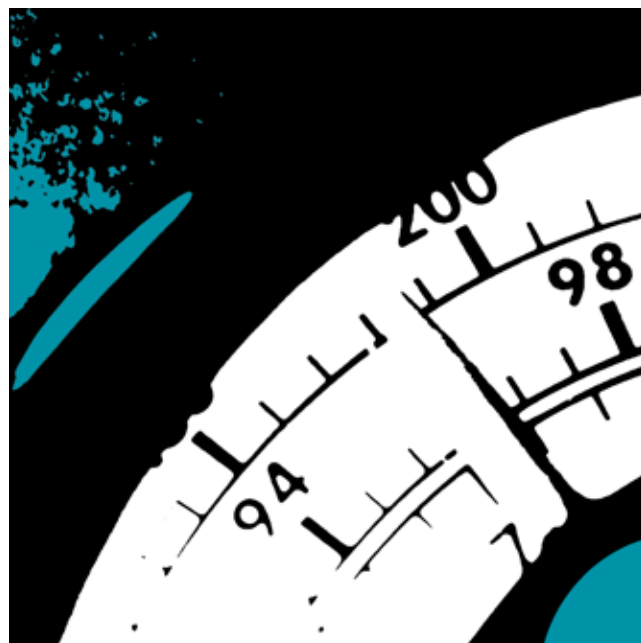


The Insights Factory

From actionable insights to competitive advantage



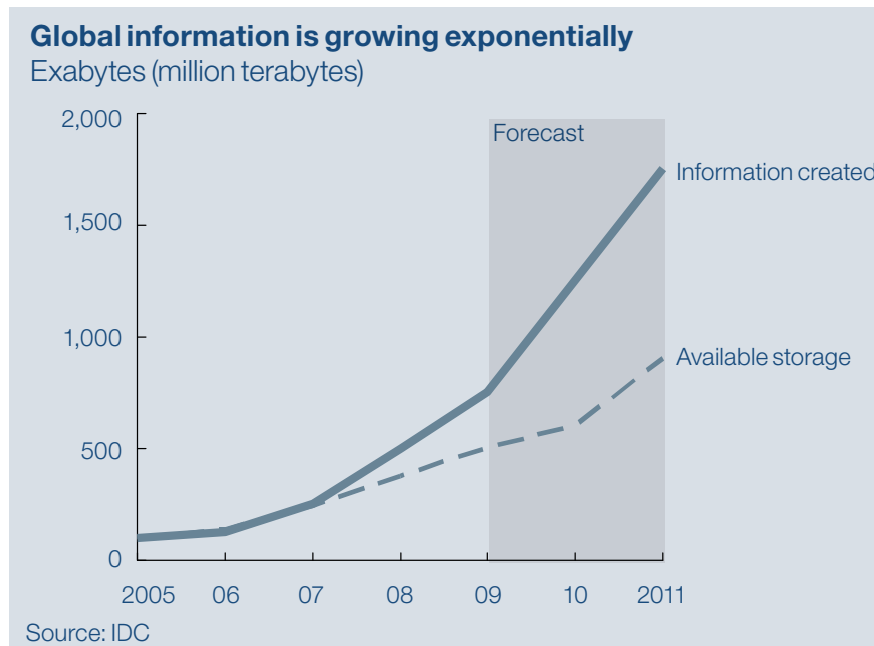


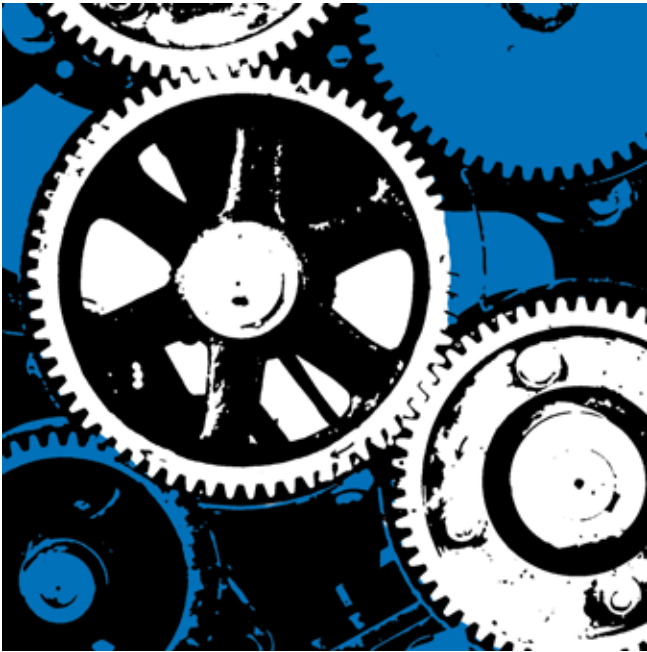
The material

Rich data, harvested at the front line

Retailers enjoy the unique privilege of **direct contact** with their customers. While companies in other industries need intricate market research schemes to find out about consumers, retail shoppers leave **tangible traces**: in-store interactions, checkout data, and loyalty card profiles, not to mention online feedback. According to Esomar, Walmart alone processes one million transactions every hour, feeding databases that exceed 2,500 terabytes – more than a hundred times the size of the Library of Congress. Add to that the information gathered worldwide by third-party providers such as Nielsen, and you end up with so much data that you need rooms full of servers just to store it.

This **mass of data** is both a blessing and a curse for retailers. It holds the promise of competitive advantage derived from deep insights into the needs of millions of shoppers – which products they value, how sensitive they are to prices, or how they react to different types of promotions and campaigns. But data alone does not create value. The question is what you do with it. How do you **leverage a wealth** of information that ranges from store traffic to basket sizes, repurchase rates, promotional impact, advertising hit rates, financial controlling data, and general demographics? In short: what does it take to get from **data to insights, and from insights to impact?**





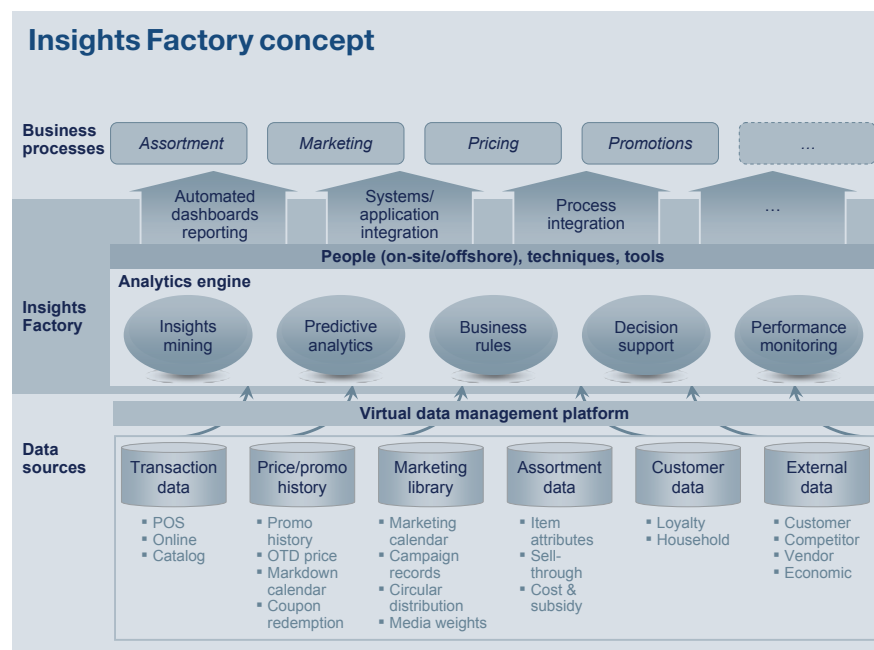
The factory

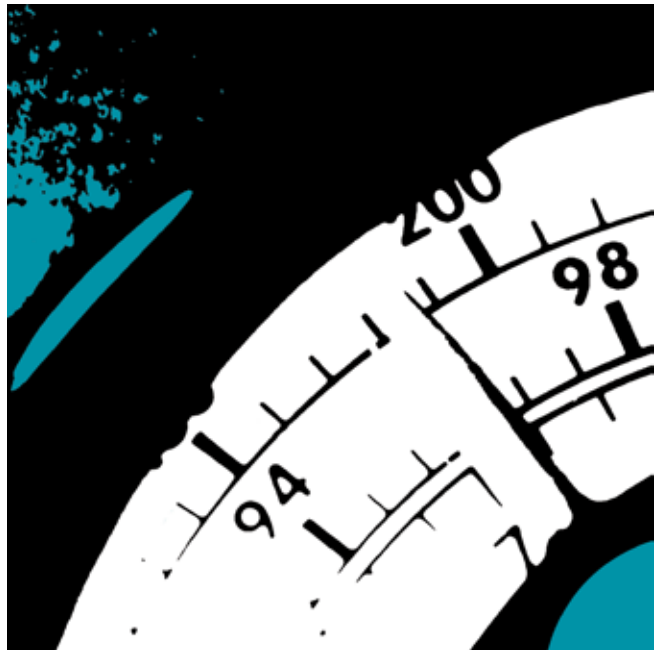
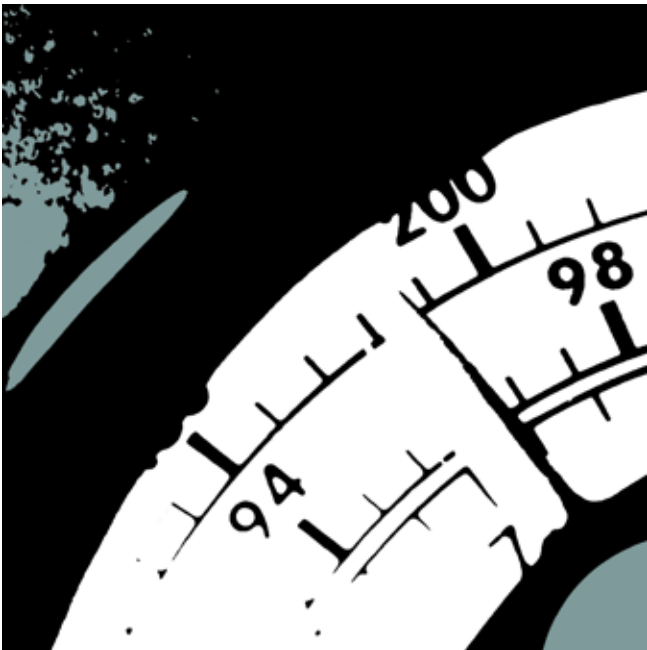
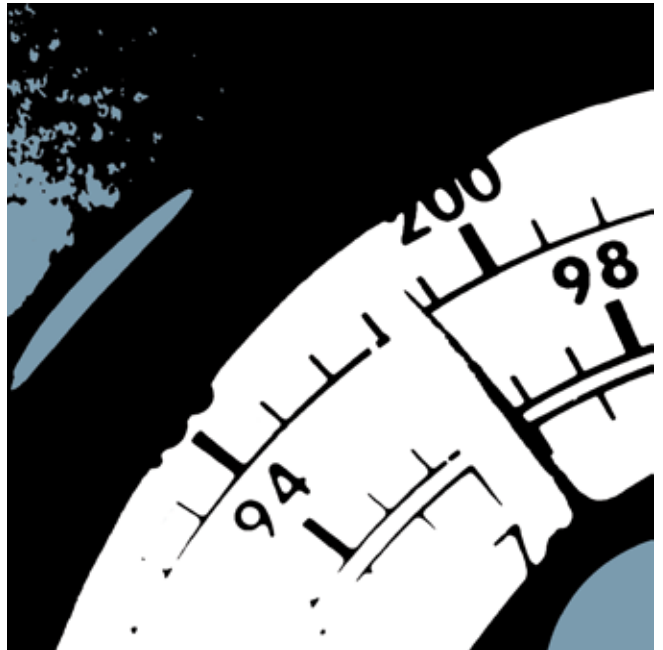
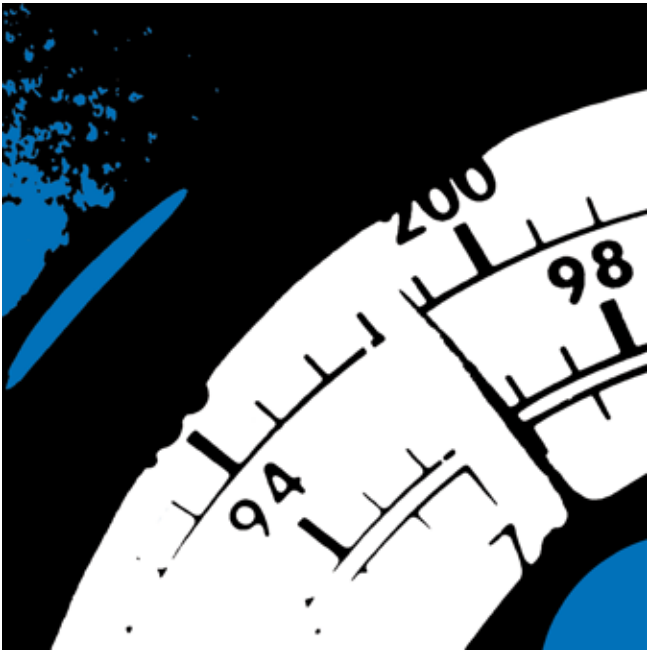
Advanced analytics meets daily business

Retail decision makers confirm that both the breadth and the depth of the information available to them is growing – at an ever-faster pace. As a result, the market holds **substantial rewards** for those who are able to digest the wealth of data, get a quick grasp of what really matters, and translate their findings into swift and decisive frontline action.

In response to these developments, McKinsey has set up the **Insights Factory**. The ability to handle huge amounts of data, apply state-of-the-art analytical approaches, and develop actionable recommendations is part of **McKinsey's DNA**. We sift through information, form hypotheses, and synthesize facts to derive robust business strategies. The Insights Factory applies this proven approach to the stream of shopper data by way of an advanced, yet flexible **analytical engine** to derive actionable insights. Its ultimate objective is to make systematic, yet speedy data leverage an integral part of the way retailers run their business.

The Insights Factory is part of CMAC, McKinsey's **Consumer and Marketing Analytics Center**. CMAC is a global network, anchored by a growing number of regional hubs and accessible to teams in any of McKinsey's 100 offices world-wide. As it evolves, CMAC will absorb data from multiple sources, including clients' transaction records, third-party research, or proprietary social-media screening.





The output

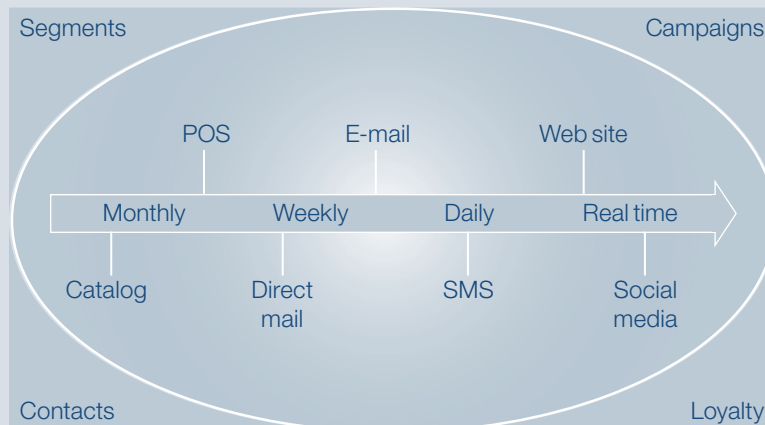
Innovative, hands-on decision support tools

The real test of a factory is the quality of its products. Since the Insights Factory does not churn out physical objects, retailers will judge it by the **practical relevance** of the insights it produces. The challenge is not only to discover something fundamental about a consumer's need, but to turn this knowledge into sustainable **competitive advantage**. What good does it do, after all, to know that a pair of jeans costs five dollars too much to fit the budget of a given shopper? And how do you cash in on the information that two in three buyers of portable stereos also purchase some music during that same shopping trip?

Rather than insular insights generated at particular points in time, retailers need hands-on **decision support** that fosters value creation – not once or twice, but continuously. For example, McKinsey's pricing tool recognizes historical data, competitive analyses, and information on the impact of a given item, such as a pair of jeans, on overall price perception. Based on this data, the tool calculates the optimal retail price. What's more, it will also **pinpoint specific SKUs** for value-maximizing promotions. Other Insights Factory components include a holistic promotion management system and a category level localization scorecard that helps retailers tailor their assortment to regional needs. The Insights Factory is designed to inform interactions at traditional touch points, such as POS materials or catalogs, as well as on **new platforms**, ranging from search engines to social-media sites.

The Insights Factory can inform every shopper interaction

Touch point management example





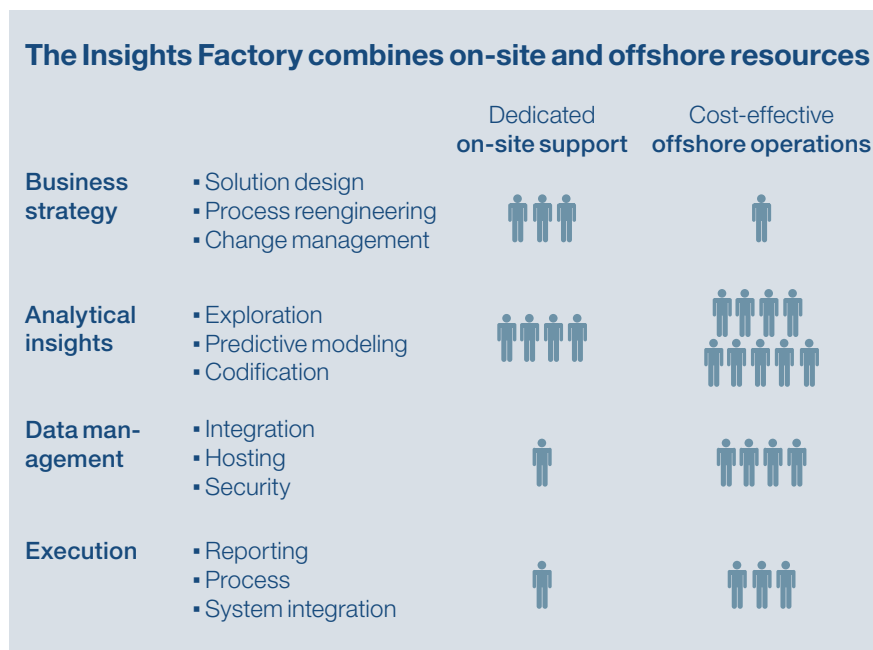
The opportunity

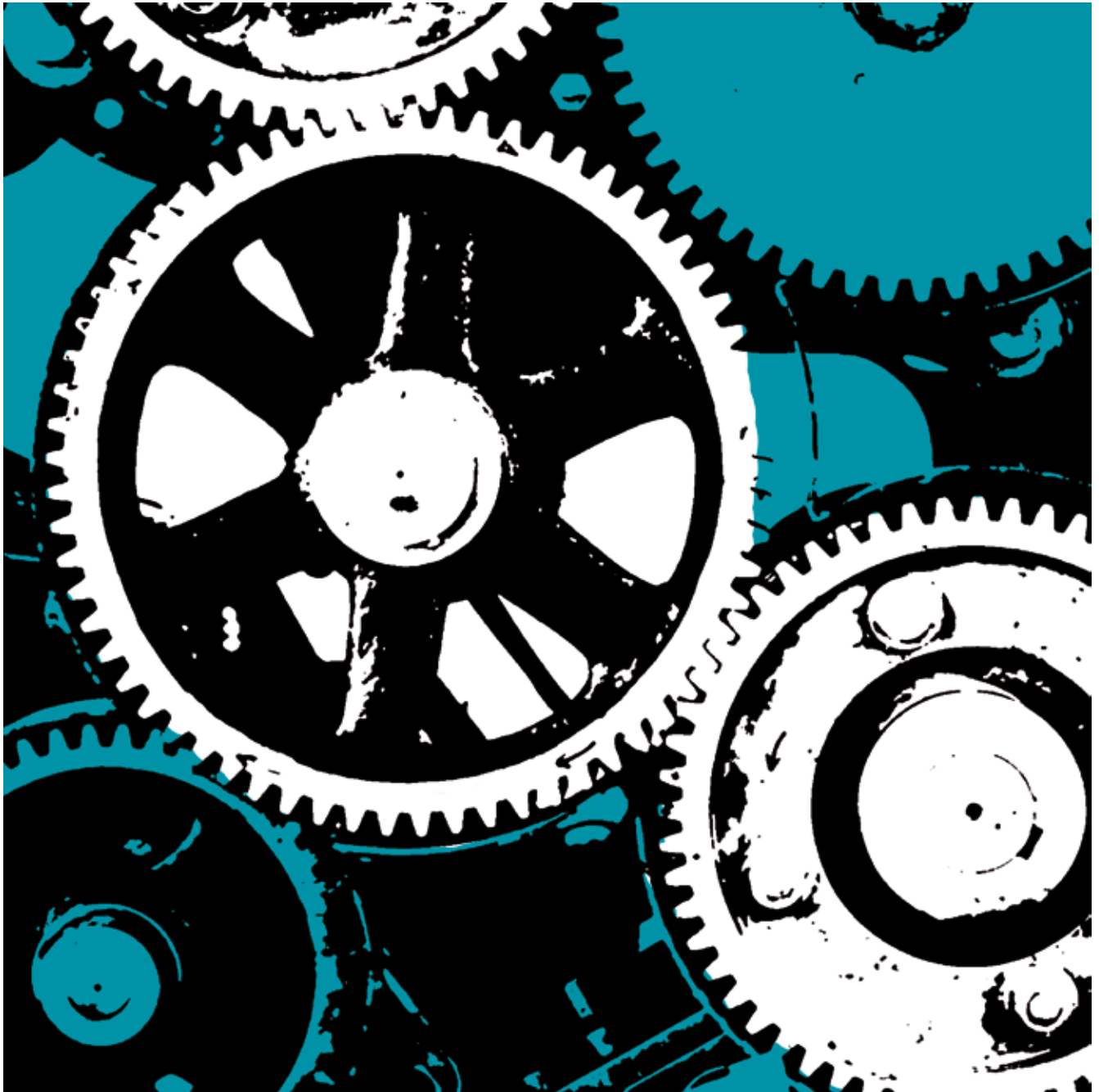
Systematic insights management

It has long been our custom at McKinsey to deploy small teams to work with our clients on strategic issues over specific periods of time. More than 70 years of distinguished client service bear testimony to the power and the validity of this approach. However, we are continuously developing new ways of working. Creating sustainable value from shopper insights is not a code you crack once and for all, but an **ongoing endeavor**.

To tackle this challenge, we are working with a growing **community of clients** dedicated to systematic and sustainable insights management. Liaising with the Insights Factory will help retailers enhance the fact base in key areas of their business, be it pricing, campaign management, or assortment optimization. While our experts work closely with the client team during setup and review periods, much of the data mining and report generation can be done remotely by **off-shore specialists**. This makes for highly cost-effective operations, and it ensures the required support for the business over an **extended period of time**.

Retailers willing to embark on this journey will find that it enables them to surf the stream of shopper data, rather than be drowned or washed ashore. Or, as Andy Warhol observed: everybody can be famous for 15 minutes, but it takes a factory to **make it last**.





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