

Perplexed by Personalization?

Gary Hawkins

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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..

Hawkins can be reached at gary@garyhawkins.info.

Perplexed by Personalization?

The Covid pandemic did more than spike online grocery shopping; as more shoppers engaged digitally with retailers, expectations of relevancy and personalization exploded. According to McKinsey, "71% of consumers expect companies to deliver personalized interactions and 76% of shoppers get frustrated when this doesn't happen." And retailers want to provide relevant engagement as "personalization drives performance and better customer outcomes. Companies that grow faster drive 40 percent more of their revenue from personalization than their slower-growing counterparts." (McKinsey)

Yet for many retailers in the fast moving consumer goods industry, personalization remains a perplexing topic. Shopper touchpoints - both inside and outside the store - are growing, with each demanding its own type of personalization. Technologies powering personalization are changing fast, especially with the explosive growth of big data and artificial intelligence. Even time is becoming a factor, with more capabilities beginning to work in realtime - placing growing demands on retailer IT infrastructure. And, too often, retailers don't have time to dig deep enough to understand the powerful nuances involved, and end up with solutions that don't deliver the promised benefits.

What is Personalization?

Personalization in consumer goods retail refers to the practice of tailoring product recommendations, promotions, content, and experiences to individual customers based on their preferences, behaviors, and past interactions with the retailer or brand.

Retail, particularly grocery retail, offers a rich environment for personalizing the shopping experience. Not only are there a growing number of customer digital touchpoints, grocery retail has a high frequency of visits, thousands of SKUs, along with shopper loyalty to certain brands, that offer many opportunities to influence the shopper.

Why do it?

Asking retail executives why they want to provide personalization typically gets answers like: My competitors are doing it, so I need to do it too, My shoppers expect it, or, It's supposed to help grow my sales and margins.

Shopper expectations are important. Consumers have long taken for granted the personalization and relevancy they experience in the digital realm from merchants like Amazon, Netflix, and others. Online relevancy has become so de rigueur that shoppers only notice it by its absence, so accustomed are they to seeing relevant products being presented when they sign on. Estimates are that 35% of Amazon's sales come from personalized

recommendations. And, according to the McKinsey study, 67% of shoppers are looking for relevant product recommendations

Done correctly, it simply delights the customer to receive additional savings on relevant products. In return the shopper rewards the retailer with additional shopping trips, even advocating for the retailer amongst friends and family.

Personalization is proven to deliver increased basket sizes, more shopping trips, and improved shopper retention over time. The extent of the business benefit is driven by how well the personalization is executed, how sophisticated the systems are, the incremental benefits to the customer, and how many shoppers are engaged.

And while many retailers want to provide personalization because their competitors are, there's much more here than is readily apparent. After a century of mass promotion, retail competition is quickly going stealth, creating a quiet battle over each individual shopper's share-of-wallet. This transformation is being driven by the enormous amounts of data available, combined with AI driven insights and strategic personalization.

To properly compete, retailers not only must have the sophisticated capabilities, they also must have the proper analytics measuring customer behavior so they can keep score in this new battle.

The Foundation

The quantity, quality, and diversity of data directly correlates to the effectiveness of personalization. Unlike past generations of marketers, today we can leverage big data and new tools like AI and machine learning to automate highly sophisticated hyper-personalized marketing at the individual shopper level.

Shopper data: Knowledge of the shopper - name, email, phone number, address - is of paramount importance. Other related information, like if the shopper has pets or young children, can be gleaned from purchase data.

There are several things to consider here. Many of the retail loyalty programs that have been in place for years identify the shopper household; this originated from giving shoppers a card and key tags all with a common barcode number. Today though, marketers can identify each individual shopper to their purchases, often using the shopper's mobile number. A further option is identifying the individual shoppers and enabling, say, a husband and wife to each use their unique mobile numbers but link them together to create the household. This is a recommended best practice as it allows the retailer to personalize at an individual shopper level or a household level.

It is also important to realize that the quality (accuracy) of shopper data begins to degrade immediately. A shopper signs up one day with his address and phone number but then a few weeks later moves to a new home or changes his phone number. Think about processes to maintain the accuracy of the data as best you can.

World-class retailers identify upwards of 90-95% of all their transactions to shoppers. It's important to accurately identify the shopper to their transaction; bad data defeats the personalization initiatives. Surprisingly, some retailers maintain the practice of having a 'managers card' available to scan for shoppers who do not identify themselves. While this might seem like providing good customer service, the retailer is really corrupting their data, limiting the benefits.

Adding to shopper identified purchase data, many larger retailers make use of third-party data that provides additional information on the shopper household, things like income, demographics, size of household, and so on. This data is often used by retail media networks to provide additional targeting capabilities for brand advertisers.

Product data is as vital to successful personalization as the shopper's data. Quality product data implies accurate product descriptions, categorization, and accompanying graphic images. Ingredient and nutritional product data have become very important as a growing number of shoppers have food allergies, lifestyle preferences, dietary needs, and more. Beyond product categorizations like department and category, some type of 'family code' improves personalization efforts. An example would be different flavor Chobani Yogurts linked together through a family code.

Time & Location has become increasingly important in the digital world. It's possible, for shoppers using the retailer's app, to understand what shoppers are in the store, even their location in the aisle. That time and location can help power increased relevancy, providing the late afternoon shopper with dinner ideas, while recognizing the early morning most valuable customer with a free cup of coffee.

But time and location also are meaningful outside the store. Data companies are able to leverage smartphone location data - opted into by the shopper - to understand unidentified shoppers coming to your store. For example, there may be 100 shoppers this week visiting the store but those shoppers have opted not to join the retailer's loyalty program so they're 'unknown'. Using location services, data companies are able to understand where those shoppers live (they go to the same address every night). With an address, you can obtain a name, and for a good percentage of cases, with a name and address it's possible to obtain an email or text number.

While this kind of data can appear to be scary, these practices have gone on for quite some time and are used by many marketers. And, important to note, ethical data providers are using only data that the consumer has opted into sharing. Indeed, it is this kind of data, along

with shopper data, that is transforming FMCG retail marketing from mass promotion to a stealth battle being waged over the individual shopper.

The Importance of Profiles

Profiles, of a shopper, product, and even a store, go beyond the immediate information to incorporate additional data. For example, a shopper profile includes name, address, email and also includes myriad other dimensions of that shopper's behavior, such as shopping frequency, brand preferences, discount propensity, and more. A product profile for Diet Coke goes beyond the description, package size, department and category assignment, to include additional attributes like sugar-free, gluten friendly, Keto diet friendly, etc. A store profile can include not only the address and hours the store is open, but also what products are sold at that location along with the location of the products within the store.

The extensiveness of a profile directly impacts the level and effectiveness of personalization. It stands to reason that the more you know about a shopper, the products they purchase, and the store they frequent, the better you can personalize their shopping experience.

Many personalization solutions use just basic profiles in their targeting or recommendation engines. But other solutions view the profile as their 'secret sauce', creating extensive attribution. Leading solutions, for example, create shopper profiles, and even product profiles, with hundreds of attributes.

Business Goals

So with a solid foundation of data, retailers can now turn attention to using all that data to improve their customers' shopping experiences and power their business. And, as with data, there are a couple dimensions that should be considered.

On one side is thinking about - even creating a list - of what experiences can be personalized... and that list is growing fast as retailers grow digital engagement with their shoppers and the stores themselves become increasingly digitized through electronic shelf tags, digital signs, smart carts, and more.

That list probably includes things like personalizing the online shopping experience, the mobile app, emails, text messages, and more. It may also include things like personalizing the weekly ad, digital coupons, recipes, and so on.

As you create the list, alongside each experience think about your business goals, what you want to accomplish via personalization. For customers shopping online, maybe its reminding them of a product they frequently purchase, or suggesting products that often accompany something already on their shopping list. It could also include notifying the shopper that

there's a digital coupon available for products in their virtual basket, or even a recipe suggestion.

Increasingly, the ability to target shoppers with relevant messaging, converges with business goals. For example, maybe there's a new competitor opening nearby and you want to target the impacted store's shoppers with savings on products most relevant to them. Or it could be that a certain store has excessive inventory of strawberries that must be moved quickly; the retailer messaging shoppers who often buy strawberries via text of a 'get them while they last' sale.

There is also the opportunity to collaborate with vendors and CPG brand manufacturers to create campaigns to promote new products using the data to identify likely shoppers. As retailers become more conversant with the data and precision personalization, they often become more strategic with how they think about their business goals, understanding that if they can grow shoppers' lifetime value, the business will grow. Many retailers create some kind of segmentation to keep track of their shopper 'inventory'; it might be something as simple as core shoppers, occasional, and fringe shoppers. Or it may be more fine-tuned, using multiple tiers. In these cases, retailers use their capabilities to, ideally, migrate shoppers from lower spending levels to higher spending groups. Inevitably, higher spending, more frequent, shoppers provide the retailer a higher gross margin. Stands to reason as higher spending shoppers are shopping more departments and categories and probably have a mix of higher margin products in their baskets.

Different Tools for Different Jobs

Just like you may use different tools to do a DIY home project, there are different personalization tools that are best used to accomplish specific business initiatives.

Filtering Mass Content

Probably the most common personalization found today in grocery retail is the 'personalized ad'.

Here, solution providers are filtering the sale items in the weekly ad against the shopper's purchasing and emailing the customer the six or ten items most relevant to the shopper. The benefit is really helping the shopper quickly learn what sale items are of interest without having to flip through pages of promotions searching for relevant savings. The other side of this though is that the shopper is not receiving any incremental savings - they are the same products available to everyone.

Though this is basic personalization, there can be nuances in how it is done. A basic engine simply understands that Donna purchases Diet Coke frequently, Diet Coke is on sale this week, so Donna will see that on her personalized ad. More nuanced personalization engines

will understand that Bob purchases Crest toothpaste every three weeks, just purchased it last week, so even though its on sale this week it will not be on Bob's personalized ad.

Another 'flavor' of this type of mass content filtering is found with digital coupons. There are usually 100 - 200 digital coupons available to shoppers at any one time. Some retailers are filtering all the available coupons based upon what they know about the shopper to provide a personalized digital coupon email each week.

Enabling the shopper to filter products based upon dietary needs or preferences is another personalization capability valued by shoppers. This is commonly built into online shopping solutions, letting the shopper to either create a profile that automatically filters products, or letting the shopper choose, for example, show only gluten-free products when looking at cereal.

Reactive Personalization

Reactive personalization is just what it seems, the systems reacting - usually in realtime - to what the shopper is doing to personalize the experience. Online shopping personalization is reactive, the personalization system responding and reacting to what the shopper is searching for as they build their order.

There are many opportunities to personalize the experience. One of the more subtle is presenting products that the retailer believes are most relevant to that shopper based on past activity as the shopper builds their order. For example, if the retailer knows the shopper requires gluten-free products, only gluten-free cereals are presented when the shopper clicks on that category or searches for cereal.

Displaying ads during the online shopping experience can be trickier. Even though the shopper is looking for gluten-free cereal, if Kellogg's has purchased the ad banner for any shopper searching for cereal, the advertised item may not be relevant to the customer. The retailer needs to balance providing a personalized experience with ad revenue.

More advanced retailers create reactive marketing campaigns based on shopper behavior. For example, the first time a new shopper ID is seen in the transaction files, an email or text message is sent to the shopper welcoming them as a new customer and providing some kind of incentive to return again.

Another version of this is the retailer creating automated campaigns that trigger when a shopper drops from 'Gold' to 'Silver', the system automatically sending a message along with a relevant incentive to shop more with the retailer. Another version of this is an automated campaign triggered by a customer defecting, such as someone who has not shopped in the past 60 days.

Proactive Personalization

Proactive campaigns are initiatives organized by the retailer to achieve specific goals. Examples here would include campaigns run to counter competitor openings near a retailer's stores. The retailer extending personalized promotions to shoppers of the impacted store in an effort to retain their shopping. Another example is the retailer targeting the shoppers of a newly renovated store, providing savings on relevant products to encourage the shopper to visit the remodeled store and maybe sample new departments or categories.

More advanced customer intelligent retailers actively seek to strategically grow shopper value through regular, hyper-personalized campaigns, providing both savings on products the retailer knows the customer frequently purchases, in addition to other offers to grow basket size and encourage purchasing in new departments or categories.

It is these types of campaigns that bring forth another important element in personalization: Who pays for it?

Funding Personalization

Fast moving consumer goods retailers like grocers have long sought brand manufacturer and vendor funding for marketing initiatives. And while wanting to maximize vendor funds may make sense, there is another side to the issue.

A number of regional retailers have for some years now run monthly or quarterly personalized campaigns to provide - usually to their more loyal shoppers - savings on relevant products. Typically, the retailer will create the audience, for example Gold shoppers, and then go into their data to create a list of several hundred products those shoppers frequently purchase. That list then goes to the merchandising team to obtain vendor funds to pay for the targeted offers.

Retailers using this approach often end up with an offer pool of 200-400 products that are then targeted to the shopper audience. While there is a fair chance any given shopper will get savings on one or more products that may be relevant, the limited offer pool - driven by vendor funding - can curtail the impact.

Customer-savvy retailers take a different approach. Rather than vendor / product driven, these retailers are customer-focused, understanding that the real power lies in growing each shopper's basket size, shopping frequency, and retention over time.

These retailers leverage the most advanced personalization capabilities that effectively use the entire store product catalog as the offer pool, the AI powered personalized system auto-generating which products to promote to each individual customer - including a personalized discount - to maximize the impact of the campaign. Retailers doing this assume funding for

the campaigns and have found significant ROI by focusing on providing true, relevant, and incremental, personalized savings to each of their shoppers.

It makes sense that by expanding the offer pool from a few hundred products to, say, the 30,000+ products found in the typical supermarket, that the probability of a shopper receiving meaningful savings on relevant products increases exponentially. Especially when the AI engine is able to use sophisticated shopper profiles that guide understanding of brand preferences, discount propensities, and the purchase cadence of every product bought by the shopper.

Taking on responsibility for funding strategic personalization initiatives brings us to measurement, evaluating the impact.

Measurement

Ask any marketer how they evaluate retail marketing initiatives and you'll probably get as many answers as people. But there are some commonly used approaches to measuring the impact of customer-based marketing.

Control groups: Control groups are a widely accepted method of understanding the effectiveness of campaigns, but there are several versions often used.

The first is an A-B control group. For example, a marketing campaign is executed for shoppers of Stores 1-50, and not to the shoppers of Stores 51-60 that serve as the control group. Marketers then look at basket sizes, shopping frequency, retention, etc. of the targeted group and compare it to the group that did not receive the promotions.

There are many iterations on the control group approach, from isolating shoppers within a targeted audience and segmenting them out as the control group, to blocking out certain stores, regions, and so on.

Another approach is to look at the behavior of shoppers who received or participated in some promotion, then understand, of those shoppers, who also shopped in the same time period the year before. Once isolated, look at the behavior of those shoppers last year and compare it to the same-shopper behavior this year.

Scorecards: Every marketer using some kind of shopper data and targeting eventually creates a scorecard to help understand differences in shopper audiences over time. Those scorecards serve as another way to evaluate personalization initiatives.

Many retail marketers use some variation of the old direct mail segmentation approach. This involves ranking each shopper (household) by spending in a certain time period, frequency or the number of shopping trips in the time period, and the recency of shopping. Direct

marketers would typically take the top 60% of shoppers by spending AND the top 60% of shoppers by frequency AND the top 60% of shoppers by recency. Think of these represented by a Venn diagram; those shoppers that qualify in all three groups are the target. It is this group that direct marketers found provided the best response.

Retailers often use some variation of this approach to create several segments; Core shoppers, Occasional shoppers, and Fringe or Tertiary shoppers. They then run the segmentation each month or each quarter and compare the results over time.

While that approach is widely used, its important to call out that, by its nature, it is a relative ranking of shoppers. What segment a shopper lands in is relative to all the other shoppers. Now, this does not negate the worthiness of this approach but its important to keep in mind. A smaller number of retailers have moved from relative measures to absolute measures. In this case, retailers are defining a Gold shopper as someone who spends (for example) \$500 or more each month. A Silver shopper might be someone who spends \$250 to \$499.99 in a month, and so on.

Now, there are two sides to this approach. The first is that if used over time it may be important to incorporate adjustment for inflation. But it does clearly show how many shoppers each month are in each segment, creating a powerful scorecard to understand personalization effectiveness.

Advanced practitioners create very sophisticated absolute measures involving specific thresholds for spending, the number of shopping trips, and more, that enable them to really dial-in the impact of their efforts.

The Future of Personalization

Given the exponential growth of data, computer processing power, and artificial intelligence, its safe to assume that competition in FMCG retail will increasingly shift to a stealth battle waged over each individual shopper, measured by what share of wallet the retailer can win. The challenge for many retailers is understanding what's happening in their marketplace. Long accustomed to watching promotional pricing in mass weekly ads and billboards, along with radio and television commercials, when marketing goes stealth - email, text, etc. - its impossible to know what your competitors are doing. This drives home the importance of scorecards to measure what's happening with your shopper base - if only to gauge the impact of what your competitors may be doing.

And the future is automated as new AI powered systems feed on big data to automatically create audiences, generate individualized promotions from the entire store product catalog, and communicate the personalized offers to shoppers. All with minimal human interaction. What is occurring is a true paradigm shift in retail marketing, and retailers of any size must be prepared to join the battle. Retailers bereft of shopper data, and the sophisticated tools to

take advantage of that data, will increasingly fall behind as shopper expectation of relevancy and true, incremental savings on the products they want to buy, grows..