No Retreat!
Investing in eCommerce, Despite the Times

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Joint Acquity Group & the e-tailing group White Paper

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INTRODUCTION

As daily headlines focus on the mortgage crisis, collapsed investment banks, high fuel prices, and tough retail sales, it is obvious that today's current economic climate is challenging for many merchants. This also makes it timely to tackle tough issues surrounding eCommerce investment including how merchants are positioning their companies for growth while still addressing the bottom line.

This report is sponsored by Acquity Group, a Chicago-based consulting firm focused on innovative and sustainable multi-channel eCommerce solutions integrating strategy, design, technology, and governance that enable organizations to realize their online business potential. Prior to preparing this report, we had some preconceived notions but, with an open mind, sought out real experts from within the merchant community to get the inside track and answers to questions like these:

- Are you truly committed to eCommerce?
- Are you concerned you don't have the right investments planned?
- Will you have the guts to make the necessary investments in the tough times?
- Is your eCommerce hampered today based on your legacy systems?
- Will you have the ability to evolve your multi-channel efforts in a timely fashion to keep pace with best-in-class merchants?

First we looked to understand how merchants define their multi-channel selling strategies, from who controls strategy within their organization to the biggest roadblocks they see relative to advancing multi-channel agendas. At the same time we sought to gain perspective on the requirements necessary to compete with the best in a category or across the web, and what current efforts were underway to achieve these capabilities.

We then wanted to comprehend, given current economic times, any fallout that eCommerce will face and how companies will be investing in both people and money against chosen initiatives. Each merchant assigned a number to their purported investments and the rationale behind its selection. An examination of technology prioritization processes gave us insight into their internal workings and fostered discussion of platform inefficiencies; shedding light on the many challenges merchants face in achieving desired strategies and how important execution is to the bottom line.

Knowing their macro point-of-view, we felt it also was important to delve into the details by exploring the top three initiatives on these merchants' eCommerce to-do lists plus what and who is driving specific efforts. In the same vein, we specifically wondered if they intended to extend their assortments and add skus through drop-ship or other means in order to grow revenues exponentially.

The findings are fascinating and the stories are ones all merchants will identify with as they too evolve, in an effort to make challenging retail times prosperous.

MACRO STATE OF RETAIL

The eCommerce channel has matured and the forecast is for flat growth

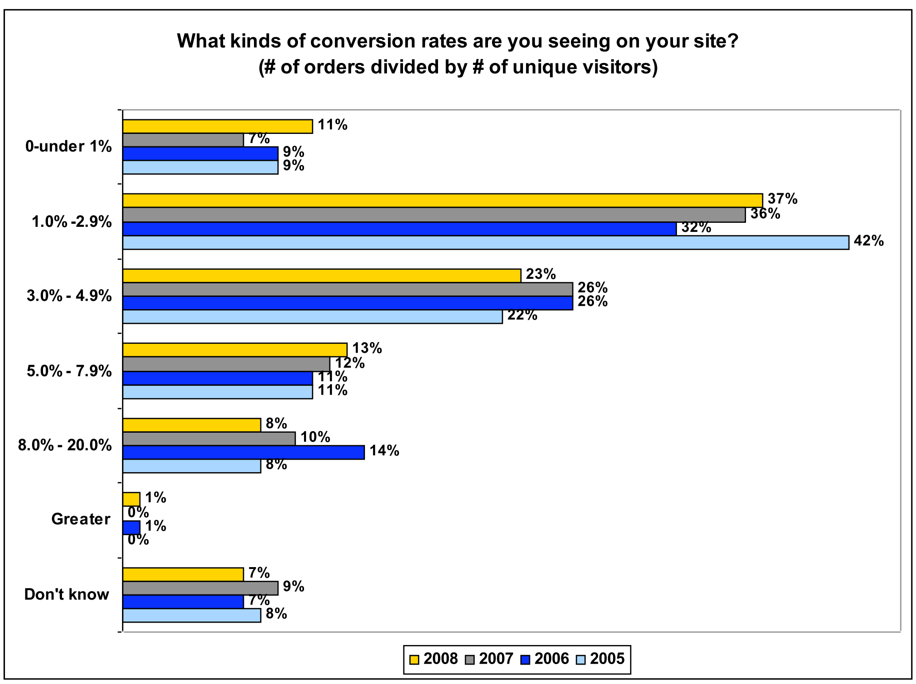
First quarter '08 results are in and growth in online sales was up 13.6 percent, reaching $33.79 billion. The good news is eCommerce outpaced growth in total retail sales which were up just under 3 percent for 2007, though the tempo has slowed according to the *US Department of Commerce*.

Pundits predict 2008 eCommerce sales will reach $158.3 billion, up from $136 billion in 2007 according to eMarketer where a 12 percent online sales average annual growth rate from 2007-2012 is anticipated. Consumer growth coming online is projected to be just 3.1 percent as 193 million US Internet users or about two-thirds of the population already frequent the web, which seemed almost unthinkable ten years ago.

The e-tailing group 2008 Annual Merchant Survey, completed earlier this year, is a compilation of responses and commentary from 200+ senior executives with responsibility for eCommerce which we have integrated throughout this report. These B2C and B2B merchants represent a cross-section of product categories and a broad range of eCommerce revenues, providing a diverse merchant flavor. Findings suggest challenging times but opportunities do exist for exemplary performance, a fact that was reinforced in our most recent merchant discussions as well.

Conversion rates remain flat

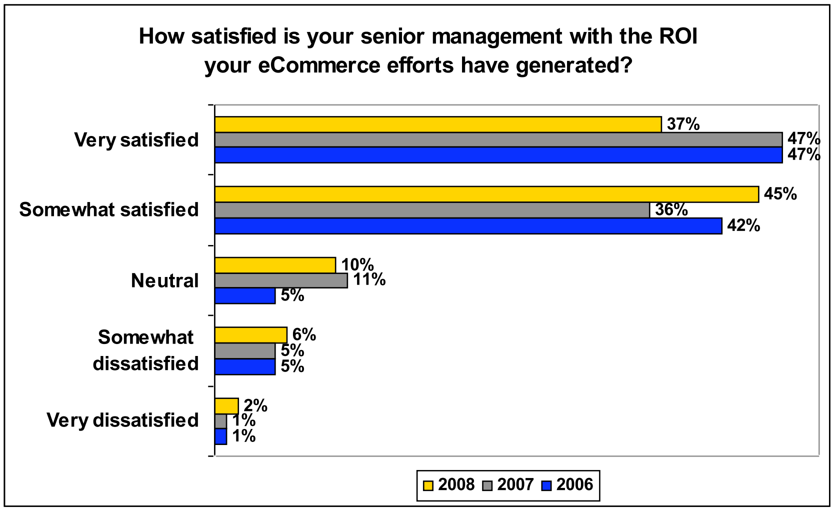
Sophisticated merchants or category-centric players are still able to achieve higher conversion rates. Though average conversion rates remain in the 2-3 percent range, those experiencing rates under 1 percent were up from 7 percent to 11 percent and are indicative of the current, challenging online climate.



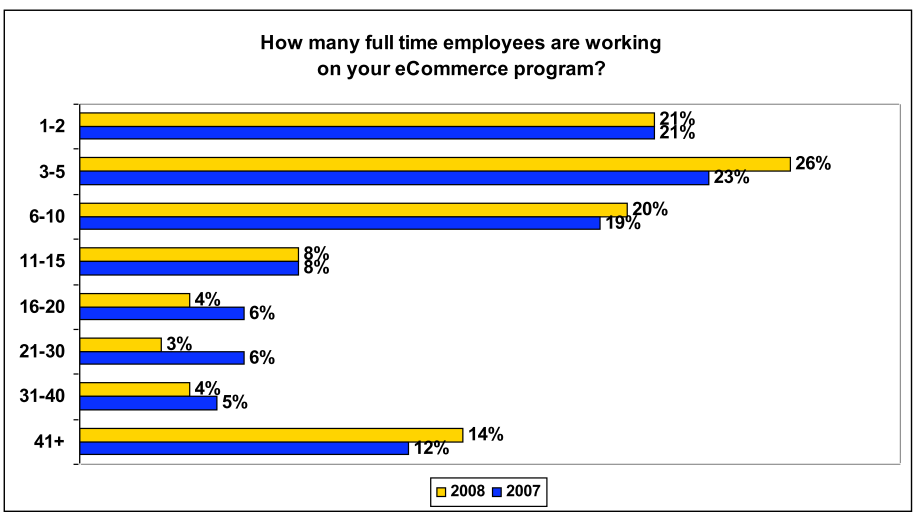
Relative to last year, merchants also saw conversion rates split in terms of growth being "somewhat higher" (45% vs. 36%) and "about the same" (24% vs. 35%). Elevating these rates, while an important 2008 goal, is no small feat for the majority of players.

Senior management satisfaction is waning

Satisfaction is declining as with a maturing channel and a flatter growth curve management is more apt to be somewhat (45%) versus very (37%) satisfied with the **ROI** generated by eCommerce. This attitude is apparent as merchants hone in on performing strategies and continually review priority lists to ensure optimization of their investments. Further discussion of selection tactics later in this paper sheds light on those that top the list.

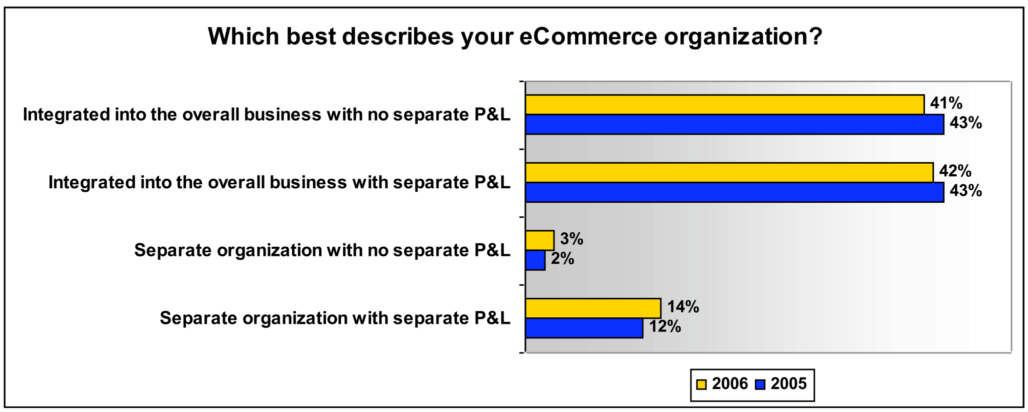


In fact, resources devoted to eCommerce are still not increasing commensurate with channel growth as evidenced by merchants trying to squeeze more from already short staffs. This notion was clearly confirmed through merchant outreach. Most face internal constraints yet despite challenges, are still making major eCommerce strides.



Historical look at eCommerce investments, control, and evolving business models
Over the short history of the eCommerce channel we see an evolved merchant community that now looks more holistically at the multi-channel world. Initially eCommerce was about siloed initiatives, fear of cannibalization, and P&L by channel rather than aggregated as an organization. Once merchants realized the web would become a channel to reckon with, it was inevitable that these barriers would be broken down. It is evident that consumer demands of cross-channel convenience and consistency pushed merchants in this direction to accommodate their needs. A singular mindset emerged from the savviest of players and that too was confirmed during merchant discussions.

As a precursor to these discussion, it is interesting to review our *2006 Merchant Survey* which was the last time we asked merchants to describe their eCommerce organizations. At this point, after five survey years, eCommerce organizations **integrated into the overall business** had leveled off at 83 percent versus 86 percent in '05. The divide seen at that time was mostly a case of holding the P&L as 41 percent had an overarching brand P&L while 42 percent were separate and distinct. We expect these organizational approaches to remain status quo with some shift away from a separate P&L over time.



DEFINING YOUR MULTI-CHANNEL STRATEGY

It was essential to gain a sense of each merchant's multi-channel perspective and subsequently their vision. We did so by inquiring, *"How would you define your multi-channel selling strategy and how high of a priority is this strategy relative to other initiatives?"*

eCommerce is still a top priority

The merchants that I interviewed varied in point-of-view and evolution of eCommerce execution. For most it was clearly a top priority with some even suggesting multi-channel strategies had been elevated to the highest of concerns by senior management. One specialty home merchant reported that both multi-channel and eCommerce are top priorities. Their executive committee identified this as a primary growth area and new levels of investment will result from that designation. "While implementation is in the early stages and still being defined, we will certainly be investing in technology and integrating as much as we can in hopes of delivering a consistent experience across channels."

Multi-channel is an ongoing concern

Golfsmith has evolved and today according to Matt Corey, VP Marketing & Brand, "It is less of an initiative and more of an ongoing business concern. We continually ask ourselves, 'How is this accessible across all of our channels?' It's part of our DNA where we allow the customer to make choices about the channel rather than forcing them to behave in a way that does not suit their needs. Knowing that, we're hard pressed to see value in a single channel mindset."

Orvis has a similar mentality explained Brad Wolansky, VP, Global eCommerce, emphasizing that they are very integrated and tightly woven. "The multi-channel strategy is ongoing and is institutionalized at this point where multi-channel is our first view. Five years ago we had our silos and subsequently also bit the bullet on Nexus. It's no longer an item on our to-do list, but something we feel we've accomplished where we 'drink the kool-aid' every day."

Value extends beyond sales

Chicos fully embraced eCommerce later than some of their counterparts but today the channel is a priority because of its impact on its corporate multi-channel strategy. "The Internet provides infinite value beyond the sales it records for us by bringing customers to our stores. It is an incredible conduit for communicating with our customers about our brands," reported Stephen Carvelli, Director of eCommerce.

Customers demand a multi-channel orientation

Peter Taylor, eCommerce Business Advisor for Sport Chalet agreed, “It’s a high priority; understanding the interplay of channels is critical for retailers today. Shoppers have come to expect a multi-channel presence and a new relationship has evolved now that we can reach customers anywhere, anytime. This has particular relevance in our categories where people ‘want’ our products versus need them.”

Like many others, he observed there is increasing pressure for merchants to know more about their customers and to get this insight, **data** is of the utmost importance. “As a specialty retailer aligning with our customer values and utilizing transaction history from our loyalty program provides information and insights that then support our marketing decision-making. We believe there is an opportunity to serve our customers better via the web and impact the bottom line by increasing investments in online technology stretching our marketing dollars.”

Some, like Amazon, leverage the science of selling more than the art while others take a greater interest in the psychology of selling. Many retailers are redefining their positioning as merchandising is not about just putting it on the rack, but extending a point-of-view. With sophisticated products and lower manufacturing costs, communicating benefits is more important than ever before. Given the scope of competition, where logistics drive strategies for big box players, specialty stores must continually redefine their positioning along with their value-add.

JCPenney’s Nick Bomersbach, Vice President, jcp.com defined multi-channel as, “delivering an enterprise-wide approach to serving our customers in a way that makes sense to them and leverages our channels in the way customers want to shop.”

Bomersbach summarized, “Multi-channel certainly is a priority given today’s eCommerce environment; we intend to be prudent and moderate yet can expect a consistent acceleration of our eCommerce investment. It is part of our overall strategy but must make sense for the customer where innovations are always about solving a problem. As customer communication evolves and we see shifts in media consumption, we want to understand her concerns and make the necessary adjustments. We also have to be focused; while we cannot pursue it all, understanding these customer insights, along with what our solutions can help them do, leads us in the right direction.”

“One way we’re doing this is with the reorganization of jcp.com in January 2008, enabling it to further evolve as the “Hub” of our business. We combined our direct and stores merchandising/marketing/inventory teams to ensure JCPenney communicates in “One Voice” to customers. The reorganization included aligning jcp.com under marketing. Many changing dynamics are also being researched including future economic model changes, how advertising is viewed, and of course ROI. We hope to move beyond what’s on the surface to leverage behavioral insights of our customers in order to advance our multi-channel agenda.”

Sephora's Julie Bornstein, a veteran of department and specialty store eCommerce and now Senior Vice President, Sephora Direct concurred with her eCommerce counterparts. For Sephora multi-channel is also one of the highest priorities. She credited their savvy CEO and emphasized, "It's very integrated and structured in an ideal way where everyone gets credit for everything, avoiding any potential channel conflict." Supporting these multi-channel efforts are loyalty and CRM which for Sephora are cross-channel in nature. Their loyalty program provides perspective on how customers are buying across channels so they leverage information from one channel to another to drive multi-channel initiatives.

Maintaining high priority status will likely be a factor of performance

Demonstrating how economic strain will have performance implications, a department store merchant shared their current scenario. Despite the times, Beall's, Gwen Bennett, VP, Advertising & eCommerce sees multi-channel as a very high priority. In the past few years, the growth on BeallsFlorida.com has created excitement but this year growth has flagged in both the online and bricks and mortar channels causing management to re-evaluate the financial and operational dynamics of the business. "The imperatives that made sense in the high growth days may no longer be appropriate in a period of economic weakness. Because of this, we may need to redirect our marketing and IT resources to efforts that we believe will produce better results. The onus is on our team to continually prove-out the eCommerce potential and bottom line contribution, then the investment will likely follow suit."

Cross-channel vision moves beyond multi-channel

Kevin Ertell, VP eBusiness at Borders emphatically stated, "We don't call it multi-channel but instead refer to our efforts as cross-channel. We feel that 'multi-channel' just means more than one channel whereas 'cross-channel' is bringing together the strengths of each channel to create a better overall experience." With such a distinction he emphasized, "It's an extremely high priority where if done right it's our best chance of competing and winning." He provided several supporting examples including the Borders Search kiosks in Borders stores which will now share the same infrastructure as Borders.com. Customers can create a wish list in any channel where titles can be added at any point in time from any location. Customer reviews created online may also be accessed in store and the treasured staff picks, in the past only accessible in individual stores for thirty days, will now be put online for everyone's benefit. Such cross-channel innovations distinguish the evolving definition of multi-channel for customer-centric merchants.

The lines have also blurred regarding how customers interact with REI. "Multi-channel is still very important; internally the online channel is one of our eight key initiatives and areas of growth for the company," according to Ben Viscon, their Online Sales and Merchandising Manager. The company supports this position via requisite investment with seamless execution a selling point for shoppers. "There is a top-of-mind awareness of how to use the channel where we are continually reinforcing multi-channel thinking. For us it's not just about selling, we see ourselves as 'channel-less' so consumers can get information or conduct commerce and have a very consistent seamless experience as we adopt the best elements from each channel."

Future plans are aggressive including a full site redesign in midsummer with a completely different look and feel as well as an introduction of community elements. He elaborated, “We’re not reinventing but simply using the site as a hub, viewing this as a natural extension of our business. For example, in store we have outreach specialists focused on wants and needs of groups, including non-profits. We might offer a paddling clinic or training and even have a PEAK program (Promoting Environmental Awareness in Kids) that teaches kids about the outdoors and awareness of their surroundings. We do this today in our retail stores and the challenge is how to adapt it online by using the web as a facilitation tool. We could then provide gear lists for a day hike and/or group discounts that can be fulfilled from the site, truly personalizing cross-channel execution for our customers.”

It must be a competitive advantage

Not surprisingly, merchants leverage their multi-channel capabilities as competitive differentiators. At Circuit City, Rich Lesperance, Director of Web Sales & Operations, stated more than half of their orders placed online are picked up in store. “It’s all about the store relative to how we compete against pure-plays. We’re successful because we can make it seamless for the customer, but we understand ‘it’s a ‘journey’ to get there. We can’t change consumer behavior and the ‘right away’ factor is always there with the customer wanting the reward.”

For Famous Footwear, Lisa Dyson, Director Customer Relationship Marketing, confirmed multi-channel is an extremely high priority as both web efforts and the store factor are differentiators in their category. Believing they are ahead of their competitors, they view the customer as being the center of multi-channel efforts and afford them the chance to use each of their touch points based on these unique needs. The goal is to leverage the strength of each channel for the benefit of the customer; delivering a seamless experience by taking advantage of the web’s infrastructure. They know their customers are using the web to research what is available in the store as well as to access web inventory as a shelf extender during store visits. Using email to promote store events or to facilitate the all important buy online/pickup in-store potential, the web drives store traffic.

Execution must follow the vision

At some retailers they report their efforts are truly more “multiple channel” than multi-channel. They often act like they’re multi-channel with ‘three ways to shop’ as part of all collateral, on store bags and receipts, but when you dig deeper, they are unable to offer store returns or in-store pickup and prices may be slightly different in each channel. With a separate online company and Nexus issues still a factor for many they aren’t yet multi-channel in their execution.

Per John Lazarchic, VP of eCommerce at Petco, “Our senior management supports the initiative but the rest of the company doesn’t follow suit. Despite these challenges on the surface we are very adamant that cross-channel is a high priority. Like other merchants we have limited resources and often store initiatives can take priority as eCommerce is still a small piece of the overall business.”

America's Gardening Resource was honest, saying they're still developing multi-channel strategies and very much recognize they need to think multi-channel. Jeff Govoni, Marketing Director, acknowledged they have been thinking for a long time about whether or not they have strategies and real tactics in place including investing in the infrastructure and applications to allow them to do better. "We are currently looking at customer behavior across channels including in which channel to deploy what message. We know we have a way to go to get the web fully integrated into the business. Decisions are no longer eCommerce only therefore we must put in place polices and a consistent customer experience. With the web becoming more important and less autonomous then in early years, decision-making reaches further into the organization."

Multi-channel is an evolutionary process

One TV-based merchant expressed, "Our multi-channel efforts are very mature and touted as key company strengths." They nailed multi-channel early and continue to improve on these initial efforts. Today it is not a high priority as they are in the fine-tuning stage with all campaigns and communication already coming from one department. "We do acknowledge falling down on post-analysis; with so much going on everyday it's hard to analyze everything," he lamented.

From an opposite perspective, a multi-channel beauty player interviewed admitted their early multi-channel efforts were mostly about the store, its' products, and generally driving traffic. "Things changed though in 2007 with a technology upgrade and our launch of eCommerce in November of that year. Now roles are reversed with the store promoting the web by securing email addresses so multi-channel is a reality and as such a very high priority." They are now leveraging technology to bring the web and store together for mutually beneficial purposes with loyalty points across the channels fueling that effort.

Changing times, changing strategies – the store is the focus

Retail is one the fastest changing verticals and as such a number of merchants identified modifications to their strategies either due to change in ownership or in pursuit of strategic initiatives. Beth Sash, Business Director, eCommerce & Direct Marketing, Godiva observed, "Multi-channel is a priority however, we have so much invested in our retail stores that they will remain our top priority." Efforts will include trying to drive traffic to and from each of the channels with extensive communication where multi-channel will remain a top ten initiative.

With more than 175 coffee & tea retail stores, distribution in over 7,000 grocery locations and a thriving online business, Peet's Coffee & Tea attempts to be agnostic between communications, consumer engagements, and transactions across these three primary selling channels. Brian Platter, GM, Home Delivery, knows their strategy is different than most multi-channel retailers: "Peet's is a truly customer-driven multi-channel business – the more we engage with customers across all channels, the more customers buy across all channels depending on their particular situation and needs. Our retails stores primarily sell beverages, addressing a different consumer need than grocery coffee bean buyers.

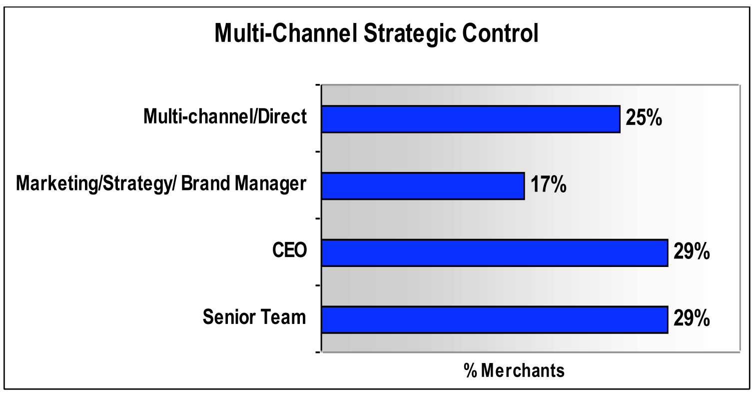
Additionally, while online buyers get the freshest coffee beans possible, there is the additional cost of shipping which is seen as a barrier. We're happy to have our customers buy their everyday beans in their favorite grocery store, stop by a Peet's coffee shop for a mid-morning latte and then buy online exclusive rare offerings and gifts at peets.com. Our job is to make it simple and easy for customers to access and enjoy Peet's no matter what their shopping preferences are. As a historically regional business, we see our strongest growth in the grocery channel as we open distribution in entirely new geographic regions. This has impacted the online business resulting in flat growth – but more importantly we use our online customer relationships to kick-start the grocery business through word of mouth campaigns in new regions which ultimately result in many new customers across both channels. This symbiotic relationship is also true for our retail store growth – we use our online customer base to spread awareness and excitement about new retail stores which accelerates the growth rate of beverage and pastry sales in each new store."

At Crutchfield, John Haydock, Senior Vice President Marketing and Creative, thinks, "A channel agnostic view is the right way. There are hurdles to overcome and we must always remember our catalog heritage. If forced, we would admit that our bias is on the catalog side and contact center. However, our goal is to ensure consumers can interact in any channel and will receive the same offer, the same level of content, and customer service. In terms of determining marketing investment, we try to credit the sale to the right place. However, from a compensation standpoint, we do not get caught up in this and make sure that those who are making the right corporate decisions are getting credit for their work regardless of where the sale gets allocated. Despite our sincerity in delivering a consistent experience we do experience, not surprisingly, a higher success when customers go through the call center. Thus, we certainly make our phone number prominent throughout our site."

Though the tactics take on varying tones by different merchants, the tenor of these discussions centered on the critical role, high priority, and status that multi-channel has attained in most organizations. It portends customer demands coupled with technology upgrades will continue to facilitate and optimize multi-channel performance in the coming years.

WHO IS DRIVING YOUR MULTI-CHANNEL STRATEGY?

As charted below, it was evident from merchant discussions that strategy often starts with the CEO. How reassuring to see eCommerce with such high-level attention, likely based upon growing contribution to company revenues. An interesting scenario came from Haydock at Crutchfield where their CEO consistently shares his views regarding vision and strategy and supports his view with a subsequently distributed hard copy memo. From there a business plan is created then marketing and creative execution is brought to bear to ensure its ultimate success. Haydock also noted that they no longer treat eCommerce as a separate Business Unit. He recently reorganized his group to integrate many eCommerce functions into the more traditional direct marketing team saying, “This move will ensure more consistent branding and less internal process.”



Collaboration and team efforts clearly in place

The other dominant answer was a **team effort** – with CEO involvement. The following chart represents merchant feedback on such a strategy including merchant-specific nuances.

MERCHANT	COMMENTARY
JCPenney	Enterprise-wide approach to serving customers with e-commerce accountable for digital strategy and execution
Sephora	CEO sets the priority along with a small operating committee including the heads of retail and eCommerce; by nature, they're a collaborative group
America's Gardening Resource	Brand Manager and Managing Director drive the strategy with collaboration. In the past eCommerce would tell marketing what to do but that is not the case anymore
REI	Multi-channel direction is set by online and a management team, including their VP Online, who is also part of their companywide leadership team
Golfsmith	Three legs of a stool as they are all responsible for the sales channel (marketing, merchandising, and store operations)
Famous Footwear	Extremely collaborative with a senior cross-functional team including the President, Marketing SVP, Senior Merchant, Store Operations and Finance
Godiva	Multi-channel direction is set by the Senior Leadership Team, which includes GMM North America and the heads of retail, wholesale, and direct

eCommerce lead or strong input

Wisely, based on their know-how and insights when a team or CEO effort was not part of the program, the multi-channel strategy belonged to the head of eCommerce or the entire direct channel. From there marketing, strategy, and brand managers drive the initiative for a handful of merchants. At Petco eCommerce certainly takes the lead as they have the real knowledge. Others may know the buzzwords but don’t thoroughly understand the executional demands. Orvis emphasized they have structured their company, including a VP Multi-Channel role, where there is one brand for all channels and Wolansky believes such a designation certainly says it all.

Lastly, one beauty merchant reported officially it would be the VP eCommerce, but a lesson from his discussion suggested it is important to understand the strengths of business-oriented and IT-centric executives, emphasizing IT decisions are not made in the background.

Collaboration is an ideal way to drive eCommerce as when all parties are invested through contribution and impacted by results, the right strategies can be put into place.

INVESTMENTS IN ECOMMERCE ARE STRONG, DESPITE THE ECONOMY

Next we sought to understand how the economy is affecting businesses and if their eCommerce investments are still in place or have been hampered by a struggling retail industry. Thus we framed our question, *"Knowing your eCommerce growth relative to traditional store business, what impact will that have on investment in people and technology to support the eCommerce business?"* For pure-plays or those whose business have a catalog rather than store-centric model we reshaped the question putting it in the context of their unique business model.

First and foremost merchants shared that **much of their growth will come via eCommerce**. Relative to current investment their viewpoints ran the gamut from significant to cautious thinking and only a handful indicated any pullback due to struggling retail performance. The dynamics have changed with the store experience dependent on eCommerce execution. Consequently innovative technology expenditures are secure despite the times.

Based upon extensive hands-on eCommerce experience of the merchants we queried, most felt that the level of investment was insufficient relative to current and future growth potential. There is still an innocence about the space with merchants underestimating the true needs. The people requirements for the web, which for most, is their biggest store, are disproportionate especially given the fact that the retail technology serves as the foundation for growth.

Circuit City's Lesperance echoed the sentiment that eCommerce is a high investment area suggesting money goes to where the growth is; making this a major focus for the company. "We are currently hiring across numerous areas within the eCommerce group. We have certainly seen there are first mover advantages commensurate with our investment and knowing this reality we need to step it up."

He further observed, "There is always a shift from non-buyer to buyer particularly among consumers who started researching online in the past year. We need to optimize the potential channel shift for those who have recently added broadband in their homes, encouraging even more consumers to move from simply researching online to purchasing. A clear understanding of the necessary search requirements and subsequent payment options is required. Leveraging insights gleaned from our analytics will allow us to tap into our potential, gaining exponential volume, and from there we can refine accordingly."

The money is there to support eCommerce

Answers also centered on capital expenditures and were colored by the timing of these investments. Many had made investments noting that there was no lack of capital put towards eCommerce. Even those who were separate business entities with growing store bases believe in eCommerce. IT also plays an important role in supporting the stores including sending out emails to educate shoppers about store events so the two work in tandem.

Smart spending

Profitability has been top-of-mind for the past four years as in our *2008 Annual Merchant Survey* it continually ranks among the top three strategic goals for the 200+ merchants who typically complete this research.

Rather than sounding a cautious tone **merchants are confidently pursuing eCommerce investments**. Orvis's Wolansky was candid that eCommerce is very well supported noting, "We're not in competition with the retail guys for funds; we're still investing where we think business can pay off."

Ben Viscon at REI suggested REI intends to keep its online store as a key growth initiative in commerce, content and community). "We're not just a little web store. We understand we need to continually reinvest from both a head count and systems' perspective."

At Golfsmith, Corey added, "We're growing our web business faster than the rest of the company and we continuously strive to understand what it would take to drive eCommerce even faster."

The reality of tough retail times

There are of course some merchants impacted by tougher times more so than others. One specialty apparel merchant sees a need for more people but conversely lost employees in a recent lay-off. "We are investing in marketing to drive traffic and conversion as well as focusing on enhancements to the website, prioritizing what we believe will give us the best return on our investment."

BeallsFlorida's Bennett is also experiencing greater scrutiny where their decreased growth means decreased investment. Despite being the #1 store, online revenues and sales are not increasing as they had in the past. "Management understands the long term nature of investments in new business propositions like eCommerce, but still looks for BeallsFlorida.com to garner meaningful top line growth," she concluded.

Crutchfield's Haydock acknowledged while they did not have a great back-half in 2007, early 2008 results are promising. Their margins are tight and a dearth of hot products coupled with a tough economy resulted in slower growth in '07 than the previous few years. While they expect competitors to remain focused on pricing, they are confident that their "value added" strategy is a better long term approach. Their biggest challenge seems to be implementing against a long list of priorities, many of which have been tested successfully but require significant resources to implement fully.

Sash at Godiva offered the following insights, "Direct is doing well and retail in general faces tougher times as overall mall traffic is down. We have been fortunate to have double-digit growth and we could certainly use more people though I don't expect a big staffing increase in the near term." However their headcount just increased by one to support email efforts as their retail email campaigns have increased significantly. Additionally she anticipates they will further support retail efforts versus direct; leveraging email as it is the cheapest way to contact customers.

Another company admitted they are in a “containment mode.” Being part of a larger entity, controlling expenses and resources is essential so they have had to pull back a bit on new initiatives. Positively, 1Q ‘08 sales are strong and the future looks brighter as in ‘09 investments will be bumped up 15 percent. “Wishfully thinking we may be able to go back and beg but customized needs that require third party integration efforts are likely to hamper those efforts.”

Thoughtful growth

America’s Gardening Resource’s Govoni explained rather than look at growth by channel they examine overall company growth to track how the customer base is increasing, including efforts to get more business out of existing customers. They are now considering investing in cost-effective customer acquisition. “We have learned over time an online acquired customer is just as strong as offline. With catalog costs becoming more and more prohibitive we are investing more in the channel that can best deliver ‘the contribution’ we need though it’s always a moving target. At the end of the day, we always want to get smarter about how to spend our next marketing dollar.” Spoken like a seasoned veteran.

Store requirements dependent on eCommerce investment

Famous Footwear’s Dyson cited their goal is for customers to leave happy. Today home delivery is 3-4 percent of company transactions as a result of a store visit. “Not only do we like to but we need to get this business. Multi-channel maintains its position as a high priority where we’re able to secure a greater investment for the web in terms of both dollars and people which we believe is very unusual in these tough times.” It is interesting to observe that their goal of driving traffic to the store via the Internet impacts multi-channel more than the web.

Borders’ Ertell made it clear the investments they are making are significant as they know this is where there is growth. “Without such investments these tools would not be possible and an impact on future store business would ultimately be felt.”

Sport Chalet eCommerce advisor Taylor used the expression “we train dogs-we teach people” and asserted there has been and will continue to be a need to reallocate resources. “Merchants will shift funds to this area because redeploying teachable resources is a solid strategy. Online businesses need to have a clear understanding of the contribution they make to the overall business and they need to be run like stores where technology investments are considered in terms of true ROI. Effective modeling of expenses and thorough assessment of the value of functionality enhancements will provide a clearer view of how to grow the overall business.”

Heavy investment

eBags, voiced the pure-play perspective though they currently mail 950,000 catalogs a year and are heavily invested, according to Peter Cobb, SVP/Co-Founder. He alluded to the fact that they can’t get people fast enough as their Colorado location can be challenging from a recruitment standpoint.

Reviewing the numbers he noted that today IT employs 40 people versus just nine people three years ago. Thinking has evolved where they are continually evaluating outsourcing some technology, which was done infrequently in the past with their build versus buy mindset. “There are inherent challenges,” Cobb explained, “A technology company that focuses on product reviews, such as BazaarVoice, may have 80 people driving reviews and we have 1-2 people. We also look to invest in next generation technologies such as a video management system startup that can uniquely support our business as these efforts become differentiators for our brand.”

Timing is everything

Petco’s Lazarchic announced for 2008-2009 they are on track to receive a larger investment based on current and potential growth as a percentage of sales. Importantly, this follows several years of minimal investment in both people and technology for eCommerce; today he only has one more body than seven years ago.

Sephora is in a major escalation mode too and will be investing more than the company has spent since its inception as their platform is no longer scaleable, according to Bornstein. New ideas and strategies require investment and she believes they can get more growth out of the business by extending the profitability of this channel. “At Sephora everyone understands the payout and sees the opportunity so now it’s time to get the tools, especially those centered on Clientelling, in place.”

At Sports Giant, a mid-sized sporting goods retailer, Shael Wilder, CEO provided a perspective on investments that also centers on timing. “Although our industry generally is relatively flat in terms of growth, competitive advantages have allowed us to outpace others in our category. An annual growth rate of 30 percent has enabled us to move from basic tools to more evolved technologies and from manual efforts to those that are automated.” To date they have spent conservatively, relative to the industry, but are now ready to do more with their platform. “All of these recent and continuing investments were needed, as we’ve outgrown much of our technology and need a robust and flexible commerce platform. Our business has reached the stage where we can no longer manage with lower level investments in technology. Our team continually evaluates tools until we’re ready to deploy, as we are doing with both new email and analytics systems this year.”

“We are driving large percentage increases of traffic to our websites and the customer is responding to what she sees, suggested Chico’s Carvelli. Business on the web has been good and we’re seeing positive results from this growing area.”

A beauty retailer we spoke with is also investing heavily in eCommerce, having spent upwards of $5 million to upgrade their platform. Radical investments were made internally as in the past they had no IT in the company. This year they are very aggressive and their CEO has set the bar high where today they are the biggest retail store but hope to be ten times the biggest store down the road.

We expect the bar will remain high with the biggest challenge continuing to be securing funds as web channel sales flatten out over time. It will require forward thinking merchants who realize multi-channel investment is fundamental to overall retail growth and drives consumer demand for their brand as well as long-term customer loyalty.

ROADBLOCKS TO SUCCESS

Even when funding is in place merchants face obstacles and our interviewees confirmed expected roadblocks were experienced when trying to advance their multi-channel agendas. **The usual suspects are of course time, money, and people but the strongest impediments appear to be cultural in nature where the mindset of the existing organization can be its own worst enemy.** IT issues also appear significant due to the complexity and changing nature of priorities and requirements. We will touch on both of these, again sharing merchant experiences to further expose the soul of the challenge.

The basic roadblocks

Before we move into this discussion, here are some basics that were covered. Money is a factor in every business, including multi-channel selling. Sash at Godiva finds people do not always have an accurate understanding of how much money, effort, and time are required to truly be multi-channel. “We believe our direct business can do anything, but inevitably something else will certainly suffer.”

With a mandate to use online marketing to grow the grocery channel, but without a significant budget, Peet’s Platter got scrappy and developed highly targeted online couponing and customer advocacy programs to get the most bang with the least dollars. Orvis’ Wolansky admitted not having enough time. “We always want to do more; more user functionality and more ways to better merchandise for the customer.” Any time one is dealing with systems it takes longer than estimated so it will always be a matter of prioritizing initiatives against one another.” Lazarchic at Petco shared a similar sentiment where his biggest challenge is being up against all of the competing priorities from other departments compounded with day-to-day business needs. While the company clearly sees the value in multi-channel, actually being able to round-up resources from outside the eCommerce staff necessary to execute programs is challenging.

Merchants have different approaches to staffing. One beauty retailer taking more of a wait and see approach assessed, “While there is tons of money for consultants, there’s a hesitancy pending achieving expectations before we deal with business processes.” Crutchfield is in a similar predicament. Ideally Haydock would like to have an increased marketing budget as a percent of sales. His other area of concern relates to IT and web design resources as they have more ideas than time; solid/significant ideas that can drive efficiency or topline sales. He lamented, “We are always looking for talented developers and I don’t believe that we have ever held the view that we are now fully staffed in that area.”

Mindset is the biggest impediment to success

Moving beyond the basics many of the merchants I talked with spoke of the culture clash that still exists within organizations. Taylor at Sport Chalet framed it well, "There's an uncertainty and 'fear of the unknown' regarding the growth path for the online business – many knowledge voids exist. Given the newness there is not enough collective experience for organizations to be confident with their web strategies and investments; it's a fast moving and constantly changing environment to deal with. The balance between the 'art and science' of retailing is being challenged because the web is so much more about data." "However," he concluded, "despite all of these circumstances it's important to remember that the specialty store experience is still very much influenced by the in-store experience that businesses have finessed over time."

Borders' Ertell realizes their company's lifelong knowledge is only of stores. "The organization has made strides; adjusting to make it easier where defined roles and responsibilities are in place that cross rather than silo channels. It's important to remember there is value beyond the buy button. The web is fundamentally a great marketing research tool that can turn browsers into buyers online as well as in store."

Bomersbach also reported that JCPenney is creating alignment and establishing the right processes and systems for an enterprise-wide approach to serving customers.

Some, like the specialty apparel merchant we interviewed continue to experience early Internet thinking regarding cannibalization. "Our conventional merchants still think the Internet is stealing from the stores, somehow forgetting in 2006 we all grew (stores and online). There are upside synergies that result from the web itself."

Practicing good eCommerce

Chico's Carvelli acknowledged, "We are changing our thinking to revolve around a multi-channel world so that she can get to us wherever and whenever she needs us, rather than taking a more traditional approach to how we service the customer. Our store operations group is embracing the multi-channel world and will continue to be the focal point for facilitating relationships with the customer. Our web business is opening up a new customer communication channel for our store associates. However, it's not automatic and will require creative, innovative thinking."

Sports Giant's Wilder added another roadblock, "In the process of getting the retail stores to buy into an overarching multi-channel strategy which includes online sales, we've learned, in order to succeed, it's important to think holistically. One such example is integrating our compensation plan to reward managers for sales originating from both channels. Otherwise, you can have counter productive internal competition which doesn't serve the organization's goals as a whole."

Based upon extensive hands-on eCommerce experience Fiona Dias, EVP, Partner Strategy and Marketing, GSI Commerce, Inc. agreed, but went a step further speaking about the innovator's dilemma. Through both her current role and her past experience she has seen that when there is something new in a company, employees' actions or inactions can end up killing it. They fail to understand investment requirements and often don't nourish or adapt processes to foster such innovation.

IT from systems to sophistication pose challenges

Golfsmith cited a lack of IT resources as did Circuit City, centering their discussion on integration and system upgrades including POS inventory where the web forces channels together. "Retail and eCommerce IT are different systems, and it can get complex if the customer experience isn't well coordinated," remarked Lesperance. "We have an opportunity to sell a lot of skus, but we must manage our in-stock position carefully. Customers want choice in the distribution center as well as at their local stores and more specifically at a particular location; the challenge is truly on the back-end. Good merchants listen to their customers and we can't make decisions in a silo for one channel. For example should we elect to offer alternative payment types online, but can't handle refunds at the store level, there may be post purchase ramifications."

REI's Viscon zeroed in on systems as well. "Many of our needs are in place, so now we have to figure out how to grow content and community online to maintain our competitive advantage." Continually struggling with the issue of doing things internally or leveraging a third party, their preference has leaned internally. They prefer that control but will test third party providers as they are quicker to market and often best-in-breed.

Wilder at Sports Giant touched on technology integration, "We are continually changing web prices on the fly and need to understand how this will impact store prices." At the TV-based merchant we talked with, it all comes back to IT, "There are no funds to outsource, yet we can't do it internally without fixing or adding to the plumbing, so it gets complicated."

eBags' Cobb emphasized, "All roads lead to IT. We have needs to quality assure and small things can often turn into big issues. We're multi-country now where platform changes impact every location. It becomes a classic case of prioritization as the entire company (120 people) needs to be in sync. In the past we prioritized pet projects that were not necessarily in the best interest of the company but it is essential to remain focused. It's easy to lose control and to have silos so we're continually working on this challenge."

Inventory

Addressing roadblocks they currently face, two merchants mentioned inventory-related issues. Bealls does not purchase specifically for the web but merely fulfills online sales from its stores. This strategy has its advantages but also can create some challenges to online success. “We’ve learned that we’re most successful when we can integrate our merchandising and eCommerce strategies such that the product and fulfillment needs of the online customer can be addressed in a more tailored fashion.”

Lisa Dyson at Famous Footwear faces a different challenge, having no comprehensive new product strategy for the web and no process to add appropriate skus. With strong competition from pure-plays they must put operational procedures in place but, like many, find it hard to stop and engineer such efforts. Despite their understanding of wholesale, she shared, “Our IT skills aren’t always multi-channel as they are siloed in other areas. We have to understand how systems will be integrated and often need to elevate these issues to a higher level to ensure multi-channel integration.”

Roadblocks of time, money, and resources will likely continue unabated. Champions within organizations can help to shepherd multi-channel initiatives and to continually educate internally about the opportunities and resources necessary to achieve multi-channel business goals.

MAKING A TRUE ECOMMERCE COMMITMENT

Talk can be cheap, **but commitment is what it will take to elevate eCommerce to higher performance levels**. By asking each merchant if they considered their company ahead or behind their competitors or like merchant types (i.e. specialty, big box, mass merchant), we were able to surmise where there is “lip-service” or real support in place.

There are many aspects to commitment as Ertell at Borders succinctly replied, “It’s financial, mindset, and teamwork and it will take all three combined to make it happen.” Chico’s Carvelli also asserted, “Multi-channel takes serious commitment with continued strong investment and to succeed as a company we have to keep putting money where our mouth is.”

Circuit City is more than 100 percent committed according to Lesperance, “We’ve put a stake in the ground and believe we have a leadership position on the web where investment money is in line. The commitment permeates the organization including the CEO and our stores.”

Being a brand counts

Godiva’s Sash added, “We’re behind, but we have a strong, established brand so in some ways we’re actually ahead. Today we could benefit from an expanded assortment, evolved functionality, and new technology.” Similarly REI’s Viscon emphasized, “We have a brand and store to fall back on. Pure-plays are pushing ahead and we’re behind in terms of having a true community site but know that keeping up will be essential.”

Corey at Golfsmith believes they’re in the top group regardless of the fact that other partners are doing some things better, though that’s not for lack of wanting. “We need to invest in our organizational structure first and don’t always have all the necessary IT resources.” They have initiatives in place to fix the site along with new social networking efforts. Like any paranoid marketer, he fears they are not moving fast enough and will get behind their competition. Although he sees the need for speed, he also knows the environment and supporting infrastructure must first be in place.

Bomersbach emphasized, “JCPenney leads their competitor set – In fact, we have the largest home and apparel site on the Internet. Yet we continue to make progress enhancing the customer experience and usability of the site. Thanks to our catalog business we are ahead of our competitors in areas such as fulfillment.”

It takes a total commitment according to Taylor at Sport Chalet. “Margins are thin, the competition is there all the time, and it takes micro-management of this part of the business to stay up with the change that is occurring.” Wilder at Sports Giant provided a mid-size company perspective, “Even though you’re a small specialty store, your customer is also buying on Amazon, Best Buy, and Netflix. Consumers don’t cut you slack regarding technology you don’t have; they hold every site to the same demanding standards so even smaller merchants must have a certain threshold level of technology commitment. With that in mind, we’re constantly working to bridge the gap as best we can.”

Moving beyond eCommerce

Commitment needs to extend beyond internal teams. One specialty apparel merchant addressed that issue suggesting distinctive levels of commitment and people are required at all levels. “I think our internal team is fully committed with a very low (12%) turnover, but senior management is not yet looking at the P&L enough.” They’re in line with their competition and may even be ahead as today eCommerce has achieved 6 percent penetration of their retail sales.

Systems that support initiatives

A myriad of merchants mentioned they are investing in designing systems to handle back-end inventory. They believe it essential to know their inventory on a real-time basis, where most find ship-to-store as a second choice. Others noted that investments this year would include web-enabled order entry systems for the contact center in order to remain competitive. Another specialty home merchant they shared, “Much of our work is not front facing; there is a lot of behind-the-scenes work to be done.”

Famous Footwear believes they are ahead from a multi-channel perspective. Their objective is to be fully multi-channel and to do so they need to be integrated including supporting store events online. Dyson weighed in, “Customers today can see product on a location/inventory basis but from a pure-play point of view we would be behind. Certainly it will require continued investment to achieve growth however we don’t measure our success only in terms of sales.”

Being smart about the investments

At Bealls, they want to be smart about their investment and believe they’re in the middle of the pack as not all competitors are even online. Bennett often finds competitors more off track with bells and whistles while at BeallsFlorida.com they are striving to focus on what drives customer visits and what motivates conversion. “It’s essential in these challenging times that we continually get smarter about our investments and do the required due diligence.”

For Bornstein at Sephora the commitment is there but resources are hard to come by. Like many others she is dealing with an old platform and every change becomes a work around. Keeping up is hard as most retailers aren’t technology companies. “One needs the flexibility to work with cutting edge vendors in order to elevate our site experience with forward thinking in view of technology’s potential.” In support of these efforts she knows hiring talent is critical. Retailers must recruit and invest in people to be successful although the expense is substantial and good people take time to find.

One merchant reported being completely behind their competitors and as such finding themselves in “urgent catch-up mode knowing they must go from 1st gear to 5th gear overnight.” This means re-educating internal people and getting new people ramped up on their new platform so there’s a learning curve at play.

Aspirations count

Per Crutchfield's Haydock, "We believe, and have consumer research supporting this belief, that we provide a superior customer experience. However relative to our aspirations we are behind. We much prefer to test prior to deployment and we often test concepts with consumers and internal stakeholders to ensure we are reinforcing the right brand imagery. But, testing often takes more resources than implementation. We often test marketing tactics including the placement of features and enhanced checkout." However, for more strategic initiatives, they often rely more heavily on judgment as opposed to testing.

It starts with internal communication and clear prioritization

"We're 100% percent committed; communication and understanding internally are essential to our success. Prioritization must be crystal clear where half our initiatives are focused on the conversion rate and the other half are customer focused. We know what we need to do and now must nail the execution," contributed eBags' Cobb.

Being behind doesn't mean being in the penalty box

At America's Gardening Resource, Govoni rationalized, "We're arguably behind our competition in terms of online features, but that doesn't mean we pay a penalty because it's not clear our category requires cutting edge technology. We have not incorporated a lot of social networking. We are all over the 'meat and potatoes' but not the sizzle. For example we have customer videos but not many product videos or guided navigation. We have addressed requisite utilities but don't pursue technology for the sake of technology though some could certainly be utilized as our simple solutions may not serve us well in the future."

Organizations must be aligned, maintaining mandatory commitment levels to meet their own internal goals and achieve an edge in their category. The candor merchants shared indicated they are well aware of their current positions in the market though most are aspirational by nature.

MOVING INTO THE EXECUTION PHASE

Our findings are not what one what might expect as **merchants intend to be very aggressive with their eCommerce investments in 2008**. Despite the economy, on average, merchants scored a very strong 7 when asked: *"On a scale of 1-10 how aggressive will you be in 2008 with your eCommerce investments?"* Answers broke out into very distinct groups: the Aggressors, the Funders, and the Hopeful Investors. These shared stories are enlightening and likely a mirror of many merchants' sentiments.

The Aggressors – mindset and money

Scoring a 10, Borders' Ertell emphasized, "The web is our growth vehicle and as such we will do as much as we can do." Cobb at eBags indicated their efforts would be 9-10 and suggested he wouldn't have said so two years ago. "We can finally focus and the tough economy helps keep us focused. We remain paranoid and will live or die by how good or bad customers find the eBags experience. Large retailers have deeper pockets but eBags is often able to get at things more quickly, which plays to our advantage."

Crutchfield reflected that year-over-year they are not increasing their investment or people, and the majority of discussion centers on where to deploy resources. "There's long-term thinking and then there's budget and for us 9 is a mindset." In tough economic cycles, they refrain from cutting expenses that are related to customer services. In fact, they see many expense line items as ways to "differentiate" as opposed to opportunities for short term profit.

The Funders – on track

Those who came in a 7 or less had often made significant investments in the prior year by purchasing an eCommerce platform (Chicos), order entry system or simply have a goal in 2008 to take 2007 initiatives to the next level. Investments are still there but they have moved into a phase of controlled growth. For example Dyson at Famous Footwear stated, "Our investment outpaces the industry and our sales plan is indicative of company expectations."

Merchant funding chart

MERCHANT	INVESTMENT LEVEL	COMMENTARY
Godiva	7	If we spend money in direct we get paid back faster than retail; the web is completely trackable and one knows immediately if something is not working versus retail where it can take months
Orvis	7	Aggressive but measured with "I fully believe" rules that must be worked against prior to pursuing any initiatives; team of eight while competitors in space have 40 bodies in place to execute their strategy
JCP	6-7	Patient and don't expect to do everything in one year; Continue building the infrastructure and online environment that enables jcp.com to emotionally connect with customers
Petco	Strong 7	Laying the infrastructure and technology foundation to ensure support for planned initiatives; next year will be a big investment year spending significant dollars on a full-out launch
Sephora	6-7	Going after chunks of the site where upgrade opportunities are present with existing vendors; 2009 will score a 9 starting from scratch with platform including weaving many other technologies into execution plans

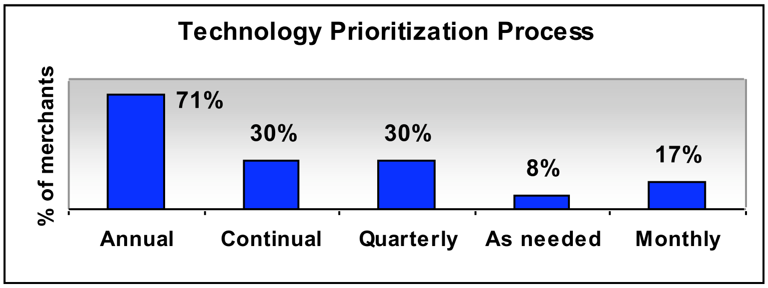
Hopeful Investors – face unique circumstances

Where investments are falling below average it is typically a factor of tough retail times, technology issues or unique circumstances that apply to specific merchants. The evolution of one's business also is a factor as some are in a tweaking mode rather than a heavy investment mindset. Marketing efforts were frequently cited by one specialty apparel merchant who described, "We basically needed to reduce everything else to 'steal' money for marketing."

Current technology providers often impacted ratings of aggression and investment strategy. That was certainly the case for one merchant who noted their investment will be a 6-7, because of a direct tie-in to the platform though he sees changes in their investment strategy as that technology evolves.

TECHNOLOGY PRIORITIZATION PROCESS

The chart below shows **merchants review and prioritize technologies on an annual basis** with some adhering to a multi-year roadmap. JCPenney has a three-year roadmap where the first 18 months are firm. Most merchants also continue to review throughout the year with quarterly or monthly meetings to assess the state and relevancy of their investments priorities. Given the pace of the eCommerce industry and impact of any given technology, a quarter of the merchants more actively monitor efforts to ensure they have made the right choices for the remainder of the budget cycle.



It starts with an annual review

Sephora's process mirrors that of many others, described by Bornstein as multi-pronged. For budgetary purposes they have an annual assessment which includes her management team on the direct side plus IT counterparts. The product development team then holds the list with reviews conducted monthly as she knows, like most, that there are both big and small priorities.

Circuit City annually reviews best practices in order to "size the prize." Lesperance described it as, "a rigorous exercise with extensive charting in hopes of mapping out potential initiatives based on the greatest opportunity."

Petco also follows an annual cycle; preparing a wish list in the fall via a full day of brainstorming with their entire department. Typical of other merchants, they have 150 things they want to do and prioritize based on values. Despite having a January sign-off they know all too well last year's 3 may be this year's 10. "It's essential to continually reevaluate the list, assessing what is the best priority for us today as there are always new opportunities arising so nothing is set in stone." As economics, performance, and industry challenges evolve throughout the year, several merchants were clear that they have certain levels of fixed investment though a portion is set aside for ad hoc needs.

For the specialty merchant I interviewed a formal process includes road mapping then they proceed more organically with five key things emphasizing specific elements and project requirements to achieve those goals. This year the themes range from process improvement to brand leadership to customer-driven merchandising.

Speed is of the essence

The demands of constant review explain pressures merchants are under to continually ensure they can deliver on the right technology for their brand. With merchants incessantly facing fresh requests, they find themselves constantly evaluating new options and technologies. This has pushed a number of merchants to meet on a quarterly or even monthly basis, often predicated by their platform needs. One mentioned their IT groups work in two-week sprint increments which can make finding and training an onerous task. Those who have just completed platform changes now have "laundry lists" to sort and evaluate, making time requirements even greater than normal.

Prioritization is a rigorous process

Relative to technology decisions America's Gardening Resource takes it one step further by putting all potential projects through an extensive scoring process, with an even more arduous ROI process that ranks each on potential return. "All may be worth investing in but everything can't be a priority; with capital expenditures we must wait until the annual budgeting cycle or seek emergency funding, and money is a precious commodity," offered Govoni.

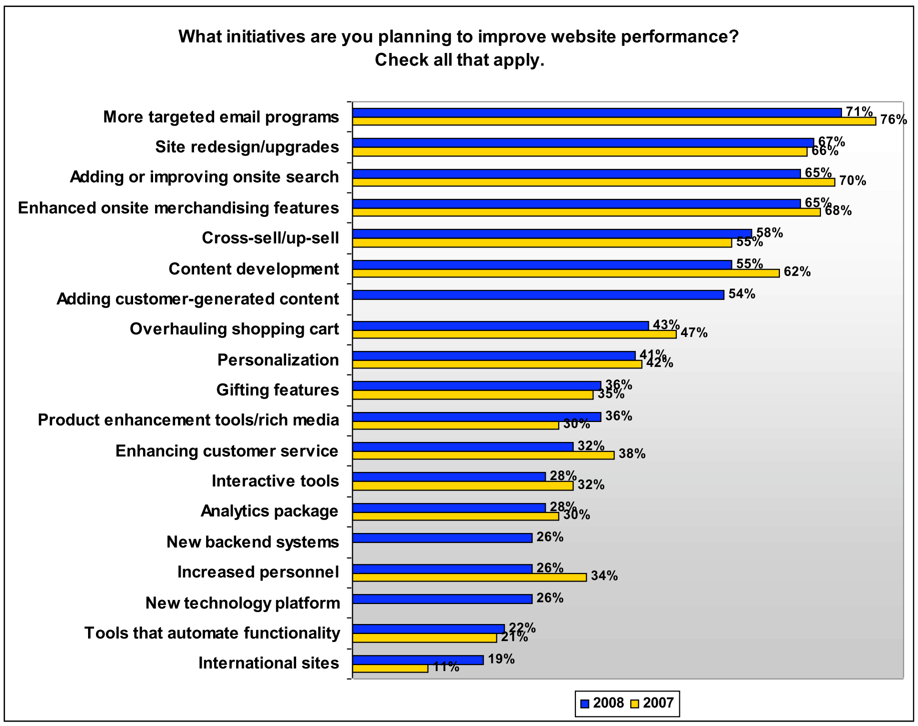
For those, like Golfsmith, who are multi-channel, "It involves making choices where we argue internally the value of an eCommerce project versus one more retail-centric such as upgrading our POS systems. Beyond getting the biggest bang for the buck, golf is a seasonal business so timing is important in terms of a project's potential launch date," emphasized Corey.

Another effect of seasonality is that the pressure truly heats up in the June/July time frame as merchants attempt to squeeze in as much as possible before peak.

Setting budgets is an excellent starting point but flexibility is critical. Adjusting throughout the year, pending economic realities and eCommerce performance, is optimal to performance.

EXECUTING KEY TACTICS

With investment dollars clearly in place, we wanted to understand what kinds of initiatives merchants are funding this year and their rationale for investing in chosen areas. Additionally, we wanted to compare and contrast these interviews with how merchants addressed the question in our *2008 Annual Merchant Survey*. There the top five included targeted email programs, site redesigns/upgrades, and improvements to onsite search as well as enhancing merchandising features and cross-selling. Aside from email our interviewed merchants confirmed similar plans throughout the coming year.



The shiny object syndrome

This important lesson was shared by Cobb at eBags, a seasoned merchant who noted, “It is easy to build software with the intention of providing all the bells and whistles yet you only finish 80 percent of the project because you veer off onto other growing priorities. In some cases, we use 25 percent of our purchased software. Since we are already paying for the software, it is incumbent on us to utilize all the features we were sold so as to reach the ROI that led us to purchase the software in the first place. Our vendors now help us understand if we are optimizing current technology.” He reflected, “Sometimes we get enamored by ‘shiny objects’ and it’s complicated to make them work particularly with cross-over functionality. We simply must make choices about what best suits our brand, selling style, and current technology infrastructure.”

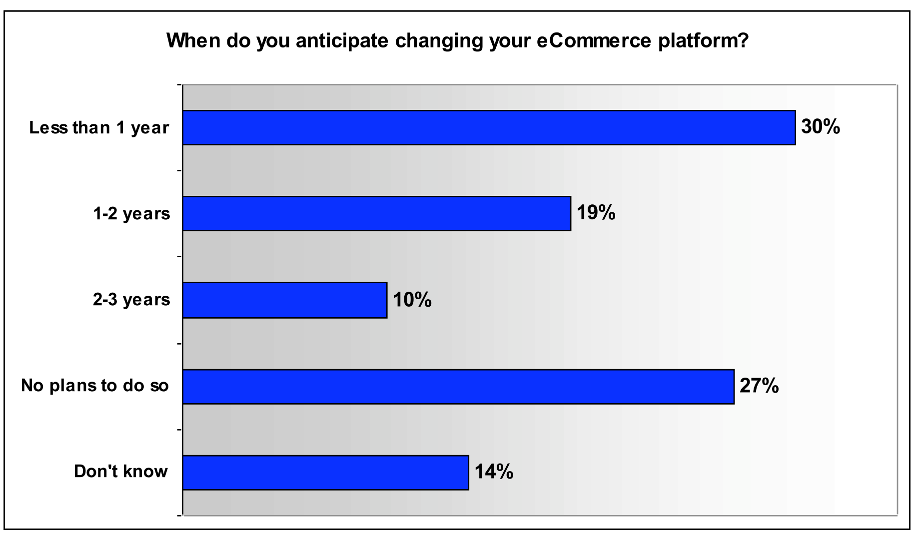
Tactics were a combination of merchandising and marketing with the latter centered on cost savings as well as driving more efficient traffic to the site. Depending upon a merchant's marketing sophistication different areas of focus were described from affiliates to comparison engines. Wilder at Sports Giant said they, like others, must "kick up each aspect of marketing from natural search optimization, emails, and their affiliate program to remain competitive in the marketplace."

Crutchfield's Haydock considers their company ahead of the curve relative to paid search as they currently handle it internally down to the margin level. He acknowledged the glory days are over and that it is all about efficiency where the market is tougher and terms more expensive. Coupled with catalog paper and postage costs this makes marketing efficiency a top-of-mind issue at Crutchfield.

With a tougher economy Bealls emphasized search optimization to stretch their marketing dollars, a sentiment shared by others. Related discussions extended to the importance of ensuring that one's platform it is SEO-friendly. Lastly, merchants need to continually refine their contact strategies to reach consumers with the right message at the appropriate time. Several suggested this may include swapping out vendors to achieve more advanced alert capabilities and other elevated personalization requirements.

The re-platforming mode

Many merchants are in a "re-platforming" mode so the words "painful" and "challenging" were heard frequently depending on the current project phase. All of them acknowledged that despite the process they needed to upgrade technology to marketing standards because their current platform was holding them back from achieving company objectives. Our *2008 Annual Merchant Survey* concurred, finding almost one-third of merchants will swap out their platform in the coming year with an additional 29 percent in the market within three years.



Platform inefficiencies

Some of these platform upgrades likely stem from inefficiencies merchants are experiencing with their existing platforms. Merchant feedback on this subject focused on platforms attempting to be all things to all people, out of the box functionality that is hard to change, and subsequently nothing achieving best-of-breed status. Those with in-house shops, like Circuit City, built most of their technology before there were products to buy. From their perspective, “It is important to remember just because someone is selling something doesn’t mean you can’t do it better in house.” Other evolving merchants find today’s platforms are simply not nimble enough for their unique needs.

New technology is built to plug and play – but not that simply

As much of their infrastructure dates back to 1998-1999, eBags knows all too well the world has changed and Cobb’s analogy rang true for me. “Imagine you had a Sony twenty-seven inch Trinitron which had two outlets; nine years later it’s all about the Xbox and PlayStation and of course one needs full HDTV. The vendors say you just hook in but it’s not as easy as just plug-in and add. It takes time to integrate; massive changes are required for even the simplest of things. We are building the highway of the future and simultaneously keep current business flowing which can be a challenge tied to a high price tag, but one we must incur in order to wisely move forward.”

Ten technology Inefficiencies

Merchants cited a series of other technology inefficiencies; the top ten are as follows:

ISSUE	COMMENTARY
1. Annual software updates	Release-oriented schedule would be more ideal
2. Content management	Needed to purchase separate application due to current community and content needs Content tool inefficient and laborious where process requires too much IT involvement; don't want to use it for administrative day-to-day tasks; business users should handle these initiatives; cleaner code to integrate new patterns; not so patchwork in nature
3. Flexibility	Need promotional flexibility that is not out of the box to establish multi-channel parity
4. Demanding custom requirements	Time consuming but allows us to be specific to our business
5. Lack of automation	Must make merchandising choices manually all too often which is inefficient
6. Scalability	Old models breaking too often
7. Speed to market	Lack of support to move through initiatives faster; processes are not timely; agility of change or administration tools not realistic
8. Administration tools	Site requirements are more demanding with unique content requirements moving beyond commerce 1.0
9. Backend processing	Features that are hard to implement or maintain on the business side; in a hurry to get the business piece built and don't focus on what business users need
10. Being spider friendly	The most cost effective marketing strategy

Redesign strategies

Along with replatforming, site redesign is on the minds of merchants. While strategies varied, the end goal centered on wanting to position their company from a brand leadership perspective through optimization around creative and user interface.

Another efficiency initiative, streamlining the shopping cart, is also a top three strategy with some, like Circuit City, looking to have one-click capability. Sephora will be leveraging Allurent's one page checkout to better service and merchandise their shopping cart experience. Petco is placing their bets in this area as well as and intends to employ multi-variant testing to look at several flow options prior to revamping their cart.

Merchandising enhancements

Turning the table to merchandising means looking at a myriad of potential tactics that reflect the evolution and diverse categories where priorities vary accordingly. Based on this, it might be helpful to share the 50 tactics merchants in our *2008 Annual Merchant Survey* suggested based on ROI. It is interesting to note that based on subsequent discussions, keyword search landed on many lists as did the relevancy of cross-selling, which was number three in our findings. From there many listed traditional retail tactics that are core to most selling strategies with execution already in place such as seasonal promotions or top sellers.

All 50 features in the survey in decending order as rated very to somewhat valuable (5-3)					
Keyword Search	94%	Affilliate Programs	64%	Shop by Outfit/Solution/ View in a Room	43%
Sales or Specials	90%	Zoom	62%	Pre-Orders	43%
Cross-sells	89%	Email Customer Service Alerts	61%	Product Comparisons	42%
Seasonal Promotions	88%	Gift Center/Suggestions	60%	Wish Lists	40%
Email as a Merchandising Vehicle	86%	Gift Certificates/Cards	58%	Video	40%
Free Shipping - Conditional	80%	Search/Order by Catalog Number	58%	Frequent Buyer Programs	39%
Top Sellers	78%	Free Shipping - Unconditional	57%	Deferred Payment Plans	38%
What's New	78%	Product Ratings & Reviews	57%	Live Chat	38%
Up-Sells	75%	Alternate Payment Methods	52%	As Advertised	37%
Alternative Views	74%	Multiple Ship To's	50%	Limited Hour Promotions	35%
Merchandised Search Landing Pages	74%	Online Outlet	50%	Interactive Tools	34%
Advanced Search	73%	Create Your Own Custom/ Personalized Products	49%	Gift or Wedding Registry	28%
Promotional Incentives to Buy	71%	Community Features	48%	3D Visualization	23%
Coupons/Rebates	70%	Recently Viewed	46%	In-store Product Locator/ Look-up	23%
Exclusives	67%	Color Change	45%	In-store Pick-up and/or Returns	22%
Customized Content	65%	Brand Boutiques	44%	Audio	20%
Email-a-Friend	65%	Contests	44%		

Search/Navigation

Not all efforts will be major; there will be a lot of **tweaking and refinement of focused areas**. Particularly in search and navigation the evolution of those technologies, and their core importance to consumer shopping behavior, demands the latest tools are in place. Other merchants emphasized efforts centered on design with one citing, “This is our ‘look and feel’ year.”

Chico’s Carvelli, knows all too well they must give their customers the ability to research product and immerse in the brand. He hopes to accomplish this via guided navigation, social web, and interactive product guides.

For some merchants this is their initial foray while for others search/navigation has been an ongoing initiative. The need to better market within onsite search was also identified; the unifying belief among merchants being that requisite efforts will pay off with customers who rely heavily on search to power their shopping behavior.

2008 merchandising tactics

To illustrate the breath of merchant choices this next chart delves in to the details with an array of others tactics under consideration.

MERCHANT	FEATURE/FUNCTIONALITY
Petco	Kit building, comparison charts
Orvis	Gifting strategy including the wish list (having put it off for 9.5 years)
Peet’s Coffee	Exclusives - special offers of very rare coffee for limited time only promotion
GSI	Rich media to better display product for increased conversion and AOV
TV Shopping Channel	Video
Borders	Paypal; Bill Me Later
Specialty Home Merchant	International initiatives
Beauty Merchant	Optimized brand showcases

Data drives behavioral targeting and personalization

Merchants are elevating their activities via data and CRM; looking at behavioral marketing solutions to further pursue personalization. For some it will be part of larger CRM initiatives while others will focus on product page and shopping cart selling. At Circuit City Lesperance spoke of efforts to support superior marketing strategies including when to send and what to include in your email communications based on both browsing behavior and shopping activity on one’s site.

Many merchants believe the time has finally come for a more personalized shopping experience. The process starts with customer insights like those shared by one specialty apparel merchant, “We need to understand our customer base better and can do so with market basket and repeat purchase analysis. By using this information we can more efficiently cross-sell and up-sell; improved targeting will be the end result. Using analytics we can give people relevant products in strategic locations that mirror their shopping behavior patterns.” For some this is a build versus buy decision so they need to understand how such sophisticated technologies integrate with existing efforts to pursue a business model that is right for their company.

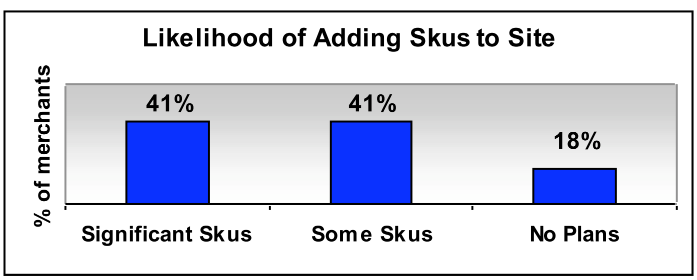
Crutchfield’s Haydock expanded on this opportunity and their desire to better predict what you buy next based on past purchases. They can then expose category feature articles and content augmented via a more sophisticated preference center to serve up the right content in a timely manner.

Customer experience

At America’s Gardening Resource Govoni added merchants can drive relevancy into customer experience through robust merchandising of the site plus a subsequent email action stream that moves beyond batch and blast. “We want to continue to use buying behavior and cross-channel data to get the messaging right and to wisely structure our marketing efforts accordingly.”

Assortment

No discussion of merchandising would be complete without talk of inventory and assortment. Merchants are looking at a number of ways to grow assortments beyond their current inventory investment. While the majority of merchants will increase skus, there is a split personality where 40 percent will add “significant” skus and an equal number of merchants will consider “some” additional skus on their site.



Tangentially, Lesperance at Circuit City brought up this critical issue, “It’s easy to get skus online but we need to understand what impact that has on the brand; we’ve found one also needs to market the product to get interesting and significant results.” Another merchant indicated it is not a big priority and would do so only in response to customer needs where profit aspirations would drive addition of skus. Golfsmith’s Corey knows all to well you can only merchandise so much, “We’re maxed out with drop-ship already in place; we’re starting to rationalize skus and question do we need the 98th or 99th sku or should we optimize the best 20 percent of SKUs with added features and functionality to drive higher velocity on the best sellers.”

Other merchant strategies were simply line extensions (e.g., size, color) or an expansion of categories where strong performances have been seen on net only skus. Several also mentioned working with specific top vendors to extend their particular assortments.

Merchants expand assortments in many ways

One of the merchants interviewed faces size and weight challenges as they expand into home and cabin (particularly with furniture) and see no need to inventory product when drop-shipping should suffice. Petco expects to add 10 percent on top of today’s base via drop-ship, allowing them to differentiate and expand their assortment without inventory investment. A product type strategy was shared by Ertell at Borders where they will be adding ebooks, videogames, and calendars to cost-effectively grow their assortment, all via 3rd party drop-ship.

Taylor at Sport Chalet expects they will add significant skus to best represent a category and a brand. Emphatic about the changing role of manufacturers, he feels the power of established brands is not currently being optimized effectively online. “We can’t leave our business to chance; we need to invest in our brand and leverage the power of our manufacturer partners and get better alignment of our mutual objectives. Consumers will come to expect this.”

One Canadian merchant plans to add significant skus due to the strides they have made with BorderFree, enabling them to add more US vendors. The immediate border clearance their product receives allows them to be much more flexible.

A sporting goods retailer spoke of achieving assortment growth through a vendor warehouse scenario that poses no financial risks with partners that have excessive warehouse space and 1,000s of appropriate skus. By merely adding those products on the site and receiving daily feeds of the manufacturer’s inventory there is an opportunity to easily extend assortments. This hybrid model does not require additional capital yet optimizes the purchasing power of their current customer base.

Whatever the strategy, it will certainly take tools to ramp up these efforts. One merchant revealed today they only have 10 percent of their store skus online and that mass load capabilities will be required to achieve parity with the stores. Similarly Famous Footwear knows that growing their assortment is contingent upon efficiently selecting and adding product to their site.

Web 2.0 evolves community opportunities

Building a community has new meaning with Web 2.0. All of the sporting goods retailers interviewed are addressing community in their upcoming site redesigns. We can expect to see new socially interactive outdoor areas and communities as part of sites where enthusiasts can interact with their peers and even create individual home pages. At Borders, the power of social networking is anticipated to be a great discovery tool and to also influence sales. As part of their community mindset both Sephora and Gardener's Supply spoke of launching customer reviews in the coming year.

Merchandising is about choices and having a platform that is flexible and scalable to support one's evolving needs. Reviewing data/analytics can facilitate prioritization while execution from both a back-end and front-end perspective will be required for customer adoption and merchant performance.

READYING YOUR COMPANY FOR PERFORMANCE

- Be cognizant of the economy and make timely adjustments to your business strategy
- Devote dedicated resources (time and money) to ensure the success of your eCommerce business
- Make multi-channel a top priority; continually extending cross-channel conveniences to your customer
- Build a spirit of collaboration within your company to foster eCommerce success
- Make wise investments as fueling eCommerce in good times and bad is a prescription for strong company-wide performance
- Understand any roadblocks and build a culture that believes in eCommerce, working hand-in-hand with IT and/or outside third party resources to execute technology requirements
- Commit the necessary level of investment and monitor priorities to keep the right tactics on top of the list
- Avoid inefficiencies by securing a platform and partners that represent your requirements and mesh with your organizational structure
- Keep a keen eye on the economy, your customers, and your competition to maintain best-in-breed status

ABOUT THE COMPANIES

About the e-tailing group
The e-tailing group, inc. is the multi-channel merchant's eye, bringing a merchant's sensibility to evolving the multi-channel shopping experience. A Chicago-based consultancy, they provide strategic and e-commerce merchandising solutions to merchants selling online as well as to firms targeting that market.

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About Acquity Group
Acquity Group is shaping the way technology is used to extend the most recognized consumer brands in the world. Acquity Group's innovative digital strategy, interactive marketing & design and powerful IT planning & execution services are the choice of many leading brands. Acquity Group is headquartered in Chicago, IL and has offices in Irvine and Los Angeles, CA, Overland Park, KS, Scottsdale, AZ and Dallas, TX.

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