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The Multi-Channel Retail Benchmark Report

Where Is the True Multi-Channel Retailer?

December 2005

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Executive Summary

When the Internet bubble burst in late 2000, few retailers expected cyberspace to grow in relevance for them over the near term. In fact, just the opposite has occurred. E-commerce and multi-channel retailing have become ever-more important as top- and bottom-line retail drivers. Compound growth rates of e-commerce sales have been consistent at 25% to 35%, even though the channel's percentage of total retail sales remains relatively low (around 2.5% in 2005, according to the U.S. Department of Commerce). At the same time, the proliferation of in-home broadband connectivity, coupled with improved search engines like Google, has created an enormous jump in Internet usage for product research and discovery. For all practical purposes, if a retailer doesn't have an Internet presence, the retailer doesn't exist.

Key Business Value Findings

Best-in-class retailers typically operate in three channels: stores, the Internet, and call centers/catalogs. While these retailers may operate in three channels, the Internet and call centers *support* the stores rather than replace the in-store shopping experience. Stores remain the predominant delivery vehicle. Indeed, the below-average performers in our respondent pool tend to rely solely on stores or primarily on the Internet as their primary selling channel.

Implications & Analysis

Even those retailers who are achieving best-in-class sales performance have a long way to go in adopting the multi-channel best practices. While some may be successful "bruting" their way to multi-channel effectiveness on today's relatively small scales, as cross-channel buying and delivery increases as a percentage of total sales, more and more money and productivity will be squeezed from their enterprises. Worse, they could find themselves with dissatisfied, disappearing customers, and affecting their top-line sales growth as well.

Today's sales laggards clearly have the opportunity to leapfrog the competition by adopting best practices and technologies. The best-in-class are vulnerable.

Recommendations for Action

The field of multi-channel play is wide open. Today's best-in-class multi-channel leaders are particularly vulnerable to laggards who take aggressive steps to get their houses in order.

- **Laggard Steps to Success**: If you haven't put a multi-channel strategy in place, do it now. Make sure your organization is aligned by product, not by channel, and establish performance metrics by brand rather than channel.
- **Industry Norm Steps to Success**: Consider outsourcing programming to improve system integration, prioritize initiatives to improve cross-selling and promotional capabilities, and escalate timing of initiatives to implement distributed order management systems.

- **Best in Class Steps to Success**: Prepare for continued growth by automating critical functions, and look behind you: Laggards are making changes. Without continual improvements, your position is not secure. Increase collaboration among internal stakeholders, especially call center, control desk, parts depot, field technicians, and accounting.

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Chapter One: **Issue at Hand**

Key Takeaways

- E-commerce and multi-channel retailing have become ever more important as top- and bottom-line retail drivers. Selling through more than one channel is a fact of life for 86% of our survey respondents, even though sales dollars remain a small percentage of retail revenue.
- Over half of retailers find multi-channel buyers to be more profitable than their single channel counterparts, but 22% still don't know, or can't even tell, how profitable their multi-channel customers are.
- Retailers cited customer expectations for a seamless cross-channel experience as the most critical factor driving them to integrate their retail operations. Unfortunately, most retailers don't seem to really understand the consequences of inconsistency.

Wall Street and boards of directors alike have always measured retailers by a straightforward yardstick — they expect year-over-year comparable sales to increase beyond the rate of inflation. The better the sales increases, the greater the applause. Calculations used to be simple: For brick-and-mortar retailers, it was all about comparable store sales increases, and catalog retailers were measured on sales for similar offerings or books. When the Internet and e-commerce came along, metrics got a bit distorted. Wall Street and other investors viewed the Internet phenomenon as a marketing land grab, and seemed to measure a company's value based on how many marketing dollars it could spend, rather than on how much revenue it could generate.

Times have changed, and in some ways, what was old is new again. Once again, retailers are measured on their year-over-year comparable sales. In all Aberdeen benchmark reports, we hold retailers to a similar standard. Given that comparable sales increases average 3% per year, we define that as the norm. Enterprises whose sales increase more than 3% are deemed "best in class" while those whose sales results are lower are considered "laggards."

Yet, in other ways, an irrevocable change has come to retailing. The Internet boom has morphed into the multi-channel phenomenon, and that phenomenon has brought new challenges to global retailers.

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of sales performance:

Laggards (25%) — practices that are significantly behind the average of the industry

Industry norm (37%) — practices that represent the average or norm

Best in class (39%) — practices that are the best currently being employed and significantly superior to the industry norm

The Rise of Multi-Channel Retailing

When the Internet bubble burst in late 2000, few retailers expected cyberspace to grow in relevance for them over the near term. In fact, just the opposite has occurred: e-commerce and multi-channel retailing have become ever more important as top- and bottom-line retail drivers. Annual compound growth rates of e-commerce sales have been consistent at 25% to 35%, even though the channel's percentage of total retail sales remains relatively low (around 2.5% in 2005, according to the U.S. Department of Commerce). At the same time, the proliferation of in-home broadband connectivity, coupled with improved search engines like Google, has created an enormous jump in Internet usage for product research and discovery. For all practical purposes, if a retailer doesn't have an Internet presence, the retailer doesn't exist.

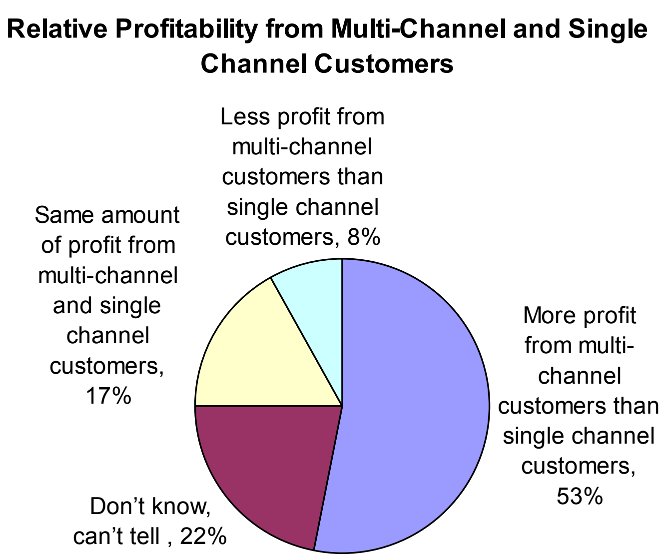
The rumored deaths of retail catalogs and call centers have also been greatly overstated. After a short-term decline, call center sales have leveled off the past two years, and the catalog itself has reasserted itself as a valuable selling tool for retailers, with some leading retailers creating electronic versions of their print catalogs.

The net effect: Retail has become a multi-channel world where consumers have virtually unlimited choices. If a consumer is willing to pay shipping charges, he or she can buy most any product, any time of the day or night, from anywhere in the world. A customer can perform price comparisons right from her PDA while staring at a store shelf.

Retailers Get the Message – Sort of

Retailers have gotten part of the message. Selling through more than one channel is a fact of life for 86% of survey respondents. While this creates daunting challenges for today's retailers, it also creates new opportunities. The good news is that over half of retailers find multi-channel buyers more profitable than their single-channel shopping counterparts (Figure 1). The bad news is 22% still don't know, or can't even tell, how profitable their multi-channel customers are. This number has come down only slightly from the 25% that reported lack of knowledge in Aberdeen's 2004 multi-channel benchmark study.

Figure 1: Multi-Channel Customers are More Profitable

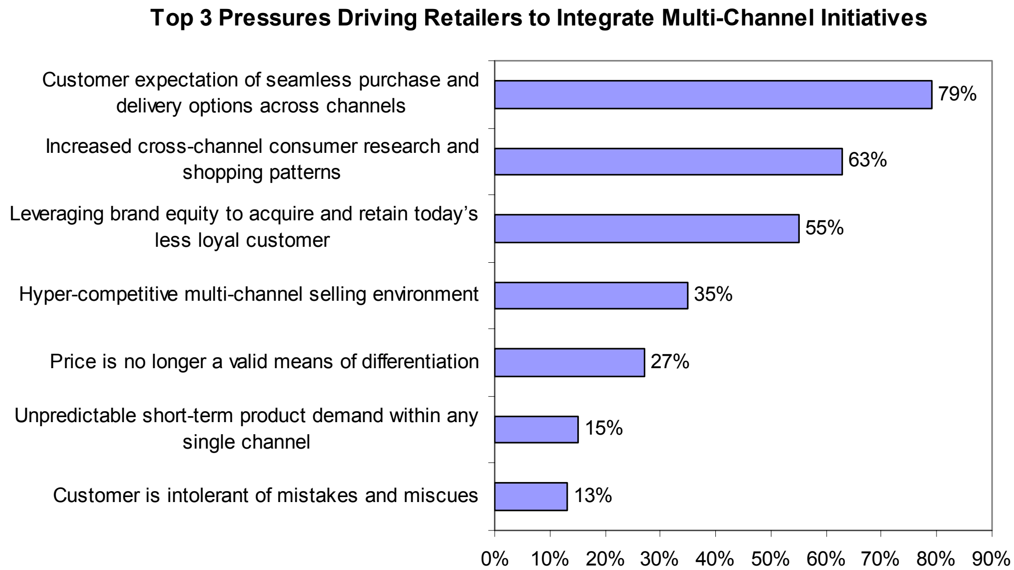


Source: AberdeenGroup, December 2005

Multi-Channel Brings New Pressures to Retailers

Whether or not they realize the opportunity associated with a consistent cross-channel message, retailers viscerally understand customer expectations for a seamless cross-channel experience. They cited this as the most critical factor driving them to integrate their retail operations (Figure 2). Unfortunately, most retailers don't seem to really understand the consequences of inconsistency. Customer intolerance of mistakes and miscues ranked at the very bottom of external forces driving multi-channel initiatives.

Figure 2: Retailers Recognizing Customer Expectations



Source: AberdeenGroup, December 2005

A slightly higher percentage of best-in-class retailers (again, those whose comparable sales outperform those of their peers) have a better understanding of the risk of alienating their customers (18%).

PACE Key — For more detailed description see Appendix A

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures **—** external forces that impact an organization's market position, competitiveness, or business operations

Actions **—** the strategic approaches that an organization takes in response to industry pressures

Capabilities **—** the business process competencies required to execute corporate strategy

Enablers — the key functionality of technology solutions required to support the organization's enabling business practices

Inelegant, but Effective Execution

Best-in-class enterprises typically respond to the pressures they face with visionary strategic actions, new day-to-day capabilities, and enabling technologies to support them in their goals. The multi-channel retailer has thus far demonstrated himself to be a bit different. This retailer focuses on operational excellence, ensuring that, "by hook or by crook," the consumer will see the same information across all channels, orders will be fulfilled seamlessly, and pricing and messaging is consistent.

Even the best-in-class have a long way to go in gaining *efficiencies* in the multi-channel operations. These efficiencies might not drive immediate top-line increases, but they would most assuredly drive bottom-line improvements.

Chapter Two:
Key Business Value Findings

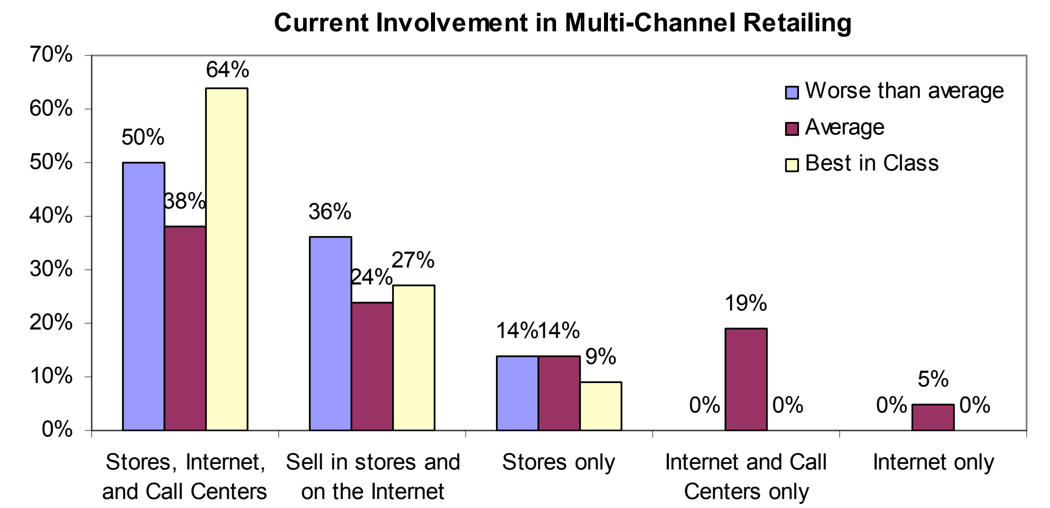
Key Takeaways

- Best-in-class (BiC) retailers use more selling channels than their competitors.
- BiC retailers are focused on improving operational excellence across all channels, and are more concerned about consistency across all channels than their competitors are.
- BiC retailers are more likely to have consistent cross-channel performance metrics, and are less concerned with cross-channel cannibalization than their competitors. They are changing their organizational structures to be brand — rather than channel — specific

Although retailers continue to rely primarily on stores as their operational center of focus and profitability, most have offered alternatives for time-starved consumers. Today, very few retailers operate in only one channel, and most operate in two. Best-in-class retailers typically operate in three channels: stores, the Internet, and call centers/catalog (Figure 3).

Although these best-in-class retailers operate in three channels, the Internet and call centers *support* the stores rather than replace the store shopping experience. The Internet has taken its place as a critical point of product discovery and price-comparison shopping while stores remain the predominant delivery vehicle. Indeed, the below-average performers in our respondent pool tend to rely solely on stores or primarily the Internet as their primary selling channel.

Figure 3: Best-in-Class Retailers Use More Selling Channels



Source: AberdeenGroup, December 2005

Multi-Channel Brand Value is All About Consistency

Best-in-class retailers understand the “brand” value of a multi-channel offering: consistency and efficiency across all the channels. Top performers wrap their brand identity around fulfilling customer expectations for seamless purchase and delivery options across channels. They ensure product information and pricing is up to date and consistent across channels. Their over-arching strategy is to create a single-brand identity across channels.

Whereas below-average performers tend to worry that order, inventory, and customer data is not integrated or shared consistently across all channels, above-average multi-channel retailers resolve this concern through an integration strategy where product information is entered into one channel system of record and moved electronically into other channels.

Best-in-class performers are more concerned about channel conflict than their competitors are, and take specific organizational steps aimed at ensuring conflicts do not occur, including a much stronger emphasis on changing the organizational structure to be brand-, rather than channel-,specific (compared to average and below-average performers).

However, this does not mean that leaders are complacent about information integration across all channels; more than half of best-in-class retailers plan to implement new cross-channel content management and product information management systems in the next year.

Challenges and Responses

According to survey responses, most multi-channel retailers are primarily concerned with lack of data integration between channels and don’t feel they can adequately address these issues due to spending constraints (Table 1). Not surprisingly, these retailers fall back on internal prioritization of needs and ROI analysis in hopes of generating the executive support needed to address these issues.

Somewhat surprisingly, given multi-channel retailer recognition of the need to show a unified “face” to the customer, cultural issues continue to dominate internally as the dominant channel continues to fear cannibalization of sales. However, in this key area of concern, they do not see aligning of incentives as the best way to address these issues. Rather, these retailers lean toward bringing in outside expertise to help the company overcome organizational and process barriers. Aberdeen believes that without aligning incentives to brand, rather than channel, success efforts to improve cross-channel collaboration will fail.

Table 1: Multi-Channel Retailing Challenges and Responses

Challenges	% Selected	Responses to Challenges	% Selected
1. Inventory and order management systems are not integrated across all channels	53%	1. Internally prioritizing integrated, multi-channel data management strategies	60%
2. Customer data is not integrated or shared across all channels	50%	2. Bringing in outside expertise to drive internal business process change	52%
3. The dominant channel fears sales cannibalization	49%	3. Creating an ROI-based case to gain more resources to integrate business processes	50%
4. There are budgetary constraints to creating integrated processes	42%	4. Changing the organizational structure to be brand — rather than channel — specific	50%
5. Channel-specific, instead of brand-specific, merchandising organization	39%	5. Changing compensation incentives to be brand — rather than channel — specific	28%
6. Cannot change fast enough to keep up with customer expectations	37%	6. Outsourcing programming to improve system integration	28%

Source: AberdeenGroup, December 2005

Best-in-class multi-channel retailers, on the other hand, respond in different ways to these perceived challenges. Changing the organizational structure to be brand — rather than channel —specific, is second in importance only to developing a plan for prioritizing integrated multi-channel data management strategies, and outsourcing programming to improve system integration is more important that bringing in outside expertise to drive process change. Moreover, since organizational structures are aligned to be brand — not channel — specific, top performers don't place much importance on changing incentive structures (suggesting that behavior change needs to be addressed organizationally first, before incentives).

Chapter Three: **Implications & Analysis**

Key Takeaways

- Retailers achieving best-in-class performance are mostly "bruting" their way to higher sales. As the volume of cross- and multi-channel sales increases, these retailers will find themselves at a customer service disadvantage.
- Laggards clearly have the opportunity to leapfrog the competition by adopting best practices and technologies. The best in class are vulnerable.
- The most common organizational structure for the best in class is a single IT organization supporting separate user organizations. The challenge of perceived channel cannibalization will not be overcome until these firms create an enterprise organized around supporting a single brand.
- While, in general, retailers' key performance indicators (KPIs) used to evaluate multi-channel initiatives are on point, too few recognize the importance of on-time delivery as a measure of multi-channel effectiveness. They underestimate the importance of this at their own peril.

Even those retailers who are achieving best-in-class sales performance have a long way to go in adopting multi-channel best practices described in Table 2. While some may be successful "bruting" their way to multi-channel effectiveness on today's relatively small scales, more and more money and productivity will be squeezed from their enterprises as cross-channel buying and delivery increases as a percentage of total sales. Worse, they could find themselves with dissatisfied, disappearing customers, and affecting their top-line sales growth as well.

Retailers exhibiting best-in-class characteristics in the five areas in Table 2 will ultimately enjoy long-term best-in-class financial performance. Aberdeen believes sales performance laggards will find themselves able to leapfrog the competition if they embrace these practices.

Over time, retailing winners differentiate themselves in five key areas: the business *processes* they adopt in their enterprises to support new ways of doing business; the *organizations* they put in place; their management of *data and knowledge* in support of their business strategies; the *technologies* they employ; and their *frequency of measurement* of the success of their initiatives. Certainly, none of these practices will replace the requirement to stock merchandise customers want, but they *will* help retailers become more effective at satisfying those customers with required customer service options. Very few retailers have such unique product mixes that they can afford to ignore the customer service imperative.

Table 2: Multi-Channel Competitive Framework

	Laggards	Industry Average	Best in Class

	Laggards	Industry Average	Best in Class
Process	Product and customer information entered separately into web, brick & mortar, and catalog systems Customer information entered into separate order systems; duplicates are deleted later by an outside service bureau	Product information entered into one channel system of record and moved electronically into other channels	One process gets product and customer information into all channels' systems of record
Organization	Web, catalog, and brick & mortar businesses have completely separate organizations	One IT organization supports a variety of separate user organizations	One brand identity, one user organization, one IT department
Knowledge	Weekly review of sales vs. forecast, shipments, receipts, and back orders	Daily review of sales vs. forecast, shipments, receipts, and back orders	Near real-time triggers when inventory levels get low, shipments are delayed, or sales varies greatly from forecast
Technology	CRM data may be collected, but is not used in any way	CRM data is available at point of sale	Integrated customer resource management systems provide common information across channels
Measurements	Value of multi-channel retailing initiatives either never measured, measured annually or measured ad hoc	Value of multi-channel initiatives measured quarterly, monthly, or weekly	Value of multi-channel initiatives measured daily or in near-real-time.

Source: Aberdeen*Group*, December 2005

Process and Organization

While over a third of best-in-class and average performers are "getting by" in entering product and customer information into each channel separately, a majority of laggards (57%) are finding themselves falling further behind using this methodology. Similarly, a greater portion of laggards (21%) rely on outside service bureaus to "de-dupe" redundant customer information. A retailer must be in control of its own destiny and its own customer database.

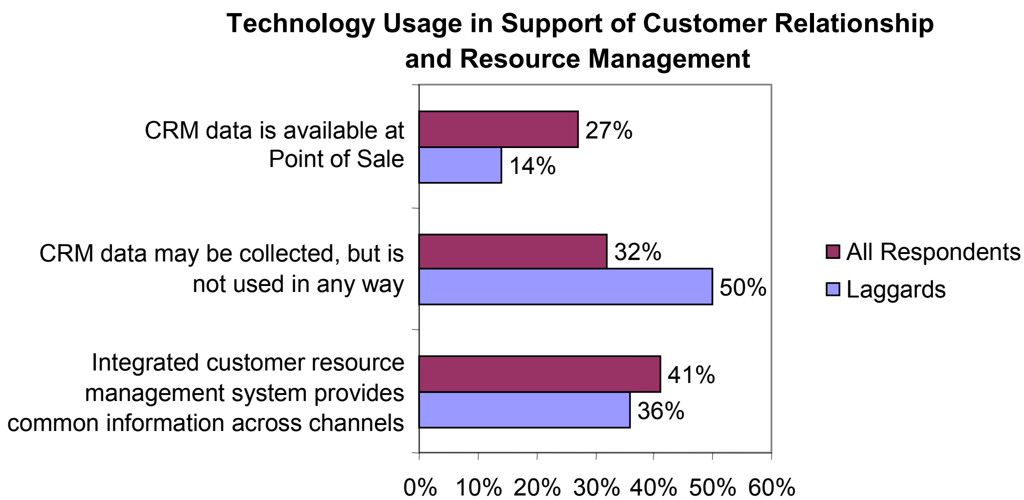
The process used most commonly by best-in-class performers to synchronize product information is more effective than redundant data entry, but still inefficient. Forty-three percent of best-in-class retailers enter product information into one system and move it electronically to other channel systems, while only 19% of the best in class have one version of truth (a single database) for both product and customer information.

The most common organizational structure for the best in class is a single IT organization supporting separate user organizations. While this may be effective in today's world, the challenge of perceived channel cannibalization described earlier will not be overcome until these firms move to the best practice of creating a single user organization supporting a single brand.

Knowledge and Technology Usage

Laggard performers clearly do not take advantage of customer information. All too frequently, they don't make it available at all (Figure 4). This emerged as one very clear problem that must be addressed quickly.

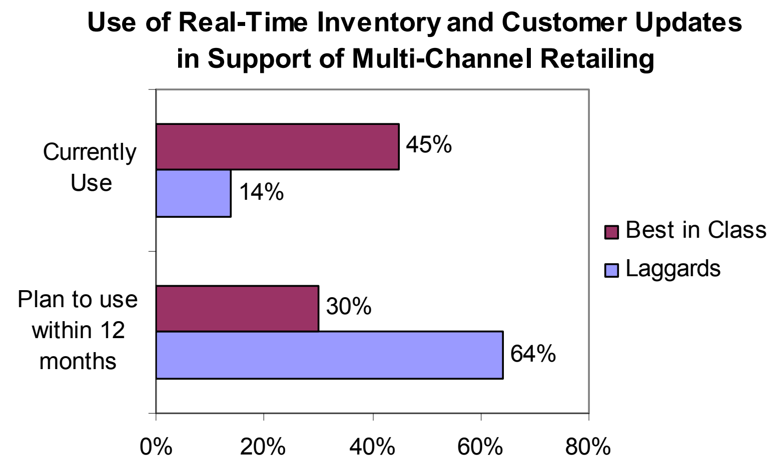
Figure 4: Laggards Don't Know Enough about Their Customers



Source: AberdeenGroup, December 2005

While the best in class also, clearly, must make improvements to make their customer information available across all channels, laggards are at a distinct disadvantage. Clearly they recognize this weakness, as 64% of respondents report plans to implement real-time updates of customer and product information, the foundational element required to take full advantage of available technologies.

Figure 5: Laggards Closing the Gap on Real-Time Updates



Source: AberdeenGroup, December 2005

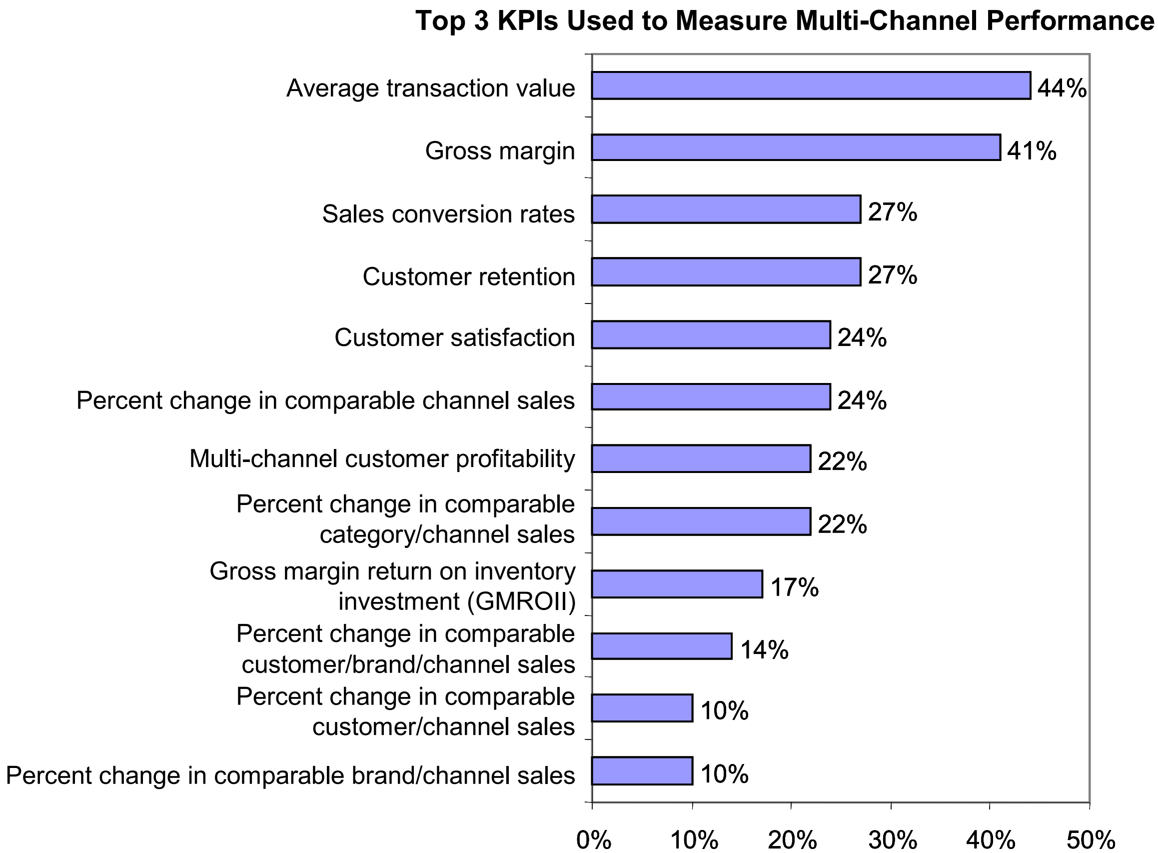
Measurements

In general, frequency of measuring the value of multi-channel initiatives was disappointing across the board, with very little difference between best-in-class and laggard performers. More retailers opt to measure this performance on an ad-hoc basis (35%) than through any formal annual, quarterly, monthly, weekly, or real-time plan. We expect the percentage of formalized performance measurements to rise as the overall sales volume generated across multiple channels also rises.

On a positive note, while the *frequency* of measurements may be at issue, for the most part, the *quality* of the key performance indicators used to measure results is excellent. In this one area, retailers have moved beyond the metric of year-over-year comparable sales to looking at average transaction value and customer retention.

Somewhat disappointing, however, was the limited importance retailers give to on-time delivery, which was rated as important so rarely it literally fell off the chart. Only 3% of our retail respondents felt this was a top three performance indicator. This is yet another indicator of retailers' underestimation of customers' lack of tolerance for mistakes and miscues. Even more disheartening, this survey was conducted in the autumn, at the height of the holiday selling season. We expect the customer to cast his or her vote somewhat harshly when expectations are missed.

Figure 6: Key Performance Indicators – On Point



Source: AberdeenGroup, December 2005

Pressures, Actions, Capabilities, Enablers (PACE)

Most firms generally experience similar external pressures. Winning enterprises are defined not by the pressures they experience, but by how they respond to those pressures. In essence, retail performance is not just an accident, nor is it solely the result of a merchant with a hot hand. There is a clear relationship between performance and a retailer's responses to the pressures it experiences. Table 3 shows the pressures our retail respondents highlighted as most critical and the strategic actions, daily capabilities, and enabling technologies the best in class use to overcome those challenges. Readers are encouraged to evaluate their own organizational priorities as a benchmark and to help create plans for actions going forward.

Table 3: PACE (Pressures, Actions, Capabilities, Enablers)

Priorities	Prioritized Pressures	Prioritized Actions	Prioritized Capabilities	Prioritized Enablers
1	Customer expectation of seamless purchase and delivery options across channels, continued pressures to improve operational performance	Improve operational excellence across all channels	Ensure product information and pricing is up to date and consistent across channels	Cross-channel content management and product information management
2	Increased cross-channel consumer research and shopping patterns	Allow customer to purchase, take delivery, or return a product through the channel of their choice	Synchronize customer and inventory information across channels	Real-time inventory and customer updates
3	Leveraging brand equity to acquire and retain today's less loyal customer	Create single brand identity across all channels	Enable cross-channel fulfillment Enable real time views of cross-channel inventory	Single operational data stores and data warehouses across all channels
4	Hyper-competitive multi-channel selling environment	Create customized service offerings to focus on micro-market segments	Cross selling and personalized promotions	Advanced web and in-store analytics available in real-time
5	Price is no longer a valid means of differentiation	Offer customized and unique product offerings	Consistent performance metrics across channels	Transportation management systems, returns management systems

Source: AberdeenGroup, December 2005

Chapter Four: Recommendations for Action

Key Takeaways

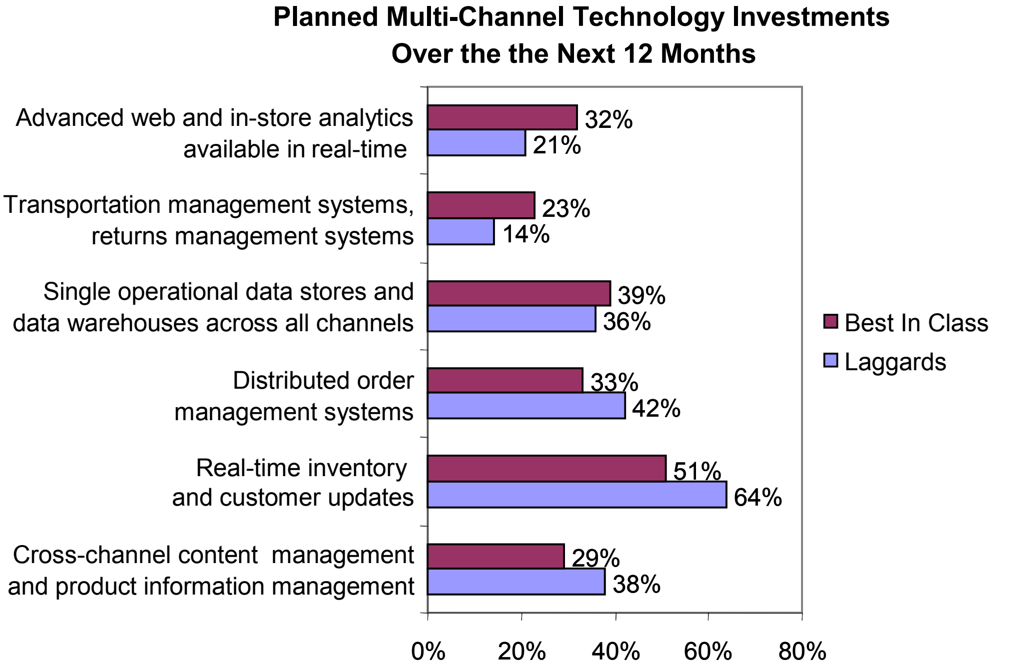
- The field of multi-channel play is wide open. Today's best-in-class multi-channel leaders are particularly vulnerable to laggards who take aggressive steps to get their houses in order.
- Laggard Steps to Success: If you haven't put a multi-channel strategy in place, do it now; make sure your organization is aligned by product, not by channel, and establish performance metrics by brand, rather than by channel.
- Average Performer Steps to Success: Consider outsourcing programming to improve system integration, prioritize initiatives to improve cross-selling and promotional capabilities, and escalate timing of initiatives to implement distributed order management systems.
- Best-In-Class Steps to Success: Prepare for continued growth by automating critical functions, and look behind you: Laggards are making changes. Without continual improvements, your position is not secure.

The multi-channel era is still in its infancy and the final bell has yet to sound on ultimate winners and losers in this new world. The patchwork state of the technology infrastructure supporting the current sales leaders weakens their position. The industry-wide disconnect between recognizing the importance of a seamless cross-channel experience and the consequences of NOT providing that experience opens the field of play for new entrants. Today's best-in-class leaders are vulnerable to laggards who take aggressive steps to get their technology houses in order in anticipation of rapidly increasing customer demands. Multi-billion-dollar retailers are vulnerable to mid-market upstarts.

A defining moment could manifest that ultimately creates winners and losers for years to come. For example, when a transit strike hit New York City the week before Christmas, retailers like J Jill offered free shipping and guaranteed a December 25 delivery. This drove incremental revenue and immeasurable goodwill for participating retailers. If this type of event happened on a larger scale, retailers would have to depend on technology (and superior logistics) to meet these commitments.

Our retail respondents indicated they are ready to make these technology investments (Figure 7). Laggards expressed almost equal interest as the best in class in many technology areas, and actually outpaced them in plans for distributed order management systems, real-time inventory and customer updates, and cross-channel content management.

Figure 7: Laggards Getting Ready to Make their Move



Source: AberdeenGroup, December 2005

Of course, technology investments alone have never been a panacea for enterprise ailments. Cultural and business process changes are also required. With that in mind, Aberdeen recommends the following actions to help spur necessary performance improvements:

Laggard Steps to Success

1. *If you haven't put a multi-channel strategy in place, do it now.*

   Multi-channel retailing is a necessary part of any retailer's portfolio. If the expense and effort of creating your own shopping site is daunting, vendors are available to provide hosted e-commerce solutions.

2. *Make sure your organization is aligned by product, not by channel.*

   In our survey, only 38% of laggards indicated this as a critical response to the challenges they face, versus 60% of best-in-class respondents. This change in mindset is as critical for multi-channel retailers as any technology initiative.

3. *Establish performance metrics by brand, rather than by channel.*

   This corollary to the previous step was another clear differentiator between best-in-class and laggard retailers. The day-to-day capability to measure overall brand performance without fear of cannibalization is critical to move up the ladder of multi-channel success.

Industry Norm Steps to Success

1. *Consider outsourcing programming to improve system integration.*

   The number of retailers who contemplate using outsourcing to solve their technology integration woes was significantly lower for retailers at the norm than for either laggards or best in class, despite their acknowledgement of the pain associated with the costs. Outsourced programming is a viable alternative for budget-strapped retailers.

2. *Prioritize initiatives to improve cross-selling and promotional capabilities.*

   Surprisingly, retailers at the norm, with average comparable sales improvements, assigned a very low priority to initiatives in this area. Half of best-in-class respondents rated this as a key strategic initiative, versus 19% of average performers.

3. *Escalate timing of initiatives to implement distributed order management systems.*

   Retailers at the norm expressed interest in implementing distributed order management within two years, while both the best-in-class and laggards were more bullish, indicating investment within 12 months. Postponing these initiatives will require higher inventory investments to fulfill customer orders as multi-channel activity continues to rise.

Best-in-Class Next Steps

1. *Prepare for continued growth.*

   As multi-channel retailing becomes a larger percentage of a retailer's portfolio, more automation will be required. With the right organization in place, the best in class are well-poised to achieve economies of scale through automation.

2. *Look behind you – laggards are making changes.*

   Our data clearly indicates the tenuousness of the current best in class.

In addition to increased customer retention and higher incidence of first-call resolution, taking the above steps can directly impact a company's overall costs, revenues, and profitability.

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WHO WE ARE

Retail Systems Alert Group is the leading provider of objective, high quality information resources for the Extended Retail Industry (ERI). We have followed the advancements of technology and business process innovation in this industry for almost two decades, and we deliver our insights and analysis through high-value conferences and tradeshows, publications, research, training, and web-based services.

OUR MARKETPLACE

Retail Systems Alert Group services the Extended Retail Industry (ERI). This term, coined by Retail Systems Alert Group, describes a broader consumer-focused ecosystem encompassing retail, manufacturing, transportation, distribution, logistics, warehousing, solution providers, and other supporting organizations.

The Extended Retail Industry includes all companies engaged in creating, transporting, fulfilling, deploying and selling merchandise and retail-related services to consumers.

OUR MISSION

As the lines between the individual industries that comprise the Extended Retail Industry have blurred to form a larger ecosystem of inter-connected companies across the globe, we felt it was important to our customers to help them adapt to this change and provide them with information and insights into how they can create long-term value for their companies and ultimately for the consumer.

Our goal is to support all organizations involved in the Extended Retail Industry by:

- Creating high value information services to help companies and individuals build more efficient and profitable businesses
- Providing insight and analysis about a broad spectrum of issues and trends in the Extended Retail Industry through publications, Web services, research, and training
- Creating forums for posing questions and fostering thought leadership through face-to-face events
- Developing integrated marketing programs for solution providers that provide multiple access points to a highly qualified audience of ERI professionals

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Paula Rosenblum,
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As director of Aberdeen*Group*'s Retail Research practice, Paula Rosenblum focuses on the critical issues facing today's retail executives. The overarching themes of her research are *Thriving in the Post-Wal-Mart World* and *The Globalization of Retailing – Exploring Best Practices Around the World*.

Paula's research demonstrates how best-in-class retailers satisfy their various constituencies. These retailers please their shareholders by promising sustainable growth; delight consumers by providing product selection, convenience, and reasonable pricing; and motivate employees by setting clear expectations and defining manageable tasks. Her studies give retailers insights into strategies to optimize their enterprises, empower the customer through the art of merchandise selection, and marry world-class technology with logistics management.

Prior to joining Aberdeen, Rosenblum was a retail research director for AMR Research, Previous to that, Rosenblum spent over 20 years as a retail technology executive.

Rosenblum holds an M.B.A. in Management of High Technology from Northeastern University and was nominated for the Beta Gamma Sigma Honor Society. She also holds a Bachelor of Arts from the State University of New York. She is a member of the American Apparel and Footwear Association's Supply Chain Leadership Council.

Brian Kilcourse
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Kilcourse is currently the Chief Strategist for Retail Systems Alert Groupsm, a global research advisory and global events company. He has been associated with Retail Systems Alert Group since 1992, has served as its technical editor, and as moderator at its CIO Summit at the Retail Systems Conference & Exposition. He also has led training seminars on the subject of "selling IT to retail".

Since 2002, Brian has also served as senior partner of BEK CONSULTING, providing domain expertise in the area of retail IT strategies. His clients include venture capital firms and technology companies who are targeting the retail vertical. Previously, Brian was the SVP & CIO at Longs Drug Stores for ten years from 1993 through 2002. At Longs, he directed the development and implementation of three generations of retail pharmacy systems, network-centric ("web-based") applications, decision-support and data warehousing systems, point-of-sale, automated replenishment, warehouse/distribution, multi-channel retailing, wireless applications, and robotics systems.

Appendix A:
Research Methodology

Between October and November 2005, Aberdeen*Group* and *Extended Retail Solutions* examined the multi-channel practices, technologies procedures, experiences, and planned initiatives of more than 60 retailers.

Responding executives completed an online survey that included questions designed to determine the following:

- Number of retail channels in use and profitability of each;
- Current and planned use of various applications to support cross-channel brand, customer, order, and delivery management; and
- Business challenges and pressures these retailers face that drive or impede adoption of new initiatives.

Our intention was to determine whether and how each of the above created competitive advantage for retailers that use them and a disadvantage for those who do not. From there, we identified emerging best practices and provided a framework by which readers could assess their own capabilities and ways to improve effectiveness.

Responding enterprises included the following:

- ***Job titles/functions**:* The research sample included respondents with the following job titles: senior management including CEOs, CFOs and COOs (10%), vice presidents (7%); CIOs and other IT leaders (17%); directors (27%), managers (25%), and internal consultants and staff (14%). Functional areas represented included marketing, merchandise management, logistics/supply chain, finance, store or field management, and procurement.
- ***Retail segments**:* The research sample included respondents from across the retail spectrum. The majority of respondents (57%) were specialty retailers, including 46% from small-box specialty retailers (each store in the chain having a footprint of less than 10,000 square feet) and 10% from large-box specialty retailers (each store footprint generally more than 10,000 square feet). Fast-moving consumer goods companies represented 16% of the respondent base including supermarket, convenience stores, chain drug and warehouse stores. Department stores and mass merchants represented 17% of the respondent base. The remaining 10% came from hardware and do-it-yourself, furniture, and hospitality.
- ***Company size**:* About 41% of respondents were from large enterprises (annual revenues above $1 billion); 35% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 24% from small businesses ($50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of *The Multi-Channel Retail Benchmark Report*. Their sponsorship has made it possible for Aberdeen*Group* and *Extended Retail Solutions* to make these findings available to readers at no charge.

Table 4: PACE Framework

PACE Key
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: *Pressures* **—** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) *Actions* **—** the strategic approaches an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy) *Capabilities* **—** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing) *Enablers* — the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: AberdeenGroup, December 2005

Table 5: Relationship between PACE and Competitive Framework

PACE and Competitive Framework How They Interact
Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.

Source: AberdeenGroup, December 2005

Appendix B:
Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report includes:

- *The Empowered Point of Service* (June 2005)
- *The Integrated Multi-Channel Benchmark Study: Gaining Competitive Advantage by Fulfilling Multi-Channel Demand* (June 2004)
- *Best Practices in Customer Service and Store Performance Management* (September 2005)

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

About
Aberdeen*Group*

Our Mission

To be the trusted advisor and business value research destination of choice for the Global Business Executive.

Our Approach

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

Our History of Integrity

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

Aberdeen's integrity has always been and always will be beyond reproach. We provide independent research and analysis of the dynamics underlying specific technology-enabled business strategies, market trends, and technology solutions. While some reports or portions of reports may be underwritten by corporate sponsors, these sponsors do not influence Aberdeen's research findings.

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Founded in 1988, AberdeenGroup is the technology-driven research destination of choice for the global business executive. AberdeenGroup has over 100,000 research members in over 36 countries around the world that both participate in and direct the most comprehensive technology-driven value chain research in the market. Through its continued fact-based research, benchmarking, and actionable analysis, AberdeenGroup offers global business and technology executives a unique mix of actionable research, KPIs, tools, and services.

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