FROM SOMETHING FOR EVERYONE TO EVERYTHING FOR SOMEONE

Drive retail growth by centering the business around the most profitable customers
Imagine a world where the standard Monday meeting focused less on deciphering the past and more on driving the future. What if you had the answers to the most important, but difficult, questions at your fingertips in real time? Who are the most profitable customers? What products do they want? Do they shop in store, at home or on the go? How can you keep them coming back?
THE NEW CUSTOMER OBSESSION IN RETAIL

Retail used to be simple. Retailers found the shop format that worked and opened more of them. Everything orbited around the shop. Then came digital. More than two decades into this retail revolution, the landscape is endlessly complex. In this universe of competitors, choices and channels, the customer should be the sun.

In all the changes that retail has seen over the years, the customer is the one constant. Yet, rather than organizing themselves around customers, retailers have always focused more on products, stores, channels and categories. To survive, they must finally shift their organizing principle to individual customers—evolve from shopkeepers to customerkeepers. This is not yesterday’s customer centricity. It is not a new CRM strategy. It is not a marketing remit. This is a radical departure from retail norms that centers all of the business—departments, decisions, investments, success metrics and more—around customer lifetime profitability.

Retailers that continuously adapt to the evolving needs of their customers and market conditions—at speed and scale—are almost 2.5 times more likely to achieve above-average profit growth.¹

But not all customers are created equal. As some retailers have come to realize, the largest retail profit concentration comes mostly from the smallest customer group. These are loyal, profitable—high-value—customers who want to stick with the brand for life. They are customers who retailers should desperately want to keep. After all, every dollar retailers spend on an existing customer is a safe bet over customers they don’t know at all. That’s why the Holy Grail of retail growth is retaining these customers, acquiring new ones like them, and developing a value proposition for everyone else. All while evolving toward individual customer P&Ls.
Doing this requires a forensic understanding of customers—64 percent of brand switching is driven by a lack of relevance. Thanks to digital, customer insight does not have to be a mystery. Retailers can use analytics and artificial intelligence (AI) to unleash customer insights fast from the vast datasets they have right now. For the first time, they can understand the tastes, wants and behaviors of individual shoppers. Forget demographic and behavioral cohorts, and spray-and-pray tactics. This is a profound change: knowing customers as individuals to deliver at a time relevant for digital engagement.

Finally, retailers can ask, answer—and act on—critical customer questions at the pace and scale that retail markets demand. They can identify high-value and high-potential customers who will pay top dollar, maximizing full price sell through. They can nurture lifetime customer value. It’s all about unlocking data to lock-in sustainable future growth. Something most retailers only dreamed of before.
Retail customers are a fierce and fickle bunch. Digital masters like Amazon have taught them to expect premium service. At the same time, promotion mania and countless choices have conditioned them to expect discounts. Shoppers want to have their cake and eat it too: stellar service and special offers.

These competing demands put retailers in a difficult spot. Many are trapped in a death spiral of never-ending sales designed to “buy” customers with deals. But what retailers end up doing is digging their own graves, increasing purchase frequency while watching profits fall. They are essentially training once-profitable customers never to buy full price, and attracting the next generation of promotion-addicted ones. In 2018, second- to fifth-time buyers in North America are 14 percent more profitable than 11-time buyers, on average. This is because retailers have trained many loyal customers to wait for promotions or markdowns and return products often, doing nothing to grow high-value customers.

This vicious cycle of price slashing is not sustainable. Retail profit margins are razor thin as it is. Digital-first competitors are playing the long game when it comes to profitability. And the shadow of Amazon looms large. The company pulled in 45% of all online transactions — or purchases — on Thanksgiving Day 2018, and 54.9% on Black Friday.

Despite all this frenzy, the good news is that retailers’ best customers are hiding in plain sight. These are the high-value customers who should become retailers’ newest obsession. Not only are they out there, but it is possible to find them using data that most retailers have today.

A customer decile analysis based on in-store and online spending reveals the profit potential of every customer. Accenture’s analysis of 28 different retailers—across geographies, sectors and sizes—highlights that typically five percent of customers generate a third of the profit, and 35 percent of the customer base accounts for 80 percent of profit. Even more extreme profit concentrations are frequently found. More worryingly, as much as five percent of the customer base typically is loss-making because these customers are so adept at using discounts, promotions and returning items.
This view of individual customer profitability liberates retailers from one-size-fits-all customer strategies in favor of highly targeted ones. They can keep the brand’s most profitable customers happy and nudge them to future purchases. They can entice new customers to become fast friends. There’s also the work of bringing lapsed customers home and winning the hearts and minds of prospects most likely to become future brand fanatics.

Retailers can find unique ways to make high-value customers feel special. These include special previews, red carpet events for VIPs, curated gift boxes, incentives for social media engagement or experienced-based rewards programs. It’s all about continually applying insights, prioritizing investments and allocating resources to strengthen the most valuable customer relationships and stop all the spinning around loss-leading customers for good.
This precision understanding of customers is only the first step in the new customer obsession—that golden ticket to future retail growth. After all, it is one thing to know your customers. It is quite another to develop customer-centric business plans and pivot the entire organization around these high-value customers.

There is no sugarcoating that this is hard work. Change always is; but so is being everything to everyone. Retailers can act today to begin getting traction and building on the data-rich foundation that already exists. The place to begin is by acting on the most critical enablers of this transformation.
## WHEN SHOPKEEPERS BECOME CUSTOMERKEEPERS:
WHAT ORGANIZATION-WIDE TRANSFORMATION LOOKS LIKE

<table>
<thead>
<tr>
<th>Customerkeeper Mindset</th>
<th>Key Questions</th>
<th>Key Analytics</th>
</tr>
</thead>
</table>
| **Customer (CEO/CCO)** | Running customers over a lifetime  
Not all customers are created equal—focus on customer lifetime profit and potential  
Align business around a customer P&L | What is the distribution of customer profit?  
What profitability decile movement do you have? (are people making you more/or less money year on year?) | Customer profit decile analysis |
| **Marketing (CMO)** | Align marketing to customer lifetime value (CLTV) and potential lifetime value (PLTV) | Which marketing sources (email, paid search, affiliates) retain/acquire high-value customers? | Keyword decile analysis |
| **Finance (CFO)** | Customer-centric planning as the new way to plan business | What percentage of your plan will come from existing vs. new customers?  
How many new customers do you need to meet plans? | Customer cohort extrapolation (customer growth model) |
| **Logistics & Supply Chain** | High-value (HV) and high-potential (HP) customer experience of availability (vs. company view of availability) | Where do you hold products in the supply chain to maximize full price sell through? | Customer viewed and demand weighted availability |
| **Buying & Merchandising** | HV and HP customer overlay on brand, category and product performance  
Optimizing full price sell through  
Individual customer/SKU level pricing | Which products/brands/categories retain/acquire high (and low) profit customers? | Products that acquire/retain high-value customers |
| **Store Operations** | Role of stores as part of customer acquisition and retention (vs. transaction) CLTV and PLTV | Which stores/channels acquire and retain high-value customers? | 360-degree store profit |
LEAD FROM THE TOP
Retailers have always been mindful of customers, but now they need a mindset rooted in customer-driven growth. One where everyone in every corner of the organization lives and breathes customer centricity. This is uncharted territory. Such a paradigm shift must be born and nurtured from the top, driven by the CEO with a clear vision of what the future will look like, and the rallying cry and roadmap to get there.

This is just what the CEO and leadership team at a multi-billion global apparel business is doing. After years of store openings and successful growth, the company began to experience stagnating revenue and falling profits. Leaders identified market saturation and a drop-off in new customers as the root causes of the problem. Efforts to attract customers with promotions and revenues did little to right the ship. Leadership understood that change would not happen unless the company changed. Fully embracing a customer-centered growth strategy, the company is now driving loyalty and incremental purchases from existing high-value customers and getting creative about future customer acquisition.

SHATTER THE SILOS
Traditional retailers operate in uncoordinated functional silos. The big picture view of customers is elusive at best and impossible at worst. Retailers cannot drive the lifetime value of high-value customers unless they get really good at things that are only possible if these silos work together. It is time for all these independent planets to respond as one to the customer’s gravitational pull. In fact, the power of analytics insights rises exponentially when organizational blind spots disappear.

Consider one luxury retailer’s experience. The company analyzed its omnichannel customer data over five years and learned that 2,000 customers were driving 80 percent of the profit. To extend this purchasing power, the retailer developed a VIP program around a luxury service proposition and insight that connected lasting loyalty to positive delivery experiences. Whenever any VIP placed an online order, one employee owned the end-to-end process from warehouse to delivery to exchanges if needed. The company developed metrics and KPIs around the service proposition that forced several areas of the business—customer managers, fulfillment and finance among them—to share data and collaborate in ways they never had before.
**MEASURE WHAT MATTERS**

Customer-centric retailers will evolve from traditional metrics such as store like-for-likes toward customer like-for-likes. As the luxury retailer did for the VIP program, retailers need KPIs and metrics that measure and reward individuals beyond silo-specific performance. People need to be on the hook for success factors that depend on shared visibility and end-to-end customer understanding.

It is not that retailers should stop measuring everything that they did in the past. But instead, they should change the lens through which they view the performance for the high-value customer segment. Aligning the offering to high value customers’ demand can positively impact profit and customer retention. Take viewed availability, for example. The available inventory that shoppers were actually viewing was down 3 percent YTD in 2018, with an average decrease of 13 percent in August 2018 compared to August 2017. Do retailers know if they have the products in stock that high-value customers want to buy—and buy often? A more nuanced understanding of SKU availability can reveal purchasing trends among top customers. Case in point: A health and beauty retailer was going to discontinue an eyebrow gel. But a forensic look at SKUs revealed that the gel was being purchased six times a year by the most profitable customers, signaling that it was an “addictive” product that was critical to keep in stock.

**AMPLIFY PEOPLE POWER**

There is a false notion that handling data is something only clever data scientists do well—a “pay no attention to the person behind the curtain” view. In the customer-obsessed retail world, this ambivalence, even fear, of data must go. From now on, everyone from the corner office to the shop on the corner must engage with customer data to make better decisions and take better actions.

Retailers certainly need skilled data scientists with deep knowledge of analytics tools and methodologies. Hiring these people or finding partners with these highly-coveted skills is critical. However, retailers also need translators. They connect the data scientists—who often do not understand the context of the business problems they are trying to solve—with end users—who often do not understand how data can be used. Bridging these gaps goes a long way in curbing people’s fears. Retailers should also get intentional about making data more actionable and exciting. One supermarket chain now has data camps for much of its executive team, exposing them to statistical techniques, jargon and examples of how to translate data into action.
USE BOTH HUMANS AND MACHINES

Humans do not have to go it alone in analyzing the mountains of customer data that retailers have at their fingertips. AI platforms augment humans, sifting through data, identifying patterns faster and in ways that humans never could. With intelligent machines doing the repetitive work, humans can pivot to higher-value tasks that tap into intuition, creativity and judgement.

This harmony of humans and machines—where each is doing what it does best—allows retailers to extract salient insights about high-value customers essentially in real time. It’s the secret to addressing individual customer needs at scale and speed. A home improvement retailer discovered this firsthand. Customers’ needs shift dramatically seasonally, and spike quickly in certain regions when natural disasters strike. To support customer demands and in-store stock rates without exceeding network capacity, the company turned to an AI analytics platform. The retailer is now building fast-twitch, responsive supply chain capabilities that were impossible when the team was relying on data warehouses and spreadsheets.
GET SMARTER FASTER
The caveat to all of this is that speed matters. Meeting top customers’ needs after the moment has passed is meaningless. And decisions that could have been made yesterday can cost millions. This is why retailers need to develop a real-time customer brain and stop hand-cranking reports and relying on spreadsheets—the #1 tool US retailers use today for analytical decision making.\(^7\)

If the data is inaccessible and insights are painful or time-consuming to extract, people often fall back into their comfort zones to bypass the pain. They can end up avoiding using the data and making decisions based on gut instinct alone. To overcome this challenge, organizations should make critical insights and analytics readily available. This was a game-changer for merchandising teams at an online fast fashion retailer. Prior to having a merchandising analytics system, the teams struggled to understand the specific reasons why certain products were not selling. Reviews happened monthly, and diagnoses took days and involved piecing together multiple data sets. Once the data was joined, however, the merchandising teams could act multiple times per day to drive sell-through on previously unviewed products.

HIGHLIGHT QUICK WINS
As retailers orient the business around customer strategies, skepticism will arise about new thinking and working. But the more people see quantifiable results, the more confident they will become about the changes around them. Conducting pilots and trials and rolling out the most promising ones fuels the business case for future investment and offers ground cover from the naysayers.

A trial in one store changed everything for an apparel retailer. Recency and frequency analysis revealed that if the company could get first-time customers to make a second purchase within eight weeks, customers were more likely to become lifetime loyal customers over time. In one store, staff began sending a personal email at the seven week mark from the clienteling system to new customers who had purchased a high-value item at full price. The email referenced the product and asked customers if they were happy with their purchase. As a result of this onboarding activity, repeat purchase rates from first to second purchase increased by 50 percent. The success gave the retailer the justification—and the confidence—to repeat the program at scale across the entire store network.
BACK TO THE FUTURE OF RETAIL

More than 150 years ago, retail experiences were intimate and very personal. Main Street shopkeepers knew their customers well. Shopping experiences were interactive—products were literally behind the counter, and prices were set based on personal relationships. Flash forward to today, and much of the retail landscape has lost sight of this powerful one-to-one connection.

Digital is bringing it back at scale. Retailers now have rich data they can store in the cloud that allows them to take predictive actions at the individual customer level, centering all aspects of the business around customers. This puts a whole new spin on things for the thousands of retailers who are struggling today to understand what makes their best customers tick. It also provides a growth engine in a market where growth is a tough road—the projected five-year CAGR for retail in North America and Western Europe combined is just under five percent.8

How ironic that this new-fangled digital world is bringing retailers back to some old-fashioned fundamentals. The key to future retail growth? Combining the old Main Street retail ethos with new technologies to build one-to-one retail relationships with millions of high-value customers. Retailers should waste no time in making this pivot. Those that don’t are putting the future on the line.
ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 459,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

REFERENCES

1 Accenture, Accenture Living Business Research - Retail, 2017
2 Accenture, 2017 Global Consumer Pulse Research Survey
3 DynamicAction Retail Index: 2018 Analysis and Holiday Outlook, a study of more than $10B in consumer transactions
5 Accenture analysis
6 DynamicAction Retail Index: 2018 Analysis and Holiday Outlook, a study of more than $10B in consumer transactions
7 Accenture, “Advanced Analytics in Retail,” Accenture Retail Strategy study, December 2017
8 Accenture analysis of Kantar data