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PERVASIVE RETAILING JOURNAL

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WHAT ABOUT THE CUSTOMER YOU NEVER SEE?

Applying call center metrics to the brick-and-mortar retailer

By Jonathan Amsler

It's no secret that call center customer management has become quite a science, as tools and analysis for queue management and abandonment rates are increasingly sophisticated. One thing is clear: call centers have an advantage over brick-and-mortar retailers because management can easily tie wait time to customer service, track lost customers and analyze labor dollars against the lost virtual customer.

It makes one wonder … do brick-and-mortar retailers care about the customer in their stores the same way call centers do? Most retailers have a limited view of the customer that has walked through their door. Many rely on transaction data to determine the number of customers, how quickly they are served, and the best labor-to-customer ratio. Unfortunately, this method does not capture the customer you never see – the customer who didn't buy.

WHO IS THIS CUSTOMER?

Of course it is impossible to answer that question specifically, but you can be sure that he or she probably entered your store with the intent to buy. It is likely that he or she even got so far as to choose the item and moved to the

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INSIDE THIS ISSUE

LOYALTY MARKETING DONE RIGHT

By Peter Wolf

Acquiring new customers is an expensive and difficult process; therefore, it is imperative that retailers focus on retaining existing customers and rewarding customer loyalty.

Retailers have long recognized the value of enhancing customer loyalty by offering them rewards based on their purchases. Gold Bond Stamps, launched in 1938, was the first large-scale loyalty program, which quickly became highly successful among grocers. It later expanded to other retail segments including gas stations, dry cleaners and movie theaters.

The basic premise of the Gold Bond Stamp program is still the foundation for most loyalty marketing programs today – keep customers loyal to a particular product or merchant by offering an incentive that encourages them to keep coming back - and spending more money. However, retailers in the 21st century have a distinct advantage over their predecessors, with advanced technologies that enable greater understanding of their customers' purchase behaviors and one-to-one targeted marketing.

Unfortunately, many companies haven't evolved their programs much beyond those available 60 years ago. Even companies that are considered industry leaders often issue "loyalty" cards that simply offer the same discount structure to all members in the program. Whether customers spend $10 a month or $1,000 a month, they receive the same discounted price at checkout. What is often positioned as a loyalty program is merely a standard discount program that reduces retailers' gross margins.

With advanced technology to track purchases by customer, retailers are often collecting mountains of data that could provide valuable insight into purchase trends, customer segmentation and market basket dynamics. However, research has

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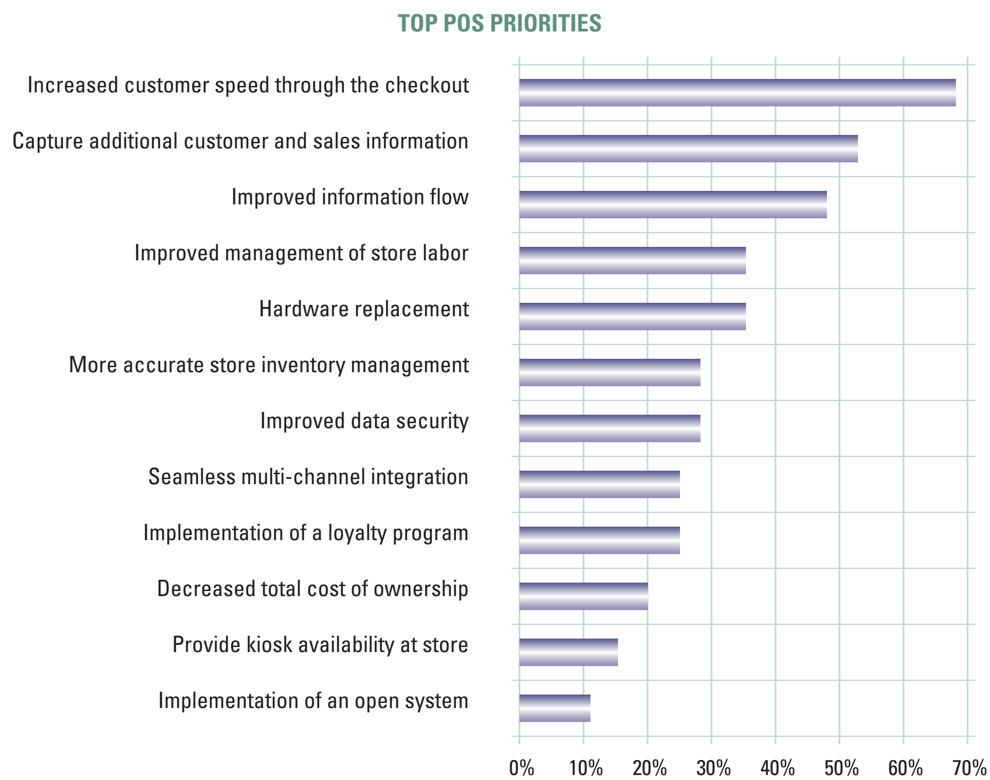
Exceeding Your Customers' Expectations

By Sunita Gupta

In today's dynamic world, customers are extremely knowledgeable, which translates into more demanding shoppers. Retailers have to work harder and smarter to offer expected levels of service, and offering this is critical to a retailer's success at creating that differentiated shopping experience. To understand how top retailers are differentiating themselves from the competition, especially at the store-level, LakeWest Group recently conducted our 8th Annual POS Benchmarking Survey of the Hot 100 Retailers (detailed findings and analysis available at www.lakewest.com).

While multi-channel retailing is one of the key drivers many retailers are utilizing to thrive, it also serves to refocus on the store. The store is where customers can touch items they may have viewed in a catalog, or where they pick up orders they placed online. Or, it can be where the customer first sees and touches the product and then goes home and orders it online.



The store experience is a critical part of the customer's overall satisfaction with the retailer, especially at the checkout. This is often the last major touch point for the customer in the store and slow processing or lack of functionality can easily color the overall shopping experience. Thus, more than two-thirds of this year's survey respondents indicate that increased customer speed through the checkout is their top priority for the next two years.

It is interesting to note that processing customers through the checkout faster has remained the number one priority for retailers throughout the life of the POS Benchmarking Survey - nearly ten years. So what are retailers doing to increase customer speed through the checkout? We found that the Hot 100 Retailers are focusing on the enhancement and upgrade of software and hardware to offer more functionality to both sales associates and customers at the checkout.

TECHNOLOGY AS A TOOL

Technology adds value to the checkout experience if it is used effectively and with the right mix of business processes and training to support it. As we look at POS systems, these are often the last major touch points for the customer in the store and if the software, hardware, or connectivity – or all three – are slow or inefficient, the entire shopping experience can end on a dissatisfying note for the customer.

As our POS Benchmarking Survey has indicated for the last few years, there is renewed interest in the upgrade or replacement of POS systems. Many retailers have realized that their older POS applications have reached the maximum capacity of their hardware, plus high maintenance costs and functionality constraints can lead to unsatisfied customers.

Because much of the software functionality that customers expect cannot be run efficiently on old hardware, and retailers are finding that some systems are becoming more expensive to maintain as they get older, we see the trend for upgrading hardware to continue for the next few years. As customers continue to become more demanding, retailers must ensure that their POS system is not slowing down the checkout process and allowing the competition to gain an advantage.

The next few years look interesting when reviewing new technologies, especially those that expedite the checkout process for customers in the store. We expect to see big changes at the checkout with more than one-third of the retailers indicating they will be implementing kiosks (employee-facing and customer-facing), mobile sales devices for lane-busting, and signature capture devices in the next two years.

Editor's Note: Sunita Gupta is executive vice president at LakeWest Group.

It's Time: Grocers need to Revolutionize with Technology

To say that the competitive marketplace for grocery retailers is challenging would be a bit of an understatement. Pressure from global mega-marts and high-end boutique chains is squeezing grocer market share from both sides. The ability to compete solely on low price has all but been taken away. While grocers continue to have a competitive edge when it comes to brand value, locations and consumer loyalty, these alone will not be enough to fight off the ever-increasing competitive threats.

Merchants in other retail segments have seen well-placed bets on advanced store technology investments that can have a material effect on competitive differentiation and the overall shopping experience. On the other hand, it's no secret that grocers have been much slower than other retail segments at investing in new systems. For example, many grocery point-of-sale systems are more than 15 years old and limit the kinds of merchandise and consumer marketing programs that help drive bigger shopping baskets and improved profitability.

While many grocers have broadly deployed advanced technologies – self-checkout, for example – the majority lack the depth and breadth of an investment and deployment strategy that will focus on delivering a differentiated consumer experience. The last three years have seen a powerful wave of new grocery-centric store technologies that can help drive these kinds of aggressive strategies. They include:

GROCERY POS THAT BLENDS EFFICIENCY AND INTERACTION

During the original wave of scanner-based POS systems, grocers usually had one objective in mind – speed of checkout. This need is almost always on the top of consumer priorities when selecting the grocery store where they shop. However, the traditional focus on "scan and bag" has now been augmented with the need to better engage the customer at checkout to help drive up not only their satisfaction, but the size of their market basket.

Advanced POS systems blend a flexible and intuitive cashier interface with a customer "interaction display" that allows the cashier to speed through the checkout process while giving the customer the chance to respond to promotions, tender needs or advertising suggestions. These new POS software platforms can drive 10-15 seconds out of each transaction (saving more than $1.5 million in labor costs for every $1 billion in sales), while increasing branding and loyalty marketing with each and every customer through the check-stand.

DEMAND-DRIVEN LABOR MANAGEMENT

The increased availability of store/SKU-level sales data has enabled much more detailed forecasting and demand planning. This demand insight can now be integrated with labor and task management systems to help match store associate staffing to the forecasted customer traffic. Managing staffing levels to the variability produced by different promotions at different times of the year can help improve customer service levels and sales. Properly implemented, this can create the perfect scenario of improved customer satisfaction due to staff availability, along with overall lower labor costs because retailers can be more accurate in their staffing requirements.

STRATEGIC SELF-SERVICE

Grocers who have not invested in self-checkout (SCO) technology are quickly realizing that this is no longer a "nice to have," but a growing customer expectation as a checkout option. New form factors allow for more efficient installations, while easier user interfaces improve customer adoption and employee training. And the leverage of mobile handheld technology is giving more flexibility to staff acting as SCO attendants.

Many of the same benefits from SCO systems at the front-end can be seen with more distributed self-service kiosk technology throughout the store. Applications for deli ordering, wine selecting, and pharmacy information are helping improve store operations and giving customers a choice of how they wish to interact with and/or access information.

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PERVASIVE RETAILING TRENDS

U.S. CONSUMERS ARE READY FOR MOBILE MARKETING

Although 79 percent of consumers find the idea of mobile ads annoying, Forrester Research says early efforts at mobile marketing have revealed a consumer willingness to engage in campaigns that deliver valuable content. Thirty-five percent of U.S. households that own a mobile phone currently use text messaging and 11 percent access the mobile Internet, thus creating a viable audience for mobile marketing. To combat preconditioned skepticism, marketers must develop mobile marketing that offers value, not interruptions.

SOURCE: FORRESTER RESEARCH

GARTNER: IDENTITY THEFT UP 50 PERCENT SINCE 2003

Approximately 15 million Americans were victimized by some sort of identity-theft related fraud in the 12 months ending in mid-2006, according to a survey by Gartner Inc. These statistics represent more than a 50 percent increase since 2003, when the Federal Trade Commission (FTC) reported 9.9 million American adult identity theft victims. The Gartner survey polled 5,000 U.S. adults in August 2006, and the average loss was $3,257 in 2006, up from $1,408 in 2005.

SOURCE: GARTNER, INC.

PERVASIVE RETAILING

TRENDS

RETAILERS' POS EXPENDITURES TO REACH $5.8 BILLION IN 2007

IHL Consulting Group says the PC-based point-of-sale market in North America experienced an eight percent shipment increase in 2006, and POS expenditures are expected to reach $5.8 billion in 2007. The largest boost came from shipments for new stores for specialty retailers (in the apparel, home improvement and auto aftermarket segments) and restaurants (casual dining and coffee/donuts). In other segments, such as grocery, touch-screen liquid-crystal-display (LCD) terminals typically replaced aging hardware.

SOURCE: IHL CONSULTING GROUP

CONTACTLESS PAYMENT SYSTEMS ARE APPROACHING THE TIPPING POINT

AberdeenGroup says contactless payment systems are fast approaching the tipping point of adoption within retail. After numerous pilots and deployments in the last three years, the continued pressure to improve the shopping experience is prompting retailers to adopt this technology. A recent survey showed all contactless technology standards will experience double-digit growth in 2007 and 2008. More than 58 percent of all respondents plan to implement contactless payment solutions within the next 12-to-24 months.

SOURCE: ABERDEENGROUP

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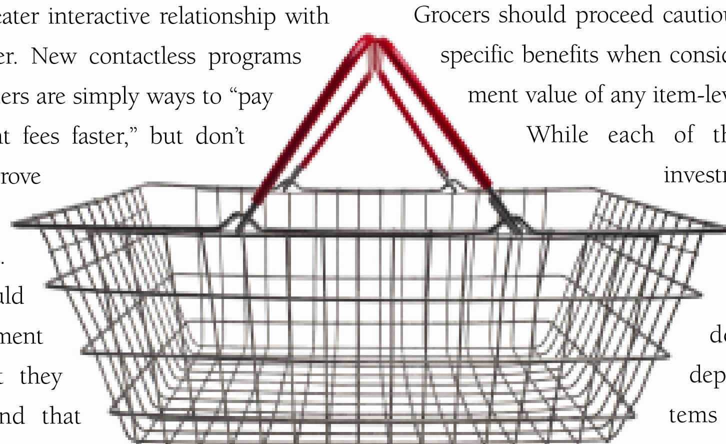
IN-AISLE INFLUENCE

While it's a bit premature to declare the impending death of the Wednesday newspaper grocery advertisement, the real opportunity to drive consumer behavior will happen when the customer is at or near the products in the store. Today, purpose-fit display technology can direct targeted advertising and marketing messages to merchandise categories or even unique SKUs as customers pass by. There is also growing consumer acceptance of cart-based and handheld "shopping assistant" technologies that can give retailers much more targeted opportunities to drive specific promotions or specific customer actions.

CONTACTLESS PAYMENT

With dramatic changes in payment technologies and the ever-increasing cost to retailers to accept electronic payments, merchants have the opportunity to leverage technologies that help drive down the cost of each transaction while enabling a greater interactive relationship with each consumer. New contactless programs from card issuers are simply ways to "pay your merchant fees faster," but don't materially improve the consumer relationship. Retailers should look for payment solutions that they can brand and that combine less expensive forms of payment (like ACH) with other customer identification technologies such as stored value and loyalty programs. This capability ensures that the relationship with the customer is driven by the retailer, not the card issuers.



ELECTRONIC PAPER

While most grocers have actively considered electronic shelf labels (ESLs) for improved price accuracy and lower shelf-tagging labor costs, the quick per-store cost calculations that combine tags and infrastructure have driven most away from broad deployments – even when faced with regulatory penalties. The next 12-18 months will see the early availability of electronic paper (or "e-paper" for short), that in many situations will be the best solution yet for the eventual replacement of traditional shelf tags and promotional signs. Displayed in monochrome or color, e-paper can be powered by passive transmission; images can be stored for extended periods without any power. The advent of e-paper technology along with improving price and promotion optimization systems will allow grocers much more flexibility and accuracy in their to-the-shelf execution.

RFID

RFID will be slower to take hold than most people thought a few years ago. While RFID will continue to see targeted uses and benefits in supply chain deployments that include inventory management between the back room and the sales floor, the concept of total item-level, embedded tags on every product in grocery is a decade away. Grocers should proceed cautiously and evaluate specific benefits when considering the investment value of any item-level RFID project.

While each of these technology investments is beneficial in its own right, it is critical that grocers do not evaluate deploying such systems in a vacuum. Equal time and attention should be paid to the underlying integration and architecture requirements that will allow otherwise disparate systems to act as a single, cohesive grocery selling platform.

When grocers work to implement improved technology that supports and enables more proactive merchandising and marketing strategies, they help create the kind of differentiated shopping experience many customers want. This is not just a strategy of survival – but a powerful plan to gain profitable customers, increase loyalty, and drive better sales and improved margins worthy of the brand value that has taken a long time to establish.

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checkout. But in the end, they did not buy. This customer abandoned the checkout line just like the call center customer who hung up without being served. But unlike in the call center, this customer was never really "seen."

WHY DON'T WE SEE THEM?

One answer is that most retail stores are not equipped to do the looking. Many personnel within the store are receiving inventory, stocking shelves, or performing other non-customer facing duties. In fact, it is estimated that even floor associates see only 25 percent of all customers in the store. Unlike call centers, retail outlets do not have the technology built into their infrastructure to automatically capture the number of customers walking into the store, measure wait times to checkout, and analyze these operations against labor demands.

WHY IS IT IMPORTANT?

Retailers spend more than $100 billion annually on advertising and other forms of promotion to drive traffic into the store. In response, customers invest personal time to get to the store and do their shopping. When the shopping experience doesn't meet the customer's expectations because store personnel aren't available to help, or the checkout line is too long, the customer becomes dissatisfied and may leave the store without making a purchase. The cost to the retailer is twofold – lost sales for the current items in the customer's cart and lost future shopping opportunities from that customer.

HOW TO SEE ALL YOUR CUSTOMERS

With recent advances in video cameras, sensor devices and analytics, retailers can capture their customers' every move and convert 3-D customer images into valuable data streams of quantifiable metrics. Just as call centers can track call volume, hold times, personnel interaction time, and call abandonment, retailers can gather similar information on customers in their stores. Brick-and-mortar retailers can now track and respond to metrics for store traffic, checkout wait times, cashier service time and cart abandonment. When fully implemented and integrated with the stores' POS and labor scheduling systems, retailers can now "see" the customer who used to leave without making a purchase and develop processes that keep and serve customers before they walk out the door.

With visibility to *all* consumer interactions, retailers have the tools to:

- Predict and publish wait times to reduce queue abandonment
- Receive real-time alerts when pre-set thresholds are reached
- Plan marketing strategies that capitalize on shopping habits
- Improve near- and long-term decision making
- Identify holes in scheduling or optimize current labor usage

With all that rich technology at their disposal, retailers can't afford to ignore the customers they never see.

Editor's Note: Jonathan Amsler is retail leader, Business Consulting Group at Brickstream.

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indicated that 40 percent of retailers report that they collect CRM data, but don't use it in any way.[1]

Leveraging technology in the following ways can help put retailers on the path to successful loyalty marketing programs that build loyalty rather than erode margins:

Offer Tiered Reward Levels – Structuring a loyalty program that provides incentives for customers to spend more to reach higher levels that result in richer rewards will increase loyalty and sales more than a standard discount that is available to all shoppers regardless of spending levels.

Personalize Promotions – Tailor communications to customers based on their purchase behavior or market segment to make them feel special and appreciated. According to a recent study by Aberdeen Group, loyalty programs deployed by best-in-class retailers resulted in 40 percent sales lift when personalized to unique shoppers' needs and preferences.[2]

Differentiate from the Competition – Rather than emulate loyalty programs that most competitors are offering, leverage ideas from other industries or create a unique component that is different than the retailer down the street. Give your customers a reason to be loyal to your store or chain.

Learn from Data Collected – While the volume of data collected from loyalty programs may seem daunting, it is wasted information if you don't leverage this potentially rich source. One good place to start, for example, may be with market basket analysis of data gathered at the point of sale. What are the affinities of various items in customers' baskets? By analyzing data, retailers can identify trends in customer behavior and identify which products most often sell together. Remember, every market basket is a one-on-one interview with the customer.

Consider Rewards Other Than Discounts – Loyalty is not all about monetary incentives. The best loyalty programs also include enhanced customer service and exclusive information or special events for your best customers.

Measure the Results – Don't stop at measuring sales results. Loyalty programs should also measure profitability by customer and the ROI of loyalty-based promotions.

When done correctly, loyalty marketing programs can dramatically increase customer devotion and sales. Differentiate your company and your loyalty program for winning results!

Editor's Note: Peter Wolf is vice president of marketing at Fujitsu Transaction Solutions.

[1] "Searching for the True Multi-Channel Retailer Benchmark Report," Retail Systems Alert Group, January 2007

[2] "The 21st Century Retailer: Managing Customers, Merchandise & Data," Aberdeen Group, January 2007

Creating Consumer Influence, not Intrusion

While ruthless attention to lowering costs and improving store operations efficiencies is a critical mantra for retail executives, most leading merchants know the keys to long-term success involve a sharper focus on initiatives that affect the top and bottom line – revenue growth and margin improvement.

Retail executives have seen an increasing array of distributed store system solutions emerge that complement traditional point-of-sale (POS) systems and help to establish a differentiated consumer experience. Unfortunately, there is a fine line with most consumers between what technology they view as truly helpful to their shopping experience and what they consider to be intrusive to the way they normally like to shop.

Those retailing leaders that pay close attention to the combination of technology and consumer psychology when implementing new in-store systems tend to have the best success influencing purchase behavior. To positively influence customers' buying habits rather than just thrusting technology at them, leading retailers should adopt the following tenets:

Intuitive, Adaptive Usability – Customers can't be influenced if they are intimidated by the learning curve of self-service applications, for example. If these applications can't adapt to different usage patterns and be instantly useful to the consumer – either by the information they receive or the offer they are provided – then they won't successfully influence shopping behavior. No self-service store technology system should be deployed without comprehensive usability testing and customer feedback.

Creating Demand at the Point of Decision – Merchants are slowly increasing investments in technology that influences purchase behavior at the point when consumers are making their final decision – at the shelf. Shelf labels and electronic signage quickly reflect demand-driven promotions right at the product while eliminating the labor cost to execute price and promotion changes. In the next two years, the availability of electronic paper (e-paper) will further broaden the retailers' ability to target specific products toward specific customers at specific times.

Truly Personalized Offers – Many customers are less than impressed with typical retailer loyalty programs – either because they generally perceive limited value, or they don't think the rewards are directly targeted at them. Retail leaders who have invested in next-generation customer relationship management (CRM) systems are blending data collection and customer segmentation into a seamless, closed-loop workflow. This ensures that the offers being made to customers are based on the right combination of promoted product and purchase behavior that will directly influence future buying behaviors.

Employee Empowerment – New in-store mobile technology and product intelligence give store personnel much better tools to help customers with their research, product comparisons and final purchase decisions. The subtle blending of cross-sell and up-sell suggestions directly affects customers' average transaction size.

Channel Transparency – In today's competitive environment, a retailer's Web site is no longer an advantage; it's a fundamental prerequisite to survival. Customers expect to be able to blend their merchandise research and transactions across channels. They want to check online for store inventory levels and complete transactions for on-site pick up. The Web has increasingly become the new medium for enticing consumers into the traditional store, which means that retailers must maintain common inventory, common pricing and common promotions across all channels while allowing for trade area differences. Online-savvy customers not only spend more on the Web, they also spend more in the store when properly influenced.

Unfortunately, there is a fine line with most consumers between what technology they view as truly helpful to their shopping experience and what they consider to be intrusive to the way they normally like to shop.

For those retailers that successfully orient their store operations and technology investment plans toward true consumer influence, the financial benefits are powerful – an average general merchandise retailer can see between eight to 15 percent increases in average transaction size with as much as a 3-5 percent bump in margin. This equates to more than $100 million in incremental sales and more than $30 million in incremental gross margin for every $1 billion in sales. The overarching objective for all store technology investments must start and end with a critical strategic question: with this project, will we materially influence consumer behavior, transaction size and margin growth? Those merchants that do so will thrive in an increasingly hyper-competitive retail marketplace.

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