

Playing Favorites

Survey responders had a hard time reaching consensus on a retail favorite. Is that because there is so much choice or so much disappointment?

Perhaps the results suggest that national chains are rarely anyone's favorite, except when there's no alternative national, regional, local or online. Or does it suggest that national chains still have a long way to go in meeting the higher-level needs and desires of customers? The answer is yes and no.

The problem may lie with the term "favorite." To be a favorite usually means there's passion and emotion involved. Passion and emotion are often missing at retail where it's usually about fulfilling the four basic needs of shoppers: price, convenience, consistency and expectations.

Retailers need more than fun-and-cool stores to win shopper favor.

At its most basic, retail has to be priced right—that doesn't necessarily mean the lowest price, just relative to the competitive set and brand positioning. It has to be convenient: location, location, location.

It has to be consistent: merchandise has to perform the same way all the time—at Safeway that might mean low out-of-stocks, while at H&M it means new merchandise on every visit. It has to meet expectations: checkout has to be swift, maneuvering in the aisles easy, customer service friendly and available.

In another recent survey, this one on consumer ratings of loyalty by Colloquy in their *Retail Loyalty*

Index, Walmart pretty much won on every measure in just about every region of the country and in just about every category in which they compete (which is just about everything).

Coming out of a recession, where getting the lowest price was a singular need for many people, it's not surprising that Walmart had the highest index. But would Walmart be anyone's "favorite?" Maybe—but only for the segment of shoppers that always considers getting the lowest price to be their only need.

But "favorite" for most shoppers would likely require that the retailer not only meet the four basic needs but also create some magic, something that elicits passion and emotion that goes beyond the basic and into the category of "favorite."

There are two ways to do that: through personal recognition or by creating a retail experience that is fun-and-cool.

The verbatim comments from the survey respondents pretty easily identified the real favorites, and not surprisingly, they are both national and local. The national favorites reach the higher levels of passion and emotion through design, and commitment to a unique mission, part of which is to be fun-and-cool.

Fun-and-cool is the goal for many national retail brands, as noted by Ivy Ross, an executive vice president of Gap in an *Ad Age* article after deploying a new iPad application in Gap stores: "Ms. Ross said the brand won't have download figures for another month, but she's happy with the initial reaction from consumers, many of whom are declaring Gap 'cool again,' she said."

Apple, Whole Foods, Nike, Starbucks, Trader Joe's, LuLu Lemon and H&M are fun-and-cool places to shop. These retailers believe that design is critical to being fun-and-cool and their brand doesn't waver from their mission statement. To their target segment customers, they are overwhelming favorites.

But it is precisely their unique mission and positioning that has created a point of differentiation; they will never be a consensus favorite because they do not interest shoppers who would select Walmart as their favorite solely on price.

On the other hand, the favorites that were local were favorites for delivering customer relationship management, or CRM—personal recognition and service in addition to a local brand of fun-and-cool. The magic was in knowing the shopper as a member of the local community. These were typically local coffee shops, hardware stores, general stores, sporting goods and grocery stores.

They could all be characterized by this type of survey respondent statement: “[My favorite coffee shop] creates an intentional community—not just where a barista knows your pour—but where the counter person acts as a hub for local gossip and news dissemination.” These shops do Facebook and Twitter the old-fashioned way.

Personal recognition and a higher level of customer service come naturally to many local retailers—it’s in the culture, as the staff is in tune with the local community, and the scope of the business lends itself to service. But even at the local level it’s hard to know who the best customers are and which regular shoppers create profit.

For example, most local hardware retailers think they know who their best customers are. After all, they’ll say, these customers are in the store every day and they see who visits every week. That is, until the retailers have data from their loyalty program and find out that they didn’t know who eight of their top ten customers were.

It’s interesting that most of the national retailers that are fun-and-cool are, for the most part, not invested in CRM. With the exception of Starbucks, which has a weak, half-hearted loyalty program, none of the aforementioned fun-and-cool retailers believes they need customer-specific data. They believe that their singular design and unique mission already segments their shoppers from those who shop Walmart.

They are, of course, mistaken. Just like every other business, whether national grocery or local hardware, they don’t know the difference between the customers who account for 50 percent of the profit in the business for years of lifetime value versus the customers who shop at their store only once. And to a certain extent, they don’t care. For now, they can

get away without CRM, because their unique brand positioning provides leverage most other retailers don’t have. But that will change.

The rest of the national retailers that are rarely anyone’s favorite are beginning to see the value of using CRM to create the passion and emotion. It starts with monetizing the data.

Kroger has begun to see the benefit of its investment in CRM by monetizing its data with its vendors. Manufacturers are paying to get real-time information on store- and shelf-level activity to better understand inventory needs and reduce out-of-stocks. This increases everyone’s revenue and makes for happier customers.

In addition, Kroger is investing in one-to-one marketing, serving up individual offers based on customer behavior. Others throughout retail are doing the same thing. The challenge is the next step.

Giving customers offers that are more relevant and customized based on their behavior will make the entire marketing process more efficient, resulting in higher returns-on-investment. Involving manufacturers will improve manufacturer marketing and lead to more efficient product assortment mix and product development.

The hard part is using the data to create knowledge about the customer that can be integrated at the store level to create magic through personal recognition and service.

The power of Kroger’s efforts, combined with Walmart’s relentless efficiency in pricing and inventory management, puts tremendous pressure on every other large, medium, and small retailer—whether national, regional, local or online.

It has been over twenty years since Ukrops launched the first loyalty program in 1987. As has been said about retail, it can take twenty years for a new idea to become accepted as a standard way of doing business. It will be hard for any retailer to be successful without either CRM or fun-and-cool. ■



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Chain

Is all retail local? Are national chains better? What about online?

When we think about our favorite retailers (those that understand our wants/needs best), do they tend to be national, regional, local, mom-and-pop or online?

We crafted a survey designed to get at this question by asking readers to choose whether their favorite retailer is national or otherwise across various categories. We then asked respondents to name their favorite retailer in each category and explain why.

Since national retailers are more dominant in some categories than in others, the results varied. For example, in the office-supply category, where Staples, Office Depot and OfficeMax dominate, 57 percent said their favorite retailer was “national.”

With supermarkets, where there are relatively fewer national chains, regional stores were on top, with local stores virtually tied with national. In the coffee category, it was almost an even split between national and local/mom-and-pop shops.

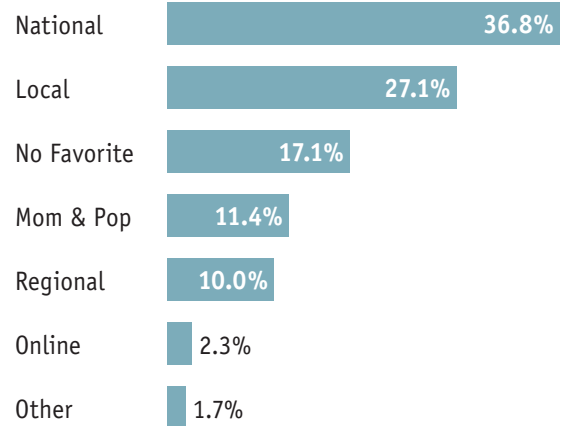
More striking was the prevalence of “no favorite” in certain categories — most notably sporting goods (49 percent), department stores (47 percent), convenience stores (54 percent) and general merchandise stores (60 percent).

Most of the other categories scored “no favorites” in the 30 percent range. Only hardware (21 percent), coffee (17 percent) and supermarkets (3 percent) registered below 30 percent on the “no favorites” scale. A notable number of respondents wrote “hate them all,” or words to that effect. Others were resigned, as in, “Do I have a choice?”

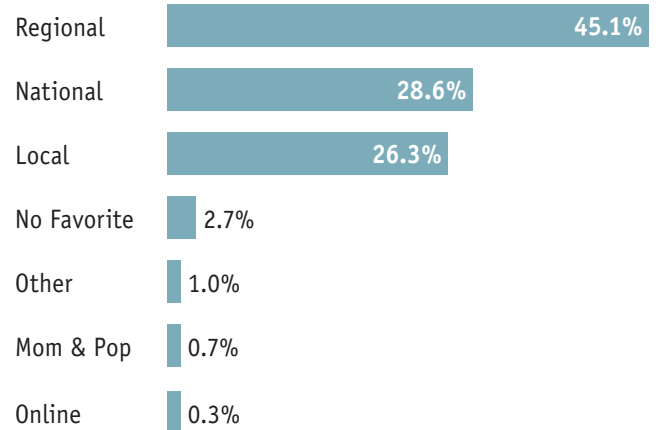
This suggests a rather sad state of affairs for retail, in general. Even in categories where a particular retailer scored high — such as Best Buy, named as the “favorite” retailer in consumer electronics — some respondents pointed out that this was by default, since “all the others have bitten the dust.”

A handful of categories, including coffee, hardware, books, office supplies and pharmacy, do seem to suggest potential for growth at the local level. In the coffee category, for instance, national (37 percent)

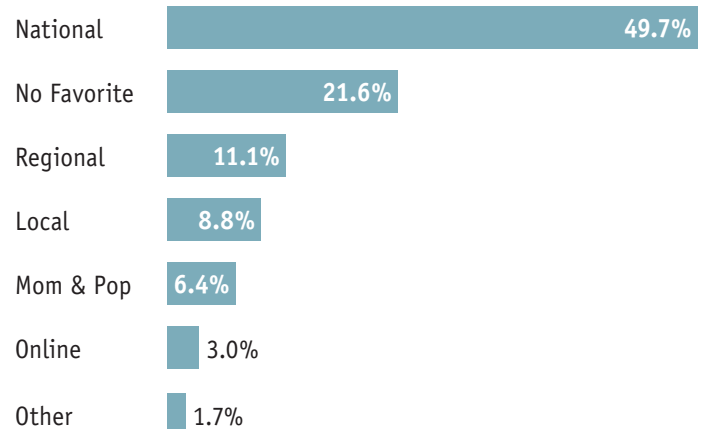
Is your favorite coffee retailer:



Is your favorite supermarket:

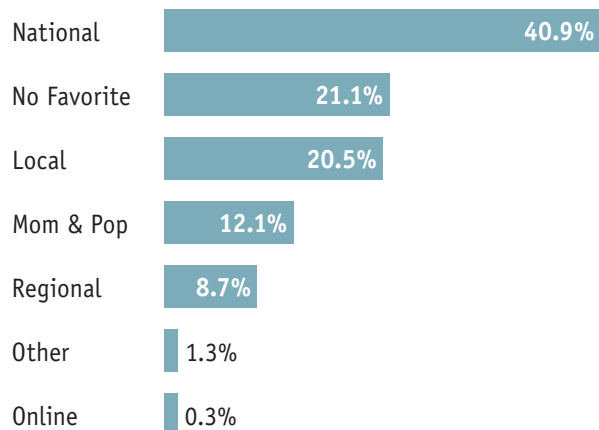


Is your favorite pharmacy:

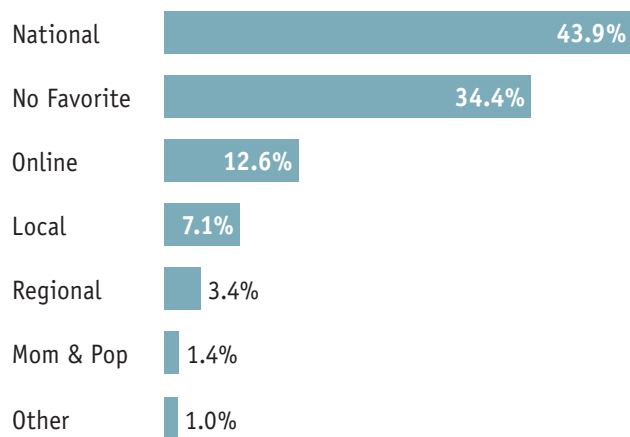


Gang

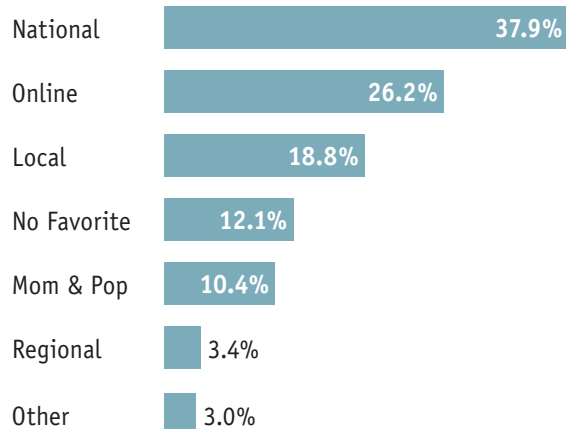
Is your favorite hardware/home-improvement store:



Is your favorite consumer-electronics store:



Is your favorite book store:



and local/mom-and-pop (39 percent) split fairly evenly when the question was asked generically.

However, when asked to name a specific favorite coffee shop, 48 percent named a local shop, followed by 38 percent selecting Starbucks and 11 percent picking Dunkin' Donuts. Among bookstores, 34 percent named a local shop, followed by Amazon (28 percent), Barnes & Noble (22 percent) and Borders (12 percent).

Even in the pharmacy category, where several respondents noted that local drug stores had disappeared, a surprising 23 percent named a local pharmacy as their favorite, versus 42 percent choosing CVS and 35 percent selecting Walgreens.

The hardware category is most interesting in this regard. A plurality of 41 percent said that their favorite hardware store is national, with 33 percent identifying local/mom-and-pop stores as their favorite.

But when asked to name their favorite store specifically, 54 percent picked a local retailer as their favorite, with just 28 percent selecting Home Depot and 18 percent choosing Lowe's. While many respondents had nice things to say about both big-box retailers, many didn't elaborate or indicate any particular enthusiasm.

By comparison, fans of local hardware stores frequently mentioned "personal service." In many cases these "local" shops are actually part of a franchise, but that doesn't seem to matter. "Tweedy and Pop's is a True Value Hardware store, but it feels like a mom and pop store," wrote one respondent. "It's our neighborhood hardware store."

Might the True Value model—local shops made price competitive by a national franchise—work in other categories? That might be worth considering, given the enduring appeal of local and mom-and-pop retailers.

Finally, we asked readers to pick the one retailer that understands them best. Sixty-five percent picked a national retailer, 21 percent local and 14 percent regional. Of the nationals, the number-one choice was Target (33 percent), followed by Amazon (20 percent) and Trader Joe's (13 percent). ■

Survey results:

www.hubmagazine.com/survey/mom_pop