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Customer focus requires apparel retailers to dress for success

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Why advocacy matters to apparel retailers

Customer focus requires apparel retailers to dress for success

By Melody Badgett, Maureen Stancik Boyce and Jeffrey Hittner

In apparel retailing, a mature and intensely competitive market with increasingly diverse and well-informed customers, competitive differentiation is more important and more difficult to sustain than ever. However, attracting and keeping loyal customers depends upon it. A new IBM Institute for Business Value survey of more than 4,000 U.S. apparel consumers identifies the attributes that drive customer advocacy. These attributes can help apparel retailers find new ways to differentiate their businesses and pursue customer-focused initiatives and investments with greater precision and success.

Apparel retailing: A zero-sum game[1]

In the minds of apparel customers, where they shop and what they wear are cultural touch-stones. Customers define their identities by the stores where they shop and the brands they endorse or reject. They project their affinities, their societal status and their tastes via the clothes they purchase.

However, apparel retailers are confronting the increased pace and complexity impacting their industry and are challenged to emerge with a clear value proposition for their customers. A great deal is changing. The focus on fast-fashion and constantly rotating styles makes accurate, timely category and merchandise planning an imperative. Missing key fashion trends means losing relevancy with consumers.

Furthermore, brands today are tiered and nested in each other, forcing the customer to decipher which comes first: the store brand, the label or the garment itself. Meanwhile, clothing designers are opening their own branded stores, and even top designers are broadening their reach and creating offers for value-oriented retailers. This leaves retailers to determine which coattails to grab to best differentiate themselves.

Yet, this is no small task as clothing vendors and designers are spending millions in brand advertising in an apparel landscape muddied by a proliferation of offerings. Figuring out the brand puzzle, as well as how to merchandise fashionably and quickly – all in a way that delivers to customers what they want in a timely manner – is critical to retailer differentiation. This is true regardless of whether customers buy their clothes from an upscale boutique or at the same place they purchase their groceries.

About the 2007 Customer Focused Apparel Retailer Study

In order to create more insights about retail apparel customers' attitudes and behaviors, we conducted a consumer study that went beyond satisfaction and price measures to try to get at the heart of customers' issues. The types of questions we sought to answer included:

- How strong is a customer's support for his or her primary apparel retailer?
- Which elements of the customer experience are most important to customers?
- How well-positioned are key apparel retailers when it comes to being focused on what the customer wants?
- What do true customer advocates look like? How valuable are they?
- How can retailers use advocacy to drive growth and customer loyalty?

The study was created by conducting primary market research with 4,345 retail apparel customers in the United States, who were questioned via an online survey. We validated findings with secondary research and held workshops with IBM retail and customer relationship management subject matter experts to review research findings and develop recommendations.

A new type of metric

This study seeks to provide understanding of customer advocacy, meaning the positive attitude customers have toward their apparel retailers, which, in turn, promotes healthy relationships and referrals. Unlike other satisfaction metrics, advocacy goes beyond a single measure of experience satisfaction or likelihood to recommend. Advocacy takes a more sophisticated approach of combining the responses to three questions to obtain a more complete and accurate view of a customer's attitude toward his or her retailer.[2] The three areas in which advocates strongly agree are:

1. I would recommend my apparel retailer to others.
2. I would increase purchases if my apparel retailer offered products found in other stores.
3. I would stay with my apparel store if another apparel store offered a competitive product.

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Consumers today trade up and trade down across categories based on what they value.

Big-box apparel retailers: Big footprint and big market presence

U.S. apparel retail grew at 1.9 percent compound annual growth rate (CAGR) from 2000-2005 and is expected to grow at 2.7 percent CAGR from 2005-2010.[3] While neither totally flat nor negative, this growth does not provide much room for retailers to relax in the face of the stiff competition that exists.

Value-oriented players, such as supercenters, warehouse clubs and value department stores, occupy the majority of the U.S. apparel retail market today. Over the past 15 years, traditional department stores have seen their market share drop significantly, while supercenters and warehouse clubs have grown theirs. Big-box players and value department stores have convenience, affordable prices and geographic penetration on their side. They often carry similar brands and styles as more specialized retailers. Their "share of closet" is also bigger, getting more of shoppers' clothing budgets.

The biggest channel growth in apparel retail is coming from Internet sales. Analysts predict e-commerce sales to grow at a CAGR of 24 percent between 2005 and 2010, and to reach 6 percent of total retail sales by 2010.[4] This could be considered both good and bad news for most retailers. Clever retailers will be able to exploit their online plays in hopes of finding a new competitive lever. At the same time, the Internet creates a level playing field for new entrants and online-only players that may operate on completely different cost and sourcing models.

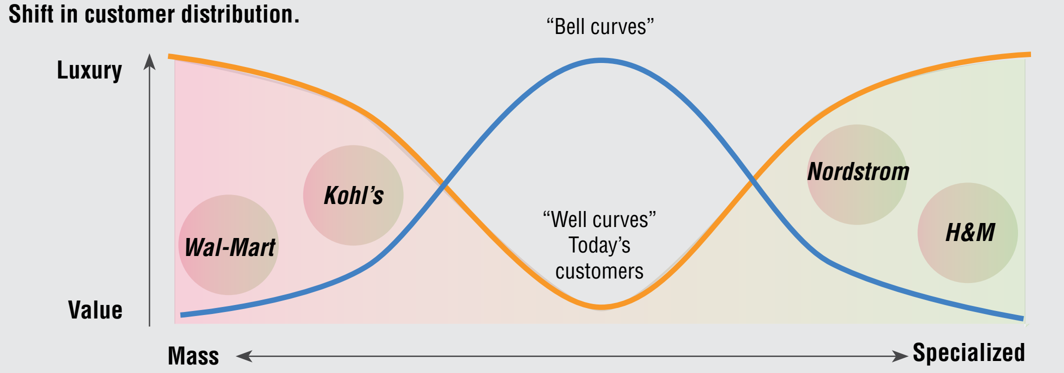
Customers driving the change

The expansion of alternate retailing channels and category competition mirrors the changing tastes, needs and behaviors of the customer base. One of the most notable evolutions in consumer shopping behavior is polarization and specialization in their shopping patterns that drives them to shop at different stores for different reasons. Consumers today trade up and down across categories based on what they value. For example, they shop at a big-box retailer for casual and children's clothing and a high-end apparel store for a special-occasion dress.

Figure 1 illustrates the shift in consumer shopping behavior. In the past, consumer preferences were more homogenous, distributed like a bell curve, with the majority satisfied to shop in one place that provided a middle ground between "luxury and value" and "mass appeal versus specialized," such as traditional department stores. Our survey shows that, today, consumers are better informed and more diverse, tending to split their shopping excursions by need, making some purchases with low-cost, discount channels, and others with specialized or luxury retailers.

Retailers have responded by migrating to the ends of the spectrum, establishing themselves either as mass, value players or luxury, specialized players, but shying away from the middle (see Figure 2). Companies experiencing growth are focusing more and more on a particular niche in the marketplace and limiting their exposure elsewhere. From an identity and recognition standpoint, this builds clarity in the consumer's mind about what to expect from the store.

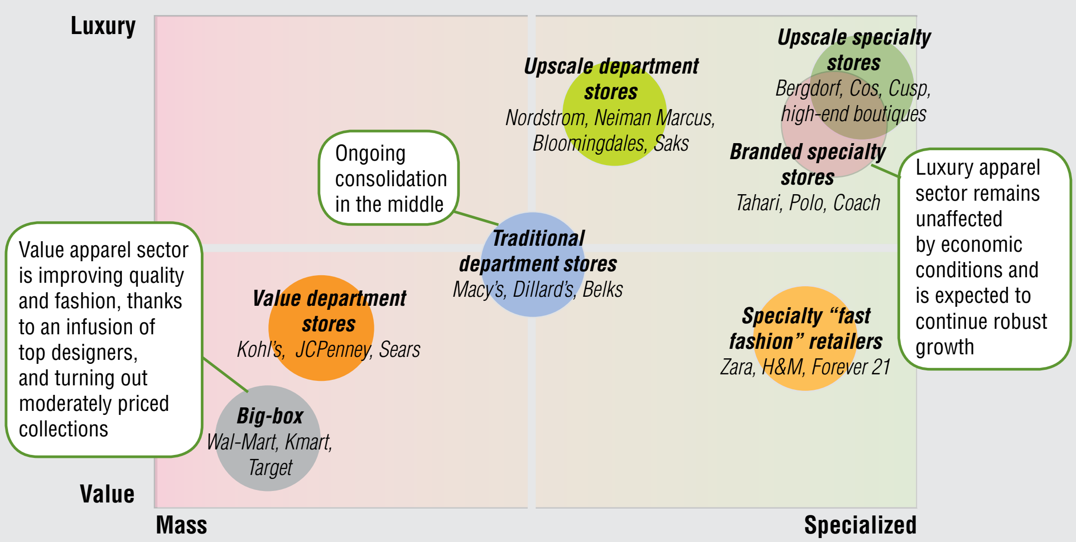
FIGURE 1.
Shift in customer distribution.



Source: IBM Global Business Services.

A changing marketplace can be advantageous to new entrants as they can build their store, merchandise and marketing strategies to fit current demand. A changing marketplace can be a struggle, though, for existing retailers who may have long histories and an established retail infrastructure. Changing store sizes and locations isn't something that can be done quickly. This forces traditional department stores to chase revenue, since much of their cost structure may be locked down in a historical footprint. After all factors are considered, from branding schemes to merchandising mixes, one factor still drives where apparel dollars go: the customer.

FIGURE 2.
Trends and movements in the apparel sector.



Source: IBM Institute for Business Value, "Customer Focused Apparel Retailer Study." 2007; Standard & Poor's Apparel & Footwear Industry Survey. May 2007; Datamonitor Global Apparel Outlook. 2007.

Apparel retailers need to understand the viral nature of customer perceptions and use this information to build customer loyalty.

The customer's perspective

Recent studies reveal some intriguing measures about customer behaviors and attitudes:[5]

- 79 percent of customers will commit to a deeper product or service relationship after a satisfying experience
- 31 percent of customers tell multiple people of their bad experiences
- 48 percent of customers avoid a store based on someone else's experience.

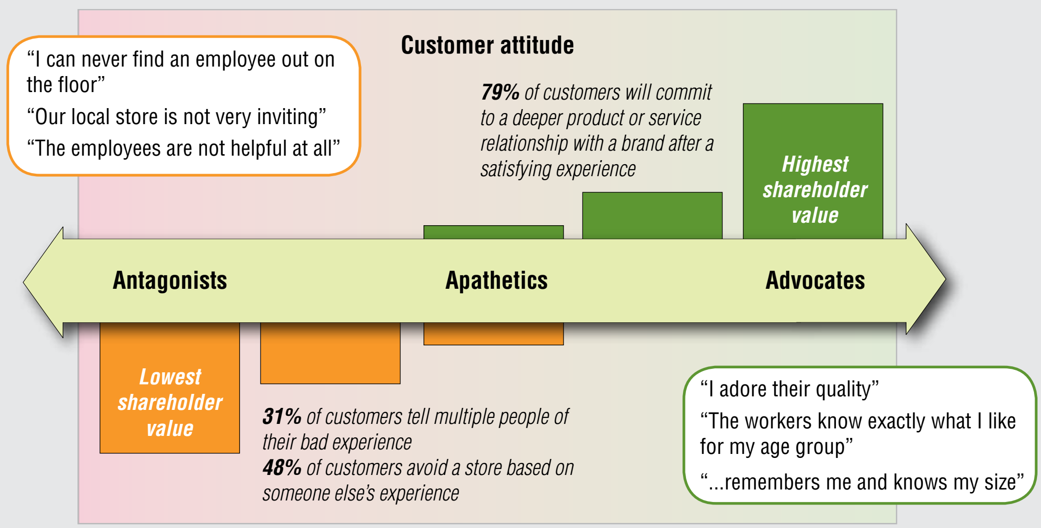
It's a powerful message when a significant percentage of customers tell of their bad experiences and avoid a store based on hearsay; customer perceptions of a retailer are viral and heeded by family and friends.

Knowing this, retail apparel leaders who build customer advocates can develop a new competitive advantage that does not rely on the same old levers of "trying to be everything to everybody." Rather, they can capitalize on the fact that creating a satisfying experience for customers leads to loyalty.

How do customers feel about their apparel retailer?

A customer's attitude is shaped by cumulative experience and directs future behavior such as loyalty, share of wallet and word of mouth. Our new Customer Focused Apparel Retailer Study breaks down customers by three major attitude segments: advocates, apathetics and antagonists (see Figure 3).

FIGURE 3.
A customer's attitude is shaped by cumulative experience, and directs future behavior... loyalty, share of wallet and word of mouth.



Source: "Retail Customer Dissatisfaction Study – 2006," The Jay H. Baker Retailing Initiative at Wharton and The Verde Group, January 2006.

Advocates are those apparel customers who like your store, recommend you to others, buy from you and stay with you. Unfortunately, most retail apparel customers are not advocates. According to our study, only 17 percent of apparel customers are advocates (see Figure 4).

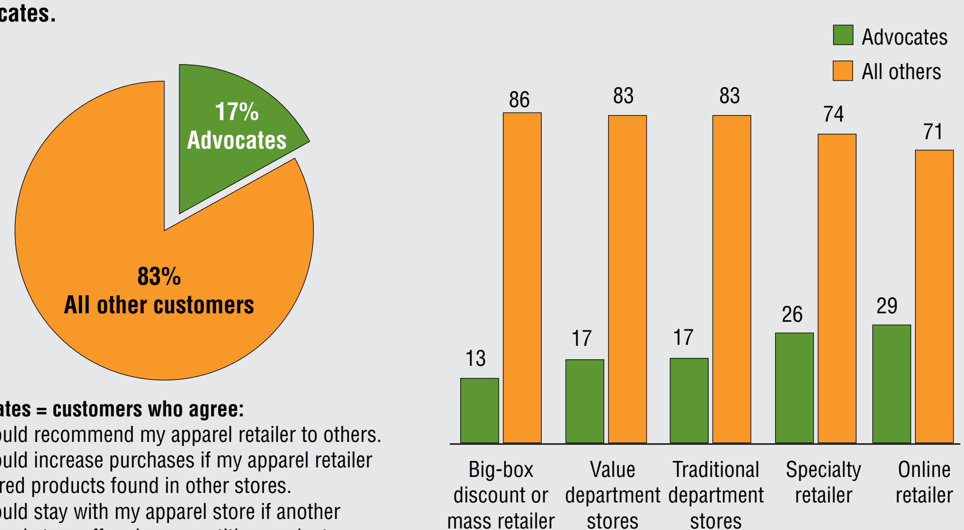
Across all apparel categories, an overwhelming majority of respondents – 71 percent – are antagonists, customers who carry a poor attitude toward their apparel retailer and may be actively causing damage to the reputation of the business.

This paints a grim and perplexing picture for the marketer who is spending millions of dollars on magazine ads, TV commercials and other advertising, attempting to recruit new customers – while the majority of its existing customers counter this goal. It also does not bode well for those "paying" the opportunity costs of investments focused on customer acquisition that have translated into a largely disloyal customer base.

Advocates vary by apparel retailer category

As stated previously, across apparel categories, less than one in five customers is an advocate, but this varies by category. The worst category was "big-box and mass retailers," with only 13 percent of customers as advocates. The low score may be the result of the customer experience being sacrificed in order to focus on lower prices – or a lack of attention on the clothing business among the other merchandise categories of the retailer. Specialty and online retailers have the highest advocacy rankings with 26 percent and 29 percent of respondents claiming to be advocates.

FIGURE 4.
Advocates.



Advocates = customers who agree:
1. I would recommend my apparel retailer to others.
2. I would increase purchases if my apparel retailer offered products found in other stores.
3. I would stay with my apparel store if another apparel store offered a competitive product.

Source: IBM Institute for Business Value Customer Focused Apparel Retailer Study. 2007.

Advocates tend to be more valuable customers, spending significantly more with their primary retailer than antagonists.

Traditional department stores and value department stores came in at the industry average for advocacy, around 17 percent. Despite their experience, history, staff tenure and smaller SKU count (presumably reflecting more apparel focus), these stores have garnered only 4 percent more admirers than their mass-retail counterparts.

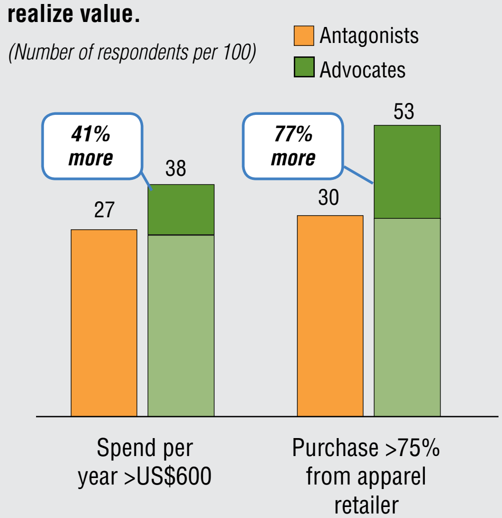
Financial impact: Advocacy pays off

Our study shows advocates are more valuable customers financially. Forty-one percent more advocates than antagonists spend at least US$600 with their retailers each year. Advocates are also more loyal. Our study shows 77 percent more advocates than antagonists focus the majority of their business with their primary retailer.

FIGURE 5.

Retailers that pursue customer focus and cultivate strong customer relationships can realize value.

(Number of respondents per 100)



Source: IBM Institute for Business Value, "Customer Focused Apparel Retailer Study." 2007.

Conversely, our survey reveals almost twice as many antagonists (12 out of 100) as advocates (7 out of 100) decreased the amount they purchased with their primary apparel retailer over a two-year period.

With this in mind, increasing the number of advocates is expected to help apparel retailers realize financial benefits such as:

- Average share of wallet increases per customer
- Average increases in customer spend per shopping trip
- Acquisition investments returned at a higher rate.

The key attributes that drive success

Figure 6 shows responses that advocates, antagonists and apathetics gave about their primary retailer concerning specific attributes of their shopping experience.

Attitudes can shape or influence the entire relationship between consumers and their apparel retailers. When some aspect of an experience pleases an advocate, he or she is likely to have a positive perception of the entire experience. The opposite is true of antagonists. This may suggest that retailers don't have to be perfect at everything to change attitudes. Apparel retailers can focus on the most important events or experiences that drive advocacy and focus on improving those.

The top two attributes advocates identified were "pleasant and enjoyable to shop" and "easy to shop," which highlight the need for a positive experience at their primary apparel

FIGURE 6.
Attributes of shopping experience.

	Advocates % strongly agree		Apathetics/Antagonists % strongly agree	
Store experience	89	Pleasant and enjoyable to shop at apparel retailer	51	49
	87	Store is easy to shop	41	43
Assortment	85	Always fresh and new product selection	36	39
	81	Always find brands/styles/sizes	35	37
Multi-channel	82	Products easy to return both online/in-store	45	52
Product availability	71	Products I want are consistently available	26	29
Customer service	78	Happy with service from store employees	32	36
	67	Store employees knowledgeable and attentive	25	28
	66	Employees go out of their way	24	26
Multi-channel	59	Easy to shop website	23	27
	51	Valuable website services	16	23

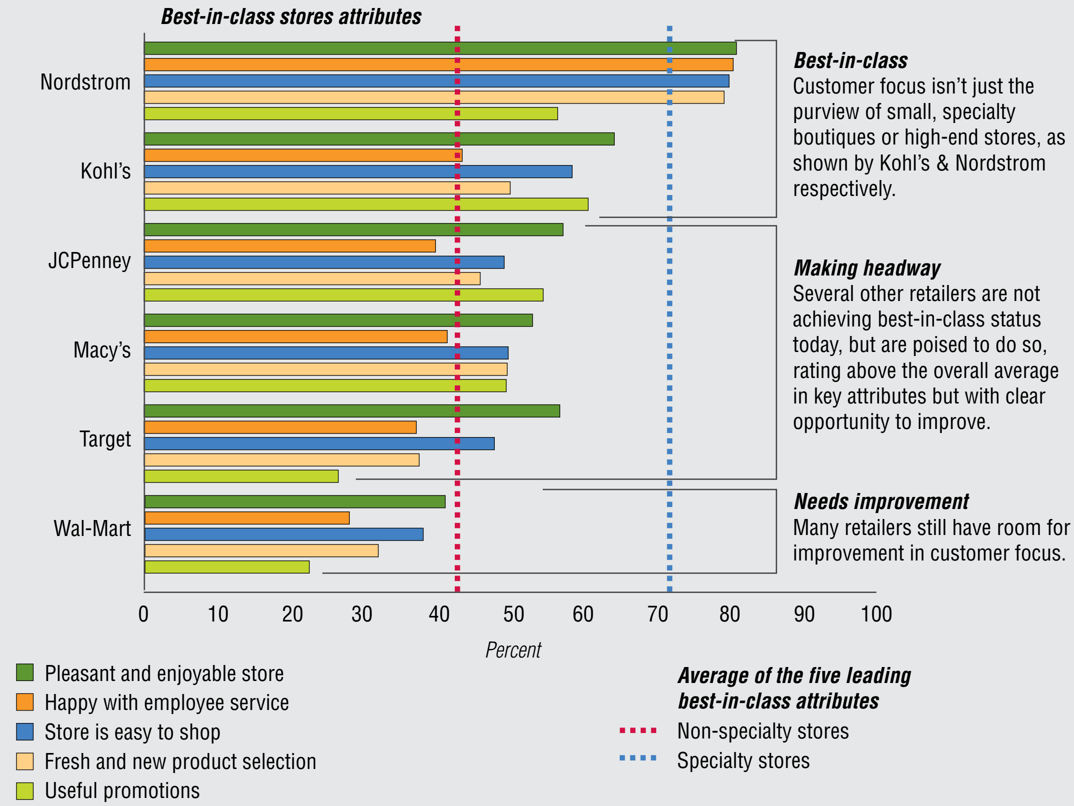
Note: Percent responses represent those that strongly agree with attributes of their primary grocer (scores 8-10).
Source: IBM Institute for Business Value, "Customer Focused Apparel Retailer Study." 2007.

store. The next highest categories have to do with product selection and convenience, "always fresh and new product selection" and "easy to return both online and in-store." It is also noteworthy that, in the list of prioritized attributes, "fresh and new product selection" has a 46-percent gap between responses from advocates and antagonists; the advocates' retailers are delivering on this attribute, the antagonists' retailers are not. This suggests that customer-focused merchandising and supply chains are key for successful retailers that seek to optimize their number of advocates.

Both advocates and antagonists ranked their multi-channel experience at the bottom of attributes they felt their primary apparel retailer did well. This suggests that retailers have an opportunity to improve their multi-channel experiences as part of the entire shopping experience. This again suggests an opportunity for all retailers to focus future efforts on customer-focused merchandising and supply chains. Online retailers experienced the highest advocacy scores of all retailer categories, suggesting that the online space is an excellent way to build affinity.

Perhaps the most surprising result in this data set is that the apathetics supported their retailer to a lesser degree on many attributes than did antagonists. The reason for this is unclear. We could speculate that antagonists are often "turned" by one bad event but actually like some attributes of their retailer, and that apathetics are the ones having unremarkable experiences across the board. Whatever the reason, we can infer that, in the case of converting customers, indifference is likely as bad as active dislike; those who do not care one way or the other about their primary apparel retailer are at equal or even greater risk of switching stores.

FIGURE 7.
How apparel retailers measure up.



Source: IBM Institute for Business Value, "Customer Focused Apparel Retailer Study." 2007.

Customer focus is paying off: many of the companies with the highest number of advocates enjoy strong market performance.

Best-in-class apparel retailers deliver on the attributes

Many of the companies with the highest number of advocates also enjoy strong market performance. Again, this suggests that customer focus is paying off. Specialty apparel retailers do one of the best jobs overall of attracting advocates (26 percent) by delivering on five key attributes: a pleasant, enjoyable store; employee service; fresh and new product selection; ease of shopping; and useful promotions.

When compared using those same attributes, only Nordstrom achieves best-in-class scores similar to specialty retailers. However, Kohl's is a strong second, exceeding the overall average, and other retailers are making headway in select attributes. This tells us customer focus is not just the purview of small boutiques or specialty/luxury stores, as evidenced by Nordstrom and Kohl's, respectively. Customer focus is attainable in large format stores and by value-oriented players, too.

Nordstrom, as a best-in-class example, refocused its efforts on customer service and the customer experience after experiencing declining customer satisfaction in the late 1990s through 2000. The company developed an automated “clienteling” program that enabled sales associates to access customer information during customers’ shopping visits in order to accurately advise new purchases based on the tastes, preferences and past purchases of each customer.[6]

This required replacing associates’ paper-based customer books with an online database and software tools that assembled customer transaction histories and preferences accessible via point-of-sale (POS) terminals. Nordstrom also launched other customer-focused innovations, including a new perpetual inventory management system that enables fast reactions to customer feedback from the sales floor, a new rewards program and a subscription-based, online notification system of new merchandise that meets customer preferences.[7]

The results reflect Nordstrom’s customer focus. One-third of all sales in 2005 were a result of interactions between associates and customers facilitated by the clienteling program.[8] Last year, 61 sales people sold more than US$1 million each.[9] From 2003 to 2007, Nordstrom experienced operating and income growth of 48 percent (CAGR) and net income growth of 66 percent (CAGR).[10] Its customer advocacy scores also reflect its customer focus. Twenty-eight percent of Nordstrom’s customers are advocates, placing its scores in line with specialty retailers and far above other department stores.

Kohl’s, also best-in-class, is a viable second in customer advocacy within its category. Kohl’s specifically designed its collections for different customer segments, pricing them accordingly and improving reach across categories within stores. The company is known as an industry leader in executing and contracting exclusive collections with designers and premium brands, and using them to effectively focus on new customer segments within the family.[11] Net sales are up more than 50 percent since 2003.[12]

Nordstrom, Kohl’s, JCPenney and Target all lead in another attribute: understanding customer expectations. They scored the highest, with 70 percent to 86 percent of their customers agreeing their primary retailer understood their expectations. The differentiating factor then becomes using customer insight to change the way the business operates. Best-in-class apparel retailers, such as Nordstrom and Kohl’s, excel by making customer insights an integral part of their business operations.

Lessons on applying customer focus can be learned from both ends of the apparel spectrum, luxury and value. On the luxury end, Neiman Marcus, often considered the bellwether for high-touch customer service in the apparel industry, has focused on incorporating customer insights into its key merchandising activities, identifying six product segments most important to customers and delivering top-notch assortments in those areas.[13] It also offered the industry’s first loyalty program and first dedicated “client books” maintained by sales associates.[14] Finally, it recently launched a new concept store focused on younger, affluent women.

More on the value end, H&M, meanwhile has been among the first to recognize that the line between value and designer customer groups is blurring. To take advantage, while avoiding the murky middle ground of apparel offerings, it has focused on making clear customer offers and opening up new market opportunities – partnering with celebrities like Madonna and building out a range of concept stores. It is also one of "fast fashion's" originators – able to move product ideas from runway to rack in as little as three weeks.[15]

How can apparel retailers become more customer-focused?

Customer focus drives improved operations, better customer relationships, greater retention and increased trust.

Customer focus is the strategic discipline companies use to improve their operations in order to drive better customer relationships. Customer focus typically leads to greater retention and loyalty, increased share of wallet and market share, increased customer trust and, ultimately, to solid financial results. Some of the key competencies that characterize a strong customer focus include being able to:

- *Understand customer needs and expectations from the outside-in:* Place high priority on having deep insights into shopping preferences and needs to create a satisfying shopping experience for core customer segments across all channels and shopping venues.
- *Use customer insights to drive business operations:* Drive these insights across the business to optimize all key decision making, such as buying merchandise, pricing and promoting products and services, serving customers, and marketing and communicating to customers.
- *Break traditional design constraints:* Design processes based on how customers interact with the retailer, not how the retailer wishes to interact with customers. Incorporate relationship and communication skills in the learning and development of staff and leaders.
- *Adopt a transformational change mindset:* Embrace the notion of becoming customer-focused. Measure what's important to the customer and share results companywide, restructuring as needed to align management and incentives to embrace customer knowledge and reward for advocacy.
- *Prioritize investments based on what really counts:* Prioritize investments based on criteria that define a successful shopping experience for the company's best customers.

Key questions for your customer strategy

Industry leaders seeking to change the way they interact with customers and build customer advocacy should begin by asking themselves some tough questions. The answers will help clarify the customer strategy and define a path to integrate it throughout business operations. Developing and using new metrics, like advocacy, should be one critical step on this path. As a first step, retailers should define their customer strategy and customer experience objectives. Questions should include:

- On which customers and segments should we focus? What are the important attributes that define them?
- What are the drivers of a successful shopping experience for these core customers?

- What are the key “moments of truth” with our customers?
- How do we “lock in” loyalty for our targeted customer base?

Key questions for aligning your business to the customer strategy

Retailers must determine the critical process, organizational and IT changes that must take place to meet these objectives. Questions should include:

- Do we have the right information about our core customers? Do we have a single view of the customer?
- What might drive more business from them?
- What will it take to focus the entire organization on the customer?
- How deeply should we commit to customer focus and where do we begin?

While the retail apparel market is crowded and competitive, there are clear opportunities and advantages in taking a new approach that puts the customer ahead of just offering lower prices and the same brands. Focusing on global sourcing and demand planning is a good starting point for apparel retailers. Most apparel retailers today have a “push” strategy for merchandising, relying on historic purchases, cost-driven motives and ease-of-sourcing to make inventory decisions.

Incorporating customer insights will help retailers transition to a “pull” strategy, one that is dynamic, based on customer information and evolves with customer needs. Since selection and convenience are two top attributes advocates value, making merchandising customer-focused will give customers what they want while providing the retailer a visible success story on which to build future customer-focused initiatives. With new insight into customer advocacy and the right strategy for developing customer-focused operations, leaders in retail apparel may find new opportunities for growth and success.

Get the detailed study

A complete, detailed version of the study is available by request. Besides the data included here, it includes specific store-by-store data for the top players in each category, additional questions, demographic breakdowns and expert perspective and commentary. To request a copy of this study, please e-mail *iibv@us.ibm.com*.

About the authors

Melody Badgett is a Senior Managing Consultant with IBM Global Business Services. She has over 15 years' experience in business strategy and analysis in retail and other consumer-related industries and is currently the Retail Team Leader in the IBM Institute for Business Value. She works with retailers to understand and effectively respond to the competitive and consumer trends that are redefining the retail landscape. She can be reached at *mbadgett@us.ibm.com*.

Maureen Stancik Boyce, PhD, is the Distribution Sector Team Leader for the IBM Institute for Business Value. She can be reached at *staboyce@us.ibm.com*.

Jeffrey Hittner is a Senior Consultant for Retail and Consumer Products with IBM Global Business Services and is currently the Corporate Social Responsibility Leader for the IBM Institute for Business Value. He can be reached at *jhittner@us.ibm.com*.

Contributors

Key contributors to this paper include Fred Balboni, Steve Ballou, Steve LaValle and Robert Heffernan.

About IBM Global Business Services

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