

Retailers Can't Rely on Holiday-Season Gimmicks Like They Used To



This holiday shopping season, the keys to winning for retailers will not be having the “toy of the season,” free shipping, or huge Black Friday sales. Shopping has transformed so significantly that these old ways of competing have become less effective.

For example, last holiday season, Toys “R” Us carried some of the most in-demand products, including licensed goods from *Frozen* and *Teenage Mutant Ninja Turtles*, but it still turned in a comparable store net sales decrease of 2.7% for the season.

While free shipping might have attracted customers to a brand in the past, the offer has become so commonplace consumers have simply come to take it for granted. The recent announcement that Best Buy will provide free shipping for all online orders, for instance, probably won’t make a huge difference because its customers are used to getting that deal on orders over \$35 already, and most products from Best Buy exceed that threshold.

Competing on price also produces less of an advantage now. Retailers have pushed prices as low as they can tolerate, and are now hoping the timing of their price promotions will give them an edge. Best Buy, like other retailers, is no longer waiting until Black Friday to offer discounts; they’re hold shopping events in 400 stores on November 7th this year. But this is an unsustainable strategy, and many companies now offer price-matching policies that make it difficult for any one brand to consistently offer significantly lower prices.

Retailers will win this holiday season by creating advantages in other ways, among them: brand strength, distribution, service, and customer experience. All of these require year-round dedication to management and marketing, rather than once-a-year sales gimmicks.

For instance, one of the most popular gifts last year was a gift card from Starbucks. One out of every seven Americans received one; that's nearly 46 million people. For most retailers, stocking the products that forecasters and pundits predict will be hits is less important than creating brand appeal that makes any of their goods desirable.

Distribution can also be a powerful competitive lever if executed with precision. Having the right product available at the right time in the right place is critical at a time when customers expect to access everything at their fingertips. Retailers fulfill those expectations by designing and operating a truly multi-channel shopping experience—that is, one that provides multiple options for the multiple stages of shopping (research, transaction, fulfillment, and service) and executes seamlessly across them. Outdoor retailer REI does this well across their channels including email, mobile, website, stores, in-store kiosks, and print.

Retailers also use different store formats and new channels to make their brands more relevant and accessible to customers. Nike now operates smaller stores with products just for women, community stores in urban areas that support volunteerism, and a new factory store concept that carries products that are not only discounted but also appeal to local customers, like the one near the University of Alabama that sells college-themed items. Macy's has also established a competitive advantage by tailoring the product assortment it carries in each store.

Service has always been a powerful differentiator, but it is rising in importance. Many products, even clothing and toys, now involve some element of technology, so services that help people understand and use new products—these might be useful content, interactive digital tools, or skilled salespeople—have become more valuable.

Perhaps the most successful retailers this holiday season will be the ones who compete on customer experience. They know that people make shopping decisions not only on product, price, offers, convenience, or even service, but rather the combination of all of these elements and the way they make people feel. We intuitively know that shopping is an emotional experience, but now neuroimaging research has confirmed it: shopping produces spikes in reward-circuit dopamine activity in the brain. Retailers win by paying attention to the feelings evoked by and benefits delivered through all aspects of the shopping experiences.

Wholesale club Costco uses a carefully conceived assortment of “trigger” products that prompt visits—core items such as laundry detergent, water, and toothpaste—to draw people into its stores. Then it appeals to shoppers' sense of discovery and entertainment through pervasive sampling, stack-'em-high displays, and unique selection to prompt impulse purchases—“treasures” like designer handbags and oversized teddy bears. On the other end of the experience continuum is PIRCH, the premium appliance and fixtures retailer. It designs its customer experience on the “SCARF” model, a neuroscience approach based on five primary human social needs: status, certainty, autonomy, relatedness, and fairness. From the friendly baristas who welcome customers at the coffee counters at the entrance of each showroom, to working stoves, shower heads, and grills that customers are encouraged to test on their own, the customer experience at PIRCH helps people feel comfortable and confident.

The holiday season is the ultimate test of a retailer's competitive strength, and brands count on sales at this time of year to carry them through slower months. But make no mistake: winning this game takes year-round attention to brand equity, distribution, service, and customer experience.