

Perspectives on Personalization @ Scale

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Preface

Personalization is teetering on the edge of the buzzword precipice. As companies rush to embrace it, the concept is increasingly invoked as a solution to everything even as what personalization itself means becomes ever more vague.

We understand personalization as “using customer triggers to optimize the timing, content, offer, and design of every customer experience.” Its value in driving growth is well proven, but capturing it can be especially challenging when so much ambiguity surrounds the conversation. That lack of clarity is especially problematic as businesses navigate the complexities in progressing from experimenting with personalization to scaling it.

The truth is that personalization at scale is both easier and more complex than most people expect. For example: getting value from personalization can be fast and only requires the thoughtful usage of what the business already has in place. But scaling personalization requires the integration of advanced technology, people, and processes, a complex choreography that depends on strong leadership and clear vision.

We hope this collection of articles and interviews can help shed light on what personalization is and what it takes to help drive growth for the business.



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Section 1:
Talking through essential
questions surrounding
Personalization @ Scale

Interview:

Personalization @ Scale: First steps in a profitable journey to growth



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Julien and Kai are leading McKinsey's Personalization @ Scale effort in North America and Europe. They focus on all industries and coordinate McKinsey's expertise along all relevant elements (analytics, solutions, way of working).

Personalized communication with every customer is the future of marketing. A formidable task, but it's actually easier than many marketers think. McKinsey's Julien Boudet and Kai Vollhardt break it down into simple steps that begin with the data you have.

What is Personalization @ Scale?

Julien:

Let's start with the personalization part. Consider your daily life as a customer: you don't want to be bothered with irrelevant coupons, e-mails, or texts, but you do want to be informed of offers that meet your specific needs. Personalization is an approach to customer engagement—almost a philosophy—that focuses on delivering tailored, meaningful, and relevant customer communication. On the business side, personalization allows a company to activate all the customer data available to deliver more relevant experiences for your existing customers and for your prospects as well.

Kai:

Let me take the "at scale" part. In today's marketplace, it's not enough to send each customer an e-mail that addresses her by name and offers a discount based on a past purchase. You have to design and deliver tailored messages to thousands of customers in multiple interactions. That's where technology comes in. It makes it possible for companies to truly interact on a personal basis with all their customers. That's why it's important to always think and talk in terms not just of personalization, but Personalization @ Scale.

Why should Personalization @ Scale matter to marketers?

Julien:

When done well, personalization can deliver impact and growth fast while creating better experiences for your customers. Personalization plays a critical role across the full customer life cycle—acquisition, customer engagement, basket size, frequency of purchase, cross-selling, and/or churn prevention, among other things.

Kai:

Because the future of marketing is in data analytics, agile, and digital—and Personalization @ Scale is where they all intersect! A majority of classical marketing disciplines—advertising, messages, prices, services—will become much more personalized. And it builds real value. Our research and experience show that personalization, fully implemented, can unlock significant near-term value for businesses—such as 10 to 20 percent more efficient marketing and greater cost savings and a 10 to 30 percent uplift in revenue and retention. What’s more, even though immediate results can be achieved in a matter of months, adopting personalization as a practice can have a long-term positive effect on customer satisfaction.

The reality is that consumers want better personalization: approximately 80 percent of them say it’s important to them. But, while 95 percent of the marketing professionals we questioned at the 2017 World Retail Congress, in industries from energy to banking, said they recognize the need and potential for personalization, only 20 percent say retailers are doing a good job at it. For many companies, personalization at scale is still a mystery.

So what is the right approach to making Personalization @ Scale work?

Julien:

Understanding the importance of data and analytics is the key value generator for all personalization attempts, and it has to be at the heart of your thinking. First of all, you need to make personalization a priority and develop a strategy to build the right foundations and operational capabilities. Establishing the strategy doesn’t have to be a lengthy project that takes weeks or months, just a deliberate top management decision to create a path to more personalized customer experience.

Kai:

That’s true. Many marketers believe the first priority is to fully understand the quality of their data, build capabilities in analytics, or find the right tools. But most of them can start making personalization work quickly with what they already have. One of my core clients tried for a long time to build the perfect data cube in an attempt to harmonize data. But when he took a step back and rethought what personalization he could accomplish with the existing data, he decided to prioritize the analysis of data on customer interactions he already had. That made it possible for us to launch initial pilots within days.

Julien:

Yes, I can’t emphasize enough that you can find real value—often a lot of it—by working with what you have. Naturally you should strive for the full customer data platform (CDP and a 360-degree view of the customer), but don’t wait for perfection. Even a first model can

yield great results. You can start personalized cross-selling with basic information on past behavior; you don't have to buy new data or connect systems. We often start with a simple customer data set that combines basic demographic information with transaction history, product details, and maybe Web data to get a preliminary understanding of the customer. A "167-degree view" of the customer that enables the activation of a few prioritized consumer use cases is better than a long quest for a 360-degree view of the same customer.

The next step, decisioning, is also not as complicated as at first it might seem. We typically start by understanding who the customer is, looking at their behaviors, and identifying the key triggers we can act on, or markers of value. This might come as a surprise, but a lot of the initial data mining is simply hypothesis driven, and a lot of the low-hanging fruit to drive momentum in the organization is common sense.

We worked with a telecom client that wanted to upsell a new service. Starting from a hypothesis about who should be targeted, we used frequency plots of customer value and past reactions to campaigns to identify and prioritize subsegments. This substantially accelerated the launch of pilot campaigns. Based on response rates, we refined the campaigns week by week, and we got progressively better response rates.

What prevents companies from successfully Personalizing @ Scale?

Kai:

We've observed four common roadblocks. First, many companies are collecting and storing massive amounts of data but are having trouble finding and merging the most relevant subsets. Instead of generating and assembling more and more data, companies should focus on identifying and collecting the right data. Sometimes less data actually put into action is more effective than adding the most sophisticated external data set.

Second, many companies still think in terms of seasons or general events rather than appropriate triggers. Triggers are the specific occasions when a particular message will be most valuable to a customer. A customer moving to a new home, for example, is a trigger for an energy company. In my experience, trigger-based actions have three to four times the effect of standard communication.

Third, personalization at scale requires agile, cross-functional teams, and many companies are still stuck in a siloed way of working. Running an agile project once is relatively easy, but making it stick and scale is difficult. Those cross-functional teams make it easier to apply a test-and-learn approach, as all relevant experts are in the room, and insights can be shared instantly, which is a prerequisite for personalization at scale. As a result, the number of campaigns brought live can easily increase by factor of ten or more. Test and learn or not being afraid to fail can be a significant cultural shift for traditional companies. And it's a lot of fun for employees—something we always find amazing.

Finally, the right tech tools and infrastructure have to be in place to test successfully on a large scale across the entire customer base, and this can feel overwhelming. However, technology has advanced a lot, and there are several simple and powerful solutions available.

Julien:

I'd like to emphasize what you said about cross-functional teams, Kai. Companies really need to engage with marketing, operations, and tech experts to build organizational capabilities that can sustain change and establish new ways of working. That comes from both training existing staff and recruiting new top talent. For companies that need to fill multiple roles with specific skill sets, specialist competence is essential. But it's not enough. Specialists also need to be "translators" who can communicate insights comfortably and effectively across business functions.

What technology is needed to successfully Personalize @ Scale?

Julien:

It's understandably difficult to make the right technology choices, since the landscape is very dynamic, complex, and not particularly transparent, and it's unclear what different providers are doing and what advantages they offer. In the 2018 edition of Scott Brinker's Marketing Technology Landscape overview, he lists about 7,000 marketing technology solutions.

Marketing Technology Landscape Supergraphic (2018)



Source: Chiefmartec.com

But one way to start to simplify the technology side is to understand that it has to enable three things:

1. Integration of consumer data to develop a clear and complete view of your customers, ultimately through customer data platforms
2. Decision making based on signals given during the customer journey. It can be as simple as an Excel VBA macro that helps a callcenter agent shape a personalized offer to a

customer or as sophisticated as a centralized decisioning engine, or “brain,” that can interact with outlying systems to make real-time decisions based on consumer signals

3. Distribution of coordinated content offers across audiences and channels in real time, with room for teams to adjust them based on feedback.

Kai:

Simply put, technology is crucial to scaling personalization, and a customer decision platform has to be at the heart of it. We found that 50 percent of companies that outperform the market feel they have the tech tools they need, compared with only 16 percent of their poorer-performing peers. In the long run, the real value comes not just in developing the three elements of the operating model but in getting them to work together seamlessly. Once consumer data has been collected, it needs to be prepared and transformed to uncover additional insights: the more comprehensive the customer view, the more accurate the predictions of the decision engine models will be. But while technology is very important, technology alone won't solve all the personalization challenges.

Julien:

Absolutely. Technology and analytics play a big role in driving impact beyond pilots and scale, but at the end of the day, companies don't achieve the impact without changing their internal operating model to be agile, focused on key customer KPIs, cross-functional, and driven by rapid decision making.

Section 2: How to achieve and leverage Personalization @ Scale



I. Laying the foundation:

The heartbeat of modern marketing—
data activation and personalization

Authored by:

Julien Boudet
Brian Gregg
Jason Heller
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Technology has finally advanced to the point where marketers can use real-time data in a way that is both meaningful to customers and profitable for companies.

We've come a long way from "people who bought this, also bought that." Consider the experience of a representative customer we'll call Jane. An affluent, married mom and homeowner, Jane shops at a national clothing retailer online, in the store, and occasionally via the app. When visiting the retailer's website in search of yoga pants, she finds style choices based on previous purchases, the purchases of customers with profiles similar to hers, and the styles of yoga pants most frequently purchased on weekends. She adds one of the yoga pants on offer to her shopping cart and checks out.

With the exception of a follow-up email, most interactions with the customer stop there. But here's what this example looks like when we activate Jane's data: three days after her online purchase, the retailer sends Jane a health-themed email. Intrigued, she clicks the link and watches a video about raising healthy kids. One week later, she receives an iPhone message nudging her to use the store's mobile app to unlock a 15 percent one-day discount on workout equipment. Though she has never bought such items at this retailer, Jane takes advantage of the offer and purchases a new sports bag. What began as a simple task of buying yoga pants ended up being a much more engaging experience.

Such data-activated marketing based on a person's real-time needs, interests, and behaviors represents an important part of the new horizon of growth. It can boost total sales by 15 to 20 percent, and digital sales even more while significantly improving the ROI on marketing spend across marketing channels: from websites and mobile apps to—in the not-too-distant future—VR headsets and connected cars.

Customer data platform: Solving the ongoing challenge of true personalization

Companies regularly experiment with testing the impact of varied customer experiences, but they do it in isolation. When they do try to scale up, they smack against the challenge of understanding what to prioritize. Going back to Jane, do marketers target her as a mom, a yoga enthusiast, or a homeowner? What happens when tests are running against all three segments? Is she part of a new microsegment that combines attributes and signals across all three segments?

This is a challenge that has continued to plague marketers, despite the promise of solutions such as customer-relationship management (CRM), master-data management (MDM), and marketing-resource management (MRM). These solutions can help companies consolidate and streamline data, manage segmentation, organize work flow, and improve customer relationships. But they don't take full advantage of the digital signals customers provide. Instead, they rely on antiquated "list pulls," basic segmentation, and campaigns, that all lack the automated decision making, adaptive modeling, and nimble data utilization to scale personalized interactions up.

Enter the Customer Data Platform (CDP)—a data discovery and "decisioning" (i.e., automated decision making) platform. The CDP makes it possible for marketers to scale data-driven customer interactions in real time. And while CDP hasn't really broken into the Gartner Magic Quadrant or Forrester Wave, it is gradually becoming an industry-standard concept, with a small but growing cadre of third-party platforms emerging that will soon shape the category.

Four steps to effectively activate your data

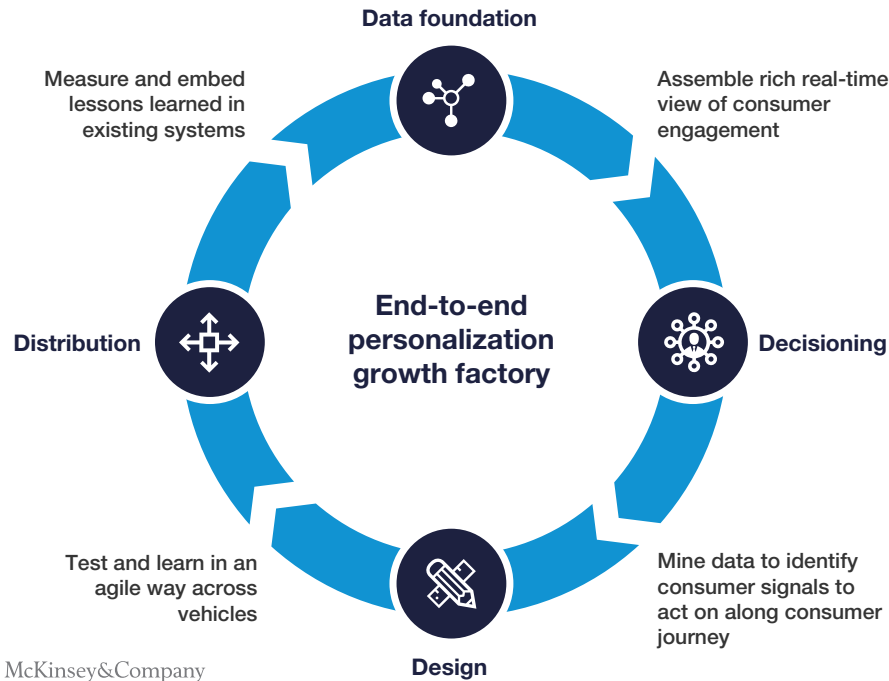
Incorporating a CDP into your organization—whether piggybacking on an existing master-data-management or customer-relationship-management system or starting from scratch—requires mastery of four areas (Exhibit 1):

1. Data foundation: Building a rich view of the customer

Many companies have the elements of a relatively complete view of the customer already. But they reside in discrete pockets across the company. Just as a recipe does not come together until all the ingredients are combined, it is only when data is connected that it becomes

Exhibit 1

Building deeper one-to-one relationships with consumers on a large scale



ready to use. The CDP takes the data a company already has, combines it to create a meaningful customer profile, and makes it accessible across the organization.

“Feeding” the CDP starts by combining as much data as possible and building on it over time. Creating models that cluster customer profiles that behave and create value in similar ways requires advanced analytics to process the data and machine learning to refine it. Over time, as the system “learns,” this approach generates ever-more-granular customer subsegments. Signals that the consumer leaves behind (e.g., a site visit, a purchase on an app, interest expressed on social media) can then expand the data set, enabling the company to respond in real time and think of new ways to engage yet again. Furthermore, the insights gleaned extend beyond a customer’s response to a specific campaign, for example by driving more targeted product development.

A number of companies we’re familiar with, struggling to truly understand their customers that make infrequent purchases, combine their own CRM data with Facebook consumer data to build look-alike models. This helps identify the highest-value prospects most likely to buy in their category. Increased targeting through display ads on and off Facebook can yield 50 to 100 percent higher returns than from the average Facebook audience. Mapping third-party data (when it exists) to customer segments via a data-management platform (DMP) can enhance the experience for both known and anonymous digital consumers, leading to improvements in engagement and conversion, measured in net promoter score, acquisition, and lifetime value.

2. Decisioning: Mine the data to act on the signals

The decisioning function enables marketers to decide what is the best content to send to a given customer for a given time and channel. Customers are scored based on their potential value. A set of business rules and regression models (increasingly done through machine learning) then

matches specific messages, offers, and experiences to those customer scores, and prioritizes what gets delivered and when. This allows companies to make major improvements in how they engage with their customers by developing more relevant, personalized engagement, within a single channel or across channels, based on a customer's behavioral cues. Those signals can be basic, such as "cart abandoned" or "browsed but didn't buy," or more nuanced, such as activity by segment and time of day, gleaned from mining customer data. In effect, these signals become triggers that invoke an action. A decisioning engine develops a set of triggers and outcomes based on signals and actions the company takes in response.

For example, one multichannel retailer discovered that many consumers made a purchase on the website just once per year. Further analysis revealed those same customers tended to return to browse the site a few days after purchase. The company now takes advantage of this window of opportunity to send tailored, targeted messaging, rather than risk losing the customer for another year. This approach doubled the open rate of its emails—from 10 to 15 percent for generic targeted communications to 25 to 35 percent for real-time, "trigger-based" communications acting on consumer signals.

More sophisticated companies build up a decisioning model that works across all distribution channels. That requires advanced modeling and analytics techniques to identify the impact of one channel on another as a customer proceeds along his/her decision journey. A travel company took this approach recently and saw coordinating messages across channels drive a 10 to 20 percent incremental boost in conversion rates and customer lifetime value.

Effective decisioning is based on repeated testing that validates and refines hypotheses and outcomes. Over time, these can become increasingly sophisticated as models and algorithms build on each other. One telecommunications company has been testing different offers to different groups: millennials, customers in specific cities, previous owners of a specific device, groups of relatives, and people who viewed a specific web page in the last three days. As complex as this may seem, a semiautomated decisioning engine prioritizes the offers and experiences proven to have the highest rate of return. This allows the telco to apply the results of dozens of tests on a larger scale without fear of inconsistent customer experiences or conflicting offers.

3. Design: Crafting the right offers, messages, and experiences at speed

Understanding your customers and how to engage them counts for little without the content to actually deliver to them. Designing great offers, however, is hampered by the fact that functions and departments within companies tend to operate as mini fiefdoms. The owners of each channel test and engage consumers exclusively within their own channel. Real benefits can only occur when companies shift to "war rooms," bringing together people from relevant functions (marketing, digital, legal, merchandising, and IT/DevOps) who focus on specific consumer segments or journeys.

These teams have clear ownership of consumer priorities and responsibility for delivering on them. The cross-functional team continually develops new ideas, designs hypotheses for how to engage customers, devises experiments, and creates offers and assets. Analytics help size opportunities, test impact, and derive insights from tests. That content is then tagged so that it can be associated with a trigger and be ready to go when needed. Just three months

after launching its war room, one large multichannel retailer saw its testing speed go from 15 to 20 weeks to 2 to 3 weeks, and testing volume increase from 4 to 6 per month to 20 to 30 per month.

4. Distribution: Delivering experiences across platforms

Distribution systems are simple “pipes” that send the ad or message that fed into them. Often they can be quite manual and just blast out communications to wide segments of people with little tailoring. But connect the CDP engine, with its predetermined triggers and tagged content, to that distribution system and a formerly blunt marketing instrument becomes a far more directed one sending specific messages to distinct customer subsegments across all addressable channels.

That distribution system is often a platform itself that lives in the cloud. Other “point” solutions (marketing technology solutions for a specific task) can be connected into the CDP as well. Sophisticated businesses have developed a library of APIs to help tie the CDP into the “martech stack”—the marketing technologies that support the function. The best distribution platforms create a feedback loop that sends customer response, engagement, and conversion data back into the CDP. That mechanism allows the CDP to grow and evolve (e.g., by responding to changing business rules or customer propensity scores), refining successful outcomes and eliminating unsuccessful ones. Remember Jane? If she received more than a specified number of touches over a period of a week, the business rules would suppress additional messages to protect her experience and sentiment toward the brand.

Text box 1: Data-activation self-assessment

This self-assessment can help company leaders develop a benchmark for measuring their progress on their data-activation journey.

Data foundation

How comprehensive is your view of the consumer across all your internal data sets, and how close to real time are those data feeds being updated?

Lagging: we do not use any data for personalization.

Basic: data-driven personalization is mostly focused on transaction data and/or anonymous third-party data. Data is manually updated daily or weekly.

Leading: we have a rich view of the consumer across most touch points (e.g., transactions, media, clickstream, servicing/care). Data is actively used for personalization. Data is real time or refreshed multiple times per day.

Decisioning

What types of models are you activating across channels? Who manages your models?

Lagging: we are not using any propensity models to enhance targeting or to trigger personalized experiences.

Basic: we have basic propensity models that are used on a limited basis and not used widely in digital. We have limited or no dedicated data science resources to manage models.

Leading: we have multiple propensity models to predict value creation or destruction for a given customer interaction, and most digital messaging is triggered by these propensity scores. Our models are managed by in-house data science resources. We currently or will soon use machine learning to further fine-tune models.

Design

How often do you test offers and messages?

Lagging: we do limited tests and do not update our offers frequently.

Basic: tests are set up and deployed manually. We analyze performance weekly or monthly and optimize periodically.

Leading: we run triggered A/B and/or multivariate tests daily.

Distribution

How are your marketing technology platforms integrated with your data systems?

Lagging: we have not optimized our martech stack and/or rely solely on the platforms our agency manages on our behalf.

Basic: we manually batch upload data to our martech systems, and we are able to deliver personalized experiences to broad customer segments in some channels. Response and transaction data is batch delivered back into the CDP.

Leading: we have API connections between our customer data platform and our martech systems. All response and transaction data is fed back in a closed loop into our customer data platform.

Implementing the data-activation framework

Not all data-activation efforts are created equal. We recommend using a case-driven approach, maintaining a backlog of tests ranked by opportunity, quantifying the impact of each potential use case, and balancing it with the level of effort required to implement it (see text box 1).

Unlike a wholesale IT transformation, deploying a CDP isn't a replacement of current customer data systems, but rather an operational solution that can piggyback on existing systems. In our experience, many marketers already have a large part of the marketing-technology equation in-house; they're just not using it properly.



The promise of data-activated, one-to-one marketing is not only possible but is now increasingly expected by today's customers. It is now the key to transforming simple customer transactions into enduring relationships.



II. Defining the strategy:

What shoppers really want from personalized marketing

Authored by:

Julien Boudet
Brian Gregg
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What customers want and what businesses think they want are often two different things. Here's what customers are looking for.

Anyone who has gotten an unsolicited and irrelevant offer related to something they've done online knows that creepy feeling that "someone is watching me." This kind of reaction is the third rail of today's drive to personalize interactions with customers.

That's a problem because, when done right, personalization can be a huge boon for retailers and consumers (see article one "The heartbeat of modern marketing – data activation and personalization"). Targeted communications that are relevant and useful can create lasting customer loyalty and drive revenue growth of 10 to 30 percent. The challenge is to personalize in a way that doesn't cross lines and delivers genuine value and relevance. But how do you know?

To better understand what customers really value, we asked 60 shoppers to create mobile diaries of their personalized interactions with various brands over two weeks. With over 2,000 entries in total, we were able to see what kind of personalized communication works for customers and what doesn't.

Here are the five things that customers said they value when it comes to personalized communications:

1) "Give me relevant recommendations I wouldn't have thought of myself."

One of the most popular personalization techniques is to remind shoppers of items they browsed but didn't purchase. Using a common digital-marketing feature called "retargeting," these reminders appear as ads on other websites the shopper visits or are delivered via email. Although an established technique, it is one with great potential for missteps and can easily come off as creepy or annoying if not executed thoughtfully. Shoppers don't want to be constantly reminded of products they've already bought or searched for, especially if the ads appear either too soon, too frequently, or too late in the process.

One shopper found no value to an appreciation email she received after purchasing a puffy jacket. It recommended other similar jackets she might like. "Regarding this product, you only need one. Why send an email for other similar coats?" she asked.

To provide something a customer might be interested in, companies need to use more sophisticated recommendation algorithms to offer complementary products or services instead of just the things the shopper has already browsed or bought (Exhibit 1). This might entail, for instance, suggesting a cocktail dress for someone who has just bought or searched for stiletto heels. Customers who browse at Nordstrom.com often get product recommendations for similar items in different product categories the next time they visit Facebook. Another effective tactic is communicating in a way that people actually talk to each other. The e-commerce clothing retailer Revolve, for instance, nudges shoppers this way: "If you can't stop thinking about it, buy it."

Exhibit 1

Stylized representation of 1 of 60 shoppers' experiences recorded during a 2-week study of personalized interactions with various brands.

Scenario: Product recommendations
SHOPPER: ALLISON M, AGE 28, FROM GEORGIA



"I HAD BEEN SHOPPING ON SHOEDAZZLE FOR A WHILE, AND I HIGHLIGHTED A FEW THINGS I LIKED."

"THEY SENT ME AN EMAIL WITH A PERSONALIZED SHOWROOM OF SHOES! SO EXCITING! AND IT SAVES ME THE HASSLE OF SEARCHING THE ENTIRE SITE."

"IT'S SO MUCH MORE RELAXING AND USER FRIENDLY TO SHOP THIS WAY, AND THEY COORDINATE WITH THE SEASON: THIS MONTH IT'S LOTS OF OPEN-TOED SHOES FOR SUMMER. I ENDED UP BUYING THREE PAIRS OF SHOES!"

Finally, with any retargeting message, it's important to observe who responds and who doesn't, adjust the frequency accordingly, and cap the number of impressions for everyone, especially those who never respond—continuing to retarget these shoppers will only be annoying.

2) "Talk to me when I'm in shopping mode."

When to send a message is just as important as what it says. Figuring that out requires taking a close look at behaviors, patterns, and habits.

A clothing retailer found that shoppers who visited one of their physical stores or the online store were more likely to open and respond to messages that were delivered either later on that same day or exactly a week later. Sending messages at those particular times meant the company was reaching people when they were either still thinking about shopping, or at a time when shopping for clothes made the most sense for their particular schedule. Previous order data can provide useful cues about activities such as ordering a gift for someone's birthday or anniversary (Exhibit 2).

Getting the timing wrong virtually eliminates the chance for a purchase while potentially annoying the customer. For example, an Internet service provider figured out that a consumer had moved. But the company waited too long to reach out. "It's now been a month since I moved, so obviously I already have my Internet service hooked up," the customer said.

Exhibit 2

Scenario: Replenishment
SHOPPER: CHASE C. AGE 25, FROM FLORIDA

Panel 1: A man in a blue shirt and sunglasses stands next to a blue delivery van, looking at his phone. A speech bubble above him says: "PRO FLOWERS SENT ME A PERSONALIZED EMAIL THAT SAID, 'HEY, CHASE, DID YOU WANT TO ORDER THOSE FLOWERS AGAIN FOR YOUR ANNIVERSARY WITH CLAIRE?'"

Panel 2: The man is on a phone call, looking thoughtful. A speech bubble above him says: "GREAT REMINDER! NOT BECAUSE I WOULD HAVE FORGOTTEN THE EVENT, BUT I MIGHT'VE GONE SOMEWHERE ELSE AND IT WOULD'VE TAKEN MORE TIME."

Panel 3: The man is on a beach, looking at his phone. A speech bubble above him says: "THAT EMAIL WAS LIKE A QUICK KIND OF REORDER BUTTON ALMOST. SO JUST SUPER CONVENIENT, YOU KNOW, IT CAUSED ME TO GO RIGHT BACK TO THE SITE AND IT'S DONE!"

3) "Remind me of things I want to know but might not be keeping track of."

A highly effective way to become relevant to shoppers is through tracking specific events and circumstances they are likely to want to know about (Exhibit 3). This might take the form of a reminder when someone may be running out of an item purchased earlier, when a desired item is back in stock or on sale, or when a new style is launched for a product or category the shopper has repeatedly bought.

Retailers, however, should be careful to provide shoppers with a trigger for the targeted message. One shopper told us she received an Instagram ad for cat-themed socks, which she had purchased from the same retailer a year earlier. The shopper knew the retailer was trying to get her to repurchase, but there was no attempt to connect with her beyond the appearance of the ad.

Exhibit 3



4) "Know me no matter where I interact with you."

Consumers expect retailers to connect digital messages with their offline experiences. For many organizations, this is particularly challenging because it requires collaboration between disparate areas of the organization, such as store operations, event managers, PR, digital marketing, and analytics. Yet if done effectively, communications that seamlessly straddle both online and offline experiences—and provide real value—can make a customer feel a retailer really knows them.

When cross-channel communication involves using information that customers have not actively provided, retailers should try to supply information that consumers will find truly valuable (Exhibit 4). Starbucks, which uses location information from customers' mobile phones, asks people who are about to place an order at a store that's an hour away from their current location if they really want to place their order now, since the order will be ready (and getting cold) well before they arrive at the store. Most customers do not object to such location tracking because it offers them information they are likely to find helpful.

5) "Share the value in a way that's meaningful to me."

Loyalty programs and direct-purchase information can tell retailers what types of products an individual customer buys, how often he or she buys them, when they buy, and what product categories they never purchase. Many companies, however, fail to take full advantage of this information to personalize their discounts and communications to their loyal customers. Customer offers are an important way to build customer loyalty and prevent churn. Personalizing them (and often gamifying the experience) is a highly effective way to not only inspire purchases but also encourage new buying behaviors (Exhibit 5).

Exhibit 4

Scenario: Personalized Discount
SHOPPER: MAGGIE P, AGE 38, FROM CHICAGO



"LAST WEEK I RAN MY FIRST 10K! TODAY I GOT AN EMAIL FROM NIKE – WHO GOT MY EMAIL FROM THE RACE ORGANIZERS. THEY CONGRATULATED ME ON MY RACE."

"THEN THEY SAID, 'IF YOU'RE IN THE MARKET FOR NEW SHOES, THESE ARE ON SALE.' IT FELT VERY SPECIFIC TO MY NEEDS: ALL WOMEN'S RUNNING SHOES AND MOST WERE MEDIUM-DISTANCE."

"I ENDED UP BUYING A PAIR OF SHOES FOR MY NEXT RACE. THE WHOLE THING WAS REALLY EASY AND FAST!"

Starbucks' "bonus star challenge" is one such example. The company selects three particular items for loyalty customers to buy within a given week in order to qualify for bonus points that equal a free drink. These items are carefully chosen for each individual customer: two products they purchase frequently and one that leads them into a new, high-value category. If a customer, for instance, frequently purchases breakfast items, their discovery product might be a lunch item. If they tend toward healthier selections, the new item might be a salad.

What to do to ensure you're not being creepy

Any successful personalization effort hinges on the creation of messages and experiences offering a high degree of value to the customer. But how do you determine what's valuable? To help answer this, we use a simple formula:

Exhibit 5

Scenario: Loyalty (almost at the next reward!)
SHOPPER: HAYLEY B, AGE 31, FROM ILLINOIS



"LAST WEEK, I GOT AN EMAIL ABOUT STARBUCKS' 'BONUS STAR CHALLENGE': IF YOU BUY 3 ITEMS IN A WEEK, YOU GET A BONUS 150 STARS – WHICH IS A FREE DRINK OR ITEM IN THE STORE."

"THE DAY BEFORE THE CHALLENGE ENDED, WHEN I WAS NEAR MY LOCAL STARBUCKS, I GOT AN ALERT ON MY PHONE FROM THE APP. IT SAID I ONLY NEEDED ONE MORE ITEM TO GET THE BONUS."

"SINCE I HAD A FEW EXTRA MINUTES, I SWUNG BY AND GOT A LATTE – AND GOT MY BONUS! I HADN'T BEEN THINKING ABOUT HOW I WAS DOING IN THE BONUS CHALLENGE, SO HAVING THE NOTIFICATION POP UP WAS REALLY HELPFUL – AND FUN!"

Personalization value equation

$$\text{Value}^* = \left[\frac{\text{Relevance + timeliness}}{\text{Loss of privacy}} \right] \text{Trust}$$

* To the customer

This formula shouldn't imply an exact science when it comes to personalization. But it does highlight the key issues that executives need to address.

Customers see value as a function of how relevant and timely a message is in relation to how much it "costs," meaning how much personal information has to be shared and how much personal effort it takes to get it. Importantly, trust in the brand will boost overall value, though that can grow or recede over time, depending on the customer's satisfaction with various interactions with the brand.

In navigating this value equation, we have found addressing the following questions helpful:

Are you infusing empathy into your customer analytics and communications design?

To truly build empathy for customers, companies must understand their diverse attitudes, shopping occasions, and need states and build them into an attitudinal segmentation. Such attitudinal segmentation then needs to be layered onto the customer database in order for companies to be able to act on it to deliver on relevant and personalized messaging. This is a step many marketers miss.

Additionally, companies should be crafting their customer analytics and communications based on the customer's journey (the set of interactions a customer has with a brand to accomplish a task). We've found that focusing on the satisfaction customers have with their journeys overall drives far more growth than customer satisfaction with individual touch points.

Are you listening carefully for feedback on customer acceptance?

Leaders in personalization are constantly testing and learning to improve their communication and engagement with customers and to identify potential issues early. They do this by digging into both upstream (likes, opens, clicks) and downstream (conversions, unsubscribes, ROI) engagement metrics. They use this information to get a better understanding of the value of the customer, for instance, how much the customer will spend relative to the cost of moving them from less engaged to more engaged.

On the flip side, they can also evaluate the economic impact that negative activity, such as unsubscribes and app notification blocks, has on a customer's lifetime value. This allows them to more accurately appraise campaigns. For example, if one particular communication

brings in twice the revenue but also elicits twice the unsubscribe rate as another communication, they will be able to determine which one is more valuable.

While data and advanced analytics play a crucial role in understanding shopper behavior (see “Marketing’s Holy Grail: Digital Personalization @ Scale” on McKinsey.com), qualitative listening tools are also critical. Regular engagement with an ongoing shopper panel, for example, and ethnographic research and observation can offer valuable, in-depth attitudinal feedback on the impact of personalized communications. Close monitoring of social media helps with the quick identification and resolution of potential problem areas.



There’s no question that doing effective personalized marketing on a large scale is a sizable challenge. Companies that deliver customers timely, relevant, and truly personal messages, however, can build lasting bonds that drive growth.



III. Gearing up operations: Making your marketing organization agile for Personalization @ Scale— a step-by-step guide

Authored by:

Jason Heller
Steven Spittaels
Mathias Kullmann
Boris Toma

Everyone wants to be “agile” these days in order to be more personalized. Here’s how successful companies put together the teams and the capabilities to actually make it happen on a large scale.

An international bank recently decided it wanted to see how customers would respond to a new email offer. They pulled together a mailing list, cleaned it up, iterated on copy and design, and checked with legal several times to get the needed approvals. Eight weeks later, they were ready to go.

In a world where people decide whether to abandon a web page after three seconds and Quicken Loans gives an answer to online mortgage applicants in less than ten minutes, eight weeks for an email test pushes a company to the boundaries of irrelevance. For many large incumbents, however, such a glacial pace is the norm.

We've all heard how digital technology allows marketers to engage in innovative new ways to meet customers' needs especially through personalized content, messages, offers far more effectively. But taking advantage of the new possibilities enabled by digital requires incumbents' marketing organizations to become much nimbler and have a bias for action. In other words, they have to become agile.

Agile, in the marketing context, means using data and analytics to continuously source promising opportunities or solutions to problems in real time, deploying tests quickly, evaluating the results, and rapidly iterating. This is the essence of personalized marketing. A high-functioning agile marketing organization can run hundreds of campaigns simultaneously and multiple new ideas every week. (For more on what agile is, see also "Want to become agile? Learn from your IT team.")

The truth is, many marketing organizations think they're working in an agile way because they've adopted some agility principles, such as test and learn or reliance on cross-functional teams. But when you look below the surface, you quickly find they're only partly agile, and they therefore only reap partial benefits. For example, marketing often doesn't have the support of the legal department, IT, or finance, so approvals, back-end dependencies, or spend allocations are slow. Or their agency and technology partners aren't aligned on the need for speed and can't move quickly enough. Simply put: if you're not agile all the way, then you're not agile.

For companies competing in this era of disruption, this is a problem. In many companies, revenues in the segment offerings and product lines that use agile techniques have grown by as much as a factor of four. And even the most digitally savvy marketing organizations, where one typically sees limited room for improvement, have experienced revenue uplift of 20 to 40 percent. Agile also increases speed: marketing organizations that formerly took multiple weeks or even months to get a good idea translated into an offer fielded to customers find that after they adopt agile marketing practices, they can do it in less than two weeks.

Making your marketing organization agile isn't a simple matter, but we have found a practical and effective way to get there.

Putting the team together

There are a number of prerequisites for agile marketing to work. A marketing organization must have a clear sense of what it wants to accomplish with its agile initiative (e.g., which customer segments it wants to acquire or which customer decision journeys it wants to improve) and have sufficient data, analytics, and the right kind of marketing technology infrastructure in place. This technology component helps marketers to be personal in their approaches: capture, aggregate, and manage data from disparate systems; make decisions based on advanced propensity and next-best-action models; automate the delivery of campaigns and messages across channels; and feed customer tracking and message performance back into the system.

(It should be noted that the tech tools don't have to be perfect. In fact, it can be a trap to focus on them too much. Most companies actually have a surfeit of tools.)

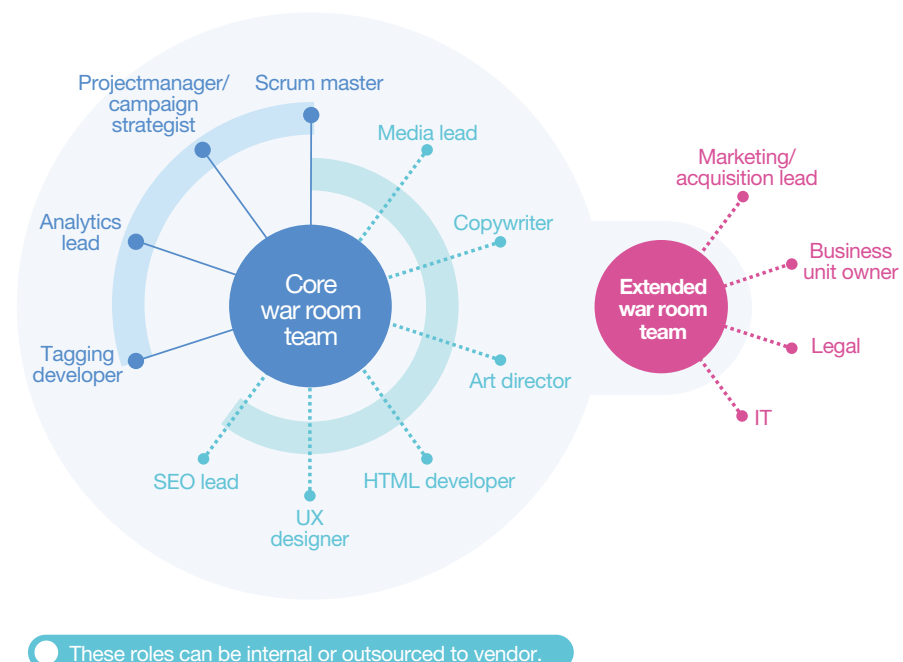
Another crucial prerequisite is sponsorship and stewardship of the shift to agile by senior marketing leaders. They provide key resources and crucial support when the new ways of working encounter inevitable resistance.

While these elements are crucial for success, the most important item is the people—bringing together a small team of talented people who can work together at speed. They should possess skills across multiple functions (both internal and external), be released from their business as usual (BAU) day jobs to work together full time, and be colocated in a “war room” (Exhibit 1). The mission of the war room team, as these groups are sometimes called (though companies also refer to them by other names, such as “pod” or “tribe”), is to execute a series of quick-turn-around experiments designed to create real bottom-line impact.

The exact composition of the war room team depends on what tasks it plans to undertake (Exhibit 1). Tests that involve a lot of complex personalization will need a team weighted more heavily toward analytics. By contrast, if the agile initiative expects to run large numbers of smaller conversion-rate optimization tests, it would make more sense to load up on user experience designers and project management talent.

Exhibit 1

The makeup of the agile war room team



Whatever the composition of the team, the war room needs to have clear lines of communication with other groups throughout the organization and speedy processes to access them. For example, buying marketing assets often requires procurement review and legal approval. So the war room team must have access to key people in legal and procurement to negotiate any changes. At one bank trying to establish a war room, there was significant

resistance to providing representatives from legal and the controller's office because of competing priorities. But marketing leadership knew their agile approach wouldn't work without them, so it pushed with all relevant leaders to make it happen. Those people need to be identified ahead of time, and service-level agreements put in place that outline how quickly they will respond. Similar models of interaction may be needed with IT, compliance/risk, and finance groups.

The team itself needs to be small enough for everyone to remain clearly accountable to one another—8 to 12 is the maximum size. Jeff Bezos famously referred to “two-pizza teams,” i.e., teams no bigger than can be fed by two pizzas.

A “scrum master,” ideally with experience in agile and often working with an assistant, leads the team. The scrum master sets priorities, defines hypotheses, manages the backlog, identifies necessary resources, and manages “sprints” (one- to two-week cycles of work).

Building out an agile war room will require working in new ways with external agencies, adding depth in key resource areas, such as media buying, creativity, UX design, or analytics, as needed. Working at the pace of agile may challenge an agency's established work flows, but we have found that once they get into a rhythm, the performance boost justifies the change in procedures.

The marketing organization's senior leaders will understandably need to oversee the activities of the war room team. But they ought to interact with the team in a lightweight manner—once every three or four weeks, for example. Automated dashboards with key metrics can help provide leadership with transparency.

Reading about what war room teams do, one might think agile practices apply only to direct-response marketing activities. But agile methods can improve the performance of product development, marketing mix, and brand marketing as well, by providing more frequent feedback, allowing for testing and iterating of ideas and communications in the market, and accelerating the process for delivering impact from brand efforts.

Step-by-step overview of what an agile team does

Here's how an agile team works:

Aligns with leadership and sets team expectations

Once the war room team is assembled, it works with the leaders of the marketing organization and other key stakeholders to align everyone on the initiative's goals. After that, the war room team has a kickoff meeting to establish clearly that former ground rules and norms no longer apply and to articulate the agile culture and expectations: deep and continuous collaboration; speed; avoidance of BAU; embracing the unexpected; striving for simplicity; data trumping opinions; accountability—and above all, putting the customer at the center of all decisions.

Analyzes the data to identify the opportunities

By its second day, the team ought to be up and running and doing real work. That begins with developing insights based on targeted analytics. The insights should aim to identify

anomalies, pain points, issues, or opportunities in the decision journeys of key customer or prospect segments. Each morning there is a daily stand-up in which each team member gives a quick report on what they accomplished the day before and what they plan to do today. This is a powerful practice for imposing accountability, since everyone makes a daily promise to their peers and must report on it the very next day.

Designs and prioritizes tests

For each opportunity or issue identified, the team develops both ideas about how to improve the experience and ways to test those ideas. For each hypothesis, the team designs a testing method and defines key performance indicators (KPIs). Once a list of potential tests has been generated, it is prioritized based on two criteria: potential business impact and ease of implementation. Prioritized ideas are bumped to the top of the queue to be tested immediately.

Runs tests

The team runs tests in one- to two-week “sprints” to validate whether the proposed approaches work—for example, does changing a call to action or an offer for a particular segment result in more customers completing a bank’s online loan application process? The team needs to operate efficiently—few meetings, and those are short and to the point—to manage an effective level of throughput, with a streamlined production and approval process. One team at a European bank ran a series of systematic weekly media tests across all categories and reallocated spending based on the findings on an ongoing basis. This effort helped lead to more than a tenfold increase in conversion rates.

Iterates the idea based on results

The team must have effective and flawless tracking mechanisms in place to quickly report on the performance of each test. The scrum master leads review sessions to go over test findings and decide how to scale up the tests that yield promising results, adapt to feedback, and kill off those that aren’t working—all within a compressed timeframe.

At the end of each sprint, the war room team debriefs to incorporate lessons learned and communicate results to key stakeholders. The scrum master resets priorities based on the results from the tests in the prior sprint and continues to work down the backlog of opportunities for the next sprint.

Scales up across the organization

Getting a single war room team up and running is good, but the ultimate goal is to have the entire marketing organization operate in an agile way. Doing this requires a willingness to invest the time and resources to make agile stick.

The first step in scaling up is building credibility. As the war room team works its way through tests, the results of agile practices will begin to propagate across the marketing organization. For each test that generates promising results, for example, the team can forecast the impact on a large scale and provide a brief to the marketing organization, with guidelines for establishing a series of business rules to use for activities and initiatives based on operationalizing the findings more broadly. With credibility, it’s easier to add more agile teams; one global retail company we know has scaled up its operations to include thirteen war rooms operating in parallel.

As companies add new war rooms, it's important that each one be tightly focused on a specific goal, product, or service, based on the business goals of the company. Some companies, for example, have one team focused on customer acquisition and another on cross-/upselling to existing customers. Others have teams dedicated to different products, customer segments, or junctures in the customer journey.

We recommend adding agile teams one at a time and not adding new ones until the latest is operating effectively. As the number of teams grows and their capabilities increase, they can begin to expand their focus to assume responsibility for establishing business rules and executing against them. That systematic approach not only gives each new team intensive support as it comes online; it also allows business leaders to develop the kind of metrics dashboard it can use to track and manage performance for each team. This “control tower” helps to align resources as well, share best practices, and help break through bureaucratic issues. By scaling up in this way, the control-tower team has the opportunity to bring along all the supporting capabilities for marketing, everything from customer management to analytics to procurement, so that they operate at higher speeds as well.

A North American retailer established an agile marketing control tower and several war rooms to scale up personalization across all key categories. The control tower ensured that the hundreds of tests run each year did not conflict and that the right technology was in place to collect appropriate data from the addressable audiences and to deliver a personalized experience across categories and channels. The war rooms each focused on systematically testing different media attributes and optimizing conversion on the company website across categories. After eighteen months, the retailer's marketing campaign throughput had grown fourfold, its customer satisfaction had increased by 30 percent, and digital sales had doubled.

As promising test findings become business rules, and as the number of war rooms grows, insights generated by agile practices will shape an ever-larger percentage of the organization's marketing activities.



Marketing executives contemplating change often speak of the challenge associated with overcoming BAU. By aggressively adopting agile practices, marketers can transform their organizations into fast-moving teams that continually drive growth for the business.



IV. No customer left behind:

How to put personalization at the center of your marketing to drive growth

Authored by:

Julien Boudet
Brian Gregg
Kai Vollhardt
Kathryn Rathje

Personalization is ready for its close-up moment. Technology and customer expectations are converging to propel personalization—the process of using data to customize the timing, content, and design of every experience in real time—from a promise to a reality.

Personalization @ Scale can drive between 5 and 15 percent revenue growth for companies in the retail, travel, entertainment, telecom, and financial services sectors. One global retailer, for instance, saw sales from its brand-owned stores triple in just a year thanks to a successful personalization initiative.

For this reason, more than 90 percent of retailers say personalization is a top priority. But only 15 percent of these companies believe they are actually doing a good job at it.¹ Consumers who have been stalked by irrelevant ads or bombarded with outdated offers would agree.

While many companies have scored a few modest successes with their personalization experiments and initiatives, few know how to do this on a large and consistent scale across all channels. Most companies focus exclusively on data, analytics, and agile, while investing very little in the necessary organizational and operational rewiring of how people work. Personalization is still treated like a nice add-on to a company’s existing marketing function.

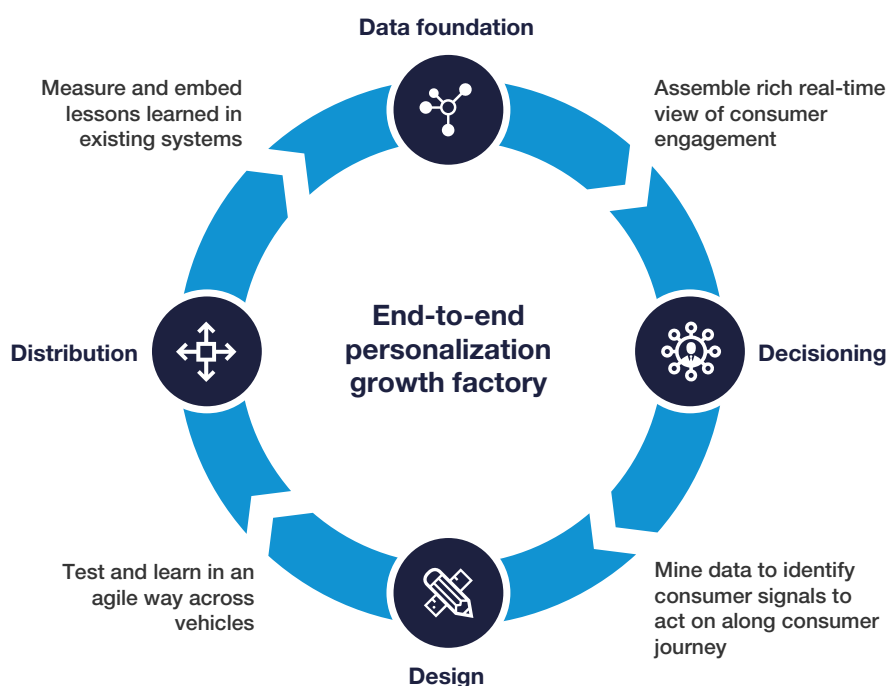
We believe, however, that driving substantial and sustainable growth through personalization requires embedding it into the marketing operating model. To do this, companies must move beyond the initial excitement of “one-to-one marketing” and into the low-thrill but crucially important realm of organizational change.

What is the personalization operating model?

An operating model driven by personalization requires four elements to work effectively together (Exhibit 1):

Exhibit 1

Building deeper 1-to-1 relationships with consumers at scale



McKinsey&Company

1. Data foundation: building a rich, 360-degree view of customers in real-time
2. Decisioning: mining data to identify and act on signals along the consumer journey
3. Design: crafting the right offers, messages, and experiences at speed
4. Distribution: delivering and measuring these experiences across platforms, and feeding new insights into the data foundation.

¹ “Retail Gets Personal: Accelerating the Journey to Personalization”, Periscope by McKinsey, 2017.

The real source of value in this operating model is how each element interacts with the other. Insights from the data allow the business to know how to react to customer signals, and design offers for each of them. The more this operating model works, the more it improves by feeding evermore data into the model and refining its activities.

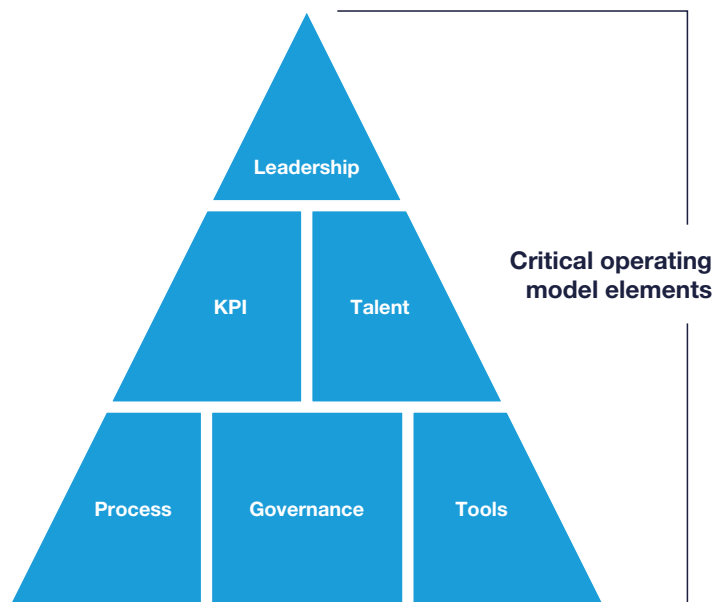
While each of these individual elements have been well-chronicled, none is particularly effective when working in isolation. Only by developing and deploying an integrated personalization operating model that enables a faster and more effective way of working can businesses hope to capture their full growth potential.

How to develop your personalization operating model

Building a personalization operating model requires business leaders invest in five foundational elements: processes, tools and tech, governance, KPIs, and talent (Exhibit 2). Implementing and embedding these elements to support effective personalization is complex, requiring dedicated commitment, focus, and problem solving. We want to isolate a few of the most common pitfalls that cause companies to falter, and solutions for how to address them.

Exhibit 2

Critical unlocks to embedding personalization operating model



McKinsey&Company

1) Process: Commit fully

What can go wrong: not long ago, the CEO and CMO of a travel company decided to make a big push into personalization. Despite selecting a strong group of seven people and working in an agile way, there was little to show after six weeks. The problem was that the selected employees weren't working in the same place and after attending the daily stand-ups, were going back to their normal jobs.

Solution: since an agile working team is the core component of a personalization program, it's essential to get it right. At the most basic level, this means assigning a small group of carefully selected people—including a campaign manager and staff from creative, digital

media, analytics, operations, and IT—to be on each agile team full-time. Personalization is going to fail if it is a side job. Unified around a shared goal, the team also needs the authority and stature to succeed. Process improvements should include:

- Giving decision making rights to the team and empowering them with critical resources (e.g., a promotional budget)
- Staffing the team of 8 to 15 with “doers” not managers (no more than can be fed by two pizzas)
- Co-locating team members so they can work side by side all day
- Appointing a team leader who helps everyone work toward a shared vision and goals
- Developing new SLAs with internal and external departments, partners, and vendors (e.g., legal, digital marketing agency) to make sure they can match the timelines of the agile team.

The travel company co-located its personalization team members and removed many of their other responsibilities. In addition, it gave the team immediate access to creative design resources from the marketing department (through new SLAs), speeding up the creation and testing of new marketing campaigns. As a result, the number of pilots launched in a given month more than tripled.

2) Governance: Be clear about boundaries and decision rights

What can go wrong: a global telecom provider recently put a personalization team in an agile “war room” only to find out that business-as-usual channel functions, such as e-commerce, were launching conflicting tests. Without clear boundaries, decision rights, and responsibilities, creating personalization teams can result in unexpected clashes with other parts of the business.

Solution: a control tower function is needed to manage the inevitable collisions that occur between multiple agile teams and BAU groups. This new function is run by a manager and a small staff of people who have responsibility for tracking, anticipating and solving problems, and maintaining a centralized testing pipeline with common prioritization logic. They are also responsible for navigating and facilitating the very real organizational and political conflicts that arise from having multiple cross-functional teams within a legacy organization.

In practice that means developing agreements with legacy groups on testing and release protocols, meeting regularly with affected functions to maintain good relations, and being transparent through regular communications to breed trust.

3) Tools and tech: Give people new shoes so they can run faster

What can go wrong: a consumer goods company started its personalization transformation the right way. Management had aligned on the strategy, defined the consumer priorities it wanted to execute on, and committed the right set of doers and leaders to drive the change. The first pilots launched rapidly, but not long after, the scaling up of successful pilots stalled. The IT department had promised a new set of tools that would enable a perfect 360-degree view of the consumer, the creation of campaigns across channels with few easy clicks, and a fully automated decisioning engine to reduce manual list pull work and targeting frictions. When this didn't happen on time, the agile team was forced to measure campaign performance manually, which generated results often not until 7 to 12 days after a campaign was completed.

Solution: numerous off-the-shelf tools exist to help the process of personalization run with the numerical precision of a finance department. “We now see marketers use experience templates created by their agile development teams and UX designers to shorten the loop between idea, launch, and measurement from months to days, and even sometimes hours,” says Liad Agmon, CEO of Dynamic Yield, a leading-edge decisioning engine platform that delivers cross-channel personalization.

Automating list pulls, enabling versioning with dynamic templates, and creating easily searchable creative asset libraries can reduce daily frictions while real-time measurement capabilities accelerate testing and learning. At the core of the personalization tech is a centralized decisioning engine, or “brain,” that is capable of interacting with each outlying system to consistently make real-time decisions based on consumer signals. This technology can coordinate content offers across audiences and channels in real time and help teams adjust them based on feedback.

In addition, companies are investing in customer data platforms to unlock the data trapped in multiple silos. These investments have the additional benefit of freeing up teams from low-value activities so they can focus more on developing great customer experiences.

4) Key performance indicators: Focus on both the small and big outcomes

What can go wrong: the personalization team at a national retailer quickly developed a set of personalized triggers targeting customers during key moments when it seemed there was a strong intent to make a purchase. The campaign was successful and drove incremental sales. But subsequent campaigns drove limited value because the team either couldn’t agree on what to focus on or tried overly-broad targets that led to multiple conflicting initiatives.

Solution: personalization teams need a single, shared goal focused on solving a specific consumer challenge, such as the acquisition of an underrepresented consumer segment like Millennials, a boost in cross-selling, or improved engagement with new customers in their first 30 days. Without this kind of strategic, consumer-centric KPI teams will fail because the people in them don’t have a shared purpose and will end up focusing on too many customer segments and moments in the journey.

At the same time, personalization teams can’t focus solely on the desired end result. The best teams identify the near-term drivers that are going to help them get there, and assign bounties for employees as incentives to encourage user behavior (the dollar amount of the bounties varies greatly based on sector and goals of the program). These could be the capture of a customer’s e-mail address, a download of the brand’s app, log-ins to the site or mobile app, or a sign-up for the loyalty program. A multibrand, multicategory retailer, for instance, used advanced machine learning techniques to identify all the drivers of value and then assigned a dollar amount to each of them, which counted toward the team’s goal and each member’s personal compensation.

5) Talent: Foster long-term talent development and find all-around “athletes”

What can go wrong: for nearly a year, high-performing doers driving one company’s personalization agenda had been part of a dynamic and agile start-up environment. But there was little opportunity for advancement within the mostly hierarchy-free structure of the team, and no one was eager to simply return to his or her old job. The result was a rapid

decrease in motivation over time, leading in some cases to a departure to work for other companies. Figuring out what to do with valuable employees is a challenge few companies spend enough time trying to solve.

Solution: personalization teams should become the means to a promotion for highly-skilled employees or a way for your high-potentials to build meaningful skills. In this way, war rooms act as minibusiness schools, enabling the acquisition of new skills, fluency in an agile way of working, and the understanding of how to act in a customer-centric way. When it's time to move on to new challenges, team members should move up into a different team with a bigger mandate or be promoted into a leadership position within marketing or another department, such as strategy or merchandising. Effective career path management should become the priority of the Chief Human Resources Officer, with a focus on creating competitive compensation programs.

Creating attractive career paths and leadership opportunities also helps in recruiting the different types of all-around “athletes” needed to staff agile personalization teams. Traditionally in marketing, there is one person, for instance, who builds logic into the e-mail system for campaigns, someone else who pulls the recipient lists, and another who does the quality assurance. On an agile personalization team, this is all the domain of one person.

6) Leadership: Make personalization a long-term reality

What can go wrong: after a few months of engaging with the energy and excitement of a personalization transformation, one company leader started to step back from the day-to-day in favor of focusing on the next big thing. He would still stay involved but mainly to tune into periodic updates about how the war room is progressing against its throughput and impact targets. Without active and ongoing leadership, a personalization program is likely to falter and suffer a slow death.

Solution: to ensure success, senior leaders need to make personalization not just a company priority but a personal one. They must demonstrate visible support and enthusiasm for personalization day in and day out for the many months it takes to really complete the transformation by:

- Maintaining a presence in the war room: having leaders show up unannounced to daily stand-up meetings powerfully reinforces the message that this is the place to make things happen.
- Sharing ownership: each leader in the steering committee (regional heads, the CMO, the COO, etc.) should pick one or more personalization initiatives to champion each month. This means asking the team leader about it in one-on-one meetings, following up with various people within the organization to highlight its importance, asking about progress in broader group stand-ups, and publicly celebrating some of the early wins, even before the initiative is fully scaled.
- Empowering your teams: although steering committees are still needed to oversee the performance and impact of personalization teams and to recommend course corrections, most decisions need to be ceded to the teams. The job of senior leaders is to empower teams by holding them accountable to outcomes and removing the obstacles and road-blocks that prevent them from achieving these outcomes.

To make sure management stays engaged beyond a few months, companies can embed goals (such as test throughput, “metabolic rate,” incremental sales proven, customer retention), into a leader’s performance review.



The road to Personalization @ Scale is bumpy and senior leaders need to be in the car to help navigate the unexpected twists and turns, instead of waiting at the end of the road for the car to show up, with your company’s future growth locked in the trunk.

Section 3: What practitioners think about Personalization @ Scale

Interview:

What's happening with personalization on the front lines



Liad Agmon
CEO Dynamic Yield



Kelsey Robinson
Partner, San Francisco

Liad Agmon is a serial entrepreneur as a start-up founder and as a Fortune 500 executive. He founded information-security vendor Onigma (later acquired by McAfee) and social-search company Delver (acquired by Sears Holdings). Liad served as an entrepreneur-in-residence at Bessemer Venture Partners and taught in the entrepreneurship MBA program at Tel Aviv University and in the Zell Program of IDC Herzliya.

Kelsey Robinson is a Partner in McKinsey's San Francisco office and a leader of McKinsey's North American Personalization Practice. Kelsey serves clients from retail, high tech, and media.

Why is personalization such a hot topic these days?

Liad:

We live in the age of individual expression, and we expect, as consumers, to be addressed as individuals. Why should companies send us mass messages when they can tailor them

” *... Organizations have shifted their focus to maximizing the potential of existing customers, and personalization is one of the most cost-effective and ROI-driving strategies.”*

to actual consumer behavior? Recent advances in technology have made it possible for companies to move their communications approach away from single standardized messages toward an engagement that delivers the content most relevant to each consumer in whatever context they find themselves at any given time.

Research has shown that individualized communication increases customer satisfaction, engagement, and—eventually—lifetime value. Hence, CMOs across the globe are trying to master personalization at scale. Under increasing pressure to reduce acquisition costs, they've shifted their focus to maximizing the potential of existing customers, and for me, personalization is one of the most cost-effective and ROI-driving strategies to do that.

Kelsey:

We've asked consumers what's most important in how companies interact with them, and two answers come out on top. One is convenience. The other is personalization. So consumers are actually asking for it. And that has big implications for how companies communicate. In the retail sector as an example, this might mean asking, "What products do I show consumers?" But basically, at every point of interaction along a customer's journey, it's about relevancy for the individual vs. mass marketing or messaging to all. And now, unlike past eras in marketing, we have technology and data to fuel this personalized approach.

How does Personalization @ Scale affect the bottom line?

Liad:

”It's not atypical to see a 15-percent increase in revenue per user by deploying a set of proven personalization tactics.”

The real impact of personalization is an increase in revenue and in customer lifetime value, which makes it possible for companies to invest their resources better and farther. It's not atypical to see a 15-percent increase in revenue per user by deploying a set of personalization tactics that work well. However, a lot of the impact is dependent on the rigor with which companies implement personalization and make it part of their DNA.

Kelsey:

Personalization is a key driver of top-line growth. It is a core driver of cultivating better relationships with customers and driving both incremental revenue from those customers today and incremental loyalty from them over time as well. There are also moments and occasions where personalization can assist on the cost side as well. If a service rep has a deep understanding of a customer's preferences, then that employee should be able to spend less time resolving the customer's issue more quickly, time that can be used to identify and propose the right up- or cross-sell opportunity.

What are the key considerations or requirements in launching Personalization @ Scale?

Kelsey:

It takes two things to put a strong personalization operating model in place. One is commitment. The most successful companies have leaders who make personalization a really high priority and encourage their teams to go ahead and try, and fail, and succeed. Getting started is the second major challenge. We have this concept of an agile war room, which is (to simplify) putting a marketer, a technologist, a creative developer, and a data scientist together in one room. They just start to test one or two things. It's great to have a source of inspiration—competitors or adjacent-industry leaders who have already built successful personalization operating models. It's also really important to have at least one or two people who have been in a war room before and can show the rest of the team how it works. They're the ones who are up at the wall asking, "What do we need to do to actually get this out the door?" They role-model how we run stand-up meetings, which begin each day with a focus on what needs to be accomplished. In the early stages of any war room, they are the leaders.

Liad:

I agree with Kelsey on the issue of commitment. Executive buy-in is a must! Personalization requires organizations to make some fundamental changes, and they can't happen without

” *“Companies will also need to get a realistic picture of their organizational capabilities before embarking on a personalization project.”*

support at the top. One approach is to create a “personalization steering committee” to initiate and coordinate customer communication across all channels and consumer touch points. Companies also need to get a realistic picture of their current organizational capabilities before embarking on a personalization project. Can they connect their various data silos into a coherent customer view? Can their IT architectures support personalization? I am always amazed to see how easily it can be done in the end, if it’s done right. One of the biggest urban myths is that you need lengthy and costly preparation to start personalization. Start with customer transaction data, add a few additional data points on customer behavior, and give it a try.

What’s the role of data and analytics in driving better personalization performance?

Kelsey:

Analytics plays a few important roles in personalization. First, it shapes the pilots a company will actually run, and the personalization tactics that will be tried. Say, for example, that you know [from the data you already have] that valuable customers make a second purchase within two weeks. That’s a great analytical insight to use as the starting point for a test to see whether you can get more customers to make a second purchase within two weeks.

Analytics enters the process again, to measure what worked and what didn’t when you actually launch those tests. We always use a test group and a control group to make sure the personalized treatment a customer receives actually drives different behavior and produces more value for the company. When a test doesn’t work, we can still use data and analytics to figure out things like, “Did it work for a subsegment of customers? Who did it work for? Who did it not work for?” That might shape a brand-new test. So analytics becomes a very iterative, continual process in personalization.

What’s your perspective on the future relevance of personalization?

Liad:

I strongly believe that within the next 10 to 15 years, direct-to-consumer companies that don’t have personalization as one of their core marketing activities will go out of business. How many consumer companies today don’t have a website? An email marketing program? An online-traffic acquisition program or a social-media program? I’m not aware of one. Ten or 15 years ago, the world looked different. Although personalization is to some extent still in its infancy, market dynamics are accelerating its adoption. Companies will soon be compelled to master all aspects of personalization and the capabilities to deliver it at scale.

What’s the next frontier of Personalization @ Scale?

Liad:

We have seen a strong increase in the ability to store consumer data at lower cost. Over time, companies’ ability to digest more data will let them deliver increasingly personal, timely, and relevant messages. We also anticipate better omnichannel orchestration and personalization embedded with IoT strategies and in the offline world, such as in-store kiosks, call centers, voice-enabled commerce, and more. A few weeks ago, I saw a successful integration of the offline and online worlds by a retailer. Based on loyalty card data, the company

was able to use offline retail shopping behavior to enhance personalized online recommendations on its website and in targeted email campaigns.

Kelsey:

There are two big challenges on the next frontier of personalization: (1) impact and measurement across channels and (2) continual navigation of a complex technology ecosystem. On the former, personalization started as a digital/e-commerce play. Since the early days of “if you like this, you’ll like that,” many companies have been focused on the data that they can most easily access and activate in channels that give them immediate feedback—these end up being online channels like email or site or paid search. But what this approach has missed is an omnichannel view, including offline behavior. The next frontier is both activating and measuring the impact of personalization on stores and offline experiences.

Regarding the complexity of the tech ecosystem, I am always amazed by how every year there is a new visual of the over 7,000 martech players that are working to solve a piece of the personalization puzzle. While navigating the technology landscape and getting a “good enough” solution across data storage, integration, activation, and feedback is key it’s not getting any easier. We’re seeing a mixture of buy and build decisions from companies and I think over the next few years we will have a real separation between laggards who are still trying to play tech catch-up and leaders who have brought tech and marketing together to integrate and realize a true use-case-backed technology stack that enables the best of modern day personalization.

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Dynamic Yield’s personalization technology stack helps marketers increase revenue by automatically personalizing each customer interaction across the web, mobile web, mobile apps, and email. The company’s advanced customer segmentation engine uses machine learning to build personalization, recommendations, automatic optimization, and real-time messaging. Dynamic Yield personalizes the experiences of more than 600 million users globally. Headquartered in New York, the company has six offices across the world.



Dynamic Yield has a global alliance with Periscope® By McKinsey, a suite of McKinsey’s Marketing and Sales Solutions.

The interview was conducted by Lars Fiedler and Jan Middelhoff.

Authors and contacts

Meet our authors and understand what they like about Personalization @ Scale



“Marketing is about data activation now. While personalization is not a new concept, doing it at scale and sustaining it within an organization is not an easy task. With the right tools and commitment to a new operating model a lot of value can be created very rapidly by acting on the clues consumers are giving you all along their journey”

Julien Boudet is a Partner in the South California office serving clients in the high-tech, retail, and media sectors. Julien leads the North American Personalization @ Scale effort.

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“Every day I am amazed to see what is possible with the right tools. The power of today’s marketing suites is impressive, yet personalization engines make the difference when it comes to Personalization @ Scale”

Lars Fiedler is Senior Solution Leader and Associate Partner in McKinsey’s Hamburg office. He heads all personalization solutions from Periscope and manages the alliance with Dynamic Yield.

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“The fundamental relevance of Personalization @ Scale for many industries paired with the struggle of many marketers to approach the topic is striking—good news: it is not rocket science”

Brian Gregg is a Senior Partner in the San Francisco office serving clients in the high-tech, retail/apparel, and banking sectors. Brian is the leader of the North American Marketing Service Line.

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“More than 20 years of experience in marketing and especially in eCommerce have taught me this: personalization is what really makes a difference in consumer-focused businesses”

Jason Heller is a Partner in McKinsey’s New York office. As global lead of McKinsey’s Digital Marketing Operations practice, Jason works closely with CMOs, CIOs, and CEOs to help transform their use of data, marketing technologies, and analytics.

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“I must admit I have never seen a topic with the potential of changing the whole marketing field as much as personalization can do it—anything can be personalized. That is exciting!”

Mathias Kullmann is a Senior Partner in McKinsey’s Düsseldorf office and serves clients in retail, energy, and logistics. Mathias is the leader of the European Marketing & Sales Service Line.
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“It is simply a lot of fun to Personalize @ Scale: analytically driven agile way of working with instant measurable impact”

Kelsey Robinson is a Partner in McKinsey’s San Francisco office and serves clients from retail, high tech, and media.
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“I like to change things for the better. Personalization does it for our clients and their customers with measurable impact—this is a very enriching experience for me each and every day”

Kai Vollhardt is a Partner in McKinsey’s Munich office and serves energy, insurance, retail, and advanced industries clients. Kai leads the European Personalization @ Scale effort.
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