



# Retailing

The Age of Customer Intelligence

A Fractal Whitepaper

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## The Age of Customer Intelligence

Consider this: According to IBM Consulting, the top 5% of retail customers generally contribute 20% to 25% of sales revenues and 25% to 45% of profits. A Harvard Business Review study has found that a 5% increase in customer retention can produce profit increases as high as 125%.

Figures we always knew. Figures we suspected were true. The key question is what are organized retailers doing about it, or rather, what should they be doing about it?

### What's your Retail Customer Intelligence Quotient (CIQ)?

Take this short quiz to find out if the rest of the article would interest you. Answer the following questions, True or False. If in doubt, mark FALSE.

(Answers are at the end of this article)

1. I know the actual market potential, in volume rupees, for all my stores.
2. I know my store traffic patterns, by month, day, and time.
3. I know the catchment area of my store.
4. I know my customers in terms of demographics, including age, income, size of household, occupation, lifestyle preferences and purchasing patterns.
5. I have strategies in place to handle different customer segments differently.
6. I conduct regular customer surveys, to evaluate customer satisfaction and loyalty.
7. I send different mailers with different offers based on my customer segments.
8. I know which of my loyalty program members are likely to leave my store and I am actively engaging with them.

The questions that face the retailer are:

- Who are my most profitable customers and what do they want?
- How can I keep them coming back and attract more like them?
- How can I identify the ones likely to leave me and what can I do retain them?
- How can I get them to spend more?

Your friendly neighborhood mop and pop store owners often have the answers to these questions. But do large organized retailers have objective answers to these questions? Who within a retail store should be finding these answers?

The answer to these questions is customer intelligence and the key to customer intelligence lies in the mass of passive data lying in retailers IT systems. The next question to be asked is who should own the mandate for Customer Intelligence initiatives - IT or marketing? We hope to arrive at an answer through the rest of this article.

Retailers have always focused on setting up stores, expanding their network, getting the logistics right and ensuring that there are large number of footfalls. In comparison, not enough attention has gone into understanding customer behavior. With increased competition and wafer thin margins, traditional differentiators like price, range and service are becoming hygiene factors. Customer intelligence is likely to emerge as the key differentiator for retailers across the world.

### **Do retailers have enough data?**

All retailers have data on point of sale transactions and information on their loyalty card program. Added to this there is data on complaints and customer response to promotions. This level of data is enough to provide new customer and business insights. For example, Shoppers Stop's FCC Membership data or PlanetM's m-xtasy world data, combined with POS data can give a huge competitive advantage to these organizations.

### **Can retailers leverage this data for customer intelligence?**

#### ***Profiling***

The first step towards customer intelligence is to segment your current customers and identify the most profitable ones. A well known bank classifies its customers into three categories based on Customer Net Revenue potential of the customer. Marks and Spencer profiles its customers into 11 customer segments and uses them to focus its communication and sales promotions. Knowing who your profitable customers are will help you acquire more such customers apart from helping you focus on serving your best customers more effectively.

#### ***Personalized Campaigns***

Personalized marketing communication can dramatically improve customer response and drive incremental sales and profits. Apparel retailer Eddie Bauer uses predictive analytics to identify which of its customers should receive specialized mailings and catalogues. This apart from increasing response rates and optimizing marketing spend also increases customer loyalty.

The key to personalized communication is an understanding of customer preferences and response patterns using response modeling – identifying what offer will excite which set of customers. In fact, retailers in growth economies have a greater advantage here compared with developed markets like the USA. Unlike the sub 1% response rates on campaigns in evolved markets because of an overload of direct marketing clutter, the response rates in growth economies can be as high as 10-60%. A personalized direct marketing program can deliver an immediate ROI for most retailers in such economies.

#### ***Customer Retention***

Customer retention is very important in today's competitive environment. Competition is always trying to find ways of enticing your customers. You can identify which of your profitable customers are likely to leave or significantly reduce spends by profiling customers who have "churned" in the past. This exercise, called attrition modeling, can help you to devise retention strategies for your loyal customers. It has been observed that even a simple telephonic contact with a potential churning customer can significantly improve retention.

Retailers can learn from the experience of global credit card issuers who are facing high attrition because of competitive activity. The key learning here is that before the customer shifts to competition, he starts using your card lesser. This is a pattern that can be spotted and proactive steps can be taken to prevent him from shifting.

#### ***Increasing share of customer wallet***

An Asian Retail bank found that the most valuable customers of theirs are the ones frequenting their ATMs and issued credit cards to this customer base.

Cross selling and up selling an existing customer is much easier and cheaper than acquiring a new one. Using techniques like Market Basket Analysis, Retailers have made interesting

discoveries of product purchase association – the classic case being young fathers stocking up for the weekend buying beer and diapers together. These insights can lead to better shelf layout management or better bundled marketing offers. Analytics makes it possible to do such analyses in real time at the point of sale to print appropriate discount coupons along with the invoice.

### Who should own the customer intelligence mandate?

We suspect that the reason why many retailers are not actively pursuing these initiatives is that customer analytics is still seen as an IT activity at most retail stores. The IT departments, on the other hand, are typically full up in just managing the transaction and logistics systems and may look upon customer analytics as a frill. We believe that the customer management departments of retail stores should own the customer intelligence initiative and seek the support of IT for the same. With the focus of retailers shifting from expansion to customer management, we think more customer intelligence initiatives would see the light of day.

**How to score the CIQ quiz:** 1 point for each True answer.

Score	Description
7 – 8	Maybe you should be the one writing this article.
5 – 6	Well above average, you have high CIQ.
3 – 4	About average.
0 – 2	You need to work on your CIQ.