WHY DO PEOPLE BUY?

Graham Oakes (below).

I was working with a client recently to analyse the clickstream data from their website. We had a great depth of information about how people were getting to the site, what paths they were taking through it, and about who bought and who didn't. What we didn't know is why. We could hypothesise (ie, guess) as to why some of them were buying and others weren't, but we didn't really know.

This is a common and growing problem. According to analysts IDC, investment in business intelligence systems was $4 billion in 2003 and will grow to $5 billion in 2005. A lot of this money is being spent on customer intelligence – in trying to understand customers.

The proposition for such intelligence is clear: the more companies know about their customers, the better placed they are to sell them additional goods and services. Companies can also use this knowledge to design new products, to identify similar people to whom they can sell, and to reduce their sales and servicing costs by building processes that are well tuned to customers' needs. It's a problem that's worth solving.

Many organisations have assembled the first pieces of the customer intelligence puzzle. They have worked out how to extract demographic, attitudinal and transactional data from the various systems they have scattered around the place. They have a fairly robust process for cleaning and aggregating that data into a format they can analyse. They are starting to build up expertise in a range of techniques for analysing customer behaviour.

Yet companies still run into this gap: they are analysing the customer's past behaviour when what they are really interested in is what the customer will buy in the future. Somewhere between knowing what this person has done and knowing what they will buy next is a huge chasm. To cross this chasm, companies hypothesise, they test, they iterate.

Closing the gap

To understand this gap a little more clearly, let's look briefly at how most customer analysis is performed. A typical organisation generally moves through five stages as it develops customer intelligence:

● Data gathering. To date, much of the focus in customer intelligence has been on gathering, governing, cleaning and aggregating customer data. And rightly so: without reliable data, a company can do little more. So now you know a lot about what transactions your customers have executed with you.

● Segmentation. The next step is normally to identify groups of similar customers. A variety of clustering and rule induction techniques can be used to identify people with similar behaviour patterns. You can often extend this analysis to classify targets and new prospects into these segments, thus giving hints as to what products and services they should be offered.

● Hypothesis. When you have large segments, good-enough statistical data, and a clear model of the customer lifecycle, you can generate a variety of predictive models (for example, indicating the likelihood that a customer will move to a new mobile network in the next six months, or the likelihood that a homeowner will respond to an offer of improved insurance cover). Often, however, the data is too fragmented and your company's lifecycle models are over-simplified, so you resort to brainstorming and other forms of inspired guesswork to identify how customers might respond to the offers you make.

● Testing. So you try something and you see what happens. Ideally you will do this through well-designed champion/challenger interventions, or by taking prototypes to structured focus groups and similar forums.

● Iteration. As often as not, the tests don't work and you go back and try something else. Herein lies a lot of cost and delay.

Those costs and delays arise because the guesswork used is often less then inspired. The data your company has may be clean, but it doesn't tell you all you need to know about your customers. Your analytical techniques may be good at generating meaningful statistical segments, but somehow they miss the nuances in people's behaviour and the small groups that influence market trends. ('Outliers' is a nice statistical term. It sounds like you can afford to miss 'outliers. But how about 'trendsetters' – do you want to leave them out of your calculations?)

Importance of contextual data

The problem is that the data organisations can collect from their systems only represents a small subset of the experience most customers go through when choosing and buying a product.

The data in your systems can tell you very little about which magazines customers used when researching their options, or who amongst their friends and family they approached for advice. You won't hear about the times they purchased a competitor's product on impulse and therefore never gave you any indication of the problems they wanted to solve.

You can know very little about the dreams they carried as they set off on their shopping expedition, and the compromises they made along the way before they finally bought your product as being the best of a bad bunch. Finally, you know some of what they did, but next to nothing about why they did it.

Customers always act within a context. Their immediate needs reflect the world around them – their underlying goals; their existing resources; the information and emotional inputs from friends, family and peers; the other products in the marketplace. This context is constantly changing as new products emerge, events happen, people move around, social pressures evolve.

None of this is captured in your transactional data. Without this contextual understanding, past behaviour tells you only a little about the future. So you generate ungrounded hypotheses, hence increasing the costs and delays associated with testing and iteration.

Conversely, once you do understand context, you have a strong tool for designing new products and processes. For example, one pharmaceutical company identified that people's experience of 'getting a cold' was different to that of 'having a cold': they wanted different information, support and medication in each stage. This opened up the possibility of selling two products where formerly only one had been offered. No amount of analysing the sales of that one product could have told the company this.

In another case, a financial services company identified that many investors went through a gradual process from becoming aware, to seeking information, to taking action to invest. It identified ways to pull people through this process rather than scare them off by pushing too hard at the outset. Again, demographics and transactional data alone gave very little insight into the reasons they were missing sales.

Understanding context

In order to understand context, companies need to supplement their hard data with some softer research methods.

Focus groups are the best-known of these methods. A focus group is a guided discussion with a group of similar people to explore their motivations and needs. They can be a good source of information on why particular customer segments behave the way they do, and on what fresh products they'd be likely to buy.

However, focus groups also have a number of drawbacks. Firstly, people in groups may not fully disclose their underlying motivations. (They may not even be fully aware of them – many people are hard pressed to fully explain their actions, especially when removed from the environment where these actions take place.) Second, the guided nature of the discussion means that they may not venture too far from the researchers' preconceptions.

Ethnographic techniques, drawn from the tools that anthropologists use to observe and understand people, can be used to overcome these drawbacks. By observing individuals as they go about their everyday lives, it is possible to build a deep understanding of what people actually do in real life, why they do it, and what problems they experience along the

way. This can give you real insight into how to design products and services that help solve these problems.

Gathering such customer understanding would typically go through three stages:

● Observation and enquiry. A researcher may observe people as they perform actions within their everyday environment, perhaps asking the occasional question to understand their thinking as they do things. In this way you can note the resources they use, the misconceptions they carry and the people they turn to for help and advice. You can track the little things that people will forget in focus groups, and notice small irritations and fumbles that they've become so used to that they no longer identify them as opportunities for improvement. You could capture these observations on video, to allow deeper analysis. You could also ask people to capture diaries (textual, audio or video) to supplement the observations. (As with focus groups, you can use the segments identified through quantitative analyses to identify subjects for this research.)
● Develop experience models. These are diagrammatic representations of key concepts that the customers use in their environment. For example, the models might capture the flow of tasks that customers currently undertake when selecting products; or the attributes they use to classify their tools.
● Develop an opportunity map. You can then start to analyse these models and identify gaps in people's experience, thus highlighting opportunities for product development or process improvements.

Note that this research builds from and complements the conventional analysis described above. It simply gives you a more structured way to integrate additional information and generate hypotheses in circumstances where quantitative modelling is weak. The net effect is that you can do more focused testing and hence iterate less as you improve your products and customer-facing processes.

Of course, observing people takes time. It would be very expensive to try to apply these techniques to hundreds, let alone thousands, of people – so the statistical coverage given by the data in the corporate warehouses is always going to be valuable.

In fact, it complements these more qualitative approaches well: by helping you identify your customer segments and their value to your company, it tells you which groups of people you should focus your attention on with these more insightful methods. By combining quantitative and qualitative information, you can really begin to understand why your most valuable customers are buying from you.

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