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*Winning in
retail with a
targeted store
service model*



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This report was originally published by Booz & Company in 2008.

Executive summary



In a competitive retail environment, with numerous players trying to reach the same pool of consumers, it's important for retailers to be able to differentiate themselves to keep attracting customers to stores. New products, competitive prices, and convenient store locations have traditionally been elements critical to rousing shoppers' interest and driving them to stores. These factors continue to be important, but in-store service has become a vital dimension for retailers that want to deliver a superior, differentiated experience that customers will remember the next time they shop.

In the pursuit of such memorable service, many retailers have tried to address all aspects of the consumer experience in the store without a clear strategy regarding which services to emphasize. This confusion is especially endemic among the retailers that find themselves in a middle position in terms of service — between the model of factory outlets and warehouse clubs, which have virtually no service, and the full-service model of some high-end retailers, which may offer personal shopping, concierge services, product setup, alterations, layaway, and gift wrapping. The retailers in this no-man's-land tend to jump on trends they observe among competitors and offer the same services without a clear understanding of which ones matter most to their customers.

This confusion has often yielded a mediocre overall service experience as resources have become stretched in too many directions. Clearing up the confusion and getting in-store service right is critical. In this article, we review the services that really matter to customers, dissect the hidden costs of trying to be all things to all people, and offer a framework for choosing the best service approach.

Service is a key driver of store success

Shoppers have more options and show less loyalty than ever before. The challenge for retailers increasingly revolves around their ability to turn customers into repeat buyers instead of one-time shoppers. Delivering a differentiated and appropriate service proposition is critical to addressing this challenge and creating a convenient and positive shopping experience that customers will remember the next time they shop.

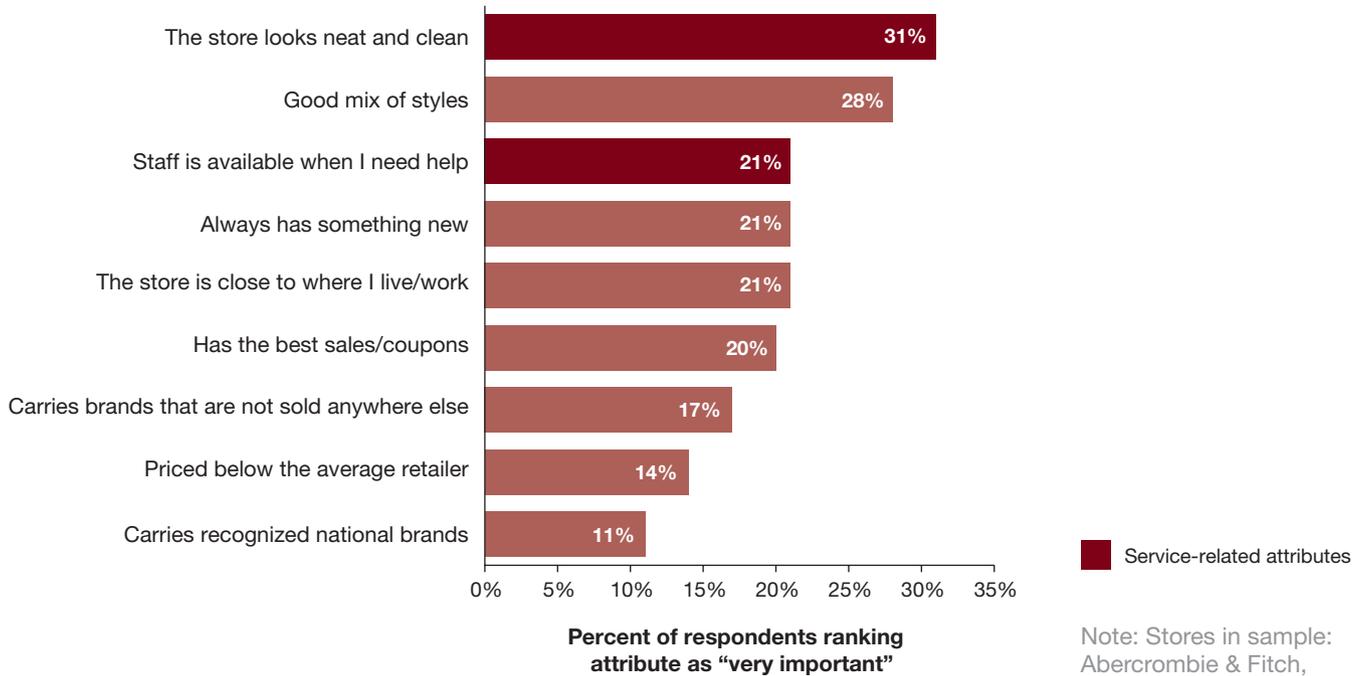
An annual customer service survey conducted by the National Retail Federation (NRF) highlights the importance of in-store service in bringing customers back to the store and driving sales. According to the survey, 99 percent of shoppers said that customer service was at least somewhat important when they were deciding whether to make a purchase. “Consumers are beginning to demand more from retailers and are making conscious decisions about where to shop based on their expectations for good service,” said NRF President Tracy Mullin.

In a recent study conducted by Strategy& for the specialty apparel retail segment, shoppers highlighted service-related attributes as being among the top factors that drive them back to stores. Among the attributes that shoppers feel are “very important” when selecting a specialty apparel store, store neatness and cleanliness comes first and staff availability third, placing these service-related attributes ahead of many product, price, and location attributes (*see Exhibit 1, next page*).

Several retailers have used in-store services as a way to differentiate themselves and create a sustainable competitive advantage. For instance, Best Buy has begun aggressively marketing installation and product setup and other services alongside flat-panel TVs and PCs. The company has invested in training its sales associates to provide product information and sales support to customers, which has translated into a major point of differentiation between Best Buy and Wal-Mart, whose atmosphere many shoppers perceive as hurried and impersonal. Despite Wal-Mart’s attempt to push consumer electronics heavily earlier in the decade, the retail giant still struggles to sell big-ticket TVs.

Exhibit 1

Importance of attributes for those selecting a specialty apparel retailer



PetSmart is another example of a retailer that has leveraged the service dimension to better compete in the marketplace. As many supermarkets and mass merchandisers began expanding more aggressively into pet food and supplies, PetSmart started to offer pet grooming and kennel stays, creating a difficult-to-imitate service proposition for pet owners who now see PetSmart as a one-stop shop to take care of their pets.

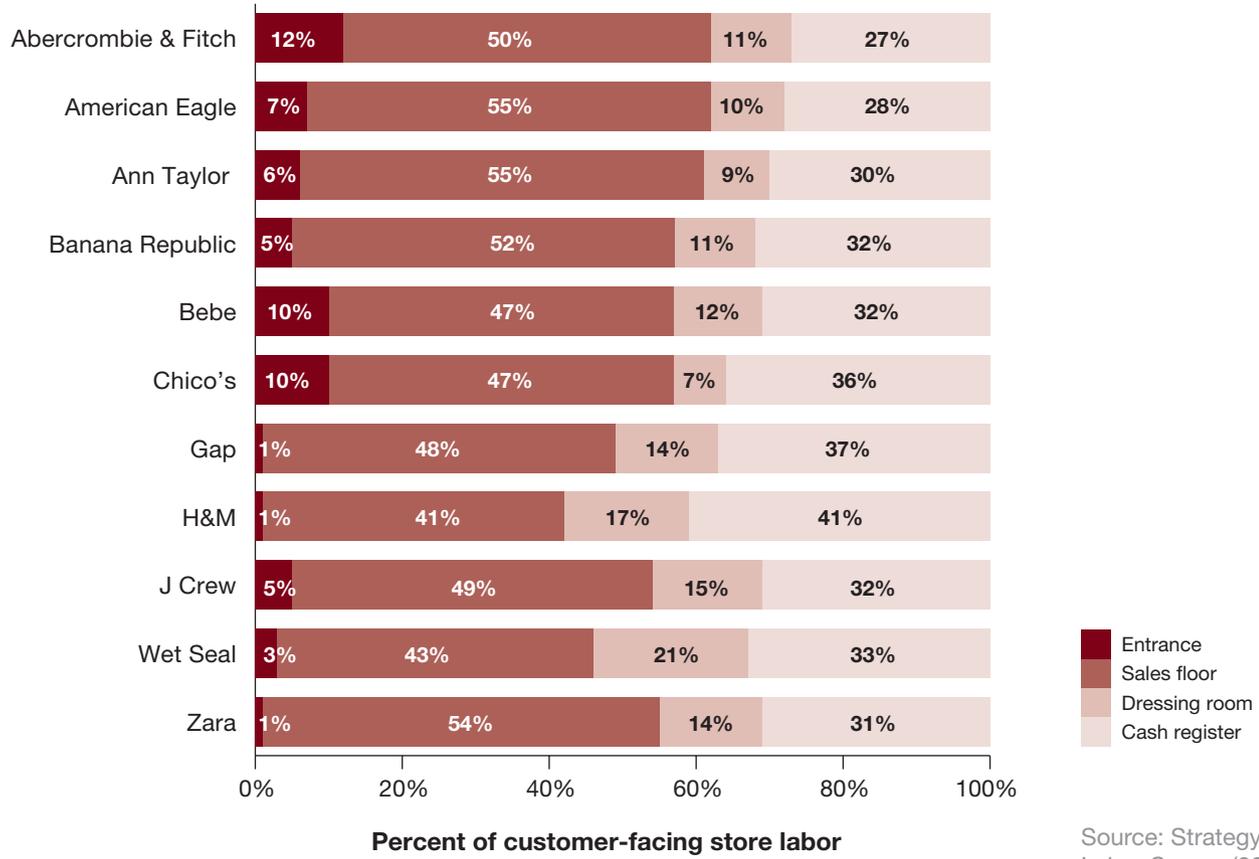
Approach to in-store service has often been scattershot

As retailers have set out to enhance customer service and attract repeat buyers, many have attempted to address every aspect of in-store service. For example, common elements of the shopping experience at most specialty apparel retail locations include being greeted upon entrance, being given advice on the latest product trends, being offered help from store associates on the sales floor or in the fitting room (to carry items, help in product selection, or find sizes), and being bid farewell on departure. In a Strategy& study of many specialty apparel retailers, labor distribution across all the customer-facing activities in the store was found to be quite similar (*see Exhibit 2, next page*).

The fact that competing retailers show similar store labor deployment indicates that they are all offering the same mix of services, even though their value propositions to customers are quite different. This approach is symptomatic of their confusion, in many cases, about which services to emphasize. A scattershot approach to service is endemic to the retail industry.

Exhibit 2

Customer-facing labor deployment in specialty apparel stores



Source: Strategy& Store Labor Survey (2007), Strategy&

Trying to do everything is costly and inefficient

Although in-store service is key to retailers' success, trying to do everything is not the answer. Many retailers have embarked on a journey to deliver a wide array of services without a clear understanding of what service really means to consumers or a knowledge of which service activities make a real difference in traffic, conversion, and transaction size. Trying to enhance in-store service without a clear focus is both costly and confusing. Increasing the level of service across all customer-facing activities (e.g., providing product information and suggestions, helping to locate items, offering opinions and advice, greeting customers upon entrance, and ensuring neat product presentation) translates naturally into more work for store associates and managers to perform. This generates huge costs for the retailer in two major ways: (1) directly through increased labor costs, and (2) indirectly through the cost of added complexity.

- **Increased labor costs:** Multiplying the number of service activities to be performed in stores or increasing the degree of quality with which they are performed often translates into additional labor requirements — and hence into additional labor costs. Store labor represents the second-largest cost for retailers after cost of goods sold, typically accounting for 10 to 15 percent of total sales. In the case of a large specialty retailer, adding one full-time associate in each store could affect the bottom line by as much as 1 percent. Investing in enhanced service levels across all dimensions of customer service without a clear understanding of their expected costs and benefits can thus weigh significantly on operating results. Therefore, understanding the service elements that create the most value for their particular customers is critical to eliminating unnecessary services and making the right trade-offs to balance costs and services.
- **Cost of complexity:** The cost of complexity is the other significant, albeit hard-to-measure, cost for retailers. Added complexity, brought about by the proliferation of activities for store associates, makes running efficient store operations more difficult and eventually leads to a costly loss of focus. For example, retailers are setting increasingly strict standards for both replenishment

and merchandise presentation — which increases the time required to fill the shelves. At the same time, they want store associates to provide increasing levels of support to customers; they often require associates to approach customers and proactively offer help and drive more sales. Because of budget constraints, such increases in service levels often have to be accomplished without commensurate increases in staffing levels. Many stores have to deliver more without significant additional resources. They find themselves doing a little bit of everything moderately well — and nothing really well, amid a general loss of focus.

Worse, this damaging loss of focus typically extends beyond store associates to the broader store operations leadership team through the multiplication of service activities that must be managed. Store managers are typically responsible not only for tracking sales performance, recruiting and training, scheduling staff, ensuring efficient back-room operations and product presentation, and monitoring cash wraps, but also for managing all additional services such as sales support, concierge services, greetings, gift wrapping, and product maintenance and setup to ensure that all services are being appropriately delivered to customers.

Beyond added costs, a poorly or too broadly defined service model will typically create significant human resources challenges at the store level. For instance, recruiting is a difficult exercise when the required skills are not clearly defined or are defined too broadly. The risk is that retailers will bring employees on board who are lacking the appropriate broad skill set, and will create frustration among employees who might end up performing activities beyond the ones for which they were initially hired. Down the road, this worsens the chronic turnover issue many retailers already face.

Additionally, compensation and incentive structures pose challenges when the service model is not well defined. For instance, although a commission-based system is appropriate in a service model strongly emphasizing customer interaction, it can create problems in a broader service model — because it provides store associates little incentive to perform non-sales tasks.

Choosing the right service approach

To deliver the differentiated in-store experience that customers seek without unnecessarily increasing complexity and costs, retailers have to focus their service enhancement efforts to invest where it really matters. Success comes with a service model that:

- Fits with the type of products or services sold
- Aligns with the overall corporate strategy and store operating model
- Focuses on the services that have a major impact on customer behavior.

1. Fit with the type of products or services sold

The type of products or services sold is a major factor for retailers to take into consideration when selecting where to invest in in-store service activities. Customers' needs for types and levels of support in their purchasing decisions vary as widely as the product and service categories. Complex products or services, or those with which many consumers have a limited level of comfort and knowledge (e.g., high-tech electronics and complex financial products) will tend to call for a "high-touch" service approach characterized by a high level of personal contact. Similarly, products or services that represent a major purchase for customers — because they are expensive (e.g., a car) or emotionally important (e.g., a wedding dress) — will typically benefit from high levels of interaction between store associates and customers. Finally, specific product or service constraints will also have an impact on the optimal service level. For instance, the sale of eyeglasses typically requires a higher level of customer interaction given the need for sales associates to go through all lens options with customers, ensure that the lenses fit the chosen frame, and make any necessary changes to the frame for it to be comfortable to wear.

2. Alignment with corporate strategy and other store model elements

The second factor to take into account is the overall strategy of the company. Within the constraints of a given industry segment, retailers have many possible strategic options based on target population groups, brand image and value proposition, positioning versus competitors, and distribution strategy. A retailer's chosen strategy naturally has a direct impact on its type and level of in-store service. Overall, the objective for a retailer is to ensure that its in-store service model is strongly aligned with the company's overall strategy and with the other elements of the store model set up to deliver on this strategy — assortment, price, store environment, and merchandising. There is therefore no single model that will work for all retailers, in all product categories.

Zara is an example of a retailer that has gotten all these elements in perfect alignment with each other. Its overall corporate and brand strategy is to deliver the hottest and most up-to-date product trends at accessible prices. Unlike other specialty retailers, Zara builds its assortment on individual items instead of collections. Markdowns and promotions are very limited, compared to industry averages, because Zara is able to get the assortment right. Merchandise is displayed mostly on hangers to facilitate replenishment and to maintain neat product presentation. The service model is focused on ensuring that products are available on the shopping floor and regularly replaced, given the short life of most items. Limited sales support is provided, unless customers ask for help. Other services, such as product or styling advice, support in the fitting rooms, alterations, and greetings are typically not offered. The model is to deliver the right product and make sure it is available on the sales floor for shoppers.

This example shows that a good in-store service model is one that complements the other elements of the store model to deliver on the retailer's specific strategy and meet the needs and expectations of its specific target customer segment.

3. Focus on the services that have a major impact on customer behavior

The third factor for retailers to consider is the need to focus. Among the range of possible services that could potentially be developed for the retailer to support its specific strategy and value proposition, it is vital to concentrate investments and efforts on those services that have the biggest impact on customer behavior. The key challenge is to identify the services that make a real difference for each retailer's specific target customer base.

Focusing on the most critical services also means accepting that other areas of service are less important — and getting out of the services that do not line up with one's strategy and do not show value for the money. For instance, Zara's service model leverages the company's ability to quickly bring new trends to the store to attract customers. The focus is to ensure that products are available on the floor, limiting the sales support provided to customers. Bringing in knowledgeable sales associates to support customers would definitely enhance customer service but not necessarily improve sales to the point where it would justify such an investment.

How to change: Research, test, and learn

Understanding what customers really want is essential to identifying service activities worth investing in. To this end, many retailers have invested significant time and money in a variety of consumer surveys aimed at tracking customers' opinions over time. This exercise is sensitive, however, and involves two common pitfalls. The first is that retailers often develop consumer surveys that are not designed to help the company understand what customers want; instead, they focus on measuring how the company is doing against the dimensions of service it thinks is right for customers. The second pitfall is that in many cases, companies are tempted to try to measure and act on everything and can end up developing broad consumer surveys covering all aspects of the customer experience. Such lack of focus is detrimental. When surveys cover multiple topics, the resulting insights tend to be overly general and thus hard to comprehend and act upon. Moreover, using consumer surveys to track a company's performance across a large number of service variables often means that the organization can lose focus and incur unnecessary costs as it tries to go after too many objectives at the same time without clear prioritization.

Focus groups, another tool used to measure customer satisfaction, also have the benefit of providing ideas for improvement to the current service model. However, they are usually not sufficient for making decisions about major service model changes. Customers can give insights about what they think is important to them, but they might not be fully aware of what actually drives their purchasing behavior. Moreover, they might find it difficult to have an opinion on what could be versus what already exists.

Actual tests in physical retail locations are necessary for companies that want to understand the real potential of possible service model changes, and to select the ones to be rolled out. Ideas to improve the model will come from a variety of sources, including consumer research and feedback from the field. Store pilots should be developed and implemented to measure the benefits and costs of the most promising of these ideas — filtered on the basis of their expected impact, cost, risk level, and fit with the company's overall strategy and other elements of

Understanding what customers really want is essential to identifying service activities worth investing in.

the store operating model. Only pilots followed by rigorous analysis can provide a solid case for major changes to the current service model. They are a pivotal part of any retailer's store labor optimization effort (see Exhibit 3, next page).

Sustained success requires that retailers actually embrace a continuous "test and learn" strategy to improve their in-store service proposition on an ongoing basis. The objective is to refine the in-store service model and make it evolve over time to meet changing competitive dynamics and consumer preferences. For some, such an analytical approach to service model decisions might be a significant departure from the way things have traditionally been done, which comes with its own challenges. Engaging in a test-and-learn approach to store model definition with regular in-store experiments calls for a strong commitment to set up appropriate resources internally. Notably, this means investing in the right analytical talent to design and analyze experiments, and potentially investing in information system upgrades where the current infrastructure cannot support the needs of the new strategy.

Seeing the value of the test-and-learn approach, some retail companies have already fully committed to such a strategy. For example, shoe retailer Famous Footwear has created a Test & Learn group within the company in order to build its retail optimization capability. "Famous Footwear has applied Test & Learn in virtually every operational area of our business," commented Alan Sue, Famous Footwear's director of Test & Learn.

Some retailers have even taken the approach one step further and have created specific physical store testing locations. Bank of America, for instance, has fully embraced service model experimentation in its retail branches.¹ To go beyond the constraints related to testing a wide array of ideas in traditional branches, the company has created a prototype center at its headquarters to help plan successful experiments and has set up a number of specific test branches. These testing capabilities are leveraged through a structured test-and-learn process (see Exhibit 4, page 16), accompanied by the relevant organization (including a dedicated innovation and development team) and information systems.

Testing in stores is clearly more challenging than it is in an online or mail environment, given that the number of testing units (e.g., the stores) is limited and that the number of variables is significant in an environment where human interactions are key. But it offers superior value in identifying optimal service activities and service levels that consumer research alone cannot bring.

The in-store service model must evolve over time to meet changing competitive dynamics and consumer preferences.

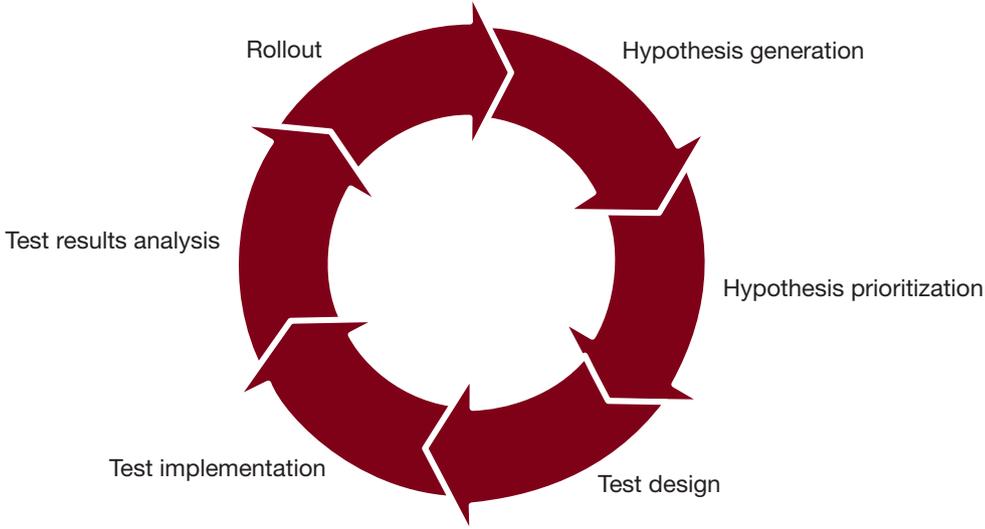
Exhibit 3

Case study — store service optimization at leading consumer goods retailer

Situation	Store service optimization initiative
<p>Context</p> <ul style="list-style-type: none">• A consumer goods retailer decided to rethink its in-store service model to better align it with what its customers wanted• Its objective was to optimize store staffing levels and focus store associates on the highest-impact service activities• The company put together a task force to do some initial investigation into the current state of service across its stores	<p>Approach</p> <ul style="list-style-type: none">• A cross-functional team was assembled to review existing store processes and optimize the service operating model• The team developed preliminary hypotheses concerning both service activities and staffing levels that were based on:<ul style="list-style-type: none">– Observations in selected stores– Additional interviews with store personnel– Customer research insights– Statistical analyses of store performance• The team then selected high-potential hypotheses that needed to be tested and structured in-store pilots—carefully selecting the number and type of pilot stores, and timing the pilots to ensure statistically significant results
<p>Major challenges</p> <ul style="list-style-type: none">• Interviews with store managers and associates combined with financial analyses uncovered three major challenges:<ul style="list-style-type: none">– A major increase in the complexity of in-store activities had led to unnecessary labor costs and inefficiencies.– The alignment of in-store service activities with customers' expectations and the brand's strategy was unclear.– Financial performance varied greatly across stores, suggesting significant opportunities for improvement.	<p>Results</p> <ul style="list-style-type: none">• Pilot results confirmed significant store service model improvement opportunities involving:<ul style="list-style-type: none">– Store staffing levels across peak/non-peak periods– Staff deployment across service activities and areas of the store– Service-oriented incentives offered to store staff• Opportunities to eliminate, streamline, or automate administrative activities were identified and implemented—allowing staff redeployment to value-added service activities
<p>Key questions</p> <ul style="list-style-type: none">• Addressing those issues required answering a set of questions:<ul style="list-style-type: none">– Is store service aligned with our strategic vision?– What type of service do the brand's customers expect?– How should store labor be allocated to deliver against those expectations while minimizing labor costs?– What is driving the workload of our store personnel?– Have we overcomplicated their roles?	

Source: Strategy& Store Labor Survey (2007), Strategy&

Exhibit 4
Test-and-learn process



Source: Strategy&

Differentiating service levels within the fleet

A universal service approach is not necessarily the most efficient way to maximize the opportunities across a given fleet of stores. For some retailers, opportunities to differentiate the service model within their own fleet are worth exploring.

Adapting the service model by geography and type of locations can show significant potential. Demand pattern, shopping behavior, and local culture can vary significantly from region to region and even from store to store; a more tailored model can potentially deliver better results. Differences related to store size and location are also worth exploring. Small stores, given the lower traffic, may benefit from a more service-oriented model designed to create a boutique environment with a closer connection between customer and store associate; meanwhile, large, high-traffic stores might find a limited-service model to be preferable. Street stores, which function as a destination for shoppers — usually returning shoppers — can also benefit more from a high-service model than mall stores, where shoppers might be just passing by.

In some instances, there are also opportunities to differentiate the service approach within a given store — e.g., by time of day or by section of the store. For example, the characteristics of customers shopping during peak and nonpeak hours can be distinct. In some cases, nonpeak shoppers might be looking for more interaction with store associates and intentionally visit the store when traffic is lower.

Another opportunity can be to differentiate the service level provided in the different sections of a store — for example, shopping floor versus fitting rooms for apparel and department stores. Shoppers in the fitting room have already completed the first major step in the purchasing process by deciding to try on the product and might be more receptive to product suggestions than customers browsing products on the sales floor. There might be an opportunity to deploy more store associates to the fitting room area to drive additional sales. For example, Best Buy

increases sales staff in areas such as TVs and home-theater systems, whereas in DVDs, games, and other consumer electronics, service is much more limited.

These are all potential areas for service differentiation that are worth it for a retailer to explore while maintaining its identity for customers across the fleet.

Conclusion

Store service is a key success factor in the current retail environment, but retailers have to carefully pick and choose a select number of service activities in which to invest. Trying to act on all aspects of in-store service is both costly and inefficient, with distracting complexity in store operations. Enhancing the store service model does not mean increasing the level of service in all dimensions of the customer experience. It means investing in a focused way in the service activities that most powerfully drive customer satisfaction and purchase decisions, and striving for excellence on these key levers. To achieve this goal, it is critical to understand what actually determines the purchasing behavior of consumers. In addition to targeted customer research focused on what customers want, retailers must conduct in-store experiments to fully assess the benefits, costs, and risks of high-potential ideas for store service improvement. If these efforts are executed well and in alignment with other dimensions of the retailer's sales proposition, strategy, and culture, they can have a major impact on store performance.

Endnote

¹ "R&D Comes to Services: Bank of America's Pathbreaking Experiments," *Harvard Business Review*, Vol. 81, No. 4 (April 2003).

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This report was originally published by Booz & Company in 2008.

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