

The 21st Century Store: The Search for Relevance

Benchmark Report

Paula Rosenblum and Steve Rowen, Managing Partners

June 2011

Sponsored by:



Supporting Sponsors:



Executive Summary

The evolution and proliferation of consumer-held technologies have brought stores to their Rubicon. The question retailers face is no longer, “How can we make the in-store experience as satisfying as the web?” It has become, “How can we make our stores more significant than showrooms for online merchants?” Retailers have responded by stabilizing in-store payroll, adding technology touch-points for employees, and finally moved to add *mobile* technology touch-points to empower the most important corporate employee in the store – the Store Manager.

Business Challenges

The most traditional challenge – improving customer service while holding the line on costs remains a top concern, but has been joined by pressures to improve integration across channels and combatting price transparency. The uncertain economy remains a persistent challenge – particularly to laggards. Retail Winners retain the “luxury” of focusing on a better customer experience. As always, we are concerned that without significant investment, Laggards will find themselves in an on-going downward spiral. They can’t catch up because they can’t find the money to invest in needed initiatives.

Opportunities

Retailers continue to see opportunity in making the in-store experience more convenient. There is a growing sense that making their employees better informed and more productive will help generate this sense of convenience, as will eliminating the out-of-stock bugaboo by providing stores with the ability to locate and ship merchandise from other parts of the company. Not surprisingly, retailers’ have got religion around mobile interactions with consumers. Eighty-seven percent of respondents now see value in the smart phone driving traffic TO the store (vs. 65% last year), while 67% now see value of using the customer’s smart phone WITHIN the store, vs. only 52% last year.

Organizational Inhibitors

Although overall capital requirements continue to plague retailers (21% more report it as a roadblock this year than they did in 2010), fewer retailers are finding it difficult to quantify the return on any investments they *are* able to put into stores. However, in the frustration that results from stagnant store sales, the disconnect between management and operations is growing: more retailers this year say management believes stores should be able to perform better without any additional resources.

Technology Enablers

Retailers’ perceived value of in-store technologies have shifted significantly in the past year. While “bread and butter” applications like modern POS hardware and software, and in-store rewards and coupons remain important, new trends have emerged. Retailers now see a lot of potential value in cross-channel initiatives that support the store, and also in delivering information to both company- and customer-owned phones and PDAs. Retail Winners are most apt to embrace the value of these newer technologies. We continue to be troubled by the lack of meaningful key performance indicators used to track value received from in-store technology investments. Comparable store sales improvements remain an outcome of many different initiatives. Better metrics are needed.

BOOTstrap Recommendations

Our recommendations are fundamental. First and foremost, it's time to re-define the in-store experience by making it a part of the physical communities our customers live in. Next, use tools like location-based social networks to drive traffic to the stores. Once in the stores, provide wireless for your store associates, managers and customers. Insure that Store Operations and marketing are in synch so that interactions between employees and customers are consistent with your brand's image. Finally, insure that the experience provided in stores blends with the experience customers have in other selling channels. While the store is unique, it is also now part of an over-arching brand promise. The store experience should be relevant and distinctive, convenient and fun.

Table of Contents

Executive Summary.....	i
Research Overview	1
Why This Study Was Conducted	1
Empowering and Educating Employees Rises in Significance.....	2
Methodology.....	3
Defining Winners and Why They Win, and Why Laggards Fail.....	3
Survey Respondent Characteristics	4
Business Challenges	5
Continued Stress from Traditional Areas, New Concerns Emerge	5
In A Difficult Economy, Retail Winners Keep their Eye on the Prize	5
Most Stores Not Compensated for Cross-channel Activities	6
Opportunities	8
Busier and Smarter at the Same Time	8
A Problem Emerges: Store Performance Metrics Fall in Priority.....	9
The Opportunity Consumer Mobile Devices Bring to the Store.....	9
Great in the Car, Better in the Store	10
Organizational Inhibitors.....	12
Retailers Making the Most of What’s Available.....	12
Customer in Control	13
Not Enough	14
Technology Enablers.....	16
Significant Shifts in Perceived Value of Technologies.....	16
For Many, Reality has yet to Catch Up with Perception	17
Technology Usage and Plans.....	17
KPI’s Used for Measurement Remain Problematic	18
BOOTstrap Recommendations	20
Redefine the In-store Experience	20
Use Location-based Social Network Promotions to Drive Traffic.....	20
Make a Wireless Decision, Now	20
Don’t Make Promises Your Employees Can’t Keep	20
The Store is Not an Island: Ensure it Blends with Other Channels	20
Appendix A: RSR’s Research Methodology.....	a
Appendix B: About Our Sponsors.....	b
Appendix C: About RSR Research.....	d

Figures

Figure 1: Educated Employees a Key to Improving the In-store Experience.....	1
Figure 2: Payroll vs. Sales Ratios Begin to Stabilize.....	2
Figure 3: Most Retailers Now Providing Technology for Store Employees.....	2
Figure 4: Finally Getting the Store Manager Back on the Selling Floor	3
Figure 5: Challenged by Transparency and the Need for Consistency.....	5
Figure 6: Winners Have the Luxury of Maintaining Focus on the Customer.....	6
Figure 7: Compensation Strategies Lag for Cross-channel Enablement.....	7
Figure 8: Technology the Key to a Better Workforce	8
Figure 9: A Mobile Compass	9
Figure 10: Retailers Want the In-store Connection	10
Figure 11: Less Money, Better Projects	12
Figure 12: Customer Cracking the Whip	13
Figure 13: The Missing Cornerstone to a Better Built Store.....	14
Figure 14: Dramatic Changes in Perceived Value of In-store Technologies	16
Figure 15: Actual Value More Easily Quantified from “Bread and Butter” Techs.....	17
Figure 16: Retailer Adoption of in-Store Technologies.....	18

Research Overview

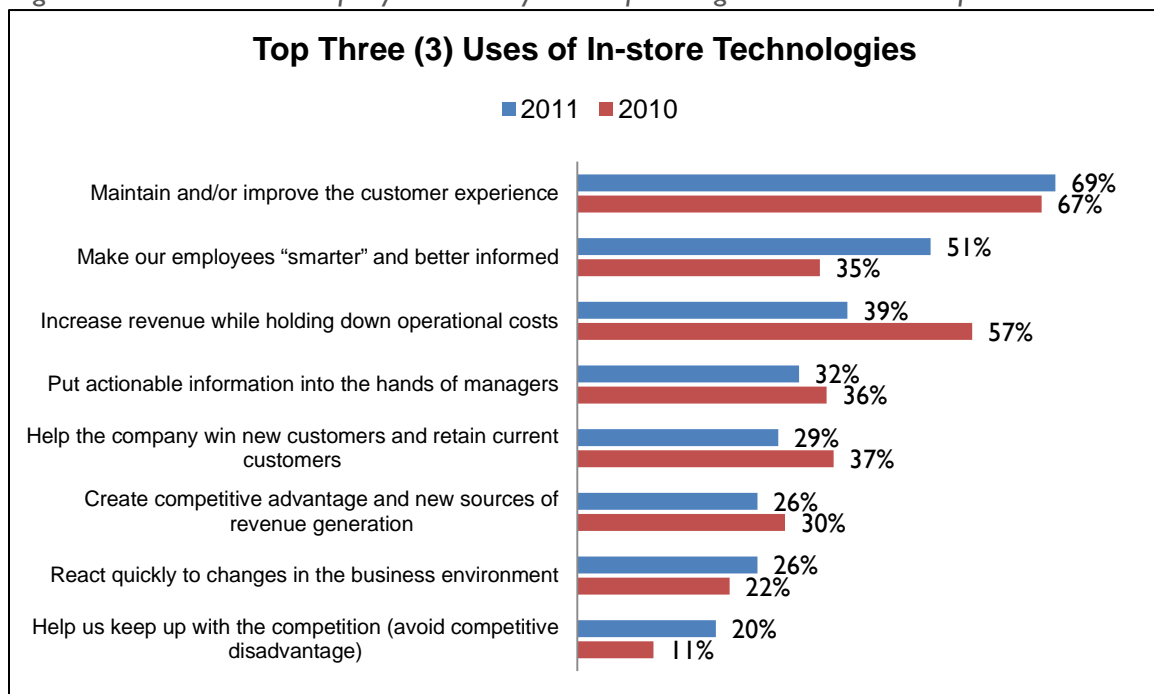
Why This Study Was Conducted

Every year, RSR takes a look at “the state of the store.” Our findings consistently show retailers understand the importance of creating a better in-store shopping experience for their customers. However, in 2010 it became clear that armed with more technology than most store employees and managers, the consumer was crafting her own experience – and much of it was outside the boundaries of the store’s four walls. While store *traffic* was up significantly, comparable store sales were up, but only in low-single digits. On the other hand, online sales rose by more than 15%. The evolution and proliferation of consumer-held technologies have brought stores to their Rubicon. The inflection point has passed, and the time to react is NOW.

The question is no longer, “How can we make the in-store experience as satisfying as the web?” It has become, “How can we make our stores more significant than showrooms for online merchants?” Our goal in this study was to explore the tools retailers are adopting to improve customer engagement, facilitate assisted selling, educate employees, and reverse a difficult trend.

First, it’s useful to see how retailers’ view of in-store technologies is evolving (Figure 1).

Figure 1: Educated Employees a Key to Improving the In-store Experience



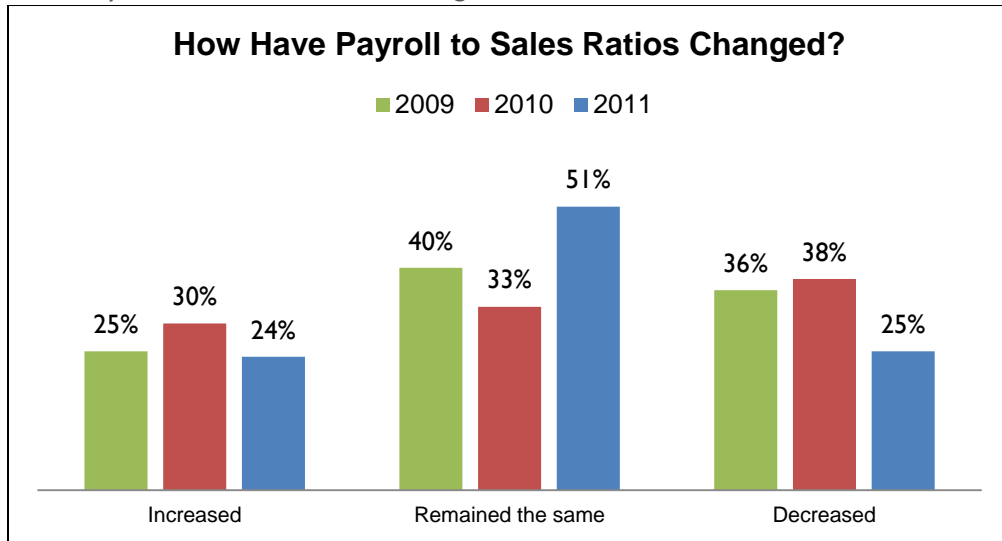
Source: RSR Research, June 2011

Not surprisingly, the most frequently cited use of technology remains to maintain and/or improve the customer experience. Retailers with annual revenue greater than \$1 billion are most interested in using technology for this purpose, with 88% recognizing that their bigness doesn’t make them immune to customer defections. And while all retailers still want to keep operational costs down, they’ve clearly decided it’s more important to use their employees to create a differentiated customer experience. Appreciation of the value of empowering employees

continues to increase. In truth, this is how the store can differentiate itself from other selling channels. It provides an opportunity for person-to-person interaction.

For three-quarters of our retail respondents, that doesn't necessarily mean they want to add more "bodies" into the store – in fact those who self-report average year-over-year comparable sales growth, are still cutting payroll as a percentage of sales, but in aggregate, we can see half of retailers have finally stabilized their payroll-to-sales ratios (Figure 2).

Figure 2: Payroll vs. Sales Ratios Begin to Stabilize

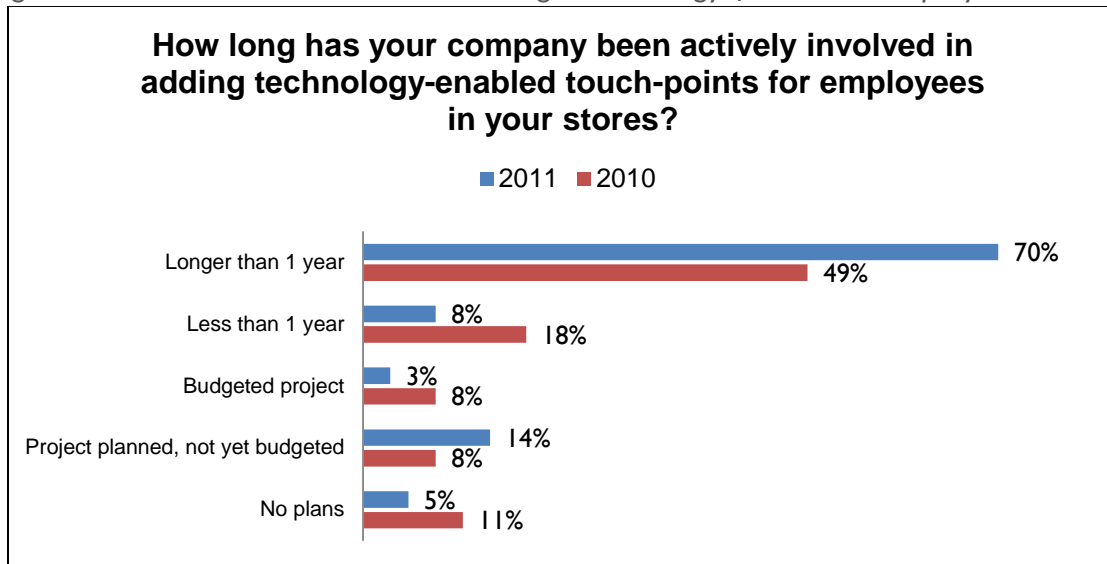


Source: RSR Research, June 2011

Empowering and Educating Employees Rises in Significance

True to their word, our survey respondents show a dramatic increase in the use of technology to educate and empower their employees (Figure 3).

Figure 3: Most Retailers Now Providing Technology for Store Employees

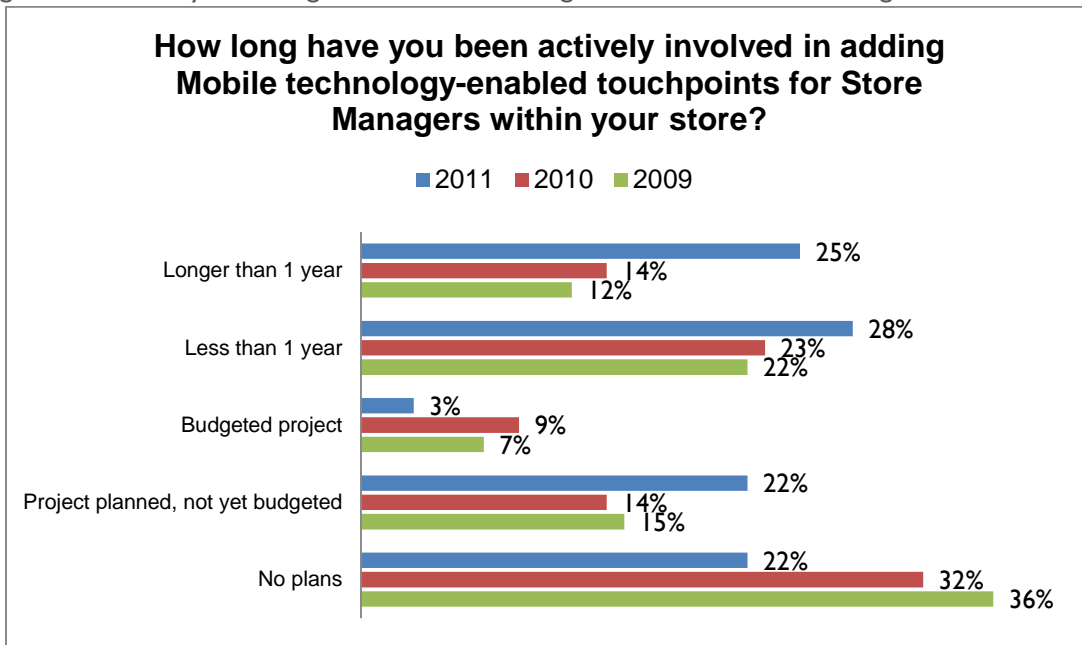


Source: RSR Research, June 2011

While projects were postponed during the height of the Great Recession and economic prospects remain uncertain, retailers have gone forward with these plans. In fact, they recognize they have no real choice in the matter.

In an even more significant development, **retailers have gotten religion around the importance of having an educated and empowered Store Manager on the selling floor.** The change has been gradual over the past three years, but in 2011, we see more than half our surveyed retailers report they have implemented some form of mobile technology touch-point for their managers, with a continued decline in those who have “no plans” to do so (Figure 4). *We believe this may well be the most significant and high-value change of all.*

Figure 4: Finally Getting the Store Manager Back on the Selling Floor



Source: RSR Research, June 2011

Methodology

RSR uses its own model, called the “BOOT,” to analyze Retail Industry issues. We build this model with our survey instruments. [Appendix A](#) contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large – Retail Winners. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Defining Winners and Why They Win, and Why Laggards Fail

Our definition of Retail Winners is straightforward. We judge retailers by year-over-year comparable store/channel sales improvements. Assuming industry average comparable store/channel sales growth of **three percent**, we define those with sales above this hurdle as “Winners,” those at this sales growth rate as “average,” and those below this sales growth rate as “laggards” or “also-rans.” It is consistent throughout much of RSR’s research findings that Winners don’t merely do the same things better, they tend to do different things. They think differently. They plan differently. They respond differently.

Laggards also tend to think differently. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today's customer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don't change their business processes in an effective manner, and so they either eschew technology enablers, or don't gain expected Return on Investment on those they DO buy. In good times, they skate by: in tough times these weaknesses come back to haunt them.

Survey Respondent Characteristics

RSR conducted an online survey from February - May 2011 and received answers from 86 qualified retail respondents. Respondent demographics are as follows:

- Job Title:

Senior Management (CEO, CFO, COO)	30%
Senior IT Management (CIO, CTO, VP)	18%
Line of Business Vice President/Director	21%
Line Management	6%
Internal Staff, Consultants, & Other	24%

- 2010 Revenue (\$ Equivalent):

Less than \$50 Million	29%
\$51 - \$999 Million	29%
\$1 - \$5 Billion	27%
Over \$5 Billion	16%

- Selling Format:

Fast Moving Consumer Goods	30%
General Merchandise and Apparel	35%
DIY and Other	19%
Restaurant and Food Service	16%

- Headquarters/Retail Presence:

United States	67%	75%
Canada	3%	27%
Latin America	2%	14%
Europe	15%	19%
United Kingdom	0%	19%
Asia Pacific	10%	27%
Middle East	0%	10%
Africa	2%	7%

- Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3%):

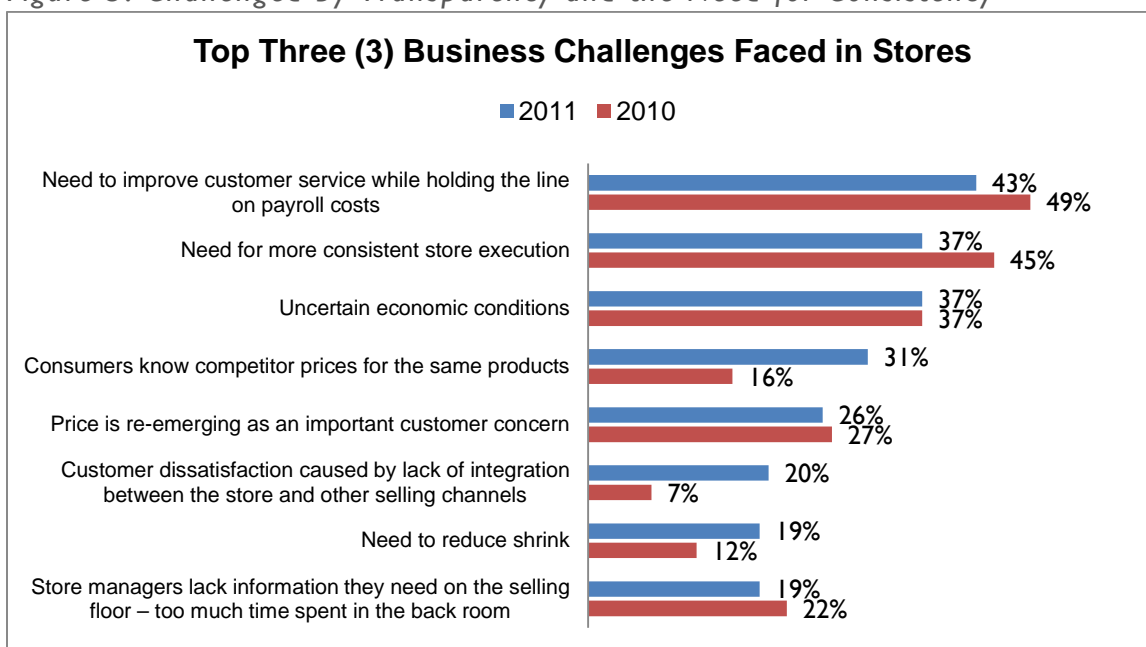
Worse than Average (Laggards)	20%
Average	33%
Better than (Retail Winners)	47%

Business Challenges

Continued Stress from Traditional Areas, New Concerns Emerge

The combination of continued uncertain economic conditions, increased consumer price sensitivity, and mobile device-enabled price transparency is exerting tremendous pressure on the Retail store environment. RSR recently covered the overarching impact of these pressures on pricing strategies in our annual Pricing benchmark¹, while this report shows its impact on stores – where employees must meet frustrated consumers face to face. Traditional business challenges remain strong, while new challenges associated with channel proliferation have come forward (Figure 5)

Figure 5: Challenged by Transparency and the Need for Consistency



Source: RSR Research, June 2011

The two most significant new trends are clearly associated with price transparency and channel proliferation. Twice the respondents in this year’s benchmark rated “consumers knowing competitor prices for the same product” as a top-three business challenge than last year’s, and customer dissatisfaction caused by lack of integration between stores and other selling channels tripled as a top-three concern. While still only a top three concern for one fifth of our respondents, the trend is clearly troubling, and we suspect it will continue to climb.

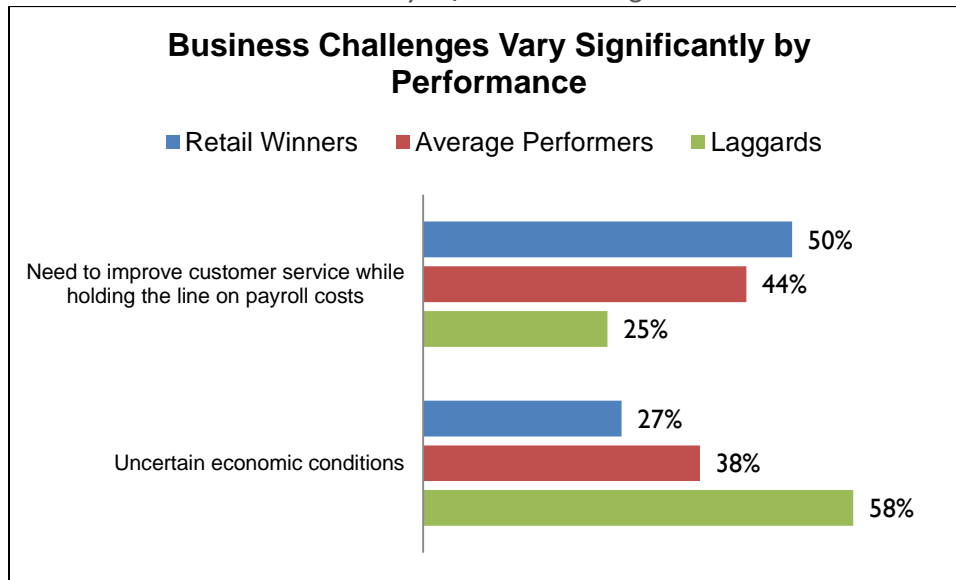
We believe the increase in pressures to reduce shrink are primarily caused by inflationary pressures acting to reduce gross margin, rather than an increase in theft itself.

In A Difficult Economy, Retail Winners Keep their Eye on the Prize

Diving deeper into Business Challenges, we find some differences driven by past performance. Retail Winners are significantly more likely to maintain their focus on continual improvements in customer service, while laggards rightly worry about continued economic pressures (Figure 6).

¹ *Optimizing Price in a Transparent World*, April 2011

Figure 6: Winners Have the Luxury of Maintaining Focus on the Customer



Source: RSR Research, June 2011

These are not shocking responses. In fact, they are hardly surprising – but they do point out the dilemma that laggards face, and the advantages Winners enjoy. Past performance continues to be rewarded by customers and Winners will attempt to press their advantage. Laggards face concerns not just because their customers are economically challenged, but because their *own* access to capital may be constrained in difficult economic times.

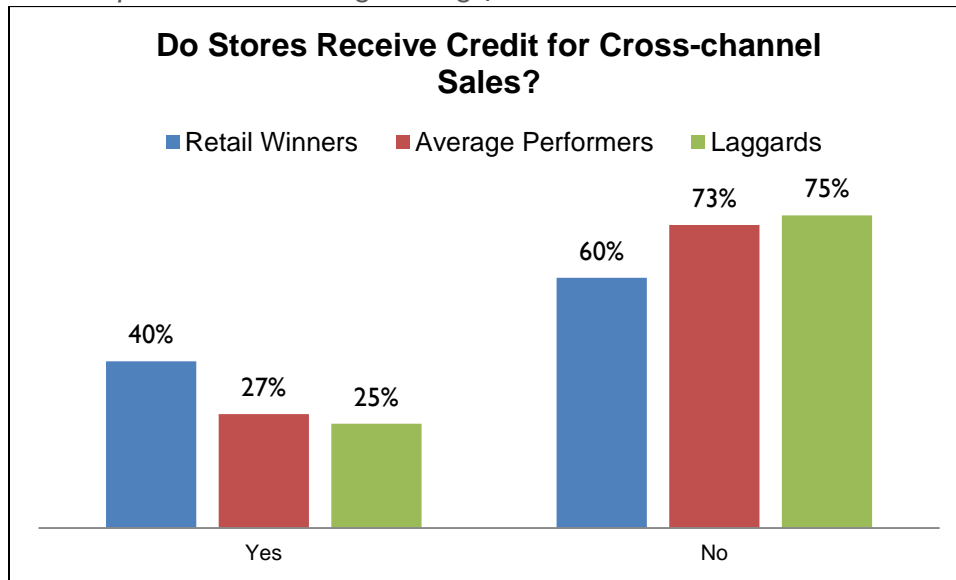
Most Stores Not Compensated for Cross-channel Activities

At RSR, we frequently cite the old adage “Follow the money.” Simply put, people do what they are paid to do. We may ask for a particular set of behaviors, but absent rewards for exhibiting those behaviors, they likely won’t happen. So it is with Store Managers and employees.

We asked our respondents whether their stores receive credit for cross-channel sales (for example, customers buying online and picking up in store, or ordering an out-of-stock item in the store and taking delivery elsewhere). We were surprised to discover that less than a third of total respondent companies have adopted that compensation strategy.

While Retail Winners are more likely to create cross-channel compensation plans than their peers, even 60% of *those* respondents do not recognize stores enabling the cross-channel experience (Figure 7).

Figure 7: Compensation Strategies Lag for Cross-channel Enablement



Source: RSR Research, June 2011

As revenue rises, retailers are more likely to compensate stores for these activities, with 43% of retailers with annual revenue greater than \$5 billion responding in the affirmative, vs. only 30% of retailers with annual revenue between \$51 and \$999 million/year. This was true of sub-\$50 million per year retailers as well (22% compensating stores for these activities), but we expected these independent retailers to be less sophisticated than their larger peers. We expected more sophisticated metrics.

With these challenges in mind, where do retailers see opportunities? Clearly, stores can't just "go away." And while "other channel sales" still represent a small portion of overall annual sales, the number is rising fast. Plus, huge swings are not required to turn seemingly profitable stores into a sap on corporate earnings.

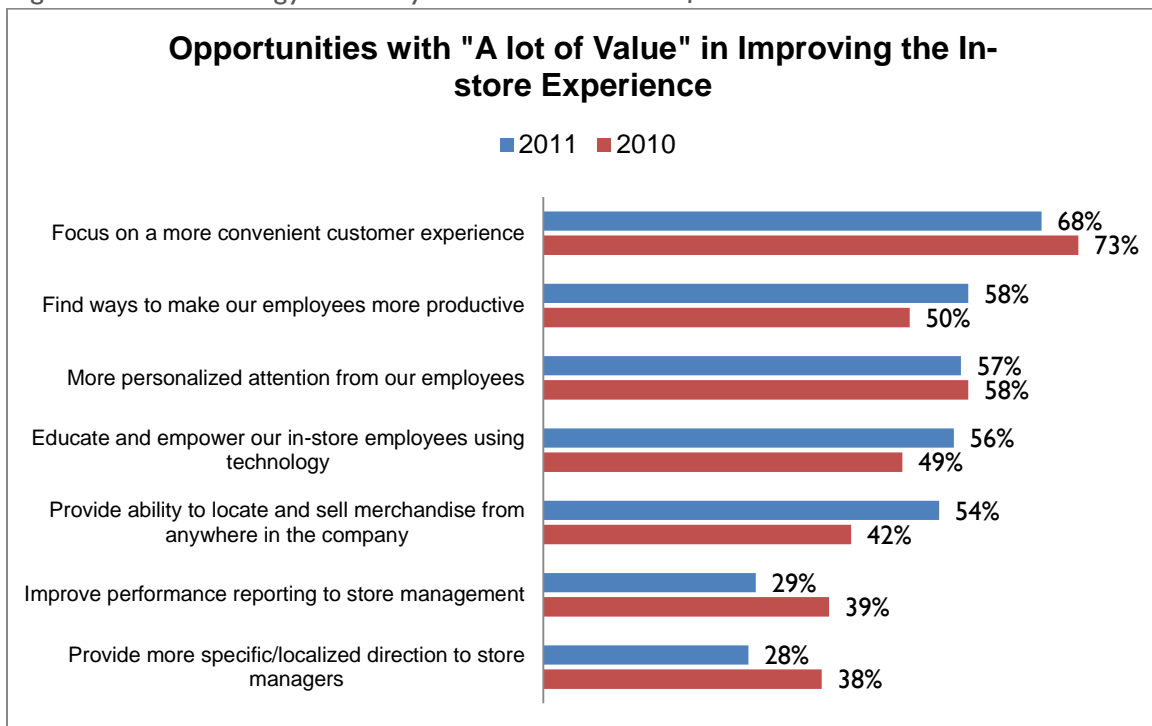
Opportunities

Busier and Smarter at the Same Time

This year's respondents recognize that with the proliferation of information available to even the most technologically-challenged customers, *the role of store associates in the modern age requires significant reconsideration*. Rarely does a customer walk in off the street as a "blank page" requiring the sales assistance of yesteryear – even for product basics. Instead, the spectrum of what customers *do* need from floor staff is more varied today than it has been at any other time in history; the most informed and time-constrained customers may only require assistance during checkout, while the sales process for customers with buying questions demands an employee who is at least as knowledgeable as those asking the questions.

To this end, retailers tell us they must maximize the return on the investment dollars spent on employees; on-floor staff will always be a requirement, but it does no good to have uneducated staff waiting around to take questions about products they know nothing about. As a result, a larger number of retailers than just one year ago are looking to make their associates more productive (58% this year, compared to 50% last). The most notable means to achieve this is by educating and empowering store employees with new technologies (56% this year, compared to 49% in 2010, Figure 8).

Figure 8: Technology the Key to a Better Workforce



Source: RSR Research, June 2011

Those technologies that can be used to educate employees during "down time" are doubly advantageous. In fact, Winners are even more vigilant about making their employees more productive: 73% see a lot of value, compared to 46% of laggards.

While all retailers' interest in the ability to locate and sell merchandise from anywhere in the company is increasing (54% this year, compared to 42% last), Winners lead the charge. The supply chain and organizational infrastructure required to perform such tasks is daunting, but Winners have taken the lead. Consumers' rapidly dwindling sympathy for retailers' inability to meet their service needs however and wherever they so desire is driving change. Winners view this as a vital component to the in-store experience: 77% of top performers identify it as a very valuable opportunity.

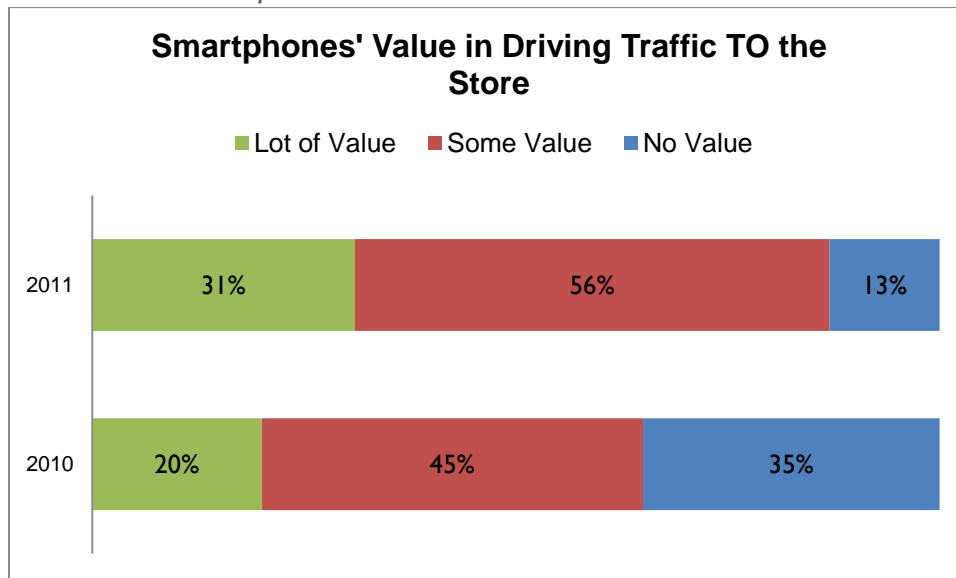
A Problem Emerges: Store Performance Metrics Fall in Priority

There is no finer way to improve the in-store experience than to have a store manager armed with the tools and knowledge to match that of the increasingly informed customer, as well as the time and on-floor availability to meet those challenges as they arise in store. However, the responses from our retailers this year reveal a growing gap in the tools required to produce such a store manager. Last year, 39% of retailers ascribed high value to improved performance reporting to store management; that statistic has fallen to 29% this year. Similarly, 2010 saw 38% of retailers placing high value on more specific and localized direction to store managers, a number which drops to 28% this year (Figure 8, above). This creates a genuine problem: **without the reporting required to gauge store performance and the direction needed to meet it head on, how can store management expect to excel?**

The Opportunity Consumer Mobile Devices Bring to the Store

Few retailers see the value in Social Networks' ability to drive traffic to their stores: The number of retailers who see great value in social sites such as Facebook and Twitter's ability to drive traffic to their stores has hovered at exactly 27% both this year and last, Smartphones and PDAs present a completely different story, however (Figure 9).

Figure 9: A Mobile Compass



Source: RSR Research, June 2011

Today, 31% of retailers see great value in consumer devices' ability to guide their owners through the store's front entrance, up from just 20% last year. *This data point serves as compelling*

evidence of the need for a truly optimized mobile site. Customers are using their smartphones for far more tasks than just locating the nearest store.

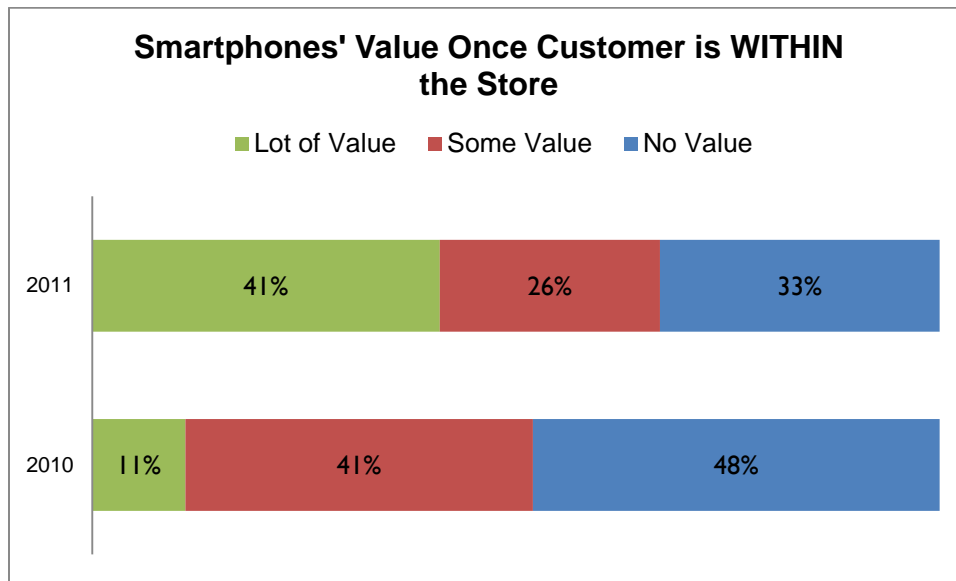
Does your mobile offering feature the type of content which drives traffic to your stores? Pertinent and easily navigated product information, accurate inventory data, integrated pricing, promotions, and loyalty program offerings: all are prerequisite to driving customers to the store. As we've noted in recent reports, retailers need an executive charged with the responsibility to determine if the brand's mobile offering fulfills the needs of customers choosing to engage with it. The need for a fully engaged Chief Customer Experience Officer (or Chief Marketing Officer) is clearly at hand:

The function of this Chief Customer Experience Officer, regardless of actual title given, is rapidly becoming one of the most important – and frequently absent – components of a retailer's overall offering. With increasingly sophisticated and fickle consumers... today's retailer must be certain that regardless of the channel (or number of channels) in which a customer chooses to engage, the experience must seamlessly fulfill their current need. This need could be as simple as a mobile site that features the functionalities mobile consumers most frequently utilize... to far more complex Social Media applications... At its core, the proliferation of new channels and new shoppers' demands that a retailer understand exactly what a customer experiences whenever – and however – they elect to shop the brand. As a result, this job function is an absolute must for any successful retailer. It should come as no surprise, then, that Winners and Top Winners apply high value at an even higher rate.²

Great in the Car, Better in the Store

What's more, retailers view the devices in customers' pockets and handbags as providing even greater opportunities once they are within the store walls.

Figure 10: Retailers Want the In-store Connection



Source: RSR Research, June 2011

² **Social Media's Impact on Customer Engagement**, May 2011

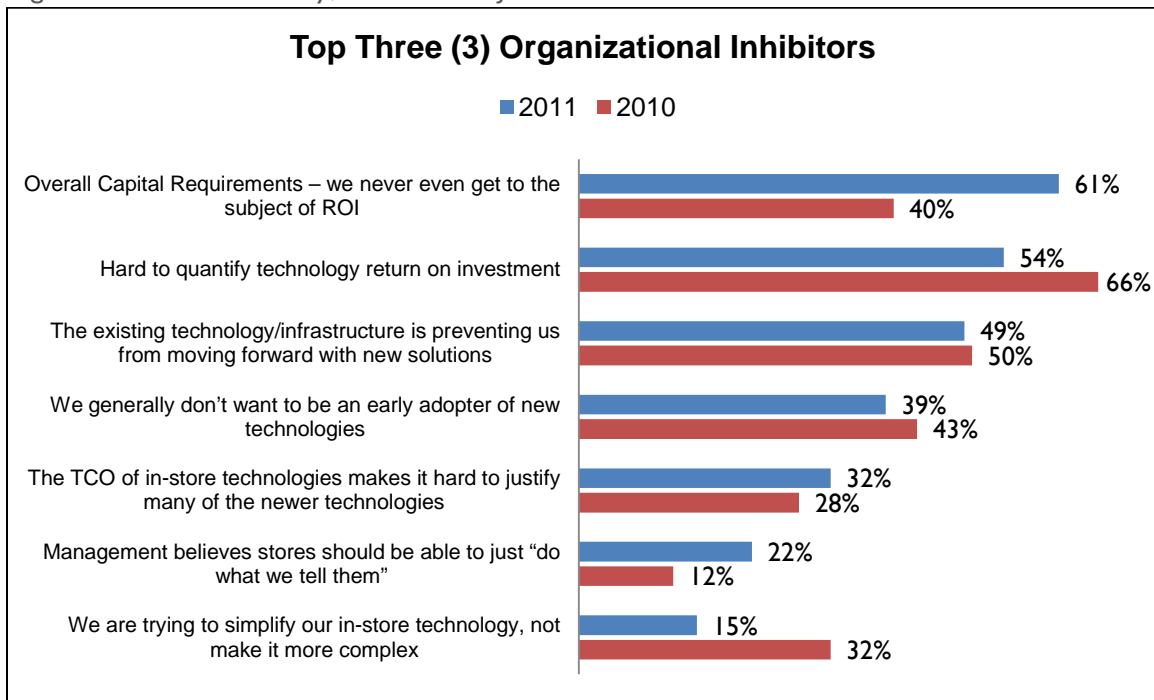
What is troubling, as we will examine in greater depth in the Organizational Inhibitors section of this report, is that few retailers have taken on the necessary steps – and baseline technologies (such as basic in-store Wi-Fi) – needed to **facilitate** this valuable mobile in-store experience. This missed opportunity is only further compounded by the fact that retailers are also starting to identify greater value in Social Network’s ability to engage with the consumer while she is within the store (only 9% of the response pool identified high value last year; that number has doubled to 18% this year).

Organizational Inhibitors

Retailers Making the Most of What's Available

Although overall capital requirements continue to plague retailers (21% more report it as a roadblock this year than they did in 2010), fewer retailers are finding it difficult to quantify the return on any investments they are able to put into stores (down 12% from last year, Figure 11). This data speaks directly to the negative effect the sluggish recovery of the global economy continues to have on retailers' overall budgets, but also as encouraging news that a) technologists have honed their products and services to deliver ROI in a more timely fashion in these tight economic times, and b) retailers' have vastly improved their internal processes, and now have greater ability to make the most of any new implementations they take on.

Figure 11: Less Money, Better Projects



Source: RSR Research, June 2011

Some of the most interesting information in the chart above relates to the bottom two data points: first, the fact that more retailers say management believes stores should be able to "just do what we tell them." As we have already seen, the store's ability to perform is limited by the tools, training, and processes required to make it an exciting alternative to the myriad other ways consumers can shop – including their ability to shop other channels AND competitors. In the frustration that results from stagnant store sales, the disconnect between management and operations is growing: 22% say management believes stores should be able to perform better without any additional resources (only 12% identified this as an issue in 2010).

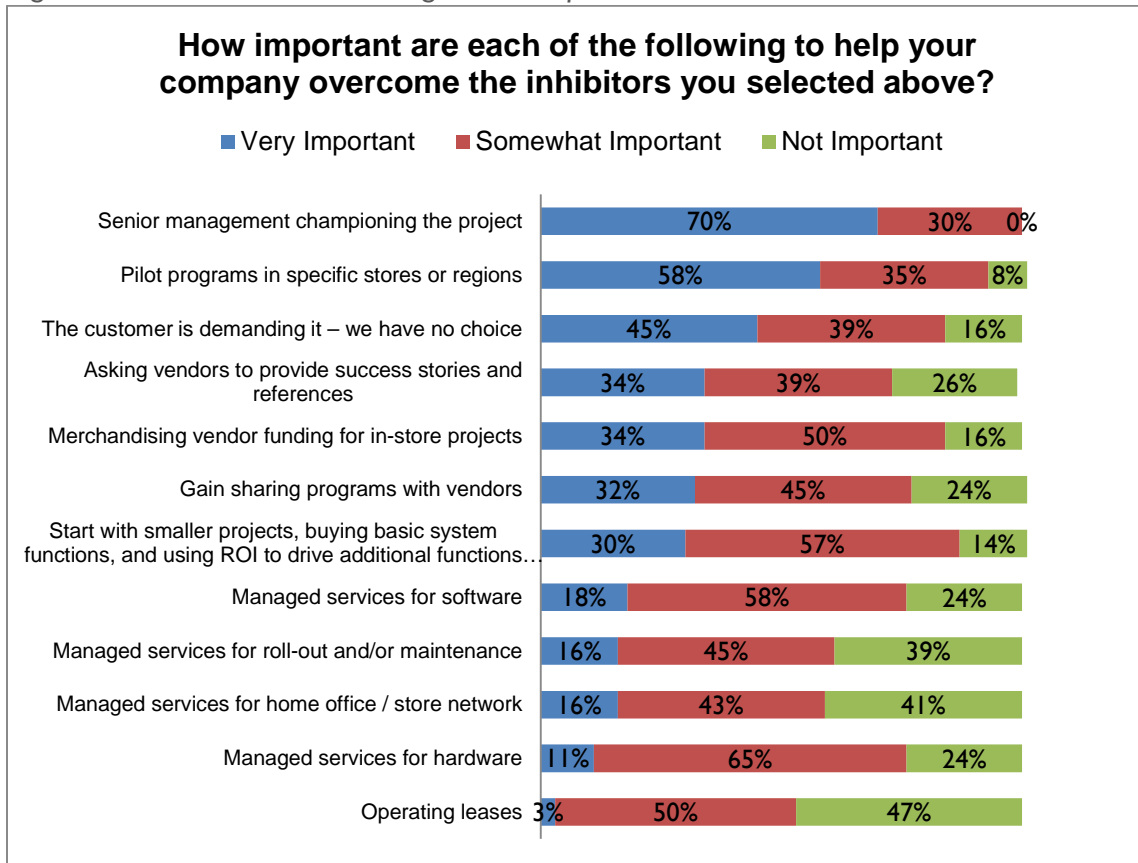
The bottom data point, by way of comparison, further confirms that the in-store technologies available today have quickly become more streamlined and easier to implement than systems in

even the recent past. Perhaps just as important: retailers' perception of new technologies is in alignment. This year, only 15%, compared to more than double that number last year, (32%), perceive new in-store technologies as adding complexity to their existing systems. With most retail stores in dire need of exciting new technologies and an overall "shot in the arm," the decline in perception that new technologies will only add frustration and headache is a vital component to forward progress.

Customer in Control

Not surprisingly, strong management from a senior project champion is key to getting past the numerous internal roadblocks retailers face today (Figure 12).

Figure 12: Customer Cracking the Whip



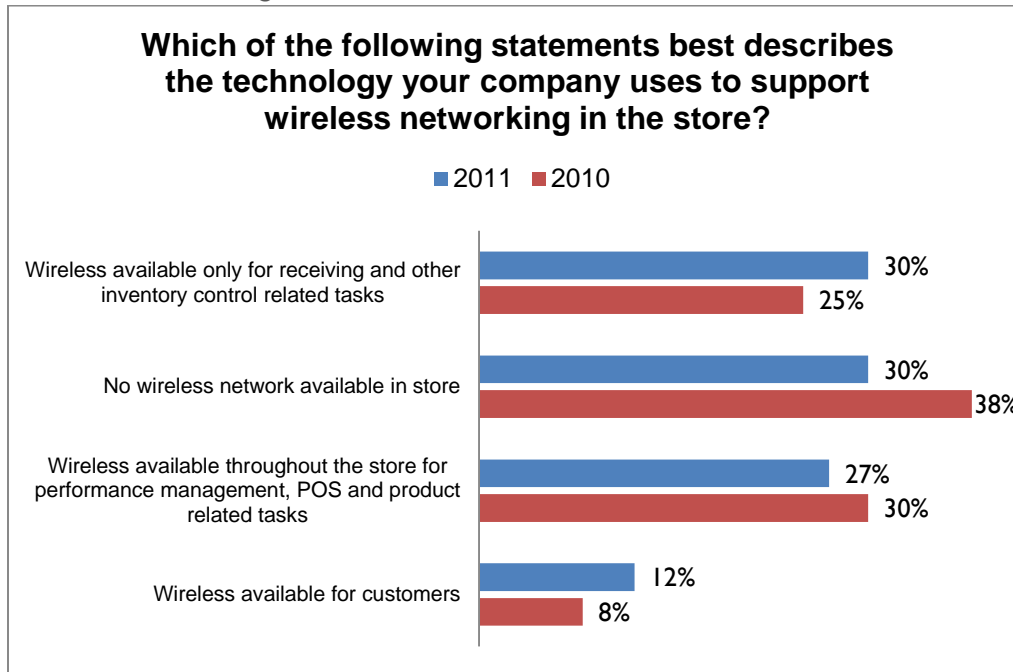
Source: RSR Research, June 2011

What is interesting to see is the large percentage of retailers who've accepted that they must get past their internal challenges to make the store a more desirable place to shop for one simple reason: because the customer is demanding that they do. Forty five percent of retailers acknowledge this as a very important reason to overcome their internal obstacles, and another 39% say it is somewhat important. While pilot programs, vendor success stories and merchandising vendor funding for in-store projects all rank highly among retailers, it cannot be overstated how much the customer is driving change in stores today. Retailers recognize this, but as we will see in just a moment, there is much work to be done to satiate that customer demand.

Not Enough

Quite simply, as it pertains to wireless networking in the store, retailers just aren't moving quickly enough (Figure 13).

Figure 13: *The Missing Cornerstone to a Better Built Store*



Source: RSR Research, June 2011

In the Opportunities section of this report, retailers told us they are steadily warming to the fact that wireless devices are driving traffic to the store, but that they have become red-hot for tapping those wireless devices' potential once inside the store, itself. Even further still, they told us they want to use social networking opportunities to engage with consumers while they are in-house. Yet as seen in Figure 13, above, 30% still have no wireless network – of any kind – available in stores, and only 12% have wireless available for their customers.

As anyone who has ever tried to access Facebook during peak hours on a cellular connection will tell you – this just doesn't cut it. *In order to interact with customers in any way via the consumer's personal device, Wi-Fi is an absolute must.*

And as the widespread advent of 4G networks promise to increase the amount of content-rich data streaming to smartphones at any given moment, many telecommunications experts believe that the bandwidth of cellular networks will soon become even more congested, causing cellular connectivity to become less reliable than the 3G networks of today. If this holds true, free Wi-Fi will become an even more compelling reason for customers to shop your stores.

On the employee side, wireless devices give retailers a means to arm their employees with the training and information they've so vocally said they need to compete. They also give the store manager the chance to be where a store manager needs to be most – on the selling floor. While few retailers' product mix, store footprint, or security infrastructure may be ready for mobile checkout, inventory tasks, performance management, product training and information, receiving tasks – all stand to benefit tremendously. None can operate without a secure wireless network.

For those who are stalling for security reasons, the first step is a thoughtful reconsideration of what can be done in store – for both employees and customers - that does not involve personal, sensitive, or payment data. Next, consider the data that would be most valuable to share with employees and customers, and reevaluate the associated risks. For those stalling for financial reasons, leasing the equipment required to establish an in-store wireless network is a highly viable option.

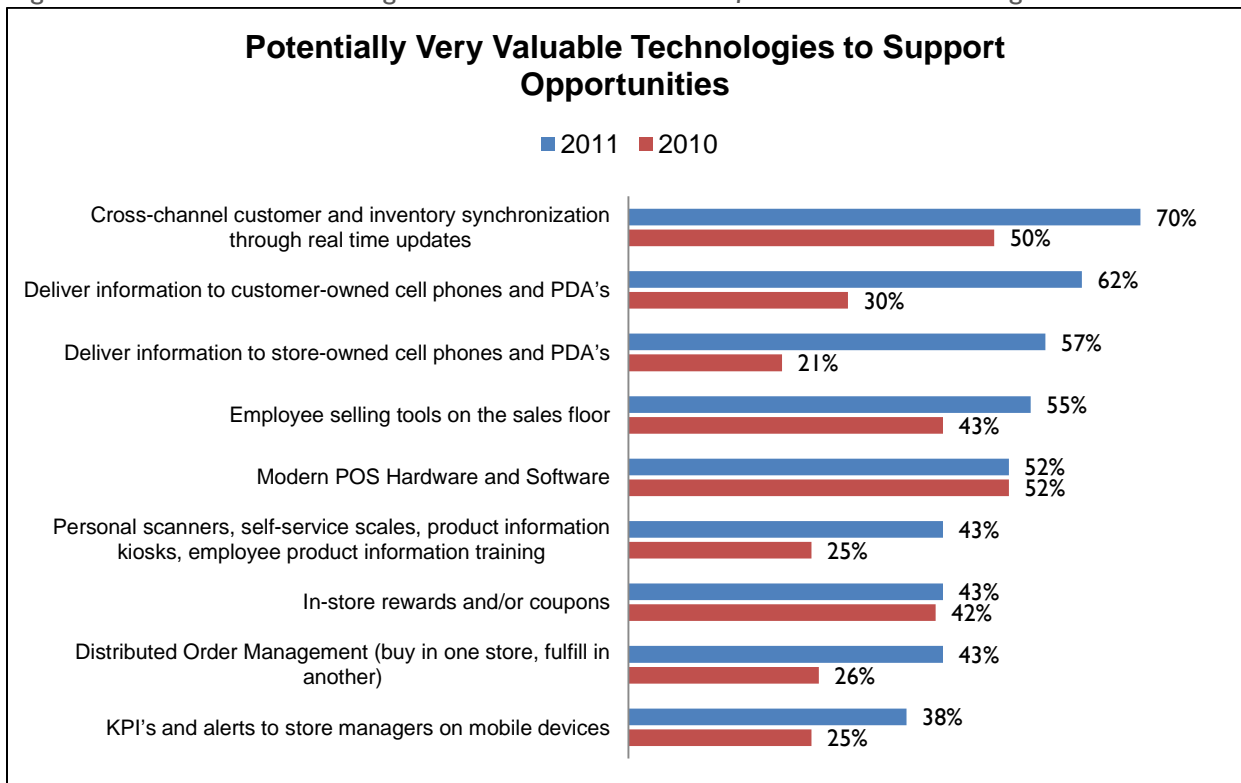
No matter the scope of any other project under discussion, wireless networks *need* to be prioritized by every retailer right now.

Technology Enablers

Significant Shifts in Perceived Value of Technologies

While Retail has always been a reactionary, fast-moving business, its technology adoption rate, and the dollars dedicated to supporting new technology adoption has lagged other industries. But as we now all know, the world around us has changed irrevocably. The consumer has higher expectations, the rate of user technology change has skyrocketed (as of this writing, the cost of some Android phones had fallen to \$49) and retailers know they must move faster to keep up. So before looking at what retailers have already installed in their stores, it's useful to see how their perception of potential perceived value has changed (Figure 14).

Figure 14: Dramatic Changes in Perceived Value of In-store Technologies



Source: RSR Research, June 2011

Certainly modern POS hardware and software remain fundamental building blocks for the in-store experience, and retailers recognize that. While 52% continue to rate the technology “very valuable” another 43% ascribe “some value” to the building blocks of check-out. In other words, hardly anyone is under the impression that simple electronic cash registers are going to support 21st century retailing. In-store rewards and coupons are also still perceived as important technologies to drive a better experience. In just about every other area, things have changed dramatically.

Many of these changes in perception are driven by Retail Winners. Specifically:

- 57% of Retail Winners believe Distributed Order Management has a lot of value to support the opportunities they see vs. only 10% of laggards

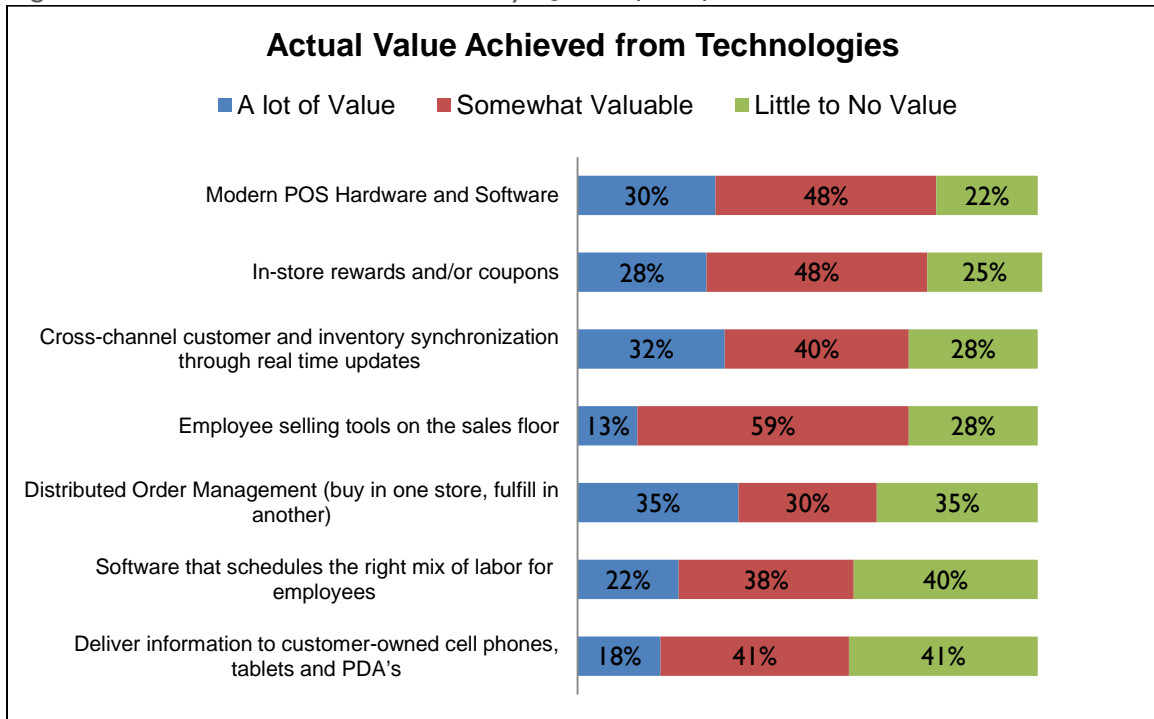
- 70% of Retail Winners rate employee selling tools on the sales floor as very valuable vs. 42% of all other respondents.
- 65% of Retail Winners believe delivering information to *store-owned* phones, tablets and PDA's has a lot of potential value vs. only 33% of laggards
- 74% of Retail Winners believe delivering information to *customer-owned* phones, tablets and PDAs has a lot of potential value vs. 40% of laggards

These numbers are compelling, and illustrate what we observed earlier in this report – Winners have different vision and thought processes from their peers. Their ability to look ahead serves to help them press their advantage.

For Many, Reality has yet to Catch Up with Perception

Of course, perception and reality are often at odds with each other, and as we can see in Figure 15, many technologies that are high on promise, have thus far failed to deliver promised results.

Figure 15: Actual Value More Easily Quantified from “Bread and Butter” Techs



Source: RSR Research, June 2011

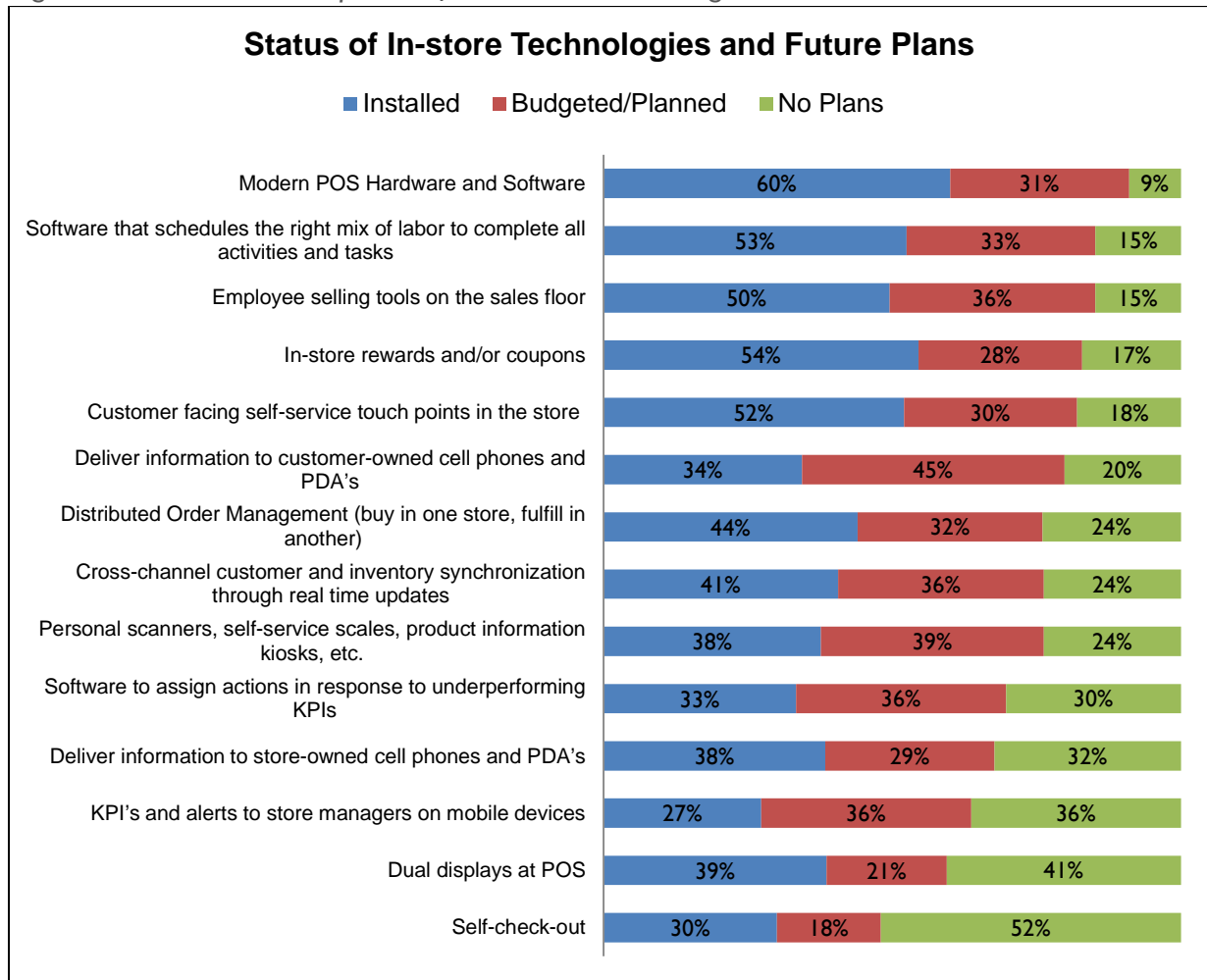
The “Bread and butter” technologies – Modern POS and in-store rewards and coupons are mature enough to have proved their worth. Interestingly though, actual value achieved from relatively newer technologies – real-time cross-channel customer and inventory synchronization, along with employee selling tools on the sales floor have ramped up to value very quickly.

The other technologies are either too new to quantify, or are hard to measure given the KPI's retailers use to measure results.

Technology Usage and Plans

Finally, we asked retailers to identify where they've actually put, or plan to put their money when it comes to technology (Figure 16):

Figure 16: Retailer Adoption of in-Store Technologies



Source: RSR Research, June 2011

We can see that in general, Retailer actions and plans track pretty well with their perceived high-value technologies. Of course, as was noted in the last section of this report, capital for technology purchases remains hard to come by, so actual implementation may lag budgets and plans. We do believe however, that retailers recognize the potentially critical nature of their problem. They must drive enough business into the stores to keep them profitable, even as they increase their sales through other channels.

To keep stores relevant, they must have some form of differentiating experience besides the opportunity to touch and feel the products on sale. In the end, that is the definition of a showroom – a place to touch products that will be delivered later. Retailers know this cannot continue.

KPI's Used for Measurement Remain Problematic

Even though the circumstances retailers find themselves in have changed with regard to the store, we have seen very little change in the Key Performance Indicators used to measure value gained from technologies. Retail Winners are as likely as their peers to report the number one metric is “percent increase in comparable store sales.” This is ironic, given their general propensity to appreciate those increases as an outcome of a series of steps towards improvement. As we said in last year’s Store benchmark report:

Finally, while comparable store sales increases are an outcome of a series of thoughts processes, it might be more appropriate to measure the usage of in-store technologies by shoppers, managers and employees, than to compare implementation dates to sales improvements. The more “interesting” hard data points, like average transaction value, customer retention and even gross margin are far less frequently used than aggregate sales³.

Until retailers find some way to shift the metrics they use to gauge the value of their technologies, they’ll remain somewhat befuddled, knowing they “need” particular technologies without being able to truly quantify if those technologies have made for a better customer experience in their stores.

³ *The Customer-centric Store 2010: How Retailers Engage Tech-enabled Customers*, June 2010

BOOTstrap Recommendations

On one level, our overarching recommendations are basic. On another level, they touch on the core of the in-store experience. While pricing, assortment and loyalty strategies are beyond the scope of this benchmark and are covered elsewhere, the following should help drive traffic to the store and convert that traffic into sales once the shopper arrives:

Redefine the In-store Experience

The store has long been a center of society. People generally enjoy shopping and also enjoy engaging with other people. While self-service might be quite appropriate for some shoppers, service assisted by knowledgeable employees or managers will re-claim the store's place in people's heart. More than one retailer has found success in the store as entertainment. It might be worth an investment in time and money to create special events that drive people to the store. For some retailers, private events for "special" customers may prove valuable. For others, it may be as simple as reducing the length of check-out lines. Still others will find augmented reality applications interesting and useful. "The box" needs reinvigoration. Technology can help.

Use Location-based Social Network Promotions to Drive Traffic

Everyone loves a deal, and most people love social networks. Make it fun, and make it meaningful. Offer deals that are only good in the store – like "check-in to receive a discount on your purchase." These are not complicated technologically; either a QR code, or a simple bar-code downloaded to a mobile phone can suffice as confirmation.

Make a Wireless Decision, Now

It's becoming an RSR tradition to beseech retailers to get their stores Wi-Fi enabled. We continue to make that plea. We have seen far too many real-life instances of the Store Manager being the least technology empowered person in the store. That must change.

Don't Make Promises Your Employees Can't Keep

We all recognize that an uneducated, disempowered employee is worse for our customer-service reputations than no employee at all. Ensure that Marketing and Store Operations are in synch on the marketing messages being broadcast to the world. Too many retailers promise a superior customer experience and fail to deliver. The brand damage in that situation is incalculable. As payrolls stabilize, find ways to educate and empower employees.

The Store is Not an Island: Ensure it Blends with Other Channels

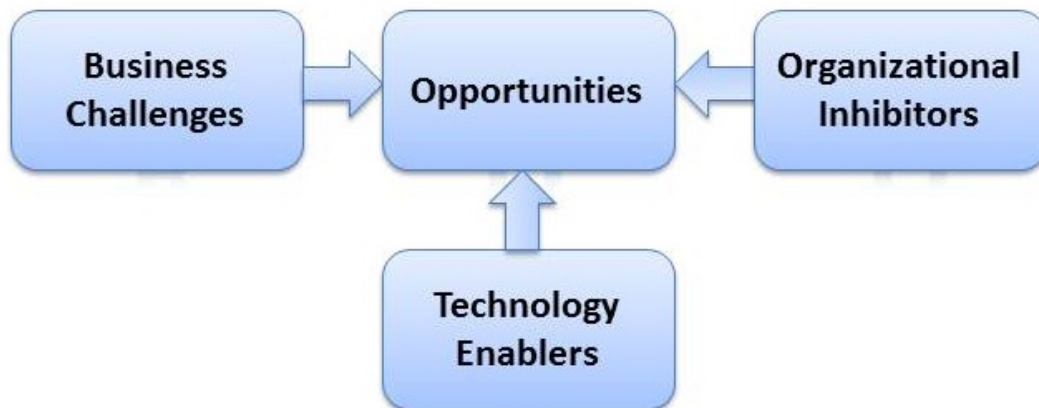
Even as we re-define the in-store experience, it's critical to insure there is no conflict across any of our other selling or information channels. The store must provide the convenience and assortment available elsewhere, *plus* the human touch. Offer your customer choices that can only be offered in the "real" world. The customer may want to linger, or she may want an in-and-out experience. Make it relevant, and make it distinctive. Make it convenient and make it fun. In any case, insure that it makes sense and in tune with the overarching experience you want to provide. The future of our stores depends on it.

Appendix A: RSR's Research Methodology

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning Retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



Appendix B: About Our Sponsors



As the preferred technology partner for leading retailers around the world, HP delivers end-to-end solutions built on consumer insight and engagement. From Point-Of-Sale to digital signage, HP retail-hardened technologies enable retailers to address the challenge of rising customer expectations for easy access to information and an enhanced shopping experience. HP touch solutions empower both customers and employees with interactive applications that connect today's multi-channel retailing environment. Additional information about HP is available at <http://www.hp.com/go/hpretail>.



By enabling more content, mobility and capabilities than ever before, Intel gives you the advantage in a rapidly changing world. With advanced silicon, industry standard platforms, modular infrastructure solutions and ecosystem support, Intel can help you deliver a more compelling digital lifestyle. Intel, the world leader in silicon innovation, develops technologies, products and initiatives to continually advance how people work and live. Additional information about Intel is available at www.intel.com/go/ic.



NCR Corporation is a global technology company leading how the world connects, interacts and transacts with business. For the retail industry, NCR offers solutions that optimize efficiencies, enhance the customer experience and transform businesses, along with services that make life easier. Today's consumers are time starved, digitally enabled and more in control than ever - tomorrow will require a new way of doing business. NCR is igniting its converged retailing – c-tailing™ – revolution, ushering retailers into a new realm of consumer interaction based on presence and preference. For more information, email retail@ncr.com or visit <http://www.ncr.com>.



For more than 35 years, RedPrairie's best-of-breed supply chain, workforce, and all-channel retail solutions have put commerce in motion for the world's leading companies. Installed in over 60,000 customer sites across more than 50 countries, RedPrairie solutions adapt to help ensure visibility and collaboration between manufacturers, distributors, retailers, and consumers. RedPrairie is prepared to meet its customers' current and future demands with multiple delivery options, flexible architecture, and 24/7 technical and customer support. For a world in motion, RedPrairie is commerce in motion.



Salesforce.com is the enterprise cloud computing company. Based on salesforce.com's real-time, multitenant architecture, the company's platform and CRM applications (<http://www.salesforce.com/crm>) have revolutionized the way retailers collaborate and communicate with their customers, including:

- The Sales Cloud, for clienteling and contact management
- The Service Cloud, for cross-channel customer service and support solutions
- Chatter, for social collaboration
- The Force.com platform, for custom application development
- The AppExchange, the world's leading marketplace for enterprise cloud computing applications

Salesforce.com offers the fastest path to customer success with cloud computing. As of October 31, 2010, salesforce.com manages customer information for approximately 87,200 customers including Avon, Boots, Fast Retailing, Restoration Hardware and Starbucks.

Appendix C: About RSR Research



Retail Systems Research (“RSR”) is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.

Copyright© 2011 by Retail Systems Research LLC • All rights reserved.
No part of the contents of this document may be reproduced or transmitted in any form or by any means without the permission of the publisher. Contact research@rsresearch.com for more information.