

State of the Industry Research Series :

Q4 2014

2nd Annual Stores Benchmark

Future of the Store: Re-Imagining Stores as Hubs of Omni-channel
Customer Engagement

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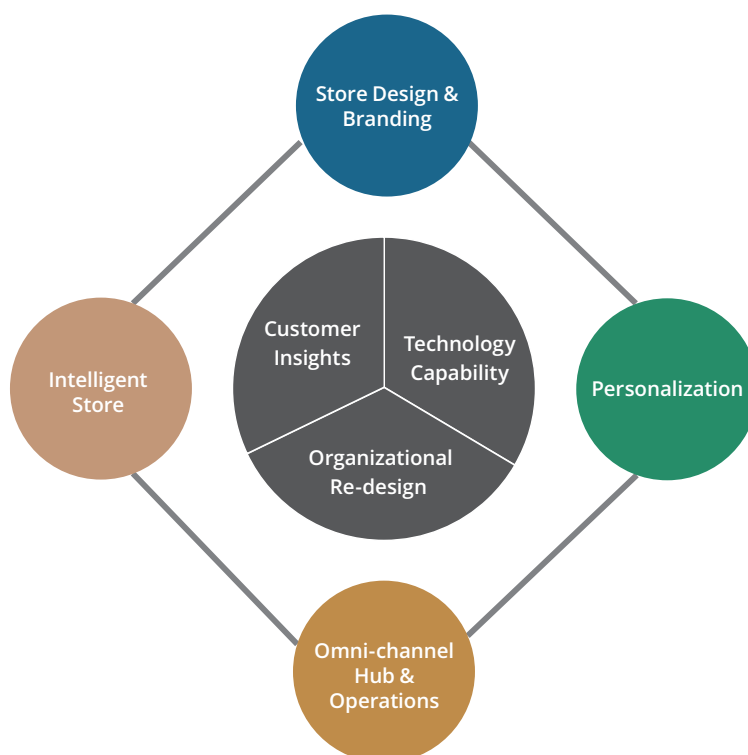
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Executive Summary

The role of the brick and mortar store is evolving from being a destination of commerce to being a hub of Omni-channel customer engagement. And, retailers' "organizational muscle" - a mesh of capabilities including their culture, management adaptability, business processes and technology systems - is under duress from having to dispense a type of customer-centric movement it isn't trained for. In order to consistently and smoothly dispense an Omni-channel experience to customers, retailers will need to re-train this organizational fiber. EKN's 2014 Stores Industry Benchmark lays out a framework for how.

EKN's Store Transformation Framework Overview



Transformation Areas: The 4 key properties of stores that retailers will need to transform.

Store Design & Branding: Stores need to be re-imagined as smart, interactive destinations for interaction and engagement. With the convergence of mobility and Internet of Things (IoT), this interactive capability can be built right into the physical and logical fabric of the store.

Personalization: Consumers display a rich digital body language and expect retailers to understand their cues and deliver a personalized and localized retail experience.

Omni-channel Hub & Operations: Stores as the central nervous system of a brick and mortar retailer require an integrated view of the item, customer and order to be able to deliver on the multi-faceted reality of stores in an Omni-channel world. This extends to making processes and store operations more repeatable and automated in alignment with the operational fabric of a true channels agnostic experience (e.g. fulfillment).

Intelligent Store: With new technologies like iBeacons, NFC, Touchscreens, IoT and the power of Big Data, lines will quickly blur between what is store technology vs. what is the store itself. The store will evolve into a sensing feeling organism that will be able to take decisions to improve its performance. We see this as a strategic blue sky but slow moving area of transformation.

Key Enablers: The 3 capabilities retailers will invest in and leverage to drive the above transformation.

Customer Insights: Improved analytics maturity – in terms of being able to use customer data to automate business processes, predict behavior and outcomes, and deliver insights to the right person at the right time – will be one true competitive advantage retailers will enjoy once Omni-channel execution becomes table stakes (and it will).

Technology Capability: While each transformation area relies on appropriate technology to support it, a broader investigation of a retailer's technology capabilities are required to enable true Omni-channel integration in a more open-to-consumer, mobile-first environment. This is so because the number of applications must not only be channel aware but also need to be synchronized to ensure consistency.

Organizational Re-design: Instituting change in leadership culture, business processes, roles, skills, attitudes and success metrics across the organization. A key part of this needs to focus on changing incentives and KPIs so that performance metrics are aligned throughout the organization and focused on cross-channel activity as opposed to channel specific.

EKN's 2nd annual Future of Stores benchmark is based on a survey of 100+ retailers. The report is presented as an action roadmap across 4 key areas of transformation, each containing actionable recommendations and retailer best practices.

In this report:

- The 4 Key Areas of Transformation
- The 3 Critical Enabling Capabilities
- What Sets Leaders Apart
- Retail Honor Board

Retailers recognized In EKN's Future of Stores Retail Honor Board:

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At a Glance: FROM STORES TO STORIES

The role of stores will have to evolve to remain relevant in a constantly changing environment and attract customers' loyalty and larger share of wallet

WHY?



8 in 10 millennials prefer to shop in stores across all categories (except electronics)



31.6% premium that millennials will pay as a result of a good customer experience at a retailer

THE KEY AREAS OF TRANSFORMATION

Store Design & Branding:



4 in 10 retailers to open flagship stores in the next 12 months

Personalization:



1 in 3 retailers provide personalized recommendations for customers on store associates' mobile devices

Omni-channel Hub & Operations:



57% of the retailers will move towards creating a common commerce platform across the store and online in the next 24 months

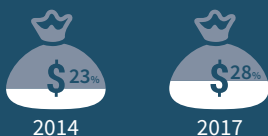
Intelligent Store:



33% of the retailers will deploy in-store customer location tracking tools in the next 24 months

SUPPORTING CAPABILITIES

Technology Capability:



Store technology budget to grow from **23%** of the total IT budget in 2014 to **28%** in 2017

Customer Insights:



Poor store analytics maturity - **57%** of the retailers are only able to perform basic reporting and analytics

Organizational Re-design:



More than one-third of retailers do not have a single assigned person responsible for customer experience

STORE DESIGN & BRANDING



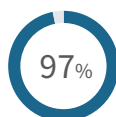
Key Takeaway: Stores as large, soulless, cookie cutter stock rooms and showrooms will give way to more immersive experiences as the physicality of the store converges with the digital experiences it enables through technologies such as NFC, iBeacon and Internet of Things. Retailers will experiment with new formats such as flagship and pop-up stores. Stores in general will be smaller, have a personality and will allocate more space for Omni-channel fulfillment.

Why it is important:

Stores remain the preferred shopping channel for shoppers, even millennials, but the role of the store is changing. As a result, store design and lay-out needs to evolve to suit shopper expectations.



8 in 10 millennials prefer to shop in stores for most retail categories (except electronics)¹



97% of the retailers believe that stores can help brick and mortar retailers differentiate against online-only retailers²



4 in 10 millennials are influenced by ease of navigation while shopping in store³.

Transformation focus:

Store layout and design: Re-designing stores is an imperative for creating an Omni-channel hub. This requires reprioritization of various roles the store plays based on their format and customer engagement strategy. To this end, it is essential to re-allocate space appropriately to aspects of the store such as delivery, checkout, product research, product showcases, and loyalty and membership among others.

More than

4 in 10

retailers rated themselves at par with their competitors in terms of ease of check-out and shelf layout

Source: EKN 2nd Annual Future of Stores Study, 2014

Localization: Each store will need to develop its own personality while operating under the larger guiding principles of the brand. Digitally, stores will do so by creating store specific pages on the retailer's website and social networks managed directly by the store as a means to engage with the local community.

69%

of the retailers plan to launch a store specific social media initiative in the next 12 months

Source: EKN Future of Stores Study, 2013

^{1,3} EKN Millennial Shoppers' Preferences Survey, 2014

² EKN Future of Stores Study, 2013

Brand Experience: One distinct advantage of brick and mortar stores over an online only experience is their ability to form an emotional bond with the shopper. Consumers have consistently rewarded retailers who invest in building store experiences that go beyond being destinations for commercial transactions. Apple and REI with their “come and play” feel, and Nike with its sports imagery, express their brands superbly through store environments. Jordan’s Furniture stores are a wonderland of unexpected experiences, helping it clock the highest per square foot revenue among all furniture retailers in the US. Uniqlo, who recently reported 70% Y-o-Y international business growth, offers a constantly evolving, never familiar, visually rich experience in its stores.

4 in 10

retailers will open a flagship store in the next 12 months, while 2 in 10 will open a pop-up store

Source: EKN 2nd Annual Future of Stores Study, 2014

Recommendations:

ST Short Term (0-6 months)

MT Medium Term (6-12 months)

LT Long Term (1-2 years)

Technology:

MT **Map emerging technologies** that enhance the design and branding such as interactive displays, 3D scanning and smart shelves among others, **against clear store experience goals** and conduct “fail-fast, fail-cheap” experiments to identify stickiness and feasibility.

MT **Explore using new sensory experiences scents to augment the store experience** - An initial focus can be using scents to drive greater engagement (the smell of freshly baked bread in a grocery store, coffee at a highway gas station, the outdoors in a sporting goods store). Experiment with a few scents at the home office to determine your signature scent, then pilot it out a few stores before deciding on a wider roll out.

Operations:

ST **Formalize learning about new store concepts and ideas and institute competitive and industry best practices tracking.** Executives need to track developments in store design and make periodic visits to cities like New York, Tokyo and Seoul to track new innovation and trends in store experience design. Identify 5 retailers to learn from and track their store design efforts. Schedule store visits and seek peer-to-peer learning from retailers in non-competitive categories.

MT **Experiment with new formats** that help you showcase the brand, demonstrate new products and quickly collect customer feedback. Retailers should also explore pop-up store concepts, such as the one Nordstrom recently launched in NYC to promote Sarah Jessica Parker’s new shoe line SJP, to address trend related demand and to drive new customer acquisition.

MT **Allocate more space to Omni-channel order fulfillment** by providing dedicated space in the back room for online orders and create a dedicated area in the store for online order pickups.

MT **Create experience hubs in the store**, where customers can come and discover new products through interactive displays. Use these spaces to conduct interactive sessions with customers such as cooking and art classes.

Customer Insights:

- MT **Integrate customer insights into the site selection** (demographics, competition, crime) **and store design process**. Customer profile, store traffic, linger time and purchase data should be used to decide the ideal store layout and fixtures.

Organizational:

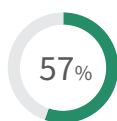
- MT The re-imagining of the store layout and the creation of new retail formats (pop-up stores, flagship stores, mobile stores) signals a shift from retail design to experience design, and creating this new retail experience requires collaboration across the organization. To effectively design new store experiences retailers need to **put in place collaborative process that bring together various stakeholders** like - stores, digital/online, supply chain, technology and customer, and that have feedback loops to drive improvements.

PERSONALIZATION

Key Takeaway: As retailers refocus their efforts on bringing stores to life, in-store customer engagement and personalization have become key priorities, but execution lags intent.

Why it is important:

Retailers' ability to deliver a personalized store experience is limited by their below-average customer insights and analytics maturity.



57% of the retailers are only able to perform basic reporting and analytics⁴



1 in 3 retailers provide store associates with customer information and personalized recommendations on their mobile⁵



Customers are willing to pay a **31%** premium for an excellent customer experience⁶

Transformation focus:

Localization of merchandise: Historically, everything in retail was local, with the corner mom and pop store stocking a unique blend of products that were in line with the preferences and characteristics of the local residents. Then came centralization, and scale, which was characterized by a sameness of merchandise across all stores. Over the past few years retailers have increasingly been using segmentation to localize product assortment – a third of retailers are already focusing on creating tailored, specific, precision merchandise assortments⁷.

Customer service: Retailers need to develop a customer service model that is focused on optimizing for customer satisfaction versus for operational cost. This means improved training and empowerment of store associates. But there is a huge information and capability gap between the customer and the associate. Retailers need to empower associates with information (customer profiles, online prices, competitive prices, detailed product descriptions, inventory availability) and capabilities (ship an out-of-stock product from another store, give a real-time personalized offer, match an online price) to better serve the customer.

6 in 10

retailers plan to use assortment optimization solutions in the next 24 months

Source: EKN 2nd Annual Future of Stores Study, 2014

4 in 10

millennial shoppers are influenced by knowledgeable staff, but, less than one-third of retailers allow store associate to check competitive prices or track inventory from their mobile devices in-store

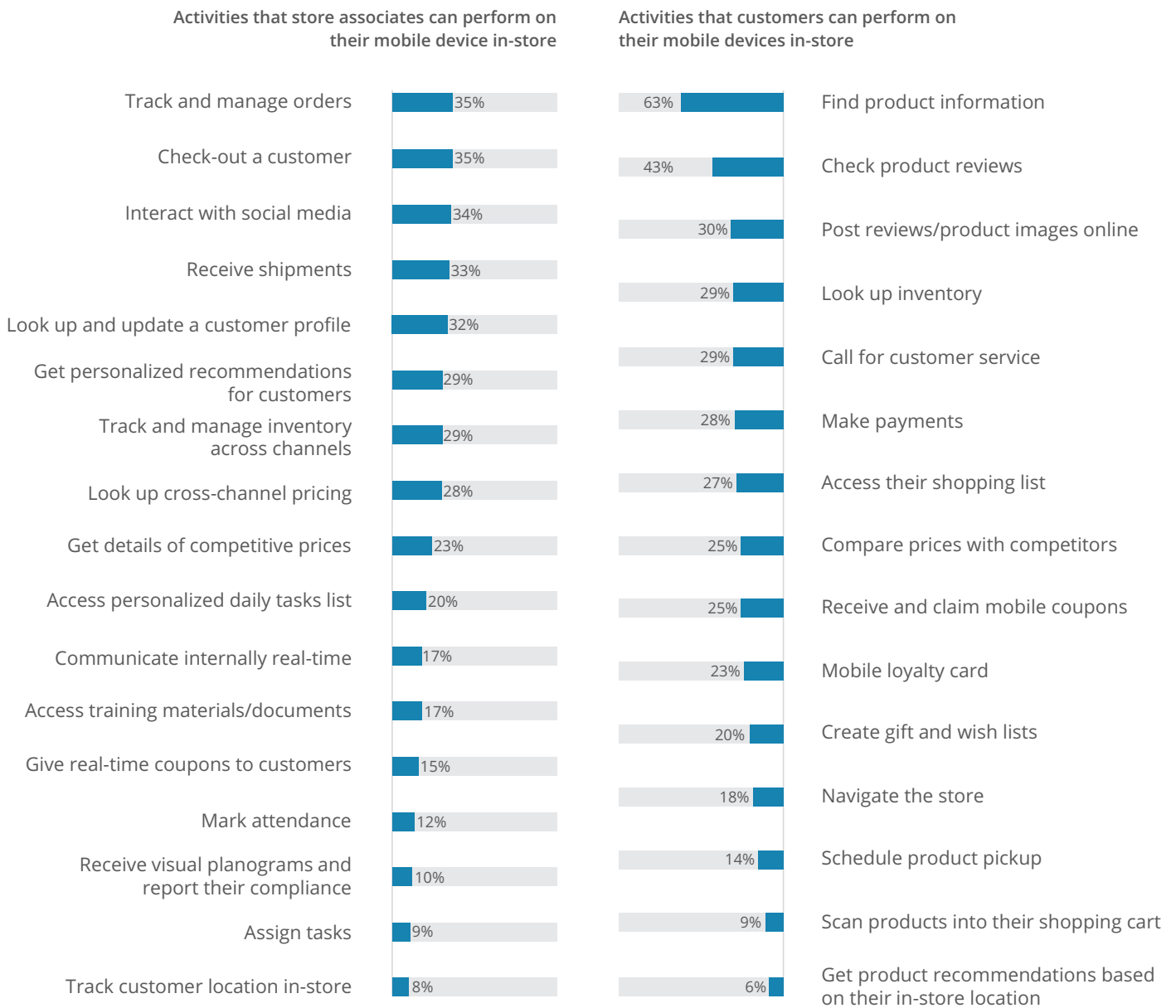
Sources: EKN 2nd Annual Future of Stores Study, 2014;
EKN Millennial Shoppers' Preferences Survey, 2014

⁴ EKN 3rd Annual Analytics in Retail Study, 2014

⁵ EKN Millennial Shoppers' Preferences Survey, 2014

⁶ EKN 2nd Annual Future of Stores Study, 2014

⁷ EKN Merchandise Innovation Study, 2014



Source: EKN 2nd Annual Future of Stores Study, 2014

Recommendations:

ST Short Term (0-6 months)

MT Medium Term (6-12 months)

LT Long Term (1-2 years)

Technology:

ST **Create store-aware mobile apps for consumers** in the store, including features such as:

- **Discovery:** Pull up extended product details based on what the customer wants deeper information on. For example a customer could be interested in finding out whether the coffee she wants to buy was from fair-trade or would want to watch a video on how to cook Quinoa before she buys it.
- **Commerce:** Access an online or mobile cart and pay using the mobile phone.
- **Engagement:** Mobile loyalty card, immediate customer feedback mechanism, ask a store associate and social features.

ST **Do Proof-of-Concepts (POC)** to test whether proximity based technologies like Bluetooth beacons, Wi-Fi, IR sensors and ambient noise have a play in your store. Focus the POCs on context-based promotions.

ST **Allow the local store to manage its social presence.** Create store specific pages on your website and build an active social media presence at a store level – namely Twitter and Facebook. Build corporate programs on Instagram and Pinterest, but link them to in-store campaigns. Share brief profiles and interests of store associates to establish a more personal connect with shoppers by integrating loyalty program data. Create social media/content posting guidelines as well as checks and balances in the social media engagement process to ensure that there are no missteps, and there is a balance between the store's personality and the overall brand guidelines.

Operations:

ST **Add the digital-social to the physical.** For apparel and fashion retailers explore ways by which you can display social information like Facebook likes, Pinterest Pins at a global and local level to product displays.

LT **Re-evaluate the checkout experience based on new customer expectations.** The adoption of mobile POS systems, diffusion of mobile payment technologies and increasing demand for self service by customers will help precipitate this change. The checkout experience can range from an Uber-like experience where they just walk out of the store with their purchase, self checkout where they use a kiosk, and an associate-led full-service checkout experience.

Customer Insights:

- **Combine customer profile information and historical transactional analysis with store associate and consumer mobility** to:

- ST Alert sales associates of high value or loyalty member “check-in”.
- ST Ensure sales associates are equipped with detailed customer information such as their shopping history, what’s sitting in their online cart, typical trip missions among other analysis.
- MT Drive contextual offers and promotions to the consumer’s mobile device.
- ST Serve up relevant product information to the customer, including social content such as customer reviews and recommendations.

- **Combine customers’ in-store location and behavior intelligence with store associate mobility** to drive meaningful and contextual customer interaction. For instance:

- MT Monitor “linger time” via video analytics to trigger sales associate alerts to provide personal service when linger time exceeds averages. Linger time is the time a customer spends evaluating a product but not putting it in her cart.
- LT Encourage the appropriate checkout experience based on inferred trip mission, basket size, trip duration and historical customer preference.

Organizational:

- MT **Create the position of a rotating customer champion in each store** – an associate who is responsible for store experience and customer service. A formal process will be instituted to collate qualitative inputs from the store champions and get them across to the corporate stores team.
- MT **Review and redefine store staff’s goals, required skills, attitudes and aptitude** to include a focus on customer engagement and not just sales. Focus on customer-centric KPIs (customer satisfaction, customer conversion average time spent on floor with customers etc.) to measure how each store and its staff are performing.
- MT **Modify sales incentives and recognition** (such as “employee of the month”) to reward performance on customer engagement goals.

OMNI-CHANNEL HUB & OPERATIONS

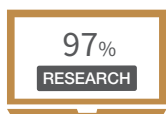
Key Takeaways: Stores need to move from a destination of commerce to a hub of Omni-channel customer engagement. The immediate focus needs to be on creating a common order and commerce capability.

Store processes need to be re-engineered to successfully execute on the “One-Retail” or Omni-channel vision. The two biggest areas of process reengineering will be Omni-channel fulfillment and workforce management.

Why it is important:

Consumers do not think, live, or shop in channels. They now interact with retailers from any number of devices, engage with them through one or more channels for a variety of reasons and expect a seamless and consistent experience across all touch points.

Siloed operations are a drag on the retailer in terms of decreased sales, dissatisfied customers and loss of up-sell and cross-sell opportunities.



97% of the millennials research online before buying in store, while **34%** use a mobile phone to shop at least once a month⁸

Lack of process integration, limited software capabilities and limited inventory visibility are the **top three challenges** retailers face in offering store fulfillment of online orders⁹

\$
\$
\$
\$10%

Lack of cross-channel integration is costing retailers up **to 10% loss in sales**¹⁰

Transformation focus:

Role Evolution:

A commerce hub: Integrated commerce and order management across channels. With the blurring of channels, retailers are realizing that they needn't and shouldn't be restricted in their ability to make a sale by their fixed POS or their in-store inventory.

1 in 3

retailers have currently deployed a unified order & commerce platform

Source: EKN 2nd Annual Future of Stores Study, 2014

⁸ EKN Millennial Shoppers' Preferences Survey, 2014

⁹ EKN 2nd Annual Future of Stores Study, 2014

¹⁰ RIS-EKN Customer Engagement Study, 2014

A delivery hub: Integrated fulfillment of orders across channels. There are a variety of processes involved in making a store a true delivery hub, ranging from orchestrating multi-channel order capture, aggregation and processing, to cross-channel order routing, to centralized inventory visibility.

75%

of the retailers will use their store as a delivery hub for online orders by 2015

Source: EKN Order Management Survey, 2014

A showroom: A place to showcase lifestyles, product collections and brand personality, even if the purchase is made via other channels. With consumers already demonstrating a desire to use stores as a showroom, we believe more retailers will actively engage this buyer behavior by re-imagining the role of their stores.

1 in 10

retailers plan to open a showroom style store in the next 12 months

Source: EKN 2nd Annual Future of Stores Study, 2014

A services hub: Though retailers worry about the cost of returned inventory for sales that did not occur in-store (free returns to store for online orders), such services will soon be table stakes and need to be factored in to the cost of doing business. Some retailers may find opportunity in dedicating more of their store to being a service hub – for providing customer service, advisory services or other value-added services.

83%

of the retailers currently arrange in-store events to engage with customers

Source: EKN Future of Stores Study, 2013

Process Evolution:

Mapping Omni-channel processes: With technology budget to support Omni-channel technologies expected to grow at a CAGR of 15% during 2014-2017¹¹, retailers are putting their money where their mouth is. However, before any critical technical infrastructure investments begin, retailers must first evaluate how equipped their internal processes are to support this transformation. Omni-channel transformation is more about change management than technology adoption.

Automating current processes: Go from paper/manual processes to codified processes that are repeatable and automated. Replacing paper and manual processes with software allows store managers and associates to automate data collection that can be mined to better understand process performance and cost drivers, as well as automate day-to-day tasks. 6 in 10 plan to use advanced analytics techniques such as staffing optimization in the next 24 months to improve the efficiency of store processes¹².

¹¹ RIS-EKN Customer Engagement Study, 2014

¹² EKN 2nd Annual Future of Stores Study, 2014

Task management: With increasing focus on store process re-engineering and automation, task management becomes more critical for retailers. Advanced, real-time task management tools allow retailers to create, assign, allocate and control tasks for optimized staff performance and increased customer satisfaction. Modell's Sporting Goods deployed an advanced workforce management solution that provides timely insight into store performance, allows task prioritization and integrates tasks into the daily workforce plan.

62%

of the retailers will automate uniform returns, claims & recalls management in the next 12 months

Source: EKN 2nd Annual Future of Stores Study, 2014



55%

of the retailers aim to become truly Omni-channel over the next 3 years

Source: RIS-EKN Customer Engagement Study, 2014

20%

of the retailers allow store associate to access personalized daily tasks list from their mobile devices in-store

Source: EKN 2nd Annual Future of Stores Study, 2014

Recommendations:

ST Short Term (0-6 months)

MT Medium Term (6-12 months)

LT Long Term (1-2 years)

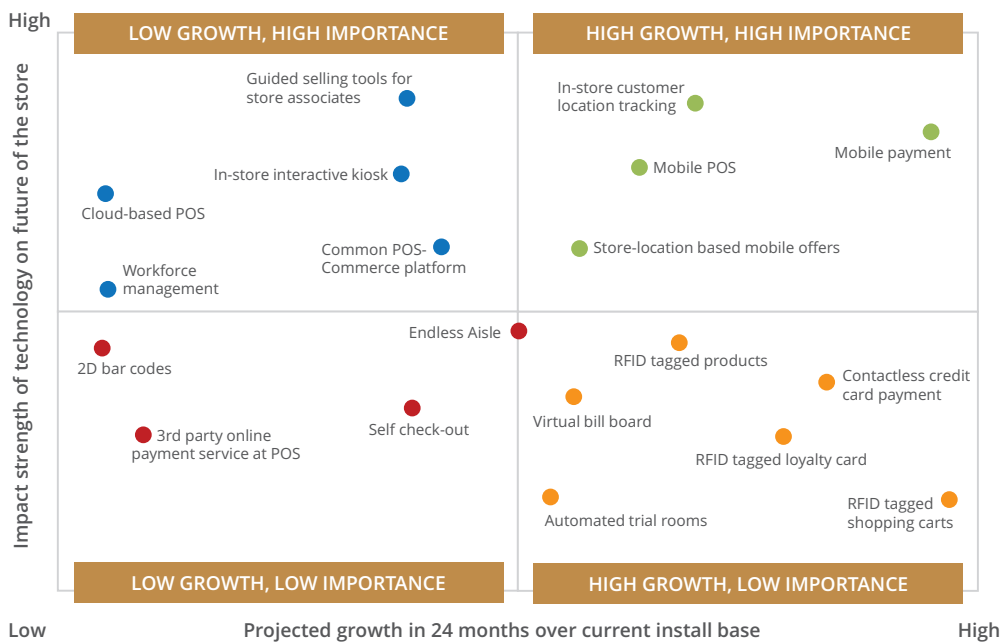
Technology:

With store technology budget remaining relatively flat over the next 3 years, the trick will be for retailers to reduce the cost of maintaining store systems while identifying smart ways to deploy capital into net new projects. Mobility and the move to a Unified Order & Commerce Platform will drive a bulk of net new store technology investments over the next 3 years. The top 3 technologies where retailers see the maximum potential impact are:

- Guided Selling Tools
- In-Store Customer Location Tracking
- Mobile Payments

¹³ RIS-EKN Customer Engagement Survey, 2014

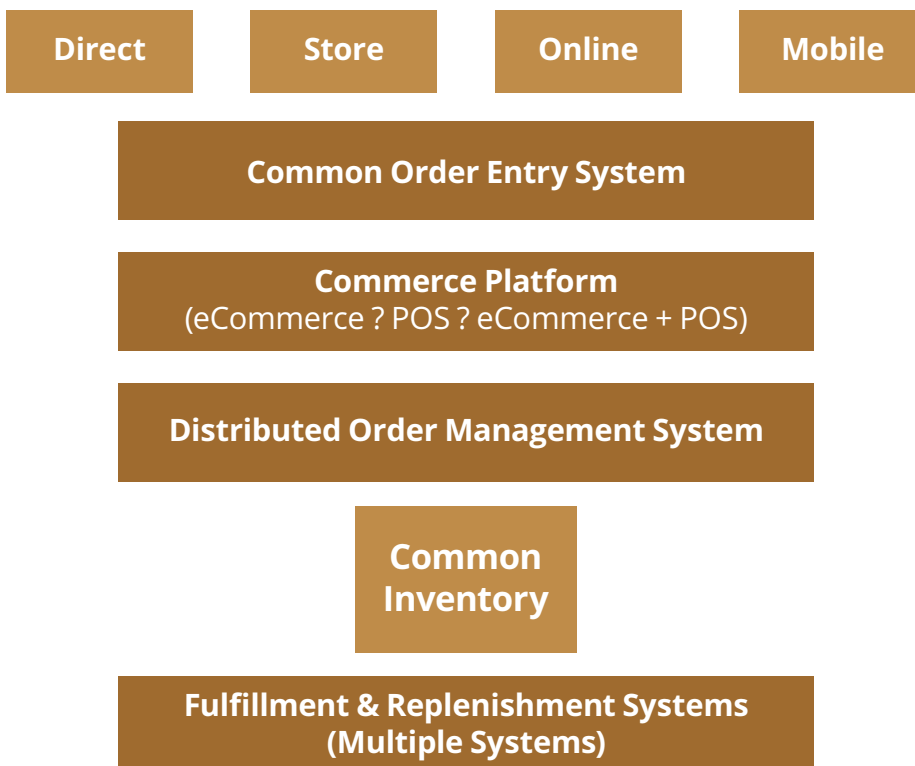
¹⁴ EKN Order Management Benchmark Survey, 2014



Source: EKN 2nd Annual Future of Stores Study, 2014

MT LT Build a unified order system and a common view of inventory

Channels



Source: EKN Future of Stores Study, 2013

A unified commerce capability would allow retailers the ability to take, split or combine customer orders independent of channel, and have an integrated view into inventory to make the order orchestration and fulfillment process seamless. The common vision that emerges from EKN's analysis and discussions with retail executives is the creation of a:

- **Single enterprise order entry system:** Irrespective of which channel the transaction originates from, the order entry system is the first system of record.
- **Common commerce platform:** A single commerce platform that can support all orders and channels.
- **Common inventory system:** Finally, the only way retailers can enable Omni-channel sales and fulfillment processes is by having a common view of the inventory across channels.

This vision may not work for all, or be practical for some, given the degree of legacy systems, but it is a good starting point for retailers to envision what their core commerce system will look like when they stop thinking in terms of channels and start thinking in terms of the customer.

MT Improve the level of data integration across your most critical systems. Identify and prioritize the biggest areas of impact for your format and business. Even accounting for variance by retail format, we believe the top 3 focus areas for improved integration each retailer must consider include customer information, order management and inventory.

MT Retailers should explore using a lighter architecture and SaaS based models for their systems and infrastructure, while making sure that they have redundancy features to handle outages and peaks. Different approaches and models will need to be explored based on whether a system is low transaction or high transaction and how real-time data synchronization occurs.

MT Invest in mobile workforce management solutions to help empower associates with the knowledge and tools they need to better perform their jobs, interact more effectively with customers and communicate from the floor or remote locations.

Customer Insights:

ST MT Focus on building a single view of the customer that helps drive advanced customer insights. It is important for retailers to develop a unified view into each individual customer's relationship with them by integrating a variety of data sources, performing advanced analysis and embedding insights across the enterprise's decision making processes and systems. Retailers cannot be customer-centric without a complete understanding of their customers' relationship with them, a deeper understanding of their needs and priorities, and the ability to act on the insight by ensuring their timely and contextual delivery.

ST Create "a day in the life of the customer" program where a mix of mystery shoppers and retail executives follow scripted shopping scenarios and record their feedback. It will help the retailer understand process-gaps as they emulate Omni-channel journey.

Operations:

MT Experiment with new services that increase the quality of engagement with customers. Depending on your format you should explore services such as cafes, salons, cooking classes, child-care etc. within the four walls of the store. For instance, the newly built Barbie Store in Shanghai, a 6-floor megastore, offers a design center, café spa, and interactive activities designed for girls.

MT LT Map and create a handbook of new store processes that focus on Omni-channel execution. Focus on high impact process like:

- Outbound shipping processes that take advantage of store proximity and in-store inventory for faster delivery to online customers.
- Workflows to handle in-store pickup of online orders.

LT Determine the level of maturity for each process by assessing whether a process is ad-hoc or repeatable. Formalize ad-hoc processes and look at ways to improve efficiency when formalizing them. For established and mature processes look at ways to automate them further.

LT Focus on change management in a new process rollout and make sure that store associates get adequate training on the new processes and technology systems.

ST MT Develop mobile-friendly training modules and use social and gamification strategies to drive adoption. Prioritize training on brand voice, product information and loss prevention. Wal-Mart recently launched a gamification project wherein it tracks, stores and analyzes each player's (Wal-Mart employees) action in a game. The data is used to gain insight on employee performance, customer service and productivity metrics.

Organization:

ST Create a cross-functional task force with executives from store operations, supply chain and online operations, and charge them with creating the new store execution processes.

ST Resolve the "who gets credit for the sale" debate and align sales incentives across channels. Store associates, for instance, are incentivized by metrics focused on in-store sales. Expecting them to support online sales without a re-alignment of their incentives carries financial and cultural risk.

MT Establish a role responsible for customer experience at a company-wide level. Empower the role to influence organizational change. For most retailers, their organizational structure and culture are optimized to move product through channels, with clear channel ownership. Who owns the customer experience, on the other hand, remains unclear. A customer-centric transformation needs to be accompanied and enabled by a similar change in organizational structure and culture. We view this as an opportunity for retailers to build sustainable differentiation if they get it right.

MT Define and adopt a mix of metrics that measure Omni-channel process efficiency and customer behavior across all channels. The adoption of Omni-channel KPIs is low, with just 1 in 5 retailers measuring the number and value of online orders delivered through stores and 1 in 10 measuring the incremental sales gained as a result of online/social marketing¹⁵. Retailers should move from measuring product performance alone to measuring Omni-channel customer engagement and profitability. Metrics such as incremental sales gained as a direct result of online/social marketing, value of online orders delivered through the store, online channels influence on store sales, price range analysis, Omni-channel market basket analysis, online & mobile customer frequency/ return rate help provide a more holistic assessment of a retailers' Omni-channel strategy.

¹⁵ EKN 2nd Annual Future of Stores Study, 2014

INTELLIGENT STORE

Key Takeaway: We view analytics and technology innovation as two critical capabilities that retailers need to improve customers' shopping experience and transform the role of the store. The concept of the intelligence store sits at the confluence of analytics and technology, with new technology like RFID, iBeacons, NFC, the Internet of Things and Big Data, lines will quickly blur between what is store technology vs. what is the store itself.

Why it is important:

This concept will draw obvious parallels to the "Store of the Future". While those comparisons are to be expected, there are a few key points of difference. The first is that the Store of the Future was a technology-for-technology's-sake vision of store transformation. It involved putting all kinds of bells and whistles in the store with little understanding of how real customers would react and adopt technology. That is a very one-dimensional view of the future. We view technology and analytics as being key components of the future of the store, versus being the *store of the future* itself.

This is why we have called out the other areas of store transformation, which at this point in time are more important than the intelligent store. The second point is that this concept extends to non-customer areas like energy management and facility management to name a few. Finally we are not assigning a do or die immediacy to this transformation area. This is an important idea but a blue sky one, and it will take time to mature and for clear use cases to become mainstream.

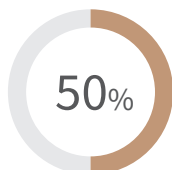


Retailers expect their data volume to grow between 20%-40% each year¹⁶



One-third

of retailers believe the volume of unstructured data will grow between 20-60% each year¹⁶



of the surveyed retailers cited that their data volume is doubling every 5 years¹⁶



Top technologies that will have a transformational impact on the store are related to mobility¹⁷

¹⁶ EKN *Big Data in Retail Study*, 2012

¹⁷ EKN *2nd Annual Future of Stores Study*, 2014

Transformation focus:

- **Technology Innovation:** Retailers cannot and should not chase all the technology innovation and new concepts that come their way (automated trial rooms, smart mirrors, face recognition). Creating a framework to understand how new technologies impact you (format, size, customer base) and how to shortlist the ones you need to focus on is important to build out.
- **Infrastructure & Operations:** There is a need to upgrade the IT infrastructure, especially network bandwidth and connectivity to ensure that all the new technologies that retailers are deploying or planning to deploy work smoothly.
- **Embedded Intelligence:** Retailers should explore automating routine decisions about staffing, shelf replenishment and space allocation through the use of technology embedded in the store design combined with machine data and analytics. For instance, a camera tracks customer traffic throughout the day and automatically identifies peak hours/hot points in the store. It then sends out signals/alerts to the store manager, guiding them to staff appropriately. Getting to this vision of embedded intelligence is hard because retailers' ability to deliver a personalized store experience and automate decision-making is limited by their limited analytics talent pool and structure which has also led to their below-average customer insights and analytics maturity.

Retailers' Analytics Maturity Dashboard

Analytics Maturity: Low	Adoption of Advanced Analytics Techniques: Low	Customer Data Integration: Low	Data Refresh: Medium
57% of the retailers are only able to perform basic reporting and basic analytics.	On average 6 in 10 do not plan to use advanced analytics techniques to improve store operations' efficiency.	Only 2 in 10 have tight integration of customer information system/customer MDM across channels.	1 in 3 provide real-time store sales, inventory and pricing data to store managers.

Sources: EKN 3rd Annual Analytics in Retail Study, 2014; EKN 2nd Annual Future of Stores Study, 2014

Recommendations:

ST Short Term (0-6 months) MT Medium Term (6-12 months) LT Long Term (1-2 years)

Technology:

MT Stress testing use cases that focus on embedded intelligence and real-time decision-making.

Sample use cases:

- An intelligent shelf senses a reduction in weight and sends out timely replenishment alerts to the manager.
- The store is able to determine demand patterns based on past data and by tracking customer traffic in the store and the parking lot. It updates the workforce schedules and sends it to the manager for approval.

- The store is able to manage facilities based on workforce schedules and video analytics. It can adjust air conditioning, lighting (within the store and in the parking).

All of the use cases that we have listed in the report and that are a part of our repository rest atop new technologies. A quick cheat sheet of the technologies we studied in this report¹⁸ is provided below.

Technology	Hype	Value	What should you do?
Beacons	High	Unproven	Do a proof-of-concept to evaluate how effective it is in providing context specific targeted content and offers.
Interactive Displays	High	Low	Evaluate using only in your flagship stores because the value or rolling it chain wide has not been established.
Internet of Things (IoT)	High	Unproven	Wait. IoT is still a long way from being mainstream. If you do want explore it focus on backend use cases like automated replenishment.
Mobile Apps	High	High	Mobile applications are table stakes, and creating context-aware mobile apps for consumers in the store should be a priority.
NFC Payments	High	High	Cautiously invest. While current adoption is low, NFC is now the platform of choice for contactless payments, so invest based on how you expect your customer base to adopt it. With Apple Pay we expect faster consumer and retailer adoption in 2015-16.
RFID	Medium	High	Invest based on proven use cases focused on inventory visibility. High-end brands should evaluate customer RFID cards and tags.
Video Analytics	Medium	Medium	Focus on insights. Retailers have been using video analytics for Loss Prevention (LP) and traffic analysis. They need to graduate their use of this technology by using it to measure linger time and customer behavior.
Wi-Fi	Medium	Medium	It is a strategic facility upgradation that is a part of being an untethered store.

Technology:

MT Evaluate whether your current store network and wireless infrastructure can handle the technology roll-outs and pilots that you have planned over the next 24 months. If not, look at strategic upgrades of capacity in the medium-term even as you plan for a broader strategic overhaul.

- Reconfigure existing network routers, switches, session border controllers, firewalls and wireless network elements to fully support the desired features and functionalities.
- Design and operate WLAN that has high availability, performance monitoring and mitigation, as well as seamless roaming.

¹⁸ Please refer 'Omni-channel Hub & Operations' section to see the technologies we studied in this report

Operations:

- MT** **Create a framework and process to evaluate new technologies** and implement a Proof-of-Concept. As a reference point you can use one of EKN's opportunity identification frameworks¹⁹ and POC guidelines to understand the impact of technology, and identify and implement a few high impact use cases. We recommend starting with a POC focused on no more than 2 high-priority technology use cases.

Customer Insights:





- MT** **Conduct periodic customer studies to better understand how new technology trends and your planned investments will affect your customers.** A few key areas to focus on are:
- Attitudes towards new technologies and investments (NFC, Wi-Fi, virtual fitting rooms, in-store location tracking, self checkout)
 - Perceived value
 - Impact on shopping experience
 - Planned adoption
 - What will it be
 - What will aid it
 - What will hinder it
 - Tradeoff between sharing personal information and privacy
- MT** Use in-store customer Wi-Fi data (with the customer's permission) to understand traffic patterns and behavior. Augment this data with overall customer segment information to improve overall profile accuracy and to create more effective marketing offers.

Organizational:

- ST** **Create a virtual community of technology enthusiasts** who track new technologies and discuss their implications for your business. Create a repository of technology innovation content and make it available through the company, explore publishing a periodic update of new tech trends to the executive team.
- MT** **Invest in creating a lab where you can experiment with new technologies, assign a budget and dedicated resources to the lab.** Smaller organizations that might not be able to assign dedicated resources should explore creating a SWAT team to pilot a concept for a period no more than 12 weeks. To overcome the funding or capability gap explore new models such as co-innovation with vendor partners or new technology players.

¹⁹ EKN 2nd Annual Big Data in Retail Study, 2014. For more details please reach us at EKInfo@edgellmail.com

Retail Honor Board

Retailers	Dimension	Use Case
CLUSIER	Personalization	Developed a customer profile system that stores data about past purchases to help create a bespoke and easy shopping experience for its regular customers who are business executives short on time. Store associates have quick access to data on a client's size, desired fit and favorite brands and can quickly walk the customer through potential options or even pre-select merchandise prior to their arrival.
	Omni-channel operational maturity	Gamestop is among a select few retailers that are able to measure true cross-channel customer engagement and the influence of engagement in one channel to uplift in another. For instance, members of its loyalty program "Power Up" spend \$10 in-store for every \$1 spent online.
	Intelligent Store	Will deploy a Bluetooth beacon marketing platform in Canada and the US to automatically deliver branded content and personalized offers to in-store shoppers through an array of company-owned and third party mobile apps. The beacons will be used to trigger delivery of unique and relevant content to shoppers at multiple locations and departments within the stores.
oasis	Omni-channel operational maturity	Sales associates use iPads to ring up customers from anywhere in the store. If an item is sold out in the store and online, Oasis' can ship the item from another store. Customers can either make returns online, at any Oasis store or through a network over 5,500 drop off points across a network of 3rd party stores.
	Simplify Operations	TJX is unique in that it does not hold inventory or have a replenishment process. Home Goods' mobile app "The Goods" allows customers post pictures of items and comment on them. Customers can alert each other of product availability at different store locations, or even connect with each other to set up product exchanges or re-sales.
	Store Design & Infrastructure	"The Brand House", their new specialty retail location in NYC, is staffed with highly trained product category experts who provide personalized guidance and recommendations to customers. Designed to deliver an immersive brand experience, the 10,000 sq. feet interactive store includes a marquee video wall made up of over two million LEDs and an athlete wall of fame that will feature the brand's most authentic and powerful ambassadors.

How do Leaders* Differentiate?



*Leaders are those respondents who consider themselves excellent in terms of customer satisfaction vs. industry

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Our research agenda is developed using inputs from the end user community and the end user community extensively reviews the research before it is published. This ensures that we inject a healthy dose of pragmatism into the research and recommendations. This includes input of what research topics to pursue, incorporating heavy practitioner input – via interviews etc., and ensuring that the bend of research takeaways are oriented towards a real-world, practical application of insights with community sign-off.

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