

CUSTOMER INSIGHT

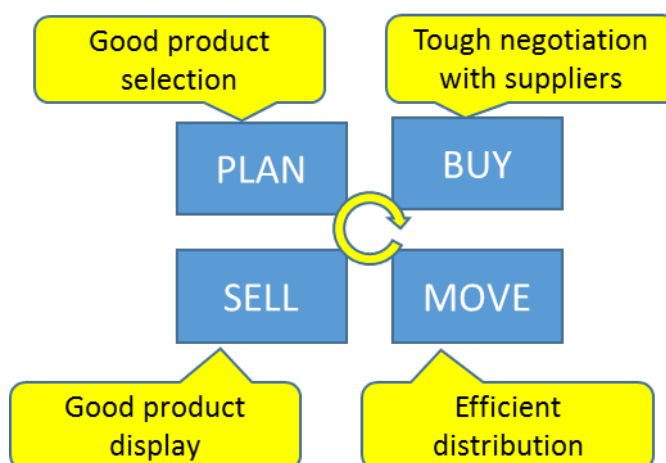
Once upon a time, retailers sought to understand their customers by grouping them into distinct categories or segments. Retailers would target different products and offers at each customer segment, in the belief that segmentation was the best way to predict customer preferences and purchasing behaviour.

Although many retailers still use various forms of segmentation, this can now be combined with a wealth of other information, which allows retailers to engage with customers in a much more flexible and personalized fashion.

Welcome to the world of Customer Insight.

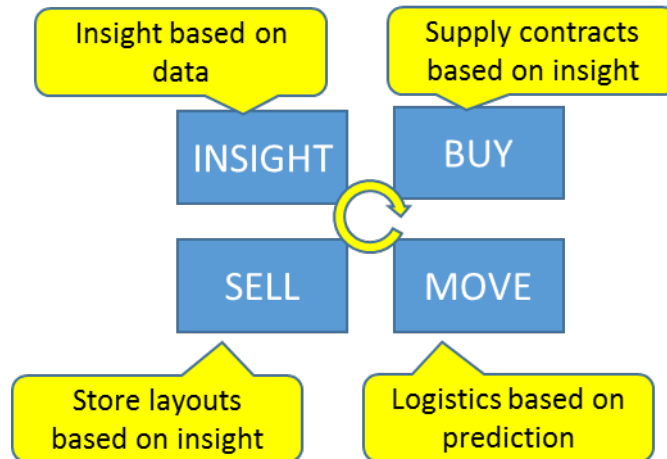
THE GROWING IMPORTANCE OF CUSTOMER INSIGHT

Until recently, the traditional business model for retail has been based on a simple PLAN-BUY-MOVE-SELL loop. Retail success depended on good product selection (PLAN), tough negotiations with suppliers (BUY), efficient distribution (MOVE) and good display, both in-store and on-line (SELL). Many mass-market retailers followed the old Tesco motto: *Pile 'em high and sell 'em cheap.*



In the 1990s, Tesco was one of the first mass-market retailers in the UK to adopt a different business model, based on customer insight.

- Every sale adds to our understanding of customers;
- This understanding helps to predict demand, improve decisions about product ranges and instore product displays;
- We can now help the suppliers to produce products that our customers really want.



CUSTOMER SEGMENTATION IS NOT ENOUGH

The simplest way to understand customers is to divide them into fixed segments. Marketing agencies attach cute labels to these segments.

	Fixed Segment
Emma	<ul style="list-style-type: none"> • Married woman. • Part-time job. • Age 30-35. • 2 children. <p>“Young Mother”</p>
Jane	<ul style="list-style-type: none"> • Single woman • Full-time job. • Age 25-30 • No children <p>“Urban Single”</p>

But how does this information help you to provide a personalized service? Fixed data is relatively easy to collect and maintain, but provides little competitive advantage.

PERSONALIZATION DEPENDS ON INTERPRETING CUSTOMER BEHAVIOUR AND CONTEXT

Behaviour and context provides clues that might help you provide a better service.

	Behaviour and Context
Emma	<p>Last week, Emma’s husband announced on Facebook that he was changing jobs.</p> <p>Husband needs new outfit?</p>
Jane	<p>Jane has recently stopped buying alcohol, and has switched to fragrance-free toiletries.</p> <p>Pregnant?</p>

Contextual data potentially has far greater value, but only if you can interpret and respond promptly.

DON'T SHOW OFF YOUR KNOWLEDGE USE THE “DOG WHISTLE” APPROACH

WRONG. “Based on your recent purchasing history, we reckon you might be pregnant, so here are some coupons.”

But what if you are wrong? And what if she hasn’t told her husband yet?

BETTER. “Here is an apparently random set of coupons, which just happens to include some baby stuff.”

Only those customers interested in childbirth and babies will pay attention to these. And of course you’ll want to track which customers use the coupons.

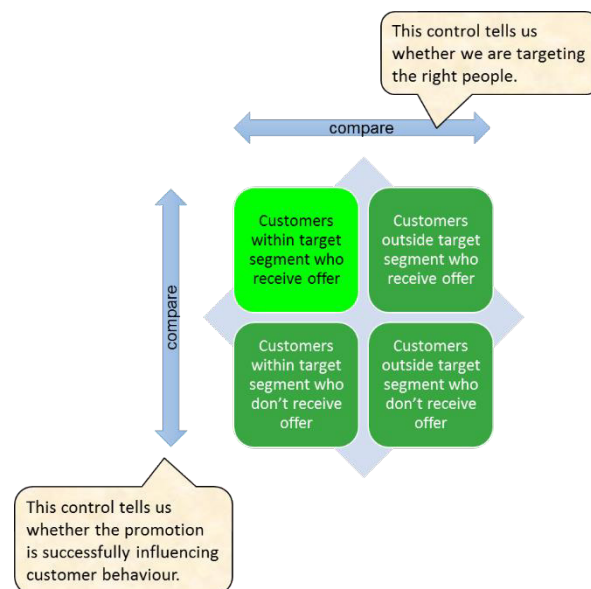
AND NEVER FORGET THAT A PROFILE IS ONLY AN APPROXIMATION

WRONG. We know which customers will be attracted to this offer. We optimize the offer by excluding all other customers.

But what if you are wrong? You will never find out!

BETTER. We have a rough idea which customers will be attracted to this offer. We optimize our learning by sending it to a selection of other customers as well.

SO TREAT EVERY PROMOTION AS A LEARNING OPPORTUNITY



RECOMMENDATIONS

DON'T be intrusive.

DON'T force your customers to provide meaningless information.

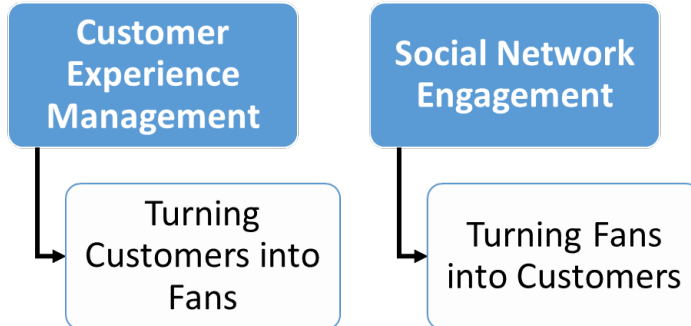
DON'T let your business partners manage your customer data.

DO understand the value of the data.

DO build the capability to interpret and use customer intelligence.

DO keep asking new questions.

WHERE NEXT?



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