

Data-driven
strategies for
survival and
growth

kapeesh.



Pareto distribution | Bottom-up measurement | Profit-based metrics

Customer | Product | Media

Follow the money

Divest loss-making assets

Invest in existing value segments

Descriptive – what happened.

eg. Who bought what & when. What worked?

Predictive – What's likely to happen.

eg. Which customers are likely to buy again

Prescriptive – What to do (to achieve a goal).

eg. What's the optimal price to maximise profit

While machine learning & AI will increase scale, speed & automation, anyone can do this.

1. Value is never evenly distributed
2. Averages hide ugly things - go granular and build back up.
3. Using metrics that reflect commercial impact
4. Follow the money

The “80/20 rule” may be a cliché but the Pareto distribution is everywhere.

Revenue opportunity, and risk, is concentrated at the top.

Cost ‘sinks’ tend to be exposed at the bottom.

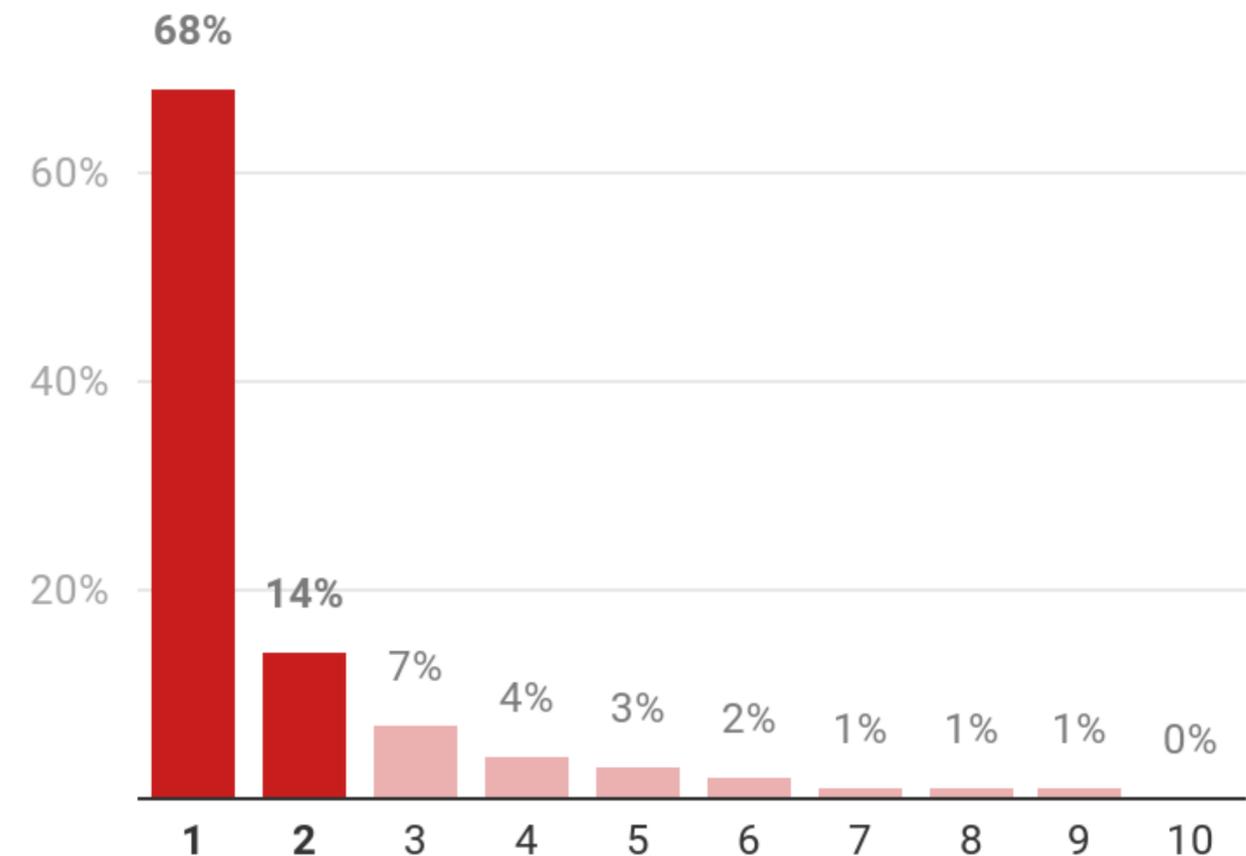
In disruptive times it’s good to preserve as much value as possible and cut - even aggressively - in areas that won’t hold back recovery.

Follow the money.

Improving a valuable asset (eg a loyal customer) is generally easier, faster and cheaper than transforming 20 poor performers.

20% of customers > 82% of sales

Customers ranked into deciles by 12-month sales



Customers segmented into deciles by sales

Created with Datawrapper

Google Shopping (Top Down Report by Campaign)

Campaign	Clicks	Cost	Conversions	Conv_Value	Rev_ROI	COS
Trade Offers - March 2018	1,335,409	£167,422	7,347	£798,191	4.8	21.0%
Key SKUs	1,051,379	£178,771	9,257	£804,272	4.5	22.2%
Promotions - January 2018	707,402	£108,297	4,900	£517,797	4.8	20.9%
Other	2,296,683	£469,600	18,542	£2,293,096	4.9	20.5%
Total	5,390,873	£924,090	40,046	£4,413,355	4.8	21.3%

Google Shopping - Bottom up by item performance

Quintile	Items	Clicks	Cost	Conversions	Conv_Value	Rev_ROI	COS
1	6,194	4,228,557	751,393	38,821	4,406,423	5.9	17%
2	6,958	14,705	1,516	12	207	0.1	733%
3	6,875	29,725	4,261	28	1,207	0.3	353%
4	6,813	75,213	11,425	77	1,574	0.1	726%
5	5,903	1,185,903	191,567	2,400	117,376	0.6	163%
	32,743	5,390,873	924,090	40,046	4,413,355	4.7	0%

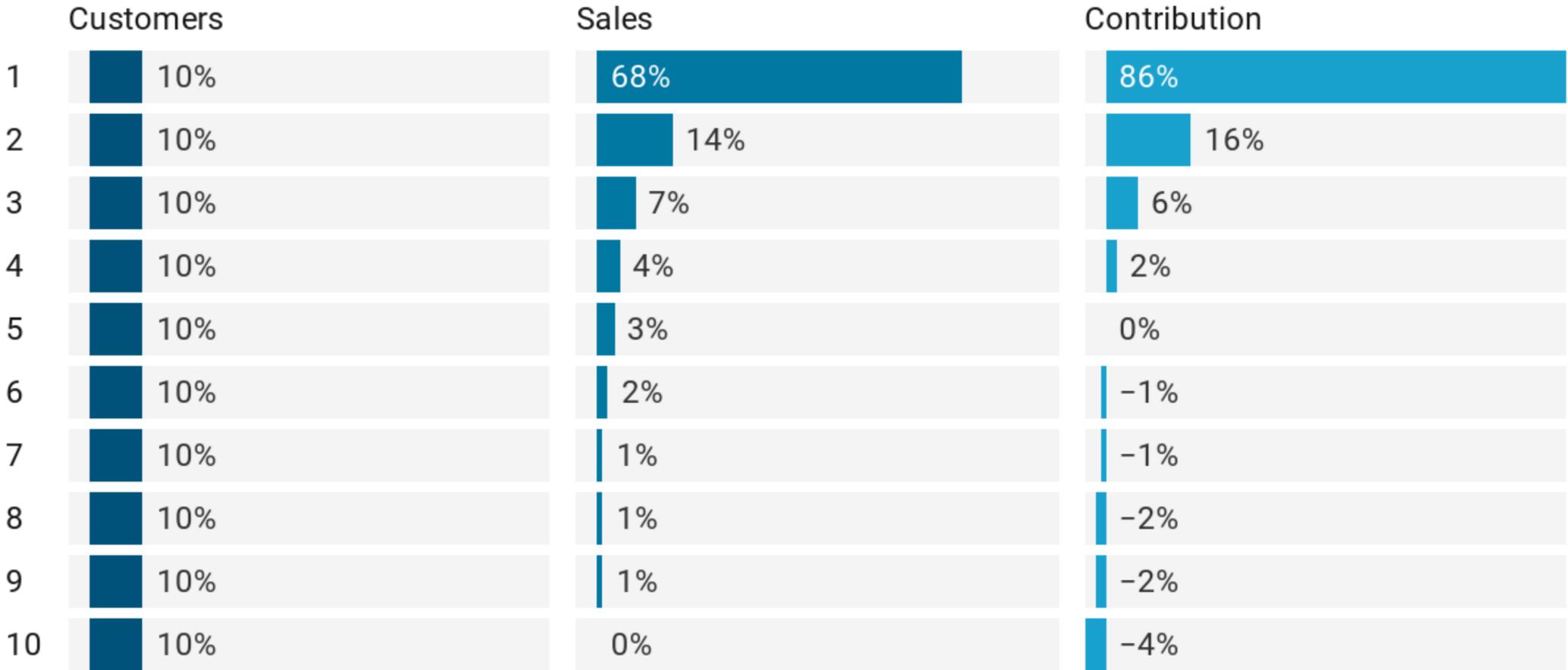
Value Metrics in Marketing

Measured at a granular level	Customer	Product	Media
Almost always	Revenue Gross margin	Revenue Gross margin % Cash margin	Conversions Revenue Cost ROI / ROAS (basic)
Often	Retention (gross) Cost to serve Growth / Decline	Fulfilment cost Turn rate	Attributed sales Acquired customers
Sometimes	Lifetime value Retention (revenue) Risk	Contribution Velocity (hits) Popularity Elasticity Role	NPV Confidence interval Incrementality

Use Cases

Customer Value Distribution

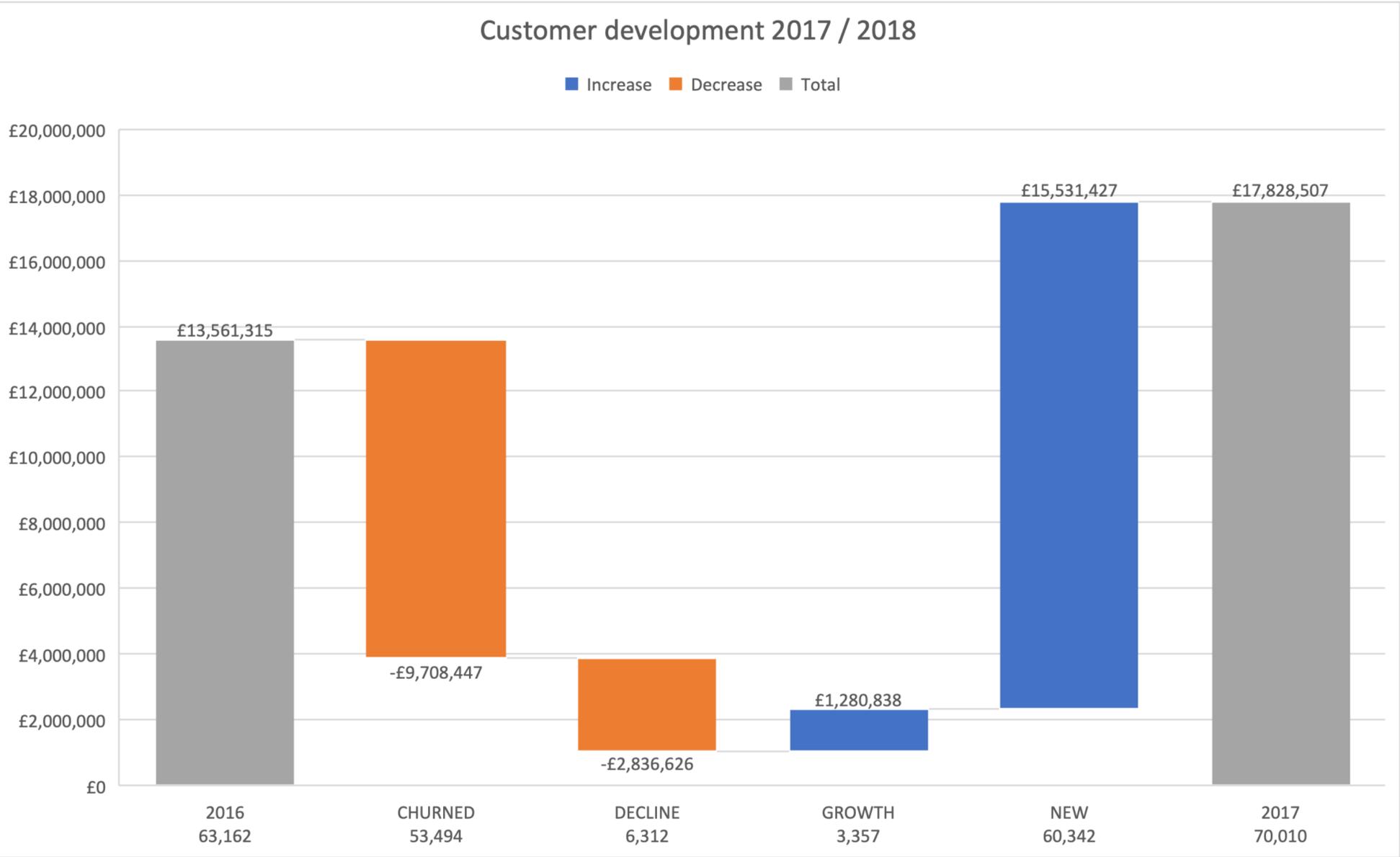
Percentage of total customers, sales and contribution after variable costs.



From a simple profit-based segmentation this £5m turnover business changed their customer management strategy.

- Realigned account management growing top segment sales.
- Changed CRM and marketing plan, re-allocating budgets.
- Executed a 'win-back' exercise that delivered £250k in 3 weeks.
- Put in place a 'high-potential' programme.

Customers segmented into deciles by sales



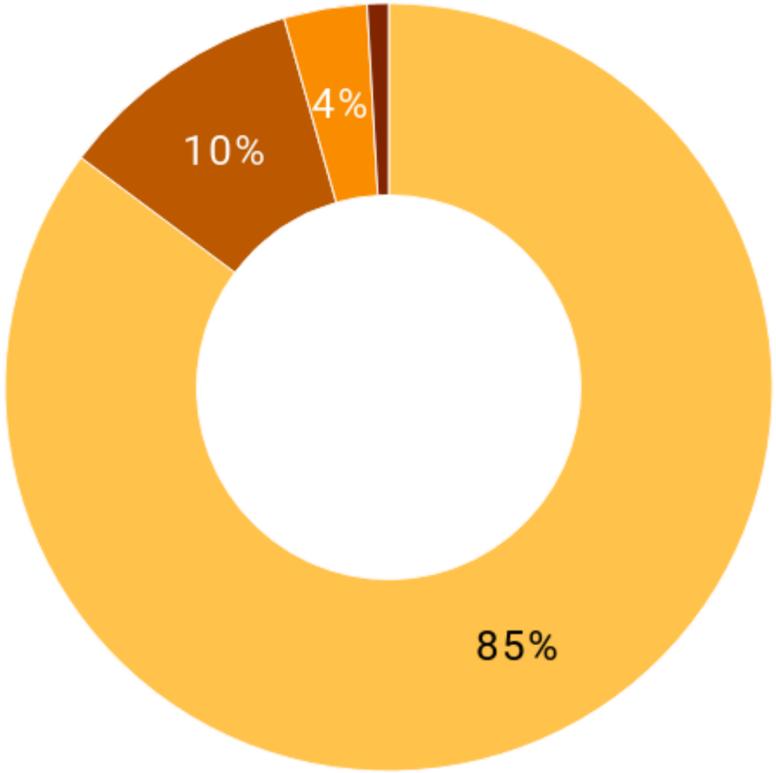
Marketing:
“Customer retention is 45%”
Finance:
“And that means?”

There’s often a disparity between vanilla customer retention (counting customers) versus a view based on spend or, better, profit.

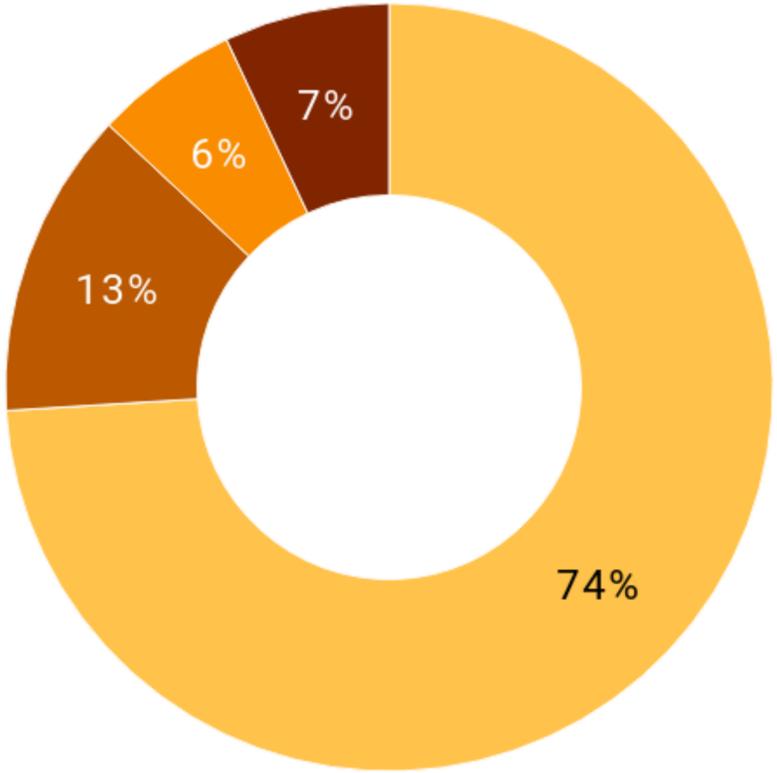
This consumer retailer is doing a lot of heavy lifting in acquisition and adjusted their strategy for existing customers after evaluating the impact of customer churn on revenues.

Lapsing Customer Risk

Active At Risk Lapsed Lapsed HV



%Cust



%Rev

This high-street retailer had a sales exposure from 'at risk' customers that wasn't apparent from the raw customer counts.

Defection risk or, conversely, propensity to spend are usually predictive questions - allowing segmentation that can focus resources, messaging, promotion strategies etc.

But rough recency / frequency / value analysis is a valid start

Source: Office Supplies • Created with Datawrapper

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1. Contribution-based segmentation of customer base and review of internal resource allocation (sales, advertising etc)
 2. Deal with customers who are a drain on cash/profit.
 3. Add time dimension: revenue retention, growth, decline & super-loyalty.
 4. Find doppelgängers
 5. Service differentiation

The “long-tail” is widely understood, analysed and managed or exploited

But “Category > Sub-Category > Class > SKU > SKU Variant” hierarchies have the same ‘top down’ issues.

Business critical products are not defined by sales alone - some are below the radar.

- Cash margin
- Velocity (hits) = #times ordered
- Popularity = Proportion of customers buying
- Fulfilment (inbound, warehouse, opportunity cost & distribution)



Median £sales
 Very fast moving
 Poor cash
 Problem (price)



Not top £sales
 Very popular
 High cash
 Profit driver



Not top £sales
 Very fast moving
 Mid cash
 Footfall

Web to Store Exceptions

Top products underperforming online

SKU	Description	Cash (£k)	Sales (£k)	Margin_rank	Hits_rank	Sales_rank	Comment
437624	*Xerox Performer A4 80gsm 1RM	201	374	15	10	30	Not listed on web
418925	CONCORD A4 RING BINDER ASST	55	91	124	13	217	Random colour supplied online
372457	ECON PUNCH POCK 100PK	106	146	44	14	132	Not listed on web
399013	A3 STANDARD COLOUR (90GSM)	394	414	6	15	26	Store only
377283	*CAMBRIDGE EVERYDAY REFILL PAD	31	65	264	19	304	Typo means won't appear in search results for Refill Pad
418926	CONCORD A4 LEVER ARCH FILE AST	43	80	181	20	245	Random colour supplied online
407913	SELLOTAPE 24X50 GOLDEN TAPE	18	39	549	28	513	
438657	TESA BASIC BROWN TAPE 50Mx48MM	40	58	199	29	350	Doesn't appear in searches for packing or packaging tape
383844	*STAPLES TECH ERASERS PK2	4	8	2	31	2	Not listed on web
419940	EASYTECH ELEC CARE £0-£100.99	130	267	32	33	51	?
437136	Canon Red Prsntn A4 90GSM 1RM	142	217	25	35	73	Below the fold

From 15,000 products a small team identified a realistic number to 'move the needle' & follow the money. Make high importance lines work harder now, then focus on the rest.

Top 100 SKUs 2019 vs 2018

	>20% Decline		-20% to +20%		>20% Growth	
	Products	Cash	Products	Cash	Products	Cash
High Margin >50%	11	70	39	248	15	59
Mid	18	79	31	134	17	83
Low Margin <35%	13	31	41	190	12	54

1. Rough & ready SKU profitability
2. Non-sales metrics to validate or augment 'must win' products. Think about role played and impact on promotion strategy.
3. Over/Under indexed products in channels or customer segments.
4. Price & demand elasticity

- **Exercise caution:** there are pitfalls in going granular that include attribution, statistical confidence, non-linear relationships etc.
- But, done well, granularity is powerful in identifying waste and creating competitive advantage.
- In the kingdom of the blind....



APPLE 10.2" iPad
(2019) - 32 GB,
Space Grey
£349.00

- Keyword: "ipad"
- CPC: £5
- Conversion rate: 2%
- Price: £349
- Gross profit: 5%
- Cash margin: £17.45
- Cost / conversion: £250
- Profit per unit sold: (£232.55)

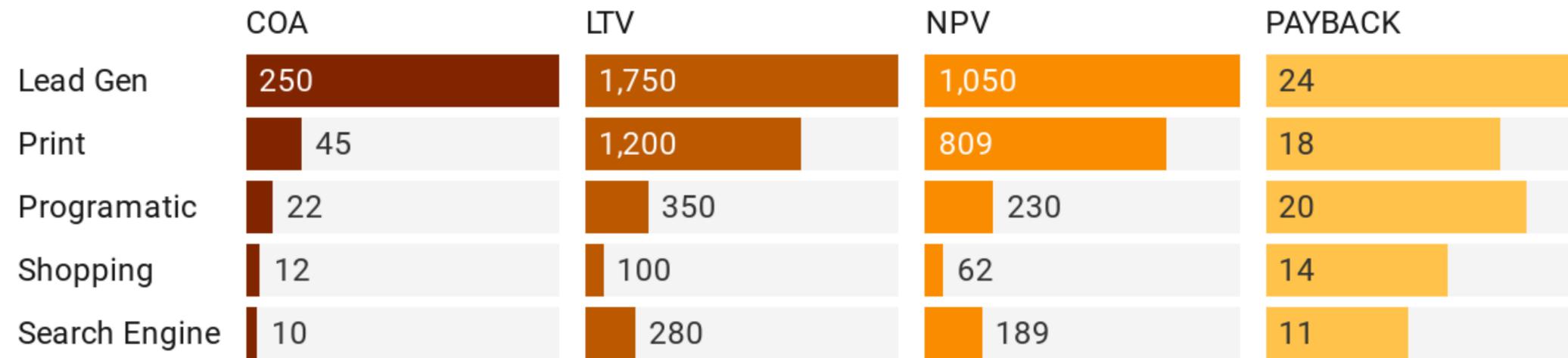
The importance of cost

Up to 20% of this retailer's spend was unprofitable.

Group	Cost	Conversions	Conv_Value	CONTRIBUTION	Rev_ROI	COS	Profit_ROI
1	751,393	38,821	4,406,423	1,451,819	5.9	17	1.9
2	1,516	12	207	-1,413	0.1	733	-0.9
3	4,261	28	1,207	-3,658	0.3	353	-0.9
4	11,425	77	1,574	-10,638	0.1	726	-0.9
5	191,567	2,400	117,376	-132,879	0.6	163	-0.7
	960,162	41,338	4,526,787	1,303,231	4.7	21	1.4

Acquisition performance (illustrative)

Based on a cohort of new customers



Disruption changes priorities.

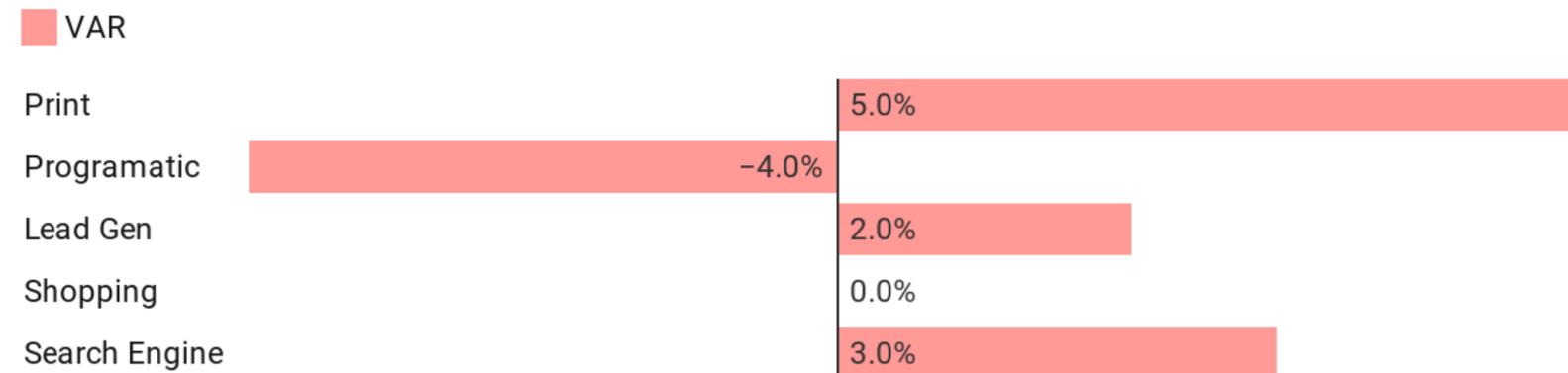
Expanding media metrics deeper than ROI or COA allows a different view on EBIT and cashflow.

Mix adjustment tends to be an optimisation (prescriptive) problem but now might be a time to evaluate.

Beware conflicting goals

Adjustments to media spend

To meet short-term recovery and cashflow objectives



Incremental benefit is not discussed enough.

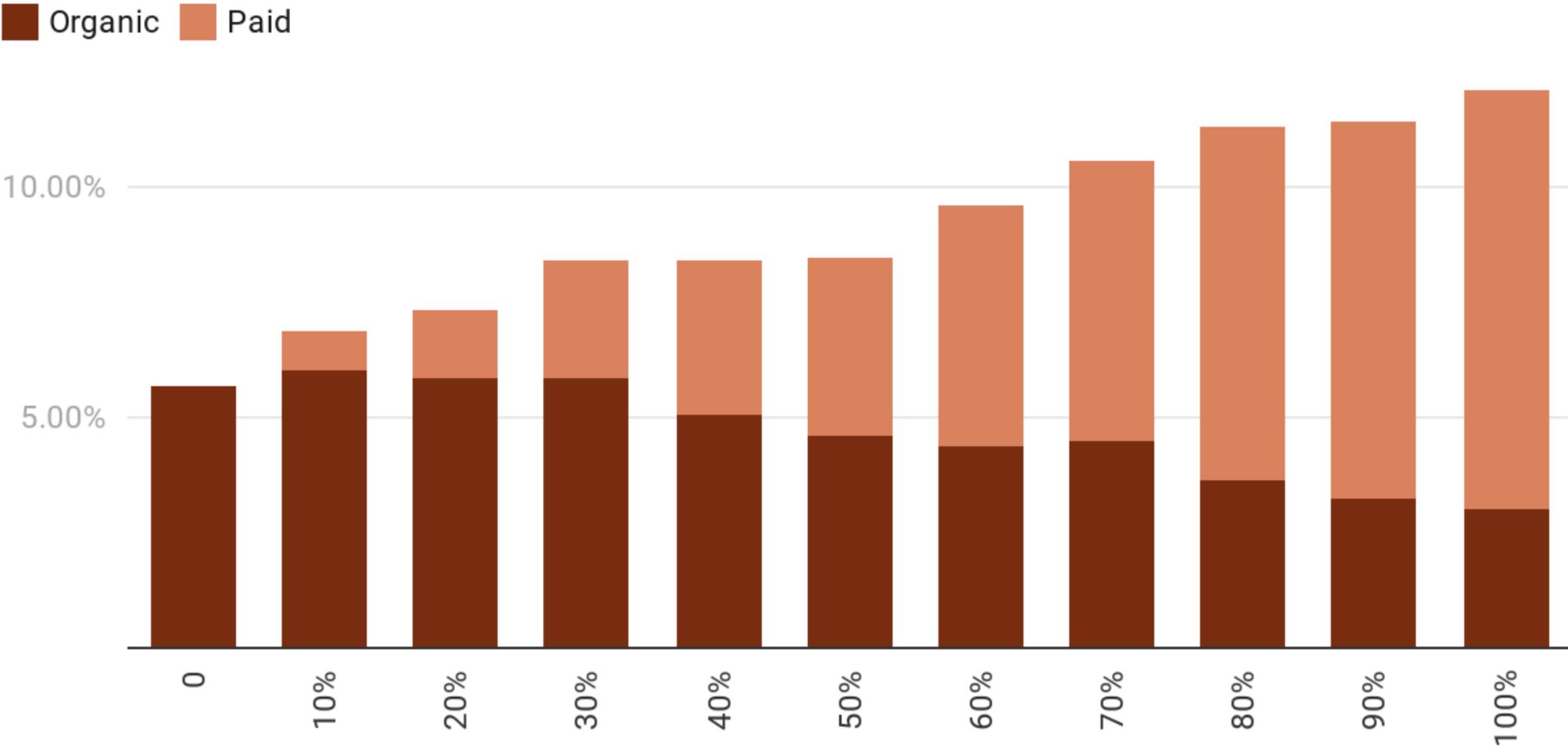
It's hard to measure and challenges our view of business performance.

But in a crisis, that's what Finance is asking.

What is the incremental impact of this action or this \$ spent.

Example of incremental value and cannibalisation

As money invested in paid search, users migrate away from organic clicks



1. Balanced approach to metrics that includes contribution & incrementality aligning media mix with financial goals and current reality.
2. Evaluate cash-negative activity & cut ideally where low or zero risk.
3. Use precursor metrics alongside value analysis to find under-indexed sources of value.
4. Finance-led reviews of agency performance.

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Cut losses