

Using retail market surveillance to improve quality

For retailers and brands operating in today's dynamic marketplace, product quality is the leading factor influencing consumers' buying habits.



Empowering Trust™



43%   
of brand leaders say product quality is
A KEY DRIVER
of their company's value proposition for consumers.
(Consumer Experience in the Retail Renaissance)

According to “Consumer Experience in the Retail Renaissance,” a 2019 report by Deloitte Digital, the digital consultancy division of the international advisory firm, 43% of brand leaders surveyed identified product quality as the key driver of their company’s value proposition for consumers. Quality, according to respondents, was more than twice as important as uniqueness, 15%, and nearly four times more important than price, 11%.¹ This trend aligns with the findings of a separate study by research firm First Insight, titled “Quality More Important to Consumers than Price as Influence of Discounts on Purchase Decisions Declines,” in which 53% of consumers surveyed rated quality as the most important factor when making purchases, compared with just 38% who identified price as the most important factor.²

In response, retailers are actively working to improve the quality and consistency of products they sell while also streamlining operations and reducing costs. Increasingly, the efforts rely on retail market surveillance programs to identify quality issues and to work more closely with vendor partners to reduce and eliminate the reasons for customer dissatisfaction. These efforts lead to increased operational efficiency and fewer customer complaints, and also serve to strengthen vendor capabilities to make the vendor and retailer more financially resilient.

In this UL white paper, we will discuss how retail market surveillance programs support retailers’ efforts to address product quality issues, improve the overall experience of consumers and strengthen retailers’ operational and financial performance.

The dynamics of the retail landscape in the 21st century

Today's global retail industry has its roots in ancient trade and commercial bartering dating back more than 10,000 years. But in the past 20 years, retail has undergone a radical transformation, unlike any in its long history. The launch of online retailers, like Amazon in 1994 and Alibaba in 1999, introduced consumers to a completely different shopping experience, one that enabled them to shop and purchase an infinite variety of products, all from the comfort of their home or workplace.

Despite skeptics, who believed that it would be just a fad, online retail shopping by consumers quickly scaled to compete with in-store sales of general merchandise. The U.S. Commerce Department estimates that the value of nonstore U.S. retail sales in February 2019 surpassed the value of sales generated in so-called brick and mortar (B&M) department stores and warehouse clubs.³ For a growing number of consumers already pressed for time, today's online shopping platforms offer fast, convenient access to products ranging from groceries, everyday necessities, the latest fashion apparel, footwear and home furnishings.

Although closings and bankruptcies of B&M retail locations hit record levels in 2017,⁴ many traditional retailers have responded proactively to the growing number of consumers using online shopping options. For most, retailer-branded online shopping platforms have become an essential complement to their physical stores and a critical element in their overall marketing efforts. This blended approach can help level the playing field for traditional retailers while also giving consumers the added advantage of being able to pick up or return their purchases from their local store.

At the same time, several prominent online retailers are experimenting with opening physical retail stores in selected communities. For example, some fashion retailers use B&M locations allowing consumers to try on sample garments to identify the best fit and size before ordering them for home delivery. Other online retailers establish B&M locations to offer consumers product pickup and return conveniences afforded by their traditional competitors. Similar to physical advertising media such as billboards, B&M locations for online retailers also help to build brand recognition among consumers.

In the ongoing competition for consumer spending, these and other trends represent both a reflection of shifting consumer priorities as well as consumer responses to a wide array of shopping options. With more options available, consumers can now select the shopping venue, online or B&M, that most closely aligns with their overall requirements and preferences. This flexibility gives consumers the freedom to better define the nature and quality of their retail experiences and enables them to focus on those experiences that provide the greatest personal value. From actual shopping data, retailers can then discern the values and other factors that drive spending and modify their models to meet consumer expectations better.



NONSTORE
based U.S. retail sales
SURPASSED
brick-and-mortar
retail sales in February
2019
(U.S. Commerce Department)

The increased importance of quality in retail products

For many retailers, competing based on price has always been a key component of their marketing strategy. The introduction in the early 1980s of retail warehouse clubs, where consumers can regularly purchase staples and other common household products at discounted prices, are perhaps the best examples of how low prices can serve as a magnet for consumer spending. But even conventional retailers routinely promote sales events or provide coupons that offer consumers discounts on the standard pricing of popular products.

As a competitive strategy, sales and discount pricing, especially of commodity products, will always hold appeal among price-conscious consumers. However, a growing number of consumers are increasingly taking other factors into account when choosing how to allocate their retail spending. Most notably, quality is rapidly surpassing price as the key factor in making purchase decisions regarding a variety of products.

According to the Deloitte Digital study on the “Consumer Experience in the Retail Renaissance,” more than half of baby boomers, Generation X and millennials chose quality over price in their purchasing decisions. The preference is even more pronounced among respondents who make more

than \$100,000 per year, a prime target for upscale retailers.⁵ Surprisingly, a separate study conducted by researchers at the University of Alabama and titled “Price and Quality Value Influences on Discount Retail Customer Satisfaction and Loyalty” found that pricing is increasingly less important than quality considerations among discount retail shoppers. Shoppers, according to the study, already anticipate lower prices when shopping at discount retailers, eliminating pricing as a driver in customer satisfaction.⁶

The trend among consumers to place a greater emphasis on product quality aligns with many of the strategic objectives of retailers. In general, products that meet consumers’ quality expectations are less likely to be returned or exchanged for alternative products, helping to reduce labor and administrative costs. Higher quality products also minimize a retailer’s potential exposure to product recalls stemming from health or safety concerns. Reducing the likelihood of returns and product recalls, along with other factors, can help bolster consumer confidence in a retailer or retail brand and build customer loyalty, and have a positive impact on a retailer’s overall financial performance.



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(Consumer Experience in the Retail Renaissance)

Key quality vulnerabilities for retailers

However, providing consumers with consistent quality in the products they buy presents a never-ending challenge for both traditional and online retailers. Today, quality issues found in retail products can be traced to several potential causes, including:

Extended supply chains - In today's global economy, retailers can source products from every corner of the world. But the potential benefits are often outweighed by the sheer size and complexity of the extended supply chains required to produce and distribute those products. These characteristics result in a staggering number of potential quality variables to be monitored and controlled.

Continuously changing supplier/vendor networks - The best retailers are continuously evaluating ways to improve the quality, speed, and responsiveness of their vendor/supplier partners, which often leads to abandoning existing supplier relationships in favor of new ones. Dynamic economic factors, such as local labor and production costs, currency exchange rates and tariffs, can also prompt retailers to modify supply chains to reduce costs.

Insufficient transparency in supplier operations - Effectively monitoring product quality throughout extended supply chains and continuously changing vendor networks can be an overwhelming task; one made even more complicated by insufficient transparency in many aspects of vendor operations.

Particular challenges can originate in vendors' sourcing of materials and components from third-party suppliers or in inadequately designed production systems and processes.

Incomplete or vague product specifications - Often, retailer procurement processes fail to provide sufficient detail regarding the desired quality or performance parameters for a given product. Procurement specifications may be vague or incomplete, or difficult to translate into other languages, leaving it to the supplier or vendor to interpret the requirements. Of course, vague specifications can also open the door to fraudulent supplier practices.

Lack of mechanisms for verifying product quality - Even when retailers provide detailed procurement specifications and requirements, they often neglect to implement robust mechanisms to verify that received products are compliant with those requirements. This can result in a retailer unknowingly selling products that fail to provide the product benefits promoted to consumers. It can also lead to the sale of potentially unsafe products, exposing retailers to product recalls and litigation.



The role of retail market surveillance in retail quality



Retail market surveillance programs constitute an effort on the part of retailers to gain insight into what consumers actually encounter when purchasing goods and services from them. Surveillance programs can be used to assess multiple aspects of the retail experience, from the condition of physical retail facilities to the manner with which consumers are greeted and treated by salespeople and customer service representatives. Increasingly, surveillance programs are also being used to provide assurances that the quality of goods and services that consumers purchase is consistent with the standards set by the retailer.

When it comes to assessing product quality, retail market surveillance programs can be used to accomplish one or more of the following objectives:

Uncover root causes of adverse product return patterns — When the number of returns for a given product exceeds established norms, retail market surveillance can support efforts to uncover root cause issues driving those returns.

Assess the conformity of new products with procurement specifications — Newly introduced products or products made of new or different materials may not initially meet contracted specifications. Retail market surveillance can identify discrepancies early in the product rollout process, facilitating prompt action to address the gaps.

Evaluate the quality of products sourced from new suppliers — Similarly, the quality of established products sourced from new suppliers may vary from comparable products from other vendors. Retail market surveillance can be used to pinpoint variances traceable to specific vendors.

Identify vendors whose products routinely meet or exceed requirements — On the positive side, retail market surveillance can help identify vendors and suppliers who consistently provide quality products, giving retailers greater flexibility in reallocating purchasing budgets among best performers.

Provide general quality oversight — Finally, data from retail market surveillance programs can serve as an important supplement to a retailer's own efforts to monitor the quality of the products it sells or distributes.

Regardless of the specific objective(s) to be achieved, the execution of retail market surveillance programs typically follows the same path. First, the retailer identifies the products or product categories that will serve as the target for retail market surveillance activities. Next, the retailer defines the minimum quality specifications and standards that the identified products must meet and clarifies any additional information or metrics necessary to support a thorough assessment.

Once products or product categories have been identified, the retailer then contracts with an independent third party that takes on the principal responsibilities for executing activities in support of the retail market surveillance program. The selected third party purchases random samples of the identified product(s) through the available retail channels, including physical stores and online retail sites, and then conducts product testing, construction reviews and other evaluations to assess the quality of those products against the quality specifications defined by the retailer. The third-party assessor then compiles the results of their evaluation and provides the retailer with an analysis of the quality of the products assessed to pinpoint specific factors that may adversely impact product quality.

Based on the information provided in the third-party assessment, the retailer can then take the necessary steps to address any identified issues that are adversely affecting product quality. This includes working more closely with vendors and suppliers to clarify product expectations or eliminating vendors producing noncompliant products and redistributing purchase orders among those whose products meet the retailer's quality requirements.

The benefits of quality retail market surveillance

Quality retail market surveillance programs are not a substitute for meeting the regulatory requirements and standards applicable to their products. Rather, they serve as an important complement to regulatory testing, providing retailers with greater insight into how consumers perceive the quality of the products they buy. It allows them to promptly identify and address quality issues that could adversely affect consumers' perceptions. As such, quality retail market surveillance can help to improve overall levels of consumer satisfaction.



Equally important, an active quality retail market surveillance program can help to raise performance expectations for suppliers and vendors. Retailers who conduct retail market surveillance clearly communicate their company's commitment to providing consumers with quality products. Suppliers who consistently fail to provide quality products will quickly lose ground to those who better meet retailers' expectations, even when pricing considerations are taken into account.

Finally, quality retail market surveillance activities directly support the long-term success of retailers. Quality products are likely to produce fewer returns, thereby contributing to improvements in operational profitability. Retailers, who proactively focus on quality, gain an important edge over retailers offering comparable products of lesser quality, strengthening consumer loyalty and commitment to their brands. These and other factors are essential in sustaining and increasing current and future revenue, providing brands a critical advantage in today's hypercompetitive marketplace.



How UL is working with retailers to deliver quality products

Backed by more than two decades of experience in working with a diverse range of retailers, UL's quality retail market surveillance programs offer retailers a turnkey solution for identifying and addressing quality issues in retail supply chains.

Our quality retail market surveillance efforts can be deployed to focus exclusively on products and product categories at the greatest risk of quality deficiencies or expanded to cover a full range of products across a retailer's entire supply chain. Quality testing of random samples pulled by a national collection network are tested in UL's testing laboratories for conformity with our clients' defined specifications. Our comprehensive analysis provides retailers with important insights regarding supplier performance, product failure rates and targeted areas for improvement.

UL's quality retail market surveillance programs can also be combined with our regulatory and safety retail market surveillance offerings to provide a comprehensive solution to support the goals of both product safety and quality.



Summary + conclusion



In the dynamic marketplace of the 21st century, the quality of a retailer's products has increasingly become a critical determinant for where consumers spend their money. In their efforts to meet this challenge, quality retail market surveillance programs and other market surveillance activities can provide retailers with detailed information essential to bringing quality products to market to meet the needs and expectations of consumers. Quality retail market surveillance can give retailers greater insight into supplier performance, thereby helping to make retailer supply chains more resilient and more responsive.

For more information on UL's quality retail market surveillance programs for retailers, visit us on the web at [CRS.UL.com](https://www.crs.ul.com). Or contact us at QAInfo@ul.com.

End Notes

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