

About the author:

Doug Fleener is a top retail consultant, speaker, and a leading authority on Experience Based Retailing. Doug helps retailers dramatically differentiate themselves in the marketplace by implementing an Experience Based Retail strategy. This methodology can be executed in varying degrees from an overall retail strategy to a sales floor tactic integrated into an established retail operation.

Doug is a seasoned retail executive with over 25 years of experience, most recently as the director of retail for Bose Corporation. He is now managing partner for Dynamic Experiences Group, a boutique retail consulting firm.

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Differentiate Through Experiences

A Case for Experience Based Retail

Tools for the Experience Series

Synopsis

The retail market today is oversaturated and being controlled by dominant retailers in practically every market segment. Supercenters are expected to triple in the next seven years, many at the expense of small and mid-size retailers. Retailers must ask themselves what makes their store(s) different enough for the consumer to choose to do business with you?

Discover the importance of primary and secondary competitive positions and the need to be a market leader. Using a simple retail model, learn why your position must be differentiated for long-term success.

Focusing on customer and employee experiences are the best opportunity for many retailers to create differentiation. Customers who receive above average experiences are more likely to purchase, be a loyal customer, and recommend the retailer to family and friends.

Finally, learn some methods that you can immediately put into action to move your primary competitive position to Experience Based Retail.

For more information visit us at: www.dynamicexperiencesgroup.com

Differentiate Through Experiences

A Case for Experience Based Retail

Any retailer who wishes to survive long-term in today's competitive arena must be able to answer this fundamental question; what makes your store(s) different enough for the consumer to choose to do business with you?

The retail marketplace is now oversaturated and the next decade will continue to see consolidation and domination in our industry. Wal-Mart continues their incredible growth strategies that are changing the way the world shops and, subsequently, changes the way we retailers must operate.

Beginning in the 1970's the proliferation of large malls was the death of many downtowns along with the locally-owned retailers and regional chains that inhabited them. Those that survived adapted to the new retail environment. The 1980's and 1990's saw big box category killers and national discount general merchandise retailers once again change the retail landscape, putting competitive pressure on the malls as the malls themselves once pressured the downtowns and their retailers. Those that survived adapted to the new retail environment.

Now, at the start of the 21st century, consumer shopping habits have forever changed. Faced with substantial loses in their 401Ks and an uncertain job market, consumers of all income levels have become value oriented shoppers. Supercenters, large discount stores with an all encompassing product selection, are becoming the dominant retail force and are now a primary shopping destination for most consumers. Recent studies have predicted that supercenter sales are expected to triple in the next seven years. Triple!

National chains offering top brand names at deeply discounted prices are now in most every market in America. Once again, locally-owned retailers and regional chains must adapt to survive.

Wal-Mart continues to hone their well-oiled retailing machine and apply their proven approach to new markets, recently becoming the largest grocer in the United States. They continue to expand in to new areas like gasoline, financial services and other businesses. If Wal-Mart doesn't sell what you sell right now, there's a high likelihood it's only a matter of time before they will.

Beyond Wal-Mart is Target, who is targeting (pun intended) a more fashion conscious consumer who has become accustomed to value oriented shopping. Other dominant retailers having a huge impact on local retailers and mid-size chains include Best Buy, Home Depot, Kohl's, Lowe's, Marshalls, Barnes and Noble, and Staples. And retail is no longer done just in storefronts but also online with internet pioneers Amazon and EBAY, as well as countless websites that have made pricing transparent and anything you want to buy a click away. So I ask again, why will the consumer choose to do business with you? How will you adapt in this new era of retail?

Retail Model

On a basic level, retail is a combination of three components; Product, Process and People. Within these components are elements that when put together form a retail model. This model can be easily debated but my experience has shown that it's easily understood and encompasses the critical elements for discussion.

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Here are the model's main components and elements.

Product

1. Product Selection

Product selection is made up of three elements:

- Market segment. This determines the type of products to be sold
- Scope. The range of the segment(s),
- Quality. The characteristics of the segment and scope.

2. Price

The price the consumer pays for the goods offered by the retailer.

Process

3. Operational activity

Includes inventory procurement, inventory management, and all necessary administrative activity

4. Structure

The organizational structure necessary to operate the retail enterprise

5. Location and site management

The physical plant and location

People

6. The customer experience

What the customer experiences when conducting business with the retailer.

7. The employee experience

What the employee does and experiences when working for the retailer and interacting with the customer

8. Services

Services such as delivery, installation, in-home sales, and personal shoppers are just a few examples. Services are considered a people component as they are most often performed by people and their quality is determined as such.

A retailer's aspirations and mission drive the choices and activities within each element. Strategic decisions and tactical execution of the elements make up the retailer's identity in the marketplace.

Success Formula

It is impossible for a retailer to be all things to all people, though many companies have failed trying. Companies must choose - either consciously or unconsciously - the element that is to be their primary competitive position. Without a primary competitive position there is no key strategy and no identity, resulting in overall mediocrity, a sure formula for failure.

Wal-Mart's primary competitive position is pricing. 7-11's primary competitive position is location. The Gap's primary competitive position is product selection. To have long-term sustainable success a retailer needs to be a market leader in their primary element. The market is determined by both geography and competition. Because of the internet and the proliferation of dominant retailers nationwide, geography has become less of a market factor.

Successful retailers also focus on secondary elements; those elements at which a retailer can outperform the market standard and complement the primary competitive position. When a retailer is a market leader in their primary element and has one or two secondary elements in which they outperform their competition, they are on their way to market dominance.

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You must always meet the market standard with all your elements in the model. These often changing standards are set mostly by consumer expectations and the competition's ability to achieve them. Below market standard on any element may neutralize the primary and secondary elements.

Using Wal-Mart as an example, we know their primary element is pricing but they also dominate in product selection as well as in all of the process elements. Kohl's is moving towards market dominance by having price as a primary position and location and product selection as secondary positions.

Note that marketing is not one of the elements. Marketing is the activity that communicates the primary and secondary element to the consumers and drives them into the store.

Do you know your primary competitive elements? The fact is many small retailers don't. Are you a market leader in it? Do you have any secondary elements that you can exploit? And most important, is the customer choosing you because of it?

The Future of Retail

As discussed, the marketplace is more competitive than ever with big box retailers and national chains dominating the marketplace and predictions of even tougher competitive conditions ahead. Caught in this change will be mid-size chains, small stores, and any retailer who cannot be a market leader in their primary position. This change may or may not mean that these retailers won't exist in the future.

If they do exist they'll be faced with no or reduced growth, thinning margins, and limited profitability.

The trouble ahead for many retailers is this: a good number of small and mid-size retailers today identify a product element as their primary competitive position, the same component in which the dominant retailers of today and tomorrow are leading the market. Not long ago a retailer could carve out a niche in the market with a well defined product selection strategy. Because of shorter product adoption phases, quicker commoditization of products in almost all product segments, rapidly changing customer tastes, and a wider product scope being carried by dominant retailers, this is no longer the case. Few retailers and even fewer smaller retailers can be market leaders in any of the product elements. The fact is these retailers must shift their primary competitive position away from the product component and differentiate themselves in some way or else face an uncertain future.

Why a People Position?

The greatest opportunity for many retailers in this situation is to differentiate themselves by shifting their primary position from a product component to a people component. At the same time they must maintain their product element(s) as their secondary market position. While this is not an easy feat, the customer will likely reward those who can make such a bold transition. Another alternative, depending on market segment, is for a retailer to create differentiation by maintaining their current primary position but develop a people component as the secondary position.

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Remember, the people elements are customer experience, employee experience, and services. These elements have some advantages over product elements. They cannot be commoditized, they add value to your customer's lives beyond the product itself, and they are difficult for large retailers to execute, rarely exceeding customer expectations.

People components focus on outcomes by putting the customer and employee as the focus of the retailer, not the products or processes. This is not customer service. Customer service is a phrase so overused today that we don't even have a common understanding for what it is. And when we do, it refers to "waiting on someone". Retailers who "wait" on someone will be waiting for profits.

Experiences are how customers act and feel as result of being engaged with your employees, your products, and your physical store. It's taking key in-store activities like selling, merchandising, and collateral and using them to better educate your customer and give them the best possible experience. It's an entire company focused on delivering a "WOW" to the customer. Customers who receive above market experiences are more likely to purchase, be a loyal customer, and recommend your store to family and friends. You have no better advocate than a customer who receives a great in-store experience.

Retailers who are leaders at customer experiences are also leaders at employee experiences. They understand that employees *are* the company to their customers. They see employees as people and not as a line on the expense statement.

Most important, they know that if they want to have employees give their customers an experience, the company must first deliver one to the employees. Many retailers treat employees well, so focusing on employee experiences is not a difficult transition. Many other retailers lack respect for their employees and they don't treat them as well as they should. For these retailers the transition will be challenging. The greater problem is the number of retailers who think they treat employees well but in fact don't do as good as job as they think. The tell tale sign is a company's employee turnover rate and how it compares to the industry average, although as an industry our turnover rate is much too high.

The final element in the people component is service. Service is both a differentiation opportunity as well as a profit opportunity. Services are often cumbersome and difficult to execute, which make them more suited to the smaller companies, although many large retailers are successfully outsourcing them. Home Depot's Expo stores have changed how stores sell service and installation, giving consumers a one stop shop. One key point about this element: if you make it a primary or secondary competitive position you must do it right. Often this is the last contact point with your company. A poorly executed service can be detrimental to any repeat business. Bad service is easy to do and is done by many retailers. Exceeding customer's expectations with service is difficult but consumers will reward those who do it well.

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Theory or Practice?

Executing customer and employee experiences as a primary competitive position is what we at Dynamic Experiences Group refer to as Experience Based Retail. This is a systematic approach to implementing employee and customer experiences. It's executed by focusing on four strategic areas that we call the 4 Es of Experience Based Retail. They are Environment, Engagement, Entertainment, and Education. We will discuss these in greater detail in later papers.

Some believe this is more theory than true practice but there are successful retailers who execute Experience Based Retail and the market has rewarded them handsomely. The reason we don't hear or see it much is because, as discussed, most retailers are product focused.

One retailer who is a model for those wanting to execute a people component strategy is The Container Store. With 28 stores in 15 markets around the country, The Container Store is a great place to shop and a great place to work. They have been named the top one or two best places to work by Fortune Magazine the last four years in a row. They average 20% sales growth yearly and employee retention rates far above the industry standard.

Another great example is a Boston based chain, Jordan's Furniture. If you're from Boston or visit here, you know about Barry and Eliot Tatelman, the two brothers who run the four store chain that was started by their grandfather back in 1928.

There are many elements of Jordan's Furniture that has made them a success including operational refinement, a phenomenal advertising strategy, and knowing and hitting their target market. Most important is that Barry and Elliot turned buying furniture, a tedious and uneventful task into an incredible customer experience.

How successful have they been focusing on people? The average furniture retail chain averages between \$150 and \$200 of sales per square foot. Jordan's averages close to \$1,000 a square foot. The average furniture chain spends about 6% of their annual revenue on advertising and runs countless sales. Jordan's spends only 1% to 2% of their revenue on advertising and *never* runs a sale. Jordan's was recently acquired by Warren Buffet in an all-cash deal worth about \$225 million dollars. The Tatelmans maintain total control of the day to day business. Not bad for two guys who love to laugh and have fun with customers and employees alike.

Into Action

Creating and executing an Experience Based Retail strategy takes both commitment and a willingness to change. For some retailers, especially those who want to create customer experiences as a secondary competitive position, it may require less change. Either way, it is quite rewarding to put people at the heart of what you do.

There are numerous ways for retailers to begin to take action and create incredible customer and employee experiences. Many retailers may choose to put together a new strategic direction for their company.

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Others may want to put into action some of the following suggestions. Either way, you're on your way to differentiation through experiences. Here are some suggestions:

- **Educate your customer**
Help your customer obtain the information necessary to make an intelligent purchase decision. Retailers who focus on product are interested in getting a product out the door but retailers who focus on people want their customers purchasing the *right* product. This can be done with seminars, in-store trainings, and product demonstrations. Group product demonstrations and showings are the most under-utilized sales methods in retail. Why sell one-on-one to a customer when you can sell to a group?
- **Focus on benefits**
Most market segments are focused on price and product features. Customers don't buy features but rather they buy products that improve their lives. Retailers who translate what they sell into benefits for customers will be rewarded.
- **Be inviting**
One of the first steps toward a better customer experience is to make sure customers are welcomed to the store. Customers like to be acknowledged and greeted but not pounced on. Teach employees how to welcome people as well as thank them for their business. I wish I had a dollar for every time I said thank-you to a cashier and they said "no problem". I feel like saying, "no, that is a problem and didn't you learn any manners from your parents?"
- **Be a great place to work**
Happy employees make for happy customers. Pay your employees well with creative compensation plans that allow them to share in success. Create recognition and reward programs along with fun and engaging contests. Empower people to make decisions and give managers the opportunity to run their businesses. Communicate openly to your employees, think of them as partners and not subordinates. Be flexible. Make work fun. Most important, respect your employees and let them know how much you appreciate them.
- **Be a fun place to visit**
Jordan's Furniture is a fun place to shop. Their flagship 130,000 square foot store in Natick, Massachusetts is based on a New Orleans Mardi Gras theme complete with a greeter who offers you beads upon entering the store. Every hour "Bourbon Street" comes alive with an exciting animatronics show complete with Elvis, The Village People, Louis Armstrong, and Barry and Eliot themselves. Adults and children alike come to the store to see the show and eat lunch at Kelly's Roast Beef, and maybe when they're there they look at or purchase furniture. And chances are if they don't purchase on that trip, they will purchase at Jordan's when it's time. Most of us are not in a position to make this large of an investment to entertain customers. But with a little creativity and effort, you and your staff can create a fun place to shop.
- **Keep the focus on the customer**
Well-kept stores are important. Replenishing inventory is also important. Focusing on the customer while they are in the store is the most important.

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Executives and managers need to make sure they are always communicating this. I once worked for a company that had a noble goal of maintaining perfect stores. I learned a lot about myself and managing people in attempting to achieve the goal. Unfortunately the company's actions communicated the message that a clean store was more important than helping customers. Whenever the chairman of the company was in the corporate jet, destination unknown, 75 stores stopped focusing on the customers and instead were feverishly cleaning their stores. I always wondered how much revenue was lost on those days.

- **Invest in your people**
Find great people and keep them. Invest in the employee's training and development. At The Container Store every first-year full-time salesperson receives more than 235 hours of training, over thirty times the industry average. Each Container Store has full-time employees who are dedicated to training all store employees on the features, advantages and benefits of each product, as well as specific training on how to best service and sell to their customers.

- **Have a retail floor strategy**
Most chains have a CRM strategy, an inventory replenishment strategy, an IT strategy, and so on. What scores of retailers lack is a well defined retail floor strategy. Don't confuse training employees with a floor strategy. A well defined retail floor strategy should define the desired outcome for customers and create tools for the employee to engage the customers.

Expectations must be set for the employees along with mechanisms and rewards to drive the desired behaviors and outcomes. At Bose, our retail employees knew exactly what was to happen at any given time, much like a well diagramed football play. Most stores could execute it like clockwork.

The Road Less Traveled

Delivering experiences is considerably more challenging than selling "things". Most retailers are not willing or able to take on the challenge of delivering experiences. The good news is that the road less traveled is often faster and more scenic. I hope to see you on the road less traveled. Good luck and keep it fun.

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