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Why customer analytics matter

Insights from McKinsey's DataMatics 2015 survey

Marketing & Sales Practice May 2016

Why customer analytics matter

Although survey respondents say the value of customer analytics is declining, our findings show these analytics clearly drive value. Focusing on three factors can help companies reap the benefits.

With the trend towards investment in customer analytics in full swing, this business function could be expected to rank high on the top management agenda. However, results from a recent round of the McKinsey-sponsored CMO Survey[1] suggest that while the budget spent on marketing analytics as well as its application are clearly increasing, the value that customer analytics is perceived to bring to companies' success is declining rather than growing.[2]

To clarify the somewhat inconclusive CMO perspective on customer analytics, we surveyed 700 senior marketing and sales executives to shed light on three questions[3]:

1. **To what extent does customer analytics actually contribute value to companies' performance?**
2. **What are the key success factors for reaping the benefits of customer analytics?**
3. **How can marketers ensure the future competitiveness of their organization's customer analytics?**

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1 The CMO Survey is a survey to "collect and disseminate the opinions of top marketers" in a number of different dimensions. In its August 2015 version (the survey is conducted twice a year), over 250 respondents answered questions on topics ranging from overall growth, to social media, and organization. A number of questions are directed at the use and performance impact of analytics.

2 Cf. http://www.cmosurvey.org/. Intriguingly, according to the August 2015 CMO Survey's results the degree to which marketing analytics is perceived as contributing to companies' performance slightly decreased (on a scale of 1 - 7) from 3.9 in August 2012 to 3.7 in August 2015 (and fell as low as 3.2 in February 2015).

3 McKinsey's Marketing and Sales Practice conducted an in-depth customer analytics research initiative (DataMatics) in 2015, surveying 700 senior executive leaders from marketing, sales, and related functions across the globe. The effort provides participants and other companies with an opportunity to benchmark their organizations' customer analytics capabilities across sectors and geographies, and helps uncover the connection between customer analytics and overall organizational performance.

1. The impact of customer analytics on corporate performance is significant—and clearly underestimated

We found that the importance of customer analytics for commercial success is not perceived as increasing (as would be assumed given that ever more investments are flowing into this field). In contrast, it is viewed as less important for corporate performance than several other areas of marketing and sales—even less so than two years ago, when we last conducted our survey of senior marketing and sales executives. In that 2013 survey, customer analytics was ranked fifth in terms of importance among 13 areas of marketing and sales, while in 2015 it is only ranked eighth (among 12 areas) (Exhibit 1).

Exhibit 1

Despite its performance impact, customer analytics is still lagging behind in perceived importance—and even went down by three ranks since 2013.

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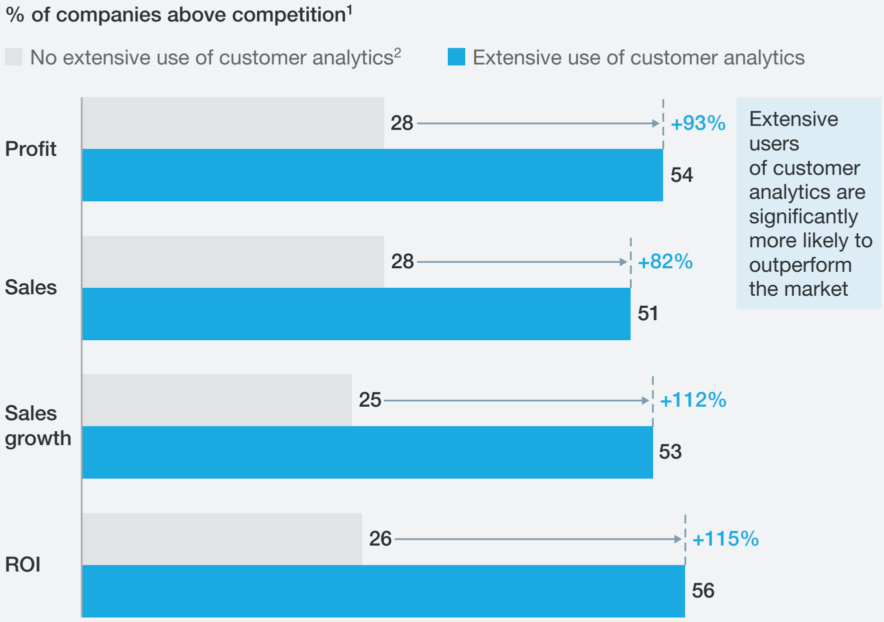
However, there is every reason for marketing and sales executives (and their chief executive officers) to reappraise the importance they attribute to customer analytics and adapt the way they strategize and manage this topic, as customer analytics does indeed create significant value. As our survey results show, extensive use of customer analytics has considerable impact on corporate performance. Companies that make extensive use of customer analytics are more likely to report outperforming their competitors on key performance metrics, whether profit, sales, sales growth, or return on investment. For example, companies that use customer analytics comprehensively report outstripping their competition in terms of profit almost twice as often as companies that do not (Exhibit 2).[4]

4 We have checked that these results are not a pure correlation (i.e., that more successful companies are in a position to spend more on customer analytics). The causal relationship that using customer analytics drives performance has been confirmed by state-of-the-art fixed-effect panel regressions, leveraging the results from 2013 and 2015.

Exhibit 2

Extensive use of customer analytics drives corporate performance heavily.



[1]Based on "Please describe the performance of your firm/business unit in the following areas relative to your average competitor." "Above competition" defined as 6 to 7 on 7 point scale: 1 = Well below competition, 7 = Well above competition.
[2]Based on "Please indicate how much you agree or disagree with the following statement: In our firm/business unit, we extensively use customer analytics." Scale 1 to 7: 1 = Strongly disagree, 7 = Strongly agree. Comparison of low 2 vs top 2 box.

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2. Three factors are essential for reaping substantial benefit from customer analytics

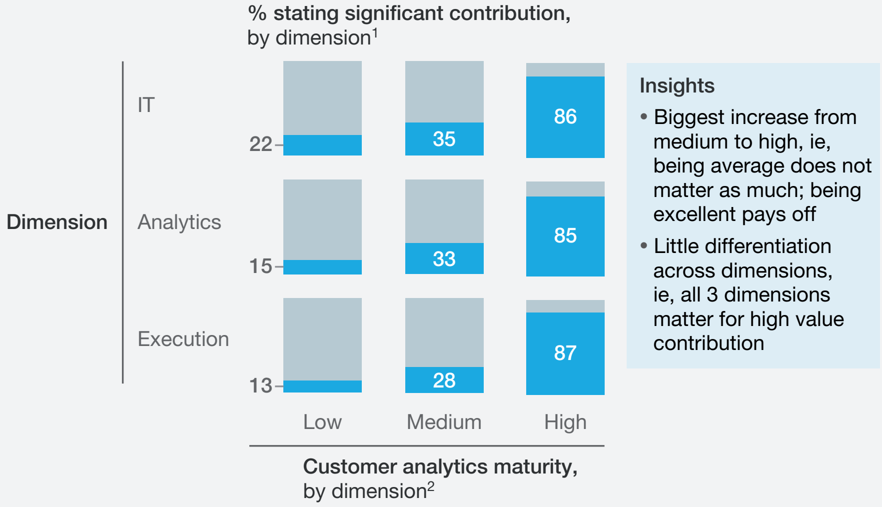
According to our survey's findings, marketers should focus on the following key aspects to leverage their company's customer analytics potential.

Striving for excellence in customer analytics matters (as opposed to a merely good average). More than 85 percent of companies that report extensive use of customer analytics (in terms of IT, analytics, and its execution) claim their company achieves a significant value contribution from customer analytics. This compares with around 20 percent for low users of the function, and some 30 percent of moderate users – suggesting that companies start to reap substantial benefit from customer analytics only when they achieve excellence, i.e., when their function can be considered state of the art. Just moving from a low to a medium level of maturity will merely generate limited success (Exhibit 3).

This has particularly important implications for managers and their decisions on what needs to be invested in their organization's customer analytics to be competitive in the future. They need to determine the performance gap between their current customer analytics and state-of-the-art customer analytics in their industry, and to ensure that their additional spending on customer analytics stands a fair chance of bridging this gap. Otherwise the additional spending will – despite the best of intentions – turn out to have been a sunk investment right from the outset (because it will not pay off eventually).

Exhibit 3

Excellence in IT, analytics, and execution drives value contribution of customer analytics.



[1]Based on contribution of customer analytics to performance, top 2 boxes (6–7) on 1–7 scale.
[2]Based on aggregate index for each dimension (IT, analytics, execution) on analytics maturity; low: 1–3, medium: 4–5, high: 6–7.

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Establishing a culture that values fact-based decision making and analytics. Vital is a culture that is not focused purely on IT and analytics topics, but approaches customer analytics holistically. Although investments in IT and skilled employees are important, these investments alone will not deliver value. Leadership that expects fact-based decisions and an organization that can quickly translate those decisions into action are qualities more likely to lead to success than companies focused exclusively on IT.

First, we find that the execution and organizational aspects of customer analytics (such as a culture of fact-based decision making, analytics valued by the front line, management attitude and expectations) correlate most with the value contribution of customer analytics (Exhibit 4). This suggests that IT and analytics expertise are obviously necessary to create value from customer analytics, but it is the culture and organizational setup that moves the needle.

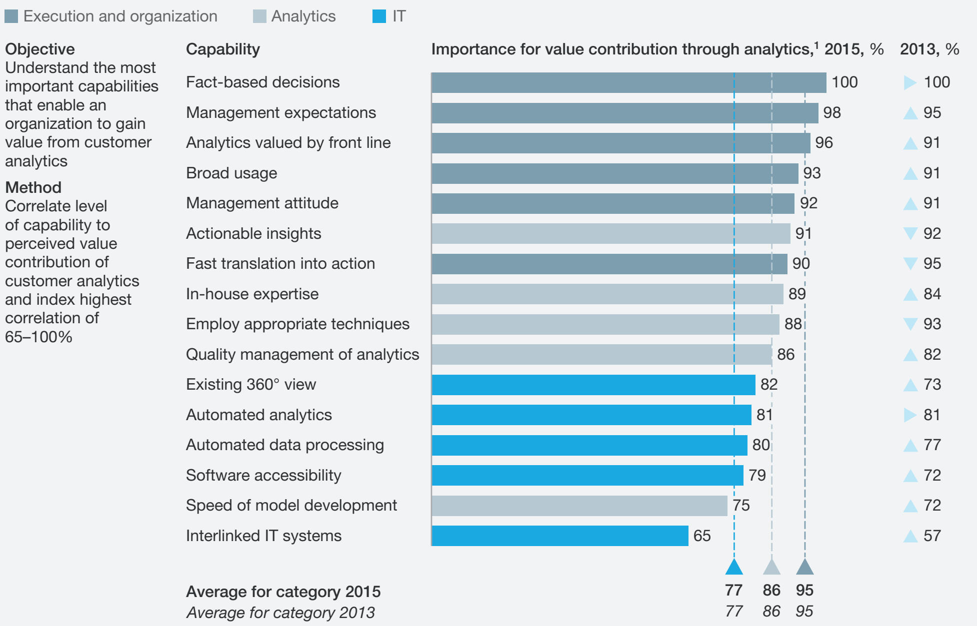
Secondly, interesting findings emerge when we focus on the subdimensions within analytics, IT, and execution that are most relevant to ensure that customer analytics creates value. It becomes apparent (see Exhibit 4) that having pragmatic and actionable foundations with the right cultural mindset in place within the organization is more important than the perfect solution.

Within execution and organization, for instance, fact-based decision making and management expectations are more important than the speed at which these insights are put into action. Within analytics, the focus is on delivering the right actionable insights, and less on the fast development of new models. Looking at IT, a similar pattern emerges: a pragmatic 360° data mart that builds the foundation for customer analytics is more important than the complete (automated) linkage of all IT systems.

A key success factor is therefore to examine customer analytics holistically, including IT, analytics, and execution/organizational setup, and to pragmatically improve on all dimensions.

Exhibit 4

Having a culture that values and acts on customer analytics is critical for value creation.



[1]Pearson correlation of respective capability with value contribution of customer analytics (based on agreement with statement "The use of customer analytics contributes significantly to our firm's/business unit's performance," highest scaled to 100%).

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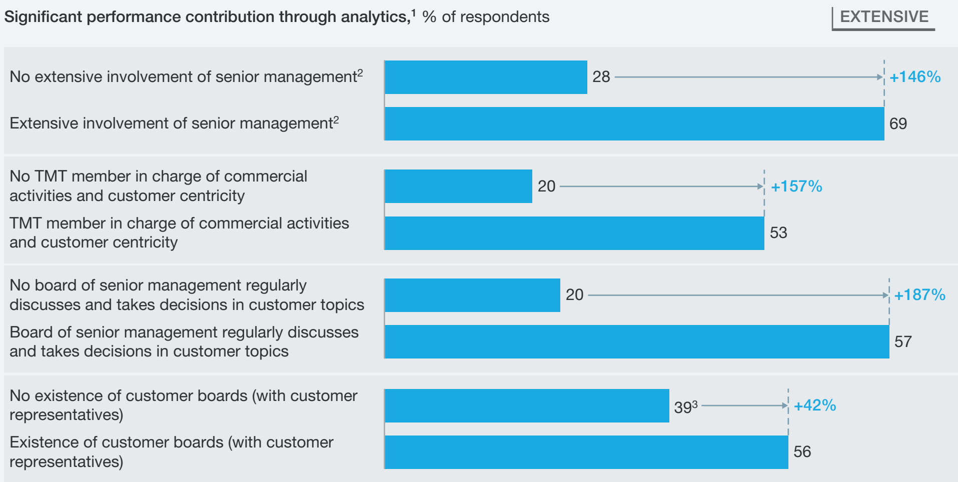
Securing senior management involvement in customer analytics. High-performing companies are led by data-savvy C-level executives who understand the importance of and involve themselves in customer analytics. We find that of those companies where senior management is not involved extensively, only 28 percent report a significant value contribution of customer analytics. This contrasts with 69 percent of companies with senior management involvement in customer analytics that say that customer analytics drives value (Exhibit 5).

Specifically, looking at the level of management that should be involved, it becomes clear that what drives the value contribution is top management/board involvement. If the company has established a role within the top management team (TMT), such as via a chief commercial officer, more than half of the respondents (53 percent) stated that customer analytics contributes significantly to value creation. If only senior management is involved but not the TMT, this drops to just 29 percent, close to the value of no senior management involvement at all (20 percent).

Further organizational setups that increase the value contribution of customer analytics are a management board that discusses customer-related topics and customer boards that fully embrace the customers' perspective. If a company has set up a board of senior management that discusses customer-related topics and that has the power to take decisions in that realm, the company is far more likely to reap the benefits of customer analytics. The same holds true for customer boards. Here it is interesting that while true customer boards (i.e., regular discussions with a selected group of customers who actually buy the service/product) help most, even a customer advocacy board is helpful. On a customer advocacy board, employees put themselves in the shoes of customers and assess the company's products and services from a customer perspective. This underlines the importance of mindset. When employees live customer centricity and the organization encourages this mindset, the benefits from customer analytics are easier to capture.

Exhibit 5

Extensive involvement of top management team (TMT) and a customer-centric organization are key to impactful customer analytics.



[1]Based on "The use of customer analytics contributes significantly to our firm's/business unit's performance." "Significant performance contribution through analytics" defined as 6 to 7 on 7 point scale: 1 = Strongly disagree, 7 = Strongly agree, Strongly agree definition: 6–7.
[2]Based on "To what extent is senior management involved in customer analytics initiatives?" "Extensive involvement of senior management" defined as 6 to 7 on 7 point scale: 1 = Not at all, 7 = To a great extent.
[3]Fewer than 30 respondents.

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3. Benchmarking is the starting point for improving the value contribution of an organization's customer analytics

Because organizations start to leverage the full potential of their customer analytics only when they reach a certain degree of excellence, any serious attempt at improving the performance of an organization should start with benchmarking it against its competitors. This should examine everything from the contribution and maturity of its customer-analytics efforts to how quickly data is translated into action, how analytics reach front-line employees, the extent to which decisions are fact based, and management's expectations and attitude.

Benchmarking insights such as these will provide a detailed breakdown of any performance gaps, areas in which to invest, and a roadmap for taking a company's customer analytics (and its value contribution) to the next level. □

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