

Next level brand performance.

Winning at Retail: Competing on Customer Experience



second to none



white paper

Executive Summary

Today’s business environment is more challenging than ever before. In the U.S., years of expansion and development have created over capacity in many markets, triggering a majority of retailers offering similar if not identical products, to compete primarily on price. Rather than following the herd in the race to the bottom, an emerging group of brands poised for long-term success are now leveraging the power of delivering superior customer experiences, in turn driving loyalty and revenue.

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RETAIL REALITY: PRODUCT AND PRICE PARITY

While you may not recall firsthand, there was a time when full-service gas station attendants catered to their customer: pumping fuel, cleaning windows, checking oil level and tire pressure. Sales representatives, offering everything from appliances to shoes, worked diligently to offer the personal touch, differentiating their products from their competition.

Much of this changed as three forces came together to define a new retail landscape: a boom in development resulting in overcapacity across much of the U.S., a proliferation in brand choice as a direct result of substantially increased competition, and retailers scrambling after a limited pool of management and hourly employees to support store operations. While consumers now have more retail options than ever, a majority of operators within each industry offer the same or similar products at comparative price points. As a result, significant portions of the retail industry have become commoditized.

In reacting to competitive pressures, many companies have opted for a low-price strategy. Unless you dominate the market in scale and buying power, how long can such a business model realistically endure? Retailers poised for lasting market dominance and differentiation understand that the secret lies in delivering a superior customer experience.

The Rise of Customer Experience

The U.S. is in the midst of a transition from being a service-oriented economy to one focused on experiences. Customer experience focuses on the degree to which a customer feels his or her needs are being met. In order to meet the expectations of today's consumer, successful brands are strategically uniting and engaging their companies from the top down, starting with corporate culture and vision, delving into upper and mid-management leadership styles and permeating through each employee's service approach. The entire organization should work as a well-oiled machine driven toward its customer-centric mission.

In the new Experience Economy, merely "satisfied" customers are not enough to drive economic growth. Companies must create superior customer experiences in order to sufficiently differentiate themselves to drive revenue, profits, customer loyalty, and ultimately, shareholder value. In fact, superior customer experiences are the only way to differentiate true value in the increasingly commoditized retail industry.

A recent Bain & Company survey reveals just how commonly companies misread the market. Responses from 362 firms found that 80 percent believed they delivered a "superior experience" to their customers. When actual customers of those same companies were asked about their own perceptions, the results were staggering: only 8 percent of the companies were deemed as truly delivering a superior experience. Clearly, it's easy for leading companies to assume they're keeping customers happy; it's quite another to achieve that kind of customer devotion.



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So what sets the elite eight percent apart? *They take a distinctively broad view of the customer experience.* Unlike most companies, which reflexively turn to product or service design to improve customer satisfaction, the leaders pursue three imperatives simultaneously:

1. They *design* the right offers and experiences for the right customers.
2. They *deliver* these propositions by focusing the entire company on them with an emphasis on cross-functional collaboration.
3. They *develop* their capabilities to please customers again and again—by such means as revamping the planning process, training people in how to create new customer propositions, and establishing direct accountability for the customer experience. ⁱ

Each of these "Three Ds" draws on and reinforces the others. Together, they transform the company into one that is continually led and informed by its customers' voices.

In a recent Forrester Research, Inc. survey of North American firms with annual revenue above \$500 million, **96%** of all respondents believe Customer Experience improvements were either critical or very important to the company's long-term success. ⁱⁱ

Customer Experience Management

Many retailers are familiar with Customer Relationship Management, or CRM, which assesses and monitors what a company knows about their customer. Customer Experience Management (CEM), evaluates how that customer views the retailer. This reverse approach recognizes the difference between a customer's and the company's perception of the same interactions and relationship.

Second To None defines Customer Experience Management (CEM) as the practice of designing, delivering and continuously improving the manner and ease with which your chosen customers interact with your brand in order to achieve their desired outcomes. It is a business strategy that focuses and redefines the business from the customer view point. CEM assumes that products and services are no longer solely sufficient in satisfying customer needs and elevates the value proposition to the level of an experience. At the core of the CEM strategy is an organizational framework that defines value for both employees and customers.

Through employees' experiences, CEM unleashes the best innovations and creates superior value and authentic customer experiences. In addition, it promotes an enhanced dialogue between customers and retailer, strengthening the quality and longevity of relationships. Companies that have adopted effective CEM strategies have placed greater emphasis on their employees and customers as part of the experience creation and delivery.



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CEM evaluates and elevates the customer experience at every touch point – before, during and after a sale is made. It resonates throughout each and every customer interaction with the company, its products, packaging, advertising, media coverage, service agents, word-of-mouth recommendations and product reviews. It ensures customer needs are met across all channels, from phone self-service to retail branches, the Web, email, mail order and catalog transactions, kiosks, chat and instant messaging.

IS YOUR BRAND FOR REAL?

What does your brand say about you? Do employees enthusiastically deliver your brand promise? Customer-centric retailers live their brand promise each and every day through total organizational engagement. When marketing and advertising messages align with an organization's personality during each interaction, a company is living its brand. When managers are recruiting and hiring employees with a focus on individuals who share the same values and attitudes, the company is living its brand. When managers demonstrate brand loyalty through genuine day-to-day interactions and motivating corporate communications, the company is living its brand. When management executes ongoing employee recognition programs that reward customer advocacy and further cultivate a culture based on passionate internal advocates, a company is living its brand.

Customer-Centric Culture

A unified brand begins with the company's values and culture, flowing into the actions of leaders and managers, throughout its organizational structure and performance metrics. While many retailers believe customer satisfaction is an isolated issue controlled by a small customer service department, a superior customer experience requires active involvement from all departments. This includes employees and departments responsible for product design or selection/purchasing, web development, merchandising and display. Total company participation directly impacts the overall customer experience, improves satisfaction, addresses needs and strengthens loyalty.

An integral aspect of living your brand is total organizational engagement, involving:

- Employee training that emphasizes the retailer's values and brand promise.
- Employee awareness, acceptance and commitment to a company's brand promise.
- Ongoing internal communications that reinforce a company's values, elevate morale, enthusiasm and dedication.
- Integration of this brand promise into all policies – from recruiting to advertising and performance bonuses.
- Constant, genuine demonstrations of a company's brand commitment from the top down.

Finally, retailers can continue this upward momentum by evaluating and assessing their progress on a continual basis. Place the customer experience at the top of your priorities at all times. Measure customer feedback to implement rewards that ensure all employees deliver. Survey employees to foster a culture based on brand awareness, acceptance and fulfillment. And benchmark milestones to track management's ability to translate organizational values into executable strategies.

CUSTOMER EXPERIENCE DESIGN

Companies must enable interactions that connect emotionally with target customers at key moments. To accomplish this, retailers should: 1) Define brand propositions; 2) Identify high-impact moments; 3) Deliver value; 4) Enable the experience; and 5) Measure and refine.

This planning and execution process lets companies define the desired customers' experiences and relationships, building their organization's capacity and systems accordingly to the delivery of those promised relationships to the desired target customers. Enlightened companies realized they sell more than just products or services. They sell an emotional and sensory experience. Starwood's CEO Steve Heyer puts it this way: "We are not just in the business of selling beds or guestrooms, but rather experiences and memories." ⁱⁱⁱ



80% of companies believe they deliver a superior customer experience

Only **8%** of their customers agree.

Source: Bain & Company

The good news is that consistently delivering predictable, superior customer experiences, and translating that into a competitive differentiator for your organization, is possible - but it's not easy.

Step One: Define Brand Promise

Most large companies are adept at dividing customers into segments and designing value propositions for each one. But those that deliver a truly outstanding customer experience go about the design business in a unique way. In defining segments, they look not only at customers' relative probability but also at their tendency to act as advocates for the company—to sing its praises to friends. The ultimate goal is to shift ever more customers into the high-profit, high-advocacy area.

Customer advocacy can be summarized as a net promoter score, calculated as the percentage of customers who would recommend a company (the promoters) minus the percentage that would urge friends to stay away (the detractors). Because such a simple measure is understandable to all parts of a company, it can serve to rally and coordinate the entire organization. As described in the sidebar, the ultimate goal is to shift ever more customers into the high-profit, high-advocacy area.

Of course, the experiences that turn passive buyers into active promoters will vary by customer segment. What captivates one group may turn off another. In formulating segments, therefore, it's important to look beyond basic demographic and purchasing data to discern customers' attitudes and even personalities.

In designing propositions for specific segments, leaders should focus on the entire customer experience. They recognize that customers interact with different parts of the organization across a number of touchpoints, including purchase, service and support, upgrades, billing, and so on. A company can't turn its customers into satisfied, loyal advocates unless it takes their experiences at all these touchpoints into account. Design is thus closely tied to the delivery from the very beginning. Planning focuses not only on the value propositions themselves but on all the steps that will be required to deliver the propositions to the appropriate segments.

Step Two: Identify High-Impact Moments

Customer Experience Mapping helps retailers gain a clearer understanding of the various ways in which customers interact with their brand. A Customer Experience Map outlines each contact you have with your stakeholders, from the first marketing message and relationship initiation through each sale, product receipt and use, claims and dispute resolutions. Armed with this map, companies can more easily evaluate the customer experience at every touch-point. Mapping requires the rethinking of many basic aspects of the business starting with the definition of the core assets of the company and its organizational experience.

One of the key principles of Customer Experience Management is the shift in responsibility from the headquarters to the branches and agents. If, in the past, companies determined their value proposition centrally and just instructed their staff to execute, today they must share the power and delegate responsibility to everyone who deals with customers. The days of placing helpless associates in front of the customer are over. Everyone is responsible.

When you identify stakeholders and continually monitor important success benchmarks, you can transform your retail brand from one based on price competition to one poised for long-term growth. Start with a detailed Customer Experience Map to identify each customer interaction. Then, integrate key performance measures and monitor Net Promoter Scores to foster ongoing growth and improvement.

Step Three: Deliver Value to the Customer

The most brilliantly designed and insightful customer offerings can be rendered impotent by poor execution. To ensure effective delivery, the leaders must first create and motivate cross-functional teams—from marketing to supply chain management—to deliver their value proposition across the entire customer experience. Second, they must treat customer interaction as a precious resource. Data mining and customer relationship management (CRM) systems can be valuable for creating hypotheses, but the ultimate test of any company's delivery lies in what customers tell others. The best companies find ways to tune in to customers' voices every day.



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They allow companies to be sure their delivery continues to meet the needs of the target segments. But traditional metrics, focused on the performance of individual functions, aren't enough; measures have to be crafted to inspire cross-functional collaboration.

One example is Net Promoter scores: Improving them requires a concerted effort from the front line to the back office. Precise customer service objectives for specific customer interactions can also help to rally the troops. A bank might create a goal of phoning each new customer within one week of opening a checking account; a cable company, within a week of installing a line. Hitting such targets requires specific, coordinated contributions from customer support, marketing, channel management, and finance.

Leaders often integrate other methods of capturing ongoing business intelligence, including regularly scheduled, detailed mystery shopper visits, real-time customer feedback surveys (web and phone-based) and operational compliance audits.

Step Four: Enable the Experience

Customer value propositions can never be static; they must be subject to regular innovation. It's the same with delivery—every company must improve its performance quarter after quarter, year after year. Leaders in crafting the customer experience have established a number of capabilities to achieve this kind of systematic innovation and improvement. They include:

- * Tools that aid customer-focused planning and execution. An integrated marketing plan developed by Vodafone, for instance, unambiguously puts customers at the top of the company's strategic priorities.
- * Customer-based metrics and closed feedback loops that establish accountability. Enterprise Rent-A-Car tracks customer satisfaction with its rental experience on a five-point scale for every branch, and employees of branches that fall below the corporate average—getting top-box scores 80 percent of the time—are ineligible for promotion.
- * Customer-focused management incentives. Net promoter scores, for example, are increasingly used in performance reviews.

Top-performing companies also create processes that seek direct, immediate customer feedback—not simply to ensure that things are going well but also to build in methods of systematic innovation and improvement.

Which customers should you target? If you say "the most profitable ones," you're only half right. It's also important to attract buyers who will act as your company's growth advocates, encouraging others to buy from you. By assessing customer profitability and customer advocacy, you can tailor your strategies—and your investments—by segment:

- * High-profit promoters. These are the customers you can't live without—your core. You want to design and deliver your offerings in a way that expands this group, and to target new buyers who share their characteristics.
- * High-profit detractors. These customers, often as important as your "core," are sticking around because of inertia or because they feel trapped. They are profitable, attractive to your competition, and unlikely to suffer quietly. Losing them can dent your bottom line and your market share. You need to find out what's irking them and fix their problems fast.



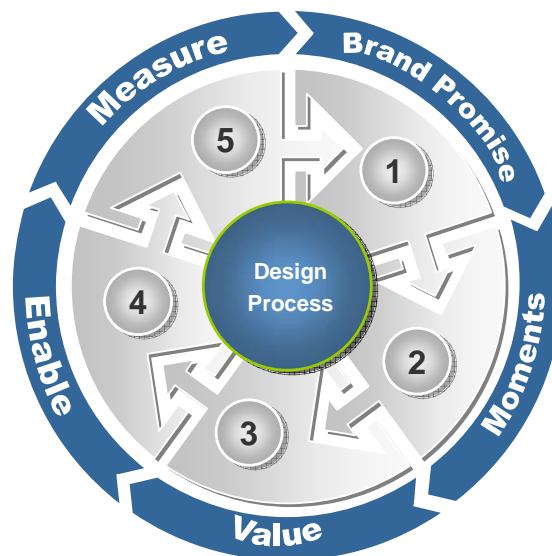
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* Low-profit promoters. These are diamonds in the rough—loyal customers whose current buying patterns leave money on the table. Tap into their advocacy by offering them additional products and services, but don't alienate them with heavy-handedness.

* Low-profit detractors. You can't please everyone. If there is no economically rational way to solve their problems, then help unhappy customers move to other providers.^{iv}

Step Five: Tools to Measure and Refine

Leading retailers can use one of several effective and cost-efficient resources for measuring, understanding and optimizing the customer experience. Today's technologies may be used individually or integrated into a blended performance measurement strategy, and may include: Mystery shopping, competitive benchmarking, operational compliance audits, and capturing Net Promoter scores through ongoing voice-of-customer surveys, conducted online and by phone.



Elements of Strategic Differentiation

1. *Obsess about customer needs, not product features.* Rather than racing to bring new product features to market, companies need to refocus on the needs of their customers — who might even want fewer features. While most firms have invested in customer analytics, even the largest data warehouse and most sophisticated software can't model the nuances of human likes and needs. That's why firms should augment data crunching with some old-fashioned techniques, like talking to customers and observing their experience.
2. *Reinforce brands with every interaction, not just communications.* Traditional brand messaging is losing its power to influence consumers — that's why branding efforts need to expand beyond marketing communications to help define how customers should be treated. To master differentiation, firms must articulate their brand attributes to both



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customers and employees, clearly describing how the firm wants to be viewed. That's just the first step, because companies must go on to translate brand attributes into requirements for how they'll interact with customers.

3. *Treat customer experience as a competence, not a function.* Delivering great customer experiences isn't something that a small group of people can do on their own. Everyone in the company should be fully engaged in the effort. It all starts at the top, with the CEO and his executive team. To maintain a company-wide customer focus, businesses must systematically and continuously incorporate customer insights into all of their efforts. ^v

In other words, delivering superior customer experiences consistently and predictably is not an event; it's not an initiative; and it's not a department. Delivering superior customer experiences is a culture – and this culture must permeate every person, process, and system throughout the organization.

Customer Experience Drives Loyalty

The link between customer experience and loyalty is indisputable. A recent independent study illustrates the results of ongoing research linking customer experience to loyalty, along with its impact on revenue. The findings objectively show a strong correlation between the two. The following are just a few of the specific findings:

- For all nine industries examined, there was a strong correlation between customer experience and loyalty.
- Bank customer experience was the most correlated with loyalty, followed by wireless carriers.
- Companies in the top quartile of customer experience have a much higher level of customer loyalty than do those in the bottom quartile, with a 15 percent increase in customers that are willing to make another purchase and an 18 percent decrease in customers that are likely to switch brands. ^{vi}

Economic Impact of Superior Customer Experiences

Customer Experience quality can impact annual revenue by **\$184 million** for a large retailer and **\$242 million** for a large bank.

Source: Forrester Research, Inc.

CONCLUSION

While price is an obvious competitive advantage, retailers can achieve a much higher success threshold when they compete on the customer experience. Those poised for long-term growth are brands that focused primarily and passionately on the delivery of superior customer experiences.

Consistently delivering predictable, superior customer experiences and translating that into a competitive differentiator for your organization requires a deeply committed customer-centric culture supporting a holistic and methodically designed experience delivery strategy.

Start by asking yourself: What dimensions of customer experience should you be managing? What experiences should you be monitoring and improving? How should you measure results?

The customer experience encompasses each and every interaction with a brand – from advertising and media coverage to retail sensory design, product enhancements and customer service. A superior customer experience satisfies the customer's need, shapes their decisions and promotes long-term loyalty. While total company engagement into a customer-centric business model involves a long-term vision, small incremental steps can immediately improve the customers' experience: Start by defining your brand personality, identify the most important attributes of customer interaction, enable your organization to consistently deliver on those attributes and continually measure performance.

Retailers passionate about longevity are moving more-and-more toward a business model founded on superior customer experiences. What actions will you take within your organization to assemble a legendary brand?



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About Second To None, Inc.

Second To None is a multi-disciplinary customer experience optimization firm. Based in Ann Arbor, Michigan, Second To None is the pioneering architect of Holistic Customer Experience Management™, a proprietary and innovative approach to supporting customer-focused organizations in consistently delivering authentic brand experiences, outmaneuvering the competition and achieving their full potential. We assist Fortune 1000 brands and emerging companies seeking to become the leaders of tomorrow in measuring, understanding and optimizing their brand performance across all points of customer interaction.

In addition to strategic design, consulting, and robust reporting & analytics, our practice areas include:

Customer Experience Management

Multi-Channel Customer Experience Measurement
Competitive Benchmarking
Operational Compliance Audits
Site Presentation and Merchandising Inspections
Product Knowledge, Sales and Pricing Evaluations
Product Demonstration Evaluations

Customer Satisfaction Measurement

Real-time Online Customer Satisfaction Surveys
Real-time Interactive Voice Response Surveys
Customer Intercept Interviews
Employee Workplace Attitude Surveys

To discuss how Second To None can help your brand realize its full potential and receive a complimentary Customer Experience Strategy Assessment, please contact:

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Endnotes

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