

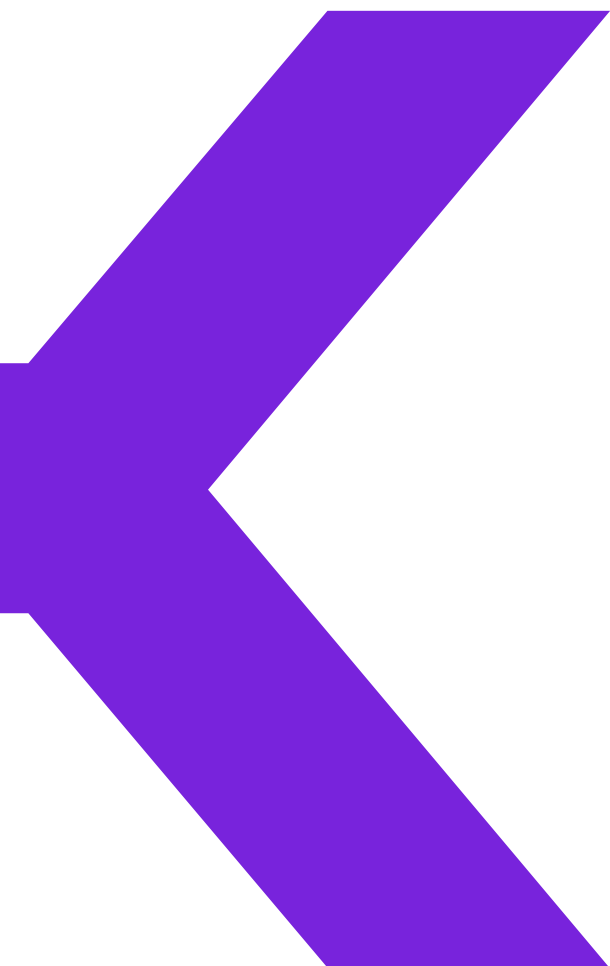


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Future of data and analytics: What am I not doing right with my first-party data?

Executive Roundtable
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KEARNEY

Four key takeaways

While some brands have been able to gain a competitive edge from their investments in first-party data, others have been challenged in developing an effective first-party data strategy.

For a number of reasons, companies are at very different places in their journey toward using first-party consumer data effectively. Most companies are moving away from third-party data, but some don't have ready access to first-party data because they lack direct consumer touch points. Others fear running afoul of privacy concerns. Still others simply lack the structure and capabilities to collect and utilize it.

But it's clear that those that come to excel at this practice will be able to generate new insights and unlock tremendous value. An efficient first-party data strategy has become a must.

In the latest Kearney data and analytics roundtable, senior-level business leaders across industries discussed key topics, trends, and opportunities in their lines of work. We focused on their experiences and challenges with first-party data and where they are in the journey to use it effectively. We came away from the discussion with four key takeaways.

1. A clear strategy is needed to effectively integrate and use first-party data to generate value

Between their cash registers, their e-commerce sites, and their apps, business-to-consumer (B2C) companies can capture vast amounts of point-of-sales data from their customers.

Businesses can use this first-party data to learn about customer preferences and behaviors to develop customer-specific models as input to promotional offers and campaigns that grow the top line. But this new focus on the value of consumer data is changing the company-consumer relationship, as companies must develop sharper value propositions and commit to security in exchange for access to first-party data.

Care has to be taken to collect only data that has been deemed essential for both cost and risk reasons. The potential for data breaches that could expose personally identifiable information (PII) is a risk no business should assume. "If you don't have a use for it, don't store it" has become a good rule of thumb.

The test/learn/measure approach is invaluable when trying to determine what data is needed to make offerings more relevant to consumers. For example, should offers be highly personalized, or is contextual targeting to broader groups of people the better approach? The overall data strategy will help determine what data and tech are needed, as well as what sort of security to utilize.

One B2C company notes that while it is behind some competitors in the United States in terms of how well it's using first-party data, it expects to achieve parity with the leaders within a few years. The company believes that the relatively deep knowledge it has of the 20 percent of its customers that use its apps to order allows it to correctly infer what its remaining customers want.

Second- and third-party data may be, as one participant noted, "useful but overhyped," at least for B2C businesses that have ready access to so much rich first-party customer data. However, consumer brands that do not engage in a significant amount of direct sales and businesses that are still making the transition to digital have to rely on externally generated data.

While third-party data is becoming less relevant, third-party service providers continue to bring value in other ways. It's important to consider which functions to outsource and what to keep in-house. Privacy issues mean care has to be taken around data access and storage, but external service providers are invaluable for developing data-driven advertising strategies and other data-related non-core competencies.

Our discussion on first-party data strategies revealed the following insights:

- Companies must evaluate their relationship with their customers and understand what business value can be generated from first-party data.
- It's best to validate exactly what data needs to be collected and how it will be used before asking for anything.
- For some, generating and employing first-party data is still on the "to do" list.

An effective first-party data strategy is a crucial initial step toward unlocking data's value. But it's also important to carefully consider exactly which data is needed.

2. Not all data is must-have data

One of the greatest challenges of living and working in the information age can be figuring out which information really matters. What's a genuine signal, and what's simply noise?

This question looms large around data; around the world, more than a trillion megabytes of data are produced daily. Only a fraction of the data a business generates or obtains has real value, and some of it brings privacy risks. Careful consideration should be given to which data should be stored and utilized.

First-party data is valued highly because it provides insight into what's going on within the business, making it crucial input for establishing and tracking known performance indicators (KPIs) that provide real-time awareness of consumer behavior.

Expensive third-party data is increasingly falling out of favor as businesses get better at collecting and using first-party data and more attention is paid to the ethics of third-party data collection. Increasingly, Web users can block third-party cookies and implement other anti-tracking techniques. The lack of exclusivity, too, reduces the value of third-party data—in most instances, the same data is available to multiple buyers, so two rival companies may both purchase it. The reliability of this data is yet another concern; verifying where data came from, and how timely or accurate it is, can be all but impossible.

Our discussion emphasized several key points about “must have” data, including:

- A few good, structured data points are much more valuable than a broad collection of inputs.
- Risks with PII can be very costly and dissuade consumer data collection for non-crucial activities.
- The cost of acquisition for new third-party data may not be justifiable.

Determining which data to store and use can be challenging. For many businesses, the next challenge to overcome is getting business users to demonstrate their willingness to put new technology to work by investing the time and resources needed for data projects to succeed.

3. Business users should have some skin in the game before pursuing new technologies and solutions

It sounds rather basic, but if a business unit is given a new capability for free or has a mandate for change forced upon it, the desired results are unlikely to be achieved and significant time and effort can be wasted. The solution provider needs to ensure that the business is actively engaged in data projects to verify that the technology will be used.

It starts with a clear business case that demonstrates how value creation and new revenues will be tracked, along with a strategy for funding. At least some portion of this funding should come from the business to ensure that the business will utilize the technology solution. Leaders calculate P&Ls for their digital efforts to help avoid losses on projects and increase buy-in to data efforts.

At companies that are in the early days of their digital journey, there may be resistance to adding new capabilities. Starting small and demonstrating initial successes can help to overcome this resistance, but some salesmanship will be needed. Internal champions should emerge as new capabilities unlock new value for the business, setting up a potential snowball effect as success helps to beget success.

Companies that have embedded digital into their operations pride themselves on their ability to deliver practical applications and the fact that their code gets used rather than shelved. Strong program management discipline helps them achieve results, as they stay within budget and follow timelines. Employing the principles of the agile software development process and dividing projects into manageable portions helps teams to stay on track while also keeping the data group fresh due to the variety of projects they get to work on.

Our discussion on the need for business users to have skin in the game on data projects highlighted several insights:

- If a solution is built for free but requires some change management effort, there's a real risk that the solution will not be adopted by the business user. Business engagement and investment help to ensure that the solution will be used.
- Success with initial data projects can get the ball rolling and accelerate progress.
- It's crucial to have strong business discipline and stick to the timeline and budget.

Obtaining buy-in from the business sets it on the path to new data-powered successes. But due to legacy issues, some businesses are challenged to gather their own data in the first place.

4. Analog and product-oriented businesses are behind in the quest to take advantage of growth opportunities in an increasingly digital world

While we often talk of the digital divide in society, there appears to be one in the business world as well. While factors such as wealth and geography can pose barriers in society, in business it's often a matter of what a company does that may leave it lagging in the race to digitize, as many analog and product-oriented businesses have fallen behind.

But the move toward digital continues in all industries, and companies are advancing in their capabilities. In the realm of first-party data, companies that lack traditional customer touch points at the point of sale are cognizant of data's value and finding ways to use it to grow revenue by, for example, building digital into products such as tools and appliances that are connected to the Internet of Things (IoT). Consumers crave exciting new features, and connecting their purchases to the Internet has the added benefit of providing new insights into how they use them.

Analog and product-oriented businesses have to innovate to craft a first-party data strategy as they make the move to digital. They need to prepare the business for the transformation journey before developing the required organization, governance structure, and processes, along with the architecture to store, process, and consume data. New KPIs may be needed to determine the degree to which these new capabilities are benefiting the company.

Starting small and scaling up over time as successes accumulate is a proven strategy to advance digital and data capabilities. Going too big too fast can actually be counterproductive as a company can get caught in the trap of developing capabilities before it has realistic business or use cases for them.

Our discussion highlighted several key points related to how traditional businesses can catch up in the quest to become digital:

- Finding creative ways to digitize products and understand user behaviors can provide new insights and information.
- Developing the proper operating model structure (data tech stack, governance, organizational structure, and so on) is key.
- Just because something can be done doesn't mean that it should be done—the business case is paramount for any technology project.

Kearney would like to thank the panelists for sharing their valuable insights. The objective of this ongoing series of interactions is to build a community of data and analytics leaders across industry who can exchange and collaborate on data- and analytics-related challenges. We look forward to our next roundtable in the second quarter of 2022.

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