

CONSUMER GOODS & RETAIL

inSIGHTS

Consumer Goods & Retail Competence Center

> **Customer-centric retailing – Now you know what your customers really want**



"When our customers change,
we change with them."

Sir Terry Leahy, CEO of Tesco plc.



Jochen Hiemeyer



Patrick Müller-Sarmiento



Thorsten de Boer

"Put your customers at the heart of your company."

Europe's retailers face major upheavals: an aging population, changing shopping habits, fluctuating raw materials prices and declining purchasing power. In short, the customers and their social environment are changing more than ever before.

Sir Terry Leahy, chief executive of Tesco, the British supermarket chain, just sees this as another incentive: "When our customers change, we change with them." However, if you really want your company to go down this joint road, it's crucial to have information about your own customers. And there's a lot more to such knowledge than last year's sales figures, a bit of market research, and some sociodemographic data. The aim must be to understand the customers' purchasing patterns and needs in their entirety.

For many years this was practically impossible. But now there is a tool available that can give you access to this detailed customer knowledge: Customer-centric retailing (CCR). You can use CCR to strategically enhance formats and to optimize your range for tactical reasons, as well as in pricing and advertising. First of all you need clearly defined, homogeneous customer segments. Next, you calculate the degree to which each customer segment's sales potential is being reached and then develop strategies to improve on this result. As a retailer, if you understand the needs of your customers better and know where there are gaps in your range, you can be more targeted and effective when you invest in honing your expertise in the fields of range and pricing.

Roland Berger Strategy Consultants' retail experts have advised many companies and successfully implemented numerous projects on this subject. This brochure is based on the experience we have gained with these projects. We would be delighted to discuss the subject with you. Please feel free to write or to call us. We look forward to your feedback.

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RETAIL CONSUMER TRENDS

Consumers' needs are becoming increasingly diversified
Retailers need new formats to keep up



THE DEMOGRAPHY AND SOCIAL STRATA OF ALL EUROPEAN INDUSTRIALIZED NATIONS ARE SHIFTING SUBSTANTIALLY, LEADING TO FUNDAMENTAL CHANGES IN THEIR NEEDS AND PURCHASING PATTERNS. THIS MEANS THAT IN JUST A FEW YEARS' TIME, MANY RETAILERS WILL NO LONGER RECOGNIZE THEIR OWN CUSTOMERS, BECAUSE THEY WILL HAVE CHANGED SO MUCH - LIKE SOCIETY AS A WHOLE.

They are not only older, they're also more aware of the environment and their health. They live in smaller and smaller households, want shopping to be easy - avoiding traveling long distances as much as possible - and are increasingly interested in products from their own region. They are more individualistic in their lives and purchasing habits than any generation before them. They want to live healthily and sustainably, and this doesn't only apply to the LOHAS (lifestyle of health and sustainability) target group.

Others have to budget for every cent and watch prices meticulously. Both customer groups are interested in getting good value for money. And that often also means that they prefer to pay a little more for good quality. The market is thus becoming increasingly polarized. Although midmarket segments are certainly shrinking, they won't disappear completely (despite predictions to the contrary). Instead, we will see increasingly "hybrid" consumption patterns with a boom not only in the branded and premium segments, but also at the lower-priced end of the market.

Traditional market research is finding it increasingly difficult to classify these people (and many others) in traditional sociodemographic terms. Moreover, consumers can no longer be reached as they could in the past due to the fragmentation of the media landscape. Although people are watching more television, ratings are falling in individual formats. In the digital future, consumers will be able

to choose freely what they watch and when. Above all, they will be able to fast-forward the advertising if it annoys them. This means that a company will have to broadcast many more commercials and advertisements to reach the same number of customers, and not many can afford to do that.

If customers change their attitudes and behavior patterns as radically as this, it will affect retailers more than other industries. In saturated markets, the only way to grow is to squeeze out your competitors, absorb them, or be innovative. Knowing your customers will be a decisive competitive advantage in this context.








More and more retailers will use this knowledge of their customers better in future and will serve consumers' wishes with great precision. The aim here is to make each retail format more attractive to the customer groups it

targets – offering the right range at the right price in the right place. This customer-centric retailing will put customer relations on a completely new footing.

But not only retailers' relationship with their customers will change; relations with suppliers will also be transformed. Suppliers – especially "category captains" – currently have a considerable advantage over retailers when it comes to their knowledge of customers. With CCR, retailers can turn this deficit into a competitive advantage. They can pick up detailed information – for example on how product launches are received by customers, and what effect marketing programs and pricing strategies have – not on all customers, but broken down into individual customer groups. Retailers will be able to greatly strengthen their position in this way.

More about this on the following pages.

Overview of consumer trends

DEMO-GRAPHIC CHANGE	CON-VENIENCE	POLARI-ZATION	ORIENTATION	LOHAS ¹⁾	EXPERIENCE SHOPPING	WEB 2.0
<ul style="list-style-type: none"> > Baby boomers > Best agers > Singles > Children 	<ul style="list-style-type: none"> > Ready meals > Efficiency culture > One-person households > Women in the workforce 	<ul style="list-style-type: none"> > Discount vs. luxury > Cheap chic > "Mass-clusivity" > Ultra premium 	<ul style="list-style-type: none"> > Regional focus > Retro brands > Back to basics 	<ul style="list-style-type: none"> > Health > Organic food > Sustainability > Functional foods 	<ul style="list-style-type: none"> > One-stop shopping > Entertainment > Trying out products > Enthusiasm 	<ul style="list-style-type: none"> > Social networks > Interactive user behavior > Virtual consumer worlds
						

1) Lifestyle of health and sustainability

CUSTOMER-CENTRIC RETAILING

This business approach can increase the benefits for the customer



OF COURSE, EVERYONE SAYS THE CUSTOMER IS KING. BUT IN REALITY THINGS LOOK QUITE DIFFERENT. NOW THERE IS A TRIED-AND-TESTED METHOD THAT REALLY DOES FOCUS ON THE CUSTOMER: CUSTOMER-CENTRIC RETAILING. FOR THE FIRST TIME THERE IS A SYSTEM THAT ALIGNS THE MARKETING MIX (RANGE, CUSTOMER SERVICE, PRICE AND PROMOTIONS) TO THE CUSTOMERS' NEEDS. BUT THERE'S MORE TO IT THAN THAT: IF YOU REALLY WANT TO BE DRIVEN BY WHAT YOUR CUSTOMERS WANT, YOU HAVE TO REDEFINE YOUR BUSINESS.

This store seems to have everything: 80,000 products across all food and non-food categories covering well over 100,000 square feet of floor space. The range of items offered almost overwhelms you when you enter this giant shopping temple. If you can't find what you want here, you won't find it anywhere. Because this store seems to have everything customers want. Or does it?

Actually it doesn't. Because the reality in retailing is usually different. The range is still excessively dominated by the traditional supplier orientation, with retailers concentrating on quantity, turnover and sales. They assume that cheap is what sells, so one campaign follows another. They advertise what their buyers can get onto the shelves at the biggest discount. However, this has little to do with being truly customer-oriented.

The person who really knows what the customers want is the independent shopkeeper, since he spends enough time in his shop and with the customers. Large retail groups can only guess at best: they tend to be quite centralized and are far away from customers when they take decisions about ranges, prices and positioning.

Most major retailers typically have huge amounts of data at their disposal, regularly engage in market research, often issue loyalty cards, and also have access to precise daily sales data. Yet they rarely read all this data in an overall context. If customers are analyzed at all, it is in vague sociodemographic terms, and perhaps revenues and discounted sales figures are compared with those of previous years. But these retailers have no idea who bought what, when and why.

"If you don't know where your customers are going, you'll get left behind," says retail expert Professor Nitin Sanghavi (see interview on p. 13) from Manchester Business School. Classic mom-and-pop stores used to know their customers personally. So should we go back to the traditional corner store? Hardly. So is there any way of combining the grocer's closeness to his customers with the range and efficiency of centrally managed retail systems? Doesn't size and centralization always lead to being remote from the customer?

There is a solution to a lack of knowledge of your customers: the loyalty card, debit card or credit card. The data that is analyzed is not the customers' personal data. Instead, sanitized purchasing data is used to form groups of customers with similar purchasing patterns (e.g.

families with a small baby, one-person households) who are thus interested in certain offers. It becomes clear which customer groups buy which products, when, and at what price, and there is no violation of data-privacy regulations.

Customer-centric retailing is the management approach that makes this possible. It has been developed, tested and successfully implemented by Roland Berger Strategy Consultants. It is a process that goes far beyond the conventional wisdom of category management and marketing strategies, and ultimately impacts the entire business.

CCR places the customer at the center of attention. Strategic and operational decisions are made on the basis of a superior understanding of the customer. There are eight essential steps involved here (see box). They are explained briefly here.

EIGHT KEY STEPS TOWARD CUSTOMER-CENTRIC MANAGEMENT

- 1. Define your customer segments**
- 2. Create store clusters**
- 3. Define your target-customer segments**
- 4. Align your product category strategy**
- 5. Optimize your range**
- 6. Optimize your pricing strategy**
- 7. Improve the effectiveness of your promotional business/direct marketing**
- 8. Implement a change-management process**

Customer-centric retailing:

The eight steps on the road to customer-centric management

1. Define your customer segments

The keystone of the CCR approach is a valid segmentation of customers. Of course, not every customer has the same needs, shopping habits and purchasing power. We suggest you use statistical methods to form clearly defined customer segments based on the information you gain from loyalty cards and the associated transaction data (see chart on page 8). The quality of these segments can be further enhanced by focus groups and market research to make it easier to understand their general values and requirements. This generates homogeneous customer segments that reflect the shopping habits and needs of comparable customers. As a retailer you can now understand your target segments a lot better. Gertrude, for example (60 years old, married, two grown-up sons, belongs to the "conservative" target group) tends to buy in bulk, usually accompanied by her husband. She generally purchases high-quality foods and associates quality with premium brands. Her dietary regime is balanced, made up mostly of good home cooking. She's not one for ready meals; if she has pizza in her freezer, it's only there for emergencies.

At the other end of the scale there's Jane (35, married, one child, below-average income). She represents the "price-conscious" customer segment. She sees shopping for food as a chore, and shops where prices are right. Healthy eating is not her top priority and she has neither the time nor the inclination to cook much.

One of the fundamental components of the CCR approach is comparing the customer segments you have already identified with a household panel (e.g. GfK). This additional information also enables you to picture purchasing behavior in competitors' stores and deduce the economic potential of each customer segment and category.

CUSTOMER-CENTRIC RETAILING

2. Create store clusters

The next step is to create clusters of stores to make them easier to manage according to their individual needs and special characteristics. The criteria on which decisions are based should no longer be the region, store size or position, but each store's customer-segment profile. And these can differ considerably.

In one of our customer projects, we distinguished between economy, standard and premium stores. In an area where the customers were most interested in buying at discount prices, more space was devoted to the entry-level price range and the retailer's own brands. However, at locations with an above-average percentage of consumers with higher incomes who like to buy higher quality food, the proportion of premium products was significantly increased, particularly in categories such as wine and fresh foods.

Of course, varying the range of products offered according to store clusters involves more organizational work: for example, you have to create and update different plans. However, the marked increase in customer satisfaction translates into a considerable economic benefit for the retailer.

3. Define your target-customer segments

Big retail groups try to satisfy practically every customer. No customer group can be neglected. Even so, they too should focus on strategic and high-value target-customer segments. Competition in the retail trade is growing all the time, and the battle for customers is getting fiercer. The result is a further differentiation of formats. In food retailing, for example, this makes it possible to cater for specific customer needs in a more focused way; at least that is the aim of organic supermarkets, city-center stores and convenience stores. Which makes it all the more important for you to keep your customers loyal, raise your "share of wallet" and attract new customers. You will only succeed in this if you are constantly working on your efficiency and make your format more attractive to your target customers.

CCR can help here, because the better you as a retailer understand the desires and needs of your target customers, the more precisely and more efficiently you will be able to invest. In the same way, CCR reveals the product categories in which you need to improve to satisfy the different customer groups. To give you an example, in one customer project we found out that the members of the "convenience buyer" customer group were buying a significantly lower proportion of frozen products than from

Target-customer segmentation: An example from food retailing

Customer segment	Characteristics
1 Conservative and brand-conscious	Premium/brand-conscious/conservative products
2 Healthy eating	Fresh food/organic/healthy/high-quality enjoyment
3 Convenience	Modern/young
4 Traditional cuisine	Cold meals/store brands
5 Families with a baby	Brands and promotions/small children
6 Price-conscious	Price before quality/young with little money/store brands
7 Smart family shoppers	Ready meals/brands and promotions
8 Bulk buyers	Traditional/simple/more likely to be older

relevant competitors. More detailed analysis revealed that both the available product selection and the price positioning were suboptimal. This gap was quickly closed on the basis of the CCR approach, and the customers responded positively.

Such an approach can be used to deduce differentiated strategies for each customer group, the essential aim being to give the customers more added value by offering more attractive ranges and services and an improved pricing policy.

4. Align your product category strategy

Once you've defined your target-customer segments and store clusters, the next step is to define your strategic guidelines, category role, target-customer segments, etc., for each category. It's best to start with a detailed analysis of the market position and the importance of the product category in the overall range. The next step is to determine the product category's performance – compared to the market and leading competitors, as well as from the point of view of consumers. Based on the optimization potential you identify, you can then decide which customer segments to target in future and which ranges/products, prices and promotions to consider.

5. Optimize your range

Your next aim is to provide a range of products that is as attractive as possible for the defined target-customer segments. To do this, you must find out which customers prefer which items, how loyal they are to these products, and how many buyers are reached by the individual products. The "RB Category Optimizer" is used to create a decision tree showing purchase decisions for each customer segment and product category. It reveals the logic followed by the customers when they are in the store – right down to their purchasing patterns at the shelves. This allows conclusions to be drawn for a more customer-friendly product chronology and better merchandising.

Optimizing your range from the customer's perspective:

Here is an example from the field of detergents. The laundry detergent products (page 10, photo on the left) are arranged according to the traditional industry-dominated shelf system – by brand and package size. As a result, the arrangement is not governed by how customers tend to buy. Products that customers feel belong together are arranged separately; the shelves offer little in the way of orientation.

The photograph on the right shows how customers would set out a shelf of laundry detergent products. The new layout reflects how people actually buy: this is why, in this case, products that customers think of as belonging together are placed next to each other on the shelves. Here we have copied the customer's first purchase decision and separated liquid detergents from powder detergents. We have also created vertical brand blocks to improve orientation.

Today, decisions on inclusion and exclusion are still very much based on lists of fast and slow sellers and the subsidies for advertising provided by manufacturers. However, such data does not give any indication of how important certain products are to individual customer groups. For example, although a high-quality skin cream might not be purchased very often, it could nevertheless be an important product for the "conservative and brand-conscious" customer segment. If you want to boost the loyalty of this customer group in the field of personal hygiene, you need to understand exactly which products have a positive impact on customer satisfaction, which products can be dispensed with, and whether there are any product gaps on the shelves.

6. Optimize your pricing strategy

How can you optimize your pricing strategy based on a better understanding of your customers? As a general rule, food retailers tend to match their competitors' prices for their best-selling products with the aim of improving their price image among the customers. This "watering can" approach is a waste of margins because it involves investing indiscriminately in the prices.

CUSTOMER-CENTRIC RETAILING

CCR in practice: Laundry detergents on the shelves – before ...



By contrast, CCR is a customer-segment-specific approach. Specific baskets of goods are determined for each customer segment using indicators (e.g. indexed customer reach, loyalty). The prices of these baskets are then compared with those of relevant competitors. A differentiated pricing strategy can now be defined for each customer segment according to each segment's price sensitivity.

Price suggestions are determined at the product and product-category levels on the basis of information on sensitivity, margins and cross-purchasing. For this we use tried-and-tested algorithms. The results are reviewed and released by category management.

This superior understanding of customers can be used as a basis for targeted investment in prices – and simultaneously to manage the price image.

7. Improve the effectiveness of your promotional business/direct marketing

This new way of thinking in customer segments and target groups also changes promotional business, which is important for customer footfall. Up to now, the products chosen for campaigns have depended very much on what share of advertising costs was picked up by the industry.

... and after



Now, for the first time, offers can be tailored to target groups and timed according to the consumption patterns of the individual customer segments.

At last, retailers receive direct feedback on their advertising spend and how successful it has been in each target segment. The aim of optimization is to select products in such a way as to advertise those that are simultaneously the most attractive and the most profitable products at the right moment. This makes it possible to significantly improve the design of promotional leaflets in terms of distribution, number printed, products chosen and pictures used.

For example, you can only tempt the so-called "smart shopper" segment with brand-name candy at the beginning of the month. By the end of the month, this segment (which otherwise generates high sales) has run out of cash. The number of confectionery products in the leaflet can thus be reduced late in the month.

CCR can also improve the efficiency of direct customer contact via the Internet or mailings. Campaigns, customer information or specific service offers that are tailored to a target group can increase footfall and sales; they have also been proven to boost customer satisfaction.

8. Implement a change-management process

Customer-centric retailing is far more than just a new way of optimizing your range, however. When properly thought through, it's a holistic management approach involving all company divisions. The successful implementation of customer-centric retailing requires a systematic change-management process.

Processes and controlling systems must be adjusted to the CCR logic. If you want to bring the daily activities of your employees into line with this way of thinking, you must also integrate customer-centered objectives into the staff MbO system.

Roland Berger's team of retail experts have already proven many times that CCR works. And what is probably one of the most successful retail groups in the world started using CCR years ago to put the focus on the customer.

"We grow by understanding our customers," says Sir Terry Leahy, chief executive of Tesco. "When they change, we change with them."

And it really is worth it (see boxes below):

- > Retailers are freed from the shelf dominance of industry
- > Investments in range and prices are easier to measure and can be used in a more targeted fashion
- > Sales, retail margins and customer loyalty increase as a result of greater customer acceptance

But it doesn't stop there. Because all retail groups can market the data they have on the shopping patterns of their customer groups (not their customers) to industry in strictly sanitized form. This does not breach any data protection rules, hurts no one, and benefits retailers and industry alike. In your negotiations with suppliers, you as a retailer can look them straight in the eye when it comes to knowledge of consumers and shopping patterns. For example, you can inform suppliers about how customers make their choices at the shelf and how popular new products are. Customer-centric retailing thus generates added value for everyone.

ADVANTAGES FOR RETAILERS

- > Get a better understanding of the shopping patterns and needs of different customer segments
- > Raise the profile of the retail format
- > Improve your range expertise while simultaneously streamlining the range - without losing sales
- > Improve price image
- > Make promotional business more efficient
- > Improve customer satisfaction/loyalty
- > Improve customer-retention program

ECONOMIC EFFECTS

Improvement in the retail margin (%)¹⁾

- | | |
|---------------------------------|------------------|
| > Improved pricing | 0.4 - 0.6 |
| > Optimized promotion campaigns | 0.5 - 0.7 |
| > Optimized range/merchandising | 0.5 - 0.7 |
| > Overall effect | 1.4 - 2.0 |

1) Based on experience with Roland Berger projects

CUSTOMER-CENTRIC RETAILING

HOW CUSTOMER-CENTRIC RETAILING CAN CHANGE YOUR BUSINESS

	BEFORE	AFTER
UNDERSTANDING THE CUSTOMER	Little understanding of the customer structures, purchasing patterns or needs. If customer segmentation exists at all, it is primarily based on sociodemographic data.	Clearly defined customer segmentation based on actual purchasing patterns. Clear idea of which customer segment buys what, when and why.
RANGE MANAGEMENT	Range decisions are based primarily on classic indicators such as sales revenues, sales volumes and customer reach.	Range decisions and merchandising are consistently geared toward customer needs. Decisions on product chronology, shelf arrangement, listing and de-listing are based on quantifiable customer behavior patterns.
PRICE MANAGEMENT	Traditional price strategy: decisions are clearly focused on top-selling items across all categories; competitors' prices are matched.	Pricing decisions are made on the basis of quantitative analysis. Pricing is based on baskets of goods for specific customer segments, their competitive price indices, and the customer segments' price sensitivities.
PROMOTIONAL BUSINESS/ MARKETING/ DIRECT MARKETING MANAGEMENT	Selection of products for advertising campaigns and promotions is very much industry-driven. Internal management is primarily geared to revenue and volume targets. Specific customer interests are hardly taken into account.	Promotional products are consistently geared to the target-customer segments – this can significantly improve the attractiveness and profitability of promotional business.
MANAGEMENT	Purchasing, category management, sales and marketing use different KPIs, some of which are not properly integrated. Marketing and consumer research do not interact with category management.	Customer-related targets are defined along the entire value chain; customer behavior patterns are systematically assessed; the effectiveness of the range and processes is improved to the benefit of target customers.

PROF. NITIN SANGHAVI

INTERVIEW



"The majority of retailers have not grasped the story yet. They still lose sight of the customer."

Nitin Sanghavi, Professor of Retail Marketing and Strategy at Manchester Business School.

Prof. Sanghavi, could you please outline some of the key trends in the European retail industry?

We currently see a fundamental change in the consumer markets. There is a shift taking place in consumer shopping attitudes and buying behavior patterns. Consumers are becoming much more concerned about spending. In addition, we have to face some fundamental demographic and socioeconomic changes. Furthermore, the industry has to deal with rising cost pressure. Retail prices are suffering from stagflation or deflation in many product categories. In this market situation it is very difficult to raise the prices and sustain them in response to increasing costs. We have a very high level of ambiguity, uncertainty and complexity among consumers and the markets. We have never faced a situation with a dynamic momentum like this before.

What's the conclusion of this? What kind of transformation do you expect for the retail industry?

This extremely harsh climate will leave its mark; retailers will have to change and adapt. We will get much more consolidation in the marketplace compared to what we have seen before. The number of players will disappear or will have to consolidate. At the end of the day, the consumers will have access to a decreasing number of retail brands.

I would like to challenge you with the following theory of European retail management: Traditional category management dominates; the industry is increasingly relying on volumes, sales, terms and promotional rebates. There is hardly any real focus on the customer.

Offerings are managed in the stores using out-of-date metrics, and nobody understands what sort of products or services customers really want. Right or wrong?

Yes, absolutely right. Many retailers have lost sight of the customer. They act without thinking about the customer. For categories, they think too much about sales volume, sales revenues and suppliers instead of understanding the customers and specifically targeting them. Category management is all about defining ranges, recording all relevant metrics on a category scorecard, organizational skills, information technology and the relationship between manufacturers and retailers. These elements need to be aligned to the consumer. If they are not, in other words if there is no customer focus and no real understanding of the customer, then category management cannot be effectively used as a tool.

Nitin Sanghavi has been Professor of Retail Marketing and Strategy at Manchester Business School (MBS) since 1985, after holding senior positions for a number of major retail and retail-related organizations in the UK and overseas. He is a frequent speaker at national and international retail conferences. He also acts as a non-executive director for several retail and retail-related organizations in Europe and India.

PROF. NITIN SANGHAVI

INTERVIEW

The philosophy of customer centric retailing has been established since the early nineties. Nearly every retail company uses loyalty cards. However, few retailers really use the data provided by those cards. Why is that?

Many retailers just have a loyalty card scheme and the data from it and do not know what to do with it. So they end up with purely superficial information but do not gain any insight relevant to strategic alignment and operations. Companies have to work out the right actions that will enable them to achieve the required returns on the capital employed.

So what needs to happen?

My advice to those who are serious about customer centricity is quite straightforward: You start with the customer, you end with the customer. Tesco aligns all its key decisions involving the product range, pricing, store layout, design, branding and local marketing with its customer focus. However, it took Tesco a good deal of time to finally understand the idea of consumer centricity and how to get close to the customer. Once understood, they re-aligned their business, core purpose, values, proposition, people, processes and systems. So it's about understanding the issue and changing your mind set. And this is hard work. It took Tesco almost seven years to change the mindset throughout the business. This is a long-term process and very few retailers have the patience and perseverance to run through this process.

It is a process that affects the entire company.

Yes, it has to be supported by the CEO as well as by the entire organization – and everybody needs to talk the talk and walk the talk everyday with sincerity. This is a major change process which contains much more than one might expect. Today we use Tesco as an example for best practice in customer centricity but at the same time its achievements also make us understand how difficult it is to implement these changes. Many retailers drop out of this project because they don't expect all these hurdles. They simply underestimate the challenge and fail to align the entire organization, including its people, processes and systems behind it.

Can you give us some more best-practice examples?

Sure. One is the US chain Best Buy, today's globally leading electronic retailer. They really understand their customers, talk to them and continuously align their business in line with the changing customer needs and expectations. Costco also has done a great piece of work in this area, together with the supermarket chain H.E.B. based in Texas and Mexico. Their motto is "He profits most who serves best". They are all extremely consumer-focused. And also people talk about Nordstrom, a leading fashion specialty retailer in the US that is also very customer-centric.

Coming back to the retail industry as a whole, where do you see the future key fields for competition?

One key subject is to understand the customer and customer-level profitability. For this, we have to get much closer to the customer than where we are today. We have to provide more value for money, and this means "Price plus". Many customers want a good price but this is not enough to satisfy them, as many of them are also looking for reasonable service, choice, quality, etc. Retailers need to take this message on board to help them differentiate and develop compelling competitive advantage. Another key field is the so-called financial viability of a retailer in terms of cash generation and cost control – especially in times of high volatility, stagnant or falling sales and rising costs.

So even in this difficult economic climate you would not suggest over-estimating the price sensitivity?

Sure, going forward, there will be greater price sensitivity from consumers. A few more customers may switch to the discounters and low-price retailers with whom they have not shopped before for all or some of their needs. What we haven't seen is a mass exodus towards the discounters only because of the price issue. And if we look at retailers such as Aldi in the UK, we see that in the beginning they were completely focused on the price and finally realized that people were looking for "price plus". The price is important, but it is not everything. Just as an example: when we set price in relation to quality, I would say this is around a 60:40 ratio. However, it is important to keep your

eyes on sudden shifts in competitive price structure. Another trend we might see will be the higher sales of stores' own brands in several categories and subcategories at the expense of branded goods as consumers look for more value for money.

But many people have to manage their lives with small budgets.

Yes, but very few customers are completely price-driven. Tesco, for example, realized that their customers asked for value for money and for quality and reasonable service. So they offered a certain range of products which are now available at a very low price and are very comparable to discounters. The message to the customer is: we are not a discounter, but you don't need to go to the discounter any more. Here you get both worlds in one. This is working out very well for them.

Coming to a conclusion – do you have any advice for the industry?

I can see four key points. Retailers should concentrate on providing and selling more value. To do so, they need to get closer to their customers and understand their needs today and tomorrow. Thinking in customer segments is increasingly critical to success.

Especially in saturated markets, retailers need to leverage proven marketing and format channels. By identifying and addressing specific customer needs, they can create additional areas of growth. One example of this is Auchan's drive-through supermarket that exclusively targets a mobile customer group. Around 6,000 products are on offer that can be bought at a terminal. The products are then directly loaded into the back of the customer's car.

Customer centricity must be aligned to the whole company and embedded in the core processes of sourcing, logistics, category management, merchandising, sales and marketing. And this mindset must be incorporated into the management system and corporate culture. Customer-centric retailing is a corporate philosophy and should thus be part of the long-term corporate strategy.

At the same time, retailers must constantly work on the efficiency of their retail system without neglecting differentiation. To do this, all potential, from sourcing to logistics to store operations, must be identified and realized. And retailers need the courage to take new paths and change things. So they should always look for examples of best practice in order to learn from them and become better, faster and more efficient.

WHAT DO YOU THINK?

How leading retailers view their customers.

**HOW DO LEADING RETAIL CHAINS HANDLE CUSTOMER ORIENTATION?
WE ASKED TOP MANAGERS AT CARREFOUR, DM AND KONZUM.**



Thierry Afrigan
Director of Customer
Marketing – CRM Groupe
Carrefour

What does customer centric retailing mean for Carrefour?

At Carrefour, we have an ambition: to become the preferred retailer. This means we want to delight our customers and improve their quality of life, wherever we encounter them. We therefore need to know them better to serve them better. We decided to deepen our knowledge about our customers by analyzing all the data we collect from our checkouts through the loyalty cards. We can therefore adjust our entire offering, i.e. store layout, products, merchandising, prices and promotions, to suit our customers' needs even better. This is a major lever that we use to push Carrefour's image and make it more attractive to customers.

How did Carrefour implement CCR?

We started by segmenting the customers. Today, for each segment, we can track exactly how footfall, average receipts and purchasing behavior have developed in each of the various product categories. So we can set up the product assortment strategies accordingly. This is usually an annual process. We also apply CCR tactically in category management for making decisions on layout, product, price or sales promotions.

With CSD® for Carrefour Shopper Discover, the name of our CCR approach, we have a consistent platform today. Purchasing/category management, marketing and sales follow the same logic, i.e. customer segmentation, strategies for target customers and product groups, as well as KPIs. This way, we can zero in on our customers even better.

Has CCR already been rolled out internationally as well?

Carrefour deployed CSD® in the biggest markets in which it operates with loyalty schemes and it is becoming more and more embedded in the organizational structure. France and Spain are setting the pace, and since the end of 2009 we have begun to share our customer knowledge approach with our suppliers by launching Joint Shopper Discovery® through Emnos, a company specialized in customer knowledge management. We believe that sharing a common understanding of our customer needs and potential with our suppliers is key for jointly profitable growth.



Erich Harsch,
CEO of dm, the German
drugstore chain

What does customer orientation mean for dm?

"The first consequence of customer orientation for us is that we communicate differently. dm doesn't try to lure or tempt customers, but to inform them. This is why we don't run any broad-based promotion or brochure campaigns advertising a cross-section of our range every week. That would be watering-can marketing and has nothing to do with target-group orientation. Instead, we try as direct an approach as possible. Regular mailings are therefore key tools for us in our marketing. We send out about 30 million letters to our customers in the course of a year. As far as possible, these relate to each customer's interests, as expressed in their purchasing patterns. Of course, our dm payback customer card plays an important role in this context; half of our customers are already benefitting from it. In these mailings we are always looking for special topics that match the respective target group, e.g. information on dental care for people with false teeth, cosmetics, the whole range of baby products, or health foods. We always try to address our customers in as targeted a way as possible."

How does your company practice customer orientation?

"Three further points are equally important to a customer focus: stores, staff and price. As our founder Götz W. Werner says, the store is the product. It's the decisive interface between the retailer and the consumer. Every store must therefore be in the best possible condition. The success of a store depends in turn on the staff who work there. This is a key issue for us. At dm there is no command or monitoring system, as is often the case among other franchise retailers. This means that store managers – and individual shop assistants for that matter – have much greater discretionary powers and scope for individual creativity. The teams themselves coordinate who does what and when. This also applies to the details of the product range, which is ultimately the responsibility of the respective staff member. We avoid dictating centrally. The sentence "retail is detail" is correct. As for prices, we are extremely successful with our stable-price concept. We charge up to 15 percent less for a basket of goods than our competitors. Offering good prices is therefore another important point when it comes to customer orientation. Our customers agree with us on all this. That is why dm is also always way ahead in surveys of customer satisfaction conducted by Kundenmonitor in Germany."



Darko Knez,
member of the
management of
Konzum, Croatia

How important is the Konzum Plus Card for the company?

"Konzum unequivocally gears its business toward its customers. The Konzum Plus Card is a key tool here. This card has been extremely well received: almost three quarters of our customers prefer the Plus Card to other loyalty programs. In addition to this customer-retention effect, we can use the program to gather valuable information."

A customer card alone is not enough. In what other ways do you gear Konzum to the customer?

"The carefully analyzed customer data helps us to build an organization that serves our customers best. For example, we have developed a marketing and sales strategy that puts the customer absolutely at the center of attention. Customer orientation is also the watchword in areas such as store-space management and category management. The range offered in the stores therefore depends on what the customers in the respective catchment areas want. In addition to segmenting them by size, we categorize the stores as Premium, Standard and Economy according to their customers' preferences. This grouping of stores is based on our customer segmentation using the customer information we collect via the loyalty card. When more people with higher incomes live in a store's catchment area, the range shifts more toward premium, e.g. by including a broader selection of wines and other premium products. However, if the area is one where it's more important for customers to buy large quantities at discount prices, we adjust the store's range to this preference. Customer information is also used in price management. It helps us to close gaps in the range and to identify critical price thresholds from the customer's perspective. It also makes an important contribution to direct-marketing campaigns and offers valuable potential for the further expansion of business relations with our trading partners."

THE CONSUMER GOODS & RETAIL COMPETENCE CENTER AT ROLAND BERGER STRATEGY CONSULTANTS

Consumer Goods & Retail is internationally structured and one of the major consulting divisions at Roland Berger Strategy Consultants. Around 130 consultants work for this Competence Center worldwide. Independent market studies regularly give us an above-average rating. In Europe, our consumer goods & retail clients rank us number one.

We advise retailers on the following topics (selection):

- > Realigning the corporate strategy
- > Developing and refining format concepts
- > Adapting customer-centric retailing to a specific company
- > Optimizing range and pricing strategies
- > Improving the efficiency of promotional business
- > Optimizing purchasing strategy and processes
- > Optimizing supply-chain strategy and processes
- > Implementing restructuring and efficiency-improvement programs
- > Supporting M&A and post-merger integration

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