SERVING IT UP

Rising to the Increasing Demands of UK Consumers

The OC&C Retail Proposition Index 2015

OC&C
Strategy Consultants

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THE OC&C PROPOSITION INDEX 2015

After another eventful year in retail, the publication of OC&C's Proposition Index provides an opportunity to reflect on the impact on the UK consumer and their rating of the country's leading retailers.

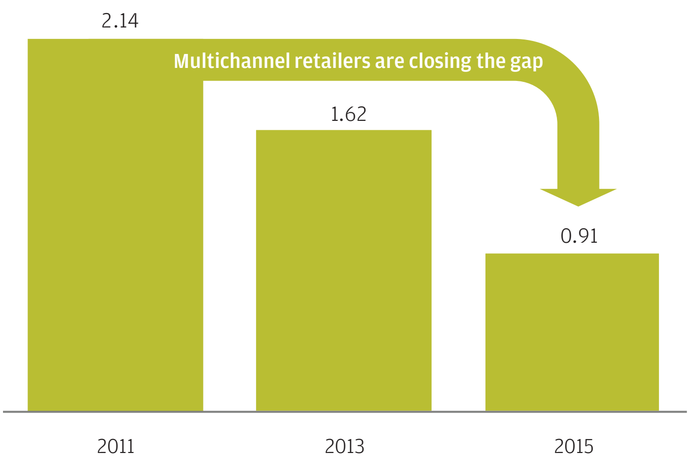
Amazon should be congratulated for retaining its crown as the UK's favourite retailer for the 5th consecutive year. Its lead, however, is by no means unassailable. Particular credit should go to John Lewis, who continues to close the gap, and to Lush who has joined them on the podium, and now sets the bar for UK retailers in both product quality and customer service.

The 2015 Proposition Index will also go down as notable on a number of fronts ...

UK PROPOSITION CHAMPIONS 2015

It is a year where high street retailers proved more capable than ever before at fighting back against the challenge of the pureplays. Multichannel retailers have built on the momentum we observed in previous years to further close the gap and interestingly, made major inroads into traditional pureplay strongholds, showing greatest improvement in how consumers perceive their prices and digital experience.

Gap Between Multichannel and Pureplay Retailers
2011 to 2015



We also see, for the first time, a step change in consumer's perception of mobile, and that it is now having a critical influence on where consumers choose to shop. For retailers, the potential cost of not having a strong mobile presence, either through apps or mobile-friendly websites is increasing.

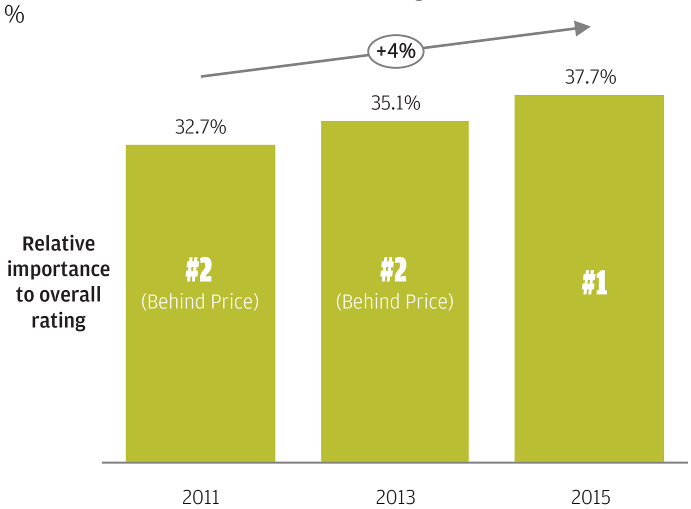
It is also a development that the multichannel retailers are using to their advantage, showing significant improvement over the last year, and successfully knitting together easy and intuitive browsing in and around the shopping trip, with the convenience and inspection benefits of physical stores. The likes of Argos and Next lead the way in generating well over half of their traffic now from mobile devices, whilst the likes of John Lewis, IKEA, Majestic Wine have all seen significant improvement in customer rating of their mobile proposition over the last year, with it acting as a key driver of their overall proposition improvement.

The most critical insight for UK retailers in this year's survey has been the rising importance of customer service in influencing where people shop. Indeed, whilst attention has been drawn to prominent retail battles for price and convenience in the last year, customer service has emerged as **the** most critical factor in influencing where customers shop. It also very clearly influences performance, driving greater customer loyalty and spend. Whilst retailers scoring in the top quartile for customer service also saw, on average, 10% revenue growth over the last year.

Whilst the best retailers, like John Lewis, Lush and Amazon do it well, in general, it is also one of few areas where UK retailers impress their customers less than their international peers.

Faced with the prospect of wage inflation, the arrival of leading international fascias and an ever more demanding consumer, the imperative for retailers to focus on how they serve their customers has never been greater.

Service Contribution to Overall Ratings, 2011-15[1]
%



1. Derived importance calculated using regression analysis

THE OC&C UK PROPOSITION INDEX 2015

Rating of Overall Retail Proposition by Consumers Visiting or Purchasing at Retailer in Last 3 Months (Indexed 0-100)

Rank	Retailer	Category	Score	Change[1]
1	Amazon	General Merchandiser	87.9	(0.2)
2	John Lewis	Department Stores	86.7	1.1
3	Lush	Health & Beauty	86.7	2.6
4	Apple	Electricals	86.6	1.9
5	Moonpig	Stationers	84.8	NA
6	IKEA	Furniture	84.7	3.9
7	eBay	General Merchandiser	84.6	2.9
8	Home Bargains	Discount	82.9	1.5
9	Harrods	Department Stores	82.9	7.1
10	M&S Simply Food	Grocery	82.8	(1.1)
11	Wilkinson	General Merchandiser	82.3	2.2
12	Clarks	Clothing & Footwear	82.2	2.5
13	M&S	Clothing & Footwear	82.2	1.6
14	Lakeland	Other	82.0	0.2
15	Waitrose	Grocery	81.7	(1.6)
16	Karen Millen	Clothing & Footwear	81.7	12.9
17	Waterstones	Entertainment	81.6	3.4
18	Specsavers	Optical	81.5	2.3
19	AO.com	Electricals	81.4	1.0
20	Dunelm Mill	General Merchandiser	81.3	1.0
21	Body Shop	Health & Beauty	81.2	1.5
22	Next	Clothing & Footwear	80.7	2.5
23	Laithwaite's Wine	Other	80.6	NA
24	M&M Direct	Clothing & Footwear	80.6	2.6
25	Burberry	Clothing & Footwear	80.5	2.2
26	Asos	Clothing & Footwear	80.4	2.5
27	B&M Bargains	Discount	80.4	3.5
28	Debenhams	Department Stores	80.4	2.4
29	Boots	Health & Beauty	80.3	0.6
30	Photobox	Stationers	80.0	NA

Rating of Service by Consumers Visiting or Purchasing at Retailer in Last 3 Months (Indexed 0-100)

Rank	Retailer	Service
1	Lush	87.8
2	John Lewis	87.1
3	Amazon	83.3
4	Harrods	83.2
5	Lakeland	83.0
6	Apple	82.8
7	Waitrose	82.8
8	AO.com	82.4
9	Moonpig	82.1
10	Specsavers	82.1
11	Healthspan	81.7
12	Body Shop	81.0
13	Clarks	80.9
14	M&S	80.5
15	Hotter Shoes	80.1
16	Waterstones	80.0
17	Burberry	79.9
18	Austin Reed	79.4
19	M&S Simply Food	79.4
20	Magnet	79.0
21	Selfridges	79.0
22	Boden	78.5
23	Greggs	78.4
24	Laithwaite's Wine	78.3
25	Majestic Wine	78.0
26	Schuh	77.9
27	Wiggle.co.uk	77.9
28	eBay	77.8
29	Debenhams	77.7
30	Dreams	77.6

1 Delta in overall rating 2013-14
2 Research also included the following 60 retailers (listed in alphabetical order) who were rated by shoppers as outside the Top 100 retailers: Austin Reed, Blacks, Boden, Booths, Brantano, Budgens, Carpetright, Chain Reaction Cycles, Claire's Accessories, Clinton Cards, Coast, Co-op, Currys, DFS, Dreams, Edinburgh Woollen Mill, EE, Ernest Jones, Evans, Furniture Village, Game, GAP, GNC, HMV, Homebase, Jack Wills, JD Sports, Karen Millen, Littlewoods, LK Bennet, Londis, Magnet, Majestic Wine, Mappin & Webb, Monsoon, Mountain Warehouse, Mulberry, NISA, Original Factory Shop, PC World, Peacocks, Phones 4 U, Reiss, Robert Dyas, Ryman, Shoezone, Snow & Rock, Space NK, Spar, Tesco, The White Company, Timpson's, TK Maxx, TM Lewin, Vodafone, Warehouse, WH Smith, White Stuff, Wickes, Wyevale
3 Timpson's Key Cutting & Household

The battle for supremacy in global retail has lead to a rapid increase in complexity. Consumers now need to navigate multiple price promises, choose from an ever-expanding product range and navigate between a broad array of shopping and fulfilment channels. Whilst this gives consumers access to a better retail experience, it is no wonder that they need help, and that, customer service has emerged as the critical glue that binds this whole ecosystem together.

It likely comes as little surprise that North American retailers lead the way, with over 45% of US consumers delighted by the level of service that they receive, and 8 of the 10 highest rated international service propositions coming from the US (including Publix, the global leader). Perhaps more surprising, given their strength across broader elements of their propositions, is that UK retailers are lagging, and despite similar importance placed on service, only 32% of UK consumers are left fully satisfied.

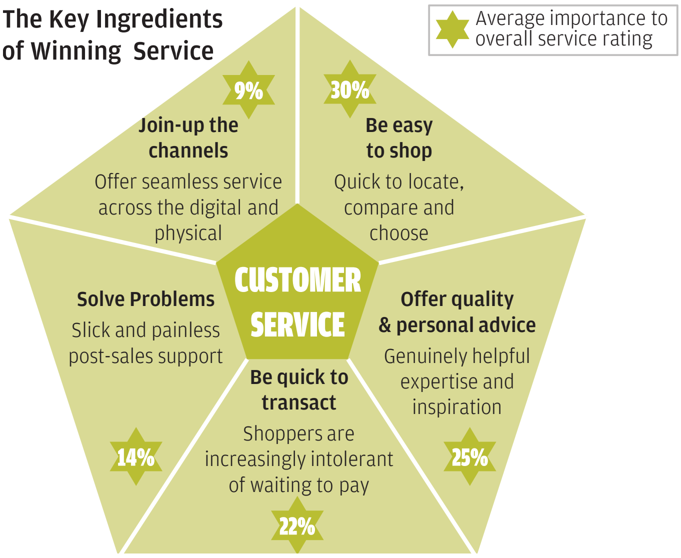
This expectation gap, combined with continuing stretching consumer demands, increasing cross-border travel of winning formats, and upward pressure on labour costs should all serve to push the service strategy up the retail CEO's priority list.

Effectively raising the bar is not straightforward. It has historically been difficult for retailers to decipher what customer service really means to their shoppers, and particularly in such a way that they can make really focused decisions about where to invest. However, our research pinpoints that despite comprising 20+ elements, customer's judgement of service boils down to 5 key ingredients.

How retailers choose to balance these elements of service is critical, and they should be prepared to make some trade-offs in where they invest – we see the service winners, like Amazon or Lush make clear and conscious decisions about where to differentiate their model.

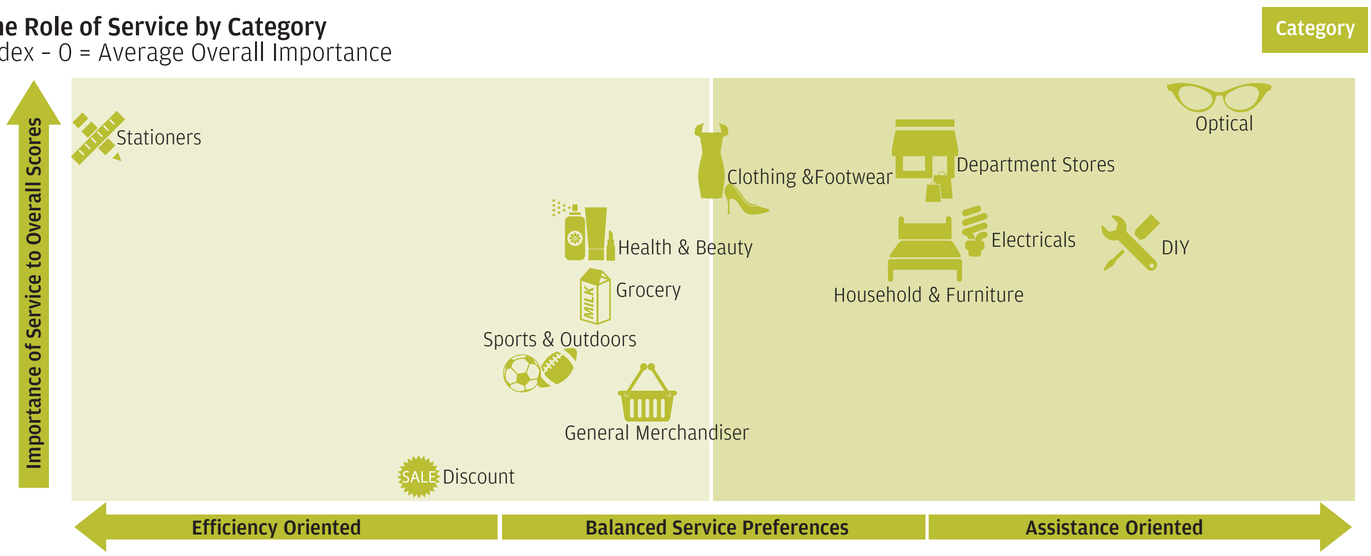
These decisions need to take into account different cultural preferences when it comes to customer service. In the US, offering a 'full service' model that balances all elements of service is critical, where as in the UK, much greater focus has historically been placed on making the experience quick and easy, whilst in continental Europe, the quality of advice is viewed as key.

The Key Ingredients of Winning Service

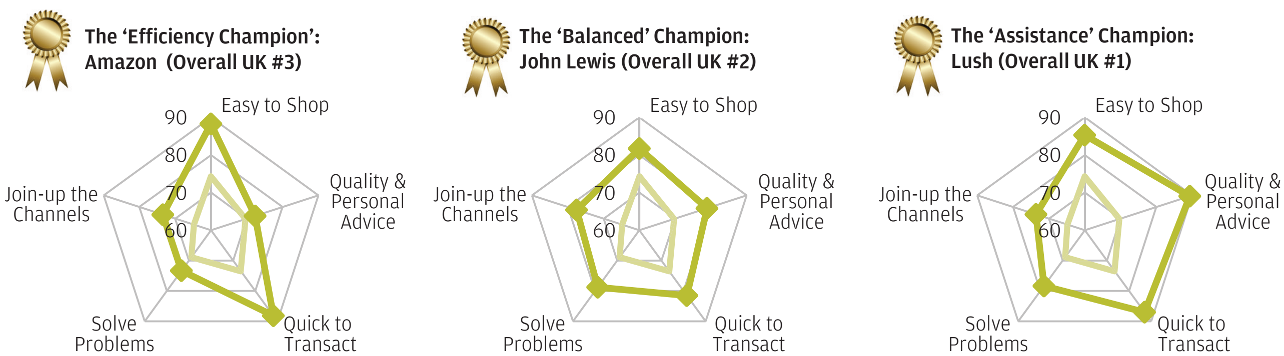


The requirements of service also vary significantly by product category. For expensive and high-consideration items such as consumer electricals or furniture, customers tend to value purchase support more highly, whilst for more routine purchases like stationery, service is important, but shoppers don't look beyond a quick and easy shopping experience. Whilst it would be dangerous to assume that you can neglect broader elements of service, making sure you have aced those elements most critical to customers shopping your category is vital.

The Role of Service by Category
Index – 0 = Average Overall Importance



Example of UK Best in Class Service Providers



For the winners, the rewards are clear; customer service drives greater loyalty, stronger perception of the overall proposition and drives higher growth. We pull out 5 key themes that are critical for retailers to address.

1. Get your priorities straight

The right service model will vary materially depending on business model, sector and customer target. Aiming to 'win' across all the components of service runs the risk of diluting focus, being confusing to customers and costly.

Retailers must balance "efficiency-led" service (such as ease of finding the right product and the speed of the checkout service) and "assistance-led" service (such as advice on what products to buy and ability to resolve problems before and after sale). For example, DIY retailers or opticians must fixate on delivering quality assistance and support, whilst the same level of investment is unlikely to deliver the same benefits for stationers or discounters.

Customer service leaders differentiate their proposition to meet particular customer needs or to better align their service with the rest of their wider proposition. Amazon's obsession with efficiency and simplicity is a good example, but equally, so is Lush's focus on colleague attentiveness and advice to make customers feel pampered and special.

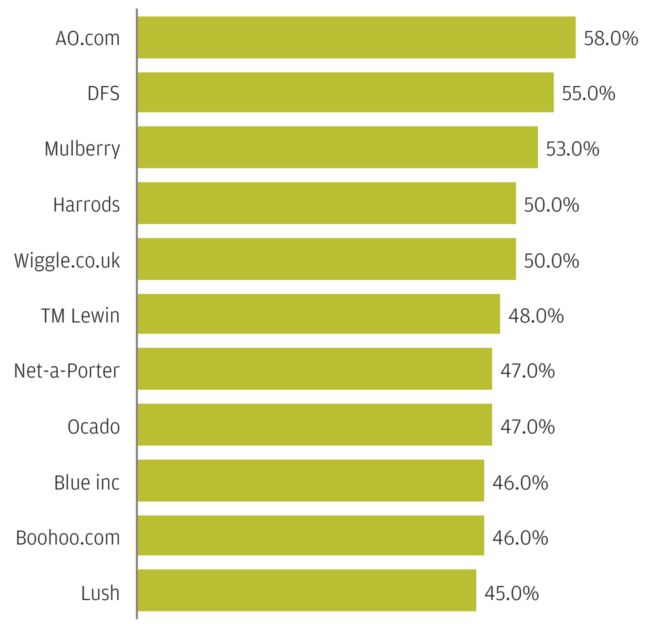
2. Harness technology, but don't see it as a full substitute for the human touch

Technological innovation has improved the shopping experience, and made delivery of efficient service easier. It has also provided the temptation to focus on efficiency savings in labour costs – replacing colleagues with digital kiosks or self-scan and shifting from call centres to online self-help.

Whilst for many customers greater efficiency is welcomed, it needs careful balance. Selected investment in human intervention at key stages of purchase is highly impactful, and as the array of channels and purchase options grows, the need for reassurance, support and guidance is increasing. AO.com is a good example of this, blending the efficiency of a slick digital experience with the targeted human touch in post order courtesy calls, an approach which has led to market leading customer loyalty and 'net service promotion'.

Top 10 UK Service 'Net Loyalty' Scores

% Claiming Customer Service Makes Them Shop More – % Claiming Customer Service Makes Them Shop Less



3. Think about your people as capital not just cost

The increasing availability of information and advice is raising customer service expectations. In 2015, over 50% of consumer purchases were informed by online browsing and research. The retailers offering leading service have responded by increasing investment in their own training and raising service standards.

How retailers invest in their teams will come into even greater focus over the coming 12 months as they plot their response to increasing labour costs. It is critical that they understand where service adds most value to their customer and translate this into an effective strategy for investing in, motivating and training their colleagues. Whilst the financial rewards are perhaps less transparent or immediate, the impacts on colleague retention and engagement are proven. Retailers which scored in the top 25% for service also saw on average 10% annual revenue growth over the last five years.

DOMESTIC SERVICE CHAMPION

CASE STUDY: LUSH

Lush differentiates its service proposition by providing high quality colleague support, and providing a tailored customer experience in-store. The obsession with training leaves each team member with a strong understanding on all products, as well as shop floor training, so that service can be tailored to each customer.

The impact of this is strong scores across all service elements, with customers frequently delighted (rather than just satisfied) with the service they receive. Lush came out top for overall service scores in the UK, and came first for both quality of advice and checkout service.

4. Don't assume that a focus on value is an excuse to compromise on service

Customers have different service expectations from value retail versus premium, but increasingly refuse to sacrifice service for best price. In the UK, higher service levels are currently correlated with more premium propositions, whereas the US market illustrates that this does not necessarily need to be the case.

Businesses such as Publix and Trader Joe's combine a high service perception with value or mainstream propositions. Trader Joe's is a particularly good example of these tactics in action. Employees are trained to be friendly and helpful so that, despite its reputation for affordability, it is ranked #2 globally for customer service.

5. Ensure you are set up for success

Customer service straddles multiple departments within most retailers, making it harder to build a co-ordinated approach, or develop a clear understanding of where trade-offs in investment generate maximum return.

To be serious about service requires retailers to draw the strands together, inserting service metrics at the heart of how performance is monitored and incentivised, effectively balancing short term objectives and longer term strategy.

It must also blend art and science, the best service organisations have a sophistication in analysis and understanding where service investment makes the difference, combined with a passion about their customers, and what they want. This allows them to balance where they can do less, where they can be smarter and where they should be reinvesting.

Solving for customer service is not straightforward, but consumers expect it, and as other elements of the proposition are being competed away it will become an increasingly important determinant of who wins.

CONSUMER PROPOSITION CHAMPIONS 2015

LOW PRICES

Last Year's Winner: 99p stores

Rank	Retailer	Shopper Rating
1	Card Factory	90.9
2	Poundworld	89.2
3	Primark	88.4
4	99p stores	88.4
5	Home Bargains	88.3
6	Poundland	88.0
7	Aldi	88.0
8	B&M Bargains	86.6
9	Farm Foods	86.6
10	Lidl	85.9

VALUE FOR MONEY

Last Year's Winner: Aldi

Rank	Retailer	Shopper Rating
1	Card Factory	86.7
2	Home Bargains	85.3
3	Amazon	85.1
4	Aldi	85.0
5	eBay	83.3
6	Farm Foods	83.3
7	Wilko	82.6
8	Lidl	82.5
9	IKEA	82.5
10	B&M Bargains	82.0

TRUST

Last Year's Winner: John Lewis

Rank	Retailer	Shopper Rating
1	John Lewis	87.4
2	Lush	86.4
3	Lakeland	85.8
4	Moonpig	84.6
5	IKEA	84.4
6	Apple	84.1
7	Waterstones	83.1
8	M&S Simply Food	82.2
9	Clarks	81.7
10	Waitrose	81.6

SERVICE

Last Year's Winner: Lush

Rank	Retailer	Shopper Rating
1	Lush	87.8
2	John Lewis	87.1
3	Amazon	83.3
4	Harrods	83.2
5	Lakeland	83.0
6	Apple	82.8
7	Waitrose	82.8
8	AO.com	82.4
9	Moonpig	82.1
10	Specsavers	82.1

PRODUCT QUALITY

Last Year's Winner: M&S Simply Food

Rank	Retailer	Shopper Rating
1	Lush	89.8
2	John Lewis	89.0
3	Apple	87.9
4	Burberry	87.6
5	M&S Simply Food	87.3
6	Lakeland	85.7
7	Waitrose	85.5
8	Moonpig	84.9
9	Amazon	84.9
10	Clarks	84.4

WIDE CHOICE OF PRODUCTS

Last Year's Winner: Amazon

Rank	Retailer	Shopper Rating
1	Amazon	94.5
2	eBay	92.1
3	IKEA	87.9
4	John Lewis	86.4
5	Argos	85.8
6	Lush	85.8
7	Harrods	85.4
8	Lakeland	84.5
9	Dunelm Mill	84.4
10	Not On The High St	84.0

STORE / WEBSITE LOOK AND FEEL

Last Year's Winner: Lush

Rank	Retailer	Shopper Rating
1	Lush	87.4
2	Apple	86.4
3	John Lewis	85.8
4	Burberry	84.6
5	Amazon	84.4
6	Harrods	84.1
7	Paperchase	83.1
8	Lakeland	82.2
9	Body Shop	81.7
10	Moonpig	81.6

FASHIONABILITY

Last Year's Winner: asos

Rank	Retailer	Shopper Rating
1	Kurt Geiger	85.3
2	Schuh	84.0
3	asos	83.6
4	Boohoo.com	83.3
5	Zara	82.8
6	Karen Millen	82.6
7	Burberry	82.5
8	River Island	80.8
9	Superdry	80.5
10	New Look	79.7

Shopper rating indexed 0-100. Based on shoppers visiting or purchasing from that retailer in the last 3 months

OC&C INTERNATIONAL PROPOSITION INDEX – TOP 25 RETAILERS

Rating of Overall Retail Proposition By Consumers Visiting or Purchasing at Retailer in Last 3 Months

Rank	Retailer	Category	Country	Overall Rating	Change 2013-14
1	Amazon	General Merchandiser	US DE FR UK CH IN NL PL	91.0	1.8
2	DM	Health & Beauty	DE	90.7	2.2
3	Bol.com	Entertainment	NL	88.7	4.0
4	Nespresso	Other	FR	88.7	NA
5	Apple	Electricals	CH UK FR US	87.8	3.2
6	Trader Joes	Grocery	US	87.7	2.7
7	Picard	Grocery	FR	87.6	-0.2
8	Allegro	General Merchandiser	PL	87.6	2.4
9	Yves Rocher	Health & Beauty	FR	86.9	0.2
10	John Lewis	Department Stores	UK	86.7	1.1
11	Lush	Health & Beauty	UK	86.7	2.6
12	Rossmann	Health & Beauty	PL DE	86.6	2.9
13	Publix	Grocery	US	86.4	0.2
14	Costco	Club	US	85.8	-0.1
15	Decathlon	Sports & Outdoors	BR FR	85.5	10.2
16	iTunes	Entertainment	US FR	85.5	1.5
17	Coolblue	Grocery	NL	85.2	NA
18	Wegmans	Grocery	US	85.2	NA
19	IKEA	Furniture	DE UK NL CH PL FR US	84.8	4.0
20	Moonpig	Stationers	UK	84.8	NA
21	L.L.Bean	Clothing & Footwear	US	84.7	2.1
22	Adidas	Clothing & Footwear	CH IN	84.6	-0.8
23	eBay	General Merchandiser	UK US FR DE IN	84.6	2.9
24	Bath and Body Works	Health & Beauty	US	84.5	0.4
25	Thalia	Entertainment	DE	84.4	2.1

INTERNATIONAL CATEGORY CHAMPIONS

CATEGORY	UK CHAMPION	GLOBAL CHAMPION	CATEGORY	UK CHAMPION	GLOBAL CHAMPION
Grocery	M&S SIMPLY FOOD	TRADER JOE'S	General Merchandiser	amazon	amazon
Department Stores	John Lewis	John Lewis	Household & Furniture	IKEA	IKEA
Clothing	YOUR M&S	L.L.Bean	Health & Beauty	LUSH FRESH HANDMADE COSMETICS	dm
Electronics & Electicals			DIY	Wickes Inc.	HORNBACH

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