



FORESEE RESULTS / FGI RESEARCH REPORT

**CUSTOMER SATISFACTION,
LOYALTY, AND BUYING
BEHAVIOR IN THE EVOLVING
MULTI-CHANNEL RETAIL WORLD**

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FORGING A NEW CUSTOMER-CENTRIC PERSPECTIVE ON MULTI-CHANNEL SHOPPERS

Today's consumers demand choice and convenience. They "mix and match" channels according to their needs for product research, purchase and delivery. As cross-channel shopping behavior grows mainstream, the best way to evaluate and compare retail channels is to gauge their relative impact increasing customer satisfaction and loyalty.

Customer satisfaction presents a versatile cross-channel metric to gauge the retailer's strengths and weaknesses from the customer's point of view. Since satisfaction drives behavior, a more thorough understanding of what drives multi-channel shoppers' satisfaction will give retailers the insights they need to influence customer behavior in the short term and long term. In this way, customer satisfaction is harnessed to become a driving force in sales growth and increasing loyalty where each channel is optimized to meet the customers' needs and exceed their expectations.

Multi-channel retailers, like all retail organizations, have two primary goals: sales and loyalty. These goals assume critical importance during the holiday season when retailers have the opportunity to build their brands, draw in new customers and strengthen their share of wallet with existing customers. For the multi-channel retailer, an additional challenge lies in making sure that all channels work together to support the overall sales and marketing strategy.

These goals share the common thread of customer satisfaction. Customer satisfaction is a driving force in sales growth, increased loyalty and a strong multi-channel strategy where each channel is optimized to meet customers' needs.

To determine how well multi-channel retailers are meeting the needs of their customers, ForeSee Results and FGI Research recently conducted a customer satisfaction survey during the 2004 holiday season. Between December 9 and December 18, 2004, we surveyed participants who had purchased from one or more specific companies in five categories—department stores, gifts, apparel/accessories, toys/books/games and electronics & computers—within the past 90 days. Survey participants were also required to have used at least two of the company's channels (web, catalog, store) for product purchase, research and/or pick-up within the same time period, making them true "multi-channel" customers.

The survey asked a series of interrelated questions regarding satisfaction with the shopping experience across various sales channels and merchandise categories. Customer satisfaction data was analyzed using the methodology of the American Customer Satisfaction Index (ACSI). Produced by the University of Michigan, the ACSI is the gold standard of measuring the impact of customer satisfaction on the purchase of goods and services in the U.S. economy and is backed by a decade of empirical evidence. The ACSI methodology provides the most precise way of measuring satisfaction, identifying key drivers of satisfaction with the shopping experience and quantifying the link between customer satisfaction and behaviors tied to loyalty, such as repeat purchases or referrals. Because of the cause-and-effect nature of the ACSI methodology, ForeSee Results was able to identify top priority areas for multi-channel retailers – or those areas where improvements will have the greatest impact on satisfaction, future purchases and loyalty.

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KEY FINDINGS

Key findings from our measurement of customer satisfaction with the multi-channel shopping experience include:

- Multi-channel shoppers who use the web as their primary research channel are more satisfied than those who primarily use the store to research purchases. And, shoppers who research and buy on the web showed significantly higher levels of satisfaction, loyalty and likelihood to purchase online and offline in the coming year.
- The web is a critical component and a key growth opportunity in any retailer's multi-channel strategy because it appeals to the most loyal customer segment and reinforces brand image.
- Frequent shoppers are more satisfied than first-time buyers and infrequent buyers. However, the less frequent shopper segments who shop and buy online are considerably more satisfied than those who shop and purchase in stores.
- Brand image and the store channel are high priorities for improvement for retailers across categories; additional priorities vary by retail category.
- Buying holiday sales through promotional offers may compromise loyalty in the long run. Retailers won't achieve their acquisition and retention goals with "bought" loyalty strategies. Instead, they need to earn loyalty by providing a greater overall value in the customers' eyes.

ABOUT THE SURVEY

Using FGI Research's online SmartPanel™, we collected survey responses from over 4,000 consumers who had purchased products within the past 90 days from one of the following companies, and who had experience with at least two of that company's channels within the same time period. The SmartPanel™ is a nationwide panel of approximately 1.6 million consumer households who have agreed to participate in "opt-in" surveys.

Department Stores	Gifts	Apparel & Accessories	Toys/Books/ Games	Electronics & Computers
Sears	FTD	Gap, Old Navy,	Barnes & Noble	Best Buy
Target	Pier 1 Imports	Banana Republic	Borders	Circuit City
Wal-Mart	Williams-Sonoma, Pottery Barn	Footlocker	KB Toys	CompUSA
	Tiffany	Victoria's Secret, Express	Toys R Us	
	Zale Jewelers			

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These companies were chosen because they are leading multi-channel retailers in their categories that consumers would be likely to shop during the holiday season. Responses



within each category were aggregated to provide a comprehensive view of customer satisfaction by category and by channel.

As part of the survey, we assessed customer satisfaction with seven drivers of customer satisfaction:

- Brand image
- Consistency
- Convenience
- Merchandise
- Price
- Store channel
- Website channel

Through the ACSI methodology, we quantified the link between each driver of customer satisfaction, overall customer satisfaction and specific future behaviors that multi-channel retailers desire of their customers. The future behaviors we measured were:

- Likelihood to purchase again from the retailer next holiday season
- Likelihood to purchase again from the retailer in the next six months
- Likelihood to purchase from the retailer for the next purchase of similar merchandise
- Likelihood to recommend the retailer to others

Scores for overall satisfaction, elements driving customer satisfaction and future behaviors are reported on a scale of 1-100.

CHANNEL USAGE IMPACTS SATISFACTION AND LOYALTY OF MULTI-CHANNEL CUSTOMERS

We looked at three primary types of channel usage by multi-channel shoppers in our survey:

- Primary research channel
- Additional research channel
- Primary purchase channel

Online Nearly As Popular as Stores for Researching Purchases

As one might expect, the web plays an important role in product research for many multi-channel shoppers who buy in stores. Thirty-eight percent of all people surveyed used the web as their primary source for product research, compared to 41% who considered the store as their primary research channel—almost a dead heat. The web is favored as a research tool for specific product categories; our survey showed that nearly half of the people buying electronics & computers and toys/books/games did their research virtually.

Circulars and advertisements, which 10% of survey participants named as their primary research tool, followed the store and the web as primary methods of research.

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Which of the following to you primarily use when researching products before purchasing from this company?

Store	41%	Shopping comparison website	3%
Website	38%	Competitor store website	3%
Circular/Advertisement	10%	Recommendation from friend	2%
Catalog	3%	Call Center Representative	0%



Stores Remain Preferred Purchase Channel

The store remains the primary channel for purchase among the multi-channel shoppers we surveyed. Eighty-six percent made their purchases in the store, while only 14% purchased online. What is striking is that of the 38% who used the web to research their purchases, 71% chose to complete their purchase in the store. This statistic quantifies the extent the web influences in-store sales, and is a testament to the intangible value of the web channel on the company's bottom line.

Viewing this segment of online shoppers from a web metrics perspective could be misleading, as the vast majority would be viewed as shopping cart abandoners or merely browsers. However, when viewed through the lens of multi-channel customer satisfaction metrics, we clearly see the role the web plays in driving in-store sales and forging a successful multi-channel strategy.

Online Customers: More Satisfied and More Loyal

Online sales figures for the 2004 holiday season varied by source, but by all counts web-based sales outstripped overall retail sales growth exponentially. Most important for the future growth and success of the web channel is the high level of customer satisfaction it creates. Our research shows a strong correlation between the use of the web and higher satisfaction. Customers who used the web to research before purchasing via the store or catalog were slightly more satisfied than those who used a retail store for both product research and purchase. More significantly, satisfaction jumps when customers move to the web for both product research and purchase. The aggregate satisfaction score of 79 for this group is 8% higher than the score of people who buy and research in the store and 7% higher than the score for people who research online and buy in the store.

SATISFACTION AND FUTURE BEHAVIORS BY CHANNEL USAGE

Multi-channel Shopper Segment	Overall Satisfaction Score	Purchase Again Next Holiday	Purchase Again Next 6 Months	Purchase Next Time	Recommend
Research in store Buy in store	73	81	80	79	79
Research online Buy in store	74	82	79	79	79
Research online Buy online	79	85	80	82	83

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Additionally, consumers who chose a web-only shopping experience scored the highest in behaviors tied to loyalty, such as repeat purchases (both online and offline) and referrals to the retailer. Customers who both researched and bought online had higher scores for likelihood to purchase again next holiday (85) compared to a score of 82 for those who researched online and bought in the store and 81 for customers who used the store for both research and purchase. Customers who both purchase and research online are 4% more likely to purchase the next time they are in the market for similar merchandise than people in both other categories, and 5% more likely to recommend the company to friends, family or colleagues.



Furthermore, respondents who intended to do 100% of their shopping online were significantly more satisfied and appear to be more loyal than other customers, judging by their likelihood to buy again from the retailer and recommend it to others.

First-time and less frequent buyers are much more satisfied when they buy online than when they buy in the store. First-time customers who chose online purchase rated satisfaction at 70 and were nearly 8% more satisfied than those who bought the product in a store.

SATISFACTION AND FUTURE BEHAVIORS FOR FIRST-TIME AND INFREQUENT SHOPPERS

Multi-channel Shopper Segment	Overall Satisfaction Score	Purchase Next Time	Purchase Next Holiday	Recommend
First-Time Purchasers In-Store Purchase	65	61	66	63
First-Time Purchasers Online Purchase	70	67	64	70
Purchased Last Holiday Season In-Store Purchase	70	71	75	71
Purchased Last Holiday Season, Online Purchase	79	80	85	82

Infrequent customers who hadn't purchased since last holiday season were even more satisfied when they chose the web-only route: their satisfaction score of 79 exceeded that of customers who bought in the store by 13%. And their likelihood to purchase from the multi-channel retailer next time they purchased similar merchandise (80) was nearly 13% higher. Likelihood to recommend (82) was 15% higher when multi-channel shoppers shopped and purchased online, which attests to the word-of-mouth acquisition advantage afforded by the online channel.

To capitalize on the high satisfaction and loyalty of shoppers who prefer the online channel, the question for multi-channel retailers is: *"What can you do to eliminate obstacles for those who research online to encourage them to make their purchase online, eliminating the likelihood that between the online research and the in-store purchase the consumer gets 'stolen' by another retailer?"*

Web Is Highly Effective at Building Brand, Reputation

The role of the web in a multi-channel research channel goes beyond product research and sales. The web is effective at reinforcing the brand, as evidenced by high scores for brand image for shoppers who preferred the web for researching and purchasing (85 vs. 79 for people who research and buy in a store and 80 for those who research online but buy in the store). Satisfaction scores for all drivers of the multi-channel shopping experience are 5-10% higher for online purchasers than for those who prefer the store for research and purchase. This observation is important for retail marketing executives who spend countless millions in brand advertising and are looking for a measure of ROI. Measuring customer satisfaction online provides a metric that gauges brand image and correlates it to overall satisfaction with the company and to cross-channel sales and loyalty.

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ELEMENT (SATISFACTION DRIVER) SCORES BY CHANNEL USAGE

Elements	Research In-Store, Buy In-Store	Research Online, Buy In-Store	Research Online, Buy Online
Brand Image	79	80	85
Consistency	79	80	85
Convenience	78	79	86
Merchandise	82	83	87
Price	79	79	83
Store Channel	77	77	81
Website Channel	76	79	86

The Online Shopper: More Affluent and Less Price-Sensitive

More affluent and less concerned about price, the online shopper has a different profile than the store shopper. In our research sample, customers who both research and buy products online are the most affluent. Perhaps for this reason, this category of shoppers is less concerned about price. In fact, people who both research and buy products online are not only more satisfied with price, but are also less price-sensitive. The satisfaction of store-only customers is three times more likely to be affected by price.

SATISFACTION DRIVERS VARY BY RETAIL CATEGORY

We analyzed shopping satisfaction with four categories of multi-channel retailers that people frequent during the holiday season: department stores, gifts, apparel & accessories, toys/books/games and electronics & computers.

For each category, we measured overall customer satisfaction with the shopping experience:

Retail Category	Overall Customer Satisfaction
Department Stores	72
Gifts	75
Toys/Books/Games	74
Electronics & Computers	74
Apparel & Accessories	73

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As shown in the table, satisfaction with the lowest scoring category, department stores, lags the highest-scoring category of gifts by 4%.



In addition to measuring overall customer satisfaction, seven elements that are drivers of satisfaction were also measured: brand image, consistency, convenience, merchandise, price, store channel and website channel. Each element is measured through a series of interrelated questions to provide a comprehensive view of the drivers of customer satisfaction. Using the



American Customer Satisfaction Index (ACSI) methodology, we also identified the highest impact elements, or those areas where improvements would result in the greatest gains in satisfaction and loyalty. These impacts are calculated using the sophisticated ACSI algorithms that quantify the mathematical relationship between satisfaction drivers and overall satisfaction. Many times, the highest-scoring element in terms of satisfaction is not necessarily the one that has the highest impact on satisfaction and, in turn, on future behavior.

Multi-channel Shoppers Reflect ACSI Satisfaction Benchmarks

The ACSI methodology we used to measure multi-channel customer satisfaction is also used by the University of Michigan in the ACSI results that are published quarterly to assess overall satisfaction with leading department stores and specialty retail stores. The ACSI also measures satisfaction with e-commerce (online retailers, travel, auctions and brokerage).

In comparison to ACSI scores for comparable categories, the multi-channel scores closely approximate offline scores for specialty retail, but significantly trail e-commerce and e-retail scores. The ACSI E-Retail and E-Commerce scores are for pure-play internet companies, which clearly deliver a more satisfactory experience than their bricks-and-mortar and multi-channel counterparts.

	Q4 2003
ACSI Retail Category Score	75.0
ACSI Department Store Aggregate Score	76.0
ACSI Specialty Retail Aggregate Score	74.0
ACSI E-Commerce Aggregate Score (includes retail, travel, online brokerage and auctions)	80.8
ACSI E-Retail Aggregate Score	84.0

* Note: Q4 2004 ACSI scores will be released February 15, 2005

The increased satisfaction with the online channel is driving the significant increases in the amount of online commerce, estimated this year to be approximately 25% higher this holiday season over last. This compares with a relatively flat retail sector, where the overall increase this holiday season is estimated at approximately 2%. The impressive online sales increase is evidence of the higher levels of satisfaction with purchase behavior, as the more satisfying online channel is growing at a significantly faster rate than the less satisfying store channel.

Brand Image and Store Channel: Key Drivers of Satisfaction

In terms of the specific elements driving satisfaction with the multi-channel shopping experience, brand image was a top priority in all categories. Respondents perceive that the companies don't care about them as customers and rated this element lower because of it.

The store channel was a high priority element in all categories as well, with typically low scores and a high impact on overall satisfaction. Specifically, multi-channel shoppers find store associates less than helpful. Considering that 86% of our research sample completed their purchase in the store, the store exerts a powerful force in shaping a customers' impression of a company. Perhaps this helps explain why store sales are not growing at the rate of online sales. In online sales, we see consistency from one shopping experience to the next, usually supported by a wealth of product specifications and information. In the stores, the shopping experience is often inconsistent due to the quality of the individual associate.

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Element (Satisfaction Driver) Scores by Retail Category

Elements (or Satisfaction Drivers)	Department Stores	Gifts	Toys/ Books/ Games	Apparel & Accessories	Electronics & Computers
Brand Image	76	82	81	80	79
Consistency	78	81	80	80	81
Convenience	76	79	80	79	79
Merchandise	81	83	86	80	84
Price	82	76	78	77	81
Store Channel	74	81	78	78	77
Website Channel	74	80	79	80	79
Overall Customer Satisfaction	72	75	74	73	74

Note: Overall Satisfaction Scores are not numerical averages of satisfaction drivers. They have been calculated using the ACSI model that gauges relative importance of each driver on overall satisfaction and overall satisfaction's impact on future behaviors.

Future Behavior Scores by Retail Category

Future Behaviors	Department Stores	Gifts	Toys/ Books/ Games	Apparel & Accessories	Electronics & Computers
Purchase Again Next Holiday	84	79	82	80	80
Purchase Again Next 6 Months	86	74	77	78	77
Purchase Next Time They Buy Similar Merchandise	84	77	78	78	78
Recommend	79	79	79	79	78

Department Stores: Store Experience Lacking But Loyalty Is Strong

Department store shoppers had a somewhat different profile than shoppers of specialty retail stores. Many were regular shoppers, with 88% having bought in the store in the past three months, significantly higher than the percentage for the next-highest category of apparel at 54%. In addition, 97% of the shoppers had purchased within the last 12 months, with 2% having purchased last holiday season and only 1% having never purchased before.

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Retail Category	Purchased in past 3 months	Purchased in past 4-6 months	Purchased in last 7-11 months	Purchased last holiday season	Never purchased before
Department Stores	88 %	5%	4%	2%	1%
Gifts	42%	25%	15%	9%	9%
Toys/Books/ Games	52%	22%	14%	9%	3%
Apparel & Accessories	54%	25%	12%	6%	3%
Electronics & Computers	52%	22%	17%	5%	4%

While department stores had the lowest satisfaction score (72), department store shoppers showed the highest scores for likelihood to purchase again from the retailer next holiday season (84), and an even higher propensity to purchase again from the retailer in the next six months (86). Department stores, with lower satisfaction scores, will see shoppers purchase again at a higher rate. The objective of the department stores is to increase share of wallet, that is, to get a higher percentage of each consumer's purchases.

Department store shoppers are most satisfied with merchandise and price, rating them 81 and 82 respectively, which isn't surprising considering the ability of large stores to stock a wide array of merchandise and compete on price.

However, department stores should not rest on their laurels. For department stores, brand image and the store channel is what will have the most influence on improving overall satisfaction and behavior. When you consider that 96% of department store respondents in our survey used the store for both product purchase and pick-up, the importance of improving the store channel and the way customers are treated is readily apparent.

Nearly two out of three department store customers (64%) reported that they were influenced by various promotions to purchase from the company when they would have purchased elsewhere. The department store category is a very competitive category and department store retailers are attempting to "buy" their customers from other retailers. At the same time, free shipping for online purchases was less effective with department store customers than with shoppers in other categories.

Gifts: Stores Perform Well with Price-Sensitive Gift Customers

In the category of gifts, satisfaction with the store channel (81) was much higher than in all other categories. This may be because the higher-end gift retailers included in our survey focus more on customer service and do a better job at making sure their customers feel valued. Gift purchasers showed high satisfaction with most of the satisfaction drivers. Price, the lowest-rated element (76), has high impact on overall satisfaction and future loyalty to the retailer, indicating gift consumers are price-sensitive.

Only 42% of multi-channel gift shoppers bought from the retailer in the last three months, the lowest of any category measured. This category also reported the highest number of

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people, 9%, who had never purchased before from the retailer. Gift buyers were also 7% more likely to purchase again from the retailer for the next holiday than in the next six months. These statistics are probably not surprising when the nature of gift purchases is considered. There is a greater opportunity for gift retailers who can improve satisfaction by meeting the needs and exceeding the expectations of shoppers to boost return visits and future purchases during the competitive holiday shopping season.

Ten percent of gift purchasers report to have primarily researched products through a catalog, the highest percentage of any retail category in the survey, yet a distant third behind those researching in the store (42%) and the website (34%). The only other category citing preference for research through catalogs higher than 1% was apparel and accessories at 6%.

*Toys/Books/Games: Merchandise Satisfaction High,
But Price and Promotion Have More Impact*

In this category, people were most satisfied with merchandise. With a satisfaction score of 86, merchandise was the biggest source of satisfaction for shoppers of toys, books and games. However, merchandise has a relatively low impact on customer satisfaction. Price, along with the store channel, is a high priority element that has more effect on satisfaction and loyalty for purchasers of toys, books and games. Both of these elements have the lowest scores within the toy category and have high impacts on improving satisfaction.

Multi-channel shoppers in this category rated likelihood to purchase next holiday season fairly high at 82, while scores for purchasing in the next six months and next time similar merchandise is purchased were 5-6% lower. High levels of satisfaction are driving loyalty among shoppers.

Almost 50% of shoppers in this category used the web as their primary research channel, rivaled only by the electronics/computers category. Price sensitivity in this category no doubt increases preference for the web, allowing customers to readily compare prices.

Online shoppers in this category were heavily swayed by free shipping. Four out of every five consumers that were offered free shipping said that the offer influenced their decision to purchase from the website as opposed to another channel or a competitor. At the same time, other promotions were less likely to sway purchasers of toys, books and games to purchase from one company over another.

Apparel & Accessories: Research More on the Web, Less Price-Sensitive

For apparel/accessories buyers, all of the elements measured performed well, ranging in scores from 77 to 80, with brand image, consistency across channels and the website channel sharing top honors at 80. The high priority items, those where improvements will yield the highest impact on satisfaction and the future behavior of consumers, were the store channel, the merchandise and the brand image of the retailer. Price was the lowest rated element at 77, but also had a relatively low impact on satisfaction. Apparel & accessories buyers are not highly price-sensitive shoppers.

Thirty-six percent of apparel shoppers utilized the website as their primary source of research compared to 47% who utilized the store. Considering the variety of options and tastes that

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impact the apparel world, these are very impressive numbers. The web has done a very good job of providing the necessary information on look, fit and style to satisfy many shoppers' needs.

The apparel consumer is also highly influenced by free shipping offers, with four out of every 5 shoppers that were offered free shipping indicating that the free shipping offer influenced their decision to purchase online.

Not surprisingly, the apparel category had the largest share of women consumers (65%) of all the categories.

Electronics & Computers: Promotions and Convenience Are Key Influencers

Customers in this category were most satisfied with merchandise, with a score of 84. In addition to brand image and the store channel, convenience was another high priority item, offering retailers the best opportunity for improving customer satisfaction and influencing future purchase behavior. Within these high priority elements the ease of returning products, the helpfulness of store employees, and the usefulness of product information in the store were three areas in need of improvement. These items are not a total surprise based on the complexity of the products in this category. In addition, consumers were not very satisfied with how much the company cared about them.

Eighty-six percent of people buying electronics and computers purchased in the store, the highest percentage for all categories except for department stores. However, nearly half of the shoppers in this category researched their purchase on the retailer's website before making the purchase. This merchandise category saw the highest percentage of people doing research on a competitor's website, store or catalog at 26%—perhaps because most stores tend to carry the same name brands and people often price compare on these higher-end items.

Promotions played a large role in purchases in this category, with 62% of shoppers stating they purchased from the retailer when they normally would have purchased elsewhere as a result of promotional offerings. Since consumers are highly satisfied with price, achieving a score of 81, it appears that electronics and computer retailers are often buying their customers with promotions. Competitive pricing and many promotional offerings may have boosted satisfaction with price, but price has a low impact on overall satisfaction and future loyalty.

FINDING: PROMOTIONS CAN UNDERMINE SATISFACTION AND LOYALTY

During the critical holiday season, many retailers go to great lengths to keep customers from turning to the competition. Sales, coupons and promotions abound, and are effective at driving many customers to make a purchase. In fact, 58% of multi-channel shoppers surveyed stated that promotions caused them to buy from a particular company when they would not otherwise have done so.

Free shipping is a popular online promotion, which will come as no surprise to anyone who has made a recent purchase via the web. Especially during the competitive holiday season, many retailers offered free shipping as an added incentive – either to all buyers or to those

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whose total purchase exceeded a specific dollar amount. Online retailers seem to know what they're doing, as the research showed that free shipping definitely has an impact. Of those customers who were offered free shipping with their online purchase, 75% of them agreed that free shipping influenced the decision to purchase online, rather than from a store or catalog... or from a competitor.

While promotions such as free shipping and in-store sales appear to be effective at "drawing people in", these strategies may be somewhat shortsighted in that they don't promote long-term loyalty. The satisfaction of customers who were offered free shipping was only one point higher than satisfaction for those who weren't, and their likelihood to purchase from the company again in the future and recommend the company to others were also only marginally higher. In fact, across all categories measured, improving price was found to have very little impact on improving satisfaction and loyalty, especially for those consumers who conduct most of their purchases on the web.

Retailers who continue to focus on the immediate sale, rather than the longer-term share of customer, are not earning true loyalty. Rather, they are creating "bought loyalty", which will only last until the competition offers a better deal. The only true loyalty is earned loyalty, which is driven by satisfying customers.

As further evidence that retailers are missing an opportunity to build loyalty, consider the case of first-time buyers, who represent potential conversions to repeat customers. According to our research, first-time buyers are less satisfied than more regular shoppers. Their aggregate satisfaction score of 66 is 12% lower than the score of 74 for repeat buyers. At the same time, this critical group is far less likely to purchase again. Their likelihood to purchase next holiday season from the retailer is 25% lower (score of 65 vs. 81), while their likelihood to purchase in the next six months lags repeat purchasers by 24 points (scores of 55 vs. 79), or 44%. Additionally, these first-time buyers fail in another key measure of loyalty: our study shows they are 23% less likely to refer the retailer to others.

While the aggregate number of respondents to our survey who were first-time customers was small (4%), it was higher in specific categories. And, considering that 41% of multi-channel shoppers surveyed had not purchased from the company in the last three months, the opportunity for turning new and infrequent shoppers to loyal customers is significant... especially for retailers of merchandise that is typically purchased throughout the year. In short, retailers may be making the mistake of sacrificing long-term loyalty for quick sales. Free shipping, special promotions and low prices will get people in the door and get them to buy today, but the likelihood of converting those "bought" customers into long-term, loyal customers is not very good.

The Threat of Channel Cannibalization

Another potential downside of the reliance on promotional tactics, rather than loyalty-building strategies, is channel cannibalization. The research showed that approximately 25% of consumers chose the web over another channel due to promotions, and 18% bought from the store when they ordinarily would have used the web. Retailers may simply be causing customers to switch channels by offering incentives to use the "wrong" channel instead of the

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customers' true preferred channel for dealing with the company ... which may ultimately lead to lower satisfaction and decreased loyalty.

Decreasing Satisfaction with Online Retailers Supports Bought Loyalty Theory

As an adjunct to our research, ForeSee Results also looked at week-over-week trends among visitors to client websites representing leading e-retail organizations. Although these results represent the views of customers of a different group of companies than those in the multi-channel survey, the results indicate trends that also affect multi-channel retailers.

Research showed that satisfaction across our customer of e-retailers declined fairly steadily as Christmas approached. Overall, satisfaction among people who purchased online was down 3% during the week of December 20 – 27 as compared to the week before Thanksgiving. Surprisingly enough, declines in satisfaction were not due to transaction costs or site performance, both of which continued to satisfy users throughout the holiday season. Instead, the biggest factor in the drop in satisfaction seems to be the inability of customers to locate desired products. Satisfaction with the element of search decreased as Christmas got closer, perhaps due to increasing urgency, last-minute shopper panic and the out-of-stock status of desired products.

In addition, we saw loyalty (likelihood to purchase and likelihood to recommend to others) also drop during the holiday season, in fact at a slightly faster rate than satisfaction. So, although retailers were successful at drawing people to their websites with offers of free shipping and other promotions, they were not truly satisfying their customers or creating long-term loyalty.

CONCLUSION

Understanding what drives satisfaction among multi-channel shoppers is a huge opportunity for growth for the leading-edge retailer. Knowing how to maximize the power of each channel for their customers in support of an integrated sales strategy affords retailers considerable returns in terms of increased satisfaction, sales (both offline and online), retention and acquisition. As multi-channel retail matures, savvy retailers will increasingly recognize the critical role of satisfied customers in sales, loyalty and multi-channel success. By measuring customer satisfaction with the multi-channel shopping experience, retailers can gain an in-depth understanding of their customers' likes and dislikes in order to better focus on meeting their needs and exceeding their expectations.

Moreover, it is important not to underestimate or under-utilize the increasingly popular web channel, as its impact on the bottom line extends well beyond online sales into brand fortification, offline sales and overall profitability of the company. As the fastest growing and most dynamic, flexible channel, the website can become a powerful strategic asset that savvy multi-channel retailers will leverage for their company's economic advantage.

The competitive edge gained by listening to their customers and acting on their input will enable smart multi-channel retailers to succeed...throughout 2005, into the next holiday season and beyond.

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ABOUT THE AUTHOR

Larry Freed is an expert on web effectiveness and web customer satisfaction. He is also President and CEO of ForeSee Results, a market leader in customer satisfaction measurement on the web, which utilizes the methodology of the American Customer Satisfaction Index (ACSI).

ABOUT FORESEE RESULTS

ForeSee Results is the market leader in online customer satisfaction management and specializes in converting satisfaction data into user-driven web development strategies. Using the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI), ForeSee Results has created a model that scientifically quantifies the elements that drive online customer satisfaction and predicts future behaviors, including the likelihood to return to the site or recommend the site to others. ForeSee Results, a privately held company located in Ann Arbor, Michigan and can be found online at www.ForeSeeResults.com.

ABOUT THE ACSI

The American Customer Satisfaction Index (ACSI) is the only uniform, national, cross-industry measure of satisfaction with the quality of goods and services available in the United States. A key distinguishing feature of the ACSI methodology is its patented scientific approach to customer satisfaction measurement. The technology behind the ACSI computes scores that reflect performance, based on the relative impacts of various components of satisfaction on overall satisfaction and the likelihood of desirable future behaviors, such as repeat purchases. Accordingly, the ACSI methodology is able to isolate and determine the importance of the features and functions most likely to produce these behaviors—an important distinction from basic customer satisfaction ratings.

ABOUT FGI RESEARCH

FGI Research is a leading provider of market research and information solutions that improve the speed, accuracy and impact of business decisions. By combining proven research methods, trusted online sample, and advanced analytics and communications, FGI delivers to end users and marketing research firms immediate and actionable information to decision makers throughout their respective enterprises. FGI offers a premier suite of online research solutions under the SmartPanel family of specialty and proprietary custom research panels. For additional information visit www.fgiresearch.com.

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