



The New Key to Retail Success

Create and Sustain Customer Loyalty with Brand-right, Differentiated Experiences

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Executive Summary

- Five trends have created a gap between customer expectations and the typical shopping experience
- This has lowered brand loyalty, negatively impacting retailers' business results
- To close the gap, retailers must create experiences that:
 - Consistently exceed expectations over time
 - Reflect the brand promise
 - Happen where and when they matter most to consumers
- By using this approach and deploying an agile retail architecture to increase customer loyalty, a \$3B retailer can gain close to \$1B over 5 years (relative to other retailers)

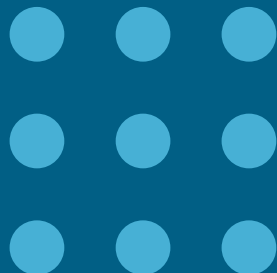
Source: Cisco IBSG, 2008

Agenda

1. Five Retail Trends
2. The Customer-expectation / Shopping-experience Gap
3. Win Loyalty with Brand-right, Differentiated Experiences
4. How to Sustain Brand-right Differentiation
5. A \$1 Billion Opportunity
6. Case Studies and New Deployment Ideas
7. Next Steps

Source: Cisco IBSG, 2008

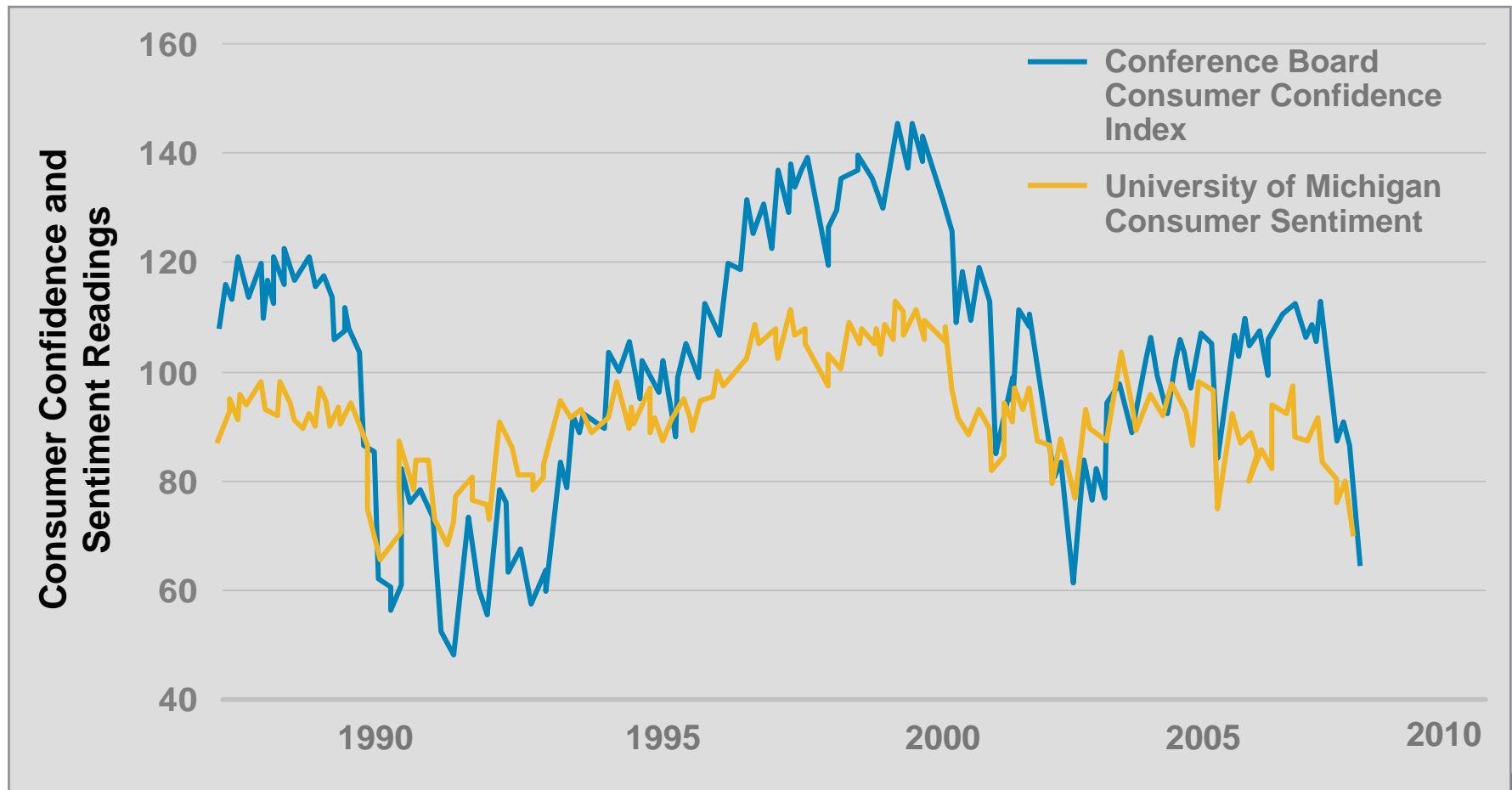
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Five Retail Trends

Retailers Face Challenging Times Worldwide

Consumer Pessimism Weighs Down Retailers



Sources: Conference Board, 2008; Reuters and University of Michigan, 2008

Traditional Retail Strategies Bring Diminishing Returns

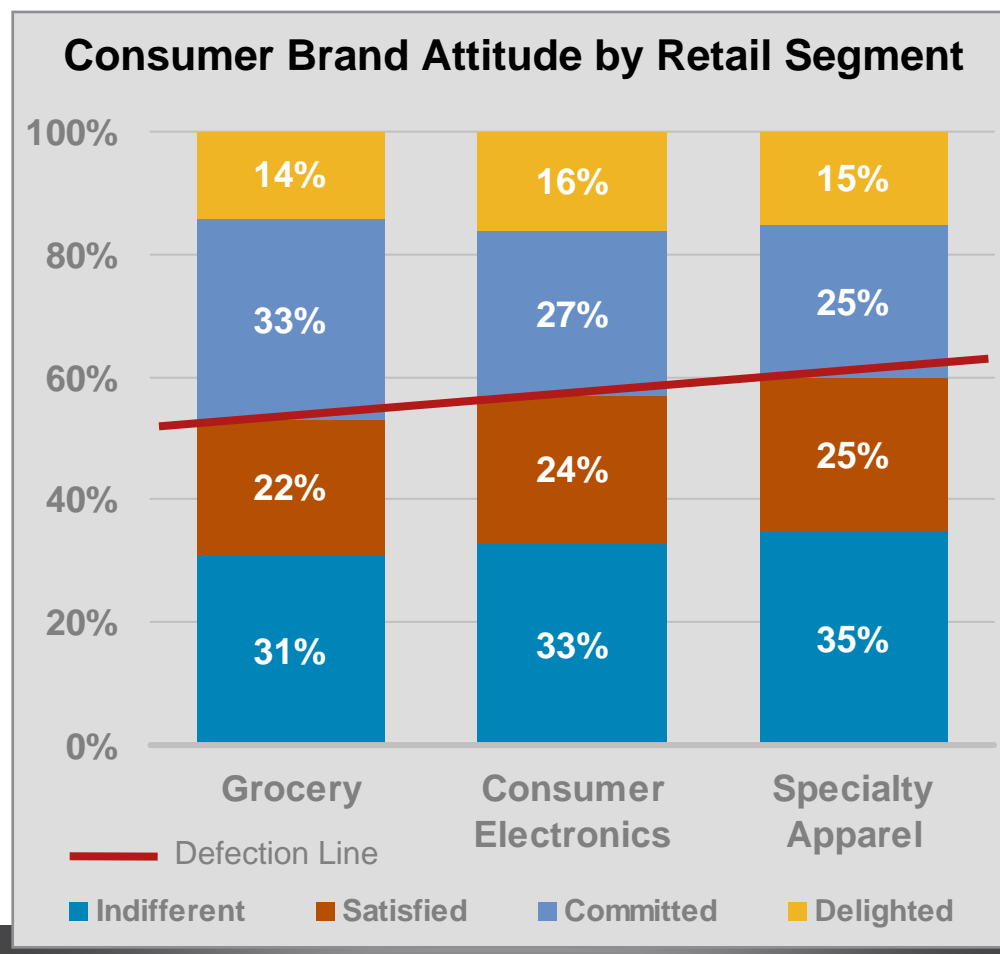
Product	Price	Location	Loyalty Programs
<ul style="list-style-type: none">▪ Imitation products on shelves in days▪ 59% of U.S. consumers want fewer goods, more “intangible” experiences▪ Sales lost to counterfeiting: \$500B–\$600B annually worldwide	<ul style="list-style-type: none">▪ Consumer electronics pricing down 51% (2000-2008)▪ Real food prices in Britain down 7% (2000-2007)▪ Internet makes pricing transparent	<ul style="list-style-type: none">▪ Online sales to grow 17% in 2008▪ U.S. store closings up 25% in 2008▪ U.S. foot traffic down 8 of first 9 months in 2007; U.K. foot traffic down in Q1 2008	<ul style="list-style-type: none">▪ More than 50% of U.S. shoppers belong to two or more grocery loyalty programs▪ “Loyalty programs do not change behavior or increase profits” (Source: INSEAD)

Sources: U.S. Department of Commerce, 2008; Reinartz, INSEAD, 2006; Shop.org, 2008; *International Herald Tribune*, 2007 and 2008; U.S. Census Bureau, 2005; Maritz, 2006; @ShopperTrak, 2007; Synovate, 2008; *The Economist*, 2008

Diminishing Brand Loyalty

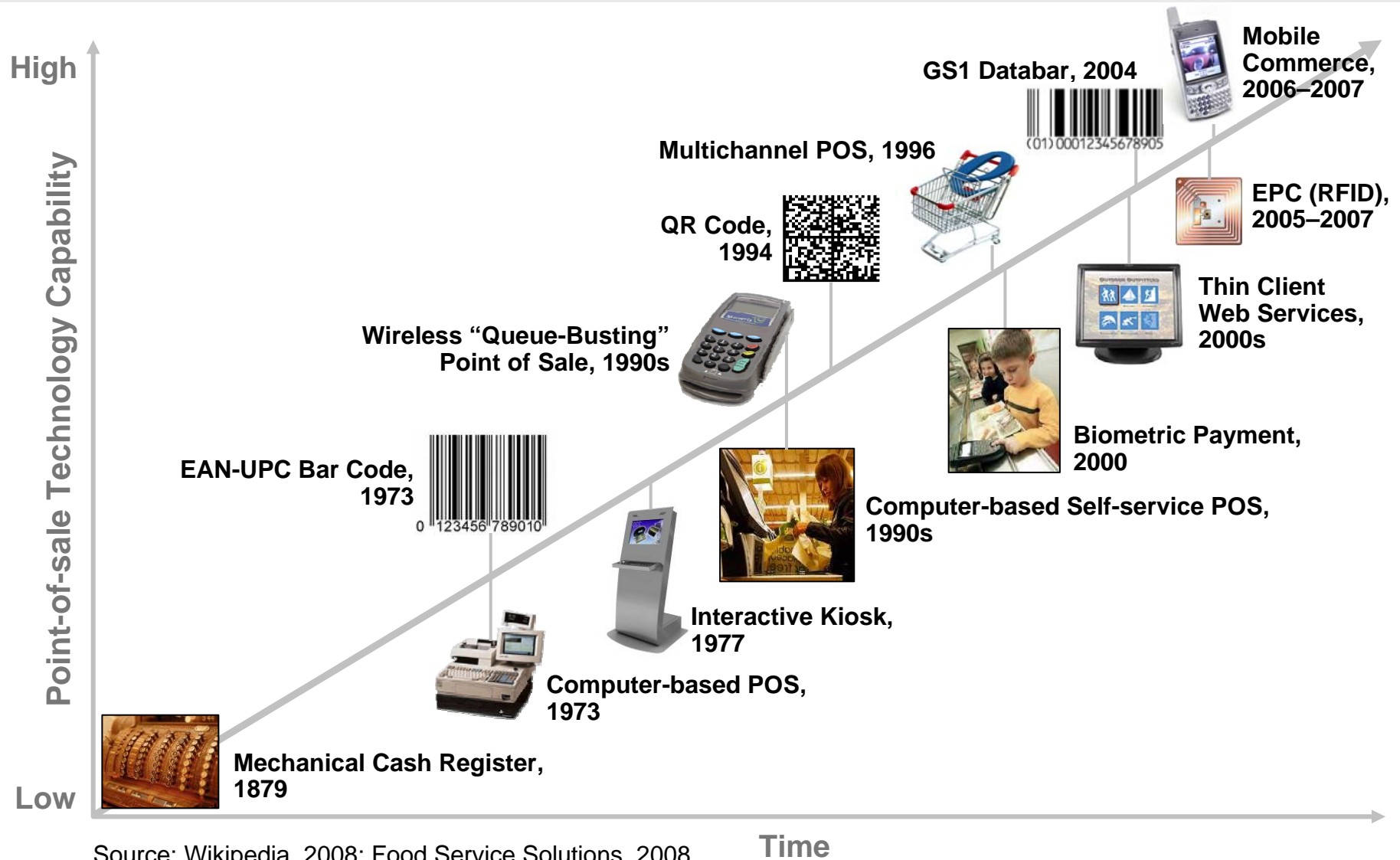
30–35% of Shoppers Are Completely Indifferent to Your Brand's Value

- Only 40–47% display attitudinal or behavioral repurchase loyalty
- Only 1 in 7 would recommend your brand to others
- Up to 60% are ready to defect to the competition
- 43% of all customers who defect do so because of service issues



Source: Maritz, 2006

Technology Innovation Keeps Retail Experience Expectations High



Source: Wikipedia, 2008; Food Service Solutions, 2008

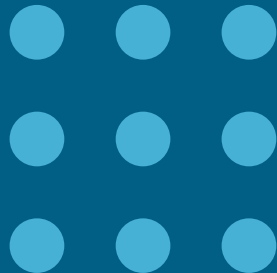
Time

Difficult to Keep Up with Accelerating Customer Technology Adoption

Technology	2000 Households (105 Million)	2007 Households (116 Million)	2012 Households (121 Million)	Conclusions
Broadband	6M 16%	58M 50%	83M 68%	They're Connected
Home Networks	5M	41M	58M	
Mobility	57M 54%	96M 82%	106M 87%	They're Everywhere
Devices	<ul style="list-style-type: none"> ▪ Laptops: 12M ▪ Digital cameras: 10M ▪ MP3 players: 2M 	<ul style="list-style-type: none"> ▪ Laptops: 43M ▪ Digital cameras: 75M ▪ MP3 players: 37M 	<ul style="list-style-type: none"> ▪ Laptops: 65M ▪ Digital cameras: 95M ▪ MP3 players: 48M 	Now, They're in Control

Sources: Park Associates, 2007; Forrester Research, 2006, 2007; Consumer Electronics Association, 2006

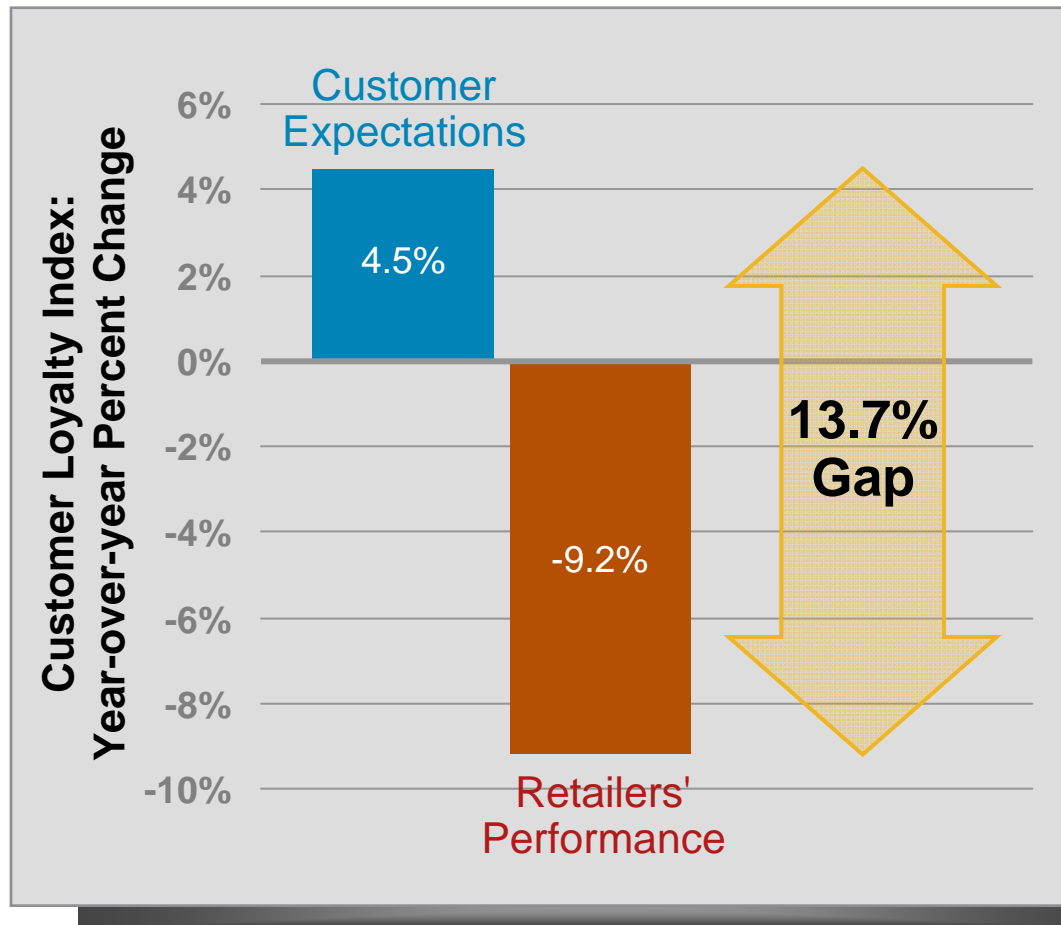
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The Gap Between Expectations and Experience

Growing Gap Between Customer Expectations / Retailers' Ability to Deliver

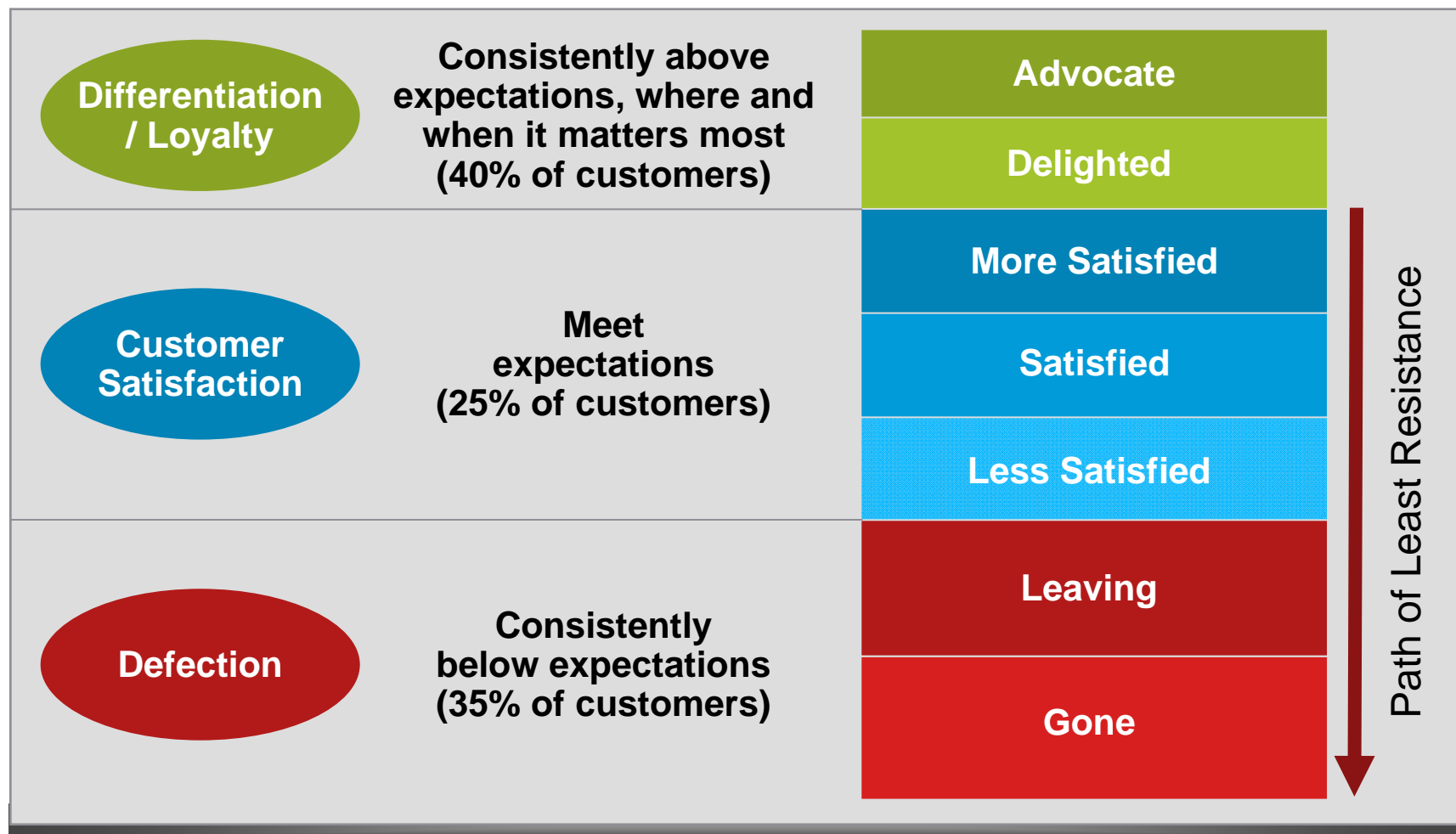
What Is Creating the Expectation Gap?



- CXO and budget priorities
- Rising industry norms
- Personal technology adoption

Source: BrandWeek, 2006

Satisfying Experiences Do Not Always Create Differentiation and Loyalty



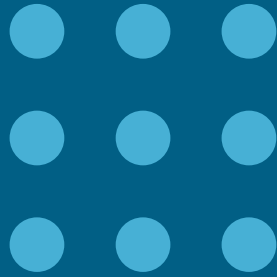
Source: Cisco IBSG, 2008

The Value of Experience Differentiation and Customer Loyalty

Annual Top-line Advantage: \$184.4M

Top Quartile	Second Quartile	Third Quartile	Bottom Quartile
Gain: \$71.5M <div>Repurchase: +1%</div> <div>Retention: +1.4%</div>	Gain: \$17.2M <div>Repurchase: +0.3%</div> <div>Retention: +0.2%</div>	<ul style="list-style-type: none"> Repurchase loss: \$14.8M Retention loss: \$24.6M Revenue loss: 1.3% 	<ul style="list-style-type: none"> Repurchase loss: \$44M Retention loss: \$68.9M Revenue loss: 3.8%
<ul style="list-style-type: none"> Repurchase win: \$29.7M Retention win: \$41.8M Revenue gain: 2.4% 	<ul style="list-style-type: none"> Repurchase win: \$10.4M Retention win: \$6.8M Revenue gain: 0.5% 	<div>Repurchase: -0.5%</div> <div>Retention: -0.8%</div> Loss: \$39.4M	<div>Repurchase: -1.5%</div> <div>Retention: -2.3%</div> Loss: \$112.9M
Source: Forrester Research, 2008			

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**Win Loyalty with
Brand-right,
Differentiated Experiences**

Create Customer Loyalty

**Consistently Exceed Expectations by Creating Delight
Where and When It Matters Most to Your Brand Promise**

1. Brand Type



2. Shopping Stages

3. Touchpoints

Source: Cisco IBSG, 2008

Specific Customer Expectations Accompany Each Brand Type

Cost Leadership

- **Success factors:** cost leadership, value, economies of scale
- **Capability focus:** transaction systems, operational leverage

Dependable Quality

- **Success factors:** efficiency, accuracy, security, brand equity, seamlessness, trust
- **Capability focus:** frontline execution, supply-chain excellence, standards, quality control

Response and Service Excellence

- **Success factors:** flexibility, proactivity, responsiveness, customization, speed
- **Capability focus:** training, customer advocacy, measurement, analytics, touchpoint integration

Trend Leadership

- **Success factors:** innovative designs, aesthetics, time to market, unique product assortments, service
- **Capability focus:** product leadership, usability, research, design



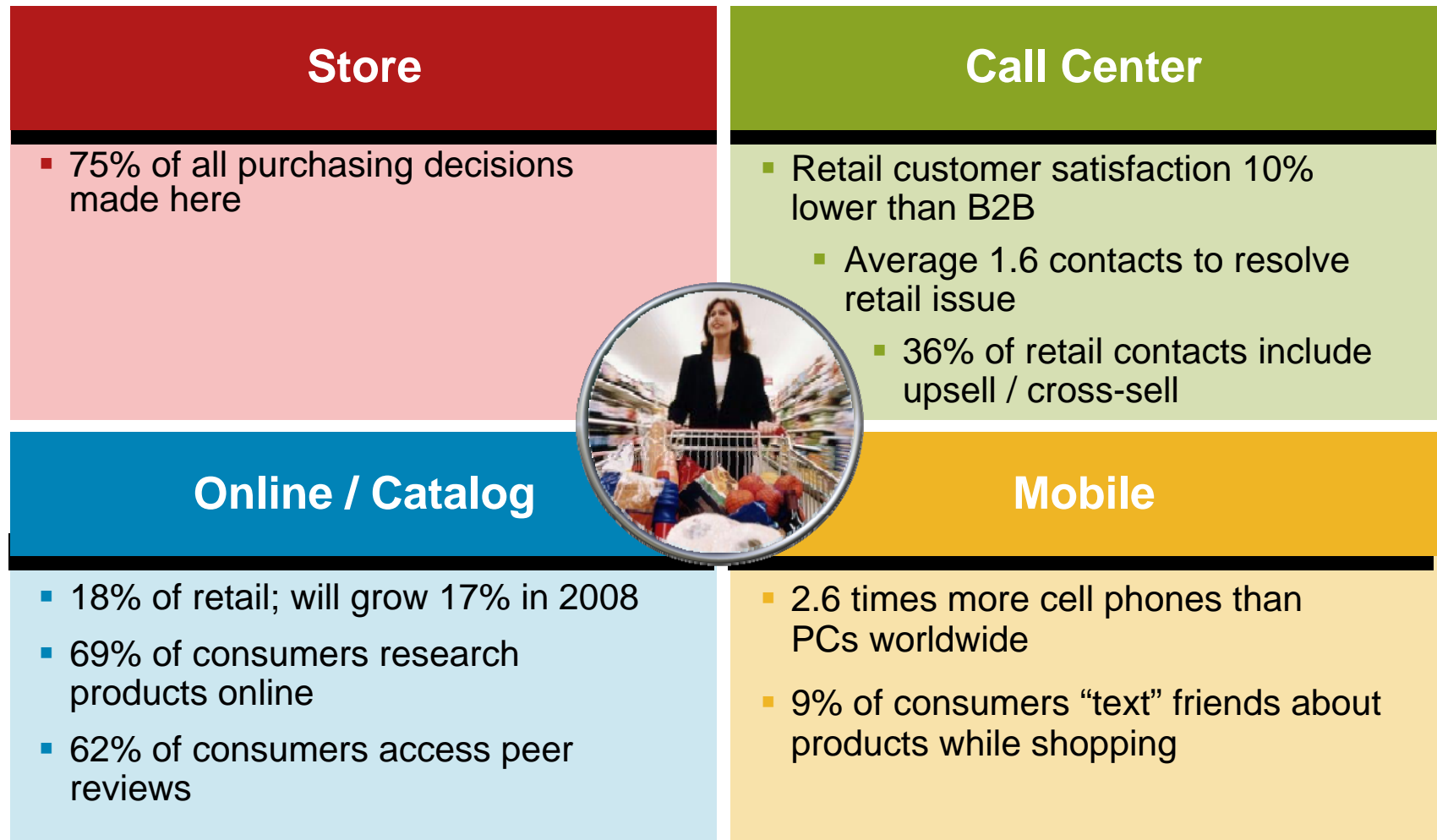
Source: Cisco IBSG, 2008

Specific Expectations Accompany Each Stage of the Shopping Lifecycle



Source: Cisco IBSG, 2008

Expectations Accompany Touchpoints— All Are Critical to the Top Line



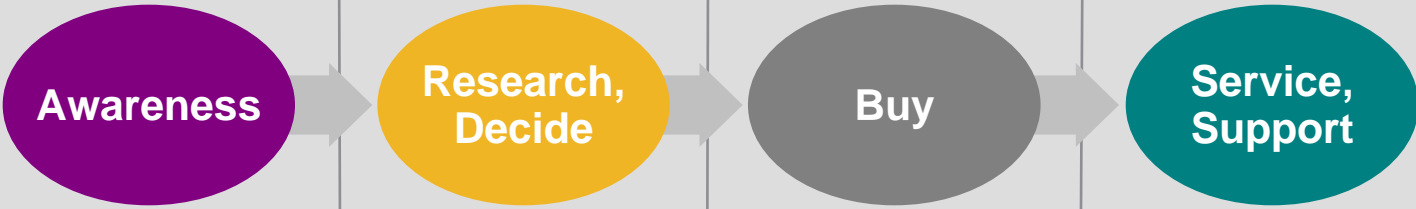
Sources: WPP The Store, 2005; Shop.org, 2008; Forrester, 2007; Customer Contact Council, 2007, *BusinessWeek*, 2007

A Model for Where and When to Create Differentiating Experiences

	Touchpoints: Store, Call Center, Online, Mobile		
Loyalty		Personal	
		Interactive	
		Ubiquitous	
		Cheaper / Faster / Better	
Satisfaction		Industry Norm	
Defection		Slightly Below the Norm	
		Significantly Below the Norm	
Shopping Lifecycle	Awareness	Research, Decide	Buy
			Service, Support

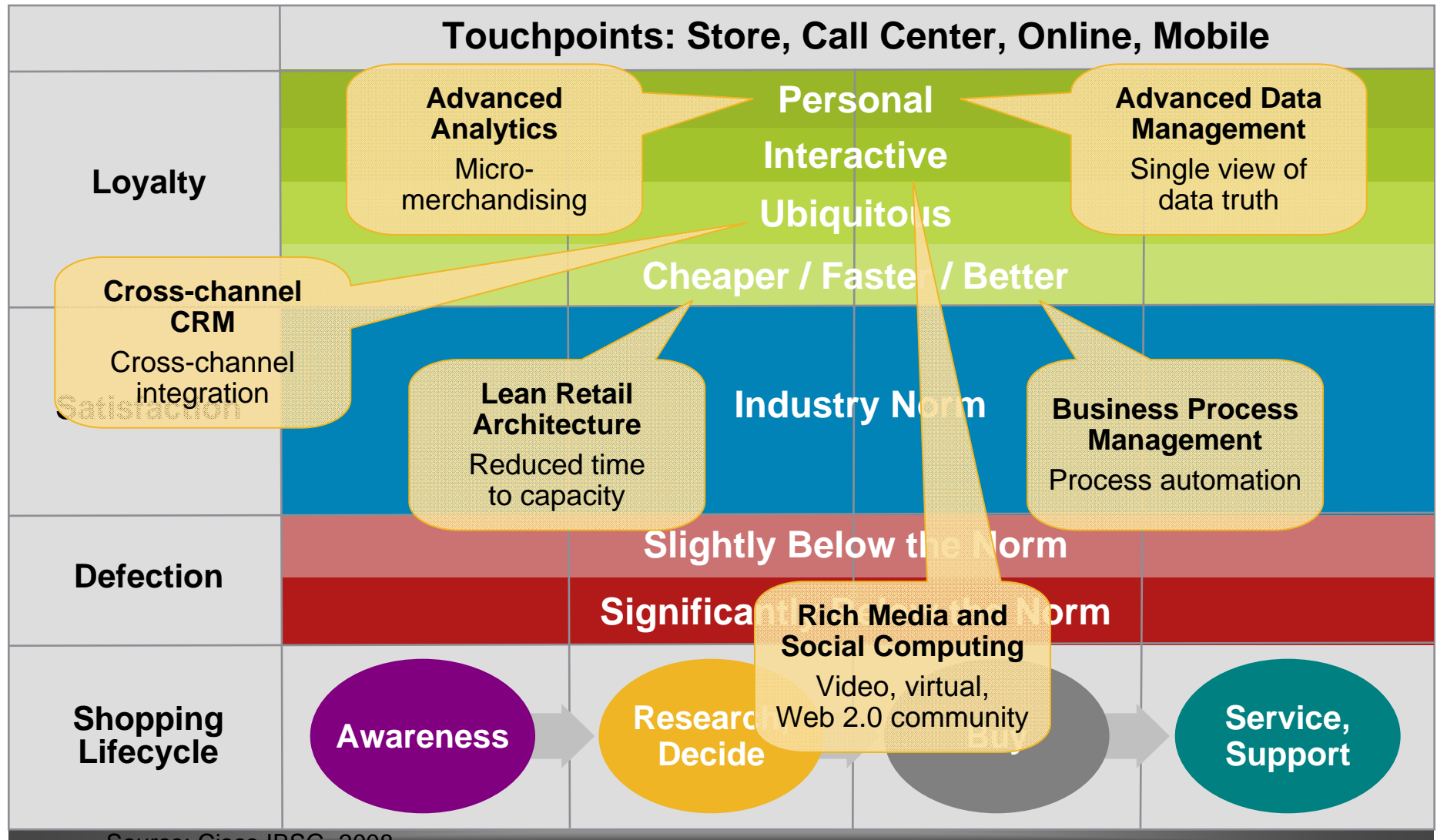
Source: Cisco IBSG, 2008

"Earning Customer Loyalty" Example: Response / Service Excellence in 2009

	Touchpoints: Store, Call Center, Online, Mobile			
Loyalty	Personal Wardrobe with SMS Texting		Card on File	Wardrobe Concierge Service
	Fashionista Social Network	Peer Wardrobe with Social Networking		Fashionista Social Network
	Mobile Web	Mobile Web	Mobile Payment	Online Appointments
	SMS Texting		Contactless Payment	Online Chat
Satisfaction	Email Adverts		Accurate	Personal Shopping Assistance
	Fashion / Trunk Shows	Coordinated Outfit Accessories	3–5 Minutes in Queue	Wardrobe Assistance
Defection	Mass Advertising, Catalog	Don't Have My Size, Wrong Color / Style	Personal Data Loss	No Personal Recognition
Shopping Lifecycle				

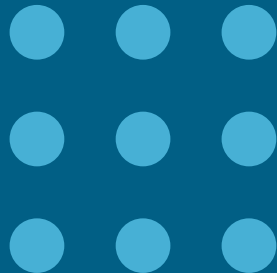
Source: Cisco IBSG, 2008

Multiple Enterprise Technologies Enable Retailers to Meet Rising Expectations



Source: Cisco IBSG, 2008

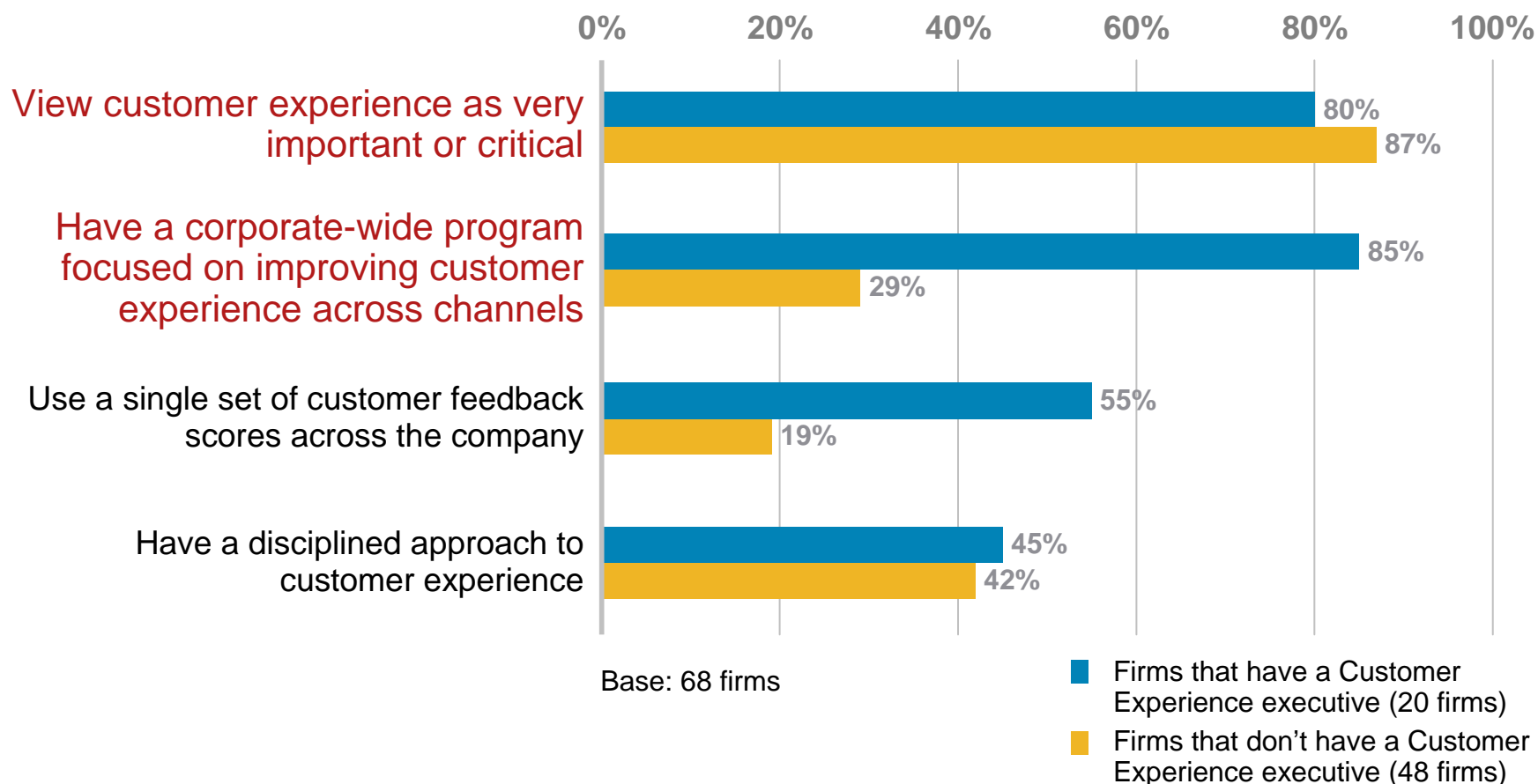
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How to Sustain Brand-right Differentiation

Sustaining Differentiation: Start with Executive Leadership

Different Levels of Customer Experience Activities



Source: Forrester Research, 2006

Sustaining Differentiation: Your Customers Have the Answer

What the Leaders Do:

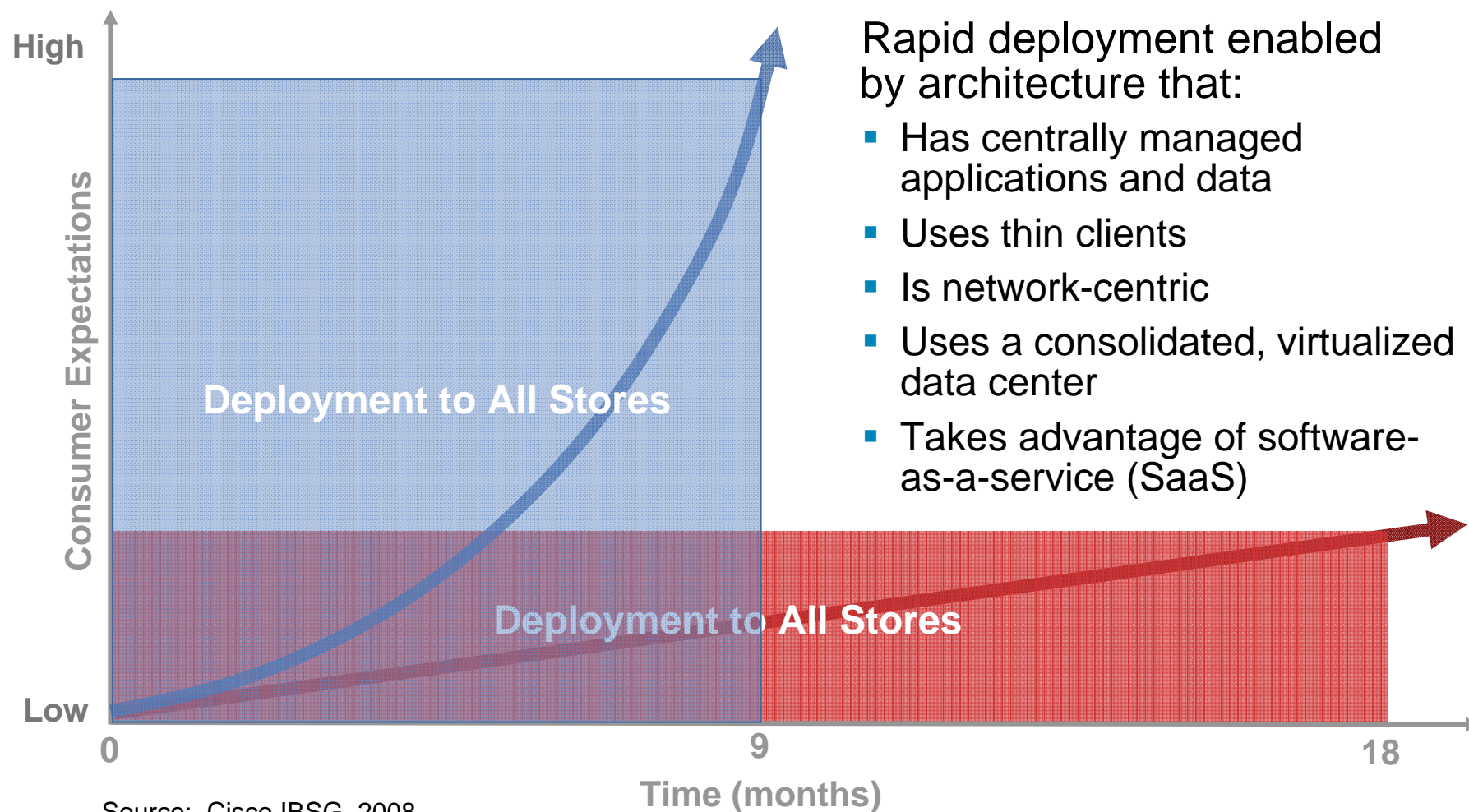
1. Commit to customer experience as differentiating strategy
2. Deliver brand promise through customer experience
3. Exceed ever-rising expectations across lifecycle and touchpoints—where and when it matters to the brand
4. Aspire to customer delight, not satisfaction



Source: Cisco IBSG, 2008

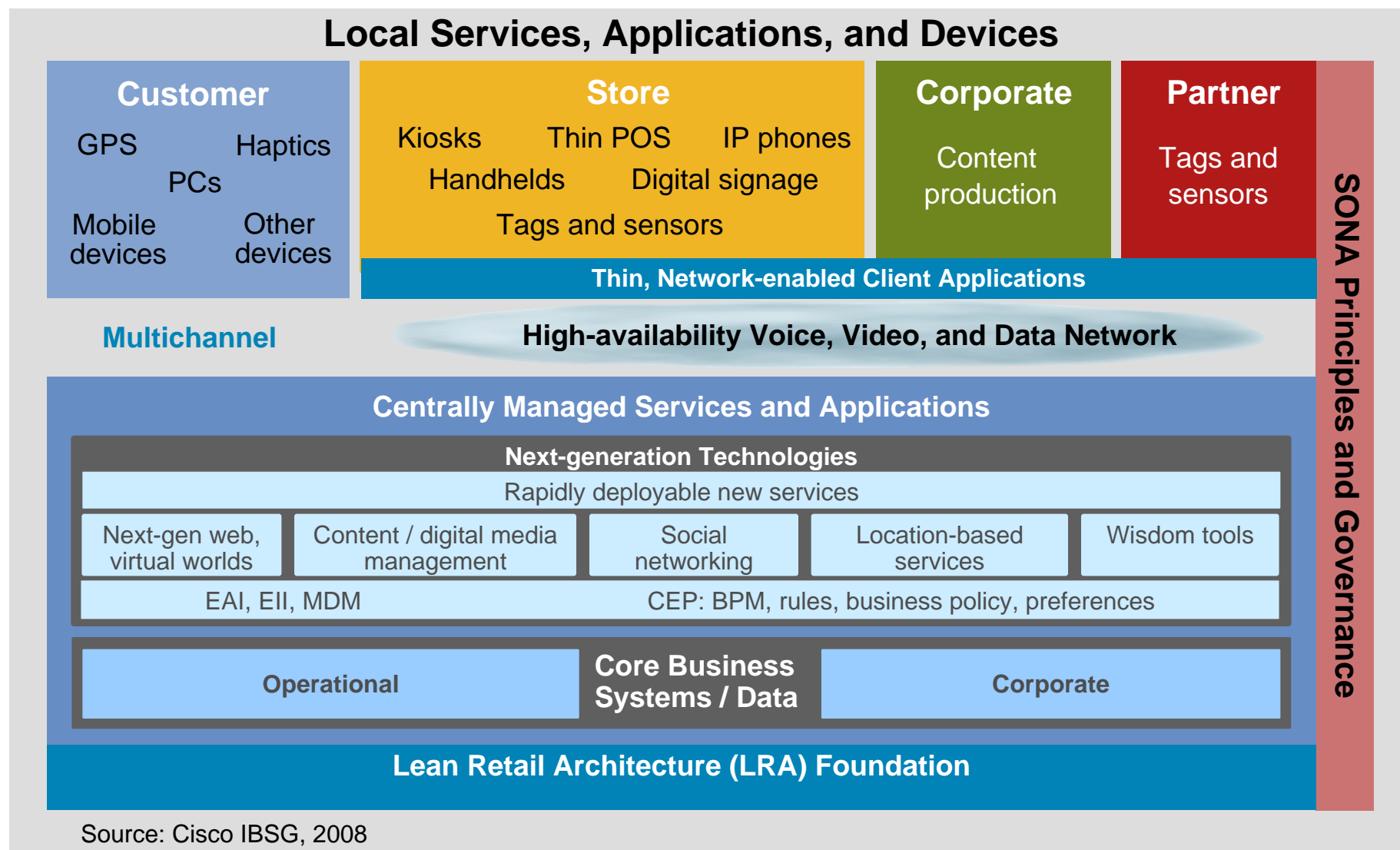
Sustain Differentiation with an Agile, Flexible Enterprise Architecture

The New Strategic Metric: Time to Capability

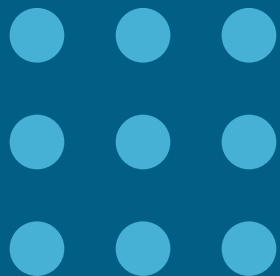


Source: Cisco IBSG, 2008

Retail IT Architecture for Customer Experience Differentiation



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**A \$1 Billion
Opportunity**

Increase Revenues and Reduce Costs

Customer Loyalty from Experience Differentiation

- Spend more per visit
- Make more visits
- Buy at higher margins

Up to 6.4% top-line advantage per year, or \$184M for \$3B retailer

\$922M in 5 years

Greater Efficiencies from Agile Retail Architecture

Store (\$3B, 1,000-store chain)

- \$6M one-time savings
- 20% reduction in annual per-store operating costs

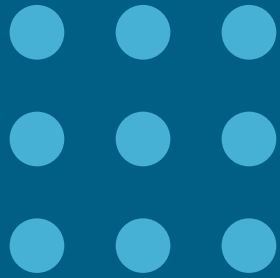
Data center (2,500 servers)

- 30% fewer servers
- 30–70% server utilization increase
- \$22.5M one-time savings
- \$6.75M annual incremental savings

\$58M in 5 years

Sources: Forrester Research, 2008; Cisco IBSG, 2008

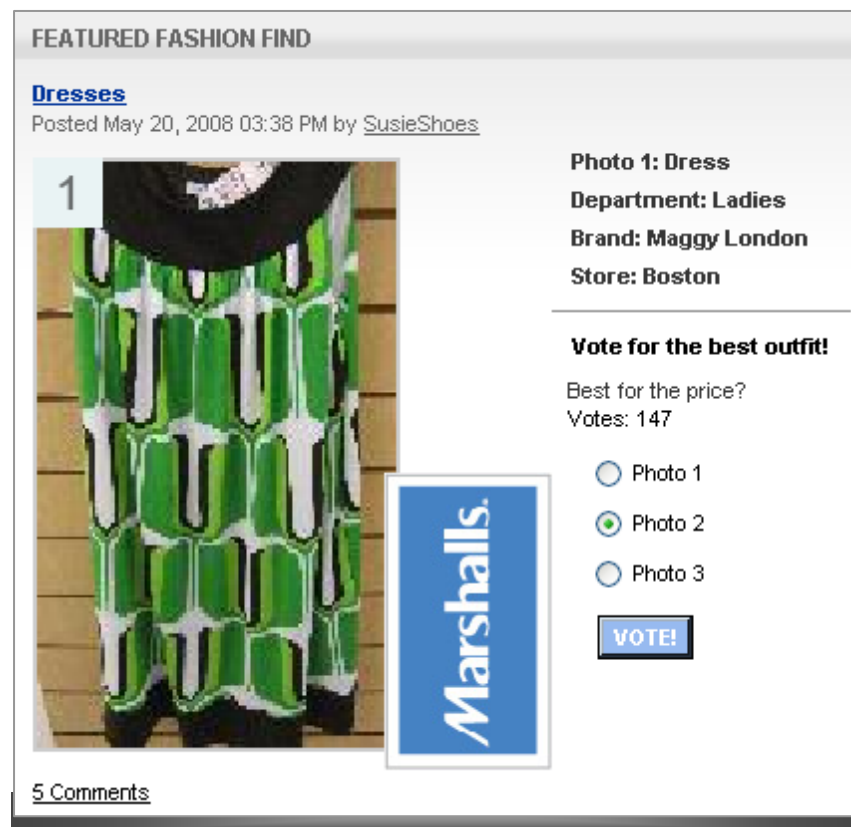
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New Deployment Examples and Ideas

Apparel Retailer Enables Interaction of Mobile Customers to Raise Awareness

- New example of innovation and delight at awareness stage
- Connected consumers bring online experience into stores
 - Blurs channels
 - Combines physical / virtual reality
- Peer networks become important to shopping decisions



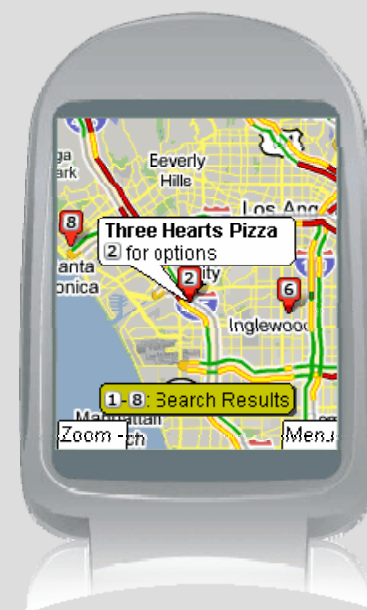
Source: WPP, TJ Maxx, 2008

Mashups and Powerful Mobile Devices Create New Touchpoint for Awareness

- Personal mobile devices have become more capable and powerful
- Mashups combine applications to create new capabilities
- Consumers have more information and tools than ever before
- Combined, mobile devices and mashups create important new touchpoint for awareness

Source: Google, 2008

Google Maps
Mobile

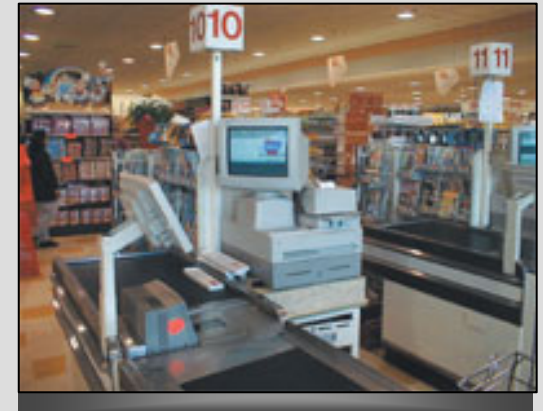


- Real-time traffic
- Detailed directions
- Integrated search results
- Movable maps
- Satellite imagery

Leading Retailer Reduces Checkout Time; Creates Delight at Buy Stage

- Store managers automatically alerted in real time to checkout queue length
- Staff reassigned and new checkout stations opened in response
- Guarantee: no customer waits longer than 60 seconds
- “Hidden” technologies equally important to consistently creating customer delight

TESCO



Source: Tesco, 2008

Leading Retailer Enhances In-store Customer Service

- Retailer sends coupon before customer leaves due to long line



TESCO

**Real-time
communication
using SMS, email, or
voice allows
retailers to respond
to customers within
60 seconds**

Source: WPP, Fizzback, 2008

Store Goes to the Customer—Anywhere, Anytime, and at Every Stage

From: Consumer in
Retailer's Environment

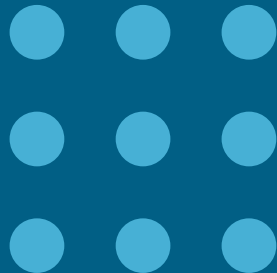


Source: Cisco IBSG, 2008

To: Retailer in
Consumer's Environment



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Next Steps

Step One: Self-assessment

Where Do You Stand on Brand Type, Shopping Stages, and Touchpoints?

- Are you delivering on your brand type and promise?
- What are the norms of the shopping stages and touchpoints for your brand type?
- How are you performing at each touchpoint in each shopping stage?

Creating loyalty?





Creating satisfaction?

Reason to leave?



Source: Cisco IBSG, 2008

Step Two: Understand Today and Envision Tomorrow

	Touchpoints: Store, Call Center, Online, Mobile											
Loyalty	✓	✓				✓	Personal			✓	✓	
							Interactive					
							Ubiquitous					✓
			✓			Cheaper / Faster / Better						
Satisfaction					Industry Norm							
Defection					Slightly Below the Norm							
					Significantly Below the Norm							
Shopping Lifecycle												
												

Step Three: Act Now to Win

Short-term Goals (12 months)

1. Identify and fix below-norm performance
2. Identify quick wins that will exceed brand-promise norms
3. Identify senior leadership
4. Measure customer loyalty, not satisfaction
5. Pay attention to new technologies and integrate them into plans and processes

Long-term Goals (several years)

1. Prioritize competitive differentiation through experience
2. Reallocate resources from customer acquisition to customer loyalty
3. Begin implementation of Agile Retail Architecture
4. Start formal, cross-corporate process for experience innovation
5. Identify, prioritize, and begin deployment of your 2012 differentiation profile

Source: Cisco IBSG, 2008



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