

Strategic Services Marketing
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Lecture - 21

Data-driven Decision-making in Services Marketing

Hello everyone. In this module, let's have a look at service analytics and customer insights and the crucial role it plays in strategic services marketing. In this session, we are going to understand the concept of data driven decision making in services marketing. Before that, let's start with the first question, what is decision making? You me any of us always face some questions, some challenges, some problems and we need to make some decisions with respect to those challenges and problems. For example, consider that you are buying a new phone, whether to go for Apple's iPhone or Samsung's Galaxy product that is a choice and there you need to make some decisions. So on what basis you make these decisions? Obviously first criteria is brand preference.

Some customers may have a strong brand preference based on previous positive experiences, loyalty or perception of each brand. Second parameter can be operating system. The iPhone runs on iOS while the Samsung Galaxy uses Android. The customer may have a preference for one operating system over the other.

Third decision making parameter can be features or specifications or specs. With respect to features and specifications, the customer evaluates specific features such as camera quality, battery life, processing power and storage capacity offered by each phone. Next criteria can be design and build quality. Aesthetics and build quality can influence the decision. Some customers may prefer the slick design of the iPhone while others may favor the larger screen and different design of the Samsung Galaxy.

Another parameter can be ecosystem compatibility. Customers may consider the compatibility of the smartphone with other devices they own such as laptops, tablets or even smartwatches. And for most of them, price plays a crucial factor as well. The cost of the phones is a significant factor. The customer may wake the features offered by each phone against their budget.

So let's say one of the customer after careful consideration of the factors just mentioned earlier decides to purchase the iPhone. His or her decision is influenced by combination of brand loyalty, a preference for the iOS ecosystem and the specific features offered by the latest iPhone model. This example illustrates how customers go through a decision making process when choosing between two options considering various factors that align with their own preferences, needs and values. So what does decision making is? Is it same as gut feeling or largely known as intuition? Intuition is nothing but simply knowing when something is right or wrong. Though intuition can be a helpful tool, it would be a mistake to base all decisions around a mere gut feeling.

According to a survey of more than 1000 senior professionals and executives conducted by PWC, highly data driven organizations are three times more likely to report significant improvements in decision making compared to those rely less on data. So there is a catch, whether one should rely on data or whether one should rely on their gut feeling or intuition while making any decisions. Let's have a look at this interesting video wherein Netflix co-founder Mark Randolph talks about choosing between the two.

Hi I'm Mark Randolph entrepreneur investor mentor and co-founder of Netflix here's my advice on helping your small business stand strong blend Instinct and data the truth is you need both data's great and that it can give you absolute certainty that the red button does 2.7% better than the blue button but it will never tell you which of the 16.7 million different colours you should test you see the best thinkers use data to inform their intuition to explore and then to validate their assumptions literally what you're trying to do is create a culture of data driven decision making what you want is less I think and more the data shows that's the right balance between intuition and data.

So as correctly mentioned by Randolph, data driven decision making is important and it precedes or exceeds in terms of benefit it offers as compared to gut feeling. So what is data driven decision making then? Data driven decision making is the process of using data to inform your decision making process and validate a course of action before committing to it.

Let's understand this in detail. In business, this is seen in many forms. For example, a company might collect survey responses to identify product, services and features their customer would like. Companies can also go for conducting user testing studies to observe how customers are inclined to use their product or services and to identify potential issues that should be resolved prior to full release. Companies sometimes also launch a new product or service in a test market in order to test waters and understand how a product might perform in the market.

Finally, sometimes companies also analyse shifts in demographic data to determine business opportunities or even threats. So data driven decision making in services marketing involves using data and analytics to inform and guide the decision making

process. It relies on collecting, analysing and interpreting relevant data to make informed and strategic choices that enhance marketing effectiveness, improve customer experiences and drive overall business success. Why data driven decision making is important especially with reference to services? This chart or figure highlights all the possible benefits. Let's have a look at each of these in detail.

First here is customer understanding. Data provides valuable insights into customer behaviours, preferences and expectations. Understanding customer demographics, purchasing patterns and preferences enable service marketers to tailor offerings and experiences to meet customer expectations effectively. For example, Amazon collects data on customer purchase history, browsing behaviour and preferences. This data is used to recommend products, personalise the user experience and even anticipate future needs.

Secondly, data allows for personalised and targeted marketing strategies. With data on individual customer preferences, marketers can create personalised experiences, recommend relevant services and deliver customised promotions, fostering stronger customer connections. For example, Netflix. Netflix employs data driven algorithms to analyse user viewing habits and recommends personalised content. This personalisation enhances the user experience leading to increased customer satisfaction and retention.

Third way through which data helps in services marketing is through segmentation and targeting exercise. Data enables the segmentation of the target audience for more effective targeting. Through data analysis, marketers can identify distinct customer segments with specific needs. This segmentation facilitates the creation of targeted campaigns, maximising the impact of marketing efforts. For example, Starbucks.

Starbucks uses data to segment its customer base and target specific groups with personalised promotions. For example, offering discounts on certain beverages to customers who frequently purchase similar items. Next is with respect to data that provides metrics to measure the success of marketing initiatives. Key performance indicators which are popularly known as KPIs derived from data help assess the effectiveness of marketing campaigns. Marketers can evaluate return on investment that is ROI and make data driven adjustment to optimise the performance of those campaigns.

For example, Google Analytics. Google Analytics provides website performance metrics to businesses. Companies can track user engagement, conversion rates and even other key metrics to assess the success of online marketing efforts. Next benefit is with respect to optimising customer journeys. Data helps to map and improve customer journeys.

By analysing data across touchpoints, marketers gain insight into the customer journey. This understanding allows for the identification of pain points, optimisation of touchpoints and the creation of seamless and satisfying customer experiences. For example, Airbnb.

Airbnb analyses user interactions on its platform to understand the end-to-end customer journey. This data driven approach helps Airbnb to identify areas for improvement and enhance the overall user experience.

Coming next is with respect to predictive analytics. Data enables predictive modelling for future trends and customer behaviour. Predictive analytics uses historical data to forecast what is going to happen in the future, allowing marketers or service providers to anticipate customer needs, optimise resource allocation and proactively respond to market changes. For example, Uber. Uber utilises predictive analytics to estimate right demand in specific areas at different times.

This helps drivers position themselves strategically and ensures timely service for users. Next comes resource allocation. Data helps allocate marketing resources efficiently. By analysing data on the performance of different marketing channels, marketers can allocate budget strategically, focusing on channels that yield the highest return and optimising resource utilisation as well. For example, by analysing user viewing patterns, preferences and engagement metrics, Netflix identifies the types of content that resonate with its audience.

This data driven approach informs decisions on producing original content and licensing third-party content as well. And finally, data driven insights provide a competitive edge to a service provider. Marketers who leverage data efficiently and effectively can stay ahead of industry trends. They adapt to changing marketing or even customer preferences and gain a competitive advantage by making informed and strategic decisions.

For example, Spotify. Spotify leverages data on users' music preferences to stay ahead of industry trends. This data driven approach enables Spotify to curate personalised playlists, providing a competitive advantage in the music streaming market. Now let's listen to one of the famous professor, Professor Eric Rensol from MIT who I stalking about why one should move to data driven decision making and how it contributes to organization success have a look at this video. Humans have always had to make important decisions often in groups and for most of History they've used the same basic technique whether they were deciding whether to have their Village go to war with the neighbouring Village or whether to introduce a new product into the marketplace what they would do is get the group of the wise people together sitting around a table and everyone would explain why they thought one decision or the other should be made and after some period of debate and perhaps even a little bit of evidence they would go with the hippo well what's the hippo the hippo is an acronym that our friend Ron Kabahavi at Microsoft came up with and it stands for the highest paid person's opinion. That's right. After all the debate, one person, the chief, would make the decision based on his or her own decision making instincts.

That worked tolerably well for lots of decisions, but now we're moving from hippo based decision making to data driven decision making. And a great example is what Jeff Wilkie

taught me. Jeff is the head of worldwide consumer at Amazon. He's also a Sloan grad, so every once in a while he comes back and gives me a few tips. I remember some time ago he came to my office and we were talking about data driven decision making and the way things were evolving at Amazon.

And before we really got into it, he said, hey, let me bring up Amazon. I want to take a look at your website. And I said, OK, fine. And so I brought up Amazon on my web browser and he looked at it for a second. And I said, yeah, you're in group B.

I said, what do you mean I'm in group B? He goes, well, we're running an experiment right now on you and millions of other people. Group A has the shopping cart on the left and group B has the shopping cart on the right. And sure enough, I looked at the screen and there was a little Amazon shopping cart and it was over on the right side of my screen. I said, well, what difference does that make? And he said, well, at Amazon there was a debate whether or not it made more sense to have the shopping cart on the left or the right. And we had some experts telling us, oh, for psychological reasons it makes more sense to have it on the left or the right.

But we just shut down that debate very quickly. We said, let's run an experiment. And so that's what they did right then and there. I found out a couple of weeks later that it turned out that having the shopping cart on the right was worth a few extra tenths of a percent in terms of getting people to not abandon the shopping cart. Who could have guessed that? Probably no expert could have.

But by doing an experiment and gathering data from millions of customers, they were able to find out that it's slightly more likely that people consummate their purchase if they have the shopping cart on one side or the other. These kind of A-B tests are ubiquitous not just at Amazon, but at every major digital company. And now companies across the world are using this experimental approach to gather data. And once they have enough data, they can make a fact-based decision instead of one based on just guesses and intuition. Now let's understand what are the benefits of data driven decision making, right? So there are numerous benefits, but for sake of our understanding, I have collected few.

So let's discuss these one by one. First here is precision and accuracy. This benefit is related that data driven decision making allows service firms to base decisions on accurate and precise data rather than intuition or assumptions. This leads to more reliable strategies and outcomes. Second benefit deals with improved customer understanding. By analyzing customer data, service firms gain deeper insights into customer behavior, preferences and needs.

This understanding enables personalized and targeted approaches to customer interactions. Third benefit of adopting DDDM, that is data driven decision making, is with respect to enhanced personalization. Data driven insights facilitate personalized customer

experiences. Service firms can tailor their offerings, recommendations and even communications to individual preferences, leading to increased customer satisfaction and loyalty. Fourth benefit is with respect to optimized operations.

Data driven decision making allows service firms to optimize internal processes and resource allocation. Operational inefficiencies can be identified and addressed, leading to improved productivity as well as cost effectiveness. Next benefit is with respect to strategic planning. With access to relevant data, service firms can formulate and execute strategic plans more effectively. This includes market expansion, product or even service development and competitive positioning.

Another benefit is with respect to competitive advantage. Firms that leverage data for decision making gain a competitive advantage or edge in the market. The ability to adapt quickly to market changes, customer preferences and emerging trends positions these service providers ahead of their competitors. Next benefit is with respect to better risk management. Data driven insights enable firms to assess and mitigate risk more effectively.

By identifying potential challenges early on, service firms can proactively implement strategies to manage or even avoid adverse situations. Another benefit is with respect to increased efficiency in marketing. Data driven marketing strategies lead to more efficient and effective campaigns. Firms can target the right audience, optimize ad spend and measure the impact of marketing efforts in real time. Another benefit is with respect to customer retention and loyalty.

Data driven decision making aids in predicting customer behavior and identifying factors influencing loyalty. Service firms can implement retention strategies based on data insights to retain valuable customers. Another benefit sought is with respect to adaptability to market changes. By continuously analyzing market data, service firms can quickly adapt to changes in consumer trends, economic conditions and even competitive landscapes ensuring resilience in dynamic markets. Another benefit is with respect to innovation and product development.

Data driven insights guide innovation by identifying gaps in the market and uncovering unmet customer needs. This informs the development of new product and services aligned with customer expectations. And finally, another benefit is measurable performance metrics. Data driven decision making enables the establishment of measurable performance metrics. Firms or service firms for that matter can track key performance indicator or KPIs to evaluate the success of initiatives and adjust strategies based on real time feedback.

Now towards the end let's look at some challenges in implementation of data driven decision making across service firms. First is data security. Ensuring the security and privacy of sensitive data is significant concern. So organizations or service providers may be hesitant to embrace data driven decision making. To address this challenge, what is the solution then? Solution to this challenge includes implementation of robust data security measures including encryption, access controls and regular security audits.

Additionally, educating employees on the importance of data security is also crucial step. Next challenge is with respect to data quality issues. We don't have a quality data right. So that kind of challenge is another challenge. Poor data quality can lead to inaccurate analysis and unreliable insights.

Incomplete outdated or inconsistent data can hinder the effectiveness of data driven decision making practices. So what is the solution then? Solution is to establish data quality standards and implement data cleaning processes across organization. Regularly monitor and clean data sets to ensure accuracy and invest in tools and technologies that can automate data validation and cleansing. Third challenge is with respect to organizational resistance. Employees and management sometimes or most of the times resist the shift to data driven decision making due to lack of understanding, fear of job displacement or even reluctance to change.

What is the solution then? The solution is to provide comprehensive training programs to enhance data literacy across organization. Foster a data driven culture by emphasizing the benefits of data driven decisions and so on. Fourth challenge is lack of data integration. This involves fragmented view of the organization data. So how to address this challenge? The solution is to implement robust data integration solutions that enable seamless sharing of data across different departments in the organization or service provider.

Invest in technologies like integrated data platforms or even data warehouses to consolidate and centralize data that can be used for analysis. So in this session we try to understand the concept of data driven decision making. We also looked at different benefits and also challenges and solutions while implementing data driven decision making in services. Thank you.