

Big Opportunity in 2009 Prospering In Hard Times Through Customer Insights



TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 1

THREE EASY WAYS TO INCREASE SALES 1

SO, HOW MUCH DOES THIS INFORMATION COST? 4

COMMITMENT INSTEAD OF RETREAT 5

ABOUT ICC/DECISION SERVICES 6

EXECUTIVE SUMMARY

To paraphrase an old saying, “When the going gets tough, retailers start slashing operational costs.” Ironically, cost slashing usually exposes a retailer to even greater risks instead of fortifying it against economic uncertainties. All businesses have felt the impact of today’s volatile economy. Retail has been hit especially hard, with sales in 2008 down by more than 2% - the first decline in over 30 years.

Despite such dour statistics, there are plenty of opportunities to gain share in today’s market. Possible gains, however, require aggressive actions. Moreover, gains will be even more significant if your competitors concurrently pull back on their programs and staffing following the cost-cutting crowd. Hard times offer a tremendous opportunity to increase your market share!

If hard times are indeed the time to play harder, then we need to remind ourselves how we can increase our sales.

THREE EASY WAYS TO INCREASE SALES

In good times and bad, retailers’ sales are, of course, dependent on several basic conditions: store locations, merchandise offered, inventory, proximity of competition, and staffing to name just a few. Beyond these basics there exists three additional, service-oriented ways to improve sales.

1. Sales Increase as Conversion Rates Rise

Today’s typical apparel store retail conversion rate stands at only 18% (82 out of 100 people who walk into a store leave without making a single purchase). While this is a statistic begging for understanding, in harder economic times it makes even more sense to know why shoppers leave your stores without making a purchase. Astute executives also track transaction volume to guard against an apparent but false rise in conversion rate caused by a drop in shopper traffic. To illustrate the dramatic effects of increasing your conversion rate, try using the ICC Decision Services sales calculator (shown below) to calculate the lift in sales you would receive from an incremental improvement in your conversion rate. In the example, increasing conversion from the benchmark 18% to 23% results in a yearly additional **\$8,176,000** in sales per 100 stores!

Increasing your conversion rate can dramatically improve your sales.

Do you know why shoppers leave your stores without making a purchase? Perhaps you should consider asking them by employing a customer exit interview program in select locations. **Exit Interviews** are conducted on premise, just as customers leave your stores. Trained interviewers intercept customers leaving without making a purchase. The interviewers ask them a series of questions created to explore exactly why they left your store empty handed. **Exit Interviews** often dispel intuitive explanations. For example, one, big-box retailer discovered they were not losing sales due to inventory outages, but because shoppers could not find the merchandise they wanted.

Example

ICC/Decision Services Sales Calculator – Customer Conversion™

		Current Store Performance	Potential Store Performance
Given the following average daily traffic...		160 customers	
A change in the conversion rate...		from 18 %	to 23 %
Will result in the following number of purchases:		28.8 purchases	36.8 purchases
With an average dollar sale of...		\$ 28	
Over the course...		365 days	
In a chain with...		100 stores	
The estimated sales will be:	Subtotal:	\$29,433,600.00	\$37,609,600.00
<input type="button" value="Calculate"/>	Difference:	\$8,176,000.00	

2. Sales Increase as Suggestive Selling Is Employed

Our studies show that improving suggestive selling can increase the bottom-line by millions. To effectively increase suggestive selling you need to provide your sales staff with real reasons that customers should buy your merchandise. This will help them to reinforce the customer's decision process. Next, you need assurance that sales associates follow through with each and every customer. You can further expand your suggestive sales programs by increasing sales through accessories and related products. Obviously, the more merchandise the customer is exposed to, the greater the likelihood that she will buy something. This means *active selling*, not *passive assistance*. Sales associates need to be reminded to actively sell and be motivated to follow through.

Do you know how actively your sales associates conduct follow-through selling? Use a **Mystery Shopping** program to objectively assess the compliance with your selling guidelines. **Mystery Shopping** utilizes trained shoppers to visit your stores and observe how guidelines are followed. The shoppers are sent into your stores with a list of *observables* (cleanliness of the store, display conditions, etc.) and a list of *actions* (approached by an associate, had additional merchandise suggested, etc.). After shopping your store, the shopper accurately documents her/his experience and the extent to which she/he saw each observable and received each action. In the below example, increasing suggestive selling from the benchmark 20% to 50% results in a yearly additional **\$5,216,400** in sales per 100 stores!

Example

ICC/Decision Services ROI Calculator - Suggestion Selling™

1. If the rate of suggestion selling changes from	<input type="text" value="20"/> % to <input type="text" value="50"/> %
2. ...with a conversion rate of	<input type="text" value="23"/> %
3. ...and an average item price of	\$ <input type="text" value="28"/>
4. ...and average daily transactions of	<input type="text" value="75"/> per store
5. ...in a chain with	<input type="text" value="100"/> stores
The estimated change in annual sales would be:	\$5,216,400.00
<input type="button" value="Calculate ROI"/>	

3. Sales Increase as Customers' Experiences Improve

Sales strategies and selling themes developed at the corporate level very often are not executed at the store level. Most chain executives are so busy and immersed in their jobs that they don't have enough time to objectively audit the customer experience their stores are delivering. Even when headquarters personnel make the effort to conduct store visits, it is rare that they actually experience their store in the same way that customers do.

Compliance is mystery shopping's realm; experience and emotion are the metric of customer satisfaction.

Do you know how it feels to be your customer? A **Customer Satisfaction Survey** provides an direct view from your customers' perspective. In contrast to the objectivity and process orientation of mystery shops, satisfaction surveys are about perceptions – the feelings of your actual customers. **Customer Satisfaction Surveys** are conducted by interviewing a sample of your customers to determine their perceptions of your stores and sales associates. The result of a properly conducted and implemented customer satisfaction program is a store-level action plan defining the *key drivers* of your business – what most needs to be improved to increase your customers' satisfaction and therefore your sales.



Compiled by Terry Vavra and Associates

Customer satisfaction has become an accepted component of many companies' intelligence programs. We believe that all **Customer Satisfaction Programs** should be subjected to validation.

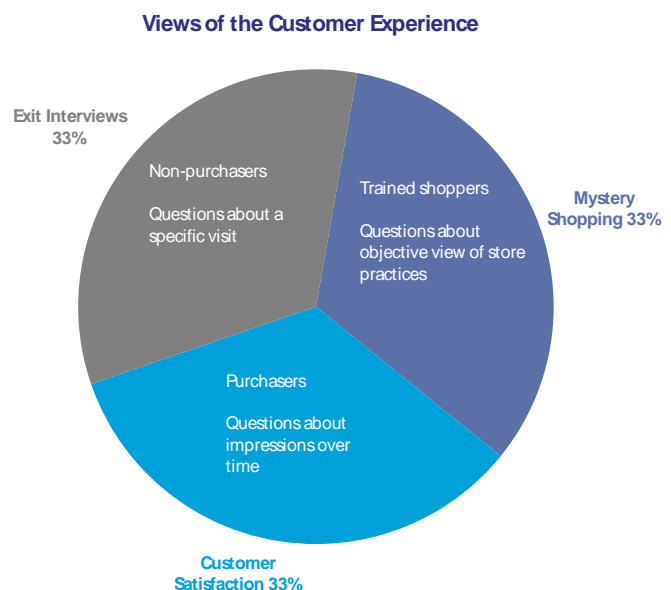
In the chart on the left, a national retailer was able to link annual sales with customer satisfaction scores. The result is a compelling picture. Not only did the retailer confirm that satisfaction was indeed correlated with sales, but also that satisfied customers were likely to spend \$30 more per year in their stores. Such a lift clearly justifies the cost of the customer satisfaction measurement program.

SO, HOW MUCH DOES THIS INFORMATION COST?

Three opportunities to increase sales in this challenging economic environment; three questions begging for information. If cost is what is keeping you from collecting this information, think again. Actually, information programs to answer these questions can cost much less than you would expect! Consider the following two cases:

Case 1. A national retailer recently increased its budget for an audit of its customer experience, moving from quarterly to monthly measurements because it was able to see definitive ROI from the insights it gained. Spending just \$35 per store per month on its **Mystery Shopping** program turned out to be “peanuts” when information gathered allowed associate performance and sales to be improved.

\$420 a year per store to increase sales turned out to be a bargain. Compare this to the costs of new fixtures or carpeting. What payback do they offer in comparison? Consider the cost of the 82% of your customers who walk out without making a



purchase. Unfortunately, too many CFOs look at expenditures for gathering information from a direct-cost basis without considering the *net cost*. They fail to see that dollars spent to improve the customer experience drive their top and bottom lines. Expenditures on improving the customer experience are *investment* dollars not *expense* dollars.

Case 2. Another national retailer is stepping up to the plate, even in these uncertain times, by conducting **Exit Interviews** and implementing a **Customer Satisfaction Surveys** at all locations. The retailer's objective is to improve their shoppers' experience by listening to reactions from actual customers and sales associates. The retailer has commissioned an IVR-driven customer satisfaction program and is rolling out exit interviews across its chain. The cost for these systems is less than \$800 per location annually.

Combining all programs from these two retailers (**Mystery Shopping, Customer Satisfaction, and Exit Interviews**) totals about \$1,200 a year per store. From this investment a retailer receives a 360 view of its business. This essential view provides the potential for dramatic payback in the toughest economic climate we have faced in the last 15 years.

COMMITMENT INSTEAD OF RETREAT

Our message is clear, in today's economy, reductions in programs and information systems will leave retailers vulnerable to competition and leave a void in understanding of the customers' more demanding mindset. An aggressive commitment to continued information programs and complementing data services will help fortify a retailer for the long haul. So...

The strong will not only survive this downturn; they will emerge far ahead of their competition.

- If you have auditing and feedback programs in place...don't cut them. However, be sure you are asking the right questions and are partnered with an organization that assists you in communicating the information and in building action plans to foster system-wide improvements.
- If you do not have programs in place then...get them...but let experts develop them in partnership with you.

All you have to do is invest in your sales processes and the experience they deliver to your customers. Even in today's marketplace, customers still have money, but they will become more selective – they will spend it with those retailers who offer them a better experience, no matter what.

ABOUT ICC/DECISION SERVICES



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ICC/Decision Services is a privately-held company headquartered in New York City serving customers across North America. We offer over **29 years of hands-on experience** designing and executing highly successful Customer Experience Management programs.

We understand customer experience management. Our team of professionals put decades of experience in corporate branding and retail to work for you. Our team knows what it takes to develop and execute a successful brand campaign.

Our organization's sole focus is providing clients with the kind of information they can use to understand the marketplace and brands execute **customer experiences** that drive market share.

With experience, customized tools and a passion for your success, we partner with you to drive growth and get results.

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