

Customer centricity: Why consumer insight equals profitability

The following is a transcript of an interview with Brian Hume, president and founder of Martec International as he discusses the issues and trends impacting retailers and the strategies and technologies that can help them stay ahead.

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We hear a lot about customer centricity. Can you tell us from your perspective what that means and then some practical examples of how retailers are better serving customers?

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The first critical thing is to understand what customer centricity really is. And in essence the idea is every decision you make in the business, every decision, is made from the customers' perspective.

Let's look at a simple example, of putting candy at the checkout in a supermarket that is not customer centric. A mother comes to the checkout with this week's groceries and she's got young kids. She really doesn't want her children asking for a bar of chocolate or a piece of candy, especially if it's going to spoil their lunch, especially if it's going to be bad for their teeth and that kind of thing. So if you're a customer centric retailer you would look at that simple decision and say, I will not put candy at the checkout because it's not what my customer wants.

When you layout the store, for example, where do you put your perishables for example? Do you put them at the front entrance of the store because it looks good when you come in the store? But the problem with that is you then buy your perishables, you put them in the cart and you then potentially stack other heavy items on top of the things that can squash and bruise. In an ideal world, if you're customer centric, you put the perishables to be almost the last destination in the store as you complete your shopping trip.

When you look at things like the product range that you carry, are you carrying the range that your customer really wants? Do you understand your customer well enough to know what your customer really wants? And so the whole idea really of customer centricity is look at every decision you make—what assortment do you carry, how much inventory do you carry in the stores, what in-stock service levels do you set in the stores—how do you set those to give the customers what they really want rather than what you want?

And the belief is if you become truly customer centric you will get your reward. It is a profitable thing to do because the customer will reward you by shopping in your store instead of the competition store that isn't customer centric.

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Performance Management systems really help retailers understand their customers and plan for their customers.

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Absolutely. Especially if you can take it one level further and you can analyze your performance by individual customer segments. Now if you have a CRM solution of some description, whether that's a frequent shopper program, a private label credit card, or that kind of thing, you can fairly obviously see how you can take customer level data, apply some clustering techniques to that to build typically between three and eight customer segments that represent the bulk of your business.

And then you can analyze the behavior patterns for each of those customer segments in terms of what assortments do they really buy? What price points do they buy at? Do they buy the good, the better or the best? And that kind of thing. And then you can tune the performance of each store to the performance of those customer segments. So if you've got a CRM solution of some description, you know, that's a process that you can follow.

If you don't have a CRM solution there are still a number of things that you can do. And in this case you go to a technique that we refer to as basket analysis, and you make interpretations. And so for example, I look at the shopping basket for an individual consumer and that consumer buys 7 cans of dog food every Friday. It's a pretty fair inference that the consumer's got one dog. And if they're buying 14 cans maybe they've got two. So I don't know the consumer in the sense that I can track that consumer to a frequent shopper card, or to a credit card, or to something like that. But I can analyze the shopping baskets in my sales history for the chain.

As a whole I can figure out groups of my customers that are animal lovers. I can figure out groups of my customers that are wine buffs. I can figure out groups of my customers that are keen on photography. And there's a whole variety of things you can do when you can analyze the data to say, Even if I don't identify customers uniquely, none the less, I can still learn a lot about my customers and I can still interpret.

So you can build profiles of your customer that have a fair degree of precision. Not as good as if you had a complete CRM solution, but nonetheless, you can build profiles of your customer that give you much more insight than you would otherwise have. And then you can focus more of your business decisions on those customer segments.

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How can retailers balance serving their customers in stores as well as in their channel?

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Well part of it is understanding what each of those customer segments, what do they really want from you? And what is their expectation? For example, if you buy a washing machine, or a dishwasher, or a large home appliance it mostly doesn't matter to people how quickly the appliance gets delivered. What's really important to the consumer is if you said you're going to deliver it on Thursday morning and you turn up on Thursday morning. So the most critical thing with that kind of product is you meet the delivery commitment you gave the customer.

Now when you understand your customer, with appliances it's fairly easy because you can say that most customers fit that model. But what you need to do now with the different product sets that you sell is you need to understand that customer more. So for example, lets say that you sell music. There's one customer segment that comes in the store and they basically buy the popular music of the day. Or are they a music buff, as it were, and what they really want is a vast selection. And you can't carry the vast selection in the store, but you can carry a phenomenally vast selection online, and you don't necessarily need the stock. There are some people that decide they would like to buy a piece of music and whether they can get it in three days, or three weeks, isn't actually their issue. They're just happy to get it.

So one of the things is to understand your customers and your customer segments better and then say, "how can I tailor service options so that each of my main customer segments can get the service package that they want?"

And then it's understanding some of the kinds of service elements. So I can buy the product online. Can I take it back to the store if I'm not happy with it when I get it? It's understanding what is it that is important to each of your customer segments so that you tailor the offer the right way.