Commerce Convergence: Closing the Gap Between Online and In-Store

Benchmark Report 2015

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June 2015

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Executive Summary

Retail is not about channels, it's about solving problems. Retailers understand that digital needs to influence all touchpoints, and support all aspects of the shopping journey. And they understand that the experience they are delivering today falls far short of their desired experience. But when it comes to how to support that convergence of digital and the full shopping journey, retailers are stuck – waiting for something better to come along than the disparate systems they have. The reality is there are options out there, but even better performing retailers are cautious in approaching them, fearing both the cost and the pain of making the change.

Key Findings

- Retailers under-estimate how much digital influences physical shopping experiences today, but their expectations are rapidly catching up to reality. They expect they must provide more ways for consumers to connect through their brand, but they must deliver those in a way that doesn't put even more pressure on store labor. Retail Winners – better performing retailers – have a specific view into what they need to accomplish that. Learn from their perspective in the **Business Challenges** section of this report, beginning on page 7.
- Retailers recognize that in-store employees need to do more to create customer engagement, but they also recognize that "more" will happen best when both store associates and consumers are able to leverage mobile technology as part of that engagement. But Retail Winners again have a different perspective on how exactly to make that happen. Learn more in **Opportunities** (page 10).
- Retailers also persist in thinking of store technology investments as "POS" – a highly mature technology category with few opportunities for innovation of new value, and thus delivering a questionable ROI. But they are also resistive to the idea of adding technology around the POS, for fear it will make their store systems more complex, more expensive, and ultimately more complicated for store employees to use. Explore how retailers plan to overcome these challenges in the **Organizational Inhibitors** section, page 14.
- Retailers report that POS is no longer enough to service customers in stores. How do they plan to address these shortcomings? Learn more in the **Technology Enablers** section, beginning on page 20.

The practice of creating different Brand experiences in different "channels" has gone beyond being an inconvenience to shoppers. It's the central challenge that retailers are grappling with today. Our suggestions for how retailers can navigate this challenge can be found in the **Bootstrap Recommendations** portion of the report.

We certainly hope you enjoy it,

Brian Kilcourse and Steve Rowen
RSR Research

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Research Overview

If you're reading this report, it's fair to presume you're aware that the retail industry is in the throes of a *massively* transformative time. We've moved past any discussion of "channels." Customers do not shop channels. They shop brands, and further, they rarely shop those brands out of loyalty, but rather because they are trying to **solve a problem.**

As consumers, we all have our favorite brands, but we've also developed something far more important: our own, individual ways of shopping. Most of these ways involve digital devices, and each time a retailer can't anticipate or meet expectations, we develop our own personal workaround solutions, or "hacks." And with consumer technology enabling new and different ways to hack the retail experience, retailers are in a never-ending race not to win, but just to keep up.

Regardless of where they are, what they sell or how big or small they may be, there is not a retailer in the world that wants consumers hacking their way to a shopping experience. But how are they to get ahead of this? In a lot of ways, they can't. The best retailers can do is **narrow the gaps** between the consumer and the brand. And the absolute best way to do that is to know where those gaps exist.

This report seeks to do a few things. First, to understand the state of the union: how retailers currently view the challenges, opportunities, roadblocks and technology enablers associated with how they support commerce across all of their consumer touchpoints. Along the way, we'll tease out practices worth following from the best performers (which we call Retail Winners, those already several steps ahead of the pack). Second, we'll make some baseline recommendations for all retailers on how they can up their game – right now – to help support a single, converged shopping experience. To *bridge the gap* between consumer and brand.

Right off the bat, retailers give us a gleaming hope for the future: near-consensus in what a digital presence is best **suited** to do: build brand awareness (Figure 1, below).

Keep in mind, the chart below is hardly a progress report as to what retailers' current digital offerings accomplish, but rather serves as a window for what these offerings could (and invariably will) provide. However, retailers do believe that store sales, direct sales, operational efficiencies, new market growth and the cross-channel shopping experience all stand to gain significantly from a digital presence. This is a strong indicator of the future of digitally-enabled technologies that retailers see, on both the buying **and** the selling sides of the retailer/customer relationship.

The Importance Of A Digital Presence To:

■ Very Important ■ Somewhat Important ■ Not Important

	Very Important	Somewhat Important	Not Important
Build brand awareness	84%	16%	0%
Create greater efficiencies in our existing operations	68%	30%	2%
Drive direct sales	68%	29%	3%
Generate new value creating opportunities	67%	30%	3%
Generate more sales in our existing markets	64%	32%	3%
Provide a continuous shopping engagement throughout myriad paths to purchase	64%	31%	2%
Drive sales to stores	64%	34%	1%
Grow into new markets	59%	39%	2%
Be where we don't have physical stores	54%	30%	15%
Emphasize digital, de-emphasize stores	31%	33%	36%

Source: RSR Research, June 2015

And more encouraging data comes forth when we asked our retailer respondents (a bit on who they are below) to rate their approval of some cross-channel conceptual statements. The good news? Retailers know their disparate systems are currently holding them back. The bad news? Not enough have a strong awareness of viable alternatives yet, and many have a deep-rooted belief that they'll be stuck in this situation for quite some time to come (Figure 2).

Figure 2: The State Of The Union

Retailer Sentiment

■ Strongly Agree ■ Agree ■ Disagree ■ Strongly Disagree

	Strongly Agree	Agree	Disagree	Strongly Disagree
There are important differences between in-store POS and eCom order management systems that must be considered	31%	55%	13%	1%
Our legacy store POS system is holding us back from providing a consistent customer experience across all channels	31%	46%	16%	7%
We're aware of viable customer order management systems that can traverse all selling channels	23%	59%	14%	3%
Replacing legacy POS with newer omni-channel customer POS would be too expensive and disruptive	17%	51%	29%	2%

Source: RSR Research, June 2015

It's quite telling that retailers recognize the largest tech investment in their possession – the POS system – is a large part of what's holding them back from providing a seamless experience across all of their customer touch points. It's incredibly difficult to satiate a customer's needs when, should that customer decide to visit a store (where more than 90% of sales still conclude), virtually all of their online pre-purchase behavior is entirely invisible to in-store staff. We also maintain that **such information is needed in-store well *before* the customer reaches the POS**.

Yet right away there's a telling indicator of how this story – albeit early days in the channel-less shopping experience story – is starting to unfold. Take a look at how this same data plays out when viewed by retailer sales performance (Figure 3).

Figure 3: Different Lens, Sharper Picture

Retailer Sentiment "Strongly Agree"

■ Winners ■ All Others

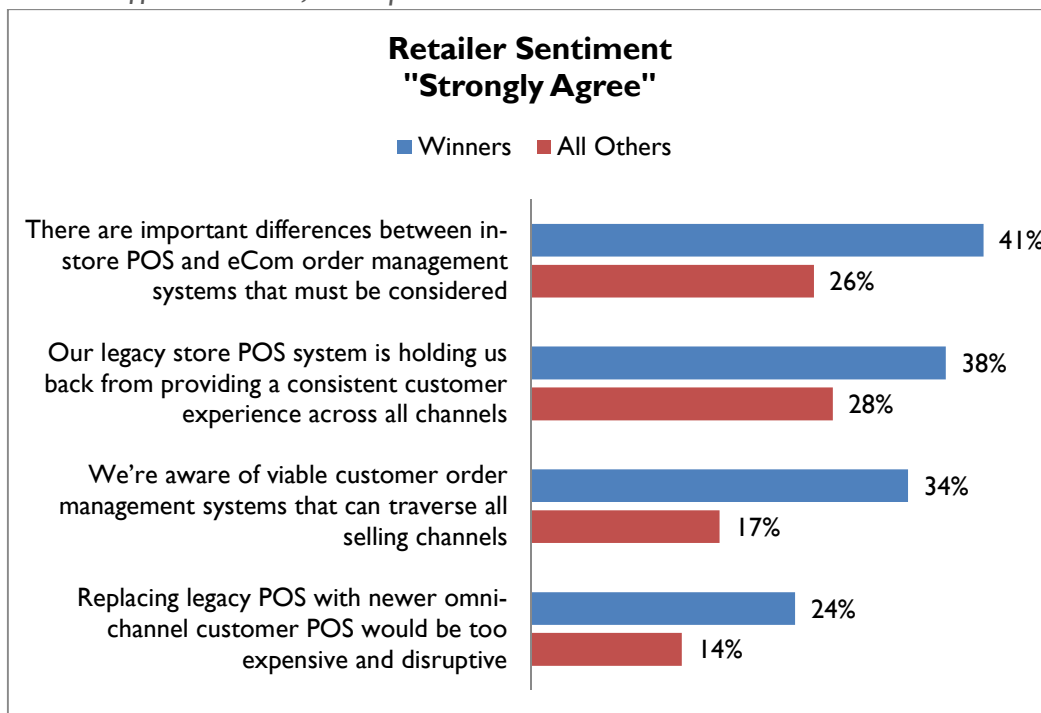|	Winners	All Others
There are important differences between in-store POS and eCom order management systems that must be considered	41%	26%
Our legacy store POS system is holding us back from providing a consistent customer experience across all channels	38%	28%
We're aware of viable customer order management systems that can traverse all selling channels	34%	17%
Replacing legacy POS with newer omni-channel customer POS would be too expensive and disruptive	24%	14%

Source: RSR Research, June 2015

Winning Retailers are much more likely to understand the importance of synchronous order management systems (41 vs. 26%, above) and yet be hampered by the visibility of orders across touchpoints (34% vs. 17%), while at the same time being more held back by legacy in-store POS systems – systems they perceive as being too expensive to replace. What does this tell us?

First, that Winners are clearly much further along in the process of trying to provide a truly channel-less experience. They understand the challenges better because they've already been at it longer. They've got scars. However, there is still much work to be done on the part of the community, as a whole, to inform retailers – *even the best performers* – that **viable solutions already exist to help bring them into the 21st century**.

In many ways, it's worth a reminder that we are already 15 years into that new century, yet stores don't often reflect that reality. And while we will delve into which technological features are becoming most valued, as well as which are most feasible to retailers from both a cost *and* disruptive standpoint in the Technology Enablers section of this report, the burden of proof
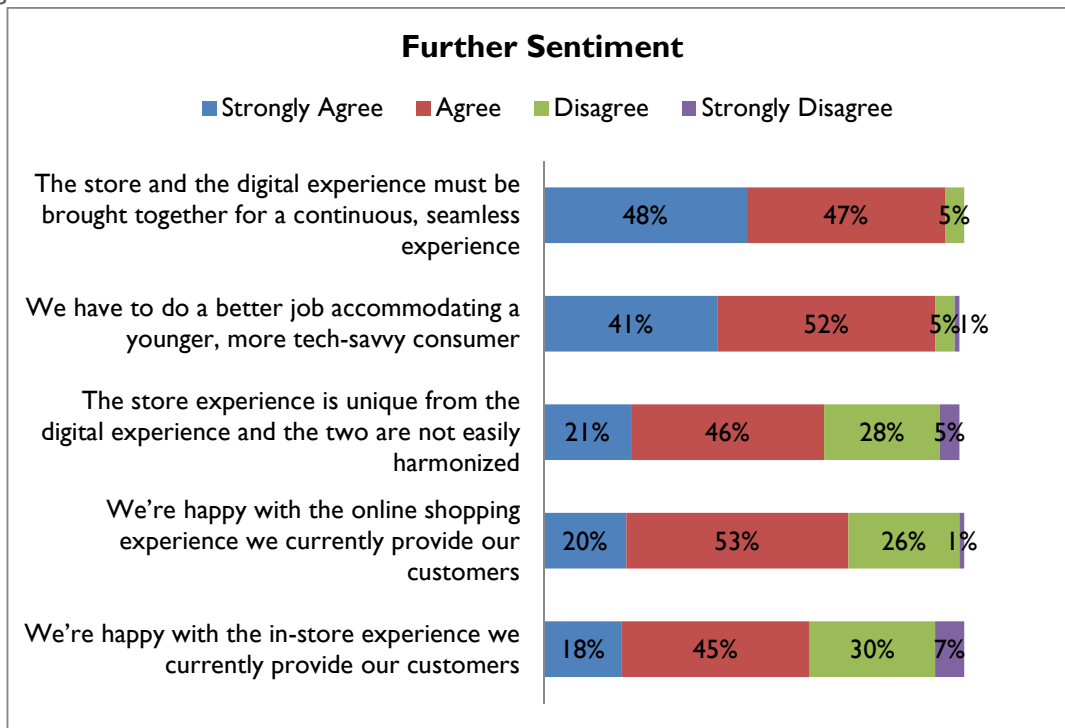
remains on solutions providers to educate retailers as to what their next-gen products can do *right now*; no easy feat in the face of deeply-held cultural beliefs that modernization will be both expensive *and* painful. Whether held in error or not, this is what retailers believe, and must be met head-on before wide-scale progress can take place.

Defining Winners And Why They Win

RSR's research always focuses on a category of retailers we call "Retail Winners". 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 **five percent**, 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.

Now that we understand how a Retail Winner is defined, it's worth noting that we'll continually refer to ways their responses differ from everyone else's throughout this research. Yet as it relates to sentiment about the current in-store/online experience, Winners have no lock on what must happen – soon – if consumers are to become more engaged. When it comes to that, virtually every retailer understands that the days of channels are over (Figure 4).

Figure 4: Universal Accord

Further Sentiment

Legend: ■ Strongly Agree ■ Agree ■ Disagree ■ Strongly Disagree

Statement	Strongly Agree	Agree	Disagree	Strongly Disagree
The store and the digital experience must be brought together for a continuous, seamless experience	48%	47%	5%	
We have to do a better job accommodating a younger, more tech-savvy consumer	41%	52%	5%	1%
The store experience is unique from the digital experience and the two are not easily harmonized	21%	46%	28%	5%
We're happy with the online shopping experience we currently provide our customers	20%	53%	26%	1%
We're happy with the in-store experience we currently provide our customers	18%	45%	30%	7%

Moreover, retailers share a common understanding that their customer today already behaves very differently than their customer of just two years ago. They know their brand's online experience trails consumer expectations, they know their in-store experience is even further behind, and they recognize the need to harmonize all of the various touch points they have in

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order to accommodate more advanced legions of shoppers. In short, they "get it." The question really becomes, "What do we do now?"

Let's find out.

Methodology

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

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

Survey Respondent Characteristics

RSR conducted an online survey from March - May 2015 and received answers from 88 qualified retail respondents. Respondent demographics are as follows:

- Job Title:

Senior Management (C-Level or VP)	37%
Middle Management	42%
Individual Contributor	8%
Other	13%

- 2011 Revenue (US$ Equivalent)

Less than $250 Million	26%
$250 - $499 Million	21%
$500 - $999 Million	14%
$1 - $5 Billion	21%
Over $5 Billion	19%

- Products sold:

Fashion / Short Lifecycle	23%
Seasonal	16%
Replenishment Goods	24%
Durable / Hard Goods	29%
Perishable / Food	8%

- Headquarters/Retail Presence:

USA	46%	58%
Canada	2%	25%
Latin America	3%	9%
UK	26%	39%
Europe	10%	32%
Middle East	0%	9%
Africa	0%	9%
Asia/Pacific	12%	18%

- Year-Over-Year Sales Growth Rates (assume average growth of 4.5%):
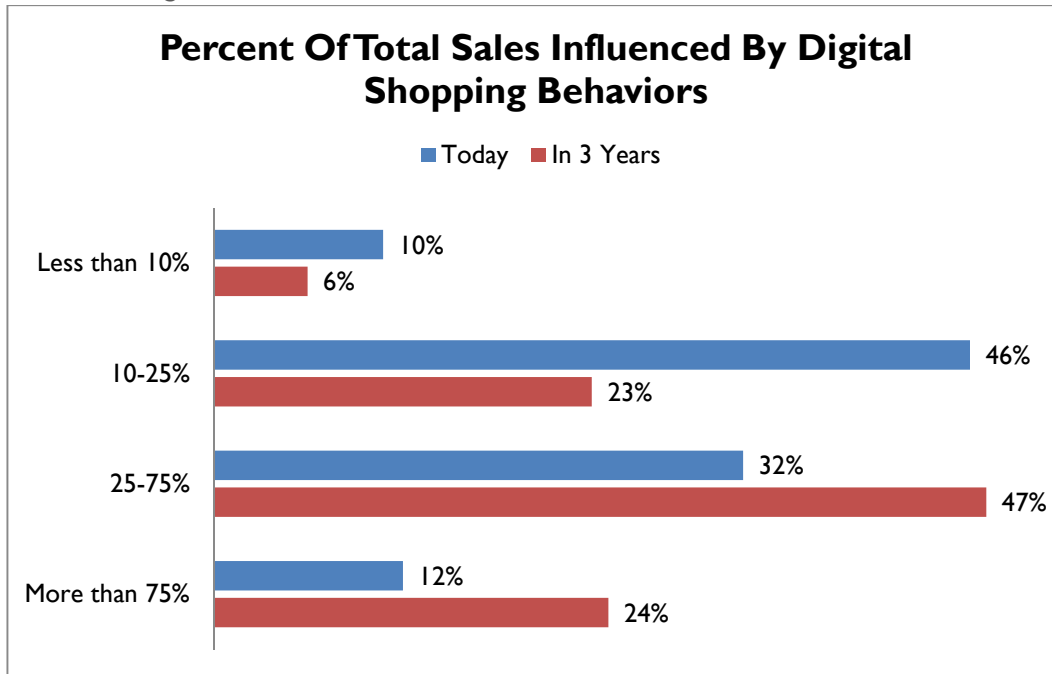 Better than average   33%
  Average   57%
  Worse than average (Laggards)   10%

Business Challenges

Getting Realistic About Digital And Stores

When it comes to the things that challenge retailers the most, there can be no denying the elephant in the room: the trend for consumers to self-rely on digital devices to find the best products, know the most about them, and reveal the best price/most convenient delivery method is only going to increase (Figure 5).

Figure 5: A Digital Horizon

Percent Of Total Sales Influenced By Digital Shopping Behaviors

■ Today ■ In 3 Years

Category	Today	In 3 Years
Less than 10%	10%	6%
10-25%	46%	23%
25-75%	32%	47%
More than 75%	12%	24%

Source: RSR Research, June 2015

In fact, we think the data above in Figure 5 about digital usage today reveals a serious underestimation on retailers' behalf. Numerous consumer studies have shown that upwards of 50% of sales are currently influenced by digital shopping behaviors. Just think: when was the last time you purchased any non-grocery item that didn't involve *some* type of digital interaction? And knowing what you've experienced in the evolution of your own shopping behaviors in recent years, how do you imagine that will evolve a full three years from now?

Either way, even if these numbers are a bit soft (or coming from a store-centric frame of mind), at least 71% of retailers recognize that come a short 36 months from today, 25% or more of their overall sales will be influenced by digital shopping behaviors. That is a significant challenge.

Yet as it relates to *dealing* with this challenge, Retail Winners believe they at least _know_ what needs to be addressed at a much greater rate than their competitors (Figure 6, below).

Top 3 Business Challenges In Creating A Seamless Customer Experience

■ Winners   ■ All Others

Challenge	Winners	All Others
Providing more ways for consumers to connect through our brand	48%	28%
Need to improve customer service while holding the line on payroll costs	48%	37%
Consumers are using mobile as part of their shopping experience and we need to be there	38%	25%
Customers expect a seamless experience between desktop, mobile, and physical store touch points	31%	37%
Keeping up with evolving consumer shopping patterns: social networks, mobile, etc.	28%	33%
Accommodating how different customer segments engage with us	24%	26%
Difficulty differentiating ourselves from our competitors	24%	32%
Fast pace of change in consumer technology	21%	16%
Customer dissatisfaction caused by lack of integration between the store and other selling channels	14%	33%
Our competitors' merging of physical and digital offerings is better than ours	10%	25%

Source: RSR Research, June 2015

Winners know that in order to create a truly seamless experience, connection to the brand is a tremendous part of the equation. It's not enough to merely align disjointed touch points to offer a unified "feeling" among shoppers wherever/however they choose to engage: Winners know that creating fresh new modes of interactivity and connection are going to be required to make the customer view the brand as an actual part of *their* life. That "feeling" needs to be more than consistent; it needs to be elevated. The best brands are hard at work trying to find creative ways to do that very thing for tomorrow.

However, one of the fastest ways to occupy the part of the consumer's brain that retailers want to occupy most – where brand and emotion become associative and inseparable – is to establish human connection. Clever uses of social media, call center, and online widgets can help in finding ways to add a human experience to an otherwise solitary technological endeavor. But when it comes to this "actual human interaction" component of the shopping experience, there will never be a substitute for in-store person-to-person interaction. It's a functional need of the human condition, and a large part of why stores have yet to (and won't) disappear.
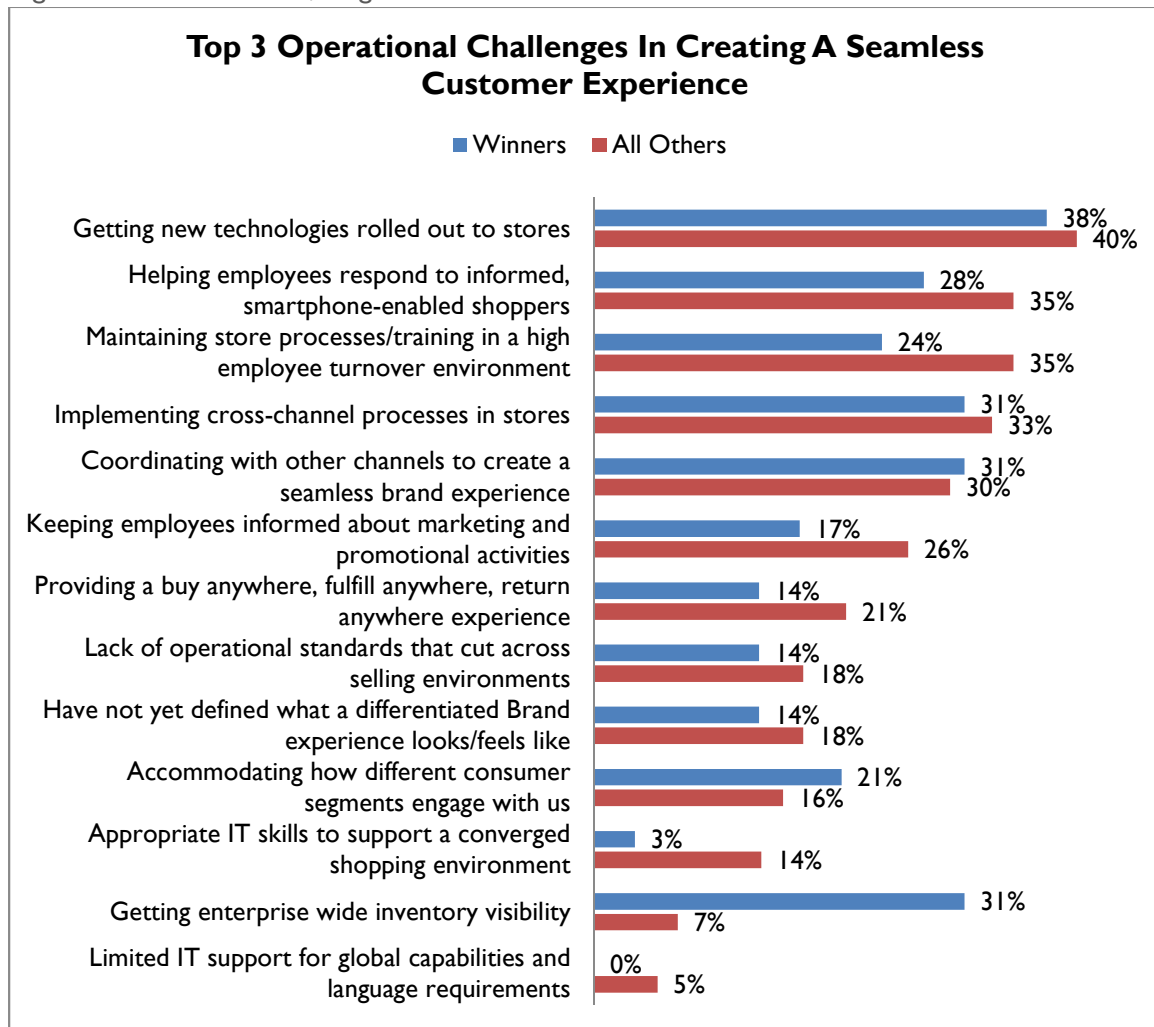
Requirements To Solve Consumers' Problems

Given the importance of the human connection in creating brand engagement, it is somewhat disconcerting to see that Retail Winners have an even stronger desire than peers to improve the quality of the workforce while "holding the line" on payroll costs. We've seen what happens in

recent years when retailers try to pull employees from stores to cut costs, and quite simply, that model does not work. Without equivocation, a motivated and powerfully-informed workforce will be a vital component to *any* successful omni-channel experience going forward.

As we see below, however, average and lagging retailers are in an entirely different *operational* situation than Winners currently are (Figure 7). For the best performing retailers, not much can move forward until they understand what the status of their product inventory is.

Figure 7: Small Wins, Big Losses

Top 3 Operational Challenges In Creating A Seamless Customer Experience

■ Winners ■ All Others

Challenge	Winners	All Others
Getting new technologies rolled out to stores	38%	40%
Helping employees respond to informed, smartphone-enabled shoppers	28%	35%
Maintaining store processes/training in a high employee turnover environment	24%	35%
Implementing cross-channel processes in stores	31%	33%
Coordinating with other channels to create a seamless brand experience	31%	30%
Keeping employees informed about marketing and promotional activities	17%	26%
Providing a buy anywhere, fulfill anywhere, return anywhere experience	14%	21%
Lack of operational standards that cut across selling environments	14%	18%
Have not yet defined what a differentiated Brand experience looks/feels like	14%	18%
Accommodating how different consumer segments engage with us	21%	16%
Appropriate IT skills to support a converged shopping environment	3%	14%
Getting enterprise wide inventory visibility	31%	7%
Limited IT support for global capabilities and language requirements	0%	5%

Source: RSR Research, June 2015

While average and lagging retailers are more concerned with the frustrating reality of getting their employees up to speed with store processes and training, only to have those employees quit, Winners either a) have figured out that you get what you pay for and moved slightly past this or b) simply don't care until they can gain enterprise-wide visibility. Either way, Winners' line of thinking is clear. No other promises to the consumer matters much if a retailer can't reliably speak to product location and availability in order to **solve that consumer's problem**.

Now let's examine which opportunities retailers anticipate to best improve their day to day operations, and where in the enterprise those opportunities reside.
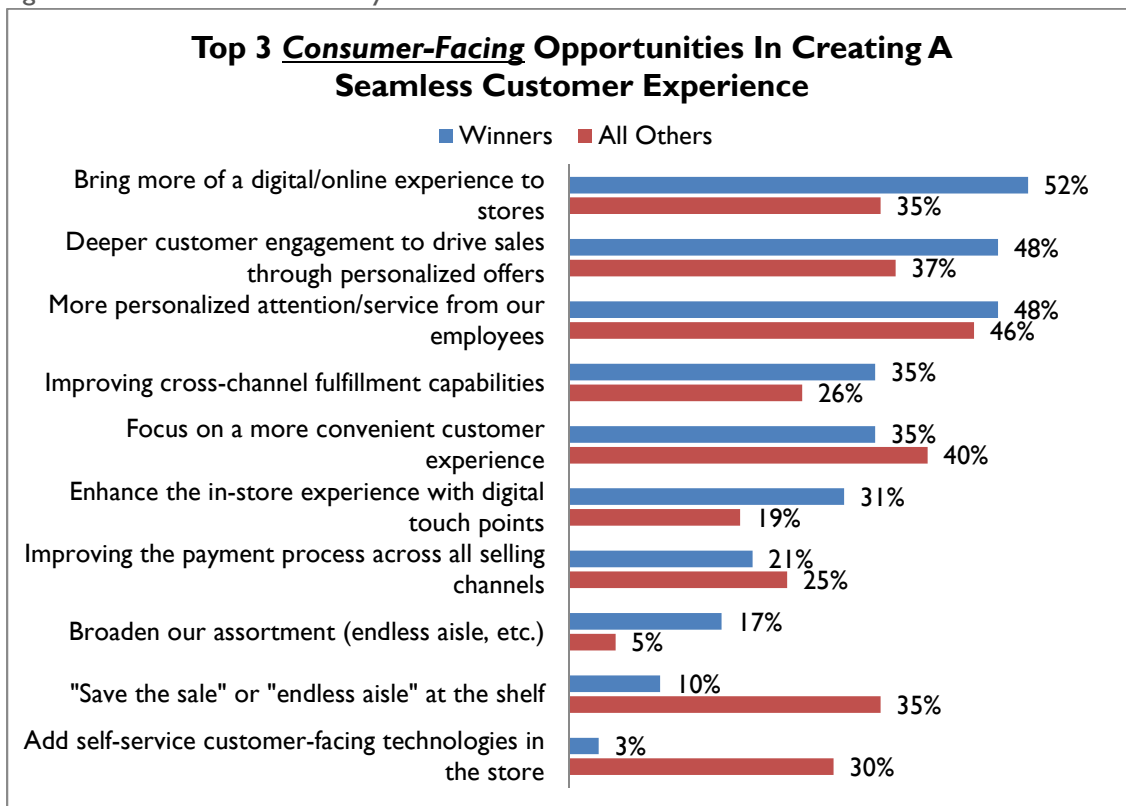
Opportunities

Getting In Front Of Consumers Where It Matters Most

There is no shortage of ways consumer-grade technologies stand to benefit _consumers_ during the shopping process; it is genuinely unfathomable how powerful – and cheap – these tools have become. However, whereas many retailers have historically done everything they can to discourage/ignore the use of these devices (often embodied by the reticence to provide consumer-access to wi-fi networks in stores), the tide has clearly started to turn. Virtually all retailers recognize that the devices consumers love so much hold tremendous opportunity for the brand to get in front of consumers where and how they live. Furthermore, anecdotally, many of our retail clients have told us they think of the consumer-owned smartphone as a way to outsource hardware costs for future consumer-facing initiatives.

However, Winners already have a much greater understanding the consumer's position of power. It is they who recognize that consumers are presently "hacking" their store experience; retailers don't yet provide enough of a digital/online experience in stores, so consumers are supplementing the experience with their own mobile devices.

But Winners also know that if they can get in front of consumers on those devices they have a much better chance of engaging with them (albeit mainly via promotions) in the meantime (Figure 8). It's a stop-gap way of thinking: not a "retailer-in-control" solution, but for forward-thinking retailers, it's the best they believe they'll be able to do to stay relevant for the near-term future.

Figure 8: The House Always Loses – For Now…

Top 3 _Consumer-Facing_ Opportunities In Creating A Seamless Customer Experience

■ Winners   ■ All Others

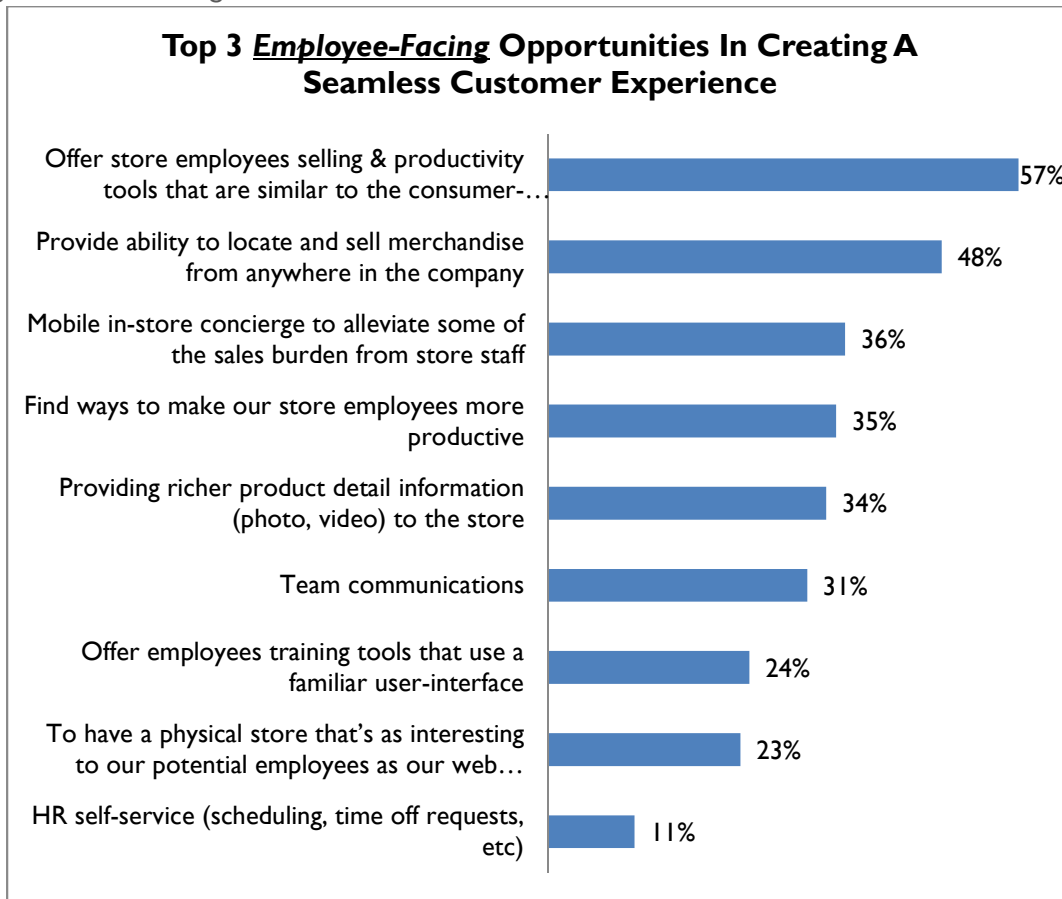| Opportunity	Winners	All Others
Bring more of a digital/online experience to stores	52%	35%
Deeper customer engagement to drive sales through personalized offers	48%	37%
More personalized attention/service from our employees	48%	46%
Improving cross-channel fulfillment capabilities	35%	26%
Focus on a more convenient customer experience	35%	40%
Enhance the in-store experience with digital touch points	31%	19%
Improving the payment process across all selling channels	21%	25%
Broaden our assortment (endless aisle, etc.)	17%	5%
"Save the sale" or "endless aisle" at the shelf	10%	35%
Add self-service customer-facing technologies in the store	3%	30%

Source: RSR Research, June 2015

By way of comparison, average and lagging retailers display an inordinate amount of interest in making the customer do her own work. Nearly one in three express interest in adding self-service customer-facing technologies into the store – not outsourcing the hardware, but ironically insourcing it. This is a notion that has already been proven a non-winning strategy by several high-profile chains in recent years.

Some interesting data also presents itself when viewed by retailer size:

- Mid-sized retailers ($250 - $999 million in annual revenue) are most interested in improving cross-channel capabilities for the consumer (45%), far outstripping the interest of any other revenue band. This shines a light into the way these retailers are strategically thinking about the future. If they can use their more-nimble nature to achieve a consistently seamless experience for consumers across channels before their larger competitors they stand to steal away significant market share.
- The smallest retailers (< $250 million) believe their best chance to differentiate will be via personalized offers (68%, miles ahead of any other group). In a way, this makes perfect sense, since these retailers have historically been most adept at "knowing" their customers' desires. However, as retail analytics become more powerful to retailers both large and small, the window for this opportunity is closing – quickly – on the little guy. It is also worth noting that in a world gone promotions-mad, smaller retailers would do well to focus more on value-added offers to their shoppers, rather than just jumping into the "race to the bottom" pricing war that will invariably hurt them far more than their larger brethren.
- The largest retailers (those whose sales top $5 billion annually) are inordinately focused on three main areas that will work in perfect unison: more personalized attention/service from employees, a store that is enhanced by the inclusion of more digital touchpoints, and the ultimate outcome resulting from proper execution of the two – a focus on a more convenient customer experience. These are "big picture" goals befitting of large-scale chains, and should they get there before small and mid-sized retailers can achieve their goals, these behemoths will be difficult to combat.

However, as it relates to _employees_, there isn't a lot of dissent between groups about what needs to happen next. Virtually all retailers are in violent agreement that their workforce needs better tools to cope with the new, mobile consumer (Figure 9, below).

Top 3 _Employee-Facing_ Opportunities In Creating A Seamless Customer Experience

Category	Percentage
Offer store employees selling & productivity tools that are similar to the consumer-…	57%
Provide ability to locate and sell merchandise from anywhere in the company	48%
Mobile in-store concierge to alleviate some of the sales burden from store staff	36%
Find ways to make our store employees more productive	35%
Providing richer product detail information (photo, video) to the store	34%
Team communications	31%
Offer employees training tools that use a familiar user-interface	24%
To have a physical store that's as interesting to our potential employees as our web…	23%
HR self-service (scheduling, time off requests, etc)	11%

Source: RSR Research, June 2015

The level of interest in getting store employees "armed" with tools that elevate their usefulness to levels equal to consumers' own devices is precisely where retailers need to be focused right now. But it is also worth noting that nearly all of the opportunities in Figure 9 – with the exceptions of HR self-service and the arguable exception of a physical store that's as interesting as a web-offering - will shake out as ancillary benefits of that one, key component. Until the employee is ramped up, virtually none of these other opportunities can be realized.

By retailer size, some telling data from these secondary opportunities:

- The smallest retailers are driving interest in HR self-service. Theirs is the only segment where scheduling and time off requests have yet to be sorted by modern workforce management solutions. As such, it is not so much a commentary on where their workforce's sophistication stands in ways that matter (training, product knowledge, inventory awareness and selling functions), but is rather just a function being small. Their LOB decision makers simply have not realized how much more store managers would benefit from automated solutions to get them out on the sales floor and out of the back room, where they remain consumed by administrative tasks.
- Mid-sized retailers are the group most focused on inventory awareness and the ability to sell merchandise from anywhere in the company. This fits perfectly into their desire from the previous chart to beat large retailers at was once their own game: the ability to be all things to all people. But what differs now is that as the world becomes more "flat,"

products become more ubiquitous and shoppers increasingly desire to "stand out" from the masses, mid-sized retailers have the best chance of having the "hot" product for sale. They clearly understand this, but they also know how value-less that differentiator becomes if they cannot fulfill unpredictable customer demand when – and where – it arises.

- The largest retailers see the most chance to differentiate via richer product detail information in stores. Again, this makes perfect sense for the strategic course they appear to have set. Larger chain, larger number of SKU's – more opportunities for missed, incomplete, or incorrect information between manufacturer and seller. And with consumers as informed as they've become, large retailers know this simply isn't acceptable anymore. If they can get product information right – and present it in more interesting ways than a printed shelf label – they have a better chance of getting shoppers off the couch, into their stores, and buying from *them*, specifically.

With so many perceived Opportunities, what stands in the way of bringing these visions to life? Unfortunately, as is so often the case, the enemy to forward progress tends to come from within.

Organizational Inhibitors

## So Much To Do, So Little Time

Nowadays, consumers walk into a store time-starved but information-rich. Because of the technology in their pockets and purses, many have a very clear understanding of the choices and how much they cost, and even (to the extent that retailers themselves accurately know it) how much inventory is available in-store to fulfill their needs. The result is that consumers want more service, either to finalize their purchase selections or to fulfill their orders.

But retailers struggle to accomplish those things. For example, in RSR's November 2014 study entitled **Omni-Channel 2014: Double Trouble,** we learned that while the vast majority of retailers see the value of various omni-channel fulfillment options, less than one-half indicate they are confident that they perform them well. And when these options include store-level activity, retailers are especially challenged.

There are two ways to look at such a finding. First, on the positive side, it shows forward progress. After all, consumers' digitally enabled shopping behaviors are evolving at a breathtaking rate, and retailers are absorbing what amounts to massive transformation (as we discussed in the Research Overview). The other way to look at the gap between the importance of better serving the customer vs. current capabilities, is to wonder where the labor to serve the customer it will come from. Retailers have shown no appetite for spending more on in-store labor; therefore the only other options are to stop doing something, or automate non-selling tasks to free up labor time for tasks directly related to customer service.

To get a sense of where the opportunities are to "find time", we asked our retailers to rank the time spent on in-store tasks as either "too much", "just right", or "not enough". The results are revealing – again, both good and bad news (Figure 10).

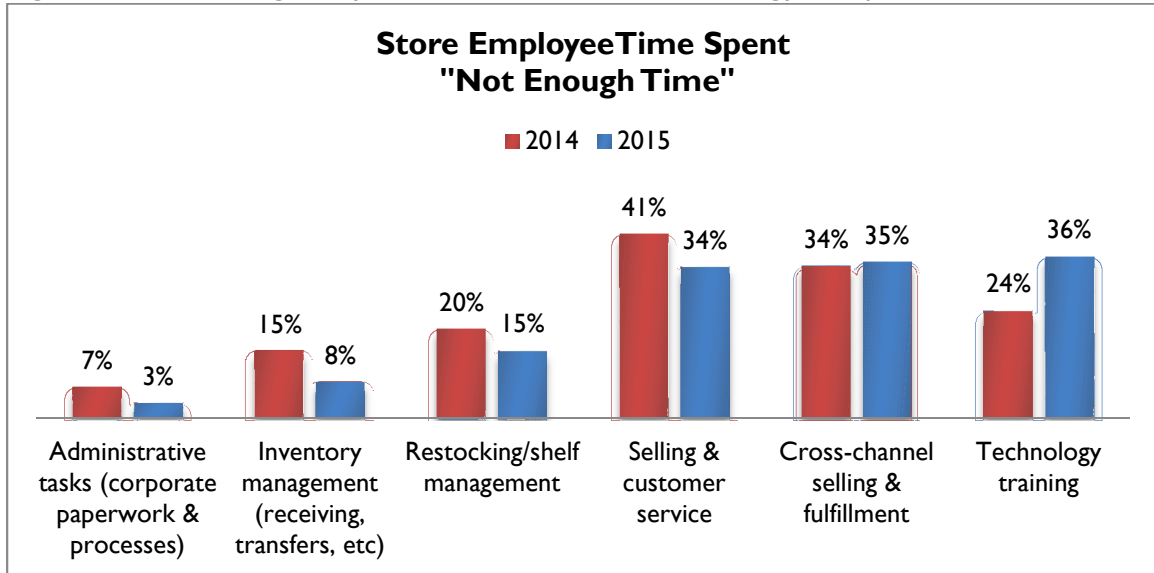*Figure 10: Half Empty or Half Full?*

Source: RSR Research, June 2015

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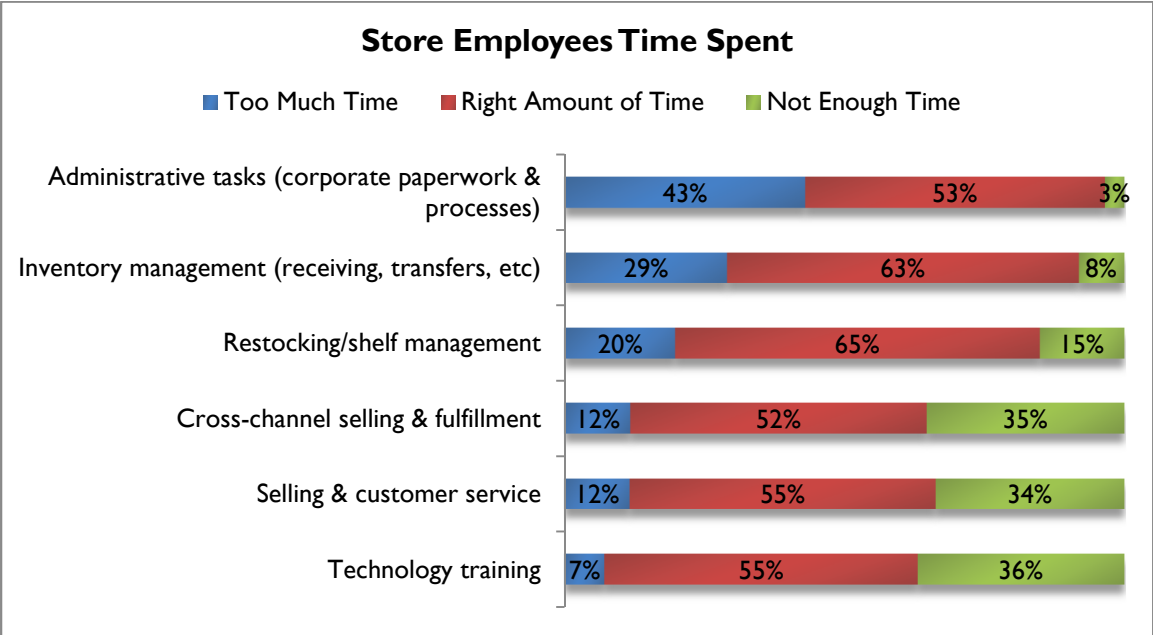
The good news is that greater than one-half of retail respondents believe their staffs are working "the right amount of time" on every function listed. Conversely, almost one-half believe in-store staff is spending too much time on administrative work, while more than one-third don't feel they are spending enough time on customer related functions such as "cross-channel selling & fulfillment" and "selling & customer service". There's still plenty of room for improvement.

What's most interesting about these findings is in seeing the growing importance of "technology training" for staff. This is a clear indicator that technology is growing in importance at the store level – and retailers are feeling the pressure (Figure 11).

Figure 11: Challenged By The Fast Pace Of Technology Adoption

Store EmployeeTime Spent "Not Enough Time"

■ 2014 ■ 2015

Administrative tasks (corporate paperwork & processes): 7% / 3%
Inventory management (receiving, transfers, etc): 15% / 8%
Restocking/shelf management: 20% / 15%
Selling & customer service: 41% / 34%
Cross-channel selling & fulfillment: 34% / 35%
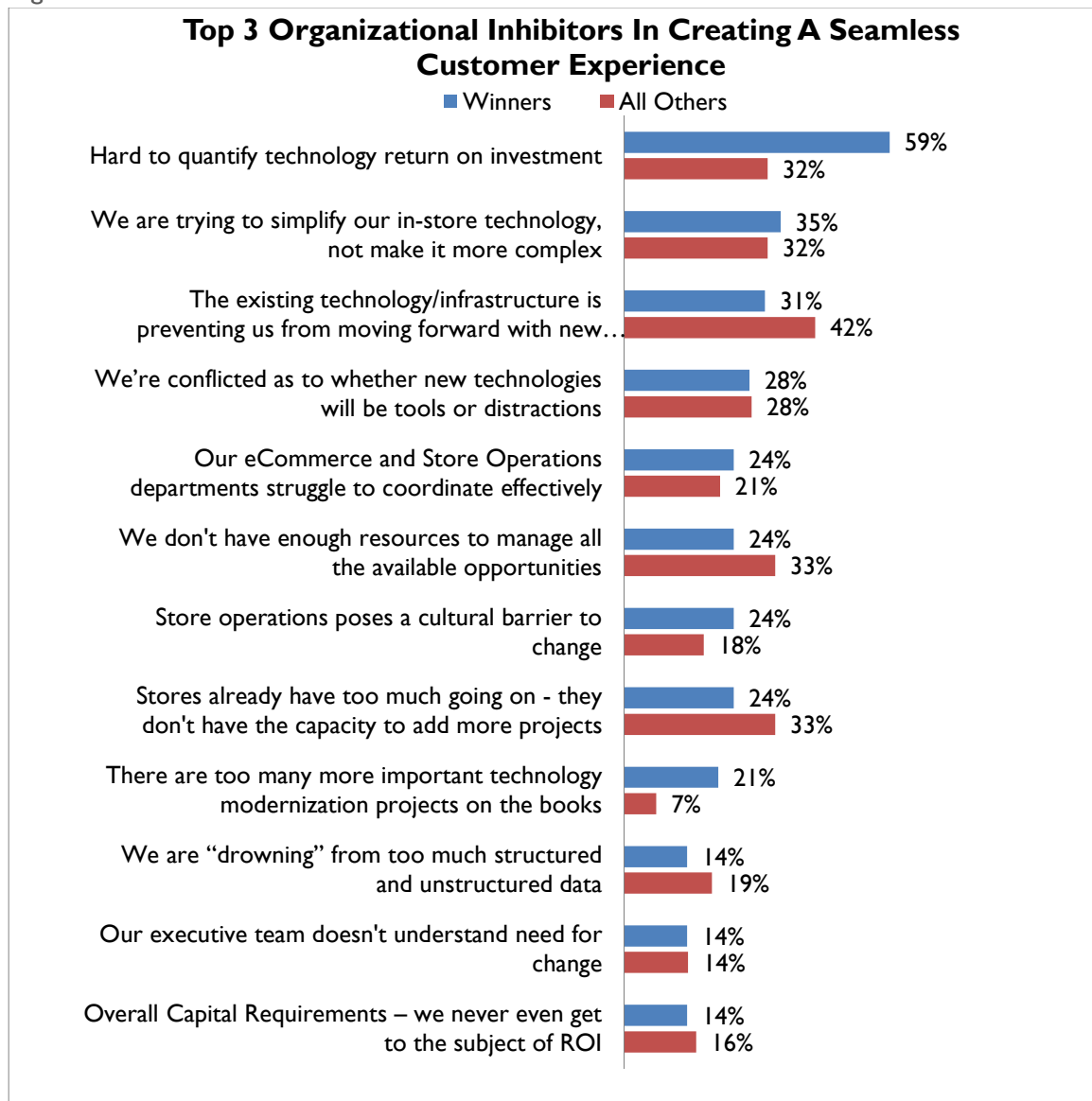Technology training: 24% / 36%

Source: RSR Research, June 2015

While in the last year retailers have systematically improved the amount of time required to execute key functions, the need to train staff on the latest technology is in danger of getting out of control. But this is one place that the "store multiplier effect" has an effect. Even a small cost, multiplied by the number of occurrences in each store, results in a big number. And just as the "store multiplier effect" hampers even Retail Winners' ability to modernize their store systems more quickly, so also does it make it difficult to keep employees up on technologies that are being rolled out. To further compound the challenge, the high percentage of part time labor and the chronically high rate of store employee turnover makes it even more difficult to address.

It's Hard To Get To Hard Numbers

Looking at top inhibitors to bringing more of a digital experience to the store, stark differences between Winners and others emerge (Figure 12, below).

Top 3 Organizational Inhibitors In Creating A Seamless Customer Experience

■ Winners ■ All Others

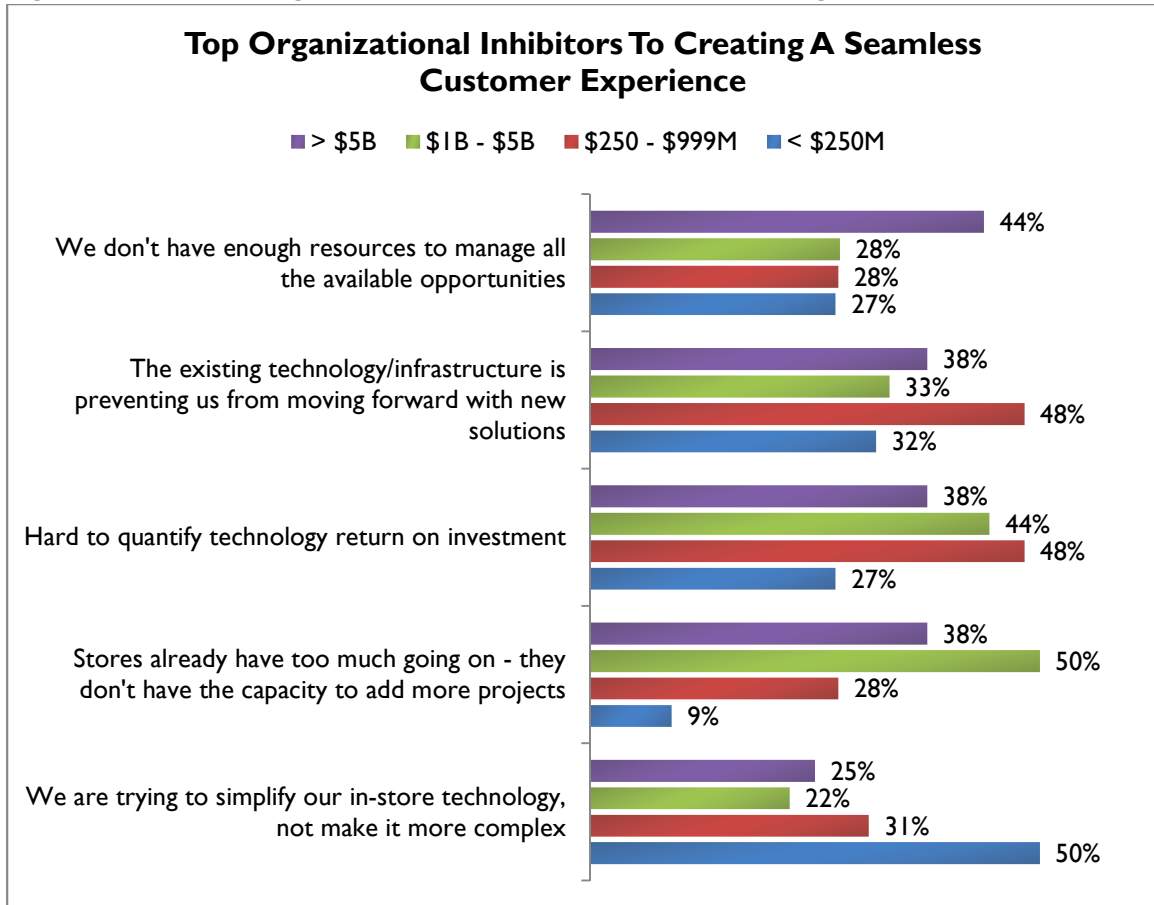| Inhibitor	Winners	All Others
Hard to quantify technology return on investment	59%	32%
We are trying to simplify our in-store technology, not make it more complex	35%	32%
The existing technology/infrastructure is preventing us from moving forward with new…	31%	42%
We're conflicted as to whether new technologies will be tools or distractions	28%	28%
Our eCommerce and Store Operations departments struggle to coordinate effectively	24%	21%
We don't have enough resources to manage all the available opportunities	24%	33%
Store operations poses a cultural barrier to change	24%	18%
Stores already have too much going on - they don't have the capacity to add more projects	24%	33%
There are too many more important technology modernization projects on the books	21%	7%
We are "drowning" from too much structured and unstructured data	14%	19%
Our executive team doesn't understand need for change	14%	14%
Overall Capital Requirements – we never even get to the subject of ROI	14%	16%

Source: RSR Research, June 2015

We were struck by how concerned Winners are about a lack of a clear-cut ROI for potential store-level investments. But a moment's reflection helps. When it comes to the narrow consideration of a POS replacement, the ROI is hard to come by since on a like-for-like basis, the functionality for the old and new systems will generally be the same, and the legacy POS system is very likely to be fully depreciated. That forces Winners to look at the value of omni-channel functionality, and from an ROI perspective the outcome is far from clear. While retailers feel that an omni-channel selling environment is important, its value is subjective at this point – there are no sure bets.

Average and under-performers are more concerned about the fact that their legacy store technologies will not be easy to update and integrate with. Of course, they are right, but that is taking a short-term view. Winners are far more likely to be thinking about a "replacement" rather than a "fix" (thus their primary focus on the ROI). Non-winners, who are not too anxious to throw good money after bad, fret over the cost of shoehorning new capabilities into an old platform.

Looking at the most frequently cited inhibitors from a different angle (company size), we get a different picture. The largest retailers (those with revenue greater than $5 billion) are most concerned that they don't have sufficient resources to address all the opportunities, while the next biggest retailers ($1-5 billion range) worry more about the stores' ability to absorb more changes (Figure 13).

Figure 13: Not Being Able Handle More vs. Not Wanting More

Top Organizational Inhibitors To Creating A Seamless Customer Experience

Legend: ■ > $5B   ■ $1B - $5B   ■ $250 - $999M   ■ < $250M

We don't have enough resources to manage all the available opportunities
- > $5B: 44%
- $1B - $5B: 28%
- $250 - $999M: 28%
- < $250M: 27%

The existing technology/infrastructure is preventing us from moving forward with new solutions
- > $5B: 38%
- $1B - $5B: 33%
- $250 - $999M: 48%
- < $250M: 32%

Hard to quantify technology return on investment
- > $5B: 38%
- $1B - $5B: 44%
- $250 - $999M: 48%
- < $250M: 27%

Stores already have too much going on - they don't have the capacity to add more projects
- > $5B: 38%
- $1B - $5B: 50%
- $250 - $999M: 28%
- < $250M: 9%

We are trying to simplify our in-store technology, not make it more complex
- > $5B: 25%
- $1B - $5B: 22%
- $250 - $999M: 31%
- < $250M: 50%

Source: RSR Research, June 2015

The smallest retailers in our study (those with less than $250M in revenue) want simpler, not more complex in-store technology.

The most challenged group is mid-tiered retailers ($250M-1B). These retailers are most bound by their legacy technologies and most unsure of a clear ROI. As far back as 2008, RSR identified the mid-tier dilemma in our study entitled **The Future Of Application Delivery In Retail.** In that benchmark study, we reported that,

> *"… mid-tiered retailers … spend a greater portion of their IT development resources on maintenance. As the price/performance of technology improved, and with it the cost of acquiring development tools and application licenses, these retailers followed the path of their larger counterparts, developing portfolios of proprietary and best-of-breed packages. But … the cost of an IT professional is the same for a mid-tiered retailer as it is for a big retailer… because they have a smaller business to absorb the IT budget, mid-tiered*
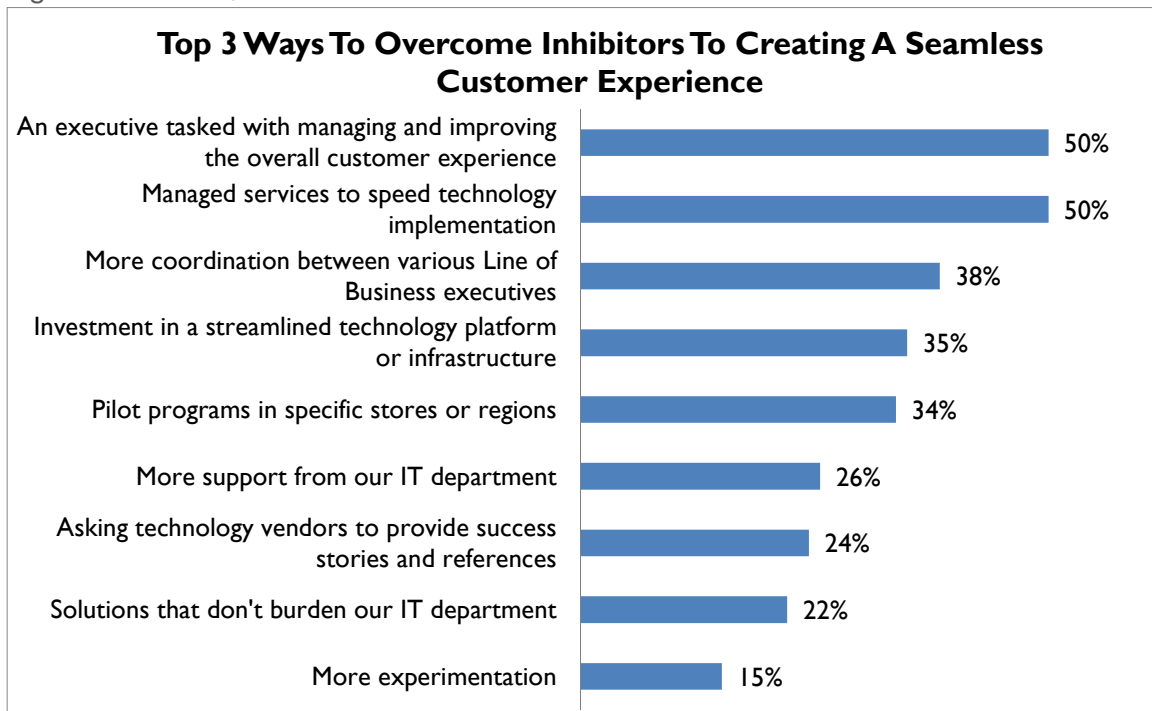
retailers have been forced to spend a greater percentage of their budgets on maintenance of the production portfolio rather than new value delivery."

Those decisions are coming home to roost for mid-tiered retailers, who are now faced with daunting integration and upgrade challenges, compounded by an uncertain ROI.

Looking For Leadership… And A Breakthrough

Given the fact that retailers are working without the benefit of a solid ROI and in the face of the rapid consumer adoption of web-enabled mobile technologies that have changed their shopping behaviors in exciting and (for retailers) challenging ways, retailers across the performance spectrum are looking for strong leadership to move the change agenda forward (Figure 14).

Figure 14: Lead, And We Will Follow

Top 3 Ways To Overcome Inhibitors To Creating A Seamless Customer Experience

Inhibitor	Percentage
An executive tasked with managing and improving the overall customer experience	50%
Managed services to speed technology implementation	50%
More coordination between various Line of Business executives	38%
Investment in a streamlined technology platform or infrastructure	35%
Pilot programs in specific stores or regions	34%
More support from our IT department	26%
Asking technology vendors to provide success stories and references	24%
Solutions that don't burden our IT department	22%
More experimentation	15%

Source: RSR Research, June 2015

But retailers are also looking for a breakthrough – in this case, "managed services to speed implementation". RSR saw this in our June 2014 Benchmark study on in-store technology, entitled **What's In Store for Stores?** In that study, retailers identified managed services as a viable option to overcome inhibitors to progress (58% for Winners vs. 52% for others). In this study, we looked at the choice by company size, and found that the largest retailers are *much* more likely to look at managed services (69% vs. 50% for the overall response group).

This is a true breakthrough. The biggest retailers have the greatest ability to amortize a capital investment over a large store base that produces a lot of sales. But as we saw earlier, the largest retailers *want* to take advantage of new opportunities from the infusion of modern technology into the store but feel constrained by their internal resources. So they are looking at managed services – "cloud" based functionality – to get there faster.
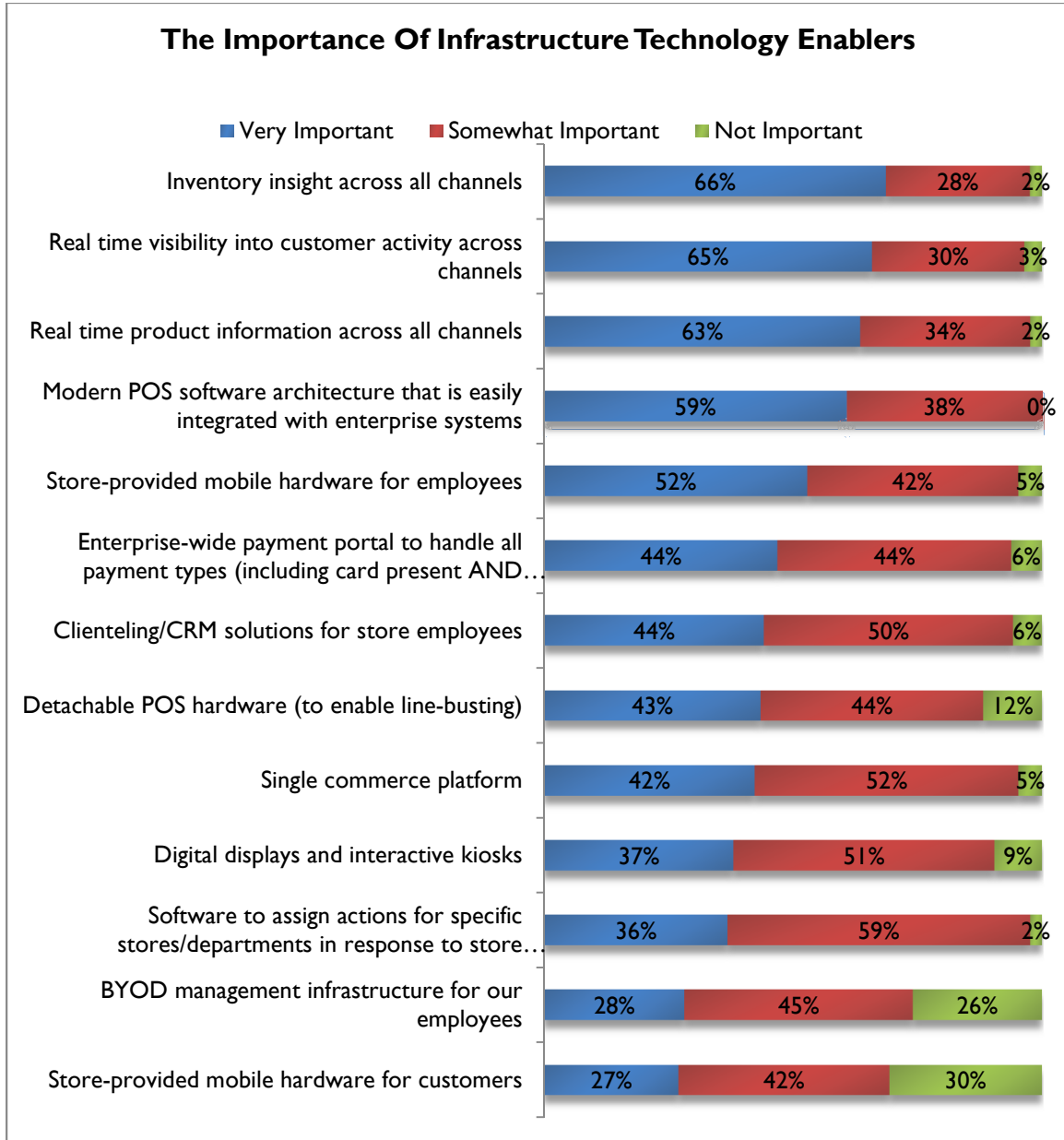
Damn The Torpedoes – Full Speed Ahead!

Fundamentally, retailers are grappling with the fact that technology-driven change isn't being driven from within the corporation. It's being driven from the outside – by consumers. So while the internal business challenges are daunting (no clear-cut ROI, rigid legacy technologies, lack of staff, or concern about the stores' ability to absorb rapid fire technology-driven changes), consumers expect retailers to be able to be at least as technology-enabled as they are. This poses a huge challenge for retailers, but as we'll see in the **Technology Enablers** section of this report, it must be enabled by an enterprise view of the three key information assets of an omni-channel environment: Customer, Product, and Inventory.

Technology Enablers

First, The Key "Visibilities"

While the next generation of store technology is the focus on this study, any discussion of "the store" must be in the context of the total selling environment, which in today's world means every consumer touchpoint. That brings the requirement of enabling an "enterprise view" of key information assets front and center (Figure 15).

Figure 15: First, Visibility

The Importance Of Infrastructure Technology Enablers

Legend: ■ Very Important ■ Somewhat Important ■ Not Important

Category	Very Important	Somewhat Important	Not Important
Inventory insight across all channels	66%	28%	2%
Real time visibility into customer activity across channels	65%	30%	3%
Real time product information across all channels	63%	34%	2%
Modern POS software architecture that is easily integrated with enterprise systems	59%	38%	0%
Store-provided mobile hardware for employees	52%	42%	5%
Enterprise-wide payment portal to handle all payment types (including card present AND…)	44%	44%	6%
Clienteling/CRM solutions for store employees	44%	50%	6%
Detachable POS hardware (to enable line-busting)	43%	44%	12%
Single commerce platform	42%	52%	5%
Digital displays and interactive kiosks	37%	51%	9%
Software to assign actions for specific stores/departments in response to store…	36%	59%	2%
BYOD management infrastructure for our employees	28%	45%	26%
Store-provided mobile hardware for customers	27%	42%	30%

Source: RSR Research, June 2015

Simply put, retailers cannot service a customer anytime and anywhere without visibility into key information assets. The most basic "visibility" of all is "inventory", and retailers know that in order

to reliably commit an item for sale to a customer, they need to know that it is available to sell. For those outside the industry, it's inconceivable that retailers wouldn't know where their inventories are at any given moment. But practitioners know that for a variety of reasons, inventory management systems tended to be highly distributed and batch-update oriented. Without getting into why that strategy made sense in the 1980's, suffice it to say that retailers generally have been working since the middle of the last decade to move towards an enterprise view of inventory in something approaching real time.

But it is a difficult and expensive problem to fix, because it gets to the heart of most retailers' merchandise management systems. Therefore it's not too surprising that according to RSR's March 2015 Merchandising benchmark study entitled *Modern Merchandising: Managing Complexity with New Tools and Techniques*, 45% of retailers with $1-5 billion in annual revenue and 26% of those with >$5 billion are planning a change in core merchandising technologies.

Beyond "inventory", retailers also rate visibility across the enterprise for "customer" and "product" information highly, even more important than a "modern POS" or mobile solutions for employees. More than anything, these findings show that retailers have transitioned to a better understanding of the strategic value of information. In the past, information was viewed tactically in relation to the functions that needed it. Now retailers are positioning key information assets first, as enablers to current and future functionality. That's a big change, as we'll discuss later in this section.

The Winning Hand

When it comes to important new store level functionality, we saw a "Winner's story" in the responses. Across the whole range of possibilities, over-performers placed more importance on store-level enablement than average and under-performers (Figure 16). This was true for both employee enablement (assisted selling, KPIs and alerts, in-store fulfillment) and for consumer enablement (digital receipts, self-checkout).

Figure 16: Winners Are More Enthusiastic

Tech Enabled Features' Importance
(Rated "Very Important")

Legend: ■ Winners ■ All Others

Feature	Winners	All Others
Employee assisted selling mobile capability	66%	53%
KPIs and alerts to store managers on mobile devices and tablets	66%	39%
In-store fulfillment	66%	54%
Digital receipts	55%	39%
Endless Aisle selling capabilities	55%	58%
Self checkout	52%	30%
In-Store Beacons	41%	30%
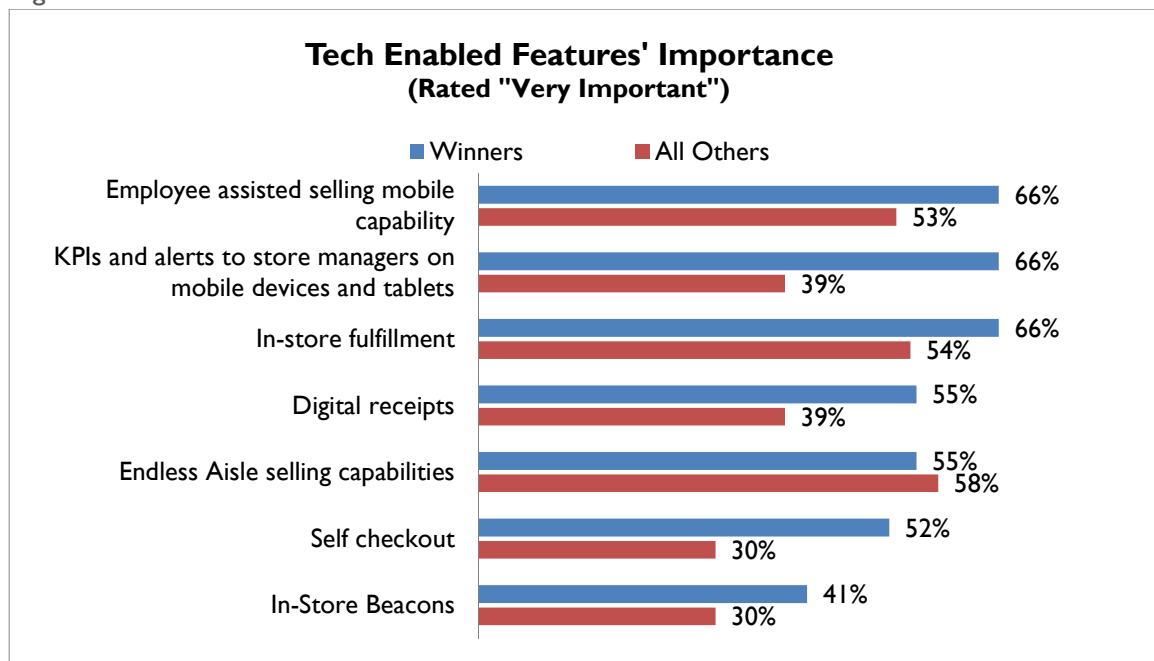
Source: RSR Research, June 2015

But retailers also assign importance to features that are more "wishful thinking" than reality at this point, namely "endless aisle" and "in-store beacons".

In the case of "endless aisle", many retailers think about extending the store assortment by making inventory available from other locations and even outside sources. Within the enterprise, that capability is feasible - assuming that inventory is visible in real-time across the enterprise. But early adopters of "endless aisle" schemes that extend back to the sourcing vendor have often encountered tactical problems that make such a strategy impractical (for example, most vendors lack eaches pick & pack capabilities). Time will tell if a hyper-extended endless aisle capability will ever make business sense, but retailers can certainly make in-enterprise schemes work if they address the key "visibilities" discussed above.

"In-store beaconing", or geo-location sensing technologies, are viewed as an enabler to being able to offer consumers value messaging based on their preferences and current in-store location. It is very early days for that kind of capability, and while the industry has been talking about tying the digital shopping experience with the physical shopping experience using geo-sensing capabilities, to-date very few retailers have gone beyond experimentation. And there are significant consumer privacy issues that must be resolved as well, so although it's interesting that retailers are interested, it's still a bit of wishful thinking, in RSR's view.

It's A Start

Looking again at prioritized technology-enabled in-store features, and comparing them to current status, it's easy to see both how far retailers have come and how far they have to go (Figure 17).

Figure 17: More Work To Do
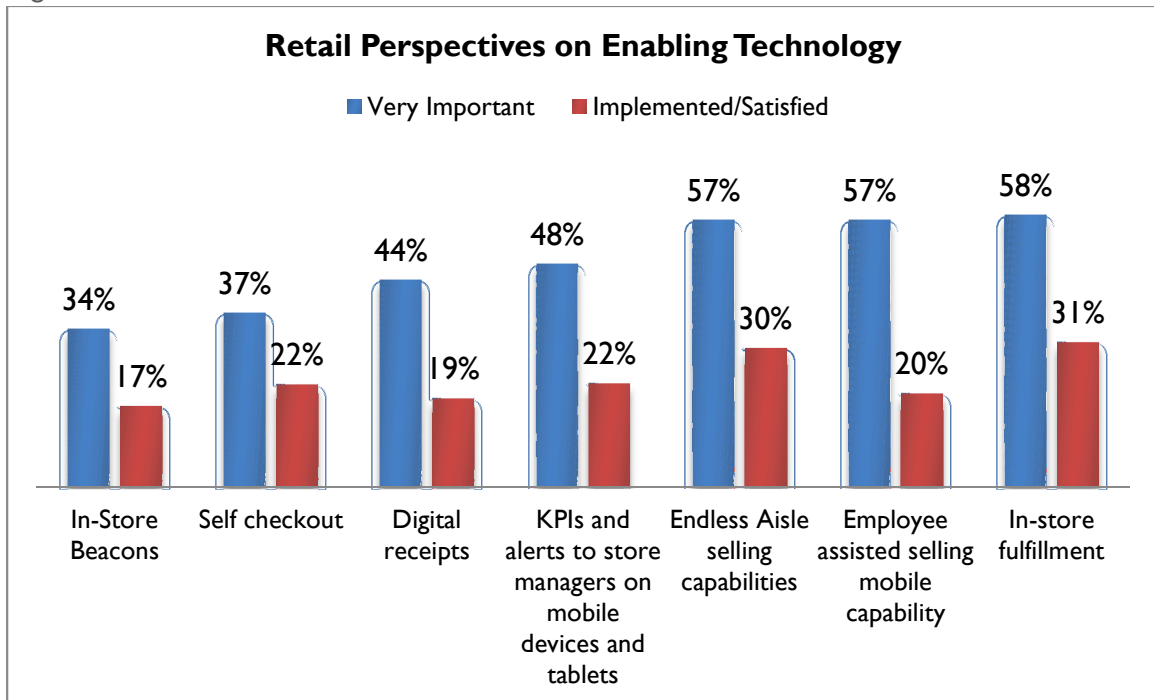
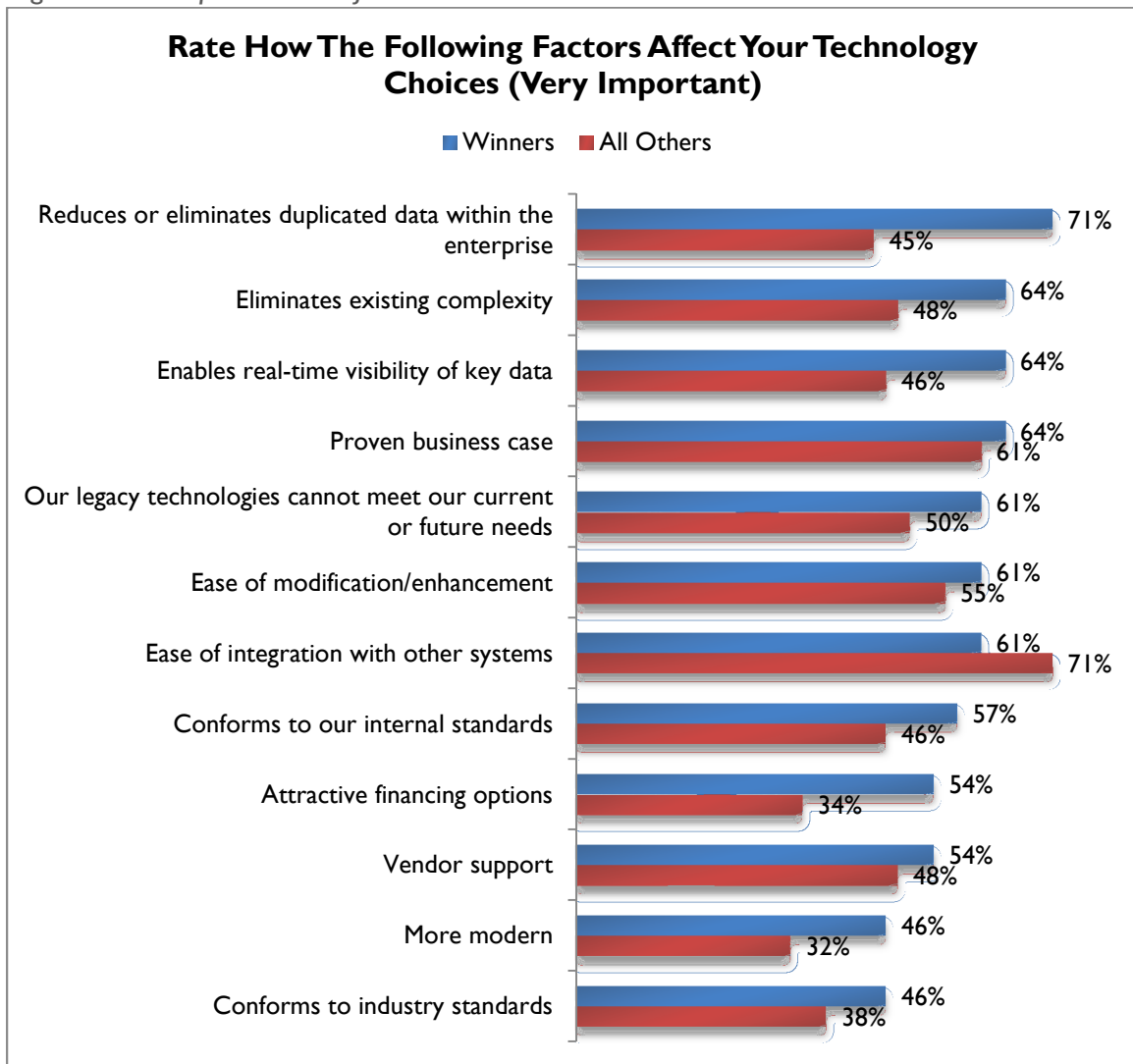*Source: RSR Research, June 2015*

While self-checkout and digital receipts have been around for some time, the more highly rated features listed are relatively new. But although some progress has been made on all fronts, there is clearly more to do.

What Makes A Choice A Good Choice?

While we've pointed out that retailers are reacting to consumer expectations about technology, and that they are unsure of the ROI for much of what they are considering, it's also clear that retailers (and particularly Winners) are moving forward with some breakthrough thinking, especially as relates to the positioning of key information about inventory, customer and product.

Winners rate the ability to eliminate duplicated operational data (an attribute of legacy distributed systems) and thus eliminate complexity as top decision criteria (Figure 18). They also place far more importance on "real time visibility". This is a positioning statement by Winners – they recognize that while consumer technology touchpoints will continue to evolve and functionality will expand along with consumer expectations, they have to get the underlying data right. This represents a big change in how retailers view the information assets they own, and it's a point of view that lesser-performing retailers should emulate.

Figure 18: Important Objectives

Rate How The Following Factors Affect Your Technology Choices (Very Important)

Legend: ■ Winners ■ All Others

Factor	Winners	All Others
Reduces or eliminates duplicated data within the enterprise	71%	45%
Eliminates existing complexity	64%	48%
Enables real-time visibility of key data	64%	46%
Proven business case	64%	61%
Our legacy technologies cannot meet our current or future needs	61%	50%
Ease of modification/enhancement	61%	55%
Ease of integration with other systems	61%	71%
Conforms to our internal standards	57%	46%
Attractive financing options	54%	34%
Vendor support	54%	48%
More modern	46%	32%
Conforms to industry standards	46%	38%

Average and under-performers stay true to form, thinking about "fixing" the legacy store infrastructure rather than replacing it, while worrying about a proven business case. It remains to be seen whether an incremental improvement strategy will work out for them; taken in conjunction non-Winners' relatively low ranking of the importance of eliminating duplicate data, simplification, and moving to real-time data, it seems unlikely that they will get a leg up on Winners.

Platform Visions

Retailers want as little duplication of data as they can get, they want maximum visibility across inventory, orders, customers, and products, and they want to deliver robust capabilities like assisted selling and in-store fulfillment all in the simplest way possible. And they don't want to face having the pain of replacing their existing point of sale without at least some kind of upside benefit that justifies the investment. In short, they want a platform for customer engagement in the store.

A long time ago, the POS was supposed to be that platform, the central hub of transactions in the store. But that presumed that the transaction was the only important part of the customer engagement that needed to be captured. With so much of the shopping path to purchase being influenced by digital, **POS as it exists today is no longer enough**. In fact, the transaction is rapidly becoming the least important part of what happens in the store.

There is enormous opportunity here. Opportunity for retailers to create a whole new way of engaging with consumers in stores, and opportunities for technology providers to help retailers envision and enable that future.

BOOTstrap Recommendations

Consumers don't see "channels". They are time-starved and information-rich, and use technology that they carry around with them in their pockets and purses to find the best solutions to their lifestyle needs. The practice of creating different Brand experiences in different "channels" has gone beyond being an inconvenience to shoppers. It's the central challenge that retailers are grappling with today.

To respond to the new consumer shopping reality, retailers must define a Brand experience that is inclusive of all the ways the consumers "touch" the Brand, both in the digital world (E-commerce, mobile, social) and the physical one (the store, the call center). And this promises a massive amount of change to how they use technology in stores.

While all store-based retailers are basically in the same boat during this time of industry-wide transformation, winning behaviors are already emerging, and form the basis of our recommendations:

Design A Converged Brand Experience

RSR has recommended this in other recent studies, but it's important to emphasize it here as well: there is no one-size-fits all Brand experience. What is good for a "dollar" discounter will not work for a high-end fashion Brand. **Every retailer should define for itself what a "seamless experience" means in the context of the Brand**, and then design the total selling environment around that definition. Then and only then should the technical roadmap be developed to support the retailer's unique Brand experience.

Recognize Differences & Account For Them

Retail Winners are much more aware than their lesser-performing peers that there are **differences between in-store POS and E-commerce order management systems that must be taken into account**. Force fitting eCommerce into the store is not enough, and neither are retailers willing to take on adding more complexity. They want simple, they want consolidated, and they want real-time. Channel specific differences shouldn't be ignored, but they should be considered in the context of the specific touchpoints affected. The digital and physical selling systems are not the same, but much of their core functionality is, and should be synchronized.

Get Relevant In The Physical Space Too

The drive toward more personalization of the Brand's value offering is the industry's answer to consumers' demand for *relevant solutions to their lifestyle needs.* Winning retailers define that as bringing more of the digital experience into the store, deeper engagement with personalized offers, and more personalized attention and service from employees. Implicit in all these opportunities is a belief that the store is important to the overall Brand experience, just as or even more important than what happens in the purely digital space. Consumers still complete most purchases in stores; the question for retailers is, how to make it a truly enjoyable experience? The answer is, make it relevant to each consumer's need.

Employees Matter More

After years of "dumbing down" the job of the store employee, retailers now have to react to consumer demands for more and better service. This has to start with making the same information that consumers have at their fingertips available to store sales associates. But it also

means using modern mobile technology to optimize non-selling functions too. Retail Winners in particular want to improve service without increasing labor costs. That can only be accomplished by addressing the two points above. But that brings up a third important point: retailers must train store employees to get the best use out of the new technologies implemented at store level.

Intangibles Will Drive the Investment Decision

Retailers are struggling to find the ROI for re-investment in store level technologies. That is understandable because of the "store multiplier factor" and by virtue of the fact that replicating on new technology many of the same functions that work adequately on the old technology won't reduce operating costs enough to justify the capital expense. Winners know that they need to look beyond tangibles, and consider the intangible benefits of a harmonized digital/physical shopping experience. The most important one: ***consumers expect it.***

Address "The Visibilities"

As we noted in this study, Winners are aware of the pressing need to make three data types visible across the entire selling environment, in real time: **Inventory, Product, and Customer**. Those are huge undertakings, and RSR has noted in other recent studies that Winning retailers are actively working to address them. There is a fourth "visibility" which also must enabled across the enterprise: **Order**. This requirement will require a true distributed customer order management capability – that is beyond the scope of this study, but nonetheless critical to success.

Consider Managed - or Centralized - Services

Retailers (and particularly very large ones) are getting past their desire to "own the solution", and consider "managed services" as a way to deliver the technology needed to enable a harmonized selling environment. In the context of this discussion, that means either "cloud" based commercial solutions (private or multi-tenant services), or more traditional centralized IT. If nothing else, this is indicative of retailers moving away from thinking of the store as "an island of technology" and to becoming a nodal to an enterprise-wide technology architecture. Thinking about "enterprise-wide" technologies is also the only way to address "the visibilities" noted above, without creating a rat's nest of data redundancies. It is simply not practical to duplicate data across a highly distributed technology footprint (the legacy model for many retailers) while enabling "real-time" visibility across the whole enterprise.

Get A Champion

A question for every retailer that is considering harmonization of the physical selling environment with the digital one is, who is championing the change? Our advice: the CEO, or **someone the CEO specifically empowers to spearhead the effort**. Beyond that, the key LOB executives to steer this transformative effort are: the CMO, Chief Merchant, VP Stores, VP Supply Chain, and the CIO.

Appendix A: RSR's Research Methodology

The "BOOT" methodology is designed to reveal and prioritize the following:

- **B**usiness 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.
- **O**pportunities – 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.
- **O**rganizational 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.
- **T**echnology 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:
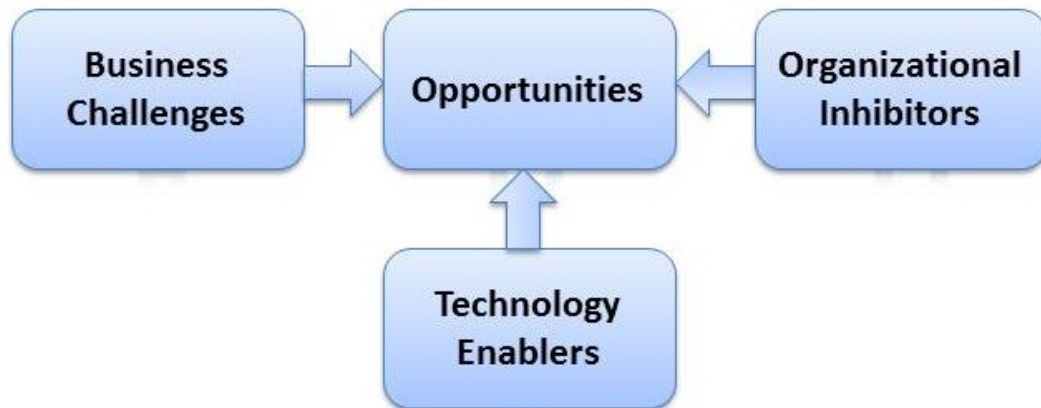
Appendix B: About Our Sponsor

NETSUITE

NetSuite is a leading end-to-end commerce solution provider, helping retailers manage their business with a single, unified cloud-based commerce platform. As the only cloud system to unify ecommerce and in-store with your core operational business systems—inventory and order management, CRM, business intelligence, marketing and financials—NetSuite enables businesses to deliver more relevant and personalized customer experiences while streamlining operations, better managing suppliers and stock, speeding fulfillment and improving customer service

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.