

Altman Dedicated Direct

STRATEGY... TACTICS... **RESULTS**

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Topic: *Benefiting from Continuity and Auto-Replenishment Marketing*

Continuity marketing isn't often the domain of catalog marketers, but those who dismiss this marketing approach too quickly as "not for us", may want to reconsider. Consider this: For the average catalog or multichannel marketer, over 50% of new customers never makes a second purchase. Even if your stats are better than average, it's hard not to find the fact that continuity customers buy 3-6 times per year at least intriguing. In addition, continuities can offer a valuable service to save your customers time and hassle (while ensuring their purchasing for the category or item is from your brand).

But while continuity marketing can be compelling from a sales standpoint, it can be complex operationally – decisions to pursue a continuity strategy should be made with eyes wide open to avoid mistakes and omissions that turn profits into red ink.

Continuity Definitions

For those new to this continuity marketing, let's take a step back and offer a definition:

Continuity Marketing: any direct marketing effort where the customer's initial order initiates multiple future shipments.

While we're defining things, there are actually 4 types of continuity programs to consider. The specifics of your product lines will determine which is best for you.

Closed End Series-- A finite series of items, often collectibles, video or music. Customers have a unique delivery schedule based on their start date.

Open End Series – Shipments continue until the consumer tells you to stop; example is an annual tax software update. All customers receive the product at the same time.

"... of the Month Club" -- Different items shipped each month within a niche, such as red wine. Set up can be open ended until the customer cancels (usually for oneself) or a finite number of months (often gifts). All customers receive the same item at the same time.

Auto-Replenishment – Repeat the same shipment every time. Common products are consumables such as pet food or nutritional supplements. Customers have a unique delivery schedule based on their start date.

Should you develop a continuity program?

Not every brand has a viable continuity product. You need to first evaluate whether your product line contains a candidate for purchase on a continuity basis. The most common are:

- Consumable products customers don't want to run out of:



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- Inkjet cartridges, vitamins, coffee, cosmetics/skin care, pet food, air filters, medication
- Education or entertainment products broken into small chunks
 - Book and video sets, collectibles, kids' and adult craft projects
- Indulgences for oneself or someone else
 - Wine, flowers, gourmet food, seasonal home decor

On the fence about whether your product would make a viable continuity? Products with one of these characteristics are easier to market:

- "Needs" (versus "wants") – if you need that medication every month, automatic delivery is a big time-saver.
- Needs don't change frequently -- e.g. air filters, vitamins, skin care. If you continually use the same thing, it's easier to see benefit in automatic deliveries.
- Shopping for the item is not "fun" -- e.g. pet medication

In practical terms, the most likely catalogers for an active continuity program are food marketers; products are clearly consumable and readily open to replenishment. But the range of products and size of programs is wide; so don't limit your thinking to food items. Take a look at your particular "evergreen" products to see if they might be candidates for a continuity offer to increase the frequency of purchase. If there aren't products in your existing line that are appropriate for continuity marketing, challenge your merchants to identify continuity products that appeal to your customers to increase your share of your customer's wallet.

Operational Challenges

Along with the benefits, continuity programs add operational demands.

Inventory Planning and Management

Continuities may make inventory planning more predictable by knowing today whom you will sell to next month. But accuracy of projections can have long ranging impacts; being out of stock on auto-replenishment can have disastrous consequence, as missed shipments cannot be "made up". From a service standpoint, Gordon Magee, Internet Marketing and Analysis Manager at Doctors Foster & Smith notes, backordering is "not acceptable". When the auto-replenishment item is as critical as pet food with their Catered Pet program, the need for the product cannot be deferred until it comes in stock.

Mr. Magee adds that the load on the shipping department can be a challenge when a large volume of auto-replenishment orders must go out. You need to schedule functions clearly to serve both continuity orders and individual phone and web orders.



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Information Systems

It's best to utilize a system designed to manage continuity customers and shipping cycles. Attempting to "shoe horn" existing fulfillment and data systems may be problematic. Some key points:

- Shipping cycles must take into account shipments initiated by phone, web and mail. If offline and online databases are separate, there will be challenges in allowing your customers and your CSRs visibility to up-to-date continuity order status.
- Current, recent and future shipment cycles must be accessible to customer service.
- Be prepared for ongoing system adjustments to accommodate customer requests

Ken Crites, Director Consumer Direct for Green Mountain Coffee Roasters notes that since continuity customers are your best customers, they are worthy of extra work getting systems to accommodate their needs including web site changes, a special toll-free phone number and flexibility that allows customers to easily make changes to their orders.

What are the best ways to promote continuity programs to your customer base and to prospects?

There are various approaches for catalogers, depending on how key a continuity program is to your overall brand strategy. Green Mountain Coffee Roasters Café Express continuity program is a top priority and thus promoted in everything they do including web, catalog, direct mail solos and through partnerships. Ken Crites shares that the Café Express program always gets a strong presence on the web site home page and at least a full page in the catalog. Existing customers are more receptive to signing up for Cafe Express, but it is promoted to both prospects and customers.

At the other end of the spectrum, Doctors Foster & Smith doesn't actively promote the Catered Pet program; it is merely presented as an available option on the web site and in catalogs. Gordon Magee reports that the program is considered more a service at the moment though marketing goals are always being evaluated.

In the middle of these two approaches, Eileen Schlagenhaft, Director of Marketing for Cushman's indicates that their Fruit Lovers program is a way to extend the selling season. Most purchases are gifts that ship for a fixed number of months (e.g. 3 or 6 months). Cushman's promotes their continuity program only to existing customers, but uses a mix of web, catalog and solo mailers.

How do I keep customers in my continuity program?

The tricks to retaining continuity customers are clear communication, understanding customer needs, letting customers retain a level of control, and keeping on top of the data and analysis.

Prior to the advent of the internet, customers didn't experience the levels of control over purchasing that they expect today. The best way to retain customers in your program is to give



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consumers control over as much as possible. Allow them to delay shipment dates when they are going to be out of town, adjust the items they receive each month, etc. By putting control in customer hands you ensure that they get what they want, when they want it – who wouldn't stay in a continuity program that delivered what you want, at the moment you need it?

Communication and Customer Service

Step #1 should be a welcome letter in the first shipment detailing how the program works. This will go a long way towards ensuring customers understand what to expect.

Consider providing customers access to their accounts on line as opposed to having to call in to make changes to their account. Not only does this save you \$\$ in service calls, it adds to that feeling of control for the customer. Like Green Mountain Coffee, you may want to consider a special customer service line for continuity customers.

Reducing Cancels and Retaining Continuity Customers

Someone calling to cancel likely still values the continuity, but something about your program isn't working for them. Give them more control so staying in your program makes sense. Control can mean allowing customization of the items in their shipment, postponing or canceling specific shipments (for moves or vacations), or altering the frequency of shipments if they arrive too quickly.

The best tip for retaining continuity customers is to really listen to what the customer is saying. Flexibility is key – when you are rigid with a continuity customer you will have more cancels and fewer program members.

The ability to customize shipments in the future can also impact your ability to make the initial continuity sale. When customers have the option to change, cancel, or customize their shipments at any time many of their doubts about the program will fade away.

Program Analysis

Lifetime value should be your primary measuring stick for success. If you cannot accurately measure customer lifetime value, use the number of shipments sent to a customer as your closest proxy for that data. Most continuity programs will look for at least 3 additional shipments beyond the initial order. Whether your goal is 3, 4, 5 or more additional shipments, the key is monitoring and analyzing results on an ongoing basis.

Tips for Catalogers

Gordon Magee recommends other catalogers be sure and look at all the details before moving forward. Every program and brand has its own special concerns; Drs. Foster and Smith had to concern themselves with heavy product and the cost of shipping. They also looked carefully at staffing to ensure they could service all customers.



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Ken Crites recommends interviewing your customers to find out what they want. “There are reasons your best customers keep buying from you. Accentuate those reasons with your continuity program.”

Conclusions

Don't be afraid of or dismiss continuity marketing, but don't go blindly into it either. Evaluate the operational aspects in advance and be sure you can handle both the continuity and your ongoing one-at-a-time orders in the fulfillment and shipping process. Make sure your IT system is up to the challenge and if not, make the necessary changes or additions. Think about and plan customer retention BEFORE you announce your program to your customers and prospects. Then forge ahead – greater lifetime value and share of customer await you.

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