

# Why advocacy matters to online retailers

Customer focus can mean greater loyalty and financial returns are in store



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## Customer focus can mean greater loyalty and financial returns are in store

By Maureen Stancik Boyce and Laura VanTine

*Online retailing is the fastest-growing industry segment and many are finding success there, with sales expected to comprise 10 percent of total U.S. retail sales by 2011, up from 7 percent in 2007.<sup>1</sup> But a recent IBM Institute for Business Value study of nearly 2,500 U.S. online shoppers shows that most retailers fall short when it comes to pleasing customers. To reap the financial benefits of customer advocacy, retailers will need to integrate and apply customer insights across all business operations to improve convenience, customer service and the overall online store experience.*

The online retail segment is expanding fast; revenues from online business-to-consumers increased 27.6 percent in 2005 and 29.0 percent in 2006.<sup>2</sup> All types of retail Web sites are finding growth, from those of the seasoned, brick-and-mortar retailers to those of small, niche pure plays.

Yet, even as shoppers turn increasingly toward the Internet, most online retailers are struggling to establish strong, positive relationships with customers. Those loyal consumers defined as “Advocates” recommend their primary retailer to others, buy more from that retailer as new products become available and stay with that primary retailer even when new competitors appear. Beyond mere loyalty, our findings show that Advocates will spend more money per

year, spend a greater percentage of their total shopping dollars online and increase their spending year to year.

The IBM Institute for Business Value sought to better understand which online retail stores have the most Advocates today, as well as to identify the attributes that most influence advocacy in this retail segment. We conducted a consumer survey of nearly 2,500 U.S. online retail customers (see sidebar, “About the 2007 IBM Customer Focused Enterprise Online Retailer Study”). This paper features a subset of the findings from a broader advocacy study that encompassed nearly 20,000 customers from five retail segments – online, grocery, mall-based specialty apparel, large format apparel and drugstore and pharmacy retailers (see Related publications section for other titles).

### **About the 2007 IBM Customer Focused Enterprise (CFE) Online Retailer Study**

The questions our study aimed to answer included:

- How strong is customer support for his or her primary online retailer?
- Which elements of the customer experience are most important to customers?
- How well positioned are key online retailers when it comes to being focused on what the customer wants?
- What does a true customer Advocate look like? How valuable are Advocates?
- How can online retailers use advocacy to drive growth?

#### **A new type of metric**

This study seeks to understand customer advocacy, meaning the positive attitude customers have toward their primary online retailers which, in turn, promotes healthy relationships and referrals. Unlike other satisfaction metrics, advocacy goes beyond the single measure of likelihood to recommend. Advocacy takes a more sophisticated approach of combining the responses to three questions to obtain a more complete and accurate view of a customer's attitude toward his or her primary retailer.<sup>3</sup>

The three areas in which Advocates strongly agree are:

1. I would recommend my online retailer to my friends and family members.
2. If my online retailer began to offer similar quality and value products that I usually buy elsewhere, I would be inclined to purchase them from my online retailer.
3. I would stay with my online retailer if another online retailer had a competitive offering (for example, based on product, price or convenience).

Among our most compelling survey results, we found that:

- Online retailers have yet to optimize customer relationships – only 20 percent of the online customers we surveyed are currently Advocates.
- The value of 24/7 convenience is well-recognized, but customer service and the overall online experience are also critical to creating Advocates.
- The online customer experience cannot be viewed in isolation from the overall customer relationship with the retailer, which means that cross-channel consistency is vital.

So what will it take for online retailers to create Advocates? The IBM survey showed that merely meeting customer expectations is not sufficient. To create an Advocate, online retailers need to improve cross-channel customer engagement, concentrating on the attributes that online customers prize most highly: convenience, customer service and the online store experience.

# Why advocacy matters to online retailers

*Customer focus can mean greater loyalty and financial returns are in store*

## Online retailing today

### Market dynamics

Top online retailers include a mix of traditional brick-and-mortar retailers such as jcp.com (JCPenney), BestBuy.com and Walmart.com, Web only retailers (pure plays) such as Amazon.com and eBay.com, as well as QVC.com, which is a hybrid of television and online channels.<sup>4</sup> Of the top retail Web sites in 2006 (based on annual Internet sales), only 29 percent are owned by store-based retail chains, yet this group, which includes jcp.com and Target.com, comprised 41 percent of online sales.<sup>5</sup>

Double-digit revenue growth (11+ percent) is expected to continue through 2011.<sup>6</sup> Of the top 35 online retailers, several saw compound annual growth rates between 2002 and 2007 exceeding 20 percent of total company growth; for example, over 42 percent for circuitcity.com and more than 35 percent for Amazon.com.<sup>7</sup>

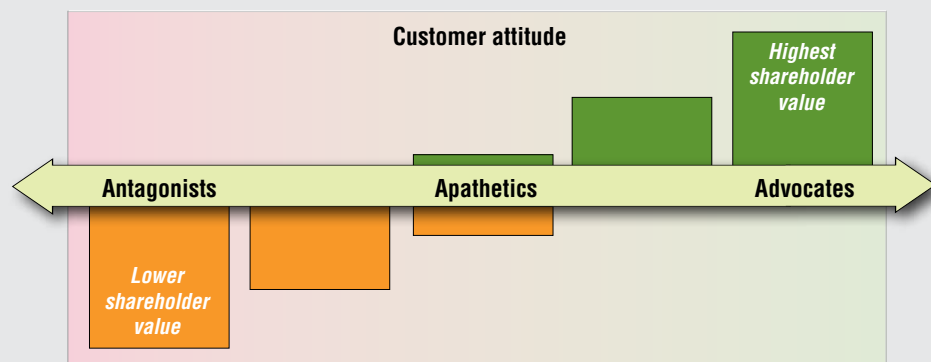
Not only are Web sales rising, so are in-store sales influenced by Web research. In 2006, 16 percent of in-store sales – close to US\$400 billion, were directly influenced by the Web.<sup>8</sup> Of online shoppers, 51 percent are cross-channel shoppers, defined as consumers who research a product online, but then go to a store to buy it.<sup>9</sup> When cross-channel shoppers reached the store, 45 percent of them purchased additional products – spending, on average, an additional US\$154.<sup>10</sup>

Online retailers report that 42 percent of customers shopped in more than one channel in 2007. What's more, on average multichannel shoppers spend US\$466 with a single retailer compared to the US\$313 spent by single channel shoppers.<sup>11</sup>

### Advocacy: The customer's perspective

A customer's attitude is shaped by cumulative experience and directs future behavior such as loyalty, wallet share and word of mouth. The three major attitude segments are: Antagonists, Apathetics and Advocates (see Figure 1).

FIGURE 1.  
The continuum of three customer types.



Source: Heffernan, Robert and Steve LaValle. "Advocacy in the Customer Focused Enterprise: The next generation of CRM done right." IBM Institute for Business Value. April 2006.

**The key to gaining Advocates is to do better at embodying those attributes that customers value most in an online retailer.**

From left to right, this figure shows that Antagonists are those customers who actively dislike their primary retailer, while Apathetics are those in the middle, who are generally indifferent. The highly desirable Advocates are customers who recommend you to others, buy from you when they have choices and stay with you. According to our study, this group represents only 20 percent of online customers.

*“I have recommended this site already to several people.”*

*“It’s very easy to see what is in stock.”*

*– Sample Advocate responses, 2007 IBM CFE Online Retailer Study*

Online retailers who create customer Advocates can develop a new competitive advantage. A 2006 retail study found that 79 percent of customers will commit to a deeper product or service relationship after a satisfying experience.<sup>12</sup>

On the flip side, not only do a significant percentage of customers tell of their bad experiences – they will actually avoid a store based on hearsay. The same study found that not only do 31 percent of customers tell multiple people about their bad experience, but that 48 percent of customers avoid a particular store based on someone else’s bad experience.<sup>13</sup> Negative perceptions of a store are viral and heeded by family and friends.

*“I have never been asked for feedback.”*

*“The promotions lack any relevance to me.”*

*– Sample Antagonist responses, 2007 CFE IBM Online Retailer Study*

Study respondents who were Antagonists spent an average of US\$408 per year online. Advocates spent 30 percent more per year, for an average of US\$532. Compared to Antagonists, Advocates also spent 33 percent more of their total shopping dollars online. Over a two-year period, 65 percent of Advocates increased spending online, 27 percent more than the number of Antagonists who did so. By increasing the number of Advocates, online retailers will be better positioned to reap of the benefit of financially more attractive customers.

#### **Key attributes that promote advocacy**

Our study findings showed that Advocates value *convenience*, *customer service* and having a “pleasant and enjoyable” online *store experience* as the top attributes of their primary online retailer (see Figure 2). Rounding out the top five are two individual attributes that are categorized under *assortment*: “Product selection is fresh and new” and “Always find brand and styles that meet needs and preferences.”

FIGURE 2.  
**How Advocates, Apathetics and Antagonists ranked their primary online retailer on selected attributes**

|                      | Advocates        |   | Attributes | Apathetics/Antagonists |  |
|----------------------|------------------|---|------------|------------------------|--|
|                      | % strongly agree |   |            | % strongly agree       |  |
| Convenience          | 98               | Online retailer makes it easy to shop                       | 55         | 60                     |  |
| Customer service     | 96               | Happy with service from online store employees              | 47         | 55                     |  |
| Store experience     | 95               | Pleasant and enjoyable to shop online retailer              | 49         | 54                     |  |
| Assortment           | 92               | Product selection is fresh and new                          | 41         | 48                     |  |
|                      | 91               | Always find brands and styles to meet needs and preferences | 40         | 51                     |  |
| Product availability | 82               | Products I want are always available                        | 36         | 45                     |  |
| Multichannel         | 79               | Offers valuable services on Web site                        | 38         | 48                     |  |
|                      | 65               | Easy to return products in store or online                  | 28         | 37                     |  |
| Customer insight     | 73               | Seeks my opinion and feedback                               | 26         | 36                     |  |
| Promotions           | 71               | Sends relevant promotions that I often use                  | 25         | 35                     |  |
| Customer service     | 70               | Employees are knowledgeable and quick to help               | 28         | 36                     |  |

*Note: Percentages represent those who "strongly agree" (scores of 8 to 10) that the attribute applies to their primary online retailer, n = 2, 474.  
 Source: 2007 IBM CFE Online Retailer Study.*

The order of each attribute ranking changes very little across the three customer types, a consistency which further validates our point of view on what customers value most. Advocates, Apathetics and Antagonists alike, all had the same three attributes at the top of their lists.

The important difference among them lies in the fact that an overwhelming majority of Advocates report that their primary retailer's Web site provides those essential qualities. Far fewer Apathetics and Antagonists agree that their primary retailer offers these important attributes.

**Comparing attributes of online retailers**

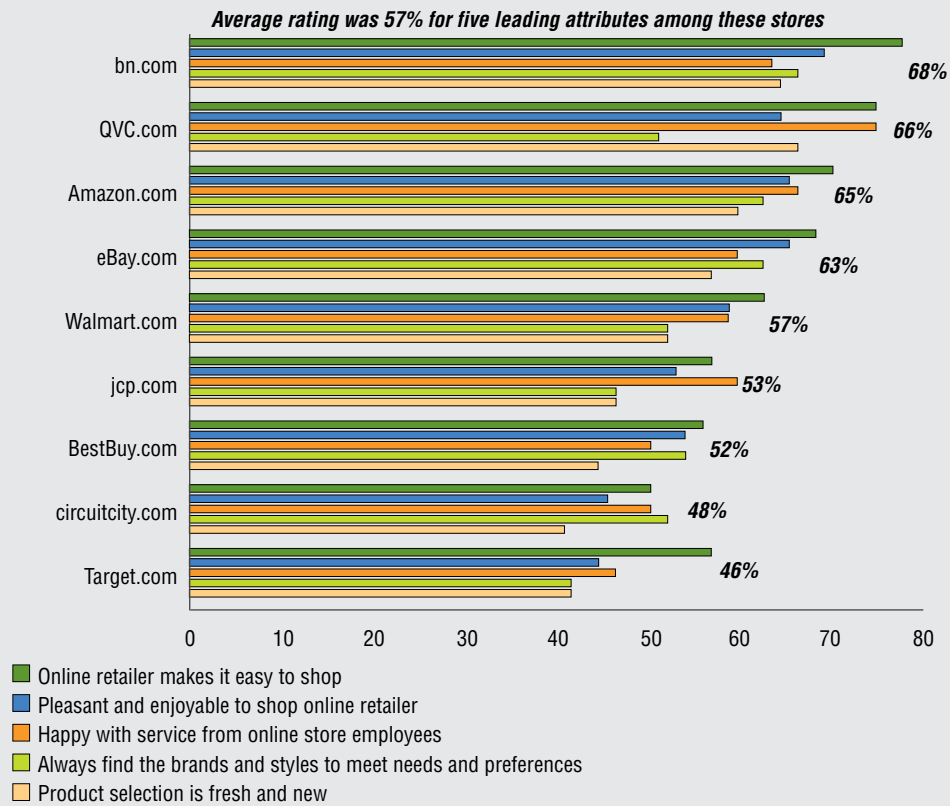
While customers do love the convenience of online shopping, today few retailers are successfully creating Advocates. Some

retailers are making progress with the highest-ranked attributes reported in our survey by integrating customer insights throughout their business and delivering a relevant, exciting shopping experience that builds an emotional connection with the consumer.

The four online retailers that earned the highest advocacy scores in our study were: bn.com (Barnes and Noble, with a 27 percent advocacy rate), QVC.com (25 percent), Amazon.com (21 percent) and eBay.com (21 percent). These same four retailers also had the highest average scores for the top five attributes (see Figure 3). Even so, among the top nine online retailers from our study listed in Figure 3, the average rating was just 57 percent. And, with the highest average topping out at 68 percent, all have plenty of room to improve.

Delivering convenience, customer service and a superior store experience requires focus on the online store, as well as channels and employees.

FIGURE 3.  
How online retailers measure up.



Notes: Comparison is based on attributes that had the greatest percentage of respondents who strongly agreed (scores of 8 to 10), with statements. For bn.com, n=83; QVC.com, n=73; Amazon.com, n=1161; eBay.com, n=237; Walmart.com, n=213; jcp.com, n=100; BestBuy.com, n=96; circuitcity.com, n=52; Target.com, n=136. Average of 57 percent is based on un-weighted average score for stores illustrated for the top 5 attributes due to large number of Amazon.com respondents.

Source: 2007 IBM CFE Online Retailer Study.

### How online retailers can create more Advocates

To achieve advocacy, it is critical that the customers' online shopping experiences mirror their perceptions of the brand experience. To make this happen, online retailers need a deep understanding of their core customers' expectations and must focus on the key attributes that transform a shopper into an

Advocate. In order to keep customers on the path to purchase, online retailers cannot miss the mark when it comes to enabling cross-channel services and seamless integration that delivers convenience, customer service and a superior store experience – eliminating price as the dominant decision making factor.

### ***Convenience: Make shopping easier***

Convenience is the most important category of attributes for online retailers in determining whether a customer becomes an Advocate, Apathetic or Antagonist. This attribute rated higher for online retailers than any of the other retail segments IBM studied.

Retailers can provide online shopping convenience by providing Web sites that are easy to shop. Just as bricks and mortar stores need a layout that is easy to navigate, so do online retailers. Web sites should deliver a dynamic, personalized and high-performance shopping occasion with logical and intuitive flow, as well as personalized functionality and content. In addition, high-performance back-office processing is essential to provide the speed that multi-tasking customers expect.

And since cross-channel shopping is on the rise, convenience encompasses more than just the ease of shopping on a Web site. Where applicable, retailers must also consider how well the online store is linked to its other channels.

Continuity across channels needs to encompass shared information about pricing, inventory and customer insights. Retailers should offer a seamless and consistent brand experience across all customer touch points – one especially critical capability being the flexibility to buy or return purchases via any combination of channels.

### **Online retailers emphasize convenience**

- On jcp.com, the “in stock in stores” feature enables customers to look online for specific products, colors and matching outfits. Customers can then buy online or check the inventory of a nearby store to purchase there. jcp.com achieved US\$1.3 billion in revenue for 2006, making it JCPenney’s fastest growing business and the center of its multichannel strategy.<sup>14</sup>
- Staples.com applied customer research to redesign its Web site for enhanced user-friendliness. Its “Easy Reorder” feature aggregates information about customers’ previous online, phone and fax orders to pre-assemble a comprehensive list that is updated with each order.<sup>15</sup>
- Amazon.com includes postage in the download for returns, and provides a “Bill me later” option that enables customers to purchase a product immediately, receive the bill a few weeks later and then pay online or via check. The site’s “Call me now” feature allows customers to provide a preferred contact method (e-mail or telephone) and lets them indicate the best time for a call-back.
- bn.com offers free shipping for orders over US\$25 and provides same-day delivery within Manhattan in New York City.

### ***Customer service: Provide help as needed***

The second most important attribute for online customers is customer service. While online customers are not standing in front of a store associate, they do expect and value the ability to receive immediate support when they need it – no matter what time of day or night.

Excellent customer service hinges upon providing multiple, realtime, around the clock (24/7) options for assistance, such as call centers, online chat and call back. It's essential that the methods for obtaining help are obvious and quickly accessible, not hidden deep within the site. Even more forward-thinking online retailers will leverage new communication methods to interact with customers, which can include Web feeds, social networks and blogs.

*“They have this cool feature. You type in your telephone number and, within 10 seconds, your phone rings!”*

*– Survey respondent, 2007 IBM CFE Online Retailer Study*

#### **Online retailers emphasize customer service**

- Zappos.com displays its 24/7 toll-free telephone number at the top of every Web page. It also features free shipping and allows returns of online purchases for up to one year.
- Even smaller companies like backcountry.com and Moosejaw.com have joined the growing list of retail sites that feature a “click for live chat” function.
- Lowes.com has a “One-on-One Kitchen Visualizer” tool that enables customers to design and plan their new kitchen with online software; plans can then be brought into the store to review with a product expert for personalized – and cross-channel – customer service.

#### **Store experience: Enhance the interaction**

A positive online experience involves providing a dynamic, interactive experience that is consistent with the customer's brand perception. Successful online retailers will be able to meet the shopping objectives of their customers by accommodating different buying styles, purchasing occasions and motivations. Experiential online shopping – such as the integration of realtime design/configuration tools that allow customers to customize products and see the results before ordering – can truly enhance the store experience.

#### **Online retailers emphasize the store experience**

- Among the features of bn.com are interviews with authors, and online book clubs in which customers can join an online chat about a book. The site also provides access to videos of author readings.
- llbean.com offers a “Flannel Bedding Mix & Match” configuration tool. Customers can pick assorted styles and colors of flannel sheets, pillowcases and comforter covers, then see the results of their custom combinations online before purchasing.
- QVC.com provides online shoppers with access to the opinions of other customers in the form of product ratings and reviews.
- IKEA.com has an online “Room planner” function. Downloadable software lets customers choose kitchen, bedroom or office furniture to fit the exact measurements of their physical rooms. After they finish experimenting, customers can select their favorite options for purchase and pick up at the store.

**The path to higher customer advocacy rates will differ among retailers, but the common groundwork for all includes a customer focused business model that applies customer insights to understand which process, organizational and IT changes are most important.**

### ***Taking stock of your online capabilities***

The starting point requires an honest assessment of current strengths and weaknesses, as well as an identification of which capabilities can most influence the creation of online customer Advocates. Additionally, understanding the capabilities required to deliver on key attributes will allow the prioritization of customer focused initiatives based on greatest impact, and enable the optimized allocation of resources and budgets.

Answering the following questions can help online retailers define strategic objectives and tailor a roadmap for boosting customer advocacy. These objectives will help determine what critical process, organizational and IT changes must then occur.

#### **Offering convenience**

- How are you enabling your customers to buy online and easily return products within the store or by mail?
- Are you making it easy for customers to research a product online and then purchase in the store for the same price? Can online customers tell if a product is available through another channel?
- How do you allow customers to “get in and out fast” when shopping on the site?

#### **Excelling in customer service**

- Does your Web site design clearly and consistently provide access to telephone support and online chat?
- Can your customer service associates communicate well, offer product information over and above Web content, assist with shopping and placing an order, as well as give customers access to technical support, if needed?

- Do store, online and call center associates have visibility to customer order history, regardless of where purchases were made?

#### **Improving the store experience**

- Is your Web site visually appealing and easy to navigate? Does it mirror the brand experience? Does the site offer multiple paths to purchase (browse, keyword, item number)?
- How will you provide online tools that enhance customer enjoyment of shopping on your site, such as offering tailored suggestions based on their known preferences and enabling them to customize and visualize the results of their potential purchases?

#### **Gaining shopper insight**

- How will your company stay abreast of the lifestyle to which its customers aspire?
- What is your approach to identifying and understanding the communities with which your customers self-identify?
- How are you using customer data to draw insights and drive actions that will delight your customer?

Applying customer insight across shopping channels has become a mandate for growth throughout the retail industry, and for the online retailer in particular. By turning more shoppers into Advocates, retailers will be positioned for greater financial benefits. At the same time, their customers can benefit from a more enjoyable and convenient online experience.

To learn more about this IBM Institute for Business Value study, please contact us at [ibv@us.ibm.com](mailto:ibv@us.ibm.com). For a full catalog of our research, visit:

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## Related publications

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