The Power of Personalization

How does treating customers differently maximize profit?

By Alex Kinnier, Co-Founder & CEO

Abstract

Digitally personalizing brick-and-mortar business is the lifeblood of our model. Our results thus far prove that personalizing experiences for consumers makes businesses more profitable and makes a consumer's dollar go further. Without personalization, brick-and-mortar merchants run the risk of taking steps that cannibalize their own profit, and consumers miss out on the opportunity to have efficient, enjoyable shopping experiences like the ones they've come to expect online.

But how do we know what to personalize? And with whom?

In theory, we can agree that each consumer is unique, and so are the offers that motivate them. So why, in practice, do brick-and-mortar merchants treat every consumer in the same way?

Thought Experiment

Imagine there are three different consumers making purchases at a merchant's store: (1) the "loyal customer," (2) the "never customer," and (3) the "sometimes customer."

The loyal customer purchases everything from the merchant. To keep the loyal customer happy, the merchant provides great service and then many times offers access to a general loyalty program—the same things the merchant does for every other customer, loyal or not. Unfortunately, most loyalty programs cannibalize the merchant's profit by offering promotions on things the loyal customer was going to buy anyway.

The never customer, for whatever reason, does not and will not buy from the merchant. Whether it is because of location, brand bias, or something unrelated, the never customer goes right by the merchant's store. As a result, the merchant does nothing for this customer and is unable to reach out and incentivize future visits.

The sometimes customer is the trickiest of the three. They sporadically come to the store and buy what they need, but they could be buying more. We know this because they make other purchases in this merchant's category, but at a competitor's store. The merchant does not know what makes the sometimes customer buy from them some days and not others, so the merchant con-tinues to provide good service and access to a loyalty program with the hope of encouraging these customers to visit more often. In other words, the merchant treats the sometimes customer the same way they treat the loyal and the never customers, which is the best that they can do with the systems and processes they have today.

Is this an efficient and effective way to do business? Brick-and-mortar merchants are giving unnecessary discounts to loyal customers, failing to reach the never customers, and do not understand what would actually motivate the sometimes customer to buy more, more often.

> **"Brick-and-mortar merchants are giving unnecessary discounts to loyal customers."**

It would be great if each of these three customers would hold up a sign that identified themselves as "loyal," "never," and "sometimes" customers so merchants could treat them accordingly. It would be even better if they held up signs that said how much each was buying, how often, and what would motivate them to buy more. For the sake of argument, imagine that each customer did hold signs identifying themselves. How would a merchant adjust the way they treat each customer?

For customers holding the “loyal” sign, merchants would stop unnec-essarily discounting products, since those customers would buy from the merchant anyway. Instead, the merchant would thank them for their business, do something for them that is above-and-beyond the norm at that store. They would also encourage the customer to buy more or different products than they usually would to profitability increase their basket size and give them move value for their given dollar.

For customers holding the “never” sign, the merchant would want to un-derstand why the customer does not visit the store, and investigate whether there was something they could do to persuade the customer to visit that would also be gross margin positive.

For customers holding the “sometimes” sign, the merchant would want to understand (1) what the customer is purchasing from the store today, and (2) why the customer doesn’t make all their purchases at the store. Answering the first would allow merchants to positively shape the customer’s experience when they do visit the store, and answering the second would help the merchant profitably persuade the customer to buy more, more often.

Real-World Application

Adding a digital layer to brick-and-mortar commerce takes the place of this helpful, but unrealistic, sign-holding. The thought experiment describes—in a simplified way—how Upside’s machine learning differentiates between millions of users at the same time without having them hold up signs. Each consumer is unique, and each consumer is mo-tivated by different things. Understanding each consumer’s motiva-tions, and having the ability to act on this understanding, gives merchants a way to treat each customer how they would like to be treated and im-prove their business’s profitability. Merchants are able to interact with each customer one-on-one in an efficient, enjoyable way for both the merchant and the consumer.

> **“Merchants are able to interact with each customer one-on-one in an efficient, enjoyable way for both the merchant and the consumer.”**

The theoretical basis for this model was established by economist Hal Varian. In his 2005 "Conditioning Prices on Purchase History," Varian explains that knowing what a person has done in the past and what the person is looking for right now—while also having the ability to influence that person in real time—allows us to design a personalized offering that will: (1) maximize a consumer's purchasing power, (2) maximize a merchant's profitability, and (3) maximize societal value. In other words, if it is possible to influence a consumer to-day based on information about their past preferences and present needs, then consumers get more for each dollar spent, merchants make more per-transaction, and society overall is made more efficient. By extension, this means more value is created within our communities, making them healthier and better able to thrive.

Unfortunately, in an effort to attract new customers, merchants who are not personalizing interactions with their customers often cannibalize their own business. That means merchants are unnecessarily discounting or promoting a good or service that a consumer was going to purchase anyway. Unlike most discount prod-ucts and apps that use this model, the Upside platform is a tool that ensures each transaction is measurably beneficial to both the customer and the merchant.

Key Takeaway

Truly effective platforms like Upside are able to personalize wherever possible to the benefit of all involved. It is possible to analyze the data mer-chants already have to better understand what each individual customer needs and how to meet those needs in a profitable way. It gives customers the metaphorical "sign" every merchant wishes customers carried, informing what to personalize, who to personalize with, and how to increase profits. That is why it pays to treat everyone differently.