Maureen Stancik Boyce: Hi. My name is Maureen Stancik Boyce and I’m the lead for the distribution and retail sector in the IBV, IBM’s Institute for Business Value.

As you all know, retailers are currently facing many issues with improving profitability and are continuously focused on ways to serve their consumers better. Today, I have with me Herb Kleinberger. He is a GBS partner here at IBM and Global Strategy Lead for retail. He has 20 years of consulting experience and has helped retailers in a variety of multi-national, multi-billion dollar companies set their retail visions.

Specifically, he focuses on building consumer focused strategies, helping the companies build their operations, redesigning their processes and manage the change in building those consumer focused strategies.

Welcome. Hi, Herb.

Herb Kleinberger: Hi, Maureen.

Maureen Stancik Boyce: I’m glad you could be here today.

Herb Kleinberger: Delighted.

Maureen Stancik Boyce: We have a couple of questions that I wanted to ask you.

First of all, why should retailers be interested in becoming more customers centric? Is it truly critical in today’s retail environment?

Herb Kleinberger: You know, Maureen, it’s a really tough environment to compete in these days for retailers and it’s going to get continuously even more difficult. Consumer markets are fragmenting. Customers are becoming much more informed in advance of their shopping about the product prices and offers that are available in the marketplace and from a competitive point of view, there is more intense pressure in every line of retail trade both from domestic competitors as well as international retailers who are coming into our marketplace.
You know, with that, retailers need to figure out ways to differentiate and set themselves apart from the pack in order to not just maintain market but win market share from others and to do that it’s going to take more than just having great product and putting it in the right location and having reasonable service.

It’s really going to require you to win mind share with the consumers. And in order to do that we think that it’s important to kind of reconnect your business strategy with the consumer by putting them right in the middle of everything you do and building your strategy operations and your offers around your most important customers and what they want from you.

Maureen Stancik Boyce: So building a mind share for the customer and making the retailer more customer centric and focused is what we’re aiming for today.

What’s changed in the last few years and why is it important for retailers to do something differently now that they haven’t done in the past?

Herb Kleinberger: Yes, that’s a really good point. I mean, retail as an industry was sort of born around the notion of being close to the customer and for a lot of years retailers really were the ones that understood customers very well and tailored their offers around it. What happened, I think, over the last 10 years or so is retail has become a lot more operationally focused and a lot of that energy has gone into supply chain efficiency, cost reduction and operational effectiveness, much of it driven by competitor pressure.

The Wal-Mart effect, for example, has forced many retailers to kind of up the game on their operational efficiency dimension, and I think in doing so a lot of retailers have lost sight of the customer. They’ve created a shopping experience that the nightmare for most customers inconsistent at best across channels. It’s not responsive to the shopping needs and the behavior of their most important customer segment.

And as a result their shopping experience and the customer experience has become a real issue for many of them. And it’s an area where I think retailers need to regain their advantage and have an opportunity to do a lot of exciting things given the kind of technology that’s now available to enhance the shopping experience and the kind of practices that are out there now that we’re seeing some of the better retailers adopt.

Maureen Stancik Boyce: So in the last few years, the focus has been more in the cost cutting and less on the consumer and it’s time to reverse that or at least do both of them equally?

Herb Kleinberger: Right. It’s not one or the other. You can’t ignore being efficient, but you’ve got to put the customer back in the center of everything you do. And I don’t mean that just in terms of the way we build our marketing campaigns or our offers, its got to be reflected in the merchandising operations of the business, what products we pick, where we put them, how we place them, how we assort. The whole idea of localizing assortment, I think, is an area where we can get closer to the customer.

It also has to be reflected in every touch point that the customer interacts through including call center, certainly selling floor, the web which is becoming even very important in the customers eyes now, kiosks – any customer touch point that we have has to be thought
through in the context of how it impacts the shopping experience, the overall customer experience and we’ve got to think about how we combine those touch points in a way that makes the shopping experience as simple and as responsive as we can make it.

Maureen Stancik Boyce: And to do that, build it out through the rest of the organization as well, whatever operations touch it?

Herb Kleinberger: That’s right.

Maureen Stancik Boyce: Okay. What are the sum of the capabilities that you see a retailer must embrace and must create to become more customers centric?

Herb Kleinberger: Well, it sort of kind of starts with knowing who your best customers are. I mean you need insight. You’ve got to kind of a step back and instead of looking at the market as a mass market that’s sort of faceless and nameless, you’ve got to begin to understand who your customers are.

And then from the inside, in terms of how your customers are shopping, you figure out who your best customers are, segment the customer base, develop insight in terms of a shopping behavior, their wants and needs, what their shopping you for, how often and why. And then use that insight to change the way you merchandise, the way you execute your customer service programs, the way you provide after sale support to them, the way you support them on the selling floor and on the Web.

So knowing who your customers are is where it starts then once you do that you can personalize everything. You can personalize the merchandise, you can personalize the dialog, you can personalize the offers. You can empower your associates with information about who your best customers are so they can treat them more special and be more responsive to their needs on the selling floor and on the phone and on the Web and finally, I think, you’ve got to learn how to be more consistent across channels, learning how to be a real multi-channel retailer is a critical requirement to be really customer centric these days.

The Web has set the bar at a much higher level with regard to what customers are now expecting retailers to be able to offer and how they should be able to execute and customize and personalize everything that they put in front of a customer and that kind of service is now expected on the selling floor as well and the combination of being able to use the Web and the store and the call center in combined way and having that information available across channels so that each of the associates can take advantage of it properly. That’s a big play that retailers need to figure out how to embrace in a way that is meaningful for their customers.

Maureen Stancik Boyce: So it’s not just having each of the channels, but having them truly integrated.

Herb Kleinberger: That’s right. You’ve got to optimize the way they’re used. You’ve got to provide a team with experience across the channels. You’ve got to take advantage of information you have available from one channel and make it available from another channel so the customer doesn’t have to repeat that and use it again in a different way – and this is going to require a lot of changes.
Getting the internal barriers knocked down within the organization to enable this is non-trivial. Most retailers have built their organizations around different lines within the business and different channels within the business and they have their own T&L’s, their own metrics and their own reward systems and much of that gets in the way of executing a team with experience across the enterprise and across the channels.

So, enabling that with organizational change is critical. Getting the change of management aspect of this right is absolutely a requirement.

**Maureen Stancik Boyce:** I’m sure there are significant benefits as well as costs to implementing a truly customer centric strategy. Can you provide an example or case studies of retailers who have done it well and have succeeded?

**Herb Kleinberger:** Oh, there’s some great examples of retailers who have really embraced this philosophy over the last decade and done a great job with it. I think one of the best is called Tesco out of the U.K., a large global general merchant and grocery retailer. Really was kind of not a market leader in the U.K. 10 years ago, Sainsbury and others there were larger.

And Tesco decided to embrace a differential strategy around customer centricity and have been building momentum ever since. They’ve got a very large and successful loyalty program. They have a deep understanding of who their best customers are and what their different customer segments are about and how they shop them and how they want to be served. They’ve built marketing programs, pricing campaigns and merchandized offers around that. They’ve even integrated it into their private label program and designed special private label products and groups of products around their different customer segment.

The result has been tremendous. Tesco is one of the most successful retailers in the world now. They’ve become the largest grocer in the U.K. by far. They’ve entered Asia, Eastern Europe and now have found out they are entering the U.S. market and are truly becoming a global market leader in terms of retail profitability, retail growth and, certainly, customer centricity.

**Maureen Stancik Boyce:** So it often enables retailers to move to new geographies as well as just dominate in their existing geographies.

**Herb Kleinberger:** They are very powerful. Absolutely.

**Maureen Stancik Boyce:** How does a retailer get started? How should they embark on their customer centricity journey?

**Herb Kleinberger:** You know, I think the most important thing for a retailer to realize here is that there’s not a one side central program around this. Becoming customer centric is going to mean something potentially different to each retailer. It’s going to be wrapped up in what type of retailing they’re in, how competitive it is, what’s the nature of their current position in the market is, how much customer information they already have and really based on all of that I think you can think about becoming customer centric in a lot of different ways.

So I think the first thing you need to do is kind of take a good inventory of where you stand today, what your business strategy is and then how important the customer centric
dimension’s going to be to your overall strategy and then pick your places where you want to go first and do them well.

Building out a roadmap is probably the right way about getting started so that you can actually put a program together that builds incrementally over multiple years around the various elements of this kind of a program. Perhaps starting with a local assortment strategy and then moving to a more targeted pricing strategy and maybe ultimately personalized offers and personalized programs that really customize the experience for your best customers.

But, again, it’s really – the whole strategy has to be built on a customized basis for each retailer. There’s not one answer here in terms of how to get to the ultimate end gain.

Maureen Stancik Boyce: All right, so the roadmap itself is dependent on where they start and of course what area of retail they’re serving.

Herb Kleinberger: That’s right. I mean if they’re in luxury retail versus more of a commodity or self serve retail the elements of the program are going to be vastly different, I would say.

Maureen Stancik Boyce: Makes a lot of sense. Well, Herb, I think our time is up. I wanted to thank you so much for sharing your insights. Your experience in customer centricity is very helpful here and again this is Herb Kleinberger, GBS Partner and Global Strategy Lead for retail here at IBM.

Thanks so much for your time, Herb.

Herb Kleinberger: Thanks, Maureen. Enjoyed it a lot. Take care.

Maureen Stancik Boyce: Thanks. More information can be found about this study at www.ibm.com/retail. Thanks so much.