

RetailWire and Dechert-Hampe present:

The RETAIL:NEXT Studies

A research series analyzing emerging trends in retailing.



STUDY #3

Investing in the Shopper Experience

Weighing customer satisfaction vs. ROI

April, 2010

EXECUTIVE SUMMARY

Authors: Ben Ball and Ray Jones, Dechert-Hampe & Co.

Underwritten by:



Produced by:



Study designed by:

DechertHampe

TABLE OF CONTENTS

Overview 3

Survey Findings

1. The shopper experience and customer satisfaction. 4

2. Influencing the shopper experience. 6

3. Delivering on ROI. 9

4. Experience leaders. 12

Conclusions 14

Company/Contact information 15

Survey Demographics and Notes

This survey was fielded in February, 2010 by Dechert-Hampe Consulting. This was an internet survey covering the RetailWire community and other industry participants.

The survey results are a composite of data from 479 responses. The respondent population breaks down as;

- 31.5% Manufacturer/Vendor
- 32.0% Retailer/Wholesaler/Distributor
- 20.7% Consultant /Research/Design
- 15.8% Tech Provider/Agency

This is an opinion survey of retail industry observers and participants. No consumers were interviewed and the survey does not purport to predict actual consumer behavior. While the survey sample is sizeable, no tests of statistical significance were employed in reporting the results and the results should not be construed as business advice or guidance by RetailWire or Dechert-Hampe Consulting.

We thank Intel for their generous sponsorship of this study:



By enabling more content, mobility and capabilities than ever before, Intel provides many advantages in a rapidly changing world. With advanced silicon building blocks, industry standard platforms, modular infrastructure solutions and ecosystem support, Intel can help deliver a more compelling digital lifestyle. Intel, the world leader in silicon innovation, develops technologies, products and initiatives to continually advance how people work and live.

Additional information about Intel in Retail and Transaction Solutions is available at **www.intel.com/go/ic**

Defining “the shopper experience.”

The sum total of everything the consumer encounters on the journey from identifying a need to filling it — this could serve to define “the shopper experience” in the broad sense. But for the purposes of our recent RETAIL:NEXT survey of retail and CPG industry professionals, we concentrated on the elements of that process that surround the fundamentals: product, price and customer service. Within this realm, we saw: store design and ambience; the availability and use of technology, such as digital signage and self-scan; and other elements surrounding the purchase process, such as how Green or socially responsible the retailer is. In short – our survey looked at the shopper experience in terms of the things retailers do to differentiate an otherwise common purchase experience.

The shopper experience is critical to retailer success.

The impact of the Great Recession on consumers’ shopping behavior is still with us. And as we noted in the second survey of the RETAIL:NEXT series Fad or Trend, many of those behaviors look to be permanent. So the first question we asked in the Shopper Experience survey was aimed at understanding just how important the “shopper experience” is to overall customer satisfaction. The answer was unequivocal: every respondent group in the survey had the shopper experience either first or second in their ranking of importance to overall customer satisfaction.

So what influences the shopper experience? What has the highest ROI?

To design this survey we polled a sample of the RetailWire BrainTrust to tell us what they believed to be the key contributors to the shopper experience. The twenty-six elements we wound up with fall into two basic groups. The first, aspects of the store environment itself, from the basic store design to what kind of signage and navigational aids are employed. This group further divides along the lines of technology. For example, signage and navigational aids can be either traditional or newer technology-driven iterations, such as digital signage and electronic shelf labels.

The second grouping encompasses things that influence the shopping experience, but are not physically present in the store. Examples would be inventory management systems that drive breadth of assortment, or shopper buying history which can be used to tailor offers to the store’s best customers.

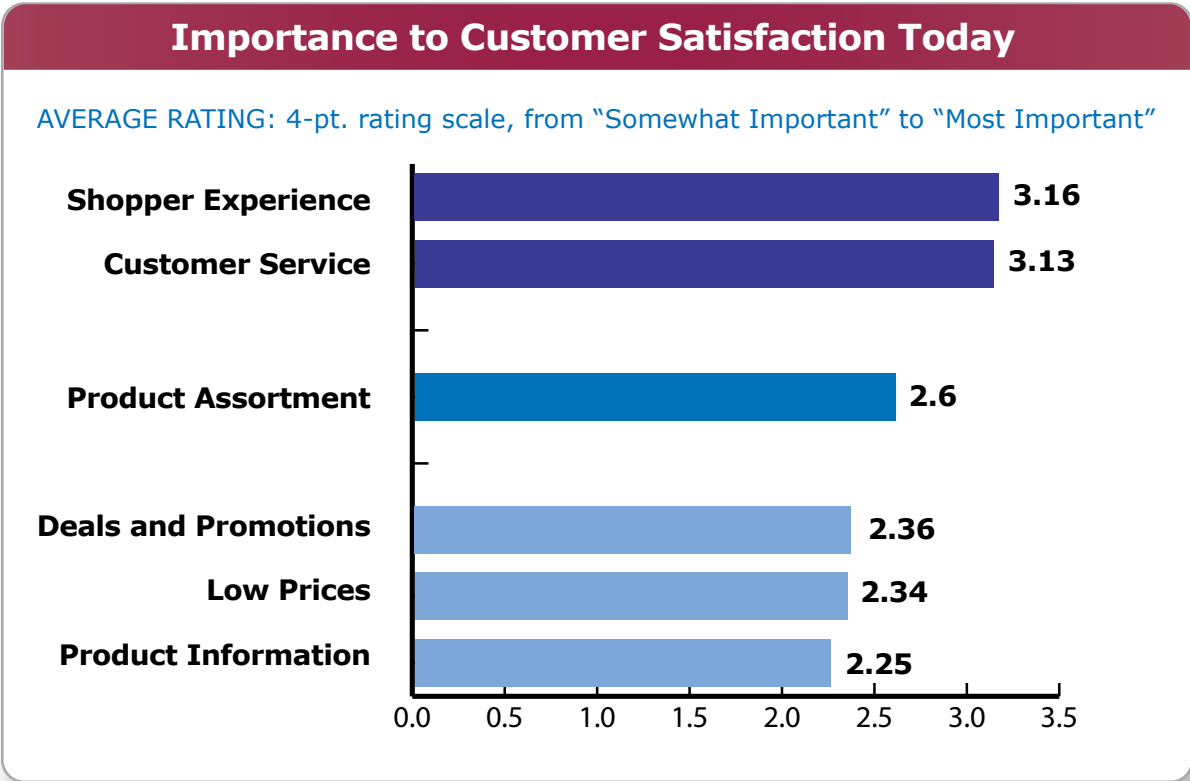
...And the winner is?

Of course we could not resist asking the RetailWire community which retailers they believe are doing the best job maximizing the impact of the shopper experience. They selected their three favorite from among 60 candidates. (Can you guess the top three? Results follow...)

1 Does the shopper experience drive total customer satisfaction?

According to the survey respondents—absolutely. As a group, the respondents put shopper experience in a virtual dead heat with customer service for the lead in terms of overall importance.

Product assortment—the categories available in the store—was also judged to be a significant contributor to customer satisfaction, ranking ahead of elements such as promotion and price.



We were curious to know if the various respondent groups in the RetailWire community would agree on this point. What we found is that they very much did. Shopper Experi-

ence shares top billing with Customer Service for both Retailers and the Tech/Agency types, and stands alone for the Manufacturer respondents.

Importance Rankings by Respondent Type

AVERAGE RATING: 4-pt. rating scale, from "Somewhat Important" to "Most Important"

Manufacturer/Vendor		Retailer/Wholesaler		Tech/Agency/Consultant	
Shopper Experience	3.00	Customer Service	3.39	Shopper Experience	3.18
		Shopper Experience	3.31	Customer Service	3.12
Customer Service	2.88				
Product Assortment	2.69	Product Assortment	2.71		
				Product Assortment	2.46
Low Prices	2.37	Deals and Promotions	2.30	Deals and Promotions	2.42
Deals and Promotions	2.32	Product Information	2.28	Low Prices	2.41
Product Information	2.25	Low Prices	2.22	Product Information	2.22

Clearly our respondents stand in agreement that the shopper experience is a key driver of total customer satisfaction.

“A good customer experience is generally not about doing the most important thing well. It is about doing a series of seemingly smaller things well in concert with one another.” - Verbatim survey response

2 If the shopper experience is so important, how do we influence it?

Of the twenty-six factors we asked the RetailWire community to rate, eleven pulled away from the rest to form the top influences on the shopper experience. These factors seem to fall into three cogent groups.

The first is the design of the store itself. Customer-centric store design topped the list, with in-store basics such as ambiance and signage/navigational aids rounding out that group.



The second group refers to that which one puts in the store. These factors speak more to how you fill out the selection for the store’s product categories. National brands and quality store brands drive this list, but this group also includes more customized strategies, such as localizing product assortments.

assortments directly influence what is on the shelf. Factors like shopper buying history, shopper insights and loyalty marketing programs determine which shoppers are targeted for marketing activities both inside and outside the store and how those messages are delivered.

The third group consists of factors that are not physically represented in the store, but rather influence what is there and how it is merchandised. Factors such as inventory management systems and rationalized SKU

Regardless of how we cluster the top rated factors, the common survey opinion is quite clear—the fundamentals of retailing still matter most when it comes to shaping the shopper experience.

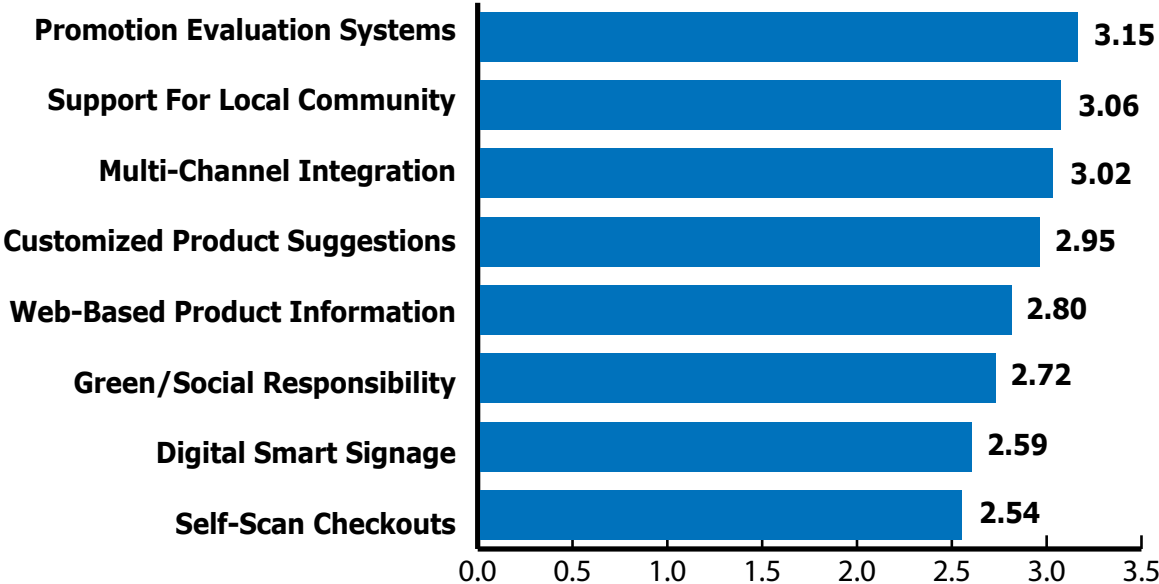
STUDY FINDINGS

“Sights, sounds, smells, and interactive engagement, whether through technology or by personalized customer service, lead to a memorable shopping experience.” - Verbatim response

In the opinion of these industry experts and practitioners, a diverse group of factors cluster in the middle ground of impact on the shopper experience. Ranging from social responsibility and support for the community, to technology-driven elements like digital smart signage and self-scan, these factors clearly matter.

Factors with Average Impact on the Shopper Experience

AVERAGE RATING: 5-pt. rating scale, from “Little or no impact” to “Very high impact”



One commonality we note among these factors is that, with the exception of the last two, these are things that indirectly affect the overall shopping experience. For example, web-based product information is typically accessed prior to beginning the actual shopping trip. Concepts like “being Green” and support for local community may very well be quite important to some shoppers, but they are more ideological and emotional than tangible when it comes to the shopping experience itself. They have more to do with how I feel

about the retailer overall than how I feel about today’s peanut butter purchase.

“It’s key that we bring shoppers along with us as we advance technologically. We need to educate them as to the new systems that can enhance their shopping experience.” - Verbatim response

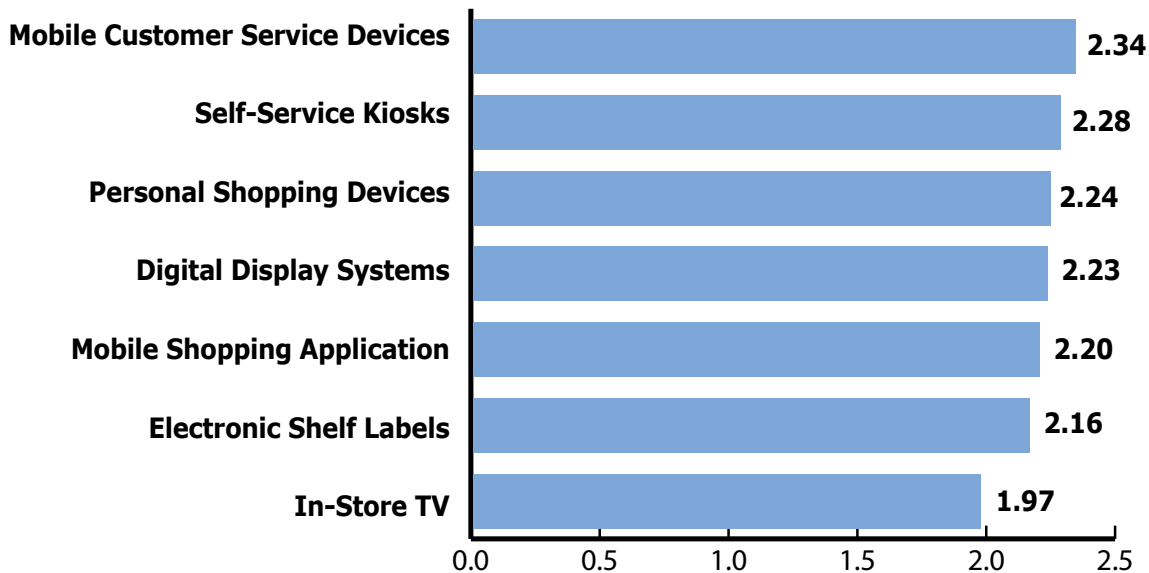
STUDY FINDINGS

Now we come to those factors respondents rated as having the lowest impact on the shopper experience. And quite frankly, your humble researchers got quite a surprise. This group is made up entirely of new technologies—hot items we’ve been discussing actively on RetailWire and in other forums.

So we wondered, how could it be that a technology that receives as much ink as personal shopping devices could fall into this group? What about digital display systems and their close cousin, digital smart signage, from the middle group? Obviously the industry is abuzz with conferences and webinars on how

Factors Having the Least Impact on the Shopper Experience

AVERAGE RATING: 5-pt. rating scale, from “Little or no impact” to “Very high impact”



to maximize this exciting new technology. And In-Store TV? Didn't we just read about what a success Wal-Mart is having with its SMART digital signage system?

But the more we pondered these findings, commonalities emerged. Everything in this group is, in one way or another, a technological enhancement of elements of the customer experience that already exist.

Mobile customer service devices used to be called floor sales associates. Digital display systems and in-store TV used to be called POS material and store signage. Personal shopping devices and mobile shopping ap-

plications were called a shopping list and a coupon organizer. And electronic shelf labels were...well, you get the drift.

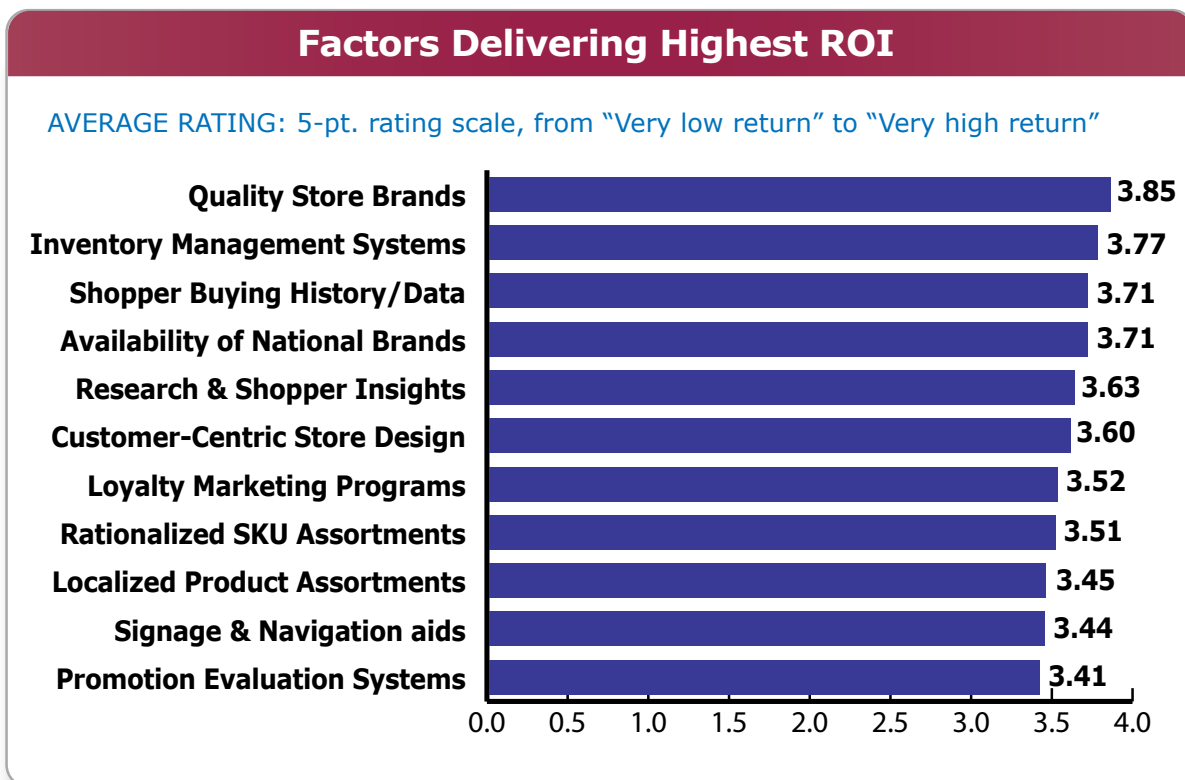
So these factors are to a great extent **new delivery technologies for fundamental factors in the shopping experience**. And just as surely as shelf labels replaced individually priced items on the shelf, these new technologies (or at least some of them) will replace existing methods of delivering the fundamental elements of the shopper experience found in the top tier of these survey results. For right now, however, they are simply still “the new kid on the block.”

3 How do these factors deliver on ROI?

Well, the first thing we have to acknowledge in this discussion is the premise that ROI is in the eye of the beholder.

And this survey certainly has respondents who could be expected to have very different perspectives. Manufacturers will most likely measure the ROI of these technologies on incremental boxes sold. Retailers may do

the same, but there is also the opportunity for additional vendor revenue through selling in-store TV ad space, for example. And to the technology vendors, agencies and design groups who develop and feed these innovations, the ROI is driven by the acceptance and utilization of the technologies themselves.



At the end of the shopping day, the revenue in ROI always comes from the same place, the consumer. And it appears that fact is not lost on our respondents as our three key groups—Manufacturers, Retailers and Tech Vendors—showed amazing consistency in their evaluations. We will point out those few differences that exist as we review the results.

Once again, eleven factors seemed to break away from the pack to form the top group delivering the highest ROI. In the minds of the survey respondents, “impact” and “ROI” must be practically synonymous. Although the order does shift around a bit, the eleven top rated factors on ROI are identical to those for “impact,” with only two exceptions: promotion evaluation systems crept up one

STUDY FINDINGS

notch to capture the eleventh spot on ROI, while number eight on the “impact” list, ambiance, slipped out of the top grouping for ROI.

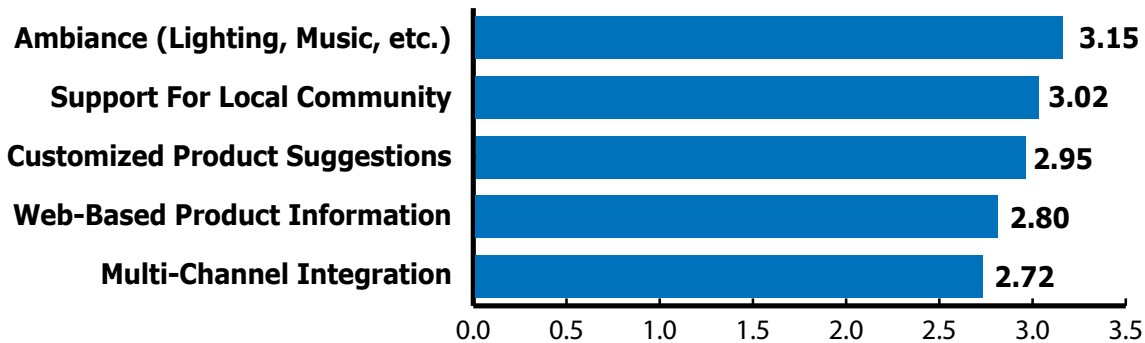
This close alignment reinforces the implication of the “impact” ratings, namely, that the three most basic elements of the shopper experience—the store layout, what’s in it, and how we use shopper insights and data to impact those two things—are also the most important factors in terms of generating ROI for our entire community.

Looking across our three key respondent constituencies, we found Manufacturers and Tech vendors to have the same eleven factors in their top grouping.

Retailers had two differences: they included ambiance and support for the local community in their top ROI list. Promotion evaluation and shopper insights narrowly missed Retailers’ top group, coming in the twelfth and thirteenth spots on their list.

Factors Delivering Average ROI

AVERAGE RATING: 5-pt. rating scale, from “Very low return” to “Very high return”



The factors rated as delivering average ROI all fall in that same grouping when looking at “impact” as well, the most significant

difference in this group being that digital smart signage and self-scan checkouts drop down to the lowest rated group for ROI.

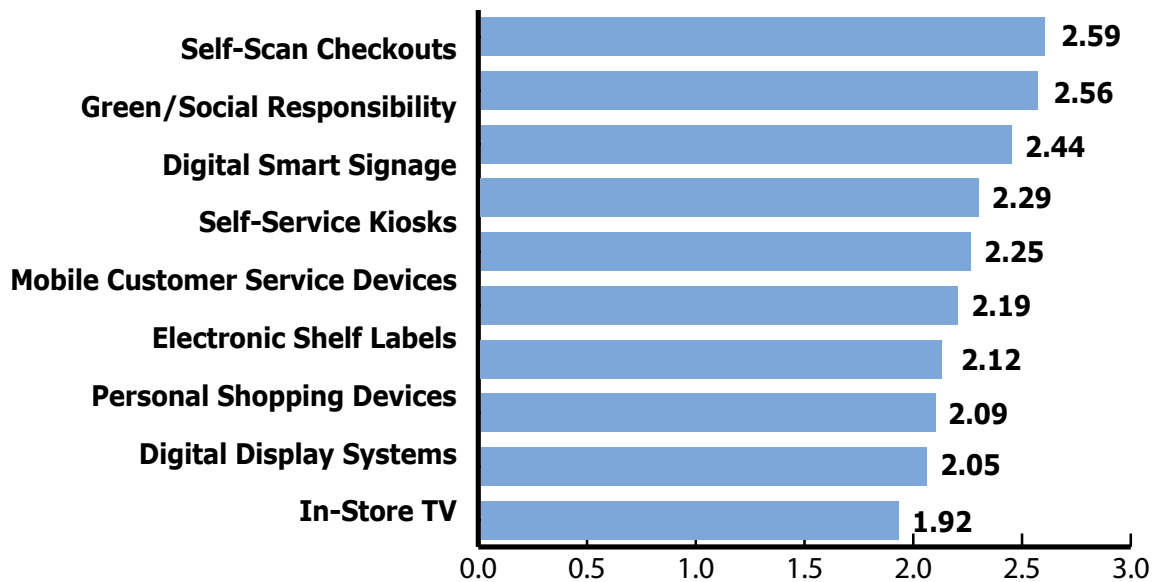
STUDY FINDINGS

As with the “impact” ratings, the ROI lower tier is dominated by the technology driven factors. The most interesting difference here is the inclusion of self-scan checkouts. Given all the discussion about labor savings associated with self-scan, we assumed this result to be driven primarily by Manufacturers. But when

individual respondent group results were analyzed, we found that both Manufacturers and Tech vendors placed self-scan in their middle ROI tier. It was Retailers who dropped self-scan in the overall ratings – placing it squarely in their bottom ten.

Factors Delivering Lower ROI

AVERAGE RATING: 5-pt. rating scale, from “Very low return” to “Very high return”



4 Who is doing a great job at maximizing the shopper experience?

Of course, with the shopper experience, like everything else, the proof is in the actual results at retail. We gave our respondents a list of 60 major retailers and asked them to

name three leaders in shopper experience. The resulting rankings are shown below with the overall percent of respondents mentioning each retailer as a leader.



Note: This list of top retail leaders in shopper experience is in no way meant to be comprehensive, as the study only included a sampling of major retailers.

Apple Stores was the clear leader in shopper experience with mentions by 28% of the respondents. This is not surprising since Apple Stores offers an engaging shopping experience with unique products and a very experiential shopping environment. In some sense, this choice is inconsistent with the overall findings of the survey which tend to underplay the value of technology. However, it is apparent that technology alone doesn't make a great shopper experience. It is the

combination of high-tech and high touch that truly delights the shopper.

Despite the often expressed view that grocery stores tend to be monolithic and boring, three of the leaders are food stores. Whole Foods, Trader Joe's and Wegmans all received high marks for shopper experience. However, all three must be considered exceptional for their unique positions and customer focus. Also, they tend to offer innovative and interesting alternatives to what is often a drab chore.

STUDY FINDINGS

We also find Starbucks high on the list. Starbucks offers a unique experience that is highly personalized and designed to engage. Along with Barnes & Noble, it is high on the scale for people who just enjoy hanging out there because of the comfortable atmosphere and inviting environment. The shopper experience is more than just a scorecard, it is part of their appeal.

It may be surprising to find Wal-Mart on this list. While they have attempted to improve the shopper experience in recent years, one does not naturally think of them as excellent in this context. Although it didn't make the cut of leaders, McDonald's was also not very far down the list. These two underscore another characteristic of the leaders in shopper experience - consistency. They offer

a clear expectation of what to expect and they deliver exactly what they promise.

In summary, the retailers who are considered leaders in shopper experience have several things in common:

- **They have defined and unique positions** in the marketplace that help distinguish them from their competition.
- **They have a consistent message** and set of expectations to the shopper and they deliver what they promise.
- **They view the shopper experience as an integral part of their appeal** and make effective use of both technology and personal interactions.

“A good shopper experience is about delivering on shopper expectations. It is essential for retailers to develop and form a brand promise that sets expectations and deliver on that promise at every interaction with the customer.” - Verbatim survey response

“80 percent familiar and 20 percent new.”

As the retailers in the list of Leaders in the Shopper Experience findings demonstrate, it takes a combination of unique concept, positioning and execution to stand out among all the retailing alternatives today. And this list only covers brick and mortar shopping experiences – recall that eight of this year’s NRF Customer Service leaders are primarily online or multi-channel retailers.

The findings of this survey of the Shopper Experience drive home the impact execution has on success. Consumer-centric store design, the selection of items that fill that store, the tools we use to know our shoppers, and the ways we manage in-store conditions dominate the top-ranked factors. And clearly, impact and ROI are inextricably tied for all RetailWire constituencies.

So, how do you put this knowledge into practice? Let’s say you are a fashion retailer who is doing everything right. How do you gain an incremental degree of differentiation in customer experience over the next great fashion retailer down the street?

One of the classic tenets for successful new business concepts and new products is that the idea should be “80 percent familiar and 20 percent new.” Another business truism is that all businesses processes are 80 percent similar with 20 percent that is truly different but it is the 20 percent that determines who wins and loses.

When it comes to the shopper experience, it appears that what we called “the new kids on the block”—the technology driven innovations—may well be the source of that “20 percent new” you are looking to for differentiation. For example: the 80 percent driver is that effective signage and navigation is crucial to the shopper experience. But if you do it more effectively, entertainingly or compellingly with digital smart signage, maybe you gain that last 20 percent you need to differentiate.

For now, it appears this 80/20 formula is just a hypothesis—but the answers are being written as we speak.

Thank you for reading.

About RetailWire

RetailWire is a unique online news analysis and discussion forum, which launched in February 2002. RetailWire goes beyond conventional headline news reporting. Each business morning, RetailWire editors pick news topics worthy of commentary by its “BrainTrust” panel of industry experts, and the general RetailWire membership. The results are virtual round tables of industry opinion and advice covering key dynamics and issues affecting the retailing industry.



Membership to RetailWire is free to all qualified retail industry professionals. Over two-thirds of members are in top executive or senior management positions, representing a broad cross section of retail channels and the companies that supply them. RetailWire is supported via sponsorships by leading retail suppliers and service organizations.

About Dechert-Hampe

Dechert-Hampe & Company is an independent management consulting firm specializing in Sales and Marketing services. DHC works to help clients succeed through Sales & Marketing solutions that result in tangible change, measurable results, a competitive advantage and a return on their sales & marketing investments.



Our primary service areas include: Strategy, Structure & Planning; Productivity & Performance Improvement and Research, Analytics & Insights. DHC is a recognized leader in consumer and shopper insights, category and customer leadership, and go-to-market strategy. DHC clients include many of the largest and most successful manufacturers and retailers of consumer goods and services.

For more information about the RETAIL:NEXT STUDIES please contact:

Al McClain

amclain@retailwire.com
(561) 627-4974

Ben Ball

bball@dechert-hampe.com
(847) 559-0490

Rick Moss

moss@retailwire.com
(973) 744-0813

Ray Jones

rjones@dechert-hampe.com
(847) 559-0490