

CHAPTER 1

Introduction: Bringing Your Store to Your Customers

You need to go where your customers are spending their time. Instead of expecting your customers to come to your store, you must now bring your store directly to them. In today's world, consumers are technologically savvy and skeptical of mass marketing, and enjoy personalized treatment. Successful retailers not only must better understand customer preferences and differentiate their stores from those of their competition, but also must engage with customers where they already spend a lot of time: blogging, texting, friending, tweeting, and surfing.

We are living in one of the most exciting times in retailing history, thanks to continuous technology innovation, supported by the World Wide Web and open-source networks. Those retailers who embrace this breakthrough technology can gain market acceptance and potentially leap-frog longstanding incumbent competition. The transition from locked rooms and long-term plans to an open, transparent, fast-paced, and more creative world also is being embraced by leading businesses. Recognizing how critical these new technology-based channels are to their success, leading-edge retailers have adopted a

proactive culture, unleashing the untapped talent within their organizations and focusing on engaging with customers by using social media and mobility.

YOUR CUSTOMERS ARE SPEAKING. ARE YOU LISTENING?

Consumers today are more discerning and value-conscious than ever before. They blog about product reviews and customer service, instantly compare prices from mobile phones in store aisles, become fans of favorite brands on Facebook, show off purchases on YouTube, and provide accolades—or vent complaints—to friends and the masses on Twitter.

We view social media and mobility as revolutionary extensions of the current retail channels—stores, e-commerce, catalogs, and call centers. Although a number of retailers are successful marketers, they now face a new paradigm. For the first time, customers are in charge, and they use these new channels to continually communicate their views of a retailer's quality, products, and services. Retailers who seize this opportunity are now in a position to virtually listen to customers, engage with them, support their needs, and enjoy the benefits of extending their brand. Those who don't, will be left at the gate.

There are many promising ways a retailer can benefit from embracing social media and mobility: by improving brand awareness, listening to customer sentiments, creating incentives to drive cross-channel traffic and purchases, building content-focused communities to improve loyalty, enticing fans to try new products, understanding assortment preferences, and improving customer service. That said, these new digital channels alone will not solve all the problems of an underperforming business. Social-media and mobile channels significantly *amplify* a company's culture, strategy, and customer service. The emphasis here is on the word *amplify*! The retailer that excels as a brand has all the elements of its business—from merchandise assortment to service—integrated into its culture and strategy. Its opportunities magnified by social media and mobility, this retailer can further enhance its market position.

In many ways, these new digital channels level the playing field, allowing a retailer, regardless of size or segment, to bring its brand to

millions of consumers and engage with them personally. Innovative retail concepts can now enable a company to rapidly gain market share in the digital world first—for far less money and in far less time than it would take to build stores. If retailers eventually choose to build stores, they'll have market acceptance from the day of their grand opening.

RETAIL 2.0

More than a decade ago, the dot-com phenomenon shocked everyone. Both digital evangelists and doubters made valid points. After much pain in the financial and investment markets and the inevitable burst bubble, the power of the Web is now rapidly unfolding, and individuals and groups are voicing their opinions and interacting digitally in a manner never before imagined.

The Web has become a powerful channel of information, communication, community, and commerce. Nearly 2 billion people access the World Wide Web, with 239 million users in the United States alone (making up 77.4% of the nation's population). The Web has opened up an entirely new world of communication, first for entrepreneurs and technologists, then for all businesses. By changing the landscape of how consumers interact with educators, government, retailers, information service providers, and all other consumer-oriented businesses, it has bred an entirely new opportunity for interaction and commerce.

Web retail commerce had its impetus from Web-only retailers. Amazon, the undisputed Web-only retail leader, played a significant role in proving the viability of e-commerce. The company started selling books online in 1994 and has grown to sales of almost \$25 billion in 2009. Also in 2009, Amazon acquired Zappos, another highly successful Web-only retailer. At the same time, cross-channel retailers are gaining momentum, not only in ecommerce sales, but in utilizing a digital strategy to reach all consumer channels. 1-800-Flowers.com, Best Buy, JCPenney, and Macy's are among the market leaders in cross-channel retailing.

Now on the heels of the Web explosion comes enormous growth in social media and mobility. The increase in the use of these new

consumer channels represents an unprecedented rate of change. Much like the diverse views of the Web in its early years, people hold conflicting views toward social media and mobility. Early adopters are leading the charge, while skeptics wonder if it's a passing fad. When we consider the massive growth in accessing these communication channels and leveraging the Web's success, retailers must recognize that they can either embrace this enormous opportunity or let it pass them by.

Consider the fact that the leading social-media Web sites have a compelling number of users. As of July 2010, Facebook had over 487 million¹ users, Twitter had over 105 million registered² users, YouTube served up over 32 billion videos/month in the United States alone,³ and MySpace had over 119 million⁴ users. Mobile phone users currently number 4.6 billion⁵ worldwide, with 286 million⁶ in the United States, and these figures are growing dramatically. The use of smart phones, which allow consumers to enjoy the benefits of the Web and social media in the palm of their hands, is growing even more dramatically, exceeding 180 million⁷ users worldwide and nearly 50 million⁸ users in the United States. Millions of smart phone users are now communicating, viewing, gathering, playing games, learning, and purchasing on their mobile devices.

Although most retailers were not early adopters of selling and marketing on the Web, they do not have that luxury when it comes to social media and mobility. These new communication channels are here to stay, and consumers have already staked their positions. For retailers, the present is a time to either leverage this opportunity or give up brand- and market-share growth. The upside of embracing social media and mobility is so compelling that once retailers unlock the mystery of these new communication channels to strategically engage customers, they almost certainly will succeed.

Now anyone can communicate and state his or her views on any available digital platform. The current public parity of information and opinion has never before existed; this paradigm resembles the introduction of the Web. In this case, however, the doubters will have far less time to catch up. Retailers and marketers must be aware that customers are talking about them, and in this mode of communication, they offer opinions on everything imaginable. Just ask United Airlines about the now famous YouTube video entitled "United Breaks

Guitars”⁹ or talk to Continental Airlines about the “tarmac tweets” detailing their notorious Rochester, Minnesota, flight delay on August 7–8, 2009.¹⁰ What is said about a brand is broadcast widely and memorialized forever in a tweet, a text message, or a blog post. We all know that even the best companies make mistakes. The key is that smart companies listen to their customers and interact with them in a caring, problem-solving manner that inspires loyalty.

At the same time, with our many combined years of experience in retail, technology, and direct marketing, we also understand that taking advantage of these massive market changes is not easy. Retailers need to carefully evaluate how these new channels best fit into their overall digital strategy. Both social media and mobility are effective vehicles for extending a company’s culture and overall strategy. If these channels are viewed as extensions of the brand and as an integral part of the total business, they will be successful, and—more important—they will add to the success of a retailer’s overall growth and market share.

RETAIL LEADERS

This book resulted from our extensive exploration and analysis of social media and mobility and their relationship to key elements of a retailer’s business. We focused on elements that we believed needed to be in place for a company to succeed in using social media and mobility. These factors led us to develop the theme for the book: how a company’s culture and strategy, communicated through the new channels of social media and mobility, leverage brand equity.

Our approach is relatively simple: to define social media and mobility, show their application to a retailer’s business, and provide examples of successful retailers that are early adopters. We confirmed that a retailer’s understanding and rate of adoption of social media and mobility do not necessarily follow a particular size or retail segment.

As part of the research process, we interviewed retail, e-commerce, technology, marketing, and trade organization executives, ultimately choosing to focus on a core group of eight retailers—of varying sizes and from different sectors—that embrace these new technologies. Specifically, we studied some of the most productive retailers, those

that were taking a leading position in the lightning-fast, continually evolving worlds of social media and mobility.

Our research included a careful study of how individual retailers rank in numbers of fans and followers in various social-media networks versus the comparable numbers for their relevant competition. We also focused on the breadth and depth of their social-media penetration, as well as the importance of actual content. As we discovered, when it comes to social media, individual and community customer engagements can be more important than promotions and incentives. Both are important, but understanding objectives and achievements is absolutely crucial to the individual retailer's execution of a strategy.

The eight retailers that we selected have been highly successful in utilizing social media and/or mobility. Equally important, we recognize that success begins with a company's culture and strategy, so we focused on retailers that have these firmly in place and are reflecting them in their use of social media and mobility.

Starbucks

Starbucks has grown from a few stores in Seattle to the world's largest international coffee company with a rapidly emerging consumer-products division. Starbucks is not only about retail growth; it has attained its financial success by focusing on all elements of the business. The company is committed to product integrity, treating its partners (employees) and customers with respect, and meeting its social responsibilities to the neighborhoods it serves, as well as supporting worldwide needs. Although Starbucks was highly successful before many of the rapidly growing digital innovations emerged, it has seized the opportunity to create social engagement through technology: With more fans than any other brand on Facebook, Starbucks clearly utilizes social media and mobility very effectively.

Zappos

Zappos, one of the great successes of Internet retailing, grew to over \$1 billion in gross merchandise sales before being acquired by Amazon,

the world's Number-One Internet retailer. The company's success shows that opportunities exist for new retailers who can offer compelling reasons for customers to shop their stores. Today Zappos is the Number-One seller of shoes online, and it has added a number of apparel and accessory categories. Its passion for customer satisfaction and service is legendary, and it is extending its customer experience through leadership in social media. Zappos' culture is contagious: Its 500 tweeting employees have already amassed nearly 2 million followers. That's engagement!

Wet Seal

Wet Seal targets 13- to 19-year-old girls with trendy value-priced apparel and accessories. Known as a fast-fashion retailer, the company identifies and buys the newest trends, ships quickly to stores, limits quantities, then repeats the cycle. The business strategy focuses on a continuing flow of new merchandise at affordable prices. Wet Seal was well ahead of the curve in developing its digital "Fashion Community" before the explosive popularity of Smart Phones and social networks, but it has since added interfaces to both the iPhone and Facebook. The company's applications engage teens by allowing them to view, assemble, rate, and purchase peer-generated outfits. Using this valuable customer data in its design and buying decisions, Wet Seal has already announced the next generation of compelling social-media applications for use by its customers.

Macy's

The iconic Macy's brand now has a national platform but remains sensitive to the local focus of department stores. The company's key strategy, My Macy's, is all about tailoring merchandise specific to the local climate and customer demographics. Macy's has elevated its position in the digital world, with Macy's.com as the hub, facilitating customer interaction across all consumer channels, including a focus on social media and mobility. The company's ability to understand customers' preferences and requirements has positioned it to enjoy

significant growth and brand equity. Macy's Inc. also owns Bloomingdale's, a luxury department store chain with an international fashion reputation; it, too, now interacts and engages digitally with its loyal customer base, in the same personal and caring manner that exists in-store.

1-800-Flowers.com

Flowers and gifts are all about relationships—and that is how the McCann brothers have built 1-800-Flowers.com. Starting with one flower shop, it is now the largest flower and gift retailer in the United States, with an unaided brand awareness of 90%. The strategic decisions that contributed to its significant growth all began with relationships. The culture that is based on working together to make the company better permeates the entire 1-800-Flowers.com team. The company has a comprehensive cross-channel platform with presence and growth opportunities in all retail channels: stores, Web, catalogs, and call centers. Because of its culture, structure, and technology base, 1-800-Flowers.com has growth opportunity in many businesses and channels.

JCPenney

As an American retailer for over a century, JCPenney is known for being reliable, having fashion-forward, good quality merchandise, and moderate prices. With close to \$18 billion in sales, JCPenney has developed an innovative merchandise strategy focusing on private brands and brand exclusives. This is a major step for the company as it positions itself to become "America's shopping destination for discovering great styles at compelling prices."¹¹ JCPenney's addition of Sephora shops in more than 230 of its stores further supports its strategy, and the company's decision to close its "big book" catalog and redeploy investment in its digital platform provides the opportunity to fully leverage cross-channel retailing. With a CEO driving innovation and a significant focus on social media and mobility, JCPenney's digital transformation is well under way.

Pizza Hut

Pizza Hut was named a 2009 top-ten franchise by *Entrepreneur* magazine, a designation that attests to the company's focus on people: its employees, franchisees, and customers. The world's Number-One pizza chain, Pizza Hut began over 50 years ago, and it continues to seek new and innovative ways to connect with its customers. It competes not only in the pizza market, but also in the entire casual food market. A member of the Yum! Brands portfolio, Pizza Hut has a passion for "Customer Mania"; once we learned about its active "Tweetologist" and "Twintern" programs and had experienced the award-winning Pizza Hut "Killer App" on our iPhones, we were eager to learn more about the company. We found a number of ways in which Pizza Hut engages with its customers and delivers on its promise of quality food, attractive prices, and excellent customer service.

Best Buy

The leading consumer electronics retailer in the United States, Best Buy also is growing internationally. This \$50 billion electronics specialty chain has built its business by being selective with the national brands it chooses to sell and by featuring the support of the "blue shirts," its enthusiastic and well-trained store teams. Best Buy's leadership position in cross-channel retailing is extraordinary; its strategic thrust is to make the BestBuy.com Web site the hub for all customer interaction. Seventy percent of Best Buy customers access the site to view items before going into the store for pickup or purchase. This strategy, focused on accessibility, localization, and personalization, is made possible by the company's digital leadership, including its early and effective customer engagement in social media and mobility.

YOUR WORLD IS CHANGING—ARE YOU?

Before we explore these innovative retailers and their use of social media and mobility, we will first provide an overview and discuss the significant impact of these new channels on the overall retail industry. With the communication benefits these channels provide, they also

are producing mountains of data that must be mined to turn insights into action. And so we appropriately conclude the book with a chapter on the white-hot market for social-media analytics and how these tools allow retailers to listen, learn, react, and engage with their customers on their terms. Retail, as we know it, is about to become more personal, more local, and more transparent, and will change dramatically—forever. Let’s begin our digital journey!

NOTES

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