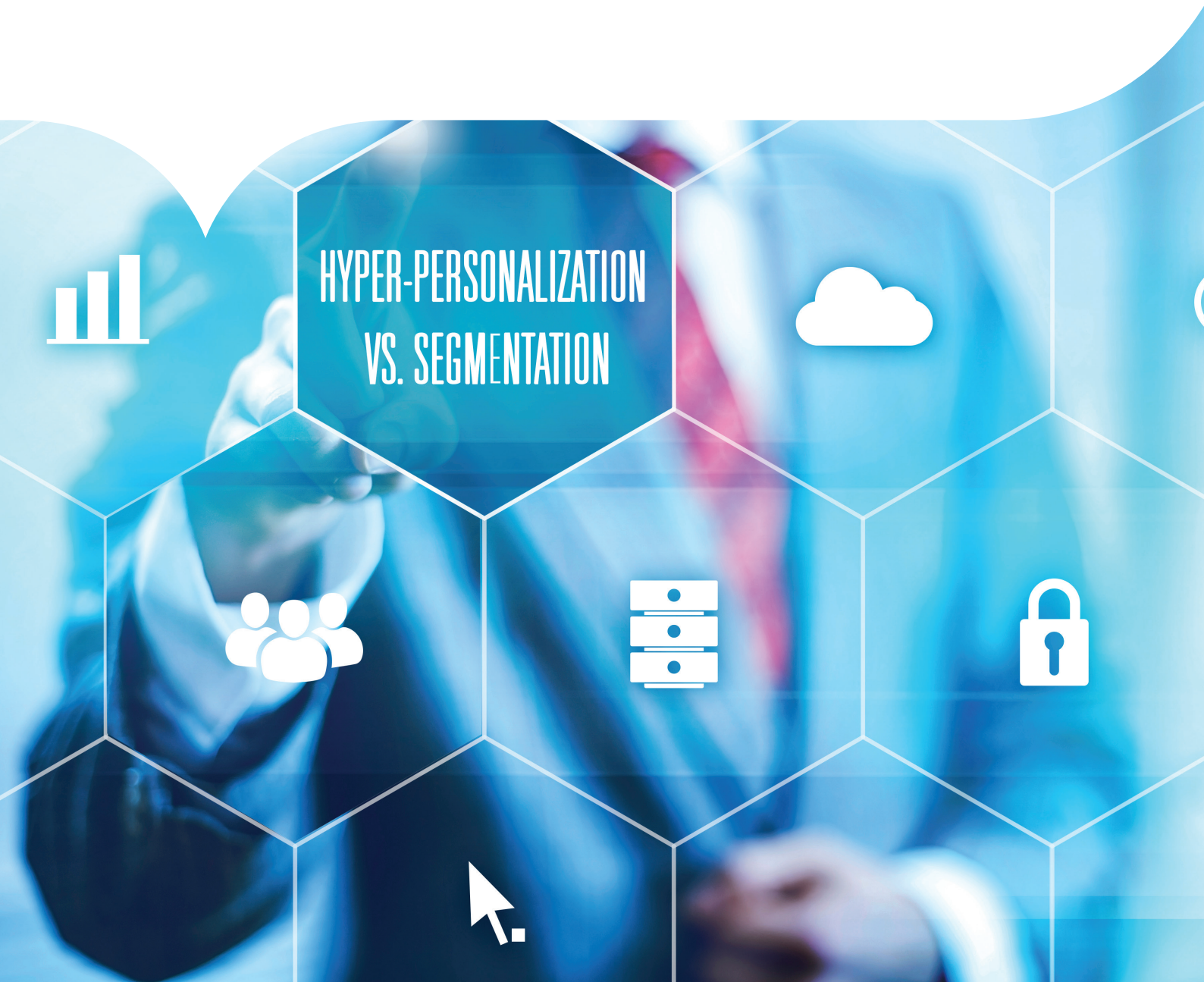


# Hyper-personalization vs. Segmentation: Has Big Data made customer segmentation redundant?

Capgemini Consulting & ESSEC

Chair for VSM – Vente et Stratégie Marketing (Sales & Marketing Strategy)

Chair for CSM – Communication et Stratégies de Marque (Communication & Brand Strategies)



# Foreword

1. **Evolution of segmentation techniques: from mass segmentation to hyper-personalization**
2. **Evolving customer behaviors call for a shift in segmentation: we can no longer segment as we did before**
3. **New technologies can make hyper-personalization a reality**
4. **Limitations of hyper-personalization and challenges regarding its perceived value**

## **A renewed collaboration between the ESSEC Business School & Capgemini Consulting**

The year 2016 marks the comeback of joint publications between Capgemini Consulting and the ESSEC Business School, in particular the Chair for **VSM – Vente et Stratégie Marketing (Sales & Marketing Strategy)**, joined this year by the Chair for **CSM – Communication et Stratégies de Marque (Communication & Brand Strategies)**.

Since its inception, the objective of the VSM Chair has been to provide training and education in the areas of sales and marketing, while the focus of the CSM Chair has been on communication. The two chairs have started working closely together given the ever-increasing overlap between these two functions. Thus, through the programs run by these two chairs, students and the academic team that mentors them are looking to understand and forecast the strategic trends of the marketing, sales and communications professions, within various business sectors and environments.

Notably, Capgemini Consulting has been supporting students from both these chairs for a few years now, either through long-term mentoring on consulting engagements that the students are assigned to for partner companies, or by organizing conferences that enable collaboration and the drafting of POVs on future trends.

Since the publication of the first ESSEC - Capgemini Consulting Point of View (POV) in 2005 regarding *Pricing Strategies*, we have been addressing key problem areas of businesses, from a forward-looking perspective. Continuing with this tradition, the 2016 POV on hyper-personalization dwells upon the relevance of customer segmentation at a time when big data and the associated technologies enable marketers to directly target customers at an individual and personalized level.

## Why and how was 'hyper-personalization' selected as a topic?

The topic of discussing segmentation and hyper-personalization was chosen after the first ESSEC students' conference organized in March 2016. During the event, after the introduction by the sociologist **Dominique Desjeux** and **Nicolas Mariotte**, Principal at Capgemini Consulting, the following four keytopics were presented to the audience:

- New marketing models centered on customer engagement,
- An End-to-End digital experience,
- The overlapping of business functions in the digital era and the role of Chief Digital Officers,
- Hyper-personalization vs. Segmentation in the age of Big Data

The conference participants voted for hyper-personalization to be explored further during the upcoming conference, which was to be held in June 2016. This conference had experts from various domains such as **Florence Benoit-Moreau**, Lecturer, Paris-Dauphine University, **Corentin Thumerelle**, Founder & CEO, Emoovio start-up, **Marielle Attal Taieb**, Strategic Planning Director, Kellogg's, and **Olivier Auliard**, Chief Data Scientist, Capgemini Consulting.

The second conference showed great results in terms of addressing many questions concerning hyper-personalization, mainly with a B2C focus, and brought out new challenges on the potential consequences of this new concept. The inputs, ideas and thoughts gathered during this conference were later leveraged to enrich the content of this Point of View.

## Hyper-personalization: what is at stake?

The concept of segmentation is undergoing a massive transformation. Taking into account new criteria – specifically, behavioral data – businesses can now get a clearer understanding of how different customers or prospects can be, as far as their consumption habits are concerned. Moreover, new technologies have enabled companies to collect and analyze data at a larger scale to identify and characterize specific individuals. As they optimize their techniques for gathering customer knowledge, companies can now directly get in touch with a specific customer and offer him/her not only a tailor-made product/service, but also a personalized experience: thereby delivering a hyper-personalized and hyper-contextualized experience.

Challenges related to hyper-personalization are two-fold: first, it is about fulfilling the customer's demand for individual and unique recognition (not being part of a generic segment as they consider themselves to be special / unique) and receiving personalized attention as well as customized offerings that are adapted to their own specific needs. Second, hyper-personalization requires companies to refine their targeting strategy in order to optimize their marketing and communication investments.

Hyper-personalization as a concept reflects the paradigm shift in the field of marketing, which was previously product-centric, but has now become more customer-focused. Naturally, companies need to better understand who their customers are and what exactly do they want. Traditional segmentation techniques are thus not effective enough to enable organizations to offer personalized solutions at a time when Big Data has been enabling them to know and understand their customers individually and fulfill their expectations in a personalized manner. Thus, what is the benefit of continuing customer segmentation in the traditional way when technology has paved the way for individual targeting and hyper-personalization of customer experiences and offerings?

Considering our research and the insights of experts who attended the conference held in June 2016, we must put things into perspective and provide a nuanced answer with respect to "abandoning" traditional segmentation techniques in today's day and age.

First of all, because hyper-personalization still has many limitations: ethical and legal limitations with respect to the use of personal data, limited human ability to process and understand vast amounts of data and data models, and lastly, economic limitations and risk of diluting marketing and communication efforts.

Additionally, there's also a limitation in terms of the difficulty to generalize hyper-personalization for all types of products and customer profiles, which essentially means that segmentation would still be required as a first step before implementing hyper-personalized and hyper-contextualized targeting.

It therefore seems unrealistic to get rid of segmentation entirely, even though there's still a need to adapt it to the new context: for example, usage-based segmentation will enable companies to identify customers who are eligible for hyper-personalization. Hyper-personalization is only relevant if a precise scope has already been defined and is completely understood by the marketing and communication teams: segmentation is a proven technique to establish these pre-requisites, and is essentially complementary to hyper-personalization rather than a conflicting alternative.

# 1 Evolution of segmentation techniques: from mass segmentation to hyper-personalization

## Segment, target, and prioritize

Segmentation is one of the core tasks of every marketer. It involves classifying customers or prospects into homogenous clusters in order to better understand how they behave and to identify their mutually-common attributes.

For Marketing and Communication professionals, understanding their customers better essentially involves understanding their needs clearly (whether fulfilled or unfulfilled, whether expressed or latent) in order to address them better and to identify sales opportunities. It primarily helps companies to choose their target customers and develop relevant offerings (products, services, experiences) according to each targeted segment. This essentially constitutes strategic segmentation.

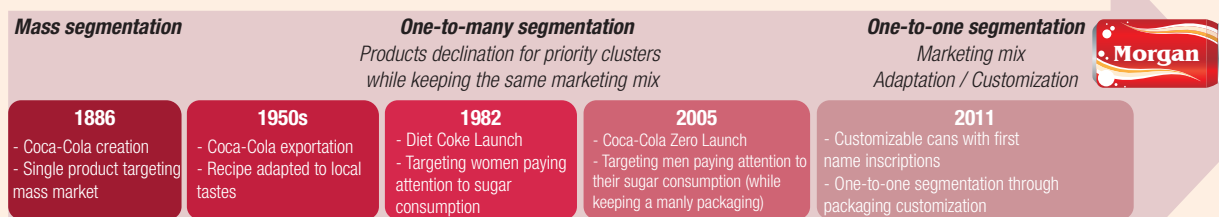
Secondly, it also helps adopt a differentiated communication approach to better address each customer category, and to thus leverage the right marketing and communication levers to acquire and retain the maximum number of customers. This is what we call tactical segmentation.

## Segmentation keeps on getting more and more refined

The concept of segmentation originated in the United States around the 1920s<sup>1</sup>, but since then the technique has drastically evolved to be more refined, contemporary and factual.

From **mass segmentation**, marketing first moved towards **one-to-many segmentation** (a generic product or service targeting many customer segments), and subsequently, moved towards **one-to-one segmentation** (a specific product or service targeting a specific customer segment).

Let's look at the evolution of Coca-Cola's marketing strategy to illustrate these successive trends:



Initially, Coca-Cola's formula was unique, but in fact, the sugary taste of the original product was more appealing to youngsters than to any other customer segments. Based on this conclusion, the Company started to segment customers in order to improve its targeting. Even the recipe in itself evolved rapidly to adapt to the varying tastes of each country: for example, young Americans strongly favored the sugary taste at that time in comparison to youngsters in Europe. In 1982, with the launch of *Diet Coke* (named *Coca-Cola Light* in France), Coca-Cola stepped up its segmentation approach when it decided to target a new segment with a dedicated product for women who were more conscious about their fitness. In 2005, men who were more watchful of their sugar consumption became a new target as the company launched *Coke Zero*. Coca-Cola also decided to communicate about this new dedicated product with a specific men-oriented campaign. By building these new priority clusters and creating targeted products for each segment while keeping a similar marketing mix, Coca-Cola embraced the '**one-to-many**' segmentation approach. More recently, they opted to customize one of the attributes of their marketing mix – by offering their customers the possibility of having their names printed on Coke cans (starting with the top 150 first names, and then choosing from more than 500,000 names) – with this, Coca-Cola adopted the '**one-to-one**' segmentation approach (even though the product itself remained the same).

Over the last few years, companies have managed to harvest huge amounts of customer data, and this has enabled marketers to continuously refine their customer segments by adding more and more criteria, with a highest level of precision. Before the advent of new data enrichment techniques, segmentation was primarily based on geographical and socio-demographic data such as age, gender, occupation, etc. New segmentation techniques focus on complementing the basic set of data with complex elements such as behavioral information (RFM segmentation: Recency of last purchase, Frequency of purchases and Monetary value), or even psychographic information (personality, lifestyle, reference groups, esteemed values, etc.), even though these are more complex to evaluate because of their subjectivity.

Given the constant need of customers to be recognized as being unique, it has now become more complex to understand or segment them. Today, they are also characterized by what they do and not just by who they are. The data collected can be used to set-up scoring tools to identify high-value and high-potential customers, who are the most likely to make a new purchase or switch to a competitor, etc.

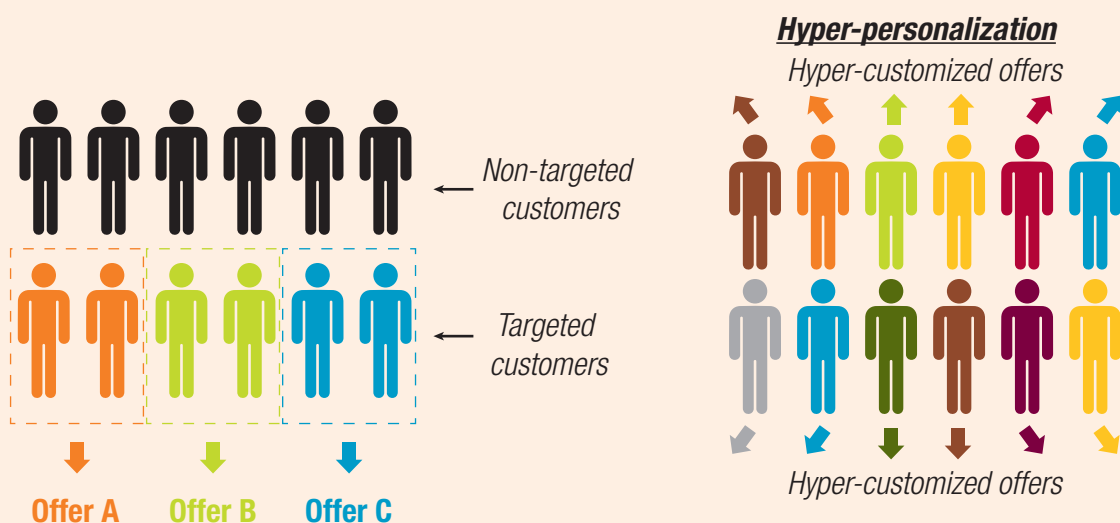
The growing number of customer segments gives rise to more and more product ranges, along with multiple variants, in order to meet the needs and expectations of each segment, and to thus, satisfy the widest audience possible. Here lies the paradox of micro-segmentation, which after reaching the highest level of precision, no longer seeks to prioritize, but rather aims to cover the entire customer spectrum by doing the utmost to meet everyone's needs.

### Is hyper-personalization the outcome of segmentation techniques?

Looking ahead, we need to ask ourselves if it still makes sense to use micro-segmentation when today it is possible to target customers directly and individually with the help of data science and new technologies. Marketers must therefore decide if it is relevant to opt for advanced hyper-personalization where each customer segment would be reduced to a single individual, who is then targeted with dedicated tailor-made solutions.

#### What is hyper-personalization?

Hyper-personalization is an advanced and real-time customization of offerings, content and customer experience at an individual level. Designed to perfectly match a customer, hyper-personalization leverages Big Data to deliver such tailor-made solutions in real time.





# 2 Evolving customer behaviors call for a shift in segmentation: we can no longer segment as we did before

## Customers can no longer be pigeonholed

In order to understand why and what led to the sharp rise in hyper-personalization, we have to focus on the customer and on new marketing techniques. By doing so, it will be easy to deduce that customers have changed, and so have their habits.

Customers have become multifaceted and more eclectic; therefore, they no longer fit into the rigid segments that were defined in the 20<sup>th</sup> century, based mainly on socio-demographic criteria. Long gone is the typical “housewife-under-fifty” cliché – the expression has almost disappeared<sup>2</sup>; long gone is the typical “dynamic-junior-executive” and the typical “rural-pensioner”. These profiles no longer fall under a relevant segmented cluster, but are mere mundane caricatures. Among these traditional segments, the consumption habits are no longer homogenous enough to be part of the same segment and can significantly vary depending upon other criteria. Therefore, new criteria should also be taken into account while profiling customers and prospects..

Within these groups, consumption habits have changed radically and differently. Women are no longer the only ones who take care of grocery shopping, executives no longer drive to work, suburban youngsters are no longer the only ones who listen to rap music, etc. Therefore, marketers can no longer segment as they did before: criteria that was used in the past are no longer relevant as the consumption habits have evolved and have drifted away from preconceived notions.

Customers no longer fit into these traditional boxes as they do not identify with these categorizations anymore and do not wish to be labeled as such. “Egocentrism” among individuals is quite prevalent today, and owing to this, brands are compelled to rethink about how they interact with their active or potential customers. Customers have become more demanding: they wish to be recognized and want the spotlight to be on them. This has essentially reversed the balance of power which now lies with customers and no longer with brands.

## Customer emancipation and the need for individual recognition

Customers are no longer passive and now actively interact with brands. Top-down communication from brands is no longer sufficient. As is evident in their extensive use of social networks, customers today want to communicate with brands as equals. Consumers have transformed into “prosumers”: they select offers that fit their requirements well, they opt for products or services that seem to have been designed for them, in addition to designing them whenever possible, and finally, even customizing them when required. They demand tailor-made solutions and a personalized customer experience. In order to tackle this new phenomenon, brands are required to start conversing with their customers so that they feel unique and recognized in the dialogue that links them to the brand.



### “ A testimonial from Corenthin THUMERELLE – EMOOVIO Company (experiential tourism)

*“My start-up, which specializes in experiential tourism, considers each person, each tourist, as a unique individual. Each individual's demands and constraints for planning his/her trip and their personal schedule are taken into account before providing a tailor-made solution to that person. By definition, the tourism sector has to adapt to customer expectations. At the time of carrying out research, a customer is more willing to share his/her personal information. On the other hand, it is far more difficult if the contact has been initiated by someone else because the customer may see this as an intrusion. He/she might feel harassed and may refuse to interact, which is a pity because it's possible that the same customer could have contacted the brand at some point in his/her life.”*

### Hyper-personalization and hyper-contextualization to re-engage with customers

Hyper-personalization is far more than just refined segmentation; it is much more than just adapting earlier segmentation techniques at an individual level, and far more than just taking new and multiple criteria into account. Hyper-personalization is also about adapting a product, service or experience to a specific customer context: in other words, hyper-contextualization is an integral part of hyper-personalization.

As a matter of fact, customers are constantly changing; they are never in the same mood, their consumption patterns can vary significantly depending on the time of day or even the place. Thus, a customer may swing between one segment and another within the same day! Consequently, hyper-personalization is also about adapting your customer relationship in real time, in terms of the offers provided and the overall customer experience.

### Personalized marketing, a priority for 90% of the professionals<sup>3</sup>

These changes in customer behavior have made traditional segmentation techniques redundant. Marketing and Communication teams have come to realize that analyzing customer needs and expectations now has to happen at an individual level. To do this, it is necessary to take into account the specific usage habits of each customer and to constantly adapt to their context in real time.

Considering how important it is to deliver a customized experience to stay ahead of the game, 9 out of 10 professionals believe that personalized marketing<sup>4</sup> represents the future. And at first glance, it can be said that there is no dearth of technologies to get there...



# 3 New technologies can make hyper-personalization a reality

Although the notion of constantly-evolving customer behaviors was the starting point of our entire discussion, it is nevertheless evident that new technologies play a vital role in hyper-personalization, especially when it comes to leveraging Big Data.

## Leveraging Big Data, algorithms and predictive models for direct targeting

It has always been necessary to leverage a huge amount of high-quality and relevant data to build proper segmentation. However, when it comes to hyper-personalization, the **volume** of data has to be significantly higher, more detailed and more diverse: in fact, it is Big Data that has made hyper-personalization possible.

Large-scale data collection combined with new methodologies for data processing and analysis has enabled marketing teams to build new models, with an added predictive capability. Companies now know way more about their customers and their identities, their behaviors, their habits, their preferences, etc. It is now possible to define a score card that is more relevant and trustworthy to predict future decisions. For example, data processing helps identify customers with the highest propensity of making a purchase. These high-value customers can be reached through targeted marketing actions, customized according to their habits and preferences based on their predictive scores. In this particular case, it's clear that prior segmentation is no longer required.

The large volume of data collected enables marketers to find more statistical correlations, which improves the robustness of their customer analysis. Today, marketers are also supported by data scientists to cross-analyze hundreds (or even thousands) of data elements and to define predictive algorithms – statistical regressions and predictive scores.

The abundance of easily available data facilitates their work: for example, the browsing history of customers/prospects captured via cookies as well as their online purchase history (recency, frequency, spending) which is collected regularly on the web. The sudden surge in the use of smartphones has also enabled them to gather the location details of customers and prospects. Finally, the comments, likes and mentions posted on social media also allow brands to gather the preferences, lifestyles and consumption habits of each of their customers. By collecting external data, notably through social networks, brands can practically acquire as much knowledge about their prospects as about their customers.

The widespread use of connected devices (refer to Exhibit 2 – *Internet of Things*) will further speed up the production and collection of behavioral data, which will further enrich the knowledge of companies regarding their customers or prospects. Thus, marketers will be able to refine their targeting even more to provide their customers/prospects with hyper-customized offerings.

*The Internet of Things* is an exponential factor that contributes to the rise in the volume of data generated. Here are a few examples of the potential uses within the insurance sector:

We estimate that by 2020, 27% of the data generated worldwide will come from connected devices<sup>5</sup>; this percentage is likely to increase even further as the use of connected objects gradually becomes more common and accessible.

Due to its highly intensive use of data, the insurance sector will increasingly rely on data derived from connected objects in order to customize its solutions to customer habits and profiles.

First of all, connected cars will enable insurance companies to precisely know the driving habits of their customers and to adapt their pricing structure accordingly. Risks will also be easier to prevent, thanks to the collection of data regarding the state of the vehicle, thus contributing to cost reductions.

Health-related connected objects (connected bracelets, smart weighing machines, etc.) could also potentially allow insurers to better apprehend the health risks associated with their customers.

In both the cases, risk-sharing, which is the very foundation of the insurance business, would be strongly shaken as it is likely to get replaced by risk evaluation at an individual level. In the long run, even if regulatory constraints hinder this movement, it would still be possible to hyper-customize all insurance solutions.

For example, Generali, an insurance provider, decided to launch a new kind of death and disability insurance scheme in the German market in July 2016, named Vitality, which is based on customer behavior. It offers customers the possibility of reducing their insurance premium if they pay special attention to their health. By trying to reinvent the insurance business with this new offer, Generali is convinced that this will encourage people to adopt a healthier lifestyle, thus improving solidarity between them. The main objective is to reduce insurance costs for the company. For this product, Generali relies on the behavioral data of its policyholders, which is collected via a third-party company (called Discovery): special rewards are given to customers who regularly go to the gym or prefer organic stores to buy their food.<sup>6</sup>



Secondly, the **variety** and diversity of data processed allows companies to integrate new data into their analysis, which was previously very difficult to exploit and interpret from a marketing standpoint. The analysis of unstructured data, such as free text or videos, also enables them to take more qualitative data into account, which is required to carry out behavioral and psychographic analysis at an individual level.

Thirdly, the **velocity** of data collection and processing gives marketers the ability to perform real-time analyses and quasi-continuous direct targeting. This targeting can

even be updated / adjusted depending on the customer's context and environment, in line with the principle of hyper-contextualization. The speed of data analysis also enables Marketing teams to measure the return on investments of their targeted marketing and communication actions more quickly.

Volume, Variety and Velocity - the 3 V's of Big Data - pave the way for hyper-personalization.

### Excerpts from an interview with Olivier Auliard, Chief Data Scientist, Capgemini Consulting:

#### According to you, what are the key elements required for targeting customers individually?

First of all, you need to define who your customer is. In the various databases that exist within companies (sales, accounting, leads, CRM, etc.), unfortunately, there is seldom a shared definition. This is all the more true in some sectors such as Telecommunications: for example, a mobile phone customer is often an individual whereas a landline customer is usually an entire household. Yet, it is impossible to maximize your insights and information if databases cannot be linked together and if data cannot be cross-analyzed. Therefore, it's absolutely necessary to have a unified view of the customer to ensure a link between databases. This is equally important if you want to cross-analyze with additional external data.

For this very reason, the integration of external data is the other key element to build direct targeting. It is complex because you have to take care of data heterogeneity. For example, we often integrate market data (competition), contextual data (weather), and also, more and more individual data such as social network conversations or web browsing data collected through cookies. In order to integrate all this information, it is necessary to have an efficient Data Management Platform or effective Social CRM tools.

#### Speaking about tools, how far is technology developed and used today?

Data Management Platforms - or DMPs - that allow real-time data management are becoming more and more common within companies. Social CRM tools that facilitate cross-analysis of social network data and customer relationship data are also on the way. Globally, tools are reaching high maturity levels and new service providers are entering the market with the ability to deliver direct targeting. However, only a few companies have taken the plunge so far.

#### How can it be explained? Are there any structural barriers?

Yes! To an extent, today, technology makes almost everything possible... So, the barriers lie elsewhere. In many companies, data is often managed in silos: sometimes there could be regulatory reasons for doing this. For example, a bank has to isolate its insurance databases from its banking databases to avoid any unfair competition. Yet, it is true that data management in silos is largely due to structural issues, sometimes due to organizational reasons which can cause a certain reluctance to share valuable data throughout the organization. Not everyone understands how valuable data can be...

Finally, it can also be due to a lack of investment. Many companies keep on working with obsolete databases, obsolete systems, which are not agile and remain rigid. Data exploitation becomes highly complex and difficult when you have work with such environments. However, now we also have Data Lakes that can be used to store different data from different sources at a single place, but there are still too many reservations to overcome.

#### Any additional advice?

When exploiting data, it is important to set your objectives right at the beginning even if it isn't always an easy job. All the more because it is difficult to interpret highly-refined quantitative models, and therefore, absolutely crucial to first lay down a framework based on which your data would be processed. This is where consulting firms like Capgemini Consulting step in to help companies exploit their data relevantly.



## Hyper-personalization of customer relationship and a unique customer experience

New analytics methodologies and data usage are both levers to perform targeting at an individual level. However, customer experience is yet to be hyper-customized. It still needs to be adapted in terms of the communication and content shared with customers based on their habits, expectations and context.

To do this, the first step is to hyper-personalize customer interfaces across websites and mobile applications. For example, a customer always sees his/her contact details (name and surname) along with a personalized welcome message every time he/she logs into his/her homepage. On a more sophisticated level, purchase recommendations are also displayed based on the customer's preferences and purchase history, for example, on e-commerce platforms such as Amazon.com. The ads displayed on screen are also chosen in real-time following the retargeting mechanism, based on complex algorithms which leverage the customer's site visit history to display specific content adapted to his/her interests.

Nonetheless, personalizing the customer relationship cannot only be about interfaces. What matters the most for customers is to have some personalized interactions with brands. New age CRM tools that integrate data from various social networks are indeed designed to develop a close relationship with customers and to have a truly engaging conversation with them. Transactional marketing, which focuses only on interactions that take place around the act of purchase, is being replaced by relational marketing, where the amount of time spent on non-purchase related interactions between a brand and a customer take precedence over the time spent on the actual transaction itself. Personalized interactions not only bring value to customers, who start feeling valued and unique by virtue of being recognized, but they also allow companies to gather more data about their customers, which in turn, helps them further improve their hyper-personalization efforts. This is one of the main reasons why conversational software solutions, such as chatbots, are invading marketing practices today: these software solutions can automatically converse with customers and answer various requests without any human intervention. Major Internet companies such as Google, Amazon, Facebook, Microsoft, as well as some large French companies such as Voyages-sncf.com and Axa, have already massively invested in these intelligent artificial assistants. Such technologies build on the available customer data, web browsing history and customer/brand relationship information to deliver added value. By extension, it is the whole digital customer journey that needs to be customized in order to build a unique and differentiating customer experience.

## Hyper-personalization of services ... and products

Now let's talk about personalization with respect to offer content. In the previous examples, personalization wasn't at the product level, but rather in terms of the customer experience or the associated services offered to customers.

It is true that it is easier to customize services because the cost of scaling up services is generally lower than the costs required for product customization initiatives. Within the banking, insurance or telecommunications sectors, many modular offerings, commonly termed as tailor-made solutions, have flourished in the last few years with several options being offered and recommended to customers. For example, Yomoni, a French start-up, which aims to democratize wealth management, has leveraged robot-advisors to achieve this ambition. These robots are nothing more than algorithms that provide automated advice on purchases and sales, while leaving the final decision upon the customer.

However, marketing and communication professionals wish to customize the products that they offer in order to lure more customers. Nevertheless, if we look at the customization campaigns of Coca-Cola (as mentioned previously) and that of Nutella, they were more about customizing a single product attribute (the packaging) rather the entire product itself. Having said that, we are slowly seeing certain innovations that tackle the customization of the core product itself. Going back to the Coca-Cola example, the launch of the Coca-Cola Freestyle campaign in the US – an innovation brought by Fahrenheit 212 – is a great example of this. The new automatic drink dispenser allows customers to personalize the very core of the beverage – its composition. Customers can now create their own Coca-Cola recipe and their own unique taste by mixing several types of sodas of the Coca-Cola brand, with the help of an automated smart dispenser that offers a wide range of possible configurations<sup>7</sup>.

Looking ahead and going a step further, we can imagine that in the near future, thanks to 3D printing, it would be possible to even customize mass products without necessarily increasing costs. Nike, a brand that is already committed to enabling customization, as is evident in its *Nike id* initiative, has for example invested in 3D printing to offer its customers the possibility of owning their own personalized tailor-made shoes. This essentially would mark the beginning of the *mass-customization era*.

# 4

## Limitations of hyper-personalization and challenges regarding its perceived value

Will all offers be hyper-customized in the future? Will marketers stop using segmentation? What are the limitations and perceived value of hyper-personalization?

Despite the customer benefit and certain technological advances, it still seems very unlikely that hyper-personalization will simply put an end to segmentation for every product or service. On the contrary, classic segmentation seems more indispensable than ever before in order to identify the most valuable customer segments for a brand. Given the value that it brings, hyper-personalization will first be applied to these priority segments to provide them a unique, differentiated and unforgettable experience, which is perfectly aligned to their expectations. Before getting into the complexities and details of a situation, it is first important to have a simplified overview in order to take strategic decisions: segmentation techniques help achieve a simplified yet realistic view of the situation and still play a key role in defining the strategy by setting down and testing assumptions, developing ideas and validating business plans.

In fact, there are three main limitations of hyper-personalization that may lead us to believe that the widespread use of hyper-personalization is nothing more than a theory:

- Limitations with respect to the use of personal data,
- Limited human ability to process and understand vast amounts of data and data models,
- Economic limitations and the risk of diluting marketing and communication efforts

### What are the limitations? Are there any solutions to address these limitations?

The first limitation that needs to be highlighted is regarding the use of personal data. Beyond ethical or regulatory limitations (CNIL), the use of personal data can indeed carry a risk in terms of invading the privacy of individuals, and various studies have shown that customers are full aware of this. In fact, the majority of them are actually reluctant to share personal information that they consider the most sensitive.

Being wary of this fact, customers are now taking precautions to minimize unwanted access to their personal data: for example, by using in-private browsing on the internet, or using features such as ad blockers, or privacy filters on their computers and smartphones, etc. In response to what can be seen as an invasion of their privacy, customers are creating multiple social media profiles, using aliases to protect their real identity.

To help overcome this fear, companies should firstly be transparent about how they use customer data. For example, Facebook recently revealed where and how it leverages user profile data. Secondly, it is also necessary to guarantee

strict data control and limit the commercial use of personal data. And finally, it is essential to provide tangible benefits to customers in exchange for their personal data.

The last point is absolutely crucial. In its latest edition of the *Journal of Marketing Revolution*, Capgemini Consulting estimated that 64% of customers were ready to share their personal data in exchange for better service quality<sup>3</sup>. According to customers, their personal data can only be used if it helps improve the quality of the customer experience offered to them: ultimately, it has to be a win-win situation to get them on board.

Next, the second limitation to the widespread implementation of hyper-personalization comes in the form of difficulties that marketers face to interpret the almost infinite number of data models. Today, it is already clear that, from a technical standpoint, the abundance of data collected quickly results in an information overload, and thus added complexity, for organizations, which are then faced with the problem of over-learning or overfitting. Thus, by collecting and cross-analyzing very high volumes of data, statistical models can lose their relevance. Moreover, understanding all this information is often too complex or even risky for individuals who have to make decisions, define strategies and implement marketing actions based on these complex data sets. On the contrary, segmentation is meant to provide a simple and understandable overview so that decision-makers can easily and rapidly call for actions. Without any prior analyses, large volumes of data collected are not the simplest tools for translating this potential and theoretical hyper-personalization into tangible actions. To design hyper-customized offers, it still seems necessary to first concentrate on specific segments, which in turn, requires a first level of segmentation.

Finally, hyper-personalization also faces economic limitations. On one side, segmentation is meant to ease the targeting of some priority customer segments, and thus, to balance investments to ensure efficiency (Marketing, Communication, R&D, etc.). On the other side, hyper-personalization is theoretically meant to provide brands with the capacity to both address the entire market while fulfilling the specific needs of every person within that market. Then, there's also micro-segmentation which seems inherently paradoxical given that it offers infinite possibilities, but without enabling the effective allocation of investments to the company's most valuable customers.

Hyper-personalization also has issues from a brand point of view. If all offers are hyper-customized, how can a brand stay consistent? How can the brand positioning evolve if its related offerings are sometimes markedly different and also present contradictory attributes?

### Perception of hyper-personalization and co-creation

Is hyper-personalization only a myth then? Not exactly... Although some of its uses/benefits might seem exaggerated, it can still be a real marketing lever.

In fact, one should never forget that in marketing, what matters the most is the customer's perception and what he/she deems as valuable. Thus, the challenge here is to make the customer believe that the offering was specially designed and customized for him/her, only for him/her, even if the product or service attributes have actually been predefined and do not differ from those offered to other customers.

The best way to sell this hyper-personalization perception is by involving/engaging the customer at the time of designing the offer itself, commonly known as co-creation. This essentially requires direct communication with the customer to gather their requirements upfront as well as their continuous feedback throughout the product journey. It also requires having modular offerings, with a wide range of options, so that ultimately customers can "customize" the product, service or experience to suit their requirements. Over and above, this calls for an optimal customer experience and flawless service quality.

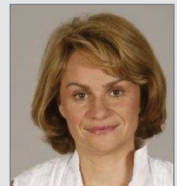
#### Excerpts from an interview with Marielle Attal Taieb, Strategic Planning Director at Kellogg's:

##### *Could you please explain how important it is to customize your products for your consumers?*

Customization strengthens engagement. It is all the more true for mass-market brands, and notably for Retail brands, where consumer engagement is really a major challenge. In order to continuously develop customer preference to their advantage, brands try to build an emotional bond that specifically ties them with their consumers. The "Engagement Score" is actually one of the key KPIs monitored by Retail brands, where the best status for a brand is to be among the most "Loved Brands"! For achieving this, the first lever is to communicate directly with our customers, preferably on social media where it is impossible to engage with cliché-clusters. On the contrary, it is absolutely necessary to personalize the relationship with the brand. To give you an example, a few years ago, we launched an online diet campaign for the Special K brand. Based on a quick questionnaire, we recommended "tailor-made" diet plans to our female consumers, starting by defining their preferences and objectives. Behind the curtain, there were only 10-12 possible diet configurations: so, these weren't really tailor-made, but rather involved some mass-customization. But the customer perception was that they had their own personalized diet plan, which they believed was perfectly put together for them because they were involved in designing it. We created the perception of personalization, and in marketing, it is the perception that counts.

##### *So customization is about engaging customers?*

Precisely. It is about co-creating with your customers. If you involve them in the offer design process, you will inevitably end up engaging them. And then, they truly see themselves as key product stakeholders. It is their product. Co-creation is one of the ways to achieve hyper-personalization.



### Hyper-personalization always requires some kind of segmentation

In a nutshell, yes, hyper-personalization is on its way. Yes, through Big Data and digital technologies, hyper-personalization has already started playing a role in propelling Marketing and Communication into a new era, where customers are understood and addressed in direct and personalized manner. Today, hyper-contextualization seems more real than hyper-personalization because currently personalization is mainly carried out in terms of services and customer experience rather than the product content itself.

Nevertheless, hyper-personalization is still a real marketing lever and customers are truly looking for customized offerings. Yet, to hyper-personalize their offerings and to define their personalization targets and objectives, brands must first carry out a basic level of segmentation, which continues to be one of the strongest marketing levers... However, this requires a change in segmentation techniques as well: on top of socio-demographic criteria, it is also necessary to take behavioral data into account, besides leveraging the abundance of data available. Most importantly, the segmentation techniques need

to be modified in real-time to adapt to the constantly-changing ecosystem and customer expectations. Therefore, there is always a need for strategic segmentation, primarily to prevent companies from diluting their efforts instead of focusing on the brand's most valuable customers.

Opting for hyper-personalization, without prior segmentation, doesn't seem to be the best option in today's context, primarily because of the various limitations cited previously (data usage, human interpretation, and economic efficiency). It is important to remember that segmentation helps professionals within the Marketing, Communication or Sales departments to get a simplified and consistent representation of the market. The objective wherein is not to gain a perfect understanding of it, even though today's technologies can make this possible (which however is not the case yet for most companies). Hyper-personalization is not a substitute for traditional segmentation because it is just not about obtaining segments made up of single individuals, which would essentially tantamount to only focusing on the pixels and not being able to see a consistent picture on the whole.



Hyper-personalization... where is the limit?!



# About the VSM and CSM Chairs of the ESSEC Business School

## Sales & Marketing Strategy Chair

The Sales and Marketing Strategy Chair's founding companies, which produce consumer, industrial or technical goods, help students seeking a career in sales to enhance their skills as negotiators and organizers. It focuses on all sales and marketing levers that create value for companies beyond the traditional marketing mix focused products. It also enables students to deepen their knowledge and learn more about the experience of professionals.

The Chair lies in the diversity of its partner companies: Michelin, Xerox, and Prisma Editions. The chair helps students deepen their knowledge and learn about the interrelationships between different functions within organizations, by sharing the experience of professionals.

## Communication & Brand Strategy Chair

The objective of the Communication & Brand Strategy Chair is to promote communication as a management tool to support the strategy and visibility goals of companies, as a necessary lever to manage the brand image and intangible assets of companies. It wishes to educate all students seeking a career in communication and brand management and wants to help them better understand the various opportunities in the field of Communication. Additionally, the seminars and events held by professionals are helpful in putting theoretical teaching into perspective with regularly updated real case studies.

## Activities led by the Chairs' students

### An exhaustive course from January to June (6 months)

The VSM course is based on 3 intensive seminars where students are introduced to the theoretical and practical fundamentals of the sales and marketing functions. These seminars offer specific trainings, led by professionals, regarding the techniques and methodologies related to sales, customer marketing, operational marketing, customer relationship management, sales monitoring, negotiation workshops where students can test their knowledge in front of real buyers, etc. Apart from these seminars, the Chair provides an on-the-job learning opportunity (company visits, the "One week / One salesman" program, conferences discussing future trends and a consulting engagement with partners; in 2016 for Ouilab, Sofa Services and Formapass).

## The "One week / One salesman" program

The "One week / One salesman" program offers every student the possibility of shadowing/observing a sales representative to discover his/her day-to-day working life: how does he/she prepare and lead a negotiation? How does he/she adapt the company's offerings to the specific needs of his/her client/prospect? This experience also allows students to understand the interdependencies between the Sales, Marketing and other departments. At the end of this week, students prepare a "discovery/first impressions report" and present it to all of the partner companies.

## The Beehives Talks, conferences on current & future trends

The Chair hosts top executives and industry experts to have debates and discussions with a public audience on a hot topic (Hyper-personalization, Chief Data Officers, etc.). Two two-hour conferences were completely organized and facilitated by the Chair's students.

## The consulting project

Each year, students are given the opportunity of working with partner companies on one of their marketing or sales issues (analysis of the merchandising strategies of hard discounters, how to help their dealers/distributors in deploying a customer retention and engagement policy? etc.). Students work in teams on their chosen topic and present their analyses and recommendations to the partner company. During this entire exercise, they are monitored and mentored by a mentor within the company, by the Chair's professors, and by consultants from Capgemini Consulting.

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# Authors & Contacts

## Capgemini Consulting

**Stanislas de ROYS**

Senior Vice President  
stanislas.deroys@capgemini.com

**Arnaud BOUCHARD**

Senior Vice President  
arnaud.bouchard@capgemini.com

**Mohamed SEHAD**

Principal  
mohamed.sehad@capgemini.com

**Romain PELLEGRINELLI**

Senior Consultant  
romain.pellegrinelli@capgemini.com

**Barnabé MANTZ**

Senior Consultant  
barnabe.mantz@capgemini.com

## ESSEC Business School

**Jean-Marc XUEREB**

Marketing professor, Head of Chaires in Vente et Stratégie Marketing & Communication et Stratégies de Marque  
xuereb@essec.fr

**Cécile VINIANE**

Chair professor Chaire Vente et Stratégie Marketing,  
CEO of Elixir-Conseil  
cviniane@elixir-conseil.com

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## About ESSEC Business School

ESSEC, founded in 1907, is one of the world's top management schools. With 5,330 students, a faculty comprised of 158 full-time professors, 19 of which are emeritus professors, in France and Singapore, recognized for both the quality and influence of their research, a wide range of management training programs, partnerships with the world's best universities, and a network of 47,000 alumni, ESSEC continues to foster a tradition of academic excellence and a spirit of openness in the fields of economics, social sciences and innovation. In 2005, ESSEC opened a campus in Asia. ESSEC's operations in Asia Pacific, strategically located in Singapore, present the perfect foothold for ESSEC to be part of the vibrant growth of Asia and to bring its expertise to the expanding region.

For any additional information, please visit [www.essec.edu](http://www.essec.edu) or [www.essec.edu/asia](http://www.essec.edu/asia).



## About Capgemini Consulting

Capgemini Consulting is the global strategy and transformation consulting brand of the Capgemini Group, specializing in advising and supporting enterprises in significant transformation, from innovative strategy to execution and with an unstinting focus on results. With the new digital economy creating significant disruptions and opportunities, the global team of over 3,000 talented individuals work with leading companies and governments to master Digital Transformation, drawing on their understanding of the digital economy and leadership in business transformation and organizational change.

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## About Capgemini

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