# WEATHERING THE STORM

OC&C Strategy Consultants

## Contents

**It is clear to all of us that our great industry is moving through tumultuous times. A deep recession is being followed by a long stagnation. Traditional retail business models are being challenged by rising input costs, the migration of spend online and the emergence of new technologies that are changing how our customers research and shop for goods.**

## So, what can you do to weather this storm?

In part the answer lies in retreating back to the core principles of what makes great strategy. Namely, developing a superior understanding of your consumers and using that as a basis for establishing distinctive, competitively advantaged strategies that are commercially impactful and expose your business to new sources of growth and profit.

However, weathering the storm will also require retailers to have a perspective on the future. Those retailers who will win will be those with a clear view on how the industry landscape will evolve and impact their business and have the confidence to invest now to build the capabilities that will succeed in this future world.

Given this context, we present five articles in this brochure that address these two related themes. Our first two articles introduce the key components of what makes a great retail strategy and the fundamentals of customer segmentation. We then provide our perspectives on some of the challenges posed by multichannel retailing - specifically how to price across different channels and the ten key issues any Retail CEO should have at the top of their multichannel agenda. Lastly, we introduce the second edition of the OC&C Proposition Index – a global survey conducted by OC&C that benchmarks the world's leading retailers according to the feedback from their customers.

We hope you enjoy reading the articles in this brochure. Further information can be provided by contacting any of our Retail Partners directly - contact details are provided in the back of this brochure. OC&C is a leading strategy consultancy and we pride ourselves on bringing clear thinking to the most complex issues facing top management. We work side by side with ambitious clients seeking market leadership. Retail is one of our longest-standing strengths and our work has often seen us at the vanguard of sector developments, with many of our creative and innovative solutions becoming standard industry practice.

**You will find OC&C across Europe, North America and Asia and at www.occstrategy.com.**

# WHAT MAKES A GOOD RETAIL STRATEGY?

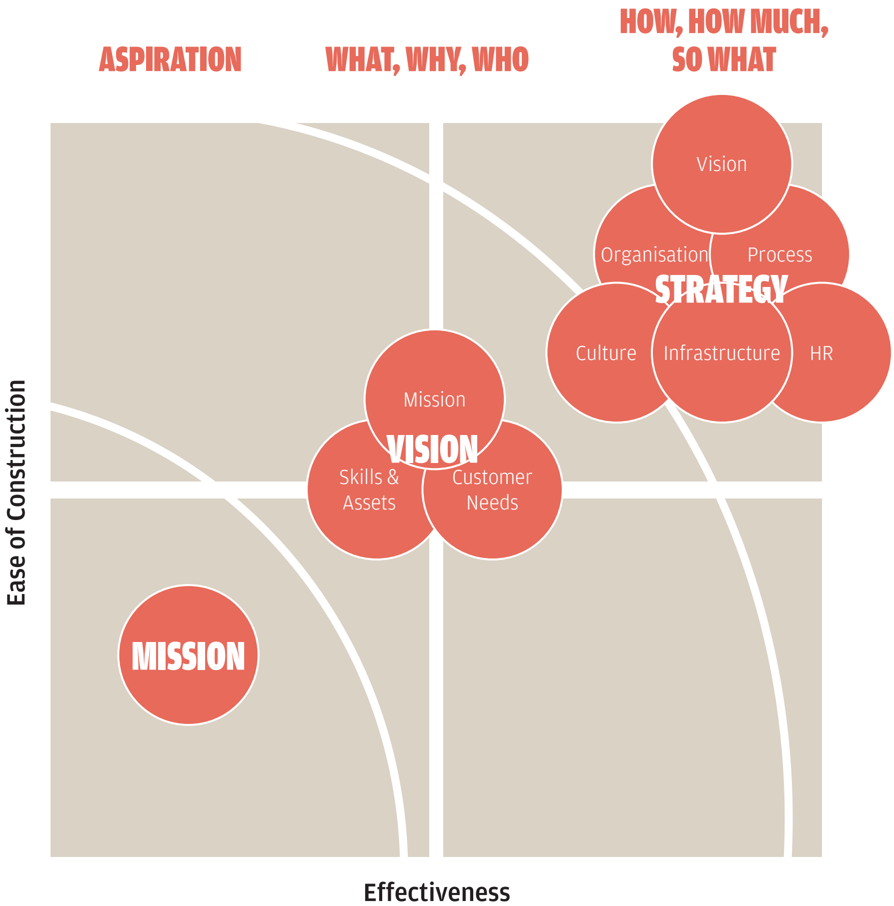
## A practical perspective

In this era of huge economic uncertainty and rapid structural change the need for a clear and coherent strategy is greater than ever. Over the last 25 years, OC&C has helped more than 100 of the world's leading retailers develop compelling strategies. While no two of these strategies are the same, the principles of developing a good retail strategy remain very consistent, and below we have attempted to crystallise these principles into a clear and practical guide.

One of the most common reasons that Retailers fail to develop robust long-term strategies is a failure to understand the difference between a mission, a vision and a strategy. While all have an important part to play in defining corporate success they are hugely different. For example a mission lays out a simple but clear overall ambition for the company Nike: "To bring inspiration and innovation to every athlete".

## Remind me – what is strategy?

By contrast a strategy is a cohesive plan that provides long-term guidance for the entire organisation – critically it provides detailed direction for each of the functions within any business.




## The six ingredients

Successful strategy depends equally on the construction of a differentiated and defensible plan and the successful execution of the plan. Failure on either front is still failure - for example flawless execution of a flawed plan is often worse than doing nothing.

Our experience of good retail strategy therefore balances theory with practice - and revolves around 6 key ingredients or characteristics.

> **IN THEORY, THERE IS NO DIFFERENCE BETWEEN THEORY AND PRACTICE BUT IN PRACTICE THERE IS**
>
> Ian Cheshire, Group CEO, Kingfisher


### 1. DISTINCTIVE

A critical starting point for any strategy - you must have clarity on why customers would choose you over your competitors. Often retailers believe they are distinctive when the customer can't spot it. Distinctiveness is very often the difference between winners and losers.

### 2. DEFENSIBLE

The second key ingredient of good strategy is defensibility - a strategy that is built on unique, or at least hard to replicate, factors. There are many potential sources of this defensibility - scale, property, route to market, capability, amongst others. The critical challenge through strategy development is to make active choices about where you are going to build an advantage, and where you are not.

Too often retailers try to win on all fronts - you have to make active choices about where to win, where to compete and where to concede.

### 3. RICH WITH REWARD

Clearly, strategy is only worthwhile if it ultimately delivers value either through profit or revenue growth or ideally both!

> **HOWEVER BEAUTIFUL THE STRATEGY YOU SHOULD OCCASIONALLY LOOK TO THE RESULTS**
>
> Winston Churchill

However, delivering this revenue growth in developed markets is increasingly difficult. Analysis of business plans across the last 10 years shows that 80% of growth has come from store roll-out, like-for-like (same store) sales growth and gross margin improvement. Each of these sources of growth are now fundamentally challenged however, with channel shift reducing the effectiveness of retail space, consumer spending under pressure and the export of inflation from China.

Consequently, the challenge for future strategies is to unlock new sources of growth - with multichannel, international expansion and format development at the forefront.

### 4. SIMPLE

It is a truism that the execution or implementation of a strategy increases exponentially with complexity. Despite this being somewhat obvious, one of the most common causes of failed implementation is an attempt to implement strategies with too many component parts. This complexity is generally caused by a combination of factors:

- Too many board agendas vying for representation
- Lack of common objectives
- Failure to trade off and make the hard decisions

Only a ruthless insistence on simplicity and a real effort to force the debate to 'what are we going to stop doing' can overcome this challenge.

### 5. EMBEDDED

Retail strategy ultimately has effect and impact on the shop floor. Consequently the effective implementation of retail strategy requires it to be cascaded through the organisation - shop floor up.

> **BE VERY CLEAR, STRATEGY IS NOT THE PRESERVE OF THE BOARDROOM... IT HAS TO BE UNDERSTOOD AND EMBRACED BY ALL**

This challenge is made harder by the diffused nature of retail businesses, and the huge number of often relatively low skilled employees that need to buy into and enact the strategy. Those that excel recognise the importance of relentless communication across the organisation, the role of strong and charismatic leadership and the need to clearly align individual incentives.

### 6. ENDURING (BUT RESPONSIVE)

If strategy needs to be embedded throughout the organisation to be really effective then it cannot change on a regular basis. Often organisations confuse the annual planning exercise with strategy, but they are very different things. If strategy is to endure, especially in such a rapidly changing environment then it needs to be flexible and responsive. While it is of course impossible to create a strategy that accounts for any eventuality - an enduring strategy is built with a clear view of the evolution of the market landscape.

### YOUR LASTING LEGACY?

If strategy is about setting the entire organisation on a long term path to success then it is also about writing the enduring chapter that each CEO will be remembered for. For those reading this and contemplating writing your own chapter then don't forget the 6 key ingredients - they could be the foundation of your lasting legacy.

# IDENTIFYING HIDDEN GROWTH: MAPPING THE OPPORTUNITY LANDSCAPE

Today's circumstances combine to create challenging times for traditional, store-based retailers: consumer confidence is at an all time low; the online channel grows apace, and inflation drives up cost prices. Faced with these challenges the sources of growth of the last decade (portfolio expansion, consumer expenditure growth and lower cost sourcing) appear increasingly defunct. Retailers inevitably are now on the search for new sources of growth. A typical response is to search the distant horizons, looking beyond core markets, into adjacent categories, new territories and new brands. However, the further from the core retailers look, the lower the chance of success. More importantly, the inclination to search further afield often overlooks hidden sources of growth that exist within a retailer's existing markets, and possibly even within their core customer base. It is these opportunities, where the chances of success are higher and which retailers are more capable of accessing that we advocate targeting first.

## Mapping the Opportunity Landscape: Finding the Treasure Closest to Home

By creating an opportunity map of a retailer's existing market landscape, we are able to identify pockets of opportunity where retailers are failing to capture their fair share of existing core customers – or to identify adjacent segments that provide 'soft targets' for growth. This approach has proven highly successful across a number of retail categories allowing us to find short-term growth which is highly accessible. Our approach owes its success to establishing the market dynamics at a segment-level and understanding the key metrics which act as drivers of performance in each segment. By mapping the opportunity landscape in this way we are able to understand within each segment the share that each competitor in the market holds of that segment, the key purchase criteria (KPCs) within each segment, and the relative strengths and vulnerabilities of each competitor.

Not only does this detailed, segmented view of the landscape allow clear prioritisation of opportunities, it also enables a very clear set of actions to be developed and prioritised.

This is best illustrated by practically showing the impact of segmenting the market with reference to a recent project Case Study.

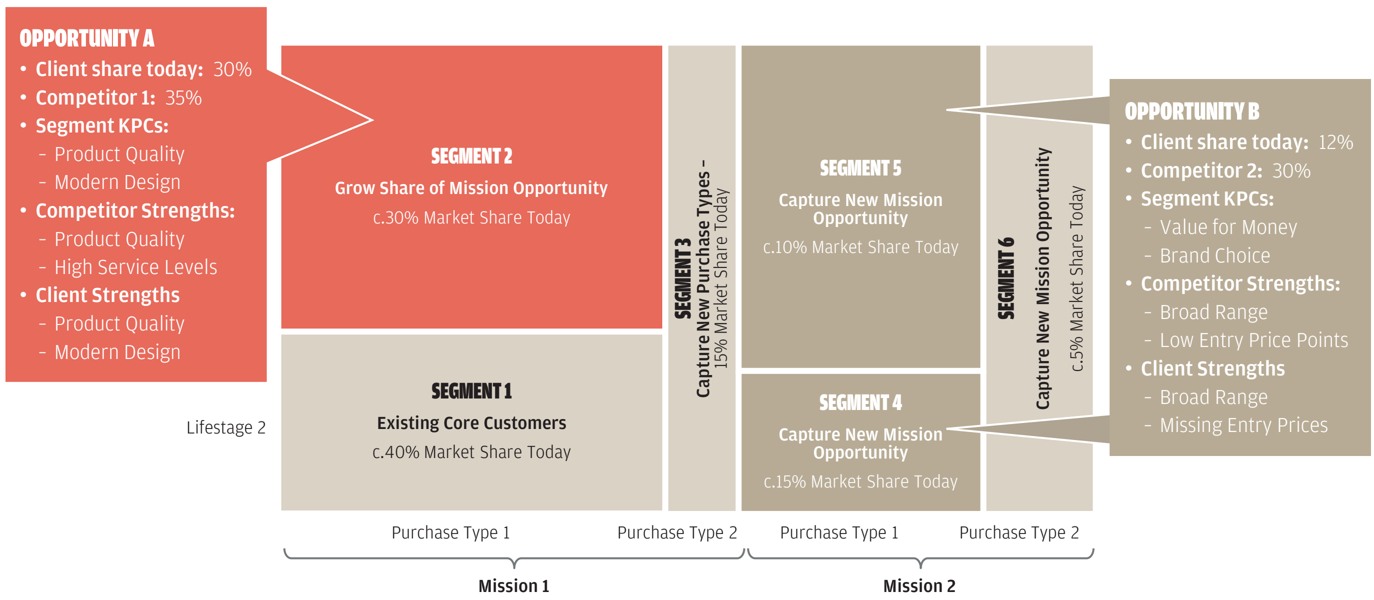
**WHEN YOU ARE TOO CLOSE TO SOMETHING IT IS HARD TO SEE THINGS CLEARLY, BUT WHEN YOU TAKE A STEP BACK AND GAIN SOME PERSPECTIVE, SUDDENLY THINGS MAKE SENSE**

## Delivering Tangible Actions

In a recent client engagement we helped a furniture retailer combat the effects of significant (c.10% per annum) market declines by identifying new pockets of growth to pursue within their core market. The client's ingoing hypothesis was that they were a 'Mass-Market' retailer with relatively even share across all segments and limited scope for share gain to support store LFL growth, and as a result their focus was on identifying new product categories that could be added to their existing stores to provide a source of growth.

Through 'Mapping the Opportunity Landscape' we were able to identify customer segments in which the client was very strong, with high levels of market share, but also other segments where their share was significantly under-weight. This identified two principle areas of opportunity for the client outside of their core customer segments, each of which represented a significant opportunity for growth if the retailer could grow its share towards the level held in its core segment.

**Client Example – Key Opportunities**




Source: OC&C Consumer Survey, OC&C analysis

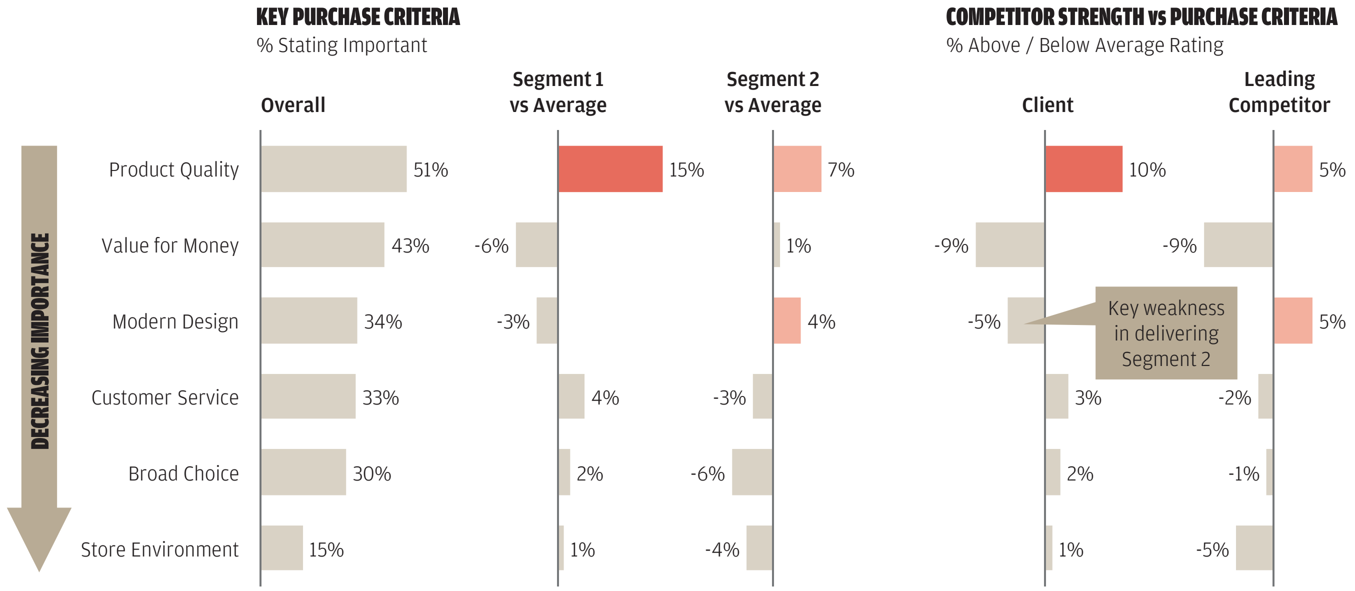
However, these two opportunities represented significantly different challenges and would require different actions to address them. In order to successfully deliver either of the identified opportunities it was necessary to understand the share that each competitor held of each segment, the KPCs of each of the segments and how each of the competitors was delivering against these. This could then be used to understand who needed to be beaten to win in each opportunity, and on which dimensions of competition they needed to be taken on. The above exhibit shows a high-level view of the two identified opportunity areas, along with the KPCs of the key segments and the strengths of the leading competitors. This fact-base can be used to prioritise the identified opportunities and develop a tangible set of actions to deliver them.

**The first area of opportunity** (Opportunity A) was to target customers conducting the same types of mission and purchase as the client's existing core customer segment but representing a different demographic & lifestage (Segment 2). This was already a strong segment for the client who already held 30% share, however this share was under-weight relative to both their share within their core customer segment and relative to the share of the leading competitor in this new target segment. To understand these differences in share it was necessary to understand each Segment's KPCs and how each of the competitors was delivering against them.

The client was very strong in one area, leading the market in product quality which was overwhelmingly the most important KPC for their core customer segment. By contrast, the client's position in the new target segment was less strong: while product quality remained the most important KPC for these customers, design was also important and this was an area in which the client lagged behind its leading competitor and as a result they were delivering lower share.

Understanding these KPCs within the target segment enabled us to identify relatively clear actions in order to compete more effectively with the leading competitor and steal share. Addressing the client's perceived weakness in design required a combination of ranging and marketing actions to introduce more design-led product into the range and promote this product in a way that would communicate a more design-led message in order to draw these segments into the store.

### Target Segment KPCs and Retailer Strengths




Source: OC&C Consumer Survey, OC&C analysis

**The second area of opportunity** (Opportunity B) was to expand the client's proposition to serve customers conducting different types of purchase and mission from the existing core customer segment (Segments 4 and 5). Almost half of the core market sat in Segments in which the client significantly under-performed in share terms. Once again, the key to understanding this performance lay with the segments' KPCs. These segments were significantly more value-led than the existing core customer segments, requiring a broad range of choice at Value price points.

The client was underperforming on value for money perception because, despite having a broad range, they lacked coverage at entry price points relative to competitors. By contrast, the leading competitor for these segments was delivering against these needs by bolstering their in-store proposition with extensive catalogue and online offerings which provided significant range depth, particularly at the Value end of the range.

The set of actions required to deliver this opportunity was similarly clear and practical as for the first, albeit slightly more operationally complex; targeting these Segments required investing in the online platform in order to provide a level of range depth at value price points to compete with the leading competitor. Whilst developing the online systems to deliver this opportunity, and sourcing the new ranges involved significant lead-times and investment, we were also able to identify some quick wins to begin delivering this opportunity in the short-term. These initiatives, which could all be delivered at comparatively short lead-times, included introducing flat-pack ranges to the in-store proposition to strengthen the existing entry price point range and help deliver improved value for Money perception to the customer.

## Realising Substantial Impact

In OC&C's experience the insights delivered through mapping the opportunity landscape in a retailer's core market can have a powerful impact on their business, revealing significant growth opportunities, normally in one of two areas:

- Enable share gain amongst existing core customers through better understanding of and delivery against their needs
- Identify attractive segments outside of the existing core, where share is comparatively low, and deliver practical actions to better target these segments and grow share within them

In the tangible example above we were able to identify opportunities to drive share within the client's core market which were equivalent to c.100% uplift to existing revenues.

As you can see, the opportunities revealed through mapping the opportunity landscape are typically sufficient to drive a step-change in business performance and deliver long-term, above market levels of growth.

Mapping the opportunity landscape is an insightful, data-driven approach to help understand a retailer's position within its core market. It identifies significant opportunities for growth within that core market and delivers a detailed and practical understanding of how to deliver those opportunities.

# THE CHALLENGE OF MULTICHANNEL PRICING

## SOME CUSTOMERS WILL VALUE THE IMMEDIACY THAT STORES OFFER AND PAY EXTRA FOR THE PRIVILEGE

Multichannel retailers have converged on a simple axiom for pricing across channels: in-store prices and web prices must be the same.

Customers standing in front of the fixture consulting their iPhones or challenging store staff as to why the price isn't the one they saw earlier on the website, have quickly led retailers to conclude that price differences between the channels are customer-unfriendly and indefensible.

The channels might deploy differential ranging but like-for-like items must be priced equivalently.

This increasingly received wisdom is understandable, formed from the best intentions, widely held... and dangerously wrong.

The reality is that for most products stores are a more costly channel than online, and retailers cannot be competitive in both if this is not reflected in pricing.

Typically this leads multichannel retailers to be uncompetitive online and to allow pureplay insurgents to erode their market positions. Or, worse still, retailers launch a different 'fighter' brand online, which denies the customer a cross-channel journey and throws away any advantage from the bricks part of bricks 'n' clicks.

But customers are smart enough to appreciate that price and value are a function of service, convenience and trust, and these aren't the same between channels.

In fact, retailers already recognise this with their physical stores – shoppers are evidently quite prepared to pay a convenience premium in an Express versus a Superstore format.

So it should be in the multichannel environment: some customers will value the immediacy that stores offer of being able to touch and feel the product and take it away there and then; some will want the ease of home delivery; some will click and be prepared to wait a day before they collect, and each will be willing to pay a different price for the service that suits them.

Shelf-edge labels often claim price-matching with competitors' stores but avoid the awkward comparison with online. Instead they should display in-store and online prices and encourage customers to choose their channel.

If they don't need it now, customers can order and come back later or wait in for home delivery. Shops will become a combination of convenience stores with a convenience premium, and display showrooms taking orders.

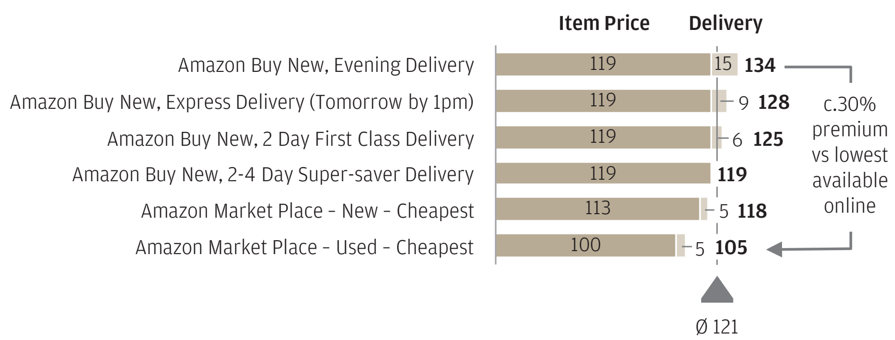
Ironically the largest online pure plays already show how this might work. Buyers at eBay can 'buy it now' and sidestep the auction, trading certainty and immediacy against the chance of a bargain. Amazon offers the reliable comfort of its own shopfront, or else a range of sellers on its Marketplace with varying ratings and delivery promises. Shoppers place different values on trust, speed and certainty, and choose and pay accordingly. This phenomenon can be illustrated with reference to Amazon's pricing of the iPod Nano, where prices vary by c.30% according to whether it is used or new, who they buy from and the customer's preferred delivery option (see exhibit below). So it will be in the multichannel world.

Getting this right will be critical for many physical retailers. Customers need to be migrated to a rational model sooner rather than later, where they're offered a transparent choice of channel and service options and differing prices that reflect cost to serve. Only when multichannel retailers can operate this new approach will they be able to survive and thrive.

**CUSTOMERS ARE SMART ENOUGH TO APPRECIATE THAT PRICE AND VALUE ARE A FUNCTION OF SERVICE CONVENIENCE AND TRUST**

**CUSTOMERS NEED TO BE MIGRATED TO A RATIONAL MODEL, WHERE THEY'RE OFFERED A TRANSPARENT CHOICE OF CHANNEL AND SERVICE AND DIFFERING PRICES THAT REFLECT COST TO SERVE**

**Amazon Price Benchmarking, 8GB Blue iPod Nano (6th Generation)[1]**




1. As found online on 19th January 2011
Source: Website searches, OC&C analysis

# 10 THINGS EVERY CEO SHOULD KNOW ABOUT MULTICHANNEL

Retail CEOs know their businesses have to respond to the rapid consumer adoption of new technology. This is particularly true in Europe and the United States, where retailers face stagnant markets and multichannel is the primary source of growth.

While the opportunity is clear, the best route to exploiting it isn't. Shoppers want to interact and transact through online stores accessed via a plethora of devices (computers, smartphones, tablets, what next…) and they want to blog and tweet about what they've been doing. Every successful bricks and mortar business has had to go through a steep learning curve, trials and tribulations before it has been able to get its commercial prospects on the right trajectory.

Whilst the challenge is complex, we have distilled from our experiences working with multichannel retailers, the 10 things that every CEO should be mindful of in the new world.

## 1. THINK CUSTOMER, NOT CHANNEL

Businesses organise around channels, but customers organise their efforts around brands/missions. As a CEO, you need to end this disconnect.

Physical stores, online sites, contact centres and catalogues, all have very different operating characteristics and requirements. This makes channels a simple and clear way to organise your business. But this does not reflect how customers think or act. Customers in store check prices online before deciding whether to gratify themselves instantly or wait to get a better price; customers research online, and arrive knowing more than the sales assistant does, before making a final decision on what to buy. The businesses that are winning take a much more integrated view of channels and are led by customer goals, rather than business goals.

## 2. QUICKLY ESTABLISH A PROFITABLE FORMULA FOR GROWING YOUR CUSTOMER BASE

In the world of physical stores, if you got your location decision right, you could be reasonably assured of the volume and quality of traffic to your store. As a consequence, retailers generally have not had to grapple with managing footfall to stores on a daily basis. Winning in the online world however, means dynamically managing tradeoffs to acquire, retain and reactivate customers. They understand the tradeoffs between 'near' free traffic (prime position on natural search, e-mail marketing, social media, PR), paid traffic (paid search, targeted banner ads, catalogues) and mass brand building media (television ads, outdoor, press). As a CEO, you should not be outsourcing these decisions to specialist agencies, but actively leading your organisation to redouble efforts in improving your position in 'near' free mechanics – this is hard to get working right, but the rewards will make it well-worth your while.

## 3. ACCEPT NOTHING OTHER THAN JOINED-UP BUYING, MERCHANDISING AND MARKETING DECISIONS

Buying, Merchandising and Marketing functions within a retail organisation have historically required only a 'loose' linkage for each of them to deliver their respective goals. Winning in multichannel requires a fundamentally more joined-up approach to 'buying' and 'selling' functions. For example in a multichannel world, if you launch a promotion, you need to change your search strategy, to ensure the promoted product achieves a high level of visibility on paid and natural search, re-merchandise the website, address the challenge of competitive pricing versus online competition, and much more.

Delivering all of these steps requires a Buying-Merchandising-Marketing triumvirate that is more integrated and joined up, and such cohesion is unlikely to come naturally to these teams. Your role as the CEO is to ensure that the case for change and the necessary enabling mechanisms are in place.

## 4. POPULATE YOUR MARKETING TEAM WITH A MIX OF 'ARTISTS' AND 'SCIENTISTS'

As companies shift marketing spend from traditional channels to online channels, the shape and composition of talent within marketing teams has to alter substantially. Creative flair is still required, but needs to be augmented by pools of professionals who are well-versed in delivering targeted and measurable mechanics. The 'artists' need to be complemented by the 'scientists' who can obsess about shaving the cents off customer acquisition costs by basing decisions on hard measures of return on investment at a campaign level.

## 5. INVEST AHEAD OF COMPETITION IN YOUR CUSTOMER ANALYTICS CAPABILITY

Multichannel winners take customer data seriously. They have a deep conviction that the ability to understand their customers better than anyone else and to interact with them in a relevant and personalised manner is fundamental to success. Pureplay businesses like amazon, netflix and google all started off with a deeply analytical and customer-focused mindset. Some retailers – Macys, Target and Tesco – have built extremely advantageous positions through their historical belief in the transformational power of customer data. Retailers who have relied in 'gut' have found the transition much harder.

## 6. YOU WILL REQUIRE NEW KPIs – START GETTING THE KEY ONES IN PLACE

In store based retail the core list of KPIs is well established – measures such as like-for-like sales growth, or sales per square foot give a good indication of retailing health. Supplemented with an ability to walk the stores, CEOs know quickly how healthy their business is. When retailing moves online, the landscape becomes more complex. Managers can no longer physically "walk the store" to see what customers are doing; instead they drown in an ocean of data. The key simplification that a CEO can introduce is a single-minded focus on the key drivers of performance. The five key metrics that every CEO should know are:

- Growth in profitable orders (not like-for-like growth) as a measure of sales growth
- Net margin per order (not sales per square foot) as a measure of productivity
- GMROI (not gross margin) as a measure of buying efficiency
- Marketing cost percentage (not labour cost percentage) as a measure of cost performance
- Customer retention rates as a measure of loyalty

## 7. ALIGN INCENTIVES TO ENABLE THE CENTRE AND STORES TO CAPITALISE ON CROSS-CHANNEL OPPORTUNITIES

New channels can often be viewed suspiciously – store managers may see the online store as a competitor likely to cannibalise its sales; buying teams feel overwhelmed by the requirement to increase their ranges and to refresh it more frequently for something that is currently a small, if growing, part of the business. As CEO you need to align incentives. This can require investment - Macy's has installed 50k high-tech cash registers that allow staff to use online channels to fulfil a sale if stock has run out in store and the salesperson is eligible for commission on the online sales that they assisted. But it can also be about new processes. At Globetrotter, a specialty outdoor apparel & equipment retailer, with c.35% of its sales online, store staff are incentivised by category rather than channel, encouraging them to promote cross-channel shopping. Addressing revenue recognition and reward mechanisms is a powerful way to bring about behavioural change across a large colleague base in dispersed locations, and a great way for a CEO to signal commitment to exploiting opportunities through new channels.

## 8. TAKE THE OPPORTUNITY TO RESHAPE YOUR SUPPLY CHAIN TO ONE THAT IS MORE NIMBLE AND LESS CAPITAL INTENSE

Online opens up the opportunity to exploit a variety of models to build, stock and deliver ranges. Retailers no longer have to own the stock they sell; they can rely on vendors to sell them the stock only at point of purchase, or indeed absent themselves from the supply chain completely through drop ship vending. Retailers can act as aggregators of others, like amazon marketplace, or own the entire transaction. The ability to operate a combination of increasingly flexible and demand responsive models is a real opportunity for retailers to more nimbly pursue category and range expansion opportunities. Far sighted CEOs will understand how they intend to use this advantage.

## 9. BUILD A FAST, FLEXIBLE TEAM OF TECHNOLOGY DEVELOPERS

Retail businesses that started life with physical stores have been used to big IT capital expenditures to upgrade tillpoints or Buying & Merchandising systems. But they are entirely unused to a world in which flexible technology changes need to be made much more frequently with a less 'capex-hungry' and rigidly 'project-ised' mindset. The best online and multichannel businesses have more development engineers than they do buyers! Technology and the nimbleness with which you deploy it will be a key differentiator, so needs to be owned internally. CEOs also need to think radically about how to build the capability to make smaller and more frequent technology changes; the days of waiting two years for the next software upgrade must be banished.

## 10. INSTIL A 'DAILY TRADING' RHYTHM (WEEKLY IS SIMPLY NOT GOOD ENOUGH!)

The weekly trading meeting on a Monday is typically the 'spine' on which the rhythm of the business is based and the forum in which many trading decisions get made. In the best online operators though, this notion of decision cycles has been completely abandoned in favour of a philosophy of trading the site constantly. Decisions whether to continue spending more on paid search terms within a category/product line, address availability issues on key browsed lines, zero-in on pages with high bounce rates and change prices in response to competitor action are taking place in near real time. The ability to act decisively in compressed timeframes is both a mindset and capability that traditional store and catalogue retailers are simply not geared up to. CEOs will have to guide their organisations into this way of working by changing what gets measured and when, and by creating the appropriate frameworks and forums of decision making to enable lots of small decisions to be taken daily, rather than a few big ones every week.

**Over the last decade the question many retailers asked themselves was 'how do I beat Wal-Mart (and other discounters)?' Some rose to the challenge, many fell by the wayside. The question for this decade is 'how do I beat amazon (and other pureplays)?' CEOs who understand the 10 key things about online stand a good chance of rising to this challenge too.**

# PROPOSITION INDEX: ONLY THE STRONG SURVIVE

## Consumers continue to draw a stark line between their favourite and least preferred retailers – which one are you?

Last year the OC&C Proposition Index revealed for the first time the consumer's view of the global retail landscape. Given the opportunity to rate retailers across the full range of elements of their proposition, consumers identified a set of "Champion Retailers" who were setting the standard, not just for their category, but for all of retail. This year times have been hard for customers and retailers alike, and this has been reflected in an overall reduction in retailer scores. However, the strongest retailers from last year's Index continue to lead the way and have, in many cases, extended their lead over the chasing pack.

The OC&C Proposition Index builds a detailed picture of how customers rate a whole range of retail businesses. Uniquely, it enables you not only to compare customer views by sector, but also across different sectors and internationally. Crucially, it not only tells you how well customers rate your proposition overall – but also tells you how customers perceive different elements of your proposition such as price, service or product range – giving you the opportunity to identify which part of your own proposition you may need to develop.

The Index is founded on a simple principle. Thanks to their experience of internet sites such as Trip Advisor and iTunes, customers are used to rating price, service, quality and other areas through a five star system. As a means of assessment, it is quick and convenient. Customers understand it immediately.

OC&C asked over 21,000 consumers in six countries to use the star system to rate nearly 400 retailers on price, quality, look and feel, choice of products, online proposition, value for money, service and trust. The ratings offered by consumers allow us to analyse not only which retailers shoppers see as offering the leading propositions, but also the markets and retail sectors that are rated highly.

Furthermore, scoring highly in the index is not just a measure of customer satisfaction, but also an indicator of potential for long term revenue growth. On average, retailers ranked in the top third of the OC&C Proposition Index have delivered growth over the last 3 years well ahead of those in the bottom third.

The past 12 months have been a difficult time for consumers, with rising unemployment and significant pressure on disposable income, and consumer confidence is at record lows across a number of markets. These pressures have raised the thresholds that need to be met in order to satisfy customers, setting a difficult challenge for retailers. In reflection of this tough environment, almost two thirds of the retailers in the Index have received a lower score this year than in 2010.

The area in which retailers have suffered most significantly is in Trust, which was last year shown to be the most significant driver of overall rating. This year, of all elements of the proposition, Trust has shown the greatest decline. In particular this seems to be related to consumer confidence, with greatest declines in markets with the lowest levels of confidence.

However, in spite of this gloomy context there are still signs that strong performers can survive even the choppiest of seas. At the top of the Index a familiar set of names continue

**Top 10 Retailers**

| | |
|---|---|
| 1 | Amazon |
| 2 | Picard |
| 3 | M&S Simply Food |
| 4 | John Lewis |
| 5 | Play.com |
| 6 | DM |
| 7 | Waitrose |
| 8 | Ikea |
| 9 | eBay |
| 10 | Bol.com |

**Proposition Element Champions**

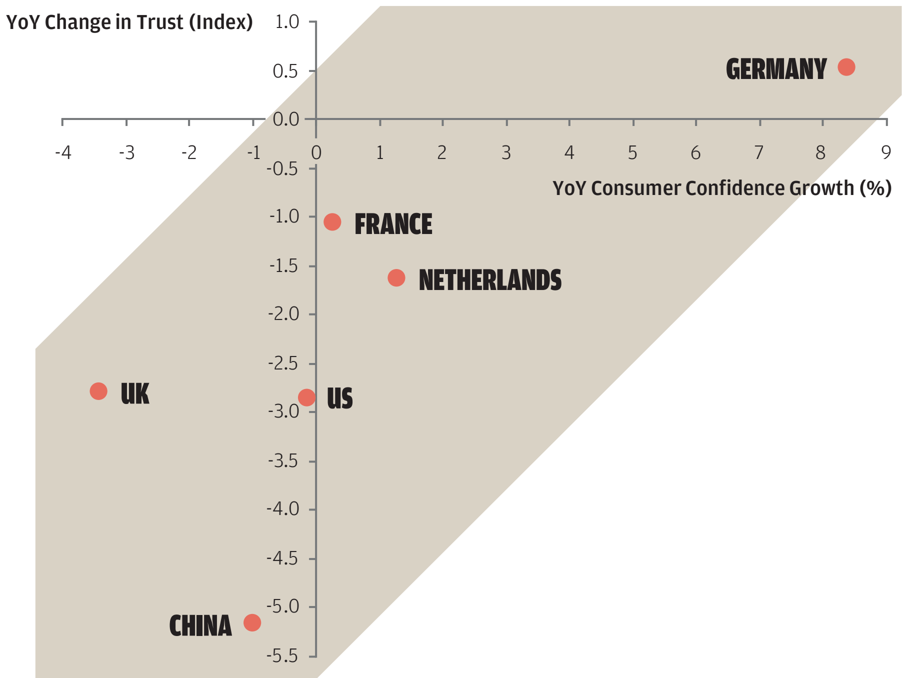
to lead the way, led from the front by Amazon which is once again the highest rated retailer overall, retaining its top position in 3 of the 6 countries covered and moving up into second place in a fourth. Along with Amazon, 4 more of last year's top 10 retain their places amongst the leading global retail propositions (Picard, M&S, Play.com and DM).

In addition to the best continuing to light the way, there is further evidence that online retailers are redefining the standards for their offline competitors. Of the five new entrants into the top 10, two are online pureplays, with eBay and Bol.com joining Amazon and Play.com amongst the elite. However, there are also signs that traditional Bricks & Mortar players are responding to these challenges by developing more sophisticated multi-channel propositions. Also amongst the new entrants to the top 10, both John Lewis and Waitrose ranked amongst the top 10 Bricks & Mortar Retailers for their online propositions.

The OC&C Proposition Index identifies the strongest performers in the market and highlights the areas in which they are succeeding. In these difficult and increasingly competitive times, a thorough understanding of the customer is the key to survival. We are actively working with clients to turn the Proposition Index insight into clear action and help them establish long term competitive advantage.

Find the full results at
www.occstrategy.com/psi

**Growth in Consumer Confidence vs Change in Trust Rating**
%, Index



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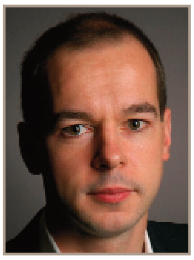

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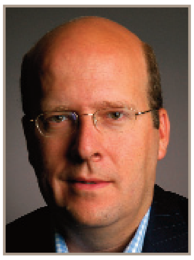

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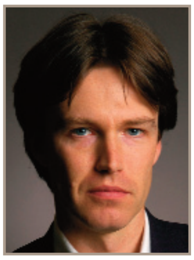

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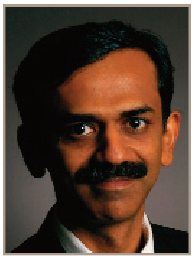

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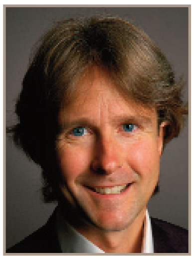

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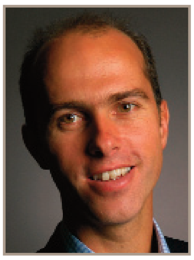

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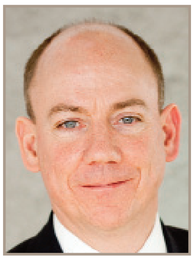

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