



*Walking the Razor's Edge:
Managing the Store Experience in
an Economic Singularity*

Benchmark Study: June 2009

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By:

Brian Kilcourse, Managing Partner
Paula Rosenblum, Managing Partner



EXECUTIVE SUMMARY

Expenditures for in-store technology remain consistent despite the economic downturn. The reason for this becomes quickly apparent when we look at the dynamic in our current environment. More than 2/3 of retailers surveyed have reduced their payroll budgets due to economic conditions, and 40% have decreased those payrolls by an amount greater than their changes in sales. It is virtually impossible to either improve the customer experience or improve efficiencies further without the use of technology.

THE BUSINESS CHALLENGE

Retailers selling fast moving consumer goods (FMCG) are reaping the fruits of consumers' new frugality. Only 6% of responding FMCG retailers report the economy as a top-three concern vs. 52% of retailers selling General Merchandise and Apparel (GMA). The economy has varying effects on other retailing segments, but as a group those respondents are most focused on store execution (60%). Sixty percent of the largest retailers (>\$5 billion in annual revenue) remain concerned about competitive differentiation while NONE of those respondents cite the economy as a concern. The smallest and lower tier-one retailers, on the other hand, are most concerned about the economy, with 43% and 46% respectively citing this as a top-three business challenge.

OPPORTUNITIES

The difference between winners and laggards in today's economy is determined by how well companies execute on their operational strategy day in and day out, and turn operational efficiencies into compelling value for consumers. While average and under-performers seek better store-level execution to better control costs, winners aren't worried about precision execution – they already can do that. What they want is to further improve employee productivity and apply the savings gained from new efficiencies to improving customer service. Convenience and employee productivity hasn't necessarily translated into a desire for more self-service in the stores. Many retailers have learned that "self service" may be convenient for the retailer, but not so much for the consumer. In our 2008 study 23% of all respondents indicated that adding self-service customer facing technologies was "very important". This year, only 14% of respondents agree.

ORGANIZATIONAL BARRIERS

Survey respondents reported similar internal barriers as they have in more healthy economic climates: store technology uses a lot of capital, it's often challenging to demonstrate Return on Investment (ROI) and their existing technology infrastructure prevents implementing new solutions. Surprisingly, very few in-store technology initiatives have been postponed due to economic conditions. For the most part, projects continue to move forward as planned. Our research data demonstrates that over the past 3 years, retailers have gained a deeper appreciation for the value of in-store technologies. They recognize that without technology they cannot achieve further improvements in productivity or customer service. While retailers continue to implement technology for customers and employees, the store manager remains under-served.

TECHNOLOGY ENABLERS

Even though a modern POS system continues to be the top technology enabler for most retailers, there is a palpable de-emphasis of the checkout as the one-and-only point of interaction between the consumer and a retailer's technology. Retailers have grown more interested in touch points on the selling floor for both customers and employees. These retailers still see a large gap between the potential these new technologies can bring and its actual value. We believe the key lies in driving mobile technologies to the store manager on the selling floor. This is the linchpin that can tie disparate pieces together and create a "sense and respond" environment within the store.

BOOTSTRAP RECOMMENDATIONS

Now is the time to make operational process changes to support a differentiating in-store strategy. That strategy starts with designing an operational efficient, yet convenient customer experience. Our survey respondents clearly believe these seemingly mutually exclusive goals can only be achieved through the use of technology. Retail Winners have recognized that even in our economic downturn, the customer is demanding more from the in-store experience. Solid senior management backing, with explicit and specific KPI metrics for new IT initiatives are the imperative in today's age. Ironically, in a weak economy, project champions may find less cultural resistance to change than when times are good. This can help facilitate any necessary re-invention.

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SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

In April 2008, RSR published its annual benchmark on the in-store experience, "[The Customer-Centric Store](#)." At the time, the price of oil was at \$117 per barrel and rising fast. Consumer confidence fell as fast as those prices rose. The economy was clearly unstable. Nonetheless, very few observers saw the time as prelude to the most dramatic global economic collapse in more than half a century. This collapse includes the failures (and bail-outs) of insurance and banking giants, unearthing of the largest "Ponzi scheme" in history, followed by the bankruptcies of two American industrial institutions, General Motors and Chrysler. Consumers have seen their life savings washed away with their home equity cut in half and unemployment rates approaching double digits. Even at this writing, no one is quite sure if we have hit the ever-elusive "bottom". Further, spending patterns appear to have changed irrevocably.

At the same time, a long over-stored world-wide retail environment experienced a significant "correction." Literally hundreds of retailers both large and small were driven out of business by lack of sales conversions on the sell-side and lack of available credit to sustain the buy-sides of their enterprises.

It therefore seemed necessary and important to ask retailers how their opinions about the store experience have changed over the past year. Not surprisingly, cost concerns have risen in importance. Yet, in what is likely a testament to just how over-retailed our world really was and how easy it is for even weakened customers to find alternatives, retailers still believe the most important use of in-store technology remains maintaining or improving the customer experience (*Figure 1*).

*Figure 1:
Store Technologies Still Most Important to Improve the Customer Experience*

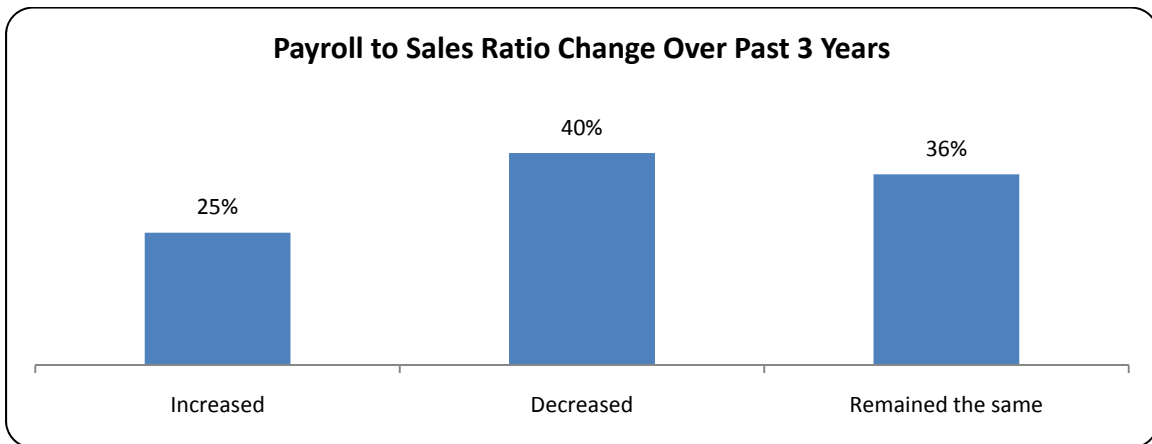
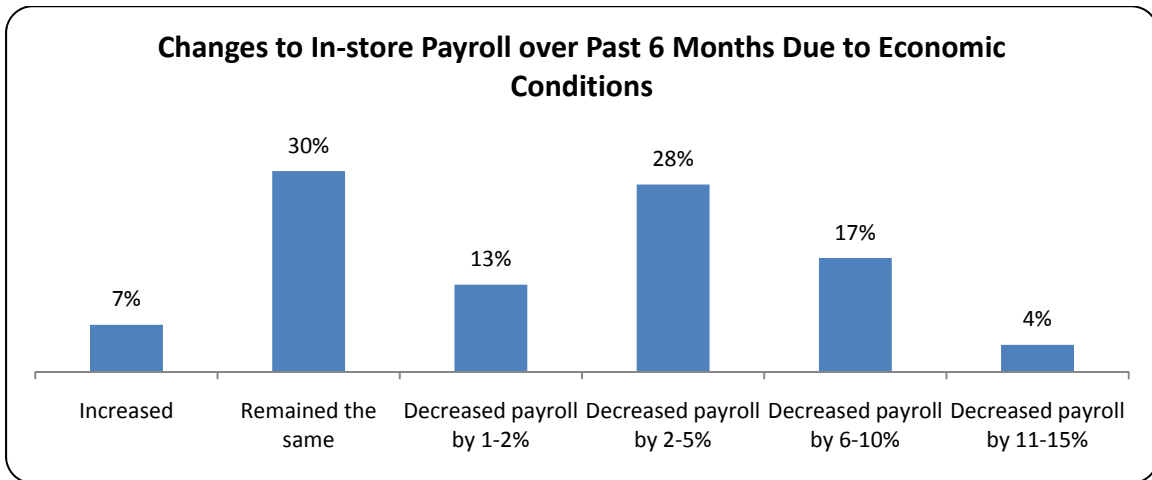


Source: RSR Research, June 2009

The largest retailers tend to live by a different set of rules. We found the largest retailers are most concerned about cost containment. Fully **90% of these Channel Masters report lowering operating costs and improving efficiencies as a top-three concern**. Shoppers come to their stores expecting a low-price experience, and the retailers fight to keep operating margins (and their business models) intact.

The urgency of finding more efficiency through the use of technology becomes apparent when we see the impact economic conditions have had on payroll budgets and payroll to sales ratios (*Figure 2*).

*Figure 2:
More than 2/3 of Retailers Reducing In-store Payroll*



Source: RSR Research, June 2009

More than 2/3 of retailers surveyed have reduced their payroll budgets due to economic conditions, and 40% have decreased those payrolls by an amount greater than their changes in sales. *It is virtually impossible to either improve the customer experience or improve efficiencies further without the use of technology.*

Hence, as we'll see later in this study, expenditures for in-store technology remain consistent despite the economic downturn.

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 invariably find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. This remains true even in our sagging economic climate. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

DEFINING RETAIL WINNERS AND WHY THEY WIN

Our definition of Retail Winners is straightforward. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming average year industry average comparable store sales growth of three percent, we define retailers 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.” **Recognizing that it’s difficult to find a lot of light in our current economy, we rolled back our requests for performance data to 2007-2008.** We assume that very few retailers are consistently outperforming 3% growth in this environment. Further, the inflation rate itself is in flux, making it difficult to find a solid base for comparison.

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. It may be hard to talk about superior sales performance in an economic environment like we have today. Nonetheless, **we believe past Retail Winners remain best-poised to recover as the consumer finds her footing again.**

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from April and May 2009 and received answers from 97 retail respondents. Respondent demographics are as follows:

Job Title:

Senior Management (CEO, CFO, COO)	32%
Line of Business Vice President/Director	26%
Senior IT Management	15%
Line Manager	10%
Internal Consultant & Other Staff	17%

• 2008 Revenue (\$ Equivalent):

\$50 Million or less	39%
\$51 - \$999 Million	28%
\$1-\$5 Billion	20%
Over \$5 Billion	13%

• Segments:

Fast Moving Consumer Goods (FMCG)	29%
General Merchandise and Apparel (GMA)	52%

Hardware/Do-it-Yourself & Other 19%

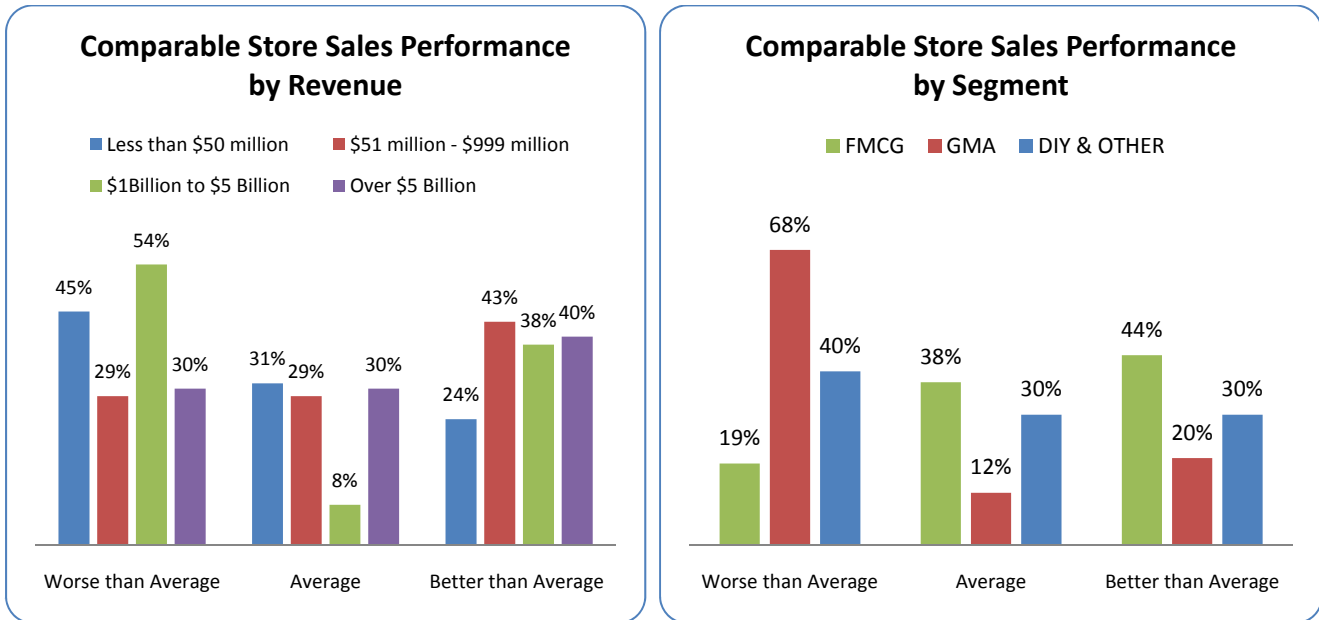
• **Locations (Headquarters vs. Retail Presence):**

Region	HQ	Presence
North America	74%	79%
Latin America	0%	8%
South America	3%	8%
UK & Ireland	1%	12%
Continental Europe	13%	18%
Middle East or Africa	0%	8%
Asia / Pacific (Including India)	5%	16%
Australia or New Zealand	4%	11%

WHO’S TAKING THE BIGGEST COMP STORE SALES HITS?

We looked at performance across segments and revenue to see who had already begun to “take the hit” in comparable store sales performance (Figure 3).

*Figure 3:
Small and Lower-Tier 1 Retailers Taking the Hit, FMCG not Faring too Badly*



Source: RSR Research, June 2009

Retailers selling Fast Moving Consumer Goods (FMCG) are performing better than reported in the past while those selling General Merchandise and Apparel (GMA) are suffering. While we weren’t surprised to see pain among the smallest retailers (under \$50 million in revenue) we were surprised to see dramatic under-performance among retailers with \$1-2 Billion in annual revenue. Last year’s survey found only 18% of those retailers underperforming.

SECTION II: BUSINESS CHALLENGES

IN AGGREGATE, THE OVERARCHING CHALLENGE: DOING MORE WITH LESS

Not surprisingly, the economy has moved up in retailers' minds as a top-three business challenge, yet no clear consensus on any one critical challenge has emerged. Retailers remain slightly more concerned about store execution and customer service, while they report being almost as concerned about employee productivity, price, and differentiating from the competition as they are about the macro-economic situation (*Figure 4*).

*Figure 4:
Weight of Challenges Shifts toward the Economy*



Source: RSR Research, June 2009

If anything, we can say thematically our retail respondents are most concerned about "doing more with less" and maximizing the value of their payroll dollars in support of the customer experience.

Differences do begin to emerge when we look at different retail segments, revenue bands and performance levels. The world has turned topsy-turvy, with those who lagged taking the lead, and those who led falling behind.

FMCG RETAILERS PRESSING THEIR ADVANTAGE

It's no secret that retailers selling fast moving consumer goods (FMCG) are reaping the fruits of consumers' new frugality. In fact, **only 6% of responding FMCG retailers report the economy as a top-three concern**. Between high merchandise turns and an assortment consisting of mostly landed product,

working capital concerns for inventory purchases are almost non-existent. Supermarkets, once the laggards of the retail industry, have grabbed market share from the hospitality segment as consumers stay and eat at home. Retailers in this segment also push their private label merchandise, giving them better gross margin opportunities on every sale.

FMCG retailers are focused on holding on to these advantages. Their top challenges include more consistent store execution (56%), improving customer service while holding the line on payroll costs (44%), finding a way to differentiate from competitors (38%), and delivering actionable information to store managers on the selling floor (31%).

GMA RETAILERS STRUGGLE

Last year, only 27% of retailers selling General Merchandise and Apparel (GMA) felt the economy was a top-three business challenge. This year, **the number reporting the economy as a top-three issue almost doubled to 52%**. The reasons are not secret: for these retailers, who place orders far in advance of sale, buy predominantly imported merchandise and turn their merchandise slowly, working capital issues have come to the forefront (and driven many into bankruptcy). GMA also tends to be a more discretionary purchase than food and drugs – customers can easily trade down or postpone new purchases.

New concerns about the economy also translate to consumers' renewed price sensitivity. The number of GMA retailers identifying this as a top-three concern doubled from 16% to 32% of respondents.

Behind these elephants in the room, concerns remain fairly consistent with prior years and other segments. Inconsistent store execution and the need to improve employee productivity (both at 36%) remain high on the list.

ACROSS DIY AND OTHER SEGMENTS, EXECUTION IS KING

Our respondents from DIY, furniture and miscellaneous other retailing segments are very unambiguous. **Sixty percent report inconsistent store execution as a top-three concern.** Beyond that, they are pretty evenly split, with 30% reporting customer service, differentiation, productivity and out-of-stocks as their biggest business challenges.

RETAILING GROWS MORE DARWINIAN

When we look across performance levels, we can see just how Darwinian retailers have become. Winners are most focused on employee productivity (57%) and improving customer service while keeping payroll costs in line (42%), while average performers are most concerned about more consistent store execution (55%) and price re-emerging as a differentiator (35%). Laggards are tuned to survival - 55% cite the economy as a top-three concern and 48% worry over inconsistent store execution.

THE LARGEST RETAILERS STILL CONCERNED ABOUT DIFFERENTIATION

The answers from the largest retailers (\$5 billion plus in annual revenue) were unambiguous. Sixty-percent cite difficulty differentiating themselves from their competitors as a top-three challenge. Interestingly, NONE of those respondents cited the economy as a concern.

The smallest and lower tier-one retailers, on the other hand, are most concerned about the economy, with 43% and 46% respectively citing this as a top-three business challenge.

SECTION III: OPPORTUNITIES

CONVENIENCE REDEFINED FOR THE 21ST CENTURY

Today's consumer hasn't given up her aspirational goals for a better life. She's more discerning about purchase decisions but her expectations remain high. She wants solutions for her lifestyle needs. This new attitude ups the ante for retailers. Merely offering a low price isn't enough. *21st Century Convenience* has been redefined to mean the relevant product at the right price with the right quality, wrapped up in the right information and service, to solve consumers' particular lifestyle needs. And everything needs to be delivered in a manner that is respectful of the customer's time.

In this context, the difference between winners and laggards in today's economy is determined by how well companies execute on their operational strategy day in and day out, and then turn operational efficiencies into this compelling value for consumers. This will help them as we move through the "singularity" and out the other side. Let's take a look at some specific over-performers and how they meet the 21st century imperative.

Walmart has been remarkably consistent in executing on its low-cost strategy. But the Arkansas giant has moved beyond merely converting buy-side and operational efficiencies into low prices. It is using its winnings to invest in creating a more compelling consumer experience. As new Walmart CEO Michael Duke recently stated, "This is not a time to slow down. This is not a time to take comfort in our success... This is Wal-Mart's time to look to the future and seize the opportunity We must broaden and accelerate what we're already doing well. And where we can do better, we will innovate."

Walmart is not the only winner in today's unique economic environment. **Kohl's** has seized this time as an opportunity to take consumer share-of-pocket from Macy's, and **Family Dollar** has become one of the best performing stocks on the S&P 500 by re-inventing both its culture and methods of inventory management to offer exceptional value to its consumers. Both use technology to leverage core values of a satisfying shopping experience and low price.

These companies share a belief that today's tough times present a golden opportunity to not only take competitors' customers, but keep them once the economy rebounds. As Michael Duke said in his first speech to stockholders, "*Our customers will stay with us when this economy turns around and they have more discretionary money to spend. We are building long-term loyalty to Walmart... the economic crisis has brought a fundamental shift in consumer attitudes and behavior. There is a 'new normal,' in which people want to save money and are getting smarter about saving money.*"

History bears out the truth in this belief. We know that companies like **TJ Maxx** came into prominence during a significant economic downturn. In fact, the most recent unemployment numbers released by the U.S. Government are the highest since 1983, precisely the time when TJ Maxx and Marshall's began their march across the retailing landscape. TJ Maxx has leveraged that branding through the present day and continues as a retail success story.

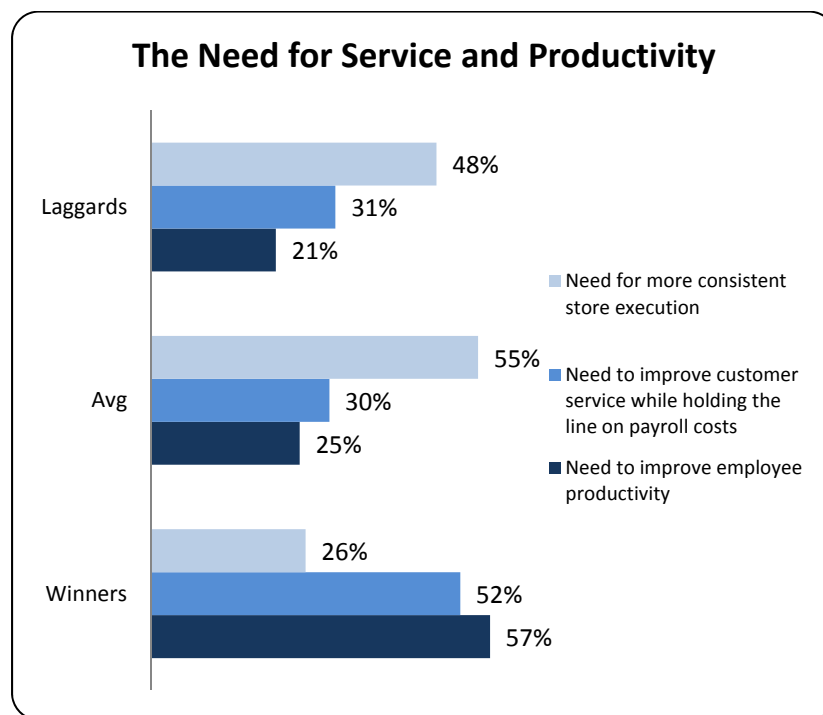
THE RELATIONSHIP BETWEEN 21ST CENTURY CONVENIENCE AND PRODUCTIVITY

In the May 2008 *Customer-Centric Store Benchmark Report*, RSR noted:

“Retailers recognize that their employees are the ‘tip of the spear’ in their customer-centric initiatives... It’s therefore not surprising to find that respondents’ top opportunities are those which empower, engage and train employees as a face to the customer.”¹

In examining this year’s survey responses, the top challenges by performance group reveal interesting differences between retailers that in turn drive the emphasis they put on the opportunities open to them (Figure 5). Whereas average and under-performers seek better store-level execution to better control costs, winners aren’t worried about precision execution – they already can do that. What they want is to further improve employee productivity and apply the savings gained from new efficiencies to improving customer service.

*Figure 5:
Winners Fund Better Service With Productivity Gains*



Source: RSR Research, June 2009

How does this difference impact how retailers perceive opportunities? Today’s economic singularity has made this “the year of the existing customer”. In blunter terms, **retailers seek to minimize customer defections to retailers like Walmart**. To keep those customers, retailers are not only fine tuning prices, promotions, and product assortment, but just as importantly, working to ensure a quick and efficient shopping experience. For their part, consumers now routinely browse alternate channels such as the Internet to investigate products and services, to ensure that the value of every dollar and every minute is maximized. It follows then that the opportunity to create “a convenient customer experience” is enabled by employees who know as much about products and services as consumers do (Figure 6).

¹ *Customer Centric Store Benchmark Report 2008*, By Paula Rosenblum & Nikki Baird, p.8., © 2008 RSR Research LLC

Figure 6:
Productivity Creates Convenience



Source: RSR Research, June 2009

Retailer Winners feel even more strongly about creating convenience than others, with 100% reporting this opportunity is either “very important” or “important”. But the need for an efficient and effective shopping experience is at odds with some retailers’ response to current economic conditions, namely, to cut costs at the expense of both customers and employees; 12% of laggards feel that creating a more convenient experience is not important, and 9% indicate that “educating and empowering our in-store employees using technology” isn’t important (no winners make this statement).

Nonetheless, there is a great degree of unanimity across all the performance groups that employees need to be empowered with better tools and information, with winners most clearly demonstrating an understanding that better productivity is linked to better service to consumers.

As RSR has seen consistently in its research, winners maintain a laser focus on the customer. In today’s economic climate, that means recognition of the connection between available, informed, and productive employees, and loyal customers. To that end, retailers connect “educating and empowering our employees using technologies” and offering consumers “more personalized attention from our employees”. Fifty seven percent of Retail Winners feel that empowering store employees is “very important” compared to 43% of laggards.

SELF-SERVICE NOT THE END-ALL EXPERIENCE

The desire to create more convenience and employee productivity hasn’t necessarily translated into a desire for more self-service in the stores. Many retailers have learned that “self service” may be

convenient for the retailer, but not so much for the consumer. In our 2008 study 23% of all respondents indicated that adding self-service customer facing technologies was “very important”. This year, only 14% of respondents agree.

Retail Winners have consistently put less emphasis on self-service technologies than other retailers. **In this year’s study, a stunning 48% express little or no interest in adding additional self-service customer facing technologies.**

THE STORE MANAGER AS CUSTOMER SATISFACTION MANAGER

Throughout the 1980’s and ‘90’s, the role of the store manager changed significantly. Buy-side efficiencies and desire for economies of scale that channel masters demanded required that merchandising be boiled down to “just like the picture” (JLP) instructions to the store from Central Merchandising and Store Operations. JLP caused the role of the store manager to change from that of being the local merchant to one of command and control, whose job it was to ensure that instructions from headquarters were followed to the letter.

However, in today’s world, retailers want to emphasize the local relevance of their products and services as a way of winning customer loyalty. The store manager becomes local *customer satisfaction manager* in this new environment. To that end, retailers see “more specific/localized direction to store managers” and “improve(d) performance reporting to store management” as important opportunities. We see a 20+% delta between the importance winners and place on these factors and how laggards see the opportunity (43% vs. 34% to both questions).

For both laggards and winners, these opportunities overshadow their concerns about the lack the information available to store managers on the selling floor. This apparent inconsistency underlines that many retailers see they will need more and better information to manage effectively in the future. As is often the case, Retail Winners are more aggressive about this than their underperforming competition.

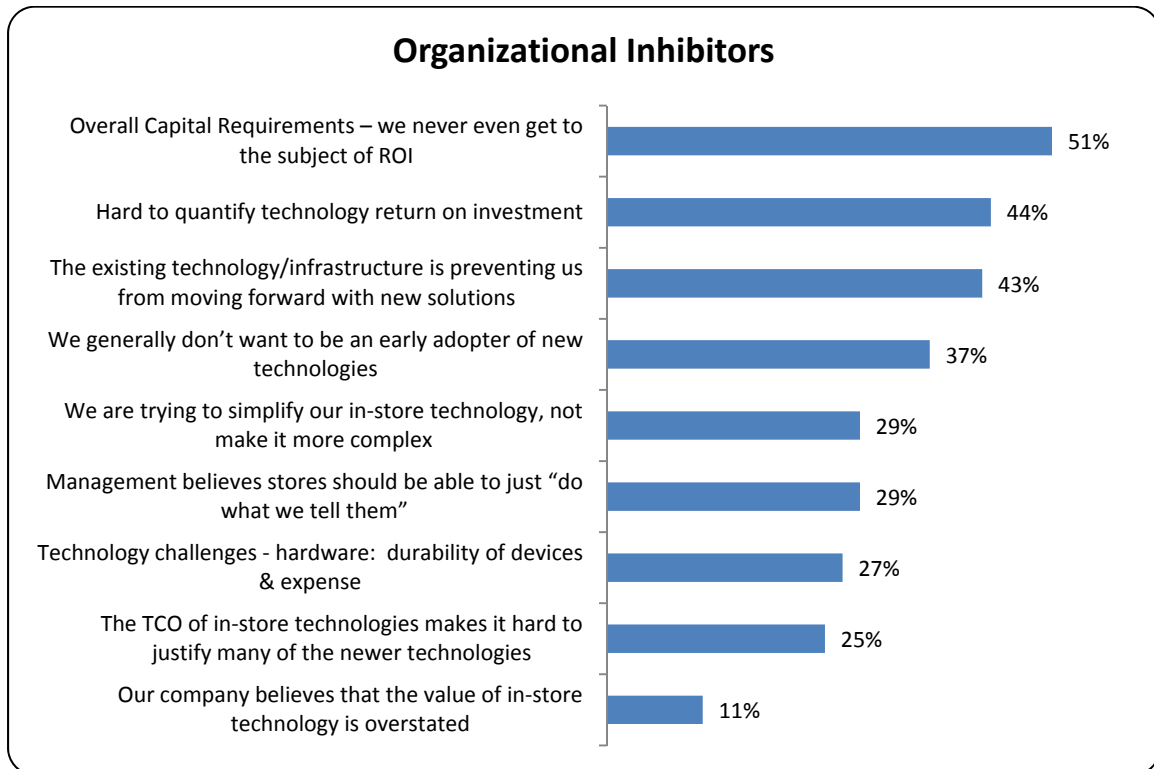
Still, as we will see in the next section, retailers’ expectations for store managers are not tied to any kind of near-term technology support for them out on the selling floor.

SECTION IV: ORGANIZATIONAL INHIBITORS

CAPITAL CONSTRAINTS, ROI, AND INFRASTRUCTURE ISSUES STILL LOOM LARGE

Any discussion about improving the in-store experience through technology investment invariably comes around to cost. These costs cross three distinct areas: the capital needed to fund these initiatives, clarifying and quantifying Return on Investment (ROI) from them, and the cost of unwinding the existing technology infrastructure. This year's benchmark is no exception, as we can see in Figure 7.

*Figure 7:
Traditional Inhibitors Still Prevail*

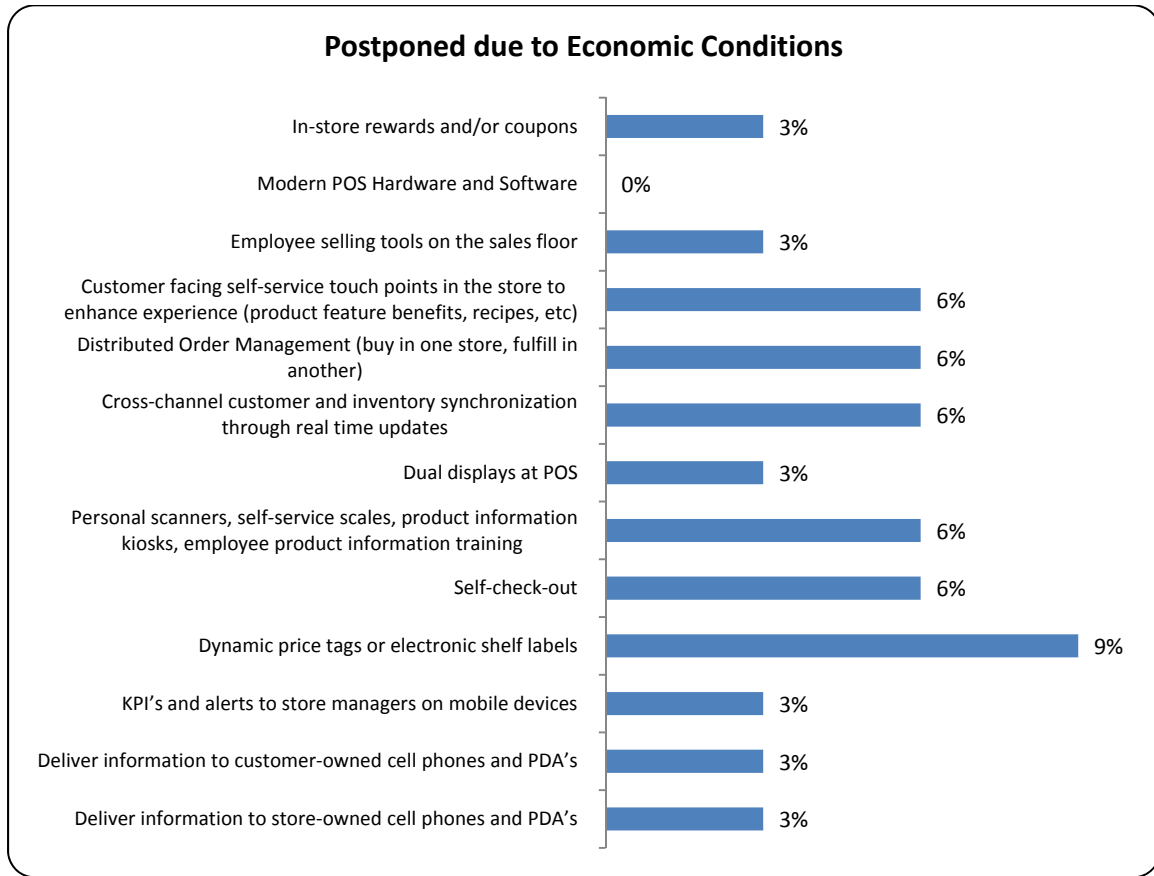


Source: RSR Research, June 2009

While it's easy to point to the economy as the driver of these inhibitors, in fact, they have held back in-store investment for as many years as RSR analysts have been tracking the space. No matter how you look at it, outfitting an entire chain of stores with new equipment is an expensive and time-consuming proposition.

In fact, we asked this year's retail respondents if any of their in-store technology initiatives have been postponed due to economic conditions. As we can see from Figure 8, the economy's impact on store-related projects has been minimal.

Figure 8:
Poor Economy has Marginal Impact on New Initiatives



Source: RSR Research, June 2009

Less than 10% of retailers report any project postponement due to economic conditions. To be clear, this does not mean 90% of retailers are planning these new projects. It indicates those who are planning them are not re-trenching as a direct result of the economy. Retailers' realization of the value of in-store technologies for both revenue improvements and cost containment no doubt contributes to continued progress.

WHILE COST REMAINS A CONCERN, THE VALUE IS NO LONGER DISPUTED

The one inhibitor that has become dramatically less influential over the past three years is lack of understanding of the *value* of in-store technology. In 2007, 40% of benchmark survey respondents reported "our company believes the value of in-store technology is overstated" as a strong inhibitor and another 37% reported it as an influential inhibitor.

In 2008, 13% of respondents cited it as a top-three issue, and this year, that number dropped to 11%. *Retailers now recognize that empowering already techno-savvy employees and customers can keep payroll costs under control and improve the in-store experience.*

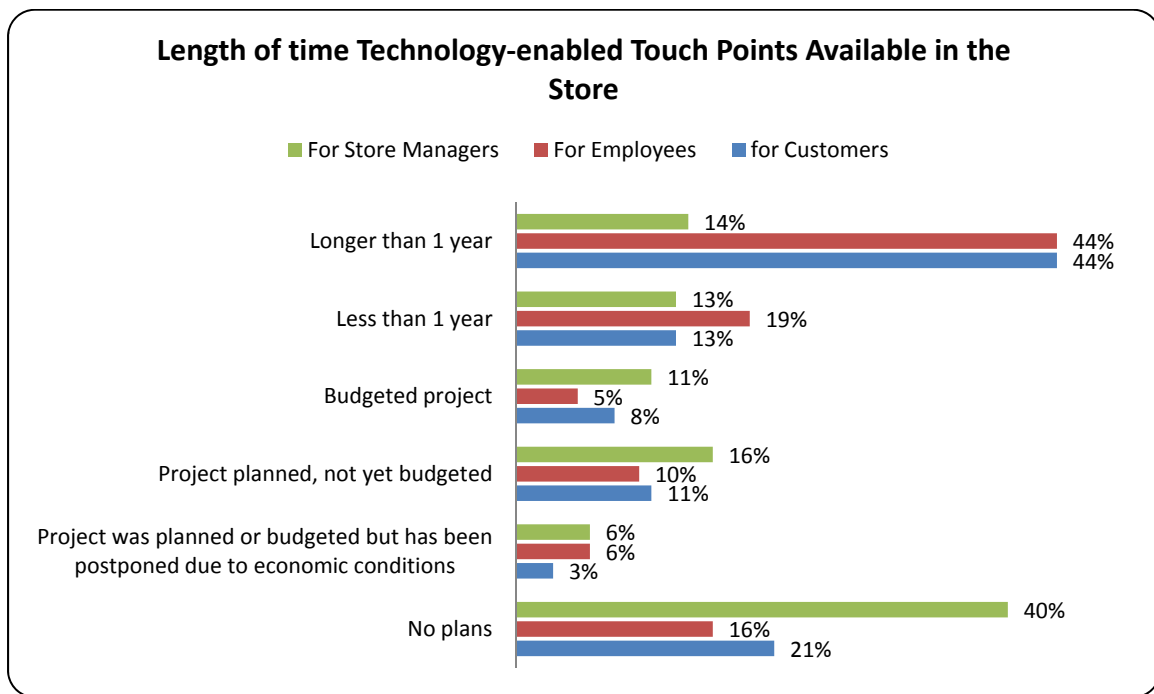
Empowering the store manager with technology on the selling floor, on the other hand, is a whole other story.

THE STORE MANAGER: CONTINUED LACK OF TECHNOLOGY SUPPORT ON THE FLOOR

Even retail neophytes understand the importance of the store manager to brick and mortar retailing success. Yet survey after survey indicates the tools given to these managers are primitive, or worse, tether them to desks where they are unable to actually manage activities on the selling floor.

This year’s study is no exception. We asked retailers how long they they’ve provided technology-enabled touch points in the body of the store for store managers, customers and employees. For store managers, we qualified the question to include MOBILE touch points only. The results are somewhat shocking (Figure 9).

*Figure 9:
The Store Manager as the Cobbler’s Son*



Source: RSR Research, June 2009

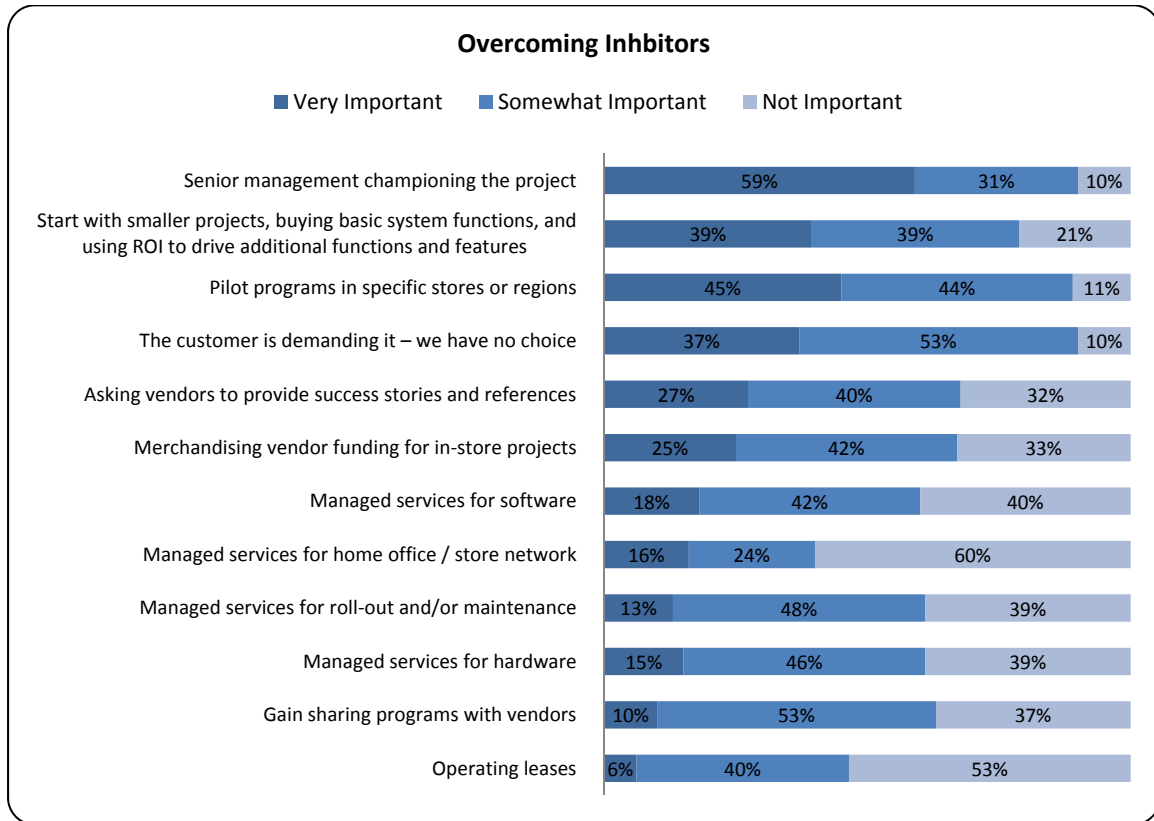
Winners fare slightly better than their competitors. Twenty-four percent of respondents have added this technology over the past year, and “only” 35% report having no plans to do so, vs. 46% of laggards.

Retailers selling Fast Moving Consumer Goods (FMCG) fare quite a bit better than either those selling GMA or other products. Twenty-five percent have provided some form of mobile technology to their store managers for longer than one year, and only 19% report no plans to do so, vs. 44% of those selling GMA and a whopping 80% of other types of products.

OVERCOMING OBSTACLES – SENIOR MANAGEMENT MAKES THE CALL

Just as internal obstacles tend to remain the same through good and bad economic times, the means of overcoming them tends to also remain the same. No matter how you look at it, senior management has to champion the project (Figure 10).

Figure 10:
It's Senior Management's Job to Move Projects Forward



Source: RSR Research, June 2009

In our current economic times, this requires even more work. Now, the executive(s) have to stick their necks out to the Board of Directors and Shareholders along with driving cultural change within the company itself.

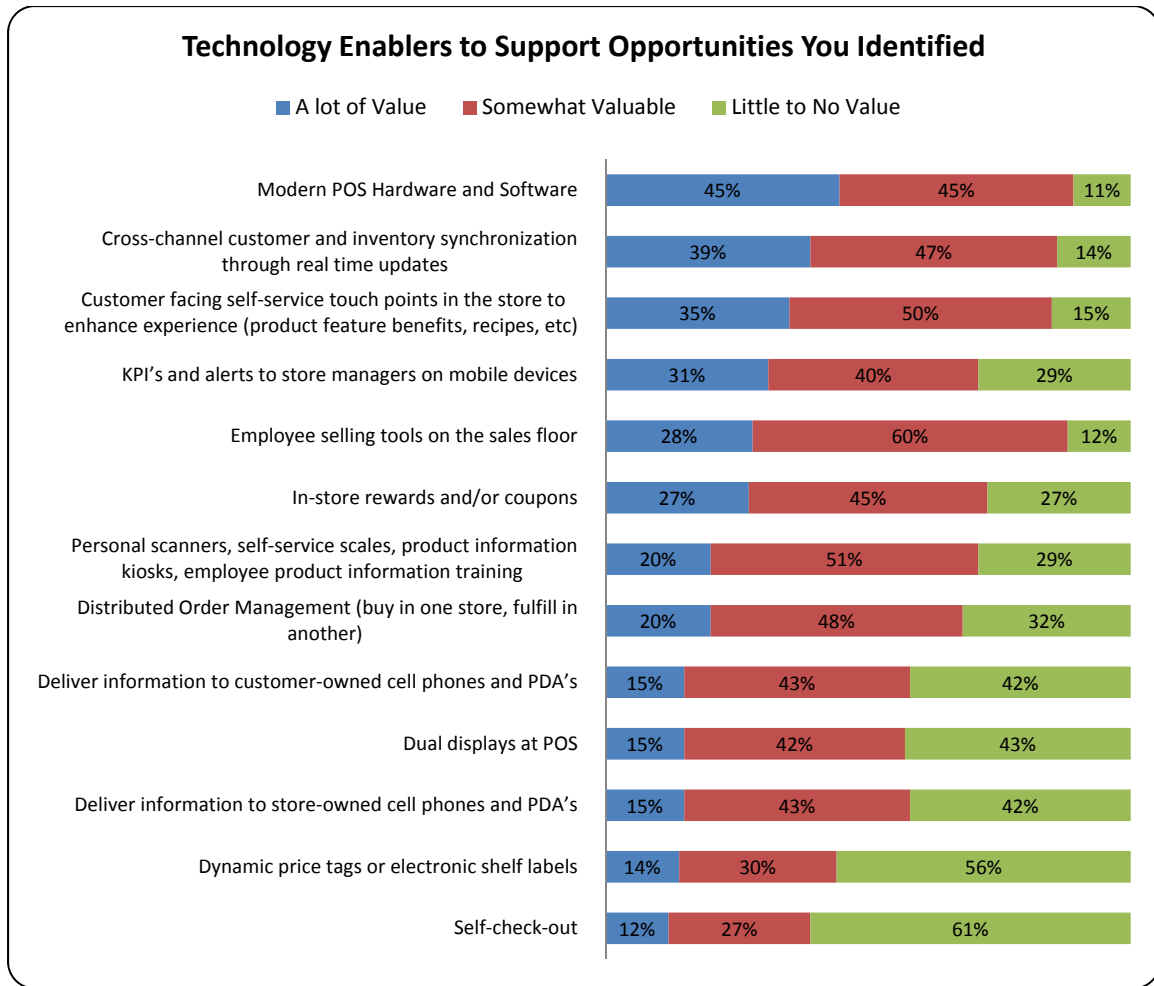
We remain befuddled over retailers' unwillingness to turn to operating leases as a means of aligning capital outlays more closely to benefit achievement, but have been unable to strike a chord with a majority of retailers on the issue.

SECTION VI: TECHNOLOGY ENABLERS

SOMETHING OLD, SOMETHING NEW

For the vast majority of retailers, the in-store Point of Sale system remains the primary point of contact with the consumer, “the moment of truth”. The checkout is also the point where data about shoppers’ preferences is captured. Not surprisingly, a modern POS platform is the top technology enabler – just as in the past (Figure 11).

*Figure 11:
Modern POS Still the Top In-store Enabler*



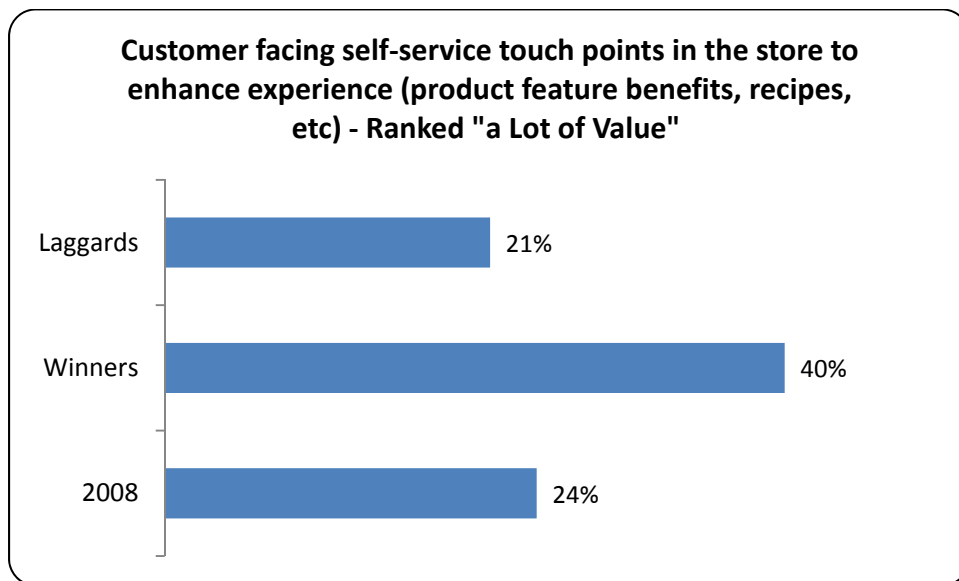
Source: RSR Research, June 2009

Even though a modern POS system continues to be the top technology enabler for most retailers, there is a palpable de-emphasis of the checkout as the one-and-only point of interaction between the consumer and a retailer’s technology. For example, “Cross-channel customer and inventory synchronization through real time updates” and “Distributed order management”, two technical capabilities that directly impact consumers’ ability to engage in cross-channel shopping, have both risen in importance since the

2008 study, particularly with Winners. In the store, “Customer facing touch points” have risen sharply in importance to retailers, with 35% of our respondents saying this is “very valuable”, compared to just 24% last year.

Retailers are coming to realize that the store has to be as informative and as relevant as an online browse. On the Internet, consumers are never more than a Google-search away from finding what they are looking for. But stores have something that alternate selling channels cannot provide, and that’s the instant gratification of buying the product and experiencing the service on the spot. What has changed is that consumers now have access outside the store to information about the lifestyle solution they seek. Why not provide that same level of insight in the store? Winning retailers see the opportunity, and are focusing to a far greater extent than laggards on providing consumers with information on the selling floor that will enhance the shopping experience (Figure 12).

*Figure 12:
Enhancing the In-Store Experience*



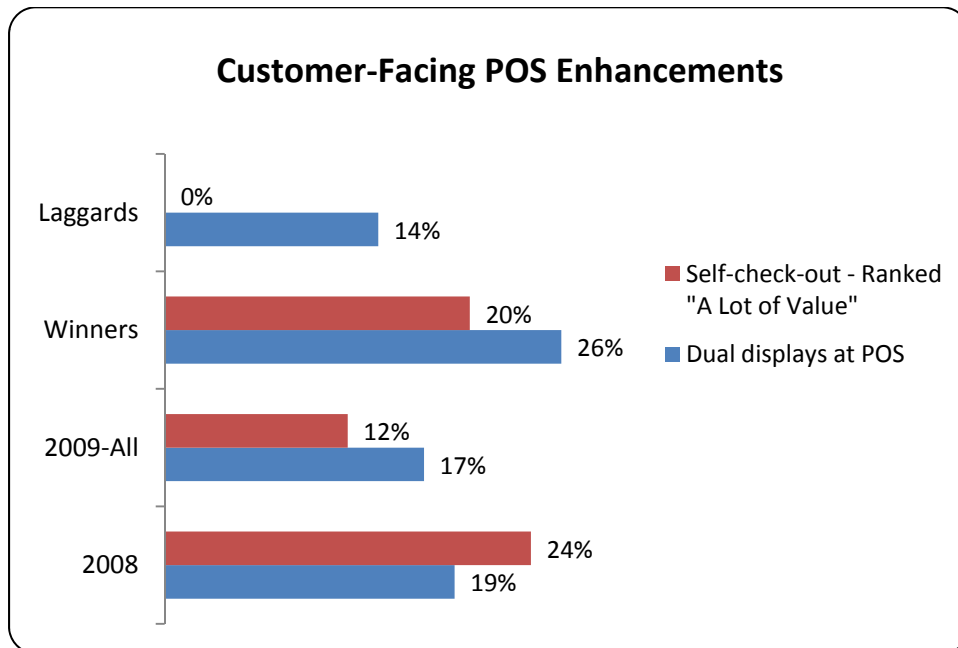
Source: RSR Research, June 2009

One real-world example of that focus is Walmart’s Smart Network, a next generation media network that will deliver relevant customized content to shoppers, by store, by screen, by day and by time-of-day. The network is designed to deliver helpful product information to consumers at the point of decision when and where they need it. According to Walmart’s chief marketing officer Stephen Quinn, “every screen and every message has a purpose and we will be analyzing point of sale data on an ongoing basis to deliver a shopper-centric communications platform.”

POS ADD-ONS LOSE FAVOR

POS checkout add-ons like dual displays and self checkout have dropped in importance to retailers since our 2008 study (Figure 13). Although Retail Winners have a more favorable opinion of these technologies than the total response pool and their underperforming rivals in particular, they rank significantly below technology investments in selling floor customer-facing technologies.

Figure 13:
Enhancing the POS Experience



Source: RSR Research, June 2009

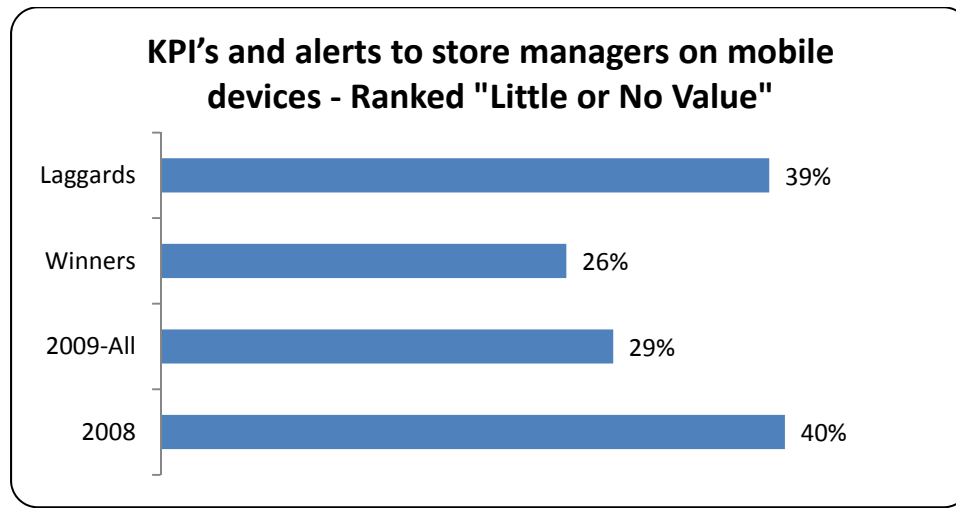
Although these technologies have been popular, especially with high volume retailers like grocery stores, they don't engage the consumer the way selling floor information technologies can.

The promise of dual displays was that there was real estate on the customer facing screen for marketing messages. But it's important to remember what customers are doing at the POS terminal – they are *checking out*. There is little opportunity to entice them back to the selling floor. Self checkout technologies are a more difficult problem; although they are useful in some settings, their perceived value is to reduce the number of checkout clerks, not necessarily to make things better for the consumer.

HELP IS ON THE WAY FOR THE STORE MANAGER – BUT FAST ENOUGH?

We saw in the Opportunities section of this report that retailers see “more specific/localized direction to store managers” and “improve(d) performance reporting to store management” as very important opportunities (35% and 38% respectively). The problem for store managers everywhere is that they can't be tied to a computer in the back office and still fulfill their new role of customer satisfaction manager. That's where mobile devices come in handy. The importance of delivering real time business intelligence to managers in the form of KPI's and alerts via mobile devices has definitely risen in importance since our 2008 study. This year, overall responses rate “KPI's and alerts to store managers on mobile devices” as “very valuable” 31%, up from 22% last year. But this enabler has a long way to go to gain favor (*Figure 14*). Although fewer retailers this year rank these technologies as having “little or no value”, a large percentage of laggards still don't see their potential. As we've pointed out in this report before, expectations for store manager performance are high, but help is not forthcoming.

Figure 14:
Enhancing Store Manager Effectiveness



Source: RSR Research, June 2009

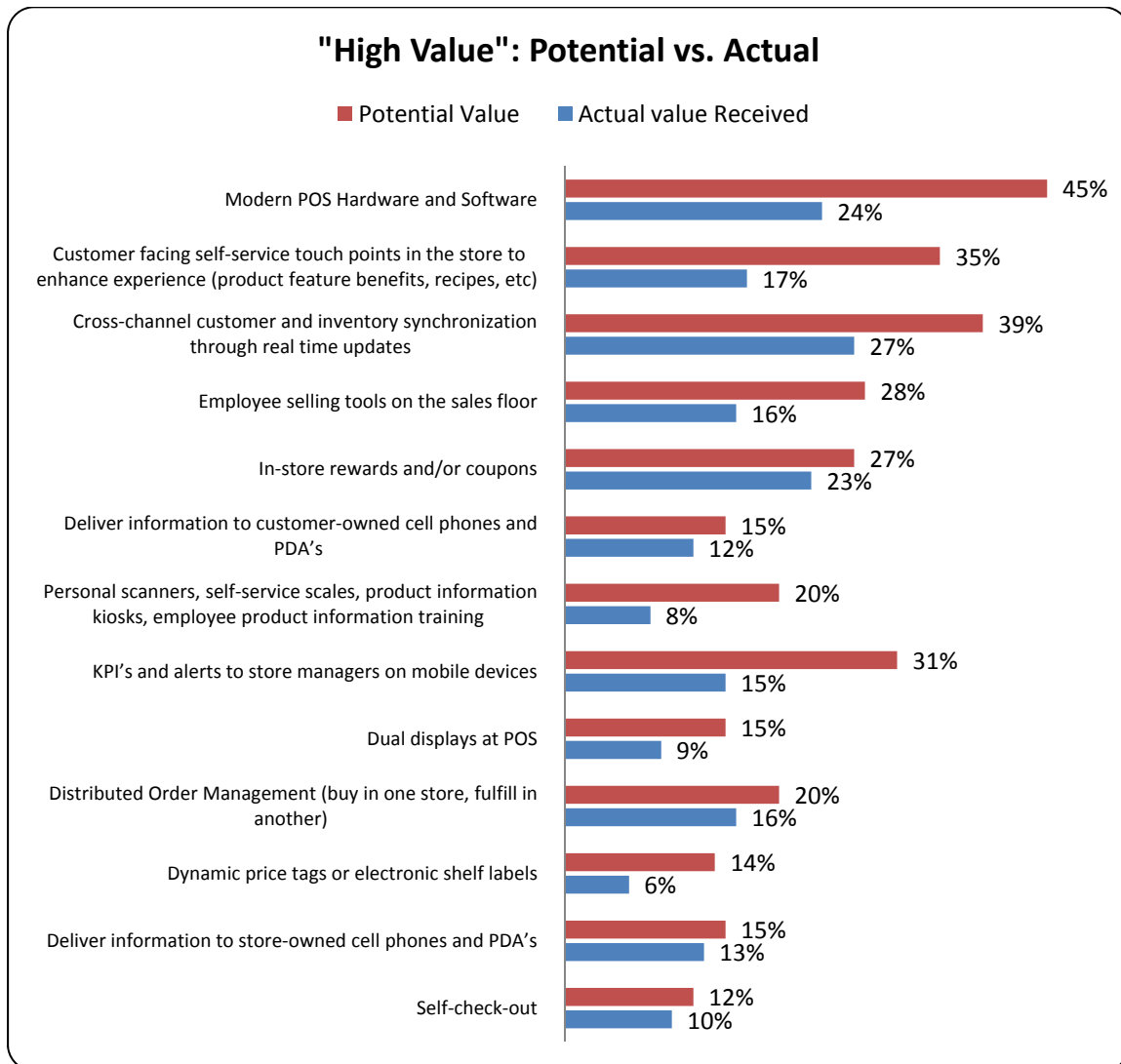
POTENTIAL VS. ACTUAL VALUE – LET’S GET REAL

Although retailers see a lot of potential value in technology enablers such as a modern POS platform, customer facing self-service touch points in the store, integration of inventory and customer information across the enterprise, and mobile technologies for store managers to deliver real time business intelligence, actual value-to-date doesn’t match the hype, according to our survey responses. For example, there is an approximate 50% delta between the value that retailers hope to get and what they actual get now, for modern POS, customer facing touch points in the store, and mobile KPI’s and alerts for managers. The reasons for this gap are varied, but speak to the difficulty that many retailers face from chronic under-investment in technologies.

As RSR noted in its May 2009 benchmark study, *IT and Business Alignment in Retail*, the majority of retailers continue to support a mixed application portfolio of proprietary and best of breed packages, usually integrated in point-to-point fashion. As we saw in the Organizational Inhibitors section of this report, the existing infrastructure is among the top 3 reasons standing in the way of new in-store technology adoption. Perhaps as a result, the IT backlog continues to grow and business satisfaction with the IT function continues to languish². That faint praise is reflected by the big gaps between potential and actual value delivered for in-store technologies (Figure 15). Technology providers also have a responsibility to offer technologies that will deliver on promises. Clearly there is lot of upside for both internal IT staffs and technology solutions providers to deliver on the promised business value of in-store technologies.

² *IT and Business Alignment in Retail Benchmark 2009*, pp.2-3, by Paula Rosenblum & Brian Kilcourse, © 2009 RSR Research LLC

Figure 15:
Lots of Upside Potential to Deliver Value



Source: RSR Research June 2009

WHAT'S THE POINT?

Much of the shift in emphasis in retailers' new interest in in-store technology is predicated on the notion that the 21st Century consumer is informed and therefore in control. In the heyday of "push" merchandising, retailing was simple if not satisfying: focus consumer demand on a particular set of products by limiting the number of sku's to the highest volume items, achieve economies of scale by buying big and pass some of those savings on to the consumer in the form of a low price. In-store technologies in support of that model were transactional; what mattered was that items scanned across the POS register and were paid for. But the Internet happened, and with that, consumers began to investigate products and service *outside* of the four walls of the retailer's store. Retailers could no longer control consumer demand solely with their in-store assortments and prices – consumers now had choices, and demonstrated a willingness to exercise them.

Because of the fundamental power shift to the consumer in the past decade, retailers have had to rethink their most valuable assets: their people and their stores. When a customer potentially knows more about products and prices than the store employee does, the retailer needs to excel at value-adding services that draw the consumer to the store. Cost cutting technologies that detract, rather than add to the service profile of the store are potentially expensive mistakes. A familiar retail axiom states that the larger the basket size, the greater the gross profit *percent* of the total basket. In-store technologies that inform the consumer in a way that builds basket size are smart investments that also build loyalty. And, retailers need to analyze not only what sells, but what doesn't. Their best chance of capturing that information is by engaging in a digital dialogue with the consumer as she browses the store.

The “glue” that makes it all stick together is having a store manager on the selling floor to orchestrate the interaction between consumers and the retailer. It's a real-time job, not driven by daily or weekly cycles, but driven by events as they happen. Technologies that enable the store manager and employees to *sense conditions and respond to them* are important – they represent a winning hand.

When retailers begin to use their existing and new in-store technology investments to support a mobile store manager, they will see the delta between potential and actual value reduce dramatically. Certainly, increased wireless penetration is one step toward bringing “sense and respond” capabilities out onto the selling floor: only 33% of our respondents report wireless penetration throughout the entire store, an increase of only 10% from last year. But it's also clear that retailers have yet to grasp the importance of the empowered store manager. This is probably the largest gating factor in realizing full value from in-store technology investments.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

BETTER EXECUTION “FUNDS” A DIFFERENTIATING IN-STORE STRATEGY

There is no question about it. Retailers are being asked to more with less. But Retail Winners continuously improve employee productivity and apply the savings gained from new efficiencies to improving customer service. For Winners, “good enough” never is. Other retailers should follow suit to minimize customer defections. ***Now is the time to make operational process changes needed that make non-selling functions hyper-efficient and enable a greater percentage of the labor spend to be focused on differentiating customer service.*** The good news for those retailers who seek to address operational process redesign is that in times of uncertainty there is likely to be less organizational resistance to change than when companies are riding high on a wave of success.

FIND DIFFERENTIATION BY DESIGNING A “CONVENIENT” CUSTOMER EXPERIENCE

Winning rarely happens by accident. Customers have redefined “convenience” in the 21st Century to mean having the relevant product at the right price with the right quality, wrapped up in the right information and service, to solve consumers’ particular lifestyle needs, delivered in a manner that is respectful of the customer’s time. Retailers who seek to differentiate must take their cue from this and ***design the customer experience*** around it. Depending on the need being served (basic needs, discretionary luxury, or anything in between), the “solution” will vary. Regardless, it is important that the store experience be at least as informative and relevant as an online shopping experience, to draw consumers into the retailer’s direct sphere of influence. But retailers also need to recognize that today’s shopper is a cross channel one, often starting the dialogue with the retailer outside of the four walls of the store. Smart retailers see cross channel behaviors as an opportunity to drive consumers to the store – and that means enterprise-wide integration of product, inventory, and customer information in real time.

Retail Winners also understand that ***measuring the total customer experience*** is important to understand what’s working and what’s not, so that they can respond in sync with changing consumer preferences.

IT TAKES TECHNOLOGY

It is virtually impossible to achieve the paradox of pushing down operating costs and improving the customer experience without the effective use of information technology. Retailers know this, and so ***expenditures for in-store technology remain consistent despite, and perhaps because of, the economic downturn.*** But retailers must also address the “elephant in the room” issue: their technology portfolios are brittle, hard to change, and expensive to maintain. In this study as well as virtually every other study conducted by RSR in the last two years, the condition of the technology infrastructure is a top inhibitor.

Retailers no longer question the value of in-store technology. Retailers across the spectrum of the industry now recognize that empowering techno-savvy employees and customers can keep payroll costs under control and improve the in-store experience.

EMPOWER THE STORE MANAGER

Retailers want the store manager to focus on critical KPI's and alerts to effectively respond in real time to conditions in the store as they are happening. But managers can't be tied to a PC in the back office; they must be on the sales floor fulfilling their role as *customer satisfaction manager*. It's clear that retailers have yet to grasp the importance of the empowered store manager. ***This is probably the largest gating factor in realizing full value from in-store technology investments.***

GET THE FULL VALUE

The gap between potential and actual value of the top technology enablers is shocking. Retailers hope to improve value realization by starting with smaller projects and using the ROI gained to drive adoption of additional capabilities, and piloting programs in controlled store environments. Fundamental to these strategies is to ***define critical success factors and measure against those criteria before forging on.*** Retail Winners state that customer demand is "very important" in overcoming inhibitors much more strongly than the general response group (65% compared to 37%), but they don't excuse themselves from the responsibility of achieving the ROI from focused projects. In fact, Winners feel much more strongly than the general response group that starting with smaller projects and using the ROI gained to drive adoption of additional capabilities is "very important" (69% compared to 39%).

IF SENIOR MANAGEMENT ISN'T BEHIND IT, IT WON'T HAPPEN

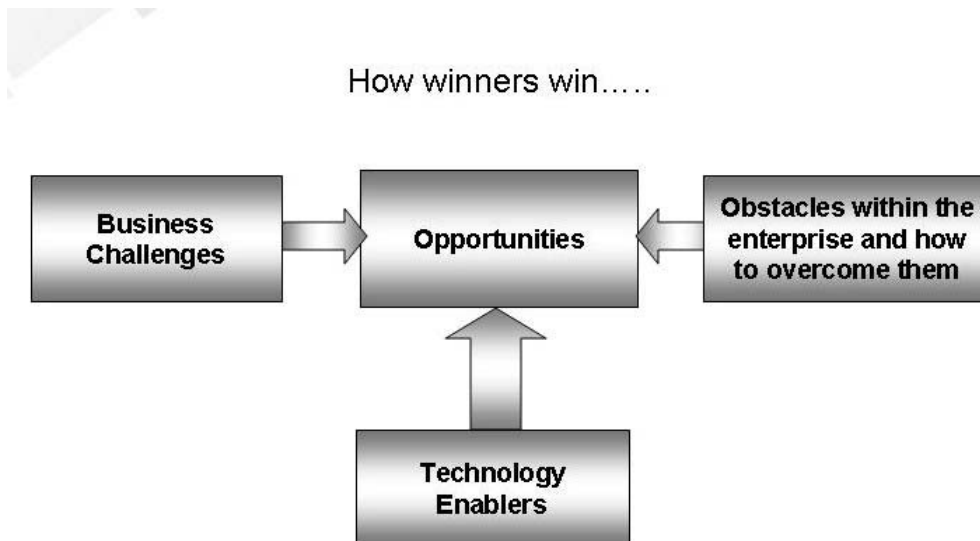
Ultimately, a differentiating customer experience is a ***Brand*** issue, worthy of top management's focus. It follows then that ***top management must be solidly behind the adoption of technology enablers*** that make it happen. Retailer Winners have a clear understanding of this, with 76% rating it as a top way to overcome organizational inhibitors that stand in the way of change (compared to only 48% underperforming retailers).

APPENDIX A: THE BOOT 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



Epicor Retail solutions are used by hundreds of the world's leading retailers to become more profitable, productive, and competitive. Our solutions leverage proven Microsoft .NET technology to improve business operations and meet the evolving merchandise and service expectations of today's cross-channel shoppers. Epicor delivers comprehensive retail management solutions to enterprises in all tiers—from regional chains to multichannel global brands. Our retail customers include hundreds of marquee names, from Aéropostale, American Eagle Outfitters, and Ann Taylor to Zales and Zumiez. Epicor employs more than 800 employees in retail-focused operations. For more information visit www.epicor.com/retail, call 1-800-992-9160 or e-mail retailsolutions@epicor.com.



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/>

APPENDIX C: ABOUT RSR



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, and thought leadership and advice on navigating these challenges for specific companies and the industry at large. RSR’s services include benchmark reports covering the state of retailer technology adoption for topics ranging from merchandising and supply chain, store operations and workforce management, to customer-facing and multi-channel technologies. Custom research reports provide more in-depth views into topics of industry interest, and advisory services help retailers and technology vendors make the most of the insights RSR provides. To learn more about RSR, visit www.rsrresearch.com.

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