VERDICT CONSULTING & STERLING COMMERCE

THE SMARTER CONSUMER

verdict
retail analysis, insight and strategy

Sterling Commerce
An IBM Company

VERDICT CONSULTING & STERLING COMMERCE

THE SMARTER CONSUMER

INDEX

WHERE TO FIND WHAT YOU'RE LOOKING FOR

UNDERSTANDING THE SMARTER CONSUMER

We're losing control

Who defines a brand's identity? Ask that question twenty or so years ago and the almost universal answer would be that a company sets its own agenda in terms of brand values and attributes. Of course, the company would need to live up to the values it ascribed to itself but, provided it did that, life was relatively smooth.

Nowadays, the answer is nowhere near so clear cut. Certainly, companies do try to set their own agenda but, today, normal consumers can challenge, question and even destroy the reputation of brands. The difference between twenty years ago and now, is, of course, the internet. The ease, immediacy and reach of the online world has empowered everyday people: it has given them a communications platform that the corporate world of twenty years ago could only dream about.

Dave Carroll's story is a now famous example of the influence normal consumers can exert over big brands. The musician's valuable guitar was broken on a United flight due, he alleges, to mishandling. His complaints to the airline failed to remedy the situation so he posted a video song about his experience to YouTube. The video quickly went around the world gathering tens of millions of hits – much to the concern of United Airlines.

Inputs and outputs

One of the main reasons for the loss of control is the extent to which consumers have so many more places to research brands and to communicate about them, in both a positive and negative way. In retail, it used to be the case that to get information you had to visit a store; equally, to complain you'd probably have to visit the same store.

Today, consumers can still visit stores to do both of those things. However, to find out about retailers and products many will go online, to their mobile or to social networking sites to do research. In other words, there are so many more inputs to the consumer decision making process. Equally, to complain, consumers are increasingly using social networking sites and communication tools such as Twitter. These posts, Tweets or comments are then picked up as inputs by those doing research; in other words, they start to influence a brand's identity.


Just some of the many communication tools consumers now have at their disposal for both research and communication. A particular problem for retailers is that comments by 'real people' are often seen as being more authentic than corporate communications.

Who is this smarter consumer?

So, the smarter consumer is instrumented, interconnected and intelligent. They have more information at their disposal, they know how to use it effectively and how to share it with other consumers, and they also have clear expectations about what they want from retailers.
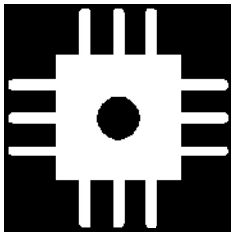
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Instrumented:

They have instantaneous access to information about retailers, products and other consumers experiences through technology

Interconnected:

They use multiple technologies to interact with other consumers and with retailers

Intelligent:

They have clearly defined expectations of what they want from the retailer now and in the future

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The growth of online

Over the past ten years, the online retail channel has already seen explosive growth. Today, all retail sales through the internet stand at just over £18bn or some 11% of total retail. This figure will continue to grow rapidly and by 2020 we estimate that online sales will stand at just over 21% of total retail.

Of course, this growth means that consumers will become powerful and will be able to act in ways which are smarter and more informed. But it also has some profound implications for retailers. With over a fifth of all sales going through the online channel, there will be questions to answer. How will customer relationships be managed? How many stores are needed to service demand? How will retailers join the dots of online and offline? These are concerns are already high up the agenda and will only become more important over the next few years.

2009
11.0% of all retail spend
(£18.4bn)
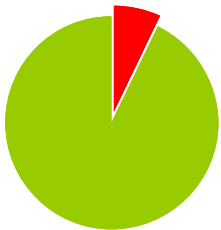
2020
21.4% of all retail spend
(£67.2bn)
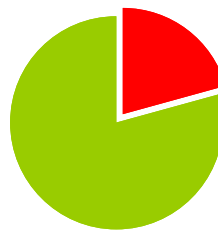
By 2020, it is likely that online (which includes all traditional internet and mobile commerce) will account for over a fifth of all retail sales. In some sectors, such as music and video, almost all sales will be made via the online channel.

It depends on where you sit

There is no universal reaction to the growth of online and the increasing empowerment of the consumer; much will vary by retailer and sector. There will be some sectors where personal interaction with customers through stores remains a vital component of the purchase process; others will become much more remote and stores will be both expensive and unnecessary.

Some complex sectors, such as electricals will see extremely high proportions of business transacted over the internet; however, the need for communication, advice and service via stores will remain critical. Retailers will need to mix the two channels to be successful. Other sectors, like music and video, will find stores are somewhat of an expensive distraction that add very little to the purchase process. Understanding how to optimise channels and align them to consumer demand is fast becoming one of the main retail challenges.
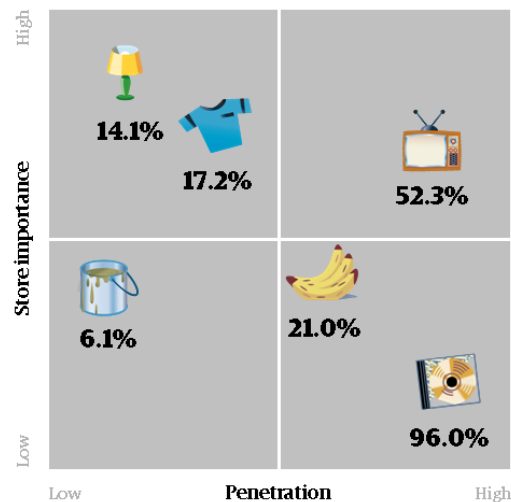
The matrix opposite shows where different sectors are positioned in terms of internet penetration and the importance of stores to consumers. All figures are 2020 estimates for the proportion of sales made online.

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Reactions

While the proliferation of channels, routes to market and technical solutions has made for a smarter, more powerful consumer, it can create confusion and conflicting priorities for retailers. So how should retailers react? The critical thing has to be to understand things in the context of the wider business and not to look at them in isolation.

The first thing retailers need to ask about any new technology is: what does it do for the business? Technology has to have, or has to be aligned to, a wider commercial purpose. Retailers then need to understand how new technology integrates into the business, especially in terms of how it aids understanding: having a system that can generate a single view, rather than having lots of data from various systems is critical here. Perhaps most important, however, is realising that not all technologies are suitable or desirable: retailers should invest selectively, rather than adopting every new trend or fad.

Purpose	**What does this do for me?**
Holistic	**How does it integrate?**
Understand	**How can I get a single view?**
Selective	**What should I back?**
Culture	**How do I unify my business?**

To be successful retailers need to ask themselves fundamental questions about new technological innovations.

Putting it together

A critical aspect of a successful cross channel proposition is integration. While separate channels will have specific applications, systems must have cross-channel capabilities which feed into channel applications. For example, there should be just one set of master data which is shared across all channels. This saves time and also drives a consistent brand experience.

Channel Applications

Online	Mobile	Call Center	Cross-channel POS / Store	Kiosks	Field Sales	Email

Cross-channel Commerce Capabilities

Master Data	Sales & Marketing	Transaction Management	Promising & Inventory	Fulfillment	Other Services
Item	Catalog	Cart	Inventory	Warehouse Management	POS Composite Receipts
Customer	Pricing	Wishlist	Capacity	Transportation Management	Payment Gateway Vault
User	Contracts	Gift Registry	Promising	Yard	Tax
Store	Marketing	Quote	Sourcing	Supplier Portal	Fraud Detection
Supplier	Promotion	Order	Scheduling	Supply Chain Visibility	Address Verif
Warehouse	Coupons	Shipment	SC Network		Carrier Execution
	Configuration	Delivery			Email
	Loyalty	Work Order			SMS
	Rebates	Payment			....
		Return			....
		Purchase Order			
		Cash Management			

Sterling Commerce's model of delivering the cross-channel experience.

WORKSHOP DISCUSSIONS

Introduction

The workshop sessions looked at two areas of the smarter consumer and technology:

External

How do you ensure technology is aligned with consumer demand?

- **Picking the winners**
- **Integrating for a unified experience**
- **Pitfalls to avoid**

Internal

How can you use technology to improve information and decision making?

- **Internal integration issues**
- **Customer analytics**
- **Functions and roles**

External

How do you ensure technology is aligned with consumer demand? How to you pick winning technology? How can you integrate technology to create a unified customer experience? What are the pitfalls to avoid?

The workshop group for this topic identified a four stage process to drive success:

Step 1: deciding what to do.

- Here it is critical to consider what the business's overriding priorities are and to make sure that the technology being considered helps to drive or further these priorities. Technology should be implemented for a reason, not just for its own sake and it is important to remember this.

- The second golden rule is that technology needs to be viewed through the eyes of the consumer: what does it do to help further their experience? Sometimes the answer may be obvious, other times less so – but the plain fact is that retailing is a demand driven business and technology needs to be aligned to that demand.

- A further observation is that retailers should not aim to do everything and anything. Technology evolves rapidly and new solutions, applications and advancements come almost weekly. No one retailer can possibly hope to keep up with all advances, and nor should retailers try. It is far better to be selective about what is employed and to do fewer things well, rather than do to lots of things badly. There is a sense that retailers need to become better at picking winners rather than just jumping on the bandwagon of every new technology trend. It's fine to say "Twitter is not for us" if that application does not align with what your consumers want or what your business plan demands.

- That noted, it is also important to understand that experimentation is vital. While most budget and effort will be allocated to 'safe' advancements, some should also be given to more risky ventures which may, or may not, succeed. Without some risk taking, retailers run the risk of becoming followers rather than pioneers; and being first can often provide real competitive advantage.

External

Step 2: implementation

- Communication is vital here: all departments and views should be brought on board at an early stage. Inevitably, different departments will have different (some sometimes conflicting) needs from technology. Having a strong working group allows all of these different views to be considered before implementation begins.

- The implementation process, especially for consumer facing technology, should also be democratic and should involve consumers themselves. Test new applications on small groups of consumers before rolling out, get their opinions, views and feedback so that designs or functionality can be improved.

- Critical to the implementation process is to ensure that new technologies are able to integrate with existing applications and are able to give a single, unified view of the business. Developing in a fragmented way creates a multitude of problems further down the line.

Step 3: the impact

- The third stage is to understand the impact of the new technology. Here retailers should undertake a 360 degree review with the aim of exploring the effect on all aspects of the business from customer to internal processes. Retailers should explicitly map out their aims and objectives in terms of the impact and should detail what a good outcome looks like.

- Downsides should also be managed and potential problems and pitfalls, together with mitigation strategies, thought about before any new technology is rolled out. Part of this process means thinking very carefully about whether the business can deliver on any requirements a new system or application may have. For example, having a new system work technically is no good if it requires new manual processes which the business, its suppliers or stakeholders are not equipped to put in place.

External

The trends

The group also thought about external trends which would become more important over time; these included:

- Personalisation: automatic adaptation of page layouts according to consumer preference and need; more powerful decision engines and algorithms to understand consumer trends, behaviours and preferences and mapping these into the creation of a more intelligent website experience.

- In-store integration: making POS systems far more intelligent within stores. For example, allowing staff to pull up orders a customer has placed on the website so they can understand their needs better or help solve problems more efficiently.

- Store decision making: learning from the web to help drive store decision making; for example using intelligence about customer behaviour on the website, linking it to postcodes and using the intelligence to aid store layout, category assortment, etc.

- Single customer view: systems have a single view of the customer which is used to personalise marketing and communications across the board.

Internal

How can you use technology to improve information and decision making?

Global inventory visibility

- Retailers most often establish a "ringed fenced" internet shopping channel, where inventory for the internet channel is physically segregated from other channels, perhaps in a separate warehouse. The foundation function of order management is to provide group wide inventory visibility, allowing the the creation of virtual inventory pools that each channel can access if their own pool runs low. For example, in the fashion industry, if a hot selling on line product runs low the retailer may

  - tap into store inventory that is slow moving/over allocated or
  - leverage drop ship suppliers with available inventory or
  - accept the order on the basis that a trusted supplier with orders in transit will replenish their warehouse within an acceptable time frame.

- This ability allows the retailer to maximise sales in all channels while minimising inventory and reducing working capital. Inventory visibility and the ability to manage inventory means that the retailer can accept more customer orders though accurate availability to promise.

Linking the online channel to stores

- Many retailers report significant uplift in sales and profitability from customers who shopping more than one channel. By integrating online shopping and store POS/CRM technologies retailers can deliver processes to improve customer convenience like

  - buy/reserve online and collect in store
  - return products in store regardless of which channel they were purchased from, offering the opportunity to cross and up-sell

Internal

Linking the online channel to stores (cont...)

▪ This allows retailers to both improve the customer experience, increase sales through impulse purchases made by customers when in their store and creates a more compete shopping record for the customer. Retailers can measure and report the impact of cross channel customers and to see measure how promotions impact on them rather than single channel customers. This in turn allows retailers to create more compete customer profiles and segmentation.The more complete customer purchasing profile information can be used by merchandising teams to improve distribution and allocation of products.

▪ Retailers can also use customer exit surveys both online and in-store to capture information about the customer's shopping experience and assessment of the products available. This provides valuable insight for the buyers and is akin to seeking customer opinion that might later be aired on social networking sites, but captured before they leave the store/web-site.

Website analytics

▪ Web Analytic tools allow retailers to track the customer journey and sales conversion rates for products and visits. This is useful enough but these tools can also be used real time to make "targeted promotions" via dynamic advertising slots on web pages. The promotions can be triggered by the specific route taken by the customer or products the customer has reviewed and can also take into account their purchasing history where the customer is a known/regular shopper. This allows retailers to quickly assess/test the success of promotions and to adjust to ensure the most successful one receives maximum priority.

▪ However retailers need to go beyond the web site take into account the full customer journey to assess their true success. Were products returned after purchase? Which delivery/fulfilment method was more preferred for which products? Retailers can refine the full promotion customer proposition, covering product, price, location, and associated services that constitute the complete customer shopping experience
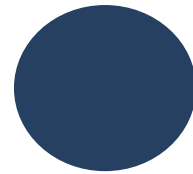
COPIES OF THE PRESENTATONS

The smarter consumer
And the role of technology

All hail the new consumer

We're a lot smarter than we used to be!

UNITED AIRLINES
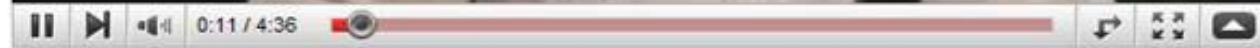
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Consumers
We're a lot smarter than we used to be!

Inputs and outlets

Inputs

Outlets

The big squeeze

Before recession (2007)	During recession (2009)	After recession (2011)
Disposable **£29,982**	**Disposable** **£29,625**	**Disposable** **£29,005**
▼	▼	▼
Discretionary **£9,301**	**Discretionary** **£12,903**	**Discretionary** **£8,788**
▼	▼	▼
Real terms **£9,366**	**Real terms** **£12,916**	**Real terms** **£8,603**

Drives more cautious behaviour

lack money

I can't spend

lack will

I won't spend

lack spontaneity

I think, then spend

Drives price sensitivity

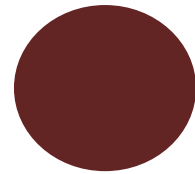## Overall rates of inflation in retail on and offline

— All retail

— Online only
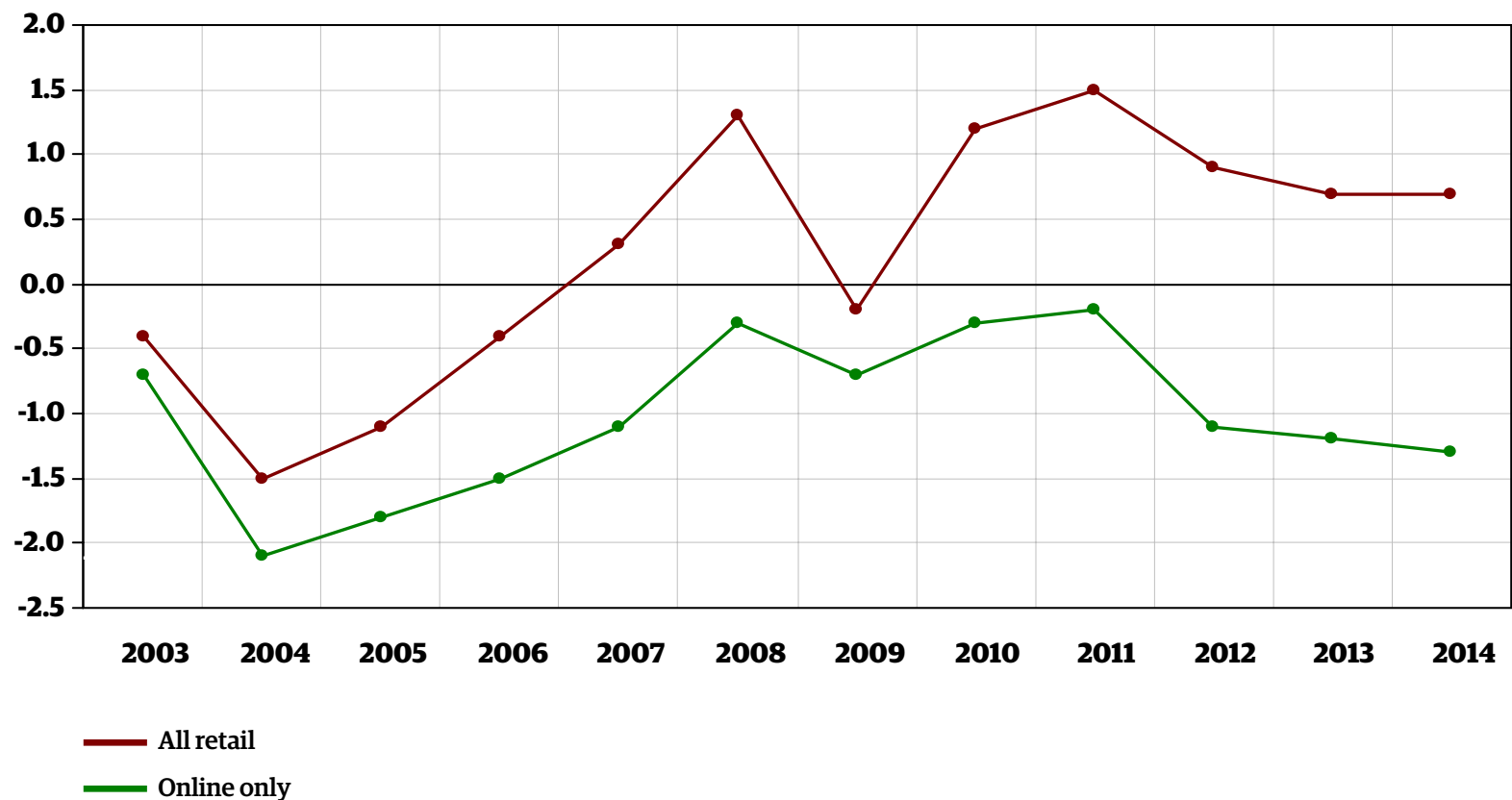
The bottom line

Knowledge **+** **Power**

Reduced control

Carpe diem

Opportunities
Growth benefits

45.5%

27.2%

11.9%

4.2%

1.8%

2.4%

1999-2004

2004-2009

2009-2014

E-retail   Total retail
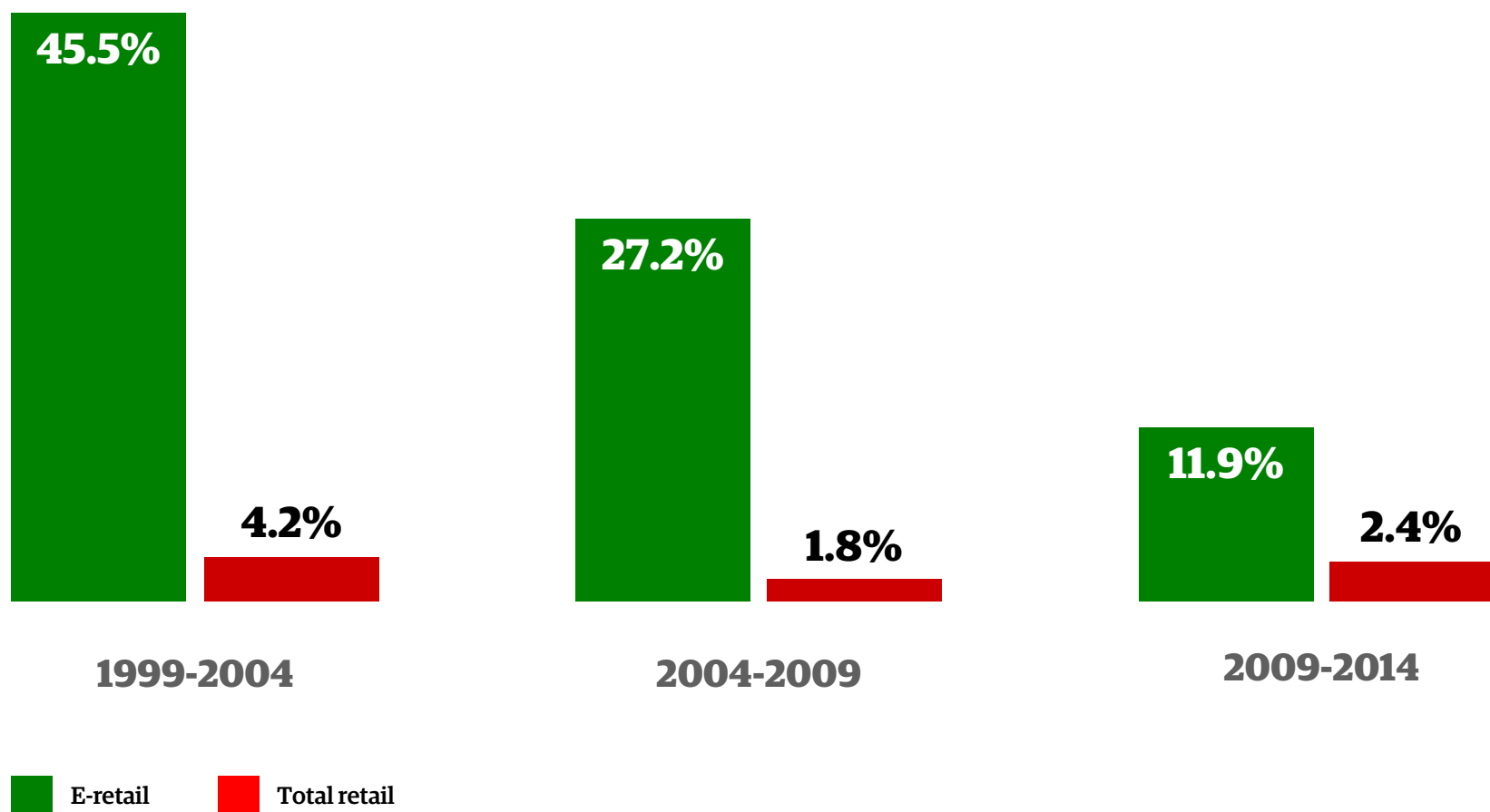
Online spending

2009
**11.0% of all retail spend
(£18.4bn)**
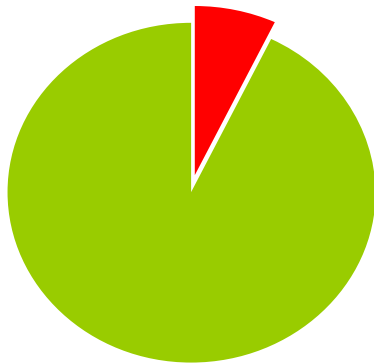
2020
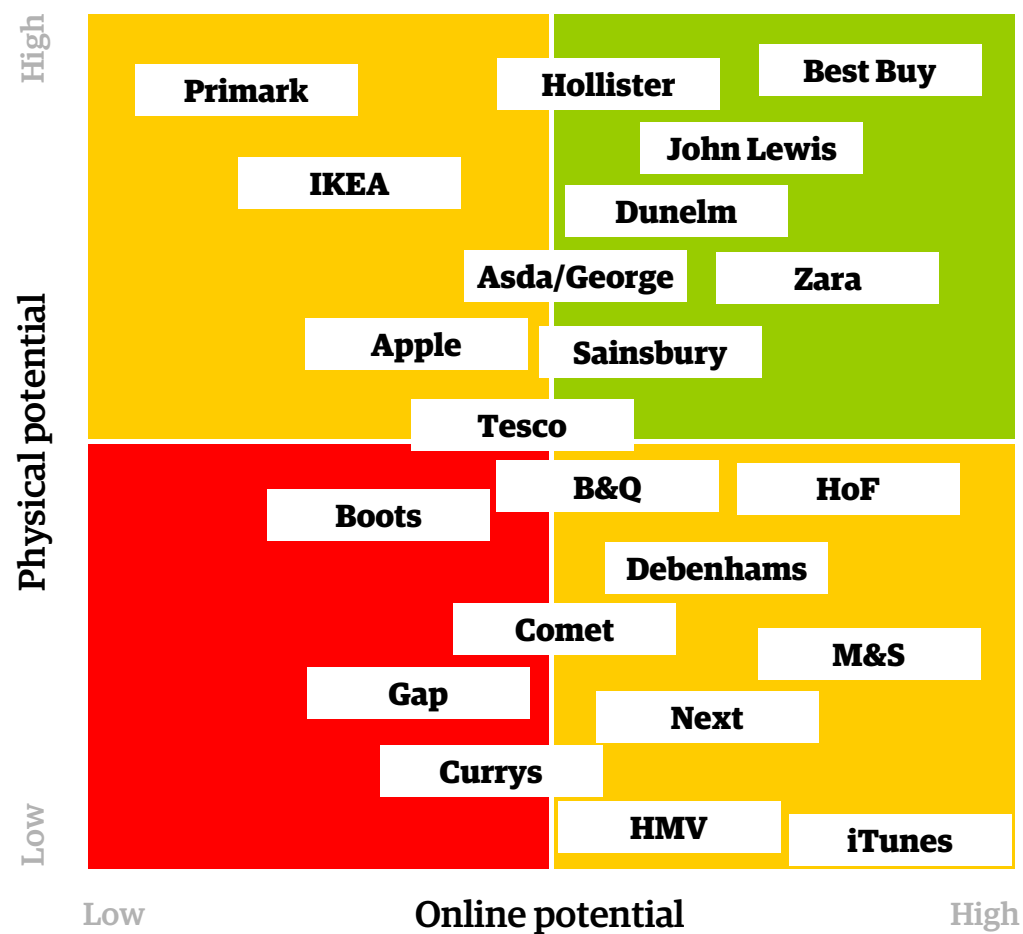**21.4% of all retail spend
(£67.2bn)**

Where do you sit: sectors

Store importance — High / Low

Penetration — Low / High

14.1%

17.2%

52.3%

6.1%

21.0%

96.0%
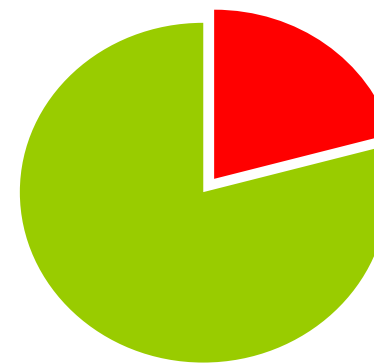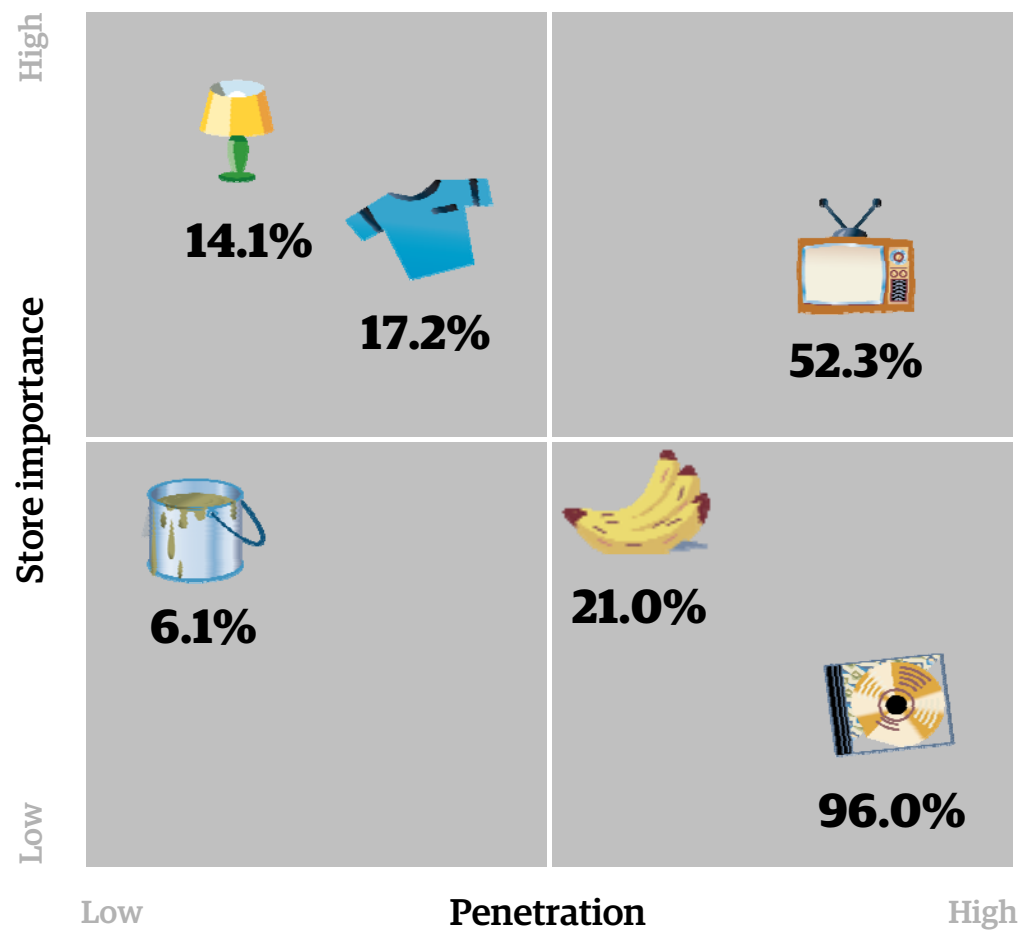
Where do you sit: retailers

Physical potential — vertical axis (Low to High)

Online potential — horizontal axis (Low to High)

Yellow quadrant (top left, High physical / Low online): Primark, IKEA, Apple

Green quadrant (top right, High physical / High online): Hollister, Best Buy, John Lewis, Dunelm, Asda/George, Zara, Sainsbury, Tesco

Red quadrant (bottom left, Low physical / Low online): Boots, Gap, Currys

Yellow quadrant (bottom right, Low physical / High online): B&Q, HoF, Debenhams, Comet, M&S, Next, HMV, iTunes

Working together

catalogues   **£85**   **£4264**   **£461**   online

£406   **£473**

Cross channel consumers are **33.4%** more valuable to retailers
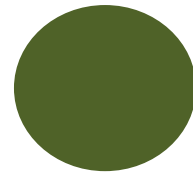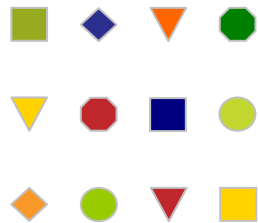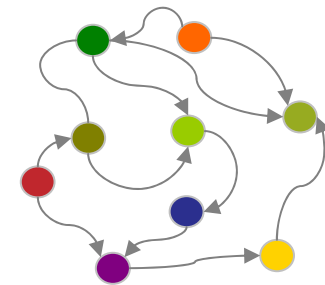
Putting it together

Making sense of it all

choice

channels

competitive

complexity

Simplification for the consumer

Key questions

Purpose   What does this do for me?

Holistic   How does it integrate?

Understand   How can I get a single view?

Selective   What should I back?

Culture   How do I unify my business?

How does it leverage...

operating
profit

▲

footfall ▶ spend ▶ margin ▶ gross profit ▶ operations

The smarter consumer

And the role of technology
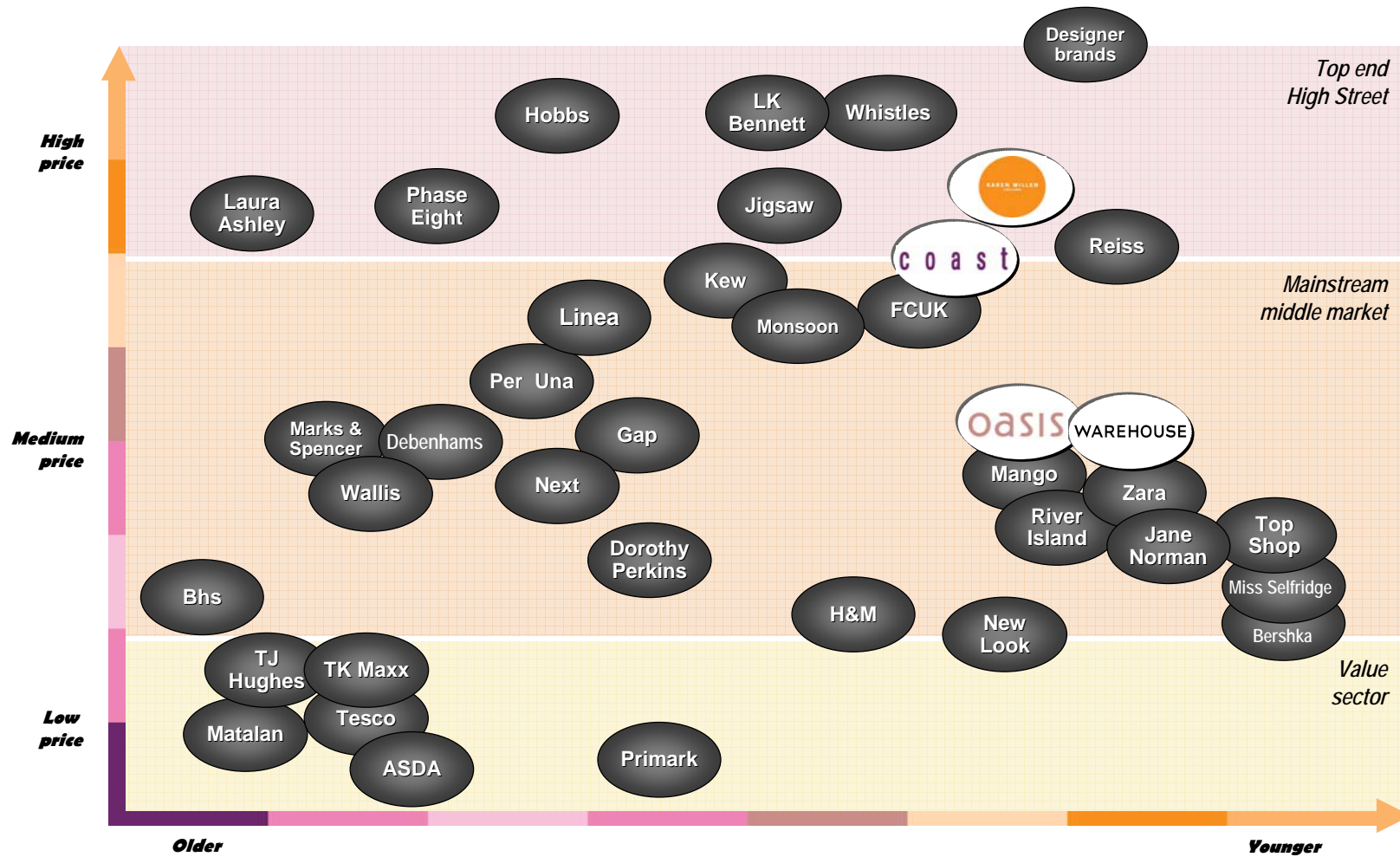
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FASHIONS LTD

coast   KAREN MILLEN   oasis   WAREHOUSE

"Understanding the Smarter Consumer"
April 2011

Brand Positioning

Top end High Street

High price

Designer brands

Hobbs

LK Bennett   **Whistles**

Laura Ashley   **Phase Eight**   **Jigsaw**   KAREN MILLEN   **Reiss**

coast

Kew

Mainstream middle market

Linea   **Monsoon**   **FCUK**

Per Una

Medium price

Marks & Spencer   **Debenhams**   **Gap**   oasis   WAREHOUSE

Wallis   **Next**   **Mango**   **Zara**

River Island   **Jane Norman**   **Top Shop**

Dorothy Perkins   Miss Selfridge

Bhs   **H&M**   **New Look**   Bershka

Value sector

TJ Hughes   **TK Maxx**

Low price

Matalan   **Tesco**

ASDA   **Primark**

Older   Younger

Aurora Fashions Multichannel Journey

➢ **The journey:**
  – from "bricks & mortar" to best practice "clicks & bricks"

➢ **Develop an appropriate response to the needs of the "digital generation":**
  – Social networking, iPhone application etc

➢ **Integrated and seamless end-to-end service proposition:**
  – "if its anywhere its everywhere"

➢ **Accessing other sources of traffic:**
  – Host sites

➢ **Satisfying international demand**

➢ **Intelligent use of CRM data**

"Websites are now a Traditional Channel"

"The future of e-commerce is going to feel a lot like walking into a store 50 years ago" (source: Google)

➢ **Mobility:**
  – 2010 mobile device sales outpaced PC sales

➢ **Local:**
  – Locally oriented services

➢ **Personally Oriented Services**
  – Social media is a new mode of social production, products and services are designed, manufactured and marketed on global basis

"Look five years out and almost every industry is going to be rethought in a social way.
This stuff is so powerful; get on the bus" (source: Mark Zuckenberg, Facebook)

Multichannel Implications

➢ **Product:**
  - single point of entry to meet the multi-channel needs
  - improved, demand based inventory management

➢ **Store:**
  - raise the bar, customer pull, mass customisation model
  - tailor, personalised services to individual customer requirements

➢ **Service:**
  - appropriate touchpoints - human attention within a crowded digital media age
  - new technology, triggers greater experimentation & collaboration
  - brand & service level consistency

➢ **Marketing:**
  - deliver a multi-channel threaded experience, single view of data
  - utilise (e.g. CRM) technology tools to target brand communications to specific customer segments

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FASHIONS LTD

coast KAREN MILLEN oasis WAREHOUSE

Questions?
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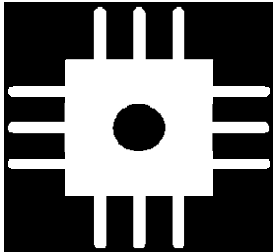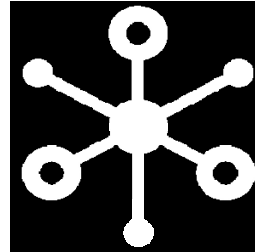
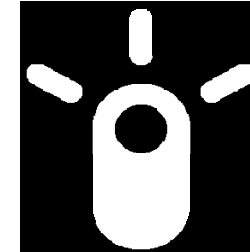# Smarter Consumers LeveragingTechnology

David Hogg
7th April 2011

Who is this 'smarter' consumer?

Instrumented:

They have instantaneous access to information about retailers, products and other consumers experiences through technology

+

Interconnected:

They use multiple technologies to interact with other consumers and with retailers

+

Intelligent:

They have clearly defined expectations of what they want from the retailer now and in the future

John R. Thompson
Senior Vice President & General Manager BestBuy.com

"The Integrated Customer Experience brings together the customer strategy, brand strategy and product strategy in a way that delivers the right value propositions, to the right segments on the right channels at the right time."

UK Consumer Behaviour

- Sterling Commerce Consumer Survey Results

- Online
  - 72% visit 3 web sites or more before buying
  - 40% said a bad online experience creates negative brand association
  - 20% said Social Networking has an important influence on buying decisions

UK Consumer Behaviour

- Sterling Commerce Consumer Survey Results

- In Store
  - 80% think it is important to manage returns
    - regardless on the buying channel
  - 33% experience out of stocks for products on promotion
  - 50 % leave the store when they experience an out of stock
  - 33% would ask staff to help locate products at another store
  - 33% would go to a competitor if no help received

UK Consumer Behaviour

- Sterling Commerce Consumer Survey Results

- Mobile
  - 99% Market penetration
  - 17% have already purchased on their mobile
  - 30% want product availability when shopping the high street
  - 23% want notified of relevant promotions
  - 15% want price look up

UK Consumer Behaviour

- Sterling Commerce Consumer Survey Results

- Call Centre
  - As popular for making purchases as mobile!
  - More valuable resolving order queries than using mobile for purchase/reservation
- Is too often the "forgotten channel" by retailers

Deliver The Cross-Channel Experience

Channel Applications

Online **Mobile** **Call Center** **Cross-channel POS / Store** **Kiosks** **Field Sales** **Email**

Cross-channel Commerce Capabilities

Master Data	Sales & Marketing	Transaction Management	Promising & Inventory	Fulfillment	Other Services
Item Customer User Store Supplier Warehouse	Catalog Pricing Contracts Marketing Promotion Coupons Configuration Loyalty Rebates	Cart Wishlist Gift Registry Quote Order Shipment Delivery Work Order Payment Return Purchase Order Cash Management	Inventory Capacity Promising Sourcing Scheduling SC Network	Warehouse Management Transportation Management Yard Supplier Portal Supply Chain Visibility	POS Composite Receipts Payment Gateway Vault Tax Fraud Detection Address Verif Carrier Execution Email SMS ....

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