Enabling Buy Anywhere/Get Anywhere: The Future of Cross-Channel

2011 Benchmark Report

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Executive Summary

New channels of engagement - mobile and social in particular - are expanding the number of ways that retailers can reach consumers. But in order to take advantage of those new channels, retailers must be able to integrate them with the old channels - to provide a single brand promise to consumers, no matter how they choose to engage with retailers.

Business Challenges

The same internal barriers that have allowed retailers to successfully focus on individual channels are now the biggest barriers to integrating channels together into a single customer experience. And the biggest channel barrier of all is the store. Retail Winners seem to realize that the store in its current incarnation is going to have to change in order to be able to take advantage of the capabilities that other channels offer. Laggards struggle against tight labor costs and a constraint on cannibalizing store sales to other channels.

Opportunities

However, while the store is certainly central to the cross-channel struggle, retailers also recognize that much more than just the store is going to have to change. For Winners, the focus is on providing a single marketing message to consumers, ensuring a seamless shopping process across channels, and then executing on product fulfillment. For laggards, the first cross-channel face to the customer is price, not brand promise, followed by the shopping experience and customer care, with fulfillment at a lower priority.

Organizational Inhibitors

If internal barriers are the biggest obstacles to cross-channel nirvana, then the biggest internal barrier is the clash between Marketing and IT. Marketing owns customer data, and theoretically owns the customer relationship internally. But they are not historically big consumers of an enterprise IT function - they have a tendency to "go around" IT, rather than work as a team. But as marketing and customer experience touch more and more of the enterprise, these two polar opposites of the retail organization will have to find a way to play well together.

Technology Enablers

Perhaps reflecting the technical challenges involved in integrating channels, retailers report that their primary technology goal remains cross-channel visibility. Survey respondents are also rethinking their channel platforms, but express more lack of confidence in defining a future roadmap than any kind of certainty.

BOOTstrap Recommendations

RSR addresses four major areas of cross-channel strategy that continue to be critical for retailers: a digital strategy for stores, a focus on building differentiation in the customer experience (and fulfillment as part of that experience), executive-led business model change, and cooperative development of the technology strategy that supports cross-channel. Fundamentally, retailers may still be defining themselves as "multi-channel" retailers trying to get to a "cross-channel" world. The real challenge is that consumers have already moved on: they don't care about channels at all. Just experiences.

Table of Contents

Figures

Research Overview

Why This Study Was Conducted

Technology sometimes creates new opportunities that can result in significant strategic advantages for early adopters and significant new competitive costs for everyone else. One of the most dramatic examples of a technology whose adoption created true strategic advantage is the barcode. We don't even notice the common barcode today, but before Walmart's adoption of the symbology in the mid-1980's, its usage was inconsistent and unreliable. Walmart's aggressive adoption of the barcode for inventory control enabled that company (and a few others) to become masters of push-oriented mass merchandising strategies, which resulted in true competitive advantage for the U.S.-based retailer for the next 25 years.

During that period of supply chain mastery, the retail industry generally held to a tacit understanding that consumers were driven mostly by price and convenience. If the store was either close by or if it enabled a "one stop" shop with a wide variety or merchandise– *and* if prices were low, consumers would buy. Adoption of a new channel in the late 1990's – the e-channel **-** didn't at first challenge another assumption: that consumers made their buying decisions exclusively in one channel. In fact, retailers thought that consumers would use the "e-store" the same way they used a physical store, that is, that they would investigate, select, and purchase products in one channel - just like they "always" had.

Today, consumers are concerned about ***time*** and ***relevance***. Their busy lifestyles don't allow for a casual browse through a big store or mall to discover what's available and at what price. And money is tight – consumers want just the right solution for their needs. Although the early warning signs were there with e-commerce, it wasn't until the surprisingly fast and widespread adoption of "smart" mobile and social media technologies that most retailers came to understand that consumers aren't satisfied with what the retailer wants to sell them. They want relevance, anytime and from anywhere. Now it's not about what the retailer wants to sell, but what the consumer wants to buy.

Empowered by new technologies, consumers now routinely use several channels to make a single purchasing decision. The compelling value of smart mobile technologies in particular is that they are with the consumer wherever she goes. That enables a fundamentally different shopping experience. And it means that for the first time since the barcode, retailers are challenged to think about how their operations models are constructed.

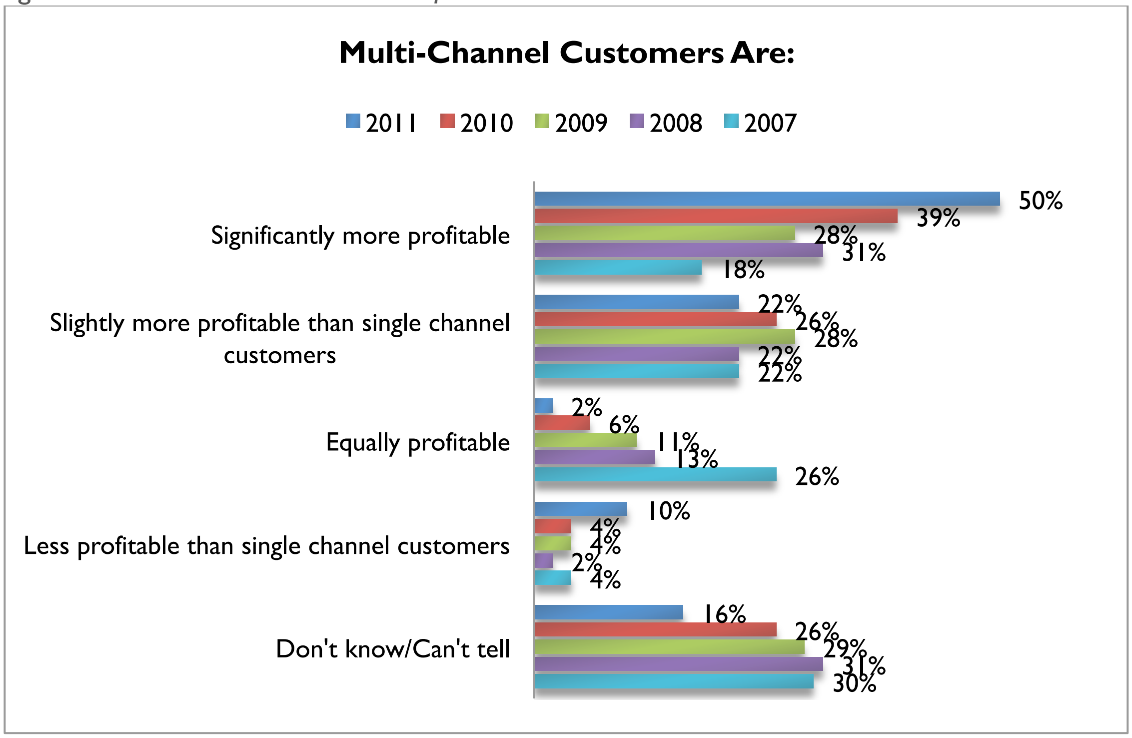
In this study, RSR sought to gain an understanding of how retailers are coping with these new challenges and the subsequent pressure to rapidly increase their cross-channel capabilities.

Consumers Are Already There

What is so unique about today's retail environment is that consumers are dictating the nature of the value proposition that retailers and their partners must deliver on. Simply put, consumers don't see "channels." Either a retailer solves their lifestyle problem or they look elsewhere - from their desktop or mobile device, or by asking their network of friends on a social media site.

Additionally, retailers are more certain than ever that their multi-channel customers are their best ones. In this year's study, 89% of retailers indicated that their multi-channel customers are either slightly or significantly more profitable than single channel customers; this represents a steady increase since we first asked the question in 2007 (Figure 1).

Figure 1: "Multi" = "More Profitable"

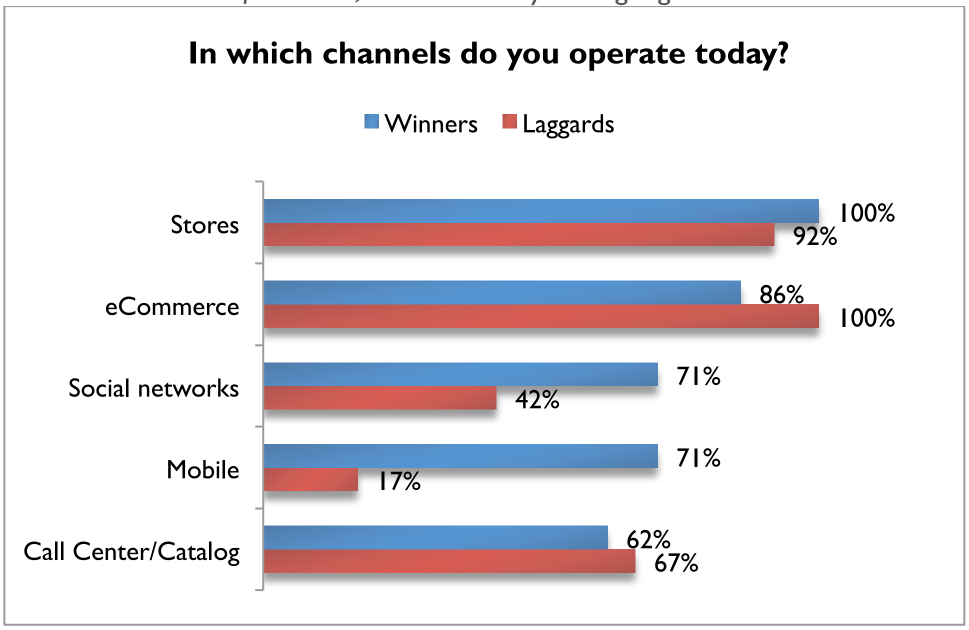


Source: RSR Research, July 2011

What is also interesting about year-over-year comparisons is that fewer retailers report that they are uncertain about the profitability of their multi-channel shoppers. Retailers appear to have increased their understanding of the potentially complex paths to purchase that consumers may take; though consumers may begin a dialogue in a digital channel with a retailer to find the right solution, chances are very high that the transaction will be completed somewhere else (usually in a store). Retailers are learning that just because revenue cannot be directly assigned to a non-store digital channel, that doesn't mean that it's unimportant. In fact, the consumer's ability to investigate and even select a product in a non-store channel has the potential to drive more business to the primary (usually store) channel.

The question is, how close are retailers to consumers' ideal of ***buy anywhere/get anywhere?*** Certainly, "multi-channel" (which is not necessarily "cross-channel") retailing is now prevalent (Figure 2). As is frequently the case, Retail Winners (those that out-perform their competition) try to turn a challenge into an opportunity.

Figure 2: Channel Proliferation, or Are They Merging?



Source: RSR Research, July 2011

For example, in responses to this survey, far more Winners than all laggards (under-performers) indicated that they have embraced "m-commerce" - although it's likely that the capability at this point may be no more than access to the e-channel via a mobile browser.

Methodology

RSR uses its own model, called the "BOOT," to analyze Retail Industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

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

Defining Winners and Why They Win, and Why Laggards Fail

Our definition of Retail Winners is straightforward. We judge retailers by year-over-year comparable store/channel sales improvements. Assuming industry average comparable store/ channel sales growth of **six percent in 2010 compared to 2009**, we define those with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that Winners don't merely do the same things better, they tend to do different things. They think differently. They plan differently. They respond differently.

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

Survey Respondent Characteristics

RSR conducted an online survey from March - July 2011 and received answers from 70 qualified retail respondents. Respondent demographics are as follows:

- Job Title:

Senior Management (e.g., CEO, CFO, COO, CIO)	22%
Vice President	12%
Director/Manager	56%
Internal Consultant	6%
Staff	3%

- 2010 Revenue ($ Equivalent):

Less than $50 million	15%
$51 million - $249 million	17%
$250 million - $499 million	10%
$500 million - $999 million	13%
$1Billion to $5 Billion	29%
Over $5 Billion	15%

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

Average	40%
Better than average	38%
Worse than average	22%

- Headquarters/Retail Presence:

USA	60%	75%
Canada	13%	36%
Latin America	0%	22%
UK	4%	27%
Europe	8%	27%
Middle East	4%	18%
Africa	2%	11%
Asia/Pacific	9%	29%

- Primary Category:

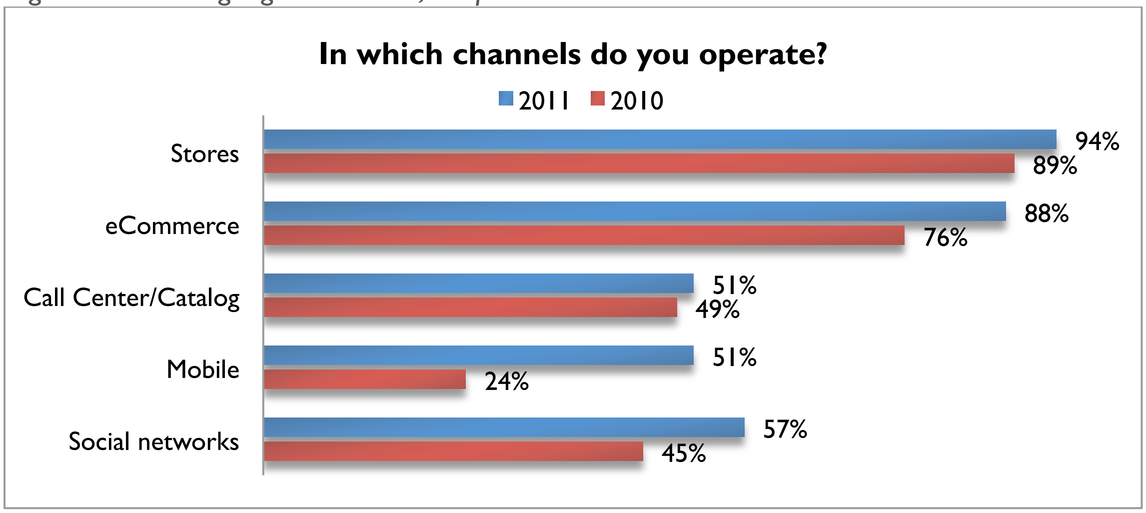
Apparel, Footwear and/or Soft home	48%
Consumer Electronics	4%
General Merchandise and Hard Goods	26%
Groceries	15%
Hardware and Construction	11%
Drugs	7%
Jewelry and Accessories	19%
Home Furnishings	9%
Music, Books and Entertainment	6%
Prepared Food	7%
Fuel (Petrol)	2%
Auto Parts	2%
Miscellaneous Services	2%
Other	24%

Business Challenges

Channel Proliferation Does Not Mean Channel Integration

As late as 2009, RSR asked about only three channels in our cross-channel survey: online, stores, and catalog. We're up to five channels this year, and already a majority of respondents report some kind of presence across all five channels, including mobile and social (Figure 3).

Figure 3: Emerging Channels, Explosive Growth



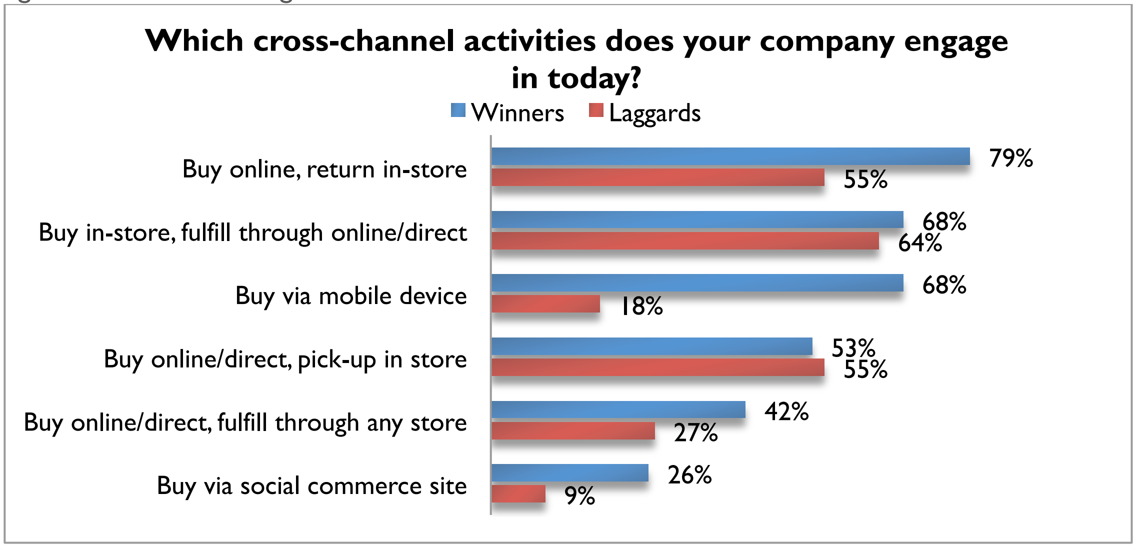
Source: RSR Research, July 2011

However, just because retailers have more channels to manage does not mean that they can easily provide a seamless experience across those channels. Not only have some channels experienced phenomenal growth - more than twice as many respondents report operating in the mobile channel this year than last year - but some of the new channels, like mobile, have a distressing ability to cut through other channels to expose major inconsistencies. Different pricing and promotions for stores and online have been ripped to shreds in mere moments by a consumer with a smartphone surfing the web in a store.

Retailers are responding by building bridges between channels. In our survey, clear majorities of respondents currently enable buy online/pick-up in store, buy in-store for direct or online fulfillment, and buy online/return to store. However, the differences by performance are stark (Figure 4).

Retail Winners have built more bridges between channels than their peers - 79% enable buy online/return to store vs. 55% of laggards. Forty-two percent of Winners have tackled buy online/fulfill from store vs. only 27% of laggards. Laggards have done the easy parts - the cross-channel activities that consist of throwing the product "over the channel wall," like buy in-store, fulfill via direct or buy online, pick-up in store.

Figure 4: Some Bridges Are Harder Than Others



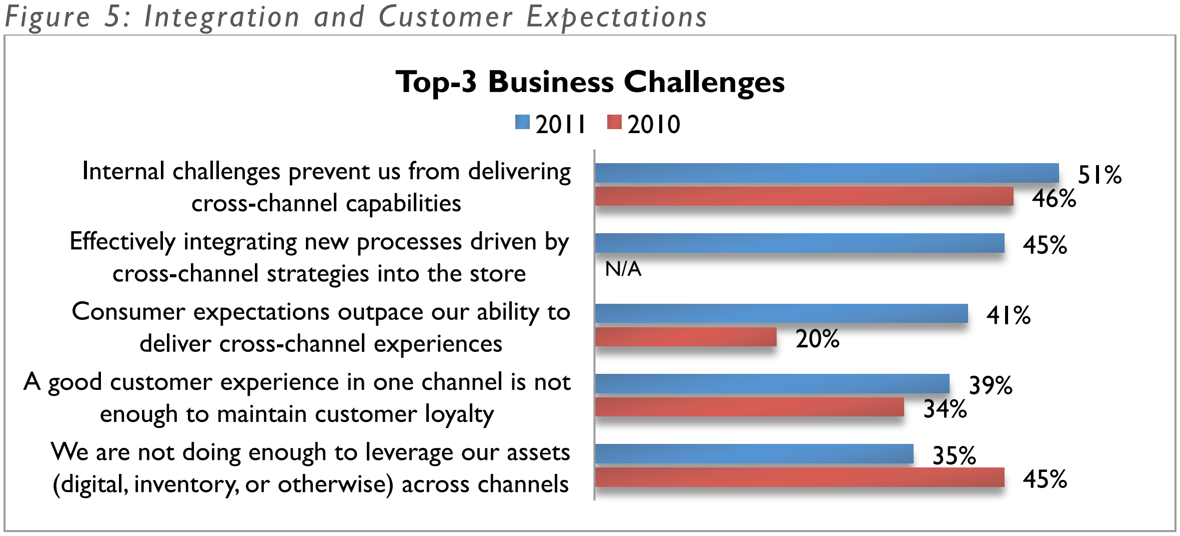
Source: RSR Research, July 2011

But the deeper integration challenges remain, and here Winners appear to be ahead of the game. In fact, they're changing the game by outpacing their peers - enabling commerce in new channels like social and mobile (where Winners outnumber laggards by more than 3 to 1 in enabling mobile commerce), and preparing themselves for even more bridges between new channels and the old ones.

Channel Integration is THE Challenge

Last year, RSR took a different approach to our survey on cross-channel capabilities. We moved from the idea that cross-channel strategies needed to be explored and understood to the assumption that cross-channel is critical to future retail success. This year, not only do retailers report that they understand the critical nature of an "omni-channel" strategy, they believe they are not moving fast enough to enable it - and integration challenges are the main reason why (Figure 5).

Figure 5: Integration and Customer Expectations



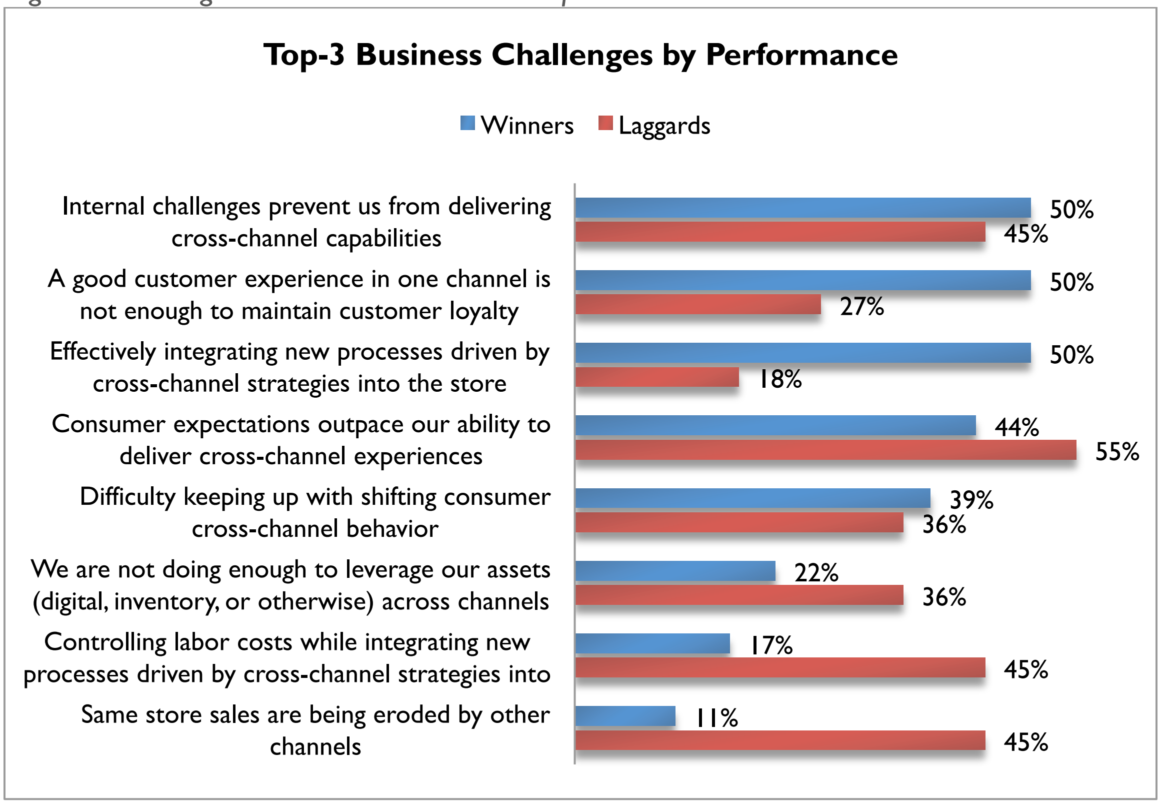
Source: RSR Research, July 2011

From 2010 to 2011, the integration challenge has only grown in importance, driven primarily by an increased belief that customer expectations continue to outpace retailers' ability to deliver on a seamless experience. New to this year's survey, fully 45% of respondents also report that the biggest integration challenge is the store.

The Store: Albatross or Opportunity

When looking at business challenges according to performance, some big differences emerge. Both Winners and laggards report that integration is their top business challenge, but common ground ends there (Figure 6).

Figure 6: Integration and Customer Expectations



Source: RSR Research, July 2011

While more laggards say they are challenged by customer expectations than Winners, Winners outnumber laggards by almost 2 to 1 in reporting that a good customer experience in one channel is not enough to maintain customer loyalty.

The differences are most apparent when the channel being talked about is the store. Nearly half of laggards report that they are challenged by eroding same-store sales and by controlling labor costs when integrating new channels into the store. Only 11% of Winners report that store cannibalization is an issue for them, and only 17% are challenged by store labor costs - vast gaps in challenges.

These gaps don't mean that Winners are not feeling the pinch of store sales cannibalization. It just means that Winners have moved on from the challenge - it's not just store sales that are at risk when dealing with a cross-channel customer, it's total retail sales. And if stores are no longer the main engine of retail growth, which strategy will be more successful long-term: protecting stores? Or enabling commerce in the new channels that are driving growth, no matter what the cost to stores?

If only it were so easy as that. Naturally, less well-performing retailers are going to be concerned about lackluster sales in their store channel at the same time they have to ask for more store labor costs to support cross-channel initiatives. They simply don't have the financial padding to enable them to let their main channel's sales stall or let their biggest cost rise. But if the store is a constraint on omni-channel strategy, then the game is already lost.

The Store is Dead, Long Live the Store!

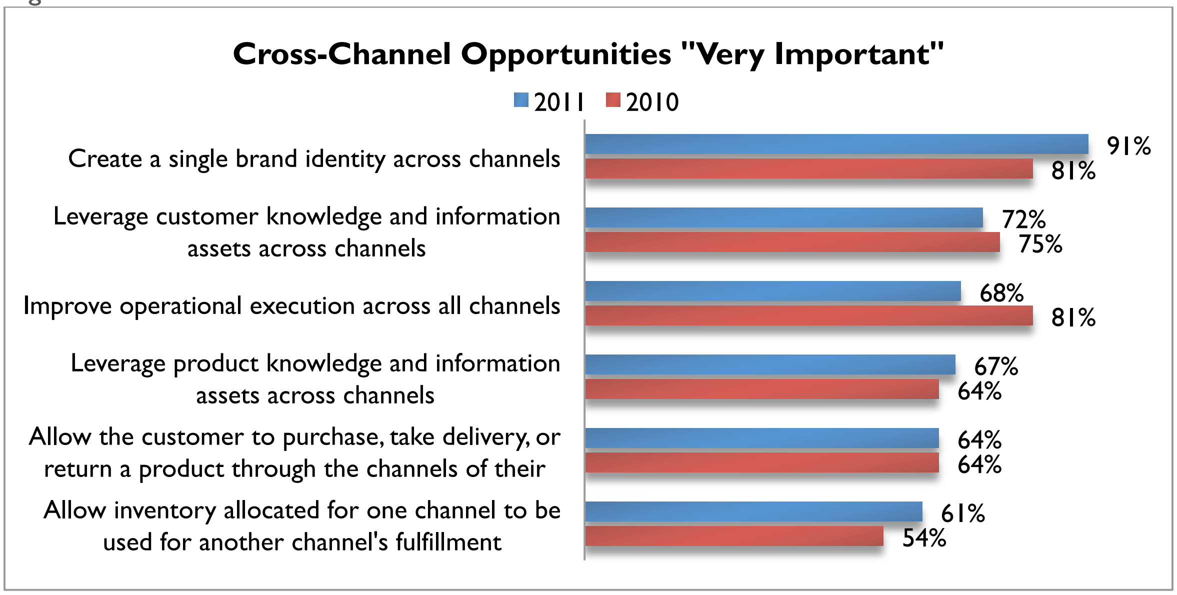
The biggest business challenge to cross-channel integration is the store. In order to be successful in their omni-channel strategies, retailers are going to have to let go of the store as the main engine for retail growth. It may be the main driver of revenue for a long time to come - but that is not the same thing as growth. Winners have already let go, though even in Winning organizations, the struggle against a corporate culture oriented around the store is still alive and well. The important thing to remember is that the store is not dead - but its current incarnation may well be on its last leg. The future of cross-channel depends on it.

Opportunities

The Pursuit of Brand Identity

A single brand identity is by far the most important opportunity identified by all respondents. A whopping 91% of survey participants said it was "very important" - a 10 point increase over last year (Figure 7).

Figure 7: One Brand to Unite Them All



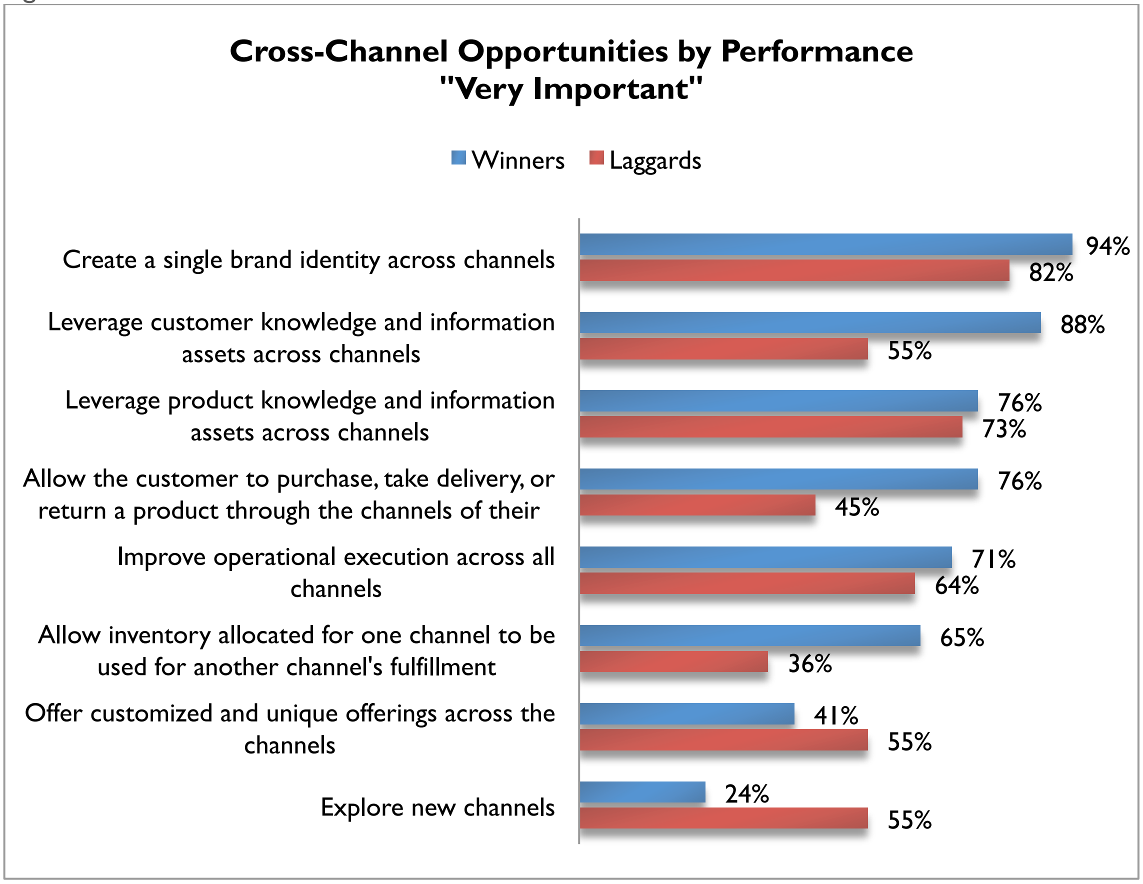
Source: RSR Research, July 2011

The "hows" of a single brand identity also remain extremely important, though several have given way slightly to the overriding opportunity of a single brand identity: leveraging customer knowledge and information across channels, and improving operational execution across channels in particular.

By performance, stark differences emerge. Roughly speaking, Winners are more focused on customer opportunities while laggards appear to still be in the initial stages of exploring new channels, like social and mobile (Figure 8).

Outside of their primary focus on customer-oriented opportunities, Winners also look for operational opportunities, in particular a focus on products and inventory - 76% of Winners say they see cross-channel fulfillment as a very important opportunity vs. only 45% of laggards. And 65% of Winners want cross-channel inventory leverage, vs. only 36% of laggards.

Figure 8: One Brand - But How?



Source: RSR Research, July 2011

While both Winners and laggards place pretty high importance on leveraging product knowledge and information assets across channels, only Winners also put physical inventory flexibility alongside that in terms of opportunity. In other words, it's not enough to know where the product is. If there is demand for product, then inventory should be used to meet that demand, no matter where it sits. This has the opportunity to be a clear differentiator in the customer experience of the future.

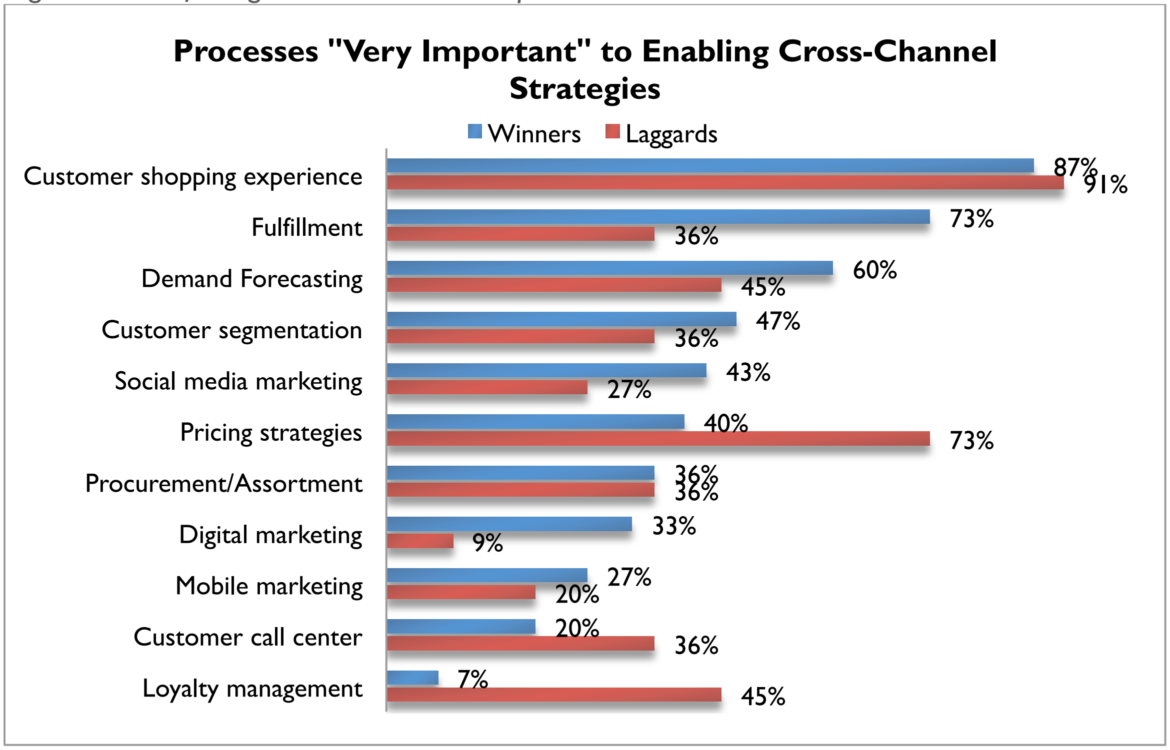
Taking Brand to the Streets

While it is clearly important to all retailers to present one single brand to the customer no matter the channels of engagement, such a goal is something akin to motherhood and apple pie - making it a reality is a lot more complex.

In this year's survey, we asked about the status of cross-channel consolidation across several different processes in order to understand where within the business consolidation is occurring - and which processes remain high priority areas for achieving that elusive goal of one single brand across channels.

Winners and laggards have very different ideas of a single brand identity means tactically (Figure 9).

Figure 9: Defining the Customer Experience



Source: RSR Research, July 2011

While both Winners and laggards believe strongly that the customer shopping experience has to be considered across channels, the similarities seem to end there. Winners place twice as much importance on cross-channel fulfillment as laggards, and also give more weight to demand forecasting to support cross-channel fulfillment.

Ironically, given the relatively low importance that laggards ranked customer-oriented opportunities, the processes that they identify as being important tend to be more customer-oriented than we see from Winners - 45% of laggards rate loyalty management as very important to cross-channel strategies vs. a mere 7% of Winners. Thirty-six percent of laggards say customer call center is a very important cross-channel process against only 20% of Winners, and the biggest difference: 73% of laggards say price strategy is a critical cross-channel process vs. 40% of Winners.

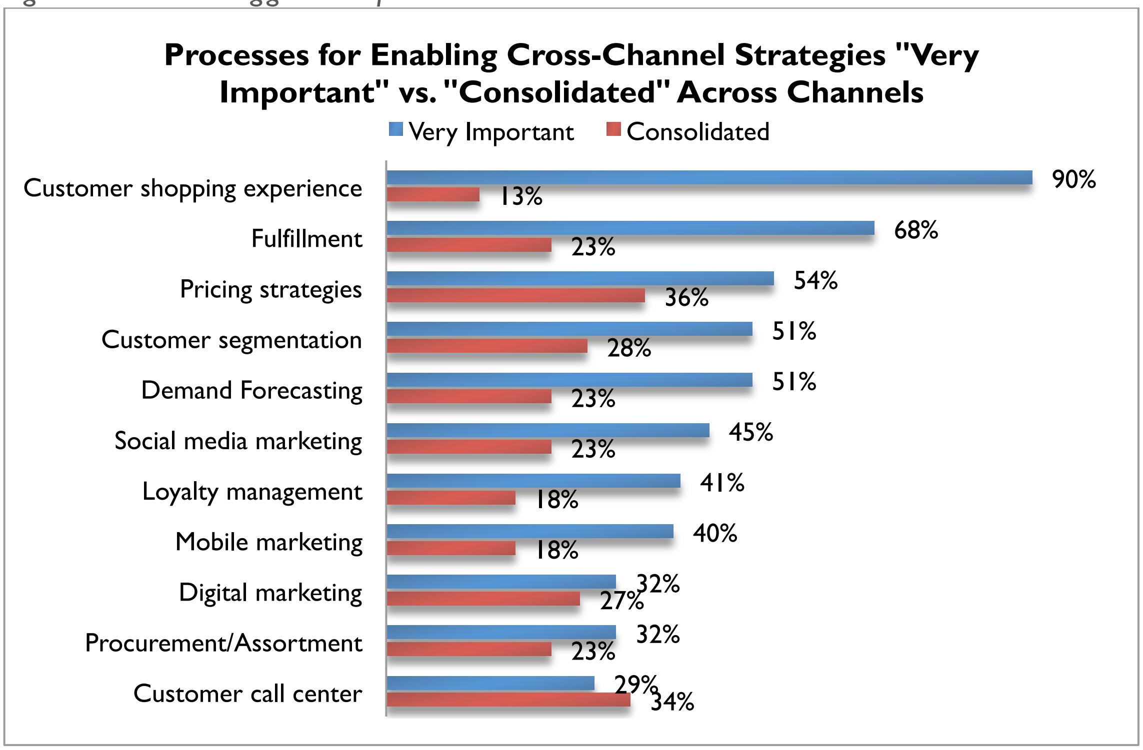
Price and promotion are a complicated cross-channel issue, driven primarily by consumer price transparency. RSR deals with that topic in-depth in our pricing research, ***Optimizing Price in a Transparent World: Benchmark 2011***. But while laggards tend to give more weight to these processes, Winners don't ignore customers completely at the process level. They just tend to focus more on customer *communication* than customer *management* - 47% of Winners say customer segmentation is very important vs. 36% of laggards, and the same kind of gaps can be seen with social media marketing, digital marketing, and mobile marketing.

Taken all together, it would appear that Winners see a single brand identity as being driven through three major steps: marketing, the customer experience, and fulfillment. Laggards see the steps as: price, the customer experience, and customer management.

Filling the Gaps

A trip across almost any retailer's web site, mobile site, Facebook page and store will quickly reveal that few retailers are truly presenting a single face to customers. So it should come as no surprise that the biggest gap between cross-channel need and support of that need is around the customer shopping experience (Figure 10). Nor should it come as a surprise that the next biggest gap is around cross-channel fulfillment.

Figure 10: The Biggest Gaps are the Hardest to Close



Source: RSR Research, July 2011

The shopping experience and fulfillment are the two most difficult processes to consolidate across channels. On the customer experience side, very few retailers have an executive who has been tasked with providing a single, consolidated customer experience across channels (more on that in Organizational Inhibitors, below), and without that leadership, channel conflicts will emerge as the different priorities of store and online clash.

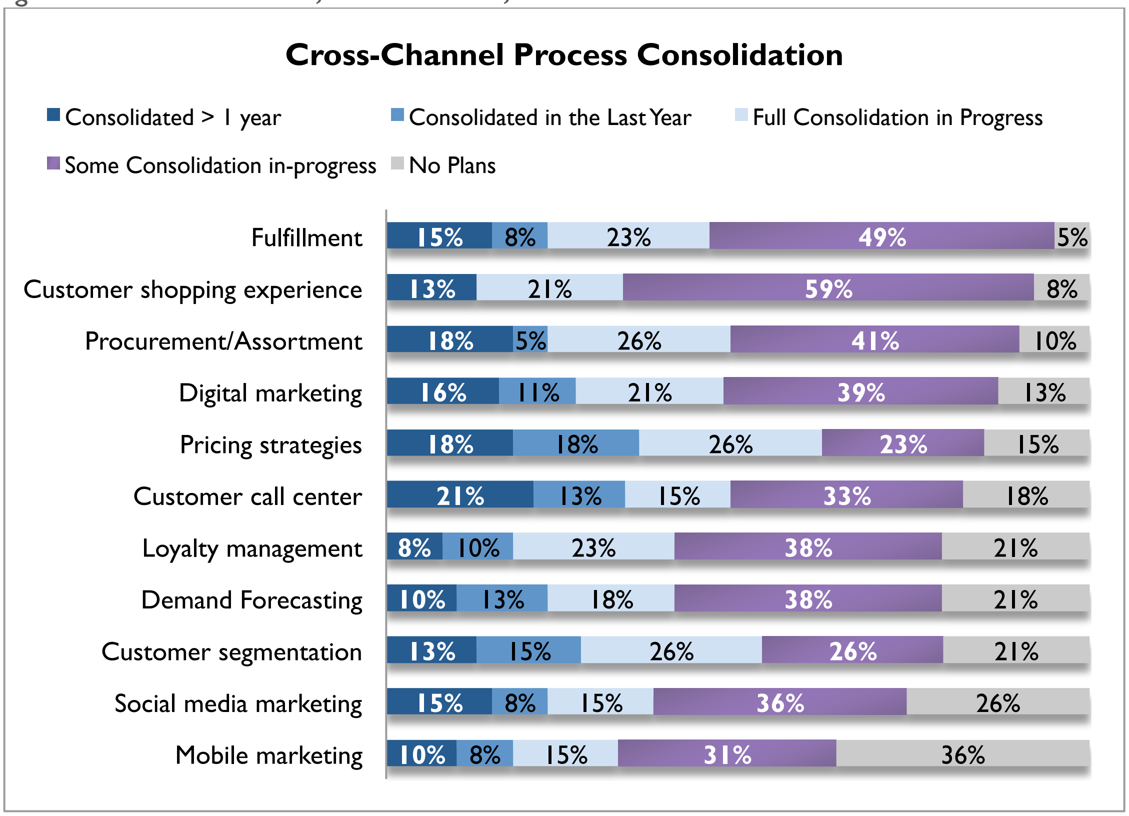
For fulfillment, the issues aren't cultural so much as structural - opening up inventory across channels is not for the faint of heart, and most particularly not for the unprepared. If a retailer doesn't have a solid understanding of costs and how they are incurred at each step of the process, if the company doesn't have a handle on demand across channels or the flexibility to meet demand across channels without shorting the source channel - then cross-channel fulfillment won't yield the results that the retailer is looking for.

The other gaps, particularly the marketing ones, are more troublesome. While it's understandable that customer segmentation isn't as consolidated as retailers would like it to be (given that few retailers have a solid, single view of their customers across channels as it is), it's surprising to see that social and mobile marketing are not as consolidated as retailers would like - it appears that retailers are repeating the sins of the past. With new channels, retailers dive in with stand-alone strategies and worry about bringing them back into the fold later. But this doesn't help them achieve anything like a single brand identity in the meantime.

Process Plans

The gaps may be large, and they may be challenging to close in some places, but retailers' aspirations are very high. Across the board, retailers are looking to at least some consolidation of fulfillment, the customer shopping experience, procurement, digital marketing, pricing strategies, customer call center, loyalty management, and demand forecasting (Figure 11).

Figure 11: Consolidate, Consolidate, Consolidate



Source: RSR Research, July 2011

This is an enormous amount of change, especially when taken in the context of how relatively new many of these changes are - even in the case where consolidation has already occurred, the process with the greatest amount of consolidation is customer call center, where only 21% report they have achieved consolidation for more than one year. But with only 5% of respondents reporting no plans to consolidate fulfillment across channels, and only 8% saying the same about the customer shopping process, the face that retailers present to customers looks set to change drastically in the very near future.

Bigger Than the Store

In the Business Challenges section we noted that the store as it exists today is about to change dramatically. From the Opportunities, it's clear that retailers don't plan on stopping with the store. Marketing, the customer shopping experience, fulfillment, procurement, price strategy - these are all areas of the business that retailers plan on retooling for a cross-channel world. That's a lot of change in a short period of time.

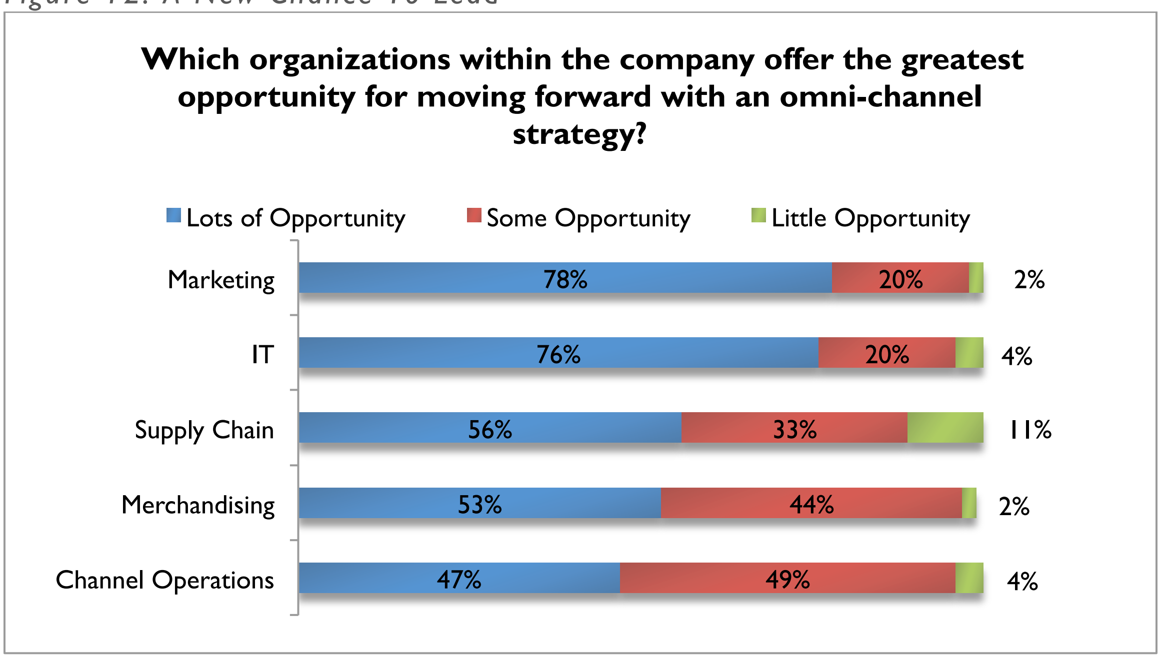
Organizational Inhibitors

Marketing & IT: There's The Rub

In January 2011, RSR noted "the rise of the CMO". At that time, we said: "The seemingly endless parade of emerging marketing and selling channels have created new challenges for retailers as they scramble to align their brand identities across those disparate channels. New channels also provide opportunities: retailers now have more details on their customers' tastes, preferences and buying patterns than ever before. This confluence of events, all centered on the customer, has brought a new retail corporate player into the mainstream of day-to-day retail operations: the Chief Marketing Officer".[1] There is certainly ample evidence throughout the industry that attests to the rising influence of the CMO as the "owner" of customer information, and therefore (by extension) being a key influencer when it comes to customer-centric strategies from loyalty marketing to a social media presence.

It also stands that the CMO and IT leadership would view these times opportunistically. After all, almost everything the marketing executive can do is powered by information, and the CIO is responsible for management of that information. That turns out to be exactly how our survey respondents view the organization opportunity for these two executives and their organizations to lead the change process (Figure 12). Across all performance groups, retailers indicate an underlying understanding that the company's omni-channel strategy is driven by two key attributes: the customer dimension of data, and technology enablement across the entire enterprise.

Figure 12: A New Chance To Lead



Source: RSR Research, July 2011

[1] ***Research Overview: Customer Centricity 2.0: The Rise of the Chief Marketing Officer***, January 2011, © RSR

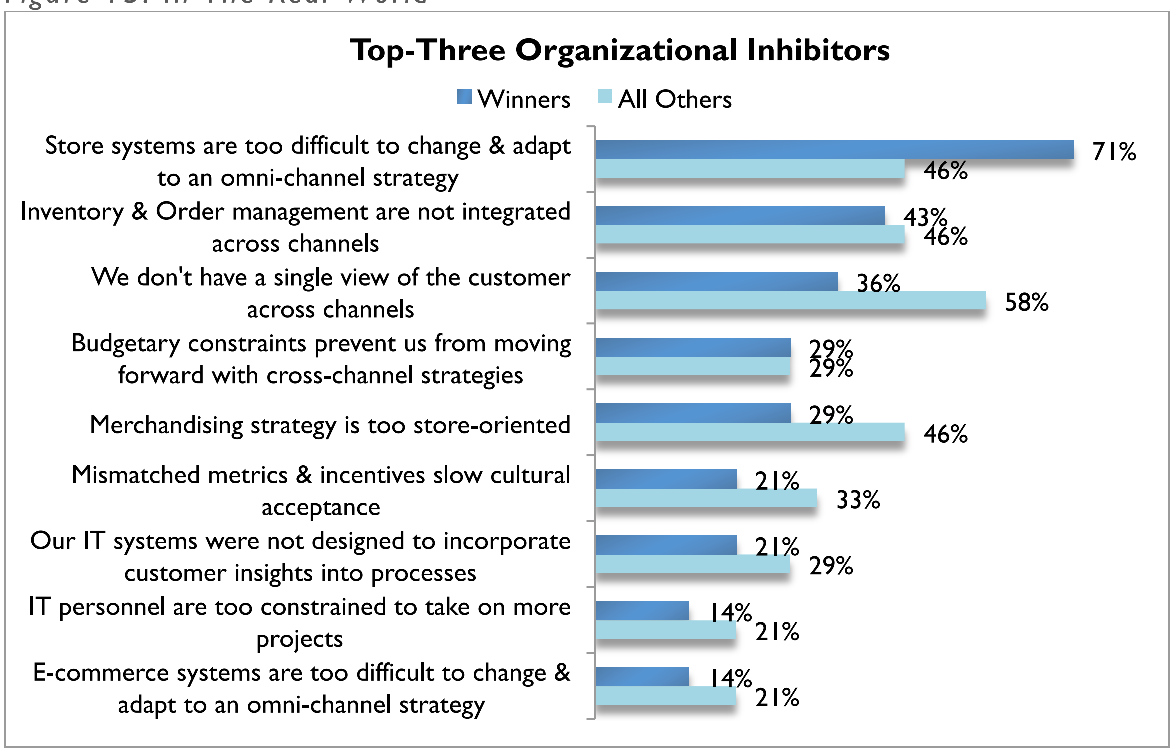
That is not to say that the Marketing and IT departments have carte blanche to "make it happen". While the marketing executive may have new budget to address opportunities in emerging channels, the IT department is still constrained by an aging portfolio of channel-aligned applications and a big backlog of project requests. RSR saw warnings of trouble ahead in our November 2010 study ***Pandora's Box? The Impact of New Technologies on Retail IT***, where we noted:

> *"…business users are taking matters into their own hands. Outside agencies are used to design and enhance the new applications... After all, initially there is marginal to no interface between these applications and core business systems… It's not that IT doesn't want to be involved in creating or supporting these new technologies… the very fact that business users can make these decisions is their perceived greatest organizational business inhibitor. And…the larger the company, the easier it is for business users to justify taking this approach. After all, a big brand has the most to lose by being late to any of the consumer-facing technology games."*[2]

Rocks In The Road

We noted earlier in this report that the biggest business challenge to cross-channel integration is the store. Notwithstanding the opportunity for the IT organization to be a key element in the company's transformation to an omni-channel operating model, technology – and specifically store technology – stands clearly in the way of progress, especially for our Retail Winners (Figure 13).

Figure 13: In The Real World



Source: RSR Research, July 2011

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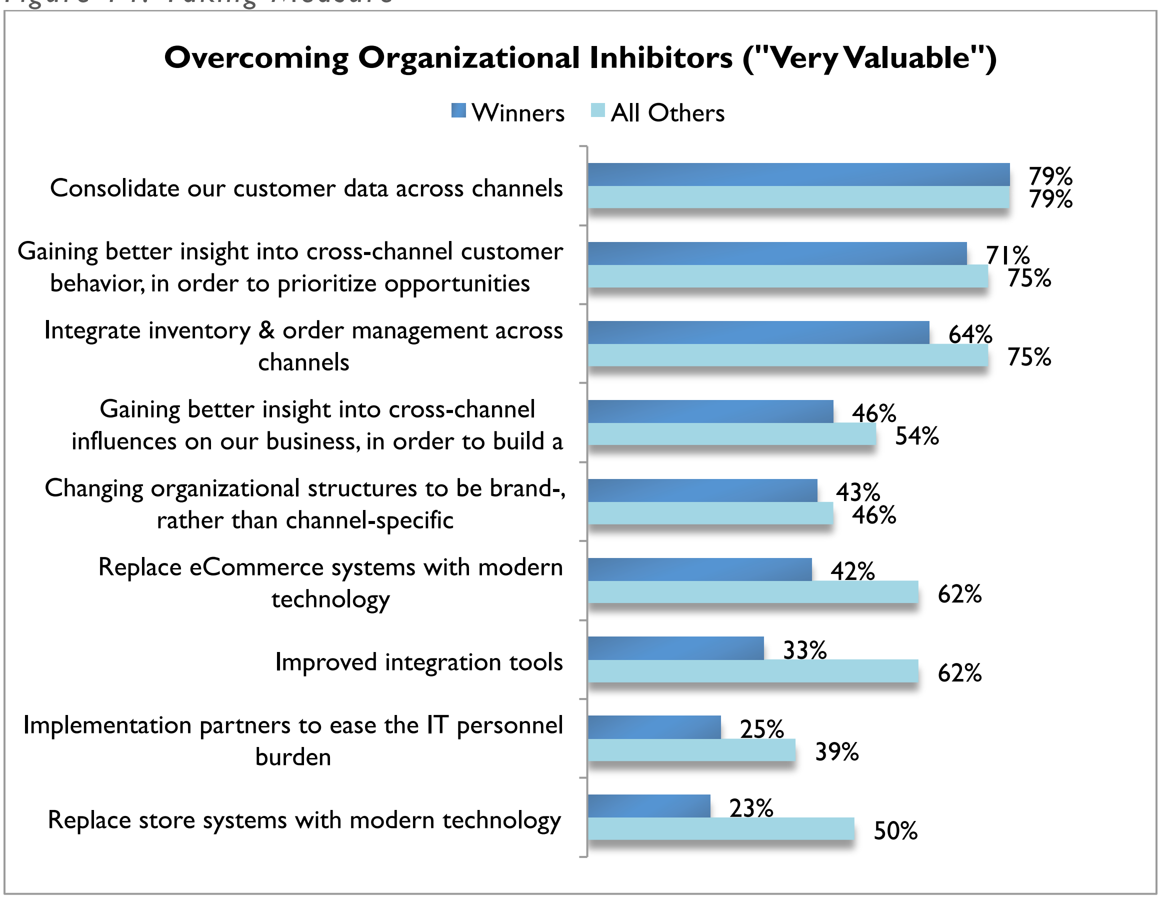
2 ***Pandora's Box? The Impact of New Technologies on Retail IT***, Benchmark Report, November 2010, p.13, © RSR Research LLC

While integration of store systems into an omni-channel model is a top concern for nearly half of all non-winners too, their greatest perceived inhibitor is that the information the company has about its customers is not integrated and available across the entire enterprise. This inhibitor poses a particular problem for the CMO, even if the Marketing department chooses to work with outside IT services instead of the internal technology group to bring new value to the marketplace. Consumers are intolerant of inconsistency when it comes to information about products and services, availability, and price – but most of all, with information about *them*. For Winners, who have taken steps to overcome or avoid this roadblock, it's far less of an issue. For over-performers, it's all about getting the stores into the omni-channel mode of operation.

Measure Twice, Cut Once

While Winners may be focused on the fact that store systems are too difficult to change and adapt to an omni-channel strategy, it doesn't yet follow that they are ready to start ripping and replacing, according to our survey takers (Figure 14). A refresh of store-level technology can easily be the biggest technology investment most retailers will ever make, because of the "store-multiplier" factor. And as we noted in our recent study ***The 21st Century Store: The Search for Relevance,*** "…capital requirements continue to plague retailers (21% more report it as a roadblock this year than they did in 2010)".[3] So Winners are carefully considering their options.

Figure 14: Taking Measure



Source: RSR Research, July 2011

[3] ***The 21st Century Store: The Search for Relevance***, Benchmark Report June 2011, p. 12, © RSR Research LLC

Beyond "consolidating customer data across channels" (which most retailers see as a first step to omni-channel enablement), most retailers also agree that understanding consumers' favored paths to purchase in order to prioritize the modernization effort is key, as is integrating inventory and order management capabilities. But average and laggard performers seem far more ready to start spending on new IT (new eCommerce, integration tools, and store systems) than Winners.

Retail Winners seem to be pondering their next steps, not quite ready to commit large pools of resources to attacking the inhibitors they have identified.

Who Leads? Who Needs To Learn More?

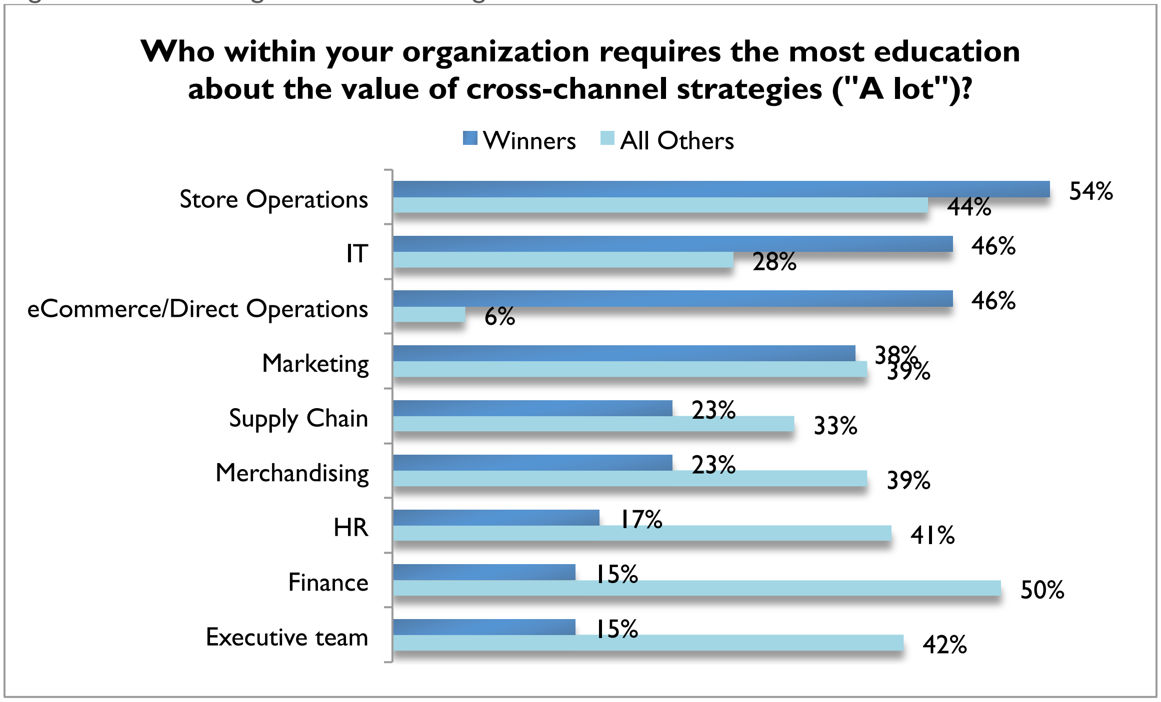
In past studies, RSR has frequently noted that lack of executive involvement is a key inhibitor to making progress on any particular issue. But that is clearly not the case when it comes to addressing the strategic implications of the omni-channel world; according to our survey respondents, the top of the company is clearly calling the shots (Figure 15). IT is also clearly involved, and that makes sense given that both the challenge and the opportunity can only be addressed adequately with thoughtful investment in information technology to support new omni-channel processes.

Figure 15: Calling The Shots

Source: RSR Research, July 2011

Earlier, it was noted that Marketing and IT have the biggest opportunities to influence the transformation of the company, while store-level concerns present the greatest challenges and inhibitors. To overcome some of the internal roadblocks associated with an enterprise-wide transformation of this nature, over half of our Retail Winners think that Store Operations needs to know more about the opportunity (Figure 16).

Figure 16: Getting With The Program



Source: RSR Research, July 2011

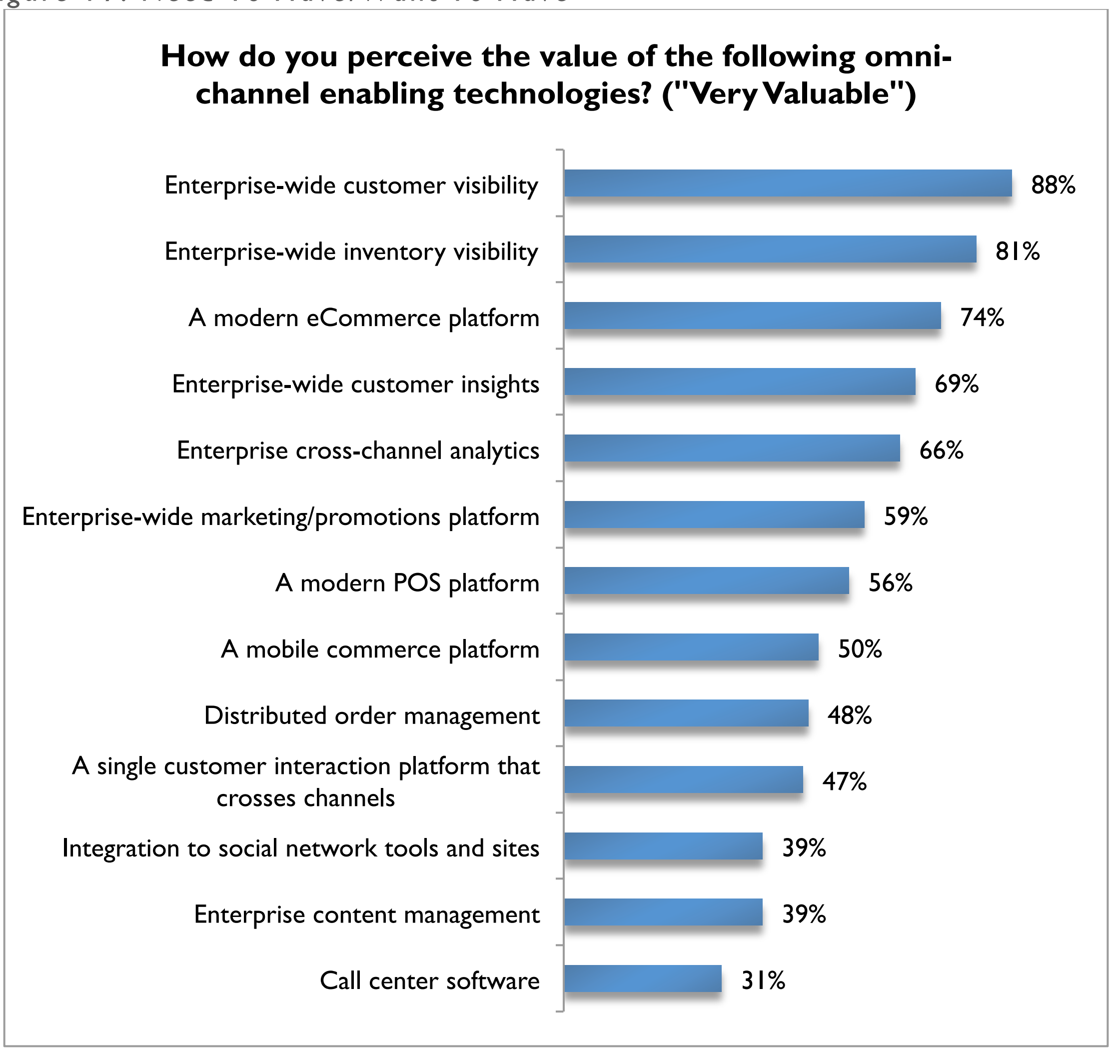
While almost 50% of non-winning retailers agree with top performers about the need for Store Operations to better understand the opportunity, they worry far more than Winners do about the Executive team, and the Finance executive in particular. Non-winners report almost the same level of involvement in decision-making by the Executive team generally (high) as well as Finance (low). But with half of non-winners indicating that Finance needs to be better educated about the opportunities associated with an omni-channel business model, it's a good bet that that group is resisting any capital spending associated with a transformation effort. While that's understandable especially given these hard economic times, it can be really damaging to the company's ability to successfully project its brand in the new consumer-driven age.

Technology Enablers

Visibility Comes First

Results of this study tally very closely with other recent studies by RSR that "visibility" is key to moving forward. For example, in RSR's March 2011 study entitled ***Omni-Channel Fulfillment and the Future of Retail Supply Chain,*** we noted that "business analytics that can report cross-channel activity by customer and geography" and "one view of the customer" were the two most highly valued capabilities for retailers.[4] In this study, retailers validate the earlier findings (Figure 17). Customer and inventory visibility rank high in value to retailers, as does a "modern eCommerce platform."

Figure 17: Need-To-Have/Want-To-Have



Source: RSR Research, May 2011

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[4] ***Omni-Channel Fulfillment and the Future of Retail Supply Chain***, Benchmark Report March 2011, p. 21, © RSR Research LLC

Analytics ranks very high in value for most retailers, but interestingly, almost twice as many non-winners put a priority on this technology than Winners did. It turns out that this is perfectly consistent with other research results RSR has uncovered; in our 2010 study on business intelligence capabilities in retail, we learned that Retail Winners are already far more advanced than their competitors in adopting an enterprise-wide BI strategy. [5]

eCommerce or POS, or Both?

Although it's ranked as having high value by a plurality of retailers, a "modern POS platform" ranks far lower than a "modern eCommerce" platform (24% fewer retailers ranked POS as important as an eCommerce platform) as a key omni-channel platform. Winners and others alike rank the two selling platforms similarly (although non-winners give slightly more weight to both).

Given that retailers indicated that current store-level systems are a key inhibitor, it's probable that retailers are thinking about how to extend enterprise-wide eCommerce capabilities to the stores, rather than merely assuming that "a modern POS platform" would be somehow easier to integrate with enterprise e-commerce capabilities. It's an "omni" way of thinking – what's good for customers beyond the store is also good for them in the store. Although there are many technical challenges to the notion of using all or part of the eCommerce platform as the in-store POS system (speed and volume considerations, most particularly), bringing the functionality of the eCommerce platform to POS, rather than the other way around, is an intriguing notion.

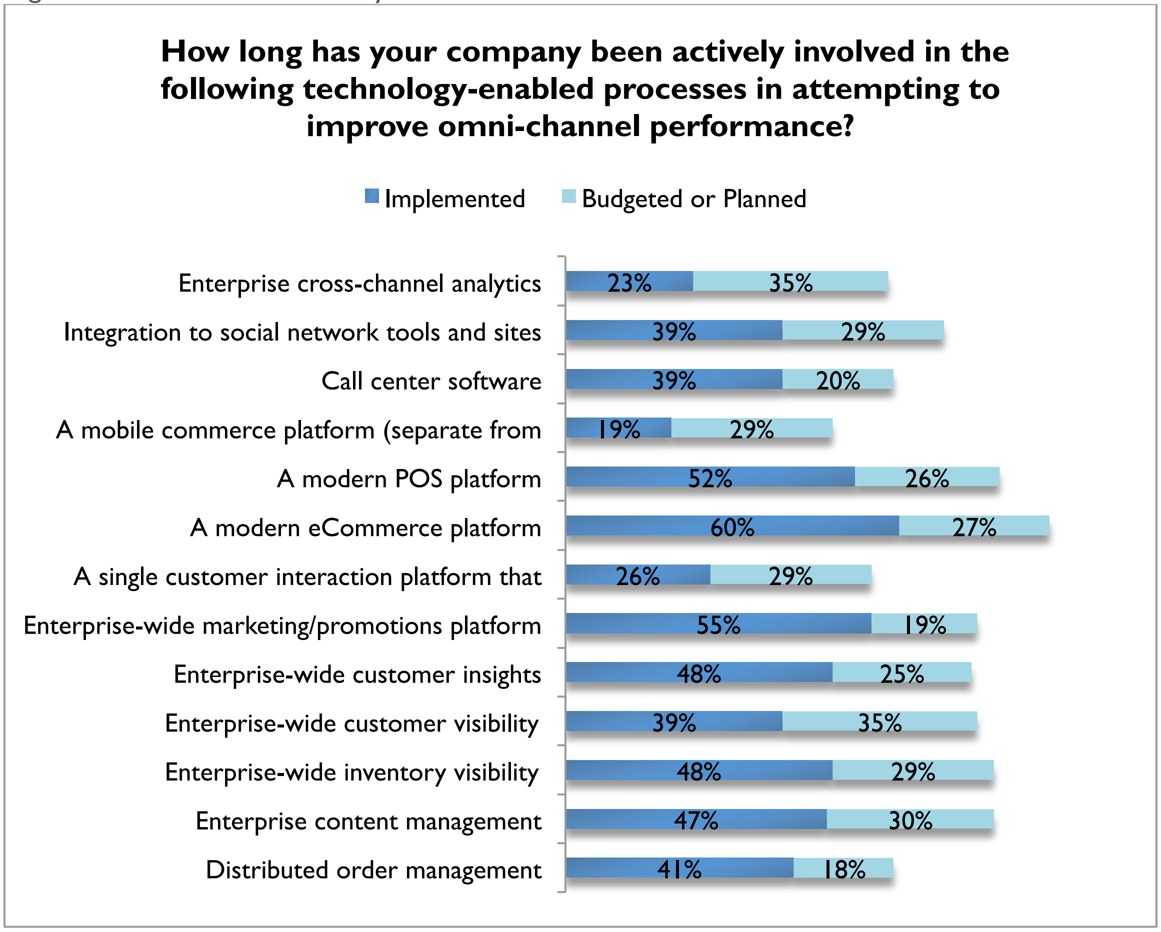
Progress Towards Getting That Value

As the old saying goes, "the proof of the pudding is in the eating", and that's true when it comes to actually delivering value from any technology investment: first it has to be implemented. Although the retailers who participated in this study assign a lot of value to enterprise-wide visibility into important information assets and the ability to glean insights from that information, there is far to go before all retailers actually have a chance to bank that value – they need to invest in the technologies first (Figure 18).

What's perhaps even more interesting about the survey responses is that in examining the 'delta' between those capabilities that have been assigned a "very valuable" rating and those that either have or will soon be implemented, it becomes clear that many retailers are forging ahead without clear expectations of gaining value from those investments (Figure 19). While "***mobile commerce platform***", and "enterprise-wide" ***inventory visibility***, ***cross-channel analytics***, and ***customer visibility*** are rated as having higher value than their actual implementation status indicates, that's not the case for other capabilities. In other words, many retailers have or will soon implement technologies either as a "cost of doing business" or without a high expectation that they'll actually deliver tangible value. Although that line of reasoning might make sense for "content management" or a "modern POS platform" (a retailer is only tactically advantaged if they are in place), it's harder to understand when it comes to an emerging consumer channel like ***social networks***. In that case, retailers are clearly pursuing integration to social media sites without much of an understanding as to what it will buy them in the long run.

[5] ***The Democratization of Business Intelligence: How Retailers "Sense and Respond" Across the Enterprise***, Benchmark Report October 2010, © RSR Research LLC

Figure 18: What's Actually In Place?



Source: RSR Research, July 2011

Figure 19: Cost Of Doing Business?

Capability	Δ
Enterprise content management	-38%
Integration to social network tools and sites	-29%
Call center software	-28%
A modern POS platform	-22%
Enterprise-wide marketing/promotions platform	-15%
A modern eCommerce platform	-13%
Distributed order management	-11%
A single customer interaction platform that crosses channels	-8%
Enterprise-wide customer insights	-4%
A mobile commerce platform (separate from eCommerce)	2%
Enterprise-wide inventory visibility	4%
Enterprise cross-channel analytics	8%
Enterprise-wide customer visibility	14%

Source: RSR Research, July 2011

BOOTstrap Recommendations

Here is the future of retailing as we can see it today: The store's role in retail will undergo a significant shift, which will be extremely disruptive. How a retailer is able to leverage its inventory to meet any channel's demand will become a key cost *and service* differentiator. But a retailer will only have the opportunity to achieve this differentiator if it is able to make a single, consistent brand promise across channels.

All of this requires fundamental, transformational business model change, which can only be achieved by the direct involvement of the executive team. And finally, none of this change will happen without the collective efforts of both business and IT - because outside of stores, technology is the primary channel enabler. And even in stores, technology increasingly plays a critical role. Breaking this all down by topic:

The Store As We Know It

The store as we know it is already obsolete. The only reason we haven't seen more transformational change in stores already is because it takes so enormously long to effect change in a store organization - cultural *and* physical change. For a retailer with a large store base, there is simply no such thing as "turning on a dime."

Retail Winners particularly seem to recognize that today's store model is not designed or optimized for an omni-channel world. Today's store is too large. It doesn't bring to bear the rich information assets that exist online - a customer shopping today is at a clear disadvantage if she starts in a store than if she starts online. The inventory investment is also too high and too broad - it assumes that stores are the simultaneous beginning and end of every shopping trip.

So what to do? At this point in time, recognizing the problem is half the battle. But consumers' patience with retailers' change process is a relatively small window of time - as evidenced by the fact that Amazon.com claimed $1 billion in mobile sales in *2009*. What percentage of those sales happened at a shelf in a store? In *your* store?

The store has to change. It has to get smaller. It has to have a carefully optimized assortment and inventory levels, supplemented by digital channels and direct fulfillment. It has to be prepared to support more than just the transaction, adopting roles of "show room" and "service center" and "experience center." If your company does not have an executive-led project to reimagine your store base given just the omni-channel trends in flight today, then you need one. Pronto.

The Experience Differentiator

Winners expressed two clear areas of differentiation in their focus on the customer experience: making a brand promise, and then fulfilling it.

When it comes to the brand promise, marketing must be aligned across channels. While it's fine to run channel-specific promotions and events - some channels are better able to support certain types of promotions than others - it all must fit under the umbrella of a single brand promise. A simple place to start: take a snapshot of all of your channel assets and line them up next to each other - your eCommerce site, any blog or lifestyle micro-sites you operate, mobile, Twitter, Facebook, store, catalog, print, TV. Do they offer the same brand promise? Do they promise the same kind of differentiating experience no matter the channel of engagement? Identifying and closing these gaps is a critical first step towards unifying your marketing voice to customers.

The second differentiator is fulfillment. Retail Winners, obsessed with the customer experience, have put a solid stake in the ground around fulfillment as part of that experience. Not only do they want customer fulfillment to be a seamless part of the experience, they seem to strongly believe that inventory flexibility across channels is a crucial part of making that happen.

There has been a lot of flurry lately about whether such flexibility pays off in the long run - whether the increased costs that come from giving up on efficiency are truly offset by the opportunity to capture more sales. If you look at the opportunity only in that light, you may find it challenging to make the case (and likely only if you don't have a strong understanding of both your hard costs and your opportunity costs). However, the retailer who can truly promise "buy anywhere/get anywhere" - and with any kind of cost efficiency or advantage - will offer something that no consumer can get today. That's kind of the definition of a "differentiator."

The good news is there is a relatively high barrier to entry to achieving "buy anywhere/get anywhere." It's one of the most difficult cross-channel initiatives to implement, in an environment of few best practices. Unfortunately, that's also the bad news.

Business Model Change, Led By Executives

If it's not already obvious, we thought we would state it again just to make sure: this is transformational change. The foundational assumptions of retailing as either a store-based activity, or even a channel-specific activity, are over - they have become obsolete. An omni-channel strategy is about rethinking retail, reimagining customer engagement in a world where the store is but a piece of the puzzle, a stepping stone in a fundamentally different (and increasingly digital) shopping process. That's not to say the store won't continue to be the place where a majority of transactions occur. But if you use that as your argument for not embracing the change that is already happening in your stores, you're increasingly placing your entire organization at risk. Yes, transformation can be expensive. But getting left behind can be even more costly.

Technology Change, Managed Cooperatively

In a kind of ironic twist of fate, none of the future of retail is possible without technology. We once heard a retail business executive claim that his company would be better off if they closed down the IT department and used all of that budget to just slash prices on products. Doing so today would be the equivalent of just flat-out shutting down a significant percentage of stores - because while overall retail sales still divide out as 95% store-based vs. about 5% "digital," for many retailers the percentage is much closer - 66% vs. 34% in some cases, even for a retailer that started out as store-based exclusively.

But even more challenging this time around is the need to bring together the two polar opposites of the retail organization: marketing and IT. And then throw in surly, abused stores just for good measure. Marketing is used to avoiding IT as much as possible. Stores are used to "No, you can't do that. It might risk POS." There has to be some kind of happy medium in there somewhere. But the answer isn't to browbeat IT. They're doing what they can with what they've got - a situation often dictated by a business that consistently refuses to fund longer-term, strategic IT capabilities, or pay for past integration sins.

The end of that road has arrived. If retailers are to successfully navigate a world where the customer is in control, where there are multiple channels of engagement (which change with the winds of fad), then IT needs to move at the speed of business. That requires cooperation, and investment.

Omni-Channel, or Post-Channel?

As we wrote this report, a debate raged internally. Do we continue to call it "omni-channel" or have we moved to a "post-channel" world? You may groan; we did too. Ultimately, it's an evolution, like a maturity curve: multi-channel leads to cross-channel, which leads to omni-channel (thinking holistically about channels) which rapidly becomes post-channel - where the channel is but one touchpoint, serving many roles in the shopping process depending on each customer's specific path to purchase.

If we had to place the retail industry on that curve, it would be somewhere between "multi-channel" and "cross-channel" - way back at the beginning. We're up to 5 channels in 2011. How many will RSR be asking about in 2015? 2020? That's beyond our capacity to predict. Probably more than today. Probably not double what exists today. But if the industry is continuing to add channels, it's very challenging to move straight from "multi-channel" to a world where channels are merely customer touchpoints. We've got to figure out the specifics of each channel before we can figure out how they shape the overall customer experience.

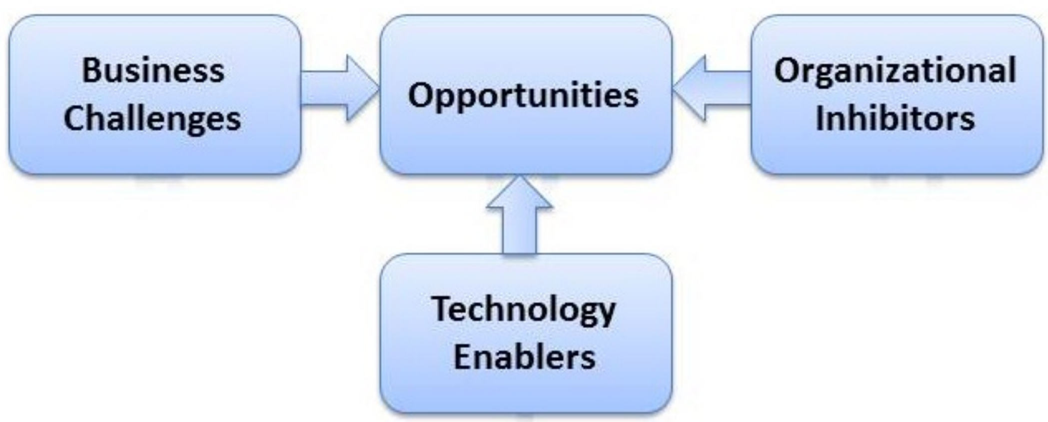
But the line is in the sand, regardless. If you view the disruption that is impacting your business today purely through the lens of "channels" then you're already behind. Tory Burch gets it. Urban Outfitters gets it. Even Best Buy, for all of their issues in channel consistency and transparency, gets it. Welcome to post-channel retailing.

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 Sponsor

RedPrairie®

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

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.

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