

Retail Service Quality Index

2009

EXECUTIVE SUMMARY AND T.O.C.

“In trying times, huge opportunities exist for retailers who improve customer service.”

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Executive Summary

What does the 2009 Retail Service Quality Index (RSQI)[®] tell you about the industry?

The reading on the 2009 Retail Service Quality Index (RSQI), 48.2 of a possible 100, indicates that the level of customer service provided by U.S. retailers has a lot of room for improvement. The typical U.S. shopper would probably tell us we don't need an elaborate index to reach that conclusion. However, by conducting the research used to build the RSQI, we illuminate specific activities where retailers' customer service practices fall short. Thus, the RSQI lights the way for change.

The 2009 RSQI measured 1,027 interactions across 73 retail stores, spanning 6 states and 4 months of data collection. The interactions fall into 1 of 39 "service opportunities," and the 39 service opportunities are grouped into 6 categories:

- Store Greeting and Initial Contact
- Department- or Floor-Level Service
- Point of Sale/Store Exit
- Merchandise Returns or Exchanges
- Associate Teamwork
- Associate and Managerial Leadership

Each interaction receives an Activity Score, which measures how well and completely associates perform the activities necessary to service the customer during the interaction, and an Engagement Score, which measures associates "soft skills" during the interaction. The two scores are added to create a Total Score, and all the Total Scores are added, weighted when necessary, and averaged to create the RSQI.

Table 1: The 2009 Retail Service Quality Index (RSQI)			
Interactions Performed	Avg. Activity Score (0-5)	Avg. Engagement Score (0-5)	RSQI Avg. (1-100)
73.1%	2.0	2.3	48.2

N = 1,027 interactions

Source: 2009 Retail Service Quality Index

As Table 1 shows, in more than 25% of interactions, retail associates failed to see the service opportunity at hand, or they ignored the customer at a time of expected interaction. These crimes of neglect occurred throughout the shopping experience, from the "Store Greeting" service opportunity (only performed 53% of the time) to the "Store Closing Announcements" service opportunity at the end of the day (performed 40% of the time).

Throughout the recession, and as the U.S. takes tentative steps toward a recovery, many retailers have claimed to make customer retention a strategic priority – and customer retention begins with better customer service. However, in the face of mass layoffs and razor-thin operating budgets, executives' abilities to execute improvements

to customer service appear to be lagging. At a more personal level, many front-line retail associates appear numb to the prospect of losing their jobs and do not regularly display an enthusiasm for their positions. Neither the Average Activity Score nor the Average Engagement Score scored much higher than a 2 out of 5.

On the upside, U.S. retailers have nearly perfected the science of processing transactions in an accurate, efficient manner – thanks to significant investments in point-of-sale technology and better checkout procedures. The service opportunity pertaining to the speed of checkout, called “Average Wait Time,” scores nearly 9 of a possible 10. Retailers also do an excellent job of providing clean, inviting shopping environments; the “Cleanliness of Store Floor” service opportunity scores above 9 on our 10-point scale. But providing fast, accurate transactions in a welcoming shopping environment are the table stakes. Retail associates must improve their interactions with customers and provide higher levels of service if their employers are to remain competitive.

When associates *do* engage shoppers, they are good in some service opportunities. Associates score 7.3 of 10 when it comes to displaying product knowledge – which means retailers are making smart hires or doing a good job of product training with the associates they have. Associates also demonstrate an *okay* understanding of product pricing (6.2 of 10). However, associates’ skill levels drop off as the service opportunities require greater levels of observation and interactivity. Associates are somewhat skilled at reciting information; they are less skilled at listening to customers and reacting to what they hear.

Associates seldom recognize or respond to indirect signals when shoppers need help (and score a 1.3 of 10 for this service opportunity), and they don’t do a good job handling multiple shoppers on the sales floor (4 of 10).

Service levels at the point of sale are somewhat better, when compared with service on the sales floor, but the situation is still not good. Associates score a 5.1 of 10 on their greeting at the point of sale and a 5.9 of 10 on their close of the sale.

In the body of this report we examine the RSQI data by retailer type, and this year’s report includes the following retailer categories:

- Department Stores
- Discount Retailers
- Electronics Retailers
- Fashion Retailers
- Hardware/Home Improvement Retailers
- Home Goods Retailers
- Luxury Retailers
- Office Supply Retailers
- Pet Supply Retailers
- Sporting Goods Retailers
- Toy/Game/Books Retailers

The RSQI reveals some interesting findings when we view the data by type of retailer – and maybe some ominous findings for some companies as well. One surprise is that Luxury Retailers do not lead the way when it comes to providing great customer service. They finish in the middle of the pack and struggle with the same challenges many of their more mainstream peers face. As the debate continues about the viability of “middle-ground” retailers versus the possible polarization of high-end providers and

cost-conscious discounters, the luxury category will be compelling to watch from a quality-of-service perspective.

An “opportunity disguised as a problem” in the findings is the poor showing by Office Supply Retailers. Based on the types of products that contribute the most to their revenue mix, these companies are in a great position to truly differentiate on service – among their direct competition and competition coming from other sectors – but so far they are not doing so.

The best customer service providers, by retailer type, were Electronics Retailers and Hardware/Home Improvement Retailers, respectively. For the latter, this is doubly encouraging news. It was only a few years ago that category giant Home Depot’s customer service was lambasted in *Business Week* and a variety of other media outlets. This year, a Home Depot location is noted in one of our “Tales from the Trenches” case studies as a store that got it right.

Despite a lot of bad news, retail executives can find some silver linings in the 2009 RSQI findings...

Many of the aspects of customer service retailers need to improve are dependent on subtle changes in employee behavior. Retail associates’ high scores on product knowledge and pricing knowledge indicate they can be trained; now retailers must train them to be better observers and advisors.

The recession has forced many retailers to price aggressively because their customer bases have less money to spend – and as we go to print much is being made of the Amazon.com/Wal-Mart price war for the 2009 holiday season. History tells us that price wars are cyclical, but we believe reputation is durable. Retailers in any sector that build a brand based on customer service are building a valuable asset: You can’t break a reputation for service with a price war.

The findings in the 2009 RSQI may appear dire and accusatory, but the reality is, they represent a vast amount of opportunity. Even Electronics Retailers and Hardware/Home Improvement Retailers, who performed notably better than the RSQI average, are still merely the fastest turtles in a turtle race. If we were assigning letter grades, no sector scored high enough to receive a ‘D’ – which means the companies that master customer service in 2010 will make noticeable gains on their competitors.