

PERSONALIZATION IN THE ERA OF THE EMPOWERED CUSTOMER: REAL-TIME VS. TRADITIONAL

May 2017

This document compares the benefits observed by companies using traditional methods of personalization versus those that use real-time personalization. We'll highlight the differences between the two approaches, and delve into how technologies, such as machine learning and artificial intelligence, enable firms to deliver truly personalized customer conversations.



Definition: Real-time Personalization

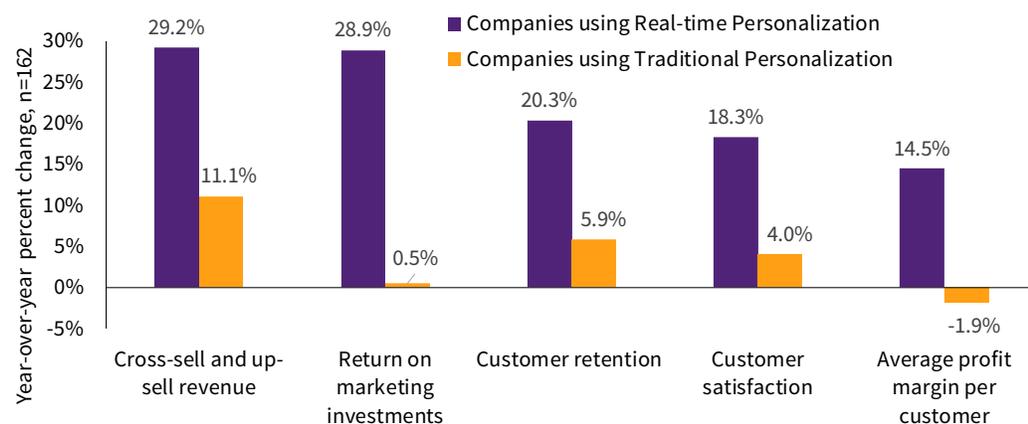
For the purposes of this research, Aberdeen defines *real-time personalization* as an approach where companies go beyond traditional tactics of personalization (e.g. segmenting consumers by demographics or previous purchase) to tailor conversations.

Instead, companies using real-time personalization blend technology capabilities such as machine learning and artificial intelligence to uncover the connection between myriad factors and shopper behavior. They use this information to deliver one-to-one conversations across each channel – in real-time.

We're living in the age of big data. Yet, research shows that only 5% of businesses are fully satisfied with their ability to deliver truly data-driven customer conversations.

The term "data-driven conversations" refers to companies using historical and real-time customer data, captured across numerous channels, to personalize each conversation and ensure consistency. As depicted in Figure 1, companies following a traditional approach to personalization fall considerably behind those that follow a real-time approach (see sidebar).

Figure 1: Dynamic Personalization Drives Customer Satisfaction & Financial Success



Source: Aberdeen Group, May 2017

20%

of businesses currently use real-time personalization. This provides these brands with an opportunity to distinguish by getting personalization 'right' – in a timely fashion.

Before taking a closer look at the performance impact of both approaches, let's first define how real-time personalization differs from traditional methods. Typically, brands use existing (historical) data to segment customers. This might be done by monitoring the web visitation history by observing the product pages visited by a specific buyer.

For example, a buyer observing content about snow tires might be segmented to the category of 'winter products'. This would then prompt the business to observe other buyers in the same segment. The results from this analysis might show that consumers buying snow tires are also more likely to buy winter jackets. As a result, the brand would personalize the content displayed on the commerce site by recommending winter jackets to the buyer. While the recommendation is done in real-time, the data used to draw these recommendations are often historical data, and hence might not reflect current consumer preferences. For example, consumers buying snow tires over the past two days might have purchased more gloves than winter jackets.

Traditional methods of personalization that largely rely on segmentation, such as the one described above, are better than a 'one size fits all' approach where brands don't tailor their messaging at all. However, **there is a better way than traditional methods** – those that rely on a 'one-to-few' approach where the brand personalizes conversations based on historical data from a group of customers. **That approach requires firms to follow a 'one-to-one' model where conversations are personalized on an individual level – using real-time data.** This is referred to as real-time personalization.

Data from Aberdeen's February 2017 [CEM Executive's Agenda 2017: Data-Driven Approach to Delight Customers](#) study shows that 20% of brands currently use real-time personalization as part of their customer experience programs. The March 2017 [Cognitive Customer Experience: The Future is Here](#) study also shows that businesses plan to increase their adoption of technologies (e.g. machine learning, AI, natural language understanding (NLU) and

speech analytics) needed for real-time personalization. Collectively, these findings signal that more businesses will turn to real-time personalization, as adoption of supporting technology capabilities will provide the means to do so.

A Closer Look into the Business Benefits

It's important to note that adoption of technology capabilities by themselves are not enough to achieve success. Companies must also establish and execute a well-planned program to attain the results depicted in Figure 1. Specifically, companies using real-time personalization enjoy superior results across three categories:

Companies using real-time personalization achieve 4.6-times greater annual improvement in customer retention rates.

- ➔ **Customer experience:** Firms using real-time personalization achieve 4.6-times greater annual improvement in customer satisfaction rates and 3.4-times greater annual increase in customer retention, compared to those using traditional methods. Achieving such results necessitates that companies build a unified view of customer conversations across all channels – an endeavor that requires eliminating data silos by integrating all enterprise systems (e.g. CRM and e-commerce) capturing account data. Use of this data, in combination with capabilities such as machine learning and AI, helps companies better understand every consumer (both the interaction and intent). Such deep levels of understanding ultimately helps drive real-time personalization.
- ➔ **Financial performance:** Companies using real-time personalization lead others by growing customer profit margins by 14.5% year-over-year, compared to 1.9% by those using traditional methods. Furthermore, these businesses improve cross-sell / up-sell revenue by 2.6-times more than companies using traditional methods (29.2% vs. 11.1%). Achieving these results requires a deep understanding of the factors that frustrate customers and drive unnecessary costs. Use of capabilities such as

Definition: Return on Marketing Investments (ROMI)

For the purposes of this research, Aberdeen defines 'ROMI' as a performance measure reflecting the total incremental lift in company revenue influenced by marketing activities across all channels.

Definition: Chat Bots

For the purposes of this research, Aberdeen defines 'chat bots' as a technology capability referring to intelligent assistants.

Chat bots use technologies such as machine learning, natural language understanding (NLU) and artificial intelligence (AI) to understand the context of each consumer conversation and use these insights to deliver personalized messages.

These assistants can handle customer conversations through numerous channels, including voice, chat, and messaging (e.g. text and in-app).

A side benefit of using these digital employees, aside from the ones depicted in the previous slide, is that these employees are available 24/7 to answer buyer needs.

machine learning and AI helps analyze complex data across numerous systems to reveal these insights.

- ➔ **Operational efficiency:** This category refers to companies getting more out of their existing activities, including marketing. To this point, Figure 1 shows that firms using real-time personalization achieve an astounding 28.9% year-over-year growth in return on marketing investments (ROMI – see sidebar), compared to only 0.5% by others. Achieving such drastic improvements requires the use of analytical capabilities such as predictive analytics to determine the likelihood of a buyer responding favorably to a marketing message, and comparing the likelihood of a favorable response against numerous alternatives to determine the next best action. Once again, use of capabilities such as machine learning and AI are instrumental in automating this analysis and helping companies with real-time personalization.

The Role of Chat Bots in Real-time Personalization

Use of cognitive technologies such as NLU and AI also provide companies with new opportunities to deliver more immersive consumer interactions. Specifically, companies can build chat bots (see sidebar) that can serve as personal shopping assistants for buyers. For example, a consumer looking to purchase new furniture from IKEA can have a conversation with a chat bot to ask questions about item availability, color, size, delivery options, etc. Similarly, a buyer looking to purchase a Honda vehicle can have a conversation with a chat bot to learn customization options, color variety, availability, and service plans.

The use of chat bots helps companies reduce customer effort by alleviating the need to browse an e-commerce site for relevant information, visit a store, or navigate a complex interactive voice response (IVR) menu to speak with an employee. Chat bots can be used to manage conversations through the web as well as other channels such as text message and in-app messaging (e.g.

Companies have traditionally followed a 'one-to-few' model to personalize. This should now be replaced with a 'one-to-one' model – that brings a more dynamic approach to personalization.

Facebook Messenger and WhatsApp). Such variety brings convenience to buyers, as consumers can interact with a chat bot at the time of their choice, without the need to stay on the phone or take time out of their day to visit a store.

Key Takeaways

Personalization is not a newcomer to the customer experience toolbox. However, brands have struggled with tailoring each conversation to each individual customer. This is largely due to the complexities in understanding the context of each customer conversation, and interpreting how different factors impact customer behavior.

Companies have traditionally followed a 'one-to-few' model of using historical data to segment buyers into different groups. This led to personalization efforts governed by the assumption that buyers in each group have similar needs and would thus react in similar ways. However, this has started to change as technology capabilities such as machine learning and AI have matured, and companies have started incorporating them within their technology toolbox. These technology capabilities provide companies with the opportunity to transform their traditional approach to personalization to one that delivers one-to-one interactions in real-time. This will help firms better align their activities with rapidly-changing buyer expectations, and better compete across numerous areas, including customer experience, financial success, and operational efficiency.

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