THE BIG LEAGUES

The OC&C US Retail Proposition Index 2011/12

OC&C Strategy Consultants

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THE OC&C US RETAIL PROPOSITION INDEX 2011/12

The OC&C Proposition Index is a major piece of consumer research conducted annually, measuring shopper perception of the strength of different retail propositions. Consumers were asked to systematically rate retailers on their overall offer, and across different elements of their proposition (such as price, service, etc). From this customer perception of the strength of retail propositions can be benchmarked and "Champion Retailers" identified who are setting the standard, not just for their category, but for all of retail. Scoring highly in the index is not just a measure of customer satisfaction, but also an indicator of potential for long term revenue growth. On average retailers ranked in the top third of the OC&C Proposition Index have delivered annual growth over the last 5 years 10% faster than those in the bottom third.

The index has been published across a wide range of leading industry specific and general publications including Chain Store Age (USA), Retail Week (UK), The Times (UK), Lebensmittle Zeitung (Germany), Stratégies (France), Le Figaro (France) and South China Morning Post (China).

OVERALL USA PROPOSITION INDEX CHAMPIONS 2012

Amazon – A Consistent Number One

Amazon has again been rated by shoppers as America's favorite retailer ahead of Trader Joe's at #2 and Costco at #3. Amazon also topped the index in the UK, Germany & France and held top 10 positions in the other two geographies in which it was assessed (Netherlands and China).

The different sources of proposition strength enable Amazon to appeal across a broad range of different customer segments; Amazon is rated #1 amongst all consumers regardless of gender, price sensitivity or household income. The only area where Amazon is not top is with a younger customer (<35 years) – although they remain in the top 3; #2 for younger, more affluent customers behind Trader Joe's and #3 for younger, less affluent customers behind Sam's Club and Sephora.

Of the retailers covered in 2011 and 2012, c60% have improved their overall ratings from 2011 with an average improvement of 1.7 percentage points. The increase was predominantly seen in the softer factors such as Product Quality, Store Look & Feel and Service – changing price perception is fundamentally a longer term game.

The best improvement was seen from JCrew with a 5.4 percentage point increase, while Best Buy's struggles can be seen in a 2.9 percentage point decline – the most of any retailer.

How the Proposition Index is Measured

The OC&C Proposition Index is compiled by surveying nearly 25,000 consumers across 8 different countries (USA, UK, Germany, France, Netherlands, Poland, India and China). Between them consumers rated over 580 retailers in total – including 66 different retailers across 12 different retail categories within the USA.

Respondents were asked to rate a random selection of 10 retailers that they had shopped at (ie, visited or purchased) in the last 3 months on the overall strength of their proposition – and on individual elements (such as low prices, quality of products, service etc). Questions were based on a 5 star rating system (from 1=poor to 5=excellent) which is then converted into the simple 0-100 score shown in the index.

The sample sizes collated for each retailer means that ratings are accurate to within +/- 1.5 – and that differences greater than this are statistically significant.

RISERS AND FALLERS

Biggest changes in overall proposition ratings versus last year's index

IMPROVING

	Company	Change in Rating
1	JCrew	+5.4
2	Williams-Sonoma	+4.4
3	Dollar Tree	+3.6
4	Body Shop	+3.3
5	Wal-Mart	+3.2

DECLINING

	Company	Change in Rating
1	Best Buy	-2.9
2	Banana Republic	-2.7
3	eBay	-2.5
4	Sephora	-1.7
5	Dollar General	-1.7

CATEGORY PROPOSITION CHAMPIONS

GROCERY

APPAREL

ELECTRICALS

DEPARTMENT STORES

GENERAL MERCHANDISER

HEALTH & BEAUTY

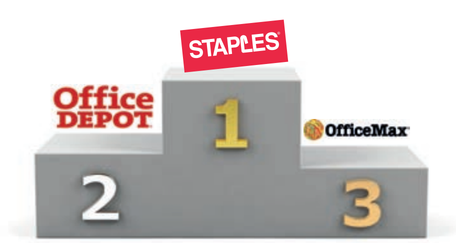
ENTERTAINMENT

DIY

HOUSEHOLD

CLUB

STATIONERS



DISCOUNT

Proposition Element Champions

In the US, Amazon holds a leading position in 4 of the 10 dimensions of the proposition; value for money, choice of products, products suited to me and online proposition, an impressive achievement for a single retailer. Outside of Amazon, the leaders in value for money are Aldi and Costco, testament to their strong value positions in the market. The top 3 for choice of products is completed by Ebay and Sephora.

Of the dimensions relevant to Amazon, they do not feature in the top 3 for low price, quality or service, proving that there are areas where they can be beaten. Low Price champion goes to Dollar Tree with Aldi and Ross close behind. Quality is won by Williams Sonoma, who also rate top for store look and feel; they are overall perceived to have a very strong product and store proposition. The Service crown goes to Trader Joe's, followed by Zappos and Bath & Body Works; the appearance of an online player in what is traditionally a brick & mortar strong hold shows how rapidly consumers are being won over by online retail.

Of the dimensions explored, Trust has the closest correlation with the overall score customers ascribe a retailer. The most trusted retailer is Zappos, although Amazon comes a close second and Trader Joe's makes up the top 3.

LOW PRICES	VALUE FOR MONEY	WIDE CHOICE OF PRODUCTS	PRODUCTS SUITED TO ME	QUALITY OF PRODUCTS
DOLLAR TREE	amazon	amazon	amazon	WILLIAMS-SONOMA
FASHIONABILITY	**STORE LOOK & FEEL**	**MULTICHANNEL RETAILER**	**SERVICE**	**TRUST**
Zappos.com POWERED by SERVICE	WILLIAMS-SONOMA	BARNES&NOBLE	TRADER JOE'S	Zappos.com POWERED by SERVICE

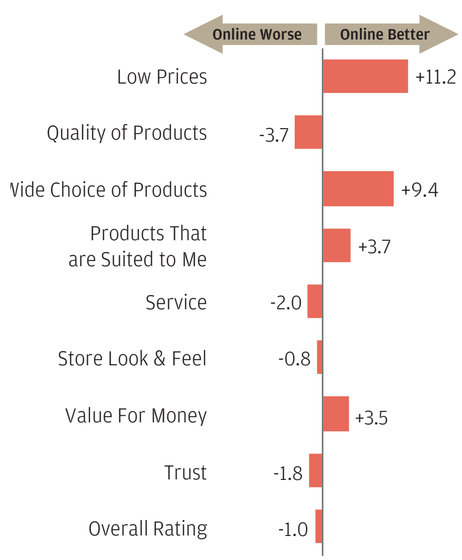
High Levels of Service are Insulating US Retailers From Online Specialists

Overall consumers perceive leading Online retailers to be broadly equal to their traditional Brick & Mortar counterparts – there is no significant difference between the average ratings of the top 5 of each. However, the propositions appear to have very different strengths. US online retailers are perceived as offering better value and score well on low prices and a wide range of products. In contrast, Brick & Mortar retailers score well on quality and service and are typically more trusted than their online counterparts.

Amazon is not the only etailer to score well in the index; a number of players have been able to build a strong customer perception to rival more established Brick &Mortar brands in a relatively short space of time; Zappos and iTunes are #4 and #5 overall, with Newegg coming in at #23 and Ebay #26 . Online retailers are setting new benchmarks for many areas of the customer experience, with Amazon clearly leading the way.

Across Europe, customers also perceive online retailer to be broadly in line with Brick & Mortar, however the overall positioning of the leading online retailers is typically higher than in the US. In Europe the top 5 online retailers sit within the top 20 retailers overall with the top 3-4 usually in the top 10. This suggests that at present the tail of online specialists may be perceived as weaker in the US than Europe. One potential reason for this is that the high level of service in the US acts as a natural insulator to online competitors – in markets where in-store service is weaker people are more likely to flock online quicker (the average Service rating of American retailers is higher than ratings achieved for Service by the European retailers).

Outperformance of Online Players[1]
Difference vs Brick & Mortar Players[2]

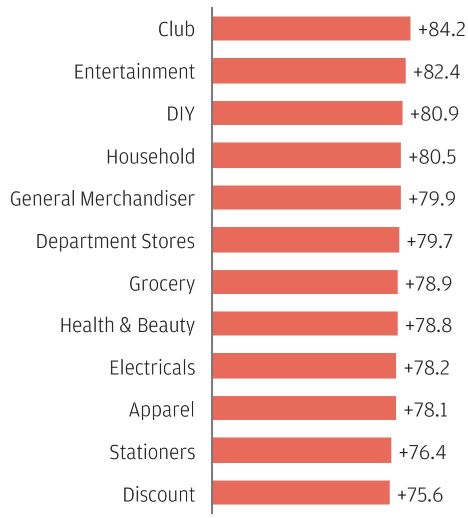


[1] Top 5 Bricks & Mortar: Trader Joe's, Costco, Apple Store, Sam's Club, Nordstrom
[2] Top 5 Online: Amazon, Zappos, iTunes, Newegg, Ebay

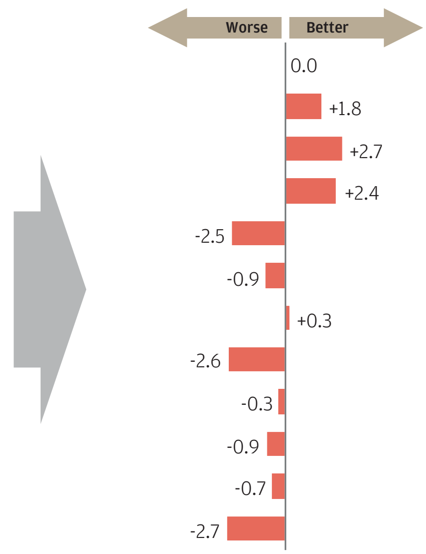
USA Leads DIY & Household Sectors But Discount Needs Work

This research also highlights a set of sectors where shoppers perceive that they have a choice of particularly strong or weak retail propositions in the USA. In particular, DIY and Household are sectors where US retailing is seen as world class with strong brands such as Williams Sonoma, Crate & Barrel and Lowes leading the way. Store Look & Feel, Service and Product Quality are areas where these propositions are considered to be particularly strong. For Household these factors actually offset a relatively low score for Low Prices vs international counterparts.

Average Scores for Overall Retailer Rating
Indexed, 0-100



Differences from International Average
Index vs Normalised Average[1]



General Merchandise, Health & Beauty and Discount are America's weakest sectors versus how shoppers in other countries rate those same sectors locally. For General Merchandise it is Service where international counterparts outperform. The category is also pulled down by Kmart which is c20pts below the number one player, Amazon, and c11pts below the top Brick & Mortar General Merchandiser, Target. Aside from Amazon, the General Merchandiser with the highest score is the online player Allegro in Poland, with Wilkinson's in the UK the highest rated Brick & Mortar retailer.

For Health and Beauty the picture is slightly more complex, with Value for Money and Quality of Products letting down the US retailers. Rite-Aid in particular scores poorly, c9pts below the top rated Health & Beauty retailer, Bath and Body Works. DM in Germany is the number one rated retailer for Health & Beauty internationally.

Discount is a consistently under-performing category with only a 5pt difference between the top, Dollar Tree, and bottom, Dollar General, rated retailers. Choice of Products, Low Prices and Value for Money are all areas where the international counterparts outperform the US retailers. Home Bargains and B&M Bargains in the UK lead the way, suceeding in redefining the format beyond fixed price and broadening range by trading suppliers against each other to optimise value for money.

There may be learnings for US incumbents in these sectors from looking at international best practice – or for insurgents and niche players to profit in these sectors.

Universal Appeal Across Regions

Amazon and Trader Joe's are rated in the top 5 retailers across all 4 regions of the USA (North East, Midwest, Western, Alaska & Hawaii, and South) proving they have achieved what few retailers have – universal appeal across the country. There is variation in the relative positioning however, Amazon loses its top spot to Trader Joe's in the South coming 4th overall after Zappos and Apple Store.

Outside of Amazon and Trader Joe's there is little consistency in the top rated retailers across the regions, with only Apple Store (South, North East) and Costco (Western, Alaska & Hawaii and Midwest) appearing more than once – the diversity and scale of the US remains a hard egg to crack.

Consumers Visiting or Purchasing Within Last 3 Months
Ranking

Geographic Region

	NORTH EAST	MIDWEST	WESTERN, ALASKA & HAWAII	SOUTH
#1	Amazon	Amazon	Amazon	Trader Joe's
#2	Apple Store	Ikea	Neiman Marcus	Zappos
#3	iTunes	Zappos	Costco	Apple Store
#4	Trader Joe's	Costco	Newegg	Amazon
#5	Williams-Sonoma	Trader Joe's	Trader Joe's	Nordstrom

[1] Locals have different benchmarks by which they rate retailers and therefore normalisation is required

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Rating of Overall Retail Proposition by Consumers Visiting or Purchasing at Retailer in Last 3 Months (Indexed 0-100)

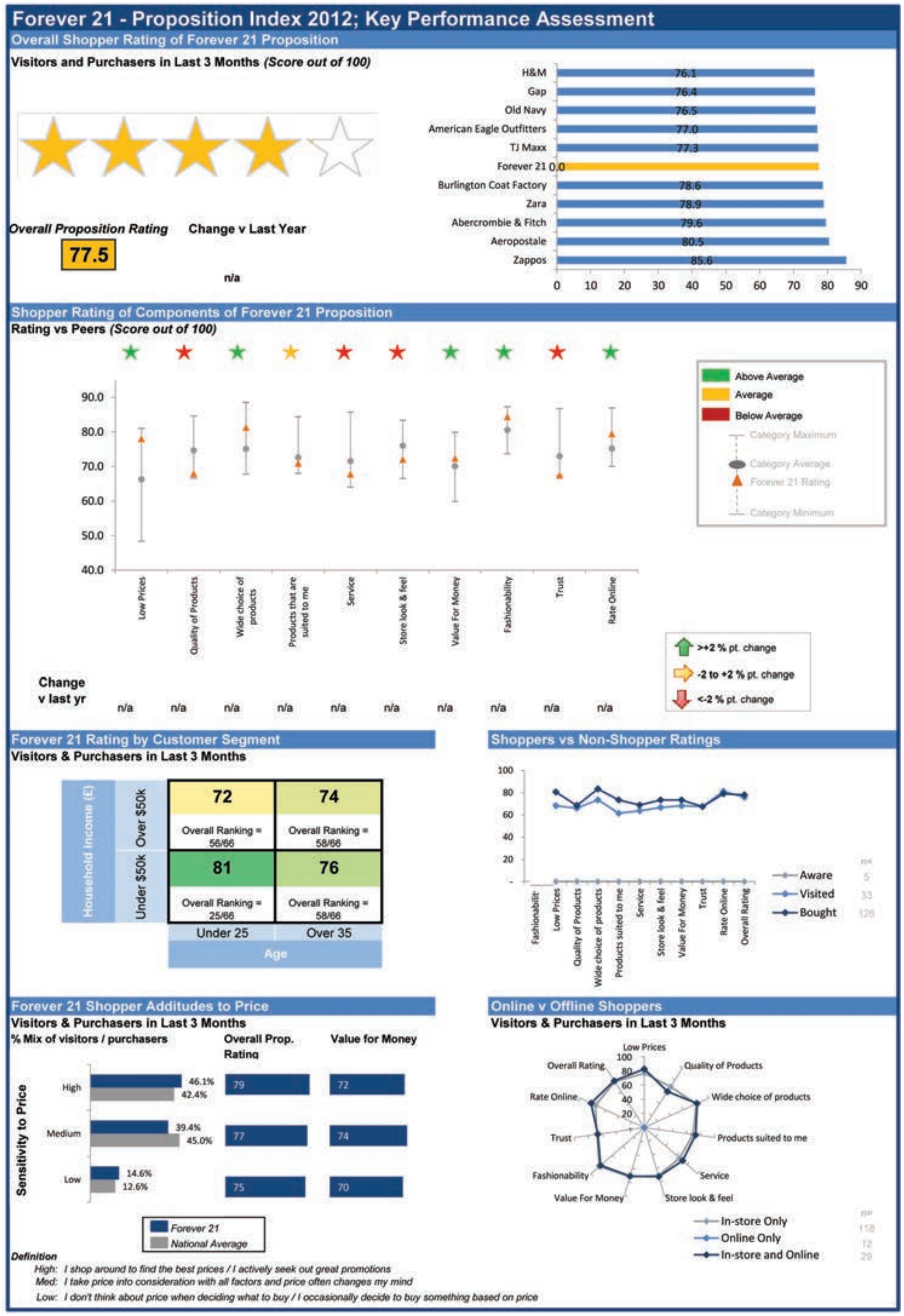
Rank	Company	Category	Score	2011-12 Score Delta
1	Amazon.com	Gen Merch	89.3	-0.6
2	Trader Joe's	Grocery	86.7	n/a
3	Costco	Club	85.7	-0.7
4	Zappos	Apparel	85.6	n/a
5	iTunes	Entertainment	84.7	0.2
6	Sam's Club	Club	84.5	2.2
7	Apple Store	Electricals	84.5	-1.6
8	Nordstrom	Dept Stores	84.3	2.7
9	Bath and Body Works	Health & Beauty	83.9	1.0
10	Whole Foods	Grocery	83.7	n/a
11	Williams-Sonoma	Household	83.2	4.4
12	Sephora	Health & Beauty	82.9	-1.7
13	Barnes & Noble	Entertainment	82.8	0.2
14	BJ's wholesale	Club	82.4	n/a
15	Saks Fifth Avenue	Dept Stores	82.3	n/a
16	Lowe's	DIY	81.7	0.0
17	Target	Gen Merch	81.7	-0.1
18	Kohl's	Dept Stores	81.7	0.5
19	Kroger	Grocery	81.6	n/a
20	Neiman Marcus	Dept Stores	81.5	n/a
21	Crate and Barrel	Household	81.3	n/a
22	IKEA	Household	80.9	n/a
23	newegg	Electricals	80.8	n/a
24	Aeropostale	Apparel	80.5	n/a
25	Aldi	Grocery	80.5	n/a
26	eBay	Gen Merch	80.1	-2.5
27	The Home Depot	DIY	80.1	1.0
28	JC Penney	Dept Stores	79.6	0.6
29	Bed Bath and Beyond	Household	79.6	1.9
30	Abercrombie & Fitch	Apparel	79.6	n/a
31	GameStop	Entertainment	79.5	-1.4
32	Dollar Tree	Discount	79.2	3.6
33	Macy's	Dept Stores	79.2	1.5

Rank	Company	Category	Score	2011-12 Score Delta
34	Dillards	Dept Stores	79.0	n/a
35	Zara	Apparel	78.9	n/a
36	Marshalls	Dept Stores	78.8	n/a
37	Burlington Coat Factory	Apparel	78.6	n/a
38	Staples	Stationers	78.4	0.3
39	Wal-Mart	Gen Merch	78.3	3.2
40	Ross Stores	Dept Stores	78.1	n/a
41	Walgreens	Health & Beauty	78.1	-0.6
42	Bloomingdale's	Dept Stores	77.6	0.5
43	Forever 21	Apparel	77.5	n/a
44	Pottery Barn	Household	77.4	-0.5
45	TJ Maxx	Apparel	77.3	0.5
46	Best Buy	Electricals	77.2	-2.9
47	American Eagle Outfitters	Apparel	77.0	n/a
48	Office Depot	Stationers	76.9	n/a
37	Save-A-Lot	Grocery	76.7	n/a
38	Safeway	Grocery	76.6	n/a
39	CVS	Health & Beauty	76.6	0.9
40	Body Shop	Health & Beauty	76.5	3.3
41	Old Navy	Apparel	76.5	-0.7
42	Gap	Apparel	76.4	1.5
43	H&M	Apparel	76.1	n/a
44	JCrew	Apparel	76.1	5.4
45	Big Lots	Discount	75.2	n/a
46	Sears	Dept Stores	75.0	-0.1
47	Banana Republic	Apparel	74.8	-2.7
48	Rite-Aid	Health & Beauty	74.6	1.9
49	Family Dollar	Discount	74.6	0.1
62	Office Max	Stationers	73.8	n/a
63	Dollar General	Discount	73.4	-1.7
64	Radio Shack	Electricals	70.3	2.4
65	Kmart	Gen Merch	70.1	1.1
66	7-Eleven	Grocery	66.8	n/a

UNPICKING INDIVIDUAL RETAILER RATINGS

The Proposition Index can be used to unpick how an individual retailer is perceived by its shoppers, what elements of the proposition are rated highly, where it is improving - and where there remains opportunity for further proposition development in the eyes of the customer.

As an example of this, below is shown some selected specific analysis from the Proposition Index on Clarks – a retailer where perception of the proposition has shown one of the largest levels of improvement vs last year.



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