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NAVIGATING INDUSTRY HEADWINDS:

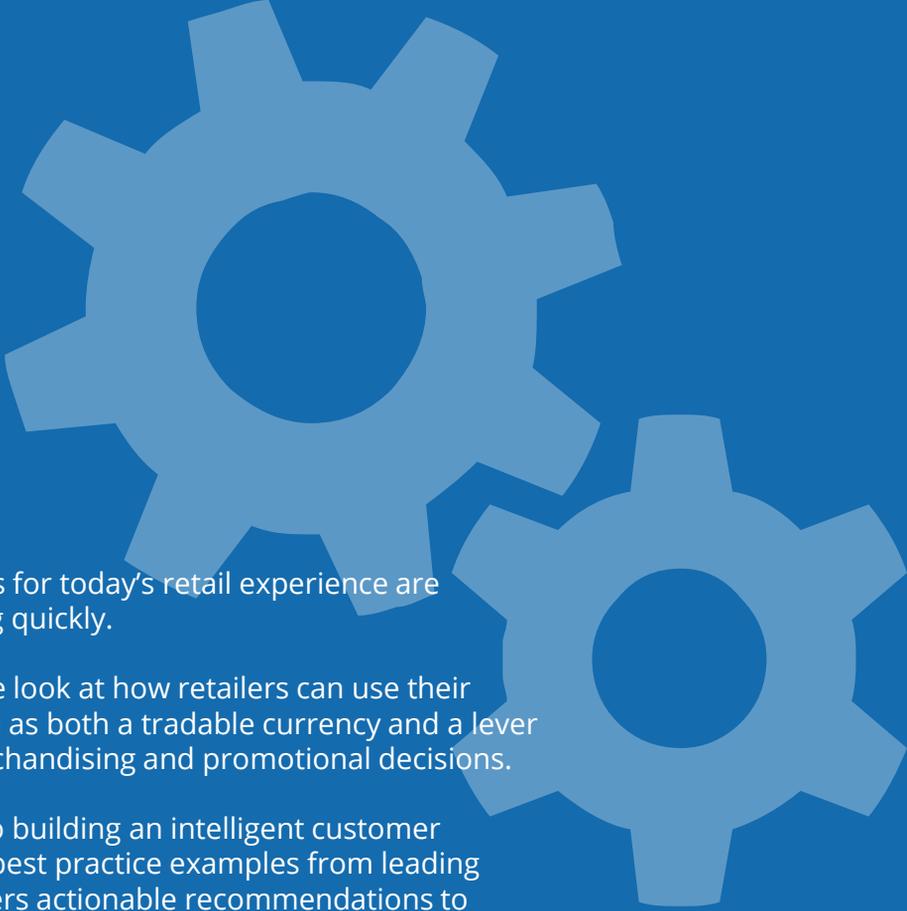
UNLOCKING THE POWER OF CONSUMER LOYALTY DATA



An Infosys Consulting Perspective

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Abstract

Consumer expectations for today's retail experience are changing, and changing quickly.

In this point-of-view, we look at how retailers can use their proprietary loyalty data as both a tradable currency and a lever to better optimize merchandising and promotional decisions.

With a four-step plan to building an intelligent customer insights program, and best practice examples from leading retailers, the paper offers actionable recommendations to navigate the ongoing industry headwinds.

INTRODUCTION

Some retailers will struggle to survive the current pandemic; others will adapt and emerge in an even stronger position than ever before. Much will depend on how they leverage their customer data and analytics capabilities.

“The lines between digital and physical retail will continue to blur”

COVID-19 is forcing organizations to rapidly operate in new ways, but it isn't the only driving force behind the changing landscape.

Even before the crisis, digitally mature retailers outperformed competitors that hadn't built robust digital and analytics systems. Post-pandemic, providing an exceptional omnichannel experience is not just a 'nice to have'; the lines between digital and physical retail will continue to blur, and consumers will demand ever-more personalized offerings both online and in-store.

Historically, brick and mortar stores have struggled to offer the same personalized experiences as their digital counterparts due to not only physical restrictions, but also lack of data; traditional analytics platforms using point of sale (POS) data are focused on the rear-view mirror, and lack both connection to individual customers and predictive ability. However, with the rise in consumer loyalty programs, all retailers now have access to powerful proprietary data which they can harness for a number of monetization opportunities.

In this point-of-view from our AI & Automation experts, we offer an overview of the Customer Insights Maturity Journey that retailers can undertake to realize the power of their loyalty data. We also outline the four key steps that can help them on their path to personalization and monetization.

NAVIGATING INDUSTRY HEADWINDS

COVID-19 AND ITS IMPACT

There's no question that the coronavirus is intensifying and accelerating the digital disruption that had already been long underway in the retail sector.

Online order volume from full-assortment grocery merchants rose 210% from March 12 through March 15, compared with the same period a year earlier*

The current crisis, similar to the 2008 recession, has thrown off many consumers' traditional shopping cadence. Some retail trends that we expected to unfold over several years have taken hold in a matter of weeks. There are three key shifts that we've seen across the industry that demonstrate the importance of developing robust digital and predictive analytics capabilities in the 'new normal.'

1. Shifts to online ordering from in-store: While millennial and Gen-Z shoppers have used services like Instacart and AmazonFresh for some time, COVID-19 has increased adoption in online ordering among the 60+ demographic. As we face permanent changes in buyer behavior, it's likely that this shift to buy online, pick-up in-store (BOPIS) and grocery delivery will become permanent. Retailers will need to optimize their omnichannel experience accordingly.

2. Lasting category changes: As a direct result of COVID-19, consumers are looking to purchase products that support their immune health and boost overall wellness. Past pandemics have shown that shoppers desire products in the health category, such as vitamins, disinfectant and personal hygiene, for a sustained period of time after the risk has subsided – 1-2 years in most cases. With this in mind, we expect retailers to harness predictive analytics to better anticipate shifts in demand.

3. The rise of social media: Marketing budgets across the retail sector have been a key casualty of the pandemic, with dwindling cash reserves often going towards ensuring retailers simply stay afloat. As a result, social media has become an increasingly important platform to not only reach customers in a cost-effective way, but also to offer another source of consumer data.

*Rakuten Intelligence

“Personalized experiences have become table stakes for customers in recent years”

THE IMPORTANCE OF PERSONALIZATION

While COVID-19 is forcing retailers to operate in new ways, it isn't the only driving force behind the changing landscape. The growth in popularity of digital platforms like Amazon, Netflix and Instagram means that personalized experiences have become table stakes for customers in recent years. But why is personalization too often a challenge for some retailers?

1. Physical limitations of brick-and-mortar retail:

When walking into most stores, people are looking for something they don't always get when shopping online: the experience. However, building a compelling in-store experience has traditionally proven difficult. Brick-and-mortar stores have to curate products to fit the physical limitations of their stores, and too many options can be overwhelming and actually reduce sales.

2. Limitations of traditional data platforms: Most traditional data platforms that use POS data are focused-on the rear-view mirror. While sales data can show what happened at the store or category level, it lacks connection to individual customers. Without the ability to connect data to customers, retailers have no way to forecast their behavior or understand deeper trends and shifts in behavior. Likewise marketing campaigns, new product introductions, shelf optimization, and other activities will be generalized without an ability to target merchandising or promotional strategies to specific customers.

3. The rise of social commerce: COVID-19 may have accelerated the use of social media for some retailers, but even before the pandemic the line between social and e-commerce was becoming increasingly blurred. New entrants, empowered by platforms like Instagram and Snapchat, offer consumers a boutique shopping experience with personalized offers and products. Instead of posting generic social ads, for example, retailers can showcase products with ads that are highly relevant to each customer.

THE DATA OPPORTUNITY

It is evident that there is a substantial risk of an accelerating divide between digital leaders and digital laggards post-COVID-19.

72% of US adults belong to at least one loyalty program*

However, even retailers with traditionally siloed offline and online operating models have the opportunity to gain market share by building an intelligent customer analytics program and monetizing their insights.

Realizing the power of loyalty data

Many brick-and-mortar stores have launched their own loyalty programs, and for good reason; the data insights that explain the habits and preferences of different consumer segments can be used across all channels to execute personalized customer preferences. This proprietary data is much more powerful than POS data from traditional analytics platforms, and offers a range of tangible benefits, including (but not limited to):

Shopper behavior

Using loyalty data, retailers have the ability to assess purchase cycles, basket interactions and switching behavior, enabling them to better predict future performance and shopper reactions.

Customer profiling

The same data enables retailers to evaluate customers across behavioral elements like purchase history and attitudinal domains like demographics, social and geographic details.

New product development

We've also seen loyalty data prove indispensable when determining if a new product is achieving lift and repeat purchases.

*Oracle

Figure 1

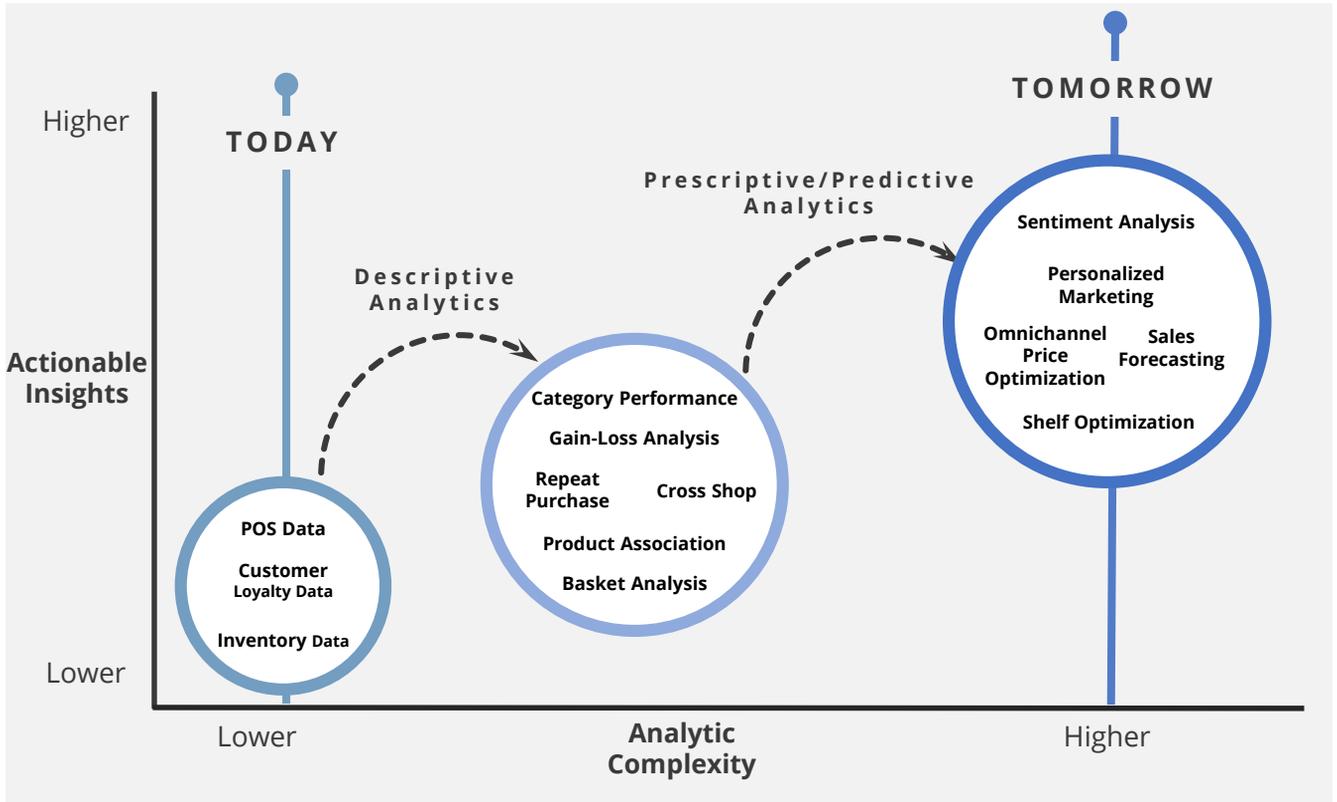


Figure 1 shows how harnessing customer loyalty data along with other sources forms the foundation of advanced analytics capabilities. By moving up the Customer Insights Maturity Journey, even brick-and-mortar retailers can harness predictive and prescriptive analytics for omnichannel price optimization, sentiment analysis, personalized marketing, etc.

Utilizing the monetization opportunity

An intelligent customer analytics program – one which offers advanced personalization and deep consumer insights – enables retailers to gain new direct and indirect revenue opportunities, making the digitization process as self-funded as possible.

From a top down perspective, the retail data and analytics market is ~\$5.7 billion

1. Data-as-a-service (direct revenue opportunity)

Data insights are rapidly evolving into a tradable currency. As analytics tools become increasingly sophisticated, the value of personalized consumer data will only expand.

With the retail data and analytics market growing at approximately 19% a year, the ability to gather and sell data insights to other consumer-facing companies will become increasingly important.

Indeed, building a customer insights platform for CPG partners can generate significant incremental revenue opportunities for retailers – and tremendous benefits for the CPGs themselves. One-click analytic solutions are in demand right now to drive improved merchandising, CRM, trade, and promotional decisions.

Incumbents in this space charge hundreds of thousands of dollars per year, per category for an annual license. And with consolidation in the market, there is an opportunity for even mid-sized retailers to offer data-as-a-service.

Based on their CPG vendor list, this could create millions of dollars in direct revenue for retailers. At the same time, CPGs can get better ROI on all their marketing spend – a win-win situation for both partners.

“Customer insights platforms can lead to 1-3% revenue lift”

2. Optimized merchandising and promotional decisions (indirect revenue opportunity)

Behind the scenes, customer loyalty data enables retailers to better understand user preferences, and drive personalized product recommendations with AI and machine learning tools.

While consumers think less about personalization itself and rather the benefits it can provide, retailers can uniquely utilize first party data for:

- **Promotions:** Using loyalty data to drive more personalized digital experiences and improve effectiveness.
- **Merchandising:** For example, making delisting decisions based on cross-shop and shopper preferences vs. sales data.
- **Inventory management:** Preventing out of stocks for high-value customers and linking to other parts of the shopper repertoire.

While many retailers cannot provide hyper-personalized experiences across all channels (e.g. in-store), they can still optimize merchandising and promotional decisions around high-value customers and their wants and needs.

Case studies have shown that customer insights platforms can lead to 1-3% revenue lift for categories in which both the retailer and their CPGs vendors have fully adopted the platform to inform merchandising and promotional decisions. This could be a significantly larger opportunity than just the direct revenue opportunity.

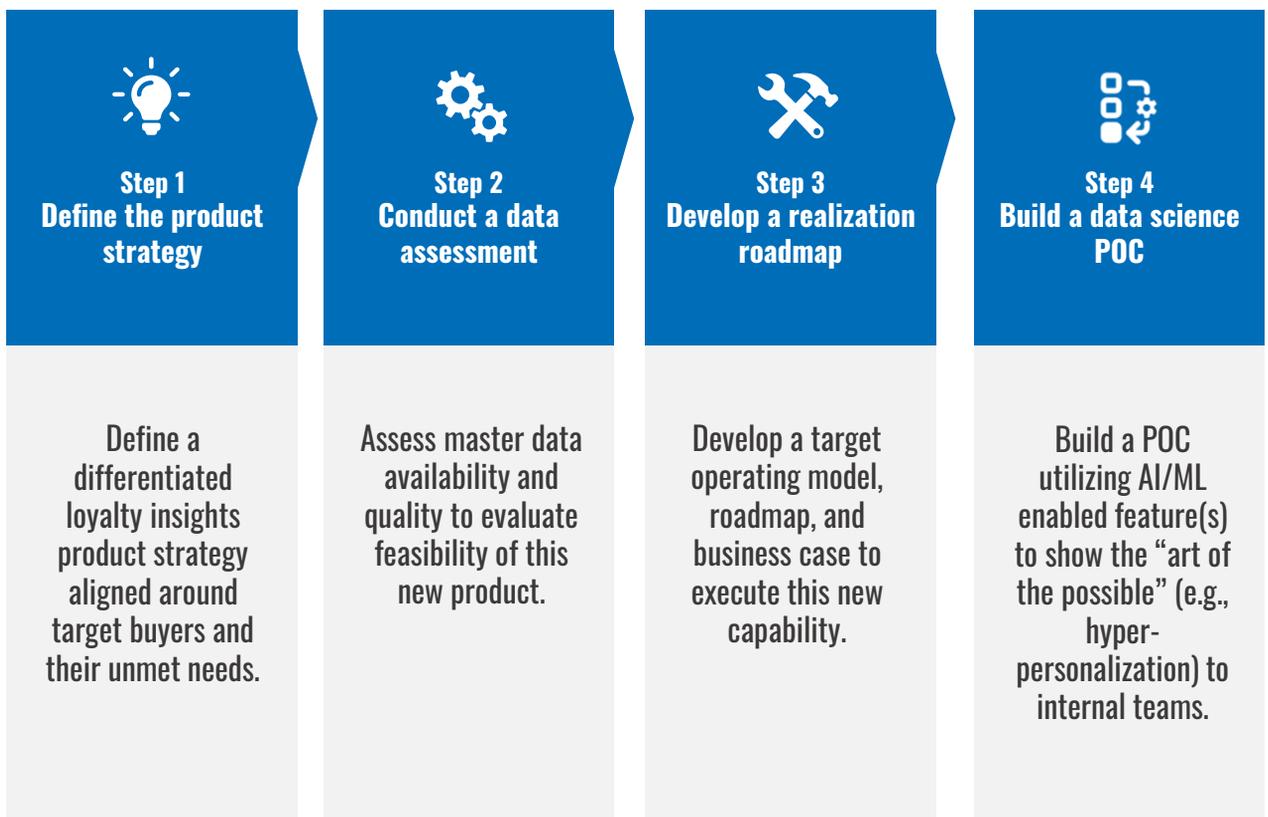
UNLOCK THE POWER OF YOUR DATA

Using loyalty data to create a customer insights platform lies at the heart of thriving in the new retail landscape.

But what are the steps retailers need to take in order to progress through the Customer Insights Maturity Journey and drive significant topline growth?

Four steps to success

In our experience, defining a customer insights platform strategy is typically a 3-month journey across the following four steps:



Let’s look at each step in more detail and consider some of the key points from the roadmap.

“Retailers should truly understand the needs, routines, habits, buyer journeys, etc. of the target customer base.”

1. Define the product strategy

- Before getting into the optimal data models, architectures, UX/UI, etc., consider who this product is for. Will it be used for internal users (e.g., merchandiser planners, pricing analysts, category managers) and/or external, CPG users (e.g., CPG shopper insights, category managers)?
- Understanding the unmet needs of the buyers and end users of this new customer insights platform will be key to identifying relevant features and ensuring long-term commercial viability.

2. Conduct a data assessment

- After the product strategy and roadmap have been defined, does the data inventory and data quality exist to support this new product?
- How do the relevant data sets score against a variety of criteria such as timeliness, completeness, accuracy, and consistency?
- If the data is currently sitting in a lake, then architectural considerations for a build vs. buy vs. partner decision should also be considered.

3. Develop a realization roadmap

- Retailers should truly understand the needs, routines, habits, buyer journeys, etc. of the target customer base.
- Creating personas will be key to successfully positioning the product during go-to-market execution (if selling the insights platform to CPG buyers).
- A new operating model should also be defined for commercialization to external buyers, as this will be a new B2B business and an area most retailers have not ventured into previously.
- Lastly, a business case and 3, 6, and 12-month realization roadmap should be defined to understand how merchandising, digital, finance, HR, etc. functions will have to interact to build out this new capability.

“These four steps are just the beginning of the journey to realizing the true power of customer loyalty journey..”

4. Build a data science POV

- Understand the difference between what value POS data is providing to the enterprise vs. what additional, incremental value customer loyalty data can provide.
- Select a machine-learning area (e.g., recommendation systems) that can produce actionable insights without complex integrations with internal or external platforms.
- Ensure linkage between merchandising / promotional objectives and AI/ML enabled use-cases in order to drive accretive growth for both the retail enterprise as well as its CPG vendors.

These four steps are just the beginning of the journey to realizing the true power of customer loyalty journey. But with the opportunity to drive topline growth and offer an exceptional omnichannel experience, retailers will quickly realize value from these advanced analytics capabilities.

Examples of best practice

Leaders in the industry are already harnessing their proprietary loyalty data. Here are two examples of building best-practice solutions:

Example 1

A top 10 global convenience store retailer was interested in monetizing its loyalty data assets. It sought to create a new Data-as-a-Service business model and brought in Infosys for strategic guidance. Infosys articulated a business strategy to create an insights platform for the c-store's CPG vendors to enable a variety of customer led merchandising and promotional decisions. The new business was projected to generate direct revenues of >\$20 million at scale.

Example 2

One of the largest supermarkets chains in the United Kingdom sought guidance on monetizing its loyalty data for its CPG partners by building an intelligent consumer loyalty platform. Infosys developed a new customer experience analytics platform for our retail customer and their 130+ CPG partners. The self-serve platform supported +1,000 category and brand managers for strategic and operational insights. They now have the ability to influence 3-5% of their annual revenue through improved merchandising and promotional decisions.

LOOKING TO THE FUTURE

Every downturn propels new innovations.

It's clear that technology is advancing and disrupting the retail market at an ever-faster rate. In the future, we expect to see tighter integration, automation and commercializing of market execution.

E-commerce players are already active in this area, with companies like Amazon selling shelf placement banners and other assets across their digital spaces. Advances in AI and machine learning will allow for optimization and quantification of these activities like never before, in companies of all sizes.

Harnessing customer data and deriving meaningful insights will be critical to survival if and when another black swan event occurs. And as the landscape shifts, these insights will also have a tangible impact on building customer loyalty among those switching to a digital-first consumption. The lines between digital and physical retail will continue to blur, and businesses have to adapt their strategies to keep up and drive exceptional experiences both in-store and online.

By realizing the power of their loyalty data, even predominantly brick-and-mortar businesses have the opportunity to leapfrog into the digital arena and build advanced analytics capabilities with the power to generate significant revenue.

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