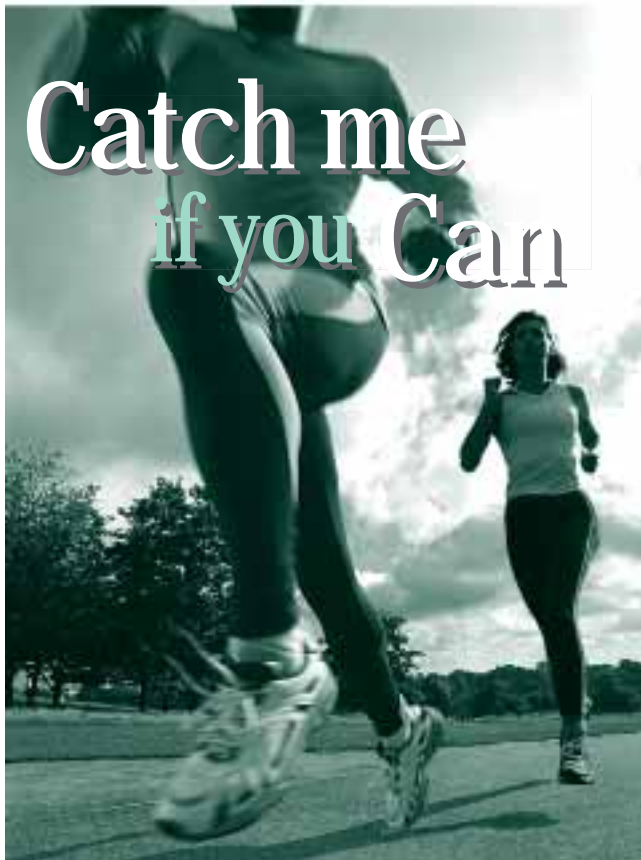


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A Report on the Current State of Retail
produced by design•forum



Catch me if you Can

If you need proof that change is here to stay, just look at the shopping mall. One of the first things you'll notice: Mars and Venus are reversing. Women are increasingly shopping like men. They're becoming "mission" shoppers who speed into a store, get what they want and leave. Men, especially the young ones, are shopping more like women, browsing, hunting and looking for emotional connections at their chosen stores. Kids are forming their own distinct shopping orbits, expecting everything to be open, online and interactive 24/7.

There's also an apparent age-related shift. Middle-aged consumers have passed their peak consumption years, now spending mostly on homes, entertainment, health and well being. Younger shoppers have increasingly high expectations for both shopping experience and product choice. They demand entertainment, excitement and novelty.

To catch these fast-moving customers, retailers must constantly be on the lookout for the next new thing. But in a world of more and more choices, the next thing comes and goes with greater and greater frequency.

According to industry experts, the speed of change will greatly compress the lifecycle of today's retail concepts to the point where there's no standing still. Plans to roll out new ideas must be on the board at all times—even while an existing concept is enjoying success. Rapid innovation is the imperative.

To keep new ideas rolling, businesses need to develop systematic trend and innovation identification processes, as well as the ability to react and implement appropriately. Consumer studies must become a priority in order to keep new concepts in line with changing

expectations. Customer focus, customer understanding and customer connection have become critical in this landscape. The winning ideas will be planned out in advance, researched, refined when first rolled out, then measured carefully through their lifecycle, albeit a shortened one.

"Speed wins'," quotes Design Forum's Greg Silverman, Vice President, Strategy. "But it's proven to fail if it hasn't been linked to unmet needs. It's not just efficiency we're after, it's effectiveness. That's why we've developed ways to get to research-grounded ideas faster by involving the consumer's perspective from the start."

Smart players are very focused on ideas that cater to a consumer demand or lifestyle niche, where it's all about being precisely on target.

Burger lovers like it fast. That's why McDonald's—consistently ranked at the bottom of speed-of-service surveys—is testing an off-site call center to reduce order time. Customers call in orders from their table. The call center routes the order to the kitchen of the appropriate restaurant and directs it to the proper table. The burger chain is also pioneering the zoom-through, a speedier drive-through, and has voiceless cell-phone ordering on the drawing board.

When music sales declined 50 percent, market research showed the reason wasn't just illegal downloading. Shoppers couldn't find the music they wanted at a price they could afford. Best Buy is the first major bricks-and-mortar retailer to sell digital-music downloads through interactive kiosks in its stores. In the future, their kiosk system may be used to burn a CD compiled of self-selected songs for a single price, which could even be customized with digital images.

To catch customers on the fly, Sainsbury's (the third largest supermarket retailer in the UK) rolls out vending machines at closing time for its after-hours shopper on a mission for bread, milk, drinks, etc. When the store opens, the machines are brought back inside, sort of like Mars meets Venus flytrap.

After years of avoidance, men are shopping again. Last fall, specialty retailer Talbots' debuted Talbots Mens store, intending to test different formats and fine-tune the concept. The revival in men's apparel coincides with a shift in attitudes about clothing in the workplace. Executives want to portray an image of credibility, stability and professionalism.

Whatever your target, the heat of competition, a saturated retail environment and a soft economy increase the need to give consumers an extraordinary motivation for shopping at your store. The order of the day is innovation, reinvention and bold action. As we have often said, the ability to find and deliver the next new thing is essential and will drive retail, now and forever.

Chairman's Commentary

Get in the Spirit



From reading my commentaries you know I'm always inspired by retailers who swing for the fence, who have the risk-taking spirit. In an economy where much of corporate America is sitting it out rather than laying it out, a few daredevils are spending on capital investments, breaking into new markets, launching new products, making acquisitions and hiring. This is exciting!

One of the gutsiest players out there is our client, Washington Mutual, Inc., who's turning itself into the Wal-Mart of consumer banking at a time when others are pulling out of the retail business. By year's end they will have 70 new branches in Chicago. Next year they head for Tampa with 40 new sites.

Take Apple Computer as another example of a bold move—as well as a smart idea for a new product: 99-cent music downloads. The iTunes Music Store sold 3 million songs the first month it was open. Copycats are now struggling to catch up.

Although more of a supplier than a retailer, Intel spent an eye-popping \$11.5 billion on research and development to create a power chip for wireless notebooks, cell phones and other portable devices. They'll take the lead in pairing communications with computing capabilities, a roll-out that is just now gaining momentum. Such a sum represents the epitome of the big-swing strategy. If you can spend and improve when others don't, the advantage is all yours.

Another exciting innovation strategy: go narrow. Gymboree's newest concept, Janie and Jack, features fine children's apparel at higher price levels, as befits heirloom-quality baby things. The edited product assortment is proving meaningful to shoppers, which may in turn prove that specialty stores can't be specialized enough.

Speaking of specialty retailers, the darling of double-digit growth, Chico's, launched 10 new concept stores in March, with disappointing results. Pazo, now closed, did not appeal to its intended 25 to 40-year-old target customer, something that might have been divined through more thorough research. Be that as it

may, Chico's already has a new concept and a new acquisition in the works. The lesson being, don't fall in love with a concept until you've got proof it will succeed in the long term.

Even when there are cost constraints, venturesome retailers are unveiling plans for new store formats and concepts designed to enhance the shopping experience, differentiate themselves from the competition and win new customers. Most of the initiatives are relatively low-cost, but go to show that savvy retailers continue to embrace innovation.

The first Ethan Allen Kids store has a design center where parents and kids take part in the decorating process. IKEA home furnishings is testing a new easier-to-shop layout. Meijer supercenters plan to debut a new look, a new logo and new product lines. Staples is leaving behind its warehouse look in favor of lower shelving and better wayfinding.

Something else to put you in the spirit? Economists predict holiday spending will rise as much as 6.3 to 6.5 percent over last season, thanks to an improved economy and stock market. Shoppers may be jollier than they've been in the last four years.

Design Forum likes to take a fourth quarter survey every year, so we recently asked retailers, "What will drive success this December?" They answered: "Hitting the trend" and one of the bigger trends right now is 'retro,' gift items that are nostalgic, simple and traditional as consumers continue to take comfort from a safer past. You can find more of our survey results on our Web site.

If you take pleasure in the thrill of the chase and continual challenge of retailing, as I do, this looks like a season and a coming year filled with excitement and activity. No matter the economic outlook, the wisest companies are always thinking about their next growth vehicle. You can't stand pat. That's a losers game.

Have a wonderful holiday season!

Thoughtfully,

D. Lee Carpenter
Chairman & CEO

In September, "Ideations" covered what's proving to be a very hot topic, customer loyalty. To bring customers back to their stores, retailers must implement a 'total package' retail experience. This month our guest feature examines a vital part of that package: employees.

The Customer Loyalty Cycle[®]

by Terri Kabachnick

Recently we asked customers what made them return to a store. They told us they would go back if they:

- had fun;
- were remembered;
- were asked to return.

This is surprising, considering that as recently as three years ago, the first-ranked reason to return was price, second was convenience and third was service.

Consider this: Malls no longer hold the attraction they did in the past. Leaving home is less desirable. Why endure indifferent sales clerks, disappointing assortments, confusing store layouts and inconvenient parking when they can be avoided with a flick of the wrist that provides instant choice, instant gratification? Retailers must implement a strategy to bring customers back to the stores.

Let's examine those recent responses to what brought customers back to a place of business. First, what did they mean when they cited fun as a reason? Contrary to my visions of clowns, theatrics and singing clerks, fun simply meant an enjoyable, relaxing, caring and friendly environment.

Second, customers wanted to be recognized and remembered. Not necessarily by name, but by face, with a simple remark that showed a recollection of doing business with them.

The third reason was stunning in its simplicity. Customers told us repeatedly: Ask me to come back again, and I probably will.

Understanding when and how a customer decides to do business with you is the first step in creating an action plan for ensuring customer loyalty. The Customer Loyalty Cycle represents the six phases of how a customer becomes a client: interest, encounter, exchange, fulfillment, investment and commitment.

Interest. The store's image, a display, an ad, a catalog or positive comments from a friend attract a person to a store. At this stage, they have few expectations.

Encounter. The person calls or visits, quickly forming a first impression. At this point, the visitor is making the critical decision to either continue the encounter or end it.

Exchange. A purchase decision is made, but the visitor is still silently judging. How quickly are they taken care of? Is the sales associate helpful, friendly, caring? Are the prices competitive? Are the store policies clear and fair?

Fulfillment. The experience in the store has exceeded expectations, which the customer will remember and share with friends. The customer expects equal or better service next time and will be back.

Investment. The customer will think of the store when deciding where to buy. If the customer is contacted by a store associate during this phase, bonding will begin. The associate is viewed as a problem-solver. Customers in this phase will go out of their way to shop at the store.

Commitment. If the customer continues to be satisfied and their opinions are heard, the next step is commitment. The customer now becomes a client. Price will decrease in importance as compared with satisfaction and perceived value.

The key ingredient in the Customer Loyalty Cycle is the encounter with an employee. One employee, one encounter makes or breaks the cycle. Therefore:

1. Employees must learn how to build relationships with visitors, convert them into customers and keep them as clients. This means learning about communication skills and styles.



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Renowned as an international speaker and productivity specialist, Terri has over 25 years firsthand, retail experience in executive and sales management, finance, marketing, and restructuring. She is the author and developer of RIC (Retail Interactive Coach) a web-based interactive training program and STAR Performer, a 4 CD retail training program. For more information on Perfecting the Human Side of Business visit www.kabachnick.com, e-mail performance@kabachnick.com or call 800.275.8374.

2. The skills of listening and questioning are equally important to learn. Most sales are lost and multi-selling opportunities missed due to lack of understanding the buyer's needs.

3. The twin skills of observing and communicating in the customer's behavior style enable employees to adapt their style to the customer's.

4. Developing clientele and selling by phone are skills critical to developing and ensuring customer loyalty.

Building customer loyalty cannot begin when business is slow. It must begin when you are too busy to do it. This is when people want you, your products and services—when they are making the critical decision whether to buy from you again. This is when the employee will exhibit exemplary customer-satisfaction behavior—or the lack of it.

Customer loyalty and satisfaction drive revenue and profit. But loyalty is not built and kept by a company. It is initiated, nurtured and maintained by individuals—associates and managers. The discipline of building relationships with customers is mandatory in today's successful retail operation.