ROR
return on reputation
INDICATOR
a research product of **APCO Worldwide**

# STATE OF THE RETAIL INDUSTRY:
EXECUTIVE SUMMARY

State of the Retail Industry

The retail industry is beginning to show modest signs of recovery. However, consumers remain cautious. Consumer confidence is improving, yet overall trust in companies continues to decline while the expectations all stakeholders have of companies continue to rise. Amid this complex and ever-changing environment, the industry needs to better understand and address the expectations all key stakeholders have in order to protect, enhance and track reputation over time, as well as quantify its real business impact on the industry and its individual businesses.

To help address these issues, APCO Worldwide and its research division, APCO Insight, developed the Return on Reputation Indicator, a robust, new tool that takes a more holistic and integrated approach to reputation management. The Return on Reputation Indicator study for the retail industry is based on a national, quantitative survey among nearly 10,000 respondents, offering a 360-degree view of reputation across all stakeholders, including consumers, community activists, policy-makers, retail employees, and investors and analysts.

This groundbreaking study has four major components:

- **The Return on Reputation Indicator** that quantitatively measures the relationship between the reputation of the retail industry and several key business outcomes, including consumer behavior, community activism, policy support, the litigation environment, employee retention and recruitment, and financial value

- **The Retail Reputation Model** that identifies the 24 most important drivers of the reputation of the retail industry and its major companies (defined by 40 discrete attributes)

- **The Retail Reputation Index** that is derived from the relative impact each driver has on the industry's overall reputation and the industry's perceived performance on each of those drivers

- **The Retail Reputation Matrix** that helps identify specific reputation strengths, but, more importantly, those opportunities that can help improve the industry's reputation most significantly over time by discrete audience segment
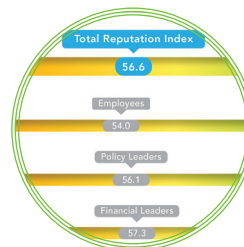
APCO's study shows that managing reputation by meeting the ever growing and evolving expectations stakeholders have for companies is more than a moral responsibility. The ROR Indicator shows us that meeting societal expectations impacts everything from how much consumers spend, to building support on the key policy issues that matter to the industry, to building employee engagement, and ultimately shaping shareholder value.

Margery Kraus, Founder and CEO, APCO Worldwide

Our reputation is arguably the industry's most important asset. Proactively managing our reputation allows us to keep the lines of communication open with all of our stakeholders so that we can improve the environment in which we operate. We can no longer simply respond to challenges and issues when they arise, but must work to build a reservoir of goodwill that allows us to engage more effectively and productively over time.

Sandy Kennedy, President, Retail Industry Leaders Association

Return on Reputation Indicator

Reputation Outcomes

consumer behavior	community activism	policy environment	litigation environment	employee engagement	financial value
What impact does reputation have on consumer behavior?	What impact does reputation have on driving community support or opposition?	What impact does reputation have on driving favorable policy outcomes on specific policy and regulatory proposals?	What impact does reputation have on leading Americans to give the industry and companies the benefit of the doubt when crises arise?	What impact does reputation have on driving employee retention and recruitment?	What impact does reputation have on shaping overall market/shareholder value?

Based on a sophisticated statistical analysis, the ROR Indicator reveals that reputation can increase consumer spending and loyalty, drive community support, improve the support of policy-makers on proposals favorable to the industry, help the industry earn the benefit of the doubt among Americans when crises arise, engage employees in ways that help avoid high replacement costs and have a tangible effect on a company's market capitalization. Specifically, the study measures how reputation can:

- **Lead to greater spending by consumers** – For every point of increase on the Reputation Index, it is predicted the average consumer will spend $133.05 more per year.

- **Mobilize community activists to become advocates** – For every point increase on the Reputation Index, it is estimated the industry adds approximately 94,600 additional community activists who actively and vocally advocate on behalf of the industry.

- **Increase the level of support among policy-makers on the most important policy issues facing the industry** – It is estimated that if the industry were to improve its reputation by 9 points among policy-makers, the industry could gain majority support on most policy issues.

- **Gain the benefit of the doubt among Americans when crises arise** – The data suggests that a one-point increase in the Reputation Index could translate into more than six million additional people who are likely to support and defend the industry.

- **Enhance employee engagement and retention** – It is predicted that for every one-point increase in the Retail Reputation Index, the number of employees who are most likely to remain with the company increases by nearly two percentage points.

- **Maximize shareholder value and increase market value** – For the average retailer, the data shows that a one-point increase in the Reputation Index can lead to approximately a 0.4 percent increase in market capitalization.

Retail Industry Reputation Model

Responsibility to Customers
- Product Quality
- Product Safety
- Value
- Customer Service
- Convenience
- Cleanliness
- Data Privacy
- Loss Prevention

Responsibility to Communities
- Community Engagement
- Local Investment
- Fair Competition
- Land Use
- Waste & Recycling
- Green Products
- Energy Efficiency
- Philanthropy

Responsibility to Investors
- Financial Strength
- Governance & Management
- Executive Compensation

Responsibility to Employees & Suppliers
- Fair Wages
- Job Opportunities
- Labor Relations
- Employee Benefits
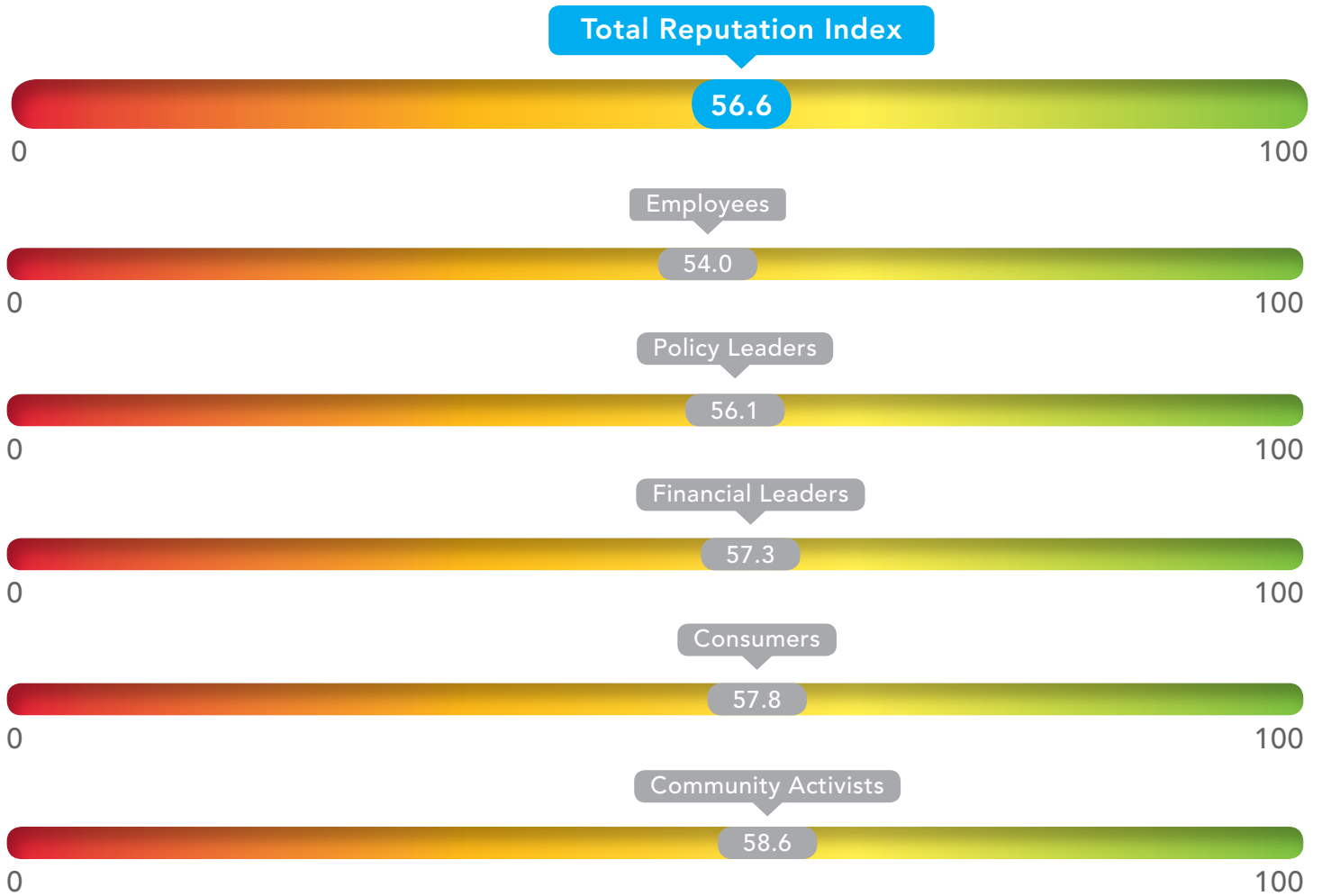- Supplier Responsibility

Retail Reputation

The foundation of APCO's Retail Return on Reputation Indicator is a robust model that measures the extent to which all stakeholders believe the industry (and individual retail companies) are meeting the unique and specific expectation they have for companies in the retail sector.

Based on extensive quantitative research in the retail sector over the past six years, as well as a series of focus groups and in-depth interviews, our research identifies 24 dimensions or drivers that define the reputation of the retail industry. Correlations between the 24 discrete factors show there are four broad dimensions of reputation

across all audiences: Responsibility to Customers (which accounts for 36 percent of the industry's overall reputation), Responsibility to Communities (which accounts for 36 percent), Responsibility to Employees and Suppliers (which accounts for 19 percent) and Responsibility to Investors (which accounts for 9 percent).

Retail Reputation Index

Total Reputation Index

56.6

0   100

Employees

54.0

0   100

Policy Leaders

56.1

0   100

Financial Leaders

57.3

0   100

Consumers

57.8

0   100

Community Activists

58.6

0   100

The Retail Reputation Index is a highly reliable measure of reputation for the industry and individual retail companies that ranges from 0 to 100. The index takes into account how the industry (or individual company) is rated along each of the 24 reputation drivers in the Reputation Model by each audience and the relative impact each factor plays in defining the reputation.
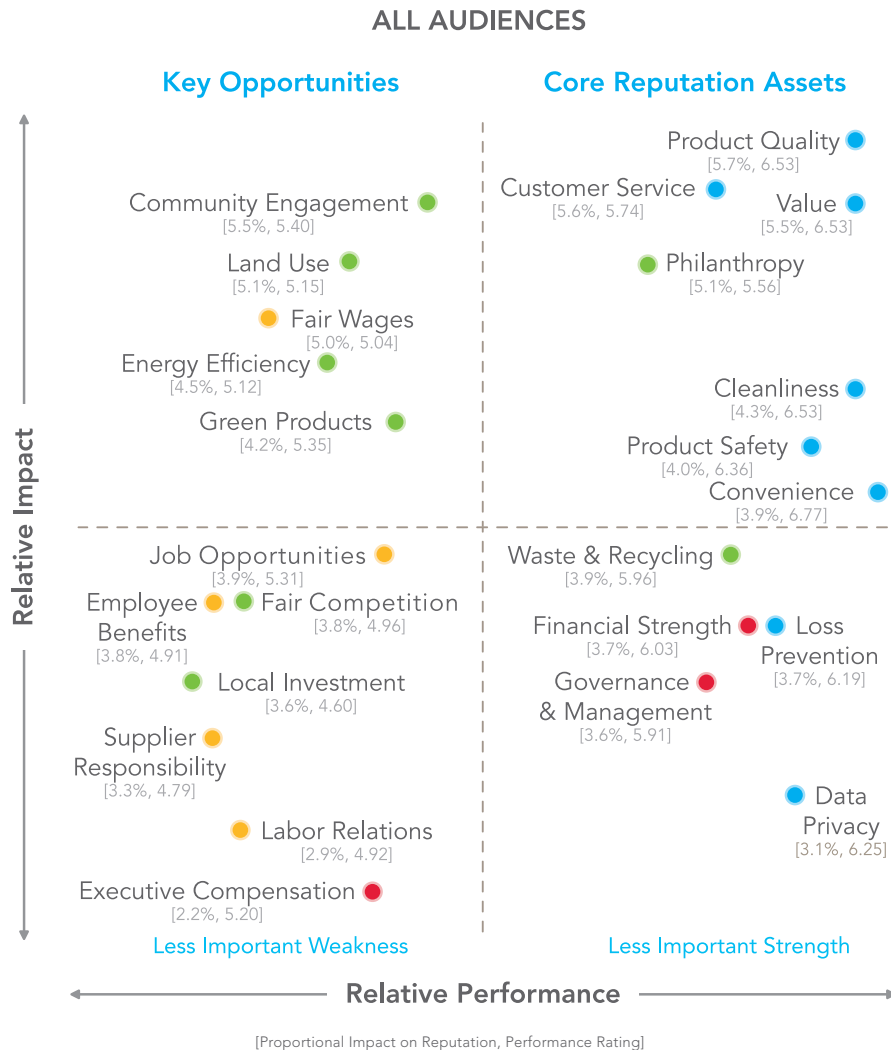
Based on this analysis, the retail industry recorded a Reputation Index of 56.6 across all stakeholders. The Reputation Index is slightly higher than the mid-point (50.0), which suggests that the industry is just barely meeting the expectations of most stakeholders and demonstrates that there is significant room for improvement. When compared to other industries, the retail industry's reputation is right in the middle: neither among the most reputable industries (such as computers and technology) nor among the least reputable industries (such as oil, health insurance or tobacco). The Index is computed separately for each stakeholder. By audience, the Index is the lowest among employees at 54.0 and highest among community activists at 58.6. The Index among policy leaders was 56.1, among financial leaders 57.3 and among consumers 57.8.

The real value of the Index is that it provides a statistically valid measure of reputation overall and by each key stakeholder that can be tracked over time to determine the effectiveness of various industry initiatives and communication efforts.

Retail Reputation Matrix

Key Opportunities   **Core Reputation Assets**

Relative Impact (y-axis)

Product Quality
[5.7%, 6.53]

Customer Service
[5.6%, 5.74]

Value
[5.5%, 6.53]

Community Engagement
[5.5%, 5.40]

Land Use
[5.1%, 5.15]

Philanthropy
[5.1%, 5.56]

Fair Wages
[5.0%, 5.04]

Energy Efficiency
[4.5%, 5.12]

Green Products
[4.2%, 5.35]

Cleanliness
[4.3%, 6.53]

Product Safety
[4.0%, 6.36]

Convenience
[3.9%, 6.77]

Job Opportunities
[3.9%, 5.31]

Waste & Recycling
[3.9%, 5.96]

Employee Benefits
[3.8%, 4.91]

Fair Competition
[3.8%, 4.96]

Financial Strength
[3.7%, 6.03]

Loss Prevention
[3.7%, 6.19]

Local Investment
[3.6%, 4.60]

Governance & Management
[3.6%, 5.91]

Supplier Responsibility
[3.3%, 4.79]

Data Privacy
[3.1%, 6.25]

Labor Relations
[2.9%, 4.92]

Executive Compensation
[2.2%, 5.20]

Less Important Weakness   **Less Important Strength**

Relative Performance

[Proportional Impact on Reputation, Performance Rating]

The Reputation Matrix maps each of the 24 reputation drivers by their relative impact and relative performance across all audiences as a whole and by each discrete audience. The Matrix illustrates that across all audiences, the industry's key strengths relate to how the industry is perceived in meeting the needs of its customers, especially regarding product quality (*sells high-quality products that meet consumer needs and sells new and innovative products*) and value (*offers fair and competitive prices*

that provide value for the money spent and sells products at affordable prices), in addition to philanthropy (*supports local charities and causes, donates a share of its corporate profits to charitable giving and encourages and supports employees to volunteer for charitable causes*).

The industry's key opportunities for enhancing reputation relate to how the industry responds to the needs of communities in which it operates in terms of community engagement

(*builds strong ties with local communities and cooperates with local governments to address community concerns*) and environmental responsibility, including land use, energy efficiency and green products.

The Matrix provides a roadmap for prioritizing key industry initiatives and communication, as well as a quantitative view on whether these efforts actually move the needle on reputation.

Summary of Strengths and Opportunities to Improve Reputation

Meeting the Needs of Shoppers

For all stakeholder audiences, serving the needs of shoppers is what the industry does best and is critical to its reputation. Delivering high-quality products to consumers, particularly new, innovative products of the future, is core to defining the industry's reputation.

The value retailers offer their customers not only is key to driving shoppers to the store, but also shows that the industry is helping enhance our standard of living.

Despite recent headline-grabbing issues, product safety emerges as a strength of the industry across all audiences. This suggests that the retail industry is meeting the product safety challenge and weathering the crisis well among all stakeholders. In fact, among investors and analysts, who tend to prioritize issues that pose the greatest risk, product safety is the single most important driver.

Customer service, convenience and cleanliness also emerge in the study as key strengths that are important in defining the reputation of the industry.

"Giving Back"

Philanthropic efforts through supporting local charities and causes, *donating a share of its corporate profits to charitable giving, and encouraging and supporting employees to volunteer for charitable causes*, has a profound impact in shaping the industry's reputation. APCO's reputation research for dozens of Fortune 500 companies in other industries rarely finds philanthropy to be as important as it is for this sector.

Despite increasing expectations society has for what companies are expected to do to give back, the retail industry is meeting the very high expectations of stakeholders and represents a core reputation strength.

Expectations to give back are especially important among retail employees. For many retail companies, employees play a very important role in giving back to their communities through employee volunteerism programs. The data reinforces that employees are also members of the communities and are often recipients of the philanthropic efforts by retailers. Philanthropy can generate significant pride in their employers and, as a result, plays a very important role in defining reputation that in turn helps to enhance employee engagement and recruit new employees.

Partnering with Communities

While the industry is meeting expectations for giving back through its philanthropic activities, the study shows that the industry still needs to be seen as a partner in solving the key issues facing communities. The industry's most important opportunity to enhance reputation is *building ties with local communities and cooperating with local governments to address community concerns*. Most audiences surveyed expect to see retailers act in a more collaborative and cooperative way with local communities and governments. Listening to the community and entering into a dialogue on community concerns is the top priority for most audiences and an area where the industry has yet to fully meet most stakeholders' expectations.

Listening and collaborating is not enough, however. The study shows that the industry is not yet meeting expectations for addressing land use issues. On average, the industry is viewed more negatively than positively for *working to ensure that stores take up less land and space*. Audiences also expect retailers to *plan ahead when building stores to reduce traffic and congestion, and build stores that blend into the local community*. Retailers are expected to be leaders in developing creative and innovative solutions to suburban sprawl and blight. Land Use is the single most important driver of reputation among community activists, and addressing these expectations is critical to the industry's ability to mobilize advocates on its behalf and reduce the number of vocal critics speaking out against new stores and the industry as a whole.

Responsibility to Employees

Employment issues are undoubtedly one of the most challenging issues for the industry. Across all audiences, fair wages are a fundamental expectation of the industry, yet one that the industry is not meeting. However, the industry is seen more favorably in the area of providing opportunities for job advancement. Highlighting an industry's "success stories" and emphasizing the chances an employee has to move up

through the ranks could help repair perceived weaknesses in wages offered.

Interestingly, Labor Relations (how the industry is viewed in *dealing fairly with employees who wish to unionize*) has very little impact on the industry's reputation for all audiences except policy-makers. The study suggests that labor relations issues have much less impact than what we might expect.

Environment

Stakeholder expectations for addressing environmental issues continue to grow for all industries. The study clearly shows that environmental expectations are particularly important in defining the reputation of the retail sector. While individual audiences differ in their environmental priorities, overall the most impactful way to demonstrate environmental responsibility is through efforts to promote energy efficiency. The data suggests an opportunity to build greater awareness of the industry's leadership in this area to enhance reputation.

Almost as important as Energy Efficiency in demonstrating environmental leadership, Green Products emerge as one of the top opportunities for building reputation. Despite recent efforts by some retailers to promote green products, the study shows that there is room for improvement in communicating the industry's leadership. Demonstrating leadership on green products is especially important for policy-makers and can help to build the reputation capital needed to create a more favorable policy environment. Employees also place a high premium on green products when assessing the reputation of the industry.

Although slightly less important in defining reputation than the other environmental drivers, the industry is generally viewed as meeting expectations for responsible waste and recycling practices. The industry receives particularly high marks for *offering recyclable bags*. Addressing waste and recycling issues is the most important environmental expectation for community activists and a key strength that should be leveraged to mobilize more advocates on the industry's behalf. Land Use is the single most important driver of reputation among community activists and addressing this expectation is critical to the industry's ability to mobilize advocates on its behalf and reduce the number of vocal critics speaking out against new stores and the industry as a whole.

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The study included 17 of the top retail companies. Members can receive a complete report of company-specific findings, including an in-depth view of the company's reputation ratings relative to the industry, quantitative assessment of the key reputation strengths and opportunities for protecting and enhancing reputation among each audience, and an assessment of the company's corporate responsibility initiatives in enhancing reputation.

To find out more about the Return on Reputation Indicator study or how your company can become a member and receive a custom report on company-specific findings, please contact: Bryan Dumont, president, APCO Insight, at 202.778.1000 or bdumont@apcoworldwide.com.

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