



| REPORT

5 Steps to becoming a Customer-First business

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Introduction

Everyone in retail says they care about their Customers. But truly 'Customer-First' retailers act in ways that deepen their relationships with loyal Customers, making them likely to spend more. In previous studies, we've seen that retailers shoppers rated by shoppers as being the most 'Customer centric' achieved greater sales and market share growth than their lower-rated competitors.¹

While a Customer-First approach can fuel sales and loyalty, it isn't always an easy road to take – but it's a necessary journey for retailers, particularly post the Covid pandemic. Consumer shopping behaviours have changed, and factors like value, safety, and rapid digital adoption are affecting brand loyalty in ways never before seen. This report looks at what's involved for businesses wanting to start on this journey, covering the five key areas vital to Customer-First success.

¹dunnhumby Retailer Preference Index, various, 2020-21



What do we mean by Customer-First?

Customer-First retailers clearly demonstrate that their Customers are central to their brand identity. They adapt to changes in Customer preferences while sticking to a long-term Customer-First strategy, in spite of emerging competitive threats or economic fluctuations. They utilise data insights to engage loyal Customers — learning about their preferences to offer the most appropriate assortments at the right prices, creating new promotions informed by Customers' purchasing trends, and developing personalised communications that cater to each Customer's needs, further deepening loyalty. In short, having a deep understanding of what delights Customers and doing more of it again and again.

These retailers also analyse data to drive necessary changes that extend beyond marketing and pricing. A Customer-first strategy requires a transformation in approach to many business decisions, from supply chain and assortment to store layout and customer service. Because it takes everyone in the organisation to support a customer-first strategy, Customer-centricity becomes part of employees' performance measures and rewards.

²Retailers Need A New Approach To Unlock The Value Of Being Truly Customer-Centric, Forrester, 2016

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Retailers can drive an estimated 3% increase in annual revenue by improving their Customer experience²

Why Customer-First makes a difference

For many retailers, transforming their Customer experience remains an aspirational goal. “Retailers have approached customer centricity tactically, while other industries have fully committed to the Customer, transforming their organisational strategy to become Customer-obsessed,” notes Forrester Research.²

It's a goal worth pursuing. The same Forrester study found that retailers can drive an estimated 3% increase in annual revenue by improving their Customer experience and luring additional purchases, reducing churn and increasing brand awareness through word of mouth. Having a Customer-First approach will help focus efforts to succeed in these aims.

5 Steps to creating a Customer-First business

Retailers who wish to successfully execute a Customer-First strategy must ensure that they address the following five aspects of their business:

1. Use data to better understand Customer needs

The first step to becoming a Customer-First organisation is to really understand your Customers. Not simply what they buy and when they buy it but knowing what their needs are at each stage of the shopping experience and what motivated their behaviour. **These four distinct stages, or mindsets, are: Discover, Shop, Buy, and Reflect.** To learn what creates or destroys loyalty, efforts should be focused on understanding these mindsets and barriers and drivers of loyalty at each stage: when and where they happen, how you can influence them and what's most important to Customers at each stage.

Think of using as many types and sources of data as possible to understand Customers – not only transactional data via loyalty or tokenised credit cards, but also digital engagement data via eCommerce and mobile clickstreams. Getting to human needs and mindsets requires a culture and practice of hearing Customers in personal conversations, comment cards, social media, and from other feedback channels.

Using data to better understand Customer needs means going beyond traditional CRM-type analytics. This is an evolution of Customer Data Science; understanding how and why Customers shop in order to map the relative importance of granular Customer needs. Knowing what really matters most to Customers enables retailers to prioritise marketing investments for superior growth gains.

EXAMPLE

Coop Norway's Litt Ditt mobile app allows Customers to plan their shopping trip and pay from their phones. Customers enjoy personalised values, curated 'my flyer' promotional offers, and receive digital receipts through a very user-friendly app, thereby rewarding Coop with a stronger expression of loyalty and allowing them to convert from traditional paper marketing to digital.



The four stages of the shopping experience

1. DISCOVER

- Save me time in helping me plan my shop
- Share new or interesting products with me
- Provide me with options to shop how I want

2. SHOP

- Offer me the best price when I shop
- Offer me promotions on things I want to buy
- Make it easy for me to find what I need

3. BUY

- Save me time at checkout
- Make checking out stress-free
- Make it easy for me to redeem my rewards

4. REFLECT

- Ask me for my opinion
- Genuinely respond to my comments
- Go above and beyond for me if something goes wrong

2. Create and embed a common Customer language

Bringing Customer-First to life requires a common language about Customers, starting with terms such as 'price sensitivity', 'store segments', 'lifestyles', 'Customer promises' and so forth. The challenge is to speak the language to as many people in your organisation as often as possible – as well as to suppliers and business partners.

A good place to start is with a Customer-focused purpose and vision. This establishes what a retailer stands for – its identity. A retailer should express this purpose both to Customers and internally. The vision should be based on authoritative knowledge of Customers and the market. Who the most loyal customers are, their behaviours and preferences. How the company competes to attract and retain customers. It guides decision-making at all levels.

One important element of a common Customer Language is **'Customer Promises' – a concept which aims to focus an organisation on delivering a consistent Customer experience** every day from every part of the business. By unifying what really matters to Customers into a simple set of commitments, Customer Promises are measures of how effectively a brand delivers on its brand promises.

Customer Promises help:

- Identify opportunities to become closer to the Customer and to create a Customer-First mindset within your business
- Provide a structure for a Customer Strategy to ensure that all functions and roles can consistently prioritise and take action in ways that are most valuable for Customers
- Anchor the common Customer Language in a way that is easy to understand across business functions
- Unite all employees (at all levels) to practice Customer-First initiatives

Customer Promises should be:

- Priorities that are important to Customers, in the voice and language of the Customer
- Data-led, based on structured research from the Customer up (vs. from management top down)
- Benchmarked to allow measurement of progress over time

Through the Customer Promises, Customers themselves tell businesses where they should start, and what good looks like when they deliver it.

Customer KPIs connect business growth to Customer growth.

Customer KPIs should be:

- Simple
- Universal – to create a sense of ownership at every level of the organisation
- Actionable
- Targetable

Further, Customer metrics should be about what Customers both do and think:

- **What Customers do** – how they behave – is considered to be a Leading metric, because changes can be seen quickly using transactional data and by active listening to Customers. An example of a leading metric is to analyse quantitative changes in the Number and Spend of Loyal Customers, a metric which helps judge whether a retailer's activities are winning (or losing) more loyal shoppers, and whether share-of-requirements (headroom) is being better met.
- **What Customers think** – their attitudes and beliefs – is called a lagging metric or indicator, because perceptions change over time and from multiple experiences of a brand. An example of a lagging metric is a qualitative research study like a Customer Promises Tracker or NPS survey.

EXAMPLE

Customer-focused vision: The Walt Disney Company's strategy of creating magical experiences – not just at its theme parks, cruises and stores, but also through its facilities, attractions, people, goods and services – places the Customer at the centre of everything.



3. Engage the army of your people (and your suppliers)

At its best, a Customer-First approach is executed in such a deep way that Customers can feel a difference in their experience. Winning buy-in through the hearts and minds of staff, from the top executive to the employee who stocks the shelf, builds an incredibly powerful army necessary to deliver the strategy.

Sadly, most organisations give front-line employees – the faces of their company – very little trust and authority. Customer-first organisations give front-line employees broad authority to resolve Customer needs and extend the power to satisfy Customers to most members of staff, in some form. Customer-First organisations take advantage of their people to deliver what their most loyal Customers want. They invest in training to give employees the tools

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they need and the permission to use them. They share data to make everyone in the company aware what is important to Customers, tailoring the information to be used by people according to their roles.

Behaviour change for organisations doesn't happen overnight. Engage your employees via training which teaches examples of good Customer judgment. Upskill the leadership behaviours of empathy, dignity, and respect for both employees and Customers. Reward the behaviour you seek. Ensure everyone in your business understands they have 'ownership' of the Customer.

Additionally, there is a second unit of the army garrisoned by suppliers and partners of the business who also have roles in the battle to win loyalty and deliver better Customer experiences. Engaging this supplier force involves making them fluent in the common Customer language, as well as giving them access to Customer insights so that they share in 'one version of the truth'. Customer First organisations co-create a strong alliance with their suppliers around shared Shopper needs and expectations. From this more consumer-centric collaborative model come more Shopper-relevant promotions, assortments and innovations, all of which drive greater Shopper loyalty and therefore mutual brand and retailer growth.

EXAMPLE

Empowering the front-line: Hotel company Ritz Carlton famously gives every employee the right to address a customer situation at a cost of up to \$1,500 without seeking approval. By taking a long-term view and focusing on the lifetime value of a Customer, Ritz Carlton is demonstrating the high value it places on Customer loyalty and retention.



4. Show tangible change in-store and online, and in the way you interact with Customers

Customer data may be used to operate loyalty initiatives, but there is less evidence that this data is being used to support changes in the store. Ranging, assortment, store layouts, pricing, promotions, Customer service – all these elements that make up the shopping experience should be informed by data from your loyal Customers, to ensure you are delivering what your best Customers seek.

Efforts to build Customer loyalty and grow sales often fail to produce meaningful results for three key reasons:

- 1. Loyalty is not about Customers being loyal to the retailer** – it's about the retailer acting loyally to its Customers
- 2. Loyalty is not just a programme** – it's an approach that puts the Customer First in all the decisions a retailer makes
- 3. Loyalty is not just about CRM** – it's about the store and how you interact with your Customers.

By inviting, listening and responding to Customer feedback, retailers can earn the emotional loyalty of their Customers. They feel that the retailer cares about them and their needs.

Such actions place the Customer in the role of a strategic partner. Customers can share their perspectives, creating a two-way conversation. And retailers can embed this idea in their Customer interactions, to deepen the relationship.

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Elements that make up the shopping experience should be informed by data from your loyal Customers, to ensure you are delivering what your best Customers seek

EXAMPLE

Improving the shopping experience: The milk category for a large European retailer was under-performing as Customers found it difficult to locate the products they were looking for. The data showed that Customers made decisions first based on fat content, then by size. De-listing 20% of overlapping products, and organising the shelves to match customer needs, rather than by brand, grew sales by 1%, with category volume uplift of 2%.



5. Align processes, systems, and structures

Bringing Customer-First to life and inspiring your people to do their best for Customers will require changes to supporting structures and processes within your organisation. Of all the steps, this one presents the greatest challenge: to align your business systems around the Customer.

Customer-First organisations display a singled-minded focus on loyal Customers — growing this segment and increasing their lifetime value. They set up systems to retain and grow Customer loyalty over time.

They track, measure and report on Customer initiatives such as Customer Promises or Customer-focused KPIs. They implement a process that aligns the Customer into strategic plans and reviews, using the Customer's perspective as a filter through which to evaluate future plans.

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By focusing on long-term relationships with loyal Customers, retailers can build a path to growth with them at the centre.

Examples of program investments your business will need to consider:

- Capabilities to analyse Customer behaviour, segment Customers and create personalised communications
- Capabilities that enable organisational change
- Training programs for employees
- Performance measures aligned with Customer-First initiatives
- Recognition & Rewards for employees who put the strategy into action

This long-term view transcends traditional retail instincts to make decisions based on current market trends without considering the lasting impact that these choices, such as matching competitors' prices or other 'me too' tactics, may have on Customer relationships.

The reality is that the best relationships are nurtured. By focusing on long-term relationships with loyal Customers, retailers can build a path to growth with them at the centre.

EXAMPLE

Customer-driven strategy:
Embedding a Customer-First culture and strategy enabled a North American retailer to differentiate its Customer value proposition in a way that has delivered revenue and market share growth — even while competing with retail giants and disruptors. The retailer is successfully growing their loyal Customer base and reducing churn.



Examples of 'Customer-First' in practice



Norge

Coop Norge's Customer-centric pricing improves the shopping experience and drives sales

Shelf prices are a critical element of the Customer's retail experience, impacting price perception and store price image. Prices that didn't appear to be consistent or logical were causing Customers to lose trust in Coop Norge. The retailer needed a solution to effectively manage shelf edge pricing across all their stores.

Solution:

Coop used dunnhumby's 'dh Price' software to execute a more accurate pricing policy, based on a science-driven rules engine. Internal decision-making benefited from automation of pricing scenarios using predictive science and forecasting.

Results:

87%

reduction in pricing violations (avg. across banners) leading to improved customer price perception

30%

improvement in speed to market, enabling a more rapid response to competitor price changes

1.4%

uplift in sales

2.8%

uplift in profit in test categories



Customer-led flyer drives better business performance

This North American retailer's flyer was underperforming; it wasn't optimising sales uplift or margin, and the products featured weren't triggering spend on other associated items.

Solution:

'Golden rules' based on Customer data were established to direct flyer planning, including the inclusion of key products that were known to drive footfall, not over-using specific promotions so that Customers didn't get bored and establishing the right balance of featured products to drive maximum appeal to different Customer segments.

Results:

These changes resulted in flyers that were more relevant and performed better.

10%

uplift in sales

7.6%

increase in reach



Conclusion

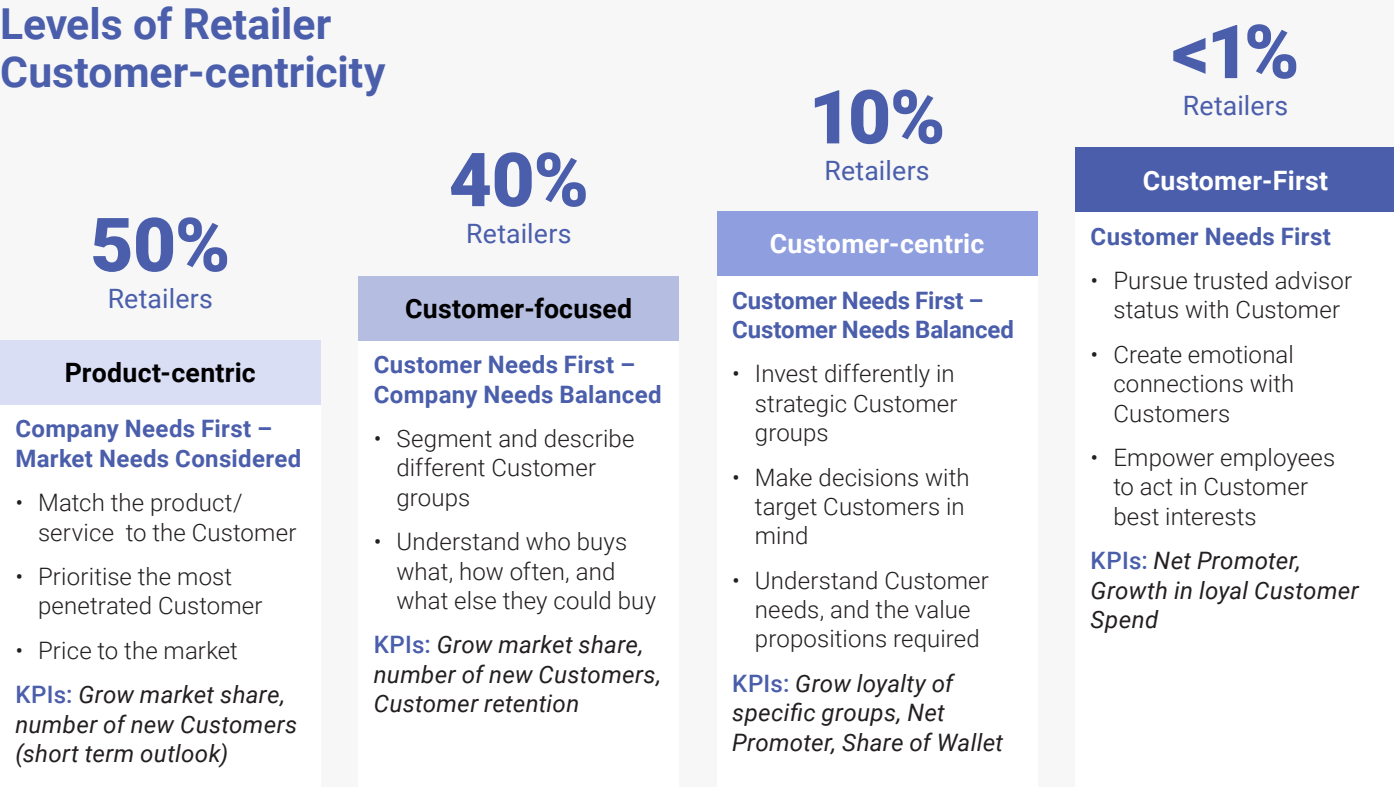
Pursuing a Customer-First strategy is not easy, and the larger the organisation, the more daunting the goals may seem. Competitive and economic pressures will test executives' resolve. However, retailers that stick with a Customer-First strategy are better positioned to ride out market changes by ensuring they offer what their most loyal Customers want.

In an environment of unprecedented change, when retailers are faced with rising costs and disruption from new competitors, the imperative could not be greater. Think of the organisation with 10,000 store associates. Picture each person, trained and equipped with the right information, delivering great experiences to one Customer a week. Picture that shopper adding one item to his or her purchase. That revenue adds up. You can't afford not to be Customer-First.

Where are you on the Customer-First journey?

Is your organisation putting the Customer at the centre of decision-making? The below image outlines goals and KPIs associated with retailers at different stages of the 'Customer-First' journey.

Levels of Retailer Customer-centricity



Increasingly applied Customer insight and Customer focused culture →

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THE WORLD'S FIRST

CUSTOMER DATA SCIENCE PLATFORM

dunnhumby is the global leader in Customer Data Science, empowering businesses everywhere to compete and thrive in the modern data-driven economy. We always put the Customer First. Our mission: to enable businesses to grow and reimagine themselves by becoming advocates and champions for their Customers.

With deep heritage and expertise in retail — one of the world's most competitive markets, with a deluge of multi-dimensional data — dunnhumby today enables businesses all over the world, across industries, to be Customer First.

The dunnhumby Customer Science Platform is our unique mix of technology, software and consulting enabling businesses to increase revenue and profits by delivering exceptional experiences for their Customers — in-store, offline and online. dunnhumby employs over 2,000 experts in offices throughout Europe, Asia, Africa, and the Americas working for transformative, iconic brands such as Tesco, Coca-Cola, Meijer, Procter & Gamble, Raley's, L'Oreal and Monoprix.



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