

THE BIG STORY

Retail is undergoing a revolution as great as the move to self-service in the 1960s. With data and technology key to ongoing success, former Sainsbury's executive **Luke Jensen** explains how to play by the new rules

Five rules to win in



ECOMMERCE is just a part of the changing retail landscape. The broader impact of digital is much more profound.

Read the signs: while online represents just 5% of the UK grocery market, 50%

of households have shopped online for groceries within the past few months.

In clothing, grocery and in most sectors, loyalty is in decline as shoppers spread their spend across an ever-increasing number of brands.

Positive like-for-likes in stores are becoming the exception rather than the norm.

Amazon has opened its first physical bookstore, stating that the wealth of its user ratings database and colossal amount of real-time transaction data will provide a competitive advantage in terms of curating the range and managing stock levels.

Two things are certain – in 10 years' time the ways in which we shop will be very different and many of today's top retailers will have disappeared while others shoot up the rankings.

Success in retail has always been about being customer-centric. Winning in an increasingly digitised world will require playing by new rules.

RULE 1 Without customer-specific transaction data, you're travelling blind

Most bricks-and-mortar retailers still fail to collect customer-specific transaction data. In a retail version of *Groundhog Day*, these retailers deal with customers every day with no knowledge of whether they are their best customers or occasionals, without knowing whether a given store visitor also buys from them online.

While announcing a downturn in profits, Halfords chief executive Jill McDonald said a key priority was to invest in customer data: "We can only match 3% of our sales to customers. We need to better match customers to sales to better understand customer needs." Better late than never.

The performance gap between the data haves and have nots is set to dramatically grow. Without the ability to target and manage individual customers across channels, data have nots will be increasingly disadvantaged.



As mobile apps replace card-based loyalty schemes, the cost of capturing data is plummeting. Woe betide any retailer (even lean discounters) who chooses to continue to travel blind and hopes to compete with others who have full visibility of their customers.

RULE 2 Chief executives must be tech-smart

Many chief executives still like to believe that technology is the private domain of their IT director.

The impact of technology is high on the board agenda, and yet when it comes to making change happen the traditional approach prevails: the IT department (entirely populated with project managers, no coders in sight) in concert with a major IT provider (also entirely populated with project managers) asks the business to define what its needs will be in three or five years' time. It then cooks up a 24-to-36-month project that will cost tens or hundreds of millions and be out of date by the time it delivers.

Contrast that with consumer-facing tech companies such as Google or Amazon where the vast majority of innovation is delivered through agile IT, with business teams and coders working in close proximity to create innovations in rapid cycles (sometimes as short as three weeks) to respond to customer opportunities as they emerge.

In a retail world in which the pace of change is faster than ever, adopting such approaches is a necessity not a luxury.

To bring about this new approach requires management, starting with the chief executive, to be sufficiently 'tech-smart' to have a confident understanding of the art of the possible.

This is key to making technology-driven innovation part of the day-to-day capabilities of a winning retailer.

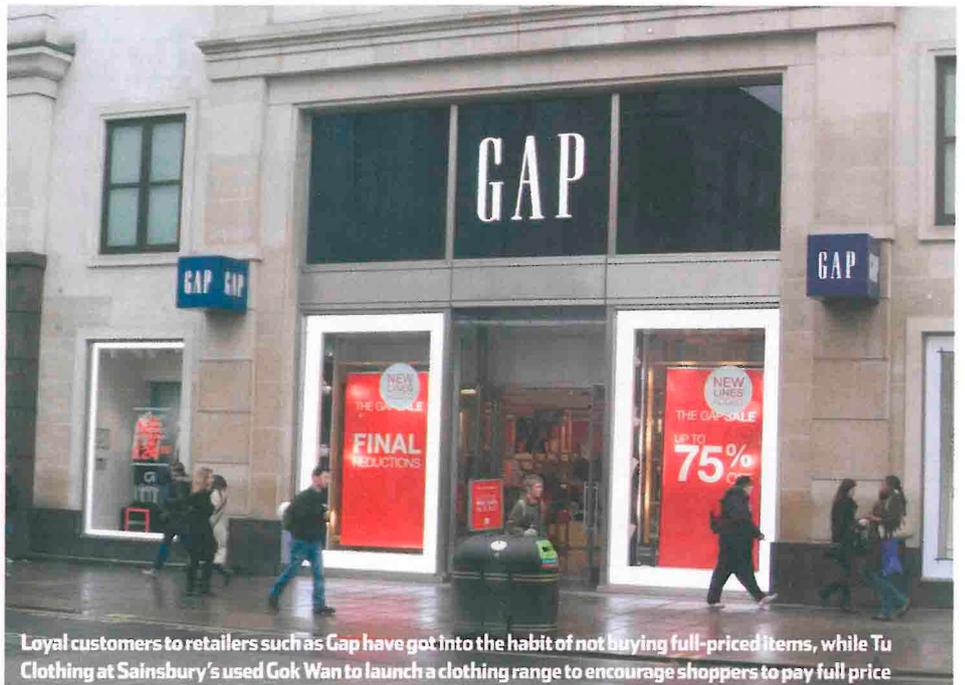
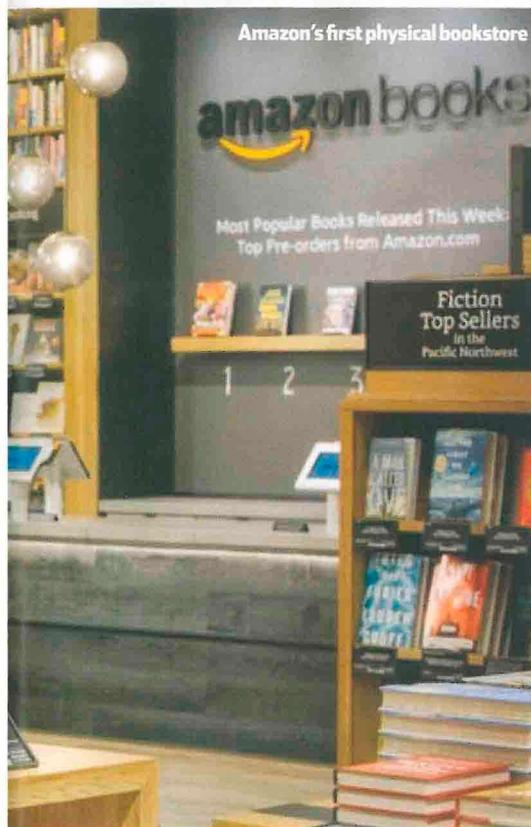
RULE 3 Multiply the bang you get for your marketing buck – "out with the carpet bombers, in with the snipers"

John Wanamaker, who opened his first

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modern-day retail



Loyal customers to retailers such as Gap have got into the habit of not buying full-priced items, while Tu Clothing at Sainsbury's used Gok Wan to launch a clothing range to encourage shoppers to pay full price

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department store in 1876, is credited with the famous saying: “Half the money I spend on advertising is wasted; the trouble is I don’t know which half.”

For most retailers this remains true. Carpet-bombing campaigns that send the same message or deal to all customers regardless of their specific behaviours remain the norm.

At stake with more effective marketing are not only the millions spent on campaigns and discounts but the profits wasted on incentivising behaviours many customers may have had anyway, and the sales upside from better targeted activities.

Gap, once the most successful fashion retailer in the world, went through five successive years of sales declines from 2004 to 2009.

The root cause was indiscriminate discounting that had successfully driven sales in previous years and suddenly appeared to stop working.

What Gap couldn’t see in real time for lack of customer transaction data was that the discounting that had previously attracted new customers was increasingly becoming a drug for loyal customers who had got into the

habit of never buying full-priced items.

When I was running clothing and general merchandise at Sainsbury’s, we noticed in 2009 that a similar phenomenon was happening to Tu Clothing.

Because we had customer-specific transaction data through the Nectar loyalty scheme, we spotted the trend early and took action: we reduced Sales periods, made their timing less predictable and gave our customers more reasons to buy full-price items by signing up celebrity fashion consultant Gok Wan to launch capsule collections.

Today Tu Clothing is an £800m brand and the seventh-largest clothing brand by volume in the UK. The brand couldn’t have achieved this without the benefit of smart use of data.

Winning retailers will increasingly replace blanket promotions with offers targeted at specific groups of customers or even tailored to

each individual. This was already possible through coupon-at-till capabilities; e-coupons are now dramatically reducing delivery costs.

Successful targeted campaigns hit the double whammy of great customer satisfaction and measurably driving profitable sales, with redemption rates often exceeding 10% to 15%.

Data-haves will not only identify and save the half of their marketing spend they were historically wasting, they will make the half they keep go much further.

RULE 4 Develop a single view of each customer

Virtually all bricks-and-mortar retailers now have digital channels to market and are starting to discover the benefits in their web and mobile channels of gaining visibility of customer-level transaction data.

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Mobile-based schemes will rapidly replace traditional card-based loyalty schemes

This newfound visibility is, however, of little value if you can't link it to customer-specific data in your bricks-and-mortar channel.

How can you sensibly design tailored marketing programmes for your web customers if you know nothing of their overall purchasing behaviour?

For all you know, an online customer you are pushing a given offer to may have purchased the item in question at full price in store the day before. That's rubbing it in.

The good news is that having a web, and in particular a mobile channel, is an ideal means of signing up customers to mobile-based apps that can be used to identify them in store.

Mobile-based schemes will rapidly supplant traditional card-based loyalty schemes: one enormous advantage they offer is that they create the possibility of identifying customers as soon as they enter the store rather than waiting until they have finished shopping and swipe their card at the till.

This will break open the potential to deliver messages to customers in real time while they are shopping and, as mobile payment technologies evolve, it will speed up and simplify the check-out process, delivering a better customer experience and labour savings. Check-in will become the new checkout.

Retailers with this capability to seamlessly manage individual customers across channels, giving them relevant promotions and incentives while making their shopping experience more enjoyable, are set to rapidly become the winners.

“In 10 years’ time the ways in which we shop will be very different and many of today’s top retailers will have disappeared while others shoot up the rankings”

RULE 5 Get out of your bubble and join the dots

All retailers are part of an ecosystem that stretches far beyond their interactions with their customers, in store or digitally, and their trading relationships with their suppliers.

The full ecosystem covers all the behaviours of customers relating to the product categories they buy from you: if you are a fashion retailer, for example, this may extend to the kind of music or TV programmes your customers enjoy.

The ecosystem also stretches into how your suppliers market to your existing or potential customers.

Data-driven, customer-centric retailers can play a much broader role in this ecosystem

to deliver a better experience to their customers and capture a greater share of economic value.

This isn't entirely new: businesses such as i2c (the JV between Sainsbury's and marketing firm Aimia) which I chaired, or Dunnhumby, have created substantial new income streams for their retail partners by selling transaction-based customer insights and targeted marketing campaigns to their FMCG suppliers.

Any retailer, particularly in sectors such as grocery and health and beauty with large branded suppliers, who hasn't yet developed this capability is missing out on a major opportunity to capture a growing share of their suppliers' marketing budgets.

This is only the start. The next step will be for retailers, through partnerships with digital media owners such as Google or Facebook, to 'join the dots' directly linking the digital behaviours of their customers with their transactions.

Data-driven retailers have the unique advantage of having visibility of transaction data, the moment of truth when all the messages a customer has been exposed to translate (or not) into a purchase.

At stake is a strong claim to a share of the fast growing \$120bn (£79.8bn) global online and mobile-advertising market.

Follow these rules to truly become a data-driven, customer-centric retailer and you will leave the data have nots in your wake.

Luke Jensen is a senior advisor to private equity and a former member of the Sainsbury's operating board