

9th Annual POS Benchmarking Survey

What Do Customers Really Want?

2008

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9th Annual POS Benchmarking Survey:

What do customers really want?

LakeWest Group, LLC
<http://www.lakewest.com>

Executive Summary

Today's retail environment changes, evolves, and becomes more complex on a daily basis. Customers possess the ability to research and understand more product, brand, and pricing information than associates in the store who are actually tasked with selling the product. Customers demand information, knowledge, and assistance at all hours of the day. And if the store down the street won't help them, they'll go online and find a local or global retailer to meet their needs. In addition to the speed and convenience offered by the Internet, it provides customers flexibility and offers them responsiveness during the shopping experience.

Customers expect more, demand more, and ultimately reward those retailers who meet and exceed those expectations. So, a retailer is faced with the question "How do I meet my customers' expectations while improving overall shareholder value and, more importantly, continue to evolve to meet these ever-changing needs?" High-growth, successful retailers answer that question by:

- *Clearly defining their customer value proposition and creating the processes necessary to support this proposition to ensure that the customer's needs are being met and exceeded.*
- *Understanding that the store associates are the differentiator that can drive retail success, and utilizing training to ensure that their associates have the knowledge needed to enhance the customer experience.*
- *Realizing that customers need to feel they can trust the retailer, so retailers must ensure that their customers' personal information is secure.*

Best-in-class retailers are focusing on the tools they need to differentiate themselves from the competition while continuing to satisfy and delight their customers. As customers demand more, retailers are answering these demands by offering multiple channels from which to shop, plus the breadth, depth, and availability of products that customers expect. Also, retailers are enhancing the customer/associate relationship by offering tools to enhance the shopping experience, such as kiosks, self-service technologies, and mobile solutions. Lastly, retailers are ensuring stores have the tools necessary to manage and empower the associates in the store to create that competitive advantage and succeed in this complex environment.

LakeWest Group surveyed the Top 100 Retailers as identified in the August 2007 issue of STORES magazine. Stores' Top 100 Retailers now includes retailers beyond specialty, such as grocery, restaurant, and non-store but we have continued to focus our analysis on specialty retailers. LakeWest Group received 30 responses between October 1 and December 1, 2007. Respondents were typically Chief Information Officers or Directors of Store Systems.

Established in 1990, LakeWest Group is the premier management consulting firm dedicated to the retail and consumer products industries. With deep retail business knowledge and cross-functional capabilities, the firm delivers superior design and implementation of strategy, technology, and process solutions to help its clients achieve their full business potential. Headquartered in Cleveland with offices in New York City and Boston, LakeWest Group serves all retail segments and channels.

Introduction

With everything available to consumers these days (product information, consumer reviews, different shopping channels, etc.) it is no wonder that consumer wants and expectations vary so easily. In the past, consumers may have been happy with a clean, easy to shop store that offered basic products at reasonable prices, but now, expectations have changed greatly with consumers requiring access to stores, products, and knowledge whenever and wherever they want it. Plus, they expect retailers to consistently respond to any and all demands they may have and require retailers to have enhanced security measures to keep them and their personal information secure.

Consumers are inundated with information and options – they are faced with an array of choices for products, purchasing options, service add-ons, etc. So what do customers really want? It is not easy to define. It really depends on who the customer is, where they shop, what products they are shopping for, etc. And adding to the confusion, customers shop differently depending on what role they are in at that moment – “Working Mom” may shop at different stores with different expectations than “Concerned Citizen” – even though that may actually be the same person.

The current generation of customers are knowledgeable, have high expectations, and can be easily lost if they are not satisfied. They expect a satisfying shopping experience, which includes:

- **Product availability from any channel**
- **Knowledgeable sales associates**
- **Security of personal data**

This all makes for an increasingly complex environment in which retailers must compete. Trying to meet customer expectations while increasing sales, improving shareholder value, and enhancing sales requires retailers to be constantly innovating.

Successful retailers are constantly in a metamorphosis of innovation to maintain customer satisfaction and keep their competitive advantage.

What are retailers doing to meet customer expectations

Retailers today are faced with a multitude of challenges – competition is fierce and often times from non-traditional players; sales associate turnover is notoriously high; expenses continue to skyrocket; and as mentioned

before, customers have high expectations and, oftentimes, are easily swayed to another retailer if any part of the process aggravates or frustrates them.

But top retailers must be doing something right to maintain successful growth patterns and continue to increase revenues while reducing costs. So what are their secrets? What are the top retailers doing differently to keep customers happy?

For the ninth consecutive year, LakeWest Group conducted its POS Benchmarking Survey of the top U.S. retailers, identified as the Top 100 Retailers by STORES magazine in August 2007. This paper summarizes the results of this survey and offers insight into what customers really want from retailers and how the top retailers differentiate themselves and meet customer expectations.

The top performing retailers are constantly reinventing themselves to keep up with customer expectations. Top retailers create a customer value proposition and then ensure that all customer touchpoints (stores, website, catalog, call center, kiosk, etc.) deliver on that proposition. Successful retailers know who their loyal and profitable customers are and understand their needs and expectations. They then use that information to create the right shopping environment.

Best-in-class retailers utilize the right technology coupled with skilled and interested associates to provide customers the products, tools, and resources they need to meet their expectations. But even these retailers must continually change and evolve to meet the needs of the ever-changing customer.

Easy to shop stores

Customers want the freedom to shop anywhere (i.e. online, brick-and-mortar, kiosk, etc.) and then they want to easily find the desired products. Some ways that top retailers are assisting customers with this is by offering various store formats or concepts to their customers. Because customers have different needs and wants when they shop, retailers are finding that offering different formats can be beneficial to all. There are indications that shoppers may be moving away from the desire to shop a big-box store and may start to prefer shopping smaller stores where they can easily enter the store, find the desired item, and leave. Retailers may also benefit by spending less on real estate and offering a smaller assortment.

Many top retailers; including Wal-Mart, Whole Foods, Tiffany & Co., JCPenney, Circuit City, and Best Buy; have already introduced or will be introducing smaller format stores to offer their customers shopping choices.

Two-thirds of the top 100 retailers surveyed offer multiple formats and concepts to appeal to various

customers and different customer expectations. This crosses all segments, from specialty stores to grocery to mass merchandisers.

Ensuring that customers can easily find merchandise is also a key consideration for retailers and some of the tools that retailers utilize include space planning optimization and visual merchandising. Space planning and visual merchandising – the art of putting products where customers can easily locate them and in a way that makes sense to the customer – are critical for retailers to achieve success.

Space planning allows a retailer to optimize real estate space in the store and improve overall margin. While only 37% of the top retailers are currently utilizing space planning tools in their stores to help optimize the store layout, another 22% plan to implement a space planning application within the next two years.

Customers also are looking for assistance in the store to help make their shopping experience faster, easier, and more convenient. Customer service can be defined as the tools and services that are offered to the customer to enhance the shopping experience, but customer service levels vary from store to store. The necessary assistance may come from sales associates but it also may mean additional self-service tools such as kiosks, self-service price check, etc. We have seen interest in these tools increase over the past several years as retailers try to optimize customer service options while also controlling expenses.

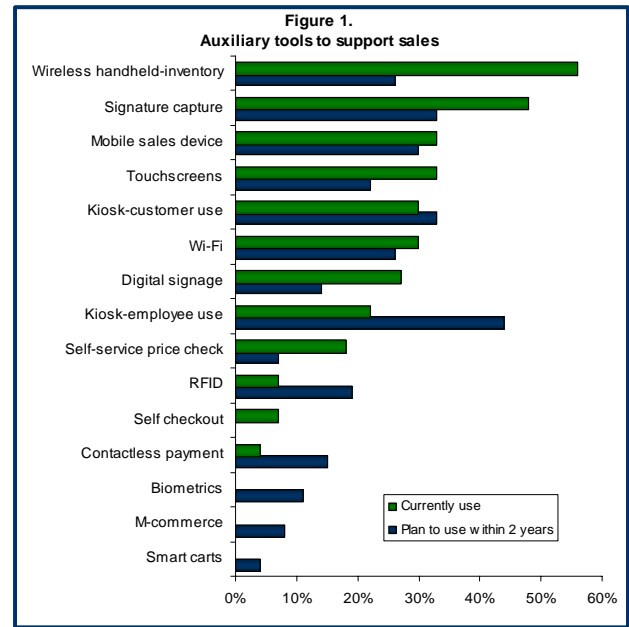
Kiosks continue to be one of the more prolific and effective self-service tools for customers. Kiosks can be used to:

- **Support employee relationships** by enhancing the hiring process, providing benefits information and updates, and encouraging training opportunities.
- **Enhance customer relationships** by offering detailed product information, providing special order capabilities, and creating targeted promotions.

Nearly one-third of the top 100 retailers are currently using kiosks to enhance their customer offerings, and another third are planning to implement kiosks in the next two years. **(Figure 1.)** We are continuing to see the interest in kiosk deployment accelerate with a 10% increase over last year. The hardware and software support available for kiosks deployments have improved significantly over the last few years to help fuel this trend. Additionally, retailers are looking for additional channels to support the business since customers are expecting access to products anytime and anywhere.

When discussing some of the additional self-service tools that retailers are utilizing, we see that nearly one-fifth of the retailers surveyed offer their customers the ability to

verify prices through self-service price check stations, and another 9% plan to offer this service within two years. Self-service price checking is a simple tool to offer customers additional control of their shopping situation, plus it can potentially relieve sales associates of this task. This is a great example of offering additional customer service and enhancing the shopping experience without the need to add sales associates or increase labor hours.



Digital signage can also enhance the shopping experience by offering customers additional information or suggesting add-on items to complement the products they are already purchasing. Retailers are working with their vendors to manage overall costs through vendor support programs. More than a quarter of the top retailers are currently experimenting with digital signage in their stores to identify the best use for this technology.

Accessible products

It is critical that a retailer capture a sale at the moment the customer decides to purchase the item. If the sale is not captured immediately, there is a strong likelihood that the retailer will then lose the sale. Since the customer has so many choices, it is imperative to immediately fill the customer's need. The top retailers offer customers the ability to access merchandise when and where the customer wants, by offering multiple channels. Of the retailers surveyed, more than three-quarters offer various opportunities to meet their customer's needs through multiple channels.

Product assortment is critical to the customer as they determine where to shop. In addition to the product assortment, ensuring that the product is actually in-stock is essential so the customer can purchase the item.

When retailers examine what their customers view as valuable to the shopping experience, product assortment and in-stock position are two of the three most critical pieces to a customer's satisfying shopping experience. (Figure 2.)

The top retailers are utilizing store inventory management applications to ensure their in-stock position. More than three-quarters of the top retailers already utilize a store inventory management application, with another 12% planning to implement an application within the next two years.

Reasonable prices

Price remains an important consideration for customers. The customer is typically looking for "fair pricing" based on the services and value received. But with so many shopping options offering similar "everyday low pricing" it becomes more critical for retailers to move above and beyond their everyday pricing policies. The ability for retailers to differentiate themselves through personalized services, such as offering personalized promotions to entice shoppers to shop at a store, continues to gain momentum. In addition, retailers must ensure they have the necessary tools to make the best pricing and markdown decisions.

When looking at the ability to personalize promotions at the register based on past history or real-time purchases, less than a quarter of the survey respondents can currently offer this type of differentiation to their

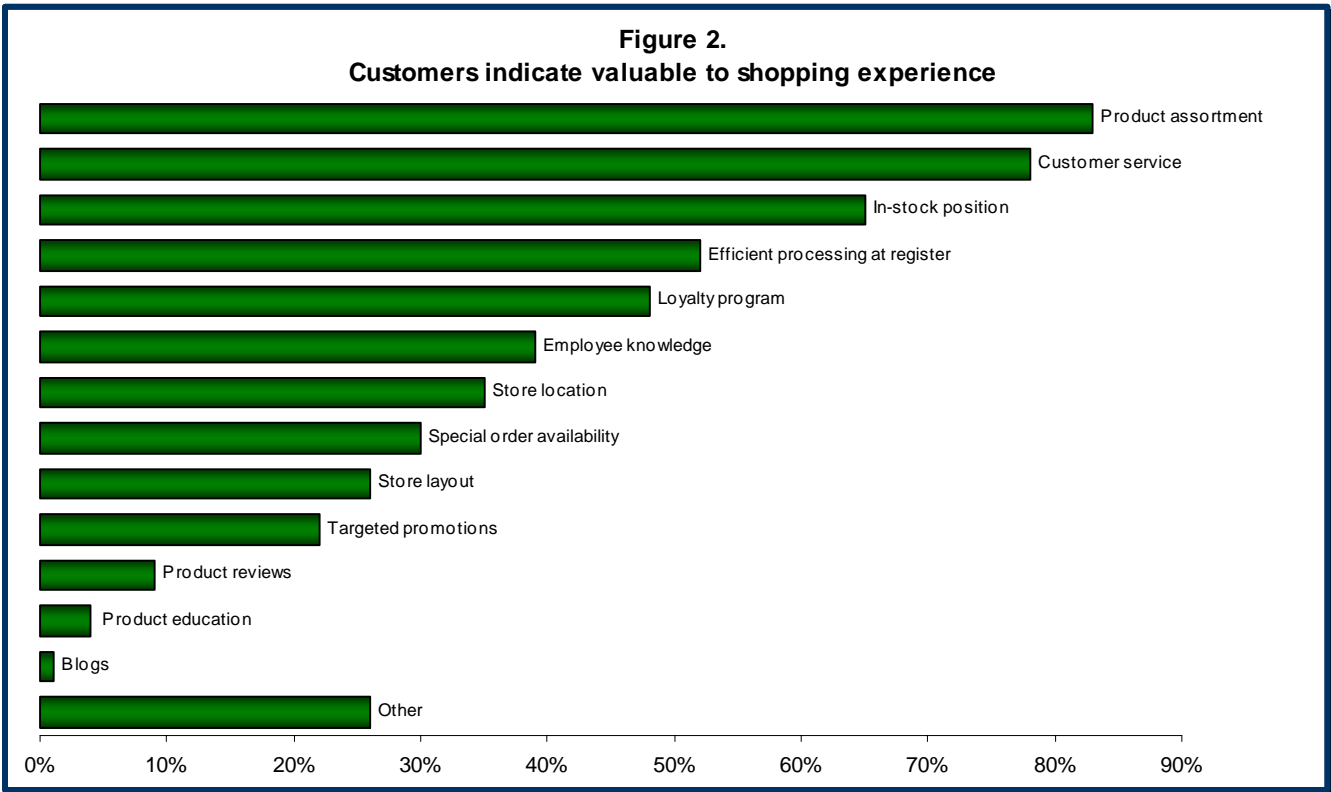
customer base. This continues to be an area of opportunity for retailers. Lacking this ability can translate to a decrease in margin and, just as importantly, loss of customer loyalty. We expect that more retailers will add to their ability to personalize customer offerings as they continue to search for ways to stand out versus the competition, and keep customers happy.

In addition to fair pricing in the store, customers expect consistent pricing and promotions across all available channels. If a customer sees one price on the website, they expect to see the same price in the stores. The same applies to promotions – a special deal on an item in the catalog should be reflected on the website. Of the survey respondents, nearly half are satisfying their customers by offering consistent pricing and promotions across all channels.

Knowledgeable sales associates

Many customers complain about rude and unknowledgeable employees. Shoppers in a recent study indicated that their biggest sources of shopping exasperation came from "employees who don't know or don't care," "understaffed stores," and "bad customer service" (Source: STORES Magazine/BIGresearch). It really does not matter whether sales associates are actually as bad as customers sometimes indicate – the perception is the reality.

Customers complain that associates don't seem to know about the products they sell, and they don't seem to care



about helping the customer. The store associates that the customer interacts with are obviously a significant part of the shopping experience for the customer. A bad experience due to associate neglect or indifference can easily chase a customer away to the competition. Store associates play a large role in the retailer's differentiating equation, coupled with the service and assortment. Successful retailers realize this as they indicate that most of their customers value customer service as an important part of their shopping experience.

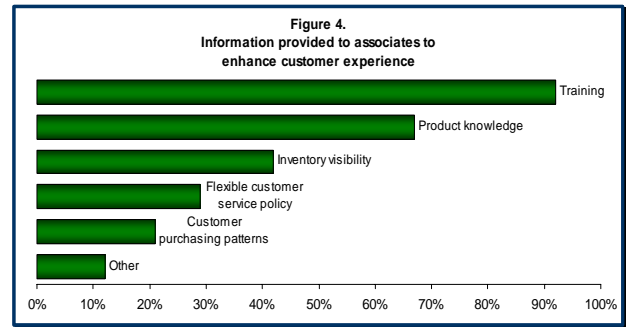
As we talked to the top retailers, it is apparent that they realize the importance of the associate/customer relationship. When asked about their top priorities for the next two years, the top three priorities involved enhancing the relationship between the customer and associate. Half of the retailers are focused on increasing customer speed through checkout, with nearly half focused on improving the management of labor in the store, and more than 40% focused on capturing additional customer and sales information to tailor the shopping experience. **(Figure 3.)**

Customer empathy is one of the buzz phrases in the industry as retailers focus on helping their associates understand and practice customer empathy – the ability to understand the customer's need and then respond in a personal way to meet and exceed the customer's expectations.

So what are retailers doing to emphasize customer empathy and improve the levels of service offered to customers? The best-in-class retailers believe that providing training and enhanced product knowledge to their associates will enhance the customer shopping

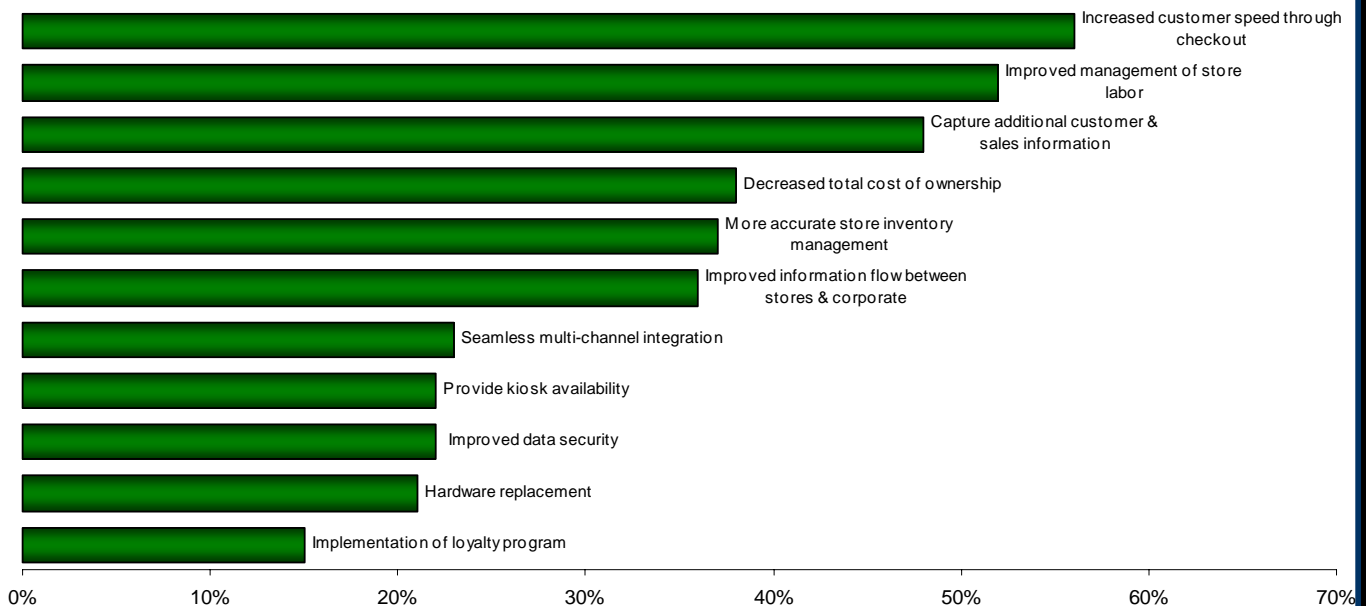
experience. Retailers are ensuring that their associates have the product knowledge and training needed to meet the customer's needs.

Of the top 100 retailers surveyed, nearly all of them provide training to associates to enhance the overall customer experience, and two-thirds provide their associates with product knowledge. This trend surfaced in last year's survey and continues to gain momentum. As retailers face a more complex shopping environment, training, product knowledge, and a better understanding of store policies, procedures, and business processes have become more critical. **(Figure 4.)**

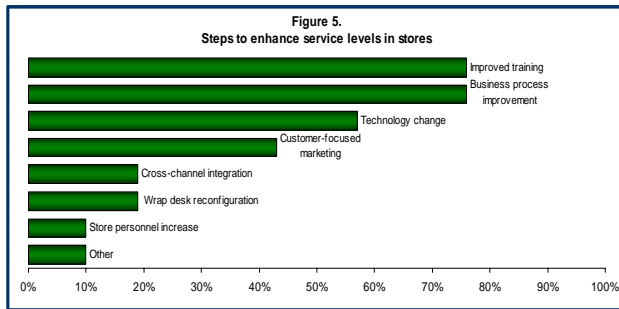


Obviously retailers view training as an important tool for their associates. More than three-quarters of the retailers surveyed are enhancing the training they are offering their associates, such as offering better sales training, making more product knowledge training available, and offering additional types of training to enhance skills that will improve the shopping experience for the customers.

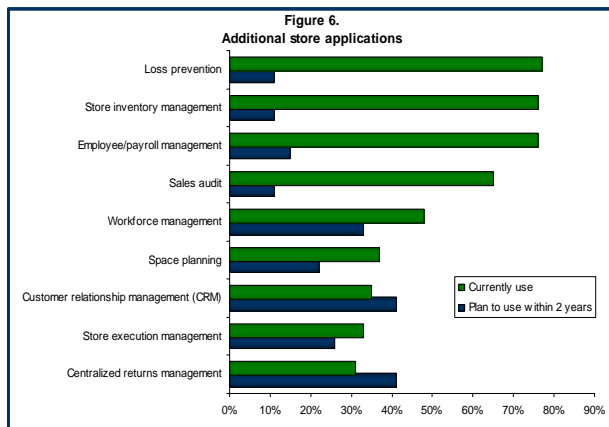
Figure 3.
Top 3 store priorities for next 2 years



We also see three-quarters of the top retailers reviewing ways to improve the business processes around the customer experience, especially at the checkout. More than half of the top retailers are utilizing technology to improve the shopping experience, including looking to new hardware and software for the store. (Figure 5.)



There are various software applications that can enhance the customer/associate relationship. Best-in-class retailers utilize applications such as customer relationship management (CRM) to be able to personalize the transaction, and workforce management (WFM) to ensure that labor dollars are used efficiently and effectively to enhance customer service. (Figure 6.)



More than one-third of the top retailers currently use a CRM application to enhance the relationship with the customer. While that is a relatively low percentage of the top retailers, there are another 42% who realize that this is an area for development and have implementation plans in the next two years. It is also interesting to note that when the segments are examined individually, the majority of specialty retailers surveyed have implemented CRM or are planning to implement CRM, while other segments are much farther behind with implementation plans.

Retailers are generally using their CRM applications as a foundation for a loyalty program and to collect some customer information, but many retailers still need to clarify the purpose of their CRM programs and really utilize customer information to the benefit of all involved.

A CRM solution has the ability to provide store associates visibility into their customer's purchases and shopping habits. CRM also provides the ability to identify profitable customers and provide insight into the products being purchased, plus offer predictive analysis on potential future purchases. Retailers are just beginning to realize the benefits of CRM and we expect to see many more retailers making strides in this area in the next few years.

Surprisingly, retailers indicate they are targeting customer-focused marketing as a way to successfully reach profitable customers, but they generally do not have the required CRM applications to support this type of initiative.

Retailers need to take customer relationship management to the next level – beyond a simple loyalty program – and move into building better assortments and improving sales and margins. Retailers should be taking profitable customers to the next level and improving sales by encouraging customer purchases across channels. At this point, most loyalty programs are not delivering what they should; in return for customers providing basic information about themselves, retailers should be able to provide incentives and personalized promotions to show appreciation and improve sales as a result. What most retailers currently call loyalty programs are generally just another type of frequent shopper programs.

One good example of an advanced customer relationship management program and an excellent example of understanding their customer is Tesco. Tesco mines their customer data and uses customer-specific information to drive the business – making decisions on stores, merchandise, pricing, and promotions based on customer attributes.

Another more basic need for retailers is to manage labor resources more effectively. Retailers constantly try to minimize expenses while also trying to maximize sales. One way to be more effective is to utilize some of the more advanced workforce management applications that are available. WFM applications have evolved into more than simply payroll management and time and attendance. There are applications to assist in the hiring process, forecast labor, create efficient and effective labor schedules, and manage the execution of tasks at the store, all to ensure that retailers have the best help available in the stores to enhance the customer experience.

Of the top retailers surveyed, more than three-quarters currently use an employee/payroll management application to more efficiently manage and pay their employees. What is even more interesting is that nearly half currently use a workforce management application, and one-third of the retailers use a store execution management tool to help manage and schedule the tasks that are necessary to efficiently run the store and assist

customers. This demonstrates the growing trend towards more effective allocation of labor and resources. Again when looking at the different segments of retailers involved in the survey, specialty retailers seem to be further along the adoption curve than their discount retailing counterparts.

Time and attendance is currently the most automated of WFM processes with many opportunities still existing in forecasting, labor scheduling and task management, and the overall integration of these processes.

Hiring is still a mostly manual process although retailers are beginning to realize the strong benefits of using automated tools to ensure the best candidates are hired. Best-in-class retailers view hiring and maintaining good associates as a competitive advantage. And with how important customers say associates are to the shopping experience, it becomes obvious that more retailers should be taking whatever steps are necessary to make sure they are hiring and keeping the best candidates.

Retailers constantly face the challenge of offering customers the service that they expect while keeping labor expenses under control. We are seeing many retailers utilizing workforce management applications as a tool to minimize expenses while optimizing resource dollars to assist customers. Labor scheduling provides the means to maximize sales and optimize labor in the stores. Store execution management applications help retailers communicate, track, and prioritize store tasks and understand the labor implications.

One example of a retailer that takes the customer/associate relationship to the next level is Trader Joe's. Sales associates are not only encouraged, but actually trained to interact with customers. Associates strike up conversations with customers to really foster that personal relationship, plus the associates get very valuable feedback to enhance the assortment, layout, and processes at the store.

Quick and easy checkout

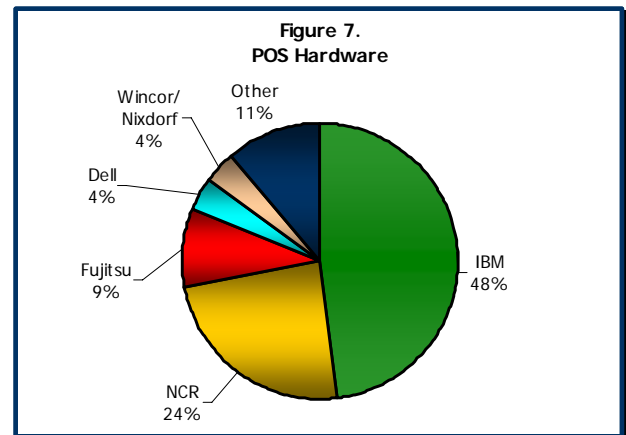
The checkout experience can color the entire shopping experience. Even if a customer easily finds the desired items at a great price, the entire experience can be soured if the customer gets to the checkout and there is a line of customers waiting, the POS is slow, or the sales associate is rude.

The top retailers realize the importance of the checkout experience and continue to make "increasing customer speed through the checkout" a top priority. Other ways that retailers are working to enhance the checkout experience include business process improvement and training, in addition to changing and upgrading technology to offer advanced technology.

As our POS Benchmarking Survey has indicated for the last eight years, we continue to see significant interest in the upgrade or replacement of POS systems. Unfortunately, there are still a number of systems in the industry, even among the top retailers, that are more than ten years old and unable to support new and advanced functionality and the applications that are necessary at the checkout to ensure a smooth checkout experience for the customer. Retailers have also realized that older POS applications have reached their maximum capacity, with high maintenance costs and low functionality.

The top retailers surveyed this year are utilizing POS hardware with an average age of 5.8 years. This is a little higher than last year's results at 5.3 years, indicating that fewer retailers may have implemented new hardware in the past year, driving the average age up slightly. The remaining useful life indicated is 4.2 years which has risen from last year's 3.7 years of useful life but remains in line with the previous year's indicated useful life of 4 years. We still see retailers struggle with hardware implementations and many projects are delayed due to budget constraints and other higher priority initiatives. This forces retailers to continue to run hardware as long as possible before replacement.

The POS hardware market continues to be dominated by the market leader, IBM, with Fujitsu and NCR continuing to gain market share. Other major players in the market include Dell and Wincor/Nixdorf. **(Figure 7.)**

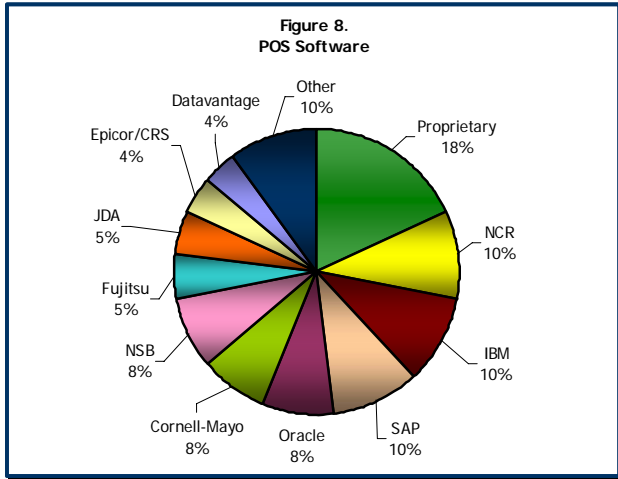


POS Hardware includes specialty, department, apparel, and big-box retailers and excludes grocery, restaurant, and convenience retailers

On the software side, this year's survey indicates the average age of POS software is down slightly from last year's all-time high of nearly eight years, to 7.5 years this year, but still up significantly from 6.6 years two years ago. The remaining useful life has remained consistent with 3.4 years this year compared to 3.3 years last year. Last year, we saw that retailers were focusing more on implementing new hardware so it would seem that this

year retailers have managed to implement new software to run on the new hardware implemented last year.

While the POS hardware market is consistently dominated by two major players, IBM and NCR, the software market remains fragmented with many more players owning smaller pieces of the market. **(Figure 8.)**



POS Software includes specialty, department, apparel, and big-box retailers and excludes grocery, restaurant, and convenience retailers

When looking at the top 100 retailers we see that NCR and IBM also have a strong presence on the software side with SAP, Oracle, Cornell-Mayo, and NSB following close behind. Interestingly, the share of the market labeled Proprietary has remained significant in this market. There are still a number of retailers running software that was developed internally or purchased from a software vendor but has been modified and customized so extensively that it is no longer recognizable as the original product. Many of the retailers surveyed indicated that they have recently selected or will be selecting new software so we expect this graph to look quite different next year.

The POS software marketplace continues to change with mergers, acquisitions, and consolidations over the past few years, with the most recent being Epicor's acquisition of NSB. We anticipate that there will continue to be changes in the next few years and we will likely see fewer players in the future, although we believe that the market will support a variety of software vendors as retailers have varying needs due to technology, size, volume, and functionality requirements.

The top retailers utilize more than just advanced POS systems to expedite the checkout process. Some of the top retailers utilize methods of supplementing their POS systems by implementing mobile sales devices or self checkouts to handle additional lines of customers. One-third of the top retailers surveyed currently use mobile sales devices, such as wireless handhelds, with another third planning to use these devices to supplement regular POS checkout lanes within two years. While some

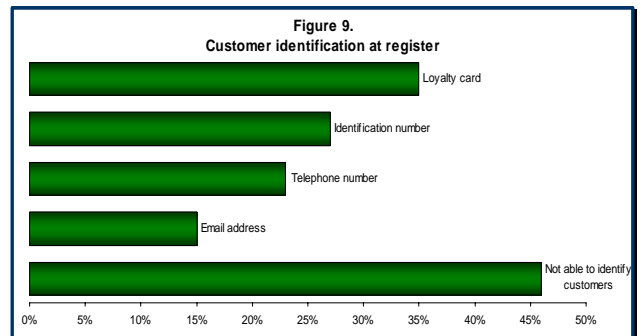
retailers find self checkout lanes to be an essential tool to expedite the checkout process, it is still generally used in retail segments such as grocery or DIY stores. Less than 10% of the top retailers currently use self checkout applications and it is unlikely to be implemented across all retail segments.

More retailers are focusing on different technologies to expedite the checkout process such as signature capture, touchscreens, and contactless payments. Almost half of the top retailers utilize signature capture devices to speed the checkout and enhance the security of the customer transaction, and another third of the retailers plan to implement signature capture devices within two years. One-third of the retailers utilize touchscreens which provide cashiers a more intuitive tool for checking out customers, and another fourth of the retailers plan to implement touchscreens with two years.

Contactless payment continues to be a topic of discussion in the industry but less than 5% of the survey respondents currently offer contactless payment options at the checkout, although 16% plan to offer customers this option within two years. Security remains a concern for consumers who are still unclear how the technology works or how it will benefit them. Retailers, on the other hand, see the benefits through transactions that can be processed up to 50% faster. The early adopters tend to be gas stations, fast food restaurants, and convenience stores but we expect to see further expansion of contactless payment acceptance over the next two years.

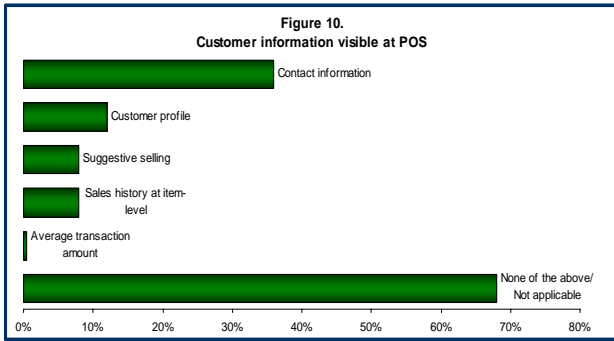
One challenge for retailers remains the need to balance the gathering of customer information at the checkout to help personalize the shopping experience for the customer, with the need to expedite the checkout process.

More than half of the top retailers can currently identify customers at the register, generally through a loyalty card or identification number. **(Figure 9.)**



While more than a third of the survey respondents do have customer contact information available at POS, we still see that most retailers do not offer their associates any visibility at the POS to help personalize the shopping experience. This is a significant opportunity for specialty

retailers to understand their customer and it is currently being missed by many retailers. (Figure 10.)



Tesco is a great example of a retailer who takes the importance of the checkout experience to the next level by ensuring that they do not incur lines of frustrated customers at the checkout. They have recently implemented infrared cameras to monitor the number of customers waiting in line so they can ensure that they have the right number of checkout lanes open to alleviate back-up and waiting.

Channel accessibility and consistency

While stores remain the centerpiece of a retailer's offerings because customers still want to see and touch products, additional channel offerings are necessary to compete. Customers no longer see the retailer as just the box that is the store; it is the whole shopping experience across channels.

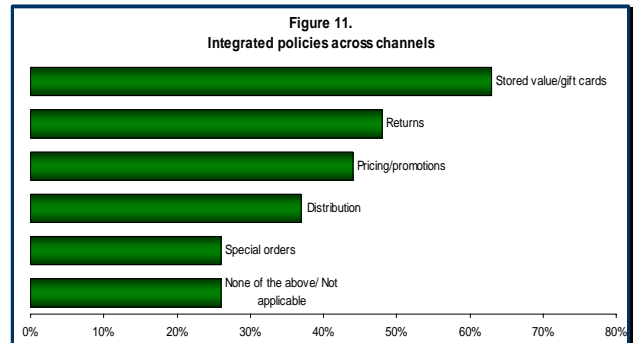
The ability to buy online and pick-up in the store continues to grow as an option. Retailers are finding that by offering this service they gain online orders that may have been lost due to the customer needing the product immediately, plus there is the advantage of bringing the customer into the store where add-on sales are an opportunity.

Customers get frustrated with disparities or the gap between what they see advertised and what they actually find when they shop. They also do not understand differences across channels – what they see in one channel they expect to see consistently across other channels. This includes pricing, promotions, returns, and gift card policies.

Some of the top retailers offer consistent policies across channels with more than half offering integrated gift card policies, and just less than half of the survey respondents having integrated return and pricing/promotion policies. (Figure 11.)

While channel integration continues to increase, albeit very slowly, there is still much opportunity for improvement. For example, customers have indicated through numerous surveys that the ability to return web-ordered merchandise to the store is critical, but less than

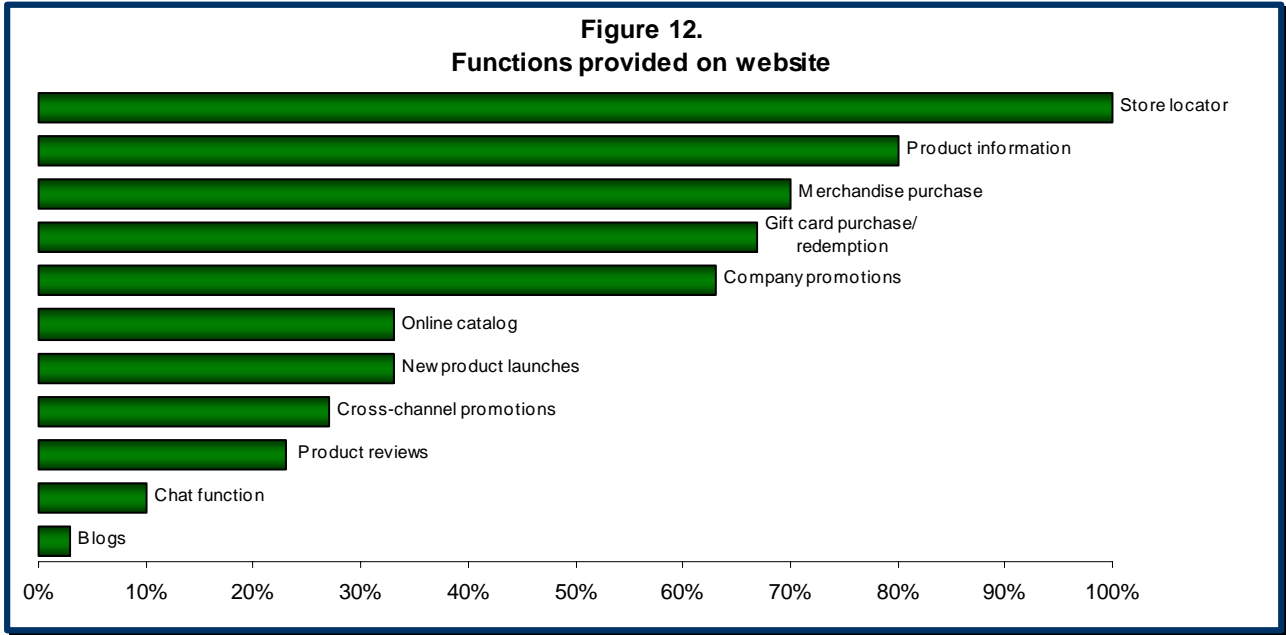
half of the top retailers currently offer this option. So why is this occurring? First of all, when many retailers first created their websites they outsourced the website to another company or they formed a different division to run the website, so now they may be dealing with separate entities within the organization. Technology integration may also be an issue as retailers try to integrate their disparate systems to achieve multi-channel integration. Lastly, retailers may have aging store applications that limit the functionality and ability for the retailer to integrate. This continues to be an area for retailers to work through as multi-channel integration remains a priority for top retailers.



An interesting addition to the channels available to consumers is mobile-commerce, or m-commerce, which is the ability to shop via mobile phones. While m-commerce has been slow to catch on in the United States with sites generally difficult to find and still very slow to upload, much of Europe, and especially Asia, is much further along the adoption curve. Asia is still the leader with more advanced cell phones, but demand is increasing in the United States. It is estimated that by 2011, the total transaction value of mobile payments is forecast to hit \$22B worldwide. But at this point, 8% of the top 1,000 U.S. brands offer mobile versions of their web sites while only 2% of brands in the retail sector operate mobile sites (Source: RarePlay.com). This is an area that will continue to grow and expand and we will likely see very different numbers in the next few years.

Best-in-class retailers offer multiple channels for customers to shop and most offer a website even if they do not use it to sell merchandise. Some of the functions on retailers' websites to ease and encourage the shopping experience include a store locator to help drive the customer to the store, which all the retailers surveyed offer on their website. The majority of the top retailers offer customers the ability to purchase merchandise, offer product information, and allow gift cards to be purchased and redeemed to encourage customers to purchase from that retailer whether through the website, via catalog, or in the store. (Figure 12.)

Cross-channel promotions are a growing trend also as more than a quarter of the survey respondents offer information on their website about promotions available

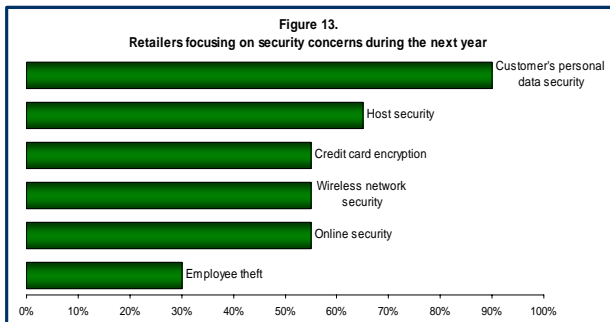


in the store. This emphasizes cross-channel shopping and encourages customers to remain loyal to the brand. On the other side, according to BizRate Research, 80.6% of online retailers advertised their websites in brick-and-mortar stores. While many retailers have expanded and enhanced their website functionality, there are still many opportunities for retailers to expand their website functionality and offerings.

Secure personal information

Security continues to be a concern for shoppers as we are constantly bombarded by media coverage of the potential physical dangers of shopping at the local mall, plus the constant threats from identity theft and personal data security issues.

Consumers indicate that they are concerned and 90% of the top retailers are answering these concerns by increasing their focus on protecting customer’s personal data. Other areas of focus include the majority of the retailers focusing on host system security and more than half focusing on credit card encryption. (Figure 13.)



Future Influences

Best-in-class retailers are always looking at the “next big thing” that may be influencing the way consumers are thinking and how they may be shopping. Some of the areas that will influence retail in the next few years include:

Going green

Skyrocketing energy prices, global warming, and a trend towards healthier living are all prompting a green initiative from consumers, which in turn, is propelling retailers (and other businesses alike) to “go green.” Major retailers from Wal-Mart to Home Depot to Whole Foods are figuring out ways to respond to consumer demands, help the environment, and still try to maintain a healthy profit. While some tout “going green” as a way to attain a competitive advantage, this awareness is unlikely to go away and retailers will find that they need to adapt initiatives to meet this demand just to remain competitive.

The big question will be how far retailers are willing and able to go. Converting light bulbs to energy-efficient CFL bulbs, eliminating plastic bags as an option for shoppers, and creating strong recycling programs are really just the first step towards establishing a strong green initiative. How successful retailers will be as they take the next steps by revamping their sourcing and manufacturing processes and creating “green” stores is still a question that needs to be answered.

Social networking

Social network sites have become a ubiquitous part of our society – sites such as YouTube, Facebook, and MySpace are constantly in the news and a part of many people's daily lives. One-quarter of the U.S. online population visits social networking sites at least once a month (Source: iProspect and JupiterResearch). To illustrate the importance of sites such as these, MySpace has more than 300 million accounts; if it was a country it would be among the top five largest in terms of population.

Retailers are not underestimating the power of social network sites; they realize that negative word-of-mouth becomes even more critical in this blog-happy world – so it becomes that much more important to ensure that customers do not have a negative experience to broadcast to thousands of people at a time.

While the top retailers surveyed have not made major inroads into social networking outside of their own websites (only 7% indicated that they have utilized blogs or MySpace), nearly one-quarter of the retailers do offer product reviews on their websites which offers another form of social networking, allowing customers to share their personal experiences with products. While this generally started with consumer electronics, it has now become prevalent in specialty apparel, sporting goods, and even mass merchandise retailers, and it will continue to pervade mainstream retailing.

A study from CompUSA and iPerceptions found that 63% of consumers indicate they are more likely to purchase from a site if it has product ratings and reviews; therefore, this is obviously another important piece in a customer's purchasing decision. Retailers have big opportunities in the next few years offering non-traditional communication – through blogs or chats – to their customers.

Bloomingdale's recently took social networking a step further with a test of an interactive mirror that connected the customer with friends via the Internet. The customer could share how they looked in an outfit and get real-time feedback and suggestions through instant-messaging. We expect to see more experiences such as this available for shoppers in the near future.

Local products

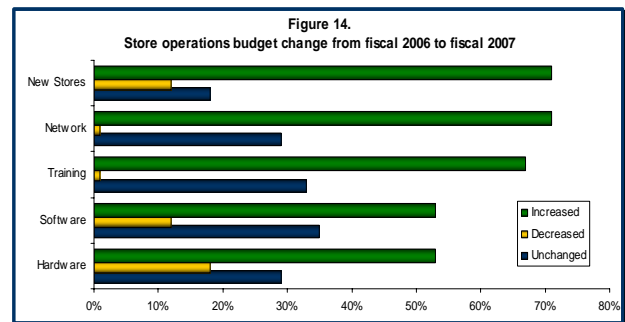
With all the product recalls and scares this past year, both with pet foods and toys with lead in them, there seems to be a renewed interest in U.S. made products.

Couple this with the interest in going "green," and consumers ever-expanding quest for more product information, and we are seeing customers paying more attention to the source of products they purchase and the ingredients that are included in the product.

Another aspect of the green initiative is the quest to buy products locally, especially produce and dairy to alleviate the costs and pollution associated with transporting these items long distances.

Conclusion

Retailing continues to change, each year brings different challenges to retailers as they try to understand and meet their customer's needs to stay in the game. The most successful retailers put "their money where their mouth is" by ensuring that they are allocating the right resources to meet these needs. (Figure 14.)



Overall, we see the top retailers increasing their budgets to meet and exceed customer expectations and this will help to continue their success in the years to come.

Best-in-class retailers must be in a state of constant innovation as the customer continues to demand and expect more from the retailers that they frequent. It is a complex and competitive environment and the only certainty is that customers and retailers will continue to change and adapt.

LakeWest Group, LLC is the premier management consulting firm dedicated to the retail and consumer products industries. With deep retail business knowledge and cross-functional capabilities, the firm delivers superior design and implementation of strategy, technology, and process solutions to help its clients achieve their full business potential. Headquartered in Cleveland with offices in New York City and Boston, LakeWest Group serves all retail segments and channels.

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