

# Experiential Retail has Become the Watchword for the Retail Industry...

FITCH takes a look at how US retailers are responding to the consumer-driven marketplace – by giving consumers what they want.

## Retail has changed forever

**Today's dynamic marketplace has a new driver: the consumer.** More than ever before, shoppers have control over where, when and how products and services are purchased. What was once a relatively homogeneous middle class, living relatively similar lives, has rapidly segmented into a diverse society comprised of **individuals who prioritize self-expression over conformity.**



## The store: the decision epicentre

Retail experts who, a mere five years ago, predicted the demise of bricks and mortar, are now forced to admit that, while e-commerce is expanding, **the physical store environment now accounts for a greater percentage of purchase decisions** in many retail categories than before the advent of the Internet.

Recent surveys indicate that **up to 75% of all purchase decisions are now made in the physical store.** And these decisions emanate from far more educated consumers who arrive at stores armed with information gathered online and who **expect to be able to shop in the way they desire.**

The retailers that give consumers what they want will ultimately win both the business and their loyalty. Despite overwhelming evidence that the **consumer experience is the single most important factor** in continued growth for manufacturer and retail brands alike, it has remained ill-defined and, with a few notable exceptions, ignored by both.

## Everything matters: but consumers matter most

To make things even more challenging, every aspect of retailing appears to be of simultaneous importance to success in today's marketplace.

Operations matter more than ever, due to lessening government restrictions, a truly emerging global marketplace, 24/7/365 retailing and the maximisation of technology in the value chain (RFID, JIT, CRM, etc.).

Retailer after retailer has chased leader Wal-Mart in the escalating war of real-estate strategies, technology, product development and distribution.

**Store Environments matter more than ever**, too. Having squeezed every available dime out of other aspects of the value chain, the **physical store environment is the "last frontier"** for alleviating downward pressure on price and improving brand relevance.

Focus on the in-store experience **increases frequency and dwell time** and, in the process, increases sales, profitability and long-term loyalty.

It is the store, not the ad, website or catalogue, wherein the consumer comes face-to-face with most products and services, and where the brand promise first established in these other communications and selling channels has the most profound opportunity to deliver on its promise. Despite these facts, the discussion still appears to be focused on operations.

**Experiences also matter more than ever**, given that **59% of consumers say they have all the material possessions they need**, according to a recent WPP survey.

Consumers report that, as they age, **their needs have been increasingly met, but their wants escalate**. Rather than through physical products, these wants are being fulfilled by **intangible experiences**.

Today's most compelling products — such as the iPod — **enable and facilitate experiences rather than merely delivering function**.

But **consumers matter most of all**. Much to the dismay of operationally focused retailers such as The Home Depot, Wall Street is beginning to reward retailers such as Lowe's, Best Buy and Target, which are considered by many to be more consumer-centric.

**Market value is increasingly being determined by the number of consumers a retailer owns, not by the number of doors** or where they're located.

**Consumer-centric retail experiences are:**

"Interrelated moments that occur when a brand's operations align with customer expectations to elicit interactivity, as well as rational and emotional engagement."

Within this definition are key concepts that are vital to the creation of experiences:

- **Interrelated moments** – the occurrence of individual or multiple events.
- **Brand operations** – the core competencies of a company.
- **Customer expectations** – conscious and subconscious consumer needs, wants and demands.
- **Interactivity** – communication and collaborative exchange.
- **Engagement** – intended rational and emotional responses, and involvement.

## Electronics: the experiential benchmark



Best Buy



Circuit City

Consumer Electronics, more than the other three product categories studied (apparel, grocery and home furnishings), is **associated as much with leisure as with practicality**, and at first glance, seems to lend itself to a **more emotional shopping experience**.

The typical American is easily excited about home theatre — a category experiencing explosive growth. But the consumer electronics purchase can be expensive, complicated and unfamiliar, and **good retailers use their stores to help the consumer understand, compare and decide**.

**Best Buy** seems to understand this dynamic far better than others in this category, soundly surpassing Circuit City, Wal-Mart and other retailers as the favorite store for electronics. Men and women alike told us what makes Best Buy their favorite store for consumer electronics:

- A **multi-faceted experience** offering a wide variety of products.
- Experienced and helpful (but not pushy) sales staff.
- The freedom to try before you buy.
- A **well-organised and energetic atmosphere** that encourages browsing and repeat buying.

Consumer comments also indicate that Best Buy's online presence is an important part of the overall experience, aiding everything from understanding the offers to checking inventory at the closest store.

To be certain that the entire consumer experience at Best Buy outweighs more rational, discreet decision-making, consider this consumer comment: "**The prices [at Best Buy] aren't always the best, but at least I'll know they have what I want.**"

## Apparel: the need for speed



Macy's



Gap

The **apparel category is particularly troubled**. Let's first address the painfully **obvious consumer interest in price, price, price**. We heard it as loudly in the apparel category as we did in grocery. And no matter what retail channel (there are many) or household income, consumers' appreciation for low prices shapes their choices in clothing stores.

**From Wal-Mart, to Macy's, to outlet stores, to off-price shops, consumers talk about sales, deals and good buys**. Now that retailers have trained consumers to visit during markdowns and promotions, and consumers can find those deals in any apparel channel, **the retail industry will need to increase its reliance on the consumer experience to bring value back to the store**.

Simmering below all the talk about price is a **desire for speed and ease of shopping**.

The study shows that consumers' key concerns are "**order and organisation**" and a "**desire for variety and selection**."

These themes suggest that consumers are approaching clothes shopping in a utilitarian, less engaged manner. Retailers, take note: while consumers may still love apparel and want to shop, they may no longer have the time for a leisurely stroll through the mall — at least when it comes to shopping for apparel. (By comparison, consumers seem more excited about shopping for Consumer Electronics, and they treat the experience as a leisure activity.)

## Home furnishings: isolated but fervent enthusiasm



Pottery Barn



IKEA

At first glance, **consumers seem to be less engaged in home furnishings** than in the other three product categories. More than 38% of consumers could not identify a store of choice for home furnishings shopping and, combined, the Top 10 accounted for only one third of all consumer responses.

Well-known specialists such as Pottery Barn, Crate & Barrel and Restoration Hardware — merchants that normally excel at consumer experiences — failed to garner a single mention in the study.

In fact, there was one and only one specialty store in the Top 10, and that store was **IKEA**. With only 24 stores across the United States, IKEA's place in the rankings is nothing short of amazing.

**IKEA's experience clearly transcends the tangible and rational.** Consumers embrace IKEA's low-price philosophy, but they also see **benefits far beyond price.**

The products IKEA carries are not merely inexpensive: they're "fun" and "cool" with an incomparably high "aesthetic". The store attracts not only those who intend to buy, but it ignites a reason to "just window shop" because **"the stores seem like an adventure."**

Aside from outdoor experts such as Bass Pro Shops and Cabela's, you would be hard-pressed to find a retailer other than IKEA that consumers will drive five hours to visit. **That kind of devotion is remarkable.**

## Grocery: price, punctuated by personality



Trader Joe's



Wholefoods Market

Consumers say they want their grocery bills to be low, and they **choose their favorite because of a low-price perception.** Take a good look at the Top 10 list of favourite grocers (see links above). Which of them are known for their low prices?

Nationally, Wal-Mart is the only one. If consumers really only want low prices, then ALDI would appear in the Top 10. Once again proving that, sometimes, **what consumers say they want is different from how they actually shop.**

Consumers want their neighborhood grocer to be fantastic at something — the butcher, the baker, the floral arranger...anything.

But, if they had more time, they would drive outside their neighborhood to shop. **Those who have that taste for adventure generally make the trip because of a superior experience.**

## **The point of interaction: success at last**

After decades of focusing on operational efficiency, **retailers are slowly waking up to the fact that they are no longer in control of the purchase process.**

The landscape is littered with choices that empower consumers to vote with their wallets, and most importantly, their hearts. FITCH predicts that **consumers will increasingly reward retailers who not only satisfy their logical and rational needs** of convenience, location, low prices and selection, **but who also satisfy consumers' emotional needs.**

This is not to say that **convenience, location, low prices and selection** aren't important. It's just that they are **a basic expectation among consumers.**

It's not about playing follow-the-leader: it's about **creating advantages through superior service, great products and easier-to-shop environments** that serve as a backdrop for distinct interaction.

The goal is to create **consumer-centric experiences** that transcend mere aesthetics and touch people's lives at the point of interaction.

Every point of interaction is critical and related to another. How a consumer reacts to, and interacts with, the products, services, packaging, identity, brand collateral, advertising, live events, website and, ultimately, the store environment is an interrelated and cyclical process.

**Real, tangible experiences that invite interaction and drive repeat visits and purchases are the happenings that create distinction.** This goal is achieved when an experience is created that can only be had by visiting the bricks & mortar.

Tough recipe? You bet, but for those brands that build such a presence, long-term financial success is much more likely.

## **Study methodology**

In February 2006, FITCH commissioned industry experts BIGresearch to field a quantitative assessment of consumer experiences. The goal: **to get directly to consumers' perceptions of the optimal shopping experience and determine what consumers like, and why, about their favourite retailers.**

Four specific product categories were investigated and a list of retailers was created in the context of how consumers shop categories, not how retailers define channels.

Nearly 5,000 typical American consumers responded to a series of questions beginning with what two stores they like shopping the most for each of four major product categories: **Consumer Electronics, Apparel, Home Furnishings and Grocery.**

These categories were selected because of their relevance to the retail industry as well as their familiarity, total expenditures and relevance to consumers.

The questions were asked in the context of how consumers shop today for specific categories — across retail formats and channels, rather than using the more standard approach of how retailers define channels and formats.

NOTE: Retailers such as Wal-Mart, Target, Macy's and other multi-line retailers were represented in each category in which they sell products or services. Consumers were also given the opportunity to write in and describe retailers who were not included in the initial list.

## Electronics: top 10 stores

### Favourite retailers

1. Best Buy - 29.2%
2. Circuit City - 14.5%
3. Wal-Mart - 14.3%
4. RadioShack - 5.8%
5. Sears - 3.3%
6. Target - 3.0%
7. Fry's - 2.0%
8. CompUSA - 1.4%
9. Costco - 1.1%
10. Staples - 1.0%

### Stores shopped in past 90 days

1. Best Buy - 43.6%
2. Wal-Mart - 36.7%
3. Circuit City - 27.1%
4. Target - 18.2%
5. RadioShack - 17.9%
6. Sears - 9.1%
7. Sam's Club - 9.0%
8. Kmart - 8.6%
9. CompUSA - 8.5%
10. Costco - 7.7%

**Favourite retailers:** combined average of 1st and 2nd favorite stores among customers citing a preference. All mentions unaided.

**Stores shopped in past 90 days:** based on total number of responses. All mentions aided.

## Apparel: top 10 stores

### Favourite retailers

1. Wal-Mart - 14.3%
2. JCPenney - 9.2%
3. Kohl's - 6.8%
4. Target - 5.8%
5. Sears - 4.6%
6. Old Navy - 3.8%
7. Macy's - 3.5%
8. Kmart - 3.0%
- =9. Dillard's - 2.0%
- =9. GAP - 2.0%

### Stores shopped in past 90 days

1. Wal-Mart - 46.8%
2. JCPenney - 28.4%
3. Target - 27.5%
4. Kohl's - 22.2%
5. Old Navy - 19.0%
6. Sears - 16.7%
7. Kmart - 16.5%
8. GAP - 11.6%
9. Macy's - 10.3%
10. Dillard's - 10.0%

**Favourite retailers:** combined average of 1st and 2nd favourite stores among customers citing a preference. All mentions unaided.

**Stores shopped in past 90 days:** based on total number of responses. All mentions aided.

## Home: top 10 stores

### Favourite retailers

1. Wal-Mart - 9.6%
2. Target - 5.3%
3. Sears - 4.4%
4. IKEA - 2.8%
5. JCPenney - 2.5%
6. Value City - 1.9%
7. Rooms To Go - 1.8%
- =8. Ashley Furniture - 1.6%
- =8. Macy's - 1.6%
10. La-Z-Boy - 1.3%

### Stores shopped in past 90 days

1. Wal-Mart - 24.2%
2. Target - 16.8%
3. Pier 1 Imports - 9.9%
4. Sears - 9.7%
5. IKEA - 8.5%
6. Pottery Barn - 4.8%
7. Crate & Barrel - 4.1%
8. Macy's - 3.5%
9. World Market - 3.0%
10. Restoration Hardware - 1.7%

**Favourite retailers:** combined average of 1st and 2nd favourite stores among customers citing a preference. All mentions unaided.

**Stores shopped in past 90 days:** based on total number of responses. All mentions aided.

### Favourite retailers

1. Wal-Mart - 13.7%
2. Kroger - 5.9%
3. Albertson's - 3.8%
4. Safeway - 3.6%
5. Publix - 3.2%
- =6. Meijer - 1.9%
- =6. Stop & Shop - 1.9%
- =8. Costco - 1.8%
- =8. Food Lion - 1.8%
10. Giant - 1.6%

### Stores shopped in past 90 days

1. Wal-Mart - 41.2%
2. Sam's Club - 16.0%
3. Kroger - 14.8%
4. Albertson's - 14.4%
5. Target - 13.5%
6. Costco - 13.4%
7. Safeway - 10.3%
8. Publix - 7.4%
9. ALDI - 6.8%
10. Trader Joe's - 6.4%

**Favourite retailers:** combined average of 1st and 2nd favourite stores among customers citing a preference. All mentions unaided.

**Stores shopped in past 90 days:** based on total number of responses. All mentions aided.