

Measure What Matters

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Retail Mindsteps (def): Key developments that have caused dramatic and irreversible changes to paradigms and world views in the fast moving consumer goods retail industry.

Retail Mindsteps INNOVATION BRIEF



Gary Hawkins has lived his career ahead of the curve, putting him in the right place at the right time to lead the fast moving consumer goods retail industry into the future during a time of exponential technology growth using never-before-available capabilities to innovate the future of shopping.

His expansive industry view and early insight into disruptive technology makes him a sought-after keynote speaker at conferences in the U.S. and around the world. Hawkins is the author of *Building the Customer Specific Retail Enterprise*; *Customer Intelligence*; *Retail in the Age of I*, and *Bionic Retail*, along with the *Retail Mindsteps Innovation Briefs* and *White Papers*. Hawkins lives in Colorado with his wife Heather, and Remington, their Bernese Mountain Dog..

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Rock climbers typically follow established routes developed by earlier climbers. Using proven paths provides the climber with confidence as others have gone before using the same route, successfully making the summit.

But there are times when the familiar handholds only go so far. In the Mission Impossible II movie, the opening scene shows Tom Cruise free climbing a rock face at Dead Horse Point in Moab, Utah. We see Cruise steadily climbing until, almost at the top, he encounters an overhang impossible to surmount. Searching for a way forward, he sees another route but must launch himself across the rock wall and catch a new handhold, which provides viewers with the first adrenalin rush of the movie. That move, launching himself into free space to grab hold of a new path, required a leap of faith.

Traditional retailers are nearing the end of the product-driven business model. Retailers have for decades followed others in well-worn practices such as a focus on supply chain logistics, category management, and even customer centricity. The latter, paying lip service to the customer, really just another approach for more informed product sales. It's time for retailers to take their own leap of faith and grab hold of a new path to success.

That path is a true customer focus. I can hear retailers of all sizes now, saying "The customer is the most important part of our business". But here's the defining test: What do you measure and report in your business management and financial reporting? I bet it is not customer metrics.

Now, some readers may already be thinking that it's impossible to measure shoppers in a traditional retail setting. But that is simply not true. Retailers like Kroger capture over 97% of their sales via their loyalty program, providing the retailer a massive amount of customer data. There are a handful of other retailers of varying sizes, that also capture high levels of shopper data. eCommerce orders by default provide customer identified purchase data.

And yet relatively few retailers move from capturing data to actually measuring shopper behavior. And a literal handful, if that, actually bring those measures into their management reporting.

Other businesses in other industries have long reported on customer data. In the financial services industry, customer lifetime value is a key metric. Pure eCommerce companies frequently measure customer lifetime value and churn. Many businesses measure customer acquisition costs; companies like Verizon and AT&T. But where is retail?

Earlier this year I spoke to a group of supermarket financial executives and called out the obvious: Retailers have invested in building extensive systems to power their financial

reporting; sales and margin by department and category, inventory turns, shrink, and more. What about reporting sales by customer group or segment. Gross margin not just by product, category and department but by customer. Measuring and reporting customer shrink and lifetime value.

With customer-based reporting embedded into a retailer's management and financial reporting, the foundation is created to use those metrics to evaluate initiatives across the organization, from marketing and merchandising to customer service levels.

Years ago I was privileged to attend one of the last four-day seminars that W. Edwards Deming taught in person. Deming, as some readers may know, is oft referred to as the father of the Total Quality Management movement.

One of the things I'll never forget learning was Deming's Plan-Do-Study-Act improvement cycle. The essence of it is straightforward: Plan out some action, execute the plan, study the results, and act upon what was learned to improve the next cycle. Implicit in this philosophy is measuring everything possible so as to learn as much as possible to make improvements.

It was that learning that I brought to the early days of retail loyalty programs, which for the first time provided accurate shopper purchase behavior over time. Using that data we were able to plan a marketing or merchandising initiative, execute it, study the results and then improve it. This approach added right-brain logic to left-brain marketing creativity. For the first time we could truly measure and then manage the retail business to customers.

It's taken several decades since those early days but some retailers - worryingly, relatively few - have finally realized that their sales dollars actually do not originate from that product package sitting on the shelf. No, sales dollars actually come from the shoppers opening their wallets to purchase those products. And those shoppers have a choice in what products they buy and what retailers they choose to shop with. Shoppers are any retailer's ultimate asset.

The world of traditional retail is changing fast. New AI powered strategic personalization technologies now make it more advantageous for retailers to go to market via personalized promotions than the mass promotion model of yesterday. Customer purchase data is turbocharging the value of retail media networks like Kroger's, giving advertisers the ability to precisely target shoppers based on past purchases. The time has come for retailers to get serious about collecting, understanding, and using customer data.

As we approach the holidays perhaps it's time for retailers to adopt a New Year resolution: Measure what matters.