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Shopper advocacy

Building consumer trust
in the new economy

Retail



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Shopper advocacy

Building consumer trust in the new economy

By Robert Garf, Laura VanTine and Maureen Stancik Boyce

The IBM Institute for Business Value recently surveyed 30,000 U.S. retail consumers to understand their shopping behavior in light of current economic conditions. While many retailers are in a scramble to survive, our survey found that there are two groups of consumers that retailers can leverage: one group is loyal to retailers they trust, while the other seeks relationships with new retailers. We believe that retailers that execute on the requisite strategies to attract and retain these addressable markets can position themselves to emerge as winners.

Introduction

In September and November of 2008, the IBM Institute for Business Value conducted a survey of 30,000 U.S. retail consumers to understand the drivers of their behavior and spending patterns across several product categories: Grocery, Apparel, Home Merchandise, and Pharmacy, Health & Beauty Care (Pharmacy & HBC). The survey revealed that consumers who are anxious due to economic conditions rely on retailers they trust. Highlights from our survey include findings regarding consumer behavior, the value of loyal shoppers, the importance of attracting new customers and the most critical operational capabilities:

- *Consumers have fundamentally changed shopping behavior.* A full 91 percent of consumers are sacrificing in some spending areas, while 59 percent in November have less discretionary budgets than in 2007. These shoppers are dealing with market conditions by buying fewer items or delaying purchases, buying more promoted items or changing to lower-priced products.
- *Advocacy has radically grown.* In these uncertain times, consumer advocacy has nearly doubled – from 21 percent in 2007 to 38 percent in 2008. Thirty-one percent of Advocates have increased spending at their primary retailer over the past two years.

- *A valuable consumer segment is motivated to seek new relationships.* Thirty percent of consumers are shifting their purchases to other retailers. This valuable segment spends 31 percent more per trip and 37 percent more per month than those consumers who do not move purchases to other retailers.
- *Eight operational competencies attract and retain shoppers.* Quality, Store Experience and Convenience remain top attributes for building consumer advocacy. Price/Promotion and Convenience are the key

reasons respondents shift purchases to other retailers. Our findings also show that retailers cannot ignore the other key capabilities that drive trust: Product Availability, Assortment, Customer Service and Multichannel Retailing.

We believe that retailers that deliver on brand expectations and build consumer trust during this era are in a better position to increase loyalty and market share in the new economy.

Shopper advocacy

Building consumer trust in the new economy

We found that while consumers place a high premium on Quality, Store Experience and Convenience, Price/Promotion and Convenience are the primary reasons shoppers shift to other retailers. Consumer trust also depends on Product Availability, Assortment, Customer Service and Multichannel Retailing.

Consumers have fundamentally changed shopping behavior

Market conditions have forced consumers to make tradeoffs and alter their spending habits. Our survey data indicates that shrinking wallets have compelled shoppers to make more prudent buying decisions – restricting their non-essential purchases. Retailers must expect and plan for these modifications in behavior.

Consumers are forced to make tradeoffs

More than 90 percent of consumers that responded to IBM's September survey are sacrificing in certain spending areas and 45 percent have fewer discretionary budget

dollars than in 2007. This means that they are directing more budget dollars toward essential products in lieu of discretionary categories.

Some product categories are getting hit harder than others due to consumer spending changes and sacrifices (see Figure 1). Specifically, more than 60 percent of consumers have decreased spending on consumer electronics, vacations, home improvement, sporting goods and home décor. However, a quarter of consumers are spending more money in grocery, partly due to increased commodity costs driving up retail prices.

FIGURE 1.
Shrinking discretionary spend hits many product categories.

	Less	Same	More
Groceries	28%	51%	22%
Pharmacy or HBC	35%	56%	9%
Media	54%	38%	7%
Apparel, Accessories or Footwear	58%	35%	7%
Eating out/ Restaurants	60%	32%	8%
Entertainment	60%	34%	6%
Consumer Electronics	63%	29%	8%
Travel and Vacation trips	64%	29%	7%
Home Improvement or Home Appliances	64%	28%	8%
Sporting or Recreational Goods	64%	32%	4%
Home Décor or Furniture	70%	24%	6%

Source: IBM Institute for Business Value NRF 2009, November 2008 survey.

In spite of the economic downturn, there is a small but potentially lucrative group of consumers who offer untapped opportunities for those retailers that can effectively identify, profile and promote to them.

We validated our findings from September by surveying consumers again in November – after the crisis in the financial markets – to further explore particular shopping behaviors (see Figure 2). We found that consumers lowered discretionary spending even farther. Fifty-nine percent of consumers surveyed in November indicated that they have a smaller discretionary budget – a 31 percent increase over September.

FIGURE 2.
Discretionary spend in September and November 2008.

	September 2008	November 2008
Less	45%	59%
Same	36%	29%
More	19%	12%

Source: IBM Institute for Business Value NRF 2009.

A small but important percentage of consumers is increasing spending despite economic conditions. In September 2008, nearly 20 percent of respondents cited that they have more discretionary income than in 2007. In November, this number decreased to 12 percent. Even with this decline, there is a lucrative segment of consumers who provide a hidden opportunity for those retailers that can identify, profile and effectively promote to them. (While there are some consumers in every income bracket who have more discretionary spend this year versus last, the percentage is higher in the higher income brackets).

Consumers have reacted to market conditions

Tighter budgets have caused consumers to make tradeoffs – fundamentally changing their behavior. Our survey revealed that consumers are dealing with market conditions in the following three ways (see Figure 3):

1. *Buying fewer items/delaying purchases.* This is the most common way consumers are dealing with shrinking budgets. Two-thirds of those surveyed in September indicated this is a technique that they use. When fewer items are purchased, retailers must sway consumers toward higher-margin products to sustain profitability and increase basket sizes. In the case of postponed purchases, retailers should attract the consumer now and allow them to complete the transaction later by offering services like wish lists, pre-order and even layaway (paying the retailer directly with cash installments over a specified timeframe, with possession of the item transferred after the purchase price is paid in full).
2. *Buying more promoted items.* Sixty-one percent of consumers who participated in the September survey said they use coupons or buy merchandise on sale more often. These new bargain hunters will invest more energy and time to save money on each item. Instead of continuing to bombard consumers with standard coupons and promotions – desensitizing them to value and blurring brand differentiation – retailers should offer more tailored and personalized promotions that reward loyal and profitable customers.

3. *Changing to lower-priced products.* The third most popular method consumers use to deal with tighter spending budgets is to switch to lower-priced retail products (but not change retailer). This practice was used by 40 percent of September respondents. Consumers seeking lower-priced items put a premium on the value of private-label merchandise, and emphasized the importance of offering a variety of sizes, quantities and prices for a particular product.

Shoppers are employing these three methods at an even higher rate since issues with financial markets peaked in mid-September. In November's survey, consumers buying fewer items/delaying purchases increased by 6 percent, while the number of people buying more promoted items increased by 10 percent. Shoppers changing to lower-priced products while remaining with their primary retailer increased by 8 percent.

This new shopping paradigm alters traditional merchandising and promotional planning processes, since retailers can no longer rely solely on past purchase patterns to forecast future consumer demand. It also underlines the importance of sophisticated supply

chain tools to optimize inventory levels and assortments throughout the value network.

Three strikes and you are out

Market conditions and high expectations have forced survey respondents to lose patience very quickly. Consequently, retailers must consistently deliver a superior shopping experience for existing customers. Our survey revealed that on average, consumers will change allegiances to a particular retailer after an average of 3.1 negative experiences. Consumers from 18 to 24 years old have more patience – changing retailers after an average of 3.5 negative experiences. Consumers who are 65 and older aren't as forgiving – changing after only 2.9 bad encounters.

Advocacy has grown radically

To further analyze shopper behavior in light of the current economic climate, our study looked at responses through the lens of consumer advocacy. Advocacy is the positive attitude customers have toward their primary retailer, which in turn can promote healthy relationships, loyalty and referrals. Unlike other satisfaction metrics, advocacy goes beyond the single measure of "likelihood to recommend."

FIGURE 3.
Methods for dealing with market conditions in September and November 2008.

	September 2008	November 2008
Bought fewer items overall or postponing purchases	67%	71%
Using coupons or bought on sale more often	61%	67%
Changed to lower-priced products but have not changed retailer	40%	43%
Changed retailer to purchase different, lower priced products	21%	23%
Changed retailer to buy same products	11%	11%

Source: IBM Institute for Business Value NRF 2009.

Advocacy – the positive attitude customers have toward their primary retailer – has nearly doubled since 2007.

Advocates are defined by three criteria:

- They recommend their primary retailer to friends and family.
- They would increase their number of purchases if their primary retailer expanded its assortment and offered products currently found only at other stores.
- They would stay with their primary retailers, even if other retailers begin offering competitive products or services.

Advocates' positive impact can be multiplicative because consumers are more connected than ever – able to share thoughts and experiences with their extended network in realtime. A shopper who discovers an in-stock or competitively priced product can instantaneously call, send a text message or e-mail – casting a wide net and potentially leading to more customers and more sales.

Advocacy has nearly doubled since 2007

More consumers are becoming more loyal to their primary retailer – evidenced by the fact that 38 percent of respondents are now Advocates, compared to 21 percent in 2007 (see Figures 4 and 5). Consumers are feeling anxious, and are relying on retailers they trust – contributing to the nearly double advocacy increase year-over-year. Grocery retailers show the greatest percentage of Advocates (40 percent), while Home Merchandise retailers have the lowest percentage (35 percent) in 2008.

FIGURE 4.
Percentage of Advocates, Apathetics and Antagonists, 2007 vs. 2008.

	2007	2008
Advocates	21%	38%
Apathetics	19%	25%
Antagonists	59%	37%

Source: IBM Institute for Business Value NRF 2009, November 2008 survey; IBM Institute for Business Value NRF 2008.

FIGURE 5.
Percentage of Advocates by product category in 2007 and 2008.

	Advocacy 2007	Advocacy 2008
Grocery	27%	40%
Large Format Apparel	17%	38%
Mall-Based Specialty Apparel	17%	36%
Pharmacy & HBC	20%	37%
Home Merchandise	N/A	35%

Source: IBM Institute for Business Value NRF 2009, November 2008 survey; IBM Institute for Business Value NRF 2008 CFE Retail Grocer Study, CFE Large Format Apparel Retailer Study, CFE MBS Apparel Retailer Study, CFE Drugstore & Pharmacy Retailer Study.

Twenty-five percent of respondents are Apathetics – those who are neutral or indifferent toward their primary retailer – compared to 19 percent in 2007. Thirty-seven percent of respondents are Antagonists – those with a negative attitude toward their primary retailer – in contrast to 59 percent in 2007. The percent of Antagonists across the retail industry has decreased as consumers switch to new retailers rather than weather unsatisfactory conditions.

Advocates are more valuable

As Advocates grow in numbers, they also grow in importance. We found that a healthy 31 percent of Advocates has increased spending at their primary retailer over the past two years, which is 19 percent more than Antagonists and Apathetics during the same time period. In addition, our survey shows that Advocates are more valuable than Antagonists and Apathetics because:

- Advocates spend 10 percent more on average per month.
- They spend 6 percent more during each shopping trip.
- They spend 15 percent more of their total dollars at their primary retailer.

Advocates share similar demographic profiles with Antagonists and Apathetics. They have the same income distribution, they have parallel shifts in discretionary spend and they have made comparable significant spending sacrifices. These revealing statistics underline that any consumer segment can be made more valuable if retailers provide the capabilities that mean the most to them.

Segment leaders in advocacy reveal best practices

Each product category had stand-out retailers in 2008, with advocacy share accounting for more than the 38 percent average across all categories. These retailers can provide valuable lessons.

The two top-scoring retailers for each of the five product categories covered in the survey are:

Grocery

Trader Joe's (62 percent)
Wegmans (54 percent)

Pharmacy & HBC

Walgreens (41 percent)
Costco (41 percent)

Large Format Apparel

Nordstrom (43 percent)
Kohl's (43 percent)

Mall-Based Apparel

The Children's Place (45 percent)
Forever 21 (41 percent)

Home Merchandise

Target (41 percent)
Best Buy (40 percent)

Source: IBM Institute for Business Value NRF 2009, November 2008 survey.

A valuable consumer segment motivated to seek new relationships

Our survey data identified another valuable segment of shoppers who have chosen to shift their purchases to other retailers. This section details the profile and characteristics of this attractive and persuadable "Shifter" market.

While an increasing number of consumers remain Advocates for their trusted retailers, 30 percent are moving some or all of their purchases to other retailers. Approximately one-third of this segment has abandoned their

Shifters – consumers who choose to switch to other retailers – are worth pursuing, since they ultimately spend more money once they become loyal shoppers.

primary retailer altogether and switched the majority of their purchases to other retailers. Roughly four in ten of those who abandoned quickly became Advocates for their new retailer (or 4 percent of all consumers).

The remaining two-thirds of the Shifter segment have not abandoned their primary retailers; rather, they have migrated a significant portion of their purchases to alternative retailers. This group comprises about 20 percent of all consumers.

The profile of Shifters

The spending habits of consumers who have made the move to other retailers are notably different from those who have not. Twenty-three percent of Shifters stated that they have more discretionary income this year than in 2007, compared to only 14 percent of non-Shifters. Higher discretionary budgets are impacted by the fact that Shifters make spending sacrifices in certain product categories at a 22 percent higher rate. These shoppers scrutinize every purchase, and are willing to make tradeoffs to acquire non-essential merchandise.

Consumers in this segment have also increased their number of shopping trips this year versus last year – at more than double the rate of consumers who did not shift purchases – and are willing to travel to more stores to seek bargains, and find new and trusted retailers.

Shifters, whose average annual income is 3 percent higher than non-Shifters – are not more demanding than their peers. Shifters – just like non-Shifters – change retailers after 3.1 negative experiences.

Shifters represent a valuable segment

Shifters are worth attracting and retaining. Although they state that they are prompted to shift mostly due to price, this segment ultimately spends more money once they become loyal shoppers. Our survey results show that they are far more valuable customers than those who do not shift purchases – spending 37 percent more on average per month, and 31 percent more during each shopping trip than non-Shifters.

Shifters do spend less of their wallet share at their primary retailers, since they spread purchases across multiple retailers. Retailers should focus on gaining greater share of the wallets from this attractive customer group.

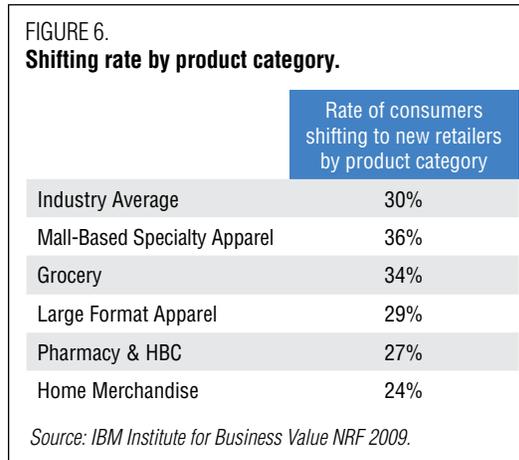
Shifting rates vary by product category

While 30 percent of consumers overall are moving some or all of their purchases to other retailers, the percent differs across each of the five product categories (see Figure 6). It is lowest in Home Merchandising – 24 percent – likely because consumers have postponed purchases and decreased total dollar spending in that category more than in the other four categories. Pharmacy & HBC is also below average, with 27 percent of consumers changing retailers, most likely due to convenient locations and lower-priced private-label alternatives – two important criteria for this segment.

The percent of consumers who have shifted purchases is highest in Grocery (34 percent) and Mall-Based Specialty Apparel (36 percent). With the cost of food increasing,

consumers are seeking alternative retailers to find better food prices. They are shifting purchases within Mall-Based Specialty Apparel – shopping for alternative styles and the hottest fashion, and trading down for more reasonably priced merchandise.

Retailers should focus on Advocates *and*



Shifters because both segments are more valuable than the average consumer. Comprising more than half of the entire consumer population, these two groups have the power and influence to significantly impact retailers' success.

Eight operational competencies attract and retain shoppers

With consumers making fewer shopping trips, retailers have fewer chances to increase conversion rates. Given that many of these organizations are struggling or mapping out growth plans, leading retailers must take aggressive steps to capture their share of the diminishing wallet, fulfill shoppers' expecta-

tions, drive loyalty and build trust from existing and emerging consumers. This requires focusing on what appeals most to Advocates, and attracting new consumers by appealing to what is important to Shifters.

According to our survey, eight operational competencies drive the highest levels of consumer trust (see Figure 7). Retail success requires building capabilities in each of these areas, prioritized based on product category, financial health, market outlook, and customer expectations and strategy. Retailers cannot be world-class in each area; it is impossible to focus on all operational competencies equally. At the same time, it is nearly impossible to garner sustainable loyalty if any are absent.

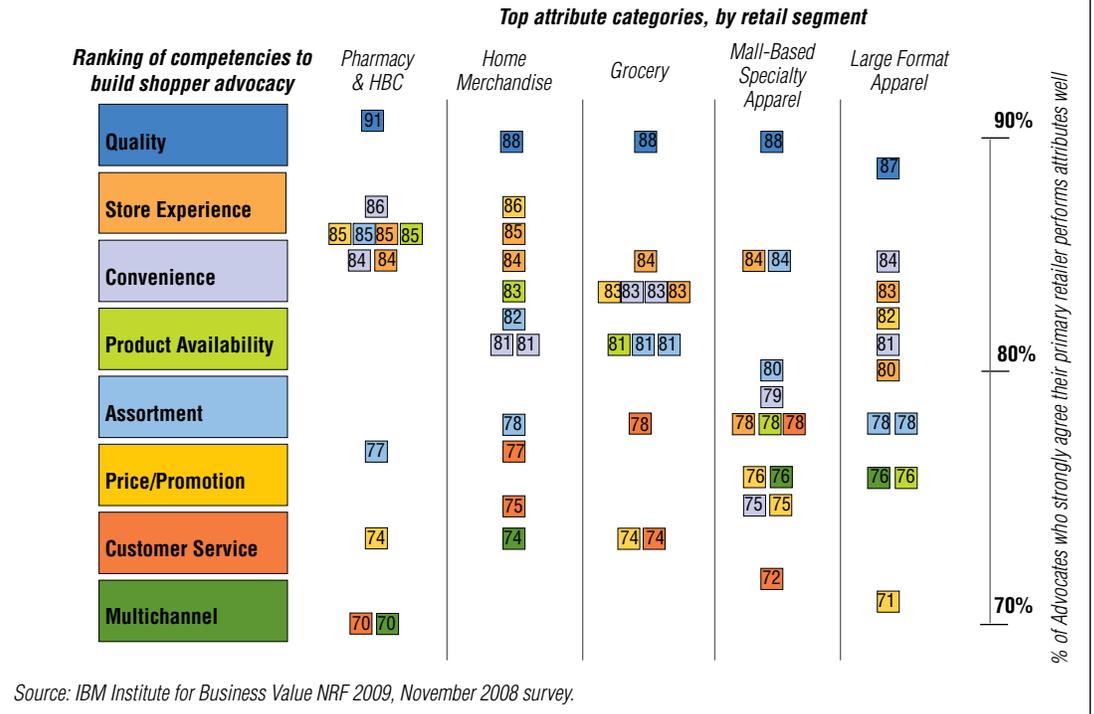
1. *Quality.* Even in these economic times, quality is the leading competency that drives advocacy across all product categories. Our respondents indicated that they require merchandise to exceed expectations and warrant trust based on attractiveness, brand attributes, reliability, consistency and reputation. In addition, products that are considered high quality meet safety and certification standards, and are guaranteed and trusted based on lifespan or freshness.

Consumers who shifted to a new retailer based on price stated that quality is the top reason for staying. Pharmacy & HBC consumers ranked quality as the highest of all product criteria – showing the importance of product safety, traceability and superior private-label merchandise.

Fast-moving consumer goods retailers can directly impact this situation by gaining tighter control of inventory and replenishment processes – especially for perishable products. For general merchandisers and apparel retailers, high-quality products are influenced by more efficient global sourcing,

FIGURE 7.

Eight operational competencies attract and retain shoppers.



and manufacturing procedures that help ensure that raw materials and finished products are procured from reputable and qualified suppliers. Consumers are not only concerned with durability, but also the social responsibility associated with the merchandise they purchase.

2. *Store Experience.* Store Experience remains a top priority for Advocates. This underscores the importance of customer reactions throughout the shopping process, and how consumers are influenced by a retailer's environment and interactions. Ease of navigation, visual merchandising, fixtures, lighting, cleanliness, signage and product placement are critical attributes. Merchandise samples, workshops and dedicated space for entertainment and

interaction can help increase the emotional connection with consumers.

Again, while few consumers state that they move to new retailers for a good Store Experience, it is a key reason why consumers stay. Our survey confirmed that Store Experience is rated by Advocates as either second or third in importance in every product category.

Now that consumers are interacting with retailers via multiple touch points throughout the shopping process, it's imperative for retailers to integrate Store Experience strategies (including sales, service and inventory) with online, call center and mobile initiatives – the goal being to create a seamless, multi-channel experience. The look and feel of the store – and the entire closed-loop shopping

Our survey identified eight operational competencies that retailers should build to attract and retain shoppers, and gain their trust.

process – should entice customers to participate and interact and enjoy the experience, not just engage in a transaction.

3. *Convenience.* As consumers make fewer shopping trips and their time becomes increasingly tight, Convenience continues to be a top priority. Critical to satisfaction are ease of access to a physical store based on location, hours and parking; the ability to quickly find and obtain products and prices; and efficiency of checkout, return, layaway and ordering transactions.

Convenience is an important requirement for mass merchandisers because consumers have the ability to purchase products from multiple categories in one trip. Convenient locations are less significant to Advocates shopping Mall-Based Specialty Apparel and Home Merchandising retailers, since those product categories are purchased less frequently, and consumers are more willing to make them a destination for finding quality and unique assortments. Noteworthy is that Convenience is also a key reason why consumers change retailers, and is the only attribute to make the top three for both reasons for shifting, and reasons for advocacy and staying.

Convenience can be tackled by focusing on real estate management to optimize networks of store locations; enable efficient transactions; improve space planning to help ensure that merchandise is laid out and displayed appropriately, and create signage and labels that direct consumers to desired products. Many retailers are now adopting traffic-tracking initiatives and technology to better understand shopping patterns,

consumer demand and marketing effectiveness.

4. *Product Availability.* When time-starved consumers make trips to physical and virtual stores, they can become frustrated and lose trust when a product is not available. Our survey respondents declared that items should be in stock and accessible, especially when promoted. This requires mature processes – from inventory and replenishment to receiving. Availability also applies to products that involve special ordering, reside in another physical location, or require delivery and installation services.

Product Availability is important to Advocates in Grocery and Pharmacy & HBC, where consumers expect products to be on the shelf. If a grocer is out of baby diapers or a woman's skin care product, big points are lost. Conversely, Product Availability requires retailers to seamlessly connect enterprise business processes with the point of consumer interaction. Integrating store perpetual inventory, replenishment, and receiving systems and processes with the extended supply network enables organizations to sense and effectively respond to consumer demand by enabling realtime insights across the ecosystem.

5. *Assortment.* Survey participants indicated that the latest and most “trendy” products are required to keep their shopping experience exciting, and create a desire for products that they didn't necessarily know they needed. Consumers want merchandise they identify with and even aspire to – merchandise that reflects who they are and what they require. Mature assortment

practices facilitate the right merchandise range, based on consumer demographics and localization. Size, style, color, brand, inventory levels and custom configurations are all factors in determining optimal merchandise ranges.

It's no surprise that Mall-Based Specialty Apparel shoppers rated Assortment as a priority – highlighting its importance for these retailers even with the added complexity of size, style and color variables.

Assortment strategies typically include three major initiatives: localizing merchandise based on consumer demand, establishing an endless aisle of merchandise through nimble inventory and fulfillment management, and introducing private label alternatives to brand products that balance quality and value. This requires planners and buyers to leverage customer intelligence – based on a deep understanding of customer behavior and insights – to fulfill expectations with the right product, in the right place at the right time.

6. *Price/Promotion.* Our survey confirmed that consumers are more sensitive to price, especially for those seeking relationships with new retailers. This is substantiated by the fact that more than 60 percent of shoppers are buying more items on sale or using coupons – causing price and promotion to significantly increase in importance from 2007. Retailers can influence consumers' perception of value by sharpening their focus on initial price, coupons, sales, markdowns, rewards programs, targeted promotions, price guarantees and price matching. While Price/Promotion is less important for Advocates than other attributes, it is a key lever for attracting

consumers who are shifting retailers. In fact, it is the primary reason why consumers move purchases to other retailers, since they seek value during times of financial strain.

Price/Promotion is ranked higher in Home Merchandise than in any other product category, since it is typically more discretionary. Pharmacy & HBC and Grocery were next, with consumers shifting among commodity products to attain value. Advocates care less about price when shopping for Mall-Based Specialty Apparel, given that they are more willing to pay a premium for exclusive merchandise.

The common short-term lever retailers pull to influence price is reactive promotions and markdowns. However, leading organizations are taking a proactive approach to managing prices throughout the entire lifecycle of a product – from initial price, to promotional price to markdowns for clearance. To squeeze costs from the landed product, retailers are creating agile supply networks to optimize inventory, increase visibility and enact multi-tier replenishment initiatives.

In addition, because generic promotions targeted to the masses are not generating the requisite responses, leading retailers now use customer intelligence to develop and deliver personalized, timely and relevant offers based on segments, affinities, purchase history and other demographic insights. Reward programs, promotions and coupons can no longer just be broad-based discount tactics; rather, they can serve as meaningful incentives that enable long-term relationships with valuable consumers – Advocates and Shifters alike.

7. *Customer Service.* Service will always be a priority for consumers. They demand helpful, knowledgeable, attentive and pleasant assistance, as well as immediate management of product service, conflict resolution and transaction efficiency. Good Customer Service reflects a corporate culture committed to satisfying customer needs, achieving efficient operations and instilling a “customer-first” attitude.

For Large Format Apparel and Pharmacy & HBC, Antagonists rank Customer Service lower than any other attribute. Although few consumers will pick a primary retailer solely based on service, our survey data indicates that it is the attribute respondents complain about most often.

Positive Customer Service requires retailers to properly manage their associates by optimally allocating labor, requiring training, offering the right levels of training, providing knowledge management, clearly defining goals and offering incentives that drive intended behaviors. Education and empowerment are also increasing in importance. Given that consumers are more knowledgeable and connected than ever before, it is essential that store associates have instant access to information about product, policies, inventory and pricing on the sales floor.

Some leading retailers are implementing self-service strategies to help consumers who are inclined to independently obtain support. At the same time, these capabilities provide a tool for store associates to facilitate assisted selling and service. To accomplish this, organizations are making Web-site and Point-of-Sale functionality

available through advanced selling technologies, such as handhelds and kiosks, for use by store associates and consumers throughout the store.

8. *Multichannel.* Multichannel capabilities round out the list. The Internet has transformed the way consumers shop. It has given consumers more control, more knowledge, more options and more opportunities to participate in the shopping experience than ever before. This necessitates the need for consistent brand and shopping interactions across all touch points. The online experience can be enhanced by improving search and navigation capabilities, infusing similar features that are found in-store, creating community features, increasing access to product information and availability and, ultimately, setting a foundation for a truly cross-channel platform.

While Multichannel features are less important today for consumers shopping Grocery, Pharmacy & HBC and Home Merchandise categories, no retailers in any category can ignore the significance of Multichannel operations in terms of driving trust and advocacy. Apparel retailers received higher marks from Advocates for cross-channel return capabilities than for ease of shopping on Web sites. Given the difficulty of determining size and color for online apparel, ease of returns is a key capability.

The pervasiveness of Multichannel shopping in all product categories forces retailers to move from disparate channel operations toward a consumer-centric model that provides seamless and consistent functions, independent of touch point. Customers

expect retailers to represent a single brand and a seamless experience – no matter the touch point. This requires organizations to design processes, technologies and operations in a way that makes channel boundaries invisible to consumers.

While focusing on these areas independently is certainly a step forward, effectively executing the desired operations in a holistic fashion across all eight competencies can help ensure that retailers accurately and rapidly sense consumer demand and fulfill expectations at each point of interaction.

Turning Shifters into shoppers, and shoppers into Advocates

The reasons why Advocates stay with their primary retailers differ markedly from the reasons why consumers shift to new retailers (see Figure 8). Advocates stay because they are satisfied with the Quality, Store Experience and Convenience that they receive from their primary retailer. In stark contrast, the top motivating factors for consumers who change retailers are, in order of importance, Price/Promotion, Convenience and Assortment.

Companies should actively pursue, attract and retain the nomadic consumers who are shifting purchases by building trust and garnering sustainable relationships. This presents a distinct opportunity to target this segment and develop marketing strategies based on value, savings, ease of shopping and range of products.

Once a consumer shifts spending, it is imperative that the retailer move them toward advocacy. While Quality and Store Experience are far less important driving factors for shifting, they are the main factors for

consumers to quickly become Advocates after moving to a new primary retailer. Convenience is the only attribute that is a top three attribute for all consumer segments – representing the importance of this competency.

By segmenting consumers and mining data throughout each phase of the shopping lifecycle, retailers can properly target them with appropriate marketing messages and services. Retailers must infuse intelligence into systems and interconnect processes to accommodate the varying needs and expectations of consumers. Each shopper interaction represents a chance to do something better, more efficiently and more productively – and with technology available at such a low cost, the list of possibilities is endless.

FIGURE 8.
Competencies that build trust with advocates versus competencies for motivating consumers to shift.



Source: IBM Institute for Business Value NRF 2009 (Left-hand column = November 2008 survey).

Conclusion

World-class retailers are using the new economic environment to become smarter. They see it as a mandate for change and using it as an opportunity to deliver capabilities that help retain loyal consumers and attract those who are shifting to other retail organizations. Whether retailers approach the current economic climate as an opportunity to grow, to make disciplined investments to maintain share, or to reengineer operations for higher efficiency, their capital should focus on the eight operational competencies and corresponding initiatives that matter most to consumers (see Figure 9).

With increasing examination of every new project, organizations need to closely prioritize investments and be diligent about truly knowing the consumer segments and the critical operational capabilities that drive revenue, margin growth and customer trust. Retailer ecosystems and systems are more instrumented, interconnected and intelligent than ever before. This new economy requires smart and efficient investments to fundamentally transform the way organizations interact with consumers. Building trust and advocacy with new and existing consumers can help retailers position themselves to dominate the market as the economy recovers.

FIGURE 9.
Key initiatives aligned to eight operational competencies.

<i>Competencies to build shopper advocacy</i>	<i>Key initiatives</i>
Quality	<ul style="list-style-type: none"> • Local and global sourcing • Corporate social responsibility
Store Experience	<ul style="list-style-type: none"> • Customer interaction • Experiential shopping
Convenience	<ul style="list-style-type: none"> • Store and space planning • Customer and traffic analysis • Real estate management
Product Availability	<ul style="list-style-type: none"> • Inventory optimization • Multi-tier replenishment
Assortment	<ul style="list-style-type: none"> • Integrated merchandising planning • Merchandising and supply chain performance
Price/Promotion	<ul style="list-style-type: none"> • Price and revenue optimization • Customer analytics and promotion execution
Customer Service	<ul style="list-style-type: none"> • Workforce and task management • Training and knowledge management • Customer-focused culture
Multichannel	<ul style="list-style-type: none"> • Online and mobile strategy • Integrated cross-channel operations

Source: IBM Institute for Business Value NRF 2009, November 2008 survey.

Obtain the detailed study

Please contact IBM if you would be interested in having the complete, detailed version of this 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 send an e-mail to: iibv@us.ibm.com.

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