

# Five Ways Retailers Can Profit from Customer Intelligence

*Use predictive analytics to reach your best customers.*

An Apption Whitepaper



**Customer intelligence is about creating deeper relationships with your customers.** Customer information is rarely well organized, let alone accessible, or in a format that retail marketers can leverage. In fact, the retail industry has some unique challenges because customer transactions are often anonymous.

Traditionally, only high end retailers have been able to focus on building deep and long lasting customer relationships. Loyalty programs brought this approach to a broader range of consumers, but only the very largest companies have the scale to implement them. Even then, the use of loyalty program data rarely realizes its potential for driving the metrics that matter: same store sales, sales per square foot, average purchase value, incremental sales and customer retention.



Analytics, also known as advanced or predictive analytics are at the core of customer intelligence. Simply put, analytics are the results of aggregating and summarizing disparate data into figures that you can use to make better decisions about your business. Analytics should not be confused with reports from business intelligence, data warehouse or decision support systems. The charts and tables that come out of these systems provide a snap shot in time, which can be helpful, but at the same time leave executives with a feeling of, “so what do I do now?” The same applies to statistical reporting systems: statistics are effective in identifying trends over periods of time and in identifying correlations, but the information is historical and can be misleading or of limited use in deciding on future actions.

Predictive analytics, on the other hand, will give you key indications on what you should be doing to drive your business a certain way and to become a more savvy marketing organization – to ultimately campaign more effectively to your customer segments. By addressing the following five retail challenges through the lens of analytics, you will be on your way to turning the data and information you have about your customers into customer intelligence.

## Retail Challenge 1: How do you increase customer intimacy?

The best retailers pride themselves with knowing their customers better than their competitors. But are you relying on anecdotal evidence, direct customer feedback or perhaps the occasional survey? This can provide some insight, but these approaches are limited and not scalable. Is the corporate view of customers consistent with the reality of how customers are shopping? Do you have any method of testing the assumptions of your sales people and marketing staff?

### Leverage all the data that you have.

The foundation of customer intelligence is data about your customers. With or without a loyalty program, every retailer has data to work with. The individual transactions in the point of sales (POS) system are not particularly interesting, but in the aggregate, analyzed over time, a wealth of information can be extracted. And with the addition of data from your website(s), social media streams and advertising channels, a clear picture can emerge about your customers and their shopping behaviour.

With an analytically based customer intelligence system, this can be pushed even further by using publicly available data sets: the weather, foot traffic, population demographics and more. Then, you can create marketing campaigns with the explicit goal of collecting the data you are missing by tracking responses to carefully targeted discounts or cross-sell promotions.

At a minimum, the POS data set is ripe for analysis: using all the data points to put customers into segments with common attributes. Because of the broad range of characteristics, traditional reporting tools cannot help. But, by using the analytics in a customer intelligence system, you can develop a sophisticated segmentation of customers at varying levels of detail.

So now that you know your customers better, what's next?

**“With or without a loyalty program, every retailer has data to work with.”**



## Retail Challenge 2: Where are marketing dollars best spent?

It makes sense to spend the majority of the marketing budget on the highest value customers and prospects. A common method for establishing customer value is to look at the aggregate spending over the last 12 months and then segment by RFM (Recency, Frequency, Monetary) value. This method is limited because it only provides a statistical snapshot. It says nothing about new market segments or what drives customers to make purchases. Changing customer behaviour, which is extremely important during periods of recession and economic recovery, is not considered.

### Use analytics to identify your best customers.

By analyzing all of your customer data, you can more accurately predict the likelihood of future purchases by individual customers. The probability of a repeat purchase can be calculated by looking at the behaviour of other customers with similar attributes. The richer your data, the better the segmentation and analysis can be. With the information available in a standard POS system, you can analyze purchase history and trends to understand the patterns of your repeat customers, and then identify which promotions are most likely to bring in new high value customers. Add in loyalty program data, demographics, geography, and lifestyle factors; and you can then calculate which segments of customers are worth more to the business and how to target more of your marketing dollars to people like them. This is one of the first steps in modeling the "path to value," or having a plan to move customers into higher value segments through effective marketing and an optimal customer experience.

This approach can go even further by determining the potential upside of the segment. The "share of wallet" is estimated by determining how much is spent by the consumer on a product category, and how much of that is spent in your stores. At some point, marketing to a specific segment will start to have diminishing returns as the share of wallet increases. Analytics can estimate that point for different customer segments.

**"Use analytic models to predict the likelihood of future purchases."**



### Retail Challenge 3: How much should you spend on marketing?

With your best customers identified, how much do you spend on each segment? Is the budget set by a percentage of sales or according to some other industry best practice? At what point are you overspending to get customers in the door or to your website?

#### Model your customer behaviour.

The answer is to create a financial model for each customer segment. This is known as the customer lifetime value (CLV), which predicts how profitable a customer segment will be over the course of the relationship. This is not a new concept, but customer intelligence takes it to a new level with more sophisticated revenue segmentation and by incorporating more variables into the final calculation. The result is better knowledge of how much to spend on marketing to each customer segment.

### Retail Challenge 4: How do you capitalize on cross-selling opportunities?

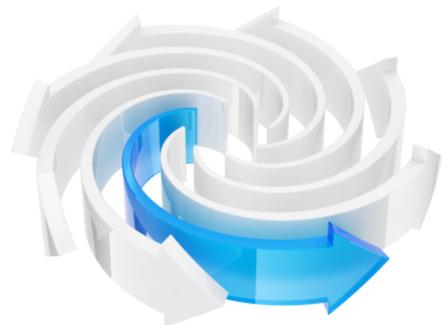
Database and business intelligence software vendors love to recite the beer and diapers story: through data mining, a large supermarket chain uncovered the counter-intuitive insight that sales of beer and diapers are highly correlated. Therefore, these two items should be placed near each other in the store or somehow promoted together, as the purchaser of one is likely to purchase the other. While the origin and accuracy of this anecdote has been contested and debated *ad nauseum*, there is a lesson here: cross-selling is often based on gut instinct, anecdotes and untested assumptions.

There must be a better way.

#### Utilize predictive customer models.

A retailer can do a much deeper exploration of cross-sell opportunities using customer intelligence. Correlation is not causation, but it can be a good starting point for further investigation. Using analytics, you can build predictive models of customer behaviour using all of your data points. You are not only predicting

“Predict which products are likely to sell with others and track which cross-sell strategies are working within customer segments.”



which products are likely to sell with others, but tracking which cross-sell strategies are working with which customer segments. The speed at which data can be analyzed allows this to be an iterative process of optimization. As more data is collected and analyzed, the accuracy of the model improves.

### **Retail Challenge 5: How do you create truly relevant marketing campaigns?**

There is no shortage of ways to spend the marketing budget, but there is always pressure to reach more customers with less money. Adding complexity to this challenge is the infinite variety of channels and media noise bombarding your customers. Is social media advertising really effective? Are visitors to your website becoming customers? Is the tried and true television spot going to continue to be effective? Digital marketing tools allow for more personalization than ever, but how can we make use of them? Coming up with answers to justify the budget is hard enough, and having a holistic view of marketing effectiveness seems to be impossible.

#### **Design highly personalized marketing.**

Customer intelligence meets this challenge by allowing you to design highly personalized marketing campaigns. The power of analytics lets you segment customers into an unlimited number of micro-niches, and these segments can vary according to the season or evolve over time. Throw into the mix recent purchases and you can promote the products the customer is most likely to buy or repurchase based on your models of customer behaviour. With this, you can truly personalize digital marketing campaigns by aligning with off-line promotions and actual customer purchasing history.

*“The power of analytics lets you segment customers into an unlimited number of micro-niches, and these segments can vary according to the season or evolve over time.”*



## Conclusion

Customer intelligence is the reinforcement of customer relationships through the smart use of all your customer data and information. There is no shortage of challenges facing retailers today, and customer intelligence prepares you to meet these challenges and profit while doing so. Using powerful analytics, you can create a clear picture of who your customers are and how they behave. You can identify your very best customers and promote the products they are most likely to purchase. Customer intelligence enables you to optimize the marketing budget by spending the most on the highest value customers. Rather than relying on anecdotal evidence, you can capitalize on data driven cross-sell opportunities and create personalized marketing campaigns for all of your customer segments.

To find out how intelligent applications can help you predict outcomes and make better decisions using the increasing amounts of enterprise data now available, visit [www.apption.com/customer-intelligence](http://www.apption.com/customer-intelligence).

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