

Why advocacy matters to grocers

Surveyed consumers give retailers food for thought

Retail



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By Melody Badgett, Maureen Stancik Boyce and Herb Kleinberger

Food retailers typically struggle to differentiate themselves, especially when they rely on the standard levers of cheaper prices and geographic penetration. Our new survey of U.S. grocery consumers reveals key insights into what actually drives customer advocacy. By concentrating on customer advocacy, grocers can create new ways to differentiate and can ultimately pursue customer-focused initiatives and investments with greater precision and success.

Introduction

It could be said that the retail food industry and its customers have a lot to be optimistic about. Customers have more choices: more products, more ways to buy groceries and more convenience; and the industry has experienced solid, consistent growth over the past decade. Most of this growth, however, has come at the expense of traditional supermarkets as they watch their customers go to supercenters, wholesale clubs and specialty and boutique food stores. Worse, customers of traditional supermarkets, on average, have a negative attitude about their grocers. According to our new consumer survey about the retail food industry, 73 percent of

customers feel either antagonistic or have no loyalty to their store. That leaves only one in four as a *customer advocate* – a truly loyal customer who would recommend his grocer to others, stick with the store despite competitive offers, and purchase from that store regularly.

This paper discusses the attitudes and behaviors that turn customers into advocates as well as what grocers can do to improve the level of advocacy among their customer populations. The perspectives here are based on our provocative 2007 IBM Institute for Business Value Customer-focused Grocer Study, which provides a new approach to understanding customer attitudes based on input from over 6,000 consumers.¹

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Although grocery industry revenues on the whole are rising, traditional supermarkets are generally losing share to other grocery categories.

The imperative for customer focus in the grocery industry

The *business of groceries* is of intense interest to both consumers and industry insiders alike. For consumers, grocery shopping, food and the grocery experience are part of daily life and the subject of conversations and interactions with friends and family; *what they found, what they bought, how much they paid, who they saw, what new stores opened and how they were treated* are regular topics of conversation. Arguably, few other businesses are under the same consumer scrutiny as grocers when it comes to the shopping experience.

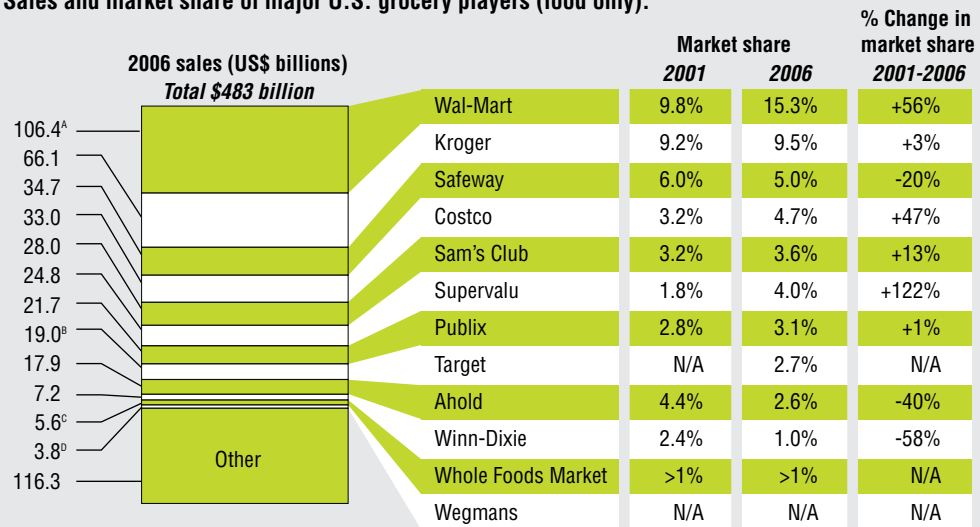
For the grocery industry insider (the grocery executive, the food retailer owner and the like), the business of groceries is a much more

complex matter. While many of the primary business activities have existed for millenniums (e.g., selling food to people), the business itself changes almost daily. As the pricing, quality and options for consumers keep improving, the imperative to be more competitive and more effective continues to rise.

Grocers are growing, but share is shifting

According to a 2007 JPMorgan analyst report, the U.S. grocery industry is positioned to grow 2 to 5 percent annually.² Recent growth has been at the top end of this range, with the first quarter of 2007 up 5.5 percent, and 2006 up 4.3 percent above the previous year.³ As would be expected, consumer spending on groceries is up as well. Over the past five years, inflation-adjusted, food-at-home

FIGURE 1.
Sales and market share of major U.S. grocery players (food only).



Notes: A) US sales only, excludes Sam's Club. B) Consumables and commodities sales. C) Whole Foods Market's US\$5.68 in sales represents 10 percent of US\$56B natural food market. D) Wegmans' most recently reported sales are for 2005.
Source: Levinson, Marc. "Supermarket Industry Review and Outlook," JPMorgan, April 27, 2007; "Company In-Depth: Kroger Co (KR)," Citigroup, April 2, 2007; IBM Institute for Business Value analysis.

spending increased an average of 3.2 percent per year.⁴ From an industry perspective, these figures would seem healthy and even somewhat sunny.

Unfortunately, the news is not good for traditional supermarkets; these large regional players, which have historically been the primary food-at-home providers, are losing market share as competition intensifies. From 2002 to 2006, consumer food spending increased 3.2 percent, while during the same period, traditional supermarket spending only increased a quarter of that amount (0.8 percent).⁵ Below are some sobering findings from a recent Nielsen Company report on U.S. retailing and consumer trends that may be causing pain among supermarket executives:⁶

- *Supermarket new store growth has been flat the last ten years* – slightly negative in fact – going from 30,900 in 1996 to 30,656 in 2006. Other categories have grown, especially convenience stores, supercenters and warehouse clubs.
- *Supermarket trips are down 15 percent in five years*, from 72 trips per household in 2001 to 61 trips in 2006. While shopping trips have gone down on average, two categories actually saw growth: supercenters and warehouse clubs.
- *Price compression by supercenters and clubs has limited supermarket basket size.* Supermarket basket size has dropped 16 percent over the past five years, while supercenters and wholesale clubs saw their basket sizes rise. Wholesale clubs' average basket size is more than twice that of supermarkets (US\$98 versus US\$38).

These figures point not only to a change in the competitive landscape, but also to a change in consumer behavior: shoppers are conducting more of their smaller shopping trips at convenience stores and saving larger trips for the clubs and supercenters.

Is “getting big” the only answer?

With the business seemingly shifting to a “bigger is better” model, many food retailers are looking to capture market share by simply gaining mass and geographical presence. Analysts predict 1,700 stores will potentially be bought, sold or exit the grocery industry in 2007.⁷ Supervalu bought over 1,000 Albertsons stores in 2006; Whole Foods Market bought Wild Oats in February 2007; and Tesco is on track to open nearly 250 U.S. stores by the end of 2008.⁸ Experts believe more consolidation by some and expansion by others is yet to come, and that there will only be room for a few large players.⁹

Wal-Mart is by far the largest food retailer, with US\$106 billion in annual sales and over 15 percent market share in 75 of the top 100 largest U.S. markets (2006).¹⁰ However, Wal-Mart's supercenter sales slowed in 2006, 12.5 percent versus 17 percent in 2005, and same-store sales growth flattened.¹¹

A few key players are gaining ground and proving formidable competitors. Target is posing a threat via its growing portfolio of SuperTargets and increased food-selling space in store. This has resulted in expansion of local market share and same-store sales, which grew twice that of Wal-Mart's since March 2004.¹² Kroger, after a bumpy start in 2006, is now making headway by increasing non-food product selection and creating

Bigger and cheaper are not necessarily the best competitive differentiators; grocers must pay attention to customer experience.

alternate store formats based on the use of customer insights.¹³ Its exclusive arrangement with dunnhumby (Tesco's U.K. marketing research firm) in the United States should serve the company well in the long run.¹⁴ Same-store sales growth was up in 2006, and some market share was regained in 2007.¹⁵

In an overcrowded marketplace, competitive differentiation will be key to success

In the end, size alone is not the sole strategy and is not the only way to be a profitable industry leader. In an overcrowded grocery marketplace, competitive differentiation will be key. Restructuring is not over, and it is yet unclear which grocers will survive and win. Target's foray into supercenters is worth watching, but, industrywide, same-store sales growth has remained flat.¹⁶ Warehouses and clubs – another grocery model in the limelight – are still growing but now at a *decreasing rate*. The second half of 2006 showed an increase of less than 10 percent for the first time since the warehouse and club category formed in 1992.¹⁷ Even Whole Foods Market, long the premier example of gourmet specialty and excellent customer service, has had strong but slowing same-store sales growth since 2004.¹⁸ These factors and others show that the competitive landscape is still in flux.

The customer's perspective

If *getting big* isn't the only strategy or even the right strategy, then grocers must look to other levers for competitive differentiation. When today's consumers can drive their cars to a half dozen food retailers, how will they make their shopping decisions?

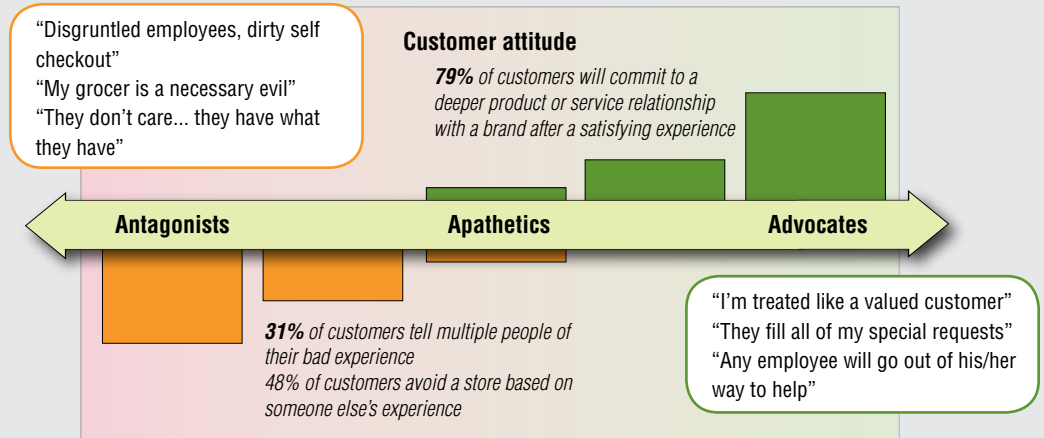
One answer lies in consumers' attitudes toward and experiences with the grocers they shop. Prior studies point out some intriguing measures about customer behaviors and attitudes:¹⁹

- Seventy-nine percent of customers will commit to a deeper product or service relationship with a brand after a satisfying experience.
- Thirty-one percent of customers tell multiple people of their bad experiences.
- Forty-eight percent of customers avoid a store based on someone else's experience.

Grocery shopping (and consumption of the products purchased) is a cultural and social event, one shared among friends and family. Hence, the fact that 31 and 48 percent of customers tell of their bad experience and avoid a store based on hearsay sends a powerful message; customer perceptions are viral and heeded by family and friends. Knowing this, grocery leaders who build customer advocates can develop a new competitive advantage that does not rely on the same old levers of being bigger or being cheaper. Rather, it capitalizes on the fact that creating a satisfying experience for customers leads to loyalty – 79 percent of customers say so.

FIGURE 2.

Customers' attitudes and behaviors are influenced by their own experiences as well as what they hear from others.



Source: “Retail Customer Dissatisfaction Study – 2006,” The Jay H. Baker Retailing Initiative at Wharton and The Verde Group, January 2006; IBM Institute for Business Value 2007 Customer-focused Grocer Study.

About the 2007 Customer-focused Grocery Study

In order to create more insights about grocery consumers' attitudes and behaviors, we conducted a study that went beyond mere satisfaction and price measures to get at the heart of customers' issues. The types of questions we sought to answer included:

- How strong is customer support for his or her primary grocer?
- Which elements of the customer experience are most important to customers?
- How well positioned are key grocers when it comes to being focused on what the customer wants?
- What do true customer advocates look like? How valuable are they?
- How can retailers use advocacy to drive growth and customer loyalty?

The study was created by conducting primary market research with 6,135 grocery customers in the United States, questioned via an online survey. We validated our findings with secondary research and held workshops with IBM Retail and Customer Relationship Management subject matter advisors to review research findings and develop recommendations.

A new type of metric

This study seeks to understand customer advocacy, meaning the positive attitude customers have toward their grocers, which, in turn, promotes healthy relationships and referrals. Unlike other satisfaction metrics, advocacy goes beyond a single measure of experience satisfaction or likelihood to recommend. Advocacy takes a more sophisticated approach of combining the reactions to three statements to obtain a more complete and accurate view of a customer's attitude toward his or her grocer.²⁰ The three statements advocates strongly agree with are:

1. I would recommend my grocer to others.
2. I would not switch if another valued grocer moved to my area.
3. I would increase purchases if my grocer offered “other store” products.

Get the detailed study

A complete, detailed version of the study is available by special request. Besides the data shared in this paper, the full study includes specific store-by-store data for the top players in each category, additional questions, demographic breakdowns and expert perspective and commentary. To request a copy, please e-mail iibv@us.ibm.com.

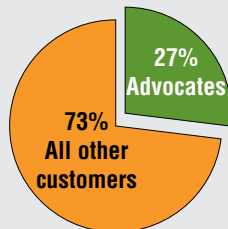
Almost half of the 6,135 grocery consumers surveyed feel antagonistic toward their grocers.

How do customers feel about their grocer?

Advocates are those grocery customers who like your store, recommend you to others, buy from you, and stay with you. Our study breaks down customers into three major attitude segments: advocates, apathetics and antagonists.

A customer's attitude is shaped by cumulative experience and directs future behavior, loyalty, share of wallet, word of mouth and more. Unfortunately, most food retailing customers are not advocates. According to our findings, only 27 percent of grocery customers are advocates (see Figure 3). Almost half (46 percent) of the entire surveyed group are *antagonists*, customers who carry a poor attitude toward their grocer and may be actively causing damage to the business' reputation. This paints a grim and perplexing picture for the marketer who is spending millions of dollars on TV advertising, newspaper inserts and other advertising attempting to recruit new customers. It also does not bode well for those "paying" the opportunity costs of investments focused on customer acquisition that have translated into a largely disloyal customer base.

FIGURE 3.
Only one-quarter of U.S. grocery customers are advocates of their grocer.



Advocates = customers who would:

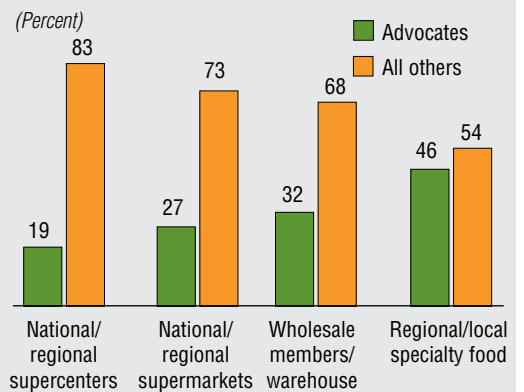
1. Recommend their grocer to others
2. Would not switch if another valued grocer moved to area
3. Would increase purchases if grocer offered other store products

Source: IBM Institute for Business Value 2007 Customer-focused Grocer Study.

Advocates vary by grocery category

Across grocery categories, supercenters fared the worst, with only one in five customers being advocates (see Figure 4). The low score may be the result of the *customer experience* being sacrificed to focus on lower prices. Interestingly, wholesale and warehouse clubs had much higher advocacy rates despite their similar practices of focusing largely on price.

FIGURE 4.
The large national and regional grocers are the least customer-focused, e.g., have earned the fewest advocates.

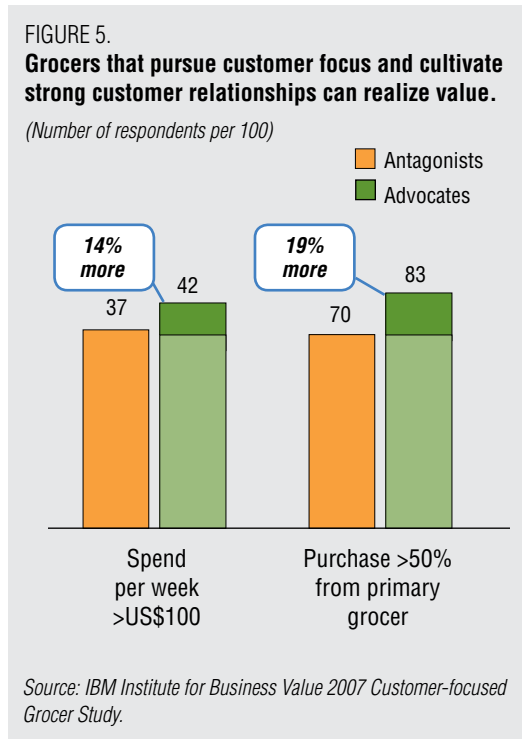


Source: IBM Institute for Business Value 2007 Customer-focused Grocer Study.

National and regional supermarkets came in at the industry average for advocates. Specialty grocers were ranked the highest. Specialty stores are known for their experiences in terms of customer service and product selection and quality. They fine-tune their stores to the specific needs of the community, offer local assortments and are better equipped to develop truly personal relationships with their customers, often on a customer-by-customer basis. With 46 percent advocates, they reflect a customer base that is most likely paying more for the experience it prefers.

Financial impact: Advocacy pays off

Advocates are more likely to choose their grocer for large shopping trips – 14 percent more advocates than antagonists spend more than US\$100 per week with their primary grocer. Advocates are also more loyal. Nineteen percent more advocates give the majority of their business to their chosen grocer (see Figure 5). Conversely, more than twice as many antagonists (14 percent) as advocates (6 percent) decreased the amount they purchased from their primary grocer over a two-year period.



With this in mind, increasing the number of advocates will help grocers realize financial benefits, such as:

- Average share of wallet increases per customer
- Average basket size increases per customer
- Acquisition investments are returned at a higher rate.

Tesco, famous as one of the U.K.'s top grocers, has been successful in actively applying customer insights to improve its overall customer portfolio.²¹ Its customer loyalty program was launched in 1995 to enhance the shopping experience through a more personalized "corner grocer" approach that uses sophisticated analysis and segmentation techniques.²² Tesco and its partner dunnhumby analyzed shopper data to create profiles of customers and their behavior patterns in order to predict future shopping behavior, identify gaps in product offerings and develop highly customized offers. Changes included a strong private label business based on lifestyles and life stages (Tesco's marketing included over 4 million variants sent out to 10 million cardholders).²³ The company was also able to move this information upward into the supply chain, providing insights to suppliers to help them improve category performance and promotion effectiveness.

Tesco's market share in the United Kingdom has nearly doubled since it began working with dunnhumby.²⁴ By tracking 80 percent of sales volume, Tesco's marketing programs led to significant benefits, including high adoption and penetration rates.²⁵ The company even

Advocates, apathetics and antagonists alike agree on the top five most important grocer attributes: quality, selection, convenience, employees (service, knowledge, etc.) and product availability.

experienced coupon redemption rates of 20 percent.²⁶ U.S. grocers should take note: Tesco will be entering the southwest United States in 2007, and Kroger has secured exclusive U.S. rights to dunnhumby's program.²⁷

The key attributes that drive success: Advocates have them – antagonists don't

Generally, grocery customers concur on areas that are most important to them. This means the attributes important to advocates are the same ones that are important to apathetics and antagonists. All three groups strongly agree that the essential attribute for a grocer is quality; others include selection, convenience, employees, availability and social responsibility (see Figure 6). In fact, the relative ranking of nearly all 15 attributes are the same across the three groups. However, the difference between advocates and antagonists is *the degree to which the grocer meets these key attributes.*

For example, 97 percent of advocates strongly agree their primary grocer is doing well "offering good quality products," but only 73 percent of apathetics and 48 percent of antagonists think so. Employee-affected attributes, such as service and product knowledge, are also important factors, following right on the heels of high-quality products, selection and convenience. Quickly growing in importance is social responsibility, which ranks as one of the two least-met customer needs according to apathetics and antagonists.

The symmetry, this similar ranking of most important attributes, is not the case in all industries; for example, in banking, "responsiveness" may drive advocacy, but a "lack of trust" is what drives antagonism.²⁸ The symmetry in grocery makes execution of a winning strategy easier for grocers versus

FIGURE 6. **Generally, customers concur on which activities their primary grocer does well.**

	Advocates % strongly agree		Apathetics/Antagonists % strongly agree		
Quality	97	Store offers good quality products	73	48	
Selection	94	Product selection fits lifestyle and food preference	57	40	
Convenience	94	Provides a convenient shopping experience	53	38	*56%
Employees	94	Happy with service from store employees	61	38	*56%
	92	Employees are friendly and positive	59	39	
	90	Store employees knowledgeable and attentive	53	34	*56%
Availability	88	Pleasant and enjoyable to shop at grocer	58	38	
	84	Products I want are always on the shelf	48	17	*67% Product availability is one area where antagonists are least satisfied
Social responsibility	78	Grocer is socially responsible	39	22	*56%

* Largest gaps between advocates and antagonists

Note: Percent responses represent those that strongly agree with attributes of their primary grocer (scores 8-10), n=6175.
Source: IBM Institute for Business Value 2007 Customer-focused Grocer Study.

other industries in which advocates and antagonists don't value the same attributes. Knowing these key attributes, grocers can focus on delivering them not only to maintain advocates, but also to migrate apathetics

to higher value, transforming them into advocates. While this correlation is true of the overall data, individual grocers still need to understand what drives attitudes toward their specific companies.

Survive and thrive in the rapidly changing grocery industry

An academic perspective by Raymond R. Burke, E.W. Kelley Professor of Business Administration, Kelley School of Business, Indiana University

Traditional grocery retailers are caught in a difficult situation. On the one hand, ongoing industry consolidation and price competition are forcing companies to cut costs and improve operational efficiency to survive. On the other, the growth of specialty retailers and the needs of a diverse customer base push merchants to redesign stores, expand product assortments, increase promotions and improve customer service. But all of these innovations add costs! How can retailers build customer loyalty and improve profitably in the face of these conflicting demands?

The answer is to develop a deep understanding of customers, identify what matters most to them and then create shopping experiences with the features that bond consumers to stores and the retail brands. This new IBM study on customer advocacy speaks directly to these issues. The study reveals serious problems with consumer commitment to most grocery retailers. Less than one-third of U.S. shoppers would recommend their grocer to others and stick with the company in the face of competition. The numbers are even more discouraging for the major supermarkets and supercenters, with the percentage of consumer advocates hovering between 20 and 25 percent. Clearly, grocery retailers are not building the kinds of relationships that will maintain customer loyalty in the face of increased competition.

Fortunately, the IBM research also identifies the factors driving customer advocacy, and provides a roadmap for improving retail performance. The study presents extensive secondary research on some of the world's best grocery retailers – including Whole Foods Market, Wegmans, Target, Costco and Publix – and identifies retail innovations (customer-, employee- and community-focused) that translate into high customer advocacy and industry-leading performance. Key factors include having an attractive and appropriate selection of products, keeping the most desirable items in stock, providing friendly, knowledgeable sales assistance and offering a convenient and enjoyable shopping experience, all in a socially responsible manner.

A common theme is the use of consumer insights to drive business operations and prioritize investments in improving the customer experience. By sensing and responding to the needs of individual customers across shopping trips, product categories and channels, the retailer can increase the frequency of purchase, average basket size and share of wallet. Technology can support these efforts by capturing customer feedback, targeting personalized messages and promotional offers, providing detailed product information, enabling multichannel execution, managing product assortments and inventory, training and supporting staff, and accelerating the checkout process.

This research breaks new ground in helping us to understand what drives consumer commitment to grocery retail stores. If retailers apply these learnings to their businesses, they have the opportunity to survive and thrive in the rapidly changing grocery industry.

Our research suggests that grocers of any size – from supersized clubs to specialty grocers – can develop the attributes valued most by consumers.

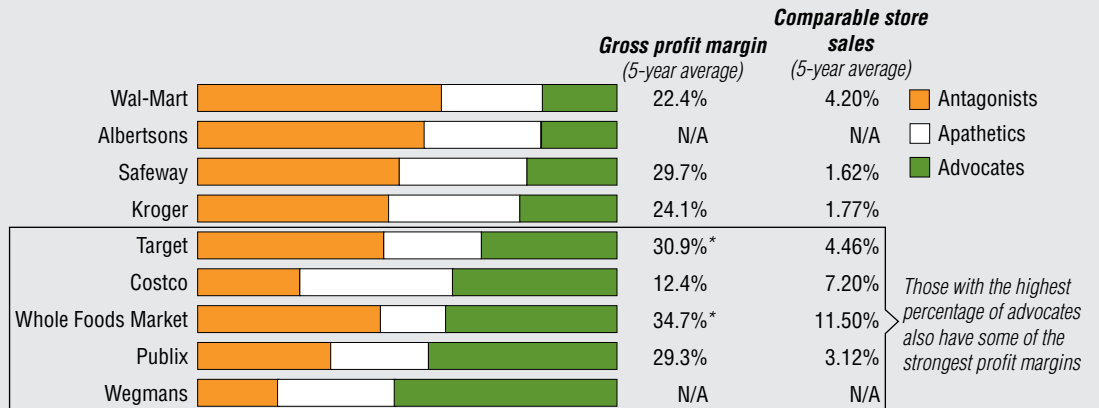
Best-in-class grocers deliver on the key attributes

Many of the companies that have the highest number of advocates and deliver on the key attributes also enjoy strong market performance. Again, this suggests that customer focus is paying off (see Figure 7). As described earlier, regional and local specialty grocers do the best job attracting advocates (46 percent of all specialty grocer customers are advocates) by delivering on five key attributes: quality, selection, convenience, employees and availability. Interestingly, our study shows Wegmans, Publix, Target and Costco share similar best-in-class attributes with specialty grocers such as Whole Foods Market, far more so than with other grocers that have lower advocate scores (see Figure 8). This tells us that grocers of all sizes can build customer-focused enterprises that positively impact the bottom line.

Best-in-class grocers excel by making customer insights an integral part of their business operations.

- Whole Foods Market’s decentralized approach to operations (placing decision making with local managers who are closest to the customer) has put it near the head of the pack in terms of profitability.²⁹ Whole Foods Market has become the primary brand in the shopper’s mind instead of the individual product brands it sells.
- Wegmans’ focus on employee motivation and retention programs positively impacts customer relationships and financial success. The company saves over US\$300 million each year in hiring costs by focusing on employee training and retention.³⁰ Its programs include spending nearly US\$54 million over 20 years in tuition assistance.³¹

FIGURE 7. Across grocers, a high percentage of advocates correlates with strong marketplace performance.

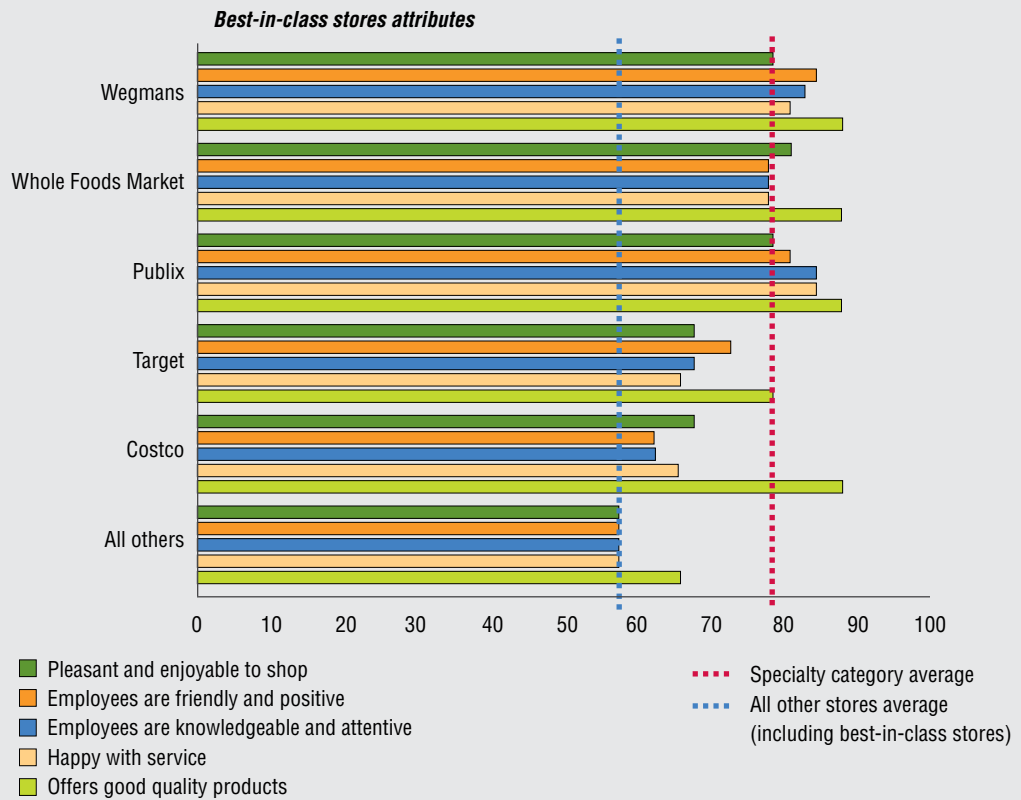


Note: *In our consumer survey, these grocers also showed the greatest increase in amount customers spent with their primary grocer over a two year period.

Source: IBM Institute for Business Value 2007 Customer-focused Grocer Study; IBM Institute for Business analysis of companies’ annual reports and Thompson ONE Banker financial data 2002-2006.

FIGURE 8.

Interestingly, Wegmans, Publix, Target and Costco share similar best-in-class attributes with specialty grocers like Whole Foods Market.



Source: IBM Institute for Business Value 2007 Customer-focused Grocer Study.

- Publix' success with customers is aided by its ability to meet customer needs with localized assortments (e.g., a Latino focus in appropriate neighborhoods), creative store formats including specialty restaurants, and the fact that it is the largest employee-owned retail grocery chain in the United States.³² Its market penetration is over 50 percent in several major Florida markets.³³
- Costco continues to outpace all warehouse clubs with a focus on employees and a unique, limited merchandise mix (carrying only 4,000 SKUs on average, a quarter of which change regularly).³⁴ Eighty-seven percent of its customers renew their memberships annually.³⁵
- Finally, Target's coveted ability to convert guests (customers) into evangelists has contributed to its success. Target has frequently reworked store layouts and is extending its designer concepts to food.³⁶

Across our entire survey population, the five grocers that scored highest in terms of advocacy also earned the top ratings for understanding customer expectations.

In our study, the top five advocate holders were also the top five in understanding customer shopping expectations (see Figure 9). Grocers that did not understand customer expectations usually did not communicate with customers and made customers feel as though the grocer was “too big to care.”

How can grocers become more customer-focused?

Customer focus is the strategic discipline companies take to improve their operations in order to drive better customer relationships. Customer focus typically leads to greater retention and loyalty, increased share of wallet and market share, increased customer trust and ultimately superior financial results. Some of the key competencies that characterize a strong customer focus include being able to:

Understand customer needs and expectations from the outside in: Place high priority on having deep insights into shopping preferences and needs to create a satisfying shopping experience for core customer segments across all channels and shopping venues.

Use customer insights to drive business operations: Drive these insights across the business to optimize all key decision making, including buying merchandise, pricing and promoting products and services, serving customers, marketing and communicating to customers.

Break traditional design constraints: Design processes based on how customers interact with the grocer, not how the grocer wishes

FIGURE 9.
The grocers with the most advocates are also the ones that understand customer expectations best.



Source: IBM Institute for Business Value 2007 Customer-focused Grocer Study.

to interact with customers. Incorporate relationship and communication skills in the learning and development of staff and leaders.

Adopt a transformational change mindset: Embrace the notion of becoming customer-focused. Measure what's important to the customer and share results companywide, restructuring as needed to align management and incentives to embrace customer knowledge and reward advocacy.

Prioritize investments based on what really counts: Prioritize investments based on criteria that define a successful shopping experience for the company's best customers.

Getting started

Grocery leaders seeking to change the way they interact with customers and build customer advocacy should begin by asking themselves some tough questions – first about their strategy and objectives, then about how to align their business operations with that strategy. The answers will help clarify the customer strategy and define a path to integrate it throughout business operations. Developing and using new metrics, like advocacy, should be one critical step on this path. Customer strategy questions include:

- *On which customers and segments should we focus? What are the important attributes that define them?*

Becoming more customer-focused

Safeway is taking steps in the right direction in becoming customer-focused, and is realizing success. Since the company's difficult 2002-2003 timeframe, Safeway has been working diligently to improve its operations, differentiating its offering from other conventional supermarkets by conducting extensive consumer research to determine what consumers are looking for when they choose a grocery store. Safeway integrates the findings into the operations of its business, from managing product assortment at the store level, to adding new convenience and wellness offerings, even to remodeling stores to make them easier to shop. Since beginning these efforts, Safeway has realized ten quarters of consecutive same-store sales growth and a significant increase in loyal customers.

Safeway knows the key to success is really understanding customers and acting on that knowledge. For example, Safeway conducts customer panels on food preferences and adjusts produce assortments according to customers' preferred sweetness of grapes or crispness of apples. Safeway works with growers and farmers to make sure they achieve the right specifications, or finds new ones who can meet the specs. The company doubled efforts to protect the cold chain, and added proper labels and online tools to inform customers of the vitamin and mineral content of foods they are consuming (as part of its Food Flex program). Additionally, the company is undergoing an aggressive remodel, creating Lifestyle Stores that provide an improved shopping environment for customers. Finally, to help ensure customer insights are an integral and ongoing part of business operations, Safeway is transitioning from managing categories to managing customers, creating a new role, "customer managers," that communicates regularly with key customers and shares the information companywide. Results speak for themselves; integrating customer focus throughout the organization is positioning Safeway as the grocer of choice in the eyes of many customers.

Since quality and selection are the two attributes that matter most to consumers, it may make sense for grocers to focus first on local merchandising and assortment planning – incorporating customer insights and making these functions more customer-driven.

- *What are the drivers of a successful shopping experience for these core customers?*
- *What are the key “moments of truth” with our customers?*
- *How do we “lock in” the loyalty of our targeted customer base?*

Grocers must then determine the critical process, organizational and IT changes that must take place to meet their strategic objectives. Operational alignment questions include:

- *Do we have the right information about our core customers? Do we have a single view of the customer?*
- *What might drive more business from them?*
- *What will it take to focus the entire organization on the customer?*
- *How deeply should we commit to customer focus and where do we begin?*

In fact, local merchandising and assortment planning may be a good starting point for grocers in becoming customer-focused. Since

selection and quality are the top two attributes grocery customers expect their grocer to perform well, improving local assortments by making them customer-driven will enable grocers to meet customer needs in a tailored, tangible way. Most grocers today have a “push” strategy for merchandising, relying on historic purchases, cost-driven motives and ease-of-sourcing to make assortment decisions; incorporating customer insights moves grocers to a “pull” strategy, one that is dynamic, based on customer information and evolves with customer needs. Doing so will give customers what they want while providing the grocer a visible success story on which to build future customer-focused initiatives.

While the retail food market is crowded and competitive, there are clear opportunities and advantages in taking a new approach that puts the customer ahead of just offering lowering prices and “getting big.” With new insight into customer advocacy and the right strategy for developing customer-focused operations, those in the *business of groceries* will have a lot to be optimistic about.

About the authors

Melody Badgett is a Senior Managing Consultant with IBM Global Business Services. She has over 15 years' experience in business strategy and analysis in retail and other consumer-related industries and is currently the Retail Team Leader in the IBM Institute for Business Value. She works with retailers to understand and effectively respond to the competitive and consumer trends that are redefining the retail landscape. She can be reached at mbadgett@us.ibm.com.

Maureen Stancik Boyce, PhD, is the Distribution Sector Team Leader for the IBM Institute for Business Value. She brings 13 years of Strategy Consulting experience in Retail, Consumer Products and Travel and Transportation. She can be reached at staboyce@us.ibm.com.

Herb Kleinberger recently retired from IBM after spending over 25 years consulting with retailers on strategy, operations and technology. He was an IBM Global Business Services Partner and the Global Retail Strategy Leader. He worked with clients to evaluate and transform their operations, organizations and systems to improve customer service and profitability.

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References

- ¹ All grocers included in our primary research survey represent the brand, not the umbrella company. For example, Safeway refers to Safeway grocery stores, not Safeway Inc.
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09-07
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