

Frontiers in Retailing

Maximizing customer retention for the omni-channel retailer

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Given the retail industry’s significant shift towards digital channels, retailers must be laser focused on customer retention to maximize customer lifetime value (CLV). In the competitive landscape of retailing, maintaining a loyal customer base is crucial for sustained success. Given that new customer acquisition is typically much more expensive than retaining an existing one, effective retention strategies are integral to maximize CLV. Furthermore, happy, retained customers are more likely to recommend the business, thereby increasing the customer base at no additional acquisition costs.

As the landscape evolves, particularly with the digital shift, retailers are faced with both challenges and opportunities in nurturing loyalty. This paper delves into the core strategies essential for enhancing customer retention within digital channels. Moreover, by exploring targeted approaches such as bridging online-offline experiences, investing in personalization, utilizing CRM tools, and delivering exceptional digital customer service, retailers can cultivate enduring relationships with their clients.

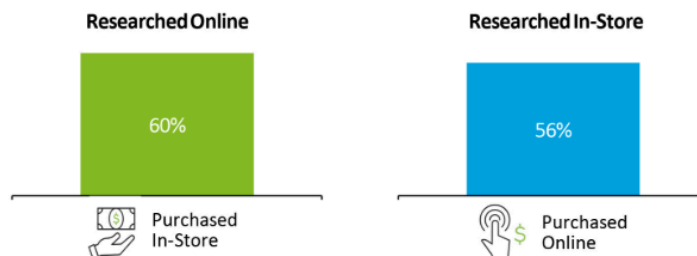
With the shift towards digital channels, retailers are presented with both challenges and opportunities in retaining customers. Here, we explore targeted strategies aimed at enhancing customer retention in digital channels.

1. Bridging the gap between online and offline shopping experiences

In the transition from brick-and-mortar to digital storefronts, bridging the gap between online and offline shopping experiences is essential for maintaining customer engagement and loyalty as a consistent experience across channels reinforces brand familiarity and reliability. Shopping is not just transactional but a multi-dimensional experience that satisfies various psychological and human needs, integrating online and offline is a critical way to deliver this multi-dimensional experience. As per [Deloitte](#), inter-connectivity between channels is important as many shoppers who research online, buy in-store and vice-versa. This means that it is no longer just about improving the customer experience, but an expectation.

MULTI-CHANNEL SHOPPING. CONSUMERS ARE MOVING BETWEEN CHANNELS DURING THEIR SHOPPING JOURNEYS; WHETHER THEY ULTIMATELY PURCHASE IN-STORE OR ONLINE, THEY ARE FREQUENTLY VISITING THE OTHER CHANNEL FOR RESEARCH

Research Channels vs. Purchase Channels



Source: InSightIQ Consumer Retail Channel Choice Survey 2021

One effective strategy for bridging this gap is by providing customers with self-service tools that seamlessly connect their offline and online shopping experiences. Retailers can incorporate technologies such as QR codes in stores, allowing customers to easily access product information and make purchases directly from their mobile devices. By scanning QR codes displayed next to products, customers can quickly retrieve detailed product descriptions, reviews, and pricing information, empowering them to make informed purchasing decisions. Furthermore, advancements in technology have made it increasingly cost-effective for retailers to detect and interact with customers both on-premises and online. By deploying sensors and analytics tools, retailers can track customers' interactions within physical stores and leverage this data to deliver personalized communications and offers through digital channels.

2. *Investing in Personalized Experiences*

In addition to making a consistent experience between channels, retailers must also enhance customer loyalty programs and invest in personalized experiences tailored to individual preferences and behaviors. Through sophisticated data analytics and machine learning algorithms, retailers can gain deep insights into customer preferences, purchase history, and browsing behavior, allowing them to deliver targeted and relevant rewards and incentives to increase stickiness. Ulta Beauty's Ultamate Rewards program exemplifies how personalization can lead to a successful loyalty program and enhanced online experience. Ulta tracks member purchases and browsing behavior to offer targeted coupons, birthday gifts based on past purchases, and points multipliers on specific categories customers are interested in. Their tiered system (Basic, Platinum, and Diamond) with increasing benefits based on spending further incentivizes loyalty. Ulta's mobile app allows for easy point tracking, reward redemption, and access to exclusive offers and tutorials, creating a cohesive omnichannel experience.

While it is clear how personalization can improve CLV for businesses, most shoppers are reluctant to share data, even though they expect a personalized shopping experience. Cybersecurity breaches such as Target's holiday 2013 headliner have further fueled their angst. This means that retailers must work to build trust and should shift focus from focus capturing value through data towards providing value for consumers in return for the consumer giving up their personal data.

3. *Utilizing customer relationship management (CRM) tools to track and analyze customer interactions*

Imagine having a centralized platform that's specifically built for retail teams to get a complete picture of all of their client information, all in one place. That's what a retail CRM is built to do. CRM software enables retailers to personalize their marketing efforts, improve customer service, and ultimately, increase customer loyalty and sales. Sephora is a trailblazer in beauty with its thriving online social community and increasingly personalized support. Sephora's quizzes and interactive buying guides are also an effective way to assimilate shopper data points that can be ultimately used to share highly personalized recommendations and offers.

CRM software companies such Salesforce are also leveraging generative AI-powered innovations that enable a faster path to purchase and greater customer satisfaction. By

powering personalized conversations with shoppers, these platforms enable customers to find products and make purchases faster using natural language interactions on digital storefronts. For example, a shopper can search for “supplies for camping trip” on a digital storefront; based on existing customer data, such as the shopper’s location, preferences, and past purchases, the AI platform can recommend a waterproof/windproof tent in their preferred color along with a link for immediate checkout. Several large retailers are also partnering with software companies to create their own proprietary platforms to analyze and track customer interactions. This stems from the fact that platform security and trust form major considerations when retailers build and develop their CRM platforms.

4. *Providing exceptional customer service through digital channels*

A poor post-purchase experience leads to negative feelings, frustration, and brand dissatisfaction. To illustrate, one survey found that 85% of consumers will not shop with a retailer again after having had a poor delivery experience. Compelling customer service — physical or digital or both — start with compelling customer understanding. Compelling customer experiences don’t have to involve over-the-top digital capabilities. Small things, grounded in human understanding, can be just as powerful. Nordstrom’s philosophy of nurturing a humane relationship with its customers, not just transactional, has been highly effective in delivering exceptional customer service over the years.

Customer service criteria also differ in-store and online. Last impressions, i.e. of the cashier at the checkout are of paramount importance and the one that sustains customer relationships. Overall cleanliness and store hygiene (including parking lot) go a long way to forge long-lasting customer relationships.

Digital customer service experiences are all about speed of delivery and the frequency of post-purchase interactions. The latter also differs widely for different categories; eg. for fashion, it is more frequent, however, for groceries, not as much.

Additionally, omnichannel communications is necessary to meet customers where they are - SMS, WhatsApp, Facebook Messenger, Instagram and more. With a robust omnichannel presence, Nike not only delivers on its feature-rich digital platform, but it is also highly accessible across different channels - you can chat with a customer support representative on its website or visit its Twitter customer service account to discuss your order.

5. *Cross-Selling Strategies:*

In the dynamic world of retail, cross-selling strategies are fundamental for increasing customer engagement and driving revenue growth. With the advent of data analytics and machine learning, retailers can now dive deeper into customer preferences and purchase histories to deliver targeted product recommendations to each individual. Listed below are different approaches to cross-selling.

a. *Harnessing Data Intelligence:*

By leveraging advanced analytics and machine learning algorithms, retailers can unlock invaluable insights into customer behavior, facilitating the delivery of personalized product suggestions. These recommendations are rooted in an

understanding of customer preferences and past purchasing patterns, ensuring relevance and resonance.

A credit card company, like Capital One, can track a customer's transactional data to determine high-spend categories. If a consumer is transacting with airlines and hotels at a high frequency, Capital One could recommend one of their travel-focused Venture cards to the customer, providing a cross-sell opportunity and higher customer lifetime value for the business and a more personalized experience to the consumer. Alternatively, Capital One could use banking and transaction data to build machine learning models that predict a consumer's credit-worthiness. This prediction could then be used to determine eligibility for cross-sell products, like auto loans or additional credit cards.

b. Targeted Marketing Campaigns

Testing and scaling targeted email marketing initiatives further enhance cross-selling in a retail company. By identifying segments of high-value customers and promoting products that machine learning models predict will be a good match for a specific client, retailers can effectively capture customer interest and drive conversions.

A traditional grocery retailer, like Walmart, can use this strategy to provide relevant offerings to consumers. Our mentor, Steph Wissink SVP and Head of Investor Relations at Walmart, shared how the company's in-app shopping experience provides human-like nudges, principally "Have you forgotten?" and "Have you heard?". Walmart's deep data algorithms can predict when a consumer has forgotten to add something to the order and which product a consumer may want to try. For example, if a customer purchases vitamins from the retailer on a monthly basis, the model may recommend targeting the consumer with a push notification in-app if thirty days have passed since the last vitamin purchase: "have you forgotten your OLLY multivitamins?" Alternatively, machine learning models may predict that a consumer that buys many wellness products would be interested in a new probiotic soda: "have you heard of the gut-health benefits associated with Poppi?" These nudges not only provide value for Walmart in that they are cross-selling the customer to items not currently in their shopping cart, but they also provide value to the customer and help build incremental trust towards the "next best action". Further, Walmart is able to generate advertising revenue through these targeted marketing actions as the brands are actually paying Walmart for them.

c. Educational Content and Interactive Guides

Interactive product guides and educational content serve as invaluable tools in illustrating the value proposition of complementary products. Whether it's showcasing how to 'mix and match' fashion items or illustrating how accessories enhance a look a consumer is interested in purchasing, these resources empower customers to make informed decisions, fostering a deeper connection with the brand.

Walmart also deploys strategies to generate cross-sell recommendations in an interactive manner. Steph provided the following example of a hypothetical Walmart consumer that may visit the website to shop for her daughter's birthday party. Rather

than the customer searching for each item needed for the party (cupcake mix, icing, unicorn streamers, unicorn posters, etc), Walmart can leverage AI algorithms to provide tailored recommendation and guides so that the customer could have a one-stop shop to purchasing everything necessary for the party. Further, Walmart is working with influencers to generate content recommendations and guides, which allows pre-existing customers to discover new products through a channel with high engagement and click-rates.

6. *Upselling Strategies:*

Upselling is a core strategy for retailers in maximization of retention. By persuading customers to purchase higher-end products or additional features, retailers can increase average profitability per customer. Executing effective upselling requires a nuanced approach to avoid alienating customers with overly aggressive sales tactics. We explore strategic methods aimed at optimizing upselling efforts across channels, thereby increasing frequency of purchase and enhancing overall customer loyalty.

a. *Curated Upsell Bundles:*

The traditional approach of upselling often involves suggesting pricier alternatives. But what if you could offer curated bundles that go beyond just products? By combining a customer's initial selection with complementary items, subscriptions, or experiences, you create a more enticing and valuable package. This caters to the "one-stop shop" mentality and offers a clear benefit – a complete solution or enhanced enjoyment. Retailers can analyze purchase history and browsing behavior to suggest items that truly complement the initial choice.

Companies can take it a step further with innovative bundle concepts. Imagine a camping tent bundled with a camp cooking recipe book, a lantern, and a stargazing app – a complete experience under the stars. Subscription bundles can combine a fitness tracker with a discounted workout video service or a meal plan service. Amazon Prime's subscription service offers free two-day shipping, access to streaming services like Prime Video and Music, and exclusive discounts. Cause-based bundles let customers feel good about their purchase by directing a portion of the proceeds to charity. While previously known for their "One for One" program that donated a new pair of shoes to a child in need for every pair purchased, the footwear retailer TOMS now focuses on donating a third of its annual net profits to grassroots organizations focused on mental health, access to opportunity, and ending gun violence. Limited-edition bundles with exclusive products or designs create a sense of urgency and exclusivity, perfect for seasonal items or new launches. Finally, leverage social media or customer reviews to identify popular product pairings within your customer base. This can surface unique bundle ideas that resonate with specific customer segments. By thinking outside the box and offering these creative bundles, retailers can create a more engaging shopping experience, increase customer satisfaction, and ultimately boost sales.

b. *Increase Frequency of Purchases across Channels:*

Upselling can be achieved through the effective integration of digital and physical channels to boost sales frequency and customer engagement. This strategy leverages the strengths of both digital and physical realms to meet customer

expectations for convenience, personalization and accessibility, and thus enhances customer engagement and increases frequency of purchases with the brand/retailer. For example, a customer might browse products on a mobile app, make a purchase online, and choose to pick up the item in a nearby store. During the pickup, they might receive personalized recommendations or see in-store promotions that encourage further purchases. Patrons that use Starbucks' mobile app can order and pay for drinks in advance, skip the line, and earn reward points. The data is then used to send targeted promotions and recommendations through the app, encouraging repeat visits and higher order values. This smooth transition between channels enhances the customer experience and encourages repeat interactions. Moreover, by integrating digital and physical channels, retailers can offer more options for how and when customers make purchases, making shopping more convenient. Features like checking in-store product availability online, reserving items for in-store pickup, and providing flexible delivery and return options cater to the modern consumer's need for convenience and flexibility. These options not only improve the customer experience but also drive more frequent purchases as customers are more likely to turn to a retailer that makes the buying process easier and more adaptable to their busy lifestyles.

A robust omnichannel upselling strategy is crucial for retailers. Studies have shown that customers that shop across multiple channels are more loyal and engaged. To increase loyalty program signup or mobile app usage, a common tactic employed by retailers is to offer a standard discount to new customers who are willing to join their loyalty program or download the mobile app during in-store checkout. Although this strategy can be effective in boosting initial sign-ups, app usage and engagement tend to dwindle down over time. To boost cross channel engagement, most retailers offer personalized deals or birthday bonuses in-app with discounts/coupons for customers to redeem both during in-person and online shopping. To elevate the cross-channel experience and boost engagement, instead of offering a standard discount for loyalty members during checkout, retailers can consider pushing 'mystery coupons' in-app for customers to open and apply during every in-person checkout to create an element of surprise and encourage app usage. On top of enhancing customer engagement, retailer's mobile app should also offer features that simplify the in-person shopping experience. For example, mobile app should include barcode scanners to check prices and availability, detailed product information and easy navigation and checkout processes.

c. Elevating Upsells with Digital Experiences:

Beyond traditional product descriptions and static images, retailers can leverage innovative digital tools to transform upselling opportunities. This is particularly valuable when upselling higher-priced items, as customers often have reservations about fit, functionality, or aesthetics when purchasing online.

In the realm of upselling, interactive tools can significantly elevate the game. Virtual Try-On and 3D Product Modeling enable customers to see how clothes, makeup, or even glasses would look on them before committing to a purchase. Customers can experiment with different options quickly and easily. For instance, Warby Parker offers a virtual try-on tool for glasses, allowing customers to see how different

frames look on their face before purchasing. This nurtures a sense of confidence and reduces the risk associated with upselling, ultimately leading to more informed purchase decisions.

Taking interactivity a step further, AR applications allow customers to virtually place high-end furniture, appliances, or even artwork within their own homes. This visualization not only clarifies size and scale but also helps customers envision how the premium product would integrate with their existing décor. High-end furniture retailers like Arhaus and Roche Bobois leverage AR apps, allowing customers to virtually place their luxurious sofas, armchairs, or even artwork in their living space, fostering a stronger connection with the product and making the upsell more enticing.

In conclusion, increasing Customer Lifetime Value (CLV) in the retail sector, as articulated by our mentor Steph Wissink, involves increasing the value of purchases, enlarging the basket size or share of wallet, and enhancing the frequency of purchases. Successfully executing these strategies requires a robust approach that integrates proficient customer retention, cross-selling, and upselling across digital channels. This method not only enhances the shopping experience but also deepens customer engagement and drives significant revenue growth. By employing advanced analytics and personalized marketing, retailers are equipped to deliver targeted recommendations that resonate with individual preferences, effectively increasing transaction value and the variety of items per purchase.

Furthermore, the challenges of such strategic implementations are substantial, ranging from the seamless integration of technology across platforms to the training of staff to manage new tools effectively. However, the potential rewards are substantial, justifying the efforts invested. Retailers that excel in creating a cohesive omnichannel experience and deliver real value at every customer interaction are well-positioned to thrive. The future of retail lies in adaptively blending digital and physical interactions, leveraging every touchpoint as an opportunity to impress, engage, and enhance the customer journey. This strategic focus not only maximizes CLV but also secures a competitive advantage in a rapidly evolving marketplace.