

The Customer-centric Store: Delivering the Total Experience

BY GINA M. PAGLUCIA-MORRISON

The retail marketplace is polarizing into a “world of extremes,” forcing retailers to reorient their core strategies. Megaretailers dominate one end of the competitive spectrum and focused specialists the other. At the same time, increasing customer diversity and individualism are creating significant demand complexity.

New Rules

Retailers can no longer rely upon the traditional means of competitive differentiation. For example, strategies based just on price have been rendered ineffective as megaretailers have mastered the “mass” end of the marketplace with superior scale and efficiency.

At the same time, customer expectations continue to rise. Today’s information- and technology-savvy customers demand much more from the shopping experience. They are often more knowledgeable than store employees about available products, services, and prices. Retailers and their store employees need to know more to deliver a superior shopping experience.

Refocus on the Total Experience

The market drivers described above are forcing retailers to reexamine their core value proposition and how it is delivered to customers. Retailers need to focus more on the total retail experience to differentiate themselves from competitors. The importance of this shift is highlighted by a 2002 IBM study showing that interactions with store employees and certain elements of the in-store experience are the most important drivers of customer satisfaction (see Figure 1). Person-to-person factors include: helpful employees, knowledgeable employees, and employees available to answer questions. Store experience factors include: well-designed stores, the highest quality merchandise, the products I need are always in stock.

While the scores differ for the two driver categories, both are essential to customer satisfaction and loyalty. Notably, we found that while high-quality customer-employee interactions (person-to-person) are a competitive requirement, retailers can best differentiate themselves from competitors through the store experience.

Unfortunately, many retailers are not providing adequately differentiated and compelling customer experiences. Recent competitive and economic challenges have forced retailers to focus on cost-cutting efforts and therefore different priorities. In addition, a variety of internal constraints limit their ability to respond appropriately to the needs of their customers, including high employee turnover, lack of organizational alignment and collaboration, poor information visibility across the organization, lack of in-store tools to improve customer service, outdated POS systems, and poor in-store merchandising.

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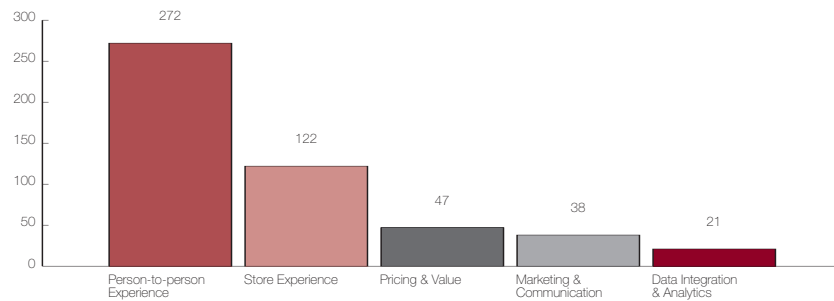
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Figure 1. Relative importance of key drivers of customer satisfaction. Note: Scores above 110 indicate statistically significant correlation to level of customer satisfaction. Source: "Making CRM Work for Retailers Survey," IBM Institute for Business Value, 2002.



For retailers, the core challenge is the significant opportunity cost of delivering a poor customer experience. For instance, customers abandon their shopping trips because checkout lines are too long, they are unable to find help, or they can not find a specific product. Or, ponder the value of sales missed because store employees are insufficiently trained to effectively cross- and up-sell. Based on available market figures, we estimate an implied opportunity cost of as much as 10 percent of sales for retailers. Clearly, retailers can not afford to operate business as usual. They are leaving large sources of revenue growth untapped, or worse, ceding that business to better competitors.

Four Strategic Imperatives

Today's challenging marketplace requires retailers to build a renewed focus on viewing and delivering the total shopping experience from the customer's perspective. This focus begins with creating a truly customer-centric organization and store environment that are built from the customer's perspective in, not from the retailer's perspective out. To achieve customer centricity, retailers must address four strategic imperatives:

- Build an organization offering a shopping experience that evolves with changing customer expectations
- Provide a truly convenient shopping experience
- Develop an integrated view of the customer
- Deliver a flexible product or service

Evolve with Changing Customer Expectations

The entire organization must focus on identifying, satisfying, and responding to the target customers' rapidly evolving needs and preferences. Customers seek a

store that not only understands how they want to shop today but also adapts to their changing needs over time. To achieve these ends, retailers should focus on three key areas.

First, develop methods to identify and keep in touch with customers on a regular basis. Spend time in the stores to observe who is shopping and how they shop, capture feedback at point-of-sale (POS) or on the floor while serving customers, or direct customers to online surveys via a purchase receipt.

Second, commit to innovation and experimentation in formats, concepts, and products. One way to achieve this goal is to regularly develop prototype or test stores, such as Metro's Store of the Future. Prototype stores enable retailers to test strategic nuances from a total experience perspective and without a major commitment in capital and resources.

Third, take greater responsibility for the quality of store employees, who are often a customer's first and last point of interaction. Hiring and developing the right people are essential. Behavioral testing in the hiring process may help to determine whether or not potential employees are customer-focused and a good cultural fit. For example, Marks & Spencer developed a screening process with SHL, a provider of objective people assessment techniques. This process helps ensure that new hires possess the necessary qualities for success in a specific role.

Provide a Convenient Shopping Experience

An enjoyable, pleasing shopping experience keeps customers coming back. Too often customers wander around a poorly laid-out store and exit frustrated and empty-handed. Customers want a store

that is easy to shop and requires less time and effort. They also seek a store that provides the services and information necessary to make an informed, confident purchase decision.

Four key changes are necessary to deliver a convenient customer-focused shopping experience.

First, improve store navigation via better design and shopping aids such as maps and product locators. Redesign store sections to better serve core customer segments or shopping occasions. For example, North Carolina-based Food Lion is testing a convenience offering in its new concept stores (Bloom) by placing certain staple items in the front of the store so shoppers who want to pick up a few essentials can quickly get in and out.

Next, offer easy access to productivity-enhancing tools and relevant, timely information. For example, Sears, Federated Department Stores, and Target, are adding price-check devices throughout their stores so customers do not have to seek out a sales clerk or wait until they reach a cashier to verify a price.

In addition, implement more efficiency and speed in all customer transactions and provide customers with greater control of the shopping process. Hand-held scanners—"line busters"—enable employees to scan customers' purchases and accept payment away from the traditional checkout area to help reduce queues. Self-service devices move customers through checkout at their own pace. Home Depot, for example, installed nearly 40,000 wireless scanners in 2003 and plans more than 1,000 self-checkout stations by the end of 2005 to enable customers to check out faster.

Finally, actively educate customers on using new services. Retailers often assume that people naturally become aware of and readily adopt new services. But insufficiently educating customers can lead to a sub-optimal experience if, for example, a customer is standing in front of a self-service machine without user instructions. Additionally, low adoption rates of in-store services create poor investment returns for retailers. Customers need more explicit information, such as:

- What services are available to help them shop
- How and where to find these services
- How to use the store services
- How to find help if the equipment is not working

Develop an Integrated View of the Customer

Creating a shopping experience that is consistent and seamless across channels, store departments, and customer touchpoints (such as call centers, direct mail, or in-store kiosks) is important. Customers are often frustrated with disconnected or interrupted shopping experiences caused by having to repeat personal information. Customers want a store to retain and use relevant information to avoid starting over again with each transaction. Creating a consistent, flowing dialogue requires two key steps.

First, achieve a foundational level of customer information integration. Eliminate customer data silos that can lead to inconsistent versions of customer data. Integrate heterogeneous pieces of data gathered across all customer touchpoints and channels which, when left fragmented, can often be a source of poor customer service and therefore customer frustration.

Data integration allows retailers to deliver more seamless shopping experiences and more relevant offerings to customers.

Second, let customers decide how much intimacy they want or need. Customer data must be used appropriately, and customer privacy must be guarded. Some customers feel uncomfortable when the retailer is tracking their shopping behavior to provide personalized offerings. They prefer to remain anonymous. Others find value in sharing demographic and preference data. Therefore, giving customers the choice to opt in or out of new offers and services is important.

Deliver Flexible Products or Service

With increasing customer complexity, retailers must address customer needs and preferences across several areas, including target segments, local markets, shopping occasions, and product categories. Customers want different shopping options to meet their particular needs. Delivering flexible offerings requires retailers to address four key steps.

Begin with a clear understanding of target customers: who are the target customers, when do they shop and for what occasions, how much or how little information or service do they prefer, and what motivates them to buy? To acquire this information, retailers need to develop deeper insights about their customers through multidimensional analysis, such as combining psychographics and demographics with attitudinal and shopping occasion data to create more precise target segments.

Next, leverage these insights to tailor products and services to the needs of target customers. Tailoring does not necessarily imply developing one-to-one individualized offerings; rather, retailers can meet the needs of shoppers via customer

“affinity groups.” Examples of affinity groups and their specific needs are:

- Demographic segments: working moms who shop with children prefer in-store strollers and wider aisles;
- Shopping occasions: consumers who are upgrading their computer networks seek knowledgeable store employees;
- Local markets: urban single professionals look for edgy, “hip” products; and
- Specific product groups: music and gaming aficionados desire multimedia displays and a highly experiential store experience.

In addition, provide different ways of shopping. For example, shoppers differ in how much or how little service they want. For a complex product category, such as electronics, retailers need to balance a highly assisted approach delivered by deeply knowledgeable store employees with a self-service approach using tools that provide very specific product information to meet different shopper styles.

Finally, build a team of skilled store employees that can provide the right level of service to meet different customer needs. One strategy is to develop flexible staffing models that allow store managers to properly schedule employees to ensure the right skills on the floor at the right time. Another strategy is to hire employees with specific skills and then align training and incentives to enable them to serve particular customer groups.

Implementing Customer Centricity

An increased focus on the customer’s perspective requires retailers to strategically align and foster execution excellence throughout their organizations. Senior managers should focus on: organization, people/process, tools/systems, IT infra-

structure, information, and format/ merchandising. The relevance of three of these areas are illustrated in this article.

Organization

Moving to a truly customer-centric organization means aligning the organization with its customers. This alignment should go beyond reporting to include incentives and performance measurement. One area of primary alignment is the merchandising organization. For example, a truly customer-centric retailer could shift the main focus of the organization from product and product managers to customer segments and customer segment managers. These managers would take the lead in coordinating store assortments and merchandising and collaborate with store managers to develop targeted offerings for local markets.

People/Process

Store employees are critical to an organization's ability to achieve its customer-centric vision. Two areas must be addressed:

■ **Actions.** Store employees should be enabled to focus on the customer. Consider ways to reduce administrative tasks that prevent employees from effectively serving customers. In addition, devise overall customer service policies that accommodate customer needs rather than reflect the limits of the organization.

■ **Capabilities.** Hiring the right store employees and then continually upgrading their knowledge and skills is critical to achieving the customer-centric vision. Training should be continuing education rather than a one-time event tied to a system or capability rollout.

IT Infrastructure

The foundation of an organization's ability to achieve the four strategic imperatives

resides in the in-store technology infrastructure. We believe that a store's IT infrastructure should have three key characteristics:

■ **Integrated.** An integrated IT infrastructure links applications and business processes between the enterprise and the store systems. New customer contact points (such as PDAs or cell phones) are easily integrated into the store IT infrastructure when appropriate. In addition, master data is stored in a single repository and shared across the organization. With this capability, store employees do not have to reenter data, call the home office to confirm customer information, or fill in missing information.

■ **Flexible.** A flexible IT infrastructure easily supports a diverse range of in-store devices and touchpoints for customers and employees. New applications can be readily added and deployed over time. Deployment and support costs can be reduced through web-based applications.

■ **Extensible.** An extensible IT infrastructure supports the rapid rollout of new applications, features, and services at the store. This infrastructure gives the organization the ability to leverage existing systems, such as POS, to dynamically deliver new services to store employees and customers.

Next Steps in Transformation

Each retailer must incorporate its particular value proposition and its target customer needs into a go-forward plan. Building greater customer centricity involves three key steps:

■ **Determine the customer experience vision.** Align your ideal shopping experience with the company's core value proposition and your customers' needs and expectations.

■ **Evaluate and prioritize your investments.** Identify particular initiatives that can help the company achieve its vision. Prioritize "quick hit" projects first to fund longer lead-time initiatives that have higher costs and might initially be out of the scope of the company's abilities.

■ **Develop a transformation plan.** Begin execution of a change management and communication plan immediately to help ensure successful transformation at every level of the company. Finally, determine a set of metrics and governance procedures to measure the impact of the initiatives and manage progress.

In the constantly evolving retail marketplace, the total retail experience can become a key source of competitive differentiation. By effectively executing and excelling at the customer-centric imperatives outlined in this article, retailers can deliver a superior shopping experience that could not only result in consistently high customer satisfaction but also might encourage customers to shop more often and spend more with their favored retailers.

To learn more, please contact the authors at iibv@us.ibm.com. To access publications on related topics or to browse through other materials for business executives, please visit our web site at www.ibm.com/bcs.

Perspectives

A Customer-centric Store: Thoughts from a Retailer

BY WARREN BRYANT

The article, "The Customer-centric Store: Delivering the Total Experience" contains a wealth of insight and thoughtful points of view, any of which could provoke an article and discussion. I want to focus, however, on just one characteristic of the customer-centric store:

“The organization and the store are built from the customer perspective in, not the retailer perspective out.”

This concept is obvious to point out, easy to say, and very difficult to achieve. Harder, still, to sustain.

In this era of increased “demand complexity” and the functional specialty in organizations created to manage complexity, there is a tendency for organizations, especially large ones, to create priorities and make decisions that affect employees serving customers in ways detrimental to the customers’ experience. This causes a loss of the “customer-centric store,” as organizations typically don’t have someone charged with examining the consequences that policy or priority execution impose on customers.

At Longs Drug Stores, we call this “paying attention to what you pay attention to.” Or, just being sure that the latest policy, procedure, or initiative doesn’t have unintended consequences on the way we treat our customers.

Retail execution is a vital component of both mass market and specialty market retailing. We’ve all said “retail is detail” and that good execution comes from good measurement and “what gets measured gets managed.” We measure and manage countless details in our retail operations and finance. Things like in-stock/out of stock, cases per hour, rings per minute, cash over and short, refunds, compliance, shrink, etc. The list is very long and it is designed to wring every last penny out of every retail operation and transaction to enhance our profitability. We all know “pennies turn into dollars.”

So, we are driven to models of execution around models of efficiency and effectiveness, cost savings and profit maximization,

measurement and control. And, it is much easier to quantify the benefit of a rigid refund policy than to calculate the gradual disaffection of a customer. The trouble is that management by measurement can have bad and unintended consequences when it comes to serving customers.

Customer Disaffection

Consider the following customer experience I had at a retailer who will remain anonymous.

On a Saturday afternoon while cutting my lawn with a riding mower, my battery went dead. Knowing that the local mass merchant had both a lawn and garden center and an automotive department, I thought that they would have a replacement battery.

So, I drove down to the local store and, since it is a very large store, and I, not knowing where the batteries might be, asked a fellow who was stocking electronics where I might find a lawn mower battery. The clerk was very intent on stocking the shelves and replied without looking up that he didn’t know—maybe the lawn and garden department. Being a retailer, I knew right away that stocking productivity was more important than customer service at this store.

After an unsuccessful stop in lawn and garden, I found the battery in the automotive department. Not knowing whether or not they were fully charged, I went looking for help. Not finding a sales person in the department, I noticed a door into the car service area where I saw an employee changing tires. Even though the door said “EMPLOYEES ONLY,” I went through to ask my question. The employee changing tires told me, without looking up or stopping, that he didn’t know—I should get help

in the auto department sales floor. I explained that I had tried, and he explained that he couldn’t help. Turning to leave, I noticed another employee taking a break. I approached him. Jake was his name, it said so on his name badge along with “Automotive Department” and “Serving Customers is Priority #1.”

I asked my question and he replied, “Didn’t you see the sign that said ‘EMPLOYEES ONLY?’ Our insurance company doesn’t allow customers to come back here. Didn’t you see the sign?” Jake insisted.

I told Jake that I did but just needed to know whether the small batteries were fully charged. He told me that they were charged and I left the area, thinking, because I’m a retailer, that in this store, tire changing productivity and insurance rules are more important than the customer.

I selected my battery and after waiting in a long line (front-end cost control being more important than speedy customer service), purchased the battery with a credit card and left.

Imagine my surprise after installing the new battery when I learned the battery was not charged.

Driving back to the store, I couldn’t help thinking, because I’m a retailer, that at this store cost control is more important than product knowledge training.

You probably can guess what happened next. At the customer service counter, I was ignored because till accounting and cash handling were more important than customer service, and answering the phone was more important too. When my turn finally came, I was told that someone from the automotive department would have to approve the refund.

My cause was not helped when I replied that my receipt was still warm and that the store didn't require automotive department approval for me to purchase the battery so why did they need it now? Undeterred, Sally (name on the badge, "Customer Service Department," "Serving Customers is Priority #1") called on the store loud speaker for help from the automotive department to come to the customer service desk. You see, only the automotive sales department could approve the refund.

No one came.

Four calls and fifteen minutes later, a very irritated Jake came huffing across the store to see who had dared interrupt his automotive department priorities (they being more important than the customer). Jake approved the refund with a wave of his hand and offered an exchange. He seemed offended when I said I would rather have my money back. Sally then had me proffer my driver's license, fill out a return form, and sent me back through the long line at the front end of the store to claim the credit. And I knew, being a retailer myself, that shrink, claims accounting, refund control, and cost management were much, much more important than the customer.

Total Customer Experience

This total customer experience is a true story, and it is being played out in part and in total over and over in retail stores today. This store was paying attention to a lot of things that I'm sure control costs and improve margins. The employees were working on the priorities that their management had set for them. For them,

stocking productivity was more important than customer service...

tire changing productivity was more important than customer service;
insurance regulations were more important than customer service;
till accounting and cash handling were more important than customer service;
telephone calls were more important than customer service;
cost control was more important than product knowledge training;
policies were more important than customer service;
department workloads were more important than customer service... and
cost control was more important than customer service.

Actions speak louder than words on a name badge. Managers need to be careful what they ask for.

One more thing, in my opinion, is essential to the creation of a customer-first culture and that is a culture of helping one another. A culture of teamwork and mutual support in the store, with the

primary goal of customer-first service delivery, is the foundation for the customer-centric store experience. This store did not exhibit a culture of helping. Electronics employees didn't care about auto. Auto service didn't care about auto sales and customer service didn't care about customers. No wonder the customer was on the receiving end of poor service.

The customer-centric store begins with the customer and ends with the customer in pricing (value), assortment, environment, and service. For a retailer, the advantage of technology, assortment, pricing, or environmental points of differentiation are fleeting at best. The key to success is the ability to adapt to changing customer expectations and an unwavering focus on the customer experience in whatever form of retailing you are competing.

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