Know your customers, but do it profitably

More information doesn't always mean more value

By making sure they have the right customer information rather than too much of it, companies can create more value for both themselves and their customers.

pwc

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Starbucks' stores are impressive for their consistency in design, interiors and customer service, but they also serve up different menus at variable prices, depending on their location. In select US cities and university towns, for example, some customers wait patiently for individually brewed "Clover" coffee and pay a premium for it. This artisanal coffee experience is markedly different from the grab-and-go experience familiar to most customers loyal to their drip-machine-brewed skim-milk lattes and salted-caramel mochas.

Targeting customers in this way, based on aggregating segments by demographic and psychographic information, and offering them the customer experience (CX) they value is not new. The twist today comes from the multiple data sources companies can layer on top of basic customer information to create more in-depth profiles. As Joe LaCugna, director of analytics and business intelligence at Starbucks, said at a conference on big data a couple of years ago: "We know who you are. We know how you're different from others."[1]

The need to put technology at the heart of CX is driving tech spending across all industries. PwC's 2015 Digital IQ Survey found that not only are companies increasing their technology investment, but also that nearly three-quarters of it is now coming from outside IT departments.

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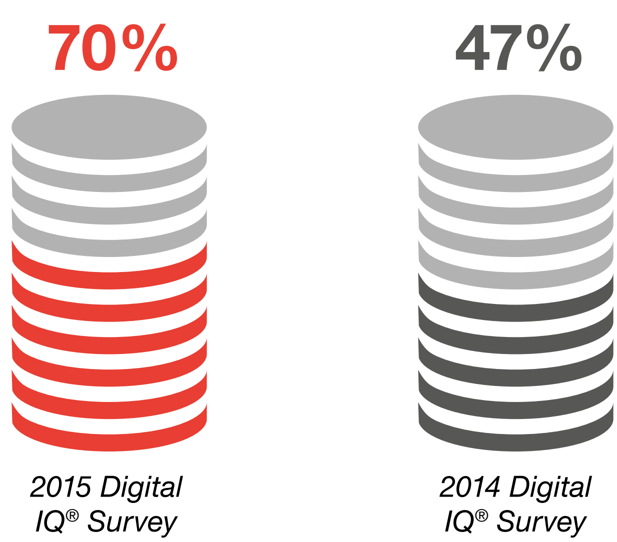
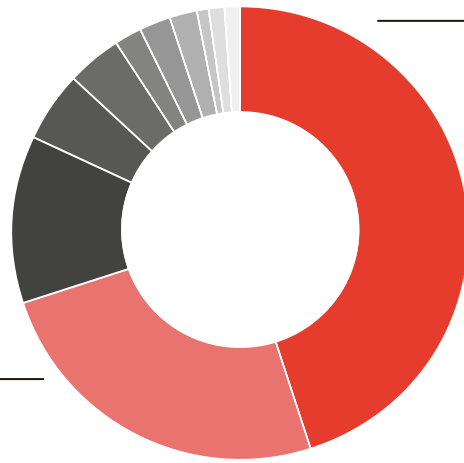
As business priorities such as customer experience ascend in importance, tech investments are increasingly being redirected to those areas



Source: PwC, 2015 Global Digital IQ® Survey, 2014 Digital IQ® Survey; Bases: 1,988, 1,494 2015: Q: In the last 12 months, what percentage of your organization's digital enterprise budget was spent in the following areas?; 2014: In the last 12 months, of all the spending in your organization on technology, what approximate percentage of it was spent in the following functions?

Creating better customer experiences is how companies plan to get the biggest bang for their IT buck, after growing revenue.



Source: PwC, 2015 Global Digital IQ® Survey; Base: 1,988
Q: What value do you expect from your digital enterprise investments? Select the top three in ranked order. First-ranked.

And what are these investments meant to support? Revenue growth and better customer experiences, say respondents. While these are reasonable short-term objectives, companies should take care that their digital investments aren't undermining the long-term value of their business. All the CX bells and whistles customers demand today could be draining resources away from investments needed for future success (e.g., in R&D and operational innovations).

It doesn't have to be that way. CX done right isn't about randomly throwing darts and hoping they'll stick. It's about creating customer experiences that matter. The ones that matter deliver a profitable return on the investment that went into creating them. How? By resulting in real value for both the customer and the company. And, ideally, it will be long-term value, something customers pay for again and again.

These hard-nosed considerations should inform what CX you offer and how you offer it, believes PwC's Mark Haller. "A business, whether it's a B2B or a B2C company, can achieve a higher margin by altering the product and service basket it offers to its customer," he points out. "You don't have to raise the price. Instead you can stop delivering features that were unimpressive to that customer—for instance, by removing from the basket three things a customer is unwilling to pay for." Your analysis should also surface new ways you might fulfill the customer's needs and wishes. But you need to ask yourself, "How much are these things really worth to her, and in turn, to our business? If we invest in new ways to fulfill a customer's needs and wishes, will doing so improve our return on that customer?"

This is not to suggest that it's always possible, or even necessary, to acquire granular insight about every customer. What Starbucks does is analyze data from millions of customer loyalty cards to segment customers based on their purchasing behaviors. It then pushes out the same offer to all customers who show similar behaviors. For example, customers who look like they might not be returning soon get special inducements that loyal customers don't.[2]

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Mark Hunter, President and CEO, Molson Coors Brewing Company

Amazon and Netflix know each customer intimately. The more that customers interact with these companies, the more information they reveal about themselves, paving the way for individual, personalized targeting. Contrast this with a consumer-packaged-goods company like Procter and Gamble. Does it know each consumer who is purchasing its laundry detergents and shampoos in mom-and-pop stores around the world? Highly doubtful. Knowing every customer isn't necessary for such companies, and for others it's often cost-prohibitive. But that hardly means their customers are unknowable. Much can be understood about them, and certain details are decidedly more important than others.

The three most valuable things you should know about your customers

Companies that want to excel at CX need a baseline of knowledge about their customers. This requires understanding three main things about target customer groups: their expected behavior in specific market contexts; what products, services, or experiences they value enough to pay for; and their profitability to your business.

PwC's David Meer explains the implications of putting these three pieces together: "If you are in tune with what customers want and are willing to pay for, you can make the right strategic and operational choices, even if you can't always make them simultaneously. For example, if you design the right supply chain and can't execute it today, then create a roadmap for getting there. Or you can institute the right loyalty program that will go far beyond discounts to offer inducements that would make the customer come to you again and again. All of this relates to customer experience, which is really about understanding, and then delivering on, the customer's perception of value."

1. Know how customers behave.
It's complicated for companies, in part, because customers don't experience most product and services through a set of predictable linear interactions. Any number of touch points—a physical store, an app, a social network, a customer sales representative—play an interconnected part in delivering CX. Companies must focus on understanding customer behaviors across all these touch points, with a view to decoding what customers truly value at any given moment.

This customer data exists. The trick is knowing how to analyze and convert it into useful insights in a way that generates sustained value for business. "If I could cast a magic wand… Something that consolidates and simplifies big data into actionable outputs would be fabulous," says Mark Hunter, president and CEO of Molson Coors Brewing Company, going on to describe the importance of harnessing information to meet the seemingly divergent twin demands from customers in his industry: "Beer is getting really local, focused around craft, and when I say 'local,' I mean from really around wherever you are. At the same time, beer is internationalizing—there's a significant interest in beers not from around here, which is to say, import brands. So you've got this very interesting dynamic going on, where consumers are looking for new experiences and are building out their repertoire of beer brands that they use on an occasion-by-occasion basis."[3]

2. Know what customers value.

Understanding what customers really value is complicated because customers experience value in different ways at different times and in different contexts.

It's important to keep this guiding principle in mind: Growth and profitability do not come from adding channels or increasing interactions with customers; rather, growth and profitability come from executing a cohesive set of interactions that are responsive to a single view of the customer as she moves from channel to channel.

This, in essence, is customer centricity. But what does that mean in action?

Edward Walter, president and CEO of Host Hotels & Resorts, says his company is using technology to improve CX in its hotels. He acknowledges, however, that "not every initiative we've looked at has been accepted by travelers. Whereas with the airlines, most people are comfortable checking in online and never talking to anyone until they get on the plane, we've found that when people come to a hotel, they do often want some human contact. They don't necessarily mind the check-in process and enjoy interacting with members of our associate team."[4]

There is an important lesson here: The same customer who appreciates the transactional value of a quick and easy online check-in before flying wants the emotional satisfaction of being looked after by caring hotel staff soon after. Customers also derive different value at different times from the same brand, such as Ferrari, which offers the functional value of a high-performing car and the social value of a status symbol. Value can also be time-driven (e.g., watching a premier league final), reputational (purchasing socially responsible brands), or sensory (buying perfume in a brick-and-mortar store). When we say value, we mean the aggregate value from all of these dimensions.

3. Last but not least, know how to translate that value into profitability.

Once you know what the customer values and how that impacts your profitability, you can then decide what to offer, how to price it, the best means of delivery, and how to manage your costs so that there's an ongoing exchange of value between you and your customer. And by customer, we mean your target segment.

Amazon, clearly, is not among the companies overwhelmed by the challenge of extracting actionable insights from big data. Its pricing strategy is based on its careful monitoring and understanding of shoppers' behaviors. The company is always changing the prices of its products, offering the deepest discounts on its best-selling items while charging more for less-popular merchandise.[5] Amazon gets to capture higher margins on the latter and create the perception that it always offers the best deal, along with the experience of convenience, choice, and fast delivery.

But pricing aside, there's the question of whether certain products should be offered at all if it means unwanted customers will stick around. On the face of it, retaining as many customers as possible is a desirable goal. Except what about customers who are too costly to serve over the long term? Savvy businesses shed those customers. They also offer less to their less-profitable buyers.

On the face of it, retaining as many customers as possible is a desirable goal. Except what about customers who are too costly to serve over the long term?

Consider Best Buy: More than a decade ago, the electronics retailer decided to lose up to a fifth of the 500 million shoppers who visited its stores each year. That's because it saw a pattern in the behaviors of these customers. They were bargain-seekers who used every trick in the book—e.g., buying and returning the same product several times to take advantage of rebates and discounts, which drove down the retailer's profits. So Best Buy chose to cut back on the promotions that drew traffic to its stores, while offering better service to its more-profitable consumer segments.[6] Ten years later, Best Buy continues to stand tall[7] in a tough environment, in contrast to some of its erstwhile competitors.

In the B2B context, customer service is a particularly important component of customer experience. Not all customer segments, however, require the same level of attention. The less profitable customers are likely to have simpler, transactional needs compared with high-value customers. Companies can therefore be selective in deciding to whom they'll offer their "white glove" services.

These are not easy choices. In making them, companies may find it helpful to use a predictive measure such as customer lifetime value (CLV) to understand how to maximize the long-term value of different customer segments. CLV's disaggregated components—price paid by the customer, the cost of servicing the customer, and the probability of the customer being active in the future—provide granular detail that's needed to create profit-and-loss statements about different customer segments. Ultimately, if a customer's lifetime value to the business is less than what the business is offering that customer today, then the customer isn't generating value for the company and should probably be jettisoned.

What's all this leading to? Experience design

When companies understand what's valued by their most profitable customers, they design CX for very specific target audiences. Ultimately, customer data matters because it creates clear personas to which companies can point their experiences. Consider how Costco and Whole Foods offer completely different experiences created for two very different personas. Such is the halo effect produced by well-thought-out and well-executed experiences—consumers who are not your primary target segment start responding to the CX you offer. It is, after all, not hard to find people who shop at both Costco and Whole Foods.

In many ways, experience design is personalization by another name. Personalization at every interaction—whether it's adding a hint of cinnamon to that mocha, using a mobile app to find the nearest coffee shop, or joining a social community of coffee lovers—is what makes experience satisfying and rewarding for a customer. In our next and third article of this series, we will explore experience design and personalization in greater detail.

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Endnotes

1. Kate Kaye, "At Starbucks, Data Pours in. But What to Do with It?" *AdAge*, March 22, 2013
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www.pwc.com/us/experience

More information

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