



GOING FOR GOLD

**BY CREATING CUSTOMERS
WHO CREATE CUSTOMERS**



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About RAI

Retailers Association of India (RAI) is the unified voice of Indian retailers. RAI works with all stakeholders to create the right environment for growing modern retail industry in India. It is a strong advocate for retailing in India. It works with all levels of the government and stakeholders to drive employment opportunities, promote retail investments, drive thought leadership, enhance customer choice and build industry competitiveness. For more information, please visit rai.net.in.

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An aerial photograph of a large crowd of people on a green field, arranged to form a large number '10'. The crowd is dense and colorful, with individuals in various clothing. The background is a solid, vibrant green.

Foreword

Consumption in India has grown at a strong pace and is likely to continue its growth trajectory in the next 10 years. To participate and win in this growth story, companies need to understand and act upon the nature of this consumption.

This report looks at structuring the idiosyncrasies of the Indian consumers to understand the four key questions: *“Who” is the customer? “Where” is the money being spent (place of consumption)? “What” is the customer spending on? and “How” is the spend happening?*

For businesses, the key to winning the consumer is no longer just about low prices, as dimensions of customer experience are also becoming equally important. In order to win, retailers need to understand the factors driving consumption and link it to the key questions of - Who, Where, What and How. These insights can be used to design the customer experience value proposition. Holistically embedding the same in the organization will help set companies apart, going forward.

The RAI-BCG report *Going for Gold: By Creating Customers Who Create Customers* is a useful guide that helps retailers identify the prize, decode success factors and finally, win consumers. It suggests a holistic three-phase approach to customer experience transformation to drive market share through mindshare. Winning in retail requires creating customers who create more customers. The report serves as a roadmap to achieving this end state.



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EXECUTIVE SUMMARY

The consumer market in India is estimated at INR 110 trillion in 2018. Domestic consumption has grown at the rate of 13% in the last decade and is expected to maintain a similar run rate of 12% CAGR to reach INR 335 trillion by 2028. Between 2008 and 2028, the share of private consumption in India's GDP is estimated to increase from 57% to 62%, higher than the emerging market average which is expected to stay constant at 50-51%.

The above growth will be driven by increasing population, higher affluence, continued urbanization, shifting family structures and the emergence of Gen I. Thus, as the retail story unfolds in India, companies would need to adjust their strategies to meet changing patterns of consumption and consumer attitudes. This perpetuates the need to learn from the past and uncover answers to the following four questions in order to understand the nature consumption in India: Who is spending, Where is s/he spending, What is the spend on and How is the spend happening.

With a similar 8% growth in average spend per household across all income segments, the critical differentiator in consumption growth has turned out to be the expanding base of Affluent and Elite households. These households have grown at 10% annually in the last decade to double their share from 6% in 2008 to 12% in 2018. Subsequently, consumption by Affluent and Elite grew at 20% CAGR to be one-third of the total consumption today. During the same period, Aspirer and below households grew by mere 2% with 11% annual growth in consumption.

Interestingly, in the last decade, the growth in consumption was driven by similar demand across all

city tiers with Tier 1 cities leading the board at 16% annual consumption growth. This steady urbanization is indicative of geographically dispersed demand in the future.

Further, demand increased in both products and services, with clothing and footwear, and healthcare among the fastest growing categories. While clothing and footwear grew by 16% CAGR, healthcare registered a 14% growth. Categories such as financial services, social protection and jewelry also registered strong growth between 15-19% annually.

India's online retail market grew at a rapid rate of 78%, albeit on a small base, in the last 10 years. This growth was supported by 9X growth in number of internet users and 26X growth in number of online shoppers between 2008 and 18. In fact, the same consumer is now following different purchase journeys based on buying occasion and need, with online and offline pathways increasingly intersecting.

With the growing complexity in purchase pathways, retailers need to decode what matters most to their core customers in pursuit of the consumption prize. In order to do this, retailers need to build a 360 degree view of the customer journey, identify moments of truth and design the appropriate customer experience proposition.

Customer experience is defined as the cumulative impact of all the interactions that a customer has with the company across all touch points. Different parameters of customer experience such as value for money, customer service, convenience, etc. matter differently across product categories. Improving customer experience across key parameters helps build advocates who drive positive word of mouth.

Positive word of mouth has proven to have a direct impact on growth and market share, across all categories. Therefore, to truly win the prize, a holistic approach is

required to drive the Customer Experience Transformation. This transformation comprises 3 phases – Diagnose, Design and Measure & Improve.

The Diagnose phase focuses on generating customer insights by identifying the most profitable customers, what matters to these customers and what opportunities lie in their customer journey. Here, it is important to benchmark own performance against competitors to understand the reasons for churn.

The Design phase focuses on using insights from the diagnose phase to build the customer experience proposition. Keeping that in mind, moments of truth are identified in the customer pathway. Retailers need to prioritize investments on products & services that address these moments of truth and embed them holistically in the organization.

The Measure and Improve phase focuses on adopting, tracking and improving on key metrics that drive customer experience. As companies evolve from ensuring satisfaction to driving loyalty and, consequently, building advocacy, these metrics and tracking mechanism also evolve. It is a continuous process of learning and adapting, to drive mindshare and consequently market share.

We hope our publication will serve as an inspiration and call to action for all retailers determined to go for gold by creating customers who create customers.



DISCOVERING THE PRIZE



Consumption growing at a steady pace and likely to triple by 2028

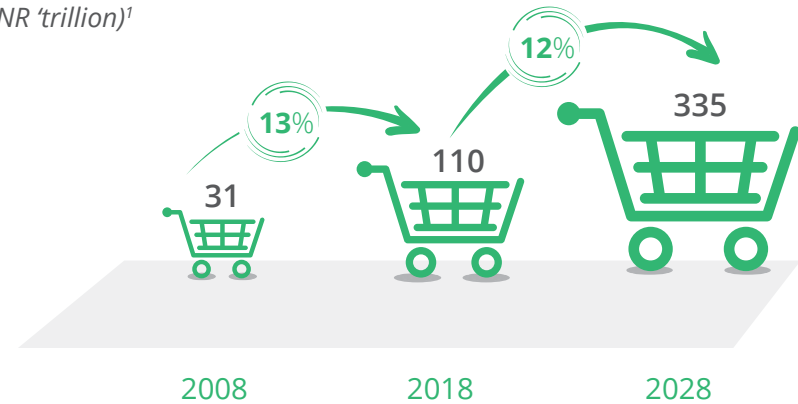
The consumer story in India is a story of robust and resilient growth. The consumer market in India has grown at a tremendous pace, witnessing a 10 year CAGR of 13%. This was primarily driven by strong socio-economic factors such as rising affluence, continuing urbanization, rise in Gen I and shifting family structures(Ref: The New Indian, 2017).

Going forward, assuming conservative GDP growth increase of 7.3% between 2018-23 and 6.2% between 2023-28, consumption is set to rise by a factor of three – increasing from INR 110 trillion in 2018 to INR 335 trillion by 2028 – at a 12% CAGR.

Further, India's consumption as a percentage of GDP is expected to steadily increase from 56.8% in 2008 to be 62% in 2028. This is relatively higher in comparison to the emerging markets' average which is expected to stay flat at 50% to 51%. Considering the above, it is critical to understand the underlying change in the fundamental constituents of consumption.

Steady double digit growth in consumption

Total consumption (INR 'trillion)¹



	2008	2018	2028
₹ India GDP (INR 'trillion) ²	54.6	184.6	540.9
India Consumption as % of GDP	56.8%	59.3%	62.0%
Emerging Market Average Consumption as % of GDP ³	51.4%	50.1%	50.6%

Note: 1. Total Household consumption is at nominal price; 2. GDP of India is at nominal value; 3. Emerging Markets definition based on Oxford Economics
Source: Euromonitor, World Bank, IMF, Oxford Economics, BCG analysis

Critical to reflect on the past before delving into the future

4 key questions to understand the nature of consumption



Expanding base of Affluent+ HHs driving 33% of consumption in 2018

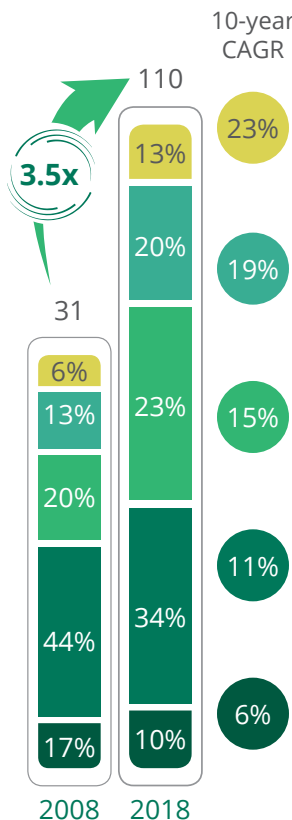
With rising affluence in India, households are climbing up the income ladder to drive nearly 3.5x growth in consumption. This growth, fundamentally, is driven by two main factors: average spend per household and the total number of households. In the last 10 years, the average spend per household increased similarly across income brackets at around 8% CAGR. However, during the same time, the number of Affluent+ households increased by 10% annually while the Aspirers and below registered a mere 2% increase. This steady expansion in the number of Affluent+ households has emerged as a critical driver of consumption growth in the last decade.

Within the Affluent+ households, growth in Elite outpaced the growth in Affluent, thereby, driving higher consumption. The number of Elite households witnessed a 10-year CAGR of 13%, resulting in an increase from 2.6Mn households in 2008 to 9Mn in 2018. During the same period, the number of Affluent households grew by 9% annually, resulting in an increase from 10.7Mn households in 2008 to 24Mn in 2018.

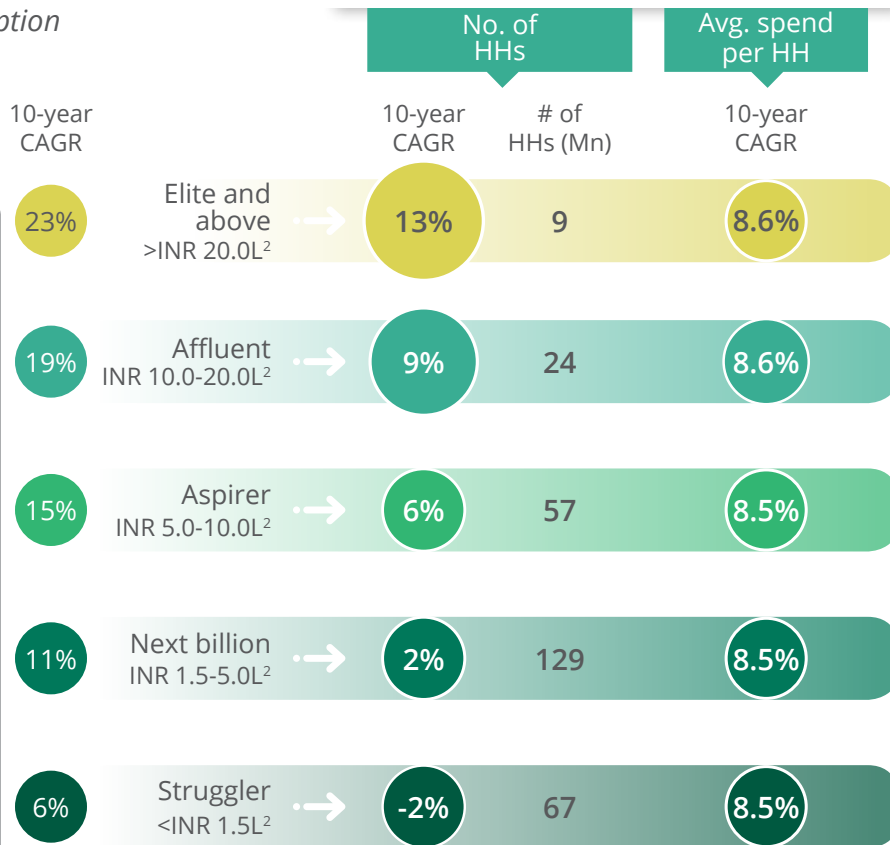
10% annual increase in the number of Affluent+ households is driving consumption



Total consumption (INR 'trillion)¹



Elements of consumption

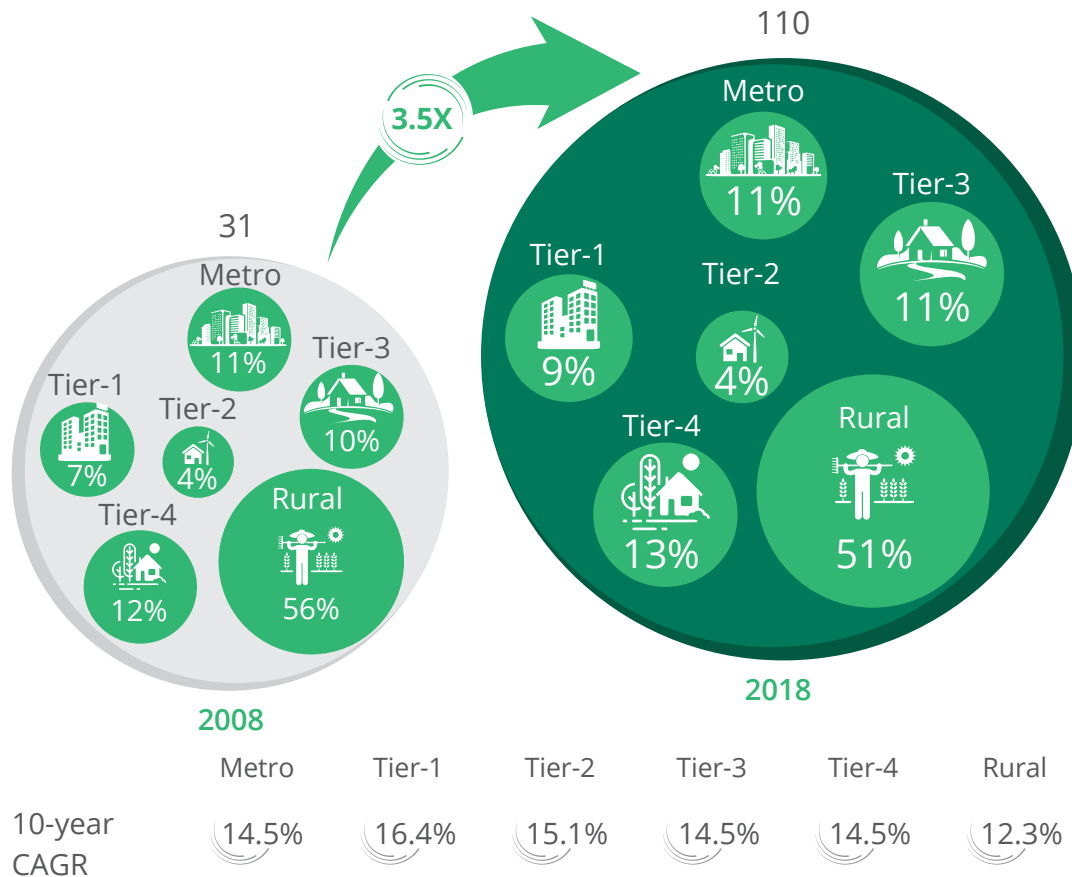


Households abbreviated as HHs

Note: 1. Household consumption is at nominal price; 2. Annual gross HH income (INR Lakh per annum); Source: BCG CCI consumption survey & BCG analysis

Steady urbanization across all city tiers

Total consumption (INR 'trillion)¹



Similar demand across all city tiers, with Tier 1 growing at a slightly higher rate

The consumption growth in India is truly unique. Despite growth being primarily led by the middle and higher income segment, it is not restricted to large cities and metros, as one would expect. In fact, in the last decade, demand across city-tiers has grown similarly between 14-15% CAGR with demand in Tier 1 cities growing at a slightly higher rate of 16%.

With steady urbanization and dispersed demand, companies need to understand and build differentiated product offerings and value propositions for different consumers across all city-tiers. For example, consumers in smaller cities are more oriented towards value for money. Even though consumers in these cities have high purchase aspirations, they are often constrained by product availability, unlike their more urban counterparts (Ref : Based on BCG Report - The New Indian, 2017).

Note: 1. Household consumption is at nominal price
Source: CCI Income database, CCI Consumption survey & BCG analysis

Increasing demand for products & services with growth in services slightly higher

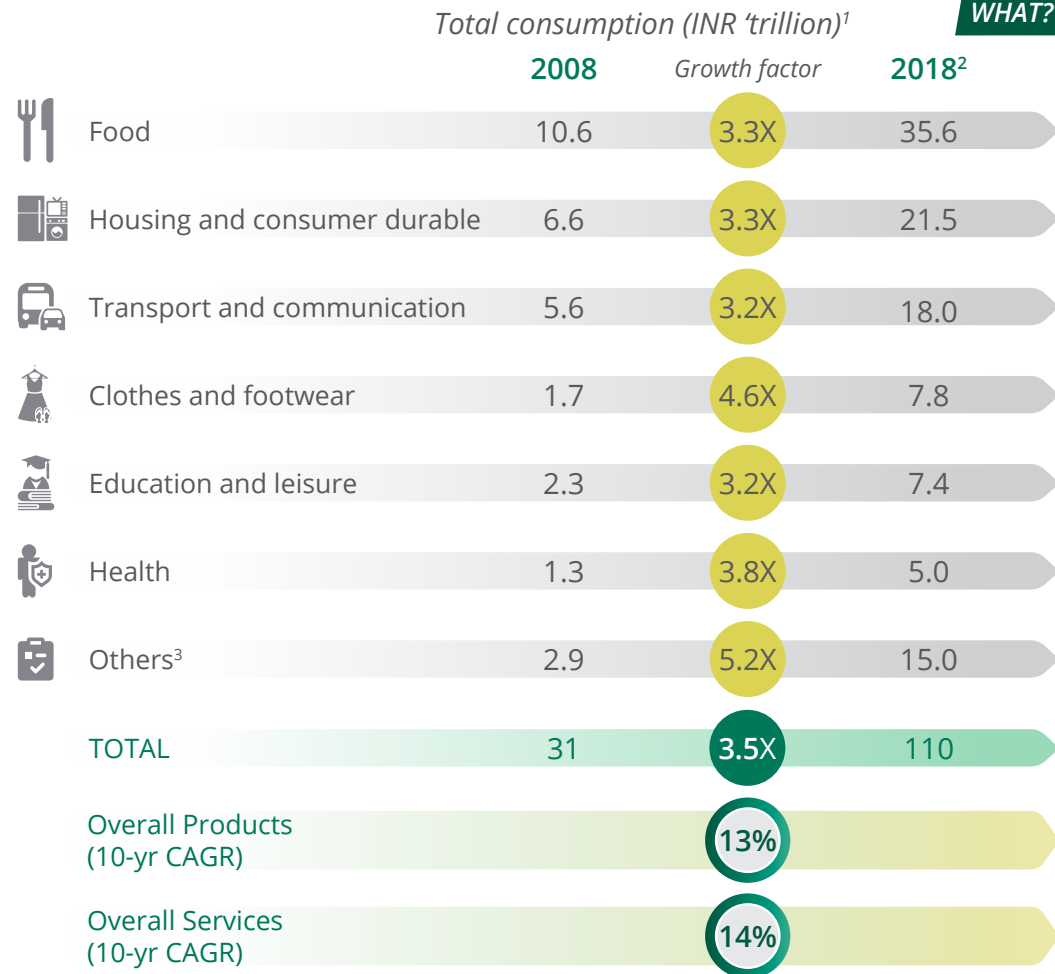
In the last decade, increase in consumption was driven by growth in both product and service offerings. While products and services registered largely similar growth, services grew at a marginally higher rate than products.

During 2008-18, clothing and footwear, and health were among the fastest growing categories. Clothing and footwear grew by 4.6x supported by 17% CAGR in clothing and 14% CAGR in footwear. Healthcare grew by 14%, driven by strong demand in both healthcare goods and healthcare services.

Within the 'others' category, strong growth was registered across financial services, social protection, jewellery. Particularly, expenditure in jewellery and social protection grew at a rapid 19% CAGR in the last decade.

Growth in top categories such as food, housing and consumer durables slowed down between 2008 -18. However, they still comprise greater than 50% of the total consumption.

Clothing and footwear, and health growing at ~4-5X

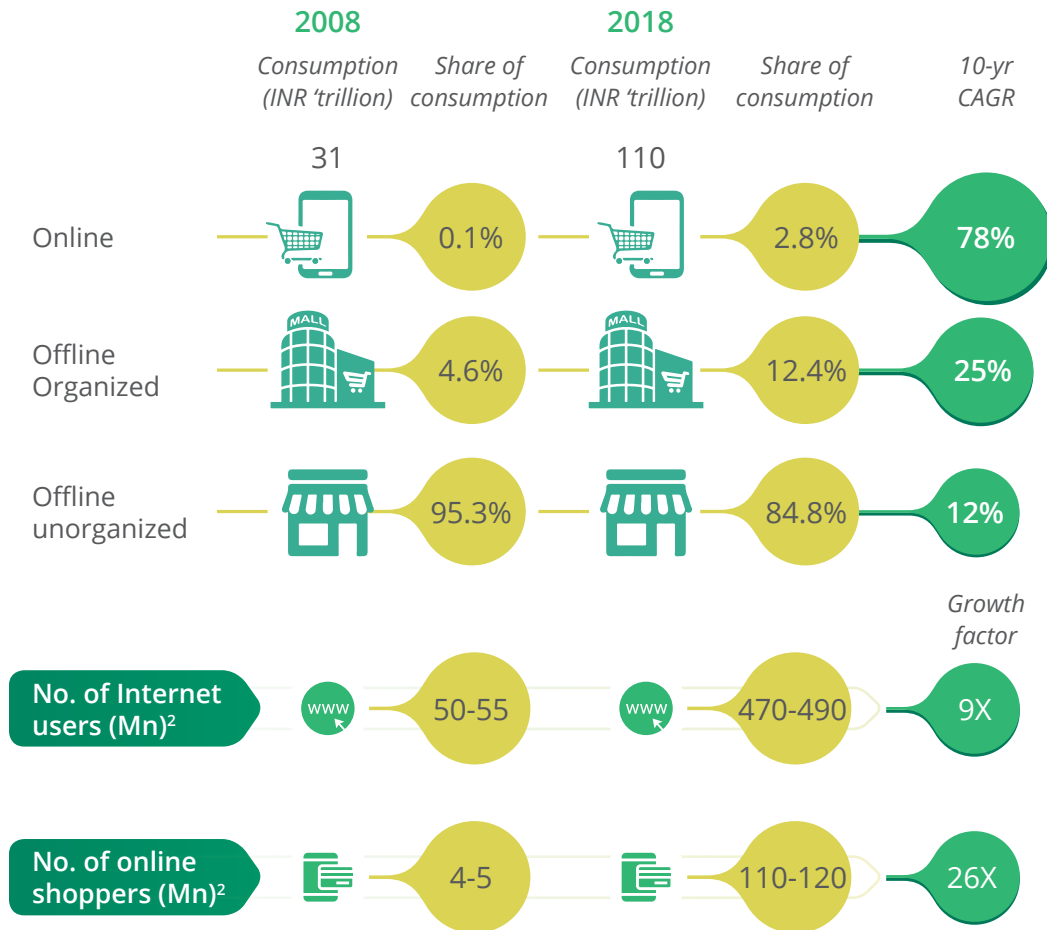


Note: 1. Household consumption is at nominal price; 2. 2018 data estimates are at nominal prices
3. Others comprise sub-categories such as financial services (4.7x); jewellery (5.6x); personal effects (4.0x), social protection (5.9x); other goods and services (6.7x)
Source: Euromonitor & BCG analysis

Increase in online & organized retail share of consumption from 5% to 15%



Total consumption (INR 'trillion)¹



Note: 1. Household consumption is at nominal price; 2. Forrester research, BCG analysis
Source: CCI Income database, CCI Consumption survey & BCG analysis

Rise in organized and online retail reshaping consumer shopping experience

Share of organized and online retail has expanded rapidly in the last decade. Share of offline-organized retail increased at 25% per annum from 5% in 2008 to 12% in 2018. Share of online retail expanded to 3% of total retail spending, growing at 78% per annum. This growth was supported by an over 9x increase in the number of internet users in India. Moreover, reducing cost of smartphones, cheaper data packages and mobile-friendly content led to an increase in the number of online shoppers from 4-5 Mn in 2008 to 110-120 Mn in 2018. Greater merchant acceptance of digital payments will continue to boost the development of digital commerce.

The online and offline pathways are often seen to be intersecting. With a rise in digital, shopping is becoming more personalized and the gap between online and in-store experience is narrowing, leading to fundamental changes in consumer shopping experience. Retailers need to focus on creating an omni-channel experience to help customers navigate various touch points across different channels.



CEO SPEAK

*How has the
consumption trend
changed in India?*



Customers in different parts of the country want different things. For example, a customer in a metro does not want as much sales assistance while shopping versus a customer in a tier 1 city like Indore, who would want a sales person to attend to them. Expectation of service is different across geographies, and it is this expectation that needs to be met to capture the growing consumption in tier 1 cities, the fastest growing geography in India.

Vineet Gautam, CEO, Bestseller

There is a shift from unbranded to the organized sector. The increase in income level of the people has been a key driver along with the improvement in the quality of retail.

J Suresh, CEO, Arvind



People are more aware today, as compared to 5 years ago, a lot is driven by higher access to information. Customers are aware of the current global trends which influences what they want to buy. In womens wear, we have seen a shift from Indian attire to more people adopting western wear, which is largely influenced by wider exposure combined with comfort and ease of wearing these garments which has moulded their opinion and drives purchase for todays customer.

Janne Einola, CEO, H&M

What was a want 10 years ago has become a need now. This change has been driven by three things – Changes in demographics and increase in working age population, increasing per capita income and globalisation leading to availability of choices.

Krish Iyer, CEO, Walmart



The influence of digital on today's customers has increased significantly. Today, 80-90% of customers research online prior to visiting the store. They already have 4-5 models in mind before entering the shop. This is a stark contrast to 4-5 years ago, when the customers used to visit the store without prior research. From a retailer's perspective, capturing their consumption spend requires not just a dialogue to bring them to the store, but also the right dialogue at the store.

Avijit Mitra, CEO, Croma



DECODING THE PRIZE



The customer is the fundamental unit of the prize

As we think of capturing the prize, we first need to decode what matters most to the customer i.e. the fundamental unit of the prize. The aggregation of these individual prizes leads us to the final prize.

Every purchase journey is a synthesis of four questions - who, what, where, and how is the consumer buying. As retailers think about the fundamental unit of the prize, it is interesting to understand how the buying behavior for each product category varies by channel. For example, grocery is predominantly bought offline, whereas travel services are primarily booked online. There are other categories, such as consumer durables, mobiles and apparels, that lie between this online-to-offline spectrum, with varying dominance of either online or offline channels.

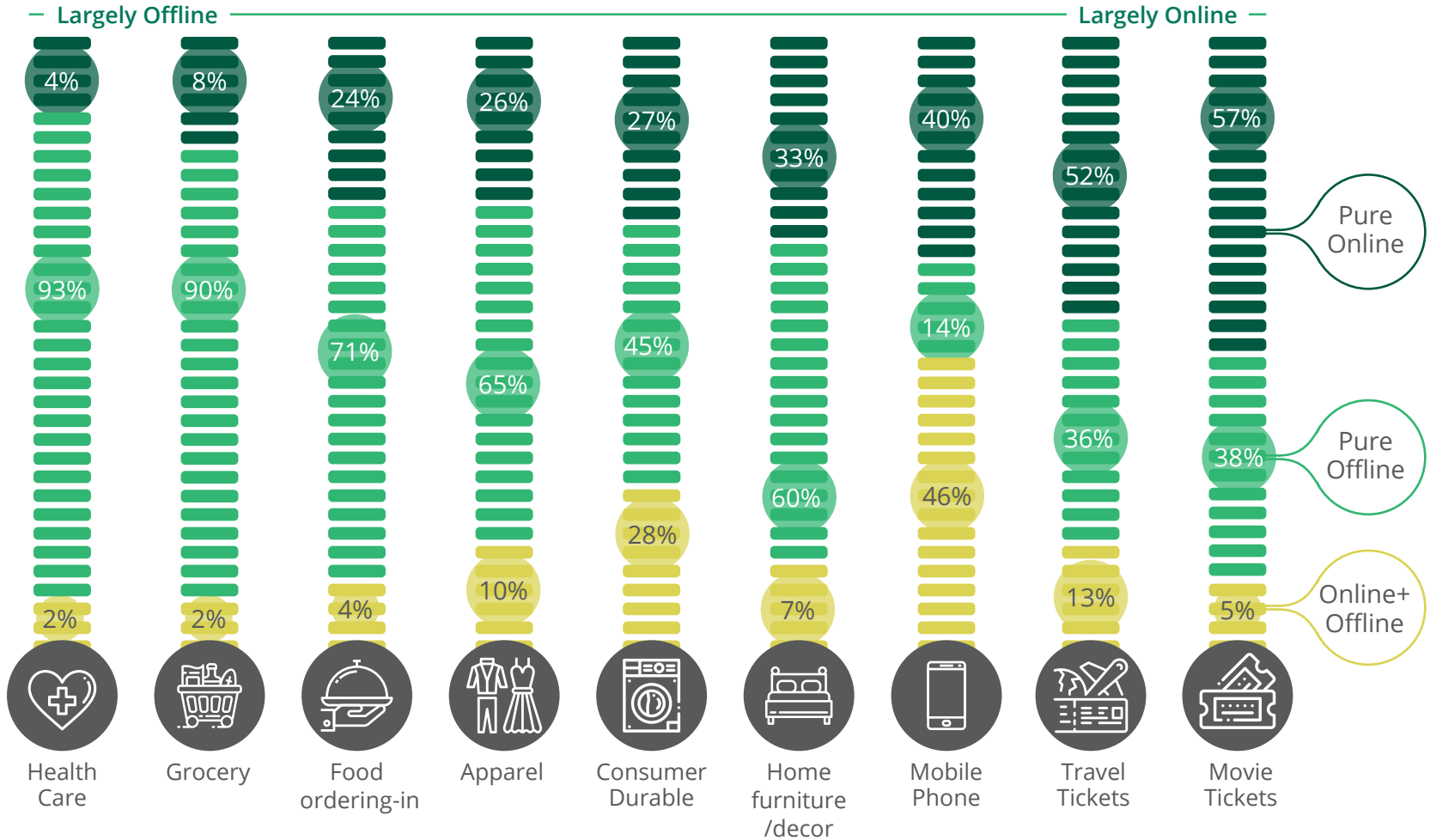
Given the spectrum of buying preference across the various product categories, we need a holistic 360 degree view of the customer journey in these categories to decode what matters most to the customer - The fundamental unit of this prize.

The consumption prize is the sum total of its individual prizes (i.e. the customer)



Spectrum of buying behavior across categories by channel

of transactions (%)



Source: BCG CCI Digital deep dive study, (N=501), BCG analysis

360° view needed to decode buying behavior and identify customer needs

As customers have increasingly started buying across multiple channels, the number of touch points for interactions with the customers have also increased. Therefore, it is important to identify the elements that are more important to the customer and contribute to a positive customer experience.

Customer experience is the cumulative impact of all the interactions that a customer has with the company across the numerous touch points. Looking at the individual customer journeys will enable us to build a 360 degree view of the customer's pre, during, and post-purchase behavior. This will help us identify opportunities to improve the customer experience.

We analyze the customer journey across the following 5 categories – travel, mobile, consumer durables, apparel and grocery.



Source: BCG customer interviews.

Sample Journeys



Rahul Kumar
46 Years
Gurugram
Married with kids

Opportunities

- Add on service to build personalized curated itinerary
- Dedicated support during travel (on-trip) for last minute issues
- Easy and dedicated grievance addressal
- ...



Ajit Singh
25 Years
Indore
Single

- Customized recommendations based on functional needs
- Attractive phone exchange offers
- Flexibility in payment options to improve affordability
- ...



Sahil Jain and Kritika Jain
40, 38 Years
Mumbai
Married with kids

- Review from trusted sources to overcome hesitation in online shopping
- Streamlined after sales support service for online buying
- Provide detailed technical description of all products
- ...



Ayushi Pal
20 Years
Pune
Single

- Faster check-out process with well defined return policy
- Educated personnel to provide relevant recommendations
- App / website features to help easily find product from a photo / description
- ...



Amanjot Kaur
35 Years
Patiala
Married with kids

- Real-time information on availability and discount deals
- Easy & intuitive in-shop signages
- Customer education on benefits / use of product
- ...

DISCOVERY

RESEARCH

JOURNEY



Reads travel blogs regularly - has marked places on his wish list where he wants to go



Talks to his friends and family



Goes through his wish list to check if there are any promotional offers for any location - doesn't find any



His brother's family also decides to join the trip



Decides that Shillong would be a good destination



Uses 2-3 apps/ websites to research on flight and hotel options



Has difficulty deciphering the hotel quality from the photos



Uses one app to book the flights



Pays different prices for his and his brother's tickets despite buying on same day

OPPORTUNITY

- Easy to access information on travel options based on customer interests

- Add-on service to build personalized curated itinerary
- Predictive offers for purchase of complementary items (add-on purchase) prior to joining the payment queue
- Better quality photos and description of hotels
- Easy to access customer reviews

PURCHASE



Sees that the final price is higher than the initial quoted price while booking hotel on app



Prefers to directly call the hotel to make the booking



Has to make the prepayment of entire amount - completes transaction reluctantly

POST-PURCHASE



Before traveling, realizes that there is an error with flight booking



Faces a big hassle dividing expenses between the 2 families after the trip



Has to wait on call for 20 mins before being answered by customer care - is charged an exorbitant amount for the change

- Clarity of information on products/ service being purchased
- Option to pay at site

- Dedicated support during travel (on-trip) for last minute issues
- Easy and dedicated grievance addressal
- Trip expense management application



Name: **Rahul Kumar**

Age: 46

City: Gurugram

Life stage: Married with kids

Income segment: Elite

A travel buff, he likes to watch travel channels and read blogs. In a year, he takes 1 international and 3-4 domestic trips with his family.

Uses online portals exclusively for research and purchase of all travel related bookings. Prefers to only use 1-2 apps/ portals



Name: **Ajit Singh**

Age: 25

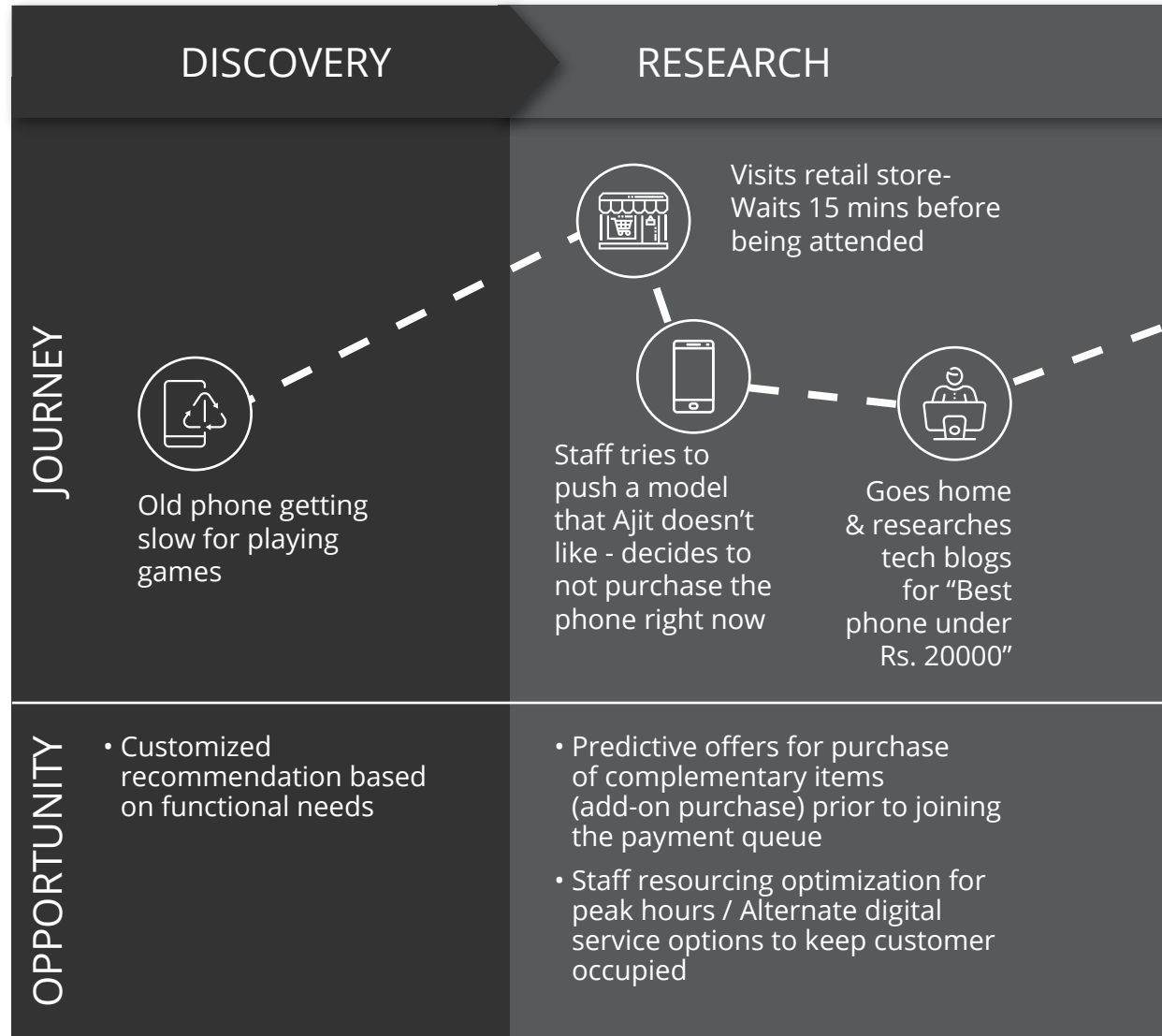
City: Indore

Life stage: Single

Income segment: Affluent

Interested in technology, Ajit likes to stay up to date on the latest technology. He regularly reads tech blogs and watches Youtube reviews.

He purchases 1 phone every year. He has been using online portals to purchase phones.



PURCHASE

POST-PURCHASE



Finds a new brand launching a phone as part of a flash sale



Wants to experience touch and feel but phone not available in store



Decides to purchase the phone in the flash sale

Credit card doesn't get accepted - feels pressurized that he won't get the phone



Borrows his friend's credit card to make a successful payment



The phone is delivered in 3 days in good condition



Expected faster delivery



Has to purchase screen guard and phone cover separately

- Availability of phones in offline stores
- Alternate digital interfaces to simulate phone usage & experience
- De-linking of staff incentive to purchase of particular item

- Attractive phone exchange offers
- Flexibility in payment options to improve affordability

- Support with add-on items - e.g. help with applying the screen guard
- Improved packaging and faster delivery time

DISCOVERY

RESEARCH

JOURNEY



Needed to upgrade washing machine (10 years old) and AC (stopped working)



Kritika wants a front loading washing machine because her friends recommended that



Sahil wants an AC with better cooling and durability



Kritika researches on a mobile app based on appeal and price



Not happy with product descriptions given on the mobile app, Sahil visits the individual brand page website



Too many options and confusing to decide on model



Goes to a physical store on the way back from work - gets guidance from sales person



Shortlists AC and Fridge

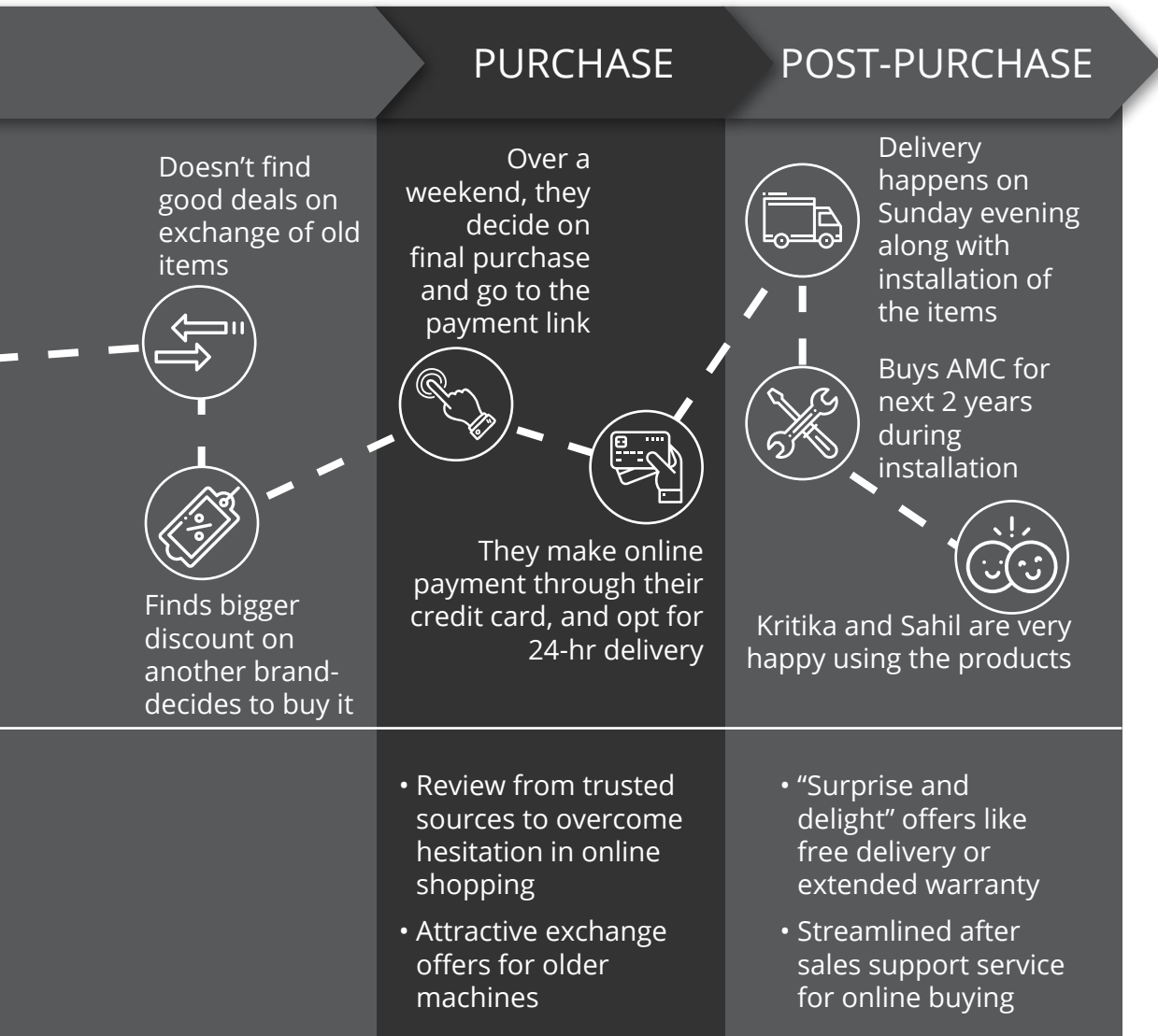


Looking for attractive cash discounts, they decide to wait for a few more days

OPPORTUNITY

- Predictive offerings based on interests and demographics
- Customer reviews from trusted sources

- Provide detailed technical description of all products
- Offer visually appealing, fast, intuitive interface across all platforms
- Offer exclusive offers/deals to loyal customers
- Provide assisted shopping experience around products (variety, design etc.)
- Enhanced customer support to ease the buying process (online or offline)



Name: **Sahil Jain and Kritika Jain**

Age: 40, 38

City: Mumbai

Life stage: Married with a kid

Income segment: Elite

Shops for consumer durables as necessary – typically once or twice in a year. Sahil and Kritika are particular about brand; Kritika more so than Sahil. Sahil also likes to read and compare product specifications before purchase.

They both prefer to purchase online due to convenience and great deals/discounts.



Name: **Ayushi Pal**

Age: 20

City: Pune

Life stage: Single

Income segment: Affluent

Frequent shopper of clothes and footwear, Ayushi loves to follow blogs/social media posts by trendsetters and stylists. Ayushi shops at branded outlets at least once a month. Zara, H&M and Only are her favorite brands.

Prefers to purchase offline to gauge "look and feel" of the product before purchase.

DISCOVERY

RESEARCH

JOURNEY



Ayushi sees a social media celebrity wearing a jacket



Tries to search for the jacket on e-marketplace web-sites



Is unable to decide the size that will fit her well



Finds a similar jacket at 20% discount



Prefers to go to an offline store in-hope of finding similar jacket

OPPORTUNITY

- Customized recommendation based on: Interests, price sensitivity

- Share customer reviews from trusted social influencers and trend setters
- Personalized fit and size recommendations
- App / website features to help easily find product from a photo / description

PURCHASE

POST-PURCHASE



Looked around for a sales representative to help with pairing of jacket with other clothes items



After waiting for 15 minutes, the sales representative attends to her with a scarf to go with the jacket



Goes to the billing counter and makes the payment using her credit card



Specifies that she has a membership card to avail higher discounts



Security system notifies that the tag from the clothes has not been removed



Security guard checks her receipt, removes the tag and lets her go



Her friends don't like the jacket so she wants to return the item



She is unable to return the jacket as shop doesn't accept return of clothes bought under discount

- Educated personnel to provide relevant recommendations around products (variety design etc.)

- Reveal deals/discounts relevant for the customer
- Faster check-out process with a well defined return policy

- Social media platform integration to enable ability to update and publish across platforms
- Flexibility on return of bought items
- Hassle free interaction with security staff at entry / exit

DISCOVERY

RESEARCH

PURCHASE

JOURNEY



Needs grocery for the house



Goes to the local market



Goes to the regular shop and finds no discount on the products



Finds another shop that has all the discounts written outside the shop

Is unable to choose between two products as benefits/use are not well explained



Products in shop are haphazardly arranged - takes time to find some items



Asks the sales person to help transfer the items to the payment counter



Has to wait in a long queue

OPPORTUNITY

- Predictive offers based on prior purchase data
- Offerings in store to be customized to catchment needs to help customer avoid trips to different local stores

- Real-time information on availability and discount deals
- Easy & intuitive in-shop signages
- Easy carts for carrying items
- Readily available sales persons in every zone
- Customer education on benefits / use of product

POST-PURCHASE

Realizes that some more items are needed



Finalizes all items and makes the necessary payment



Makes one last check and realizes that one item is missing in basket



Raises the issue with the shopkeeper who swiftly checks and rectifies the mistake

Has to leave the queue and re-join at the back



Store only accepts cash



- Predictive offer of items prior to joining payment queue
- Faster check-out process
- Alternative payment method
- Self check-out kiosks

- Automated bill generation to ensue matching of basket items to bill
- Easy return and resolving of issue



Name: **Amanjot Kaur**

Age: 35

City: Patiala

Life stage: Married with kids

Income segment: Aspirer

Frequent shopper of groceries, visiting the shops 2 times a week.

Shops for grocery offline at the local Kirana shops. Uses a preferred shop for staples but likes to try different shops for other items.

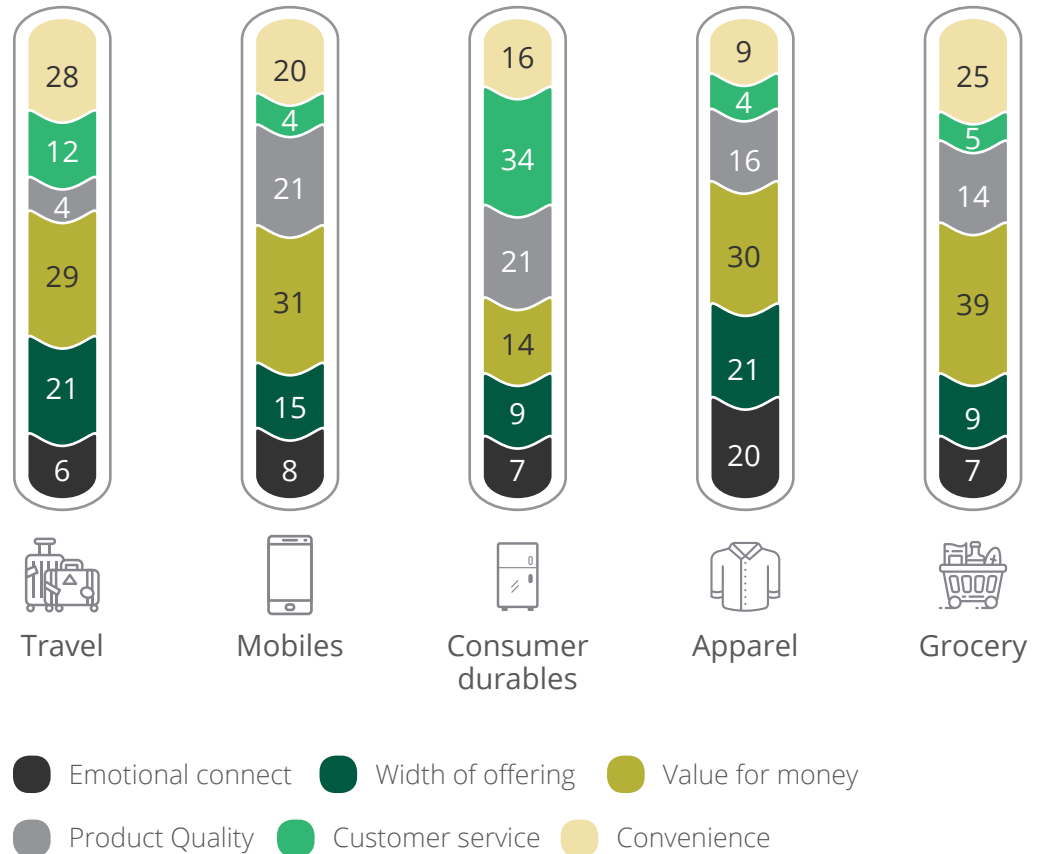
Focus on the parameters that matter most to the customer

The different customer journeys highlight that, what matters most to the customer experience varies widely by category and context.

As we try to aggregate this effect over a larger sample set, the results are still fairly consistent (Refer: exhibit). We see that value for money is the most important parameter across all categories except consumer durables, where customer service plays the most important role. Convenience is an equally important parameter when purchasing travel tickets. The breadth of offering and an emotional connect are important for purchase of apparel while convenience and product quality are important for purchase of mobiles.

By addressing these dimensions of customer experience, retailers can build strong advocacy and increase mindshare.

What matters most to the customer varies by category



Source: BCG CCI Digital deep dive study, (N=501), BCG analysis.

CEO SPEAK

What is Customer Experience? Why is it important today?



If I am a customer, I need to feel elated during the whole process, from the start to the end of my interaction with the retailer. If I felt happy at the end of it, then I am likely to talk about it – that is good customer experience. Today, a lot of the policies get defined based on 1% of the customers but end up affecting the balance 99%. This can have an adverse impact on customer experience of the balance 99% and hence should be re-looked.

Rahul Vira, CEO, Skechers

Products are available in multiple channels today. The complexity introduced by the multiple channels, makes it even more important for the retailers to understand what is the value proposition of each and every channel. For example, for offline the experience at the store is key, while for online convenience is key.



Avijit Mitra, CEO, Croma



For a good customer experience, the customer value proposition must be tied to what the customer needs. For example, in the retail context, for a certain target customer group, it may mean great quality, value for money and hassle-free shopping. In the B2B context, for the business member/ customer, it may mean acceptable quality, lowest price, on-time delivery and lower working capital. By focusing on these, you can build advocates, which is the ultimate aim for all retailers.

Krish Iyer, CEO, Walmart

Earlier, people use to buy brands basis the celebrity associated with it, not anymore. Today they are looking at social influencer reviews and customer reviews. This influence of reviewers started with travel and tourism and is now moving across categories. This is the biggest example of how customer experience is building advocacy, which is driving purchase today.



Janne Einola, CEO, H&M



WINNING THE PRIZE





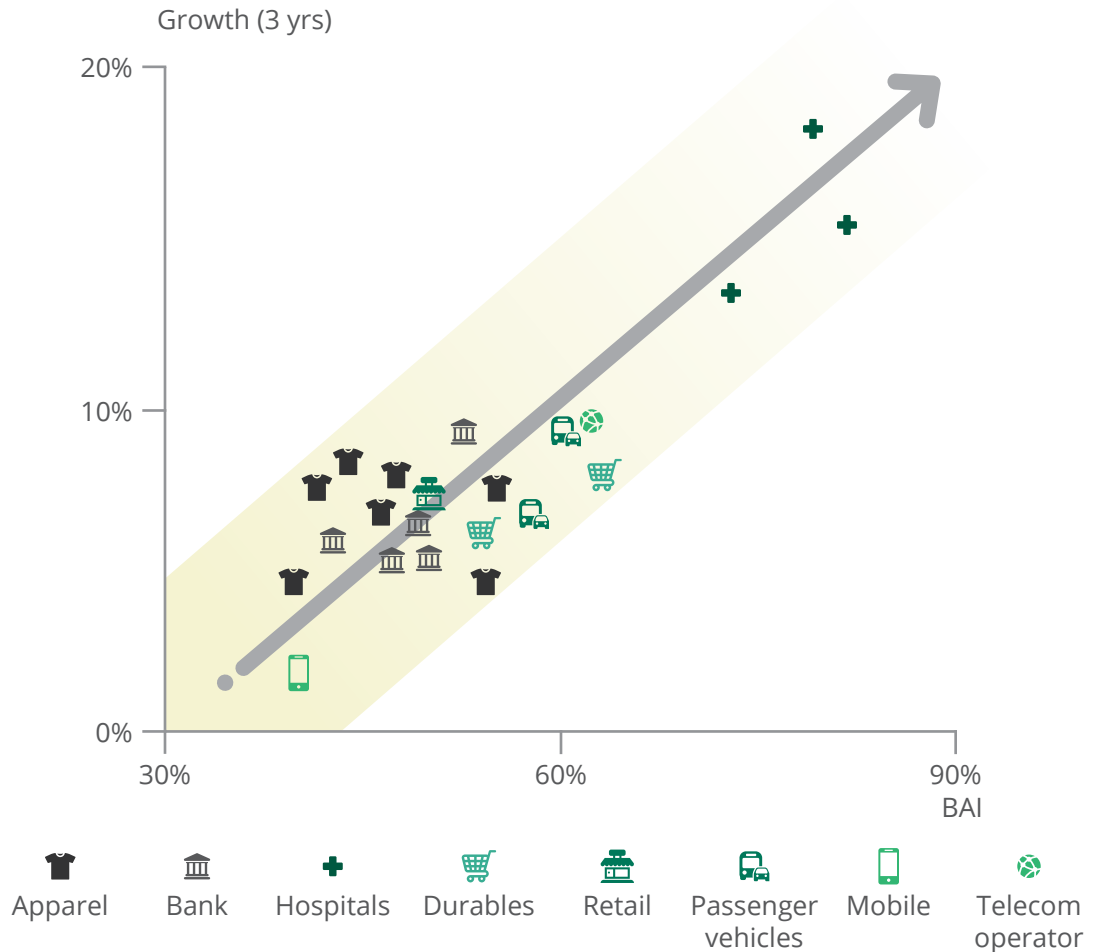
Winning customer experience drives market share through increased mindshare

Customer experience has a direct impact on the company's performance. If a customer has a positive experience, the company's mindshare with the customer increases. The customer becomes an advocate for the company by sharing positive word-of-mouth. On the other hand, if a customer has a negative experience, the customer can propagate negative word-of-mouth and discourage potential new customers.

One of the most accurate measures of the impact of word-of-mouth is the Brand Advocacy Index (BAI). It considers the impact of positive, neutral, as well as negative word-of-mouth. (Ref: What Really Shapes the Customer Experience, BCG).

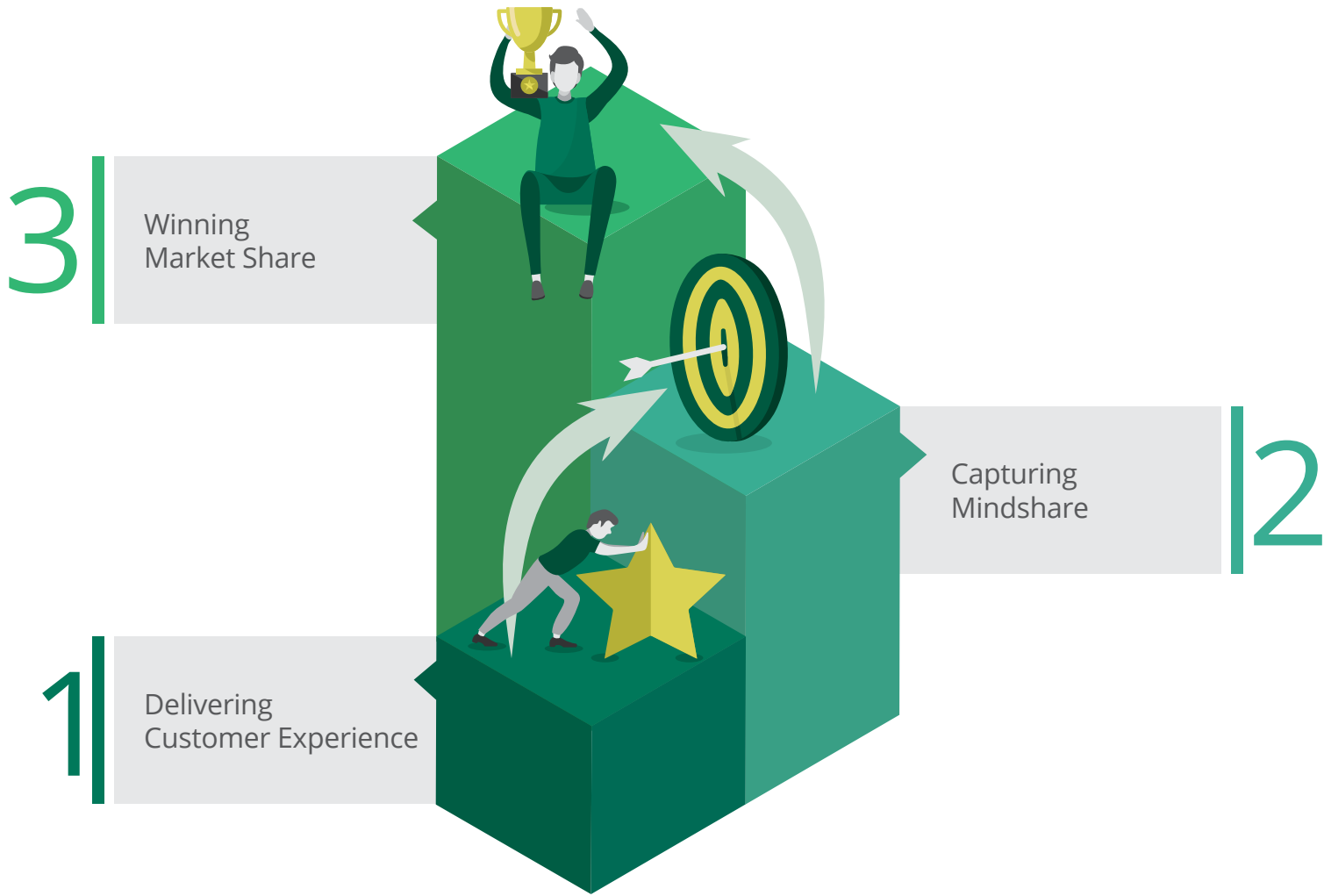
From the exhibit on the right hand side, we can see that the BAI is strongly correlated with growth, showing that improving customer experience leads to increased mindshare which drives higher market share. (Ref: Brands Need Friends: Advocacy Fuels Growth in India, BCG).

Strong correlation between advocacy and growth



Source: BCG CCI BAI deep dive study, BCG analysis

A good customer experience drives mindshare and market share



3-phase holistic approach required by companies to drive customer experience transformation



DIAGNOSE	1. Customer insights & performance benchmark		
DESIGN	2a. Customer experience proposition		
	2b. Pathway design	2c. Execution platforms	
	3. Measure & improve		
MEASURE	3. Measure & improve		

1. Customer insights & performance benchmark

- Customer segmentation
- Customer journey analysis
- Channel behavior
- Customer preferences
- Competitor benchmarking

2a. Customer experience proposition

- Customer value
- Employee promise
- Business case

2b. Pathway design

- Products & service
- Investment Optimization

2c. Execution platforms

- Organization
- Culture
- KPIs & incentives
- Systems & processes

3. Measure & improve

- Advocacy
- Loyalty
- Satisfaction

Analytical capabilities & tools used across the 3-phases



3-phase approach to Customer Experience Transformation

Customer preferences are continually evolving. To remain relevant retailers need to think holistically about the customer experience transformation journey. The 3 phase journey entails 1) Diagnosing what really matters to the core customers, 2) Optimally redesigning the proposition, pathway & execution platforms based on the diagnosis, 3) Constantly striving to measure and improve.

The Diagnose phase entails understanding the underlying needs that drive customer satisfaction and preferences, and evaluating how the company performs on identified needs versus competition.

Design is the second phase. In this, the focus is to design the customer experience proposition, customer pathways, products & services to meet the needs of the customer and allocate investments accordingly.

Measure and Improve is the review phase which entails measuring one's performance against defined metrics and identifying areas of improvement to further drive advocacy, loyalty and satisfaction.

Each phase described above needs to be complemented with strong analytics, to build insights and create business value.

1.

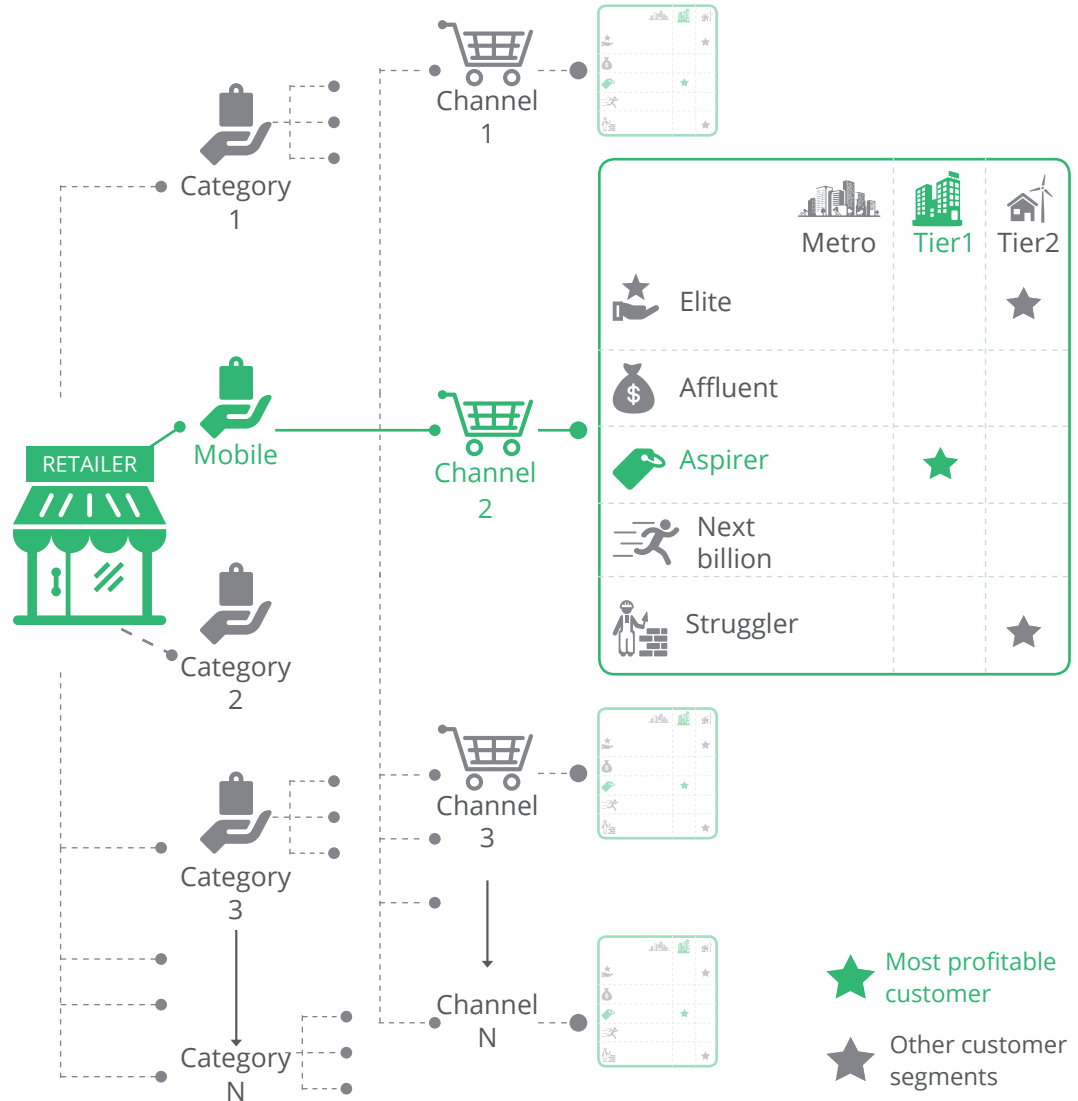
Identifying what matters most via customer insight and benchmark

The first step is to understand the customers. For each and every product that the company sells, across the different channels, the company needs to identify their most profitable customer based on the return on investment over the customer's lifetime. Next, we need to understand the journey of these customers to identify the opportunities that exist to delight them, with some opportunities being more important to the customer.

Lastly, we need to benchmark the company's performance against the competitors in those metrics that are important to the customer. This will help us identify our relative performance in the factors that are important to the customers, and focus on areas that reduce churn and increase advocacy.

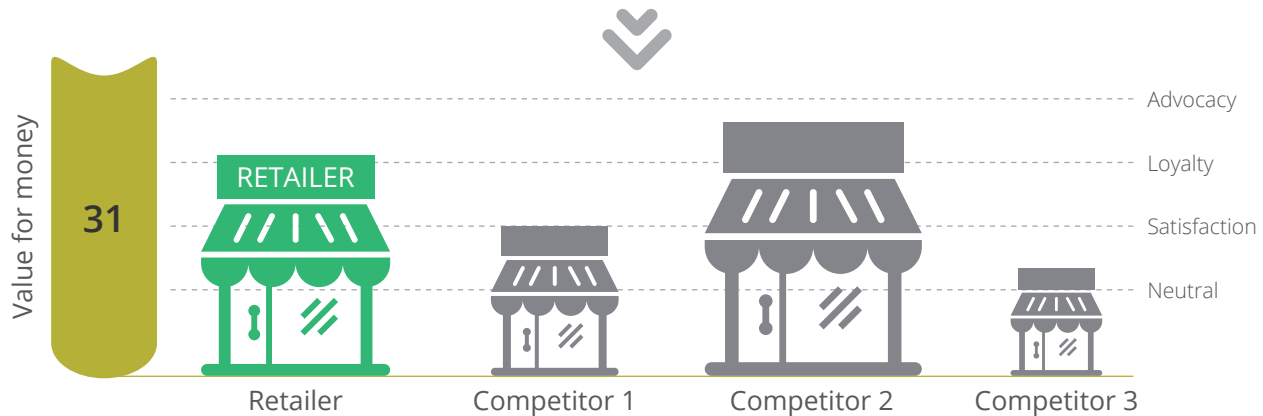
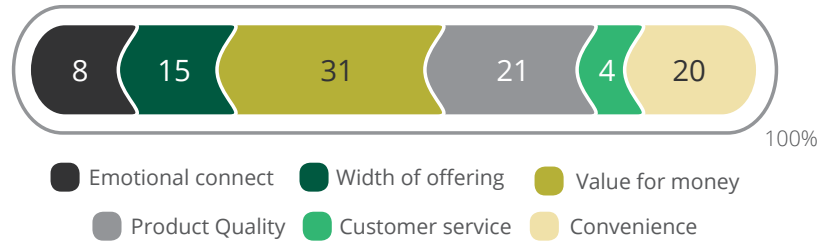
Illustrative

Identifying the most profitable customer segment





★ Identifying what matters to the customers and benchmarking performance



2a.

Design customer experience proposition for potential opportunities

After identifying the opportunities, it is important to design and deliver experiences that address them while making the company stand out from its competition. The foremost step in this regard is to define the Customer Experience Proposition, which constitutes three key levers:

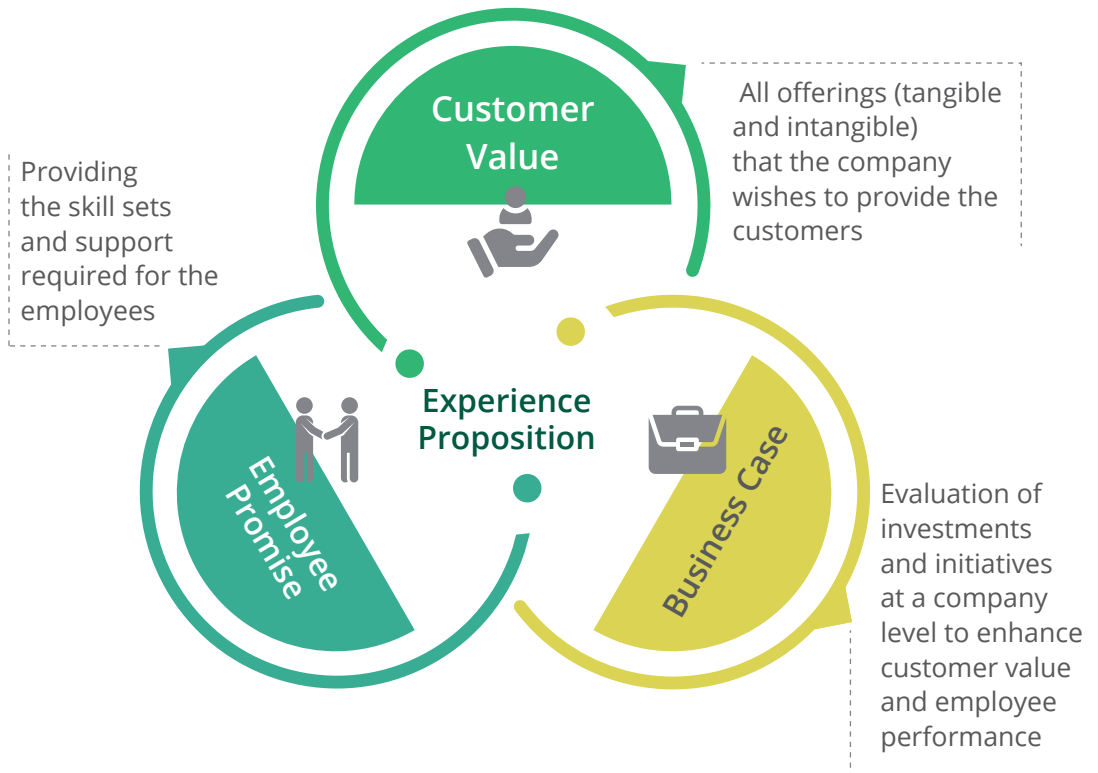
Customer value refers to the tangibles (products, services and offerings) as well as the intangibles (the experiences the customers will have from the company offerings), that the company wants to provide the customers.

Employee promise relates to providing the skill sets and support required for the employees to meet the customer experience proposition.

Business case is about evaluating investments and initiatives required at a strategic-level to bring the desired change.

All the three levers need to be aligned such that the core offerings are in line with the insights generated during the Diagnose phase.

Customers, employees and business need to be aligned with the experience proposition





Good example of how to align the customers, employees and business with the experience proposition



2b.

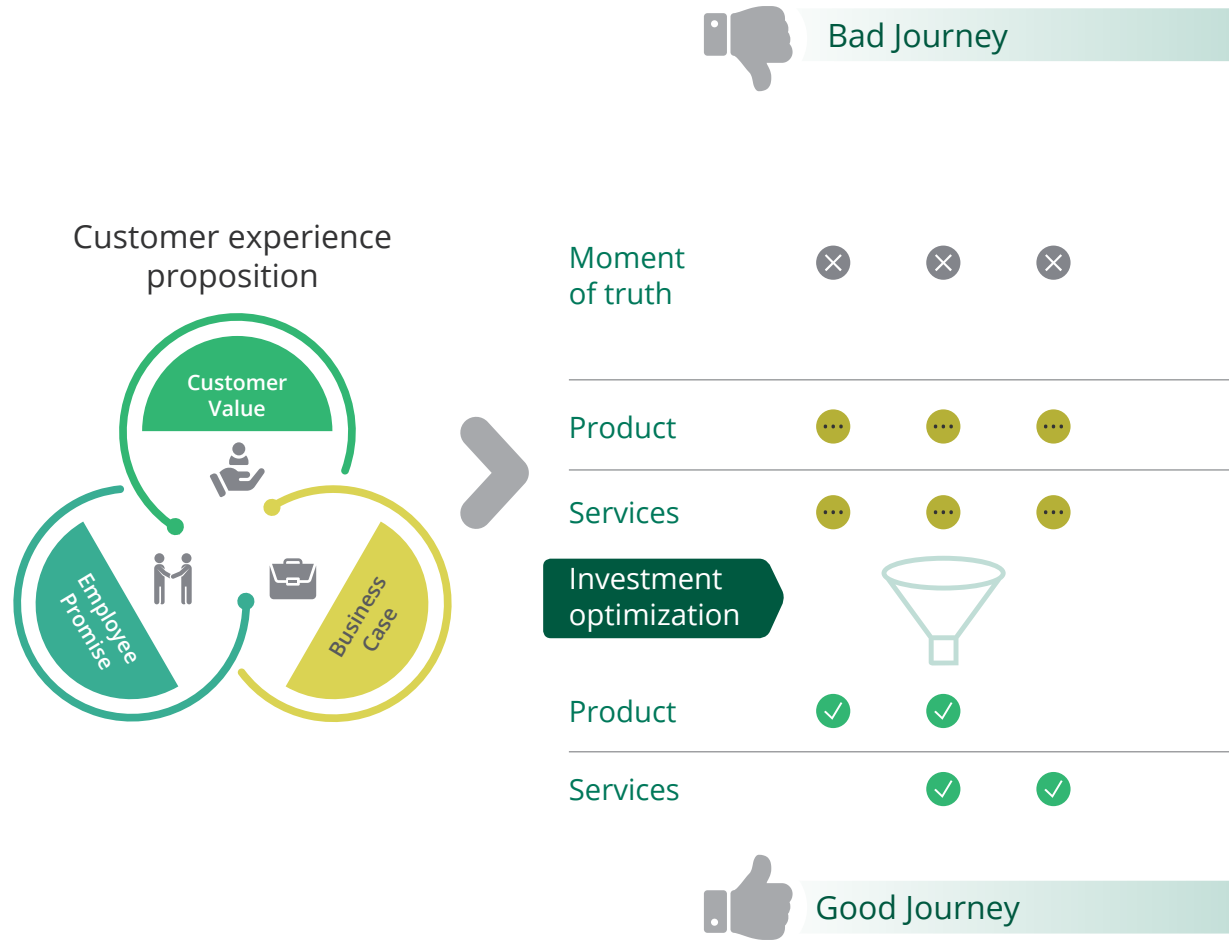
Redesigning customer journey based on customer experience proposition

Once the core customer experience proposition is defined, the next step is to study the existing customer journey to identify the moments of truth, that are not in line with the proposition. All points of non-positive experience need not be classified as moments of truth.

To address these moment of truths, the retail will need to design appropriate products and services. Post which, the evaluation of their business case will decide the rationale for investment.

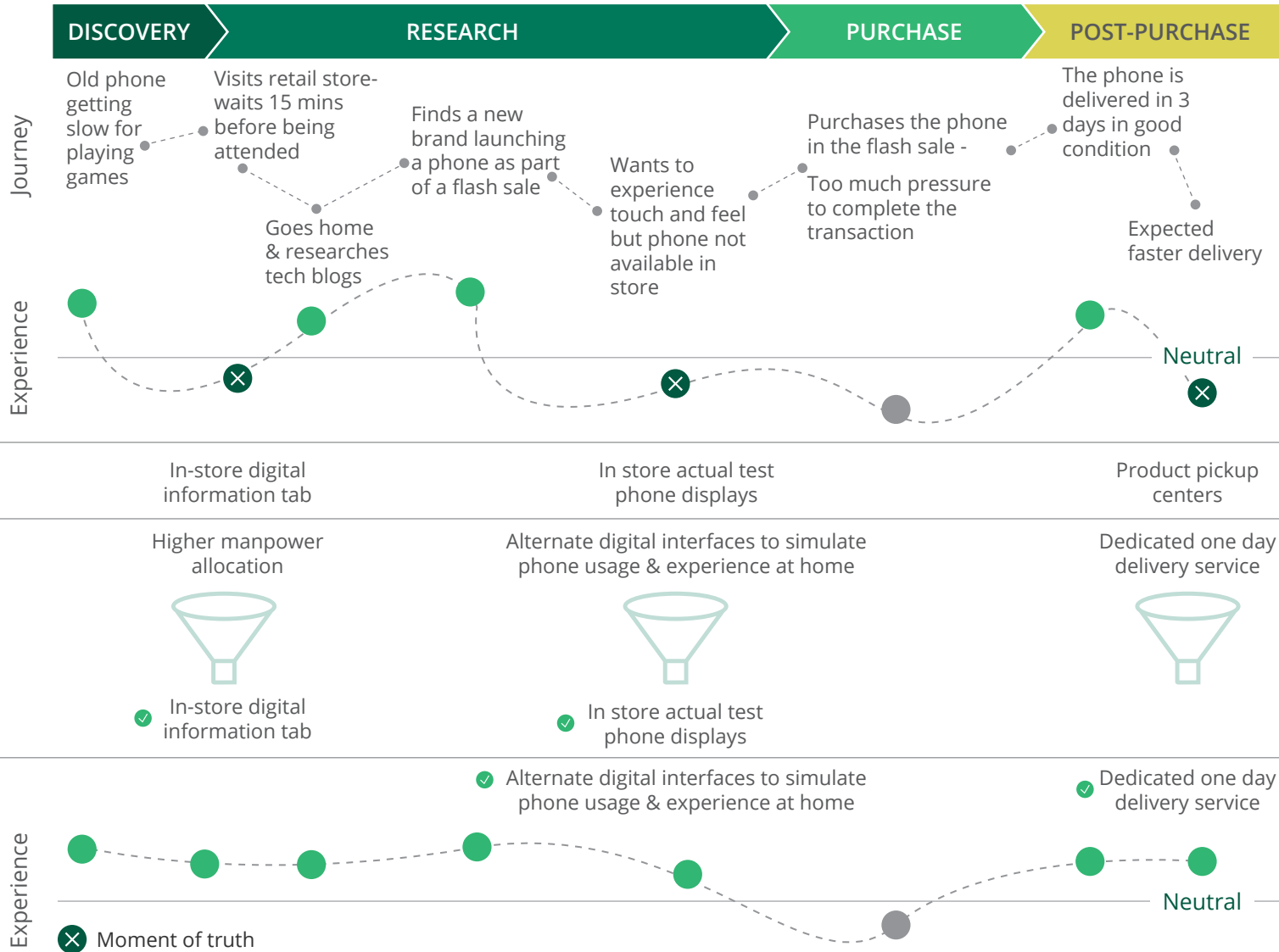
In the exhibit on the right, we notice 3 moments of truth with appropriate products and services identified to address them. However, only a few investments are finally prioritized to transform the bad journey to a good journey, supported by a robust business case.

Product, services and investment optimization drive customer pathway design





Convert a bad journey to a good journey by focusing on the moments of truth



2c.

Organization structure should be aligned with the experience proposition

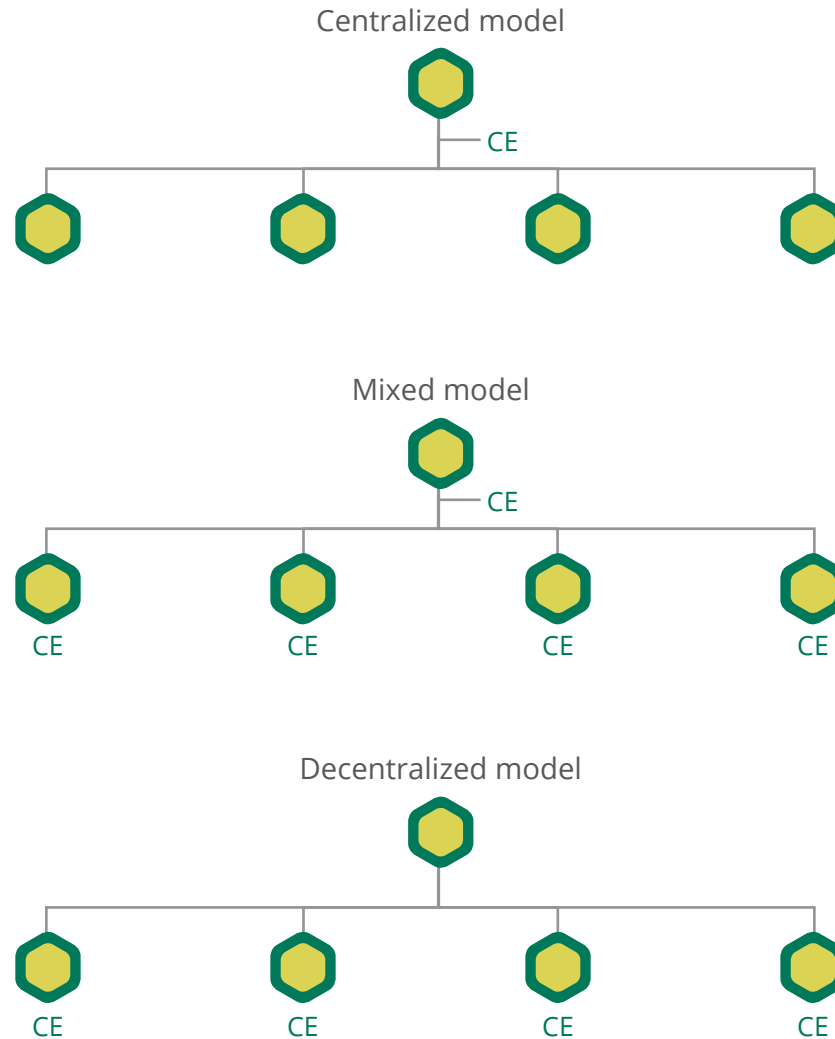
The company should align the organization with the customer experience (CE) proposition. In the centralized model, all CE functions are within the same unit, while in a decentralized model, CE functions are defined within separate units. In the mixed model, CE areas within each unit are in charge of operational functions while an overarching coordination unit ensures policy consistency.

Based on the organization design, the company needs to define the systems and processes that help to drive customer experience in the organization. This includes a clear definition of responsibilities for the employees and integration of experiences across channels.

The company should also invest in CE-oriented workforce, and provide them with the necessary training.

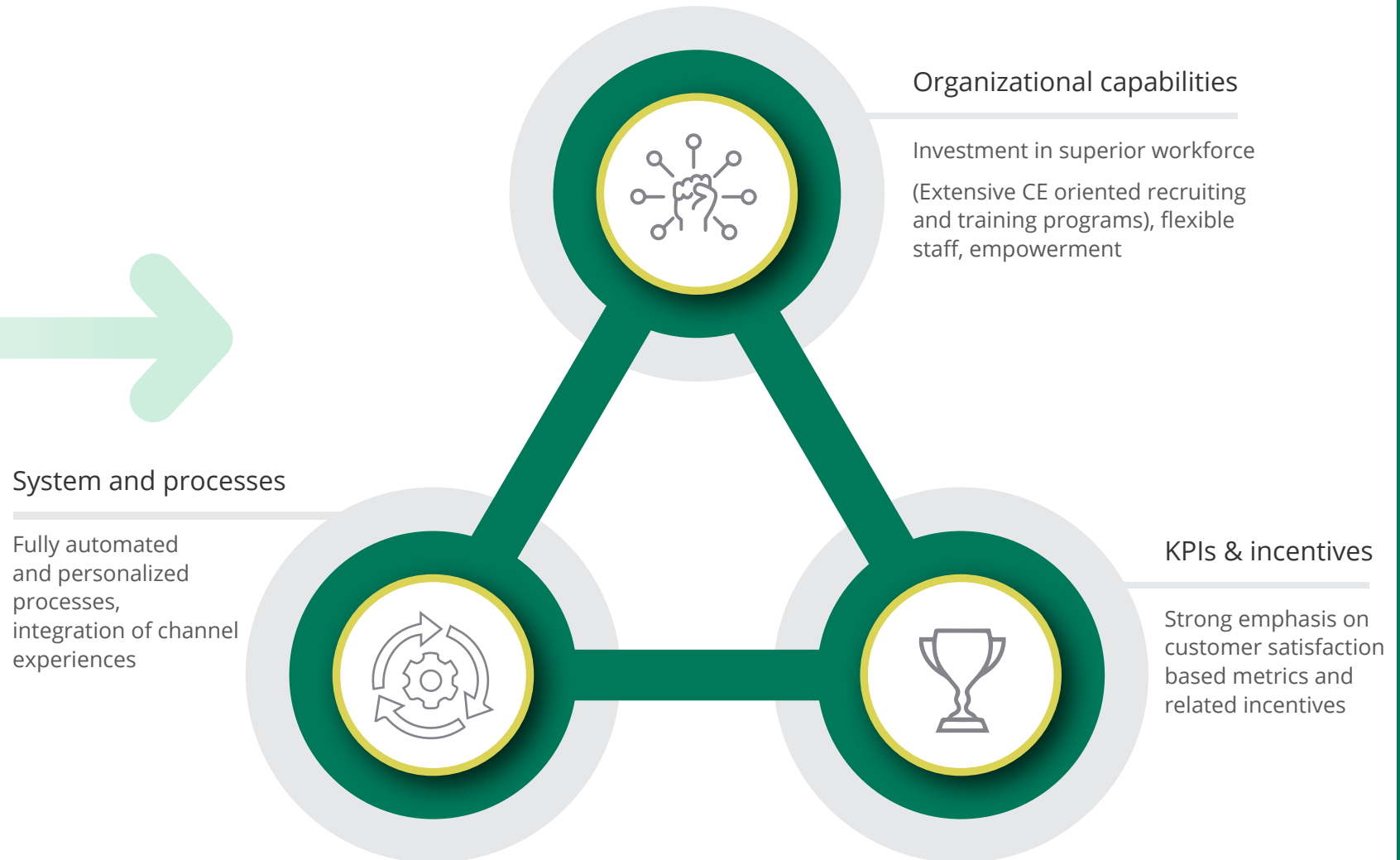
KPIs and incentives to be aligned to the customer experience proposition.

3 types of organizational models





3 drivers to align organization to customer experience proposition



3.

Metrics to measure customer experience evolves as a company grows

As companies evolve from ensuring satisfaction to driving loyalty and, consequently, building advocacy, the metrics and tracking mechanism also need to evolve.

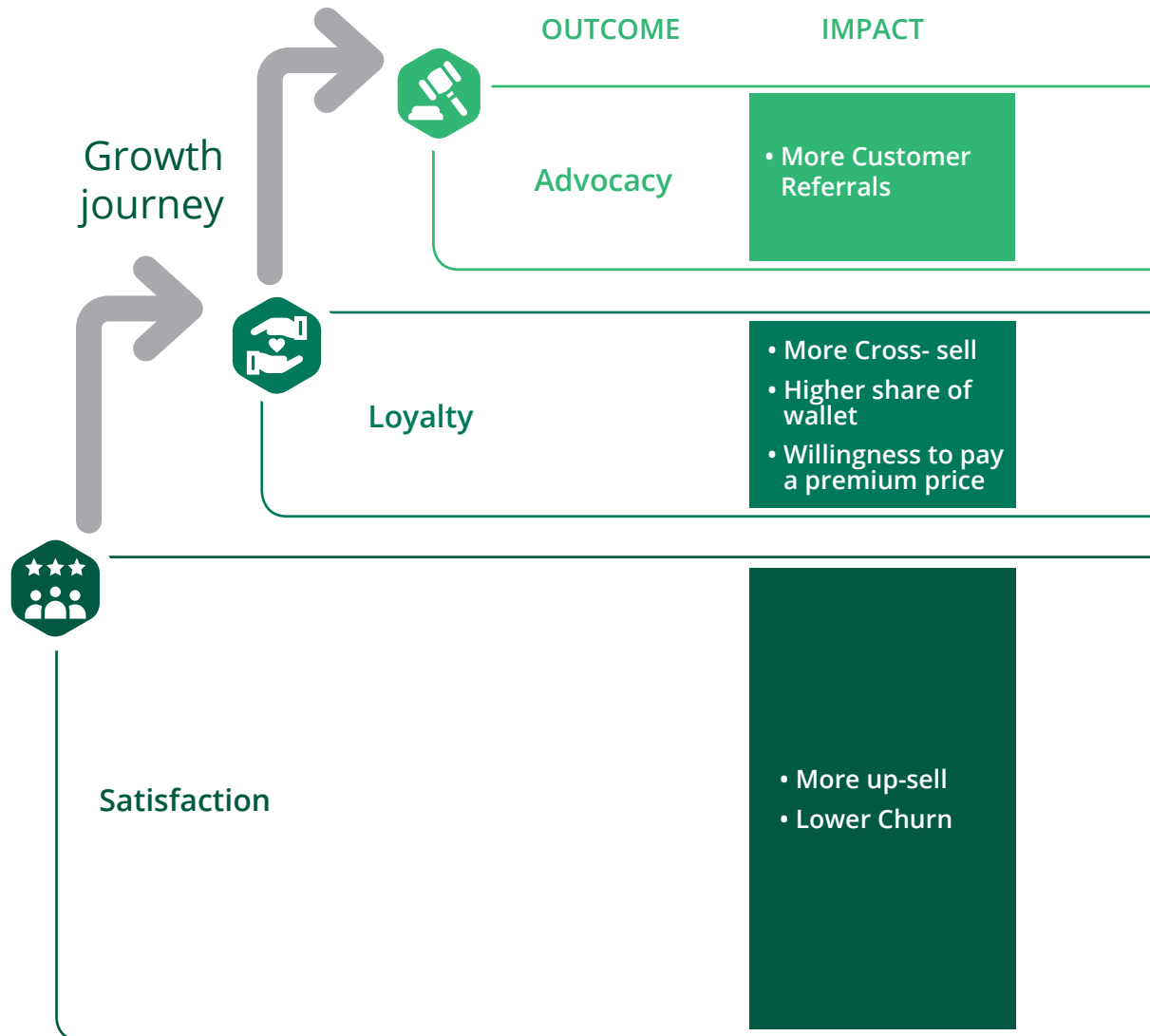
In stage 1, retailers drive satisfaction by capturing few metrics like complaints, customer experience scorecards, service promise delivery, lapse predictors and customer satisfaction scores. Fixing these help retailers up-sell and lower churn.

In stage 2 retailers drive loyalty by pushing the metrics of customer effort and experience based differentiation. This helps retailers cross sell, command a premium and gain a larger share of wallet.

In stage 3, retailers focus on building brand advocacy to driver higher customer referrals.

Based on the stage of evolution of the company and its focus, it can select from the metrics shown in the adjacent exhibit, to measure its performance.

Impact and metrics for 3 stages of customer experience outcome





METRICS

Internal/
operations focus



External/
customer focus

DESCRIPTION OF METRICS

1 GKF Loyalty Plus	2 BAI & NPS	<p>1 Single score based on consumer loyalty & satisfaction</p> <p>2 Single score of brand advocacy based on customer responses to "How likely are you to recommend us to a friend?"</p>
3 Experience Based Differentiation	4 Customer effort	<p>3 Measure the stage of maturity of a company's customer experience offering</p> <p>4 Single score based on the degree of required customer effort during a service request</p>
6 Service promise delivery	5 Lapse predictor attributes	<p>5 A suite of attributes predicting customer lapse (e.g. attrition rate, activity levels, risk level)</p> <p>6 The percentage of promised customer service targets which are met</p> <p>7 A suite of customer facing & operational metrics measuring inputs into customer experience</p> <p>8 Single score based on rating of selected satisfaction dimensions, weighted by importance</p> <p>9 The number of customer complaints & inquiries on different issues, normalized to service level</p>
	7 Customer experience scorecard	
	9 Complaints	
	8 Customer Satisfaction Index	

Use analytical insights to create business value

Retailer can take the support of various tools and techniques as they embark on the customer experience transformation journey.

Different tools are applicable in different stages of the customer journey (pre purchase / during and post purchase) to help reach specific insights as shown in the exhibit on the right.

With sharper insights, the probability of accurate decision making improves, which in turn increases likelihood of capturing mindshare and eventually marketshare.

The tools and techniques shown in the exhibit is an illustrative list of the capabilities that a company could leverage to drive insights.

Various tools and techniques are used to gain insights at different stages of the customer journey



CEO SPEAK

How do you measure and undertake Customer Experience Transformation?



“ We use a holistic view to drive customer experience transformation. We set an agenda every 3 years, where we try to re-discover the customer value proposition through a data and research based scientific methodology and then build capabilities in organization to deliver what matters to our customers. We also make conscious ‘trade-offs’ to allocate our resources judiciously. We track our performance against the new value proposition using a dashboard where we measure customer metrics like price gap, on-time delivery, and customer retention, as well as financial metrics like growth in visit frequency, transactions and average bill value. *Krish Iyer, CEO, Walmart* ”

We take a longer term view to customer experience. If you look at the customers today and how they purchase, it is already changing. People today want global trends and have a “see now, buy now mind set. We cater to this customer experience by first making sure that the products that are available at H&M in New York are also available in Delhi, there is no difference. Second, we are also investing in omni-channel- we have to ensure that the customers’ experience is seamless, irrespective of which medium they are shopping from. We are tracking these and striving to improve on these metrics everyday.

Janne Einola, CEO, H&M



“ The customer experience transformation is a continuous journey that needs to be improved and refreshed regularly. It starts with first understanding what is important to the customer. For us, the key to customer experience is product availability. With the growth of omni-channel, this includes both, the availability of products offline, as well timely delivery if online. But there is also a cost to having such a high product availability. It is at this step where the investment into the correct products and services is important. We have solved this problem through a data-based model which optimizes the assortment of products at a store level. We recently launched this and have already seen an increase in the availability of products at our stores. ”

Rahul Vira, CEO Skechers

We use tools and techniques such as advocacy measures, shopper surveys etc. regularly. These help us to understand the needs of the customer and gain insights to where the opportunities lie such as cross-sell, up-sell, process optimization etc.. Many people pursue cross-sell opportunities because they provide a higher margin for the company. I believe that you should only cross-sell with the objective of helping the customer use the main product more effectively. Then you are then solving the customer’s main need and improving their customer experience. With margins being a by-product.

Avijit Mitra, CEO, Croma



**How best-in-class
customer experience
can help drive
mindshare and
market share**

TRADER JOE'S

Trader Joe's is an experiential discount grocery retail store based in USA. It operates 470+ stores, across 40+ states with an 8000+ staff. It is doing much better than its competitors in many metrics. It has the highest sales / sqfoot in USA of roughly \$1750, which is more than double that of its competitors.

One of the key drivers behind the success of Trader Joe's has been strong brand advocacy. Trader Joe's regularly ranks near the top in advocacy indices. It has been able to do this successfully by revisiting its core customers, identifying what matters most to them and building its customer value proposition in line with their needs.

Trader Joe's core customer has been described as an unemployed PhD who has the intelligence and education to appreciate the store's products but not necessarily the budget to buy them at high retail prices. This customer has been placed at the heart of the design of the products and offerings at the stores.

The first metric this customer cares for is "value". To deliver this, Trader Joe's has optimized its procurement strategy to buy directly from the source (e.g. farms) in high volumes and translate these benefits to product price. This, combined with a strong private label play, smaller size of stores and inexpensive retail locations enables them to deliver price value to the customer. While it is positioned as a discount store and its prices are on par with other grocery discounters, it makes the shoppers feel affluent and sophisticated. It does not have the social stigma of a shop for the poor. Additionally, they make an effort to drive clear "value communication" in store which goes beyond just communicating low prices. They explicitly

Ref: What Really Shapes the Customer Experience, BCG; Thinking in New Boxes: A New Paradigm for Business Creativity, by Luc De Brabandere and Alan Iny, September 2018

Note: We acknowledge Trader Joe's for the insights gleaned from its business model

display the nutritional information of food items to educate the customers about what they are buying, where has it been sourced from and why it is beneficial to consume. They even provide fun suggestions on how to use the products.

In addition to value, this customer also cares about product quality. To amplify this effect, they not only share interesting stories of farm to fork, but they also make freshness real in the store with product displays. Besides the typical fresh flowers, fruits and vegetables, some of the offerings include minimally processed products from around the world.

The customer's need for convenience is resolved in a unique way by Trader Joe's. It uses the relatively smaller store size of 12-15k sq. ft, to its advantage by having a simple layout, with clear navigation signs and lower traverse time to find a product. It also carries 4000 SKUs (as against 50,000 SKUs in other supermarkets) to avoid choice overload, while customizing the assortment periodically to what the core customers really need.

The final cord that ties the other metrics together is the Trader Joe's experience. All stores are designed in tiki theme with unique signage and murals made by local artists, to enhance the community connect. Grocery is a chore for many consumers. By using quirky designs

in the store, they try to turn this experience into an adventure for the consumer. They also have innovative systems in the store to ensure that the highest quality service is always delivered to the customer. Rather than having loud speakers with announcements, they have bells around the store to help coordinate where the employees are needed, to ensure that there are always employees present when the customers need them.

The employees at Trader Joe's are an integral part of providing this customer experience successfully. The stores do not have any self-checkout kiosks. They want the customers to interact with their employees in a fun, engaging and memorable way. To enable this, Trader Joe's focuses on recruiting out-going and people oriented staff. These requirements are also explicitly stated in their application form. Staff members are encouraged to be generalists, rather than specialists to keep up their motivation as well as handle non routine customer requests. All of this ties together to deliver a very unique customer experience.

This customer experience has enabled Trader Joe's to build very strong advocates in customers, so much so that it has minimal external advertising spend (which usually consists of mailing their folksy newsletter - Fearless Flyer). These customers help create other customers, building mindshare and hence market share.

For Further Reading

Boston Consulting Group publishes reports, articles and books on related topics that may be of interest to senior executives. Recent examples include those listed here.

Demystifying the Indian Online Traveler

A report by Boston Consulting Group in association with Google, June 2017

Fashion Forward 2020

A report by Boston Consulting Group in association with Facebook, March 2017

The New Indian

A report by Boston Consulting Group's Centre for Customer Insight (CCI), March 2017

Decoding the Digital Opportunity in Retail

A report by Boston Consulting Group in association with Retailers Association of India, February 2017

Decoding Digital @ Retail

A report by Boston Consulting Group in association with Retailers Association of India, February 2016

What Really Shapes Customer Experience

A report by Boston Consulting Group, September 2015

The Tiger Roars

A report by Boston Consulting Group's Centre for Customer Insight (CCI), February 2012.

Rocket: Eight Lessons to Secure Infinite Growth

A book by Dylan Bolden, Michael J. Silverstein, Rohan Sajdeh, and Rune Jacobsen, 2015.

Brands Need Friends

A report by Boston Consulting Group September 2014.

Fueling Growth Through Word of Mouth

An article by Boston Consulting Group, 2013

Enhancing the Online Customer Experience

An article by Boston Consulting Group, 2013

Note to the Reader

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