only retailers in the UK doubled between 2008 and 2012<sup>1</sup>. Retailers face a growing pool of competitors, and consumers are besieged by choice.

For an online retail business to succeed in this environment, marketers need to be able to gain the attention, enthusiasm, and loyalty of customers, and convert that engagement into sales. But in an era of marketing overload, generic communication based on broad segmentations like age, gender, geography, or the recency, frequency, and monetary value (RFM) of the customer's previous purchases, are proving less effective.

The only way to achieve true customer engagement is to make every interaction as relevant and personalized to the individual as possible. According to Econsultancy, 52% of digital marketers agree that the ability to personalize content is fundamental to online strategy<sup>2</sup>.

Fortunately, new technologies are emerging that enable marketers to segment their market

in far more sophisticated ways, tailor communications to individual customers based on their likes and behaviors, and track and adjust campaigns. These technologies are also enabling a new way of identifying which customers are truly engaged. This new approach, known as engagement RFM or ERFM, enables far more sophisticated segmentation than traditional RFM.

This guide will explain the emerging practice of ERFM, and demonstrate how it opens up exciting opportunities for retail and e-commerce marketers, delivering far better results in terms of extending customer loyalty, increasing conversions, and realizing better up-sell and cross-sell opportunities.

*52% of digital marketers agree that personalized content is fundamental to online strategy*

*The new approach of ERFM enables far more sophisticated segmentation than traditional RFM*

<sup>1</sup> <http://www.royalmailgroup.com/uk-online-only-e-retailing-has-doubled-entrepreneurs-build-online-success>

<sup>2</sup> <http://econsultancy.com/uk/reports/quarterly-digital-intelligence-briefing-personalisation-trust-and-roi>

# WHAT DRIVES CHANGES IN SEGMENTATION

Digital marketing campaigns that rely on broad-brush segmentations are becoming less effective at engaging consumers, for three reasons:

## CHANGING CONSUMER BEHAVIOR

Marketers who send generic emails are finding it increasingly difficult to get their communication opened and acted upon, as people have become adept at filtering out messages that don't seem hyper-relevant to them. They're being helped by technologies 'defending' their attention, from microblogs, such as Twitter and Weibo, turning information into a 140-character stream, to the 'smart inboxes' introduced by the leading webmail providers, which prioritize emails from senders with whom the recipient engages.

### WHAT THIS MEANS

In a recent Forrester study, 41% of consumers said that most emails they receive from brands don't contain anything that interests them<sup>3</sup>. Marketers who can send genuinely relevant communication clearly have a huge advantage over competitors whose messages are ignored. This means capturing engagement data, and truly understanding that data, becomes vital for effective marketing.

## DESIRE FOR THE PERSONAL TOUCH

As more people than ever research and buy products online, traditional shopping experiences are being lost. But research shows consumers still want shopping to be a pleasurable, personalized experience, despite the fact that the relationship is built through a screen. Nearly 20% of consumers surveyed by the EIU said references to previous transactions made them feel valued<sup>4</sup>. For example, Aberdeen Group research suggests personalized emails improve click-through rates by up to 14%, and conversion rates by 10%<sup>5</sup>.

### WHAT THIS MEANS

Sending a generic message to a broad segment of your database is increasingly less likely to generate a response. In fact, non-personalized communication could damage, not support, your relationship, as consumers begin to expect better. And with information sources less within a brand's control than ever, we rely more on customers to share our stories. Impersonal marketing is less likely to trigger positive shares.

<sup>3</sup> <http://www.forrester.com/Consumer+Email+Attitudes+Continue+To+Improve/fulltext/-/E-RES95861>

<sup>4</sup> <http://www.chiefmarketer.com/database-marketing/personalization-vs-customization-how-marketers-candeliver-what-consumers-want-15092013>

<sup>5</sup> [http://www.hubspot.com/marketing-statistics#Email Marketing](http://www.hubspot.com/marketing-statistics#Email+Marketing)

## FLAWED ENGAGEMENT MODELS

In the widely used RFM model, 'engaged' customers are those who have recently purchased something of value. But this model ignores customers who are highly engaged with the brand but haven't yet, or recently, made a purchase.

### WHAT THIS MEANS

Relying on RFM means missing opportunities to build relationships with customers who are likely to purchase in the future, or to recommend the brand to others.

*Relying on RFM means missing opportunities to build crucial relationships with customers*

“Capturing and truly understanding engagement data becomes vital for effective marketing”

@EmarsysUK

A person's hand is shown holding a spray bottle, with a fine mist being emitted from the nozzle. The entire image is covered with a semi-transparent green filter. In the bottom right corner, there is a small blue geometric shape, possibly a logo or design element.

# THREE IMPERATIVES FOR DIGITAL MARKETERS

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It's clear that traditional approaches to marketing communications are losing effectiveness as customers increasingly want and expect to be treated as individuals.

So what can marketers do to turn the situation around? We see three imperatives for marketers who want to transform declining conversion rates into stellar results.

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Gain accurate, detailed insight into each customer's personal interests and preferences.

Develop a more sophisticated approach to segmentation based on that insight.

Use that sophisticated segmentation to create truly personalized, relevant communications.

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All of these things are predicated on being able to fully understand each customer's likes, behaviors, and preferences; whether explicit, such as when the customer has ticked a box indicating they are interested in receiving information on a particular type of product, or implicit, such as when a customer repeatedly views web pages about a particular type of product.

Having access to a 360° view of the customer can reveal huge amounts about what they really want and are interested in, as well as the true extent of their engagement with the brand. Yet the EIU finds that almost half of marketing executives currently lack the capacity to analyze customer data<sup>6</sup>, creating a major obstacle to implementing customization strategies.

*A 360° view of customers' implicit and explicit preferences results in better personalization and engagement*

*The three imperatives for digital marketers: insight, segmentation, personalization*

Having access to a full range of data about the customer allows sophisticated segmentation that results in engaged customers.

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<sup>6</sup> <http://www.chiefmarketer.com/database-marketing/personalization-vs-customization-how-marketers-can-deliver-what-consumers-want-15092013>



How to Understand Customer Engagement Better Than Ever



# NEW TECHNOLOGIES GO BEYOND



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Now, a number of new technologies are converging to provide that full view of the customer.

Today, there are new systems for gathering data about the customer from many different sources, analyzing it to provide the relevant insight, and using it to create automated, personalized campaigns that deliver the right message, to the right person, at the right time.

Traditionally, marketers gathered data about customers from just a few sources, typically email opens, clicks, and purchases. That limited set of data sources gave rise to the RFM model, which defines an engaged customer by the recency, frequency, and monetary value of their previous purchases. Those customers then naturally became the core targets for digital marketing campaigns.

But this model is restrictive, it doesn't take into account customers who have never bought before. It assumes that customers who

purchased heavily in the past will continue to do so, and it fails to spot customers who weren't previously engaged but who are now highly motivated and ready to buy.

*Big data adds the engagement dimension to RFM, and produces a more nuanced view of the customer*

By using data from a wider variety of sources (so-called 'big data'), marketers can add a critical new dimension to RFM: engagement. Customer engagement can be expressed in a wide variety of ways: from 'showrooming' visits to stores, to social media shares and mentions, to activity on the brand's website, to interactions with its customer support operation.

New technologies can, for the first time, gather all of that data and collect it into a single (usually cloud-hosted) database for analysis.

There are even tools emerging that use facial recognition in stores, and GPS location and time stamps to provide unprecedented insight into how, when, and where customers like to engage with the brand. That analysis can be combined with traditional RFM measures to produce a more nuanced view: engagement RFM or ERFM.

How to Understand Customer Engagement Better Than Ever

NEW TECHNOLOGIES  
ENABLE A NEW ERA  
OF PERSONALIZATION

# NEW TECHNOLOGIES ENABLE A NEW ERA OF PERSONALIZATION

With this more granular ERFM model, you can start to understand customers, their likes, habits, and preferences, in much more detail.

By analyzing behavioral patterns that ERFM shows (e.g. 20% of customers went on to look at x after looking at y), you can forecast future customer behavior and automate personalized cross-sell and up-sell recommendations.

*Analyze behavioral patterns to forecast future customer behavior and automate personalized recommendations*

You can increase the sophistication of your segmentation and personalization initiatives (for example, surprising customers with a personalized discount based on information gained from their social media activity and browsing history), with the ultimate aim of creating completely personalized content and communication for each and every customer. The right message, to the right person, at the right time.

ENGAGEMENT	RECENCY	FREQUENCY	MONETARY
How did a customer last engage with you, when, and on what channel?	When did a customer place their last order?	How often has your customer ordered?	Which customers are spending money?
> 180 days	> 180 days	0 order	< 50 \$
91 - 180 days	91 - 180 days	1 order	51 - 200 \$
31 - 91 days	< 90 days	> 1 order	201 - 500 \$
15 - 30 days			501 - 1000 \$
< 15 days			> 1000 \$



How to Understand Customer Engagement Better Than Ever



THESE PIONEERS  
ARE SHOWING  
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# THESE PIONEERS ARE SHOWING THE WAY

Forward-thinking retailers are already adopting an ERFM approach. In doing so, they report big uplifts not just in engagement but also in conversion rates. Here are just a few examples of what retailers have achieved by adopting an ERFM-like approach:



## ASOS

has achieved **30% growth and a P/E ratio of 90** by making smart use of customer purchasing and browsing data to create personalized communications and experiences for each customer<sup>7</sup>.

## SQUARE MEAL

experienced a 67% higher click-through rate when they employed technology to send product recommendations based on online consumer behavior<sup>8</sup>.

## MADE.COM

asks visitors to its physical showroom to enter their email address into an iPad to gain access, creating an email database of demonstrably engaged buyers. One quarter of those people go on to buy online.

## AND THIS IS JUST THE START

As the tools become more widely used to combine ERFM analytics with new techniques like dynamic content insertion, automatically generated recommendations, and event-triggered communication, whole new areas of opportunity are opening up for marketers with the skills to make best use of them. And with

more software vendors starting to offer these new technologies, often on a subscription basis in the cloud, they are becoming affordable for even the smallest retailers. This puts big and small retailers on a much more even footing for targeting campaigns.

<sup>7</sup> <http://www.telegraph.co.uk/finance/personalfinance/investing/10179555/ASOS-bossonline-retailing-future-is-personalisation-and-personality.html>

<sup>8</sup> <http://www.emarsys.com/en/>



# IT'S TIME TO EMBRACE ERFM

**As traditional segmentation approaches and digital marketing techniques deliver ever-diminishing returns, retailers that embrace ERFM now will realize a huge advantage while others struggle to catch up.**

The good news is that it's not as huge a step as you might think, especially if you're already using marketing automation software to segment databases and automate campaigns.

We'd be delighted to chat with you about how you can use ERFM to deliver a more intelligent message than ever before, resulting in more actionable data, and better customer engagement as a result.

**Request a demo from Emarsys today, we'll show you all you need to get started with an ERFM strategy.**

## CONTACT US TODAY ON:

Phone: +1 844-693-6277 | Email: [us@emarsys.com](mailto:us@emarsys.com)



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# ABOUT EMARSYS

Emarsys is a leading, global provider of cloud marketing software. Our B2C Marketing Platform addresses marketers' needs for one complete and integrated solution, it combines prediction, personalization, and omnichannel automation to deliver great customer engagement, fast.

Founded in 2000, we're one of the fastest growing and most innovative companies in the industry. With over 400 employees in 13 locations, we serve more than 1,200 clients in 140 countries, including industry leaders eBay, ToysRUs, Yahoo 7, Sky, Volvo, AS. Watson Group, and World Shop Lufthansa. Every month, we segment and analyze 1 billion customer records and create more than 250,000 personalized campaigns, helping our customers grow revenue and ROI.

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THE B2C MARKETING CLOUD

Emarsys USA | 10 W. Market Street Suite | 1350 Indianapolis | IN 46204 | USA

Phone: +1 844-693-6277 | Email: [us@emarsys.com](mailto:us@emarsys.com) | [www.emarsys.com](http://www.emarsys.com)

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