The Web as Commerce Central

the e-tailing group

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Readying Your e-Commerce for the Next Retail Revolution

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I. Introduction Dateline: September, 2009

The newspapers are chock full of dread. Consumers have stopped spending, and the government is selling hope. Many retailers have or will put their final "closed for business" signs up, yet others hunker down in hopes of readying their organization for another round of selling.

The retail landscape is changing with each category and segment facing its own unique challenges. For many, e-commerce represents an important growth opportunity, while others look to the ebb for sheer survival. There will be a retail rebirth, though its strength and timing are under daily debate.

For this white paper, we selected 16 merchants making significant inroads online, that represent the current retail landscape including mass merchants, specialty retailers, and manufacturers. These retailer discussions, coupled with our own insights suggest three telling themes. Customer expectations continue to increase, making it more difficult for merchants to wisely maintain and ideally grow their businesses. We will describe the premise for each theme, its supporting elements along with topical proprietary research using merchant insights as color commentary. We will wrap up each theme with a series of questions that explore a merchant's readiness to help define the necessary roadmap to evolve their e-commerce efforts.

Customers are more demanding than ever and in many instances they are bored with today's vanilla shopping experiences. "Me too" imitators won't likely survive the next round of store closures. Manufacturers push the envelope today, both partnering and competing with their merchant counterparts, redefining the retail ecosystem, the first emerging theme. Redefining assortments and changing pricing dynamics, along with evolving organizational structures are in play as merchants assess their ever-changing internal needs in support of retooled strategies. Testing will be a core part of taking advantage of the Web's new crystallized role from growing assortments to extending marketing reach.

Merchants who seek to understand the shift in today's customer embrace technology and truly examine their businesses to find new ways of selling and serving. This new breed of consumer will be prepared to face a more streamlined retail environment. Today, the Web may represent a small percentage of their overall business. Many merchants wisely realize their websites serve not only as sales tools, but as the relationship-building channel and the hub that enables merchants to truly connect with their customers. This second theme explores its role as the go-to resource for consumers and finds merchants looking to truly understand and personalize the shopping experience; delivering a more meaningful visit.

The third theme discusses changing shopping patterns, the added potential of Web 2.0, with video and social dynamics requiring merchants to better inspire shoppers striving for experiential excellence. It begins with an elevation of the onsite experience and more robust and rich information in support of securing the sale. Service will once again prove to be the differentiator and those merchants who take advantage of technology to ensure an accessible experience will finally deliver on the promise of an anytime-anywhere shopping experience.

Having spent almost 30 years in retail, it is clear to me that this time is different. The stakes appear to be greater, the customer expectations higher, where diligence is centered on very deliberate thinking. Our goal is encouraging merchants to ask the right questions, to think ahead and to think big; moving beyond today's tough economy. A comment from one retailer who shared his thinking comes to mind when I reflect on these challenges. Struck by the enormity of this challenge, late one night he had the revelation, "We will all need to turn our businesses upside down!"

II. Theme #I Redefining the New Retail Ecosystem

Overall market growth across retail won't bounce back and there likely will not be a bigger pie by 2010. Today the challenge is no longer about competing with those in one's category but with mass merchants including Walmart and Amazon. Retail will remain highly competitive and it will be a sheer taking process where unfortunately most retailers will only grow at the expense of others.

More companies are taking advantage of e-commerce particularly as manufacturers go direct to the consumer with both their products and their value proposition. The choices that companies make from a pricing and positioning perspective can turn the tables on selling as it has existed for hundreds of years, just as the Web did with brick and mortar retail. These changes can suggest new pricing dynamics, organizational adjustments, particularly for manufacturers, as well as re-examining relationships that are now both competitive and cooperative with one's channel partners.

> *"More of our manufacturers are pursuing consumer marketing so retailers have to explore options and smartly respond. Choices include partnering, going around such evolving models or more likely the pursuit of a combination strategy, such as the Sears/Lands' End model. Customer expectations have changed and price sensitivity is top-of-mind, particularly given our commodity-oriented product assortment. Customers merely type SKU numbers in Google in hopes of purchasing the cheapest item available and we as merchants must make adjustments to our model to maintain market share."*
>
> *-Canadian Mass Merchant*

David Blakelock of Boston Apparel Group recognizes the changing ecosystem and the impact on some of his target demographics. "My teens shop differently. They are intimately involved with the brands they buy and know how to best purchase those products. I question whether one needs a mall location or a store in every town; foreseeing more pop-up stores that get customers comfortable, engender trust, and offer trunk show outreach. Generally I predict there will be smaller stores with a more limited physical footprint where the Web serves as the bridge to the brand but I also believe there will still be a role for specialty retailers."

"I predict there will be smaller stores with a more limited physical footprint where the Web serves as the bridge to the brand."

— David Blakelock Boston Apparel Group

To truly thrive in the times ahead, all merchants will need to find a way to cost-effectively play in this new ecosystem.

a. Evolved Pricing Models Emerge

Manufacturers must make pricing choices that can impact the ecosystem where often times traditional retailer actions are beyond their control. Technology that encourages even more accessible comparison shopping is becoming more prevalent which will only serve to up the ante for all parties where pricing is concerned.

To be in sync with its objective to be the "go-to" resource rather than discount, one beauty manufacturer has secured management's agreement to launch promotions concurrent with any exclusive department store promotion. From another category point of view, Karen Keck at Lexmark International speaks to their approach, "We are not concerned with partner discounting. Retailers want the latest and greatest. While the Web is ideal for liquidation and clearing out older models, we as the brand store, will move beyond that. We don't want to compete directly with the retailers, instead serving more as a resource for customers, though sometimes where relevant, we will want to have the same promotion or something unique on Lexmark.com."

"Everyone's heavily discounting and we're not averse to promoting online. Like many manufacturers and merchants we must find a way to be 'value priced out of the door.' We must inspire shoppers by delivering key items so customers don't wait for a sale. Such a proposition is ideal for basics where rather than lead with 20% off promotions, we have more to say and must move beyond last year's 'sale only' messaging and mindset."

— Kate Terry, Tommy Hilfiger

The good news at retail is extremely high sell-through in specialty stores. Ronit Weinberg of Diane Von Furstenberg Studio validates the success of this tactic. "We've wisely cut production where it made sense and are more tightly controlling distribution, including closing down unprofitable Diane Von Furstenberg Studio department store locations. This is especially important as the vendor is liable for gross margins where we must monitor selling strategies and ensure that we are smartly partnering for success. For us that means better understanding the retail promotion cadence as in tough times it can be difficult to achieve that margin, especially when merchants are pushed to deliver bottom-line results at the expense of vendor partners."

Evolved pricing models are forcing a creative approach to retailing, which is being built upon a foundation of solid metrics and continued testing.

b. Assortment Testing for Growth

Retailers living in a "four-wall world" have always been constrained, with many believing that extending their assortments, particularly with drop shippers, is a silver bullet. Testing allows merchants to learn and extend their assortments. The Web has fared well by affording merchants a channel in which to test products and services before full retail rollout. This can also include an exploration of which channels are best suited for any given products.

Constraints for testing only come from merchants where products prohibit testing due to long lead times (i.e. imports from China) or category challenges (i.e. bulky couches or extensive sizing) making it a less than optimal model. Manufacturers take a different vantage point. Those that I interviewed love the concept and agree that the Web would be an excellent testing channel. Unfortunately given their distribution channel's significant contribution, leadership may not embrace testing to the same extent as their retail counterparts. Sharing a series of testing efforts, one can surmise this is a technique that most merchants should apply to their multi-channel selling strategies.

One mass merchant stated that by looking at new product on the Web first, a company can gauge the adoption rate and allocate assortments accordingly, where some products may remain Web-only. This can create a rationale, using data to influence what the right assortment is for either a store-based or online experience.

"We at Sephora have always been proponents of testing. In beauty, it is part and parcel to what we do. An example is testing a 'value-priced' item at checkout. When that product has 'blown-out' online, similar results have often been reported at retail."

— Julie Bornstein, Sephora

"We at Sephora have always been proponents of testing. In beauty, it is part and parcel to what we do. An example is testing a `value-priced´ item at checkout. When that product has `blown-out´ online, similar results have often been reported at retail." They have also launched new brands online and find that these experiences may alter future retail sales, emphasizing that any test or promotion is put in context for how that product could be positioned at retail.

Testing is core to many businesses like Sephora. Merchandising innovation is often driven by testing feedback and results.

In the last six months, Best Buy has stretched their marketing efforts through merchandising expansion. John Thompson gives several examples including testing exercise equipment in five retail stores and the Web while also launching outdoor furniture to tie-in with outdoor speakers and other audio products. "These product plays mesh with lifestyle selling which helps our customers feel comfortable moving beyond our merchant's standard assortment. It also positions Best Buy as the company where you can get the products you desire but also ones that work. The ability to drop-ship product makes this an increasingly attractive idea for Best Buy, where a "test and try" model starts with the Web and sometimes a small store footprint. Pleased with our success, more discussions on assortment testing and growth is forecast in the coming months and years."

A home specialty retailer shares the importance of continually evaluating the right product mix by store with some stores functioning more as showrooms, suggesting that you don't necessarily need to be in-stock in 100 locations. Some products that may be strong in the direct channel, yet under perform at retail, are not the best use of the store's limited retail floor space.

The ability to test via the Web before catalog or store consideration is powerful. The important roles of catalog selling and traffic driving capability make these decisions even more critical to bottom-line selling.

REI has had great success following the shelf extender model where one example includes BOB Strollers, which Ben Viscon clearly illustrates. "Our product manager had suggested carrying the stroller at retail as it seemed to be ideal for their active outdoorsy customer. Unfortunately, being big and bulky, it wasn't an optimal store product and the $400 price-point was perceived as being a bit steep. We chose to test it first online where its success meant rollout through the entire chain. Today we have 1,400 items that could be considered `online only´ because testing can involve fringe colors and new brands as well as extended price-points. This effort has been well rewarded with 10-15% of test product having turned into a fully rolled out retail product. The reality is this kind of testing would be difficult to do in stores, where space is at a premium, contrary to a less limited distribution center opportunity. Such testing allows product managers to try different things before making bigger dollar decisions for the entire retail chain."

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— Ben Viscon, REI

Kate Terry at Tommy Hilfiger recognizes that the customers' input is critical in evaluating new ideas and also the potential to drive inspiration in future product development. "The customer will have a `voting role´ that influences a season's assortment. This could inspire new product categories, where items that have not found a home at retail, often due to space constraints, may still be ideal for Web selling. We also envision the Web extending assortments to span greater price points that move beyond the restrictions of a store's comfort zone."

c. Organizational Alignment

Depending on one's evolution, channel structure, and organizational alignment, a myriad of issues can come in to play. These organizational issues are top-of-mind for manufacturers but also come to light among multi-channel players as they need to work out the business model among the channels with compensation and cultural adjustments that drive corporate goals. Most merchants today are neither channel-agnostic nor aligned so this is their primary goal; there are simply more rumblings about finding the right organizational structure.

Looking at one's organization is essential for multi-channel success. REI broaches the touchy subject of aligning and incenting all channels to support the total enterprise versus any individual channel. "This needs to appear seamless to the customer and while my group may have its own budgets, we need to be incented accordingly," states Ben Viscon.

The solution of choice for Tommy Hilfiger is one which focuses on the branding and making this the top retailing objective, rather than channel-specific fixes. Kate Terry suggests, "The Web must be `brand central´ yet at the same time be channel-agnostic and drive store traffic. We must satisfy the customer wherever she's standing where store and e-commerce systems must work together. I believe this is attainable as fortunately our organization is aligned whereby I do not report to either stores or marketing. Such a structure makes it easier to be channel-agnostic and to do what is right for the brand, not just our division; therefore bigger goals can be attained."

d. Internal Education Still Required

Beyond alignment, organizations need to be continually educated on the Web's role. This is especially important for the manufacturers interviewed as direct selling has a new value proposition, fraught with obstacles as a flow of funding will be required to effectively compete. This is a familiar song that has been sung for the past years among multi-channel merchants where the successes are now bearing fruit and education no longer as critical. Beauty retailing executive, Christine Robles, shares, "We find ourselves educating and advocating for e-commerce including tutorials with senior executives on an array of topics, particularly with those who are new to the business. We certainly need their internal support and hope to secure funds for the growth of lauramercier.com at the same time."

"We schedule weekly meetings and all operate on the same calendar. We find ourselves educating on technology and how we can best utilize the Web in support of the brand."

— Ronit Weinberg, Diane Von Furstenberg Furstenberg Studio

At Diane Von Furstenberg Studio there are many offline and online promotions though the offline team often thinks the online team will infringe on their space. Contrary to popular belief, Weinberg knows from their track record, that the online team, especially online marketing, can actually help grow their business offline. "We schedule weekly meetings and all operate on the same calendar. We find ourselves educating on technology and how we can best utilize the Web in support of the brand. This includes discussions on how to best address bargain shoppers as price is dictating a lot of the decision-making today. Additionally, we have covered the role of email as a sales generator online and at retail, similarly to what might be experienced with a New York Magazine ad placement that sends traffic online and to a store in the Hamptons."

Recognizing the importance of a common vision, Karen Keck understands the essential foundation required to reach that shared objective. "At Lexmark we admit to a history of channel conflict with sales channels viewing the site mostly as a manufacturer's price checkpoint. By educating internally I see first-hand the

trickle-down effect. This includes talking to the sales organization on how to respond to retail queries. I use such encounters to press the following belief: If Lexmark.com is successful, we will grow interest in our brand overall, benefiting the entire organization and our reseller and retail partners."

e. e-tailing group Retail Ecosystem Q&A

1. How are you determining the initial price then subsequently monitoring and adjusting based on the new retail ecosystem?
2. Can your brand accommodate assortment extensions where drop-ship networks can fuel the growth?
3. Do you have the necessary mechanisms in place to test product, pricing, and assortment before deploying enterprise-wide strategies?
4. Have you recently looked at your organizational chart to ensure it is working not only as an e-commerce channel but as part of the broader organization?
5. Are you continually educating your channel counterparts on your success as well as the impact the Web may be having on other parts of the organization?
6. Are you best incented and aligned to grow the brand vs. just the channel?

III. Theme #2 Web as Customer Central

The Web must now be "Customer Central" and clearly a destination and a hub where savvy sellers will position their websites as the location for connecting consumers with one's brand. Merchants will seek to establish relationships with customers that transcend transaction-oriented selling to foster long-term loyalty by simply following the customer's lead. Positioning themselves as the go-to resource will require intimate knowledge of customers and their evolving behavior in order to personalize and deliver a relevant shopping experience. Accessible data will likely be the foundation of merchant execution and a competitive advantage under this new ecosystem.

a. The Customer (Really) Rules

The customer's voice must be heard and there are a multitude of ways merchants are thinking about today's challenging and ever-changing customer base. It starts with making the experience friendly, intuitive, interactive, and most importantly responsive to customer needs.

"For Chadwicks, I can't emphasize enough the importance of making the shopping experience as friendly as possible; wanting the customer to think about the clothes they are buying and not how to find them on the site. It's important to understand how she wants to shop and to make sure that shopping experience is as intuitive as possible. This includes being able to deal with her different mindsets, whether it's surgical and search-oriented, or in the creation of a more browser-friendly Web environment. For the latter, there are opportunities to take advantage of the romance of the catalog via hero shots to showcase better imagery."

-Dave Blakelock, Chadwicks

As merchants, we must put ourselves in a test and learn environment that's highly responsive to trends that can be spotted early. From a differentiation standpoint, one will have to possess a deep knowledge of customer values at any given time so we can help them accomplish their goals.

— John Thompson
Best Buy

Customers' worlds have changed as a result of all of the choices and experiences available to them both in store and online. Julie Bornstein at Sephora Direct recognizes this. "We spend a huge amount of resources and energy on training our staff on product knowledge and providing makeup lessons and skincare consultations. We invest in these people so they can provide a better and more interactive experience for our shoppers."

"At Best Buy," states Thompson, "we've been on this customer-centricity journey for five years clearly moving from transacting to a relationship-based model, seeking to crack the customer's emotional code as brands like Apple and Zappos have so ably done. As merchants, we must put ourselves in a test and learn environment that's highly responsive to trends that can be spotted early. From a differentiation standpoint, one will have to possess a deep knowledge of customer values at any given time so we can help them accomplish their goals. We must understand exactly what they hope to accomplish by leveraging analytics to track actual behavior with an ability to make necessary assortment and merchandising adjustments. In order to accomplish this we must synchronize databases where we record customer behavior and information in the appropriate places." This may include a range of interactions such as comparing products, looking up pricing or simply having a conversation about technology. In order to win under this scenario both customer and site analytics are important with an essential need to strive for a "common" view of the customer across all touch points.

b. Developing a Go-To-Resource

Building a destination or hub that serves as a central meeting ground from which most activities are inspired is the Web's optimal role. An experience that evokes emotion among one's customer base is of the utmost importance. The right assortment is another way that all merchants will seek to differentiate and better position themselves as "go-to" resources. Additionally, from an experience point-of-view, it can range from a robust site with rich content to positioning one's business as being best-in-class across multiple verticals in a mass merchant model.

"The company is now at a critical point with our websites. Since we focus on print technology and printing less, we need to be the complete resource online for our customers and put the right goals in place, which include increasing revenue online, improving customer experiences, and building long-term relationships."

— Karen Keck
Lexmark International

It is interesting to hear how Laura Mercier makes that happen. "We are an artist brand and feel the site needs to be warm, exuding personality; serving as a destination for customers to find out about new products and techniques. I believe that aspiration can be accomplished by showcasing 100% of the product line including enabling deluxe sampling and unique bundles. Beyond product, educational content will be core including category-specific tips and videos and the site will be a repository for archived content. Interactive tools, such as profiles and foundation finders, will assist customers in decision-making. In summary, "Shoppers will visit the site and become customers but either way we will have delivered an experience that better connects them with our brand."

"It's essential to hit consumers from every angle and in every channel. Today we have 28 global stores and conduct business online as well as via our wholesale channel," states Ronit Weinberg of Diane Von Furstenberg Studio. "We hope to address customer needs based on trends via a focus on price-points and exclusives with two distinct deliveries to their own specialty stores, which eliminates the challenges faced by the proliferation of markdowns currently seen at retail."

Looking beyond their current specialization in home furnishings, appliances, and electronics, a Canadian mass merchant is extending offerings to include insurance and warranties. That includes envisioning potential opportunities in service-based businesses such as `Geek Squad´ type models for furniture repair that deliver added consumer value.

"We face the all-important balancing act between having a seamless experience across the Web while being vertically-oriented for our diverse category mix that ranges from apparel to tools," states another mass merchant. "Under such a model, individual product managers will be the arbiters of appliances, assessing what they need to do from a customer experience point-of-view and how best to bring one's category to market. While today merchandising is horizontally delivered across the site, we believe that being best-in-class vertically will be essential with targeted user experiences executed more in line with category leaders."

After solidifying their position as the to go-to-resource for consumers, retailers are free to truly build upon the relationship and deliver a personalized experience for all site visitors.

c. Relationship Building

Building relationships starts with the initial customer acquisition and the subsequent nurturing via experiences shoppers receive. For some merchants that will mean loyalty programs while for others it will be all about personalization, leveraging the best of technology. Differentiators will come in the form of understanding and knowing customers including past purchase data; subsequently personalizing relevant product across channels and via email to best connect with one's customers. Relationships can be with customers from a

merchant perspective and between manufacturers and retailers as the basis of a solid relationship under either model is the foundation for a successful business.

Retaining loyal customers is more difficult than ever and merchants are trying many approaches in hopes of securing a committed customer base. Often times relationship building is fostered through loyalty programs where top customers are identified by employing marketing methodologies based on sophisticated CRM models. We can share from the e-tailing group's 4Q 2008 Mystery Shopping of 100 merchants that 50% of these EG100 merchants, up from 43% in 2007, are offering a frequent buyer program as part of their marketing initiatives.

50 percent of EG100 merchants are offering a frequent buyer program as part of their marketing initiatives.

— 4Q2008 Mystery Shopping Survey, e-tailing group

One beauty specialty merchant has a fully integrated loyalty program and 60% of those who check out are loyalty members. Given the price constraints on prestige product, their customers are happy to receive rewards for participation. As they add retail markets, they believe they will garner greater loyalty and continue to tailor offers to this important customer base.

Chadwicks has an eye toward expansion of their customer relationships. "We only have a rudimentary program in place today," shares Blakelock, "though we expect to expand on this within our site. Loyalty is about understanding the customer not about the points garnered from the program. That means surprise and delight and ensuring that we invest in giving her something relevant and solving problems not just sending points."

"At Sephora we are very focused on retention, making it even more beneficial for customers to be part of our Beauty Insider program. We will be launching a new top-tier to our Beauty Insider program this year with special incentives and marketing programs focused on this customer base, including more exclusive products, promotions, services, and first access for participants."

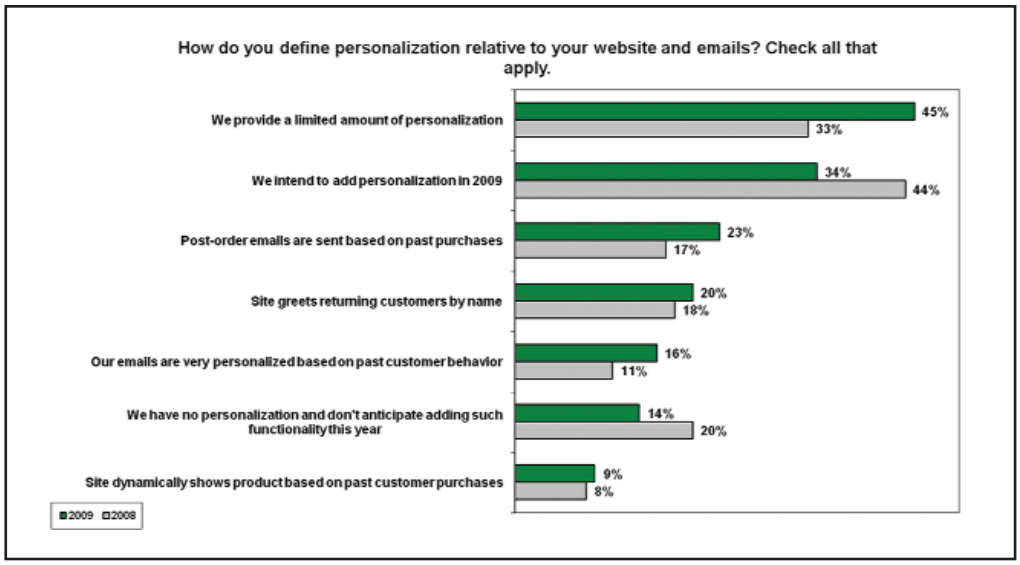
— Julie Bornstein, Sephora

"Connecting" at Diane Von Furstenberg Studio now includes launching a "wrapless" program to both top and inactive customers. Customers receive incentives to visit stores, private URLs, and personal shopper attention that includes dedicated salespeople who follow up on direct mail offers, all in hopes of fostering relationships with their best customers. They also have a Personal Shopper Stylist program with a dedicated phone line and are reaching out via social media with Google promotions and efforts on Facebook.

d. The Personalization Factor

Understanding current personalization efforts finds that based on the input of 195 merchants in the e-tailing group's 8th Annual Merchant Survey, 54% either dynamically show product based on past customer purchases or a limited amount of personalization. Positively 34% intend to add personalization in 2009 which bodes well for delivering more targeted shopping experiences and lasting relationship building.

Greater personalization needs to be on the horizon to best target customers in hopes of hitting performance metrics.



8th Annual e-tailing group Merchant Survey, 2009

"Our strength is our weakness as today we have 550 brands selling 43,000 bags and in order to be even more customer-centric we would focus more on personalization (onsite and email). Using many of our existing technology solutions for search, recommendations, and click-stream analysis coupled with purchase history, we have been able to drive significant improvements. Via email we have personalized four product blocks that currently live below the fold and this area is the second most clicked on in the email."

— Peter Cobb, eBags

For some, personalization is a change in mindset to reach each consumer individually. "Our platform selection and Web strategy center on a desire to know something about this customer so we can personalize the experience, serving up both unique promotions and relevant product," states Keck at Lexmark. "Our relationships with our customers stem from the knowledge of what product they own. We are fortunate in that we may know the device and driver they have and can provide the right supplies and promotions. We are moving away from a 'mass' model where today we know nothing, to a one-to-one relationship-oriented model that will be facilitated via technology."

For Keith Nichols at Zinio, the approach is more methodical and seeks to draw from an understanding of consumer data. "From a readiness perspective, in order to embrace customers when they return to a buying mindset we would like to have in place a stronger framework, including analytics, for personalization and segmentation in order to understand the customer, so when purchasing gets stronger, we could respond more quickly with products and services that speak to the customer."

Tommy Hilfiger seeks to combine an optimal customer experience with the technology available to truly understand what the customer wants to experience on each visit. "CRM and personalization are core to our strategy so we must manage and assess how best to remain relevant to their customers. Like most customers today, ours want to be pampered and we need to better replicate retail success stories. This can be accomplished through personalization where communication can be relevant even in if it's not product-oriented. We want to engage our customer and look for clever ways to score easy wins. Examples might include alerts for polo shirt customers that new colors are in-store or a home page that represents unique customer interests along with a truly personalized My Tommy experience."

e. e-tailing group Web As Customer Central Q&A

1. Is your organization customer-centric in their thinking given today's ever changing customer and economic outlook?
2. Does your brand merit a loyalty program to more effectively compete in your category?
3. Do you have the necessary tools in place to personalize the shopping experience?
4. Do you employ a cross-channel CRM strategy in support of relationship-building with your customer that gives you a single view of the customer?
5. Is your site designed to be a "go-to" resource for your customers starting with branding and ending with a complete experience?
6. Are you listening to your customers and delivering an intuitive and complete customer experience in support of online and offline purchasing?

IV. Theme #3 Experiential Excellence Addresses Heightened Expectations

Merchants must meet the needs of customers head-on, playing all their cards in support of a brand central model. This starts with elevating online shopping to better convey the spirit of shopping that today's customers seek. Supplying comprehensive information will be mandatory for Web buyers and online researchers who ultimately purchase at retail. Service will be seen as a differentiator, moving beyond a world where price is the only factor in customer decision-making. Those that make it convenient and accessible for customers, where and when they want to shop will find themselves among the survivors in tomorrow's retail ecosystem.

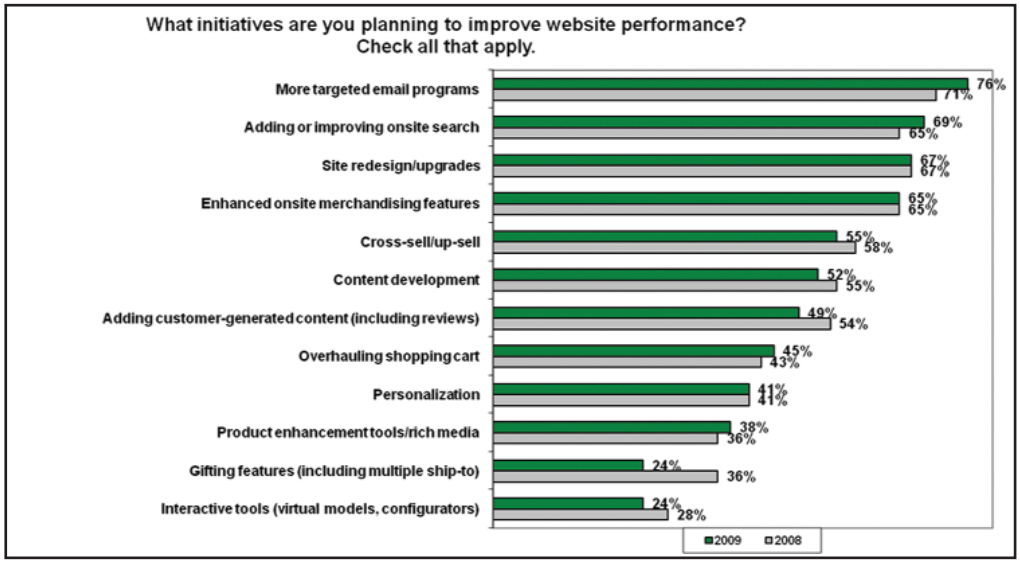
The spirit of shopping still exists for one merchant who admires the playful and creative strategies of Anthropologie. "They do a wonderful job with themes; investing in playfulness yet still having an edge that makes shopping more meaningful beyond stuff. This includes doing interesting things with visual technology, looking for stickiness, while bringing a sense of art into the stores. We as merchants need to get more creative to get the Web's two-dimensional space to reflect such innovation."

> *"To be honest, I've been a bit bored with what companies have been doing lately. I think all of the technology is available to really make a fantastic customer experience and exciting set of cutting edge features, but with the economy and the current mentality, companies don't seem to be pushing the edge of what they were before. Great experiences are there for the creating but most companies do not have the focus or the discipline to implement the real changes or features needed to bring their products and services to the next level. As technologies require companies to re-envision how they do business, they must look at how they are structured organizationally."*
>
> *-Keith Nichols, Zinio*

a. Information is Power

Customers expect to have a complete set of category and product information that evolves with technology to foster decision-making. Brand manufacturers in particular seek to be the "authority" on their products, upping the ante for their retail counterparts and/or partners. Information takes on many shapes and forms depending on one's category and customer needs in support of confident buying decisions. With tactics that range from category how-tos to product-centric imagery, to copy and supporting rich media, the choices are unlimited but associated costs can quickly escalate. Merchants must manage customer expectations against the requisite investment and its ability to satiate the customer's appetite for information, where the end result is an online sale or store visit.

In our own *8th Annual Merchant Survey,* when asked what initiatives are being planned to improve website performance it's instructive to note that content development was cited by more than half of all merchants (52%) while product enhancement tools and rich media were in order for 38%, indicating that investments would certainly be forthcoming in this area.



8th Annual e-tailing group Merchant Survey, 2009

"There is a need for category-centric content and bolstered information where consumers would be given the repair advice and respective tools to get the job done," states one specialty retailer. "Advice is core to building the community so the Web can supplement in-store service and expertise. Through videos, forums, and customer-generated product reviews we could better stress any job's difficulty in the customer's language. This includes a focus on the quality of product content, related imagery, and attributes along with corresponding marketing elements. The content provided by manufacturers in our category is often insufficient so we are pushing for more comprehensive content to better meet customer demand."

REI recognizes that 70% of members are shopping at retail and they continually look to provide greater access to "how-to" content because customers often start online but transact in store with a "green vest," necessitating exemplary content execution in all locations.

At Viking, the owner's area of their website gives customers a great deal of relevant information from both a product and lifestyle perspective. All of the information is tailored to products one owns. In the "My Viking Area," owners can define what products any one of their many kitchens contain (even vacation homes) including competitive products. Consumers are able to register to retrieve recipes and food articles along with gaining access to a library of technique videos, from knife skills to broiling. While the program is only a few months old, registrations have been better than expected. Complimentary accessories are sold on the site but beyond that Viking Range is not looking to compete with their existing channel partners.

"Our goal is merely to suggest product to complete one's Viking kitchen or to provide use and care manuals along with personalized lifestyle content, remaining true to our brand's heritage."

— Tim Tyler, Viking Range

"Videos are being employed to increase conversion at eBags from product demonstrations to interviews with handbag designers. For example, a service-oriented video assists customers in figuring out the last step to putting their luggage together. Once completed, these video instructions have subsequently been e-mailed to all who bought the product which allows the customer to make sure they use the luggage properly but also demonstrates that eBags cares," states Peter Cobb.

The importance of rich information has driven one mass merchant to add a 3-D room planner. The use of realistic imagery and the richer content experience is designed to engage customers in support of online shopping and offline purchasing.

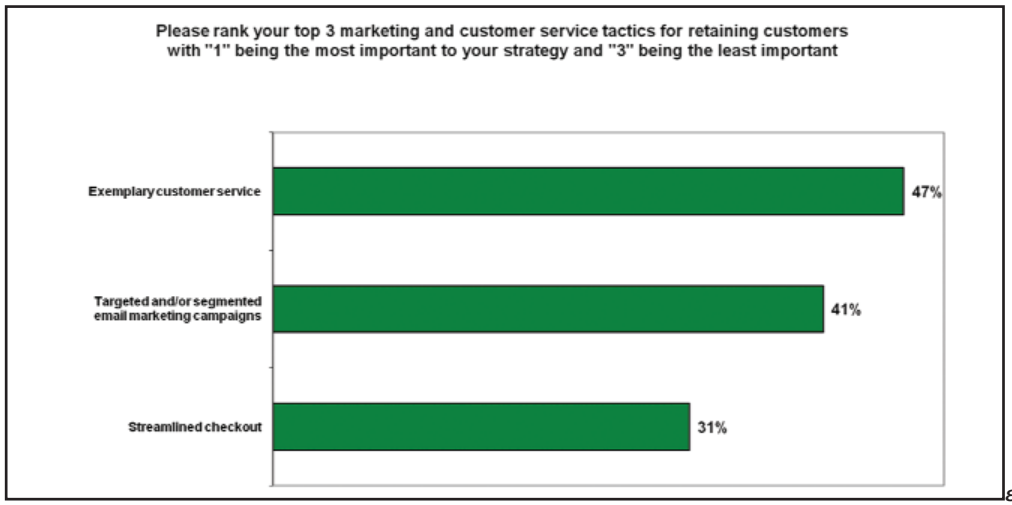
It is clear that a range of information can provide the supporting content that shoppers seek in ways that merchants can readily deliver.

b. Service as a Brand Differentiator

Competing on price alone is no longer possible in a world of less consumption and comparison shopping facilitated by search engines. One of the only true differentiators for cross-channel retail may still be good old-fashioned service. We will look at comprehensive customer service as well as post-transaction opportunities.

Service has many facets from timely receipt of the product to addressing informational and service needs pre and post-transaction. Never fully knowing what the customer will want and when, we need to put in place customer-centric policies that promote self-service while simultaneously empowering associates via all touch points to best support customer demands. That includes providing complete and timely communication delivering an experience that fosters time-savings and helps simplify the lives of customers.

Merchants clearly realize that customer retention is heavily dependent on exemplary customer service where almost half of the 195 participating merchants (47%) ranked service the #1 tactic for retaining customers.



8th Annual e-tailing group Merchant Survey; 2009

"We must offer an authentic point-of-view; communicating via our `blue shirts´ and through social media with all customers who visit the store or having conversations online; by delivering a more complete solution. Many of our customers are small business owners and in this climate, they need service more than ever. Their time is precious and we believe they look to us to ensure they `walk out with it working."

-John Thompson, Best Buy

"We are focused on providing better product information in a customer accessible way. That starts with listening and learning from our processes at the store level. Our current service at retail is strong; we don't have to invent the service experience as we already do it well. We hope to deliver a `high touch´ experience replicating that in-store service process by giving the customer the same level of comfort achieved at retail. It is about the transparency to the customer, not about being nicer to them when they just want good communication. Customers merely want what they want when they want it and we as merchants must be able to prove to them we can deliver," shared one home specialty retailer.

"At lauramercier.com service is a unique differentiator supported by a strong return policy, easy exchanges, and a `go beyond the call of duty´ attitude," shares Christine Robles. "We will address any customer needs, pacifying and then encouraging them to sign-up at lauramercier.com. We have empowered our sales reps to be proactive using customer communication to let customers know that product has been upgraded or given faster shipping status. We have specifically purchased a unique customer service module to ensure that all reps are on the same page having faced disconnects between the phone and the site in the past. Upon launch, all information will be in the same place, where CSRs will wonderfully see a single view of the customer."

"We will have to differentiate with our service model including calls on the phone or customer access to get to an agent via Click to Call or Click to Chat. We continue to monitor and measure our performance via Customer Satisfaction Indexes (CSIs) across all channels to understand pain points and appropriately act on any issues that arise."

— John Thompson, Best Buy

"At lauramercier.com service is a unique differentiator supported by a strong return policy, easy exchanges, and a `go beyond the call of duty´ attitude."

— Christine Robles, Laura Mercier

Moving beyond policies and approaches, several merchants talk about servicing customers post-sale and post-delivery. A mass merchant in Canada sends a repair-person to a customer's house to fix product. They are tying service plans to this model so down the road, if a purchased product needs repair, customers can be accommodated in 1-2 days from the service call initiation, with a $40 triage charge levied.

> *"In the world of technology, post-order support is critical; it's our brand's reputation. If you're successful with post-order support, you're successful and if not, you're tarnishing your brand. There is an important loyalty component as well where today we are replatforming service and tech support. Through technology we are also able to be flexible in terms of publishing content by taking advantage of customer-driven content where customers help one another solve problems."*
>
> *-Karen Keck, Lexmark International*

Service can become the differentiator that, when built on a foundation of accessible information, drives opportunity for innovation.

Cross-channel convenience also speaks to an opportunity for store-based merchants to seize an advantage against pureplay counterparts. Most of those surveyed realized that the ability to return in-store is a must-do for any relevant multi-channel player.

— 2008 Annual Merchant Survey, e-tailing group

c. Accessibility

Anywhere-anytime-anyhow shapes consumer thinking today. Convenience can be defined in many ways ranging from buy online/pickup in store and product locator tools that allow shoppers to check a store's inventory status before committing to a visit, to mobile and kiosk access in the store. We expect to see growth in both areas and this section touches on its potential in support of accessibility.

It is our belief, reflected in the numbers from our Annual Merchant Survey, that multi-channel retailers will be ratcheting up their cross-channel initiatives. Cross-channel convenience also speaks to an opportunity for store-based merchants to seize an advantage against pureplay counterparts. Most of those surveyed realized that the ability to return in-store is a must-do for any relevant multi-channel player. Beyond that merchants must evaluate delivery options and subsequent cross-channel integration to remain competitive. In some categories it simply supports the way customers want and need to buy.

What is your timeline for providing these cross-channel features?	Offer now	Plan to offer within 1 year	Considering for future, beyond 1 year	No plans to offer	Not a store-based retailer
Buy online/return in-store	52%	3%	3%	14%	28%
Buy online/pickup in-store	16%	15%	16%	24%	29%
Product finder/in-store product look-up	20%	10%	20%	21%	29%
Redeem electronic gift certificates in-store	27%	8%	15%	23%	27%
View weekly circulars/ads	21%	2%	8%	40%	29%

8th Annual e-tailing group Merchant Survey, 2009

"Consistency across channels will be an important part of the change we see which must come in the form of conveniences such as in-store returns, broader assortments, and more ship-to-store capabilities across a wider range of retailers. Customer efficiencies must be in place and experiences seamless as for now the customer is king. More POS systems will be Web-enabled and the infrastructure to support such customer-centricity will be put in place by those merchants who wish to survive and prosper. For REI, that includes signing up for both equipment and clinics online but participating at retail."

-Ben Viscon, REI

"Sears is aggressively pursuing multi-channel opportunities by exploring how to best expose Web site capabilities across all channels. From online to mobile to in-store, we are surrounding the customer with multiple touch points to make their shopping experience as easy and convenient as possible."

— Tom Giacalone
Sears Holdings

Often held as a model of cross-channel effectiveness, Tom Giacalone, DVP, Multi Channel Management, e-Commerce from Sears Holdings went into detail on their approach. "Sears is aggressively pursuing multi-channel opportunities by exploring how to best expose website capabilities across all channels. From online to mobile to in-store, we are surrounding the customer with multiple touch points to make their shopping experience as easy and convenient as possible."

We have highlighted these key capabilities as part of our ShopYourWay marketing campaign. We are letting customers determine when and how they want to shop. Our customers can make purchases either in-store, online, over the phone or with their mobile/PDA device. This program empowers our customers to use our channels to better manage their lives. We are trying to drive greater awareness and consideration to our brand, so we must talk about our capabilities in a much broader and integrated way.

An example of ShopYourWay coming to life is a customer trying on a pair of shoes in-store, being able to scan the bar code at a Web terminal or from their mobile device and seeing "like" items pop-up for purchase consideration. This allows for cross-selling opportunities and takes advantage of user-generated content to encourage additional purchasing in support of our vertically-focused merchandising strategy. This aides in delivering a consistent experience across channels while still providing unique opportunities at certain categories in-store. Encouraging customers to shop across channels to help manage their daily life, is the essence of ShopYourWay. It is all about helping our customers find whatever they want, wherever and whenever."

"The key to the next five years of retail will be focused on facilitating purchasing anywhere and also the concept of mobile retailing."

— Keith Nichols,
Zinio

The ultimate in customer convenience is certainly "buy online and pick up in-store." At one specialty store they report that some of their customers are just now coming online because of this feature. "Obviously if one needs a particular part to keep their car running, waiting for a shipment is not an option. We are keen on delivering tools that foster the in-store experience," shares a specialty retailer. "That includes the ability to create a list online to send to a store in advance of one's visit and greater adoption of this is being seen among our customer base. Starting with one's car make and model customers can go straight to parts; sales associates also know if a warranty is in place. It's an efficiency model that has required some training for stores but certainly worthy of the requisite effort."

Best Buy has spent significant time looking behind the results to understand what's going on in the minds of their customers, then ensuring they are being as helpful as they can be. One example is their in-store pickup model. With a focus on standard operating procedures, Best Buy associates pay better attention to this aspect of their business. Additionally, they tested 4th quarter curbside pickup but could not implement scale. John Thompson said, "We can't do it for everyone but we can do it for a few, perhaps as an ideal reward for achieving Silver Zone Reward status." He cites another example of targeting, "Certain stores are heavily shopped by women with kids and our category can be intimidating so we could work to extend greater personal services to this unique audience."

d. Mobile and More

Merchants will have to leverage technology to make shopping more accessible in today's mobile-oriented culture. Over 90% of the merchants in the e-tailing group's Annual Merchant Survey are either testing mobile in some form or researching for deployment either this year (50%) or in the next two years. We agree with Zinio's Nichols who shares, "The key to the next five years of retail will be focused on facilitating purchasing anywhere and also the concept of mobile retailing."

Most of the merchants I interviewed see the impact of mobile applications as an evolution and not a massive overnight change. Initially it will tend to play a role in how customers consume information in the store as well as prior to visiting. For merchants the mobile footprint will initially be less about commerce and more about tools to readily find out about products and services. Consumers can access the store locator, read product reviews, and take advantage of cross-channel conveniences such as delivery to one's car, facilitated by texting, the ultimate customer convenience. Other roles for mobile will likely include serving as a payment device, order history resource, and as a price comparison tool to ensure one is making a smart purchase. Customers today don't have the time to hunt down discounts, but rather expect everyday value, and failure to deliver on such demands will make it difficult to achieve parity in sales and performance.

Merchants who take advantage of technology to ensure an accessible experience will finally deliver on the promise of an anytime-anywhere shopping experience.

Kiosks certainly continue to evolve and several merchants talk of the evolution in vending machines, which makes it easier for merchants to extend to smaller footprints and to grow without opening new stores. Of course, these modern-day kiosks are computerized. We now must understand how they will play out with mobile and the iPhone as multiple technologies will likely need to converge for customer convenience and cost-effective deployment.

One specialty retailer interviewed reinforces the notion that, with this evolution, merchants need to remain focused on their customer base. "Our customers are skipping computers at home and going straight to mobile phones as the device of choice. As an example, if a car is broken down, that customer knows what they need and can check availability and pricing. While our model won't change to where we're installing product, it's essential that we have the right products in the right market when that customer needs to make a purchase."

For Sephora, today's mobile marketing efforts center on mobile ratings and reviews where customers can access information from the store via phone. "We are pleased to report over 10,000 customers using this tool within the first month of launching the program, with favorable media buzz from customers and social media experts." Sephora delivers cross-channel integration centered on their Beauty Insider strategy with one total view of the customer across channels. Communication can be store-oriented or targeted to channels shopped in the past or applied to both. 2010 efforts will include a re-launched site with many new customer features, making it more accessible for beauty enthusiasts. She emphasizes that these kinds of efforts are a result of a relatively small corporate office and very cohesive team geared toward meeting customer needs.

Monitoring new technologies will be essential to enable accessibility where addressing timing and acknowledging one's customer base is optimal

e. e-tailing group Experiential Excellence Q&A

1. What level of investment should I make in content to support customer needs and to be able to make an impact on both the online and offline shopping experience?
2. Will I be able to measure ROI on my content investment and if so what's the smartest way to measure its performance?
3. What kind of content management tools do I need to put in place or outsource to keep up with continuous content demands?
4. Are you currently delivering best-in-class customer service?
5. Have you defined a set of customer service benchmarks that you are looking to achieve?
6. If you are multi-channel have you evaluated in-store conveniences such a product locator and in-store pickup?
7. Are in-store kiosks and vending machines on your radar screen?
8. Is your customer base heavily embracing mobile technology, forcing you to take a look at new technologies?
9. Is your organization aligned to support cross-channel tools and conveniences?

V. Conclusion

Survival and growth suggest bold strategies and visionary thinking. Merchants must remain vigilant not only in their pursuit of topline revenue and cost-cutting but in keeping a watchful eye on the evolving retail ecosystem.

Merchants, you must take every opportunity to test assortments, monitor price-points, and to stay on a level playing field as today every merchant and manufacturer is your competition. It is imperative that your organization has a CRM strategy in place that is centered on building lasting customer relationships in order to be ready when spending returns. Defining a cross-channel experience that ensures you are the go-to-resource in your category and across the breadth of retail, means delivering a relevant and personalized shopping experience. Your website must engage and inspire your customers and prospects alike, containing comprehensive and rich content in support of shopping needs. Exemplary service must also be core to cross-channel strategies where anytime-anywhere shopping becomes a goal that more merchants strive to attain.

Those merchants who elevate their shopping experience, remain responsive to their shopper needs, and meet their competition head-on with forward thinking strategies will be ready when the next revolution of retail comes to fruition.

Will you be ready for the next retail revolution?

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