

Hillstrom's Unified Commerce Ecosystem

Kevin Hillstrom
President, MineThatData
January 21, 2013

The Chart

Distance matters.

In other words, elements that are close to each other are, in many ways, similar.

Marketing activities that are far away on the image are less likely to interact with each other.

Arrows matter.

In other words, the direction of an arrow tell us how that activity drives business.

The Findings

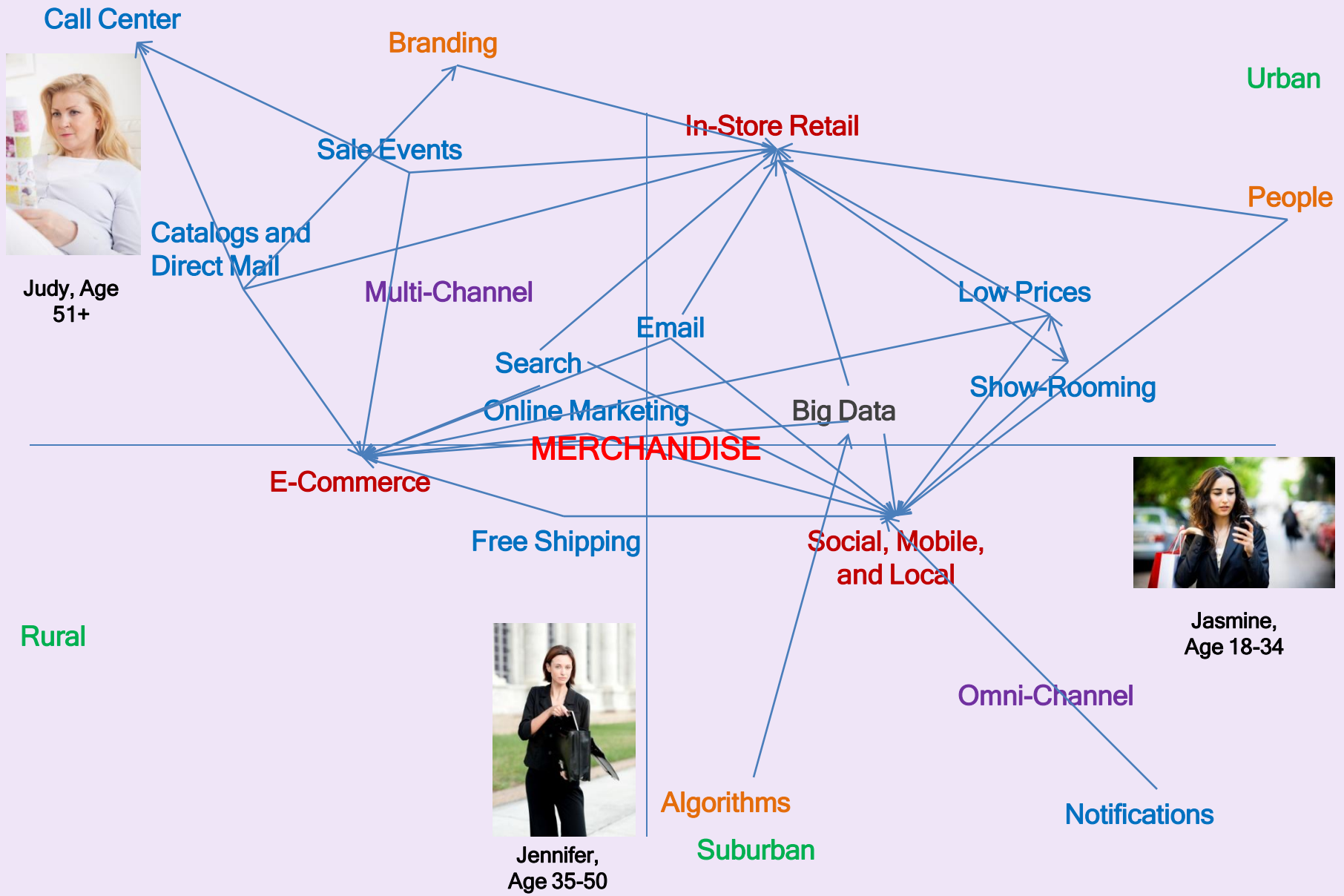
Based on 17 years of customer behavior analytics at Lands' End, Eddie Bauer, and Nordstrom (Vice President of Database Marketing).

Based on evaluation of more than 90 clients in six years as President of MineThatData.

More than one billion (1,000,000,000) purchase transactions analyzed across all channels via proprietary methodology.

Based on hundreds of mail/holdout and spending level tests, which provide the most accurate method for evaluating the true value of each marketing activity.

Hillstrom's Unified Commerce Ecosystem



Judy, Jennifer, Jasmine

Judy is about 60 years old. Her preferences are aligned with classic marketing techniques, with an infusion of e-commerce.

Jennifer is about 44 years old. Her behaviors have been irrevocably influenced by Google, and by low prices and great customer service (Amazon).

Jasmine is about 28 years old. Her behaviors will be shaped by a to-be-determined fusion of social, mobile, and local.

As an Executive, you get to pick the customer. Once you pick your customer, you leverage the channels aligned with your customer demographic.

Multi-Channel

Fusion of old-school catalog and direct marketing, e-commerce, and retail.

Did not lead to sales and/or profit increases.

Distracted businesses looking to focus on the future.

Aged customer demographics by tethering old-school marketing to e-commerce, causing a surprising competitive disadvantage.

Gives way to omni-channel, which is simply multi-channel, with more complexity and the added challenge of technology.

Omni-Channel

Simple restatement of multi-channel concepts of 2001 - 2008, this time aligned along Jasmine's generation.

Like multi-channel, it will lead to an explosion in thought leadership, vendor offerings, and big data solutions.

Like multi-channel, it is unlikely to lead to sales and profit increases, as the human mind is not nimble enough to capitalize on true omni-channel opportunities (beyond discounts/promotions and integrated creative presentation) in organizations with more than one employee.

Be wary. Be very wary.

Branding

Forms a triangle with People and Algorithms.

Will continue to be an important strategic opportunity among Judy's generation. She has four decades of experience with this style of marketing.

Tools used in branding will continue to erode (TV, Radio, etc.), but at a much slower rate than most experts predict. Half of the commerce population is age 45 or older, it will be difficult to change habits among this population.

Algorithms

Forms a triangle with Branding and People.

This is the primary vehicle to steer Jennifer's generation across the internet (Google).

Interacts with Judy. Old-school branding vehicles (catalogs) push customer online, where algorithms (Google) steer Judy to a solution.

Interacts with Jasmine. Algorithms will be the backbone of Big Data, and Big Data will steer Omnichannel solutions.

People

Forms a triangle with Branding and Algorithms.

Judy trusts brands. Jennifer trusts algorithms. Jasmine trusts people.

Will create considerable “dark matter” (word of mouth) that will be hard for Big Data to track. Just like it is difficult to measure the impact of branding, it will be very difficult to measure the impact of people.

People connect the future of retail to the future of omnichannel. The in-store experience depends upon people.

Urban

Will have the best access to the future of technology (fast internet, fast mobile networks, in-store wi-fi).

As a result, future innovations and solutions will impact urban customers first.

Big Data practitioners will need to segment urban customers from suburban and rural customers. Targeting and notification strategies will align with urban customers first.

This is a place where classic retail will be most impacted by the omnichannel movement.

Suburban

The fight for the future of retail happens in suburbia.

In urban environments, population density will lead to a fusion of retail and omnichannel.

In suburban environments, the omnichannel movement will likely compete directly with retail.

Showrooming is likely to be the deciding factor here, driving customer to pricing options fueled by social / local / mobile technological solutions.

Rural

Rural customers are likely to be left behind by technology, becoming the niche audience for traditional marketing channels.

Broadband speeds will always be slower in rural areas.

Mobile internet speeds will always be slower in rural areas.

The average age of a rural customer is generally older than the average age of an urban or suburban customer.

Segmentation is so important. These customers will adapt to technology slower than urban/suburban customers.

Sale Events

Sale Events are aligned with Judy's generation.

Sale Events are the opposite of the Big Data movement (hyper-targeting). Sale Events are a one-to-many strategy, one that Judy has been conditioned to enjoy.

Think about JCP - a 25% sales hit associated with moving away from old-school sales events (I'm not saying that is bad). It is, ultimately, an attempt to shift to a new demographic audience. There is pain to be felt when shifting audiences.

Big Data is likely to move in a direction opposite of mass sale events.

Free Shipping

Clearly aligned with Jennifer's generation.

Free Shipping is aligned with E-Commerce. In the past ten years, we trained Jennifer to shop this way.

Jasmine, based on the data I'm analyzing, is much more price sensitive than Jennifer, requiring free shipping and reasonable price points. As a result, free shipping is aligned more closely with Jennifer.

Jennifer will change expectations - same-day shipping in urban/suburban markets with stores.

Low Prices

Jasmine's spending potential may be permanently damaged by the Great Recession.

Based on the data I've analyzed, she buys considerably cheaper items than Judy or Jennifer.

Her omnichannel future will interact with big data and people, giving her low-cost options via solutions that will become apparent in the next 3-5 years.

It will be increasingly difficult to sell branded merchandise to Jasmine - omnichannel, big data and people will always (and easily) point her to the lowest price.

Showrooming

We're currently experiencing showrooming version 0.1.

The fusion of omnichannel, big data, and people will increase information available to Jennifer and Jasmine.

The in-store retail experience cannot compete with the digital efficiency of low-price hunting ... causing in-store retail to have to provide an outstanding entertainment and services that exceed the digital experience.

This trend is already happening in entertainment - think sports, where a 60 inch HDTV surround sound experience is cheaper (and maybe better) than attending the game live.

Call Centers

A ten year future, as Judy continues to age.

The call center of the future is likely to morph into a Social Center, where employees provide assistance to customers via hundreds of different social networks.

Executives need to provide vision in this area. The customer is not evolving. Rather, generations are aging, with Jasmine slowly replacing Judy in the marketplace.

Carefully evolve this important historical feature of a direct marketing business.

Catalogs - Direct Mail

A ten year future for catalogs, based entirely on Judy's future sales trajectory.

Too much USPS uncertainty.

Plenty of room for optimization. Page counts are going to be forced down, regardless of printer / vendor / USPS pressures. Conversely, the merchandise offered in the pages will become increasingly targeted.

Pundits have talked about a targeted catalog future for twenty years. Economics and changing generations may force the evolution to happen.

Email

Mostly aligned with Jennifer, and loyal customers.

Was truly the center of the multi-channel ecosystem, bridging a gap between Judy and Jennifer's generation.

Possesses an undetermined future in an omnichannel, multi-screen environment. Likely to provide a link between a historical push environment (catalogs to email) and a future push environment (email to notifications via apps).

Valuable to the in-store experience.

Sub-optimized by a 30% off + free shipping mindset.

Search

Mostly aligned with Jennifer, and new customers.

In many ways, search is “leaking” from Google. Yelp, for instance, is in many ways a search app with a specific purpose.

Drives in-store sales for Jennifer that are largely unaccounted for by attribution algorithms.

Lives off of the oxygen provided by offline marketing. As offline marketing slowly erodes (as Judy ages), search will be impacted, requiring innovation in the omnichannel environment to succeed.

Online Marketing

Mostly aligned with Jennifer. Tied to discounts/promotions.

Innovation may be aligned with Jasmine, going forward.

Big data is likely to fuel this aspect of marketing, going forward. This will be a bumpy road, as the business experience of big data practitioners must catch up to the technology available to online marketers.

Must do a better job of demand generation, must shift away from demand capture and demand steering. Is not providing enough “oxygen” at this time.

Notifications

The logical extension of push marketing from catalogs to email, to whatever notifications lead to.

We're probably at version 0.1 of in-app notifications.

Innovation will happen in Jasmine's generation. If your customer is Judy, this change in push technology is largely irrelevant. If your customer is Jasmine, well, get ready!

It is terribly important to know who your customer is, so that the proper marketing and technology investment can be made.

Segment, segment, segment!

Big Data

Hyped so much that many have lost faith before the movement even started.

So meaningful that we cannot even understand how it will impact the future.

Not enough smart “data scientists” to meet the need.

Not enough smart business people among existing data scientists to meet the needs of business people.

A bumpy, but necessary re-wiring and integration of the online ecosystem with the social, mobile, local movement.

E-Commerce

Continued growth for 5-10 years as pre-existing demand in catalog marketing and inconvenient in-store demand is reallocated (cannibalized).

Strong competition from social, mobile, and local among Jasmine's generation will cause e-commerce demand to be cannibalized (look at eBay, for instance).

E-commerce experts (Jennifer's generation) will argue that e-commerce is tethered to mobile via omnichannel. This argument is similar to the multichannel argument of 2000 - 2008. Expect serious cannibalization in the future. E-commerce has peaked.

In-Store Retail

To be transformed. E-commerce largely drove business to retail among Judy and Jennifer's generation. Mobile may well drive business away from in-store retail under today's rules within Jasmine's generation.

In-store retail must provide an experience that is greater than the low-price, convenient, sanitary experience provided by e-commerce and/or social-mobile-local.

This has been happening in sports for years ... why purchase an upper deck seat for \$40 when you have a HDTV with surround sound at home? Look to sports/theater to lead retailers with innovation around entertainment.

Social, Mobile, Local

Led by mobile, this is the logical transformation of e-commerce.

E-commerce = Jennifer. Social, Mobile, Local = Jasmine.

If you market to Judy, this movement is irrelevant.

The future is **New Customer Acquisition**. Most businesses rely upon new customers more than loyal customers (contrary to everything you read). For Jasmine, New Customer Acquisition is firmly centered around Social, Mobile, Local, and the viral implications of a strong mobile strategy.

Merchandise

The most important aspect of marketing.

The most ignored aspect of modern marketing. Customers aren't inspired to buy garbage, in spite of magical technology.

Big data may accelerate the pricing transformation of branded merchandise (i.e. race to the bottom).

Proprietary merchandise leads to healthy gross margins, which lead to the ability to differentiate, invest, compete, and grow.

The best merchants generally outperform the best marketing and technology strategists.

CUSTOMER BEHAVIOR

We can change the technology a customer uses to shop. It is terribly, terribly hard to change “how often” a customer purchases.

Pre-Internet: Average direct marketing buyer within a company repurchased at +/- 40% rate, buying 1.5 to 2.0 times per year.

Pre-Omnichannel: Average direct marketing buyer within a company repurchases at a +/- 40% rate, purchasing 1.5 to 2.0 times per year.

Technology changes ... underlying behavior seldom changes.

COOKS IN THE KITCHEN

Tread carefully, dear marketing leaders!

Those promoting an omnichannel future want you to “do everything”. This leads to having many “cooks in the kitchen”. You do not want too many cooks in the kitchen!

Somebody must lead the vision for your business. This vision dictates the customer you choose to market to. The customer you choose to market to dictates the channel strategy you employ.

Having too many cooks in the kitchen leads to inaction, leads to generic solutions, and ultimately, competitive disadvantage.

JUDY vs. JASMINE

There are two dramatic differences, when dealing with a customer like Judy, and a customer like Jasmine.

First: Judy might use technology. Jennifer uses technology as a means to an end. Jasmine is technology. **Pick your channels, pick your customer** (and vice versa).

Second: For Judy, customer acquisition is purchased (co-ops, list rental, television, radio). For Jasmine, customer acquisition is earned (viral) and potentially inexpensive. This fundamental difference leads to completely opposite marketing strategies. **Pick your acquisition tactic, pick your customer** (and vice versa).

Pick Your Customer

“The customer” does not “do everything”.

Today, you’re essentially picking who your customer is by employing the marketing channels you prefer. If you go after “mobile”, you’re picking Jasmine. If you create a catalog, you’re choosing Judy or, to a lesser extent, Jennifer. A strong SEO strategy with free shipping for all centers on Jennifer.

Pick you strategy, pick your customer.

You get to pick your future. No strategy is “dead”. Everything, however, is “dead on arrival” when aligned with the wrong customer demographic.

Pick Your Customer



Pick Your Future

Intangibles

The Direct Marketing Success Pyramid

Success!

Ten building blocks for achieving greatness as a direct marketer!

Kevin Hillstrom
President, MineThatData
<http://blog.minethatdata.com>
kevinh@minethatdata.com
[@minethatdata](https://twitter.com/minethatdata)

CHEMISTRY

Teamwork, integrity, sacrifice, honesty.

VISION

Charting a path into the future, leadership.

EVOLUTION

The confidence to change and adapt as needed.

PASSION

If we don't care, why would the customer care?

EXCELLENCE

A desire to compete, to be the very best.

KNOWLEDGE

A constant pursuit of information about customers.

MERCHANDISE

The most important reason customers purchase from us.

CREATIVE

We sell via images, video, social, copy, channels, devices.

FINANCE

Financial discipline enables a business to grow profitably.

SERVICE

Meet / Exceed customer expectations.

Merchandise

Merchandise is the most important intangible.

Regardless of channels or marketing strategy or price or free shipping, the customer is buying merchandise from us.

A focus on merchandise, therefore, is most important.

Without great merchandise, you have nothing else. Nothing.

Merchandise is the foundation upon which the Unified Commerce Ecosystem is built.

Spend half of your time discussing merchandise!

Creative

If everything else is the same, what differentiates your business from others?

For instance, Apple sells computers, MP3 players, tablets, phones. Everybody else sells computers, used to sell MP3 players, tablets, and phones.

Yet, Apple succeeds. Why? Well, there's a sensibility to the merchandise Apple sells. Creatively, it looks and feels different.

Creative is one of the building blocks of your business. Creative strongly influences your Commerce Ecosystem.

Finance

The explosion of the omnichannel movement requires all business experts, marketing strategists, and data scientists to be able to calculate profit.

Profit (and close cousin - cash) are scorecard, the KPI, that tells us the customer cares. Without profit, we are not in business.

An omnichannel future will strain profitability - requiring mid-sized to large investments across too many marketing channels. This will sub-optimize profit.

Become highly fluent in the language of profitability.

Service

Will become increasingly critical to the in-store experience.

If your competitors sell the same merchandise you sell, at the same (or cheaper) prices, then what is your competitive advantage? Creative? Sure. But what else?

Service.

Service is the one place where the offline world can outcompete the digital world. Helpful people matter.

Entertainment + Service represents a competitive advantage for the offline world to capitalize on.

Passion

What are you passionate about?

Much of the passion in modern marketing is around what I call “fringe topics” - omnichannel, big data, social, mobile, local.

The main reason customers purchase usually include the words “merchandise” or “products”.

We have an opportunity to bridge the gap between new channel passion, and passion for merchandise / creative / finance / service. By moving passion closer to the customer, we increase the likelihood of being relevant to the customer.

Excellence

Passion frequently leads to excellence.

I attended meetings, at Lands' End, in the early 1990s, where merchants discussed the myriad benefits of different sized dress shirt buttons. That's passion + excellence!

Excellence is the opposite of Best Practices. Best Practices require that we copy the efforts of somebody who achieved Excellence.

Focus on doing a small number of things extremely well, and be passionate about it. This differentiates you from the herd.

Knowledge

Excellence requires Knowledge.

Most of the popular marketing articles focus on “101-level” topics. These topics get the most page views, often from beginners. As a result, we don’t gain true knowledge. Instead, we capture small facts.

Avoid small facts. Know everything you can about your customers, especially as it relates to the merchandise your customer purchases.

Knowledge must be the outcome of the Big Data movement. Without Knowledge, Big Data simply becomes CRM 2.0.

Vision

Completely missing from modern marketing. Omnichannel / Big Data is not a vision. Collect everything, analyze everything, and be everywhere is not a vision.

Vision requires a business leader to clearly communicate, to all employees, where the company is headed.

Who in your company communicates a clear vision that everybody follows.

Vision is opposite of Too Many Cooks In The Kitchen.

Craft a vision, and hint --- tie it to merchandise, where possible.

Evolution

It's really hard to evolve a business into the future.

2000 - 2008: Catalogers and Retailers were frightened by E-Commerce. They created multichannel, allowing them to hang onto the past. This form of evolution has short-term benefits, but ages the customer file over time.

2012 - 2015: E-Commerce folks are frightened by mobile. They created omnichannel, allowing them to link the past to the future.

Be very careful about how you evolve your business into the future. Connecting to the past can be dangerous (or smart).

Chemistry

You hear vendors talk about their hatred of “silos”.

Silos serve two purposes - a way for new initiatives to not get buried in corporate red tape - and a way for people to not have to work with difficult people!!

The best companies I've worked with possess employees who have good chemistry with each other. It's really important for employees to fight to win customers, not to fight to destroy other employees.

Invest in team building and chemistry. Focus on winning customers, not on winning political battles.

The Direct Marketing Success Pyramid

Ten building blocks for achieving greatness as a direct marketer!

Success!

CHEMISTRY

Teamwork, integrity, sacrifice, honesty.

VISION

Charting a path into the future, leadership.

EVOLUTION

The confidence to change and adapt as needed.

PASSION

If we don't care, why would the customer care?

EXCELLENCE

A desire to compete, to be the very best.

KNOWLEDGE

A constant pursuit of information about customers.

MERCHANDISE

The most important reason customers purchase from us.

CREATIVE

We sell via images, video, social, copy, channels, devices.

FINANCE

Financial discipline enables a business to grow profitably.

SERVICE

Meet / Exceed customer expectations.

Kevin Hillstrom

President, MineThatData

<http://blog.minethatdata.com>

kevinh@minethatdata.com

[@minethatdata](#)

Unified Commerce Ecosystem Plus The Success Pyramid

Our Unified Commerce Ecosystem requires us to have mastery over available channels, customers, and trends.

Our Success Pyramid requires us to have mastery over business basics and interpersonal skills.

Combined, we can have a highly successful business, regardless of the business climate, customer demographic, or changes in modern customer behavior.

This, of course, requires a 901-level knowledge of business and people. It's hard. But it's worth it!

Want Your Business Analyzed?

Kevin Hillstrom

President, MineThatData

<http://minethatdata.com>

<http://blog.minethatdata.com>

[@minethatdata](https://twitter.com/minethatdata)

kevinh@minethatdata.com

206-853-8278