# 2015
# CUSTOMER EXPERIENCE
# RISK STUDY

## EXECUTIVE SUMMARY

**REVENUE AT RISK BY INDUSTRY**

**MAJOR RISK: SILENT CUSTOMERS**

**MOST FREQUENT AND IMPACTFUL PROBLEMS**

**APPLYING FINDINGS FOR RETAILERS**

LoyaltyOne CONSULTING

verde GROUP

*Partnered with faculty at:*

Wharton
UNIVERSITY of PENNSYLVANIA

# REVEALING THE FINANCIAL IMPACT

Retailers know bad service and negative customer experiences (CX) hurt, but many are challenged by these three fundamental questions:

> **How much revenue is at stake?**

> **Which problems are driving the financial risk?**

> **Which customers are most affected?**

Using the market-tested Revenue@Risk™ methodology, the CX Risk Study surveyed 2,500 American shoppers to better assess the financial impact associated with poor CX and demonstrates an approach for more profitable investments.

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**KEY CONTEXT: DEFINING AT-RISK CUSTOMERS**

This study defines at-risk customers as those who are unlikely to recommend the retailer after:

① Experiencing a problem during their most recent purchase

② Being influenced through word-of-mouth about a CX issue

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## SIGNIFICANT SPEND IS AT RISK

**This year's study found that a typical retailer is putting an average of *16% of revenue at risk***

### PERCENTAGE OF POTENTIAL REVENUE AT RISK BY RETAIL FORMAT:
*(Industry sizes by Euromonitor as of May 2014)*

**25% Mass Retail**
US Industry Size $275B

**16% Apparel Retail**
US Industry Size $209B

**15% Department Store**
US Industry Size $124B

**12% Drugstore**
US Industry Size $209B

**11% Grocery**
US Industry Size $986B

### MASS EXPERIENCE RISK

CX problems plague mass merchants substantially more than other retail formats – issues which include long checkouts, disorganized stores, and lackluster interactions.

> *For a typical $1B merchant, nearly $250M of their customer spend is represented by shoppers unlikely to recommend the brand.*

### 11% IS STILL SIGNIFICANT

Grocers measured lowest at 11% of potential revenue at risk, but they should not be ignored. They face many of the same challenges as their mass retail competitors, and have a clear opportunity to address them to retain and win back share.

> *For a typical $1B grocer, $100M+ of potential revenue is now at risk.*

# SILENT CUSTOMERS CAUSE THE MOST RISK
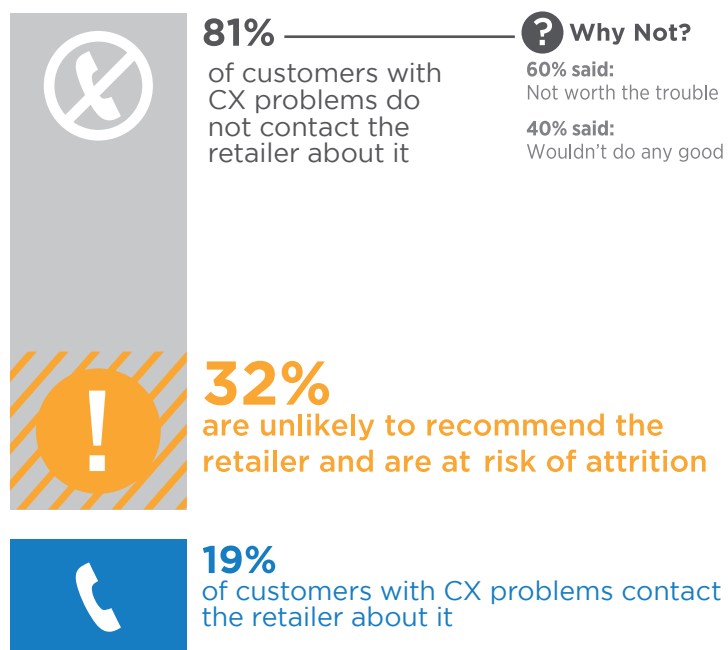
## WHO ARE THESE SILENT CUSTOMERS?

Half of all customers surveyed recalled a CX problem during their last retail interaction. More than 8 in 10 decided that it was not worthwhile to contact the retailer and did not do anything about it. To the retailer, these customers appear to be problem free, when in reality, the issues remain in the minds of customers.

## ILLUSTRATING THE RISK

The major source of risk is from silent customers who do not contact the retailer when they have a problem – nearly a third are unlikely to recommend the retailer.

Their problems are often hidden or under-represented in CX assessments. This leads to mistaken conclusions about the severity of these issues and leaves them lingering without budget and resources to resolve them.

A view to all CX problems provides a more accurate reading on financial risk and can give a voice to valuable, silent customers.

**81%**
of customers with CX problems do not contact the retailer about it

**? Why Not?**

**60% said:**
Not worth the trouble

**40% said:**
Wouldn't do any good

**32%**
**are unlikely to recommend the retailer and are at risk of attrition**

**19%**
of customers with CX problems contact the retailer about it

## CUSTOMERS WHO HAVE THEIR ISSUES COMPLETELY RESOLVED ARE *86% LESS LIKELY TO BE AT RISK*

Investment towards removing friction from the communications process, and tactfully responding when customers do reach out is a pragmatic decision.

This may include incentives for front-line staff, managers, and customer service reps who resolve issues or reward customers when they make their problems known.

# FREQUENT ISSUES FOR DIFFERENT RETAIL FORMATS

With more than 8 in 10 CX issues hidden from retailers, it can be difficult to assess which problems occur most frequently and who is impacted. The study isolated the percentage of customers affected by a given problem on their last trip, as well as the average category spend per quarter and share of wallet of those customers.

## Grocery (Average Spend/QTR: **$284**)

| | TOP 5 COMMON ISSUES | | | | |
|---|---|---|---|---|---|
| | **Waited too long in check-out line** | **In-store items moved too often** | Took too long to find desired item | Staff told you where to find item without showing | Waited too long to be served |
| **Category Spend per Quarter** | **$326** | **$357** | $333 | $305 | $281 |
| **Share of Wallet** | **60%** | **73%** | 70% | 72% | 64% |

**"Waited too long in check-out line"**

**"In-store items moved too often"**

These two problems ranked highest in the frequency of their occurrences and affected high-spend customers in the category.

Solving long check-out lines appeared to be a better opportunity to grab share of wallet, whereas solving the frequent movement of in-store products was an opportunity to retain spend.

## Drugstore (Average Spend/QTR: **$102**)

| | TOP 5 COMMON ISSUES | | | | |
|---|---|---|---|---|---|
| | **Too long to earn points or rewards** | Not asked to redeem points at check out | Waited too long in check-out line | Waited too long to be served | In-store items moved too often |
| **Category Spend per Quarter** | **$186** | $154 | $139 | $168 | $143 |
| **Share of Wallet** | **64%** | 64% | 62% | 68% | 64% |

**"Too long to earn points or rewards"**

For drugstores, the time it took to receive a loyalty reward was the most frequently mentioned issue and it also affected those who spent 82% more than the average drugstore shopper. These loyalty program issues ranked higher in the drugstore space given the importance of these kinds of programs in the industry.

**NEXT** *Common issues in specialty retail*

## Department (Average Spend/QTR: **$261**)

| | TOP 5 COMMON ISSUES | | | | |
|---|---|---|---|---|---|
| | Waited too long in check-out line | Waited too long to be served | Took too long to find desired item | **Staff told you where to find item without showing** | Lack of product information in store |
| **IMPACT** Category Spend per Quarter | $319 | $427 | $311 | **$588** | $283 |
| Share of Wallet | 47% | 51% | 47% | **52%** | 51% |

| **"Staff told you where to find item without showing"** | In department stores, one of the most overlooked issues was staff not properly taking the time to guide customers to their requested items, which influenced those who spent more than double the average department store shopper. |
|---|---|

## Mass (Average Spend/QTR: **$446**)

| | TOP 5 COMMON ISSUES | | | | |
|---|---|---|---|---|---|
| | **Waited too long in check-out line** | In-store items moved too often | Waited too long to be served | Took too long to find desired item | Store was messy or disorganized |
| **IMPACT** Category Spend per Quarter | **$545** | $554 | $455 | $532 | $441 |
| Share of Wallet | **73%** | 69% | 68% | 69% | 73% |

| **"Waited too long in check-out line"** | In mass merchandisers, long check-out lines were a recurring issue and it affected customers who spent 22% more in their stores than the average shopper. |
|---|---|

## Apparel (Average Spend/QTR: **$250**)

| | TOP 5 COMMON ISSUES | | | | |
|---|---|---|---|---|---|
| | Waited too long in check-out line | **Item was out of stock** | Item was only available online | Store was messy or disorganized | Took too long to find desired item |
| **IMPACT** Category Spend per Quarter | $216 | **$461** | $391 | $240 | $328 |
| Share of Wallet | 33% | **48%** | 52% | 36% | 33% |

| **"Item was out of stock"** | In apparel retail, out-of-stock items were issues for customers who spent 84% more than the average apparel shopper, and they also spent almost 50% of their budget at this retailer. |
|---|---|

**NEXT** *Frequency is not the only issue – let us explain*

# SEEING PAST THE CLUTTER AND FOCUSING ON IMPACT

| CORRELATION TO LOYALTY BEHAVIORS | × | CUSTOMERS AFFECTED | = | PROBLEM IMPACT |
|---|---|---|---|---|

## MEASURING IMPACT OVER SIMPLE FREQUENCY

The frequency in which customers encounter issues is only part of the picture. Even though many shoppers may have a negative CX, their problems may not impact a change in their overall loyalty. The potential impact on loyalty requires the measurement of how a problem correlates to a shopper's likelihood to recommend the retailer. Below is an apparel retail example.

| IMPACT RANKING | PROBLEM | FREQUENCY RANKING | CATEGORY SPEND/QTR |
|---|---|---|---|
| 1 | Waited too long in check-out line | 1 | $216 |
| 2 | Staff seem uninterested in helping | - | $289 |

⚠ The second-highest impact problem in apparel retail would have been unranked if it was only measured by how often it occurs. Uninterested staff had a very high correlation to customer detractorship.

| | | | |
|---|---|---|---|
| 3 | Store was messy or disorganized | 4 | $240 |
| 4 | Staff seemed phony, more interested in making a sale | 10 | $278 |
| 5 | Staff said where to find item without showing | 8 | $258 |
| 6 | Took too long to find desired item | 5 | $328 |
| 7 | Staff could not help in multiple areas of store | - | $300 |
| 8 | Could not specify delivery date or time for order | - | $416 |

⚠ This problem would have gone unranked if it was measured by frequency, and retailers would not know that it affects extremely valuable shoppers. With a top 10 impact ranking and customers spending 66% more in the category, this is a critical issue.

| | | | |
|---|---|---|---|
| 9 | Staff had a "not my departement" attitude | - | $383 |
| 10 | Staff was not courteous and respectful | - | $368 |

| IMPACT RANKING | PROBLEM | FREQUENCY RANKING |
|---|---|---|
| - | Desired item was out of stock | 2 |

☞ This item showed no correlation with shopper loyalty despite being the second-most commonly encountered issue affecting valuable customers. Stock-outs are a business operations issue worth fixing, but are unlikely to put a shopper's loyalty at risk.

# CX TAKEWAYS FOR RETAILERS

**1** **At-risk customers often account for over 10% of potential revenue**
This figure is usually higher – the average mass merchant sees 25% of potential revenue at risk. Not addressing these critical CX problems jeopardizes current and future spend.

**2** **Retailers miss over 80% of problem occurrences**
Even with staff or customer incentives to boost visibility, retailers must delve deeper to discover more than the negative CX that shoppers voluntarily share.

**3** **Take a customer-value lens to understand problematic experiences**
Without customer insights, problems can appear to be equally detrimental even if high-value shoppers are disproportionally experiencing the effects of one issue over another.

**4** **Measure on impact, as the frequency of issues can be deceiving**
Some commonly reported problems aren't as impactful as they appear, while other issues that retailers seldom hear about can be silently eroding valuable customer relationships.

## DON'T RELY ON INDUSTRY AVERAGES, ASSESS YOUR OWN CX

Our unique, customizable approach helps brands with their specific CX problems based on a mix of comprehensive primary research and their own customer data.

LoyaltyOne and Verde Group offer a tailored, end-to-end solution that identifies your most critical CX issues and takes the actionable steps to limit the failures that put your customer spend at risk.*

## TOGETHER WE:

**Map the customer journey**
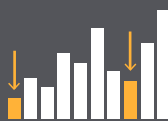
**Measure negative economic impact of dysfunctional touchpoints**

**Track and monitor changes in risk**

**Prioritize and shape solutions**

To find out how your brand can resolve risky, negative CX, contact:
**Michael Tropp**, *VP Business Development, Verde Group*
**Michael.Tropp@verdegroup.com**

*Neither Deborah Small nor the Wharton School of The University of Pennsylvania perform or endorse this service from LoyaltyOne & Verde Group*

*2015 CX Risk Study*

# METHODOLOGY

In total, 2,500 online surveys were completed between March 26 and April 3, 2015.

In order to qualify for inclusion in the overall study, online panel members had to be between the ages of 18 and 70 years. Those with potential occupational biases were excluded.

Each study participant was asked to evaluate their most recent purchase experience according to one of five retailer type categories. The number of completions obtained per category and the specific criteria each individual had to meet to qualify according to retailer type.

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# ABOUT THE STUDY PARTNERS



LoyaltyOne is a global leader in the design and implementation of coalition loyalty programs, customer analytics and loyalty services for Fortune 1000 clients around the world. LoyaltyOne's unparalleled track record delivering sustained business performance improvement for clients stems from its unique combination of hands-on practitioner experience and continuous thought leadership. LoyaltyOne has over 20 years history leveraging data-driven insights to develop and operate some of the world's most effective loyalty programs and customer-centric solutions. These include the AIR MILES Reward Program, North America's premier coalition loyalty program; a majority stake in European-based BrandLoyalty, one of the largest and most successful campaign-driven loyalty marketers; and a working partnership with Latin America's leading coalition program, dotz. LoyaltyOne is also the owner of COLLOQUY, a group dedicated to research, publishing and education for the global loyalty industry. LoyaltyOne is an Alliance Data company. For more information, visit www.loyalty.com.



The Verde Group is a research consultancy that specializes in helping global organizations measure the cost of customer dissatisfaction, prioritize the issues based on ROI, and quickly fix them for improved retention and profitability. With more than two decades of experience and offices in Canada and the United States, The Verde Group consults internationally to clients across a broad range of industries including Manufacturing, Retail, Telecommunications, Insurance & Financial Services, Pharma/Medical Devices. Verde Group's proprietary experience analysis methodology—known as @Risk Analysis—is based on decades of social science academic research and practical in-market business application. For more information, visit www.verdegroup.com

*Partnered with faculty at:*



**DEBORAH SMALL**, Associate Professor of Marketing and Psychology

Professor Deborah Small's research interfaces psychology and economics, examining fundamental processes that underlie human decision making. Professor Small's research has been published in top-tier academic journals across Psychology and Marketing. She serves as an Associate Editor for Journal of Marketing Research and is a member of several editorial boards. At Wharton, Professor Small was voted "Iron Prof" in 2014.  She teaches consumer behavior and Marketing for Social Impact. She received her PhD in Psychology and Behavioral Decision Research from Carnegie Mellon University and her BS from the University of Pennsylvania. She is also a member of the graduate faculty of the Psychology Department at The University of Pennsylvania.