

Marketing & Sales Practice

The value of getting personalization right—or wrong—is multiplying

Next in Personalization 2021 Report reveals that companies who excel at demonstrating customer intimacy generate faster rates of revenue growth than their peers. And the closer organizations get to the consumer, the bigger the gains.

This article was a collaborative effort by Nidhi Arora, Daniel Ensslen, Lars Fiedler, Wei Wei Liu, Kelsey Robinson, Eli Stein, and Gustavo Schüler



Key takeaways

- Personalization matters more than ever, with COVID-19 and the surge in digital behaviors raising the bar. Three-quarters of consumers switched to a new store, product, or buying method during the pandemic.
- Seventy-one percent of consumers expect companies to deliver personalized interactions. And seventy-six percent get frustrated when this doesn't happen.
- Personalization drives performance and better customer outcomes. Companies that grow faster drive 40 percent more of their revenue from personalization than their slower-growing counterparts.

Personalization is not only a crucial capability, it's one that punches above its weight, no matter whether the company is a digital native, a brick-and-mortar player, or a behind-the-scenes producer or supplier.

Consumers don't just want personalization, they demand it. With store and product loyalty more elusive, getting it right matters. Roughly 75 percent of consumers tried a shopping behavior in the last 18 months, and more than 80 percent of those intend to continue with new behaviors.

Furthermore, our research found that companies that excel at personalization generate 40 percent more revenue from those activities than average players. Across US industries, shifting to top-quartile performance in personalization would generate over \$1 trillion in value. Players who are leaders in personalization achieve outcomes by tailoring offerings and outreach to the right individual at the right moment with the right experiences.

These seven charts show how consumer attitudes around personalization are changing and what outperforming companies are doing to grow customer lifetime value at scale.

Personalization matters more than ever before

The surge in online interactions since the onset of the pandemic escalated expectations—giving consumers more exposure to the personalization practices of e-commerce leaders and raising the bar for everyone else. From web to mobile and in-person interactions, consumers now view personalization as the default standard for engagement.

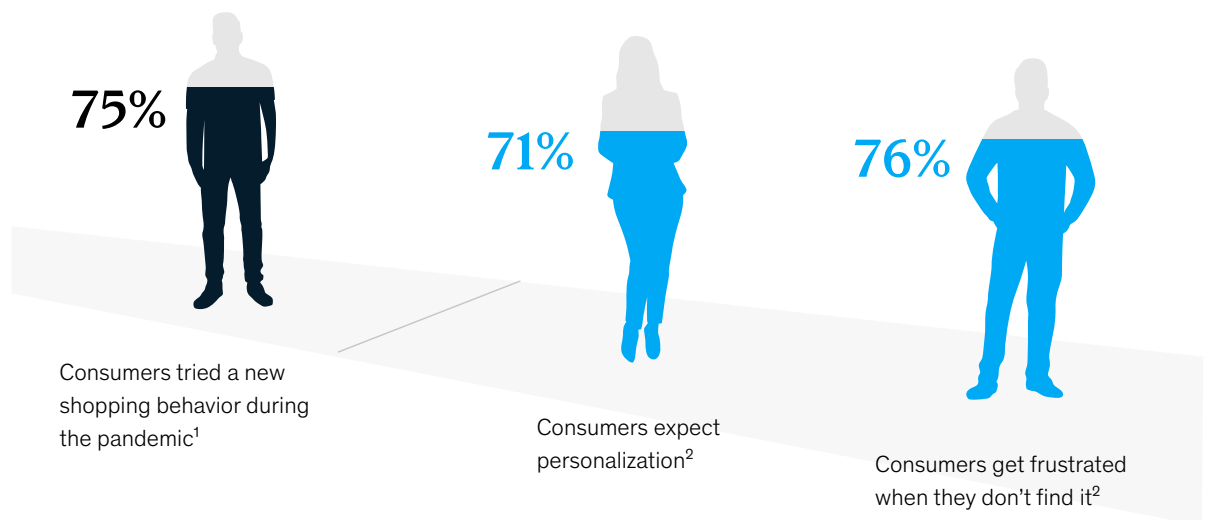
Our research shows that 71 percent of consumers expect companies to deliver personalized interactions. And 76 percent get frustrated when this doesn't happen. Ratcheting up the pressure on companies, if consumers don't like the experience they receive, it's easier than ever for them to choose something different. Three-quarters of consumers switched to a new store, product, or buying method during the pandemic.

Exhibit 1

Nonpersonalized communications pose a business risk in a low-loyalty environment.

Loyalty is up for grabs...

...and consumers expect personalization from the brands and businesses they choose.



¹ Question: "Since the coronavirus (COVID-19) crisis started, which of the following have you done?" 25% of consumers selected "none of these." Possible answers: "new shopping methods"; "different brand"; "different store, retailer, or website"; "private label or store brand"; "new digital shopping method."

² Question: "Please indicate how much you agree or disagree with the statements below when it comes to personalized communications and products/services from brands/businesses: I expect personalized communications and products/services tailored to my needs from the brands/businesses that I buy from. It is frustrating when a brand/business shows or recommends me things that are not relevant to me." Possible answers: "strongly disagree"; "disagree"; "somewhat disagree"; "somewhat agree"; "agree"; "strongly agree." Numbers shown indicate respondents that selected "somewhat agree"; "agree"; and "strongly agree."

Source: McKinsey Next in Personalization 2021 consumer survey 9/7–9/8/2021 (n = 1,013), sampled and weighted to match the US general population 18+ years; McKinsey Consumer Pulse Survey 8/25–8/31/2021 (n = 2,094) and 2/18–2/22/2021 (n = 2,076), sampled and weighted to match the US general population 18+ years.

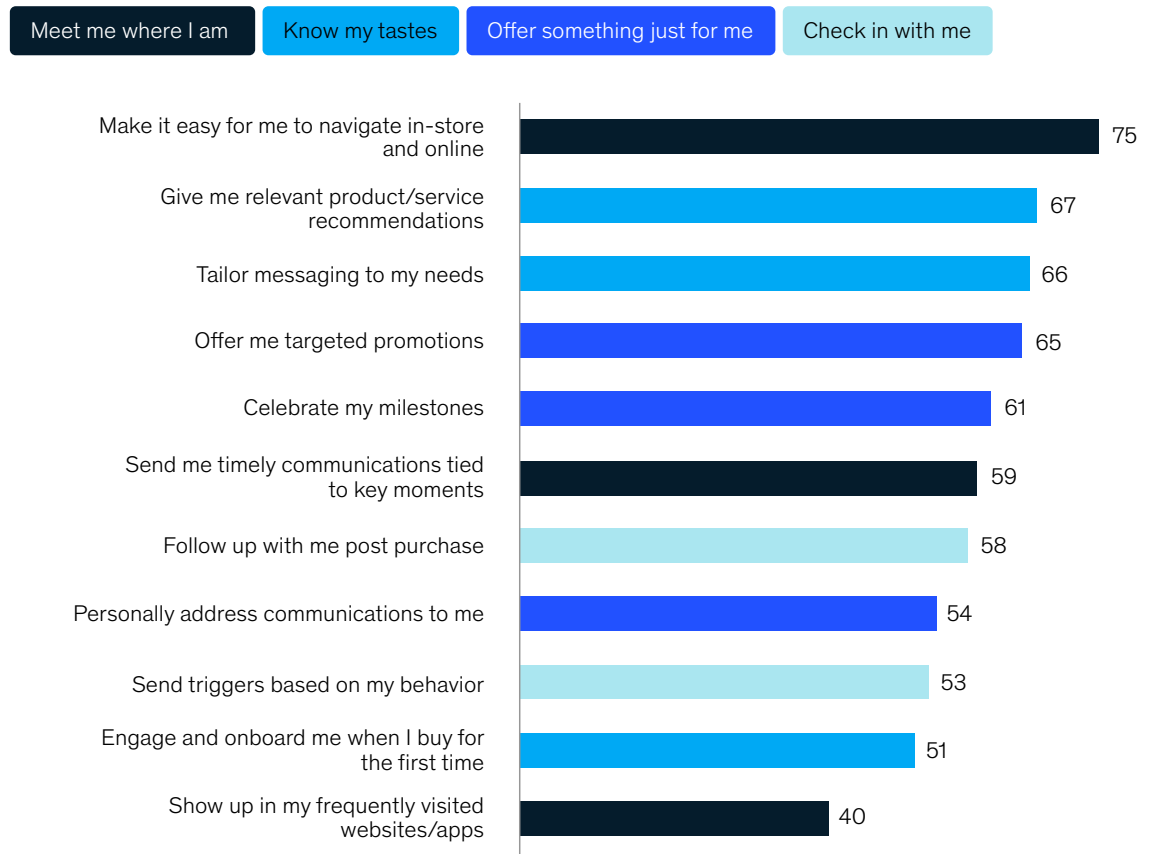
Research shows shoppers have a strong point of view on personalization

Seventy-two percent said they expect the businesses they buy from to recognize them as individuals and know their interests. When asked to define personalization, consumers associate it with positive experiences of being made to feel special. They respond positively when brands demonstrate their investment in the relationship, not just the transaction. Thoughtful touchpoints such as checking in post-purchase, sending a how-to video or asking consumers to write a review generate positive brand perceptions.

Exhibit 2

Consumers expect brands to demonstrate they know them on a personal level.

Importance of personalization actions for consumers purchasing for the first time, % of respondents¹



¹Question: "We would like to know how each of these aspects influences your decision to buy from a brand/business for the first time. For that brand/business, please indicate how important each of the following aspects is." Possible answers: "not at all important"; "somewhat important"; "important"; "very important"; "extremely important." Numbers shown indicate respondents that selected "important"; "very important"; and "extremely important."
Source: McKinsey Next in Personalization 2021 consumer survey 9/7–9/8/2021 (n = 1,013), sampled and weighted to match the US general population 18+ years

...And consumers reward those that get it right

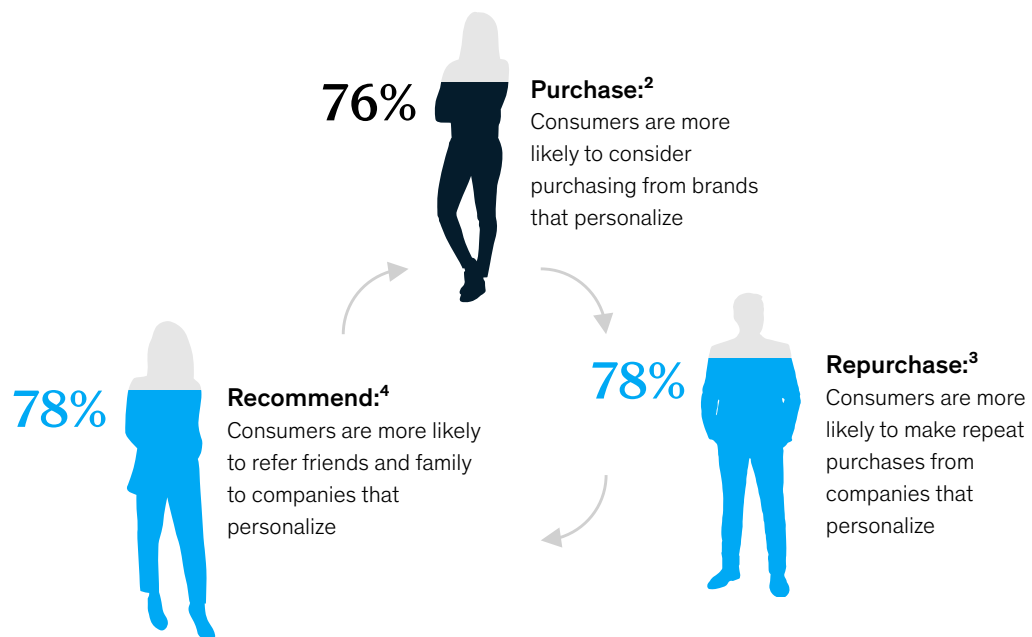
Over three-quarters of consumers (76 percent) said that receiving personalized communications was a key factor in prompting their consideration of a brand, and 78 percent said such content made them more likely to repurchase.

Personalization is especially effective at driving repeat engagement and loyalty over time. Recurring interactions create more data from which brands can design ever-more relevant experiences—creating a flywheel effect that generates strong, long-term customer lifetime value and loyalty.

Exhibit 3

Personalization directly influences buying behavior across the customer life cycle.

Likelihood to purchase, recommend, and repurchase depending on personalization, % of respondents¹



¹ Question: "Please indicate how much you agree or disagree with the statements below when it comes to personalized communications and products/services from brands/businesses."

² Purchase: "I am more likely to consider buying from brands/businesses that engage with me in a personalized and tailored way."

³ Repurchase: "I am more likely to repurchase from brands/businesses that offer personalized communications and products/services."

⁴ Recommend: "I am more likely to recommend brands/businesses to my friends and family that offer personalized communications and products/services."

Possible answers: "strongly disagree"; "disagree"; "somewhat disagree"; "somewhat agree"; "agree"; "strongly agree." Numbers shown indicate respondents that selected "somewhat agree"; "agree"; and "strongly agree."

Source: McKinsey Next in Personalization 2021 consumer survey 9/7–9/8/2021 (n = 1,013), sampled and weighted to match the US general population 18+ years

Performance propels outperformance

Research shows that personalization most often drives 10 to 15 percent revenue lift (with company-specific lift spanning 5 to 25 percent, driven by sector and ability to execute). The more skillful a company becomes in applying data to grow customer knowledge and intimacy, the greater the returns. For digitally native companies that forge a data-backed, direct-to-consumer model, personalization isn't just how they market, it's how they operate.

Exhibit 4

Digitally native companies drive more revenue from personalization than other company archetypes.

Company archetype	Companies without direct relationship (eg, CPG)	Brick and mortar (eg, grocery, apparel)	Digitally native (eg, DTC brands)
Strength of customer relationship	Low	Medium	High
	<ul style="list-style-type: none"> Typically does not own customer transaction Limited access to or use of 1st-party data 	<ul style="list-style-type: none"> Owns customer transaction, not always product development 1st-party data captured but mixed 	<ul style="list-style-type: none"> Owns customer transaction and product development 1st-party data at heart of decision making
% of revenue driven by personalization ¹	~5–10%	~10–20%	~25%

¹ Question: "What percentage of your revenue comes from personalized marketing actions/or tactics?" Possible responses: values from 0 to 100%. Source: McKinsey Next in Personalization 2021 benchmarking survey, 2/7–2/14/2021 (n = 100) sampled among consumer businesses

Those leading the charge in personalization also have better customer outcomes. Their focus on the relationship and long-term value leads to better upward migration, retention, and loyalty.

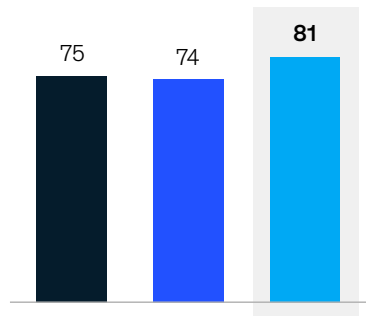
Exhibit 5

Companies that drive greater revenue impact from personalization (eg, digitally native) have better customer outcomes.

■ Companies without direct consumer relationship (eg, CPG) ■ Brick and mortar (eg, grocery, apparel) ■ Digitally native (eg, DTC brands)

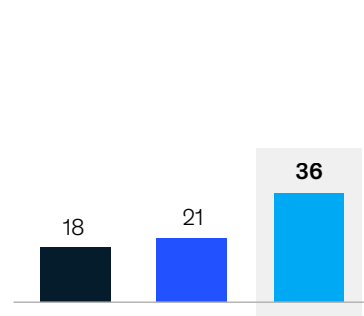
Better at managing 'one and done'

% of new customers that repurchase in following year¹



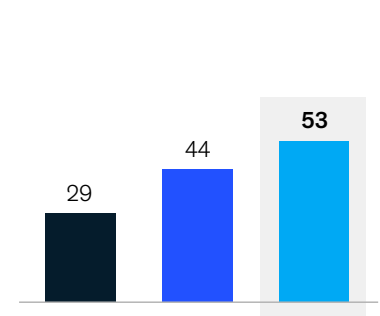
Better at driving upward migration

% of active customers upwardly migrating per year²



Getting more from loyalty

% of sales linked to customers with loyalty ID³



¹ Question: "What percentage of new customers repurchase in the following year?"

² Question: "What percentage of your active customers (any customer who made at least one purchase in a given year) are upwardly migrating per year (ie, spending more this year than last year)?"

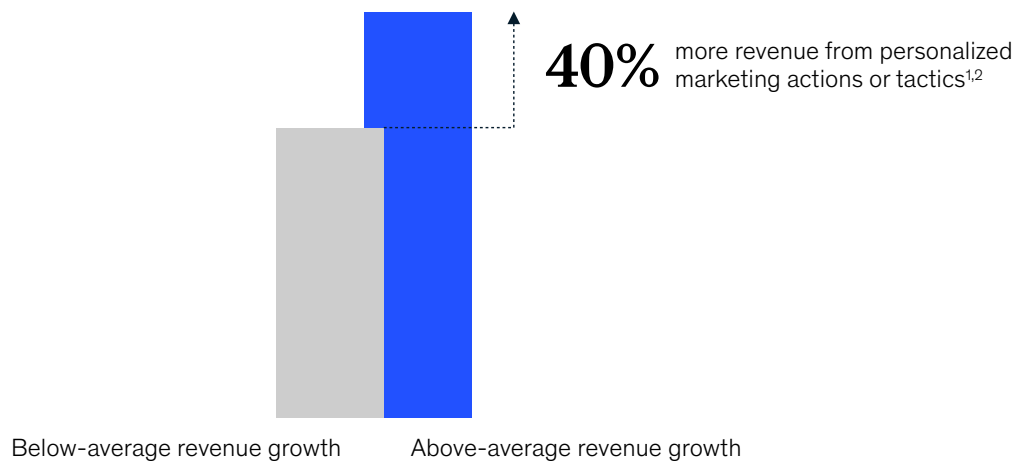
³ Question: "What percentage of revenue is tied to customers that are part of your company loyalty program (eg, 80% of sales are tagged with loyalty ID)?" Possible responses: values from 0 to 100%.

Source: Source: McKinsey Next in Personalization 2021 benchmarking survey, 2/7–2/14/2021 (n = 100) sampled among consumer businesses

Personalization can also be a revenue accelerator even for businesses that typically lack direct access to customers such as companies in the consumer packaged goods segment. Among these companies, those with the fastest rates of revenue growth were far more likely to prioritize personalization than slower growers. The research suggests that even small shifts in improving customer intimacy create competitive advantage—and these benefits grow with maturity.

Exhibit 6

Companies that capture more value from personalization grow faster.



¹ Companies divided into two groups based off past-year revenue growth; top half classified as higher growth and bottom half as lower growth.

² Question: "What % of your revenue comes from personalized marketing actions/or tactics?" Possible responses: values from 0 to 100%.

Source: McKinsey Next in Personalization 2021 benchmarking survey, 2/7–2/14/2021 (n = 20) sampled among consumer companies without direct consumer relationship (eg, CPG)

Outperformers organize their business around personalization

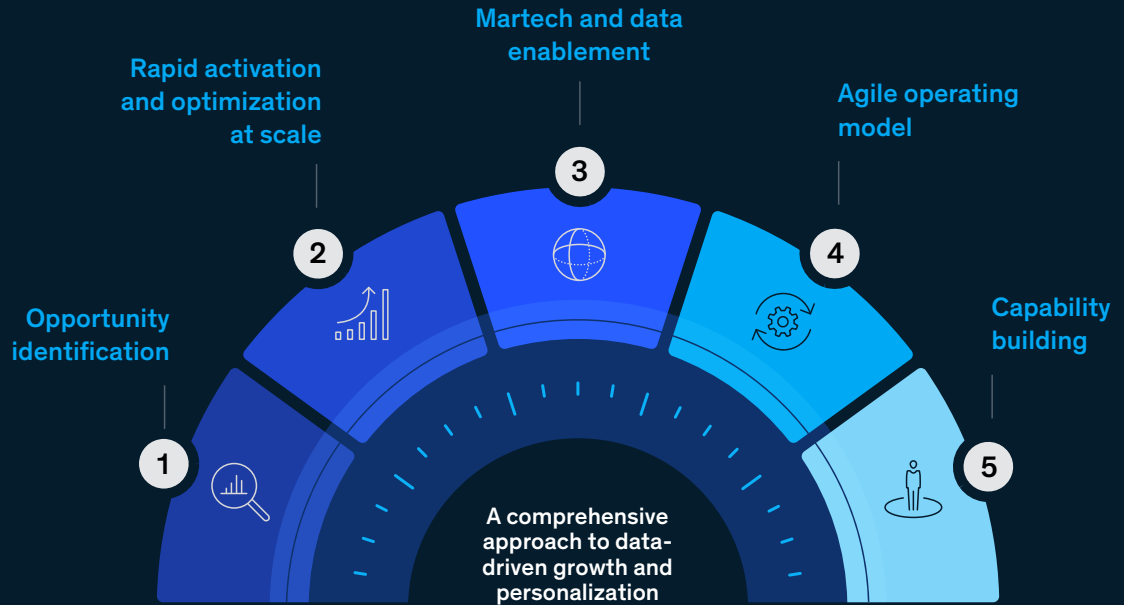
Companies that achieve the best results from personalization approach it differently. Rather than seeing personalization solely as a marketing or analytics problem, they view it as an organization-wide opportunity. Rather than focusing solely on short-term wins, they look for long-term drivers of growth and emphasize customer lifetime value.

Here are the five things outperformers can do to accelerate personalization and create value:

- *They lean into data and analytics to identify opportunities.* Looking across the customer life cycle, leaders build a granular view of where there is the most value. They leverage customer segments and microsegments, and factor in behavioral, transactional, and engagement trends. They use those insights to define and quantify their personalization objectives and ground their efforts in customer-centric key performance indicators (KPIs).
- *They invest in rapid activation capabilities powered by advanced analytics.* Leaders develop at-scale content creation and AI-driven decisioning capabilities so they can respond to customer signals in real-time. They leverage predictive analytics and models to determine what content and messages to serve which customers (for example, propensity models, or predictive next-best-action algorithms). They also establish robust measurement processes that track the impact of customer interventions and feed that information back to their systems and teams. These processes help them deliver the right content through the right channels at the right moments in a consumer's journey.
- *They invest in fit-for-purpose martech and data.* Rather than letting a “thousand flowers bloom,” personalization leaders target a specific set of customer outcomes and use cases that support them. They align organizational resources around these use cases and work back from the desired outcomes to build the data and martech road map and identify the enablers and investments needed to deliver.
- *They commit to an agile operating model.* Businesses that succeed in scaling personalization create teams that cut across marketing, product, analytics, and technology, using a hub-and-spoke approach. Each hub owns specific elements of the personalization journey, with each spoke empowered to build underlying use cases. Together, these teams run hundreds of tests per year, enabled by advanced data analytics and test-and-learn techniques.
- *They invest in talent and training to refine capabilities.* Leaders bring a similarly data-driven approach to building their teams and organizational capabilities. They focus in on the skills needed to support personalization at scale (for instance, digital and e-commerce acumen, advanced analytics, product management, or performance marketing). Then they map these capabilities against their current talent base, using the results to inform hiring, training, and upskilling. This approach allows companies to anticipate the expertise and tools they need as their personalization program advances.

Exhibit 7

There are five ingredients in our CustomerOne approach.



1.

Opportunity identification

Granular growth across the customer life cycle, including where to focus and how to start

2.

Rapid activation and optimization at scale

AI-driven decisioning, dynamic content and measurement to enable activation across channels and touchpoints

3.

Martech and data enablement

Technical talent, partnerships and enablement across major platforms to power consumer-backed use cases

4.

Agile operating model

Rapid test & learn engine with the right roles, cross-functional talent, and ways of working to drive omnichannel impact (eg, across digital, physical, assisted channels)

5.

Capability building

Talent development to sustain impact over time (eg, digital acumen, agile, analytics skillsets)

Personalization is a force multiplier—and business necessity—one that more than 70 percent of consumers now consider a basic expectation. Organizations able to build and activate the capability at scale can put customer lifetime value on a new trajectory—driving double-digit revenue growth, superior retention, and richer, more nurturing long-term relationships.

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