

# THINK ACT

POINT OF VIEW



November 2015

## BIG DATA IN RETAIL

Opportunity or threat?

# Big Data has the potential to boost retailers' performance .

Big Data is a hot topic in business. As the name of a phenomenon that entails an exponential increase in the amount of data that could be generated and processed, Big Data is characterized by three V's: volume, velocity and variety. First, data is becoming available in volumes that are many times larger than before, driven by interconnected phenomena such as the Internet of Things. Second, data is no longer processed in batches, but transmitted and analyzed on a continuous base, in real time. Third, Big Data is made up out of unstructured data from a variety of sources, such as social media or video, which must be integrated with structured data for decision making. The potential offered by Big Data extends to a wide variety of industries and applications. For retailers especially, the phenomenon offers substantial opportunities to better serve customers and manage costs.

## **BIG DATA: AN OPPORTUNITY FOR RETAIL**

As one of the industries with the most extensive access to customer data, retail is well positioned to leverage the opportunities that Big Data offers. In terms of top-line improvement potential, Big Data can be exploited by retailers to gain a deeper and more precise understanding of customers - their preferences, habits and decision journey. In this way, a Belgian clothing retailer has been able to reduce the time required for new stores to become breakeven to under 12 months, by defining on the basis of customer and socio-economic data (1) which locations have the highest potential for new stores and (2) which product range will be most suitable for this location.

This type of customer information can indeed be used for better and individualized targeting, for instance through personalized promotions consisting exclusively of products interesting to the customer, at a markdown for which the purchase probability and quantity is exactly known. Big Data can also be leveraged to achieve transparency on prices of competitors so as to optimize pricing in near real-time.

The ability to better understand and steer customer and competitor behavior will also lead to opportunities for more effective cost management, be it by maximizing the efficient utilization of current resources (personnel and equipment) through more accurate forecasting of demand, by achieving better maintenance planning through the integration of data from sensors (real-time), or by optimizing delivery times based on predictive traffic models. Major logistic providers such as UPS have already managed to lower costs by leveraging Big Data to determine optimal delivery routes in real time or to identify maintenance is-

ues before trucks break down.

Another way retailers can profit from Big Data is by monetizing their proprietary data. In Germany, Roland Berger Strategy Consultants has supported a Cash & Carry player in setting up a data processing system through which it serves FMCG partners by selling relevant, easy-to-use data that allow them to optimize their marketing mix for specific categories. It is however this same mechanism that makes Big Data not only an opportunity, but also a menace for retailers.

## **BIG DATA: A THREAT FOR RETAIL**

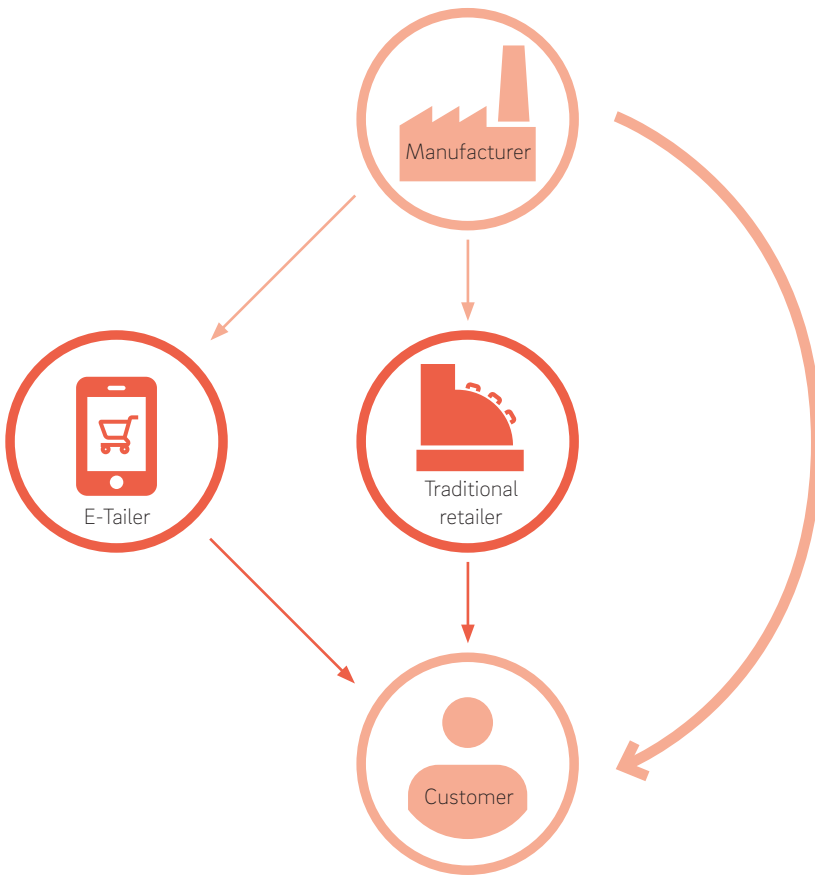
Clearly, retailers are not the only party that generates customer data. Telco's, for instance, have access to geodata based on cell phone movements, or viewing and surfing habits. Banks have a view on their customers' income, buying habits and credit status. Social media and search engines can compile profiles of their users based on their hobbies & interests, social network and CV. The growing access to, and importance of, data has incited the emergence of so-called "super crunchers": organizations specializing in Big Data management aiming to exploit its full potential. Super crunchers comprise data-based businesses, such as Facebook or Google, but also companies that profile customers by combining data from different sources, as well as some online or hybrid marketing agencies. As Big Data is a relatively new phenomenon, the level of maturity of these players' capabilities is still disparate. What is certain, is that in the coming years both the number of super crunchers and the sophistication of their services will substantially increase. By monetizing Big Data, super crunchers will be able to market a thorough understanding of individual end customers to manufacturers - a view that was historically proprietary to retailers. This will potentially allow manufacturers to bypass retailers and target customers directly, e.g. by sending personal promotions and directing them towards their own website. Such a trend would pose a threat to the intermediary role of traditional players and e-tailers alike. → **A**

## **THE BEST DEFENSE IS A GOOD OFFENSE**

To ward off the threat posed by the above disintermediation mechanism, retailers should use Big Data to their own advantage by following a three-step approach: (1) understand the level of disintermediation threat, (2) identify the most impactful initiatives supported by Big Data and (3) act to transform.

A

THREAT OF SUPER CRUNCHERS



**SUPER CRUNCHERS**

Data-based business models, Profiling, Online marketing, Hybrid marketing

The first step for the retailer is to understand to which extent it is exposed to the risk of being disintermediated. Indeed, some retailers are more exposed than others and will be more likely to suffer from the emergence of super crunchers. The table below gives an overview of the most important drivers of disintermediation risk.

The second step is to assess how Big Data can be used to strengthen one's position as preferred partner for both customers and suppliers. This can be done by identifying the most impactful Big Data initiatives that can help the retailer to be closer, more serving and more value creating. Initiatives should focus first and foremost on reinforcing those axes on which the retailers is most exposed. For retailers that are most exposed, the urgency of launching these initiatives is highest.

The third step will be to transform the organization. This typically involves defining a critical path and action plan to set up a Big Data driven organization.

	<b>Most exposed</b>	<b>Least exposed</b>
CUSTOMER BASE	Large, diverse, open to innovative distribution channels	Small, uniform, preference for traditional retail
RELATIONSHIP WITH CUSTOMER	Transaction-based	Experience/ interaction-based
POTENTIAL ACCESS TO PROPRIETARY DATA	None or limited	Extensive
DATA ANALYSIS TOOLS & SKILLS	None or limited	Strong
DEPENDENCY ON MANUFACTURERS	Dependency on (large) manufacturers/ brands	Wide choice of many (smaller) manufacturers
RELATIONSHIP WITH MANUFACTURERS	Distant, antagonistic	Close, cooperative, integrated

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#### BIG DATA IN RETAIL

#### RETAILERS SHOULD LEVERAGE BIG DATA TO BE:

	<b><u>To their customers...</u></b>	<b><u>...&amp; manufacturers</u></b>
CLOSE	By building an experience-based relationship with frequent interaction	By forming a constructive alliance that aims at a maximum of integration
SERVING	By offering customers the products they want, when and where they want it	By sharing information on customers and products...
VALUE CREATING	By offering customers correct prices & promotions that are valuable to them	By allowing for top-line improvement and cost containment for both parties

A challenging endeavor, as the project management is faced not only with a novel technology and approach, but also with the uncertainty and volatility associated with rapid changes of both: the potential applications of Big Data will exponentially grow in coming years, causing the need for flexible processes and structures.

We believe the exploitation of Big Data in retail can bring about highly positive developments for the industry, their suppliers and their customers. Opportunities to boost sales and better manage costs will be abundant and should be exploited by retailers. Doing so will allow them to improve their bottom-line while warding off the threat of super crunchers.

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