Generating Insight from Customer Data

If you have ever felt the need to utter the phrase "We're data rich but information poor" it may be comforting to know that you are not alone and, in fact, are part of the majority. But not too comforting. Knowing how to get out of that situation can seem like a daunting task. There are lots of people out there who will offer to do cluster analyses, data mining (whatever that means), profiling, segmentation, logit analysis, factor analysis, targeting, propensity modelling, response analysis, customer value optimisation and so on and so on. But what does it all mean?

A friend of mine, Andrew Glover, who was head of strategy for Homebase at the time, once told me that he had endless streams of management consultants telling him "It is absolutely vital for you to have a detailed understanding of your customer's behaviour at every customer touch-point." His response to all of them was "Why?" and few, if any, could give him a simple answer which showed in a practical sense how he could do things differently to make an impact on the customer that would permanently change their spend and loyalty. That was not to say they were wrong, just so wrapped-up in the analytics that they forgot the fact that running a real consumer-facing business means you have to translate all those fancy words and techniques into some tangible actions that will improve the customer experience otherwise they are all just "nice to know" bits of information that have no impact whatsoever on the business.

As an analyst, however, it is equally daunting to understand what it means to run a real consumer-facing business especially when "dealing with real people" is something that "the client does" and because, as analysts, "we do not get involved in the operational-side of the business".

Building the Bridge

So how should you go about the task of using data analysis techniques to generate real insights and not just facts and figures that may haphazardly yield the occasional gem of information? We propose below a series of simple steps.

Step 1: Commitment to Building a Bridge

Invariably the best way is to start from the premise that you wish to serve your customers better so that they become:
- more loyal (by which we mean they spend a greater proportion of the money they spend in your category with you but without you having to bribe them to do so by, for example, cutting the price)
- more profitable (they become less price sensitive and/or buy more of your added value products than they previously purchased form you) and
- more effusive (in other words, they are willing to admit to friends that they use you whole heartedly to fulfil their needs – they do not need to become "advocates" as such but they do need to at least have the confidence to tell others they are happy with your service).

Doing this should be the easy part but if these three objectives cause anything other than unanimous and instant agreement at Board level then you know you really have got a problem.

Improving your customer management
for bottom line growth

Step 2: Consider the Customer's Motivations for Using Your Category and Your Service

However, assuming you have agreed the first step then the next step is to consider the customer's motivations for choosing how exactly they will fulfil their need for using whatever goods and/or services that your category provides.

For example, choosing which DIY retailer to go to buy a lawnmower will depend on factors such as the type of mower required (which will in turn depend on the customer's domestic situation), proximity to the store, price expectations, whether you have a loyalty card, previous standards of service experienced at that store and so on. In all, many differing motivations, most of which can be determined conceptually without ever looking at any data.

To make this easier, these varying motivations are of five key types. Work your way through each type in turn and you will arrive at the lists required to be able instruct an analyst to generate the insights you need. The five key types are:

1. cognitive (i.e. the of importance the individual attaches, or is likely to attach, to the outcome from their choice, in other words, the risk in making a wrong decision)
2. affective (i.e. the importance and possibility of external factors such as advertising in being able to influence the outcome)
3. conative (i.e. the individual's willingness to trade-off between the service received on the one hand and the price paid on the other
4. situational (i.e. factors such as distance to store, age, income level and so forth)
5. social (i.e. what will other people think)

Step 3: Instruct Your Analyst to Construct Measures of these Motivations for a Sample of Customers

Having derived your lists, under each of the above headings, of the types of things that will affect a consumer's decision to not only buy from your category but also to decide which provider to choose, the next step is to instruct the analyst to be able to construct measures of each of these dimensions for as large a sample of your entire customer base as you can muster, ideally aiming for at a group of at least 300 customers for every customer segment that you wish to cover.

If you do not yet have any customer segments already identified, aim for a total sample size for making these measurements using guideline criteria such as:

covering 10% of your customer base

having at least 2,400 customers in total if you want to use 6 – 8 customer segments

having a sample that is fully representative of whole of the (target) customer base

and then use these alongside measures of customer purchase behaviour (such as how often they buy from you, how much they spend, how profitable they are and so forth) to identify segments of customers that think and act in similar ways, subject to their individual differing circumstances.

Step 4: Instruct Your Analyst to Relate Motivations to Actions

For each segment of customers, the importance of each of the differing motivational drivers in influencing actual customer decisions can be determined by propensity modelling. This enables you to see the trade-off's customers are making between price and service across every dimension you have been able to include in the analysis.

This will tell you what the barriers to using your service are (e.g. for a DIY retailer one issue may be distance to store) and the what it will cost you to overcome that barrier (e.g. for the DIY retailer, how much cheaper would I need to make my lawnmower to persuade the same percentage of people to use my store whether they live 5 miles away or right next door).

More importantly, it tells you this for physical factors (like distance to store) and attitudinal factors (like "This is not the type of store I would use nowadays").

Step 5: Relate this Information to How You can Change the Customer Experience

Knowing the trade-off's (for each customer segment) enables you to consider what you could do differently to remove whatever barriers exist to that customer becoming more loyal, or more profitable or more effusive (or even all three). Linking this to an understanding of a typical "customer journey" around using your service/category enables you to see what to change, how to change it, how much it will cost to change it - *and* – what the likely pay-off from changing it will be.

Reaping the Rewards

By adopting the simple approach outlined above, the process of turning data into information and information into insight can become embedded into the decision-making of your organisation. It fully underpins marketing's objective of *"uncovering how to satisfy consumer needs better than the competition - profitably"*, and provides the basis for a continuous learning and improvement cycle that is always seeking to take and keep the organisation ahead of the competition.

The process sees data as the raw material and introduces a production machine that mines it, extracts the nuggets, converts the nuggets into ingots, and the ingots and into coins. Use it wisely and you will soon move from being one of the majority struggling with the sacks of data that surround

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