

A Quick
Reference Guide

MYSTERY SHOPPING

A Critical Industry for Thousands of Businesses

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MSPA[®] NORTH AMERICA
MYSTERY SHOPPING PROVIDERS ASSOCIATION

MEASURING EXPERIENCE. ASSURING QUALITY.

THE MYSTERY SHOPPING INDUSTRY... A DEFINITION

Mystery shopping has been a standard business practice used as far back as the early 1940s, when retail became a major force in the U.S. economy. Since then it has evolved as a tool used externally by market research companies and watchdog organizations, and internally by companies themselves. Mystery shopping:

- Measures quality of service
- Evaluates compliance with regulations and workforce development objectives
- Gathers specific information about products and services.

The mystery shopper's specific identity and purpose is generally not known by the employees of the establishment being evaluated. But as a staple of American business practices and a critical tool for nurturing workforce development, mystery shoppers pose as actual customers or users of a service – by purchasing a product, asking questions, registering complaints or behaving in a certain way – and then document their experiences and/or other findings. Companies use this vital information to make key adjustments to their operations.

Mystery shopping, which outputs an objective snapshot of a business's performance, is used in virtually all business-to-consumer industries as the primary essential tool utilized to assess and improve the customer service experience.

Typical Mystery Shopping Clients

Mystery shopping programs are used by a large percentage of industries including but not limited to:

- Retailers of all types – clothing, grocery, department, sporting, etc
- Fast casual restaurant chains
- Financial institutions
- Home builders
- Physicians
- Automotive Sales and Service
- Theme parks, museums, theaters
- Professional and amateur sports
- Government agencies (i.e., DOT)
- Fine dining restaurants
- Insurance Companies
- Apartment communities
- Healthcare companies and facilities
- Hotels, resorts and timeshare
- Educational institutions
- Gaming industry
- Municipal government (libraries, parks)

Virtually every other industry sector whose companies have customers engaging with their respective brands utilizes mystery shopping programs in some capacity. The sizable investments made by all industries in market research, along with their investments in developing programs for customer service delivery and workforce development, are validated and protected through the use of mystery shopping programs.

Mystery Shopping Overview

Mystery shopping is a management tool that verifies whether a company's operational policies are consistently executed by:

- Measuring employee performance and productivity.
- Measuring the extent to which a company's team supports their brand identity.
- Uncovering the disconnect between corporate culture, policy, and customer experience.
- Quantifying the company's workforce impact, and the need for future investment in human resource capital and job development.

Mystery shopping also promotes high quality standards, and incentivizes a greater competitive marketplace. It develops the data that a company needs in order to author, implement and adjust employee training programs and best practices, to ensure a stable workforce delivering exceptional customer service.

Mystery Shopping Operations

In its simplest form, mystery shopping involves contracting with hundreds of thousands of pre-recruited, highly observant, ordinary Americans, across the United States to anonymously evaluate a business in their spare time for nominal supplemental income.

These "Mystery Shoppers" make objective observations about their interaction with a business, and document their specific observations about areas such as customer service, sales ability, merchandising, product quality, operations and compliance. While every measurement method has its limitations, the anonymous secret assessment of mystery shopping delivers a highly successful tool for measuring how well company policies are implemented and brand experience is reinforced at every customer touch point.

CUSTOMER EXPERIENCE MANAGEMENT AND MEASUREMENT

Managing the customer experience is the largest investment some businesses make in their operations and can be the most critical component to their success. Achieving a high degree of alignment between customers' desires and expectations and the processes designed to meet them is key in achieving the optimal customer experience.

Desires and expectations change, and in a free market economy competitors may introduce new products or services that redefine customers' perceptions of what is innovative and attractive. Thus, the process of measuring a customer's expectations is an ongoing mission. And developing a workforce that consistently represents the company's brand promise and implements its processes and policies when working with customers is complex, time consuming and costly.

If any component of the sophisticated factors that lead to customer satisfaction is out of alignment:

1. Customers will have unsatisfying experiences
2. The company is likely to achieve lower sales, customer retention, profits and overall ROI
3. A negative economic halo effect can be created over a specific market district or the overall brand
4. The resulting economic underperformance leads to higher unemployment and less tax receipts

Benefits of a Mystery Shopping Program

The aggregate data from an ongoing mystery shopping program can then be used to:

- Make adjustments to operational policies
- Develop and adjust workforce training programs
- Enhance the alignment between management's performance expectations and actual store-level performance.
- Accurately measure Return On Investment (ROI) in product, brand, and the workforce.

THE MYSTERY SHOPPING BUSINESS MODEL

Every business interaction comes down to two factors:

1. *Is the customer satisfied?*
2. *Is the business empowering its employees, as ambassadors of the brand, to deliver this satisfaction?*

Mystery shoppers answer these two questions and provide America's businesses with the unique customer intelligence required to generate meaningful and relative improvements upon their own respective businesses. These independent contractors make time to pose as everyday consumers, across diverse ethnic, age, socioeconomic and gender stratum, in order to measure customer experiences and identify the situations that can impact workforce training and development - all in a "real world" environment—helping a business to see itself as its customers see it.

Just as business interactions can be assessed by several simple core factors, the operating components of a model mystery shopping platform require a handful of logical, yet critical, elements.

The operation of a successful mystery shopping program depends on:

1. **Large numbers of people.** To assure reliable measurement, a significant number of mystery shoppers are needed, so that feedback is representative of a large, varied segment of the consumer population, leading to more accurate impressions of the broader customer experience. A typical company may arrange 5,000 or more "mystery shops" a month for a client all across the country. The vast number of mystery shoppers also ensures that the workforce being "shopped" doesn't become too familiar with particular mystery shoppers, which can compromise anonymity and invalidate the results.
2. **A wide variety of demographic segments.** When planning a "shop," all demographics must be considered. When businesses serve a diverse population, they want assurance that their customer service addresses that diversity. Clients may have a particular interest in selecting key demographics; many are looking for a wide range of genders, ages, socio-economic backgrounds, employment status and ethnography.
3. **Resources across the country.** Mystery shopping companies offer services to clients all across the country, which is especially important for national chain store retailers, restaurants, financial institutions and other businesses with multiple locations throughout the U.S. Many companies contract with mystery shoppers in virtually every state in the country. A provider company must be able to contract with believable local shoppers who are familiar with their specific market. To do this, they must keep a sufficiently large and diverse database of mystery shoppers to be able to serve their clients and engage qualified mystery shoppers to perform the shops whenever and wherever the clients request them.

Shoppers Classified as Independent Contractors

In order for companies to have access to vast numbers of mystery shoppers representing the wide range of socio-economic demographics and geographic diversity that their business clients require, the individual mystery shoppers that companies arrange to conduct mystery shopping evaluations must be independent contractors.

The sheer volume, scope and geographical spread of mystery shops call for the flexibility and efficiency offered by independent contracting; this type of business is simply not possible or economically feasible in the typical employee/employer model. The key to successful mystery shopping is the ability to retain access to enough independent contractors throughout the United States so that each client's location, call center or on-line portals can be "shopped" on a consistent basis with different mystery shoppers. Without this construct, the critical element of anonymity is lost and the feedback is worthless and invalid — in essence, the business receives tainted data.

Shopper Statistics

- 63% of mystery shoppers obtain access to mystery shopping opportunities through three or more Mystery Shopping Provider Companies, which helps solidify their status as independent contractors
- 53% of mystery shoppers have been working as independent contractor shoppers for three years or more, which demonstrates a stable core of experienced professional mystery shoppers
- 81% of mystery shoppers perform fewer than 20 shops a month as part-time independent contractors
- Mystery shoppers, on average, perform shops for 3.75 different industries, which shows that shoppers gain mystery shopping experience in multiple industries and thereby preserve their anonymity while honing their skills and professionalism.

Shopper Profiles: In Their Own Words

Names have been removed to maintain the anonymity of the shoppers.

- Mystery shopper, 55, Tupelo, MS: "I've been mystery shopping for over 25 years now. My shopping monies are what pays for my family's vacation every year."
- Mystery shopper, 32, Overland Park, KS: "As a homemaker, I don't have time to work full or part-time outside the home. But as a mystery shopper, I can work when I want, as much as I want and for whom I want without obligation. Now all my Bible study friends want to get into it too."
- Mystery shopper, 62, Garden City, NY: "Truth be told, my wife Myra got me into mystery shopping after she had done it for years. Now it is something that we can both do at our leisure together, and enjoy a reimbursed meal or whatnot. And we make a little money on the side."
- Mystery shopper, 22, Glendale, CA: "I love the fact that I get paid to make a difference. And mystery shopping assignments fit my lifestyle as a student with a part-time job. Like, this weekend, I have no exams and am not working at my job, so I was able to pick up two retail assignments, a dinner and a theater check. My whole weekend is going to be great, and I'm getting paid for it!"
- Mystery shopper, 40, Detroit, MI: "It's not big money, but it helps pay the bills. And since I'm not working for a particular company, I work as much as I want or as little as I want."

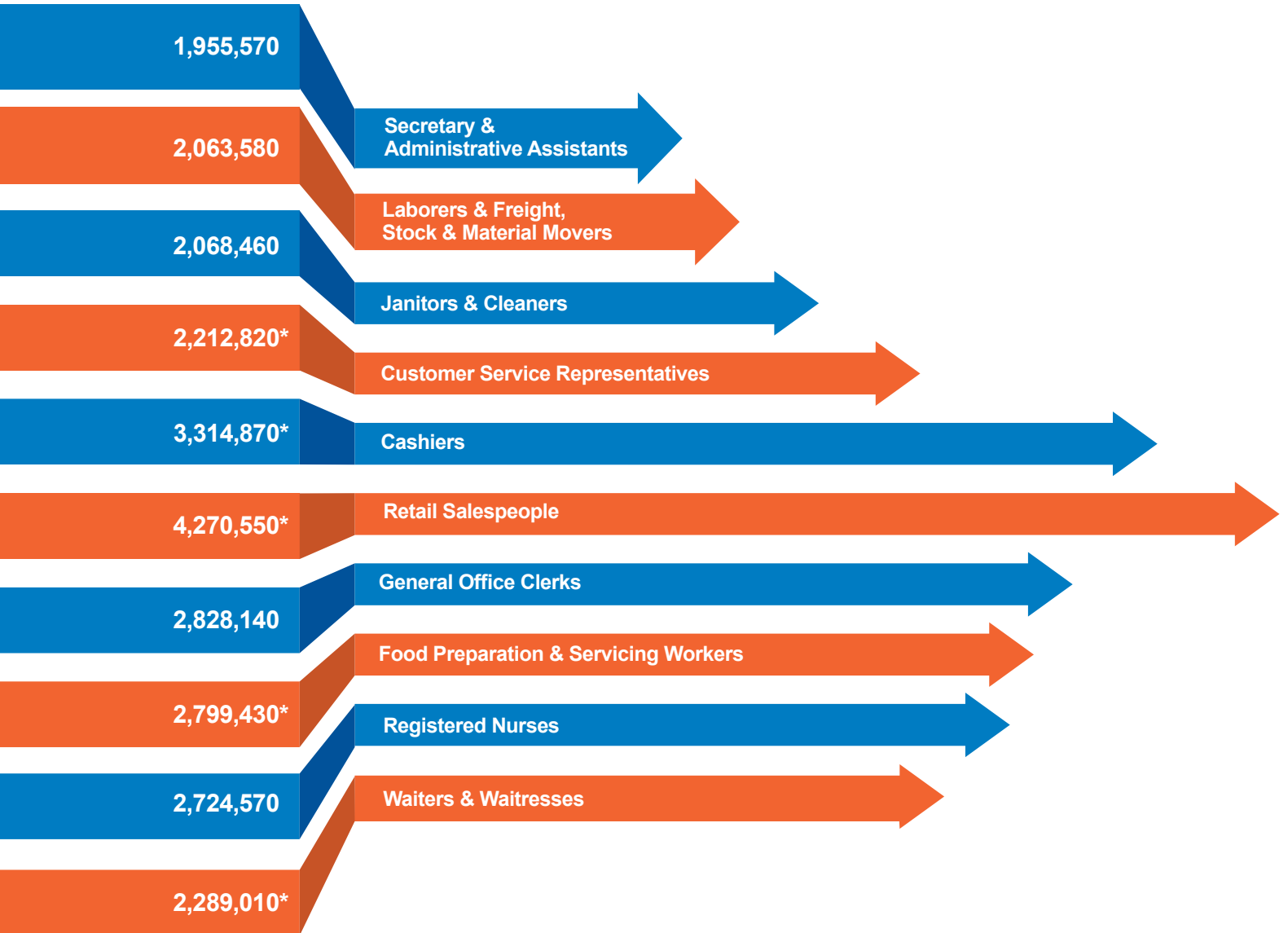
THE BIG ISSUE: PRESERVING THE INDEPENDENT CONTRACTOR STATUS

As business trends and consumer experiences grow and evolve, mystery shopping is becoming more customized and its broader impact is more important than ever. Companies rely on mystery shopping to provide an honest and complete image of the consumer experience within a company's walls or website, at the very moment the brand interaction occurs.

Without the independent contractor status for mystery shoppers:

- The companies that contract with mystery shoppers to perform the “shops” would need to hire “shoppers” as employees, which would lead to such companies working with fewer “shoppers” and thereby limit opportunities for individuals otherwise interested in performing mystery shops
- Because of the added administrative and related costs associated with hiring mystery shoppers as employees – especially when combined with the relatively narrow profit margin for companies that contract with mystery shoppers:
 - The fees payable to mystery shoppers for performing “shops” would be reduced, which could result in a decline in the supply of talented mystery shoppers
 - Because the ability to spread the fixed-cost element of these new administrative costs would create a material competitive advantage favoring larger companies, smaller companies would likely either go out of business or be acquired by larger companies (the industry currently operates on a “level playing field” because, to MSPA's knowledge, 100% of these companies currently treat mystery shoppers as independent contractors)
- Because a large percentage of mystery shoppers perform events as a quasi-leisure activity, a requirement that they become an employee of a company would likely result in many mystery shoppers exiting the industry
- Companies would lose a measurement tool that assists them in creating appropriately targeted workforce development programs. As the Retail Federation of America states, retail supports 1 in 4 American jobs, 42 million jobs, and mystery shopping helps measure and improve the performance by retail employers and their employees
- Consumers would lose the direct “voice” that mystery shopping provides, which operates to improve customer experience management and enhance a customer's actual experience
- The independent contractor mystery shoppers would lose the opportunity to earn extra income to assist in improving their standard of living, contributing to a future college education fund, saving for a special purchase or vacation, adding to their retirement benefits, or just helping to make ends meet in difficult economic times
- The economy would lose the mystery shopping industry – an industry that has supported client companies for over 70 years in their efforts to constantly and systematically measure and improve their business operations.

MYSTERY SHOPPING: THE JOBS WE TOUCH



* Indicates a job that can directly be evaluated by mystery shopping.
*According to *Forbes*' list of the "Most Common Jobs in the U.S.," mystery shopping can directly evaluate 56 percent of the top 10 jobs.

CONCLUSION

Recruiting mystery shoppers as independent contractors to work in their spare time to covertly measure a business's performance is what the mystery shopping industry is all about. The data produced by the hundreds of thousands of mystery shoppers – working at their convenience on projects they select – enables a client company to gain a critical understanding of the actual experience of its customers. That understanding has been a top priority and integral component of every successful company's sales and client-satisfaction strategy. The data produced by Mystery Shop studies keeps businesses healthy and improves workforce productivity, and those results directly fuel economic growth and overall return on investment in our economy.

Fast Facts

- Forbes salary and employment data from 2011, gathered from 1.2 million businesses all across the country, show there are a massive 4,270,550 employees in: sales apparel, autos, appliances, furniture and more.
- Once an item is sold, consumers are serviced by 3,314,870 cashiers across the country. Together, that's more than seven and a half million brand ambassadors touching the consumer experience and influencing the overall brand impression. And that's just in sales alone.
- Double that number and you're closer to an accurate representation of the workforce impacted by mystery shopping.

Improving customer experience is a top strategic priority for 93% of companies.

Source: The State of Customer Experience, 2012

75% of companies aim to differentiate on the basis of customer service.

Source: The State of Customer Experience, 2012

MYSTERY SHOPPING IN A CONSUMER-DRIVEN MARKET

LEARN MORE AT MYSTERYSHOP.ORG

The Mystery Shopping Providers Association of North America (MSPA-NA) is a collection of the top North American companies committed to offering mystery shopping and other customer relationship programs. MSPA-NA comprises more than 300 companies worldwide, from the wide-ranging market research firms to those companies that focus primarily on mystery shopping programs.

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MYSTERY SHOPPING PROVIDERS ASSOCIATION

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SYNOPSIS: MYSTERY SHOPPING AT A GLANCE

Mystery Shopping

- Since the early 1940's mystery shopping has been a standard practice of American businesses to measure quality of service, compliance with regulation, workforce development and to gather specific information about products and services.

Industries

- Virtually every industry sector in the country whose companies have customers engaging with their brand utilizes mystery shopping programs.

Overview

- Mystery shopping is a management tool that verifies whether a company's operational policies are consistently executed.

Operations

- In its simplest form, mystery shopping involves contracting with hundreds of thousands of pre-recruited, highly observant, ordinary Americans, across the United States to anonymously evaluate a business in their spare time and for nominal supplemental income.

Customer Experience Management and Measurement

- Managing the customer experience is the largest investment some businesses make in their operations, and the process of measuring a customer's expectations is an ongoing mission.

Benefits of a Mystery Shopping Program

- The business of mystery shopping provides the measurement tool that gives a company the flexibility to personalize the measurement of its ROI in product, brand, and workforce.

Mystery Shopping Business Model

- Utilizing a large number of demographically diverse independent contractor mystery shoppers located all across the country, mystery shopping provides America's businesses with the unique customer intelligence required to generate meaningful and relative improvements upon their business.

Independent Contractor Mystery Shoppers

- Providing flexibility for businesses to evaluate their operations, the independent contractor status also provides individuals the flexibility to work when they want and earn much needed supplemental income for their families.

The Big Issue

- The independent contractor status is essential to the business of mystery shopping.

Conclusion

- The data received from Mystery Shop studies keeps businesses healthy and improves workforce productivity, and those results directly impact economic growth and overall return on investment in our economy