



Envisioning the Future of

Integrated Retailing®

The Hottest Trends
at the Intersection
of Technology
and Merchandising

May 2007

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Consumer Behavior

Do women outnumber men online?

They do now! According to eMarketer, there will be an estimated 97.2 million female Internet users ages 3 and older in 2007, or 51.7% of the total online population. Estimates from other research sources concur that females represent the majority of US Internet users.

The share of females that go online has also surpassed that of males for the first time. According to the Center for the Digital Future at USC's Annenberg School, 78.4% of the female population ages 12 and older go online, vs. 76.7% of males.



Ask Dr. Roger

Does e-tailing replace brick-and-mortar retailing?

No, it complements in-store retailing. The Internet is an extension of consumers' in-store experience. It's a resource of information, comparison shopping, and consumer reviews and rankings. Remember: even after years of 25% annual revenue growth, e-commerce sales comprise only about 3% of total retail sales, and pure-play online merchants convert an average of only 2-3% of their site visitors into buyers.

Yet 87% of consumers shop online before buying offline, and credit the Internet with improving their in-store shopping experience. According to Accenture, 67% of consumers state a preference to make purchases in physical stores.

On the other hand, online merchants are becoming increasingly sophisticated. Therefore, the future is clear: it belongs to integrated, multi-channel retailers, those that use their web sites to reach shoppers, educate them, serve them, earn their loyalty, and drive traffic to their stores. *Integrated Retailing* will continue to report what industry leaders are doing to stay ahead of the curve.



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Researchers that survey only the adult population still find that a greater percentage of males go online. MORI Research, for example, reported that as of March-April 2006, 73% of adult females and 79% of adult males went online. The Pew Internet & American Life Project reported that as of February-April 2006, 71% of adult females went online, vs. 74% of adult males.

But in the future, there will be no significant gap in Internet usage – everyone will be online.

Why is this significant?

Because women drive and control the marketplace. In the United States today, women handle 75% of family finances, control \$14 trillion (51%) of private wealth, and account for at least \$2 trillion in consumer spending each year. Women make or influence 80% of consumer purchases, buying 81% of electronics, 75% of over-the-counter drugs, and 65% of new cars.

Should retailers target women?

Yes, but carefully. The women's market is extraordinarily diverse, not monolithic; and changing constantly, not static. In fact there are millions of younger women – an increasing presence in the marketplace of tomorrow – who may not be as reachable or susceptible to marketing efforts as are current targets.



Members of this younger generation are much more gender-neutral in orientation than their mothers, and will be less open to marketing campaigns that openly promote a product for women only. **We advise retailers to continually monitor these trends in the new women's market.**

What other groups should be targeted?

We have written many times over the years about the size, growth and importance of the **US Hispanic market (\$1 trillion in spending power by 2010)**. We have also written about the substantial online presence of Hispanic consumers. Recent research suggests, in fact, that **Hispanic consumers are reaching parity with the general market in terms of Internet usage.**

According to Horowitz Associates, **70% of all US Hispanics access the Internet at home, and of that amount, 58% have a broadband connection.** That directly mirrors the penetration rate of all Americans, and is only slightly below the percentage for non-Hispanic whites (73%). Indeed, the 58% broadband penetration figure for Hispanics is slightly better than for all Americans (54%), and for non-Hispanic whites (56%).

According to the same source, 14% of Hispanic Internet households make online purchases. **But we feel sure that the percentage that shop online before shopping and buying in stores is, like the general market, many times higher.**



Customer Service

Buy online, pickup in-store: crucial or gimmick?

Providing consumers with this service option will prove to be one of the most important multi-channel strategies for leading retailers. More than



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a third of online consumers have already utilized this service (e-tailing Group), a figure that is sure to skyrocket in coming years.

Wal-Mart is forging ahead with its program. It expects to have its new “Site to Store” service in 3,300 stores by the end of this summer. Two-thirds of **Wal-Mart** online customers visit a store once a week, making it easy to pick up purchases made on the web site.

The new service gives **Walmart.com** customers access to tens of thousands of products, many more than are available in stores. Customers can buy online and have products shipped for free to their store of choice. So far, product categories include baby products, home furnishings and sports equipment.

Products available through the Site to Store program are higher ticket – and sometimes bulkier – items such as electronics and furniture.

Retailers with similar programs include **REI, J.C. Penney, Lowe’s, Circuit City, Best Buy, Sears, Radio Shack, CompUSA** and **Payless Shoe Source**.

Of course, as a recent *wsj.com* article conveyed, enabling consumers to buy online and pickup in-store isn’t quick, simple or easy. The complexities include technology issues, logistic processes, and personnel training.

Ensuring that an item offered online is actually available in the store is the first thing retailers must pin down. Training is equally important: store staff need to know when an order comes in, where to send customers when they arrive and how to troubleshoot problems when they arise.

Is the service profitable?

The buy-online, pick-up-in-store option not only provides added customer convenience, it also makes good business sense. A 2006 study by *Shop.org* found that 27% of online buyers who pick up their merchandise in a store will make additional purchases. **Wal-Mart**

customers on average spend an additional \$60 on purchases in-store when picking up their orders.

By offering online products that aren’t normally available in stores, retailers in effect are increasing the number of products they’re offering their customers, thereby increasing not just market share but “share of wallet,” or share of customer. Also, by tracking the purchases customers make online, retailers can get a better sense of what products they should be carrying in their stores.



Circuit City posted \$1 billion in online sales for its fiscal 2007 year, out of \$12.43 billion in total sales. **About half of the online orders were picked up at retail locations.** The home-electronics chain has found that its customers who use both the Web and physical stores tend to spend more. **CompUSA** says customers using the service spend up to 40% more than store-only shoppers.

There are additional advantages for retailers. Site-to-store items ride delivery trucks already headed to local stores, which is cheaper and more efficient than sending them to individual addresses. Security is another benefit of in-store pickup: customers don’t have to worry about items left on doorsteps by delivery services.



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Sears is doing this too?

Yes, they are now. **Sears** scaled back some multi-channel initiatives while consolidating its merger with **Kmart**, but the company is looking to make up for lost time, and one of the most significant efforts will be its buy-online-and-pick-up-in-store program.

Another multi-channel initiative involves consolidating the **Sears** and **Kmart** web sites. A new integrated platform will help the company achieve better economies of scale, create better multi-channel synergy with the company's nearly 3,800 full-line and specialty retail stores in the United States and Canada, and build a better overall e-commerce foundation.



Sears has also opened a prototype 3-dimensional showroom on the virtual reality web site *Second Life*. Called the **Sears Virtual Home**, the store allows consumers to experiment with options in virtual kitchens, bedrooms, living rooms, garages, etc. **Sears** will also be opening an e-commerce development center in its flagship store in Chicago, a testing and user experience laboratory that will conduct design, function and application testing.

Dr. Roger pronounces himself impressed with these several new initiatives. **Sears** may have lost some

relevance over time, but the company has set out in a new direction to regain some of the great market share it used to command. The store has a long retail history. They are now recognizing the new multi-channel competitive environment, taking a new approach, and reinvigorating a brand that so many people still trust. We are putting **Sears Holdings** into our "recommended buy" category.

Connecting Technology

What are the new rules of retail store design?

Retailing has changed from a product-centric business to a customer-centric business. Shopping is now a user experience where services and products must be built around individual customers.

New technologies make it possible, for the first time, to reach those individual customers with individual experiences. Digital signage, self-service – and, perhaps most importantly, the rise of multi-channel retailing – are demanding a new holistic view when it comes to the design of in-store experiences.

As James Bickers writes in *Self-Service World*, one such technology is the integration of small touchscreens, each equipped with an RFID reader, to the front of store shelves. Shoppers can pick up any item in the store, hold it near any touchscreen, and get detailed information delivered through an interactive interface.

Taken one step further, the touchscreens can interface with loyalty data to create a wealth of consumer information: what products interest them, what they did and did not purchase, even how long they spent in certain areas of the store.



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The RFID/touchscreen approach to shelving would also make shelves "product-agnostic" – that is, it no longer matters exactly where any given product is stacked, as information on it can be dispensed from any screen in the store. **There is only one barrier to the use of item-level RFID tagging in retail – the price of the tags – and that barrier is rapidly dissolving as prices fall.**

Other examples?

Stores are using other technologies to analyze shopping behavior and create highly personalized shopping experiences and marketing offers. The SmartShop system, for example, includes a web-connected biometric scanning device that reads consumers' fingerprints and prints out coupons tailored to shopping behavior. Shopping histories are kept on a secure back-end database, which updates and reconfigures after every shopping episode. Deployed a year ago by **Green Hills Market** in New York state, the system increased store visits, coupon redemptions and store revenues.



The SmartShop system is just one example of how retailers are bringing the web into stores as a way of better understanding and engaging customers, writes Paul Demery in *Internet Retailer*. The applications differ, but all focus on developing relationships with shoppers to turn them into long-term, profitable customers – and for most that means across multiple channels.

Verizon Communications uses the Internet to extend the retailing capability of its cell phone and wireless service stores. They feature Demo Zones that let shoppers play video games, watch movies and listen to music downloaded from **Verizon's** high-speed fiber-optic Internet services network.

The North Face, the manufacturer and retailer of sports equipment and apparel, uses in-store touchscreen kiosks to display selected merchandise. The **North Face** web site managers configure content to appear on the kiosks, including video and three-dimensional images that customers can manipulate with touch-screen controls.

The efforts by **Green Hills, Verizon and North Face** may just be signs of more to come, concludes Demery. In a recent **Lake West Group survey of plans among retailers for multi-channel systems and strategies, web-enabled in-store kiosks that serve customers with product information and the ability to shop across channels scored the highest.** Forty percent of respondents names customer-serving kiosks as the "auxiliary sales support tools" they planned to deploy over the next two years.



Merging

Operations

How to boost multi-channel integration?

The key is coordination. For example, both **Lillian Vernon** and **Backcountry** coordinate email campaigns and catalog mailings to increase conversion rates in both channels.

Loyalty programs can also be extremely effective at driving cross-channel traffic. Tactics suggested by **Michael Greenberg** of **Loyalty Lab** include:



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- Requiring email for membership.
- Including point acceleration for online purchases.
- Holding an in-store event for non-store purchasers targeted at those within 15 minutes of a store.
- Including bonus points for completing a survey or finishing a profile.
- Giving in-store rewards redemption.

Taken together, and structured so that they are triggered on a regular basis to qualifying customers, these tactics reward a change in behavior, leading to increased usage of new channels.

Other examples?

Restoration Hardware is building a multi-channel infrastructure designed to drive revenue growth in all store and direct marketing platforms. The company's turn-



around has been dramatic. In 2006, **Restoration Hardware** posted web sales of \$122.4 million, an increase of 60.4% from e-commerce revenue of \$76.3 million in 2005. Overall the web accounted for 17% of all sales in 2006.

Initiatives credited with turning the retailer in the right direction include the introduction of new category extensions, such as **Restoration Hardware Outdoor** and **Gift** catalogs, and the launch of the company's first new concept, **Brocade Home**. Other initiatives in place will build on the company's multi-channel sales model. **Restoration Hardware** has redesigned its catalogs, is increasing the page count in its outdoor catalog, and is expanding the outdoor assortment in stores and online.

Additionally, the company is launching a **Bed & Bath** catalog, and **Brocade Home**, which premiered last fall, is being bolstered with the debut of an interactive Web site, www.brocadehome.com.

Restoration Hardware is also developing **Restoration Hardware Kids**, a premium positioned line of children's home furnishings. The new line is slated to debut as a catalog and Web site in spring 2008.



Integrated Retailing Who's Who

Who is an Integrated Retailing leader?

Office Depot is the Web's third leading retailer, behind only **Amazon** and **Dell**. Some 70% of the firm's delivery business is now done through the Web. The company has realized and acted on the fact that when it is able to recognize a customer across channels, the customer buys more and stays loyal.

Office Depot integrated all its customer data long ago. Sales and service reps can easily access those records to better do their jobs. Operations are cross-



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functional (not kept in separate silos). The company's philosophy is that the Web channel should not be seen as a stand-alone entity, fighting against the rest of the organization for resources, but as an integral sales, service and marketing channel.

Office Depot relies on the Internet for more than just e-commerce. It also uses the Web as a management tool in such areas as online staff recruitment, employee training, and all communications with vendors. (The company hasn't used a paper invoice in years.)

Office Depot, in other words, gets it. The company uses integrated retailing to drive traffic, enhance convenience, engender loyalty, and increase the number and size of purchasing episodes. It thus generates profitable business growth and increases shareholder value. **Their web site, catalogs and in-store kiosks do not steal market share from each other – they grow market share together.**

What's the key?

Having an integrated view of the customer and inventory across all channels is the Holy Grail. The big challenge, of course, is having complete consistency of product information and pricing across all channels. Leading integrated retailers do not just collect data; they analyze it, turning it into intelligence, and utilize that intelligence to implement merchandising strategies.



Business Strategies

What can retailing teach publishing?

That was the subject of Dr. Roger's recent keynote to the Western Publications Association Publishing Conference. His theme: **publishers, like retailers, have to become channel agnostic, aggregating consumers and products across all channels.** Here are

some other lessons that best-in-practice retailers offer:

- Consumers will go to the provider that has what they are looking for, in whatever channel.
- If consumers are radically changing the way they obtain and act on information, then those who serve consumers must radically change the way they acquire, communicate with, inform, sell to and serve their customers.
- As the Internet becomes increasingly ubiquitous, affordable, user-friendly and media-rich, interactivity will be required of all businesses. "Always on, always connected" will be standard operating procedure.
- As consumers expect and demand to be able to utilize multiple channels, you must operate in multiple channels.
- Customer loyalty is the #1 factor in long-term profitability.
- Fairly or not, you are judged against best performers and industry leaders.
- Major strategic and organizational changes may be required to compete.
- Reinforce and enhance your brand identity in every channel.



In retailing, today and in the future, the most desirable, profitable and satisfied consumers use stores, catalogs and web sites interchangeably.

[Contact us to request a printed synopsis of Dr. Roger's remarks.]



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Business Strategies

Why are multi-channel shoppers desirable?

Multi-channel shoppers are, on average, younger than single channel shoppers (43 years old vs. 48); more affluent (\$74,302 is annual household income, vs. \$58,672); better educated (49% with a college degree, vs. 31%); and more technologically inclined (49% have broadband at home, vs. 35%). Multi-channel shoppers are more valuable than single channel shoppers because **they spend more and are more likely to respond to cross-selling and upselling efforts**. They represent a 55% majority of online customers, yet spent more than \$125 billion in brick-and-mortar stores last year.

How do you capture multi-channel shoppers?

The challenge for a multi-channel retailer is to understand which channel the customer prefers for which merchandise and which channel is most profitable per unique customer. (We wrote about this in last month's issue in our item on "Right Channeling.")

Best-practice retail industry leaders leverage their presence across channels – catalog, web, stores, call centers and kiosks – to increase their share of the customer's wallet and expand across consumer segments. Multi-channel shoppers show a significantly higher value and frequency of purchase than single channel shoppers. Over 65% of online shoppers also use catalogs, and 60% of retailers find multi-channel customers more profitable than single channel buyers.

It is not enough to offer customers multiple channels; they are expecting to be able to move seamlessly between and among them. In fact, 68% of all shoppers now move interchangeably between physical stores, online web sites, and catalogs. **Retailers that can make the transition to a fully integrated, transparent, cross-channel environment stand to gain many rewards.**

What's the biggest challenge?

Making the internal, organizational changes required. **Being a multi-channel retailer impacts everything else, from technology to logistics to hiring and training to inventory and back office operations to marketing and advertising.** The entire enterprise must be committed to the goal, and leadership must come from the top and every level of management. But it's worth it, and besides, it's necessary.



Upcoming Appearances

Slumberland

Dr. Roger will be speaking at the Strategic Planning Conference of multi-channel retailer **Slumberland** this month in Minneapolis, MN. This is a closed session.

Hispanic Boom

Roger will be keynoting the **Hispanic Boom Conference** in June in LA. Info:

<http://www.srinstitute.com/M0907>

Have Dr. Roger speak to your company or industry or trade group!

Dr. Roger Selbert is a terrific speaker for either in-house or larger audiences, and for keynotes, seminars or offsite workshops. Roger has also conducted research and consulting projects for a wide range of businesses, institutions, organizations and corporations.

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