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The customer focused
retail enterprise

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Turning shoppers into advocates

The customer focused retail enterprise

By Herb Kleinberger, Melody Badgett and Maureen Stancik Boyce

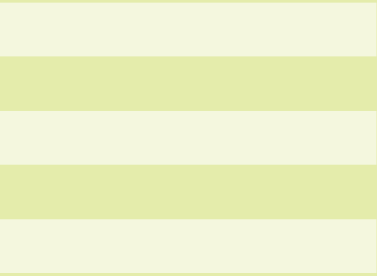
While retailers are heeding the daily drumbeat of pundits on the importance of focusing on the customer experience, a gap remains between what retailers are delivering and what shoppers expect. Retailers can close this gap by systematically integrating knowledge of what their best customers want and expect from their brand into every core operational decision. This is where the bar will be set for retailers – to turn shoppers into advocates and create a sustainable, differentiated advantage.

Unprecedented diversity, fragmentation of consumer values and information transparency have polarized the retail marketplace and created an imperative for all retailers to differentiate. In addition, the challenges of an increasingly price-driven world have raised the bar for retailers to create a shopping experience that builds loyalty to brands, channels and services and is not based solely on price.

Certainly these messages are not new and many retailers are moving forward on their customer strategies and are gaining deeper insights into their core customers' needs. But that is just the first step. The new dimension to be explored is how retailers can change the way they operate to create a satisfying and

compelling experience. This is a transformational strategy that will enable retailers to turn shoppers into advocates – customers who will recommend and promote the retailer to others, spend more of their wallet with that retailer and remain loyal over time.¹

Retailers can develop advocates by becoming a customer focused enterprise and blending the customer perspective with a traditional product-centric approach. This new perspective will require retailers to build customer insights into their core business decisions such as merchandising, marketing, customer service, new product development, and store and channel operations to significantly change the day-to-day operations of the business.



We believe that retailers that are customer focused achieve greater customer advocacy, retention and loyalty, capture increased share of wallet and market share, develop deeper customer trust and demonstrate superior financial results.

Becoming more customer focused is important for all retailers, regardless of value proposition. The pace of change in the marketplace will quickly make winners and losers. Leading retailers will move first to build strong bases of loyal, profitable customers who are also advocates of the company and achieve sustainable, differentiated advantage. Where will you be?

Turning shoppers into advocates

The customer focused retail enterprise

Becoming customer focused requires bringing together a “customer view” with a traditional “product-centric” view.

The new business model: The customer focused enterprise

What does being customer focused mean for retailers?

Several factors in today’s retail marketplace are driving the need for differentiation and customer focus. Retail market fragmentation and complexity are increasing, while boundaries between traditional segments continue to blur. In addition, the vast amount of available information is raising the bar on what customers expect retailers to provide in the shopping experience. To navigate the ever-changing marketplace, successful retailers are placing customers at the center of their strategies and operations and becoming truly customer focused.

Retailers that are customer focused embody four characteristics:

1. Deep understanding of the needs, shopping preferences and expectations of their best customers across all channels, touchpoints, products and services
2. High priority placed on using customer insights to drive decisions in merchandising, pricing and promotions, customer service, and marketing and communications
3. Consideration given to both the emotive aspect of the shopping experience or how their customers feel about shopping with them and how they want to interact

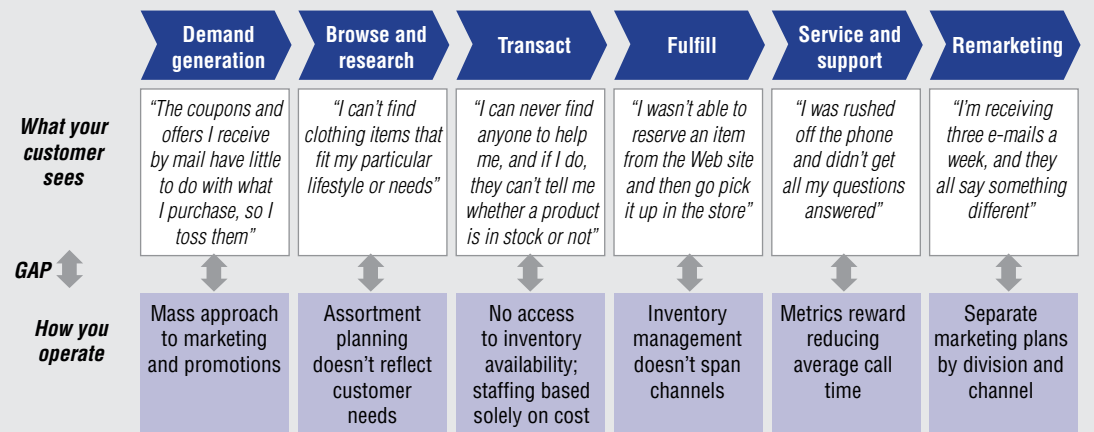
with them, and the tactile performance or how their customers use their products or services

4. Prioritization of investments based on criteria that define a successful shopping experience for their best customers.

Becoming customer focused requires a shift in how retailers think about and organize their businesses. This is not to suggest embracing a new perspective and abandoning the old way of doing things. In contrast, it is about bringing together an inside-out, operational view with an outside-in, customer view to deliver a superior shopping experience.

Traditionally, retailers have operated their businesses with an internal focus on their core operations that is product-centric. At the same time, the view of the shopping experience is often constrained by functional silos, which each have their own perspective and expectations for the customer. These separate views can lead to an ineffective customer experience due to an internal approach to managing operations that doesn’t completely consider the impact on the customer. For example, customers continually toss the promotional mailers they receive at home because they are unrelated to their shopping baskets or habits. The reality is that marketing promotions are often created with a mass approach and are cast with a wide net (see Figure 1).

FIGURE 1.
Disconnected views of the shopping experience.



Source: IBM Global Business Services; IBM Institute for Business Value.

By balancing internal objectives with customer objectives, retailers can bridge the gap between what the customer experiences and how the company operates. The starting point for this transformation is leveraging customer data across the company.

Consumer insights are critical to align a product-centric view with the customer view

As retailers combine inside and outside perspectives, incorporating consumer insights into decision making across all core business processes is essential. Often times, retailers capture significant amounts of customer data, but it gets trapped in Marketing and is not leveraged across the company. This could result in a category being deleted because of low margin and poor sales performance, when this category was actually preferred by top customers. Unfortunately, a retailer may discover this only after some of their best

customers defect and take with them their purchases of low-margin items that didn't meet corporate targets, and the high-margin items that were bought in tandem.

When insights are aligned with customer-facing processes, retailers can transform their businesses in the following ways:

- The focus on the shopping experience becomes channel, lifestyle and segment based.
- Merchandise selection includes category, segment and local market needs and assortment decisions are based on optimizing the baskets of core customers.
- Marketing becomes less mass-market-driven and more personalized by segment.
- Organizational metrics include both product performance and customer satisfaction (see Figure 2).

By infusing critical customer facing processes with consumer insights, retailers can embed the customer perspective into their business model.

FIGURE 2.
Transformation of processes with consumer insights.

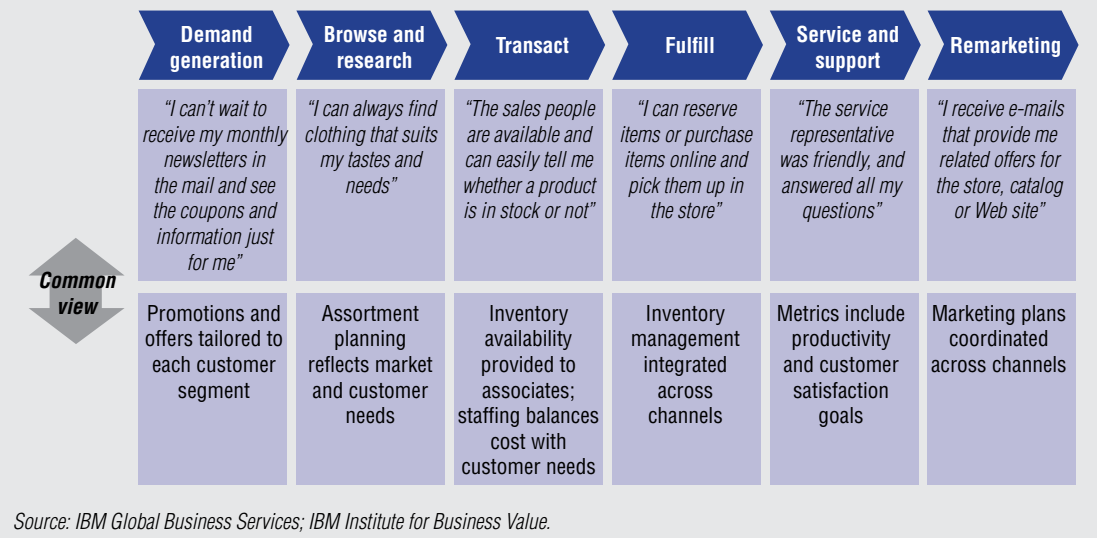
Example processes	Traditional/product view	Modified view: Traditional leverages consumer insight
Assortment planning/ category management	Category buyers and planners focus on product and department financial goals and performance	Buyers and planners work with customer data analysts, marketing and store/channel representatives; criteria includes customer segment goals and performance
SKU rationalization	Decisions made primarily on item performance versus plan	Decisions filtered through performance and needs of top customer segments
In-store customer service	Store associates do not have access to customer preferences and purchase history and provide uniform service	Store associates are empowered with data on customer preferences and transaction histories to provide more personalized service via “clienteling” or guided selling approach
Channel integration	Online services are limited and brand experience is inconsistent; channels are siloed and not integrated	Customers and employees have access to multiple online services that are integrated and coordinated seamlessly across channels
Space planning	Decision criteria limited to product features and/or vendor requirements and historical performance	Decision criteria is augmented by store specific guidelines to optimize core customer profiles and preferences
Price and promotion management	Strategy is uniform across all customers and managed independently across channels	Strategy is differentiated based on understanding of how different customer segments respond to price and promotion changes; decisions coordinated across channels
Campaign management	Programs based on mass-market approach and managed separately across channels	Programs are tailored and designed to attract and drive business with specific customer segments; coordinated across channels
Call center customer service	Metrics based on productivity and customer service representative (CSR) has limited or no knowledge of customer histories or profitability; all customers treated the same	Metrics also include customer segment growth and satisfaction; CSRs have access to customer data; top customers offered higher level of service

Source: IBM Institute for Business Value.

This alignment helps retailers build more satisfying shopping experiences and develop more customer advocates. For example, when marketing plans are tailored to specific

customer segments based on shopping basket analysis, customers are happier to see monthly mailers in their mail box because they discover promotions they can directly use (see Figure 3).

FIGURE 3.
Good experiences encourage customers to become “advocates.”



Customer focus drives value across the enterprise

Greater customer focus helps drive greater value across the enterprise through improved revenues, margin and asset utilization. This value can be realized by adopting a set of customer strategies with clearly identified metrics, which can then be tied to measurable results and bottom-line business impact.

For example, by developing more targeted marketing campaigns, retailers can help improve response rates, increase market and wallet share, and, in turn, drive greater revenue. U.K. grocer, Tesco, for example, sends out highly customized promotions based on insights gathered through its Club Card loyalty program. This has contributed to coupon

redemption rates of 20 percent or more versus the 1 to 2 percent industry average, penetration rates of 80 percent, and an increase in market share from 16 percent in 1995 when the loyalty program was launched to 31 percent as of August 2006.²

Similarly, by optimizing multiple channels and leveraging existing assets and investments, retailers can help improve channel cross-over rates and, in turn, improve revenue and margins. JC Penney, for instance, successfully leverages its Web site, catalog and stores – and drives customers to shop across channels. Accordingly, jcpenny.com achieved US\$1 billion in sales in 2005, has grown 30 to 50 percent consistently since its launch and has 10 percent conversion rates.³

How do retailers operationalize this new view?

Six core capabilities are necessary for this transformation

A customer focused retail enterprise understands the entire customer experience and delivers against it to build customer advocates. To transform their businesses, customer focused retailers integrate six core capabilities into their business models (see Figure 4):



Consumer insight

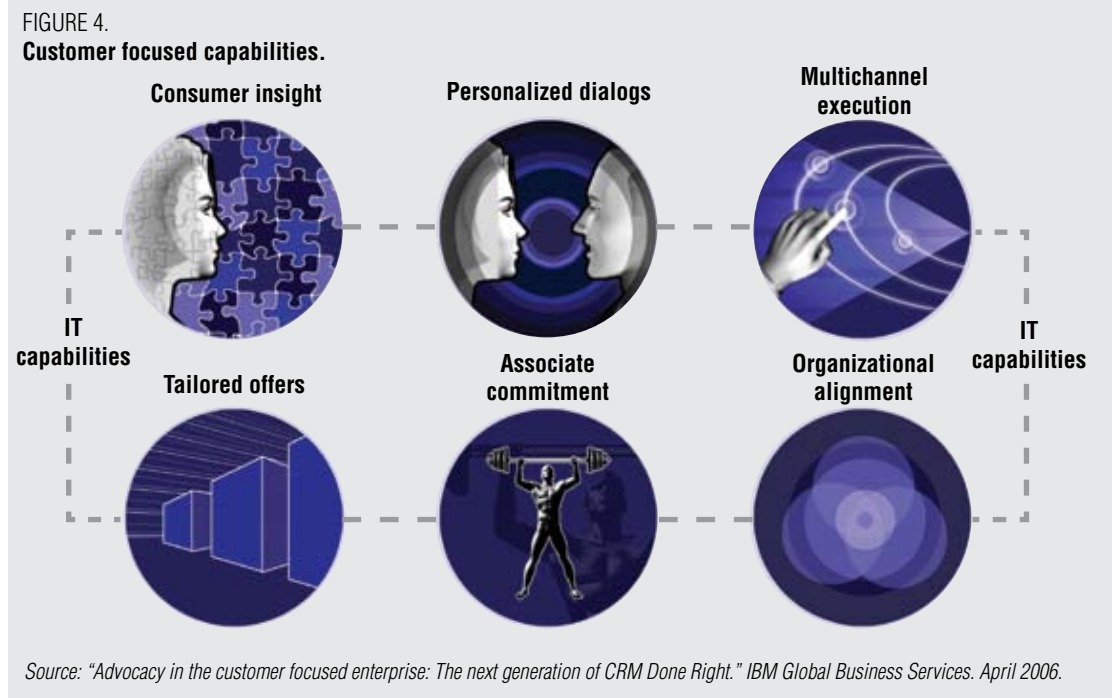
Customer focused retailers have a deep understanding of their core customers' needs and wants and use these insights to develop a consumer-driven, outside-in approach to designing the customer

experience. Retailers that have this capability know, for instance, who their top customers are and how profitable they are, what types of services they prefer, how their shopping needs vary by occasion and when and where they like to shop.

The key components of consumer insight include:

- *Shopper intelligence and feedback loop:* Deep insights are captured from multiple sources such as interaction and transaction data, demographics and contextual information; customer feedback is encouraged and captured.
- *Moments of truth:* Transaction points with customers are identified, and the brand promise is delivered at all key customer experience decision points.

Retailers can deliver a satisfying shopping experience by having a deep understanding of who their core customers are and what they expect from the brand experience.



Retailers can more effectively connect with shoppers by tailoring communications and interactions to their unique needs and preferences.

- *Outside-in shopping experience design:* The shopping experience is designed with a full understanding of what core customers expect, how they feel in their interactions with the retailer and how they use the products and services.
- *Multidimensional segmentation:* Core customer segments are defined based on life stage, product usage, psychographics and shopping preferences.
- *Targeted customer acquisition and retention:* Strategies for satisfying existing customers and acquiring new customers are based on deep insights.
- *Innovative consumer research methods:* New approaches to understanding and capturing customer needs, emotions and behaviors are explored and leveraged.

And now from the customer's perspective

U.S. office supply retailer, Staples' redesign of its Web site exemplifies building a customer experience from the outside in. Staples wanted to provide a better online experience for its small business customers and convert more occasional shoppers into loyal shoppers. To better understand customers' needs, Staples launched onsite usability studies with small business customers. This research included watching their customers' employees perform the following activities: place orders on the Web site, speak with Staples customer service reps and receive and put away products delivered by Staples. This data was used to create seven personas of typical customers, identify top customers, and build new features on the Web site that directly addressed their needs. This innovative approach drove higher conversion rates and higher average order sizes following the site relaunch.⁴



Personalized dialogs

Customer focused retailers have the ability to deliver relevant and customized communications to their customers in near realtime across all channels and touchpoints. With this capability, for example, a retailer is able to make customized recommendations at the point of sale (POS) to fill "gaps" in its customers' shopping baskets based on past purchases. One U.S. grocer, Stop 'n Shop, offers its customers such recommendations through its shopping buddy device.⁵

The key competencies required to deliver personalized dialogs include:

- *Realtime, intelligent messaging:* Customer insights become part of every interaction through the use of relationship attributes, life event information and data-driven decision making.
- *Value exchange and relevance:* Customers fully understand that the information they provide will be used to their benefit and a balanced trade is created.
- *Voice of the customer:* The customer's perspective is embedded in the design of interactions and touchpoints; customers are encouraged to provide feedback.
- *Segmented treatment:* Core customers receive differentiated treatment based on their preferences and profitability.
- *Sales associate effectiveness:* Staffing models are adjusted to have the right skills available to meet customer needs, and associates have access to customer data to offer more personalized service.
- *One-to-one relationships:* Individual customers receive customized and relevant messaging and communications.

As shoppers have come to expect anytime, anywhere shopping, multichannel excellence is critical.

Taking customer service to the next level

U.S. department store, Nordstrom, well recognized for its high level of customer service, decided to raise the bar by customizing its communications to key customers through an automated “clienteling” program. This personal-book software replaced sales associates’ paper-based customer books by assembling customer transaction histories and preferences into a database and making this data accessible to associates at the point of sale. This system, for example, provides associates with a list of customers that might be interested in new merchandise, trunk shows or upcoming sales based on their particular profiles. This level of personalization was impossible with associates’ paper-based customer books, which were filled with hand-written entries of customer preferences. During 2005, Nordstrom reported that one-third of all sales were a result of interactions between sales associates and customers, facilitated by the personal-book software.⁶



Multichannel execution

Customer focused retailers coordinate and integrate all channels to support a consistent customer experience. With this capability, retailers can serve customers as a single brand, regardless of which touchpoints or channels customers use.

The critical components of multichannel execution include:

- *Anytime, anywhere shopping:* Customers can personalize and choose the channels they would like to use for communications and shopping activities.
- *Single view of the customer:* A consistent customer profile is shared and used across channels, media, divisions and customer touchpoints.

- *Seamless interactions:* Customers can seamlessly continue interactions and dialogs over multiple channels without disruption or loss of information.
- *Coherence across channels:* Activities across functional areas are integrated and coordinated to deliver the desired brand experience and value proposition.
- *Employee and customer cross-channel services:* Employees and customers can access information captured across channels and touchpoints.
- *Cross-channel optimization:* A systematic approach is in place to exploit the strengths of one channel to complement the relative weaknesses of other channels.

The multichannel experience becomes even more important

Multichannel capabilities are becoming extremely important for consumer electronics retailers, in particular, as online research has become a prerequisite for shoppers. According to a recent study, 77 percent of consumer electronics purchases were influenced by Internet research.⁷ To satisfy these shoppers, electronics retailers are offering multichannel services, such as buy online/pick up in-store, buy online/return in store, realtime inventory status check, “endless aisle” and online access to in-depth consumer reviews. Circuit City has gone further by offering a guarantee that online orders will be ready for in-store pick-up within 24 minutes or it will provide a US\$24 gift certificate.⁸ To support this commitment and create greater accountability for the shopping experience, Circuit City has created a new position, VP of Multi-Channel Experience.⁹

By incorporating shopper insights into the development process, retailers can deliver more relevant products and services.



Tailored offers

To provide a meaningful shopping experience to their best customers, customer focused retailers

offer products and services that align with customers' expectations and shopping occasions. This capability is based on the systematic use of customer insights in all core value chain processes, from merchandising to store/channel operations to customer management.

The key components required to develop tailored offers include:

- *Customized solutions:* Products and services address the needs of core customer segments, enabling custom solutions versus one-size-fits-all offerings.
- *Localized assortment planning:* Merchandise categories and item assortments are tailored and optimized for local market and customer segment needs.
- *Customer focused store strategies:* Key store activities such as staffing, space planning, signage, shelf placement and in-store promotions are aligned with the overall merchandise strategy and customer segments' needs and goals.
- *Consumer-driven supply chain:* The supply chain network is aligned to support flexibility and responsiveness, and deliver the desired customer experience.
- *Product innovation collaboration:* Customer insights are shared and leveraged with vendors, partners and third parties in new product development processes.
- *Product and service personalization:* Products and services can be fitted for a market of one based on customer preferences, needs and profitability.

Tailoring offerings to meet local market needs

In an effort to drive more customer relevancy, Wal-Mart augmented its customer insights and segmentation capabilities and is using this data to develop more tailored offerings and store formats. For example, to appeal to the affluent shoppers in the Plano, Texas market, Wal-Mart staffed the store with consumer electronics specialists, brought in twice the number of organic products and offered a wine selection with 1000 bottles, ranging from US\$4 to US\$500 per bottle. Similarly, to appeal to the African American customers in the Evergreen Park, Illinois market, Wal-Mart tailored the men's apparel and music section of the store to the tastes and preferences of these customers. Initial results from these localization efforts have been positive. For example, an expansion of gospel, rhythm and blues and hip hop music in its Evergreen Park store led to an increase in sales.¹⁰



Associate commitment

Store associates are critical to an organization's ability to achieve its desired vision for its customers. Customer focused retailers adopt strate-

gies to sustain employee commitment, so that they are motivated to satisfy customers. These strategies include hiring the right people, providing them with meaningful training and giving them the tools and information needed to focus on customers. For example, U.K. retailer Marks & Spencer developed a screening process with SHL, a provider of objective people assessment techniques. This process helps ensure new hires possess the qualities that the retailer deems important for success in a specific role.¹¹

The key components to develop associate commitment include:

- *Agile sales team:* Employees are provided with career planning capabilities based on personal and life-stage objectives.

Turning associates into well-equipped advocates is key to converting shoppers. And, by building accountability into the organization, customer satisfaction becomes everyone's priority.

- *Cognitive-based change management:* Innovative strategies are used to create organizational change and break away from traditional thinking and behaviors.
- *Role alignment:* Skills, competencies and personality fit required to match employees with customer objectives are clearly identified and articulated.
- *Personal customer commitment:* Each customer-facing employee is given the motivation and tools to sustain a customer focus.
- *Knowledge management and continuous learning:* Employees leverage and share best practices across the chain and engage in ongoing learning activities.
- *Parallel interest and rewards:* Personal interests and motivations related to job role are aligned, and customer focused metrics are used to measure success.

Creating a top-notch sales team

To support its brand promise for superior service, The Container Store builds associate commitment into the core of the business. First, it hires self-motivated, team-oriented people with a passion for customer service. Second, it provides 241 hours of formal training in the first year of employment, versus the industry average of 8 hours. Third, it employs a full-time sales trainer in each store and pays employees higher than industry average. This dedication to its sales team has resulted in turnover rates of only 10 percent (as compared to the industry average of 110 percent), a consistent top listing on *Fortune Magazine's 100 Best Companies to Work For* and annual revenue growth rates of 20 percent.¹²



Organizational alignment

In a customer focused retail enterprise, all areas of the company collaborate seamlessly in order to satisfy customer needs. This capability also requires retailers to consider the addition of new roles in the organization, such as a customer champion or a data analyst who can represent the customer voice across the enterprise.

Organization alignment has the following components:

- *One mind, one company:* Visions, missions and corporate culture are aligned around customer strategies and communicated throughout the organization.
- *Segment-influenced operating model:* Departments, divisions and the organization are redefined around customer segments.
- *Executive and management alignment:* All levels of management are in step with customer focused initiatives.
- *Cross-functional collaboration:* Departments, functional areas and channels collaborate across existing silos to deliver the desired customer experience.
- *Customer leadership and alignment:* Top-level executive leadership is in place that advocates for and has authority to serve the customer.
- *Customer focused metrics:* Customer metrics are used along with traditional metrics to manage performance and guide incentives.

Customer whim can change at any moment; business and IT integration can provide the business with the ability to notice the shift and the flexibility to respond to it.

Organizing around the customer

To support its focus on tailored offerings discussed earlier, Wal-Mart has announced several organizational changes in the past year. These include: adding new departments for brand management, category marketing and customer insights; moving executives to markets around the country to be closer to customers; and giving field staff more authority over what products to carry and providing them with a support team that follows trends in fashion, food and electronics.¹³

Technology and business integration is essential for the customer focused retail enterprise

New IT capabilities are required for retailers to become customer focused enterprises – changes in processes and people alone will not be sufficient. For many retailers, the existing IT architecture is inflexible and has evolved to a point that it doesn't easily support their customer objectives.

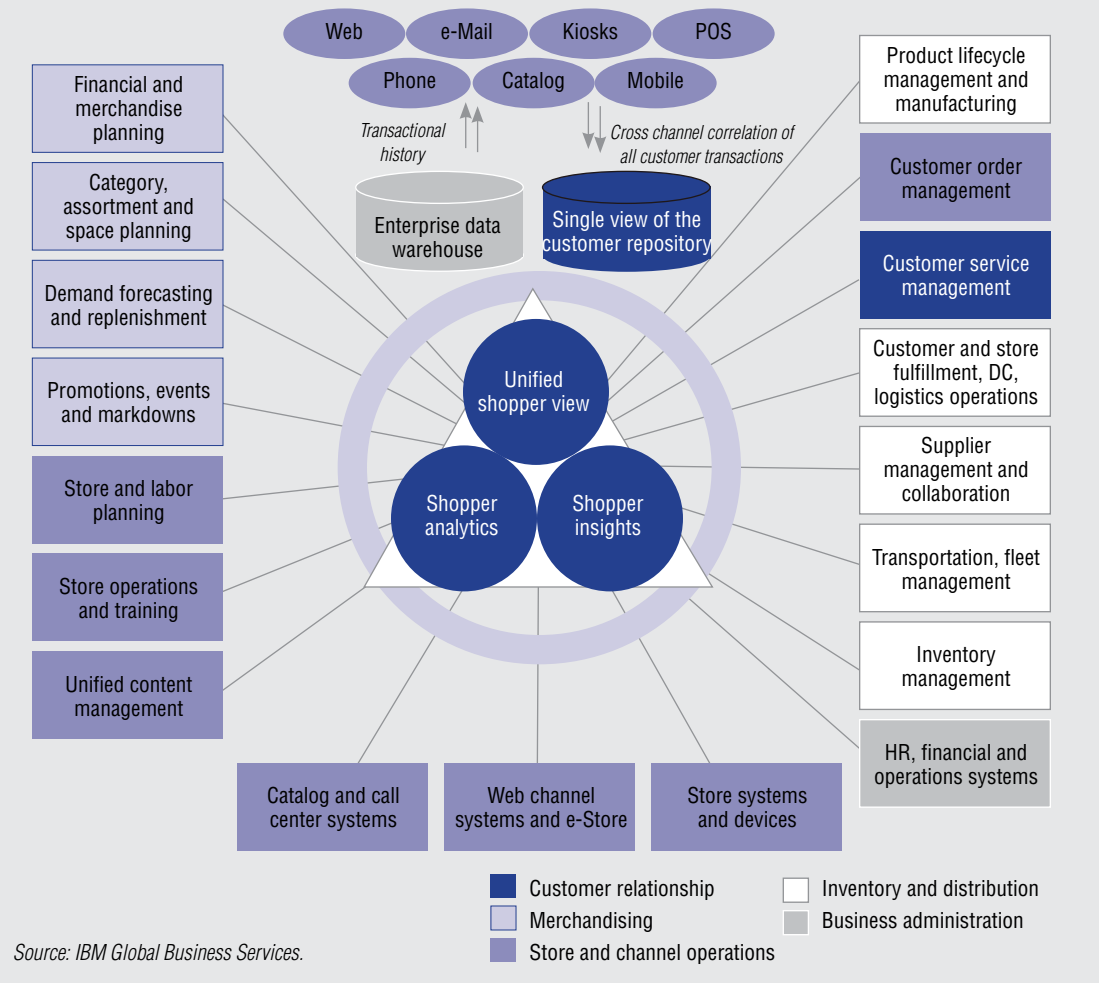
To transform the shopping experience, customer focused retailers place the customers' interests squarely in the center of their IT architecture (see Figure 5) and develop the following capabilities:

- *Capability integration*: Systems across the various channels (e.g., store, Web, call center, etc.) are integrated so that key capabilities, such as order placement, status inquiries and returns, are enabled across these channels.

- *Information integration*: Customer data, such as transaction history, preferences, and profiles, is integrated across channels in an event-driven, near realtime manner.
- *Information architecture and business intelligence*: A robust data warehouse, along with a single view of the customer, customer data integration and business intelligence engines supports customer analytics and insights.
- *Application integration*: Applications that support activities such as merchandise planning, forecasting, assortments, promotions and the like have ready access to customer data during pre-season and in-season planning.

In addition, an IT architecture that is based on a services orientation can help retailers achieve their goals by designing IT capabilities as discrete services that can be integrated and repurposed to address new and changing requirements. Within such an environment, retailers can move ahead with their customer strategies without having to rip apart existing IT systems or start from scratch.

FIGURE 5.
Customer focused retail IT architecture.



Where do you begin?

This journey toward becoming a customer focused enterprise is game-changing and transformational, requiring total focus and commitment across the entire business model. The path for each retailer will depend on its value proposition and existing customer strategies. The starting points will be different. For example, a mass-market retailer that has

traditionally focused its efforts on driving efficiencies in operational areas now seeks to take a more sophisticated approach to its segmentation strategies to create more tailored assortments. On the other hand, a mid-market retailer that has focused its customer efforts on segmentation strategies might now look to create greater consistency in cross-channel merchandising and marketing.

To stand out in a crowded marketplace, retailers need customer advocates, not just shoppers.

The first step for retailers is to review their desired customer experience against their existing operational capabilities and build a strategic roadmap that focuses on the priorities that matter most to their customers and that enables them to achieve their specific goals.

As you begin your journey, consider the following strategic actions:

- Know who your most important customers are and have a clear understanding of what defines a successful shopping experience for them.
 - Incorporate segmentation strategies that go deeper than demographics and geography to include lifestyle, psychographics, shopping occasions or profitability to understand several dimensions of your customers.
 - Understand the profitability of each of your top customer segments by individual customer and have the capabilities to calculate lifetime value.
 - Leverage customer insights beyond marketing into key areas such as merchandising, customer service and store/channel operations so that the customer perspective is embedded into the day-to-day operations of the company.
 - Help ensure that customer data is available and shared across the organization to help eliminate the silos that prevent a common understanding of the desired customer experience.
- Build accountability for the customer experience into all departments and levels of the organization so that customer satisfaction is everyone's responsibility.
 - Provide adequate support, training and incentives to develop committed associates and adjust staffing models to meet the needs of your core customers.
 - Put in place the required IT capabilities to create a single view of the customer and operationalize customer insights.
 - Review all customer touchpoints across all your channels and adjust them so that they are connected and can enable near realtime communications.
 - Update your information systems so that business logic can be shared across the enterprise.

Becoming more customer focused is a multiyear journey that will require executive sponsorship in order to orchestrate the changes required in culture, organization, processes and technology. It is a vital strategy for all retailers and the means for turning shoppers into advocates and creating a sustainable, differentiated advantage. Leading retailers are already moving forward. The time to get started is now.

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