



Enhancing the Customer Experience and Engagement in Retail

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Introduction

Enhancing Customer Satisfaction and Loyalty has been an area of focus for managers, business leaders, academics and research consultants for more than two decades. The advantages of focusing on enhancing customer loyalty are well understood, and compelling statistics around the costs associated with keeping an existing customer versus attracting a new one abound. As customer loyalty increases, so does share of spend in a given category, positive word-of-mouth, and retention rates.

To monitor performance and focus improvement efforts, many organizations rely on customer feedback systems. Today, a variety of disparate measures exist across these feedback systems when assessing loyalty. Some organizations still use customer satisfaction as a proxy for loyalty; others rely on the Net Promoter Score (an advocacy based measure); still others incorporate retention measures to gauge stated loyalty and link it to actual behaviors.

Since our inception in 2000, PeopleMetrics has played an important role in the evolution of customer loyalty measurement, interviewing close to 600,000 customers in service industries. Over the years, the findings from our primary and secondary research have led us to the development of our Customer Engagement model.

The PeopleMetrics Customer Engagement model takes today's common metrics of 'loyalty' to a different level. Not only do we track a customer's willingness to return to and recommend an organization, but we also assess whether or not a customer would go out of his way to continue doing business with a company and if he feels passion, even love, for the brand and experience.

Our point of view is that organizations should go beyond providing a satisfactory experience to customers. They should instead strive to engage them by developing a rational and emotional connection. As this is accomplished, an engaged customer will have a strong bond with the company, making it harder for competitors to attract them.

To understand the role of Customer Engagement in the service industry today, PeopleMetrics launched The Most Engaged Customers Study in 2008¹. This annual study focuses on:

- Quantifying the impact that Customer Engagement has on business performance
- Identifying the key drivers of Customer Engagement and industry differences
- Ranking companies according to levels of Customer Engagement

Information on our approach and key research findings follow.

Research Methodology

Sample Profile

Overall Study

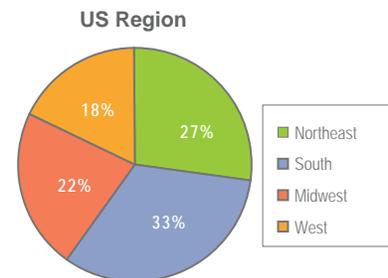
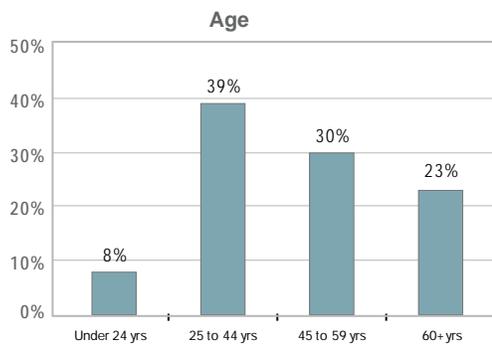
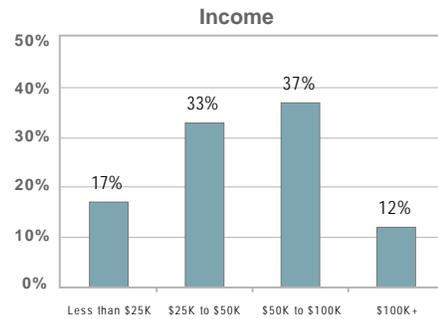
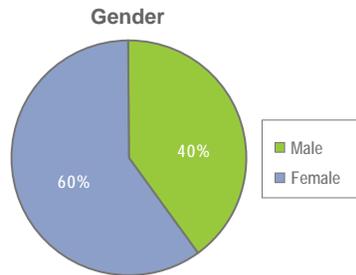
Partnering with Greenfield Online, PeopleMetrics conducted close to 10,000 online interviews across four service-based industries: Casual Dining, Hotels, Retail and Banking.

To ensure a diverse representation in our study, PeopleMetrics and Greenfield reached out to a nationally representative sample of the US population. The final distribution of customers across main groups is within +/- 10 points of the U.S. Census figures. This was expected upon a review of the brands that customers were asked to rate²: half of the company list consisted of Retail stores and many of these, for instance, were skewed towards female buyers.

Still, as illustrated by the charts included on the following page, the overall representation of different demographic groups is strong and, most importantly, in line with the profile of customers of the brands included.

¹ Data for The Most Engaged Customers Study (2008) was collected in Q3 2007.
² A comprehensive list of brands included in the study is provided in the appendix.

Study Demographics



Retail Industry

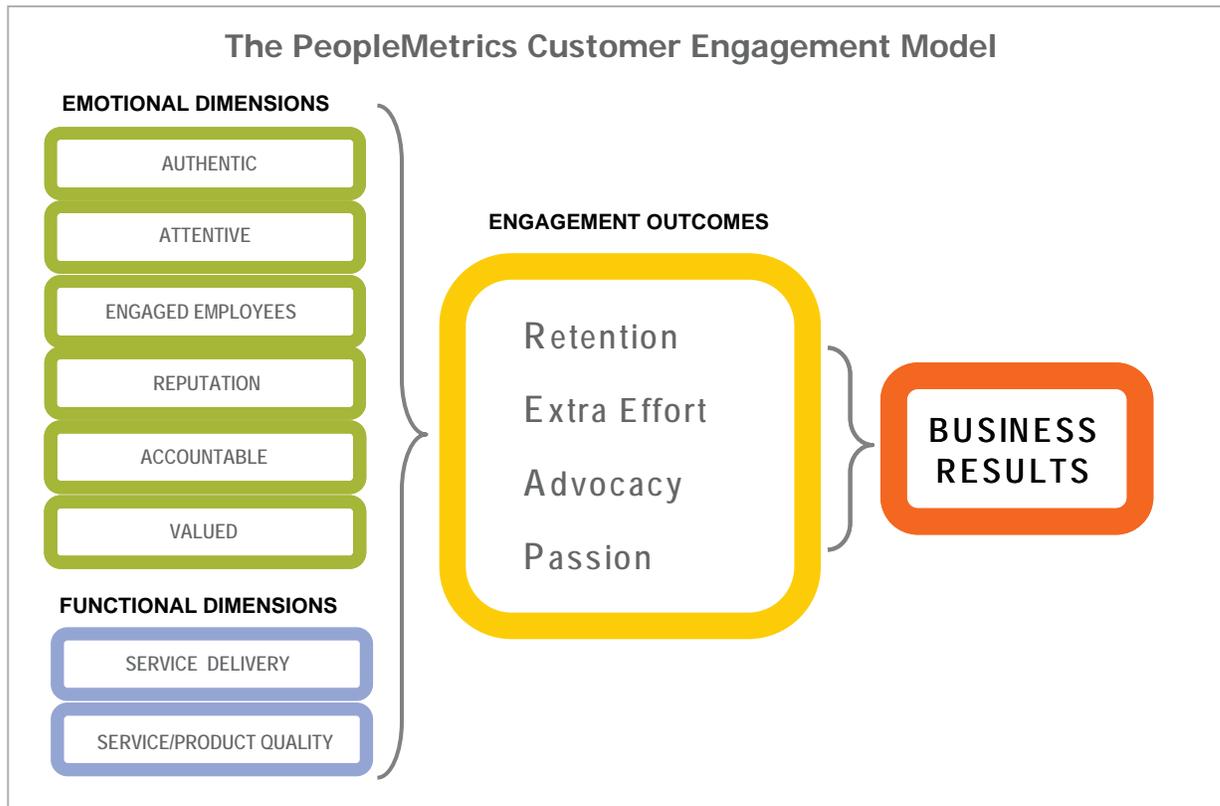
With regard to the Retail industry, 5,644 interviews were completed among customers of the following brands:

Abercrombie & Fitch	Hertz Rent A Car
Aéropostale	J. Crew
Alamo Rent A Car	JCPenney
American Eagle Outfitters	Kohl's
Ann Taylor	Macy's
Avis Rent A Car	The TJX Companies
Barnes & Noble	Men's Wearhouse
Bed Bath & Beyond	Nine West
Best Buy	Nordstrom
Big Lots	Office Depot
BJ's Wholesale Club	Payless Shoes
Budget Rent A Car	PetSmart
Chico's	Pier 1 Imports
Circuit City	RadioShack
Claire's Boutique	Ross
Costco	Saks Fifth Avenue
Dillard's	Sears
Dollar General	Staples
Dollar Thrifty	Target
Dollar Tree	The Gap
Enterprise Rent A Car	The Limited
Family Dollar	Urban Outfitters
Foot Locker	Wal-Mart
GameStop	Williams-Sonoma
GUESS	

Survey Design

The survey asked customers to rate two of over 100 service providers on a recent (within the last three months) service experience along a number of dimensions. Specifically, questions related to:

- Overall levels of Customer Engagement (Retention, Effort, Advocacy and Passion)
- Functional elements of the service experience: quality and variety of products and services, cleanliness, appearance of service setting, and overall efficiency of the service process.
- Emotional elements of the service experience: problem resolution, company reputation, brand, employee attitudes and behaviors.
- Open-ended commentary: Actions taken because of an outstanding or poor service encounter, reasons for



feeling passionately connected to an organization and detailed description of problem experiences.

The graphic above depicts the PeopleMetrics Customer Engagement Model that consists of eight overall dimensions: six emotional and two functional in nature. Questions in the study were asked in support of these.

Financial Analysis

To gain insight into the relationship between Customer Engagement and Business Performance, we conducted a financial analysis among customers of all publicly traded companies included in the study. Key steps in this analysis are listed below:

Step 1: Identifying High and Low Performers

The first step in this analysis was to segment all brands into high and low performers based upon their Customer Engagement Index (% Engaged Customers³).

- To accomplish this, we calculated the

average level of Engagement for each company in the study and defined high performers as those with Engagement at least two points above the average and low performers with Engagement at least two points below the average (Average Engagement Index = 54%). Companies that did not meet our criteria were excluded from the analysis.

Step 2: Gathering Financial Data

For each publicly traded corporation⁴, the following year-over-year (Q3 2006 to Q3 2007) financials were gathered:

- Return on Assets
- Return on Investment
- Revenue Growth
- P/E Ratio
- EPS (Earnings per Share)

Step 3: Correlating Engagement to Financials

The next and final step was to determine the average financial score for each metric across

³ Engaged Customers are defined as those who Agree or Strongly Agree with our four Engagement Questions (Retention, Effort, Advocacy and Passion)

⁴ Engagement scores for brands from the same parent company were combined together in this analysis.

companies in the low vs. high Customer Engagement groups and compare the performance of these groups.

Key Findings

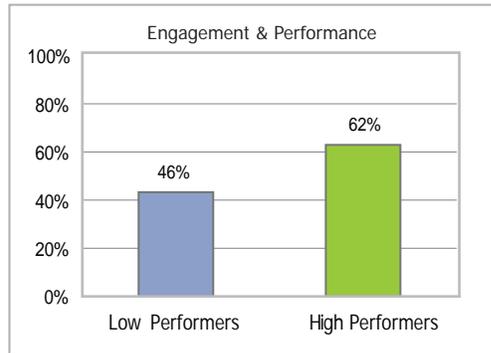
Does Customer Engagement Impact Business Performance?

As discussed above, companies were classified into two groups based on their Engagement levels. As described in the illustration on the right, there is a 16-point gap in Engagement levels between those that perform well (62%) and those that perform poorly (46%).

Based on the results of this analysis, we were able to validate our hypothesis that companies with high levels of Customer Engagement perform better financially than companies with low levels of Customer Engagement.

Across all financial metrics analyzed, companies with high Customer Engagement outperform the industry average.

- High-performing companies are able to yield an annual average increase of 8% on Return on Investment above the industry average, while low-performing companies experience a 23% decrease below the industry average.
- The annual revenue growth for high-performing companies is 13% above the industry average, while the average for low-performing



companies experience is 36% below the industry overall figure.

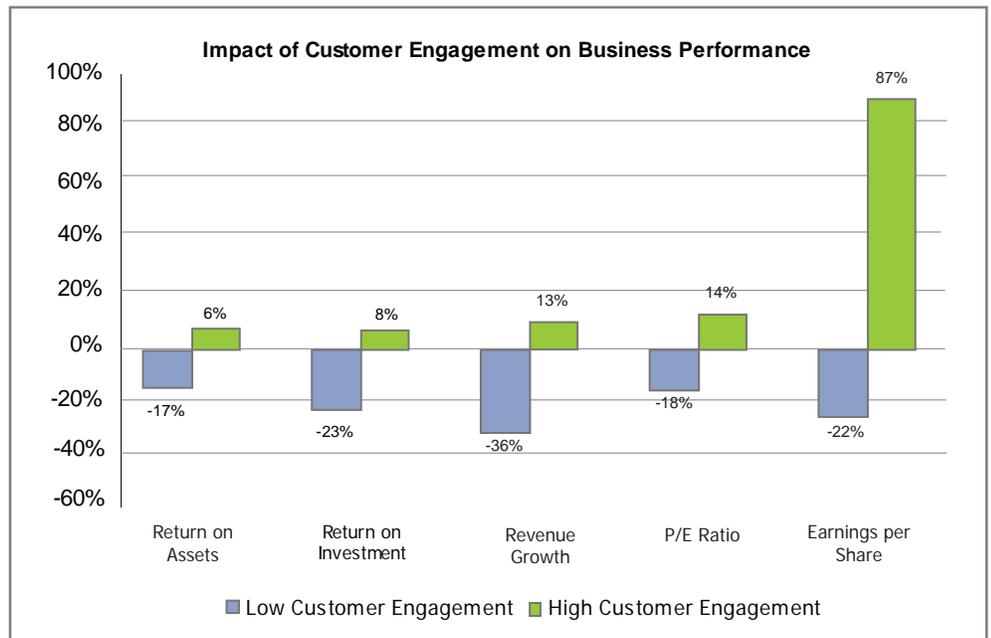
- The average P/E ratio of high-performing companies is 14% above the industry average, while low-performing companies stand at 18% below the industry average.

Comparisons for the financial metrics analyzed are illustrated in the chart below.

Taking a Closer Look at the Retail Sector Impact of Customer Engagement on Business Performance in the Retail Sector

The financial analysis was also conducted within the Retail sector. Trends observed in the overall analysis held true across this sector:

- Retail chains with low Customer Engagement also perform below the industry average across the financial metrics analyzed.
- High-performing companies are able to yield an annual average increase



of 3% on Return on Investment above the industry average, while low-performing companies stand 22% below the industry average.

- Companies with high Customer Engagement levels experience an average increase that is 8% above the industry average on Return on Assets year-over-year, while low-performing companies typically see a decrease 23% below the industry average.
- The average P/E ratio of high-performing companies is 25% above the industry average, while low-performing companies stand at 17% below the industry average.

Additional Insights into Customer Engagement in the Retail Sector

To identify trends specific to the retail industry, a separate analysis was undertaken focusing on perceptions and feedback from customers of the retail companies included in the study (see page 2 for a complete listing).

The main research questions driving our efforts were:

- 1) What can retail establishments do to improve Customer Engagement levels?
- 2) Do the drivers of Customer Engagement for retail shoppers differ from the overall drivers of Customer Engagement? If so, how are they different?
- 3) Which brands have the Most Engaged Customers today?

What can retail establishments do to improve Customer Engagement levels?

Having confirmed the direct relationship between Customer Engagement levels and financial performance, a driver analysis⁵ was conducted to identify the most influential factors impacting Customer Engagement in the Retail Sector.

The analysis showed that Customers are engaged most by emotional drivers, with one functional area playing a key role:

Emotional Dimension #1 - The Need to be Valued

Customer Engagement is largely driven by the staff's ability to enhance their customers' self-esteem. Providing consistent service quality, valuing customers and fulfilling promises positively impacts levels of Engagement.

Emotional Dimension #2 - The Impact of Engaged Employees

Engaged employees have a direct impact on Customer Engagement as well. An engaged staff member will go the extra mile to offer a positive customer experience. Employee engagement is best portrayed by employees who love their jobs, make the customer experience fun and go above and beyond expectations.

Functional Dimension #1 - The Quality of the Service Environment

The actual environment of any establishment is also a key driver of Customer Engagement within the retail sector. The variety of offerings available and the convenience of the store are essential to securing Engaged customers.

Do the drivers of Customer Engagement for retail shoppers differ from the overall drivers of Customer Engagement? If so, how are they different?

The table shown on the next page compares the Customer Engagement drivers within Retail to the overall drivers of Customer Engagement for all service industries (which also take into account Casual Dining, Banking and Hotels).

As can be noted, there is a fair degree of overlap between the two. This confirms that, regardless of industry, Customer Engagement is impacted by more than just the functional elements of the experience and can be maximized through the development of an emotional connection with customers.

⁵ Multiple regression techniques were employed to help uncover the key drivers of Customer Engagement. A key driver is an area that, if worked upon, will have a significant impact on levels of Customer Engagement – it is the "make a difference" element of the customer relationship when it comes to driving desired attitudes and behaviors.

Engagement Dimension: Survey Item	Driver Rank	
	Retail	All Industries
Service Quality: There was an appropriate variety of product/service offerings	1	2
Valued: In general, the employees I interact with value me as a customer	2	1
Valued: In general, the employees I interact with provide a consistent level of service quality	3	3
Service Quality: In general, COMPANY is convenient	4	4
Valued: In general, the employees I interact with make good on their promises	5	6
Engaged Employees: Employees made the experience fun	6	5
Engaged Employees: Employees went above and beyond to meet my needs	7	8
Service Delivery: The Service Process was efficient	8	7
Valued: In general, the employees I interact with treat all customers equally	9	9
Service Quality: The Environment: The location/setting was clean	10	

Which Brands Have the Most Engaged Customers Today?

Out of the forty-nine Retail brands included in our study, Williams-Sonoma and J. Crew have the highest Customer Engagement scores today.

Supporting our findings on what drives Customer Engagement, customers from these two brands praise the staff and the quality of the service received at these locations. Below is a sample of the comments from customers who “love” shopping at these top performing companies:

- “Their staff is knowledgeable, caring and they really know how to work with the customer.” (Williams-Sonoma Customer)
- “The personnel greet you warmly. The ambience of the store is wonderful. They make me feel at home.” (Williams-Sonoma Customer)
- “[The] staff is helpful, and has created a relationship with me.” (J. Crew Customer)
- “The sales people are engaging, creative and enthusiastic about the clothing.” (J. Crew Customer)

Customer Engagement rankings by Retail sub-categories are provided to the right and on the following page:

	Apparel
1	J. Crew
2	Nine West
3	Ann Taylor
4	Aéropostale
5	Chico's GUESS
6	American Eagle Outfitters
7	Abercrombie & Fitch
8	The Limited
9	The Gap
10	Urban Outfitters
11	Men's Wearhouse
12	Foot Locker

	Department Stores
1	JCPenney
2	Saks Fifth Avenue
3	Nordstrom
4	Kohl's
5	Dillard's
6	Macy's
7	Sears

	Discount Stores
1	Costco
2	Dollar Tree
3	BJ's Wholesale Club
4	Big Lots
5	The TJX Companies
6	Payless Shoes
7	Family Dollar
8	Ross
9	Dollar General
10	Target
11	Wal-Mart

	Rental & Leasing
1	Avis Rent A Car
2	Hertz Rent A Car
3	Enterprise Rent A Car
4	Dollar Thrifty
5	Budget Rent A Car
6	Alamo Rent A Car

	Specialty
1	Williams-Sonoma
2	Barnes & Noble
3	PetSmart
4	Pier 1 Imports
5	Bed Bath & Beyond
6	Staples
7	Claire's Boutique
8	Office Depot

	Technology
1	GameStop
2	Circuit City
3	Best Buy
4	RadioShack

Additional Insights from the Overall Research

The wealth of data collected through this research has also given us the opportunity to study trends across sub-groups and explore the impact of service experience on Customer Engagement levels. A few additional insights that may help target research efforts to different audiences and guide the interpretation of results are:

- Overall, 54% of customers nationally can be considered engaged.
- Older customers (60+ years) are less likely to be engaged than younger customers.
- Engagement levels vary by industry.
 - o Out of the industries included in our research, Hotels yielded the highest levels of Customer Engagement, while Banking yielded the lowest.
- Drivers of Engagement do not vary greatly across industries.
 - o The overlap between industry-specific drivers and overall drivers of Engagement is evidence that, regardless of industry, Customer Engagement is impacted by more than just the functional elements of the experience and is maximized through the

development of an emotional connection with customers.

- Through word-of-mouth, both engaged and disengaged customers will influence the opinion of potential customers.
 - o In addition to developing a bond with the organization, a portion of engaged customers will also speak publicly about their experiences. A few examples are included below:
 - "I have posted a critique on their site about how nice [they] are."
 - "On Yahoo! Answers, I told someone asking for the best [type of company] to go with them."
 - o Similarly, actively disengaged customers also spread their poor opinions publicly:
 - "I have called the company more than once. I have posted opinion polls online. I have emailed the company. I have contacted the [company] directly and I have told friends and family the problems that I have had with them."
 - "I called and spoke with [the] manager, discussed [my] experience with friends and family, and also posted on national and local discussion forums regarding the experience."
- Other actions taken by actively disengaged customers include: bringing the negative experience to the attention of the organization's managers or to customer service, as well as often saying that they will "never return."
- A successful problem recovery

process is essential in maintaining your customer base: more than half of customers who experience a problem that is handled well by the organization are engaged. On the contrary, only 15% of those who do not believe that the organization handled their problem well are engaged customers.

Implications for the Reader

Clearly, a focus on Customer Engagement will make a difference to your business. Retail establishments that engage more of their customers have better financial results than those that fail to engage. Engagement is going to be impacted by a combination of functional (convenience, cleanliness, choice, efficiency) and emotional (feeling valued, having fun, trusting in the consistency of service delivery) elements of the experience.

In thinking about how this research applies to your business, you should consider the following:

- 1) **Do you know how engaged your customer base is?**
 - More than a single measure of advocacy or retention, Customer Engagement introduces an emotional element to the measurement process. Are you currently measuring these emotional pieces? Do you know what proportion of your customer base would strongly agree that they would go out of their way to visit one of your locations, recommend you, come back, and feel passionate about you and your brand?
- 2) **Do you know how your customers segment based upon Engagement?**
 - It is important to know your overall level of Engagement, but also to uncover the proportion of customers who are: fully engaged, engaged, on the fence and actively disengaged. Those in the lowest segment can spread viral word-of-mouth

affecting your brand strength and reputation. Those sitting on the fence represent an opportunity for movement, an increase in Engagement scores and, more importantly, positive behaviors.

- 3) **Do you know what drives Customer Engagement for your unique customer base?**
 - While the above findings are useful and provide insight for all retail establishments, the drivers of Customer Engagement may differ for your customers versus those of a competitor. The drivers may be built off your unique position and brand promise. As such, they need to be customized to your organization. Conducting your own driver analysis will give you a well-rounded assessment of factors with the highest impact on Engagement within your organization.
- 4) **Do you currently collect and respond to real-time feedback from your customers?**
 - Gone are the days of having to wait several months to receive results from a customer satisfaction or loyalty study. With technology and the Internet, companies can collect real-time feedback from customers. This feedback can be shared with the organization through Real-time Alerts that immediately communicate positive and negative customer feedback. Positive feedback should be used to recognize and reinforce the positive behaviors of the internal team. Negative feedback can be used to guide improvement efforts and attempt a 'win-back' opportunity with a customer.
- 5) **Do you know how well your employees are handling problems?**

- A problem that is handled poorly can lead to a truly disengaged customer, but a problem that is resolved effectively can turn that disgruntled customer into a true advocate of your brand and services. By collecting customer feedback in real-time, you will have the opportunity to follow-up with at-risk customers, helping to enhance your overall problem recovery process and, ultimately, to boost your retention rates.

6) Do you track Customer Engagement over time to assess improvements and setbacks?

- Not only should you strive to understand what drives Customer Engagement for your organization, but monitoring these trends over time is also critical. By analyzing Customer Engagement levels on an ongoing basis, you will be able to determine the success of actions implemented and to identify areas of concern.

7) Do you know how the Engagement of your employees impacts the Engagement of your customers?

- There is strong evidence in our research, as well as other academic and business publications, that engaged employees help to create engaged customers. The magical moments by which a loyal, passionate customer is created are dependent upon the people in your organization. Furthermore, customers have told us through this research that their views of an establishment are impacted by how much fun the sales associates are having and making throughout the experience. This 'fun' experience only occurs through

engaged, dedicated employees. If you aren't already doing so, you should understand the levels of Employee Engagement in your population and what drives employees to go above and beyond for your customers.

- prepared by Kate Feather and Yvone Chun

About the Authors:

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Detailed results from the 2008 Most Engaged Customers Study are available online through the PeopleMetrics nGauge™ Hub reporting tool. For more information about the PeopleMetrics Customer Engagement research or to inquire about the nGauge™ Hub, please contact: Kate Feather, Executive Vice President, People Engagement at: 215.979.8037 or via email: kfeather@people-metrics.com.

Appendix

Banking
Bank of America
BB&T
Capital One
Citibank
Comerica Bank
Commerce Bank
Compass Bank
Countrywide Bank
Fifth Third Bank
JPMorgan Chase Bank
KeyBank
National City Bank
PNC Bank
Sovereign Bank
SunTrust Bank
Wachovia Bank
Washington Mutual Bank
Wells Fargo Bank
Casual Dining
Applebee's
Bob Evans
Chili's
Cracker Barrel
IHOP
Olive Garden
Outback
Red Lobster
Ruby Tuesday's
Texas Roadhouse
Hotels
Choice Hotels
Hilton
Marriott
Ritz-Carlton
Starwood
The Four Seasons
Wyndham
Retail
Apparel
Abercrombie & Fitch
Aéropostale
American Eagle Outfitters
Ann Taylor
Chico's
Foot Locker
GUESS
J. Crew
Men's Wearhouse
Nine West
The Gap
The Limited
Urban Outfitters

Department
Dillard's
JCPenney
Kohl's
Macy's
Nordstrom
Saks Fifth Avenue
Sears
Discount
Big Lots
BJ's Wholesale Club
Costco
Dollar General
Dollar Tree
Family Dollar
Payless Shoes
Ross
Target
The TJX Companies (Marshalls and TJ Maxx)
Wal-Mart
Rental & Leasing
Alamo Rent A Car
Avis Rent A Car
Budget Rent A Car
Dollar Thrifty
Enterprise Rent A Car
Hertz Rent A Car
Specialty
Barnes & Noble
Bed Bath & Beyond
Claire's Boutique
Office Depot
PetSmart
Pier 1 Imports
Staples
Williams-Sonoma
Technology
Best Buy
Circuit City
GameStop
RadioShack