Shopper Advocacy: Building Consumer Trust in the New Economy

Moderator: Laura VanTine

March 31, 2009

Laura VanTine: Welcome. Thank you for joining us. Today, we'll be speaking with Shannon Miller, IBM’s Institute for Business Value Retail Team leader about the IBV’s most recent study Shopper Advocacy: Building Consumer Trust in the New Economy. Welcome Shannon.

Shannon Miller: Hi Laura. Thanks for this opportunity. We’ve have done some work here that really provides great insight for retailers and I’m excited for this opportunity to show what we’ve learned.

Laura VanTine: Great. So let’s start out with just discussing the purpose of the study.

Shannon Miller: We conducted an online survey of about 30,000 US retail consumers across five product categories including grocery, pharmacy and health and beauty care, home merchandise, large format apparel such as department stores and mall-based specialty apparel to understand really what’s driving consumer behavior and spending as well as to grasp how consumers feel about their retail shopping experience.

In addition, we wanted to assess the US consumer’s overall spending habits and their changes in discretionary spend in this new economy, identify which consumer segments are most attractive to retailers, understand advocacy in the new economy, and the major changes from last year and determine what consumers are shifting retailers and what motivates them. And finally to determine which key competencies are necessary to retain and to attract customers.

Laura VanTine: This study is primarily focused on advocacy. Can you please explain to us what you mean by the term advocate?

Shannon Miller: Well, an advocate is defined by three criteria: likelihood to recommend, purchase intent and staying rate. And by likelihood to recommend we’re referring really to a customer’s willingness to recommend one’s primary retailer to friends and family.

By purchase intent, we’re referring to a customer’s willingness to increase one’s purchases at their primary retailer if that retailer expanded its assortment and offered products currently only found in other stores.

And by staying rate, we’re really referring to a customer’s willingness to stay with one’s primary retailer even if other retailers began offering competitive products or services in the same area.
So an advocate is a respondent who answered yes to all three, likelihood to recommend, purchase intent and staying rate. By combining these three components we greatly enhance the accuracy of identifying true advocates and go way beyond the basic idea of loyalty.

In 2008 in fact, 38% of consumers were advocates of their primary retailer. The remaining consumers were either apathetics, those who were indifferent to their primary retailer, or antagonists, those who actively dislike their primary retailer.

Laura VanTine: So why should retailers care if their shoppers are advocates or not?

Shannon Miller: Well, first the main reason is financially advocates are much more valuable customers. Advocates are more valuable than non-advocates because they spend 10% more on average per month, 6% more during each shopping trip and finally 15% more of their total dollars at their primary retailer.

In addition, 31% of advocates have increased their spend with their primary retailer over the last two years. And that number is 19% higher than non-advocates.

One might immediately assume that based on these findings that advocates are wealthier than non-advocates but actually this isn’t true. Our results found that advocates have had the same decrease in discretionary spend from last year as non-advocates.

And they have nearly the same household income. So in summary we were able to show that advocates are more financially valuable consumers because they one, spend a greater percentage of their money with their primary retailer.

Two, they spend more than other consumers. Three, they spend more over time. Four, they’re of course more loyal so they stay with their primary retailers longer. And finally, all of this adds to a much higher lifetime value of the customer.

Laura VanTine: In addition to advocates you also highlight a new segment of shoppers you refer to as shifters. Can you please explain what a shifter is and what’s so important about this shifter group?

Shannon Miller: Absolutely. A shifter is a consumer who really demonstrates one of two types of behavior. Either they abandon their primary retailer from last year and switch to a brand new primary retailer this year, or they didn’t abandon their primary retailer but they migrated a significant portion of purchases to a secondary retailer. Non-shifters are consumers who kept their spending patterns constant, who purchased more at their primary retailer.

Keep in mind the total respondent population can be broken down in two ways: shifters and non-shifters and advocates and non-advocates. As previously mentioned, 38% of the population were advocates and 68% were non-advocates.

30% of the survey population were shifters leaving 70% as non-shifters. These are two different ways of looking at the population. Someone could be an advocate and a shifter at the same time.
Similar to advocates, shifters are extremely valuable customers. They're more valuable than non-shifters because they spend 37% more on average per month and 31% more during each shopping trip.

In addition, 45% of shifters have increased their spending with their primary retailer over the last two years. That's almost double the rate of non-shifters. 23% of shifters reported they actually had more discretionary spend than last year versus only 14% of non-shifters reported the same.

Yet shifters have effectively the same income as non-shifters. So they're apparently shifting their spend to create discretionary income, a behavior that can be highly profitable to retailers.

Although a behavior pattern of changing retailers doesn't appear to be a positive aspect in the shopper, the good news is that those who have completely abandoned their primary retailer can quickly become loyal again.

38% of the consumers who abandoned their primary retailer from last year became advocates to their new primary retailer this year.

Laura VanTine: Since advocates and shifters are so financially valuable as you have pointed out, do you have any insights into what retailers should and can do to turn shifters into shoppers and then those shoppers into advocates?

By that, I mean what factors did you find are driving advocacy and what are the reasons that shifters are moving from one store to another?

Shannon Miller: Absolutely we did and that’s the meat of the study. First, I’ll address your question in regards to advocacy. In order to understand the driving factors behind advocacy we asked survey respondents to rate their primary retailers on several key shopping attributes.

And we then categorized these statements into eight competencies. Advocates indicated that quality, store experience and convenience are most important to them. Advocates are getting the important competencies from their primary retailer; antagonists and apathetics are not.

The greatest gap between advocates and antagonists in regards to their satisfaction for these competencies was in assortment, product availability and customer service. So the biggest opportunities for retailers to reduce antagonism are in these three areas.

In order to understand what drives shifters to shift, we asked survey respondents what was your primary reason for shopping more at other retailers?

Well, the top reason shifters bought products from retailers other than their own primary retailer were price and promotion and convenience - such as store has lower prices and/or good sale prices, the store has better promotions, coupons, reward programs.

The store is easier and more convenient to shop due to store location. So in summary, retailers need to focus on price and promotion and convenience to entice shifters into their
store and then focus on quality and store experience to turn those new shoppers into advocates.

**Laura VanTine:** What should retailers do now? What would be the first step in how they can turn their customers into advocates?

**Shannon Miller:** Well, to get started, retailers really need to develop a strategic roadmap centered around the priorities that matter most to their customers. Retailers need to bring customer insights into every aspect of their business building a comprehensive customer strategy.

And this strategy needs to be dynamic, based on customer information and evolving with the customer needs. And it's also important to look at which operational capabilities and key initiatives are needed to achieve and deliver the key advocacy competencies.

For example, store experience can be enabled by experiential shopping. Quality can be enabled by both local and global sourcing. It's not a one size fits all approach.

The path is going to be very different for each retailer and depending on their individual customer segments and how they're positioned against their competitors with their customers.

So while retailers need to be skilled in all eight competencies, they really need to pick one, two or three of these to differentiate themselves in order to stand out against competitors.

So retail leaders who build customer advocates can truly develop a unique competitive advantage. And I also want to let clients and client reps know that we can use the survey findings to find specific responses for many of the retailers that are included in the study.

So please do reach out if you would like more information about these studies. We'd be happy to help.

**Laura VanTine:** Thank you so much, Shannon. We really appreciate your time and your valuable insight. If you'd like to get more information about the shopper advocacy study please visit the Institute for Business Value retail site at IBM.com/retail. Thank you.