

Retail Report, July 2013



The Value of Associates in Driving Retail Profits

The retail industry has faced game-changing challenges in recent years. The “Great Recession” drove many customers to become more price conscious as unemployment rates rose and lower wealth forced customers to reevaluate their purchasing patterns. Likewise, the term “showrooming” entered retailers’ vocabulary as online shopping grew rapidly. Many customers are taking a hybrid approach to their shopping, visiting brick-and-mortar stores for the hands-on experience and to comparison shop, while going online to purchase the product. As the practice of showrooming and increased price sensitivity become the new normal for consumers, many retailers must reassess their business models including target markets, store design and staffing models.

While change can often be painful for businesses, it also brings opportunity. The brick-and-mortar customer experience still provides benefits that online shopping cannot replicate. Shopping in-store provides a hands-on experience with products. Online shoppers will never have the ability to try on clothing, feel the quality of wood furniture or experience the excitement of taking a child to buy a bicycle.

In addition to the hands-on aspect of the in-store experience, customers have the added value of access to retail associates. Engaged and knowledgeable associates provide a competitive advantage over online shopping where customers instead rely on written descriptions, photos and reviews. A skilled and attentive associate can educate a customer about product usage, help assure that a customer makes the right decision, position the sale of higher margin accessories and, most importantly, solve customer problems when something goes wrong. All of this can be critical to the customer satisfaction index (CSI).



In our experience, a one-point move in CSI (on a 100-point scale) is often associated with 0.5-1.5 percent change in retail revenue. This revenue growth results from both higher margin add-on sales when customers are in store and more frequent trips to the

store overall. We know from more than 20 years of working with retail clients that much of the variation in satisfaction is driven by the quality of associate interactions. In other words, a positive associate interaction often leads to higher sales both during a visit and in the future. Effective service from associates can drive near-term and long-term profitability in an industry with very tight margins.

Knowing that retail associates play a key role in driving customer satisfaction and, consequently, profitable sales growth, we asked the following questions:

- How big of an impact do associates have in driving customer satisfaction?
- Does the size of the impact vary across retail sub-sectors?
- Do associates play a more (or less) critical role in the peak holiday shopping season?

To answer these questions, we analyzed data from the past two years (2011 and 2012) representing the current state of the retail industry. We found that consumers are still price-conscious although the economy is recovering. We assessed the variation in satisfaction that was attributable to two primary types of interactions between customers and retail associates: direct service on the sales floor and the checkout process.

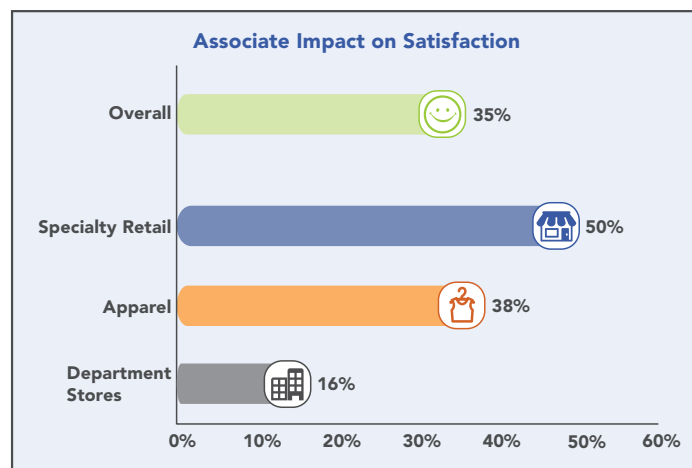
Our analysis found that 35 percent of the variation in customer satisfaction was directly attributable to associate interactions. The rest was due to factors such as merchandise selection and availability, pricing, store environment, sales promotions, return policies and loyalty programs. While that overall view proved that associates play a large role in general, it masked key differences across sub-sectors.

As a next step, we categorized our retail industry customer base into three primary segments: specialty retail, apparel and department stores. What we found was that the

associates become more critical to satisfaction, sales and profitability as the purchase experience becomes more specialized. Customers visiting a general merchandise department store are less reliant on associates as they are more likely shopping for familiar items and known brands. Apparel shopping needs may be more personalized as shoppers rely on associates to help them find the right fashions and sizes to meet their individual needs. Customers in specialty retail stores are most likely to need guidance as they seek solutions related to specific activities, projects and lifestyle needs.

After analyzing the impact associates have on customer satisfaction and how it varies across sectors, we looked at differences in the peak holiday shopping season. We assumed two possible scenarios: the customers' reliance on

associates would go up as they looked to buy just the right gifts, or associates might play a slightly smaller role as customers became more focused on sales and product availability with Black Friday sales and other promotional activities. What we found was that associates were equally important in driving customer satisfaction year round in the three sectors.



In summary, it is clear that associates are highly valuable, year round, in driving customer satisfaction, sales and profitability. They are critical to allowing brick-and-mortar retailers to differentiate themselves from online competition. It is, therefore, important that retailers measure both associate performance and engagement using state-of-the-art metrics that link to business outcomes as they plan their growth strategies for the future.

About CFI Group (www.cfigroup.com)

CFI Group is a global leader in providing customer feedback insights through analytics. CFI Group provides a technology platform that leverages the science of the American Customer Satisfaction Index (ACSI). This platform continuously measures the customer experience across multiple channels, benchmarks performance, and prioritizes improvements for maximum impact.

Founded in 1988 and headquartered in Ann Arbor, Michigan, CFI Group serves global clients from a network of offices worldwide. Our clients span a variety of industries, including financial services, hospitality, manufacturing, telecom, retail and government. Regardless of your industry, we can put the power of our technology and the science of the ACSI methodology to work for you.