

OLIVER WYMAN

Retail

Winning at home

How retailers can win a greater share of their natural customers



Introduction

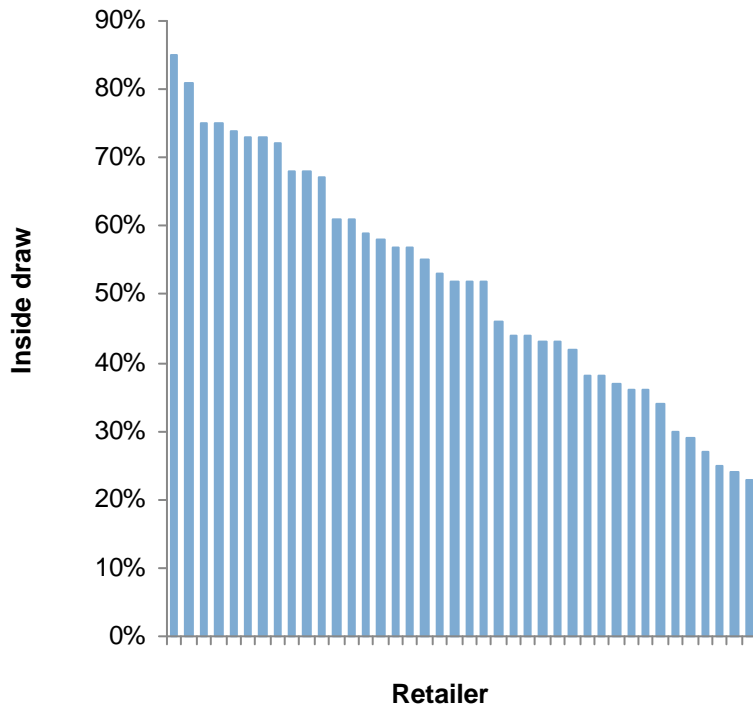
- Everybody knows the importance of location in retail. Retailers with the best sites win. However, the impact of location can obscure how well a retailer is doing at pulling in customers with the inherent attractiveness of its store offer.
- At Oliver Wyman, we use a simple yet powerful measure to capture exactly this. '*Inside draw*' is the percentage of customers for whom a retailer is the closest option that chooses that retailer as their primary store. These are the customers where the retailer has home-field advantage.
- When one looks at *inside draw* rates across different retailers, one sees a startling variation in performance. While the best players are capturing nearly 90% of these customers, others are capturing as low as 25% of them. The impact on the sales per store is obviously dramatic. This is why it is fairly common to find stores located right next to direct competitors that are doing one-half or one-third of their volume.
- The few retailers that understand what drives this massive variation in performance are able to design their store offer more quantitatively and more efficiently. They understand that customer satisfaction drives *inside draw* and they understand, in detail, what drives customer satisfaction. In most retailers, managing customer satisfaction has been an art because the hard financial value of a given improvement is too difficult to quantify. We show how to make it a science.

Inside draw

In most retail sectors, there is a startlingly wide range in the ability of retailers to capture the business of their 'natural' customers

Inside draw

Share of customers for whom store is the closest option (grocery example)



Observations

- Many retailers capture a relatively high proportion of the demand of their 'natural' customers (those for whom they are the closest option) attesting to the importance of convenience
- However, this proportion (which we call *inside draw*) varies widely across retailers – i.e., there are wide differences in the ability of a given retailer to capitalize on its convenience advantages
- While the best retailers capture nearly 90% of these customers, the laggards are only capturing the customers for whom convenience is the overriding factor behind store choice
- The *inside draw* measure is location-independent and measures the real underlying attractiveness of the store offer – these differences reflect how well the retailers are meeting customers' needs

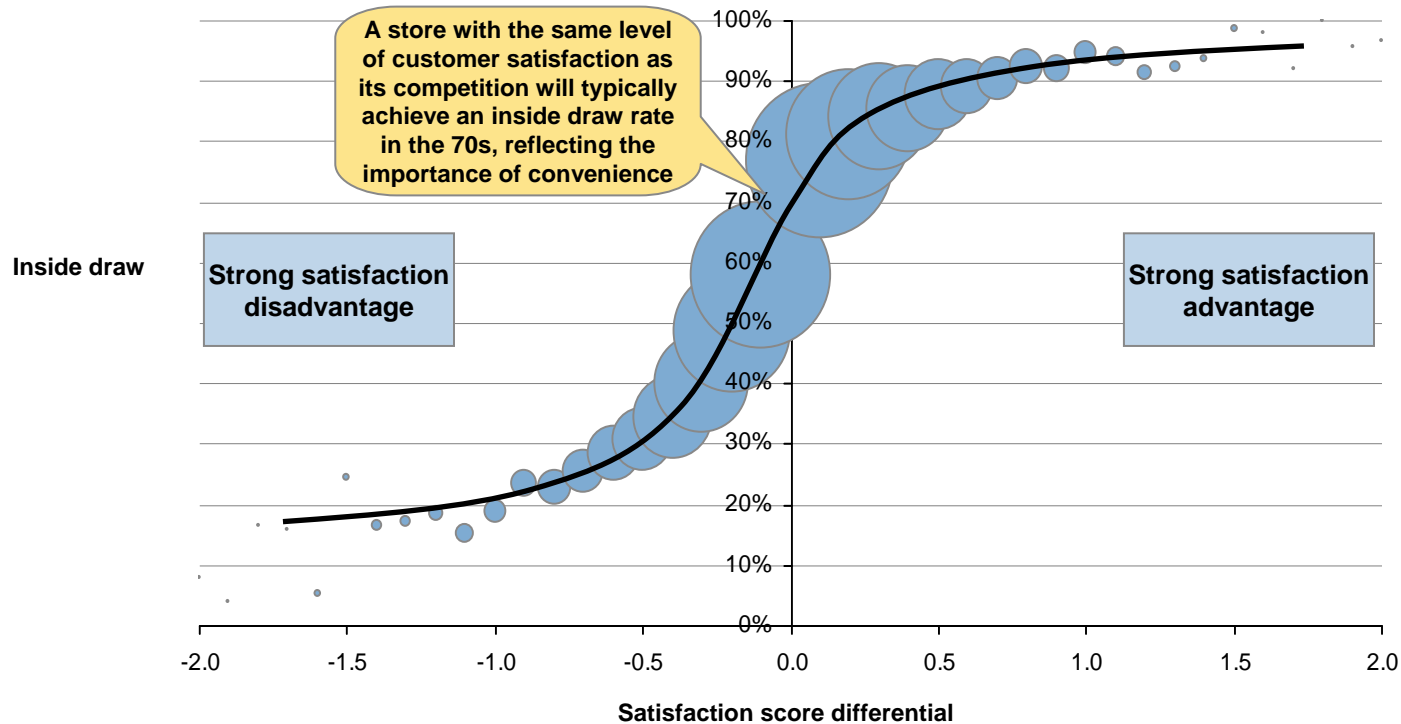
▶ **The best retailers are two or three times better at winning their natural customers than some of their competitors – what explains the difference if it isn't location?**

Source: Oliver Wyman 2008 Customer Perception Map Study

The importance of satisfaction

The *inside draw* rate has a direct and clear relationship with the relative satisfaction with a store compared to the other choices available in its marketplace.

The impact of satisfaction on inside draw
Example retailer



► Understanding this relationship allows satisfaction to be linked to real, observed customer behavior and hence to sales and profit.

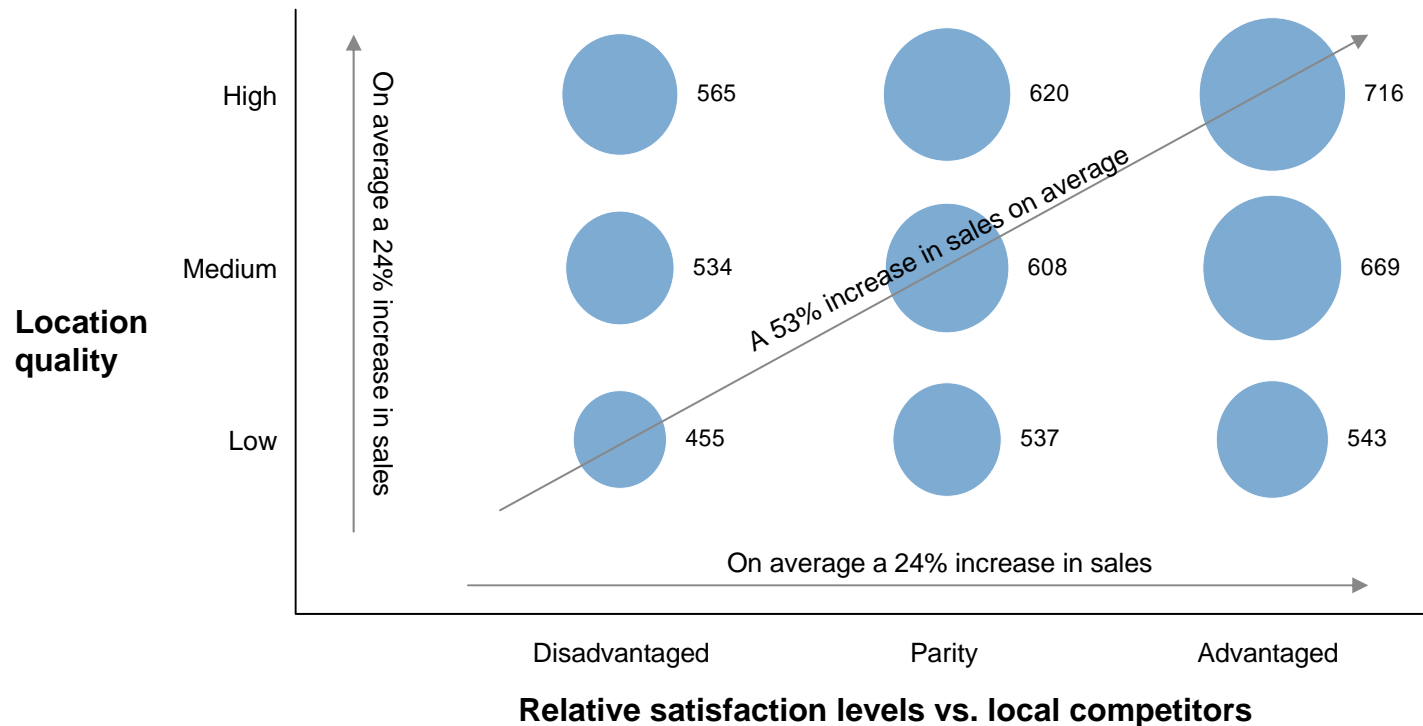
● Sample size

Using satisfaction to explain sales

The impact of differences in satisfaction on sales is easy to see by grouping stores by the quality of their location and by their customer satisfaction level relative to competitors.

The impact of location quality and satisfaction on store sales

Sales per store per week (\$k)



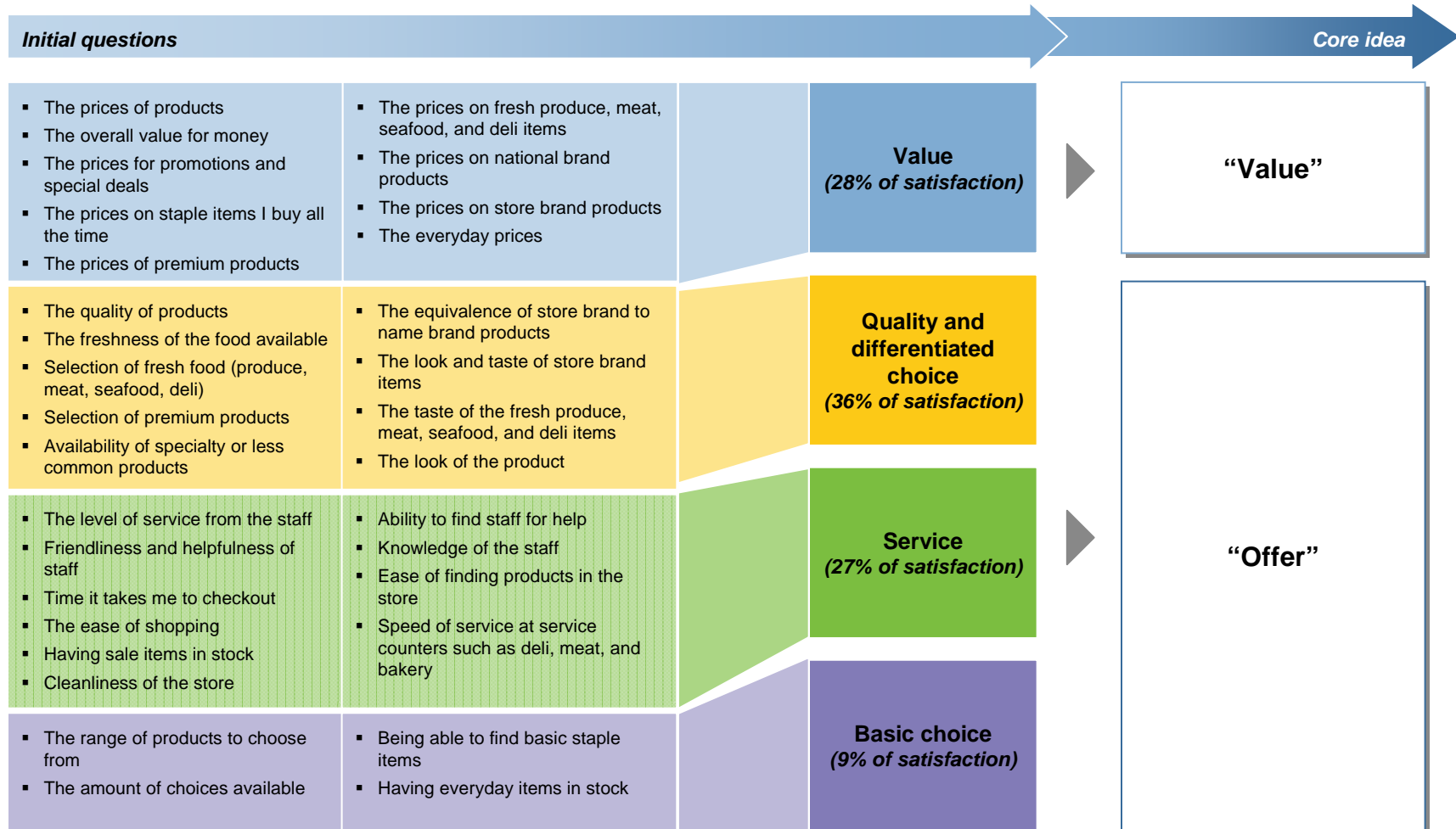
► **A real and quantifiable difference from relatively small differences in satisfaction levels – in extreme cases, the impact is much higher**

Understanding the components of satisfaction

Of course, ‘satisfaction’ can be a nebulous concept without being able to understand what it is made up of. We generally find four different elements, as this grocery example shows.

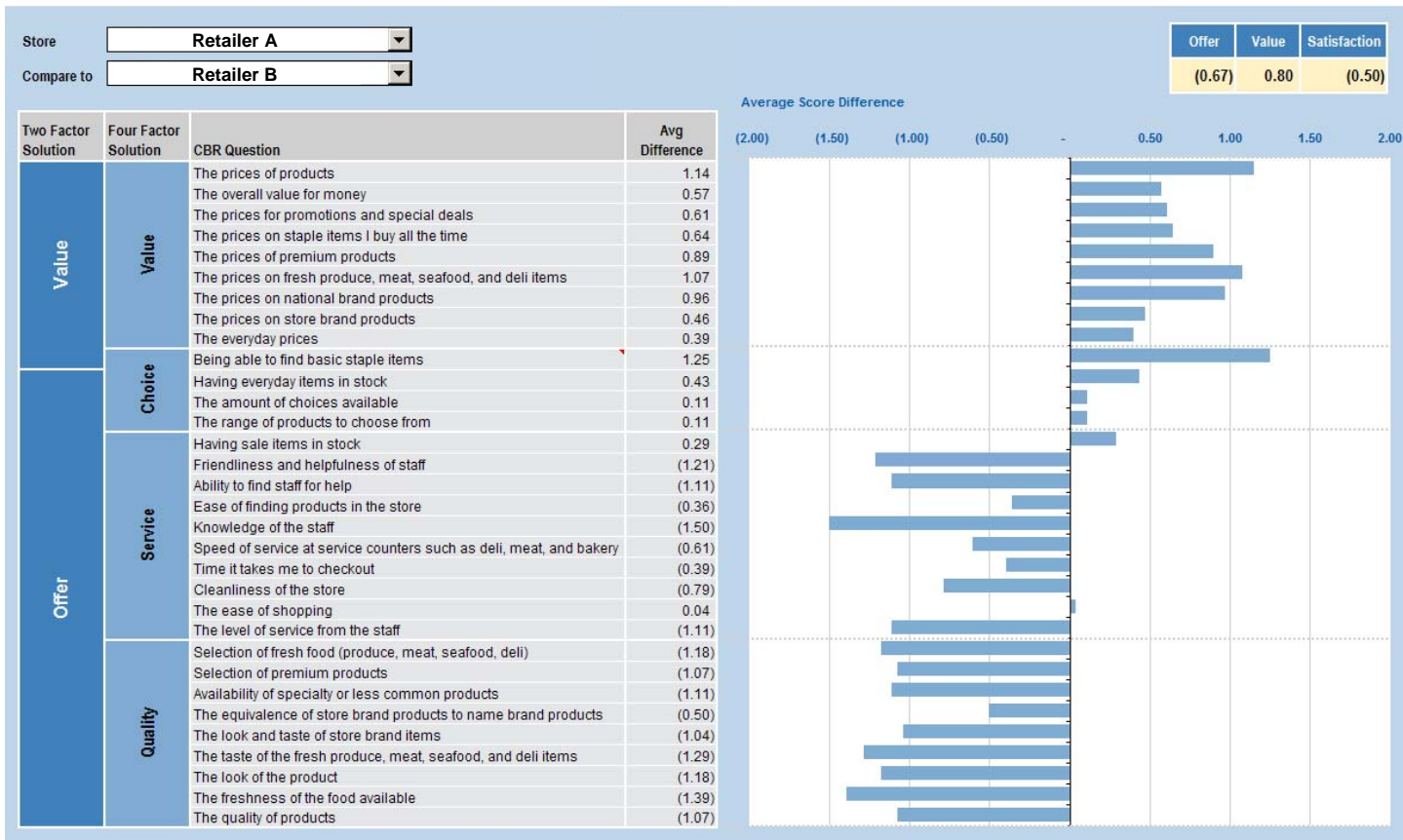
A set of 32 questions boils down to four essential ideas...

... and can be summarized by two



Head-to-head comparisons

By understanding the different components of satisfaction, each competitive battle you are fighting can be understood in detail *and* the value of improving in each area can be quantified.



► **This type of analysis provides an extremely powerful input into a retailer's strategic planning process, because investments in better customer satisfaction can now be supported with solid business cases.**

The Customer Perception Map

We find that a simple map summarizes the marketplace very effectively – the map plots perception of value for money against all of the other aspects of the customer offer.

Customer Perception Map
North American grocery retailers



▶ **Retailers above the line are winning the satisfaction battle, have the best home-field records, and are reaping the sales benefits. This simple map can be a powerful tool for tracking the strength of your overall customer proposition and for setting strategic goals.**

Using this approach to drive the business

Understanding these dynamics allows a retailer to improve the management of its business in three main areas.

Driving the strategic agenda

- Allows the leadership team to make better choices about where to invest in the customer proposition
 - In a highly quantitative, specific, and financially grounded way
 - Based on solid business cases and linked to explicit sales targets

▶ **Customer satisfaction delivered in a more economically efficient way**

Managing store performance

- Allows the true, underlying, location-independent level of performance of each store to be understood
 - What is the real upside available in each store?
 - Where will investing in the customer offer get the best returns?
 - What should the action plan be in each store?

▶ **Better tactical management of sales upside opportunities**

Anchoring 'customer-centricity'

- Allows the entire business to be oriented around a single framework which measures delivery against the desired customer experience
 - Customer satisfaction targets completely self-consistent with sales targets
 - Each part of the organization focused on the elements of customer satisfaction that are important and that they can influence

▶ **An organization aligned around delivering the customer experience**



Conclusions

- There is a very wide range in the ability of retailers to win their natural customers, which is driven by differences in customer satisfaction compared to competitors.
- Understanding customer satisfaction is critical for many retailers because, after location, it is the most important driver of store choice and sales; yet very few retailers have a *quantified* understanding of the financial value of better customer satisfaction.
- Building a quantified understanding allows retailers to manage their businesses better and to drive higher sales growth at lower cost:
 - Intelligent investment of scarce resources to improve the customer offer where it matters most
 - More focused attention on the stores where there are real sales upsides
 - Better alignment across the organization around the delivery of the customer experience
- Because *inside* draw varies so much, the difference in sales per store between the best and the worst retailers (on an identical site) can be a factor of two or three times. Even a fraction of that is a prize well worth seeking. A better understanding of *inside draw* and customer satisfaction is a powerful tool for capturing it.



Contact details

About Oliver Wyman

Oliver Wyman's Retail Practice has a more-than-20-year track record in helping clients deliver high-impact performance improvements using proprietary, state-of-the-art analytical tools and techniques. We help retailers deal with the full range of their challenges, including pricing and promotions strategies, space and assortment optimization, improved sourcing, store and supply chain cost reduction, inventory management, and capital efficiency.

For more information

To learn more about this topic or to find out more about Oliver Wyman's retail capabilities, please contact:

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