The Multi-Channel Retailer’s Reality in a Post-Amazon World

Benchmark Report 2012

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Executive Summary

In a post-Amazon world, our retail respondents are clear about their vision for the future of eCommerce: multiple channels will help them thrive.

Customers are channel agnostic, and as a result, retailers know they must be as well. In fact, the challenges typically associated with operating a successful eChannel - identifying what a differentiated online experience looks and feels like, managing cost-effective shipping and fulfillment, even understanding how different customer segments engage with the brand – all are overcome by cross-channel coordination and inventory deployment. As we head into 2013, the best competition for online excellence will be cross-channel excellence.

Key Findings

- 50% of Double-digit Winners are operating more than 4 brands or sites online today, and their performance has nothing to do with their size. In fact, no retailers with more than $1 Billion in annual revenue are using more than 4 sites or brands.
- 71% of Double-digit Winners are currently operating mobile websites, and another 57% are selling on social sites like Facebook, in stark contrast to what lagging and average-performing retailers are doing in these relatively new mediums.
- Laggards overwhelmingly cite uncertain consumer demand as their most frequent top-three business challenge (73%) but they don’t know why: Only 40% (far fewer than Retail Winners or Double-digit Winners) recognize that they need to keep up with evolving consumer shopping patterns.
- The smallest retailers are even more concerned about consumer shopping patterns.
- 71% of Double-digit Winners (and 67% of Single-digit Winners) say their top opportunity is investing in cross-channel capabilities. For the most forward-thinking multi-channel retailers, the ability to close a sale in whichever channel is most convenient and meaningful to the consumer and the way she lives is exactly how they will continue to compete with Amazon.
- While there is a decline in the overall number of retailers citing targeted email campaigns as a top three opportunity, Double-digit Winners have the strongest appetite of any retailers.
- Laggards are the only performance segment still assigning high value to eCommerce branded deals of the day and promotional offers. Winners have clearly moved on.
- Double-digit Winners report their top operational challenge as the ability to coordinate with other channels to create a seamless brand experience. This dramatically underlines how much Winners understand their multiple channels can be leveraged as a real and differentiating strength from online-only powerhouses.
- By comparison, only 47% of Laggards cite channel coordination as an operational challenge, revealing either a lack of action that hasn’t unearthed the challenges of tying all of their channels together, or, worse yet, they don’t even understand how important a seamless cross-channel experience is to remaining relevant.
- Laggards have an inordinate focus on coordinating their eCommerce price and promotions across departments. This only reinforces the fact that Winners have been more likely to fold their eCommerce operations across the enterprise, while Laggards have kept their eCommerce departments siloed, complete with price and promotion incongruences across varied channels.
- Smaller retailers are far more challenged to effectively manage online returns.
- Fashion retailers have a unique challenge in their stores: 47% report that stores don’t understand the mobile or cross-channel opportunities, a virtual non-issue for those selling perishables, hard goods, and to a lesser extent, seasonal goods. This issue will escalate for all retailers as consumer adoption of mobile spreads.
- Retailers perceive tremendous value in many of the new breed of eCommerce technologies available to them, but even if they have the budget to buy, they lack the manpower to support them all.
- A majority of respondents see the eCommerce platform extending out into the store.
- Despite all the press around mobile payment initiatives, very few retailers strongly believe the technology will be viable this year; of those, most are the smallest retailers with revenue under $50 million, who have become credit-card enabled through technologies like Square.
- Retailers are coming to terms with the notion of having a designated executive responsible for the customer experience. Almost 80% recognize the importance of having an actual owner, rather than just tasking it to “everyone” as they have in the past.

**BOOTstrap Recommendations**

At the conclusion of this report, we offer pragmatic recommendations for retailers going forward, based on what they’ve told us in their collective responses. This year, we recommend accepting the fundamental nature of omni-channel retailing, paying close attention to alternative payment types, the inevitability of blending terrestrial and digital technologies, and to start thinking about an enterprise digital platform.
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Research Overview

There can be no doubt of the consumer’s love for the ease of researching, comparing, and buying anything she wants from anywhere in the world at any time she chooses via online devices. This is the world of eCommerce, and its growth rates have been spectacular. In fact, this is one of the few benchmark reports where we separately measure retailers’ year-over-year progress in both single and double-digit sales growth; that type of growth is hard to come by in a global economy that has otherwise been relatively flat for years.

However, while the industry buzzes about ways new consumer technologies help consumers buy more and buy better - and how retailers’ ability to understand these new trends and adjust proactively will help them win both customer loyalty and overall market share - the fact remains that most sales still are consummated in stores. As a result, eCommerce is, and has been, a tremendous priority among retailers, but, just like when catalog retail first came around, its place is still separate within the retail enterprise. And that simply won’t do for much longer. The consumer wants her needs fulfilled, and she doesn’t care if a retailer’s internal silos make fulfilling her order more challenging. She also doesn’t care about retailers’ needs to carry excess inventory because they can’t figure out how to allocate across their own selling channels.

Hence, we set out to understand how retailers are evolving to meet these new consumer demands. What makes this year’s data particularly interesting is that very few pure-play, online-only retailers responded to our survey, reflecting a highly accurate representation of the current retail landscape, and providing us with a unique opportunity to examine the eCommerce challenges and opportunities specific to multi-channel retailers: in essence, this report serves to reveal the multi-channel retailer’s reality in a post-Amazon world.

So firstly, let’s examine all the channels our respondents operate (Figure 1).

Figure 1: It’s a Multi-channel World

<table>
<thead>
<tr>
<th>Select All Channels You Sell In</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores</td>
<td>85%</td>
</tr>
<tr>
<td>Branded Online Channel</td>
<td>75%</td>
</tr>
<tr>
<td>Social Site</td>
<td>39%</td>
</tr>
<tr>
<td>Mobile/mCommerce</td>
<td>39%</td>
</tr>
<tr>
<td>Third Party Marketplace Channels (eBay, Amazon, Nextag, etc)</td>
<td>30%</td>
</tr>
<tr>
<td>Catalog</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: RSR Research, November 2012
While the channel statistics in Figure 1 are much in line with what we’ve seen in previous years, it is worth noting that those who out-perform their competitors (Retail Winners, explained in detail in just a moment), are much more aggressive in selling via mobile and social sites; **71% of Double-digit Winners are currently operating mobile websites, and another 57% are selling on social sites like Facebook.** These numbers stand in stark contrast to what lagging and average-performing retailers are doing in these relatively new mediums. In other words, selling channel proliferation is most predominant among over-performers.

It is also helpful to take a look at how many unique sites and brands our largely multi-channel retail respondents operate (Figure 2).

*Figure 2: The More the Merrier? For Some, Yes.*

Most retailers are keeping it simple when it comes to the number of sites and brands they operate online. However, Winners take a different tack: **50% of Double-digit Winners are operating more than 4 brands or sites online today.**

And before we jump to any conclusions about who these high performers are, keep in mind that size does not equal performance; **no retailers with more than $1 Billion in annual revenue are using more than 4 sites or brands.** In fact, 38% of retailers with annual revenue exceeding $1 Billion only operate one site, while another 46% are currently operating 2-4. What does this data mean? In its purest form, those retailers who are growing their online sales fastest are doing so by employing multiple sites to sell multiple brands, regardless of their overall retail muscle. This reminds us of Zappos’ early days. Use a search engine to look for shoes online, and you’d see a list of 20-30 different sites. Yet every single one of them would lead you back to Zappos when you actually decided it was time to buy. Today, of course, there’s lots more competition in online shoes, but Zappos still stands as an early and significant influence on the eCommerce industry. It’s interesting that Zappos is now the property of Amazon.com, the singularity that has changed
the industry forever. Zappos now sells much more than just shoes. In essence, Amazon is using its properties like Amazon and Woot to act as different sites for the same brand.

**Defining Winners and Why They Win**

At this point, it seems appropriate to introduce RSR's concept of Retail Winners. Our definition of Retail Winners is straightforward. **We classify retailers based on their year-over-year comparable store/channel sales improvements.** Assuming industry average comparable store/channel sales growth of three percent in 2011, 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.” Because eCommerce is the one channel where retailers are experiencing explosive growth, for the purposes of this report we also call out “Double-digit Winners” – those whose annual year-over-year growth is 10% or above.

Why do these comparisons matter? It turns out that over-performance is more than an accident of selling more stuff. RSR’s research findings consistently show 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.

**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.

**Survey Respondent Characteristics**

RSR conducted an online survey from August - October 2012 and received answers from 97 qualified retail respondents. Respondent demographics are as follows:

- **Job Title:**
  - Senior Management (CEO, CFO, COO) 27%
  - Vice President 9%
  - Director/Manager 39%
  - Internal Consultant & Staff 22%
  - Other 3%

- **2011 Revenue (US$ Equivalent)**
  - Less than $5 Million 17%
  - $6 - $50 Million 14%
$51 - $999 Million 33%
$1 - $5 Billion 15%
Over $5 Billion 20%

- Products sold:
  Fashion / Short Lifecycle 27%
  Seasonal 11%
  Replenishment Goods 17%
  Durable / Hard Goods 37%
  Perishable / Food 17%

- Headquarters/Retail Presence:
  USA 54% 63%
  Canada 4% 30%
  Latin America 3% 11%
  UK 4% 23%
  Europe 13% 30%
  Middle East 1% 13%
  Africa 10% 19%
  Asia/Pacific 10% 26%

- Year-Over-Year Sales Growth Rates (assume average growth of 3%):
  Better than average (Double digit growth) 18%
  Better than average (Single digit growth) 31%
  Average 30%
  Worse than average (Laggards) 22%
Business Challenges

Understanding the Customer: How She Shops, What She Buys

Business challenges for the world of eCommerce don’t differ tremendously from overarching retailer concerns: it’s all about understanding the customer. And secondarily, it’s about maintaining meteoric growth rates while making money at the same time (Figure 3).

Figure 3: Customer Concerns are the Top Aggregate Business Challenges

<table>
<thead>
<tr>
<th>Top Three (3) Business Challenges</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping up with evolving consumer shopping patterns: social networks, mobile, etc.</td>
<td>56%</td>
</tr>
<tr>
<td>Getting consumers to engage more with us online</td>
<td>53%</td>
</tr>
<tr>
<td>Maintaining growth rates</td>
<td>38%</td>
</tr>
<tr>
<td>Generating acceptable margins</td>
<td>33%</td>
</tr>
<tr>
<td>Uncertain consumer demand</td>
<td>32%</td>
</tr>
<tr>
<td>Managing our online assortment</td>
<td>23%</td>
</tr>
<tr>
<td>Stemming cart abandonment</td>
<td>20%</td>
</tr>
<tr>
<td>Providing more ways for consumers to connect with each other through our brand</td>
<td>20%</td>
</tr>
<tr>
<td>Price transparency</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: RSR Research, November 2012

Price transparency remains a concern for 18% of retail respondents, identical to last year’s respondents. Those most concerned sell basic/replenished products, perishables and hard goods (27%, 25% and 21% respectively). Those selling seasonal or fashion merchandise are far less concerned. Overall, we’re somewhat surprised to see price transparency “fall off the lifeboat” of top-three issues in favor of customer issues.

In fact, it’s quite instructive to look at this data overall based on the primary product sold. Those selling hard goods are most concerned with evolving consumer shopping patterns, customer engagement, and uncertain demand. Those selling fashion/short lifecycle add stemming shopping cart abandonment and maintaining growth rates. Retailers selling basics/replenishment items are also concerned with managing growth. Those selling seasonal product overwhelmingly cite keeping up with evolving consumer shopping patterns and generating acceptable margins. We wonder if the “pop-up store” terrestrial phenomenon is biting into their seasonal eCommerce business. Figure 4 shows this data in detail.
For Laggards, the World Remains an Uncertain Place

Laggards overwhelmingly cite uncertain consumer demand as their most frequent top-three business challenge (73%). On one level, this makes a lot of sense – consumers are just not buying what they’re selling, and they’re buying less of it every year;

Yet the “whys” of it seem to remain unclear to them. Forty percent (far fewer than Retail Winners or Double-digit Winners) recognize that they need to keep up with evolving consumer shopping patterns. Instead, they are more apt to feel unable to get consumers to engage with them (53%) as a top-three challenge.

Mid-market Cites Engagement, Small Retailers Margin Pressures

We have raised concerns about mid-market retailers pretty consistently throughout 2012, and this survey is no exception. These retailers, who we generally assume have the best handle on their customers, are particularly and surprisingly befuddled by consumer shopping patterns, uncertain demand and finding ways to engage their customers.

The smallest retailers are even more concerned about consumer shopping patterns and, not surprisingly, fret over generating acceptable margins in a world where they have almost no cost or economy of scale advantages (Figure 5).
So in a world where maintaining growth is one of the biggest challenges (we should all be so lucky!), let’s take a look at opportunities that abound.

Source: RSR Research, November 2012
Opportunities

The Way Forward

Our retail respondents are clear about their vision for the future of eCommerce: *its days of operating as a separate entity within the overall organization are over*. Customers are channel agnostic, and as a result, retailers must be as well; they identify their top opportunity going forward as investing in cross-channel opportunities (59%, Figure 6).

*Figure 6: eCommerce is No Island*

<table>
<thead>
<tr>
<th>Top Three (3) Opportunities to Overcome Challenges You Identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing in cross-channel capabilities</td>
</tr>
<tr>
<td>Improving fulfillment processes</td>
</tr>
<tr>
<td>Providing richer product detail information (photo, video)</td>
</tr>
<tr>
<td>Improving search and browse capabilities</td>
</tr>
<tr>
<td>Add additional selling channels (including third party)</td>
</tr>
<tr>
<td>Embedding more social capabilities in our full site</td>
</tr>
<tr>
<td>Targeted email campaigns</td>
</tr>
<tr>
<td>Improving the payment process</td>
</tr>
<tr>
<td>Branded deal of the day/promotional offers</td>
</tr>
</tbody>
</table>

*Source: RSR Research, November 2012*

Winners are even more bullish about bringing their eCommerce functionality across channels:

- 71% of Double-digit Winners (and 67% of Single-digit Winners) say their top opportunity is investing in cross-channel capabilities. As we noted earlier in this report, most of our respondents to this survey operate stores, and this is the stake they are putting in the ground: *this is how they plan to compete with Amazon*. Regardless of your personal take on the viability of the “showrooming” phenomenon, consumers still want – and *need* – to visit stores. For the best-performing and most forward-thinking multi-channel retailers, that ability to close a sale in whichever channel is most convenient and meaningful to the consumer and the way she lives is *exactly how they will continue to compete with Amazon*. However, this strategy only works if the paths to purchase – all of them – are completely interoperable. Winners understand this at a disproportionate rate and are investing to make sure their systems, supply chain, and inventory are aligned to make this a reality.
A Forced Hand Reveals Changes

There are also some differences in perceived opportunities this year. Firstly, we asked the question a bit differently. In years’ past, we’ve asked retailers to identify all of the opportunities that hold value for them. But this year, we asked them to choose only the three most important. As a result, a number of new trends emerge:

- The number of retailers ascribing high value to richer product detail information has dropped (56% in 2011, down to 44% in 2012). This is not to say retailers have lost interest in providing high content photos and videos of the products they sell on their sites – what it does mean is that when forced to be selective, fewer of them chose it as a top opportunity. This could also be indicative of retailers feeling they have product information “under control” at this point in the game; it will be very interesting to see how they rate this data point in 12 months’ time. However, in a related point;
  - The retailers who do give the highest value to richer product detail are those selling seasonal goods – even more so than what fashion retailers report (75% vs. 33% respectively).
- Improved payment processes take the biggest hit in overall retailers’ preferences when asked to force rank, down 19% this year from last.
- There is also a significant decline in the number of retailers citing targeted email campaigns as a top three opportunity. Does this mean the promise of targeted communications is fading and retailers are abandoning further efforts to tie content to consumer demographics, lifestyles and preferences? If performance is any indicator, no. Double-digit Winners have the strongest appetite of any retailers: 36% cite such communications top opportunity, compared to the aggregate’s 20%.

Undercut/Underperform

When it comes to marketing “Deals of the Day” online, overall favor is down from last year (at 16%, it receives the lowest level of retailer interest of all the options we provided in Figure 6). But when we look closer, there’s also a direct correlation between interest level and retailer performance (Figure 7).
Figure 7: Death of a Salesman

Laggards are the only performance segment still assigning high value to eCommerce branded deals of the day and promotional offers. Winners have clearly moved on, recognizing that a single transaction with the consumer – and a low-cost model one at that – is not how they will engage and retain the type of loyalty needed to keep them in the game.

To pile on, when viewed by product segment, absolutely no retailers from the fashion/short lifecycle or seasonal goods segments report any interest in branded deal of the day offers. Its continuation is the sole practice of average and lagging hard goods, basics, and perishables retailers – segments where it always has and always will make the most sense. If what you’re selling rots or never changes, a deal of the day may still hold some allure. But for those selling fashion (and for those with stronger sales), the deal-of-the-day bloom is off the rose.
Organizational Inhibitors

Cross-Channel Challenges Abound
We also posed a new question to retailers this year to identify their top operational challenges. As you can see in Figure 8, the challenges typically associated with operating a successful eChannel - identifying what a differentiate online experience looks and feels like, managing cost-effective shipping and fulfillment, even understanding how different customer segments engage with the brand – all are overcome by cross-channel coordination and inventory deployment.

Figure 8: Operationally Speaking...

<table>
<thead>
<tr>
<th>Top Three (3) Operational Challenges</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordinating with other channels to create a seamless brand experience</td>
<td>59%</td>
</tr>
<tr>
<td>Optimizing inventory deployment across all channels</td>
<td>52%</td>
</tr>
<tr>
<td>Understanding and accommodating how different consumer segments engage with us</td>
<td>49%</td>
</tr>
<tr>
<td>Cost effective shipping and fulfillment</td>
<td>44%</td>
</tr>
<tr>
<td>Coordinating price and promotions with other departments</td>
<td>33%</td>
</tr>
<tr>
<td>Have not yet defined what a differentiated online experience looks/feels like</td>
<td>18%</td>
</tr>
<tr>
<td>Processing and/or accounting for returns</td>
<td>17%</td>
</tr>
<tr>
<td>Sharing accurate product data with our channel partners</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: RSR Research, November 2012

As always, further data points of interest emerge when viewed by performance and segment:

- 71% of Double-digit Winners report their top operational challenge as the ability to coordinate with other channels to create a seamless brand experience. This dramatically underlines how much Winners understand their multiple channels can be leveraged as a real and differentiating strength from online-only powerhouses – providing they can one day properly execute. The problem is also related to retailer size: 74% of those with annual revenue over $1 Billion cite it a top challenge (compared to only 48% of those with less than $50 million in annual sales).
- By comparison, only 47% of Laggards cite channel coordination as an operational challenge, revealing either a lack of action that hasn’t unearthed the challenges of tying all of their channels together, or, worse yet, they don’t even understand how important a seamless cross-channel experience is to remaining relevant.
- Instead, Laggards have an inordinate focus on coordinating their eCommerce price and promotions across departments (40% vs. Winners’ 29%). This only reinforces the fact that
Winners have been more likely to fold their eCommerce operations across the enterprise, while Laggards have kept their eCommerce departments siloed, complete with price and promotion incongruences across varied channels.

- Smaller retailers are far more challenged to effectively manage online returns. 24% of those with annual revenue less than $50 million identify processing and/or accounting for returns as a top operational challenge, compared with only 4% of those at the $1 billion and above tier.

**An Issue of Resources**

When it comes to what stands in the way of forward progress, budgeting is always a primary roadblock. In an apparent turn, eCommerce budgets appear to be freeing up a bit; not only is it bumped out of the top three list, but its numbers are down from 51% last year to 38% this year (Figure 9). However, the challenge reveals itself in a trend that has been growing steadily over the past few years; eCommerce is not just an issue of **budget** for new technologies, but also an issue of having **all** of the resources – including the manpower retailers know they’d need to leverage all the exciting new technologies they want. In short, retailers perceive tremendous value in many of the new breed of eCommerce technologies available to them, but even if they have the budget to buy, *they lack the manpower to support them all*. As you will see in the Technology Enablers section of this report, it is time to be hyper-selective about which technologies they can effectively buy, with a watchful eye on the cost of those technologies beyond the purchase order.

*Figure 9: The Technology Cost Doesn’t End at Implementation*

<table>
<thead>
<tr>
<th>Top Three (3) Organizational Inhibitors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>We don’t have enough eCommerce resources to manage all the available opportunities</td>
<td>53%</td>
</tr>
<tr>
<td>The existing technology infrastructure is preventing us from moving forward</td>
<td>53%</td>
</tr>
<tr>
<td>ROI is hard to quantify</td>
<td>48%</td>
</tr>
<tr>
<td>Budgeting - there is little capital investment available</td>
<td>38%</td>
</tr>
<tr>
<td>Stores are a higher investment priority</td>
<td>27%</td>
</tr>
<tr>
<td>Stores don’t understand the mobile or cross-channel opportunities</td>
<td>25%</td>
</tr>
<tr>
<td>The marketing organization does not understand the digital strategies we need to support eCommerce</td>
<td>22%</td>
</tr>
<tr>
<td>Difficulty getting IT resources for eCommerce projects</td>
<td>18%</td>
</tr>
</tbody>
</table>

*Source: RSR Research, November 2012*

Retailer size, performance, and product mix greatly impact the effect of these inhibitors:
• Laggards are far more pressed to have discretionary budget: 54% of under-performers report budgeting challenges, compared to 14% of Double-digit Winners. It is even more of a challenge for seasonal goods retailers: 63% cite constraints on eCommerce budgets.
• Fashion retailers have a unique challenge in their stores: 47% report that stores don’t understand the mobile or cross-channel opportunities, a virtual non-issue for those selling perishables, hard goods, and to a lesser extent, seasonal goods. Clearly this issue will escalate for all retailers as consumer adoption of mobile spreads. Consumers are already using their mobile devices in stores when shopping for blouses and shoes, and those retailers are being forced to address their concerns sooner than later. But as the consumer’s love affair with her mobile device will undoubtedly stay its current course, how long until retailers selling food, basic goods and seasonal items are forced to adapt? The issue is also of greater importance to retailers based on size: 33% of those with sales of $1 billion and above identify it as top-three organizational inhibitor, compared to only 15% of small (less than $50 million) retailers.
• The smallest retailers are the quickest to cite overall budgetary constraints (60%, vs. large retailers’ 14%). For technology vendors, the emphasis in messaging to small retailers (where members of a small staff often wear many IT hats) should be the cost of non-adoption. For larger retailers? The ability to fully manage a new technology’s potential with little tax on their existing, stretched-too-thin human resources.

The Way Forward
Now that we've identified the roadblocks, what are the ways retailers self-identify to best get past them? The overall respondent pool points to a streamlined platform, an executive tasked with managing the overall customer experience, and more coordination with both marketing and stores (Figure 10).

Figure 10: One Person Monitoring a Coordinated Effort – On a Strong Platform

<table>
<thead>
<tr>
<th>Top Three (3) Ways of Overcoming Organizational Inhibitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in a streamlined technology platform or infrastructure</td>
</tr>
<tr>
<td>An executive tasked with managing and improving the overall customer experience</td>
</tr>
<tr>
<td>More coordination with marketing</td>
</tr>
<tr>
<td>More coordination with stores</td>
</tr>
<tr>
<td>Vendor ecosystems/partnerships that make point solution selection easier</td>
</tr>
<tr>
<td>More experimentation</td>
</tr>
<tr>
<td>Greater reliance on third parties (marketplaces or vendors) for technology and fulfillment infrastructure</td>
</tr>
<tr>
<td>Solutions that don’t burden our IT department</td>
</tr>
<tr>
<td>Case studies/success stories in my vertical</td>
</tr>
</tbody>
</table>
What's particularly interesting is how different types of retailers’ views vary on these “ways forward”:

- Retail Winners are much more focused on coordination with stores (40% of Single-digit Winners and 42% of Double-digit Winners compared to 23% of Laggards). Quite simply, the better performing retailer better understands how a vital the store’s place is in the new eCommerce/multi-channel experience.
- Double-digit Winners are also the hungriest for case studies and success stories from their peers to help them find new ways forward: 25% compared to 8% of Laggards.
- While a streamlined technology platform is the first choice of our total response base, larger retailers are the ones driving the trend. 67% of large retailers say that an improved infrastructure is the best way to get past their eCommerce inhibitors, while that number is only 47% for small retailers. In essence, small retailers appear to be giving up on the notion they can either afford or manage new tech infrastructure, a message to technologists that these retailers are in need of affordable and practical assistance.
- This is only underscored by small retailers’ self-identified need for solutions that don’t burden their IT department (32% compared to large retailers 12%)
- Small retailers are also the group most amenable to increased experimentation – while their small size makes for them the least likely to have available budget (and a pervasive belief that they can’t afford a new eCommerce platform), they know they must be willing to try new initiatives in order to differentiate from their larger, less-nimble competitors.

Lastly, before we get into the Technology Enablers section of this report, it is worth noting that “more coordination with marketing,” while still a top three concern for our overall response pool, has dropped off significantly in past 12 months (52% in 2011, down to 38% in 2012). Again, this may result from us asking retailers to force rank their three top inhibitors, but when faced with that choice, complaints about the marketing department’s involvement in eCommerce tend to fade. By way of comparison, retailers’ acceptance of the need for a single executive tasked with owning the entire customer experience – across all channels of the brand – has not waivered one bit.
Technology Enablers

A Cornucopia of Riches

Conventional wisdom has it that retailers always under-spend on technology. Our last IT Alignment report\(^1\) showed the IT backlog growing and users clamoring for ever more resources. Even in this survey, respondents report they just don’t have enough resources to take advantage of the technology opportunities they see, But Figure 11 seems to tell a very different story.

Figure 11: eCommerce: Lots of Technology to Support Lots of Growth

We compared the percentage of respondents rating a technology “very valuable” with implementation rates, and found that in just about every case, value rating is below implementation frequency.

We don’t believe this means retailers are spending unwisely; far from it. When a channel is growing at double-digit compound rates, it certainly justifies significant investments. Even technologies deemed “somewhat important” will likely help raise brand awareness and customer

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\(^1\) Placeholder for last IT Alignment Report (2010)
satisfaction. We also observe that while our respondents report that the existing infrastructure is their biggest internal stumbling block, perhaps their notion of a more streamlined technology platform is becoming a reality, allowing for easier extensibility than earlier generations.

In fact, as we’ll see, this newer, more streamlined infrastructure is finding its way into other parts of the enterprise.

The eCommerce Platform Extends across Channels and Departments

Looking at the relatively new and streamlined eCommerce platforms compared to their older counterparts in the stores, and the fresh opportunities in mobile, we can see that retailers perceive a lot of opportunity. A majority of respondents see the eCommerce platform extending out into the store and into the streets (Figure 12).

Figure 12: The eCommerce Platform Moves into the Physical World

Most intriguing in our mind is the use of the eCommerce as the next generation of Point of Sale. Our respondents seem to agree. While current usage is relatively low and driven predominantly by double digit Retail Winners, a majority of all respondents are at least planning to head in that direction.

On the one hand, this sounds easier to accomplish than it actually is – there are many more activities that occur in the store than just recording a sale and accepting payment: specifically, there’s cash management, Sales Audit, overrides, tender management – the things we do to control and secure our systems when employees and cash are involved. But overall, the notion of having a single platform across all channels, most especially POS outweighs short term hassles of replicating those ancillary functions. Retailers want it; vendors are working on putting it
together, we expect it to be the standard in all sectors except high-volume commodity retailers like supermarkets and grocers within three to five years.

**What's Next? No Channel is an Island and the Customer as King**

Jumping off from the questions about the future of the eCommerce platform specifically, we asked our respondents for their opinions about future technology enablers and processes overall within the retail enterprise. Overall answers are fascinating (Figure 13).

*Figure 13: The Future: No Channel is an Island*

### Surprises

Despite all the press around mobile payment initiatives, we find very few retailers strongly believe the technology will be viable this year, and of those, most are the smallest retailers with revenue under $50 million, who have become credit-card enabled through technologies like Square.

At the same time, the only retailers excited about Social Media as a selling tool are Winners and Double-digit Winners. Approximately half of those retailers agree this is a valid direct selling tool.

### Non-Surprises

In our 2011 eCommerce benchmark, only 37% of respondents strongly agreed that the future of online commerce lies more with cross-channel or merged channel capabilities. This year that number rose to 58%. The popular media has glommed onto the term “omnichannel” and it resonates with executives, customers and reporters.

Similarly, the number of retailers who recognize that the eCommerce platform will ultimately become the enterprise digital platform across channels has risen significantly, from 22% who
strongly agreed in 2011 to 33% in 2012. As we pointed out earlier, we are most intrigued with this platform morphing into the next generation of POS.

Finally, retailers are finally coming to terms with the notion of having a **designated executive responsible for the customer experience**. Almost 80% recognize the importance of having an actual owner, rather than just tasking it to “everyone” as they have in the past. Double-digit winners are most emphatic in this regard, with 2/3 strongly agreeing that this is critical vs. only 38% of Laggards.

**So, Given all This, Where’s the Money Going to be Spent?**

The best way to manage inventory in a world of channel proliferation is to make it available across channels. So it’s not that surprising to see Distributed Order Management relatively high on the list of planned purchases. Given the advent of “big data,” the aggregation and assimilation of customer sentiment, we expected to see a significant bump in implementation of self-learning site personalization, and given the endless proliferation of channels, content management becomes ever more important. We were a bit more surprised, however, to see continued increases in retailer reviews and recommendations (Figure 14).

*Figure 14: Where Will Tech Budgets Go in 2013 and Beyond?*

As we noted, retailers seem able to find the funds for eCommerce initiatives. We recognize finding the talent to implement is not always as easy, but clearly retailers will not be deterred.
The data in this report speaks to a potpourri of digital applications, implemented as retailers “chase” technology enabled consumers. Some of these technologies will “stick” and become permanent fixtures in the digital landscape, while others will be flashes in the pan. In other words, some investments will be money well-spent, and some investments will be a waste of time and money.

The problem is we can never really tell in advance which ones will stick and which ones work. We can still remember a CIO from a major department store telling us in 2006 that he had no need to worry about mobile phones – his customers were unlikely to use them to pay for anything. When we replied, “No, but they will use them to see how much your competitors charge for the same item” he grew silent. On the flip side, some retailers made investments in something called “Second Life.” It might as well have been called “Short life” as it has virtually disappeared from retailers’ radar screens.

We as retailers have no choice but to chase the consumer. It’s a fundamental of 21st century retailing. The customer is in charge and it’s really hard to predict both the arc and impact of any particular channel. There are, however, some things we can do to shrink implementation cycle time and costs.

**Start Thinking About an Enterprise Digital Platform**

The next generation must have several key attributes.

- **Extensibility and Flexibility** – Channels and features will continue to proliferate like bunnies. It’s imperative that the applications needed to support them easily plug into a solid platform.

- **Internationalization** – Only the smallest retailers can avoid thinking about emerging markets and the need to support multiple languages, currencies and even mores. What is common practice in one country may be viewed as an extreme violation of privacy in another.

- **Integration into Supply Chain Systems** – As channels continue to proliferate, paths to purchase will only grow more chaotic. This means the ability to predict where a customer will actually want to take possession of an item will become less and less accurate. In aggregate we may be experts at predictive analytics, channel-by-channel, not so much.

**The Blending of Terrestrial and Digital Technologies is Inevitable**

As of this writing, even the venerable Amazon.com, the largest pure play eCommerce retailer in the world, is working with other retailers to create “Amazon Lockers” – places where consumers can pick up their purchases instead of having them delivered to their homes. So far the most significant locker locations are at 7-11 stores and at Amazon competitor Staples. The debate over this as a wise business strategy for companies like Staples is far beyond the scope of this document. But it does point out that terrestrial locations are not going away any time soon.

Most of us will sell our products in both stores and digital channels. We’ll need visibility into orders, customers, inventory and product features/benefits pretty much everywhere. We’ll need to consummate sales in ever more channels. This leads us to a notion we never thought we’d have
– that **POS as a distinct and separate technology may well be dying**, at least for everyone but high volume, low dollar value retailers.

Thus we recommend that you start contemplating what your next generation POS system should look like. Three-quarters of our respondents believe the future is in a converged platform. But we’re not sure they’ve actually contemplated the implications of that.

**Pay Close Attention to Alternative Payment Types**

We were surprised to see so many retailers believe that alternative payments aren’t viable yet. That may be true of EMV, which is another term for “chip and pin” a technology popular in Europe. And it may also be true of NFC (near-field communications). The iPhone 5 has been released without an NFC chip, and to our knowledge, the largest mobile phone provider, Samsung, has also yet to include an NFC chip in its phones. Apparently number 2 provider Nokia does include the chips, but 4% of the market seems somewhat below critical mass.

But there are other alternative payment types that are gaining significant traction. Starbucks is now an investor and user of **Square**, the technology that has empowered the independent store retailer. Home Depot, Foot Locker, Abercrombie and Fitch and others are already accepting **PayPal**. Customers tend to really like PayPal, as it insulates their credit card numbers from retailers and also lets them pay without remember a pile of card numbers.

We all know there’s real money to be saved in fees by disintermediating some of the players who “touch” a credit card transaction. With tangible ROI and strong industry backing, we expect to see a push by **MCX** (the Merchant Payment Exchange spearheaded by Walmart and Target) and a concurrent push for **Isis** by the consortium of mobile phone operators and payment processors who spearheaded it.

Here again, flexibility and extensibility will be key. As with most current technologies, the consumer will dictate which mobile technology she prefers; placing bets on a single solution will leave a retailer vulnerable.

**Accept the Fundamental Nature of “Omni-channel Retailing”**

While it may not be a perfect term, “Omni-channel Retail” has become synonymous with meeting the customer on the channel of her choosing. It may be one of our own sites, a shopping aggregation service like Nextag, a marketplace like Amazon, a mobile phone, a tablet, a PC or a store. In an Omni-channel world the consumer gets her information from a variety of sources, creates her own path to purchase, and is very well educated on her choices. The world of eCommerce is no longer an island, but the technology developed to support it will find its way into every place the shopper and retailer meet.
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

SAP is the leading provider of application solutions for the retail industry. SAP helps retailers of all sizes to understand, anticipate and inspire their shoppers by providing a compelling shopping experience. The SAP® for Retail solution portfolio provides specific solutions for retail companies in the food, fashion and hardlines businesses. The solution portfolio is built around understanding the shoppers, or Shopper Insight, and consists of building blocks that cover the areas of Merchandise Lifecycle (including planning, merchandise lifecycle pricing and promotion management); Supply Chain (forecast & replenishment, supply chain planning and execution); Shopper Experience (workforce management, customer loyalty and a portfolio of POS solutions); and Corporate Operations (finance and human resources).

Learn more about SAP at http://www.sap.com/retail/

Demandware first introduced its innovative enterprise-class cloud commerce platform in 2004, and continues to set the standard for multichannel commerce solutions. Today, we power digital commerce for more than 125 retailers across more than 500 sites around the world. Demandware Commerce is a flexible, reliable, scalable and secure cloud-based digital commerce platform that minimizes the complexities and cost of running world-class global commerce operations. With Demandware Commerce, retailers get full control over multichannel functionality and user experience, as well as the time and resources to focus on innovation and driving growth.

To learn more visit www.demandware.com

Kiva Systems takes a totally different approach to warehouse automation for Omni-channel fulfillment operations by using fleets of autonomous mobile robots and sophisticated control software to simplify operations, reduce costs and increase flexibility. Kiva solutions enable extremely fast cycle times with reduced labor requirements, from receiving to order picking to shipping all in a single solution. The result is a building that is quick and low-cost to set up, inexpensive to operate, and easy to change. With Kiva you pick faster, pack perfect and ship now. For more information about Kiva Systems and its solutions, please visit www.kivasystems.com.
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.