

Finding the gold in your customer data

Data mining can be extremely helpful when used to its full potential but if not, it can prove to be a pointless exercise.



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If your store is using a customer database, usually in the form of a loyalty program, then you are building a potential gold mine of information. Once you have enough customer data over a period of time to make relevant analysis, your business could benefit a great deal from data mining the customer and purchasing data you have accumulated. Data mining is the process of extracting patterns from data that can then influence your marketing, retailing and customer service offerings.

I have covered in the past the benefit of being able to create customer segmentation from your customer data and determining customer lifecycles with the aim of driving up Average Lifetime Value. This article is intended to delve a little deeper into those concepts and look at real life examples of the type of learnings and information that can be derived from mining your customer data.

There are some top level customer data metrics which can be very telling. Once you have your major customer segments (eg. under 30s, women 30-45 with young children etc) you can look at the percentage of customers per segment versus their sales return. In some cases there can be a significant disparity between the two segments. For example, your under 30s segment may account for 10 per cent of your database but only five per cent of sales may be attributed to

them. Conversely, your over 60s segment may account for 17 per cent of your data base but with 22 per cent of sales.

This information can help you determine your target market and can bring some surprising results when you look at purchase patterns across the segments. Analysis undertaken with a selection of stores across Australia with the same loyalty platform showed that the over 60s segment shopped more frequently but with a lower average retail sale than the 40-65 year old demographic. Another finding was that the under 30 demographic was far harder to gain loyalty from and their average number of visits and frequency reflected this.

Naturally, this information can help direct your marketing: What are you trying to say and to whom? Is your message targeted and attractive enough to that target market? Are you choosing the right imagery for your marketing that represents and resonates with your target market? (It is tempting for marketers to use a fairly stock image bank of young beautiful people). And, importantly, are you trying to change different customer segments' purchasing behaviour eg. lifting basket size for the over 60s and increasing frequency for over 40s.

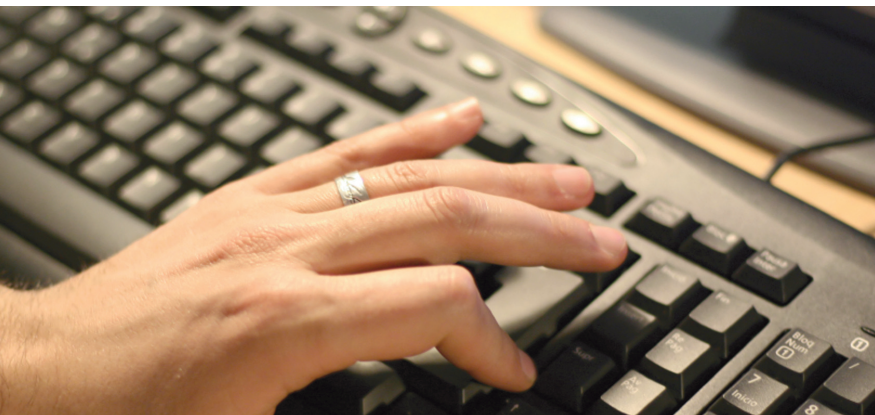
Another area that looks at proportional return is 'number of visits: sales contribution'. One real life data example from a group of stores shows that while customers who have visited just the one time are 36 per cent of all customers, this same group of people have only contributed four per cent to sales over a period of a few years. Conversely, customers with 15+ visits make up 20 per cent of the whole, but punch above their weight with 74 per cent sales contribution. These figures tell us a number of things: 1. Building loyalty obviously pays off handsomely 2. Strategies that encourage and drive the

second and third purchase (with the aim of making shopping a habit with you) are important to drive retention and sales growth.

Member recency is another metric you can look at to help drive your marketing efforts. What is the percentage of members who have visited in the past three months, or the past six, nine, 12 and 13 months plus? These figures can give you feedback on the activity levels of your customers and, importantly, any inactivity trends. We all know that retaining a customer is far cheaper than trying to gain (or 'buy') a new customer, so having clear information on the actual shopping habits of your customers is essential. It may even warrant some further research – if your inactivity levels are increasing, you may discover by talking to some recently inactive customers that, for example:

- The service levels are dropping dramatically;
- That out of stocks are more than your market will tolerate on your most high turnover lines;
- That the store has become increasingly hard to navigate due to an influx of floor displays or gondola and category signage isn't clear, and the customer can't find what they want.

So most importantly, what do you do with all this information? While, particularly in pharmacy, more and more data is desirable, we have to remain a little pragmatic about how much we can collect, analyse, digest and use, because if we don't actually use the information the whole exercise is potentially pointless – it is easy to suffer from paralysis by analysis. However, most pharmacies are not making any use of the data they are already collecting and are not incorporating any customer database marketing into their promotional strategy at all, which is a huge opportunity wasted. **RP**



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