Industry Point of View:
The Rising Importance of Customer Data Privacy in a SoLoMo Retailing Environment

Over the last 5 years retail has become almost unrecognizable from the previous 50. Well documented drivers of this change include the recession and the subsequent slow spending recovery, the pervasive adoption of consumerized technologies such as smartphones and the growing consumer comfort with eCommerce. The convergence of these powerful trends has conspired to make the shopping cycle non-linear and discontinuous, creating digitally rich retailing environments where retailers are left vying for the fickle loyalty of a more value conscious, channel-agnostic consumer.

From a business goal perspective, retailers' growth drivers are straightforward – increase their share of the consumers' wallet, and improve the mutual value and profitability of long-term customer relationships. It is in this context that the importance of deeper customer insight is underscored. Understanding the customer better than the competition and possessing the ability to accelerate action based on such insight can be the elusive differentiator retailers seek in a hyper-competitive environment.

A corollary of this digitization of the retailer-consumer relationship is that shoppers display a "digital body language" that retailers have the opportunity to understand and interpret. They have access to more customer data from a greater number of sources than ever before. Each customer engagement – be it in the store, on social media, via smartphones or through customer service channels – leaves behind a valuable information trail. With data storage costs reducing rapidly and advanced analysis and visualization tools available to retailers, retailers have all the tools necessary at their disposal. The opportunity and potential business impact of a retailer developing deeper customer insights has never been greater.

In separate EKN studies in 2013, retailers have acknowledged the strategic nature of customer insights, rating it the #1 goal from analytics initiatives as well as the top expectation of retail marketing executives from technology solutions. The retailers' analytics maturity however belies this stated intent.

Strategic use

83%
of retailers rate themselves as lagging behind or at par with competition in terms of the use of customer analytics

Advanced analytics

More than
60%
of retailers are only capable of basic analytics or basic reporting, forgoing the opportunity of more advanced analysis leading to deeper insight

Data & system integration

Less than
30%
of retailers integrate data from sources such as social media, mobile and public data into their customer insights initiatives

Organizational alignment

58%
of retailers want to move to a shared services structure for analytics teams whereas
71%
currently staff analysts within individual departments

Delivery & consumption of insights

#1 challenge :
inability to deliver insights to the right resource at the right time

### Investment in tools & technologies

Nearly
70%
of retailers state they plan to invest in Big Data solutions and predictive analytics capabilities in the next 2 years

As retailers improve their analytics capabilities by integrating more data, handling a greater volume of data and infusing insights in a larger number of use cases across the enterprise, the challenges they face will also evolve. In 2012, retailers stated the volume of data as their biggest data management challenge. At the time, we highlighted that we did not expect this to be the case for long and pointed out that retailers with higher analytics maturity found the variety of data to be a greater challenge. In 2013 managing the volume of data is rated the *least* of their challenges and data variety has clearly emerged as the #1 challenge.

Data variety, in turn, is a function of the exponential increase especially of unstructured and semi-structured data. Retailers' data management processes and technology has traditionally been geared towards structured, enterprise data. This explosion of unstructured data and a more open outlook towards data integration (integrating external data such as from social networks, public sources and 3rd party providers) is at the heart of retailers' data management challenges.

Top data management challenges in managing unstructured data

(Figures are percentage of total respondents)
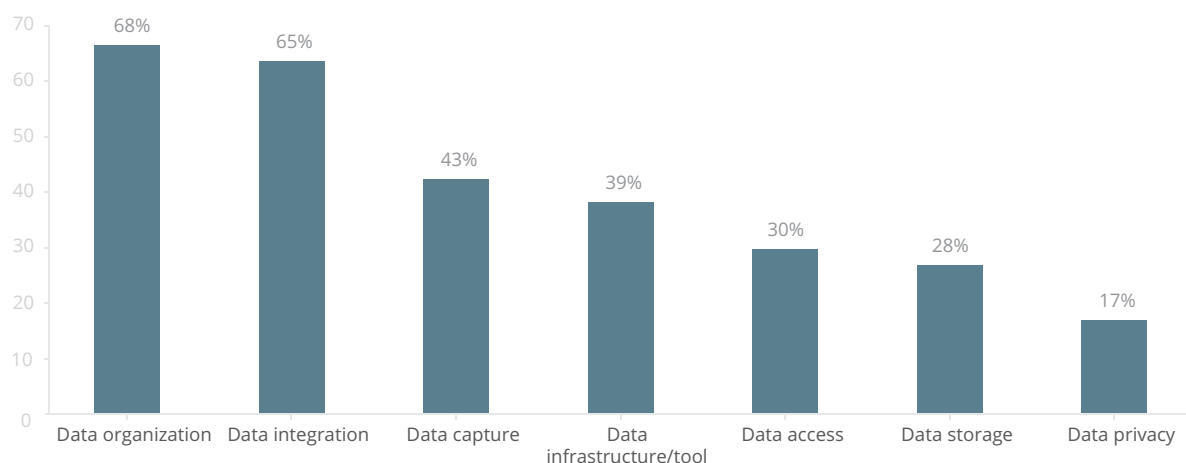
Source: EKN's 2013 Big Data in Retail report

Given retailers' relatively nascent analytics capabilities, their current focus is on organizing and integrating this data; on experimentation and exploration; on gradually advancing the capabilities they need to subsequently leveraging customer insights in more advanced scenarios. In that context, in 2013 retailers have rated data privacy as the least of their unstructured data management challenges.

However, as retailers integrate more customer data into their analytics initiatives, especially social, mobile and location data, and they overcome the teething issues of data organization and integration, privacy will emerge as one of the most important considerations for retailers in 2014 and beyond.

The Increasing Importance of Managing Data Privacy

Retailers have aggressive plans to integrate customer data from a variety of sources over the next few years. Some sources, such as mining social networks, GPS location data from smartphones, and in-store facial recognition and video analytics, will create sensitive, personal data that retailers will need to secure and protect as a matter of managing business risk. What they do with this data will also be an important balancing act, ensuring they provide value to customers while avoiding the "creep factor".

Retailers' focus on SoLoMo data

Current state

69%
Store (POS transaction data)

65%
Online

43%
Loyalty or CRM data

emerge as the top 3 sources of data retailers already integrate as part of their analytics initiatives. Yet, this integration is far from being an industry standard

Future state

Social (So)

90%
of retailers plan to integrate social media data into their analytics initiatives by 2015, up from 30% currently

Mobile (Mo)

84%
of retailers plan to integrate mobile data into their analytics initiatives by 2015, up from 25% currently

Location (Lo)

60%
of retailers will provide free Wi-Fi to customers in-stores by 2015 compared to 22% currently, enabling retailers to track in-store customer location

The following 4 factors will strongly influence the need for retailers to develop a game plan to tackle data security and privacy:

- **Cloud-based storage and SaaS analytics tools:** The use of cloud-based storage and Software-as-a-Service providers is inevitable. The cost structure of IT and the expected ROI from analytics initiatives does not support a move to in-network storage expansion for all retailers. Even if retailers move to a private or hybrid cloud model for larger scale Big Data investments, smaller proof of concepts (POCs) will require exposing their data to other providers or hosting it in an environment not directly controlled by their own security policies.

- **A more open data-sharing culture:** Retailers are increasingly interested in rich customer data from partners and 3rd party sources. These include telecom companies such as AT&T, consumer mobile applications such as ShopSavvy, data-as-a-service providers and industry data pools. As retailers explore quid-pro-quo data exchange arrangements or as such providers provide commercial services on sharing customer data, both parties will need stronger privacy and security controls.

> # 43%
> ## of online U.S. adults do not trust companies with their personal information[1]

- **Changing rulebook:** Privacy related action within the ecosystem would also have an impact on the data that is available to retailers. Google's move to discontinue sharing keyword referrer data from being monitored in analytics tools and Apple's decision to stop supporting "meta-referrer" in the mobile version of Safari are two recent examples. Not only will retailers need to strengthen how they protect privacy of their customer data, they will need to learn to operate in an environment where less may be available to them from consumerized web services.

- **Legislation and customer advocacy:** Retailers in Europe and Canada already operate under more stringent privacy laws than their US counterparts. It is not a question of "if" but "when" US retailers will need to operate within the framework of privacy related legislation.

Ensuring customer data security is increasingly important to a company's wider reputation, and protecting customer privacy requires a comprehensive and transparent privacy plan. EKN recommends retailers take a holistic approach across the following key areas:

- **Evaluate your data needs:**
  - Understand what and how much data your business needs, what data you are already collecting, and how and where the data is being stored.
  - Clearly identify the sources and uses of customer data within and outside the enterprise. Ensure all points of data exchange are well documented and secured.

- **Benchmark your data management practices:**
  - Conduct periodic assessments to benchmark your data management practices against industry standards.

---

[1] TRUSTe Inc., 2013 Consumer Confidence Edition

- **Evolve your compliance policy and structure:**
  - ° Develop a transparent process identifying sensitive customer information flowing through your systems, use cases that it is used in, alternatives in case of legislation or other changes restricting or prohibiting it.
  - ° Make customer data protection a part of vendor contracts and negotiations.
  - ° Create a strategic customer privacy advocate position in the enterprise. Leading retailers such as Macy's have taken strides in this area by being ahead of the curve and instituting a Chief Privacy Officer role.
  - ° Create a compliance scoring system that helps measure your internal compliance level.

- **Invest in data protection tools and technologies:**
  - ° Reevaluate data encryption processes and technologies to ensure that your encryption standards are cutting edge.
  - ° Consider investing in Data Loss Prevention technologies that enable an administrator to automate and enforce certain policies governing the use and movement of customer data within or outside the organization.
  - ° Invest in technologies to address BYOD (Bring Your Own Device) related issues - implement technical safeguards such as strong passwords, data encryption, secure back-up, automatic device locking, remote wiping and disabling interfaces used to connect to other devices such as printers or storage devices.

- **Make privacy management a participative, bi-directional process:**
  - ° Consider exposing a complete digital footprint of a customer's data and how you use it to enrich engagement with customers via your loyalty program.
  - ° Offer settings and features that let customers choose whether they want to share data and what data they want to share. An over-arching opt-in legislation and framework will allow consumers to have deeper control over their personal information, providing them visibility and control over with whom it is shared and for what purposes.
  - ° Give consumers the right to view, correct and delete the personal data stored about them. While Amazon is often cited for more front-and-center examples of new-age retailing, it provides customers a unique capability even by the standards of leading online retailers: the ability to browse, manage and edit the past click and purchase history based on which Amazon serves up its recommendations.

Ultimately, retailers have a never-before opportunity to get to know their customers better and offer a brand of a smarter retailing experience that is more personal, more efficient and more valuable for customers. To do so successfully, however, will not only require strong analytical capability, but the ability to co-opt customers in the process of transparently sharing and managing sensitive, personal data.

About EKN

Our research agenda is developed using inputs from the end user community and the end user community extensively reviews the research before it is published. This ensures that we inject a healthy dose of pragmatism into the research and recommendations. This includes input of what research topics to pursue, incorporating heavy practitioner input – via interviews etc., and ensuring that the bend of research take-aways are oriented towards a real-world, practical application of insights with community sign-off. For more information, visit **www.eknresearch.com**. Email us at **EKNinfo@edgellmail.com**

About SAS

In retail, where companies can go quickly from rags to riches - or riches to rags - the customer's perception of, and experience with, your brand is critical not only to staying in business, but growing your business as well. SAS enables retailers across all segments - apparel, grocery, specialty, general merchandise, online and hardlines - to uncover in-depth customer insights that you can use to delight customers by engaging them in profitable ways. With high-performance analytics at the core and backed by more than three decades of retail experience, SAS solutions for retail enable you to find new and better ways of doing business. **www.sas.com/retail**

DISCOVER. SHARE. EVALUATE.

EKN is part of the Edgell Family