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Correction: Waterstone's won the BPA Diamond Award **in 2009**, not in 2008, as published in the title below.

Case Study

Waterstone's — The IDM business performance awards 2008: Diamond Award winner campaign

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Abstract

Waterstone's is the winner of the prestigious IDM Business Performance Diamond Award. Entrants for the annual award are judged on multiple business and marketing criteria by three tiers of judges representing a cross-section of industry and marketing expertise. *Journal of Direct, Data and Digital Marketing Practice* (2009) **11**, 140–146. doi:10.1057/dddmp.2009.26

Introduction/summary

The UK's leading book retail high street brand, Waterstone's, found itself in competition with new book retailers across all sales channels.

CRM challenges

It recognised the need to understand and engage its core customer base more effectively. Waterstone's wanted to maximise customer loyalty, especially among those customers who respect specialist book brands and prefer a 'real' bookshop experience.

One of the main challenges was how Waterstone's could gain a sufficiently deep understanding of its customers to increase its share of wallet, locking customers in to the brand. Waterstone's used customer insight to drive sales, minimise risk and maximise return on investment. Planning and implementing this scheme was made even tougher by the economic changes that had taken place since the original need for a loyalty scheme was identified.

Market background

The UK retail book market was worth around £3.4bn in 2008, according to the *UK Book Publishing Industry Statistics Yearbook 2008*. Consumers comprise the biggest market segment, spending £2.5bn on books every year, followed by academia and professional (£642m) and schools and early education (£257m) segments. The latest figures indicate that consumer spending has declined by 6 per cent in 2009, accompanied by a 4 per cent decrease in sales volume.

Waterstone's offers its customers a huge range of book titles and expert advice and recommendations provided by enthusiastic, well-trained staff. Waterstone's holds thousands of in-store book-related events each year, ranging from opportunities to meet new and established authors to storytelling. It has a full programme of children's events and activities and is associated with 15 national literary festivals.

Waterstone's contribution to specialist bookselling was recognised at the Bookseller Retail Awards in 2008 when it was named both High Street Retailer of the Year and Bookselling Company of the Year.

Online product and service differentiation

Waterstone's differentiates itself online by offering its customers the widest range of products and high levels of service, combining the best inventory management systems, direct supplier relationships, enthusiastic authoritative staff with specialist product knowledge, added-value experiences and leading-edge customer relationship management. Internet book shopping means that customers can compare book prices more easily across a range of retailers, adding downward pressure on profit margins.

Customer service focus

Today's UK book retailers must tackle the multiple challenges presented by declining prices and volumes and rising costs. Waterstone's is currently in the middle of a 3-year multi-channel transformation plan to support offline, online and digital sales, differentiate its brand, placing its total focus on customer service. Waterstone's has consolidated its supply chain by creating a new 'hub' warehouse to deliver books to online customers and its high street shops. The 'book hub' means that Waterstone's can remove supply chain tasks from the stores, recycle slow-moving stock more effectively and support internet sales growth. The data-driven loyalty scheme was developed as a core component

of Waterstone's corporate transformation strategy to improve profit margin, increase sales volume and differentiate the brand.

Retention strategy

Waterstone's focus on retention led to the development of a card-based loyalty scheme. The scheme's proposition is to create a simple, transparent, effective loyalty contract, strongly positioned as 'The Waterstone's Card — for more rewarding reading'.

Waterstone's customers can sign up for a Waterstone's Loyalty Card in-store or on its website. The concept is simple. Every time a Cardholder makes a purchase through any Waterstone's sales channel they receive points to redeem against future purchases.

Retention scheme execution

First, a UK pilot (1) ran in 22 South West stores during 2006–2007 to test the market and gauge the scheme's viability. The pilot was successful. Following a careful evaluation of the results, the loyalty card was rolled out nationally in September 2007 (Figure 1).

A customer database (2a) was created by a third party in less than 8 weeks. The database was integrated with Waterstone's in-store point-of-sale till systems, the website and central data feeds. Systems integration across the key customer touchpoints enabled learning to be automated, and streamlined loyalty point allocation and redemption.

Merging data from on and offline channels enabled Waterstone's to map complete customer purchase journeys, generating invaluable insight into customers' buying behaviour.

A simple loyalty contract

Pilot scheme

Figure 1: Waterstone's loyalty scheme

A data driven process

Communication material (2b) was developed to support the scheme, including in-store point-of-sale material, registration leaflets and the card itself. From the beginning of the scheme, the importance of obtaining good-quality data to inform the retention strategy was recognised and application forms were designed accordingly. In tandem with a staff 'hearts and minds' campaign, all booksellers were trained to manage the scheme before a full nationwide launch took place across Waterstone's 300 plus stores.

Refining customer segmentation

Cardholder recruitment (3) began on and offline in September 2007. The objective was to recruit 1.5 million Cardholders in the first 12 months.

Once a sufficient number of Cardholders was recruited, segmentation (4) was carried out to provide additional insights to support the evolving targeting and communications strategy. Segmentation was initially based on the traditional transaction variables: recency, frequency and value. Customer segments are refined on a quarterly basis by tracking individual behaviour by value.

Tailored customer journeys

An automated segment-based contact strategy (5) is driven by the loyalty database. All new Cardholders enter a three-step welcome programme, designed to reiterate the key benefits of the scheme, gather more data and encourage an initial purchase if customers have not yet activated their Card. Following the initial welcome programme, customers progress through an automated business rules-driven programme designed to maximise activation, volume and purchase value through the creation of tailored customer journeys (Figure 2).

Figure 2: An example of Waterstone's automated contact strategy

In addition to automated rules-based communications, loyalty scheme customers receive *ad hoc* marketing campaigns (6) based on customer data analysis. Nearly all *ad hoc* communications are via email, using addresses captured at the point of registration and during the welcome programme. Some *ad hoc* campaigns are seasonal, while others use specific points-based offers as the hook (Figures 3 and 4).

Automated reporting (7) enables results and KPIs to be tracked over time, providing a snapshot of database volume by segment and customer movement across segments over time, for example, from Lapsed to Infrequent or Infrequent to Active. Individual campaign results are closely monitored, including the number of emails received and opened. This analysis indicates the maximum potential points liability for a particular offer. One of the main benefits of these reports is their analysis of total Cardholder purchases across on and offline channels, a key statistic that had been unavailable until the implementation of the loyalty scheme.

Figure 3: *Ad hoc* loyalty communications — ‘Double points’ offer test

Figure 4: Event-driven loyalty communication — Mother's Day

Multi-channel KPI tracking

The KPIs include hard and soft measures, such as:

- Number of total Cardholders
- Valid email penetration rates
- Basket value of Cardholders versus non-Cardholders
- Percentage transacted
- Annual transactions per customer
- Average transaction value
- Annual sales value per customer
- Percentage of emails captured by store staff for in-store sign-up
- Incremental net sales

KPIs are measured each month to assess the scheme's impact at both strategic and tactical campaign level.

Results

Cardholder recruitment targets were exceeded at every milestone, and the scheme has contributed to Waterstone's market share growth, through its high street shops and online. Financial analysis of the scheme's first year reveals a net profit from an incremental uplift in sales revenue as a direct result of the loyalty scheme, in spite of the extremely challenging trading conditions during 2008–2009.

Incremental revenue despite the recession

Some key outline results at company-wide, segment and campaign level include:

- A 26 per cent uplift in sales against control (double points offer in-store).
- An 85 per cent uplift in recruitment against control (double points offer in-store).
- The Mothers' Day email campaign showed an uplift of 13 per cent where bonus points were offered on specific titles versus a control group that did not receive the offer.

At segment level:

- The 'Active' segment has increased as a percentage of the overall base (and the overall base has grown in the same period) since the launch of the retention strategy.
- The 'Infrequent' and 'Lapsed' segments have decreased over the same period. The increase in the Active segment can be directly attributed to the email programme.

At corporate level:

Ongoing improvements

- Cardholder recruitment targets have been beaten at every stage of the scheme. The scheme passed its 1.5 million member recruitment target 3 months ahead of schedule in May 2008. There are now over 2.8 million Cardholders.
- New activities and results are constantly being evaluated to ensure that learning is applied to improve future campaign results. The test and learn culture is embedded in the scheme.

Lessons learned

Waterstone's introduced its loyalty scheme just as the recession began to bite. The loyalty scheme is a key component of Waterstone's business transformation strategy. The brand leader recognised the need to enhance its service offering and develop a closer relationship with its customers across all sales channels, to support the multi-channel customer journeys that are characteristic of today's customers in many markets. The loyalty scheme compliments Waterstone's high-quality brand positioning.

The scheme's impressive early results are due, in large part, to its respect for tried and tested direct and integrated communications planning principles: careful planning and testing, a well-coordinated rollout, clear KPIs and their ongoing measurement and evaluation at both strategic and tactical campaign level, and service delivery across all customer touchpoints. The database and good-quality data underpin the whole communications strategy, allowing effective segmentation to produce meaningful customer insight and relevant communications and offers. The customer-focused programme has a clear proposition that offers tangible benefits to both Waterstone's and its customers. Waterstone's bottom-line results prove that, even at a time when consumers are cash-strapped and rather cynical about marketing offers, a traditional loyalty scheme that delivers real benefits to customers is still a great driver of profit.