BUILDING A MOUNTAIN OF PEBBLES:
USING RETAIL TESTING TO MAKE MONEY

Jim Manzi, Founder of APT
September 9, 2015
Is brick-and-mortar retail in a death spiral?

November 26, 2013. 8:00 AM ET

Management turnover at Wal-Mart! Missed earnings at Target! Thanksgiving shopping! Is this any way for an industry to behave going into the holidays?

By Jennifer Reingold, senior editor
THE REPORTS OF MY DEATH HAVE BEEN GREATLY EXAGGERATED.

Mark Twain
American Author and Humorist
(1835 - 1910)
Most retail sales still occur offline...

Source: eMarketer
THE NEW NORMAL

The rapid evolution of omnichannel behavior

STORES
- Word of Mouth
- Visiting stores
- Asking associates questions
- In-store purchase

ONLINE
- Read blogs and online discussions
- Compare price and product reviews
- Understand delivery & support
- Online purchase

Product Research & Evaluation
Supplier & Product Selection
Pre-purchase Qualification
Product Purchase

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BIG DATA, BIG HYPE

A Guide to Massive-Scale Data Processing in Practice

Big Data for Chimps

Philip Kromer
MOORE’S LAW

Data processing productivity is ~100X greater today than in 2005
MOORE’S LAW

The only significant productivity growth rate greater than that of data processing is that of data storage.
MOORE’S LAW

This is the real source of Big Data

\[ \ln(\text{Prod.}) \]

- Storage
- Processing

Year

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MOORE’S LAW

The digital economy doubles productivity every 12 – 18 months; a mature economy doubles every ~420 months.
MOORE’S LAW

This creates the much larger category of “Kind of Big Data”
“KIND OF BIG DATA” IS WHAT MAKES YOU $

<table>
<thead>
<tr>
<th>&quot;KIND OF BIG DATA&quot;</th>
<th>BIG DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete t-log for 5 years</td>
<td>Raw twitter feed</td>
</tr>
<tr>
<td>Complete customer loyalty DB</td>
<td>Complete full-motion video for all stores</td>
</tr>
<tr>
<td>Twitter sentiment indexes</td>
<td>High-volume website clickstream</td>
</tr>
<tr>
<td>Etc., etc.</td>
<td></td>
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</tbody>
</table>

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WEAVE-IN NEW DATA STREAMS

...add data layers for data types such as catchment area demographics, local weather, and competitor locations...
WEAVE-IN NEW DATA STREAMS

…and ever-expanding store-level feeds like competitor circular data, housing starts, product sales by day, etc.
GET TO THE HEART OF CONSUMER SPENDING

Now, with MasterCard’s transaction data, we can add significant, proprietary insights to retail data
UNDERSTAND YOUR CUSTOMERS BETTER

This data can allow identification of customer segments,…

Frequency
Recency
Education
Industry Spend
And more...
Age

Upscale Players
Professional Travelers
Everyday Spenders
AND KNOW WHERE THEY SHOP

...share of wallet by store,...

Share of Wallet Intelligence: Online & In-Store

Spend at My Brand

Spend at Competitor Brands

Share of Wallet
TRADE AREA BY STORE

...and empirical definition of each location’s trade area
INSIGHTS IN ACTION – A TEST AND LEARN CASE STUDY

Driving click and collect revenue for every store

Test Stores
The Click & Collect program caused a significant and sustained lift in total Sales.

### Weekly Store Sales £ – Total
LIFT: 1.0%

<table>
<thead>
<tr>
<th></th>
<th>Test</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-period</td>
<td></td>
<td></td>
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<tr>
<td>Event</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-period</td>
<td></td>
<td></td>
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</tbody>
</table>

### Key Metrics
- **Annual Margin**: £35K /store
- **Labor Cost**: £51K /store
- **Total Impact**: (£16K) /store

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Click & Collect caused more sales increase in stores with a separate register…

...in stores that had a trade area with a lower median age...

...in trade areas with higher median income.
**TARGETED PROFITABILITY OF CLICK & COLLECT**

Click & Collect is profitable in about 1/3 of stores

<table>
<thead>
<tr>
<th>Store ID</th>
<th>Store Name</th>
<th>Meets Breakeven</th>
<th>Predicted Lift</th>
</tr>
</thead>
<tbody>
<tr>
<td>3165</td>
<td>King Street</td>
<td>✔</td>
<td>19.0%</td>
</tr>
<tr>
<td>3006</td>
<td>Marville Road</td>
<td>✔</td>
<td>18.3%</td>
</tr>
<tr>
<td>2987</td>
<td>Welsh Street</td>
<td>✔</td>
<td>16.4%</td>
</tr>
<tr>
<td>3671</td>
<td>Lytton Road</td>
<td>✔</td>
<td>15.1%</td>
</tr>
<tr>
<td>2762</td>
<td>Lancaster Road</td>
<td>✔</td>
<td>14.7%</td>
</tr>
<tr>
<td>3102</td>
<td>Blossem Road</td>
<td>✔</td>
<td>13.8%</td>
</tr>
<tr>
<td>1871</td>
<td>Clockhouse Street</td>
<td>✗</td>
<td>2.3%</td>
</tr>
<tr>
<td>1224</td>
<td>Upper Mansion Road</td>
<td>✗</td>
<td>2.2%</td>
</tr>
<tr>
<td>2219</td>
<td>Tedbury Road</td>
<td>✗</td>
<td>1.9%</td>
</tr>
<tr>
<td>2201</td>
<td>Hanover Place</td>
<td>✗</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

**Margin Impact**: £9M  
**Cost**: £7.4M  
**Profits**: £1.6M

**Margin Impact**: £1M  
**Cost**: £6.4M  
**Profits/Loss**: (£5.4M)
SUCCESSFUL RETAILERS WILL TEST RELENTLESSLY

Leading retailers run 100+ rigorous program tests per year...building a mountain of pebbles

INCREASING GROSS PROFIT BY 5%

- Capital Expenditure
- Pricing
- Competitor Actions
- Online Ads
- Remodels
- Loyalty Initiatives
- Email Campaigns
- Direct Mail
- New Store Concepts
- Space Allocation
- Click & Collect
- Promotions
- In-store Fixtures
- New Product Introductions
- Operations Investments
QUESTIONS

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