Research

State of Customer Service in the Retail Sector

North America and the UK

October 2008

Industry study conducted by eGain Communications

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Online commerce around the world continues to grow at a fast clip. In the US alone, Forrester Research projects that online commerce will grow 21% to $204B in 2008, compared to 2007.[1] European online retail sales increased 58% in 2007, compared to 2006, and the trend is expected to continue in 2008.[2] However, the retail industry is also one of the most competitive sectors, affected by economic cycles and cut-throat competition. The hypercompetitive business environment and the growing use of online and traditional interaction channels for some or all parts of the customer lifecycle presents the following challenges that retail companies have to address for business growth and market leadership:

- Customer service has become the only competitive differentiator. In fact, according to a 2007 JupiterResearch survey, 80% of consumers surveyed were less likely to buy online and 37% less likely to buy offline from a retail business, if they had an unsatisfactory customer service experience online.[3] Moreover, 87% said that good customer service would influence their decision to do business with a retailer in the future[4]
- As interaction channels proliferate, retail businesses have to provide seamless customer service experiences within and across channels to make it easy for the consumer to research, buy and use products. This includes not only being responsive but also providing effective, efficient and consistent service across communication channels and across agents
- Operating margins have continued to erode, forcing retail companies to do more with less in many areas, including customer service

The current state of customer service in this sector leaves much to be desired. According to the JupiterResearch study mentioned earlier, customer satisfaction has remained stagnant across many interaction channels, and according to a Forrester survey of companies in retail and other sectors, 57% of respondents thought that their customer service capability was average, below-average or poor, and 17% “did not know” their customer service performance.[5]

1 “The State Of Retailing Online 2008: Marketing Report.” Forrester Research, Inc., May 2008.
2 “Europe’s 2007 Christmas: An Online Retail Wonderland.” Forrester Research, Inc., October 2007.
3 “JupiterResearch/Ipsos Consumer Survey.” JupiterResearch, September 2007.
4 “JupiterResearch/Ipsos Insight Consumer Survey.” JupiterResearch, November 2007.
5 “Customer Service Best Practices Adoption.” Forrester Research, Inc., January 2008.

As part of an ongoing effort to assess the state of online customer service and promote best practices, eGain has been conducting cross-industry benchmarking surveys in North America and the United Kingdom since 2003. This report is based on findings about the retail sector from the following studies:

- **2008 State of Customer Service in North America**
- **2007 State of Customer Service in the UK**

The full reports of cross-industry and industry-specific findings from the North America and UK studies are available at www.egain.com/best_practices/research.asp.

About the "2008 State of Customer Service in North America" study

This research makes a holistic assessment of the state of customer service by measuring performance across many dimensions and abstracting it to an overall score called the **Service Quotient™** or **SQ™** for individual companies, the retail sector, and the overall market. The study benchmarked 120 leading enterprises in the US and Canada, including 20 retailers, and evaluated interaction channel choice, email customer service, web self-service, multichannel consistency, and multi-agent consistency with the following quantitative measures:

- **Email Quotient™**
- **Self-Service Quotient™**
- **Choice Quotient™**
- **Multichannel Quotient™**
- **Multi-Agent Quotient™**

The multichannel and multi-agent quotients measured the consistency of answers and process across multiple channels (phone and email) and multiple agents on the same channel (phone).

About the "2007 State of Customer Service in the UK" study

This survey evaluated only the email and web self-service capabilities of 125 leading companies in the UK, out of which 30 companies were in the retail sector. eGain plans to perform a more comprehensive assessment of UK companies' customer service performance in 2009.

I. Benchmarking Methodology

eGain used a "mystery shopping" approach to evaluate service performance. Analysts first evaluated the choice of interaction channels, including web self-service options, offered by these companies. Posing as prospective buyers of high-value products and services, they then contacted these businesses for customer service through email and phone.

The mystery shopping queries were customized for each evaluated business, and ranged from simple questions such as "What are the delivery charges for a certain TV model?" to more complex questions such as "I'd like to buy 15 toys for a group of kids. I need fast advice on deals and rates for any bulk discounts. Also, do you offer any gift certificates?" Based on the interaction options offered, and the speed, quality, and consistency of responses, the analysts then worked out the various sub-quotients. For the North America study, Choice, Email, Self-Service, Multichannel, and Multi-Agent Quotients were considered. (The Multi-Agent Quotient was calculated for the phone channel by contacting a minimum of two agents, and the Multichannel Quotient was based on phone and email channel interactions.) Only Email and Self-Service Quotients were evaluated in the UK study.

The sub-quotients were then abstracted to an overall Service Quotient (SQ). Assessed for each company in the North America study as well as the retail sector and the overall market, the SQ was normalized to a scale of 0.0 to 10.0, with 10.0 representing the highest possible score. Scores within each sub-quotient and the overall SQ were grouped into the following categories:

Sub-quotients based on a scale of 0.0-4.0:

- Score <1.0 = Poor
- Score ≥1.0 and <2.0 = Below average
- Score ≥2.0 and <3.0 = Above average
- Score ≥3.0 and ≤4.0 = Exceptional

Overall SQ based on a scale of 0.0-10.0:

- Score <2.5 =Poor
- Score ≥2.5 and <5.0 =Below average
- Score ≥5.0 and <7.5 = Above average
- Score ≥7.5 and ≤10.0 = Exceptional

II. Retail Sector Performance

SQ

The SQ for the retail sector in North America was below average at 4.6 out of 10.0, with scores ranging from 1.1 to 8.9. A majority (70%) of businesses performed “poor” or “below average”. Only 20% of the companies scored “above average”, and just 10% were “exceptional”. Despite this, the retail sector performed to par compared to the overall market average of 4.6.

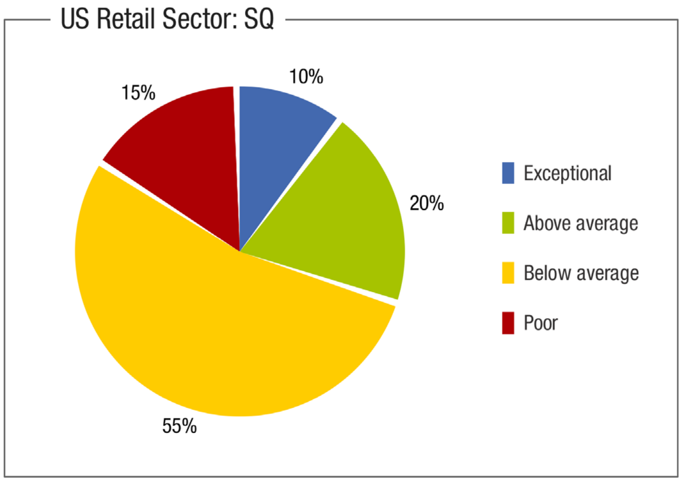


Figure 1: The overall Service Quotient (SQ) for the retail sector in the North America study

Choice Quotient

In the North America study, the Choice Quotient for the retail sector was just average at 2.0 out of 4.0 with 50% of the businesses scoring “above average” and

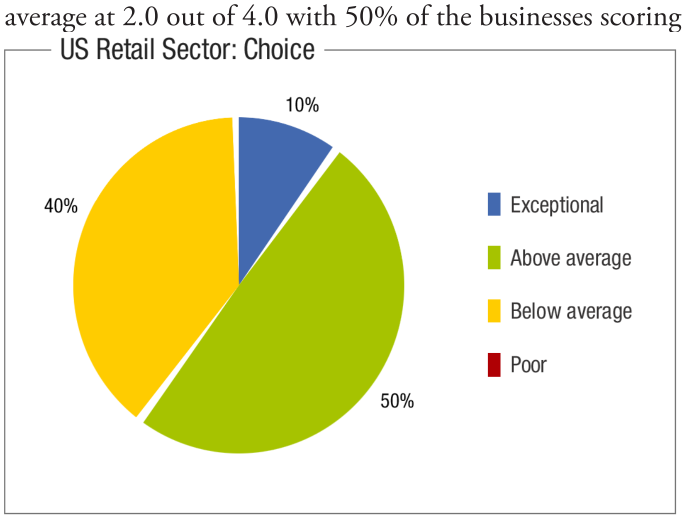


Figure 2: The Choice Quotient for the retail sector in the North America study

only 10% scoring "exceptional". The remaining 40% scored "below average." The scores reveal that retailers are lagging behind market demand for multiple interaction choices. As online retailing continues to take off, it is obvious that businesses must provide electronic communication channels that are integrated with phone, retail stores, and kiosks.

Multichannel Quotient

The Multichannel Quotient for the retail sector in North America was a shocking 0.9 out of 4.0, placing it in the "poor" category. Only 10% of the businesses surveyed received a perfect score. Even more, 65% received a "poor" score of 0.0 out of 4.0, and 10% received a "below average" score. In fact, the retail sector was the only sector to receive a poor rating in the Multichannel Quotient. This is a matter of concern since consumers tend to use different interaction channels across different phases of their lifecycle and oftentimes to complete a single transaction. For instance, online interactions tend to be higher before the holiday season when consumers perform research and make purchases, while inbound phone calls tend to pick up significantly after the holiday season when they have questions on how to use the products, how to return them, how to buy accessories, etc. Therefore, unified multichannel customer service is becoming a requirement for retail businesses, presenting an opportunity for competitive differentiation for first-movers in this area.

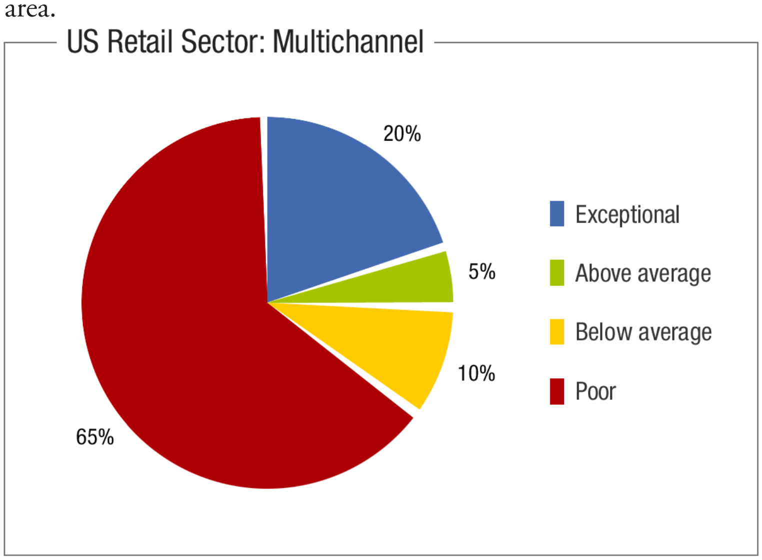


Figure 3: The Multichannel Quotient for the retail sector in the North America Study

Multi-Agent Quotient

The Multi-Agent Quotient in the North America study was just average at 2.0 out of 4.0 for the retail sector. 15% scored a perfect 4.0 while another 15% scored 0.0. When compared to the other sectors, the retail sector was one of the worst performers in the Multichannel and Multi-Agent quotients. This is a very shocking trend given the phenomenon that plagues the retail sector called "dialing for dollars" where prospective customers repeatedly call in order to get a better deal. Retailers with low Multi-Agent Quotients may leave money on the table when agents are not being consistent and current on pricing, promotions, shipping, and return policies, as well as their knowledge of SKUs they carry.

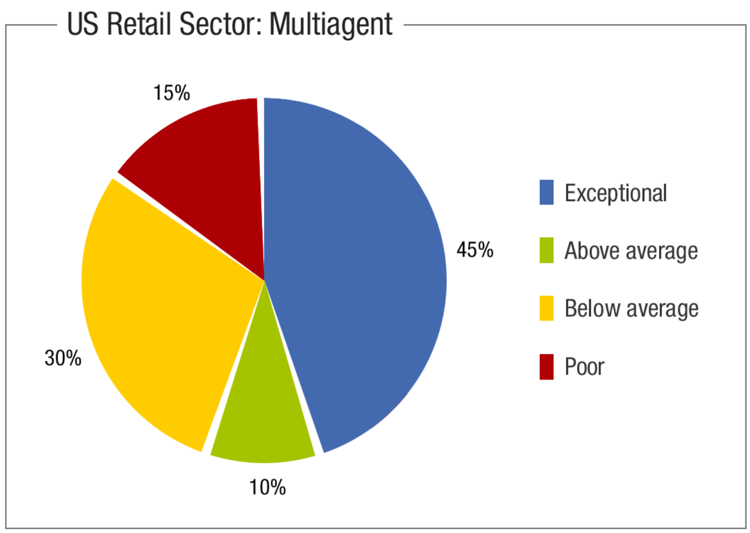
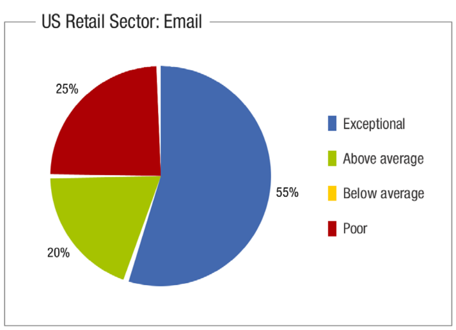


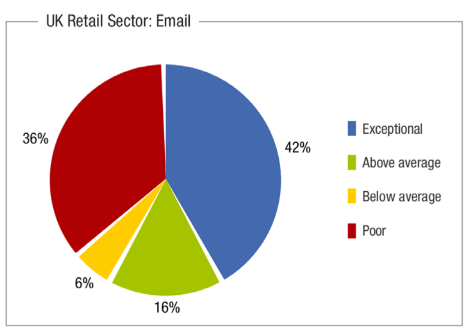
Figure 4: The Multi-Agent Quotient for the retail sector in the North America study

Email Quotient

Despite its poor multichannel performance in the North America study, the retail sector scored the highest in the Email Quotient with an "above average" 2.5 out of 4.0. Only 25% of the retail businesses performed "poorly" and the remaining 75% were "above average" or "exceptional".

In the UK study, the retail sector scored 2.1 out of 4.0, still "above average". However, the UK lagged behind the US in this quotient[6]. For instance, 35% of the companies received "poor" scores in the Email Quotient, while only 58% scored "above average" or "exceptional". Despite this, the retail sector scored at the top in the Email Quotient of the UK study, second to only the government sector. Thus, across geographies, the retail sector seems to be doing comparatively well in email customer service.





Figures 6 and 7: The Email Quotient of the North America study compared to the UK study

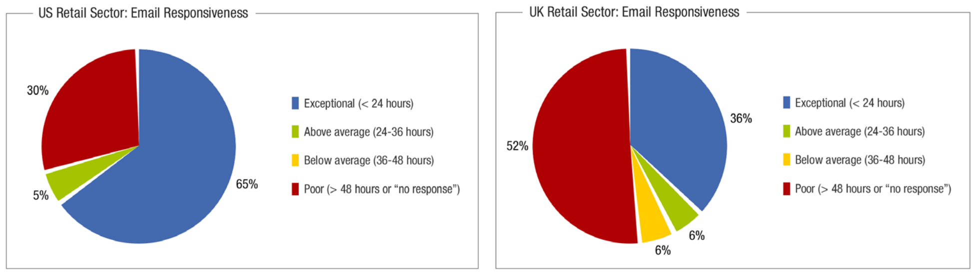
Email customer service was analyzed in both the North America and UK studies using the following criteria.

Responsiveness

About 25% of the emails in the North America study were ignored which was about the same in previous studies. 65% of the emails were answered within 24 hours compared to 54% in prior North America research. Moreover, only 30% of the companies took over 48 hours to respond to emails.

In the UK study, 35% of the companies failed to respond to emails. Only 36% of companies managed to respond within 24 hours – a drop from a 49% performance in previous UK research from 2004. In addition, over half of the companies took over 48 hours to respond to email inquiries.

6 The North America and UK studies had different sample sizes.



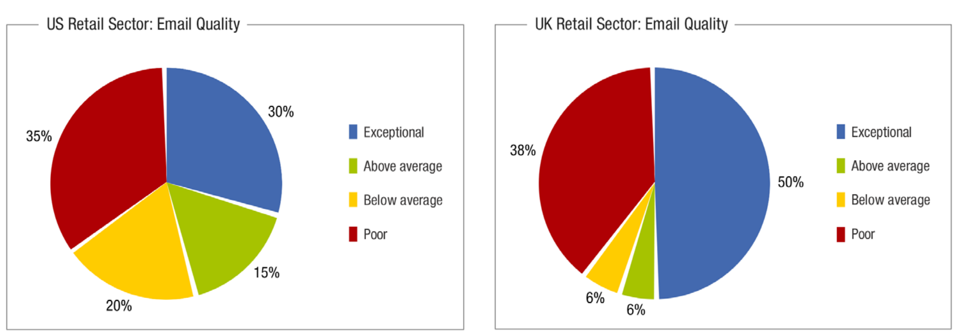
Figures 8 and 9: Email responsiveness in the North America study compared to the UK study

Although the retail sector performed comparatively well across geographies in email customer service responsiveness, there is still plenty of room for improvement in this area.

Quality

Despite the improvement in email responsiveness, email response quality worsened since the last North America study. The rate of "exceptional" responses decreased from 35% to 30%, and the rate of "poor" responses increased from 28% to 35%. Moreover, over half of the companies received a "poor" or "below average" score in email quality.

In the UK study, the results were opposite those from the US study: email quality scored higher than email responsiveness. For example, just about half of the companies received an "exceptional" rating in email quality. On the other hand, 38% of the UK retail companies received a "poor" rating in email quality. In the end, the US still outperformed the UK in regards to overall email customer service performance; however, both geographies could benefit from improvement in email customer service across responsiveness and quality.



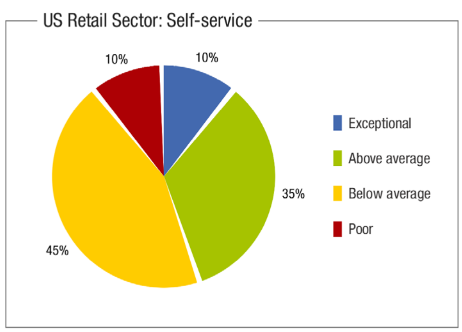
Figures 9 and 10: Email quality in the North America study compared to the UK study

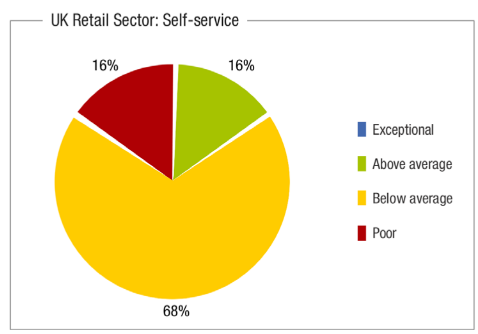
Self-Service Quotient

In the North America study, the Self-Service Quotient for the retail sector was 1.9 out of 4.0. About 35% of the businesses received "above average" scores while only 10% received "exceptional" scores. The remaining 55% scored "below average" or "poor." Despite its near average performance, the retail sector performed above the overall market in self-service. However, the score is still shocking given the fact that self-service is such a key requirement for today's web-savvy consumers.

In the UK study, the retail sector performed second to last in web self-service with a shocking 84% of the companies receiving "below average" or "poor" scores. No single retail company in the UK study received an "exceptional" rating. This is not a good indicator seeing as that European online spending is projected to increase almost 14% by 2012.[7]

In both North America and the UK studies, the performance of web self-service leaves much room for improvement, being rated near the bottom of the pack in both studies.





Figures 11 and 12: The Self-service Quotient of the North America study compared to the UK study

7 "European Internet Retail Forecast 2007 to 2012." JupiterResearch, August 2007.

III. Next Step: BPAS

Survey after survey of consumers confirms that “me-too” customer service is no longer enough to create customer loyalty. Today’s retail leaders dominate their market by out-innovating and out-doing competitors in customer service, while adding to topline growth through point-of-service sales and marketing. Is your customer service organization using contact center best practices, leveraged by the Global 2000 winners?

Find out by requesting a Best Practice Assessment Study (BPAS) from eGain, a recognized leader in customer service and knowledge management software. Our most successful clients had one thing in common – they started with a BPAS, when they launched their customer service transformation initiatives. You can play a vital role in reinforcing your company’s competitive position and boost your visibility in the executive suite by taking this proactive approach and leveraging the secrets and best practices used by these leaders. Unlike traditional assessment studies from the Big Four that can cost upwards of $20K, our BPAS will cost you nothing and there’s no obligation to buy anything from us. You will receive advice based on the industry’s most comprehensive body of innovations, best practices and domain expertise that we have built up by serving world-class companies for over 10 years. Register now at www.egain.com/bpas to qualify.

IV. Best Practice Recommendations

eGain is a pioneer in the area of customer service and knowledge management, and has been delivering trusted solutions since the 1990s to the world's leading companies, including many in the retail sector. Our white papers reflect expertise we have gained from helping hundreds of enterprises set up world-class contact center and customer service systems. You can download our best practice white papers at: www.egain.com/best_practices/library.asp and visit www.egain.com today to learn more about our solutions.

To read our retail case studies, visit www.egain.com/solutions/retail.asp and www.egain.com/customers/success_stories.asp

About eGain

eGain is a leading provider of multichannel customer service and knowledge management software for in-house or on-demand deployment. For more than a decade, the world's largest companies have relied on eGain to transform their traditional call centers, help desks, and web customer service operations into multichannel customer interaction hubs. Based on the Power of One™, the concept of one unified platform for multichannel customer interaction and knowledge management, these hubs enable dramatically improved customer experience, end-to-end service process efficiencies, increased sales, and enhanced contact center performance.

Headquartered in Mountain View, California, eGain has an operating presence in 18 countries and serves more than 800 enterprise customers worldwide. To find out more about eGain, visit www.egain.com or call the company's offices: 800-821-4358 (US headquarters), 1753-464646 (UK and Continental Europe).