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## STRATEGY FOCUS

# Retail strategies: generating loyalty in a fickle world (Strategy Focus)

Define it, capture it, keep it

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## DATAMONITOR VIEW

### CATALYST

With more options than ever, it's hard to keep customers coming back. Technologies and processes that enable retailers to retain the right customers and offer a positive end-to-end customer experience will help retailers to justify higher margins and increase customer satisfaction.

### SUMMARY

Loyalty used to mean carrying out the family shop at the local store, buying ones car from the local dealership and holidaying in the same place each year. Nationalization, globalization, the Internet and low cost foreign travel have exploded this picture postcard view to a point where strategically, retailers have little choice but to acknowledge that their key efforts have to revolve around managing existing loyal customers and attempting to influence un-loyal ones. However, Datamonitor believes that largely, efforts to influence both are one and the same:

- the all round customer experience is the primary loyalty winner and keeper;
- a new approach to 'infrastructure' is needed first;
- 'information infrastructure' could be retail's 'killer app' for the late noughties;

### METHODOLOGY

<b>First method/source</b>	Primary research on retail consumers in Q3 2006
<b>Second method/source</b>	Secondary resources
<b>Third method/source</b>	Discussion with retailers and technology vendors

## ANALYSIS

### *The all round customer experience is the primary loyalty winner and keeper*

As discussed in the market focus brief, Datamonitor’s retail customer survey (focusing on the ‘typically most disloyal’ 25-34 age group) identified that there are only a small number of specific factors that truly influence loyalty, and indeed, they are factors that retailers should already have identified as ‘must haves’ in the constant battle for high street footfall. They were:

- improved store operations – always having the right / size / colour in stock;
- range of products.

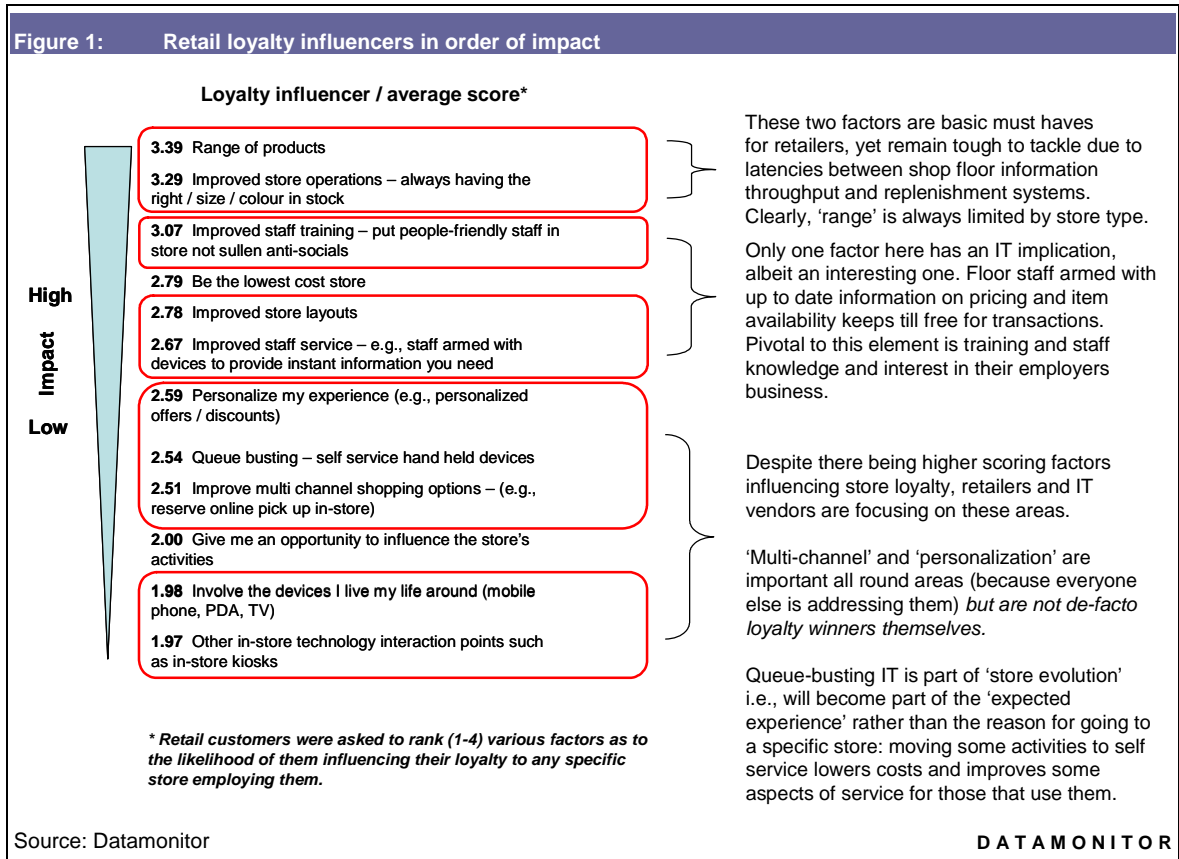
Based on research findings, it can be noted that all other factors - including personalisation of experience, queue busting techniques, service levels, staff training, store layout, pricing, multi channel retailing and technology - have a part to play, but will not necessarily prove to be outright winners in their own right, or in isolation.

<b>Table 1: Factors likely to influence shoppers’ loyalty to specific stores (survey conducted September 2006)</b>					
<b>Factor / number of respondents citing</b>	<b>1 (least likely to influence)</b>	<b>2</b>	<b>3</b>	<b>4 (most likely to influence)</b>	<b>Response Average</b>
Personalize my experience (e.g. personalized offers / discounts)	45	65	<b>90</b>	51	2.59
Queue busting – self service hand held devices	40	<b>95</b>	57	59	2.54
Improved staff service – e.g. staff armed with devices to provide instant information you need	33	68	<b>98</b>	52	2.67
Improved staff training – put people-friendly staff in store not sullen anti-socials	12	54	<b>89</b>	96	<b>3.07</b>
Improved store operations – always having the right / size / colour in stock	6	32	97	<b>116</b>	<b>3.29</b>
Improved store layouts	15	80	<b>101</b>	55	2.78
Range of products	5	24	91	<b>131</b>	<b>3.39</b>
Be the lowest cost store	26	71	<b>83</b>	71	2.79
Improve multi channel shopping options – (e.g. reserve online pick up in-store)	42	<b>89</b>	70	50	2.51
Involve the devices I live my life around (mobile phone PDA,TV)	91	<b>96</b>	43	21	1.98
Other in store technology interaction points such as in-store kiosks	80	<b>112</b>	45	14	1.97
Give me an opportunity to influence the store’s activities	84	<b>101</b>	49	17	2

Source: Datamonitor (retail customer survey) **DATAMONITOR**

Hence, the retailer and its IT / services partners are faced with a challenge in that while there are indeed many areas of retail business that can be addressed, budget allowing, there are decisions to be made regarding the ultimate impact of any

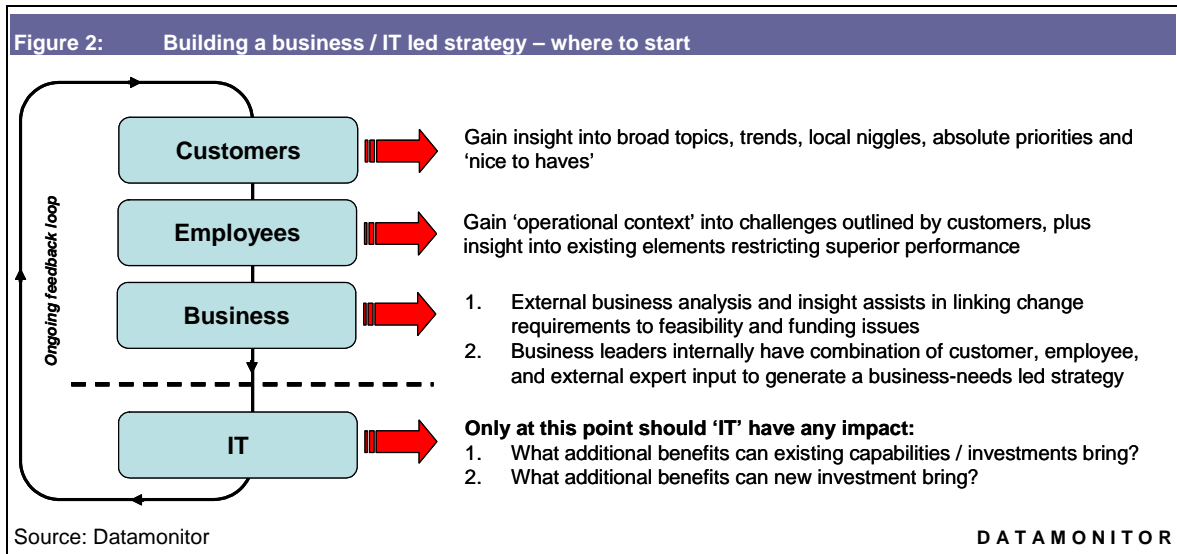
changes undertaken. Figure 1 presents the data shown in table 1 in order of impact, according to Datamonitor’s recent end-user research:



*Knowing where to start is a challenge in itself*

Hence, the challenge facing retailers is in deciding where to start. However, the propensity for IT vendors to promote their own products and approaches does not make for a straight-forward assessment of requirements, nor necessarily an unbiased opinion as to investments to make. Thus, retailers need to seek advice and influence that is not directly tied to any specific products or services. Before any IT-related discussion can start, retailers, via their own senior management, should consolidate knowledge from the following areas in the following order:

- customer insight and feedback;
- employee insight and feedback;
- retail and business strategy consultancies;
- major IT and business services organizations.



The above scenario / exercise however, is unlikely to provide any clear cut remedies (beyond immediate, tactical, quick win improvements) to what is a pretty fundamental question – what can we do to generate customer loyalty?

*Loyalty is best addressed via indirect actions*

Datamonitor’s research has already shown that loyalty is most effectively influenced by the all round customer experience. This provides two primary avenues down which the retailer can go:

- **tactical** - address multiple 'peripheral' issues by order of impact;
- **strategic** – address broader issues that are influenced by 'core abilities' such as business processes, information capture, accessibility and sharing.

It is often the case that in highly pressurized environments such as the retail sector, projects can become ineffectual due to time pressures and misalignment with broader corporate goals. However, despite the temptation to address only 'obvious' targets (new in store technologies, for example) Datamonitor believes that creating a 'balanced improvement plan' that addresses core business and IT infrastructure strategy with *some* direct customer-facing improvements is the way that retailers will generate more and longer term loyalty than by simply making changes at the extremities of the organization, or indeed, in sinking further cash into existing loyalty schemes in the mistaken belief that it is points schemes that actually capture business.

Indeed, while loyalty schemes may appear to be the correct set of processes and supporting technologies to be discussing in this theme, Datamonitor believes that in fact, addressing core retail infrastructure and processes will enable retailers to

become more agile and flexible so as to become far better at influencing customers than a raft of low value reward points will ever do to make up for a poor shopping experience.

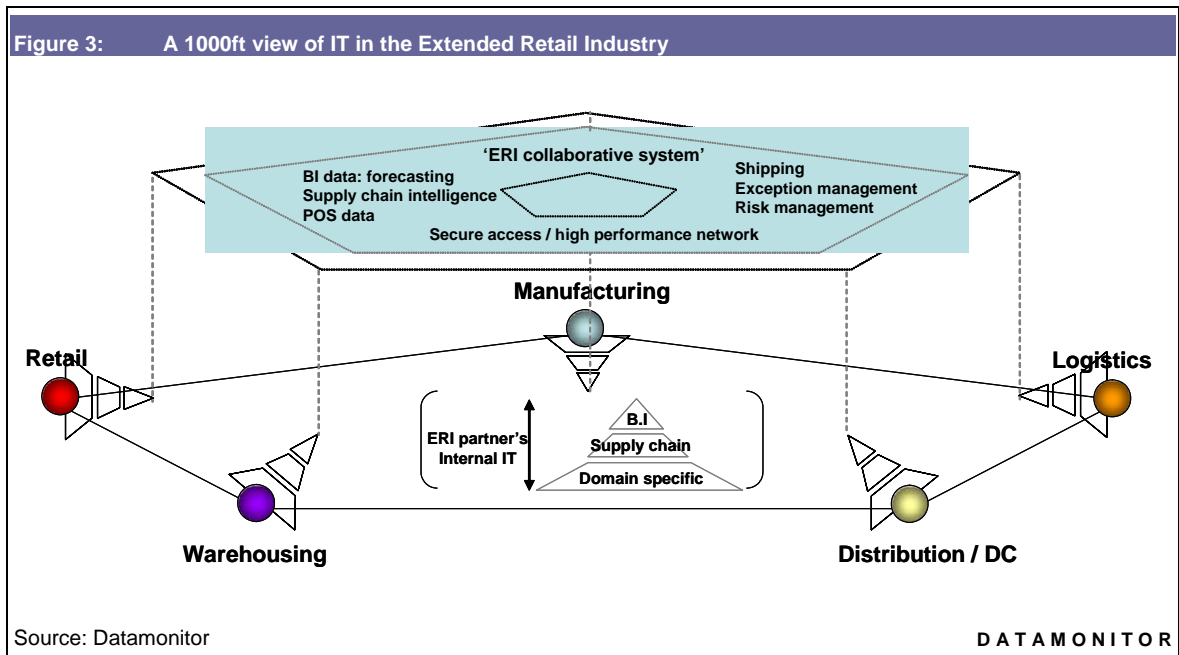
**A new approach to 'infrastructure' is needed first**

In a previous theme, the ERI (Extended Retail Industry) was discussed (see below) and used as a demonstration of retailers' need to explore intelligence sharing / forming from a broader perspective. The same argument can be used when discussing the nature of infrastructure investment, and indeed, what should perhaps constitute 'infrastructure' when seeking to improve the all round customer experience.

Indeed, the key areas for retailers to address with suppliers are as relevant to specific areas of 'generating loyalty' as they are to improving supplier relationships, when acknowledging that there are multiple parties in pursuit of the same goal.

To recap from a previous report [1]:

*The key elements at the wide area level in the ERI are data transmission and access, coupled with appropriate security. Historically, this was the realm of VANs (Value Added Networks) which while secure, were also proprietary and expensive. Secured use of public networks (i.e., the Internet) is now the lowest cost option for providing partner access to data residing in 'live' systems or in specifically designated 'collaborative areas', which strategically, is a best of both worlds compromise between no sharing of data and allowing access to operational systems. Retailers and technology vendors should be approaching ERI partners with a view to engaging in discussion around enabling collaborative interactions around the areas highlighted in figure 3.*



The common element between discussing the ERI from the point of view of improving relationships with suppliers, and improving overall customer experience in order to positively influence loyalty are primarily one and the same; namely, **an obvious need to foster an environment that is as focused as it can be on capturing and exploiting every single bit of information to the maximum degree.**

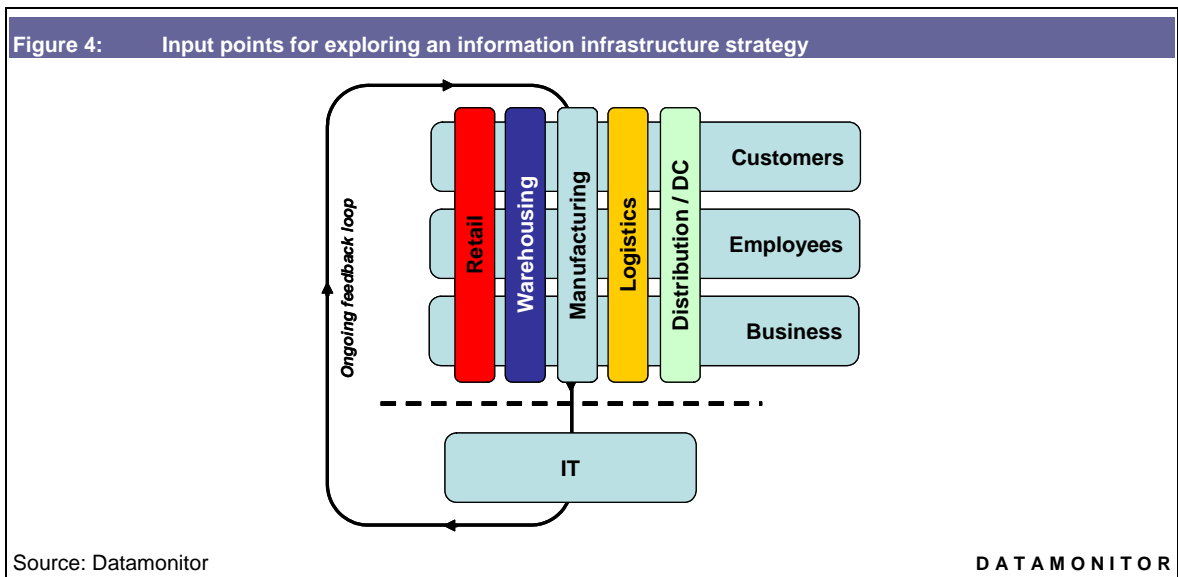
Hence, 'infrastructure' becomes 'information infrastructure'

It is Datamonitor's view that a significant portion of required change insofar as retailers' core operations go can be addressed by focusing on pivotal set of questions:

- How much of an 'information economy' exists in this organization?
- How is what we do as a company enabled or hindered by the availability of information on which to make decisions?

In addition, not only does 'information infrastructure' allow business leaders in any retailer to avoid early, difficult physical infrastructure discussion, but the rather nebulous nature of 'information infrastructure' allows the retailer to maintain the necessary high level strategic 'what if' style of thinking that is needed in order to draw out specific ideas and areas in which the retailer can subsequently place in context of real world business scenarios, feasibility and affordability.

Furthermore, preliminary efforts to understand existing problems and therefore potential solutions should, by their nature involve input from multiple third parties, changing figure 2 to:



IBM sums up the sentiment of this discussion quite nicely on its website, and in doing so introduces the final observations of this brief:

*Today, retailers are challenged to become more customer-centric while continuing to manage increasing labor and value chain costs. Legacy information infrastructure does not have the ability to provide the information retailers need to respond to these challenges.*

*To address these issues, businesses must begin to manage information as a strategic asset, freeing it from its repository, process, and application silos and actively delivering it in-line and in-context across the extended enterprise. [2]*

*'Information infrastructure' could be retail's 'killer app' for the late noughties*

However, even IBM cannot second guess its customer's specific requirements, and so retailers need to be well prepared before IT vendors are given their opportunity to lead well founded plans astray (that is not to say any IT vendor would deliberately do this, but given most solution types are to some degree siloed in the first place, retailers seeking to break them down by exploring the advantages of an infrastructure that will enable cross organization information capture and delivery could find themselves 're-siloed' if the challenge is addressed at too narrow an angle).

*Retailers need to 'stay big' when planning strategic improvements*

Clearly though, IT vendors have to provide some kind of shape or design to give industry context to their solution sets. As an example, IBM offers solutions within the following retail areas:

- transform the store;
- focus the supply chain;
- enable the workforce;
- integrate operations.

Without specifically promoting IBM's retail offering, the high level simplicity of its approach is right for the concepts being discussed here. Furthermore, it, along with other 'infrastructure providers' have a significant amount of relevant collateral (e.g., [3]) on their websites to provide plenty of guidance while the retailer addresses the notion of a move towards 'information centricity' and its potential impact on the all round customer experience.

*'Business intelligence for retail' is the application with which to leverage an information centric infrastructure*

It is likely that retailers will gain broad insight from exploring the 'real time' / 'on demand' / 'business service management' / 'agile' concepts of the major IT infrastructure vendors. However, in terms of creating an 'engine' through which to channel supply chain, partner or customer information, retailers will likely be more comfortable combining these broader concepts with retail specific solutions at the user interface level (i.e., software applications and devices), and hence this closing section will explore some ideas on offer from one specific application vendor.

Retail business intelligence (BI) provider Manthan Systems (its retail BI product is 'ARC') [4] provides this overview as its introduction to the driving goal of employing BI in the retail sector:

*'Retail Analytics has at its core the process of taking data from multiple sources of the retailer's business cosmos and churning business intelligence that enable performance improvement. The key result areas of a retailer evolve with the maturity of the retailer as well as the industry'.*

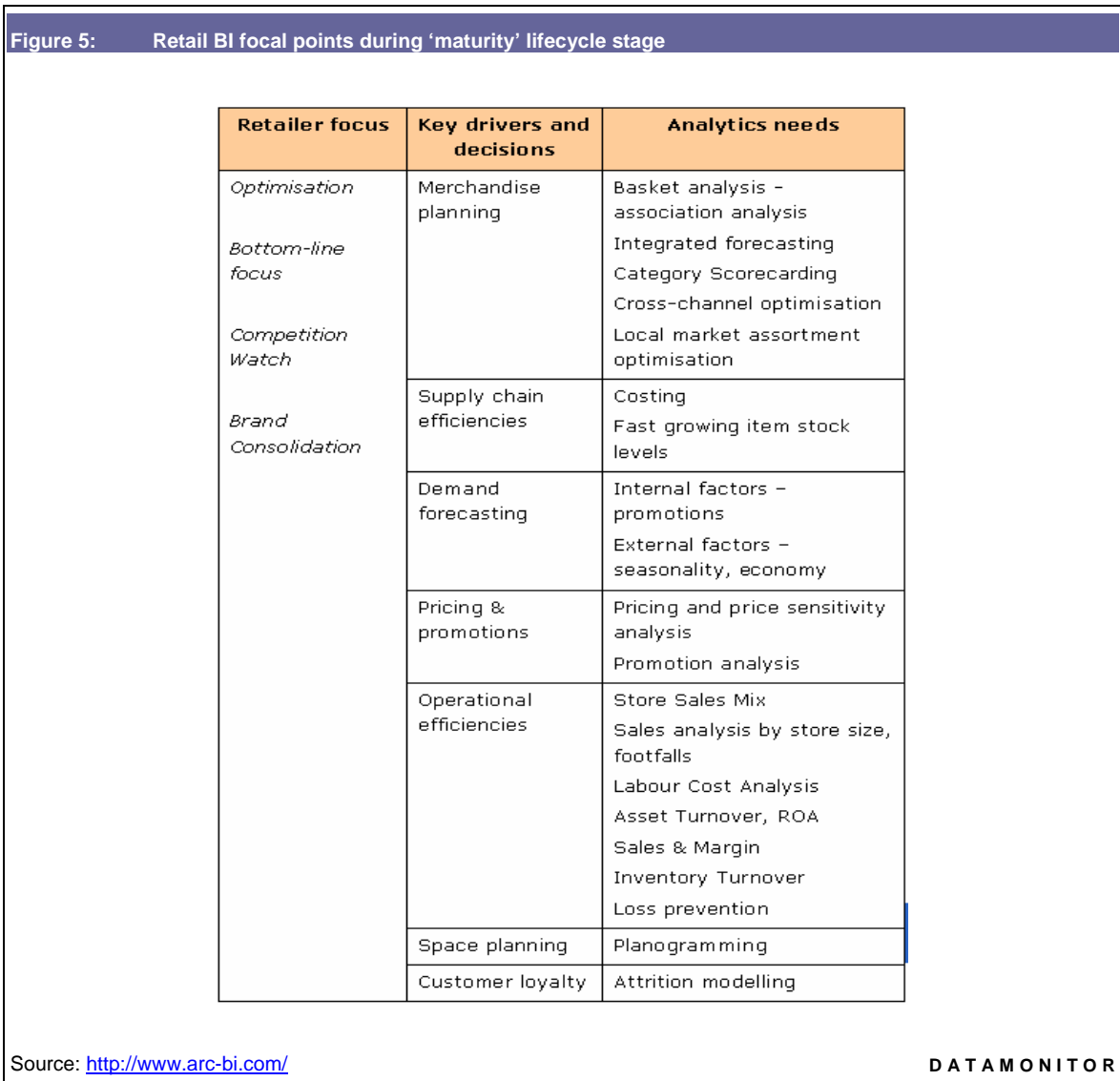


Manthan considers the benefits of employing BI within the retail environment by addressing the retail lifecycle in four stages:

- start-up;
- expansion;
- maturity;
- decline / overdrive.

The majority of retailers seeking to create 'new differences' in the way they operate will most likely belong in the mature / decline / overdrive stages of the retail lifecycle, hence we will use examples from these stages:

**Maturity:** Once a retailer has grown to a considerable size and has significant market presence, external elements play a pivotal role in its growth. The focus at this stage is 'turf protection' and maintaining profitability. Significant investments are required to ensure operational efficiencies. A retailer's analytics needs are highest at this stage, as macro (plan across channels and geographies) and micro (local market customization) perspectives are needed at the same time. [5]



**Decline / Overdrive:** With size, retailers tend to lose their nimbleness and agility to respond to the dynamics of the market – mainly changing demographics, emergence of new channels and stronger competition. At this stage the retailer runs the probability of declining market share.

The retailer needs to reinvent itself at this stage by rethinking its fundamentals, primarily positioning and choice of format & channel mix. [6]

'Channel mix' is certainly a topical area at the moment, not least with the 2006 Christmas shopping season almost in full flow. Expectations of the highest ever levels of online shopping being carried out place significant emphasis on the value of operating at full efficiency from a pricing, placement and fulfillment point of view, in order to deliver the most positive customer experience. Clearly, this cannot be executed well without enhanced visibility into the retailer's capability to deliver what is asked of it.

**Figure 6: Retail BI focal points during 'decline / overdrive' lifecycle stage**

Retailer focus	Key drivers and decisions	Analytics needs
<i>Optimisation</i>	Merchandise planning	Basket analysis - association analysis
<i>Bottom-line focus</i>		Integrated forecasting
<i>Competition Watch</i>		Category Scorecarding
<i>Brand Consolidation</i>	Supply chain efficiencies	Cross-channel optimisation Local market assortment optimisation
	Demand forecasting	Costing Fast growing item stock levels
	Pricing & promotions	Internal factors - promotions External factors - seasonality, economy Pricing and price sensitivity analysis Promotion analysis

Source: <http://www.arc-bi.com/> DATAMONITOR

The final point to make here is that it would have been an easier task to discuss the nature of reward schemes and loyalty programs. However, Datamonitor's research shows that these programs are not a particularly strong reason as to why customers use certain retailers. Yes, they may alter buying behavior for essentials, but in the grand scheme of things, customers, and those specifically in the lucrative 25-34 age group seek something less tangible and harder to define specifically than reward points, but that can be reasonably well summed up by focusing on the 'all round experience'.

That observation in itself provides retailers with many options with which to differentiate themselves.

We find ourselves In an era of increasing scrutiny and read increasingly negative commentary on the long term benefits of technology in business, which points out that many businesses, due to the increasing pace of 'normalization' of IT options, are perhaps investing in IT simply to remain standing still. However, Datamonitor believes that addressing the notion of an information-driven business supported by an infrastructure capable of capturing, making sense of and delivering the right

information to the right places remains a key area for competitive differentiation, simply because there are so many areas of a retailers business that would benefit from it.

Hence, the higher up in the business the starting point, the better the opportunity for successful identification of the businesses' priorities.

## APPENDIX

### *Extended methodology*

**Method/source 1** – Online primary research survey (n=303) carried out in Q3 2006

### *References and Further reading*

[1] DMTC1356 Retail Technology – Forging closer relationships with suppliers (Review Report)

[2] [http://www-306.ibm.com/software/data/ondemandbusiness/industry\\_retail.html](http://www-306.ibm.com/software/data/ondemandbusiness/industry_retail.html)

[3] Charting a new course IBM Global Business Services: The retail merchandising-supply

Network (ideas for addressing the merchandising / supply chain from an information driven viewpoint)

[http://www-03.ibm.com/industries/retail/doc/content/bin/Merchandising\\_Brief\\_G510\\_6283\\_00.pdf](http://www-03.ibm.com/industries/retail/doc/content/bin/Merchandising_Brief_G510_6283_00.pdf)

[4, 5, 6] <http://www.arc-bi.com/>

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