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Explore the leading retailers

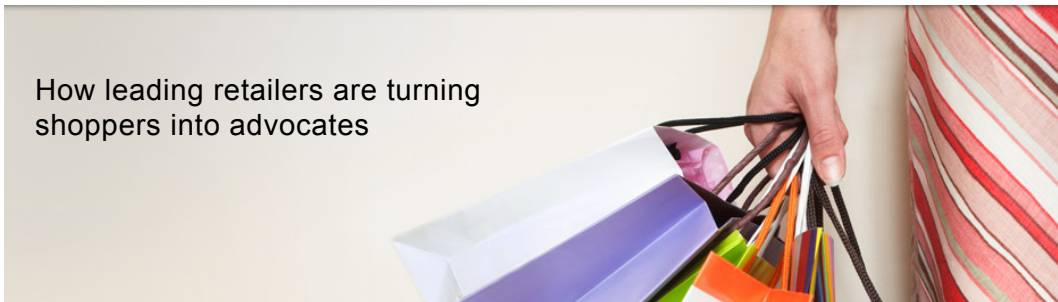
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How leading retailers are turning shoppers into advocates

One shopper, so many choices

One of the most notable evolutions in consumer shopping behavior is the polarization and specialization in shopping patterns that drives customers to shop at different stores for different reasons.

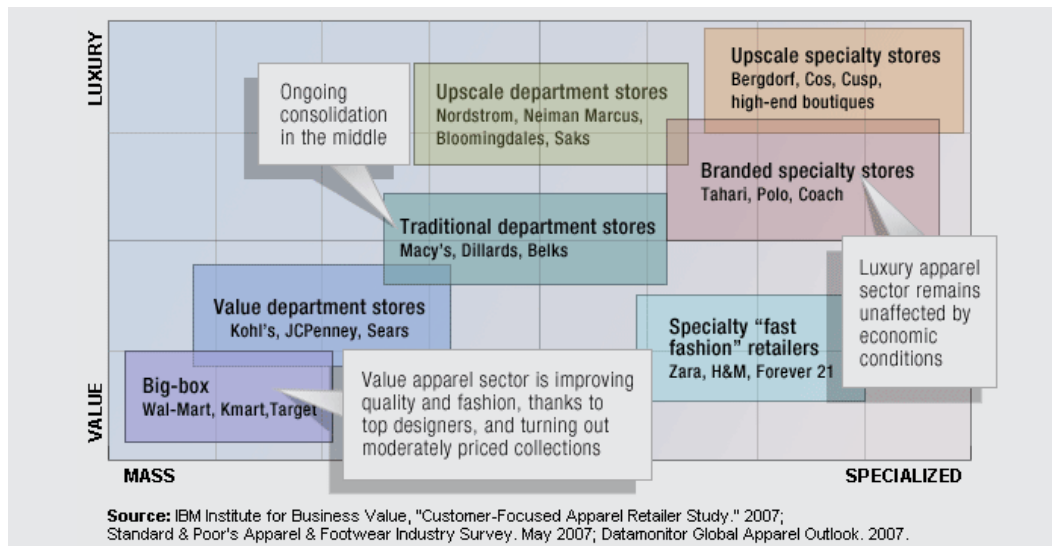
Take Sara A: thirty-something, married, with two boys and working part-time as a consultant. She buys her sons' school clothes at Kohl's, a value-priced department store; picks up basics like socks at a big box store such as Costco; and shops for a special occasion dress at Nordstrom. Her 11-year-old is an avid skateboarder and surfs the online sites where he customizes the hottest sneaker brands before Sara completes the purchase transaction. Her husband avoids shopping for clothes at all costs—so she relies on yet a different set of retailers for his wardrobe.

Sara's shopping patterns highlight the complexity retailers face in trying to satisfy a highly fragmented world of consumers who split their dollars and destinations by shopping occasion and need. Consumers will readily trade up and down, making some purchases with low-cost, discount channels, and others with specialized or luxury retailers.

What the U.S. market looks like

Mature and intensely competitive, the apparel retail sector is expected to grow at a 2.7% compound annual growth rate (CAGR) from 2005-2010.¹ While this prediction is not totally flat or negative, any movement tends to be a zero sum game: a gain in sales for one retailer equals a loss in sales for another.² Value-oriented players own the majority of the market with share taken primarily from traditional department stores. Luxury apparel stores, such as Coach, remain seemingly impervious to economic conditions.

Trends and movements in the apparel sector



The Internet continues to gain momentum as a channel: analysts predict e-commerce sales will reach 9% of total retail sales by 2011, growing to more than \$270 billion.³ Online shopping on Cyber Monday 2007, the Monday after Thanksgiving, was up more than 20% over 2006, although average per capita spending fell 12%, likely due to deep discounting.⁴ This suggests that retailers may be using their online presence as a competitive lever.

The big squeeze

Further pressuring U.S. retailers is the growing presence of fast-moving brands with innovative sourcing models and a lifestyle-attuned shopping experience. Spain's Zara claims to need just two weeks to take a new product from runway to store, compared to the U.S. industry average of nine months. Sweden's H&M (Hennes & Mauritz) opened 15 new locations in 2007, bringing its U.S. totals to 130. It appeals to a youthful, trend-conscious shopper with affordable designs from Karl Lagerfeld and Madonna.⁵

How do customers really feel about their retailers?

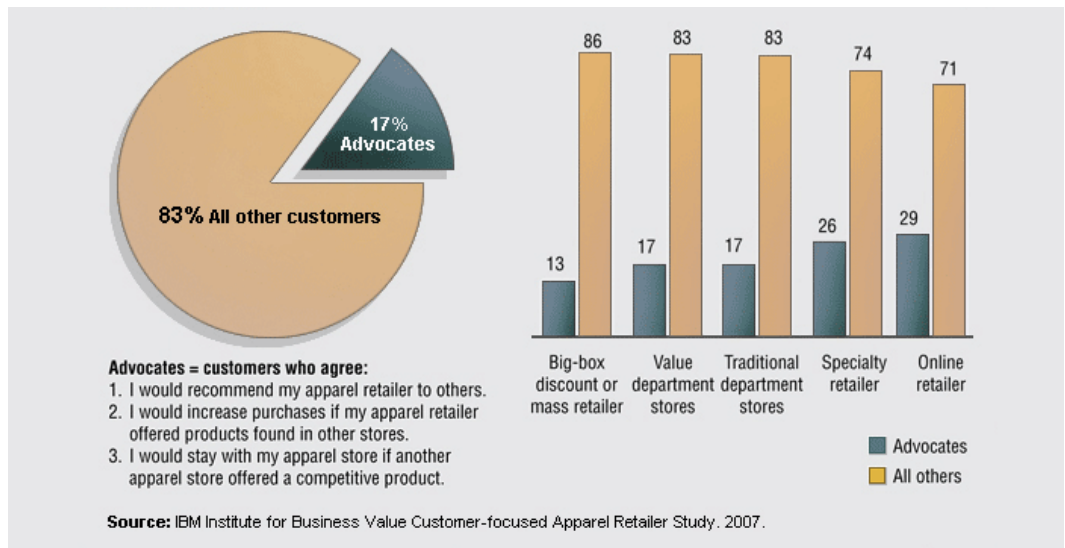
Recent studies reveal that a customer's attitudes and loyalty to a particular retailer are based on cumulative experiences:

- 31% of customers tell multiple people of their bad experiences
- 48% of customers avoid a store based on someone else's experience
- 79% of customers will commit to a deeper relationship after a satisfying experience⁶

To gain better insight, IBM surveyed over 4,000 U.S. apparel customers to understand which attributes of the shopping experience turn customers into Advocates, those shoppers who would:

- recommend their apparel retailer to others
- stay with their primary retailer even if another valued retailer moved to the area
- increase purchases if the retailer offered other products also available from competitors.

Advocates



The bad news first

Today only 17%—less than one in five customers—are Advocates.

An overwhelming majority of respondents—71%—are Antagonists, customers with a negative attitude who may actively be causing damage to the reputation of their apparel retailer. The balance are Apathetics, indifferent to their primary retailer. This is particularly worrisome if retailers are investing heavily in customer acquisition efforts that have translated into a largely disgruntled customer base.

Advocates are important not only for their positive 'word of mouth' influence. Our survey shows they are financially the most valuable customers: they spend more per shopping trip, devote more wallet share to a favored retailer and are more likely than Antagonists to increase their spend over time.

What turns a shopper into an Advocate?

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 retailer (scores 8-10).
Source: IBM Institute for Business Value, "Customer-Focused Apparel Retailer Study," 2007.

Surveyed shoppers identified the store experience—a store which is pleasant, enjoyable and easy to shop—as the most important attribute of their interactions with an apparel retailer.

The second most important attribute is a fresh selection of quality, appealing products that is consistently available. Also important? A seamless multi-channel brand experience that makes it easy to return products online and in the store.

Those retailers who rate best on the percentage of Advocates also enjoy strong market performance, with higher same store sales and gross margin returns on inventory than their peers.

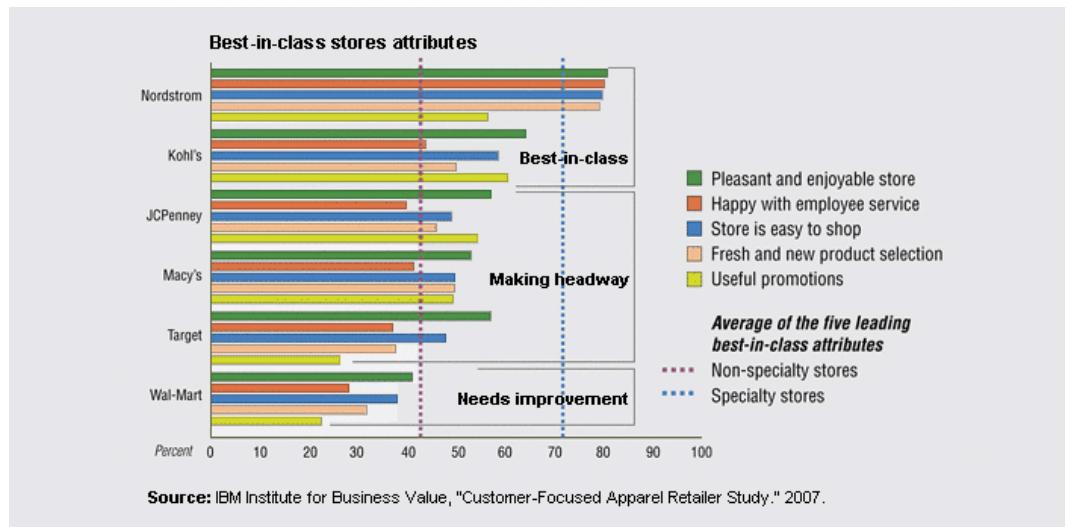
So what can an apparel retailer do to become more customer-focused? Retailers can deliver a satisfying shopping experience by having a deep understanding of who their core customers are, what they expect from the brand experience and by focusing on those attributes which transform a shopper into an advocate.

For some retailers, the starting point may be creating customer-driven merchandising and supply chains. For example, Neiman Marcus identified the six product segments most important to its customers and is delivering top-notch assortments in those areas.⁷ Other apparel retailers may focus on optimizing the store experience and customer interactions or transforming multi-channel processes.

Achieving advocacy is not a one-size-fits-all endeavor, but it is essential for profitable growth—and attainable by all types of retailers with the proper focus on those advocacy attributes relevant to their customers.

Who's getting it right?

How apparel retailers measure up



Nordstrom

Nordstrom refocused its efforts on the customer experience after facing declining satisfaction in the late 1990s through 2000. They developed an automated "clienteling" program. Sales associates can access customer information to accurately advise new purchases based on preferences and purchase history.⁸ This required replacing paper-based customer books with an online database and software tools. Nordstrom also launched a new perpetual inventory management system and a rewards program.⁹

It's working: 28% of Nordstrom's customers are Advocates making it the apparel retailer with the highest percentage, outside of specialty boutiques.

Kohl's

Kohl's ranks second in customer advocacy within its category. Kohl's knows its target customer—suburban or soccer moms—and has built its operations around them. Kohl's has been successful at contracting with designers for exclusive collections that are affordably priced; it has developed new customer segments within the family, and benefits from convenient neighborhood store locations.¹⁰ Net sales are up 50% since 2003.¹¹

H&M

H&M has been among the first to recognize that shoppers will buy from both value and designer collections, offering high style at low prices while avoiding the murky middle ground. It is an originator of "fast fashion"—able to move product ideas from runway to rack in as little as three weeks.¹² H&M partners with celebrities like Madonna and is building out a range of "concept" stores.

Footnotes

- 1 "Apparel Retail in the United States," Datamonitor. August, 2006
- 2 "Apparel & Footwear Industry Survey," Standard & Poor's, May, 2007
- 3 "U.S. Retail eCommerce Forecast, 2006 to 2011," Forrester Research, Sucharita Mulpuru, May 4, 2007
- 4 "Highest Spend Ever for Cyber Monday," e-Marketer Daily, December 3, 2007
- 5 "Foreign Apparel Retailers Make Inroads," Retail Traffic, Nov 21, 2007
- 6 "The Retail Customer Dissatisfaction Study 2006," The Jay H. Baker Retailing Initiative at Wharton and The Verde Group
- 7 Annual Report, The Neiman Marcus Group, 2004
- 8 "The Nordstrom Way to Customer Excellence: A Handbook for Implementing Great Service in Your Organization," Specter, Robert and Patrick McCarthy, 2006
- 9 "Nordstrom 'Simplifies' Customer Satisfaction," Corcoran, Cate T, Women's Wear Daily, March 22, 2007
- 10 IBM Institute for Business Value analysis of Citigroup Global Market on March 28, 2007; Wilson, Eric and Michael Barbaro. "Can you Be Too Fashionable?" New York Times, June 17, 2007.
- 11 Annual Report, Kohl's, 2006
- 12 "H&M's Material Girls," Newsweek, Naughton, Keith, June 10, 2007