STAYING AHEAD OF THE CURVE

A DATA-DRIVEN AND CUSTOMER-CENTRIC
APPROACH TO STRATEGY

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20|20 STRATEGY

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A data-driven and customer-centric approach to strategy

To help brands identify growth opportunities and build alignment on the optimal strategy to pursue, 20/20 Strategy has devised a data-driven and customer-centric approach to strategy that has helped leading brands thrive and achieve significant results

Strategy is fundamental to the success and sustainability of an organisation, whether you are operating in an emerging or mature category, or are a new or established brand. It forces you to think about your organisation's capabilities and the mechanics of the industry in which you operate. It defines what your organisation stands for, and how you want to compete, and it sets the direction for the whole organisation.

Bold strategic decisions and precise execution matter more now than ever before in today's rapidly changing environment, where the world is less linear and more fluid, with fast changing customer behaviour and intense competition.

Effective strategy requires focus. Given resource constraints, strategic decisions must involve making trade-offs – Strategy is as much about what you choose to do, as it is about what you choose not to do. Therefore, to reignite or accelerate growth, you need to reallocate resources to focus on those activities that will deliver the highest impact.

However, making the right strategic decisions on where to focus and allocate resources can be challenging. As a consequence, important strategic decisions often resort to being based on partial information and gut feel. Although intuition and gut feel are valuable as a starting point to strategy, it is risky to base the future direction of an organisation solely on this – you will either be lucky or wrong! Furthermore, an essential part of strategy is effective implementation, and it is hard to obtain a shared buy-in to the strategy based on one person's gut feel.

For these reasons, a more structured and data-driven approach to strategy is required to manage complexity, obtain buy-in and support better strategic decisions. At 20/20 Strategy, we have devised a data-driven approach to strategy that involves deconstructing the market to develop a deep understanding of customer behaviour, the market and competitor dynamics, and the drivers of brand performance, to identify growth opportunities and build alignment on the optimal strategy to pursue. This ensures strategic decisions are based on a clear understanding of the big picture, as well as the underlying detail.

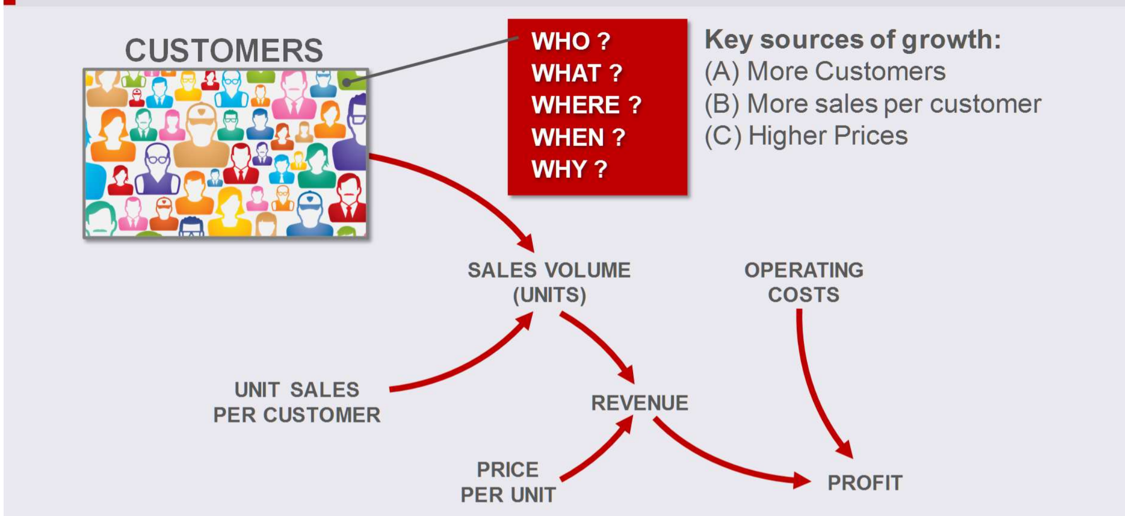
The three core components in our approach to strategy development are as follows:

- Disaggregate the drivers of growth
- Adopt a customer-centric perspective
- Evaluate strategic trade-offs to prioritise focus

DISAGGREGATE THE DRIVERS OF GROWTH

To manage complexity and to help guide strategic decision-making, it is important to disentangle what drives performance. Top-line profitability and revenue targets are key performance metrics, however, they fail to provide insight into how to drive growth. As a starting point, you need to disaggregate the underlying components of performance, through explicitly distinguishing between the number of customers of your brand, the amount they consume, and the amount they pay (see Figure 1).

Figure 1 Disaggregating the drivers of growth



This simple disaggregation already sheds light onto the three sources of growth for a brand – More customers, more sales per customer, or higher prices – or a combination of these. Each of these sources leads to different growth priorities and activities.

A common error in setting strategic targets is simply extrapolating top-line revenue and profitability forward, without understanding how the underlying components of performance have been evolving. This often leads to unrealistic expectations, and over optimistic growth targets if the brand had experienced high growth in the recent past. Through breaking down performance into its separate components, the mechanics of growth become clearer. The next step is to understand customer behaviour and choices.

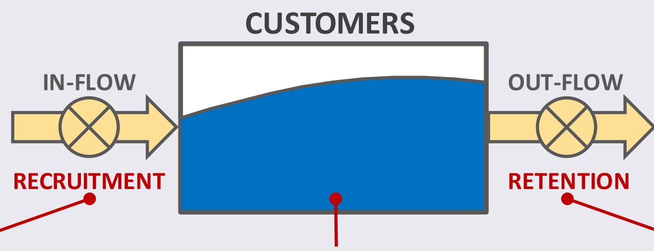
ADOPT A CUSTOMER-CENTRIC PERSPECTIVE

Brands exist to serve customers. Strategy formulation requires getting into the mind of your customers and those you want to target, and answering important questions about your brand, relative to competitors:

- **Who** are your customers? — **SOCIO-DEMOGRAPHIC PROFILE (E.G., GENDER; LIFE-STAGE; INCOME)**
- **What** is their purchase and usage behaviour? — **HEAVY VS. LIGHT USAGE; LOYAL VS. PORTFOLIO**
- **When** do they consume your brand? — **NEEDS STATES; USAGE OCCASIONS**
- **Where** do they purchase your brand? — **CHANNEL USAGE, PREFERENCES**
- **Why** do they choose your brand? — **CHOICE DRIVERS, ATTITUDES, PREFERENCES**

A brand's customer base is a dynamic evolving group of people – the customers you have today may not all be the same people who were customers last year. Brands are constantly attracting new customers, as well as losing customers. Recognising how your customer base is evolving, and asking the questions in the right context provides significant insight into brand performance. To provide structure to this perspective, we have applied an engineering-based approach, *Systems Dynamics*, to map customer behaviour and identify growth opportunities (see Figure 2).

Figure 2 Understanding Customer Dynamics



- **How many** customers are choosing your brand?
- **Who** are they?
- **Where** are you sourcing them?
- **Why** are they choosing you?

- **How many** customers are using your brand?
- **Who** are they?
- **How much** do they consume?

- **How many** customers are leaving your brand?
- **Who** are they?
- **Where** are they going?
- **Why** are they leaving?

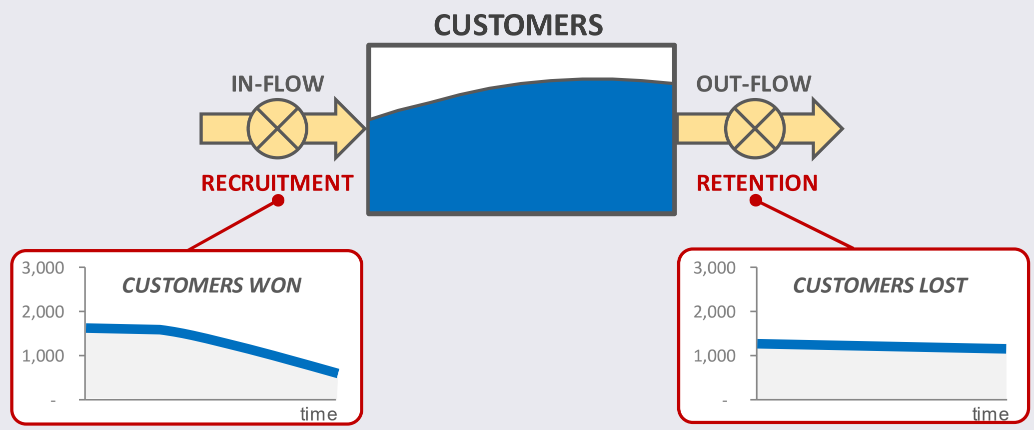
The number of customers of a brand depend on the rate at which that brand is winning new customers (in-flow) and losing customers (out-flow). Quantifying and tracking these customer flows builds a richer picture of customer behaviour and provides unique insights into brand performance, and helps to pinpoint where to focus. Furthermore, different customer flows require different marketing actions. Profiling who is joining and leaving your brand and the reasons why, provides insight into what actions are required to improve customer recruitment, increase loyalty or prevent customers from switching to competitors.

"Tracking customer flows provides unique insights, and a new dimension to developing strategy"

The approach in Figure 2 can be applied across different sectors, from consumer goods (e.g. the number of customers using the brand), telecoms (e.g., number of subscribers to a mobile provider), financial services (e.g., number of credit card holders) or pharmaceuticals (e.g., number of Physicians prescribing a drug).

In a recent case example (see Figure 3), sales volumes for a consumer brand had started to stagnate. Our research confirmed that this was due to an underlying decline in the number of customers, resulting from a 'Recruitment' issue – there had been a downturn in the number of customer choosing the brand. By tracking the changes in the customer flows, the strategic priority became clear – to reinstate growth required allocating resources to focus on improving customer in-flows. Through further in-depth analysis of the drivers of brand recruitment, and working closely with the brand team, we identified specific initiatives to activate recruitment for the brand. As a consequence of this focus and targeted initiatives, double-digit growth was reinstated for the brand.

Figure 3 Quantifying Customer Flows – *Simplified case example*



Not all customers are equal. Some customers are heavy users and generate significant value for a brand. Deconstructing how brand value is distributed across your customer base will help you distinguish between your high-value customers, and those that only use the brand occasionally, or not at all. Segmenting your customer base into distinctive usage groups in this way can help to provide insight into another important, but often overlooked, growth opportunity – 'usage frequency'. This can be represented explicitly by a customer flow from 'low brand users' to 'high brand users'. Managing customer migration and increasing usage frequency among people who are already customers of your brand can represent a significant growth opportunity.

Tracking customer flows provides unique insights, and a new dimension to developing strategy. Furthermore, timely tracking of customer flows helps to assess whether initiatives are having the intended impact on brand performance over time, and can help to flag issues early to prompt decisions to stop the bleeding quickly.

EVALUATE STRATEGIC TRADE-OFFS TO PRIORITISE FOCUS

Failure to make strategic trade-offs is a common error, resulting in a lack of focus, poor alignment and ineffective implementation. Making strategic trade-offs requires identifying those areas that will have the biggest impact on performance, and evaluating whether these strategic priorities will need to evolve if the market and competitive environment changes.

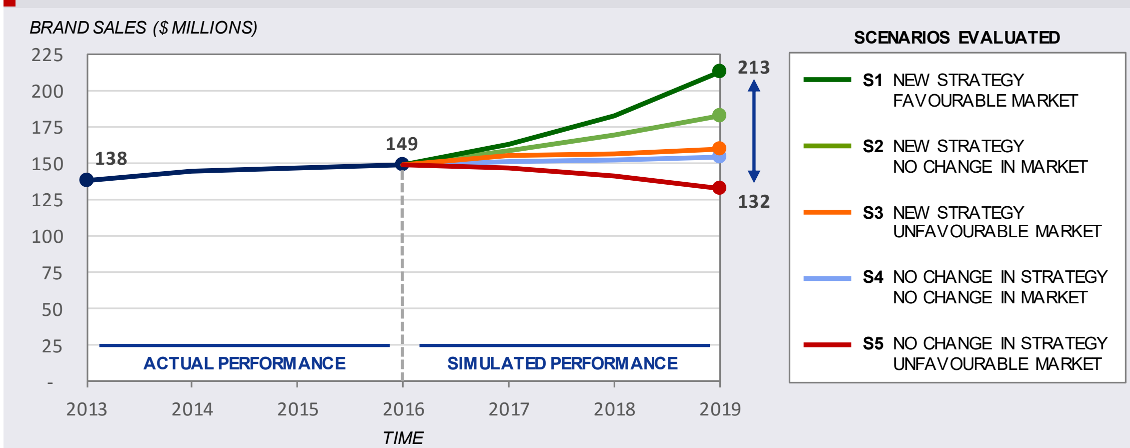
Once the customer flows are mapped and populated with data, you can evaluate the impact on brand performance arising from improvements in each of these flows. This will help to pinpoint the areas which will have the biggest impact on performance, so you can start to prioritise your investment in growth.

A key aspect of strategy involves understanding possible futures to inform present decisions. The aim is to see the future before others do, in terms of how the competitive environment, market conditions and customer behaviour could change. This foresight allows you to craft strategic moves to shape the future to your brand's advantage, and helps to identify the indicators to monitor to ensure you do not miss a strategic turn.

> ***"Strategy involves understanding possible futures to inform present decisions"***

Scenario modelling is a powerful facilitator, particularly when scenarios are articulated in relation to their impact on customer flows. It forces you to think rigorously and systematically about the future environment. It allows you to test your assumptions and acquire a real sense of the likely outcomes of a strategy under different market conditions and scenarios over time – see Figure 4.

Figure 4 Evaluating the Impact of Scenarios on Brand Performance



In the case example above, the new strategy should drive growth in sales even if market conditions become unfavourable (S3), and is expected to accelerate growth from $149M to $213M if market conditions become favourable (S1). However, failing to implement the new strategy could result in sales declining to $132M (S5). Evaluating the impact of scenarios gives you greater confidence that you are doing the right thing.

By adopting a customer-centric and data-driven approach to formulating, tracking and refining strategy, you can uncover hidden growth opportunities, satisfy customer needs, and make better strategic decisions that will help your brand thrive and stay ahead of the curve.

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We provide a thorough and data-driven approach to strategy, that supports better strategic decisions.

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