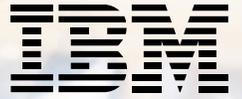


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Insights from five retail segments

Retail



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Why advocacy matters to retailers

Insights from five retail segments

By Melody Badgett, Maureen Stancik Boyce, Laura VanTine and Yolanda Wang

Surveys conducted across five retail segments – grocery, large-format apparel, mall-based specialty apparel, drugstore and online – reveal key attributes that help turn everyday shoppers into loyal Advocates. And financially speaking, Advocates are the most valuable customers of all.

Introduction

According to a 2007 series of IBM surveys that polled nearly 20,000 consumers, those retailers that integrate customer-focused initiatives throughout their businesses have a greater number of Advocates and often outperform their competitors. *Advocates* are defined by three criteria: they are customers who recommend their retailer to their friends and family, who would increase their purchase amount if their retailer offered products found at other stores, and who would stay with their retailer even if another retailer offered a competitive product.

Transforming customers into Advocates is not a simple task, but retailers that are customer-focused, placing the wants and needs of their

customers at the center of all core business strategies, are well-positioned to turn shoppers into Advocates. Further, customer advocacy often rewards retailers with a handsome financial benefit.

IBM surveyed U.S. consumers from five retail segments – grocery, large-format apparel, mall-based specialty (MBS) apparel, drugstore and online retailers – to identify the key retailer attributes that drive consumer advocacy. Knowing the underlying reasons why customers become Advocates enables retailers to pursue customer-focused initiatives and investments with greater precision and success, enabling them to reap the many rewards of turning their customers into Advocates.

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Why are Advocates important?

Regardless of the customer segment to which a retailer caters, advocacy matters. Advocates are more valuable customers than Apathetics (customers who are indifferent to their primary retailer) or Antagonists (customers who actively dislike their primary retailer). Our study found that Advocates spend more with their primary retailer than other customers do, on average 17 percent more than Antagonists, for example.

Not only do Advocates spend more, they are increasing their spending year to year. Over the past two years, 41 percent of the Advocates increased their spending, which is 32 percent more than both Apathetics and Antagonists. Another financial benefit of customer advocacy is that Advocates spend a greater share of their wallets with their primary retailer. Advocates of MBS apparel retailers demonstrate the greatest difference, purchasing 32 percent more with their primary retailer than Antagonists do.

By increasing their number of Advocates, retailers can improve the quality of their customer portfolios, thereby positively impacting key performance metrics. Increasing these metrics can ultimately increase customer lifetime value. In fact, we found that for most of the retail segments, the retailers with the most Advocates were typically those that either had the greatest comparable store sales or gross margin return on inventory (GMROI).

But, retailers are struggling to transform their customers into Advocates. The average percentage of Advocates across all five segments is less than one quarter of the customers we surveyed. Grocery retailers lead all other segments with 27 percent Advocates, which is still barely more than one-quarter of the segment's customers. The other segments fall below the overall 21-percent average.

Specialty categories within each of the retail segments showed greater success at achieving customer advocacy. Specifically, regional and local specialty food stores, local and independent drugstores, and specialty apparel retailers located in malls had greater than average customer advocacy. While many of these smaller stores cater to the needs of their target customers and provide an enjoyable shopping experience, we found that advocacy is not just the domain of small stores. Large retailers can and do demonstrate the ability to transform customers into Advocates.

Each segment had stand-out retailers with advocacy share significantly above 21 percent, the overall average; these retailers can provide valuable lessons. Wegmans, for example, leads the grocery segment and tops retailers in every segment, with 53 percent of its customers as Advocates. (Grocery had many retailers above average, including Costco and Target.)

To turn customers into Advocates, retailers have to understand customers' reasons to shop, creating a store experience that meets basic needs and fulfills expectations.

Leading retailers in the other segments include:

- Nordstrom, in large-format apparel, with 28 percent advocacy
- Costco pharmacies, within the drugstore segment, with 27 percent
- Barnesandnoble.com, within the online retailer segment, also with 27 percent
- The Children's Place, in mall-based specialty apparel, with 22 percent.

What drives advocacy? The most important attributes for shopper advocacy

Building customer advocacy is harder than simply meeting customer expectations. In our sample, 78 percent of all consumers said their primary retailer meets their expectations, as compared to 21 percent who are Advocates. Understanding the expectations of customers and their reasons for shopping are simply "table stakes" or qualifiers for "getting it right," but are not sufficient to transform customers into Advocates. While we confirmed what retailers have known for years, that the top two ways retailers can meet customer expectations are by having good prices and convenience, we also found that it is almost as important for retailers to provide the right product assortment.

A retailer's ability to fulfill customers' expectations and understand their reasons for shopping simply helps get consumers in the door – it does not turn them into Advocates. *It is the shopper's experience with the store that transforms an existing customer into an Advocate of the retailer or, conversely, into an*

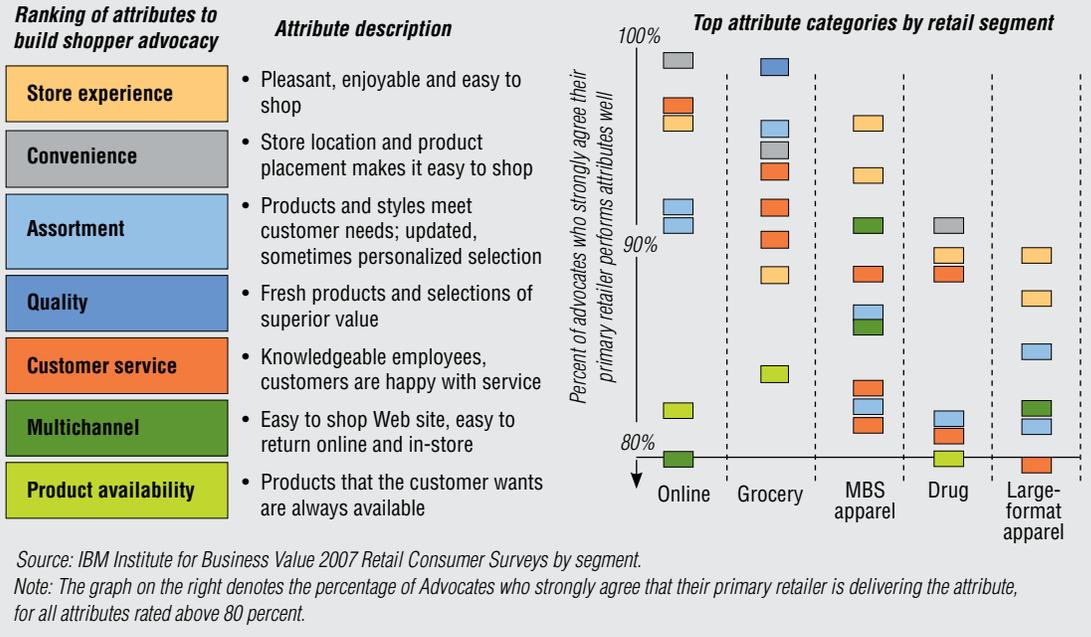
Antagonist. After meeting customers' basic needs, fulfilling expectations and understanding their reasons to shop, then retailers can develop advocacy.

To better understand what retail features, or attributes, are most important to Advocates, we studied 14 attribute statements across each retail segment, and then grouped the 14 attributes into seven attribute categories (see Figure 1).¹ Our survey results showed that the single attribute that Advocates ranked highest was "Store is Pleasant and Enjoyable to Shop," which falls into the "Store Experience" category. Similarly, the survey showed that the most important attribute *category* for Advocates is a positive *Store Experience*. Advocates want their primary retailer to provide a pleasant, easy and enjoyable overall Shopping Experience. The second most important attribute category across all retail segments is *Convenience*. From an Advocate's perspective, Convenience is not only location, but also how easy it is to navigate the store. We found that every retail segment had one or both of these as a top attribute category with the exception of grocery. In that segment, the *Quality* category rated highest and *Assortment* rated second (see Figure 1).¹ This is not surprising given a customer's relationship with food versus other retail products.

Variance by segment is expected. Plus, performance against these attributes will – and should – vary by retailer within each segment depending on a retailer's position in the marketplace and targeted customer segments. We found that while one retailer may lead the competition in its segment, it rarely leads in

FIGURE 1.

Store Experience or Convenience is the top advocacy attribute in all retail segments except grocery.



all attributes, confirming that what works for one may not work for another. Focus areas for each retailer will depend on the needs of its targeted customer base.

How can retailers get started? Capabilities and initiatives for raising advocacy

Retailers can deliver a satisfying shopping experience by having a deep understanding of who their core customers are and what customers expect from the brand experience, and by focusing on the priority attributes that transform a shopper into an Advocate. Using the top-ranked attributes specific for its segment to inform its enterprise strategy, a retailer can develop a prioritized roadmap centered on the operational capabilities most

critical to delivering superior customer focus (see Figure 2). Because distinct capabilities apply to each attribute, they can be pursued in the order of greatest impact enabling a retailer to better allocate resources and budgets.

For retailers that have embraced a customer-focused transformation, the starting point is an honest assessment of current capabilities, in answer to the following questions: What are my existing strengths and weaknesses relative to key requirements? Which capabilities will have the greatest overall impact? How does the enterprise measure up against metrics that actually matter to the customer? The answers will define the strategic objectives related to customer advocacy and the process, organizational and IT changes that must take place.

FIGURE 2.
Attributes for customer advocacy and the key initiatives retailers need to deliver a customer-focused strategy.

<i>Attributes categories for shopper advocacy</i>	<i>Top operational capability required</i>	<i>Key initiatives to deliver</i>
Store experience	<ul style="list-style-type: none"> Enhance brand perception through customer experiences. Design macro plan of store to deliver exciting shopper experience. 	<ul style="list-style-type: none"> Store and space planning Experiential shopping
Convenience	<ul style="list-style-type: none"> Create a dynamic and personalized shopping occasion through site selection, store layout and product placement. 	<ul style="list-style-type: none"> Store and space planning Customer and traffic analysis
Assortment	<ul style="list-style-type: none"> Align merchandise planning with customer preferences to create local assortments. 	<ul style="list-style-type: none"> Global sourcing and buying Merchandise and local assortment
Quality	<ul style="list-style-type: none"> Optimize quality by using local sourcing and by streamlining supply chain. 	<ul style="list-style-type: none"> Local and global sourcing Customer-focused merchandising
Customer service	<ul style="list-style-type: none"> Create a culture of information and empowerment for store employees to make decisions that promote customer satisfaction. 	<ul style="list-style-type: none"> Workforce management and productivity Customer-focused metrics
Multichannel	<ul style="list-style-type: none"> Deliver coherence across channels including information, pricing, inventory, returns, etc. 	<ul style="list-style-type: none"> Integrated cross-channel experience Reinvent the online/mobile experience
Product availability	<ul style="list-style-type: none"> Help ensure product availability and delivery through multiple fulfillment options and a flexible supply chain. 	<ul style="list-style-type: none"> Store replenishment Creating flexibility in the supply chain

Source: IBM Institute for Business Value.

For each of the five retail segments we studied, the attribute considered most critical to turn shoppers into Advocates was either Store Experience, Convenience or Assortment.

Across all segments, gains in customer advocacy will be predicated on developing solid shopper insights – or a deep understanding of the wants and needs of the target customer, infused through all operations. In the age of advocacy, shopper insight should transcend the collection of basic customer data, such as purchase history and demographics, and take an outside-in view: what is the lifestyle to which my customers aspire? To which communities does my customer self-identify? Who and what are the new influences driving shopping decisions? Leading retailers are tapping into new sources of data, including 3D Internet and social networking, to augment loyalty program and synthesize insights, which can enhance the core retail processes from merchandising and supply chain to customer service.

To achieve advocacy, it is critical that the customers' actual shopping trips mirror their perception of the brand experience. Consumers are resoundingly clear: it is the *Store Experience* attribute that creates an Advocate or an Antagonist. The factors shaping customers' opinions are numerous – ranging from the ease with which shoppers can navigate the parking lot, to accessibility of products (are the sizes and products I want presented in an appealing, even motivating manner?), and to how well the store fulfills lifestyle aspirations. It is important then for retailers to leverage the shopping occasion and shopper segment insight to design the flow of a store, manage fixture and shelf space and provide in-store experiences that create an emotional connection with the shopper.

- Some leading grocery retailers have been testing a new layout including a "get in and out fast" zone at the front of the store stocked with key items and equipped with self-checkout stations to help them win back customers from convenience stores.
- Another example is REI; its climbing walls, rain chambers for testing wet-weather gear and staff of outdoor enthusiasts combine to bring the brand to life.²

Building advocacy and delivering on Store Experience is not simply an issue of perfecting store operations; optimizing the Store Experience is a culmination of getting all the other attributes right as well. Advocacy requires the commitment of the full enterprise and a rationalized approach for the six other advocacy attributes, which are building blocks that lead to a superior Store Experience.

Convenience is the second most important attribute consumers identified as an opportunity for raising advocacy. Convenience is more than just having a great location; it is also about solving the customer's problem on any given shopping occasion. As an example, Costco's pharmacies offer private consultation rooms for customers to talk with their pharmacist, provide access to a large film library of guidance material on pharmaceuticals and related products, and administer several disease screenings tests on a regular basis at a nominal fee, so that customers can address their health-related requirements in a single trip.³ "Foodies" gravitate toward Wegmans for the flexibility to "make it or take it."⁴ Customers can either buy restaurant-quality, prepared meals or buy all the ingredients to make them at home. Ultimately, "ease of shopping" is defined by the consumer and will take a variety of forms. Therefore, retailers focusing

on convenience as a differentiator will want to understand the *why* and the *who* behind every shopping trip and integrate this insight into decisions about location, store design, product placement, staffing levels and even checkout design.

As retailers, the heart and soul of the business is about *what* is in the store. Everyday, they live and breathe the mantra: "the right product in the right place at the right time." The IBM survey findings only reinforce this basic principle. So how does the advocacy attribute *Assortment* contribute to a differentiated store experience? When the customer dimension is added to merchandising and supply-chain decision making, a retailer can tailor the product mix to that which is most wanted by its best customers, and refine it further to the needs and preferences of local markets. Whether it's a grocer's organic or ethnic food section or an array of dress styles in the "new black," it is the fresh, updated offerings and personalized products that raise the bar for attracting and keeping customers. For grocery, *Quality* products are the most critical components of the right offering. This imperative is followed by other aspects of Assortment, such as whether it is tailored to the local store, updated and personalized. Forward-thinking retailers are enhancing new product development and global sourcing capabilities in order to create differentiating, localized assortments that will attract customers to their stores ... for the real moment of truth.

Store associates who are empowered, knowledgeable and courteous certainly contribute to a positive store experience and the customer's propensity to shop again. But it is when all parts of the organization collaborate seamlessly to deliver great *Customer Service*

Solid shopper insights are essential for improving those attributes that enhance advocacy, and the best way to achieve customer focus requires a tailored roadmap that will vary by each retailer's starting point and customer strategy.

that the retailer stands to realize significant improvements in advocacy. Customer-focused retailers are adopting strategies and capabilities to sustain a culture committed to satisfying and exceeding customer expectations. This requires hiring the right people, providing employees with continuous learning and deploying knowledge management tools that encourage sharing of best practices and information designed to enhance a store associate's interaction with a customer. Additionally, retailers should introduce accountability for customer-focused metrics at all levels of the organization to augment traditional performance measures.

One important shift in organizational alignment we see contributing to increases in advocacy is a new level of collaboration between physical and online stores to optimize the customer's *Multichannel* experience. Today's customers expect a seamless brand experience that spans all the channels they use when researching products, completing a purchase transaction or seeking after-sales service and support. This is not to suggest that the physical store, the Web store, the catalog and virtual 3D Internet stores should be exactly the same. What consumers value is a cohesive experience that leverages the unique strengths of each channel, yet anchors the many parts of a shopping trip around a single view of customer preferences and interaction history. The real innovators are those retailers that are doing more than replicating the physical store in cyberspace. The next generation of e-commerce is about a virtual presence that enhances and extends the brand with

new services, such as endless aisles, online purchases with the immediate gratification of store pickup, live chat with a call center agent and even the ability to shop online with friends. Moving forward, we anticipate the challenge of multichannel execution and optimization to intensify as the lines between Web 2.0, social networking, mobile commerce, mobile phones and PDAs continue to blur. Yet those retailers that successfully redefine the e-commerce paradigm can expect to be rewarded with customer loyalty and increased advocacy.

Across all of the brand's channels, *Product Availability* must not be overlooked if retailers are to keep and grow the population of Advocates. Particularly in this age when the exact same product is available from dozens of Web sites, and the retailer down the street will match or beat any advertised price, an out-of-stock item not only translates into a lost sale, but also a loss of good will. Most consumers would be perfectly satisfied to order their outdoor kitchen from their favorite home improvement retailer and have the item shipped directly from the manufacturer. However, consumers will quickly look for a more dependable source should a retailer be routinely out-of-stock for staple items or advertised, promotional items. A 100-percent in-stock position is probably neither achievable at an affordable price, nor necessary. However, retailers should try to improve inventory visibility, create greater flexibility in order fulfillment and evolve the supply chain network for optimized inventory levels and minimized out-of-stocks.

Conclusion

Customer focus has become a mandate for growth. The effort to transform shoppers into Advocates is a winning proposition, driving significant financial benefits to the retailer and shopping enjoyment for the consumer. While customer focus is more easily put into practice by the small, gourmet or boutique retailer, mega-retailers are demonstrating they can scale a very personal offer as well. Scaling isn't easy, but it is doable if the proper effort is devoted to improving those attributes that enhance advocacy. The way for larger retailers to achieve customer focus is to address the organization's structure, culture, operating practices, systems and technology. Achieving advocacy is not a one-size-fits-all endeavor, but requires a tailored roadmap shaped by customer strategy. That strategy will drive the transformation to customer-driven merchandising and supply chains, optimized store experiences and customer interactions, and next-generation multichannel systems and processes, all supported by customer and merchandising insights.

The challenge is here. Lead or be led. The time to get started is now.

Get the detailed study

Please contact IBM if you would be interested in having the complete, detailed version of the study presented to you. In addition to the information shared in this paper, the full study includes specific store-by-store data for the top players in each retail segment, additional survey question detail, and demographic breakdowns. To request a meeting, please e-mail iibv@us.ibm.com.

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References

- ¹ We evaluated 14 attribute statements and asked customers to rate their primary retailer on a scale of one to ten, strongly disagree to strongly agree. The attributes that we define as "most important" to Advocates are those which are most highly correlated with Advocates (i.e., a large percentage of Advocates strongly agreed that their primary retailers delivered the attribute).
- ² Based on store visits and sales associate interviews conducted by IBM in Fall 2007.
- ³ Jones, T. Foster. "A Prescription for Success." *The Costco Connection*, March 2005, Volume 20, Issue 3.
- ⁴ Based on the 2007 IBM Institute for Business Value Grocery Survey as well as interviews with Wegmans' customers and a Wegmans chef in Fall 2007.

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