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Retailers are tapping an array of digital analytical tools to understand shoppers the way merchants, a couple of generations ago, knew customers by name and buying habits. Some retailers have been slow out of the gate in adopting the new tools. But all will have to become adept at using them before long, and some models are already proving their worth, say experts at Wharton and SAP.

Imagine the owner of an old-fashioned general store in a small town. The door opens and he sees it is Mrs. Jones. He knows her husband and children, he can list the groceries she buys every week and the treats she gets now and then. He has a pretty good idea how much money her family has, knows the kids will soon need back-to-school clothes, and that a flock of relatives will be descending for the family's traditional July 4 cookout.

A merchant like this has products to suggest before the customer says a word.

Achieving this level of personalized service is the goal of today's savvy retailers, but on a much bigger scale, and to do it they will use a range of technological tools to better know their customers. The successful retailer of the near future will create a consistent "omni-channel" experience that will meld in-store shopping with features offered online and, increasingly, through smart phones.

"The whole concept is of retailers trying to create a seamless experience so that their website seems like the same brand as when you go into the store," says Lori Mitchell-Keller, senior vice president and global head at the SAP retail business unit. "What's really exciting is the level of insight and personalization this allows to drive brand affinity, and drive revenues and margins."

In fact, much of this is possible today, though many traditional retailers have yet to get on board.

"Retailers have been slow at learning out of a sense of 'I'm doing it the way my grandfather did it when he started the business,'" says Wharton marketing professor Peter Fader. But more retailers will come around, he says, as they see how new ways of gathering data on consumer behavior will give them deeper insight into what customers want and need, which customers are the most valuable and how to get them to buy.

"One of the great things about the data is it will start to break down those prejudices.... It may be trial by fire, but eventually retailers are going to realize, 'Yes, we should be doing this more often – it's smarter.'"

"At some point, if you don't have access to that kind of customer data, you will be at a loss."

— **Barbara E. Kahn**

And retailers really have little choice if they are to keep up with the leaders of the pack. Consumers quickly become accustomed to new capabilities and lose patience with a business that doesn't provide them, Mitchell-Keller cautions. Retailers that embrace integrated technologies will be more efficient and nimbler than competitors who don't.

"At some point, if you don't have access to that kind of customer data, you will be at a loss," adds Wharton marketing professor Barbara E. Kahn, director of the school's Jay H. Baker Retailing Center.

The Right Tools

Shoes are a product best sold in bricks-and-mortar stores where customers can see and touch the merchandize, and test the fit. Still, HR Group, a 6,000-employee shoe retailer based in Osnabruck, Germany, is upgrading phone and Internet options to offer customers a cutting-edge omni-channel experience.

A recently added smart-phone app, for instance, allows customers in the stores to scan barcodes on shoes to see if HR Group's competitors offer lower prices. If they do, HR Group offers a coupon to make up the difference. In many cases, shoppers using the mobile app find that the firm's shoes are not sold anywhere else, encouraging them to make the purchase rather than to continue shopping elsewhere.

"We see that in Germany, the market is very price sensitive and the customer asks for the best price," says Matthias Schäfer, HR Group's head of application development, pointing to the increasingly competitive market that makes the omni-channel approach essential.

Soon, integration of sales information from individual stores will give HR Group's online and mobile shoppers up-to-the-minute information on the quantity of each style of shoe available at each store, he says. And the omni-channel system will combine data on shoppers' purchases and web browsing to give the firm greater insight into what appeals to individual customers and how different categories of shoppers behave. What are the shopping and buying patterns of different age groups, or of men versus women? Do women buy shoes for the men in their lives? Do men buy shoes for women? The data will provide the answers.

"Today, our service personnel know much about that, but it's not very clear in the headquarters…," he says. "We feel we can know much more." All that data, he says, will help the firm sharpen its plans to serve customers who, with the growth of Internet and mobile shopping, will be better at sleuthing out the best deals – and who will become less and less likely to buy from specific retailers out of habit or loyalty.

Also upgrading is Galleries Lafayette, an international department store chain headquartered in Paris. It has replaced a creaky online operation that could not handle peak traffic and had to be shut down every night for hours of updates. "We had to change just about everything in order to actually operate as a fully functional commerce site," says CIO Alexandre Aubry.

The solution was not to build a better free-standing e-commerce site but to construct a sophisticated online operation smoothly integrated with the 60 physical stores in France, plus others as far away as China. The chain opted for a system capable of centralizing product information, streamlining back-end operations, and

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gathering and analyzing enormous volumes of data on customers. Online traffic has soared from 11 million unique visitors in 2011 to 40 million in 2013.

Such cutting-edge systems can integrate data on customers' purchase history, payment methods and personal profiles, and then provide insights into the research and products each customer looks at online and in the store, Mitchell-Keller explains.

"There's an opportunity for retailers to bring all that information together and really understand what motivates their customer to buy what, and what path the customer uses to ultimately make a purchase.... Having that single view of all the interactions your customer has had with you is incredibly powerful."

Embracing this kind of solution is not as daunting as it seems, Mitchell-Keller says. Using systems with the proper amount of flexibility, retailers can start small, focusing on their most pressing problem, and then add other features over time.

Misperceptions can hold retailers back, adds Kahn. One is that online and brick-and-mortar operations are radically different from one another, a view that started because pioneers like Amazon and eBay were online only. Though many traditional retailers have realized they need an online presence, it is common to treat the online side as a poor relation, starting crudely, for instance, by simply uploading a facsimile of the printed catalogue. Even when they add interactive capabilities, many retailers set up the online operation as a separate entity from the physical stores, cheating themselves of the benefits that come from offering customers a blended experience.

Customers actually approach online and offline shopping much the same way. In research comparing shopping on Amazon and in supermarkets, Fader has found that both groups of shoppers follow remarkably similar patterns. "Directed shoppers," for instance, have a specific goal when they enter the store, online or physical: to quickly get a desired item and move on. "Hedonistic shoppers," on the other hand, browse for the unexpected. The amount of time a typical customer spends on each type of shopping is about the same whether online or off.

"I like the word omni-channel," Fader says. "The customers are going to deal with you where they want to deal with you."

The important issue, then, is not whether the store is online or off, but whether the retailer knows its customers' shopping styles well enough to lay out the site, virtual or physical, in the most efficient and appealing way. The more customer data the retailer has, the better it can fine-tune the experience. "If you're in a world of directed purchases, you want to emphasize convenience," Fader says. "If you're in a world of hedonistic browsing, you want to emphasize surprise."

For most retailers, says Kahn, the goal should be to develop customers who simply respect the brand and do not see much difference between online and off.

The Mobile Connector

"Mobile is kind of the connector between everything," Kahn says.

Smart phones can bridge this gap because they provide online access everywhere – inside the store included. The in-store shopper, for instance, can use a smart phone

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to search the retailer's site for a sale on an alternative brand, to obtain a discount as a preferred customer, to get more information about a product or scan reviews by experts and other buyers.

Of course, smart phones also enable practices like "showrooming," where a customer comes to the store, finds the desired product and then uses the phone to hunt for a better deal from a competitor. Fader says, however, that retailers should not use this worry as an excuse for resisting change. After all, competing on price is nothing new, and a store with the merchandize to lure the showrooming customer will have first crack at the sale. Offering to match competitor's prices can keep the showroomer from going elsewhere.

Technology offers some tantalizing prospects that until recently looked like science fiction. In the movie *Minority Report*, the Tom Cruise character flees the authorities through a mall, and at every turn is bombarded with personalized sales pitches from talking signs, each apparently up to date on his buying habits.

Current technology is not far from that. Retailer apps residing on customers' GPS-enabled smart phones can alert the store when the customer enters. The retailer can then email promotions based on all that's known about the customer – past purchases, income, age and so forth. The customer's history with the retailer also can be combined with data from outside sources to create a profile of what the customer is likely to buy, or might be persuaded to buy.

But Fader believes retailers should not expect this kind of capability to be a pot of gold. "Serving up a coupon for salad dressing

while you're in the middle of the grocery store probably won't change your behavior as much as that company hopes it will.... The first time you got an email marketing message it was, like, cool! By the millionth time it's, like, stop! It's going to be the same thing when it comes to mobile targeted messages. The novelty will wear off."

Sensible retailers, he suspects, will not lose sight of the fact that customers have only so much money to spend and only so much time to shop, whether online or in the store. The retailer's goal, then, should be to make the process more efficient and appealing rather than to merely crank up the ad volume.

Kahn, Fader and Mitchell-Keller believe that the real benefit of technology for retailers will not be gimmicky promotions but the insights about customers that will come through vast amounts of data, allowing retailers to operate like that old-fashioned small-town merchant, knowing each customers habits, likes and needs.

"There are so many aspects where being data driven will change the way retailers work," Fader says. Better insights, for instance, will tell retailers and their suppliers which products in the pipeline have the best prospects. Data will also change the nature of negotiations between retailers and suppliers. "We should be basing those on facts rather than negotiating power," Fader says.

The wealth of data will allow retailers to better identify the most desirable customers -- those worthy of special pricing, he says, noting that the U.S. model of fixed prices is something of an anomaly. Haggling is the norm in much of the world, and that boils down to pricing according to the merchant's varying interactions with each customer.

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Understanding the customer can also help the retailer with a variety of strategies that promote the brand, adds Mitchell-Keller. A health-food chain, for instance, might discover that its customers would warm up to the brand if the firm contributed to environmental causes.

More data will allow ever-subtler distinctions between shoppers. Consider the customer who buys the same items repeatedly, always paying full price rather than stocking up during sales. "There's no particular reason to offer that shopper a 25%-off promotion on those items," Mitchell-Keller notes. "That's good for them but not necessarily promoting the retailer's end-game."

Some retailers, like firms selling downloadable software, might appear suited to an exclusive online presence, while others, like hair salons or restaurants, would seem to need a physical presence, with a website optional. But Kahn cautions against simplistic assumptions. Even as online shopping becomes more efficient, with more choice, faster delivery and easier return policies, physical stores will have value. "There are always going to be physical stores," she predicts. "There is a social aspect to it. There is an experiential aspect to it. There are some things you want to touch and feel in the store." With good information about its customers, a retailer can design its stores to satisfy these needs.

At the same time, some online-only retailers have come to see the benefits of having a bricks-and-mortar presence as well, she adds. The online eyeglass seller Warby Parker, started by a group of Wharton students, has added a string of showrooms and stores so customers can try on as many frames as they want if they feel the five sent to the home are not enough. The

company has even gone a step further into the physical world of retail by re-tooling a yellow school bus into a traveling showroom they have dubbed the "Warby Parker Class Trip."

The Creepy Factor

Despite all the benefits of gathering customer data, some techniques can backfire. While consumers are becoming accustomed to having their online movements watched, they may recoil at being tracked inside a physical store, Mitchell-Keller says. On the other hand, they might welcome tracking if it is voluntary, through a smart-phone app they've chosen to install -- especially if it provides benefits like discounts in exchange. It is now possible, for example, to use a supermarket app to store a shopping list, and the retailer can use the list to recommend other products and deliver coupons to the phone.

Still, retailers need to tread carefully in this area. "The best retailers are not going to track people who don't want to be," Kahn says.

Another option: Track the customer in the store but without registering his or her identity. The retailer could still glean valuable insights into consumer behavior. In one study, Fader discovered that American consumers tend to move through stores in a counter-clockwise direction, while British ones go the other way -- habits apparently arising from each country's driving rules. In other research, he found that customers for some reason spend more time browsing from the back of the store toward the front than vice versa. A retailer could use such insights to better orient displays, even if it didn't know each customer's identity.

Kahn also expects smart retailers to improve website features like customer reviews, which can be quite valuable. "People are just much more influenced by their friends and customer reviews than by straight-out advertising." But long lists of reviews can be tiresome and tend to be skewed negative because unhappy customers are more inclined to comment. Retailers will therefore need to provide better ways for users to filter the reviews, and to feel confident that features like average star ratings accurately reflect past buyers' sentiments.

As capabilities improve, retailers are likely to realize great value though social media like Facebook and Twitter, Kahn says. Current systems can scan the billions of posts and assess consumer sentiments by tallying keywords signifying positive and negative comments about specific products or brands. But as computers get more intelligent, they will distinguish ever more subtle shadings of opinion – not just that consumers like one brand better, but why.

Also coming, says Mitchell-Keller, is an improved capability for retailers to use social media for back-and-forth communications. She tells a story of a friend who fired off an angry tweet after finding an item sold out at a big box retailer. He was surprised and impressed when his phone buzzed with an immediate apology from the company.

But it would have been better, she said, if the tweet had prompted a sales associate to walk up to resolve the matter. Soon that's what the best retailers will do.

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