2012

Outlook Guide

What Are The Key Retail Trends To Watch In 2012?

Insights From 12 Of The Retail Industry's Leading Experts

retail TouchPoints

2012 Outlook Guide

Table of Contents

Is the economy rebounding or isn't it? Are consumers planning to spend more or aren't they? These questions constantly are pressuring retail industry executives as they continue to wade through a slow economic recovery and formulate strategic plans for the future.

Retail TouchPoints tapped into the hearts and minds of 12 top retail industry experts to find out their thoughts and insights for 2012 and beyond. The consumer certainly is the key to the retail puzzle going forward, wielding the power of mobile technology and social media to help make purchasing decisions. With that in mind, our experts are focusing on personalization, analytics, the cross-channel customer experience and overall consumer sentiment.

When addressing technology trends, industry leaders point to mobile payment solutions, business intelligence/optimization solutions, mobile device deployment and POS improvements.

This year's impressive roster of Outlook Guide contributors includes retailers, researchers, analysts, industry association executives and top consultants.

Fasten Seat Belt While Seated — Use Cushion For Flotation Device

These statements appear on the back of countless airline seats. Sometimes they are repeated twice within a foot just in case one is missed. An analyst would pick these apart and quantify the impact of each message. Fastening a seat belt while seated has a measurable value because it could prevent bodily harm for anything from a sudden air turbulent to a crash landing.

With all due respect to Captain Sully and his heroic Hudson River landing, frequency metrics for an emergency landing on water do not support including using a cushion as a flotation device. At minimum the FAA can be commended for prioritizing safety. However what data did they have which led them to require airplane manufacturers to include these messages vs. other more relevant information?

How the following are defined is the crux of gathering and using analytics as well as providing the most applicable business intelligence:

- Principles
- Purpose
- Rationale
- Implications

At the highest level, organizations should strive to make principle-based, data-driven decisions.

metrics, Metrics, METRICS

Restaurateurs have long agreed that a restaurant's success or failure is highly reliant on location, location, location. An obvious but important credo is that to measure is to know, if you don't measure you don't know. Collect metrics whenever and wherever possible. Gather information from external social media, on mobile-optimized sites and native mobile applications, and good old-fashioned web sites.

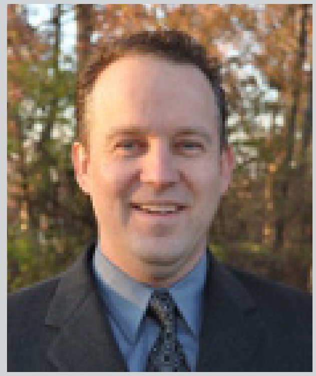
Measure Twice And Report Once

Generally speaking data analysts are change agents. They "influence" change sponsors to do more or less of something using a data-based perspective. At a minimum they double check data to make sure it is accurate, and if possible check two sources of the same data for checks-and-balances purposes. They also insist that the proper quality assurance process is in place to prevent system changes from disrupting data from being reported.

Companies must build a reputation by providing consistently accurate reports and analyses. If possible, on reports add a footnote which includes the percentage of visitors which have JavaScript turned off or have opted out of being tracked.

Holy Cow Batman — Interactive Data

Make data interactive. Try and change the propensity to email static dashboards or reports. Suggestively sell mobile applications which provide easy and immediate access to dashboards as well as the ability to drill down into one or more areas.



Darrell Sandefur,
Director of Digital Architecture
Luxottica Retail

In his hybrid business/technology role his primary responsibility is selecting and implementing strategic multi-channel solutions for customers and associates. Darrell is the ARTS Board of Directors Co-Chair, Co-Chair of the ARTS Cloud Computing Committee, and a Mobile Blueprint Committee member. Darrell presented "Closing the Loop Between Retail Analytics and Operational Processes" at the Association for Retail Technology Standards (ARTS) Users' Conference in September and keynoted "Mobilize - Why You Should Act NOW!" at the IBM Retail Users Group in May. He serves as the Board of Directors President for the Ohio Retail User Group. Darrell has 20+ years of experience with IBM, Union Pacific Railroad, Kroger, and Luxottica Retail.

Three #1 Rules Of Intelligent Analytics

1a. Respect customer privacy. If news sources are to be believed, there are an increasing number of global hotspots where privacy pundits have or are seeking to limit data collection. Analysis is significantly diminished without an adequate data sample. Consider providing a "do not track me" option for customers which will not use digital solutions unless they can opt out.

1b. Care about data not feelings. While there should not be a complete intellectual bias toward making heartless decisions, be a proponent of prioritizing measurements over emotion.

1c. Do not give away data. Manage and protect data as a corporate asset —think competitive advantage and keeping the best data within the organization. Consider what hot-buttered nuggets of information being shared with "partners." While all data is not fit for every associate, generally speaking information should be accessible and shareable.

In Conclusion…

For business/customer intelligence — regardless of the mobile, social, web, or another channel — by and large there is not a conclusion to the data. Although never ending, beware of analysis paralysis.

In some instances data is relevant a decade later for legal purposes, but most often historical data provides valuable comparison/contrast with current metrics. Think information persistence, and above all else be persistent with intelligently using analytics.

Retail Personalization For 2012

Personalization of the shopping experience will be a key factor for retail success in 2012. A deeper connection with consumers can make the difference between repeat customers and a one-and-done mindset. Personalization technology will play an instrumental role in two key parts of the shopping experience in 2012: 1)marketing and promotions; and 2) customer experience management.

Marketing and Promotions

Over the last few years, there has been a dramatic shift in the way consumers want to be marketed to — they want brand interactions and relationships, more than simple offers. Consumers also want brand interactions to be on their terms. The emergence and expansion of digital channels has turned the retail marketing landscape on its head, and retailers are changing their plans to keep up with their customers' preferences. Aberdeen data shows that Best-in-Class retailers are 1.5 times more likely to invest in emerging marketing channels than their counterparts. Mobile marketing and social marketing are two areas of specific interest to retailers. Nearly 25% of Best-in-Class retailers are incorporating mobile marketing campaigns into the marketing mix, with an additional 65% ready to take the plunge in the next 12 months. Mobile marketing allows retailers to reach their customers on the go, with targeted offers that can be redeemed across multiple channels.

With the voice of the customer more readily available, retailers also are turning their attention to social media activity, including social campaigns and social media monitoring. Best-in-Class retailers use social CRM techniques to monitor their brand across multiple social networks, respond to customer inquiries and complaints in real time, and connect with customers to promote sales and offers. While mobile and social are building momentum in the retail marketing environment, retailers should not invest in new marketing channels haphazardly. Retailers must ensure that the brand is closely monitored and consistent across channels. Aberdeen has identified three key capabilities that define a Best-in-Class, fully integrated marketing approach:

1. **Use of customer analytics.** Data for customer analytics may be derived from online stores, call centers, social media monitoring, and in-store customer data capture, among other data collection techniques. To use these disparate streams of data, retailers must integrate them into a business intelligence tool.
2. **Measurement of customer channel preferences.** Channel preference data, along with customer analytics, allows a retailer to map customer data to channel interaction and usage. This information can be used to create personalized marketing promotions delivered through the customer's channel of choice, leading to highly targeted multi-touch campaigns.
3. **Real-time performance tracking.** Businesses that track campaign performance can make agile decisions based on demonstrable marketing ROI. As retailers measure and track these results in real-time, they can execute follow-up campaigns based on purchase frequency or spending.

Chris Cunnane
Research Analyst
Aberdeen

Chris Cunnane is a Research Analyst for the Retail and Consumer markets Practice at Aberdeen. Chris' research focuses on customer-facing technologies within retail and hospitality to identify the practices, technologies, and behaviors that separate Best-in-Class retailers from their peers. Chris' retail coverage focuses on cross-channel retail, customer loyalty, enterprise marketing, and campaign management. Chris' hospitality coverage includes property management, guest experience management, and revenue management and forecasting. Chris brings years of retail experience to Aberdeen, including roles in inventory management, marketing, and customer service. Chris holds a BA in Communications from Stonehill College and has an MA in Global Marketing Communication and Advertising from Emerson College.

Retailers that personalize content are seeing double the growth of their competitors in year-over-year retention and response rates, and 1.5 times the frequency rate growth.

Customer Experience Management

The shopping experience today goes far beyond entering a shopping channel and selecting a product. Consumers now use many channels for browsing, reviewing, and purchasing products. Best-in-Class retailers are emphasizing on promoting a customer engagement culture enterprise-wide, as well as incorporating customer feedback into their business plans to meet these mounting pressures.

Retailers seeking to improve the shopping experience must establish a culture that buys into the benefits of customer engagement. As retailers improve data and insights, they can connect with their customers on a new level, personalize the experience, and turn the customer into a brand advocate, and a loyal shopper.

Customer feedback loops, whether at the point-of-sale, via call center campaigns, rebate submission forms, online surveys, social media activity, or in-store intercepts, provide valuable information to retailers about various areas of the business, including customer service, merchandise availability, associate knowledge, and price discrepancies. Best-in-Class retailers are making an effort to include this feedback into their business planning as well as their product planning — which includes product placement, pricing, availability, and promotions. The more information retailers glean from their customers about the shopping experience, the more they can provide a truly personalized shopping experience.

The Economic Impact Of Consumer Sentiment

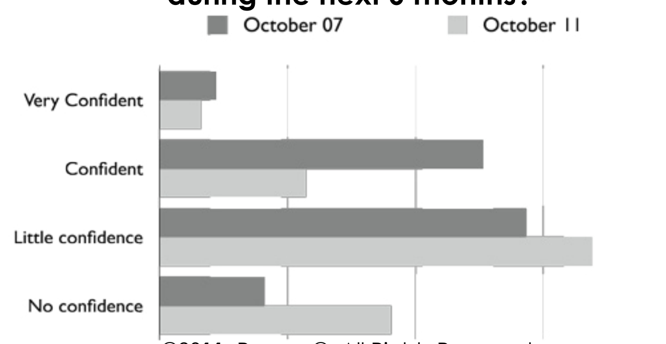
Consumers are worried about the economy. In October of 2007, 44.8% stated they were confident/very confident about the chances of the U.S. having a strong economy in the following six months. In a recent survey by BIGresearch in October, 2011, a near record-breaking level of only 22% were feeling confident/very confident. Approximately 25% of consumers are delaying large purchases; another 38% are reducing dining out; and approximately 36% are spending less on vacations because of the rising gasoline prices. Apparel stores can really expect to feel the pain: nearly 33% of consumers state they will spend less on clothes over the next six months. All of these factors continue to throw the U.S. economy into turmoil. When consumers stop purchasing, they are impacting the manufacturing, retailing, and hospitality industries, all of which are extremely important to the overall well-being of the U.S. economy.

Typical responses to BIGInsight surveys include more people stating they will only buy clothing when it is on sale (25%). One of the biggest changes, probably a positive one, is consumers are becoming more practical and realistic in their purchases, up from 38.6% in 2007 to 50.8% in 2011. Even more dramatic is the number of consumers stating they are focusing more on what they need rather than what they want, now at 58% of consumers. In 2007, 18.7% of respondents indicated they had not made any changes in their spending in the last six months, while in 2011 13.9% stated they had not made any changes. Consumers are more focused on their budgets (45.8% in 2011 as compared to 36.1% in 2007).

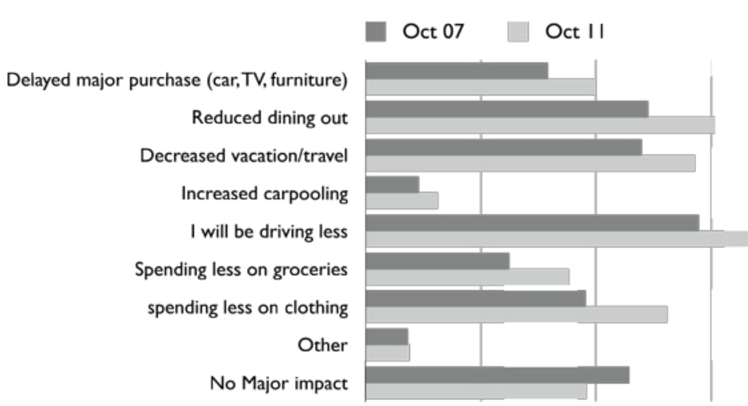
Dr. Deborah Fowler
Associate Professor, Retail Management
Texas Tech University

Dr. Deborah Fowler is an Associate Professor of Retail Management at Texas Tech University. She was the first grantee of BIGresearch Data to an academic institution. She and her co-author Ben Goh wrote the first textbook on category management, Retail Category Management published by Prentice Hall.

Which one of the following best describes your feelings about chances for a strong economy during the next 6 months?



How have fluctuating gas prices impacted your spending?



Electronics, Computers On The Rise

Now for the good news: respondents are spending more time with their families, which may be the reason sales of electronics are steady to higher. Although the intention to purchase televisions has fluctuated, it has remained fairly stable and risen to 12.1% in 2011 from 10.9% in 2007. Intention to purchase computers also has increased to 16.7% from 12.2% in 2007. A combination of choosing to stay at home and purchasing goods which may be used by the entire family has helped the sale of electronics. Further, consumers are using the Internet to seek out the best deals.

The overall impact of the economy and the cautious consumer will impact holiday sales. Retailers must offer great prices and real value to attract that reluctant customer. Black Friday is becoming gray Thursday with retailers opening earlier and earlier and earlier and offering deals as early as 8:00 p.m. on Thanksgiving Day. This season will prove to be interesting for retail analysts and the predictions are flying. How will the consumer spend and which of the retailers will really have a black Friday or will they remain in the red through January? Retailers must maintain an adequate stock level to eliminate out of stocks, but carefully take markdowns in a manner in which they maintain a decent GMROII. This may not be the best holiday season for retailers but consumers will be watching retailers/ prices, their promotions, and their own pennies.

In-Store Mobile, Retailer-Manufacturer Collaboration Top Retail Trends For 2012

Sucharita Mulpuru
VP, Principal Analyst
Forrester Research

Sucharita serves eBusiness and Channel Strategy professionals. She is a leading expert on e-Commerce, multichannel retail, consumer behavior, and trends in the online shopping space. She also is a noted authority on technology developments that affect the online commerce industry and vendors that facilitate online marketing and merchandising. In her research, Sucharita covers such consumer-oriented topics as e-Commerce forecasting and trends, merchandising best practices, conversion optimization, and Social Computing in the retail world. She authored "The State Of Retailing Online," a joint study conducted annually with Shop.org and a leading industry benchmark publication. Prior to Forrester, Sucharita held management positions at Saks Fifth Avenue, Toys "R" Us, and the Walt Disney Company.

From a trend standpoint we certainly see continued interest in **mobile** from at-home to support the pre-shopping experience to providing mobile devices to store associates. To that end, we are seeing a greater investment in **tablet** devices, at home and in physical stores. We see continued investment in **personalization** and ways to connect the dots of consumers across different channels and experiences. One other area of interest is store-level **inventory** availability and product location **on-shelf**.

With **mobile in-store**, that's where there are a lot of interesting areas of investment and experimentation — couponing, optimized information. Some of the retailers to watch in this area are **Home Depot, Urban Outfitters, Sephora** and **Wet Seal**. Sephora is doing some interesting things with tablets in-store. Wet Seal is always pushing the envelope of device adoption and channel growth.

Regarding the **cross-channel experience**, retailers' level of adoption varies. Most do basic things like accepting returns across channels. But not all have customer data across channels and don't even enable receipts across channels and customer contact information. They don't connect the dots. Also, very few offer seamless inventory optimization that is customer friendly, such as in-store pickup. Those are probably some of the biggest places where there are still gaps in cross-channel.

One of the biggest challenges going forward is around pricing products, and this is where retailers' relationships with manufacturers comes into play.

In the area of **mobile payment**, it's still very early. The biggest obstacles are around getting consumers to change their behavior and create value beyond swiping the credit card. Companies will have to subsidize the experience with offers — create an offer that is richer than swiping a card and getting a mile for every dollar spent. Whomever is first to market, making that value proposition to customers, will have a good head start. Before that, more devices need to be NFC enabled and that is still a couple years away. So many retailers don't have mobile payment capabilities yet.

One of the biggest challenges going forward is around **pricing products**, and this is where retailers' relationships with manufacturers comes into play. Many manufacturers are now marketing direct to consumers. They are realizing that their destiny is in their hands. They can control the customer experience with their brands. But, at the same time, they need to get over any concerns they have around channel conflicts with retailers. Some CPG companies are now looking at Amazon as a partner. Now, beyond competing with the likes of Walmart and Costco — CPG companies are happy there is someone else — they are almost eagerly getting in bed with Amazon. What we're likely to see in the future is a much more heavy hand from manufacturers on distribution and pricing strategy, although some are nervous and believe they can't control price.

Ultimately people shop for brands — especially A-list brands have control over pricing. We may see a seismic shift where big box clients could go under — that is not good news because the brands need distributors. We need to watch Amazon, which is under-pricing everyone else. This is greatly affecting the retail environment.

In order for Big Box retailers to survive, where I ultimately see things going is Big Box retailers will be negotiating with Tier 2 manufacturers with weaker names. Big Box will say "If you want to be on our shelf you own the inventory. You have to pay slotting fees and send your own sales people to sell the products." This is very similar to the cosmetics industry in department stores. That is where I see things changing — it is a way for retailers to have margin, reduce inventory, and take advantage of real estate already built without incurring additional expenses. Is that collaboration or not? I don't know, but it is a pretty drastic change. Today, manufacturers account for success based on number of units sold each quarter to retailers, who then sell the inventory. I see inventory holding and labor costs are equations they can play with in the future. It's inevitable, though. Where are you left otherwise — with a store that doesn't exist — shutting down or reducing size of stores or basically stepping up and manufacturers incurring more distribution costs, creating stores within stores. That is the only way the retailers will survive.

Customer Experience 2012: The Evolution of the 4 P's

Laura Davis-Taylor
SVP, Managing Director
ShopWork, BBDO

Laura Davis-Taylor is the SVP, Managing Director of ShopWork, BBDO's shopper marketing practice. Focused on helping clients turn shoppers into buyers amidst today's ever-changing retail landscape, she has been creating shopper strategies that bridge home, life and store for over 20 years. Her experience is multi-faceted, ranging across account planning, Internet marketing, store design and, more recently, next generation retail experience design.

The past few years have been rife with retail change agents, most of them related to the impact technology has had on shopping as we know it. As shoppers become even more empowered and 'smarter,' we are precariously close to living the reality of buying any product, any place, at any price. Once mobile commerce takes hold, this will become even scarier for brands and retailers.

So what do we do? How do we look squarely into the retail future with a smart offensive plan in place?

I've thought about this a lot over the past decade and feel strongly that we start by changing our stance on the traditional marketing mix of product, price, place and promotion.

First, let's realistically look at what the 4 P's are about. The traditional description: "the parameters that a marketing manager can control, subject to the internal and external constraints of the marketing environment."

The issue is fairly obvious! Thanks to technology, product can still be controlled, but price, place and promotion are like a scatter diagram. Everyone is in fear of becoming "a show room for Amazon" and with the Amazon Prime loyalty program taking hold, they should be. "Pricing pandemonium" has become the norm, if not a sport, and only a handful of brands have managed to retain premium pricing through their direct channels.

What are the leader brands doing differently? As BBDO sees it, they have embraced two additional pillars within the marketing mix: (1) personalization and (2) participation.

People — shoppers — today are allegiant to brands that mean something to them. It can be shared values, a great experience, valued pricing, excellent incentives, access to the hottest and most exclusive products…you name it. But it has some kind of meaning to them personally. Exposure to something of personal meaning ups the likelihood for someone to participate in some way—to explore, share, buy, advocate or even interpret the brand uniquely.

With this in mind, today's digitally enabled shopper will not respond to the shotgun approach of our past. They want shopping information relevant to them at that very moment, carefully targeted and curated by brands that know their profile and preferences. In the years ahead, they will want these offers to seek them out, not the other way around, and they will want to control the level of intimacy they have with each retailer. They will want easily accessible venues for sharing their thoughts and feelings about a brand and they will want to be heard and responded to. Brands that want to win will embrace this and get strategies in place to support it.

Thus far, this has been difficult to realize, as it requires a veritable ton of infrastructure and technology investment. Mobile has changed this.

No matter where people are wandering, there will soon be little difference between the physical and the virtual shopping world. Living in a world of "virtuality" they will be able to fire up their phone and support pretty much any shopping need, including a real-time dialogue and response with brands.

Mobile is the ultimate enabler for a "6 P" marketing mix, but it's critical to not see it as a technology — we must see it as an indispensable tool for human connections. We have to tap into people's lives and provide meaning to them the way a good personal shopper would. We can't be pushy, phony, obvious or self-serving. We must know them intimately, serving them and earning their trust and ongoing loyalty every step of the way. If we do this right, the result will not only be transaction and loyalty, but also proactive participation and advocacy.

Most discussions surrounding mobile technology proclaim that it will revolutionize retail by providing connections between retailers and consumers anywhere, anytime. At the same time, mobile presents a prime opportunity for optimal marketing and sales opportunities. Similarly, social media (Facebook, Twitter, etc.), which is largely enabled by mobile, provides consumers the same opportunity to critique retailers and products with family, friends and the world, at any time.

Social media often is described as "word of mouth" at the speed of light. The key to retail success and survival is utilizing mobile and social in a manner that wins and retains customers to increase sales and margins. Retailers must always remember anyone can give away merchandise; earning a margin is real retail success.

Retailers cannot stick their head in the sand and hope these trends go away. According to a September Shop.org survey, nearly half (48%) of retailers have already implemented mobile applications, with more than 30% planning to implement prior to the Holiday season.

> The key to retail success and survival is utilizing mobile and social in a manner that wins and retains customers to increase sales and margins.

In January 2011, ARTS published the Mobile Blueprint for Retail, 175 pages describing three business areas in which mobile is being successfully deployed in retail: Marketing, Commerce and Internal Operations. It also highlights 30 mobile applications largely within the marketing area.

Does any smartphone owner look in the yellow pages to find a store or product? No. And when they find the item on their mobile device, they expect to receive a discount or promotion to purchase immediately or in the closest store location, identified with precise directions. The Blueprint provides many tips for successful mobile engagement, ways to obtain new customers and retain their loyalty.

Highlights of the Mobile Blueprint include:

- Respect customer privacy
- Support all mobile brands
- Integrate or link mobile and social offerings
- Monitor customer behavior and messaging, and respond appropriately

Richard Mader
Executive Director
Association for Retail Technology
Standards (ARTS)

Richard Mader is the Executive Director of the Association for Retail Technology Standards (ARTS), a division of the National Retail Federation (NRF). He was a founding member and volunteer chairman before becoming executive director in 1999, when ARTS became a division of National Retail Federation (NRF). Richard led ARTS in developing the Standard Data Model, Mobile Blueprint, and the upcoming Social Commerce Blueprint. He has more than 40 years' experience in retail information management, progressing from programmer analyst to serving as SVP and CIO for Boscov's and Bon-Ton Department Stores, and Director of Corporate Systems for Federated Department Stores. Richard also is the President of Mader International Consulting.

Amping Up The Customer Conversation With Social Media

Just when retailers were becoming comfortable with mobile initiatives, the world turned upside down again with social media.

Consumers are actively engaged in social networks. A survey of 1,787 respondents conducted by comScore reported that 77% were members of Facebook, Twitter or a retailer blog, while 42% "followed" one or more retailers and 34% commented on or purchased from a retailer via social media.

These percentages are growing daily. IBM reported the week of Nov. 29, 2011 that shoppers referred social networks generated 0.535 of all online sales on Black Friday with Facebook leading the pack, accounting for 75% of all traffic from social networks.

Clearly, retailers need to engage in social media. Although the goals and strategies for various retailers will be somewhat similar, the tactics they choose to support those goals and strategies can vary wildly. During the NRF Annual Convention in January 2012, ARTS will release a Social Commerce Blueprint to assist retailers in successfully utilizing social media by deciding which tactics best fit their customers' lifestyle.

This paper will discuss the following goals, strategies and tactics:

- Mine data with social analytics: it is the only CRM information continually updated by the consumer; and
- Monitor all social data to instantly react to both positive and negative consumer posting relative to your company.

Gary Schwartz
President
Impact Mobile

Gary Schwartz has played a leadership role in the mobile industry, founding Impact Mobile in 2002 and running the first cross-carrier short code campaign in North America. In 2006, Gary founded the mobile committee for the Interactive Advertising Bureau (IAB) and has worked to publish literature such as the Mobile Buyer's Guide, helping extend the digital buy into mobile (for which he received an IAB award for industry excellence in 2009). In 2010, Gary was elected Chair of MEF North America with a remit to develop a mobile commerce practice to service brands, retailers and content owners (for which he received a MEF award for industry excellence). Gary is the recipient of the Asia and Japan Foundation Fellowship as well as the Macromedia People's Choice Award and Dodge Foundation Award for innovation. Gary authored the upcoming book *Click2K'Ching: The Mobile Shopper & The Impulse Economy*.

Everywhere you turn in the press there are debates on the impeding mobile wallet. The ads paint the picture: Free George from his back pain. Free George of his exploding cowhide wallet.

But does Mr. Costanza want liberation?

APP-dom Wallets

Apple's APP strategy has empowered garage developers worldwide to create a virtual version of nearly all thing-a-ma-bobs known to the consumer. Some of these APPs do emulate various folds of the cowhide wallet: coupon clipping APPs, banking APPs, money transfer APPs, affinity punch APPs, giftcard APPs, Starbucks stored value APPs, etc.

The solutions are exciting and feature rich but studies show that consumers are only prepared to use between five and 10 mobile APPs — many of these APPs are game or non-commerce utility solutions.

G-Wallet

Enter Google Wallet, ISIS (the AT&T, T-Mobile and Verizon payment consortium), and others offering one central wallet that can TAP on the cash register using contactless NFC technology to pay, redeem store loyalty points, accumulate coupons, and other currency all in one place on your phone.

TAP-to-BUY at the cash register seems one of the most exciting services. But the reality is that only a miniscule sliver of the U.S. point-of-sale is open for contactless payment. VeriFone and other stakeholders in the value chain are working hard to provide the hardware to allow for retail America to TAP-and-GO but we are years away.

Both Apple and Google and the disenfranchised wireless carriers want to be in the wallet. That is where companies will make their fortunes over the next decade.

But the battle is not for the wallet . . .

Although pundits debate trading the cowhide wallet for the phone, the 2011 consumer has already many more than one wallet.

Every time we store a credit card on a web site we are creating a new wallet and a new check-out relationship. Many of us have an iTunes account, Amazon one-click check-out, PayPal account, Starbucks APP, Peer-to-peer e-payment functionality with our bank. Even our carrier bill is a wallet that the consumer can bill against for digital ringtones and virtual chickens on Farmville.

The battle is not for the wallet. The battle is to be the check-out of choice.

Study after study shows that the driver of m-commerce adoption is convenience and the inhibitor of m-commerce is trust. The winning solution will be the wallet that is closest to the mobile consumer's point-of-decision.

TAP-to-buy NFC wallets are superbly elegant but are in early trials and do not have the ubiquity to be seamless and shopper friendly. Isolated APPs on the desktop are function rich but not centralized or standardized and in many cases are lost on the phonetop.

Amazon' Kindle Fire is paving the way. The device is a game changer as it has bundled its one-click checkout with a commerce portal and made it both affordable and small enough to be carried into the mall. Amazon is perhaps the closest to the checkout-of-choice for shoppers.

Quick check out, unit cost and size are all factors that will drive adoption. And while we wait for the store to read our phones at the cash register, the final factor that will win the shopper is always on, always ready check-out in the digital cloud.

The Cloud is where it is at!

Amazon will win because their Kindle Fire "wallet" is bundled with a store. It has convenient form factor with a frictionless check-out in the digital cloud wherever and whenever you need. Apple will win because it already has a cloud wallet called iTunes. It will dominate if it can expand this wallet to enable NFC card-present checkout in the digital cloud.

Google will win if it moves its wallet focus away from bricks-and-mortar and focuses on its strength across all screens in the cloud. Visa will win if it can leverage its investment in PlaySpan to create a quick password-based checkout while eliminating the clumsy number entry to leads, abandoning shopping carts on the small screen.

PayPal, CorFire, Billing Revolution, Admeris and countless other will win if they can emulate the impulse nature of the handheld.

Mr. Costanza, What do you think?

Advancing Optimization Practices Is Key To Retail Success Today

Today's leading retailers and manufacturers are recognizing that optimization science delivers distinct advantages in the marketplace. For the past 10 years, optimization science has been applied primarily to base price and markdown, however in the last couple years we have seen an expansion to all the levers of merchandising. We have seen companies applying optimization science to assortment, space, promotion and one-to-one offers, in addition to base price and markdown.

Years ago people would say it's important to understand my customer, so analytics played an important role. When optimization was immature, that was all you could do, but translating that insight into a decision is the real challenge. With optimization, leading companies are finding the ability to translate consumer data into discrete decisions across these merchandising levers. It provides the opportunity for companies to execute covert retail offerings to the consumer, improving the way they build assortments, assign space, promotions or digital offers to consumers.

Traditionally, retailers would match competitors' behaviors to customers in their stores. Today's retailers succeed when they use optimization to specifically focus on customers in their own stores. Tailored presentations increase loyalty and wallet share. Customer acquisition is very expensive; growing the customer basket is far more effective and profitable for retailers. This is where optimization realizes the greatest value, with the customers that already are in the store.

Without connecting optimization results to inventory, purchasing and the suppliers, there is a very real danger of being out of stock of right items and overstock on wrong items.

An important aspect of optimization is the ability to stimulate consumer behavior and response. However, a specific challenge arises as companies expand optimization to more than one merchandising process. Without connecting optimization results to inventory, purchasing and the suppliers, there is a very real danger of being out of stock of right items and overstock on wrong items. So as companies are optimizing these different decisions it is vitally important that they include impact to location inventory, fulfillment center inventory and supplier inventory.

This is a watchout for retail because today most companies engaged in optimization are not signaling the inventory cycle properly. When retailers improve their assortments, demand is impacted. Combining improved space, price and promotion decisions delivers a complex impact on consumer demand. Understanding the cumulative demand impact in not trivial. Most companies do not have the

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Research Vice President
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Kevin Sterneckert is a Gartner research vice president. He researches and analyzes Pattern-Based Strategy activities within the demand-driven value networks of consumer manufacturers and retailers. Kevin is an expert analyst of merchandise life cycle (assortment, space, price, promotion, markdown and offer) optimization. Prior to joining Gartner, he was the senior director of global product strategy for merchandise planning, optimization and supply chain at Oracle Retail. He also served as the GM and VP of Retail for DemandTec, a provider of merchandise optimization solutions. Kevin also held positions at HEB Grocery Co., Wal-Mart Supercenters and a leading provider of private label services, Daymon Worldwide.

capability to understand the combined impact and it requires significant solution/systems to be able to address it.

This complexity suggests the importantance for retailers to find solution providers offering a platform of optimization systems that include a holistic supply chain forecast. Today, a few are just beginning to realize the importance of this. If you're pursuing optimization, great. If you're optimizing different areas of your merchandising process, great. Those are all important and valid for the new consumers. But if you don't include connection to inventory and suppliers the results will not deliver the planned expectations.

Mobile and **social** is a big part of the optimization process for retailers today. As mentioned a growing number of companies are optimizing brick and mortar merchandising levers. It is my prediction that companies will begin to use the same technologies for mobile and e-Commerce environment. The consumer that shops online or on mobile or via a tablet are different by channel — they have different expectations and missions, and the same reasons that are driving retailers to optimization for brick-and-mortar are same reasons optimization will be used for other channels of retail.

I would say there is a bit of discussion around "consistent" in the customer's eyes regarding cross-channel. Customers respond favorably to online-only promotions for brick-and-mortar. The challenge is when you have retailers saying they are going to be the same in every channel but they don't communicate their strategies and don't honor the consumer variances across the multi-channel environment. I don't believe consumers expect retailers to be the same everywhere. Many retailers have expanded their assortments online, many run online-only prices and if they communicate clearly, the consumer doesn't worry about it. It's when retailers are not clear and don't communicate, then there are problems in the consumers' eyes. Consistency doesn't necessarily mean "same." It does mean retailers need to communicate consumer options clearly.

Establishing The Value Proposition By Leveraging Feedback, Tablets & Mobile

Larry Freed
President and CEO
ForeSee Results

As President and CEO of ForeSee since it was founded in 2001, Larry Freed is a widely recognized expert in customer satisfaction analytics, strategy and technology and speaks extensively on the topic at private and public-sector industry events. He is regularly quoted in numerous publications and other media, including CNN, Marketplace, Dow Jones, *The Wall Street Journal*, *The Washington Post*, the *New York Times*, *Investor's Business Daily*, *Internet Retailer*, and *Computerworld*, among many others. He also is the author of *Managing Forward: How to Move From Measuring the Past to Managing the Future*, more than 100 articles, white papers, research reports.

Utilizing the American Customer Satisfaction Index methodology, ForeSee Results deploys survey and online tools via brand web sites to gather customer feedback. The company has collected more than 58 million Voice of the Customer (VoC) responses to date and has more than 1,000 measurement systems in place.

Retail TouchPoints (RTP): What are the top strategies retailers should be employing to delight current customers and capture new ones?

Larry Freed: My first answer to this question is that you should ask them. If you want to know how to delight customers and capture new ones, ask what it would take. Never has there been more competition for retailers, not only because of economic challenges in the consumer space, but because of the multiple options that exist for consumers, thanks in large part to mobile and web technology. Unhappy customers just have too many other options and it's too easy to leave. Companies should understand customer needs and meet their expectations, and in order to do that, they need to be constantly measuring the customer experience. Traditional, financial, single-channel metrics no longer help you understand if your customer was successful and if they are or will be a long-term, loyal customer.

Retailers that can make their own mobile technology the preference of in-store shoppers will keep competitors out.

RTP: How are progressive retailers innovating to keep shoppers coming back to the store and create a consistent message across all channels?

Freed: The progressive retailers are making huge strides in the integration of all channels every year, and it will be critical for them to keep up with customer expectations in this area. One of the biggest issues is making sure you have the same products across all channels, or if that isn't possible, you need to be extremely transparent about what is available where. Ideally, all channels should be set up to be successful for both commerce and research because we're finding customers have so many different patterns of shopping behavior in terms of where customers prefer to research, where they prefer to price check, where they prefer to buy.

RTP: Leading retailers like JCPenney, Macy's and PacSun have rolled out tablet technology. What role will tablets play in the retail store in 2012?

Freed: The use of tablets in stores is a phenomenal step forward and can accomplish a lot of things. It's really bringing the best of web and mobile technology into the store. 1) Tablets improve the experience and speed up service. In some stores, associates can actually check you out using a tablet — you can come and go with purchases in hand without ever having to visit the cash register. 2) Tablets restore the balance of power. It used to be that an associate in an electronics store was far more knowledgeable than the customer about the products. That's just not true anymore — frequently customers come in having done extensive research. With tablets, associates can pull up all the information they need on pricing, specs, product reviews, and anything else that can help them close the sale. 3) Tablets give associates the ability to order products that are not available in the store. This ability vastly improves the customer experience and improves the likelihood of a sale.

RTP: How will retailers utilize mobile channels to enhance the customer experience in 2012 and beyond?

Freed: I think there are two components to this answer: one is how you use mobile technology to enhance the customer experience in the store, and the other is how you enhance the customer experience on the mobile app or site itself.

Retailers that can make their own mobile technology the preference of in-store shoppers will keep competitors out. If I'm walking down the aisles of your store, you do not want me using my phone to check prices and products at your competitor. There are lots of mobile technologies that can be used to improve the in-store experiences: QR codes, making store layouts or maps available in the app so customers can find what they need, the integration of online wish lists with in-store inventory and mapping, etc. These kinds of apps deliver an experience that far outweighs looking at any competitor apps while you're in the store.

Analytics Drive Advancements In Retail

In the last few years retailers have invested pretty heavily in merchandising optimization, pricing optimization, markdown optimization — in general they are doing better job with **inventory algorithms**. Tier 1 and 2 merchants are investing money in technology that allows them to understand style, size, volume distribution, etc. on a more granular level. Now stores do optimization at the store level and quite accurately. This puts the retailers that have invested in analytics ahead of the game. With more accurate inventory optimization, retailers are not forced to engage in huge discounting exercises post-Christmas.

Social Media Analytics is another growth area in BI and analytics. More vendors are participating in social media channels, as the online perception of products continues to drive sales. Now we are adding in another flow of information with social media — Twitter, Facebook, myspace, YouTube — there are 300 to 400 fairly popular social media streams. So how do manage all that additional information? What information is noise? What is actionable? At the end of the day the important question to answer is: What information will affect my bottom line?

Frankly the technology isn't there yet. It's stay *tuned* at this point. This is a big area for growth. Within the context of analytics and BI, it's growing like crazy and will drive analytics growth for the foreseeable future.

Loyalty Retains Importance

We still need a reason to drive consumers to the store and purchase, not just window shop; and there are several strategies for doing this. One of the best things retailers are doing in terms of the ability to compete is by offering private label products. With a line of private label items, consumers can not price compare one product vs. a competitor's. The mattress industry is great example of this — it is almost impossible to price compare on a mattress. Other retailers, like **Liz Claiborne** and **Jos. A Bank**, also make it difficult to price compare. What they do is somewhat take themselves out of that game. It also comes back to that one-to-one relationship you can have with a customer.

> Now with mobile technology and applications, all types of retailers can interact on a more one-to-one basis across multiple channels.

Mobile devices offer a key way for store associates to facilitate that one-to-one relationship with consumers, by understanding their purchase history and providing customized service. In the past you had that type of one-to-one service at upscale stores such as Saks or Nordstrom, but now with mobile technology and applications, all types of retailers can interact on a more one-to-one basis across multiple channels.

Jerry Sheldon
Analyst
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Jerry Sheldon is an analyst for IHL Services. In addition to having a Bachelor of Mechanical Engineering and a Masters Degree in Mechanical Engineering from Georgia Tech, Jerry also has an MBA from the University of Miami with a specialty in Marketing and Marketing Research. He brings 16 years of business experience in engineering and management through assignments with Pratt Whitney - United Technologies, Georgia Tech School of Mathematics, and Milliken & Company. In his previous employment he was managing a stress testing laboratory on the Space Shuttle engines. In the field of retail technology, Jerry has researched and authored analyst reports on Mobility, Price Optimization, POS Software and Hardware Systems, Printers, and WFM Solutions. Jerry also provides the development expertise and analytics that go into IHL's Sophia Retail Technology Database, Worldwide POS Vendor Database and our Retail IT Spend model.

And by offering better in-store service, retailers can break away from mindset of becoming a window shop location for Amazon. Best Buy has been successful in this scenario with services such as GeekSquad. It gave consumers a reason to go into the store. It worked for Best Buy, a trusted brand, and created a new revenue stream. The margins on service offerings are much higher than the margins on products. Although Best Buy hasn't capitalized on the idea effectively and are now struggling to differentiate themselves. It is a good example of how retailers can create a point of differentiation. The model is: How can I take my business and make it different from other retailers? How can I bring a service component into my product offering?

A Closer Look At In-Store Mobile

It's important to look at mobile beyond just iPads in the store. One of the key points is that it really touches a vast array of traditional technologies within the store — from the supply chain back into store systems. The impact is far reaching. To really think through and understand that is really exciting. Over the past two to three years Apple has defined in-store mobility. Ron Johnson, as the SVP of Retail Operations at Apple, was one of the fathers of that; and now, as CEO of **JCPenney** will undoubtedly totally re-define the department store vertical. It's really exciting.

Antropologie, for example replaced the fixed POS with mobile POS and re-defined the store architecture. It allowed the retailer more flexibility with store design. With mobile POS, they can expand their store strategy to have each store being unique and reflective of the individual location.

A Simple Retail Formula: Quality Products And Service

I start many of my presentations with a quote from Lou Pritchett: "When the rate of change outside your company exceeds the rate of change inside your company, disaster is imminent." And then I continue by outlining the major developments in the 'very turbulent!' consumer arena and the changes that are needed for businesses to continue to stay relevant.

So, what changes are we witnessing outside our company and with the consumer, and what changes do we need to make inside our company **to avoid disaster** in the coming year and beyond?

Let's Start With The Economy

We do not see much improvement on the horizon for 2012, at least not as quickly as we would like to see but what we are seeing are permanent consumer spending pattern shifts that will make it all but impossible to go back to the good old days of conspicuous consumption. Deals and more deals are the new normal and it is going to take some serious rethinking of retail models to stop this race to the bottom and oblivion.

In the 1500s, a British Economist named Sir Thomas Gresham made an observation about the influx of counterfeit money that was plaguing London at the time. He said that "Bad money drives out good" which means that once a system is infested with questionable product (bad money) it makes people not trust or even be able to identify the good. Do you see any similarities to our marketplace today?

Deals and more deals are the new normal and it is going to take some serious rethinking of retail models to stop this race to the bottom and oblivion.

Of course there are, one only has to look to the "outlet" store business, both manufacturers outlets and retailer outlets, to observe this race to the bottom and questionable practice of creating lower priced product and selling it as first quality branded at a special price. Most consumers believe that the products that they are purchasing in the retailer outlet stores are actual products that were sold in the retailers regular price stores and have no idea that over 85% of the products that they are seeing in these outlet stores were purchased specifically for the outlet store and are of a quality that would never be accepted in the regular price store. Manufacturer outlets are guilty of the same ruse as they are making and selling lower quality products under their brand name and leading customers to believe that it is the same product sold in regular retail stores.

Jim Dion
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Jim Dion is founder and president of Dionco Inc. He is an internationally known consultant, keynote speaker, trainer, author and one of North America's leading experts on consumer trends, retail technology, selling and service, retail merchandising and operations. Jim started his retail career in 1964 in a men's wear store in Chicago. From 1975 to 1980 he was employed by Sears Canada in Retail Management. He was promoted to Buyer, Jeanswear and was responsible for buying and marketing for 68 retail and 958 catalogue stores. In 1980 he became National Sales Training Manager for Levi Strauss. From 1985 to 1988 he was Executive Vice President of Gilmore's Department Stores in Kalamazoo, Michigan where he repositioned a 106-year-old chain in a highly competitive retail environment. He has authored the retail selling manual titled "Retail Selling Ain't Brain Surgery, It's Twice As Hard." In addition, he has co-authored "Start and Run a Retail Business" for Self-Council Press and is the author of "The Complete Idiot's Guide to Starting and Running a Retail Store."

Short-Term Winners, Long-Term Losers

This is a dangerous game that has short-term winners, the stores and the consumers and long-term losers, again, the stores and the consumers. As these products will not perform as well as the full quality versions, consumers, who thought that they were making a great purchase, find that they have to buy these items more frequently as the cheap products do not last as long and perform poorly. The customer blames the store or the brand and often takes their business somewhere else.

The problem is that there are fewer stores offering quality items and service and yet, that is exactly where stores should focus their efforts. Creative, unique, innovative, differentiated, beautiful, 'must have,' hot, current products with the right depth of assortment to avoid the 'they are out of stock on stuff I need' problem will do it. So will having the right store environment, including the right merchandising presentation. Take pictures of your stores and look at them with a critical eye. How do they stand out? Am I being transported to a different time and place where desires get fueled when I am in them or am I feeling like I could be in "any-store"? Are you just a store or something far more for your customer (do I want to hang out with you or is there nothing for me to do besides look at your shelves and racks?).

These are just a couple well-known strategies in retail that must be deployed today and in the future just like they have been (or should we say, should have been) in the past. Remember bad (read, cheap) products and service are driving out good and this eventually causes a downward spiral that is almost impossible to recover from.

2012: The Year of In-Store Technology Rollouts

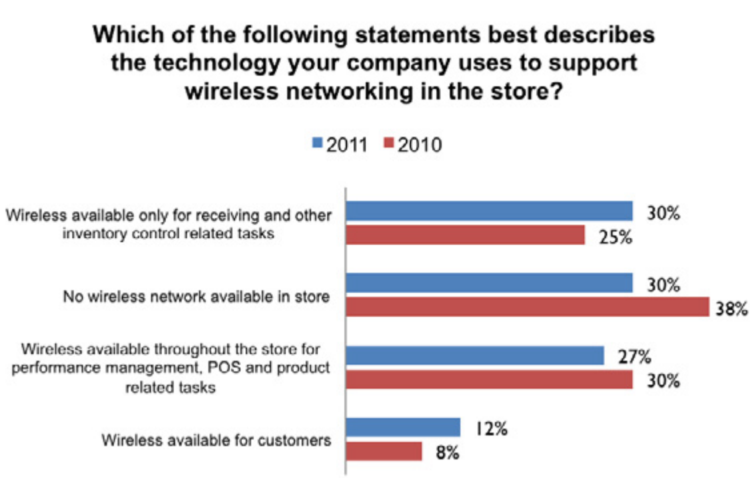
Every year, RSR takes a look at "the state of the store." Our findings consistently show retailers understand the importance of creating a better in-store shopping experience for their customers. However, in 2011 it became clear that armed with more technology than most store employees and managers, the consumer was crafting her own experience — and much of it was outside the boundaries of the store's four walls. While store traffic was up significantly, comparable store sales were up, but only in low-single digits. On the other hand, online sales rose by more than 15%. The evolution and proliferation of consumer-held technologies have brought stores to their Rubicon. The inflection point has passed, and the time to react is NOW.

The question is no longer, "How can we make the in-store experience as satisfying as the web?" It has become, "How can we make our stores more significant than showrooms for online merchants?"

Assuming that retailers have learned lessons from past mobile technology implementations, it seems that some big tech rollouts are around the corner.

Retailers made an initial response in 2011 by investing in in-store technologies. **Lowe's** purchased iPod Touches by the case-load. **Urban Outfitters** and **Nordstrom** deployed them in limited quantities in stores, while still others played with iPads and other variations on the tablet theme.

So what's in store for 2012? Assuming that retailers have learned lessons from past mobile technology implementations, it seems that some big tech rollouts are around the corner. Not only is the hardware profile different this time around, the applications that retailers can leverage on this hardware is much richer, fed by information collected through their e-Commerce platforms and enabled by internet access.



Nikki Baird
Managing Partner
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Nikki Baird is a Managing Partner, RSR Research. Prior to joining RSR, Nikki was the Executive Director of Research at RSAG. Prior to RSAG, Nikki was a principal analyst at Forrester Research, where she covered extended retail industry topics like supply chain, RFID, retail operations, POS, and in-store management. Recently, she was director of marketing for StorePerform, a store execution management software provider, now RedPrairie. Prior to that, Nikki was director of product marketing for Viewlocity, a supply chain software provider focusing on adaptive supply chain execution and exception management. Nikki came to Viewlocity from PwC Consulting, now IBM Global Services, where as a senior manager she led IT strategy consulting engagements for retail and CPG clients. Nikki has an M.B.A. from the University of Texas, Austin, focusing on operations and IT. She also holds a bachelor of arts in political science and Russian, with a minor in physics, from the University of Colorado, Boulder.

In fact, the biggest barrier to a tidal wave of devices in the store isn't the hardware so much as it is the network access — namely, WiFi in the sstores. According to RSR's research, less than a third of retailers provide WiFi access for customer-facing activities, and only 12% offer WiFi directly to their customers. PCI plays some role in the concern — the need to expose internet access without exposing credit card data or payment networks. But sheer infrastructure concerns play an even greater role, not just in providing wireless routers in stores, but in the back-end bandwidth that will connect stores to the enterprise. With the plans for rich media that retailers want to provide to both customers — as part of the brand experience — and employees — as part of a high-quality training experience, one thing retailers should already know well is that the more bandwidth you provide, the hungrier the applications get that eat up that bandwidth.

Forced by their savvy, mobile-armed shoppers, retailers are rapidly coming to the conclusion that an uninformed employee is worse than no employee at all. As mobile devices make their way into stores, loaded with access to loyalty programs and customer promotions, customer order management and customer service applications, assisted selling tools, performance metrics feedback and instant training on demand, and even some cases of POS and line-busting, retailers seem positioned to at least meet that informed shopper with some semblance of parity in 2012.

Whether that is enough to put relevance back in the store remains to be seen.

retail TouchPoints
STRATEGIES TO OPTIMIZE EVERY CUSTOMER INTERACTION

Retail TouchPoints is an online publishing network for retail executives, with content focused on optimizing the customer experience across all channels. The Retail TouchPoints network is comprised of a weekly newsletter, category-specific blogs, special reports, web seminars, exclusive benchmark research, and a content-rich web site featuring daily news updates and multi-media interviews at www.retailtouchpoints.com. The Retail TouchPoints team also interacts with social media communities via Facebook, Twitter and LinkedIn.

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