



STOP, LOOK, LISTEN

Customer Centric Retailing

**PEOPLE OFTEN ASK ME WHAT THE SECRET IS TO
OUR SUCCESS. WELL I'LL TELL YOU: WE LISTEN
CAREFULLY TO THE CUSTOMERS, AND TRY TO
GIVE THEM WHAT THEY WANT**

Sir Terry Leahy (2005), CEO Tesco

TO BE A WORLD CLASS RETAILER YOU NEED TO BE CUSTOMER CENTRIC

A truism if ever there was one! But very few actually achieve this nirvana. **Why?**

To be a Customer Centric Retailer, management has to let the customer's perspective cascade down through every aspect of the organisation from designing store formats to devising store labour models that provide the level of service that customers value most. Take out cost where it does not add value to the customer: add cost where it does. Think like your customer!

Every aspect of the retail business model must reflect customer priorities and values. No facet of the model can remain unchanged or at least unchallenged.

Propositions must deliver value to the target customer groups, the organisation must connect with the customer where he/she chooses, store formats must reflect the core customer shopping mission(s), store labour must deliver the service the customer values. Every element of the retail business model needs to be viewed through a pair of customer oriented spectacles.

REWARDS OF SUCCESS

Getting it right is a formidable ‘ask’ of a management team but the rewards to success are inspiring

TESCO, INDITEX AND BEST BUY AMPLIFY THE POWER OF GETTING CUSTOMER CENTRICITY RIGHT

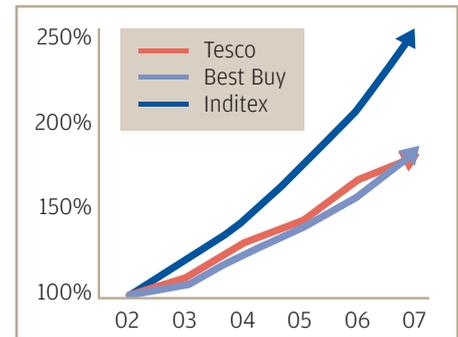
Just look at the performance of three of the worlds most Customer Centric Retailers; Tesco, Inditex and Best Buy.

- **Tesco**, a decade ago #2 in UK grocery now is the clear leader. This has been driven by a truly Customer Centric organisation which makes decisions about ranging, pricing, store formats and channels all focused on customer needs.
- **Inditex** is one of the most revered clothing retailers. At the heart of its success is the ability to respond extremely rapidly to customer demand; a super efficient supply chain gets new trends to customers in 3 4 weeks while delivering basics at the low prices customers want. The famous IT solution allows ranges to be tailored to the different customer mix each store is serving.
- **Best Buy** is the world’s leading electronics retailer which is evolving to become the leading provider of “electronics solutions” for customers. The basics of good service and great prices are well covered, but Best Buy is now winning through offering installation and maintenance services through Geek Squad and creating store types focused on different customer segments i.e. aggressive expansion based on a fundamentally good customer offer.

DID IT WORK?

GETTING IT RIGHT FUELS GROWTH

Revenue by Retailer (2002 = 100)



Net Profit by Retailer (2002 = 100)



Source: BVD

Note: Excludes Best Buy 2003 due to exceptional items.

EASIER SAID THAN DONE!

Ok so that was easy –
all we have to do is become
Customer Centric!

Unfortunately it is easier said than done and does not just involve a lot of customer research to find out what customers want. It involves a total commitment to get the organisation to redefine its activities along customer value creation.

OC&C have summarised the challenge in the chart (on page 7). This identifies the key elements and the sequence in which a management needs to address Customer Centricity, which is at the centre of every activity and which embodies the culture change the organisation has to undergo if it is to be successful.

**CUSTOMER CENTRICITY
INVOLVES A TOTAL
COMMITMENT TO GET
THE ORGANISATION
TO CHALLENGE AND
REDEFINE ALL OF
ITS ACTIVITIES**



SO WHAT'S DIFFERENT

| | Classic View | Customer Centric View |
|---|---|---|
| 1. Defining the Battlefield: Targeting customer segments where you can win | <p>"We are an electronics retailer"</p> <p>"We will drive sales by increasing footfall and conversion"</p> | <p>"We will provide our customers with solutions that meet their requirements from electronics"</p> <p>"We can satisfy our customers by designing solutions for their unmet needs"</p> |
| 2. Customer focused propositions: Creating propositions and formats valued by customers | <p>"We will beat competitors by having great prices, a wide range and excellent service"</p> <p>"Our product ranges are based on what sells"</p> | <p>"We will invest in our proposition(s) to make sure they are differentiated from competitors in a way that our customers value"</p> <p>"We develop ranges to address the needs of our customer segments"</p> |
| 3. Efficient Channel Mix: Serving your customer where and when they want | <p>"New channels represent an opportunity to grow our sales and profits by 30%"</p> | <p>"New channels enable us to serve our customers in a way that is most convenient for them"</p> |
| 4. Instore Excellence: Serving customers in the way they want | <p>"Store labour is managed to 11% of sales"</p> | <p>"Store operations are integral to the customer proposition, we are flexible to meet the needs for customers in store"</p> |
| 5. Fit for Purpose Supply Chain: - Value for money and on time | <p>"Buying is done on estimated total sales and allocated to stores afterwards"</p> <p>"The supply chain is optimised to get product at the lowest delivered price"</p> | <p>"Buying is always done with a clear view of which stores and space products will go into"</p> <p>"The supply chain is segmented by the role of the product - i.e. low cost for basics, and rapid response for fashion items"</p> |
| 6. Lean Overhead: - Customer justified costs only | <p>"We review our overhead every year and maintain as low a level as possible"</p> <p>"Our systems can tell you everything about transactions"</p> | <p>"Overhead exists to support the customer proposition - it must be justified from a zero based logic each year"</p> <p>"Our systems are increasing our understanding of our customers"</p> |

Given the importance of each of these factors to delivering a Customer Centric business model, OC&C will publish a series of six follow-up Insights each dealing with one of the critical Customer Centric issues above.

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