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# The New Rules of Retail

## Executive Overview

Retail has come full circle, local to global and now back to local as international retailers cater to individual preferences of their best customers. It's a complex consumer market that spans borders, retail formats and media, and new rules of engagement apply. Jeff Jarvis' book ***What Would Google Do?*** inspires ten guidelines that help retailers to thrive in today's new consumer marketplace.

## Introduction

In its infancy, retail was comprised of small neighborhood stores where owners knew their customers and engaged in conversations that helped to determine the best merchandise mix and inventory levels. In the 1960s, the first chain stores appeared with Target, K-Mart, and WalMart finding great success. During this time, the focus on economies of scale pushed aside more personalized customer relationships. Consumers enjoyed convenience and were less concerned with service. Localization gave way to centralized planning.

In the 1980s store footprints grew, and hypermarkets came on the scene. IT systems helped to create and execute more efficient operations. First to market and lowest price ruled.

Today, many markets are saturated and technology advancements, such as e-commerce and mobile retailing, mean that consumers have more information with which to make buying decisions. Shoppers have become more discerning. Retailers must now focus on differentiating themselves and re-establishing two-way communication with their best customers. While price remains important, the experience is what keeps customers coming back.

Jeff Jarvis, well-known author of ***What Would Google Do?***, proposed something that he calls Google Rules. The table below takes each of Jarvis' Google Rules and applies them to retail industry examples to derive ten new rules of retail. In this, the fourth major phase in retail history, these are the rules that shape retailers' success. The introduction is a description of the topic, either business or technical, that gives greater detail than an executive overview. It may include background information from third-party sources of information.

"Google is changing our societies, our lives, our relationships, our world views, probably even our brains in ways we can only begin to calculate."— Jeff Jarvis, **What Would Google Do?**

## The New Rules of Retail

Google Rule	Industry Examples	New Retailer Rule
<b>New Relationship</b> Your worst customer is your friend; you best customer is your partner	<b>Newegg.com</b> lets manufacturers respond to customer comments, and their <b>EggXpert</b> site lets customers help other customers.	1. Listen to customers. Convert the critics to fans and the fans to <i>influencers</i> .
<b>New Architecture</b> Join a network; be a platform	<b>Tesco</b> and <b>BestBuy</b> released APIs for their product catalogs so third-parties could create new applications.	2. Become a <i>destination for information</i> .
<b>New Publicness</b> Life is public, so is business	<b>Zappos</b> and <b>WholeFoods</b> founders are prolific tweeters/bloggers, sharing their opinions and connecting to customers. It's not always pretty, but it's genuine.	3. Be <i>transparent</i> . Share both your successes and failures with your customers.
<b>New Society</b> Elegant organization	<b>Wet Seal</b> helps customers assemble outfits and show them off to each other. <b>Barnes &amp; Noble</b> has a community site that includes a bookclub.	4. Communities of your customers already exist, so <i>help them organize</i> better.
<b>New Economy</b> Mass market is dead; long live the mass of niches	<b>lululemon</b> found a niche for yoga inspired athletic wear. <b>Threadless</b> uses crowd-sourcing to design short-runs of T-shirts.	5. Serve small markets with <i>niche products</i> .
<b>New Business Reality</b> Decide what business you're in	When <b>Lowes</b> realized catering to women brought the men along, their sales increased.	6. Customers want <i>experiences</i> to go with the products they buy.
<b>New Attitude</b> Trust the people and listen	In 2008, <b>Starbucks</b> launched MyStarbucksIdea to solicit ideas from their customers.	7. Use social networks as data points for making <i>better merchandising decisions</i> .
<b>New Ethic</b> Be honest and transparent; don't be evil	<b>Target</b> is giving away reusable shopping bags for Earth Day. <b>Kohl's</b> has outfitted 67 stores with solar arrays.	8. Being <i>green</i> earns customers' respect and lowers costs too.
<b>New Speed</b> Life is live	<b>H&amp;M</b> and <b>Zara</b> keep up with fashion trends.	9. Be <i>prepared to pounce</i> on you customers' fickle interests.
<b>New Imperatives</b> Encourage, enable and protect innovation	<b>1-800-Flowers</b> was first to sell via Facebook and an early adopter of mobile commerce. The <b>Sears</b> Personal Shopper mobile app finds products based on a photo.	10. Give your staff <i>permission to fail</i> so innovation won't be stifled.

## The New Rules of Retail

**Rule #1: Listen to customers. Convert the critics to fans and the fans to influencers.**

Once a retailer gets a bad reputation, it's tough to overcome. The rate at which reputation spreads is enabled by communications media of the day, and today's social networks measure the dissemination of information in minutes. So it's imperative for retailers to protect and enhance their image wherever customers converse.

Newegg.com has a stellar reputation among computer enthusiasts, but there are always a few complaints posted on their website. Each of these complaints is read and many have responses. Newegg's customer service partners with suppliers to jointly ensure issues are resolved quickly. Nobody expects perfect execution from a retailer, but when something goes wrong customers do expect a remedy.

Not responding to issues causes a "megaphone" effect where one customer complains loudly and induces others join in. This can quickly turn into a wave of dissatisfaction with damage far beyond the original incident.

Retailers must neutralize dissatisfied customers by addressing issues quickly and directly, and convert happy customers into fans that spread the word.

**Rule #2: Become a destination for information.**

Customers with smartphones access product information and prices on their mobile phones – while in your store! Trying to stop the spread of information is not only counter-productive to society, but it's an impossible battle to win. Assume your customers are accessing information, and make sure your data is part of it.

One way to ensure your brand is represented is to provide APIs to third-parties so that your information can be leveraged by anyone developing product comparison apps and posting reviews. Both Best Buy and Tesco have released APIs that allow developers to create innovative applications that leverage their product data. Since their release, new applications have appeared on the web, mobile phones, and in Facebook, all of which increase the reach of a retailer's brand and go a long way toward building brand loyalty.

The retailers that share the most accurate and comprehensive product information win favor with consumers.

**Rule #3: Be transparent. Share both successes and failures with your customers.**

Zappos CEO Tony Hsieh doesn't hide behind his marketing staff. He's active with blogging and Twitter, communicating directly with customers and letting his personality shine through. Whole Foods Market CEO John Mackey takes a similar stance, and both are big influences on their company cultures. Customers appreciate candor and want to align with the retailers that reflect their values.

For example, Mackey famously wrote in the Wall Street Journal on health care reform resulting in some polarization, with some customers leaving, but others recommitting. Since that August 2009 article, Whole Foods revenue has continued to increase and customer loyalty is on the rise.

Consumers respect honesty, so give it to them straight.

#### Rule #4: Communities of your customers already exist, so help them organize better.

Social media allows us to communicate more efficiently. The same groups that have been around for years continue to exist today, but they are larger, more connected, and better informed. Retailers should harness the influence of these groups. Barnes & Noble provides an online community where book enthusiasts share recommendations, write reviews, and discuss books. Safeway's FoodFlex site let's customers discuss recipes and nutrition.

Web Seal enables co-shopping via social networks like Facebook. Friends can shop the Web Seal e-commerce site while circling products, leaving notes, and discussing fashion online while they shop together.

Bringing like-minded customers together can lead to product discoveries and better word-of-mouth advertising.

#### Rule #5: Serve small markets with niche products.

Yoga seems to go in and out of fashion over the years, but lululemon has found a core audience that's interested in healthy living and the apparel that goes with it. lululemon started in 1998 as a community hub that slowly expanded into a chain of over 100 stores. By listening to its customers, lululemon is able to design athletic clothing for this very specific niche.

Look for underserved markets to attract new customers.

#### Rule #6: Customers want experiences to go with the products they buy.

The shopping experience differs greatly between Lowes and Home Depot. Home Depot is a warehouse full of tools and lumber, with dim lighting and contractors walking the aisles. Lowes, on the other hand, decided to cater to women, and more specifically the wives that make the design decisions for their homes. So their stores have been praised for being clean, well lit and hosting "how to" classes for beginners. "Home Depot is for lumber while Lowes is for lighting." Different experiences attract different customers for the same products.

Know who your customers are and cater the experience to them.

#### Rule #7: Use social networks as data points for making better merchandising decisions.

Employees and customers form two influential groups of people with opinions about your stores. They are a gold mine for ideas, but it's not always easy to capture that information. Social media makes it easier not only to collect, but to also collaborate and test ideas. That's why companies like Best Buy,

Dell, and Starbucks provide websites where the conversation is all about innovation and participants include employees and customers.

While several retailers already preview sales, promotions, and new products on Facebook, it's only a matter of time before they start using Facebook for focus groups, where the design of products, promotions, and store layouts will be influenced.

You can't rely on data from social media solely, but it's a great compliment to other sources of data that help you make merchandising decisions.

#### **Rule #8: Being green earns customers' respect and lowers costs too.**

This rule requires setting goals, changing operations and reporting progress to constituents. UK grocer Marks & Spencer has announced its plan to be the world's most sustainable retailer by 2015. The company says it will revamp the products it creates to have a smaller carbon footprint, adhere to fair-trade rules, and rely on sustainable ingredients.

The Kohl's Green Scene website explains the company's efforts to protect and conserve the environment. They outline their plans to recycle, be more energy efficient, design better stores, reduce emissions, and encourage environmental values.

Green projects are a win-win for retailers and the environment.

#### **Rule #9: Be prepared to pounce on you customers' fickle interests.**

Fashion is fickle. A new music video, for example, can change the fashion scene overnight so retailers need to always be ready to capitalize on trends. Fashion retailers like H&M and Zara are able to quickly discern these trends, then manufacture low-cost versions that they take to market ahead of the competition. This keeps assortments fresh, and customers tend to visit stores frequently to see what's new.

Instead of quickly adapting to the DVD-by-mail business, Blockbuster waited too long to challenge Netflix and lost sales as consumers found an easier way to get movies. In contrast, competitor Redbox moved aggressively in the market with great success.

Retailers must constantly take the pulse of consumers, and adapt to their ever-changing needs.

#### **Rule #10: Give your staff permission to fail so innovation won't be stifled.**

With its heritage stemming from a flower shop in New York City, you wouldn't think 1-800-Flowers would be a big innovator. But over the years this retailer has been among the leaders in the changing retail market. It was the first to do business on AOL, the first to perform a sale on Facebook, and recently won the Mobile App of the Year (2010) Award from RIS. The company's culture allows for risk-taking and early adoption of technology, and so far this approach has paid handsome rewards.

Keep pushing boundaries and never be satisfied with the status-quo.

## Conclusion

Recent shifts in the economy and technology landscape have altered the environment in which retailers compete. Many retailers are embracing change and thriving, while others struggle to adapt. This New Economy brings with it a set of New Retailer Rules that should be considered in the context of your business as you adapt to change now and in the years ahead.

## About Oracle Retail

Oracle is the number one provider of innovative and comprehensive industry software solutions for retailers – enabling organizations to serve their customers better by applying insight into daily business decisions for more profitable results. With software that provides supply chain, operations, merchandising, store systems, optimization as well as enterprise applications and infrastructure software, Oracle partners with the world's leading retail companies, including 20 of the 20 top retailers worldwide, to transform the economics of their businesses.

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