

## The customer-centric store

*Delivering the total experience*



*An IBM Institute for Business Value executive brief*

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.

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## Introduction

Today, retailers face a “world of extremes” characterized by unprecedented complexity, intense competition and marketplace polarization. Customer expectations for what constitutes a satisfying shopping experience continue to rise. Burdened by different priorities, many retailers have lost focus on the *total retail experience* and as a result customer satisfaction is down.

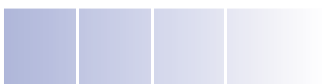
What must retailers do to differentiate themselves in the marketplace and regain their focus on the customer? How can retailers create a more pleasurable and highly satisfying shopping experience that will meet the needs and demands of today's customers? The answer lies in delivering a customer-centric store experience that is supported by customer-centricity embedded throughout the retailer's organization.

## Executive summary

In an increasingly competitive and polarized marketplace with rising customer expectations, the traditional means of competitive differentiation are being challenged as never before. To respond, retailers need to evolve their focus to become customer-centric in both strategy *and* execution. With an increased priority being placed on the retail customer's perspective, the role of the store becomes critical as a means of delivering a differentiated, highly satisfying shopping experience. And, as we are seeing more and more in the marketplace, the cost of not doing so is significant.

### What does it mean to be customer-centric?

- The organization and the store are built from the customer perspective in, not the retailer perspective out.
- The shopping process is easy to understand, and customers have more control over the entire retail experience.
- Customer information is appropriately used, by both the retailer and by customers, to enhance the shopping experience.
- The shopping experience is tailored to different customer needs and shopping occasions.

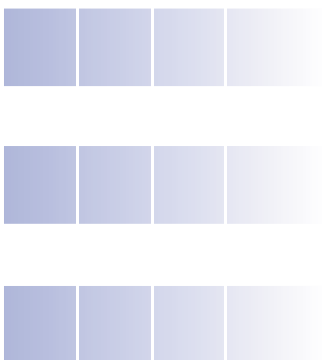


Once a retailer has decided to focus on being customer-centric, the next step is to address the following four strategic imperatives:

1. *Build an organization that defines a shopping experience that evolves with changing customer expectations:* Retailers need to build a dynamic organization that is aligned to listen to the customer so that it can continuously enhance and sustain customer satisfaction. This requires a commitment to innovate and experiment with new concepts and offerings.
2. *Provide a truly convenient shopping experience:* Stores need to be designed to create an environment that is easy to shop *and* provides customers with the necessary tools, information, and services needed to make an informed and confident purchase.
3. *Develop an integrated view of the customer:* Retailers need to achieve a foundational level of customer information integration that includes eliminating customer data silos and integrating fragmented pieces of data gathered across all customer touchpoints and channels. This level of integration allows retailers to deliver more seamless shopping experiences and also deliver more relevant offerings to customers.
4. *Deliver a flexible product/service offering:* Retailers need to be able to tailor their offerings to meet customer needs across different segments, local markets, shopping occasions and product categories. The store should be designed and operated with flexible options that allow customers to shop the way they want to shop.

Further, while it is critically important to embrace these imperatives, achieving an increased focus on the retail customer's perspective requires retailers to focus on execution excellence throughout their organization. In doing so, senior managers should focus on six major aspects of their business operating model: organization, people/process, information, tools/systems, format/merchandise, and IT infrastructure. We provide examples in three selected areas:

- *Organization:* Precise execution comes from clarity of approach and alignment of incentives and performance measures that supports a customer focus. In merchandising, for example, a *retailer* could consider moving the focus from products and product managers to customer segments and segment managers.
- *People/Process:* Since store employees are integral part to delivering a customer-centric experience, it will be important to reduce non-customer-facing administrative tasks and elevate training policies to emphasize "continuing education" versus a one-time event tied to a new capability rollout.



- *IT Infrastructure:* The next generation store is clearly dependent on a robust, flexible and enabling IT infrastructure. Thus, capabilities, such as the following, need to be provided and supported: new applications easily integrated with existing applications, a diverse range of devices and touchpoints for store employees and customers that are easily supported, and the ability to scale new applications and services in a timely fashion.

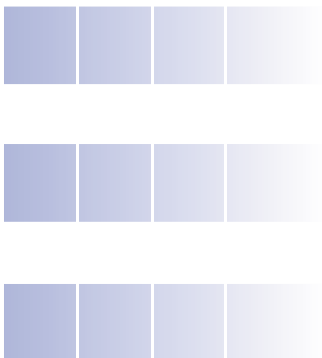
In the constantly evolving retail marketplace, the total retail experience can become a key source of competitive differentiation. By excelling at the strategic customer-centric imperatives outlined in this paper, retailers can deliver a superior shopping experience that could result not only in consistently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

### ***Retail market complexity: The rules have changed***

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 is creating significant demand complexity. Undifferentiated companies in the middle are facing tremendous pressure; many have failed and others are still struggling to find the path back to consistent growth and success.

In this environment, the rules for how retailers operate and compete have changed. To a large degree, the traditional means of competitive differentiation can no longer be relied upon. For many retailers, strategies based just on price have been rendered ineffective as megaretailers have mastered the “mass” end of the marketplace with superior scale and efficiency. And traditional levers of competition, such as assortment, service and customer and market segmentation, which were once differentiators, can now be easily copied or competed away, if they are not somehow made proprietary. For example, home installation and repair services – like those pioneered by Sears – are proliferating across retail as competitors such as Best Buy, Home Depot and Lowe’s offer similar services.

At the same time, customer expectations continue to rise. The Internet’s nearly unlimited wealth of information has created customers that are accustomed to having instant access to price and product comparisons, independent third-party reviews, and tailored recommendations based on their buying history. Their comfort with technology also continues to grow, as witnessed by the proliferation of mobile phones, Personal Digital Assistants (PDAs), video game players and other personal devices.

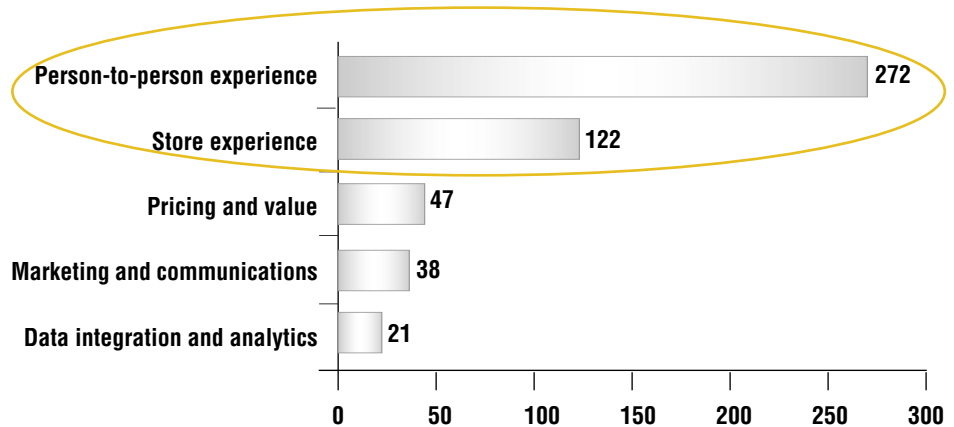


Furthermore, these information- and technology-savvy customers are much more demanding about what they expect from the shopping experience. They are often much more knowledgeable than store employees about the products, services and prices available in the marketplace, thereby raising the bar for what retailers and their store employees need to know to deliver a superior shopping experience.

***Retailers must regain focus on the total experience***

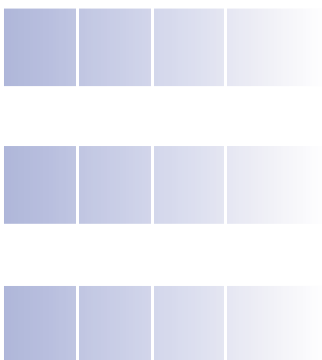
The market drivers described above are forcing retailers to reexamine their core value proposition and how it is delivered to customers. Retailers need to reorient their thinking to place greater focus on the *total retail experience* to differentiate themselves from competitors. The importance of this shift was highlighted in a prior study, where we found that interactions with store employees *and* certain elements of the in-store experience were the most important groups of drivers of customer satisfaction (see Figure 1).<sup>1</sup>

**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.*

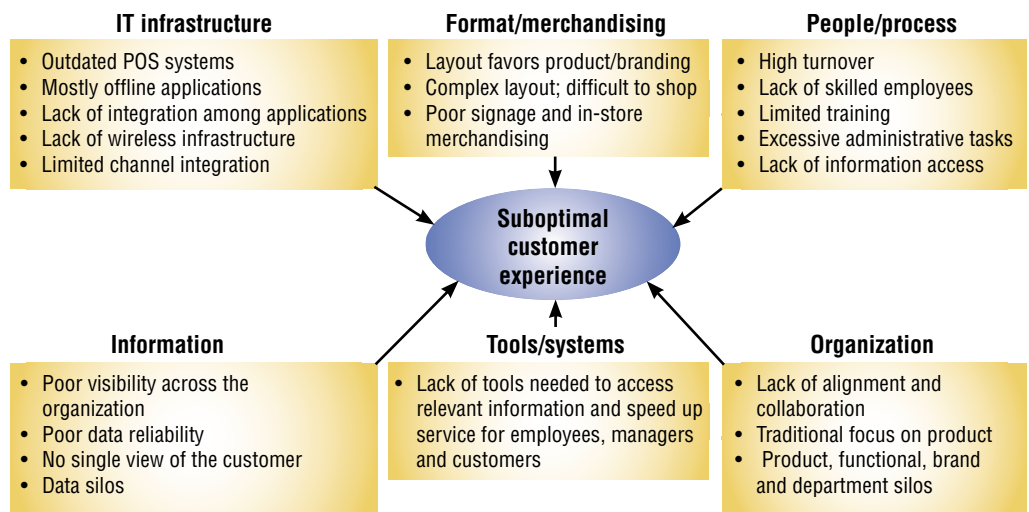
While there were differences in the relative scores for these two groups of drivers, both are essential to the customer's total experience and thus to driving customer satisfaction and loyalty. Of note, we found that while high-quality customer-employee interactions (person-to-person) are a competitive requirement, it is in the store experience area where retailers can really differentiate themselves from



competitors. (For more details, see the IBM executive brief “What top-performing retailers know about satisfying customers: Experience is key.”) Overall though, *both* people and store environment factors are key to defining the quality of the *total customer experience*.

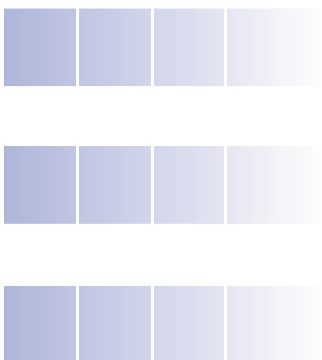
Unfortunately, burdened by other concerns, many retailers have been unable to focus on developing a differentiated and compelling customer experience. Recent competitive and economic challenges led retailers to focus on cost-cutting efforts, which understandably created different priorities. In addition, retailers have been and continue to be burdened by a variety of internal constraints that limit their ability to respond appropriately to the needs of their customers (see Figure 2).

**Figure 2. Retail constraints hinder progress toward customer centricity.**



Source: IBM Institute for Business Value analysis.

The impact of these factors has been felt directly by customers as retailers provided a less-than-optimal shopping experience. Not surprisingly, customer satisfaction has declined. The most recent data from the American Customer Satisfaction Index (ACSI) showed that overall retail customer satisfaction dropped from 75.0 to 72.6 (on a scale of 0 to 100) in Q4 2004, compared to the previous year.<sup>2</sup> The study suggests that customers were disappointed with a decline in overall service, resulting in part from retailers' cost-cutting efforts. With fewer employees in the store, shoppers experienced more crowded stores, longer lines and slower service.





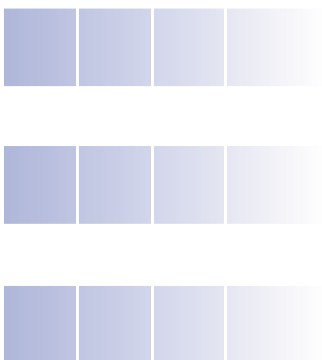
For retailers, the challenge lies not just in the fact that their customers are unhappy, but also that the opportunity cost to retailers of delivering a poor customer experience can be significant. For instance, consider the cost of customers abandoning their shopping trips because checkout lines are too long, they are unable to find help or they can't find what they are looking for. Or ponder the value of sales missed because store employees are insufficiently trained to effectively cross- and up-sell. Based on a variety of figures available in the market, we estimate that these factors could imply an opportunity cost of *as much as 10 percent of sales* for retailers.<sup>3</sup> Clearly, retailers cannot afford to operate business-as-usual. They are potentially leaving large sources of revenue growth untapped, or worse, ceding that business to better competitors.

### ***The customer-centric store: 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. In our view, achieving this focus begins with creating *a truly customer-centric organization and store environment* that has four key characteristics:

- The organization and the store are built from the customer perspective in, not the retailer perspective out
- The shopping process is easy to understand and customers have more control over the entire retail experience
- Customer information is appropriately used, by both the retailer and by customers, to enhance the shopping experience
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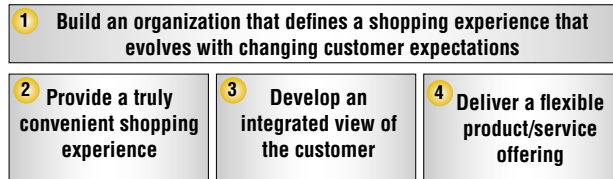
Customer centricity is not, however, a one-size-fits-all formula. A retailer's chosen strategies and tactics must be tailored to its particular industry segment, value proposition and target customers. To take a simple example, the capabilities needed to leverage customer information to drive cross-selling and up-selling at an upscale department store would probably not be relevant to a discount store using an every day low price (EDLP) strategy.





To achieve customer centricity, retailers must begin to address four strategic imperatives (see Figure 3). The first imperative is foundational and serves as the basis for a customer-centric vision and organizational focus. The other three imperatives support and sustain the execution of this vision in the store. In the following sections, we discuss each of these in turn.

**Figure 3. Strategic imperatives for customer-centric retailing.**



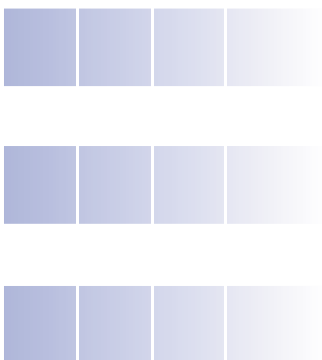
Source: IBM Institute for Business Value analysis.

### **1. Build an organization that defines a shopping experience that evolves with changing customer expectations**

Retailers need to focus the entire organization on identifying, satisfying and evolving with their target customers' needs and preferences. Customers' expectations are evolving more rapidly than ever and retailers must be poised to respond. Customers want a store that not only understands how they want to shop today, but also adapts as their needs change over time. To achieve these ends, retailers should focus on three key areas.

First, retailers must keep a laser-like focus on who their target customers are and how best to meet their needs. To accomplish this, retailers need to develop methods to keep in touch with customers on a regular basis, such as: spending time in the stores to observe who is shopping in the store and how they shop, having store employees capture feedback at point-of-sale (POS) or on the floor while serving customers, or directing customers to online surveys via a purchase receipt.

Second, retailers need to commit to innovation and experimentation in formats, concepts and product offerings. One way of achieving this goal is to regularly develop prototype or test stores, such as Food Lion's Bloom store<sup>4</sup> or Metro's Store of the Future.<sup>5</sup> Prototype stores enable retailers to test nuances of their new strategies from a total experience perspective and do so without a major commitment in capital and resources.



Third, retailers need to take greater responsibility for the quality of store employees. Store employees are often a customer's first and last point of interaction in the store, and therefore hiring and developing the right people is essential. Retailers might consider using behavioral testing in the hiring process to determine whether potential store employees are customer-focused and are a good fit with the corporate culture. For example, leading U.K. retailer Marks & Spencer developed a screening process with SHL, a provider of objective people assessment techniques. This process helps ensure new hires possess the qualities that the retailer deems important for success in a specific role.<sup>6</sup>

#### **Innovation in action: Ito-Yokado<sup>7</sup>**

Ito-Yokado, Japan's largest retailer and operator of the Seven-Eleven chain of convenience stores in Japan, has kept pace with the needs of its customers by continuously driving innovation in its product and service offerings. Highlights of its innovations include:

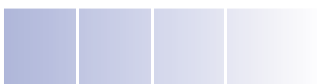
- **Convenient business hours:** Seven-Eleven Japan was the first Japanese retailer to operate 24 hours a day, recognizing that its customers' were becoming increasingly pressed for time and needed to be able to shop at all hours.
- **Differentiated services:** Seven-Eleven Japan was also ahead of its competitors by being the first retailer to offer several new services to address customers' need to take care of important transactions during the work day. It now offers customers the ability to pay utility bills, local taxes, and most recently, insurance/pension premiums which had previously only been accepted at financial institutions. Customers can also access their bank accounts through in-store ATMs, make photocopies and arrange for door-to-door delivery services.
- **New store format:** In 2004, the company rolled out its new stores based on a larger format to make the stores easier to shop. Today, in the new 150-square-meter stores, a larger center aisle enables improved display of new product offerings and provides customers with easier access to view and select products.

Seven-Eleven Japan's ability to continually innovate in response to its customers changing needs has enabled it to become the leading convenience store operator in Japan with over 10,000 stores and achieve a record ¥2.3 trillion in sales in 2004.



As our case study on Seven-Eleven Japan illustrates, customers will seek out those retailers that can anticipate and respond to their changing needs and preferences. Those retailers that begin to build an organization that redefines the shopping experience as customer expectations evolve can move forward on their goals to:

- *Increase customer satisfaction and retention* by observing who is shopping in the stores and how they shop, and delivering more relevant offerings
- *Increase differentiation and improve brand perception* through a commitment to innovation and experimentation



- *Improve overall financial performance* by aligning performance metrics of the entire organization to drive customer satisfaction.

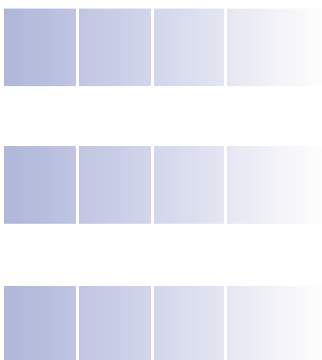
## **2. Provide a truly convenient shopping experience**

Retailers need to create a more enjoyable and pleasing shopping experience that will keep customers coming back. Too often, customers wander around a poorly laid out store and exit frustrated and empty-handed because they could not find what they wanted. Or they abandon their shopping cart because they couldn't find an associate to assist them or the checkout lines were too long. Customers want a store that is easy to shop and allows them to accomplish their shopping goals with less time and effort. At the same time, they are also looking for a store that provides them with the services and level of information needed to make an informed and confident purchase. Four key changes are necessary to deliver a convenient customer-focused shopping experience.

To begin, retailers need to improve navigation throughout the store via better store design and shopping aids such as store maps and product locators. Retailers could also redesign sections of their stores to better meet the needs of 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 looking to pick up a few essentials can quickly get in and out.<sup>8</sup> Similarly, Geant, the hypermarket chain operated by France's Casino Group, is installing separate entrances into its food section so a grocery shopper doesn't have to walk through the nonfood section of the store.<sup>9</sup>

Next, both customers and store employees need access to productivity-enhancing tools and relevant and timely information. For example, several U.S. retailers, including Sears, Federated Department Stores and Target, are adding price-check devices throughout their stores so customers do not have to seek out a salesclerk or wait until they get to a cashier to verify the price of an item. As well, leading French do-it-yourself (DIY) retailer Leroy Merlin has equipped employees in some of its stores with PDAs to assist with inventory management, thus enabling them to spend more time with customers.

In addition, retailers should drive more efficiency and speed in all customer transactions and provide customers with greater control of the shopping process. Hand-held scanners, referred to as "line busters," enable employees to scan customers' purchases and accept payment away from the traditional checkout area



to help reduce queues. Self-service devices such as self-checkout machines help customers move through checkout more quickly (or at a more comfortable pace). Home Depot, for example, installed nearly 40,000 wireless scanners in its stores in 2003<sup>10</sup> and plans to have over 1,000 self-checkout stations in its stores by the end of 2005 to enable customers to checkout faster.<sup>11</sup>

Finally, it is essential that retailers actively educate customers on how to make use of new services in the store. Too often, retailers assume that people will naturally become aware of new services in the store and know how, when and why they should use them. But insufficiently educating customers can lead to a suboptimal experience if, for example, a customer is standing in front of a self-service machine and there are no instructions on how to use it. Additionally, low adoption rates of in-store services create poor investment returns for retailers. Customers need to be more explicitly informed about the following aspects of new services as they enter the store:

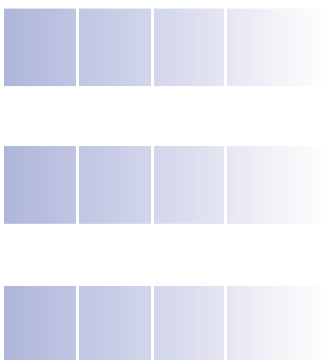
- What services are available to help with their shopping
- How and where to find them
- How to use them
- How to find help if the equipment is down.

#### **It's all about convenience: Sprint<sup>12</sup>**

In February 2005, global communications service provider Sprint announced the launch of a new prototype store that is focused on driving convenience for its customers. Some of its key features include:

- In-store repair services to reduce the need to send phones out for repair and the associated wait time
- An employee who is specifically designated as a “host” to assist customers as they walk in the store
- Updated floor plan that is easier to browse, with more open space
- Accessories arranged next to or near related devices to help customers assemble what they need faster
- A “virtual queue” that tells customers how long they should expect to wait and how many customers are ahead of them
- A reservation system that allows customers to schedule a specific time that fits with their own schedule to meet with a representative
- A special “accessory express lane” dedicated to serving and checking out those shoppers just running in to buy a specific accessory.

Through these numerous store innovations, Sprint aims to provide a convenient retail environment that is sensitive to the different needs of its customers. The store's high-tech features and new in-store services provide customers who need to run in for a quick item or repair with a fast and convenient experience. It also provides those customers with more complex needs easy access to assistance.





Fundamentally, customers want to make the best use of their time and energy and will seek out those retailers that deliver an optimal shopping experience. Therefore, retailers that provide a truly convenient shopping experience can derive benefits in the following areas:

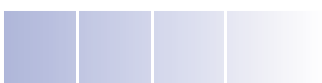
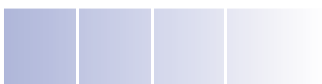
- *Reduced returns* by providing customers with access to better information which increases customer confidence in their purchases
- *Greater shopper satisfaction and increased shopping frequency* through more effective store design and layout
- *Higher conversion rates* due to automation of administrative tasks which increases the time store employees can spend serving customers
- *Increased basket size* from merchandising products with related items.

### **3. Develop an integrated view of the customer**

Creating a shopping experience that is consistent and seamless across channels, across departments within the store and across customer touchpoints (such as call centers, direct mail, or in-store kiosks) is important. Customers are often frustrated with disconnected or interrupted shopping experiences where information is not readily available to enable them to easily complete their transactions. Customers want a store to retain and use relevant information so that they don't need to start over again with each transaction/purchase. Creating this consistent, flowing dialogue requires two key steps.

First, retailers need to achieve a foundational level of customer information integration. This integration involves eliminating customer data silos which can otherwise lead to inconsistent versions of customer data. It also requires integrating 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. Once this level of integration is in place, retailers can begin to deliver more seamless shopping experiences and more relevant offerings to customers.

For instance, integrated customer information allows customers to easily move between different departments within a store (e.g., a store with a separate auto service center and retail store) during a shopping experience and not have to be asked repeatedly for their customer information. Or, customers could begin a transaction at home (online) and continue this transaction in the store by accessing their profile through in-store Web access.



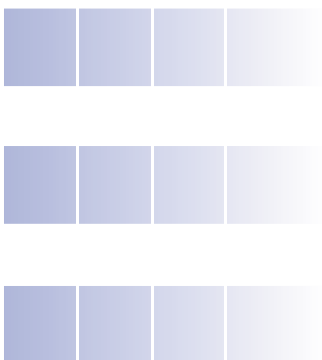
This integrated view can also enable retailers to deliver more relevant offerings to customers. Loyalty card data could be delivered realtime to in-store applications (e.g., shopping cart scanner device or POS) to support targeted promotions while the customer is shopping or checking out. For example, Stop & Shop Supermarket, a subsidiary of Ahold USA, is currently testing a wireless-based shopping cart “buddy” in several stores. Customers activate the device by swiping their loyalty card through a card reader on the scanner. As the customer moves throughout the store, they can scan products and tally their purchases, review their shopping list, as well as receive relevant promotions and offers based on their shopping history.

To support this offering, Stop & Shop has installed a store software integration framework from IBM which connects shopping activity, POS systems, product descriptions and customer ordering. This framework also integrates with the company’s backend systems, so shoppers’ buying histories and favorite items — even shopping lists sent via the Web from home – can be displayed on the screen as a reminder of the products to buy.<sup>13</sup>

Second, retailers need to let customers decide how much intimacy they want or need. Customer data must be used appropriately, and customer concerns for privacy must be guarded. Some customers feel uncomfortable that the retailer is tracking their shopping behavior to provide personalized offerings and prefer to remain anonymous. Others find real value from sharing demographic and preference data. Therefore, providing customers with the ability to opt-in to new offers and services is important.

#### **Integration drives greater value: Bloomingdale’s<sup>14</sup>**

Bloomingdale’s, the upscale department store division of Federated Department Stores, exemplifies a retailer with a foundational level of customer information integration that is used to deliver greater value to its customers. First, it integrates customer transactional data with other long-term information about its customers to better understand customers’ shopping patterns. By analyzing these spending patterns of when they shop and what they buy, Bloomingdale’s is able to anticipate customers’ needs and dynamically adjust its merchandising and marketing strategies. Second, the company uses this integrated information to drive its customer relationship management program. Using internal systems, Bloomingdale’s can access two-year’s worth of purchasing data to create and deliver targeted offers to POS. Messages are sent to store employees to read to specific customers they are serving. The messages inform shoppers about special benefits they have qualified for based on their purchases, such as an invitation to a party or a private sales event. Customers enjoy the personalized service and have responded favorably to the program.





In summary, delivering a superior customer experience is as much about addressing what the customer doesn't see, as it is what they do see. Integration of customer data happens "behind the scenes" but is fundamental to enabling customers to shop the way they prefer and to support store employees' ability to effectively serve customers. Retailers that develop an integrated view of the customer can realize several benefits, for example:

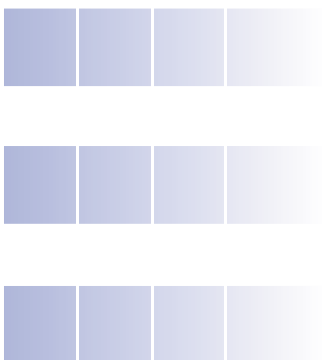
- *Increased customer satisfaction* through improved service due to integration of customer records across departments within the store
- *Increased revenue* from cross-sell and up-sell opportunities and *increased customer loyalty* through delivering tailored and relevant customer recommendations
- *Reduced staffing costs* and time spent completing administrative tasks through data integration across the enterprise.

#### **4. Deliver a flexible product/service offering**

With customer complexity continuing to increase, retailers must consider how to address customer needs and preferences across several areas including target segments, local markets, shopping occasions and product categories. Customers want a store that provides them with different shopping options to meet their particular needs, not a one-size-fits-all offering. The ability to deliver this flexible offering requires retailers to address four key steps.

To begin, retailers must start with a clear understanding of their target customers. This requires knowing such information as: who the target customers are, when they shop, for what occasions, how much or how little information or service they prefer, and what motivates them to buy. To gain this understanding, 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. Retailers also need to leverage new sources of data such as vendors' consumer and category analysis, third-party data on consumers and markets, or in-store information gathered from store employees or POS systems.

Next, retailers need to leverage these insights to tailor their product and service offerings to better address the needs of their customers. To be clear, tailoring does not necessarily imply that retailers need to develop one-to-one individualized offerings; rather retailers can meet the needs of shoppers via the "affinity groups" that they align with.





Examples of these affinity groups and their specific needs are:

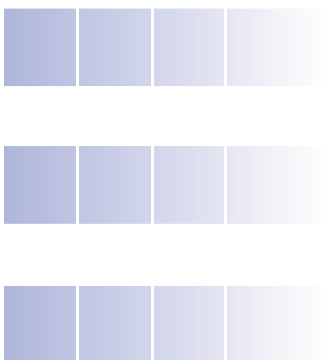
- *Demographic segments*: e.g., working moms who shop with children prefer in-store strollers and wider aisles
- *Shopping occasions*: e.g., consumer electronics shoppers upgrading their computer networks seek knowledgeable store employees
- *Local markets*: e.g., urban single professionals look for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

In addition, retailers need to provide shoppers with different ways of shopping. For example, shoppers differ in how much or how little service they want. For a complex product category, such as consumer 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, retailers need to 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 have the right skills on the floor at the right time to meet customer needs. Another strategy is to hire employees with specific skills and then align training and incentives to enable them to serve particular customer groups.

#### **Customer centricity in action: Best Buy<sup>15</sup>**

Under its ongoing customer centricity program, leading consumer electronics retailer, Best Buy, is currently piloting stores in California that are entirely dedicated to a particular customer segment. In these stores, Best Buy is not only localizing the merchandise to the segment, but it is also tailoring the type of service offered by its store employees, the fixtures, flooring, signage, background music and even the uniforms of the sales staff. For example, the stores that cater to small business owners have signs marked “Best Buy for Business.” Customer service stations are located in the center of the store and are staffed with employees dressed in more professional outfits with buttoned-down collared shirts rather than the more typical casual outfit seen at most Best Buy stores. In addition, the laptop and computer sections are larger and prominently feature the services of their “Geek Squad” who make house calls to solve technical problems.



### Right staff, right time: Home Depot<sup>16</sup>

Leading home improvement retailer, Home Depot, understands that shoppers come in its stores for different occasions and with different needs. Some shoppers come to the store to purchase a single tool, while others are looking for consultation on a particular project or want to purchase a higher-valued item. Recognizing that customers need more or less time with an associate depending on the type of purchase, Home Depot studied when customers came to its stores in need of consultation for a project or to purchase a higher-valued item such as an appliance. It then created a flexible staffing model to have more employees in the stores when it knew customers would come into the store needing more assistance. This new system also let the retailer simplify its staffing model from over 250 combinations to just 10 simple schedules. As a result, the company has seen higher conversion rates in these product and project areas.

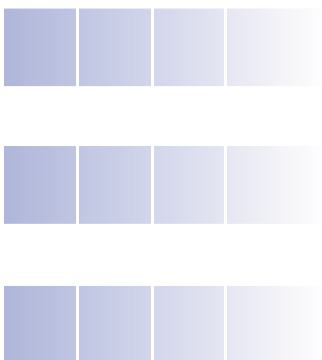


In conclusion, satisfying the expectations of today's complex customers requires retailers to more closely align their offerings to their target customers' needs and to provide them with options for how they like to shop. Retailers who create more flexible product and service offerings can realize several benefits, for example:

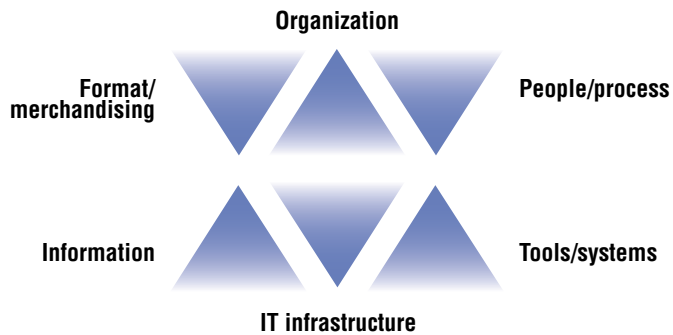
- *Greater customer satisfaction and loyalty* through providing more relevant offerings to particular customer segments or groups
- *Higher conversion rates* from creating staffing models that put the right skills on the floor to match customer demand
- *Increased basket size* by giving customers options to choose the way they want to shop on a given day or for a given occasion.

### *Operationalizing customer centricity*

To achieve an increased focus on the customer's perspective, retailers need to strategically align and foster execution excellence throughout their organizations. In doing so, senior managers should focus on six major aspects of their business operating model (see Figure 4). Each of these areas is critical to successfully operationalizing customer-centricity – ignoring any part could lead to change that occurs only at a very superficial level. In the section below, we will provide examples for three of these areas.



**Figure 4. Customer-centric business operating model.**



Source: IBM Institute for Business Value analysis.

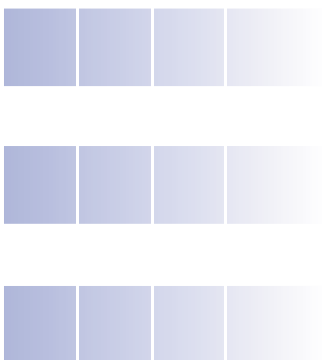
**Organization**

Moving to a truly customer-centric organization requires retailers to align the organization with its customers. This alignment should go beyond reporting purposes to also 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 that take the lead in coordinating store assortments and merchandising. In addition, store managers could proactively collaborate with marketing and merchandising teams 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. Therefore, the customer-centric retailer needs to consider ways to reduce non-customer-facing administrative tasks that prevent employees from effectively serving customers. In addition, overall customer service policies such as purchases and returns across channels should accommodate customer needs and not reflect the limits of the organization. Policies must be flexible enough to allow store employees to make decisions that support the customer while protecting the profitability of the retailer.
- *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 looked at as continuing education rather than as a one-time event tied to a system or capability rollout, and store employees should be encouraged to participate in this continuing education.



## 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:

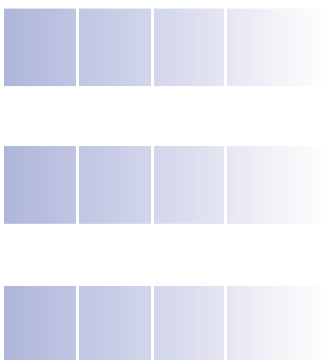
- *Integrated:* An integrated IT infrastructure links applications and business processes between the enterprise and the store systems. New customer contact points (such as PDAs or cell phones) are easily integrated into the store IT infrastructure when appropriate. In addition, master data is stored 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.

We have provided examples of how retailers can operationalize customer centricity by addressing three core areas of their business model. However, becoming truly customer centric requires retailers to systematically address all six areas in a structured approach to align the retailer's change strategy with the priorities of its business.

### *Transforming the organization and the store: Next steps*

As we mentioned earlier, customer centricity is not a one-size-fits-all formula. Each retailer must develop a go forward plan that incorporates its particular value proposition and its target customer needs. Our approach to moving ahead toward 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. Assess any gaps between your customers' perceptions and what you are trying to achieve. Then, assess your ability to deliver on the four customer-centric strategic imperatives.



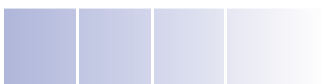
- *Evaluate and prioritize your investments:* Identify particular initiatives that can help the company achieve its vision. Understand the ROI for these investments and how they will impact the business in the long and short term. Take a self-funding approach to your investment portfolio. Prioritize “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 that the transformation of the company will be successful at every level. Assign benefits responsibility to senior leaders and embed realization of benefits into future operating budgets. Finally, determine a set of metrics and governance procedures to measure the impact of the initiatives and manage progress.

### **Conclusion**

In the constantly evolving retail marketplace, the total retail experience can become a key source of competitive differentiation. By excelling at the strategic customer-centric imperatives outlined in this paper, 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.

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### ***Related publications***

- “What top-performing retailers know about satisfying customers: Experience is key.” IBM Institute for Business Value. November 2002.  
<http://www-1.ibm.com/services/au/igs/pdf/g510-3233-00-back-to-basics-crm-begins-with-customer-experience.pdf>
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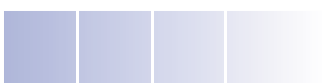
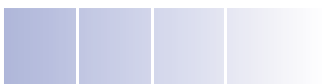
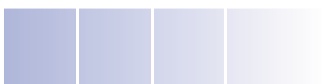
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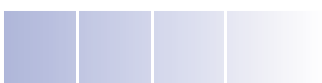
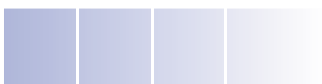
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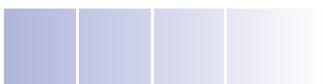
## Endnotes

- <sup>1</sup> Person-to-person experience factors included: has helpful employees, knowledgeable employees, employees available to answer questions. Store experience factors included: has stores that are well designed, has the highest quality merchandise, always has the products in stock that I need.
- <sup>2</sup> "Fourth Quarter Scores." American Customer Satisfaction Index. February 15, 2005. [http://www.theacsi.org/fourth\\_quarter.htm](http://www.theacsi.org/fourth_quarter.htm).
- <sup>3</sup> Details on opportunity cost estimates: 3.5 percent in "hard" opportunity costs (1.5 percent for SKUs misplaced or hard to find, 1.7 percent for out-of-stocks attributed to the store) and 4.5-8.0 percent in "soft" opportunity costs (2-4 percent for missed potential cross-sell and up-sell (staff not trained or available), 1-3 percent for reduced store visit frequency, 1-2 percent for abandoned shopping trips (poor service or excessive queues). These estimates were based on articles and industry reports, IBM knowledge and several retailer interviews.
- <sup>4</sup> Tucsik, Richard. "The pursuit of relevance: an easy-to-shop format, buttressed by improved customer service and time-saving technology, is becoming the mark of a supermarket that connects with its shoppers." *Grocery Headquarters*, December 1, 2004.
- <sup>5</sup> Metro Group Store Future Store Initiative. <http://www.future-store.org/servlet/PB/-s/11pk1ddi7kyudnthlchha9bfr1snjn31/menu/1000154/index.html>.
- <sup>6</sup> "Marks & Spencer Innovates to Get the Right People and Get Them Fast." SHL. 2004. [http://www.shl.com/SHL/en-int/Clients/Case\\_Studies/Case\\_Study\\_List/marks-and-spencer.htm](http://www.shl.com/SHL/en-int/Clients/Case_Studies/Case_Study_List/marks-and-spencer.htm)
- <sup>7</sup> Seven-Eleven Japan Co., Ltd. Annual Report, 2004.
- <sup>8</sup> Tucsik, Richard. "The pursuit of relevance: an easy-to-shop format, buttressed by improved customer service and time-saving technology, is becoming the mark of a supermarket that connects with its shoppers." *Grocery Headquarters*, December 1, 2004.
- <sup>9</sup> "Les 12 défis de l'Hyper," LSA, 2003.
- <sup>10</sup> Stresing, Diane. "Retailing in Real Time." *Laptop Magazine*. April 2004. <http://techworthy.com/Laptop/April2004/Retailing-in-Real-Time.htm>
- <sup>11</sup> Home Depot Investor and Analyst Conference Call. January 13, 2005.





- <sup>12</sup> "Sprint Reinvents the Retail Experience; Adds Modern, Upscale Store Design and Consultative Approach." Sprint Press Release. February 23, 2005.
- <sup>13</sup> "Stop & Shop grocery drives sales and boosts customer loyalty with IBM Personal Shopping Assistant." IBM. January 13, 2005. <http://www-306.ibm.com/software/success/cssdb.nsf/CS/BHAN-68LPYH?OpenDocument&Site=default>
- <sup>14</sup> "Portrait of a shopper - Bloomingdale's associates add color to black-and-white data." Retail Technology Quarterly, *Chain Store Age*. January 2004.
- <sup>15</sup> "Going customer centric." BeTuitive Marketing LLC. [http://betuitive.blogs.com/beconnected/2004/04/going\\_customer\\_.html](http://betuitive.blogs.com/beconnected/2004/04/going_customer_.html)
- <sup>16</sup> Home Depot Investor and Analyst Conference Call. January 13, 2005.





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