HOW DATA ANALYTICS CAN HELP TRANSFORM YOUR RETAIL BUSINESS

INTRODUCTION BY TIM SHAW, MANAGING DIRECTOR OF MODUS

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The UK retail industry is in a state of transition, even, some may say, one of desperation. Many retail giants, as well as any number of smaller independents, have gone out of business or are streamlining their operations.

The Centre for Retail Research reports that 28 large retailers failed between January and August 2018, leading to the closure of 2,085 stores and affecting 38,933 employees. Several smaller businesses also closed their doors over the same period. The picture over the previous 10 years shows just under 400 failed retailers, with a loss of over 27,000 stores and 267,000 employees affected.

Big name retailers who have faced problems in 2018 include Toys 'R'Us, House of Fraser, Maplin and Poundworld.

There are several reasons behind the current struggles of many retailers, including:

- High business rates, making high street shops less competitive than their online equivalents.
- The rise of the internet and smartphones mean that online purchasing and browsing have become many people's 'shop' of choice. Many retailers have not adapted to this change.
- Outlets that have grown too fast are highly leveraged and have locations that are non-profitable, often paying unsustainable rents.
- The continued uncertainty around Brexit and its long-term impact is a source of worry to consumers. This, along with concerns about the increased cost of goods abroad, wage rises, and a shortage of skilled EU workers, is having an effect on the retail sector.

Retailers need to reinvent themselves if they are to adapt and thrive in the post-internet, post-Brexit world. The old rules no longer apply.

Key to this reinvention is harnessing the power of data. Using data and the information it provides enables retailers to amplify the knowledge they already have to strengthen their business and improve their profitability.

In this white paper, we look at what we mean by data analytics and why you should rely on data rather than intuition for your business decisions. We then consider a case study of an online business, Surfdome, to highlight the importance of setting out your objectives first and having the right tools in place to gather your data. Finally, we show why retail and data are the perfect fit.

I hope you find this white paper interesting and thought provoking. Please feel free to contact me to discuss it further or share your insights into the use of data analytics in the retail sector.

TIM SHAW, MANAGING DIRECTOR

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WHAT IS DATA ANALYTICS?

When people think of data analytics the phrase that usually springs to mind is “big data”. To distinguish it from regular data, big data has been defined as data that contains greater variety, and arrives in increasing volumes and with ever-higher velocity. This is known as the three Vs: variety, volume and velocity.

Data in and of itself is of little value. Its value derives from the insights it can provide through it being analysed; in other words, through data analytics. This is the process of examining data in order to draw conclusions from the information it contains. Increasingly, this is done with the aid of specialised systems and software.

In a sense, “big data” is an unfortunate reference as it gives the impression that data analysis is only available to big businesses. In fact, nothing could be further from the truth. Successfully combining and grouping data was once extremely time-consuming and sometimes proved an impossible task, especially for smaller businesses. With the advance of software programs such as Microsoft’s Power BI and Tableau, data can now be analysed cost-effectively by businesses of any size. In effect, “big data” is now simply “data” and is available to everyone.

If you look at the data opportunities in the retail industry, they are endless. You name it and it can be measured: warehouse inventory, foot flow and footfall, point of sale systems, consumer surveys, sales receipts, staffing levels, merchandising strategies, the list goes on and on.

Collecting data is one thing, but it begs the question: why do you need to collect data?

WHY COLLECT DATA?

> "In your business, you may have data coming in from various sources but are you collecting the right data? Even if you are, are you using it in the right way?"

Many business owners make decisions based on what they think they know about how their business is performing or how their customers are behaving. In many cases, they rely largely on their experience and intuition to do this. This is all well and good but whilst they may think they know exactly what is happening, the data may tell a different story. And, as importantly, it may give them insights they hadn't even considered.

Intuition has a place without a doubt, but many human behavioural tests developed over the years prove that intuition can be flawed.

Try the following simple test. Do not try and solve the puzzle, just go with the first answer that your intuition gives you and write it down.

A bat and ball cost £1.10. The bat costs one pound more than the ball. How much does the ball cost?

I'll tell you the answer most people give at the end of this white paper.

In your business, you may have data coming in from various sources but are you collecting the right data? Even if you are, are you using it in the right way? If the answer to either of these questions is not a resounding 'yes', you are operating with one arm behind your back.

Data analytics can help you gain a deeper understanding of your businesses and key elements of it such as your target audience and businesses processes. It can also uncover trends you may not be aware of and can assist you to predict your business's future performance.

You can also use it to improve staff recruitment and retention, enhance marketing campaigns and unlock connections in data sets that might otherwise have been virtually impossible to discover.

Let's look now at a case study of a company that used data analytics to transform its business, and what lessons we can learn from it.

CASE STUDY

SURFDOME

CASE STUDY

SURFDOME

Surfdome is one of Europe's leading online retailers, delivering action sports products across Europe. They wanted to know how they could increase the overall lifetime value of their customers. To answer this question, they started by analysing their data. Having done so, they hoped to use the findings to engage in targeted marketing to increase cross-selling and repeat purchases.

They began by trying to use Excel spreadsheets and other basic methods to analyse their data. The workload was simply too much. Compiling the information into an easily readable format was next to impossible; the whole process was time consuming and ineffective. Once they realised this, they turned to a powerful business intelligence (BI) platform, Datameer.

By engaging with a data BI platform, Surfdome were able to transform the way in which data was being collected and how it was being used.

Surfdome's shift to data was driven by business development and marketing personnel, rather than the IT team. The data obtained was directly linked to the business decision-making process, resulting in a reduction in implementation time. Data analysis allowed Surfdome to segment their customers more accurately and improve customer acquisitions through knowledge of their customer and their journey, leading to highly targeted marketing.

The Surfdome example illustrates a number of important factors as to how to approach data analytics:

- They set out their strategy and crucial business question first, namely that they needed to increase the overall lifetime value of their customers.
- Then they looked at the data to get their answers. It is vital that you do it this way around for two reasons: firstly, the data analysis needs to answer your problem. Secondly, the amount of data is likely to be so big, that if you start with the data it would make the problem seem insurmountable.
- They used a BI platform for their answer. In this day and age, there are several free or cost-effective BI solutions out there that anyone can use.
- Everyone within the business was engaged with the project – senior management, marketing and IT. It was not an IT project.
- They put KPIs and other measurement tools in place so that they could measure success – and they were very successful.

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HOW TO START USING DATA TO IMPROVE YOUR BUSINESS

1. SET YOUR OBJECTIVES

As shown in the Surfdome case study, you should look at the strategy and business objectives first, and then decide on the data that you need to look at. You may also need to carry out a data and process review to make sure you have the right systems and tools in place first to get the data you need in the quickest and most cost-effective way. And, you also want the analytics to be ongoing and sustainable.

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2. MAKE SURE YOU HAVE THE RIGHT TOOLS AND ARE USING THEM TO THEIR FULL POTENTIAL

We cannot underestimate the importance of having the right tools to collect the data you need.

If your point of sale system (POS) is only being used to process the sales transaction, then you are only harnessing a tiny percentage of its potential. Given that your POS system is probably a significant overhead, you need to be sweating the asset. Most modern POS systems come with a huge portfolio of reporting features, which can be used to shed light on your business performance. The metrics you can easily track and interrogate will include profit margins, basket sizes, customer counts, sales trends and much, much more.

Your email marketing software is another source of valuable data. Are you tracking your open rates, clicks, and times of engagement? If you're not, this is another asset not working to its full potential. The data behind the marketing campaign is a valuable commodity that needs to be analysed and potentially crossed referenced with other data metrics. This will inform future campaigns and make them increasingly more effective in generating improved returns.

Foot traffic systems are another key tool available to retailers. These include people counters and beacons, which can provide data such a customer counts and dwell time. You can use this data to understand how best to utilise your floor space and to improve your merchandising techniques. You can drill into which parts of your store receive the most and least visitors and analyse the impact of a specific promotion. You can also review your transaction times and review you staffing patterns.

All your data sources gain power when used in conjunction with each other. To see the whole picture, you need to combine the different metrics and see how they relate to one another. Using an enabled BI platform will allow you to derive more value from your stand-alone data collection points.

Payroll and staffing records should also form part of your data portfolio. Analysing this data in conjunction with your POS reports will provide insights into your staff to sales ratios and help you better understand how to manage your rotas and staffing levels. Combining this with your foot traffic data will enable you to plan your staff work with more effectiveness.

DATA AND THE RETAIL SECTOR – THE PERFECT FIT

Data analytics and retail are a perfect fit. Once you have set out your objectives and have the tools in place to collect the data you need, the possibilities are limitless. You could be looking at customer buying histories and trends, or seasonality data to help you with stock purchasing and staffing levels. These are just two examples.

Modern, enabled BI platforms can help retailers understand their customer and their entire journey. Other tools, such as Google Analytics, can provide some insights but they cannot tell the whole story.

Using these platforms allows companies to uncover never before considered patterns and trends and integrate data that has previously been hidden away in individual silos. With the power of BI platforms, business leaders no longer have to make decisions in the dark, relying on gut instinct. Instead, they can use the data to make sound, logical and informed decisions.

Using retail analytics and real data rather than guesswork will enable better long-term decision making, focusing on increased profits and improved customer satisfaction. The result will be retail stores, both online and on the high street, that meet customers' needs and expectations.

The good news is that many retailers have already acknowledged the importance of data. A survey by Alteryx and RetailWire showed that of the 350 retailers and brand manufacturers that took part, 81% said they gathered shoppers insights and that 76% reported those insights we critical to their organisation's performance. However, of the same retailers, only 16% considered themselves to be experts in harnessing the power of the data available, with 24% and 60% respectively considering themselves "newbies" or "getting there".

What's significant about this is that most retailers are only now taking baby steps in the use of data. It's an area that is going to get more and more sophisticated over the years ahead and could be the decisive factor between retailers that thrive and those that wither and die.

WHAT TO DO NEXT?

If you are interested in finding out more, then either email me at **timshaw@modusanalytics.com** or call me on **020 3475 0094**.
I am always happy to have a free of charge, no obligation meeting if you would like to know how we can help your business.

And finally, was your intuitive answer to the bat and ball question 10p? If so, it is the popular and wrong answer. If you had given yourself time, you'd have known that the answer is 5p. Try it on your colleagues and friends and see how many times intuition gives the wrong answer.