

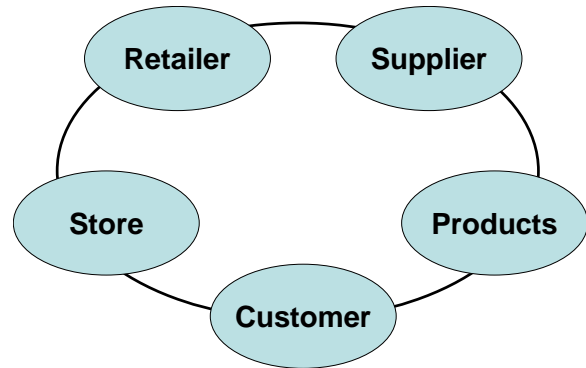
The Three Shopping Currencies

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Retailing is a Relationship Business

Retailing is all about bringing people together with the things they want and need. It has always been at the cutting edge of social evolution – and always will be. To really understand retailing, it is helpful to think of it in relationship terms. That is, to think in terms of the variety of relationships that most seriously impact retail. These are illustrated as follows:

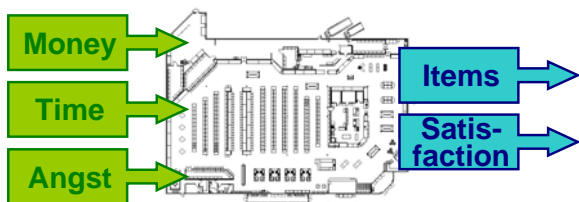
For much of retail, the dominant relationship driving the practice is that between the retailer and the product suppliers. This is especially true in a self-service world where the retailer's primary responsibility is to provide a store stocked with merchandise, and the primary responsibility of the supplier is just that – to supply the merchandise with which the store is stocked. This leaves the self-service customer to self-build their own relationships primarily with the store and the product within, the retailer and supplier being remote parties of little interest or involvement with the customer.



This is the stark reality that drives a good deal of retailing. Not that neither retailers nor suppliers seek to have a relationship with shoppers, but their own mutual relationship tends to cause those to the shoppers to pale in significance, and to remain somewhat distant, by comparison. This is the reality of self-service.

The “Give-Gets” of the Shopper in the Store

The purpose of this essay is to examine in more detail the relationships that shoppers develop with the store and the products. For this purpose, we first consider the store in an economic/engineering model of inputs and outputs, relative to the shopper. As the title suggests, there are three shopper inputs to the store,



what we refer to as the three currencies. And then there are the two basic outputs of the store. These five then are the “give-gets” between the shopper and the store. The shopper *gives* money, time and angst and *gets* items and satisfaction.

The advent of electronic check-out scanners in the 1970's opened the way for massive and relatively accurate measurement of the money and items, the two most obvious of the shopper's give-gets. In fact, two of the largest research organizations

in the world, IRI and Nielsen, are founded on the business of compiling the counts of these two variables and metering them out to both retailers and suppliers, for a healthy stream of profits.

However, it is noteworthy that for very many years, great numbers of retailers used scanner data for little more than totaling up the shopper's payment at the checkout; and for inventory control: monitoring the flow of goods through the store. It is especially significant that this data is summed up at the store level, and compiled *on a weekly basis*. Weekly totals are hardly the kind of detail that might be required in terms of understanding actual shopper behavior in the store. That is, these are rough measures, albeit in truckload quantities, that measures what goes in and out of the store on a weekly basis, but says very little about the *process* of what happens inside the store.

This is not to dismiss the value of this input-output information, especially on a competitive basis – channels, chains, categories, brands and even individual items. This tremendous value, particularly to the supplier, accounts for massive attention to every slight fluctuation in these numbers. But, again, those fluctuations are not necessarily very revealing about the causes.

Relating Single Item Purchases to Individual Shoppers

In the past decade, there has been tremendous growth in the recognition of the value of transaction data, when associated with specific shoppers, through shopper loyalty card information, rather than weekly purchases of the non-discriminated crowd. In fact, what was at the time a very small consultancy, dunnhumby, looking at the purchases of individual shoppers, linked to their demographic and other characteristics, assisted Tesco's move up to the position of third largest retailer, globally.

The data for this purpose does not even exist in the weekly roll-ups that are provided by Nielsen and IRI. It is not just shopper identity that is required, but the detailed log of every single shopper's every single shopping trip and every single item purchased on those shopping trips – or at least a very large number of them.

However, as salutary as the marriage of transaction log data to demographics and psychographics might be, this is still input-output type data that does not address the actual process within the store.

If we look at the outputs from the store, we see that *satisfaction* is also an output. It is interesting that a wide variety of organizations and methods have focused on determining in more or less systematic ways, customer satisfaction. All of these programs can have tremendous value in providing a view of the shopper's state of mind as they exit the store, or more often, some time after their store experience.

The point here is that, again, this is an output measure, not a process measure.

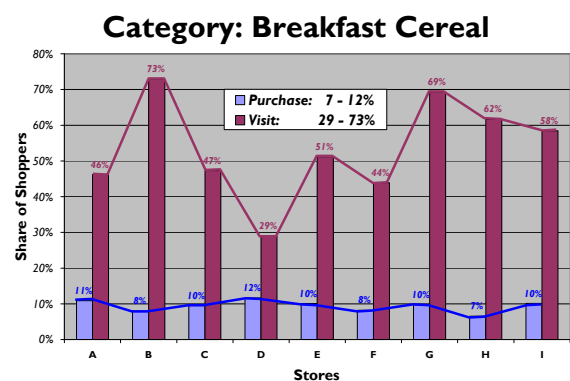
Thus, all three of the common measures of the store in *relationship* to the shopper are inputs and outputs to the store that can, at best, provide only inferential information about what is happening within the store. In fact, we submit that given the lack of direct measurement of behavior within the store, it is fair to describe the store as more or less a *black box* to all three of the major parties to the store: shopper; supplier; *and* retailer. A good deal more objective evidence in support of this assertion could be offered, but that is not the purpose of this essay. Rather, we seek to shine a bit more light on the store by showing the importance of the other two inputs, time and angst, and outline metrics and the application to retail profits, which should be of great interest.

Time as the Measure of Shopping

If counts of items and the money associated with their purchase are the two most crucial measures of outputs and inputs, then *time* is the most crucial *process* measure. That is, money and items measure purchasing, but it is time that measures shopping.

This may not seem readily apparent, but in our own work of tracking millions of shopping trips on a second by second basis, it has become apparent that it is time that distinguishes a visitor from a shopper.

Think about it: If you are a supplier that wishes to move merchandise through a retail establishment, it isn't having shoppers in the store that brings you sales, it is having shoppers in the aisle or location where *your* merchandise is. More than this, it is not just the shopper who is hurrying past your location on their way to somewhere else, but shoppers who are spending at least a modicum of time considering your, and your competitors', offerings. *Traffic in itself never buys anything, it is traffic investing time that becomes shopping.* The table at the right shows the relationship between the share of baskets with a breakfast cereal purchase, and the share of baskets that *pass*, that is, traffic past the breakfast cereal. Simply, there is no relationship between the two because in most stores the traffic past cereal has little to do with interest in cereal: that aisle is simply a convenient (or not) aisle to somewhere shoppers want to get to. (On this point, a study at the Wharton School confirmed that a high percentage of individual shoppers' time is spent transiting about the store, not directly involved in acquiring merchandise.)



The important take-away here is that time is the vital ingredient that converted some share of these visitors into buyers, and it converted to about the same final rate of purchase in *all* the stores. Clearly we need to understand better the potent power of this second currency, time.

There is a second point here worth noting: Although there is certainly variability from store to store in terms of share of baskets purchasing a category – cereal as the example – the reality is that the share of baskets with category purchases are *relatively* constant across stores. In this case, about 9% of baskets contain a cereal purchase across this series of stores across the US, across chains. To be sure, some sell more and some sell less, but the relative constancy of category sales is a reflection of the constancy of crowds. Although there will be differences, any 100,000 people will behave pretty much as any other 100,000 people will, at least in terms of cereal purchases (and for most other categories, for most of the time.)

Time IS Opportunity to Sell

Based on a variety of lines of evidence, it is apparent that it takes about a second for a shopper to actually take note of a stimulus, whether of a package, a product display or some other media. This means that one second of one shopper's time is a pretty good basis for measuring how much shopping is going on. Hence, shopper-seconds are the basic unit of shopping.

Another way to look at the shopper-second is to realize that each second a shopper is in the store is another opportunity to sell them something. This is the key to using time as more than just an input measure. Of course, we could measure how long a shopper is in the store, and count the money they spend, and determine how many seconds it takes for them to spend a dollar, Euro, baht or whatever. In fact, we can measure all the shopper-seconds from all of the shoppers in the store, and compare that to all the money the store takes in, to determine the efficiency of the retailer's use of the shopper's time, as a store performance measure. Why not?

Retailers commonly compute the turnover of cash per square foot or meter. This is certainly a useful and valid measure of the productivity of the real estate. Why wouldn't we want something to tell us the productivity of their use of an asset of great value to the shopper? In fact, it is not too great a stretch to say that many retailers know a good deal more about the management of real estate (and inventory,) than they do about the management of shoppers. As alluded to earlier, one can succeed in retailing with this situation because it is *self*-service, and the shopper is expected to manage their own shopping experience.

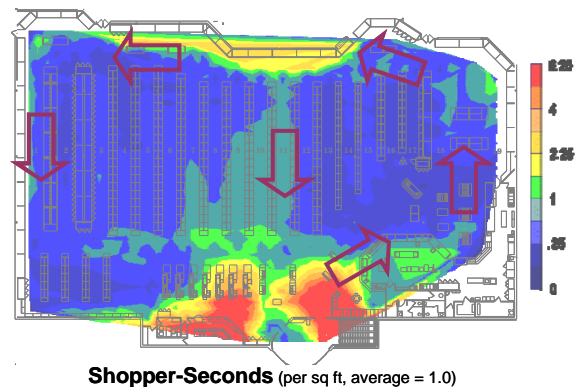
Participating With the Shopper – “Active Retailing”

In order to become actively engaged with the shopper, it is necessary to understand how the shopper is spending their time in the store. Or, perhaps understand *where* the shopper is spending their time in the store. The reason for this is so that rather

than waiting passively for the shopper to find their way to the merchandise they need, we can actively understand their needs and make relevant offers to them to expedite their purchases. This is a crucial concept, because instead of frustrating the shopper by trying to “build basket size” by holding them in the store longer, hoping they will buy something more, we will “build basket size” by getting more merchandise into their baskets more quickly. The simple fact is that holding them in the store longer, in the long run, will mean that they won’t be coming here so often. Because, in the long run, whether they put words to it or not, they will come to realize that *you* are not being as helpful as your competition.

So let’s consider a not unusual shopping trip, that begins with the shopper coming through the door, in this case on the right side of the store:

There is very little opportunity to sell the shopper in the blue areas, with much better opportunities in the green to red areas, where shoppers spend an average, to a much more than average amount of time. It has taken me years to stop thinking about how to get shoppers to those blue areas, and instead to focus on how to sell them more in the green to red areas, but this is the very essence of active retailing – focus on the shopper, rather than trying to get the shopper to focus on the merchandise.



Here we see a great amount of shopper-time just inside the entrance, with substantial numbers of shoppers making their way – in a counter-clockwise fashion – around the perimeter of the store. When they get to the back of the store, they are ready to leave, and begin to move through the broad back aisle across the store. Notice what happens next.



When they look down the first aisles, on their left, what do they see? . . . the produce and customer service areas where they started their trip.

But as they continue across the store, they eventually come to an aisle where the view at the front is NOT merchandise:

And so you see the first heavily traveled aisle, from the back of the store to the front, is the first aisle that leads to the checkout stands and the exit. This is a pattern that is repeated in store after store. In fact, in general, as shoppers get nearer and



Convenience
2,100 sqft

Specialty Retail
8,000 sqft

Drugstore
12,000 sqft

Supermarket
60,000 sqft

Mass Merch.
120,000 sqft

Super Center
200,000 sqft

Shopping Mall
800,000 sqft

nearer the checkout, they shop faster and faster – using most of their “leisure” at the beginning of the trip. The phenomena is so pronounced and regular that we refer to it as “the checkout magnet.”

Understanding Shopper Behavior vis-à-vis Understanding Products

But there is a very important point: this behavior is NOT driven by the location or arrangement of merchandise! In fact, a very large share of shopper behavior in the store is not driven by the merchandise. As we noted before, only a minority of the shopper’s time is actually spent in the direct acquisition of merchandise. The role of active retailing is to identify this non-economically productive time, and to do more selling during that time. Simply attempting to increase shopper time in the store has counter-productively led to fewer shopping trips, of shorter duration.

Another way to look at this is that, instead of trying to lure shoppers to where they are not, instead learn where they are (and where they are going) and merchandise to that. But of course, this active retailing will begin with knowledge of just where the shoppers are spending their time. It is shopper knowledge rather than product knowledge, the latter being the specialty of most retailers and their suppliers.

Lest it be thought that this is only about supermarkets, these principles have been validated across a great number of retail establishments, from full size shopping malls to closet-like convenience stores. Using shopper-seconds as a standard metric brings retailers into close alignment with the second currency of great concern to shoppers. We now turn our attention to the third currency: angst.

Angst: a vague unpleasant emotion

The third currency of shopping is easy to understand, but difficult to measure. It's a psychic, emotional deficit that can involve anything from a long checkout line to an out-of-stock item. Although it may be difficult to measure, this doesn't mean that the effects are slight or inconsequential. For our discussion here we want to focus on two major drivers of angst, both of which are related to the matter of choice.

In his book, *The Paradox of Choice*, Barry Schwartz describes an experiment involving product demonstrations at matched stores:

"In one condition of the study, 6 varieties of the jam were available for tasting. In another, 24 varieties were available. In either case, the entire set of 24 varieties was available for purchase. The large array of jams attracted more people to the table than the small array, though in both cases people tasted about the same number of jams on average. When it came to buying, however, a huge difference became evident. *Thirty percent of the people exposed to the small array of jams actually bought a jar; only 3 percent of those exposed to the large array of jams did so.*" [Emphasis added.]

Barry Schwartz, *The Paradox of Choice: Why More is Less*, pp. 19, 20

As Dr. Schwartz notes: "A large array of options may discourage consumers because it forces an increase in the effort that goes into making a decision. So consumers decide not to decide, and don't buy the product." In this case, fewer choices led to *ten times as much purchase!*

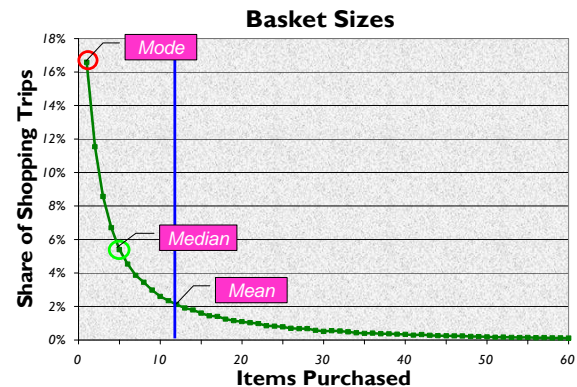
Generally speaking, people fall into one of two camps on this issue, described as "satisficers" and "optimizers." When shopping, for the satisficer there is an inner standard, a hurdle, that any product meeting or exceeding the standard will be accepted as satisfying, and no further consideration is needed. However, many shoppers are optimizers, for whom no level is satisfying, *if there may be a better option*. And just what is "better" can be a matter of complexity, involving personal tastes, price, objective quality, image, etc. But the bottom line is that more choices may create massive angst, leading to non-purchase, even in the face of considerable motivation to buy.

Choices, Choices, Choices

Putting this into market context for fast moving consumer goods, a retailer begins inventory choices from more than a *million* individual items (SKUs – Stock Keeping Units) in various supplier warehouses. From these, something like 30,-40,000 items are selected to offer to shoppers in a supermarket. However, individual households only purchase 300-400 different items *in an entire year!* And only about half of those are purchased regularly, month-in and month-out, throughout the year.

If these shopper purchases are reduced to individual shopping trips, the picture becomes even more shocking and angst producing (for the shopper.) Half of *all* supermarket shopping trips result in 5 or fewer items purchased! These numbers are as solid and factual as anything could be in retail, having been validated (so far) on every continent except Africa and Antarctica.

The fact is that *one single item* is the most common purchase, as seen in the transaction logs of major retailers around the world. And yet retailers are often focused on “the stock-up shopper.” It is true that those baskets with twenty or more items have a lot of economic value to the retailer, but what about the people bringing those baskets to the checkouts? These very same “stock-up shoppers” are virtually ignored, strategically, for the vast majority of their trips to the store, during which they acquire one or a few items. When buying only one item, they are still “stock-up shoppers,” just on a different trip.



Is it any wonder that an entire industry grew up to service the quick-trippers? Convenience stores are an illustration of what happens to “stock-up shoppers” when they are not welcomed in their usual establishments for those quick and fill-in trips. But how about stock-up shoppers, when they are on a stock-up trip?

Supermarkets in America typically have sales of \$10-20 million per year. The very good stores may hit \$30-50 million per year. However, one chain manages stores that regularly push *\$100 million per year*. That is, sells twice to ten times the competition, per store.

Management of those stores cite premium customer service as a major factor in their success. It is certainly a factor, but is unlikely to account for the performance of the stores. There are three other factors, two of which relate to *choice*, which need to be considered. The first of these is that the store offers the shopper only 2,000 items from which to make their selections. Is that adequate to generate ten times more sales than competitive stores? Well, it constitutes about ten times more items than the typical household will regularly buy. Think of it this way: 2,000 items, properly selected, can provide a shopper *ten options* for every item they typically purchase. Even given the diversity of tastes in a major metropolitan area, there are probably not many people who wouldn't find their own needs met at a Stew Leonard's (the chain cited here.) More importantly, think of the massive

reduction in angst when the shopper does not have to wade through those other 35,000 items to find just those they need.

So Stew Leonard makes massive choices *for* the shopper, and shoppers reward the reduction in angst with massive purchases.



The second choice issue addressed at Stew Leonard's relates to navigation of the store. There is no question that part of the angst issue in most stores is, "where is the . . . ?" This problem is greatly alleviated at Stew Leonard's by *eliminating navigation!* How is this done? Simple, there is only one aisle in the store! That is, the store mostly consists of one wide aisle that snakes its way through the store, so that as the shopper traverses this one aisle, they are exposed to all the merchandise in the store.

Of course, that's only 2000 items (plenty,) but it's all there, everything the typical household needs – and ten times more.

This means the shopper doesn't have to spend any time wondering where this or that is, but simply devote 100% of their time to assessing the moveable feast that passes effortlessly past them as they move along with the comforting crowd of fellow shoppers, all enjoying the same angst limited shopping trip.

The third factor (beyond customer service,) is the very large amount of fresh-content. In fact, at its core, Stew Leonard's is, as advertised, a *dairy* store, and the business has its roots in that business. So even though it is a full grocery business, it does have a strong focus on fresh.

None of this is intended as a paean to Stew Leonard's, but rather as a focus on the three currencies that the shopper pays in the store: money, time and angst. The key to retailer profits – and massive customer satisfaction to go with massive amounts of merchandise removed from the store – is to deliver those goods with an *optimum* of time, angst and money. This is the crux of the matter – what is the optimum? The reality is that money, time and angst are themselves inter-related, so there is not a single optimum.

To illustrate this point, consider an experience at Campbell's Soup years ago, when it was recognized that soup, with all those little cans and large number of varieties, represented some real challenges for the shopper attempting to find the specific item(s) they wanted. So in a carefully controlled matched store test, the soup was alphabetized (just like spices are.) Sure enough, shoppers could find their targeted

variety more readily – reduced angst – but they also bought less soup, presumably because they missed buying impulse varieties they just happened to come across while looking for their target varieties.

This illustrates what we have long observed: any rule of rational retailing can be profitably violated. We could multiply examples of this, but these profitable violations do not invalidate the principles behind the rules, and retailers who understand those principles can *measure* the impact of this or that retail practice, relative to the rules.

In spite of the extraordinary success of Stew Leonard’s, there are valid reasons why the industry hasn’t stampeded to that retail model. These reasons include the economics of the retailer-supplier relation, as well as competitive supplier-supplier relations. What is referred to as “SKU proliferation” is *not* an altogether irrational free-market response, providing genuine shopper benefits. But there are perhaps many players in the game with little understanding of the costs. It is our goal to shed some light through use of metrics.

A full discussion of current and likely future trends is not practical here, but we do note some strong players taking actions. This is not intended to be a broad survey but just to cite two examples.

HEB’s Central Market in Plano, Texas, appears to incorporate some of the same elements extolled above. This is mostly a serpentine path through a full sized store, with lots of “fresh” merchandise. Currently 8 stores, twice as many as Stew Leonard’s, but backed by a much larger regional chain. Without being privy to the economic performance of either chain, the growth of this concept shows a lot of promise.

Tesco’s Fresh & Easy in the American Southwest clearly target fresh, but are also focused on large numbers of quick trips. The navigation angst is minimized by the small stores, and there are only 3,500 items in the stores. However, the stores retain the typical grocery store “warehouse” type aisles, albeit with lower shelf height, which gives the store a generally more open atmosphere.