



Envisioning the Future of

Integrated Retailing®

The Hottest Trends
at the Intersection
of Technology
and Merchandising

April 2007

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Consumer Behavior

Do consumers shop online for offline purchases?

Yes, universally. According to the American Interactive Consumer Survey, 85% of the 110 million US Internet shoppers (who are at least 18 and go online at least once a month) have shopped online for purchases made locally offline. These results confirm that the Internet is now widely used for local shopping information as well as for making online purchases.

The survey was conducted by The Dieringer Research Group on behalf of ShopLocal, a shopping search site serving consumers looking for products in neighborhood retail stores.



Ask Dr. Roger

What's the state of multichannel retail?

Not so good, according to Forrester Research. Their recent report, "Best Practices in Multichannel Retailing," states that multichannel issues are not new to the retail industry, but that retailers have made little progress over the last few years. Forrester gives the overall industry a grade of C- on its multichannel abilities!

Forrester spoke with leading multichannel retailers such as **Ann Taylor, Anthropologie, Borders, Circuit City, Fry's, Lowe's, PETCO, REI** and **Timberland** (all of whose multichannel efforts have been covered favorably in previous issues of *Integrated Retailing!*). Not all retailers share the same priorities, of course, but **Forrester concludes that store-based retailers need to focus more on selling.**

Dr. Roger thinks it's absurd to grade the overall industry; our entire purpose in this publication is to highlight what industry **leaders** are doing to integrate in-store and online operations to increase traffic, sales, profits, market share, share of customer and shareholder value. We encourage you to keep reading *Integrated Retailing* for insight and analysis on this most important of all factors in future retail success!



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Online consumers told surveyors that they spend more time researching products online than they spend shopping in person. Two-thirds of multi-channel shoppers said the Internet is their most important shopping information resource.

Multi-channel shoppers also purchase more at local stores than they originally planned to after doing online research, according to the study.

Consumers most frequently use multi-channel shopping for home furnishings, tools, men's apparel, sports and fitness products, and major appliances.

Are consumer comparison-shopping online?

Exactly. Consumers are comparing prices and inventory availability, and are doing so using retailers' web sites, aggregator sites (shopping portals), and price comparison sites and engines. And as more retailers expand their multichannel reach to consumers, more shoppers will want to comparison shop across offline and online inventory simultaneously.

Combined offline and online product searches are still uncommon, but will become less so over time. **PriceRunner.com**, for example, a unit of **ValueClick Inc.**, offers cross inventory comparison-shopping right now. And **mShopper** mobile shopping service (owned by **2B Wireless**) lets store shoppers check in-store products against products available at online retailers by searching via their cell phones.

As more consumers shop across multiple retail channels, their expectations will increase for a consistent multi-channel shopping experience in comparison-shopping engines.



Business Strategies

What is right channeling?

Right channeling is the discipline of influencing customers toward specific channels based on customer value, purchase preference, and profitability. It is leading many companies, especially retailers, to consider whether marketing, operations, and even media should be aimed more at pushing channels toward specific customers and customers toward specific channels. So reports John Gaffney in *1to1 magazine*.

There is much evidence to suggest that customers can be influenced to interact and then buy through channels that are best suited to them and that the company prefers from a financial perspective. Several studies, for example, have shown that companies can be successful pushing customers online to research product purchases and then successfully push them back to a retail location to make the purchase. This is crucial in light of the fact that the majority of consumers research purchases online but 63% complete their buying transactions offline (comScore).

Companies that move customers to the "right" channels accept the idea of giving customers what they want, when and where they want it. But it's a sensitive process and hotly debated issue. Push an online customer who is ready to make a purchase into a store, and the result could be a lost sale and relationship. Push an offline customer online and loyalty could be damaged in the process. **But send a customer who usually buys online an email pitching relevant offers, or an inducement to come to the store for something special, and the result could be increased spending, sales, and satisfaction.**



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So it's upselling and cross-selling?

It's more. Stagnant multichannel thinking simply presents channel options to customers. Right channeling goes further, using channel behavior, not just purchase behavior, to guide customers to the most valuable channel for them. A few successful examples:

- An **Avis/Budget** customer who calls to make a reservation automatically gets an email confirmation, an offer for enrollment in the company's newsletters, and coupons via email for additional business opportunities. But the (less profitable) retail channel (airport counter) is taken out of the equation. More than 1.2 million customers have signed up for the email service since April 2005.
- Since 2001, the **John Deere** credit division has right-channelled 45% of its customers online, a number that grows by the month. The effort has helped the company communicate more directly and efficiently with customers. Online customers are more loyal, have 30% higher total spend, and communicate more with the company.
- Although it has an e-commerce operation, **Virgin Megastores** made a concerted effort to push its retail channel for Christmas with aggressive advertising, in-store appearances by well-known musicians, catalogs, and circulars. The result? At a time when digital downloads are threatening the entire sector (and industry-wide sales are down dramatically), sales at the 20 **Virgin Megastores** were up 12%.

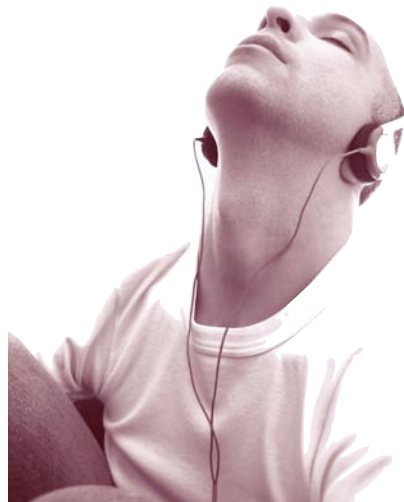
What's the case against right channeling?

Companies pushing customers to channels that don't suit them risk loss of sales and loyalty, goes the counterargument. Customers choose a channel based on what they want at the moment, not on what the company wants them to do. Retailers need to be ready for any customer at any channel at any time, and concentrate on increasing customer loyalty and value.

Several research studies lend credence to this view. During the last holiday season, 64% of all online shoppers said they would consider a different brand or retailer if offered a lower price (Grizzard Performance Group), and the strongest component of the buying decision was free shipping, not experience, loyalty or anything else (ForeSee Results).

Other research from the 2006 holiday season shows that brick-and-mortar giants such as **WalMart**, **J.C. Penney**, **Victoria's Secret** and **Best Buy** outperformed e-commerce pure plays by being "channel agnostic." That is, they did not push consumers online or offline, they were simply ready, willing and able to be "open" channels rather than "right" channels. **As a result, 7 out of the top 10 e-commerce revenue producers**

for the 2006 holiday season were online/offline/catalog business models.



What's the winning strategy?

Finding the middle ground seems the right approach, concludes Gaffney. To ignore right channeling is to ignore the opportunity that customer data and fact-based marketing provide. But no company should unduly push customers online, offline, or to a contact center. **A company should seek to understand which of its customers use which different channels and why.** Only when that understanding is reached can the company then create more value for customers by right-channeling.



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Communication Strategies

How should search engine marketing be used?

Search engine marketing (SEM) is the art and science of making a retailer's Web site a destination of shoppers who are searching the Internet for what the retailer is selling. For example, by paying to be listed first in search results, a retailer can increase exposure of, traffic to, and commerce conducted through its Web site. **But search engine marketing can also be used to generate in-store transactions.**

How so? **Performics**, the Chicago-based marketing division of **DoubleClick**, has developed a method to produce a hard number that retailers can work with to factor channel demand and performance into campaign metrics. It's an "offline multiplier" that mathematically attributes online and offline value to SEM investments by quantifying the amount of offline sales influenced by search for each \$1 in online sales generated by SEM.

Quantifying the scope of "search-influenced demand" isn't simple. To figure out where a search-to-store strategy can be leveraged, retailers need to factor in such variables as market attributes, customer behavior, product categories and prices, online presence, and offline footprints. But it's worth the effort: **in some retail verticals, marketers can expect to find offline multipliers as high as \$5-\$7** (that is, for every dollar in online sales generated by search, an additional \$5-\$7 is generated offline). Once this dynamic is understood, search program data take on new light, accounting for more actual sales and becoming more actionable.

But even those retailers that have yet to develop their offline multipliers

should still consider ways to cater to search-to-store shoppers, counsels **Performics**:

- **Consciously seek out high-value cross-channel customers.**
- Simply thinking of the search-to-store customer as a target can make a major impact on your keyword selection and SEM strategies.
- Buy affinity or behaviorally targeted keywords.
- Invest more on terms that reach consumers interested in lucrative product categories or categories presenting great cross-sell potential. Place emphasis on the keywords most likely to create significant in-store activity.
- Localize national campaigns.
- Implement geo-targeting to greet customers with landing pages touting local stores, especially with products highly likely to transact offline, such as furniture or major appliances. Be sure that these landing pages make the offline channel readily available and appealing.
- **Implement complementary merchandising tactics.** For instance, whenever possible, encourage "buy online, pick up in a store" customers to purchase additional items in the store before they leave.





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Merging Operations

Is multichannel integration getting short shrift?

Nearly 80% of retail winners (those that outperform peers in comparable store sales growth) operate in multiple channels versus only 50% of retailers who perform worse than average, according to recent study by Retail Systems Alert Group (RSAG). Yet a survey as part of the study found 23% of store-based retailing respondents reported still operating in only the store channel.

And while a recent LakeWest Group survey showed that nearly three-quarters of the top 100 retailers in the US operate in multiple channels, only 22% consider seamless multi-channel integration a top priority.

It is amazing that so many retailers still do not realize the necessity of making the most of multiple channels, wrote Dr. Roger in a recent RetailWire Brain Trust Query. Multi-channel shoppers are, on average, younger, more affluent, better educated and they shop and spend more than single channel shoppers.

Driven by the continued immersion of the Internet into our daily lives, Americans have dramatically changed the way they research purchases, shop, and buy. And research continues to show online activity drives offline sales:

- 91% of shoppers research items online before heading to a store, and one in three do so frequently (Deloitte).
- 22% of all offline sales are influenced by the web (Forrester).

Yet of the retailers with websites, 40% still don't have any integration between store and online operations (LakeWest Group). **It is not enough to offer customers multiple channels; they expect to be able to move seamlessly between and among them.**

As detailed in the pages of *Integrated Retailing*, multi-channel integration is the strategy being pursued by most major retailers including J.C. Penney, Macy's, Nordstrom, Circuit City, Best Buy, Target, Home Depot, Wal-Mart and many more across virtually all retail channels.

Retailers face several challenges in attempting to integrate website, call center and catalog operations with full-line store businesses.

According to a report

by Infosys, these challenges

include

unaligned

organizational

structures; dis-

aggregated merchandising and inventory management;

uncoordinated customer operations; and disparate,

multiple database and enterprise management

technology systems. Obviously, an integrated multi-

channel retailing strategy must entail significant

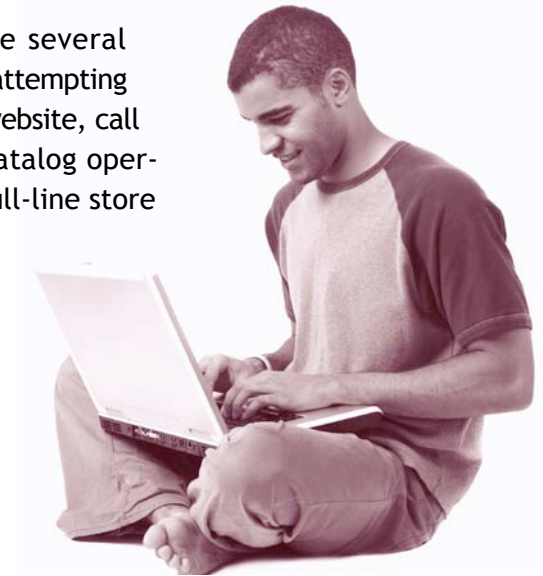
change in organizational structures, business processes, staffing, technology, supplier relationships,

and customer relationship management. Support from upper management, up to and including the CEO, is required!

How did Brain Trust panelists respond?

Here are some of the more interesting comments:

- The top challenge to true multi-channel integration is less an IT challenge, **and more a cultural one.** (Greg Belkin, SeaTab Software)
- Retailers that don't get on the learning curve of multi-channel integration are going to have





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their world rocked soon – **by the mobile phone.** Consumer mobility is only going to accelerate their cross-channel behavior because it so easily serves as a bridge between online in the home and the physical world of the store. Retailers who are down the path of multi-channel integration will be much better positioned to deal with this "fourth" channel. (Nikki Baird, Retail Systems Alert Group)

- Many retail boards are demanding well-articulated multi-channel game plans of their senior management team. There are many significant initiatives under way, with retailers of all sizes, to better integrate their channels. Some are more apparent than others as they represent the front end (e.g., customer experience), while others are back-end focused so their benefit may not be as visible (e.g., customer and inventory data integration). We will see an acceleration of integrated strategies in the coming years as the board-level push manifests into real activity; with real, profitable results. The barrier most pressing for most retailers to address in order for this to happen? Addressing **organization design and people skills** will drive many other downstream decisions in order to execute the game plan well. (Jim Okamura, J.C. Williams Group)

- The challenge is enabling the alternative channels for the independent and small chain retailer. As more solutions are built on the "network model," using the network to provide subscriber services to anyone, the service costs can be spread across many independent users. **This is the promise of the next generation of web applications.** (Bill Bittner, BWH Consulting)
- When multi-channel/e-commerce/cross-channel business represented 3% of a retailer's revenue, it wasn't worth the cost of integrating systems, inventory and procedures together. That's changed. **The need for a seamless consumer experience is clear and goes without saying. The customer is unforgiving and everyone knows it.** The recognition of the need to do it efficiently is new. (Paula Rosenblum, Retail Systems Alert Group)
- **Fair or not, all retailers today are held to customer expectations based on the most satisfactory multi-channel experiences they encounter anywhere, in any channel.** Absence of an informational Web presence is inexcusable for any retailer. Lack of a seamless product research and purchase option shuts out a group of lucrative shoppers who are spending anyway. As a matter of business philosophy, retailers must do their utmost to present a single, consistent face to shoppers, across all channels of interaction. This requires an integrated back office and some hard management-level decisions about the trade-offs of price zones and other legacy store-based practices. (James Tenser, VSN Strategies)
- **Multi-channel selling involves a major organizational change:** (1) redoing the back end computer systems so a unified portrait of a customer to anyone talking with that customer regardless of channel; (2) changing job responsibilities to





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broaden positions to include consumer responsibility as the technology changes; (3) requiring employees to learn how to use the new technology to create a better consumer experience. **Multi-channel selling involves a huge training component:** all employees who come in contact with consumers need to be able to respond to consumer questions regardless of channel that consumers have used or want to use to purchase products. (Camille P. Schuster, Global Collaborations)



Lifestyle & Culture

What are hot retail development trends?

There are 5 emerging retail design themes, writes Dave Barista in *Building Design & Construction*:

1. **Community integration.** Shopping malls and retail centers have long been the de facto social gathering place for their communities, especially in suburban and rural towns. **The latest generation of shopping malls and lifestyle centers takes community integration to a whole new level,** incorporating art galleries, civic buildings, performing arts centers, theaters, museums, libraries, even outdoor parks and skating rinks. These types of public-private partnerships are hard to create, but can be a win/win/win for the developer, retailers, and community tenants.
2. **Building green.** At this point just a handful of retail developers and major national retail chains – including **Target, Wal-Mart, Home Depot, and Starbucks** – have made a commitment to sustainability as part of their building programs. But the next wave of developments may signal a turning point for the retail sector by pushing green retailing to a new level.
3. **“Webfronts.”** With the proliferation of Internet shopping, a growing number of traditional brick-and-mortar retailers are searching for ways to integrate the Web into the traditional shopping experience. **Some are encouraging their customers to shop online while browsing through their stores.** How will this new model affect the construction and development market? Smaller inventories and downsized showrooms mean smaller store footprints and a rethinking of how retail developments are designed.
4. **Upscaling of food courts.** The days of plastic forks, trays and food are over. **Next-generation shopping centers are taking food court dining to a new level of quality, leisure and experience.** Fast-food restaurants are being replaced with express-gourmet eateries. With this elevated sense of “food as theater” come better service, higher quality and a more intimate, upscale eating experience.
5. **Hybrid shopping centers.** **Many developers are creating hybrid centers, where power centers and strip malls are integrated with a lifestyle center.** A hybrid center might feature a trendy, upscale main street shopping and entertainment district surrounded by parking and out-parcels of big-box stores and smaller stand-alone shops and restaurants.



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Trends in Employment

What are retail industry employment trends?

In a very interesting development that mirrors the future of other large employers, **the focus of retail industry employment is migrating from quantity to quality.** Total retail industry employment is shrinking because of cost-cutting, consolidation, technology advances and the rise of Internet shopping. Those lower on the pay scale, particularly selling-floor associates and back-office workers, are most affected. But industry employment is growing in higher-skilled occupations, including and especially those involving the technical, logistical and managerial skills required to turn retailers into efficient, integrated, multichannel, merchandising and selling operations.

For example, retail employment declined last year (department stores alone lost 38,700 jobs), even though it was a good year for the industry overall. **But stores still have to scramble to find qualified employees who fit their needs, and then make competitive offers to get the people they want.** The unemployment rate for people 25 years of age and older with at least a bachelor's degree is just 1.9%; that spells trouble for retailers.

The shift of employment focus from quantity to quality will effect the hiring practices of all retailers, from the largest (like Wal-Mart), with 1.3 million workers, to the mid-sized, smallest, specialty chains, and stand-alone stores.

Limited Brands, for example, expects its workforce to grow this year. The corporation has more than 100,000 employees, and is significantly expanding Victoria's Secret Stores. But the new hires will tend to be higher-skilled. The company is expanding its merchant-in-training and planner-in-training programs.

To take another example, retailers have stepped up recruiting at the University of Arizona's Terry J. Lundgren Center for Retailing, but according to a report in *WWD*, they're being more selective than ever. Retailers are aggressively interviewing students and only very cautiously making offers. **Macy's** is one of the biggest recruiters at Arizona, along with **J.C. Penney, Sears, Wal-Mart** and **Walgreens**.

There is more variety in the kinds of positions these companies are recruiting for, according to the school, such as positions across the supply chain, and in accounting, finance and management. The skills required for traditional retailing jobs such as buyer, analyst and planner are also metamorphosing to adapt to the new retail environment. **In a tight labor market for skilled workers, retailers are recognizing the need for a deep bench of talent they can develop.**

For example, **Steve & Barry's University Sportswear** is planning to open 100 new stores, each of which employs about 100 people. The company is recruiting for both the corporate office and the field; its training program brings recruits such as store managers to New York where they take "responsibility" workshops and get immersed in the **Steve & Barry's** culture. More than 250 graduates from top schools such as Harvard, Columbia, the University of Pennsylvania, Cornell and Duke have been through the program in the past couple years.

