

## McKinsey on Marketing & Sales

# The Social Shopper

McKinsey partner Brian Gregg talks about social media, Big Data and the future of retail with Nicolas Franchet, Global Head of Retail Strategy, Facebook



*Nicolas Franchet*

### The new consumer decision journey

**Nicholas:** We're in the midst of a user-driven revolution. Shoppers are fueling massive changes in media behavior that are forcing retailers to change fast. Digital as a medium, for example, is almost as big as TV in the U.S., accounting for 40 percent of time spent on media.

And it's no secret Facebook is a big beneficiary as well as enabler of this revolution. We have 1.1 billion people. We also have 750 million mobile users, accessing Facebook 10 to 20 times per day to discover what matters to them. These are real people, not cookies or numbers of households. We tell marketers Facebook is all the people who matter to them, every day, everywhere. And for retail marketers that just means they need to be on Facebook because their customers are.

Look at Fab.com. It didn't exist two years ago, now it has more than \$200m in business, and they did it all on Facebook. Lacoste, for example, needed to get something out shortly before people were leaving for vacation. They took some pictures, posted them on Facebook, and in a matter of weeks had three times ROI.

**Brian:** What's interesting is that you could make the argument that consumer behavior hasn't changed—they've always wanted to be aware of what's out there and choose the best value for what they want. What has changed are the tools and technologies that are available now to deliver on that pent-up consumer demand. Online retail is experiencing double-digit growth, which is forcing retailers to think about being better across all channels.

**Nicholas:** It's very true technology has changed the retail business. Merchandising has vastly opened up as a discipline, "maximizing ROI" has replaced "achieving ROI." Above all, we are constantly faced with the challenge you mention: omni-channel retail. And I think retailers hear the admonition to become omni-channel far more than they hear any real strategy for how to do it. The bottom line is it's going to vary from business to business, depending on the nature and complexity of your existing

channels. But the easiest way to become omni-channel is to focus on the one part of your business that has always been cross-channel: people. Your customers simply want to discover your products, purchase them, and incorporate your brand into their lives in the easiest way possible. This is why the consumer decision journey (CDJ) can be a more relevant way to think about customer behavior than the classic marketing funnel. More importantly, reaching your customers at every stage of their shopping experience, along with increasing your investment in loyalty and mobile, is critical to becoming omni-channel. The customer decision journey spans all of your channels because your customer does. Build marketing systems with people at the core.

**Brian:** Absolutely. Traditionally, marketing has been about moving people who have the intent to buy through a process so they'll make the purchase. We're in this new world where marketing and retail executives are finding people *before* there's an intent to buy by engaging with them in a way that's not too creepy.

### **Cold data, warm connections**

**Nicholas:** Eighty percent of online purchases are made without prior intent to buy that product. This means we're talking about \$1.2T per year spent on products that people discovered. Offline, this discovery is known by the name "merchandising," and I can't think of a single retailer who doubts its importance. And online, this discovery is constant. At Facebook we call it "news feed." But feeds of all types occur on the Internet, and they are the future of merchandising.

The challenge for retailers is to appear in the right feed to the right person, with the right product at the right time. So effective marketing and sales today boils down to good targeting. You need to be able to predict what's going to be interesting to each customer. With Big Data, we can create really small segments of customers, and they'll discover what matters to them.

**Brian:** Yes, and that opportunity for more targeted connections is providing a big challenge to the way marketing does things. Big marketing grew up thinking in terms of developing three large campaigns that were pushed to a mass audience. But this ability to talk to small populations requires marketers to think in terms of creating 300 or even 3,000 campaigns.

**Nicholas:** Absolutely. Sometimes I ask retailers to think about it like holidays. Technology now allows marketers to tap into hundreds of moments in their customers' lives—which is something marketers are already very good at doing with holiday marketing. Only now, instead of three or four special days per year, there are dozens, even hundreds.

### **Getting comfortable with test and fail**

**Brian:** Marketing at the kind of scale we're talking about—small affinity clusters, continuous campaigns—requires the willingness of the marketing function to redefine marketing. That starts with having a lean startup mindset. In practice, that means that companies have to be OK with good enough and not insist on perfect. The best retailers are saying they're okay with failure. That mentality leads to faster cycle times and a more highly developed learning muscle. And they also do a better job with practical measuring. This can't be yearly brand-perception audits. This has to be about practical details that can be developed and measured quickly. These measurements need to capture the various actions along the consumer decision journey, not just the buy.

**Nicholas:** Our recommendation is not to jump to marketing to 100 or 1,000 segments. That's overwhelming at first. Focus on strategic segments first—the ones that really matter to you. Measure how well you do, then use that as a baseline for expanding the number of segments to target. Only by doing it in this way can retailers develop processes that work in practice rather than in theory.

### **The Org Shake**

**Brian:** The realities of the consumer decision journey are really starting to shake up traditional organizations. Recently I've seen a lot of cases where the CMO or business unit leader says that the org chart is useful for career-path development and progress reviews, but it's not helpful to get work done. Work gets done today within "swat" teams of people from across functions focused on a specific task. In practice this "omni-channel" approach requires new talent, which in turn means getting creative.

**Nicholas:** You know, I've heard CMOs say, "I don't even do org charts anymore." This is about creating something much more cross-functional within marketing and within technology as well. Marketers are so much closer to finance than we've ever seen before. In retail, traditionally the store doesn't talk to ecommerce. Now, they're meeting for the first time and thinking about how to work together.

But what do you focus on when working cross-functionally to serve the customer decision journey? First, presence. How are you going to work together to be at every stage of their shopping experience? Second, loyalty. How are you going to work together to compel people to come back for you? Finally, mobility. Your product may not be mobile-first, but your customer is. How are you going to work together to be on the device your customer uses in every stage of their journey?

**Brian:** These changes we're talking about are really shaking up the organization. Retailers have to think and act like publishers and have both the people and processes to manage a sophisticated content supply chain. It takes really strong leadership to make it work. Look at the people who are leading in multichannel retail—Howard Schultz at Starbucks, Blake Nordstrom at Nordstrom, or Angela Ahrendts when she was at Burberry. These are strong CEOs who have a strong vision. Every associate at Burberry has to be on an iPad. When people ask "What's the ROI of social?" they'll answer, "What's the ROI on your mother?" Clearly they're exaggerating to make a point, but this visionary ingredient is critical. You have to love risk, and that has to start at the top.

### **Measure what actually matters**

**Nicholas:** ROI is table stakes for any marketing platform, and retailers are going to need better attribution models across channels. Because while social is a channel in its own right, it also works with and feeds off of other channels (which is why we've been focusing on developing multitouch attribution systems to help determine credit for the sale).

The bottom line is, return on investment requires investment. Social marketing is no more "free" than any other form of marketing, and the most successful marketers get that. This is where "social" metrics and "social" marketing can be a bit of a distraction, because social marketing is just marketing. The best companies we work with have KPIs that are about sales, profitability, and awareness.

The truth is, comparing digital to analog is not an apples-to-apples comparison. Nor is it “either-or.” So what happens when you shift budget in different ways across them? Digital still makes up a woefully small part of marketers’ budgets, given its impact, and I think the fear of moving those dollars is that taking money away from television or print will decrease the effectiveness of those channels. Yet the most successful marketers are seeing that allocating more resources to digital can drive higher impact across all channels.

**Brian:** My message to marketers is that you should be the CFO’s best friend. The metrics available today can help prove marketing ROI in a way that’s never been possible before. But you can’t spend time on measuring everything you can measure. It’s more important to focus on the one or two or three metrics that really matter. And marketers need to get comfortable with the idea that there’s no such thing as absolute metrics accuracy. Metrics that lead to helpful decisions require speed and making small bets to pilot ideas.

**Nicholas:** I couldn’t agree more. Being pragmatic is the antidote to complexity. Retailers are practical people. They’re seeing diminishing returns on search, for example, so they’re looking for pragmatic answers about what to do next to get to their goals. Although a note of caution on this metrics point: One thing I’ve noticed is an over-reliance on digital data only. If you’re just looking at digital data, you’re missing a big part of the picture.

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