



# *Online Commerce in 2009: The Game Has Changed – Have Retailers?*

*Benchmark Report 2009*

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## EXECUTIVE SUMMARY

For a vast majority of this research's participants, the future of retail sales is cross-channel. However, what makes up a channel is rapidly changing, especially for online sales. While many new and emerging methods for engaging consumers are coming from the online world, their impact across retail is going to be profound.

## BUSINESS CHALLENGES

The business challenges shaping retailers' eCommerce businesses include: getting consumers to engage, keeping up with shifting consumer behavior, and the pressure to maintain strong growth rates. By far, the top challenge in creating a differentiating online experience for consumers is understanding how different consumer segments engage with the retailer. However, the biggest challenge is bringing eCommerce functionality across channels, as survey respondents emphasize a future where cross-channel is the most important strategy and more than 15% of all retail sales come from the online channel.

## OPPORTUNITIES

Despite the enormous amount of interest in social media and mobile commerce, survey respondents report that it is still the basics that matter most: online merchandising and search and browse capabilities, for example. However, interest in the future potential of both mobile and social is high. However, the interest splits along business model lines: store-based retailers are more interested in mobile as a way to connect their channels, while online pure-plays are interested in social as a way to bring a more engaging experience to their online sites.

## ORGANIZATIONAL INHIBITORS

While budget and ROI are the top inhibitors, these are primarily driven by the economic environment. When budget constraints ease, top issues become one of resources. While modern eCommerce platforms make it easy to "plug and play" different pieces, all of which happen to drive "significant" ROI, for retailers the challenge is in bringing all these pieces together in a way that minimizes the impact on IT and line of business headcount.

## TECHNOLOGY ENABLERS

Ratings and reviews have become ante in the online arms race for customer experience. Despite significant investment already, reviews remains high on the priority list, along with A/B testing, mobile sites and apps, and integration to manufacturers' product and content information.

## BOOTSTRAP RECOMMENDATIONS

If eCommerce is not a C-level issue in your retail organization, it may well soon become one. To navigate the business model changes required to support this new world, retailers need to pay attention to some emerging trends identified in this research. First, that mobile seems to be the early domain of retailers with stores, while social is becoming the domain of online pure-plays. As product reviews and recommendations become standard expectations from consumers, retailers need to start thinking about the long term effects of managing customer reviews, both from the perspective of how to best leverage them across channels and how to manage customer expectations that retailers start paying attention to bad reviews, even if only to acknowledge they exist. Finally, especially for retailers with a small online business today, the more you can put measures in place that define and track cross-channel impacts, the better prepared you'll be for when those measures will really count.

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## SECTION I: OVERVIEW

### WHY THE STUDY WAS CONDUCTED

In a dismal economic year, the online channel presents the brightest spot of hope for many retailers. While traditional sales are barely breathing, online sales remain the only growing sector of retail for some verticals, and interest in the mobile channel - for both retailers and consumers - is unabated.

Last year, our survey respondents – particularly large, multi-channel retailers – told us they were relatively unsure what it was about the online channel that so captivated consumers. As a result, few were making investments in advanced web applications, preferring to wait for the “wisdom of the crowd” to shake out which eCommerce technologies would become sure-fire differentiators to the customer. At that time, most were content to simply keep product information accurate and up-to-date.

Since then, consumers have accelerated their online shopping habits, particularly when it comes to searching out coupons and discounts and participating in social networking sites, and the timeline for mobile shopping adoption has taken a huge turn with the overwhelming consumer acceptance of the iPhone and the subsequent introduction of competing smart phones and app stores. For retailers, this has meant a broad adjustment in the definition of what "online commerce" really means.

How are retailers responding to these trends, and how is it impacting their technology investment priorities? What are the practices that the best retailers – large and small – are using to try to get the most out of the only channel where progress continues? Perhaps most importantly, how will these trends affect the coming holiday season?

We found that for a vast majority of our survey participants, the future is cross-channel. However, what makes up a channel is rapidly changing, especially for online. While many new and emerging methods for engaging consumers are coming from the online world, their impact across retail is going to be profound - if retailers can organize themselves to take advantage of these new opportunities, and keep up with those fickle, fast-paced consumers while they're at it.

### METHODOLOGY

RSR uses its own model, called the “BOOT,” to analyze retail industry issues. We build this model with our survey instruments. [Appendix A](#) contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

### DEFINING RETAIL WINNERS: WHY THEY WIN, AND WHY LAGGARDS FAIL

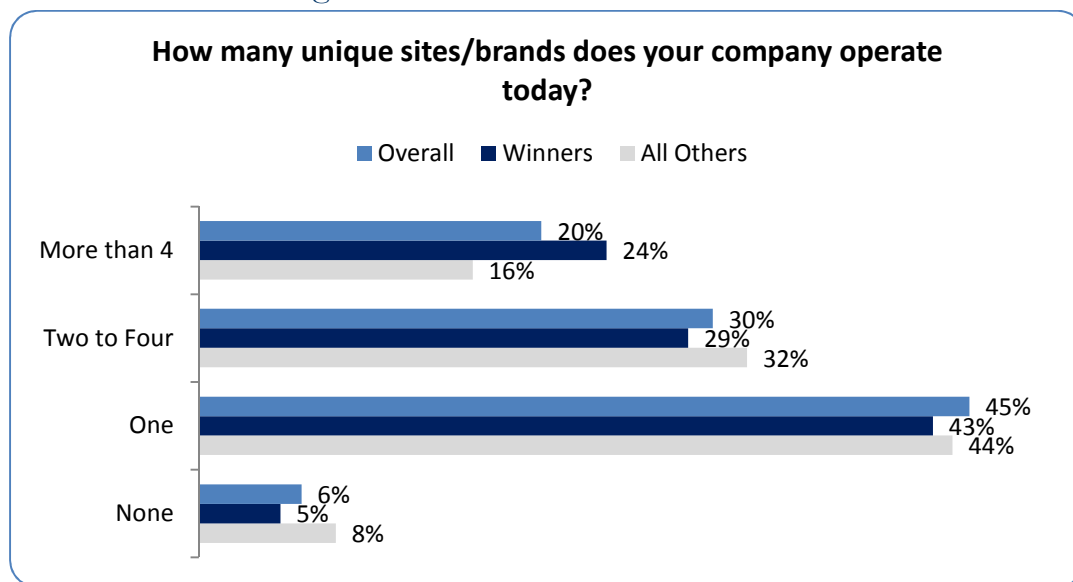
Our definition of Retail Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as “Winners,” those at this sales growth rate as “average,” and those below this sales growth rate as “laggards” or “also-rans.”

In the context of eCommerce research, this is something of a problematic measure, and in fact reflects a challenge that impacts all of retail: how to account for and measure the impact of online sales in a financial world that is dependent on "comp store sales." Still, it is beyond the scope of this report to address that particular issue. For our purposes, we examined retailers' overall sales performance, holding to the 3% bar, but looking beyond store sales as the measure. In the economic singularity that has defined the last year, any retailer, online or otherwise, that is hitting 3% or better overall revenue growth is still a Winner.

It is consistent throughout much of RSR's research findings that **Winners don't merely do the same things better, they tend to do different things**. They think differently. They plan differently. They respond differently. **Laggards also tend to think differently**. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today's consumer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don't change their business processes in an effective manner, and so they either eschew technology enablers, or don't gain expected Return on Investment on those they DO buy. In good times, they skate by; in tough times these weaknesses come back to haunt them.

When it comes to eCommerce, more is clearly better (Figure 1). Winning retailers tend to operate more sites or brands than their peers, with 24% reporting more than four unique experiences under their roof.

*Figure 1: The More Channels the Merrier*



Source: RSR Research, October 2009

Winners also tend to come more from the ranks of online pure-plays (what RSR defines as a retailer with more than 75% of its sales revenue coming from the online channel). This reflects a growing awareness among retailers, underscored during tough economic times, that a dollar invested in stores has a much larger overhead associated with it than a dollar invested online. Without major improvements in infrastructure (up to a point), online can contribute more to the business with less investment. However, as you'll see in this report, this has not resulted in a scramble to be all things online and leave the store behind. Rather, retailers are trying to strike a balance between the relatively easy value of online and the growing importance of cross-channel (and brand) capabilities that consumers desire.

## SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from July – September 2009 and received answers from 71 retailers. Respondent demographics are as follows:

- **Job Title:**

Senior Business Management (e.g., CEO, CFO, COO)	46%
Vice President	10%
Director/Manager	31%
Internal Consultant	10%
Staff	2%
Other	2%
  
- **2008 Revenue (\$ Equivalent):**

Less than \$50 million	45%
\$51 million - \$249 million	14%
250 million - \$499 million	8%
500 million - \$999 million	8%
\$1Billion to \$5 Billion	11%
Over \$5 Billion	15%
  
- **Verticals:**

Fast-Moving Consumer Goods	11%
General Merchandise & Apparel	29%
Specialty Retailer	42%
Manufacturer/Distributor	14%
Restaurant, Hospitality, Other	4%
  
- **Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3% over the last 3 years):**

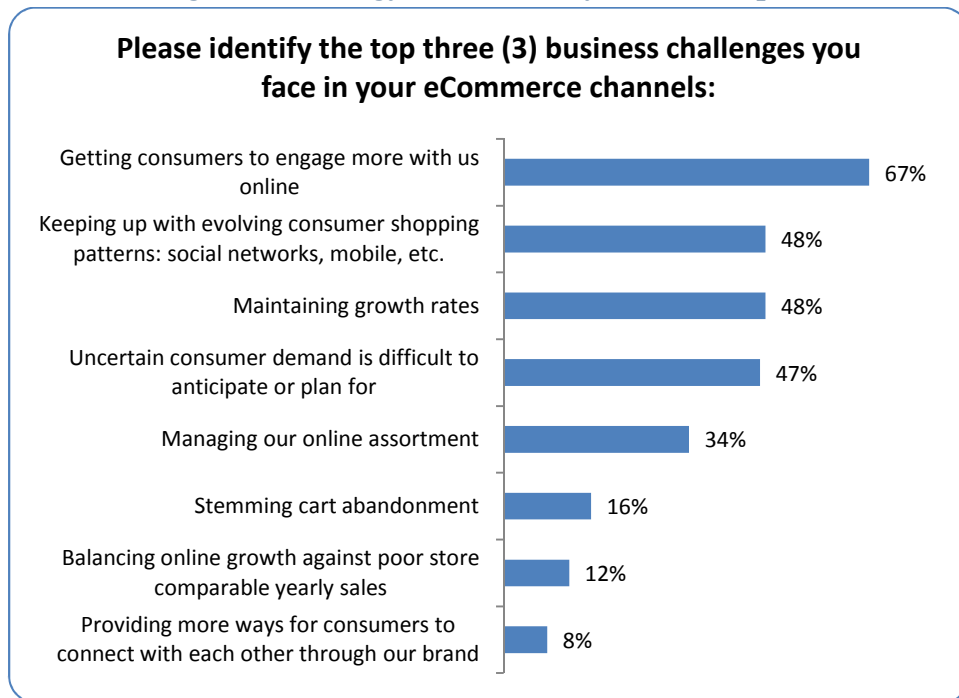
Worse than Average	16%
Average	21%
Better than Average	63%

## SECTION II: BUSINESS CHALLENGES

### ATTRACTING AND KEEPING CUSTOMERS

For the business challenges shaping retailers' eCommerce businesses, three float to the top, according to survey respondents (Figure 2). Primarily customer-focused, they include getting consumers to engage, keeping up with shifting consumer behavior, and the pressure to maintain strong growth rates. Uncertain consumer demand - a constant theme since the end of 2008 - remains very close behind on the list in fourth place.

*Figure 2: Waiting for the Return of Consumer Spend*

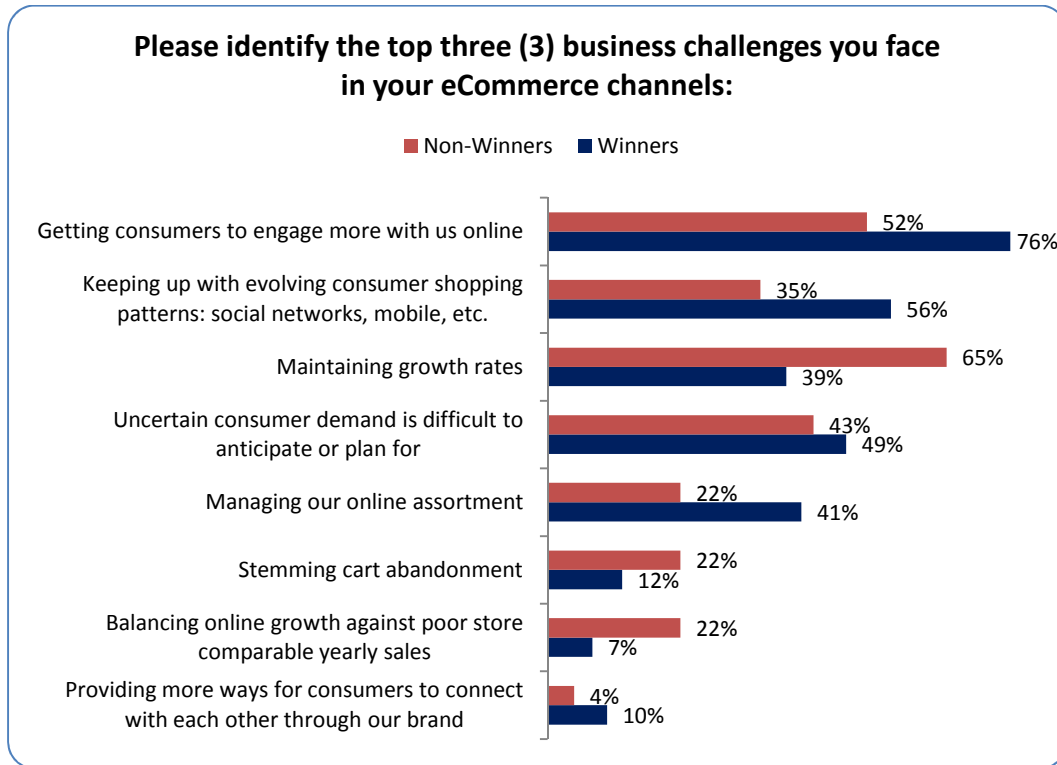


Source: RSR Research, October 2009

What's not high on the list is in some ways more revealing than what is at the top. While cart abandonment has long been talked about as the scourge of online retailing, stemming cart abandonment rates is not nearly as big of a priority as maintaining growth rates overall. Also, providing more ways for consumers to connect is at the bottom of the list, in sharp contrast to the challenge of keeping up with evolving consumer shopping patterns. In other words, it's not about providing an array of connection choices, it's about using existing (and emerging) connections - as defined by consumers - to stay relevant.

Economic concerns drive differences in perceived challenges when looking at respondents by performance. Laggards (less well-performing retailers) are more worried about maintaining growth rates and uncertain consumer demand than their peers (Figure 3).

Figure 3: Laggards Feel the Economic Pain



Source: RSR Research, October 2009

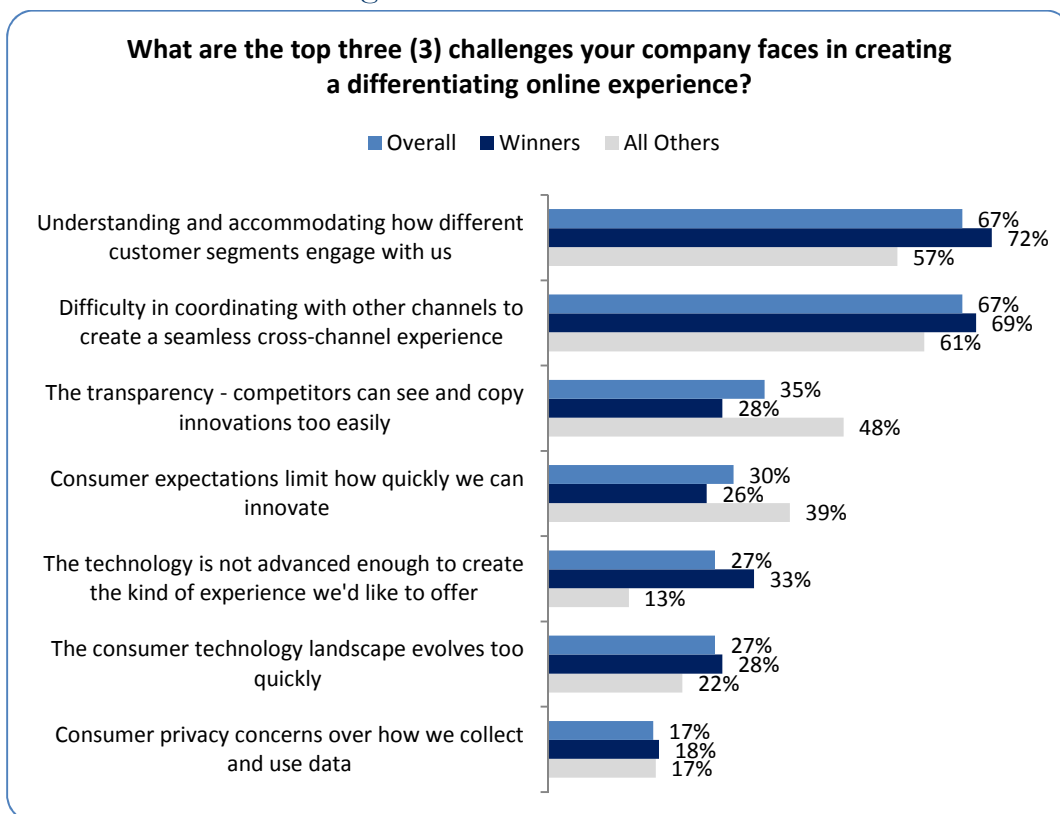
Winners, on the other hand, are the least concerned about balancing poor store performance against online growth. They are far more focused on engaging with consumers, keeping up with their evolving shopping patterns, and marshalling the right inventory to satisfy demand in this online world in flux.

When looking at survey respondents by retailing model, it is the retailers in the middle - the mixed-model retailers (online sales account for 11-74% of total sales) that are relatively balanced between online, store, and/or catalog channels - that are the most concerned about growth rates. They do not have the insulation from store issues that their pure-play peers do, but they also have more opportunities to drive growth through the online channel than store-based retailers do. When less than 10% of sales come from online, investing in online sales will not save a business whose store business is under-performing. As a result, mixed-model retailers are looking at challenges around getting consumers to connect.

## FIRST, UNDERSTAND THEM BETTER

By far, the top challenge in creating a differentiating online experience for consumers is understanding how different consumer segments engage with the retailer (Figure 4). Other top-three challenges include difficulty coordinating with other channels, and the issue of managing competitive differentiators in a realm where every innovation is transparently available to every competitor with a web browser.

Figure 4: Focus on the Customer

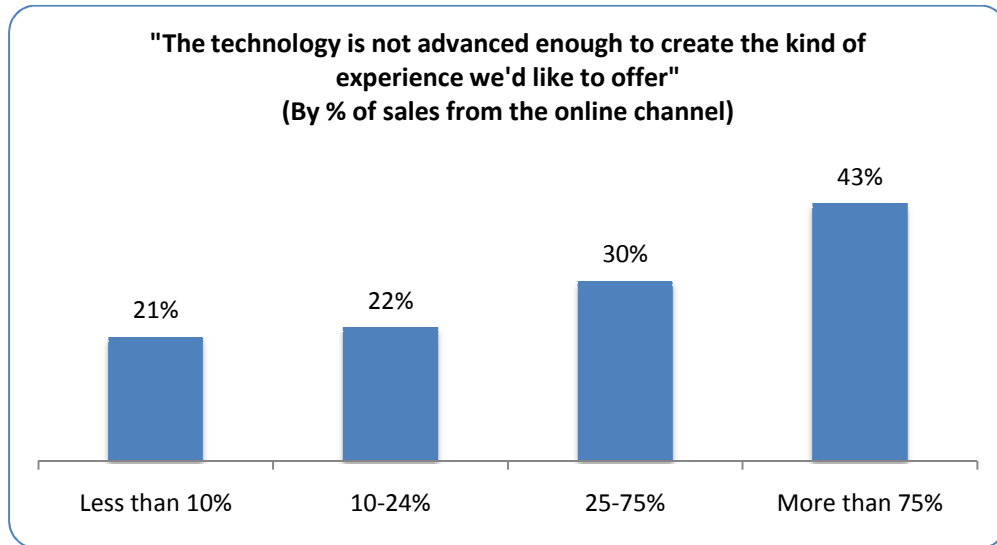


Source: RSR Research, October 2009

Transparency is not nearly as much of an issue for Winners, but pushing the edges of online technology as part of the shopping experience is. While lagging retailers worry about competitive innovations being quickly copied, they also have greater concerns about the limitations imposed by customer expectations. It's ironic that these retailers are less concerned about who is shopping them and how those consumers want to engage, and more concerned about educating consumers how to use the innovations they're providing. This is a clear indicator that lagging retailers are not designing to customer needs.

The more online a retailer is, the more the technology becomes a limiting factor (Figure 6). Pure-plays, to borrow a phrase from Forrester Research, are more worried about digitizing the human experience than humanizing the digital one. In other words, store-based retailers are more focused on making the online experience a user-friendly one. Pure-plays, on the other hand, are trying to make the online experience so compelling that the user interface becomes non-existent (or, at a minimum, a non-issue). This continues the trend from 2008's eCommerce research: online retailers, knowing that they can't compete with a store experience, work to make the online experience so compelling that consumers don't miss the store.

Figure 5: Digital, Yet Human



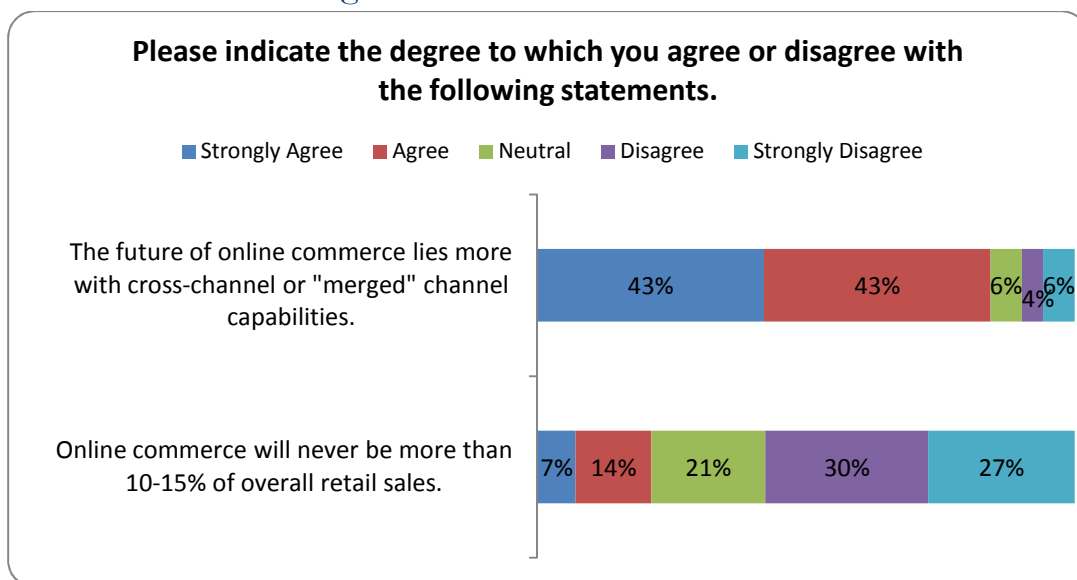
Source: RSR Research, October 2009

Pure-play retailers are also more likely than peers to cite competitive transparency as an issue (43% of pure-plays vs. 30-35% of all others). Store-based retailers, looking for shortcuts to innovative online experiences, continue to follow pure-plays' latest developments. As RSR also found in 2008, this undermines store-based retailers' biggest differentiator: their potential for delivering a cross-channel experience.

### PREPARING FOR THE INEVITABLE: THE RISE OF CROSS-CHANNEL

While online retailers have received most of the accolades for innovation - and wild success - over the last several years, it appears that the future lies with cross-channel selling more so than pure-play eCommerce. Survey respondents certainly said so: 86% agree that the future of online is cross-channel (Figure 6).

Figure 6: Cross-Channel Takes Over

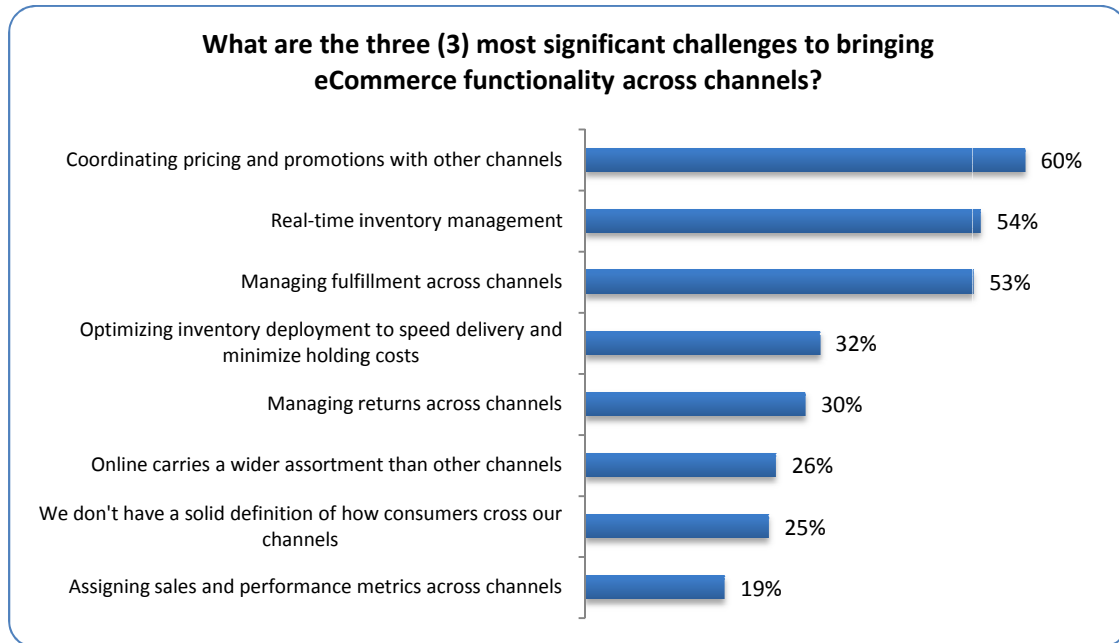


Source: RSR Research, October 2009

However, only 21% of respondents agree that eCommerce will top out at 10-15% of online sales. Given that the US Dept. of Commerce pegs that percentage at around 5% currently, this presents a lot of room to grow. But the cross-channel challenges aren't getting any easier.

The top three challenges in bringing eCommerce functionality across channels are coordinating pricing and promotions, real-time inventory management, and managing fulfillment across channels (Figure 7).

*Figure 7: Building an eCommerce Bridge to Other Channels*



Source: RSR Research, October 2009

Ironically, non-winners report that real-time inventory management is not nearly as high a priority for them as it is for their peers - only 39% report it a top-three priority vs. 54% overall. This is ironic because non-winners' top priority happens to be managing fulfillment across channels - something that is very difficult to do if you don't have a good handle on inventory levels in each channel.

Store-based retailers reflect the overall challenges, with a few exceptions - they are less worried about assortment (25% vs. 44% for mix-model retailers), and less worried about assigning metrics to channels in a cross-channel world (13% vs. 50% of mix-model retailers). However, as a retailer's percentage of online sales grows within mix-model retail, this last issue becomes more pressing. For retailers, the lesson is that it's better to assign those metrics early while they're too small to be more than a blip. Because once the numbers are big, it gets a lot harder.

## ALL HANDS TOWARDS THE MIDDLE

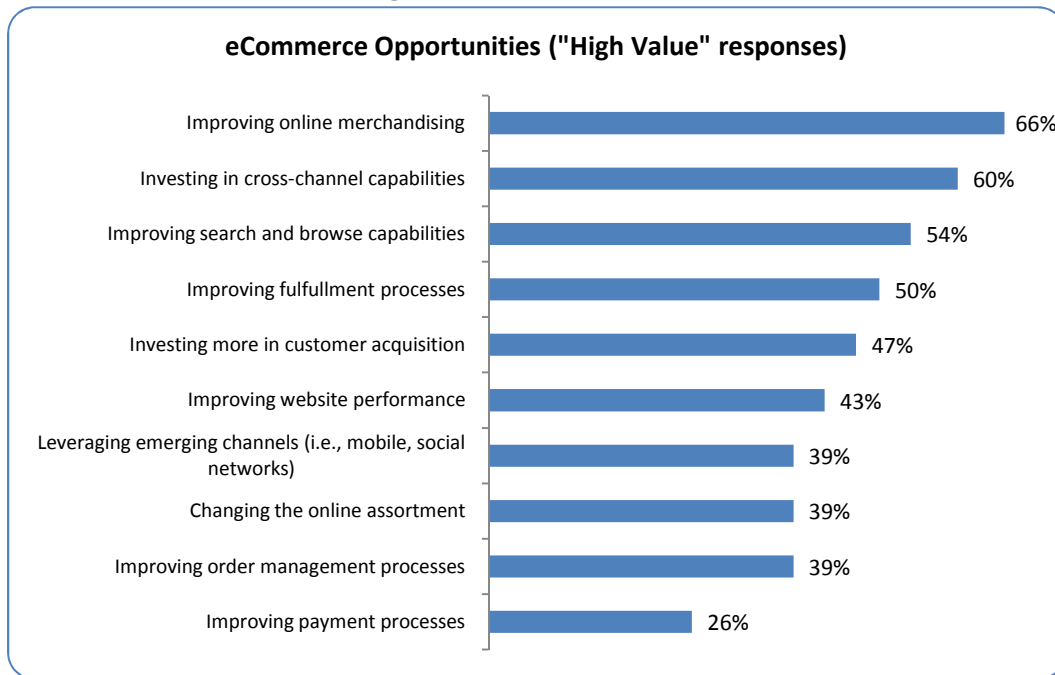
So the future of online is some kind of cross-channel model, and the e-channel will quite likely contribute more than 10-15% of all retail sales before it settles out to some kind of equilibrium. The biggest impact will be on store-based retailers, those with less than 10% of sales online currently. Even they recognize that online sales will ultimately be a greater percentage of overall sales than they are today, with 58% of respondents currently at 10% or less, but only 30% expecting to remain at that level 3 years from now. Structurally, this means a very different business model. In this report, RSR has analyzed online pure-plays vs. mixed-model retailers vs. store-based multichannel retailers. The future may be far less distinct.

## SECTION III: OPPORTUNITIES

### BLOCKING AND TACKLING

Despite the sheer number of people who have flocked to almost anything related to social networking and mobile commerce over the last six months, the top three opportunities for eCommerce within the retail enterprise reflect a lot of blocking and tackling - a focus on the basics. Survey respondents reported that improving online merchandising, cross-channel capabilities, and search and browsing improvements are their top three opportunities (Figure 8).

*Figure 8: Back to the Basics*



Source: RSR Research, October 2009

In fact, leveraging emerging channels like social and mobile showed up near the bottom of the list, tied with changing the online assortment and improving the order management processes, and beat only by improving payment processes.

Winners see more value in leveraging emerging channels - 46% reported this as a top-3 opportunity vs. 39% overall. However, the "basics" of online are still higher opportunities. Store-based retailers are more focused on infrastructure than their peers, with emphasis on order management (50% vs. 39% overall), fulfillment (63% vs. 50% overall), and the mechanics of the online assortment (46% vs. 39% overall). While it is not surprising that retailers more dependent on their sites put greater emphasis on site performance, it is surprising that pure-play online retailers, in particular, are less interested in emerging channels than their peers (29% vs. 39% overall).

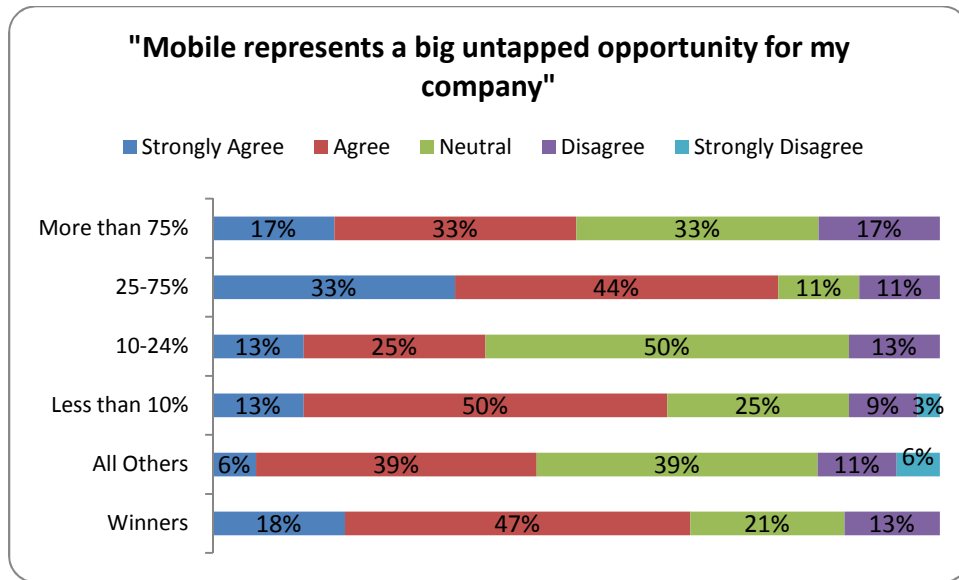
### WHAT ABOUT THOSE EMERGING CHANNELS?

Nearly all respondents (except for some online pure-play holdouts) believe that the future of eCommerce lies more with cross-channel than eCommerce as a stand-alone channel. But given that vision of the future, what role for other online channels are emerging in this cross channel world?

## MOBILE OPPORTUNITIES

Overall, 60% of respondents agree that mobile is a big untapped opportunity for their company - 16% strongly agreeing. Looking at the question by performance and by business model, some differences emerge (Figure 9).

*Figure 9: Mixing Models with Mobile*



Source: RSR Research, October 2009

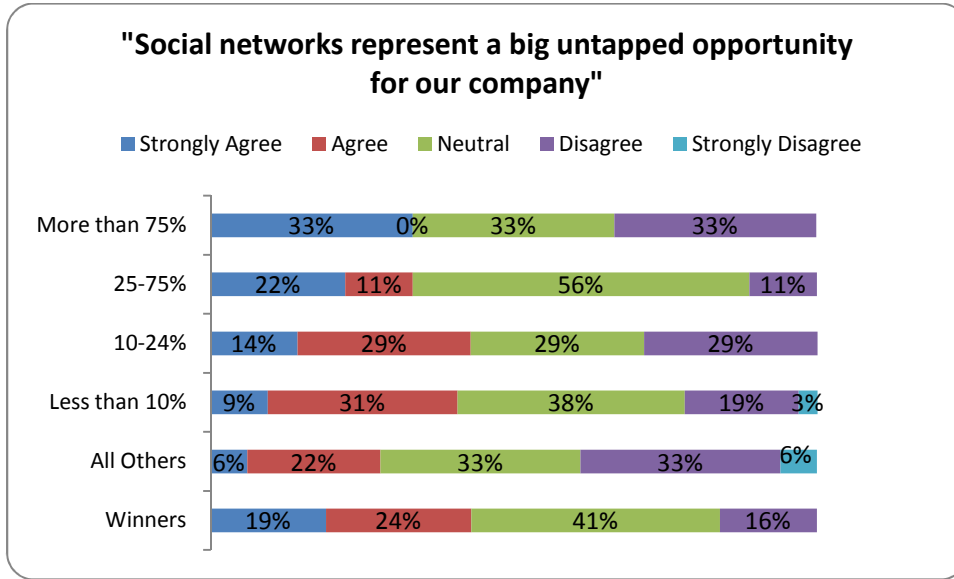
Winners see a greater opportunity for mobile than their peers (65% vs. 45% of all others). But the biggest difference is between mixed-model retailers that have a larger online component vs. all of their peers, including online pure-plays. In some ways, this is surprising. Online retailers theoretically have an important opportunity to tap into customer dissatisfaction (or at a minimum, curiosity) with either price or selection when standing at the store shelf. If an online retailer can offer competitive selection or pricing for a mobile search (especially one initiated in the store), online pure-plays suddenly have an opportunity to make a stand in a place they have historically had little interest in going: the store. The differentiator of store-based cross-channel is suddenly significantly reduced.

However, mixed-model retailers are in a better position to understand the intricacies of mobile/store/online interactions. For those that posit that mobile is more about connecting the virtual world with the physical, rather than simply adding a miniature version of the online realm to the mix, mixed-model retailers' interest in mobile (77%) seems to validate that theory.

## SOCIAL OPPORTUNITIES

Social network opportunities are a different story from mobile. eCommerce pure-plays see a relatively greater opportunity for social networks/social shopping as part of their business model than mobile (Figure 10). In some ways this reflects an emerging "rule of thumb" about emerging channels. As pure-play retailers seek more ways to make the online shopping experience less "digital" and more "real," social/community helps e-tailers get much closer to that goal by providing a community experience around what is stereotypically an "alone at your computer" act.

Figure 10: Shading in Social Online

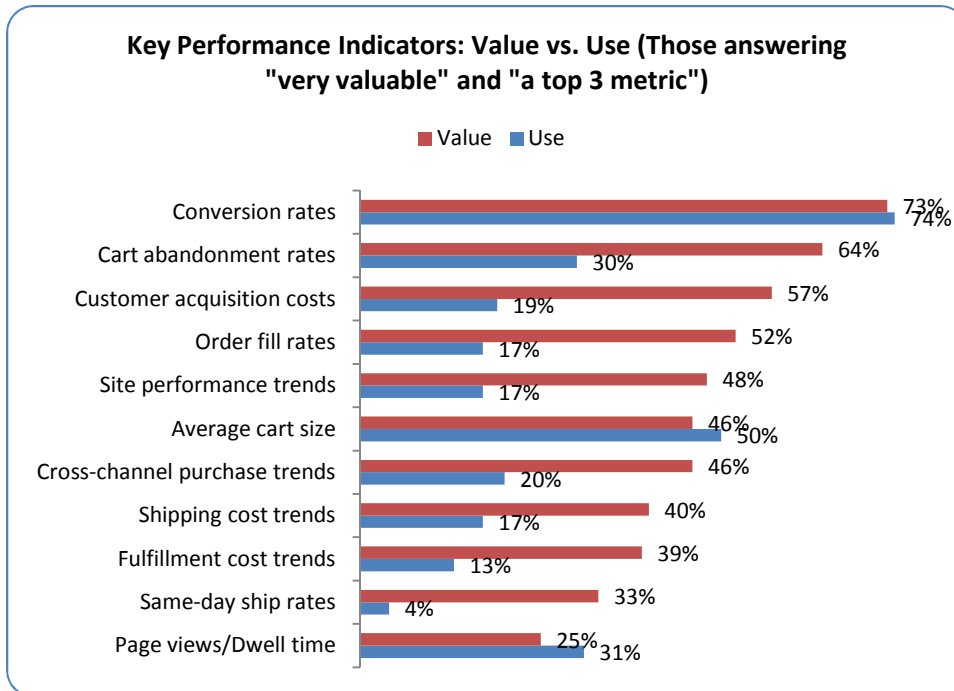


Source: RSR Research, October 2009

## MEASURING WHAT COUNTS

When it comes to measuring the effectiveness of online commerce, survey respondents reported that their top 3 most valuable metrics are conversion rates, cart abandonment, and customer acquisition costs. The top 3 most used metrics are conversion rates, average cart size, and page views or dwell time (Figure 11).

Figure 11: Tracking KPI's



Source: RSR Research, October 2009

Gaps in this data are emphasized by the way the question was asked in this survey - note the "top 3 metrics used" vs. just whether a metric is used at all. However, cart abandonment, cross-channel influence, and fulfillment measures still show some very large gaps.

Winners value site performance metrics more than their peers (54% rated this a very valuable measure vs. 39% of all others). They are also less concerned about same-day ship rates, preferring to focus more on fill rates and shipping cost trends. Getting from order to ship on the same day can be expensive either in terms of the over-time needed to clear orders, or even just base distribution capacity. Winners are more willing, it appears, to make a trade-off against time-to-ship, as long as the order gets filled and the organization keeps a handle on shipping costs.

## KEEPING UP WITH CONSUMERS

The distance between an "online pure-play" and a "store-based retailer" may be getting smaller and smaller, but there are still some distinct differences in the opportunities available to each kind of retailer, based on their model. For online pure-plays, creating a compelling experience online remains their top priority - an important differentiator to have in a world where you can't offer "pick-up in store." Within that context, the online assortment is key, as well as site performance and the emerging opportunity of social networks. In this context, mobile commerce is more of a "be there" strategy than an opportunity.

For store-based and mixed-model retailers, integrating disparate channel experiences is key. In this context, following pure-plays' latest innovations actually pull cross-channel retailers farther away from their differentiators. For example, store-based retailers that discount the value of mobile in order to pursue social may very well be missing the biggest emerging channel opportunity available to them. For cross-channel retailers, mobile is a NOT a "be there" strategy - it is an opportunity to be truly differentiating. Social may ultimately play a role in that strategy, but it will play second fiddle at the outset.

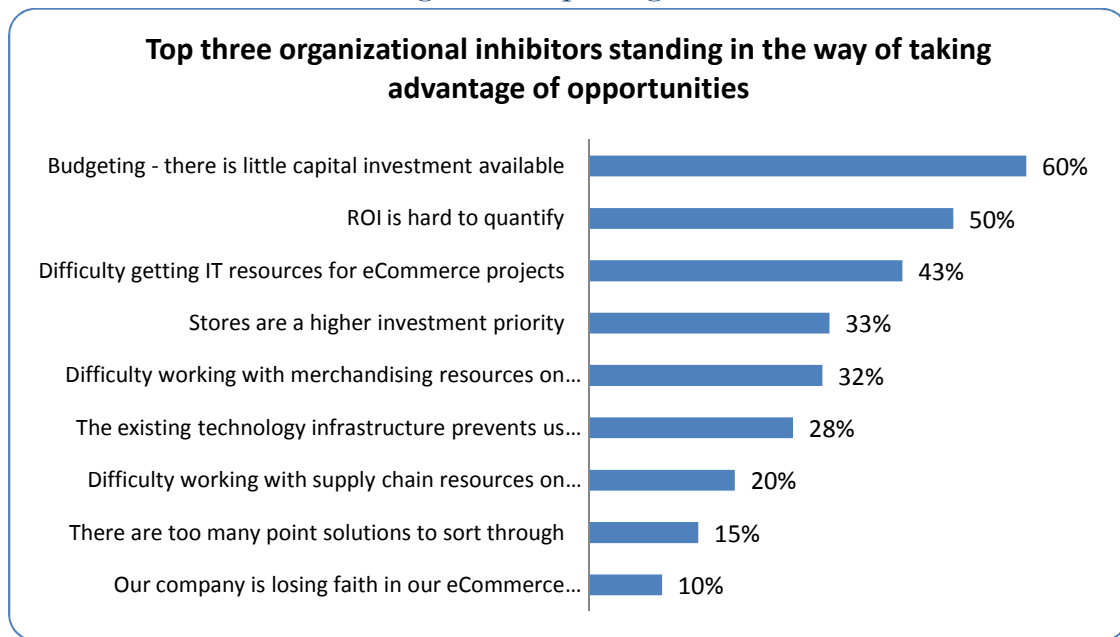
Ultimately, recognizing the right context depends on knowing your customers and how they want to engage with you - to our survey respondents' credit, one of their biggest priorities. Also encouraging, retailers seem to be making headway in understanding consumer behavior in greater detail, as that challenge (and subsequent opportunity) rated much lower this year vs. last year. Whether retailers can execute on the knowledge they have acquired remains to be seen.

## SECTION IV: ORGANIZATIONAL INHIBITORS

### STEADY AHEAD

One can hardly be shocked by the number one inhibitor preventing retailers from capitalizing upon the aforementioned opportunities that abound for their online operations: more than half of our respondents agree that in these harsh economic times, there is little capital investment available (60%, Figure 12). The two ensuing roadblocks - difficulty quantifying ROI (50%) and difficulty getting the IT resources for eCommerce projects (43%) – go hand-in-hand with the challenge of obtaining the funds required to invest in new technologies.

*Figure 12: Impending Boon?*



Source: RSR Research, October 2009

However, there is a marked improvement over the “roadblock state of affairs” that retailers faced just one year ago. In our 2008 research, the number one impediment to retailers was existing technology infrastructure preventing forward progress. This year, only 28% of retailers identify this data point as a roadblock this year, as opposed to 12 months ago, when 67% of laggards and a staggering 70% of Retail Winners told us their existing infrastructure was their primary “enemy within.” From that report:

*“(It is) somewhat unsettling (that) this early in the game, retailers are already facing the issue of ‘legacy’ technology and infrastructure as the primary inhibitor to forward progress. (While) it was commonplace in the very early years of the e-channel’s emergence for retailers to ‘roll their own’ solutions, more recently, many have recognized that packaged solutions perform better. As such, our respondents tell us that they need a great deal of help getting out of their technology corner. Unfortunately, so far, few have been able to unscramble what they currently have implemented to ‘get there.’ For these reasons, the ability to educate retailers as to the new generation of eCommerce solutions’ work-and-play-well integration capabilities should be a prime opportunity for any new-wave technology vendor to seize.”*

Because existing infrastructure preventing forward progress ranks so lowly on retailers' lists of hurdles to overcome this year, it is clear that vendors have not only been successful in their education efforts, but that retailers have been eager to listen to new eCommerce opportunities; When the online channel is, for most retailers, the only bright spot in the dark, how could they not?

Also, as we have mentioned in several reports this year, when budget is the only real problem, the stage is set for progress. Budgets will free up again – by all accounts, sometime soon. Once capital and credit begin to flow again more freely, retailers' current top-three roadblocks become easy to get past. On the other hand, infrastructure “hairballs” and the need to change attitudes about the viability of the e-channel are far harder to overcome. It is encouraging to see that despite (or more likely because of) the current economy, progress has been made on both the technological and the cultural fronts within the enterprise.

## VARIED MODELS, VARIED PAINS

Some differences do emerge by performance, revenue, and percentage of goods sold online. Most notably:

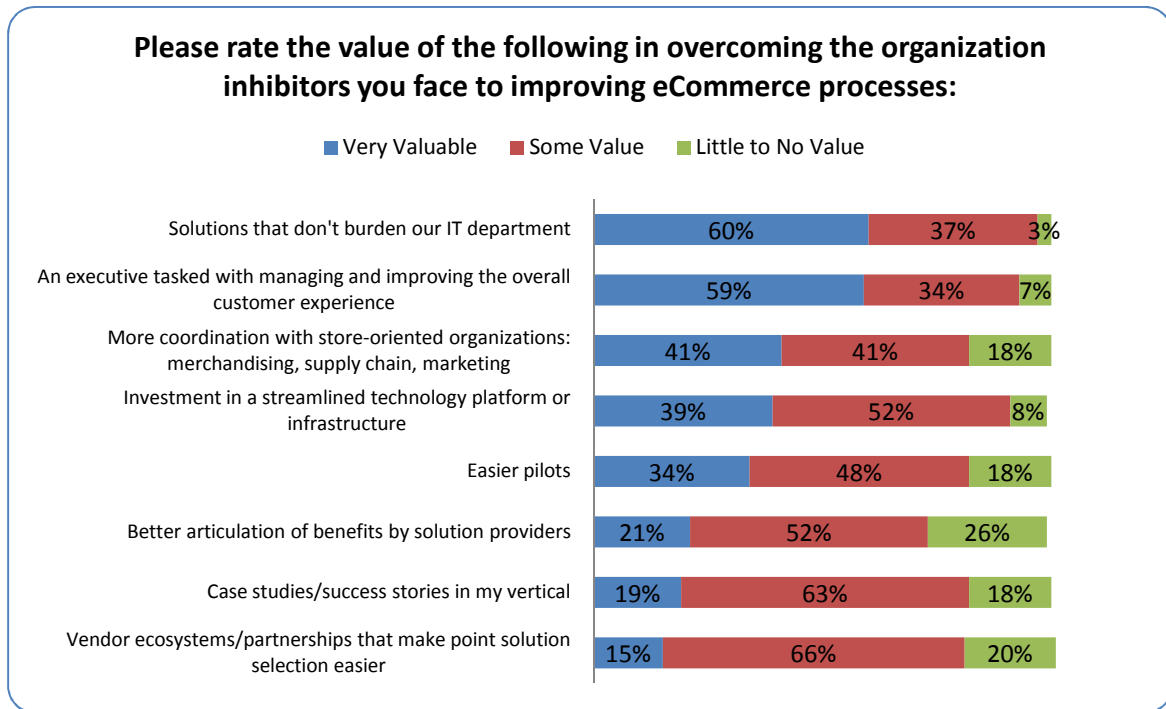
- Retail Winners are just as challenged to find budget as their underperforming peers, but have a disproportionate burden around quantifying ROI: 67% of double-digit Winners cite difficulty proving ROI, vs. 42% of average performers and 41% of laggards; and,
- Small and pure-play eCommerce retailers have a far harder time getting IT resources for eCommerce projects than do larger, multi-channel, and mixed-model retailers (83% of pure-play and 79% of <\$250 million retailers vs. all respondents' 43%).

## HELP ME HELP YOU

When asked which attributes of new technologies are most valuable in helping retailers get over the hurdles they currently face, our respondents point to solutions that don't create a burden on the IT department with overwhelming unanimity (only 3% see no value, while 60% of the total response pool identify these solutions as very valuable – Figure 13). In fact, the third most valuable attribute (when viewed by very valuable and some value combined – 92%) is highly related: investment in a streamlined technology platform or architecture. Put simply, retailers want all the functionality that new eCommerce applications hold possible, but only if the impact on IT can be mitigated.

Practical evidence of this sentiment has been given in several conversations RSR has had with retail clients in recent months. Retail executives have candidly admitted that they see value in nearly all of the technology solutions presently offered in the market, but that in order to effectively utilize any number (or even just a scant few) of these technologies, significant hires would have to be made to simply manage/maintain them – hardly a feasible option. Hence, retailers are moving forward by picking those technologies that require the least amount of personnel oversight and intrusion on existing IT operations: solution providers whose technologies meet these criteria are well advised to acknowledge retailers' pain and outwardly address it, heavily touting a minimized IT-related and headcount impact whenever possible.

Figure 13: The Simple Life



Source: RSR Research, October 2009

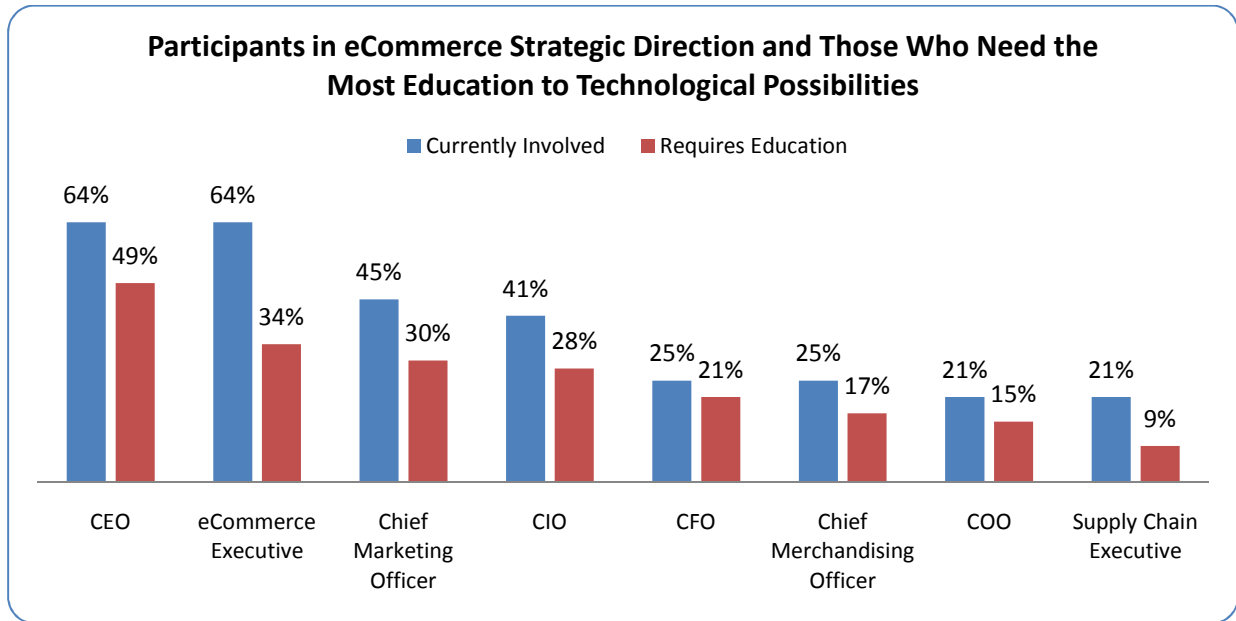
## TIME TO MAKE IT INTERESTING

Rounding out the top three ways to overcome internal obstacles, 93% of the total response pool sees value in tasking a single executive with managing and improving the overall customer experience (59% see great value). Interestingly, this number does not vary when viewed by percentage of goods sold online, and is equally important for pure-play retailers as it is for multi-channel and mixed-model retailers (57% of pure-play retailers cite it as very valuable, keeping closely in line with multi-channel retailers' 59% and mixed-model retailers' 50%). Clearly the time for a dedicated manager of the customer experience is at hand, and is not, as one might expect, merely a concern for multi-channel retailers who've so far neglected their online channel in favor of more traditional ones. Instead, real consensus extends throughout the retail industry that sellers – small and large, pure or store – need to create a consistent, interesting, and customer-first buying experience via their online store. Few are quite “there” yet.

## BETTER PREPARED PEOPLE, BETTER PLANS

In Figure 14, we see a fairly standardized ratio of how our respondents feel about the people they currently have involved in the conversation for the strategic direction of their eCommerce strategies - and just as importantly, who of those internal personnel requires more education to make that strategy a winning strategy.

Figure 14: More Intel Required to Plan Effectively



Source: RSR Research, October 2009

The most important players for mapping out the direction of where the e-channel is heading are the CEO and the eCommerce Executive. While 64% of our respondent pool feels that these players are on level pegging for involvement in planning future strategy, more retailers say that in order to make that strategy successful, the CEO requires greater education to get there: the CEO need more savvy to the technological possibilities *specific* to eCommerce. This is to be expected, as eCommerce Executives should, by the very nature of their title, be more plugged-in to where the e-Channel is headed, its technological capabilities, and how it can be leveraged to build consumer fans and loyalty.

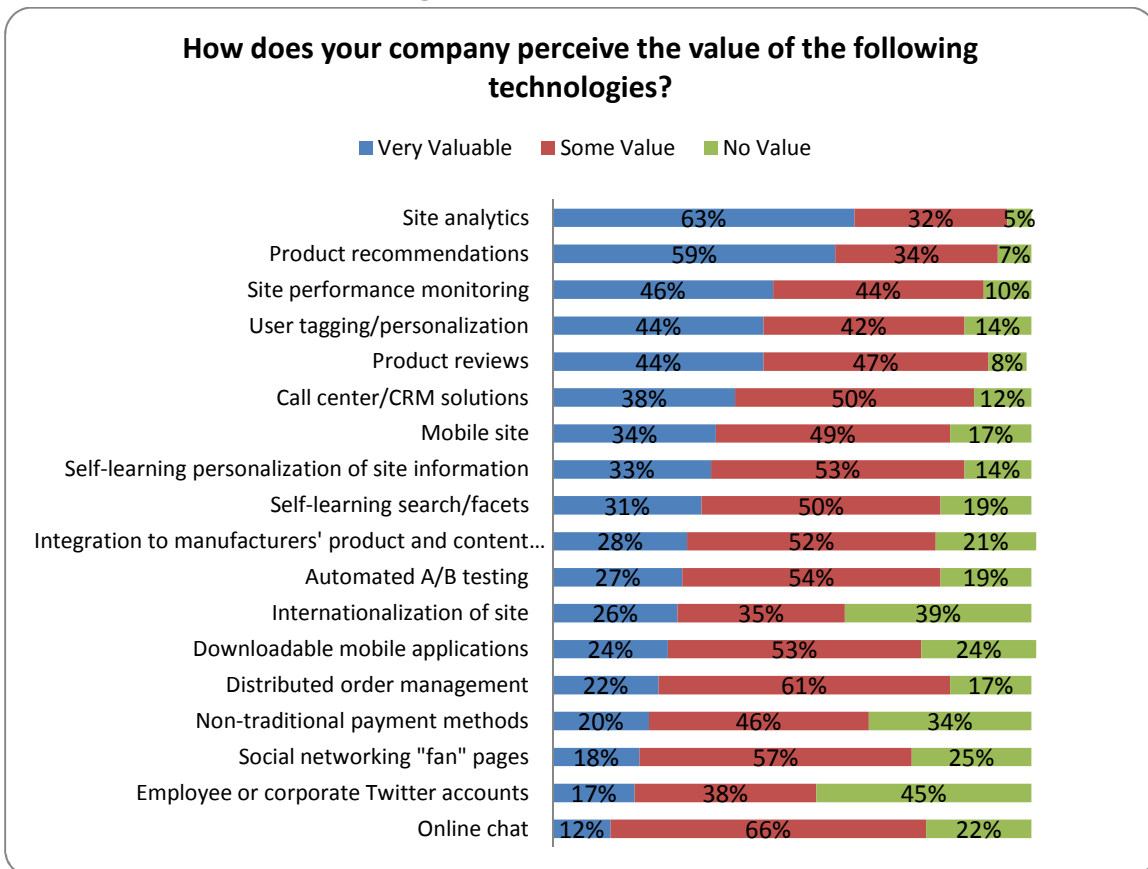
However, it is interesting to see that while Chief Marketing Officers and CIOs also currently play vital roles in the guidance of retailers' eCommerce roadmaps (45% and 41%, respectively), both share a substantial percentage of respondents' need to be further brought up-to-speed, as well: both data sets share a roughly 3:2 ratio of involvement vs. need for education. In sum, our retailers feel that if an executive is at the planning table, regardless of their department or title, the majority still require more knowledge specific to the technological possibilities of today's eCommerce solutions than they currently possess.

## SECTION V: TECHNOLOGY ENABLERS

### THE SHOW FLOOR IS FULL OF VALUE...

First off, it is vital to know which technologies our retailers value most. From Figure 15, we can see that for the overall retail respondent pool, site analytics (63%), product recommendations (59%), and site performance monitoring (46%) garner top honors. User tagging for personalization purposes and product reviews also hold significant points of interest to retailers in the current economy (44% of the total pool assign “very valuable” status to each).

*Figure 15: Where the Value Is*



Source: RSR Research, October 2009

Even when composing their wishlists, practicality and feasibility permeate our retail respondents' thinking. They are focused on the tools which provide them the insights (and core operability) to hone the basics of online retailing: who's shopping our site, what general patterns emerge from their overall behavior, are we sure we have a plethora of cheap and easy recommendations and reviews to help sway and connect them, and does the site properly function for them the way we've designed it to across all of their individual devices?

Just as we saw in our eCommerce research in 2008, few of the options we put forth hold “no value” to retailers. Apart from two highly difficult and expensive tasks - genuine internationalization of the retail shopping site and the introduction of non-traditional payment methods – as well as one slightly

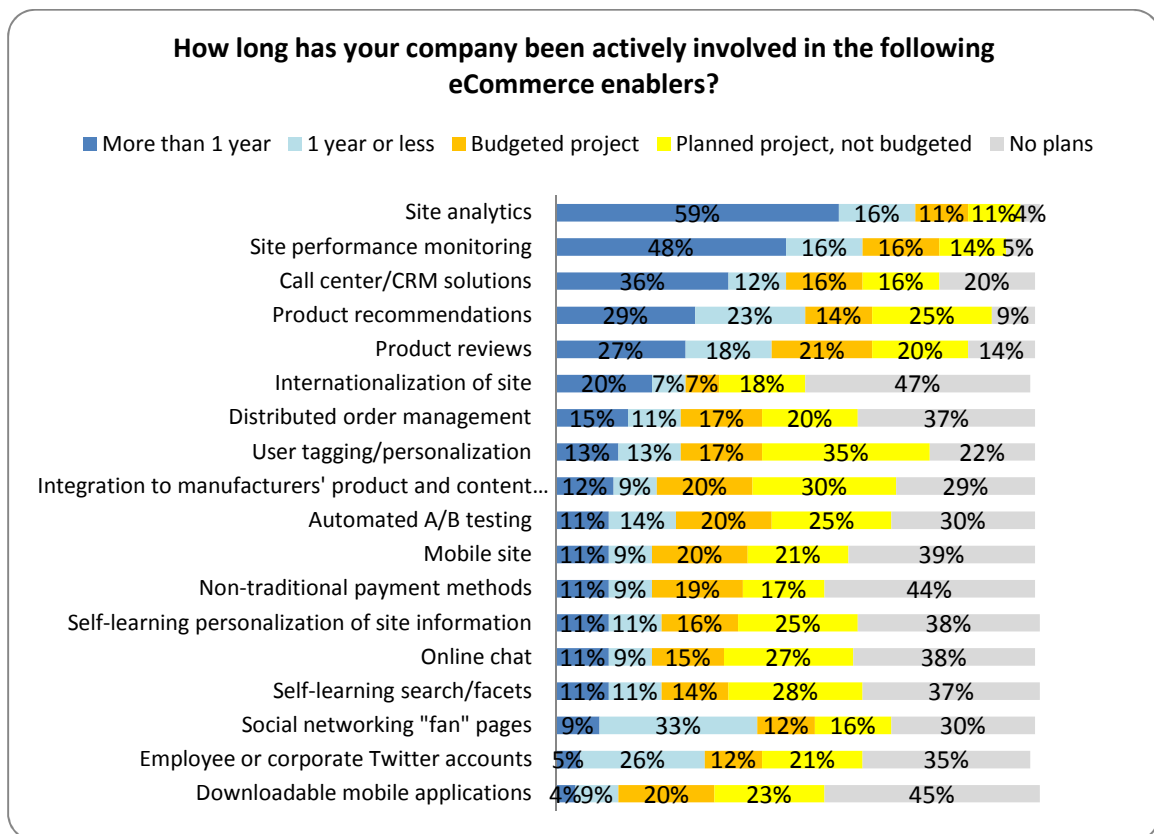
burgeoning one (employee and corporate Twitter accounts), retailers are hungry for all that technologists have to offer. The question becomes about what they are willing to put on their plates.

### ...BUT THERE ARE ONLY SO MANY RESOURCES TO GO AROUND

It is every bit as interesting to know not just where retailers perceive value, but also where they are headed with their technology implementations. As a result, we asked retailers about their current – and planned - usage of these same tech enabler options (Figure 16).

By current use, retailers have consistently been leveraging the easiest-to-implement systems the longest, such as site analytics (75% already have basic systems in place, including such tools as Google analytics). Further, roughly half of our retail respondents have already folded in site performance monitoring, product recommendations and product reviews - table stakes to an effective, operative site that do not require significant amounts of heavy lifting.

*Figure 16: Where the Dollars Are*



Source: RSR Research, October 2009

However, the most interesting areas to observe in the chart above are highlighted in orange and yellow: budgeted projects and those that are in the planning stage awaiting budgetary dollars. The first stark differences between perceived value and planned usage start to emerge here in these shades.

### THE MOBILE ERA FINALLY ARRIVES?

Mobile advancements hold more budgetary dollars than any other option with retailers today, falling squarely in line with the 60% of respondents who previously told us that mobile applications remain a big

untapped opportunity for their company. Twenty percent have discretionary dollars set aside for development of a mobile (WAP) site, while an additional 20% have funds allocated to developing mobile applications; another 43% have plans in place awaiting funding. Here we see the continuation of the “future is cross-channel” trend saw in the Business Challenges and Opportunities sections of this report; while few are willing to bet the farm on how shoppers will *really* use online communities and social networks, a safe bet is that consumers will appreciate the ability to shop from wherever they happen to be – in a store, in an airport, or in an airport store.

For the overall response pool, other high-ranking issues that are capital-backed include automated A/B testing, integration to manufacturers’ product and content information (last year’s big winner), and the aforementioned product reviews (the majority of which come from pure-play and mixed-model retailers; reviews and recommendations represent the rare few online technologies that larger, multi-channel retailers have collectively been willing to invest in, to date).

## TWEET THIS

As it pertains to social media and networking specifically, our respondents see the value (75% identified some value in the previous chart), but for those not yet invested (9% have employed incorporation to social networking sites for more than a year, 33% have done something this past year), there does not seem to be a spending spree on the near-term horizon. Only 12% of our total response pool has allocated budget to begin projects linking their eCommerce site to Facebook, Twitter, and the like. No one doubts that social media networks provide sellers with vast amounts of information about a shopper (age, location, interest areas, physical likeness), or that the virtual advice of a friend/colleague/loved one can influence a sale.

However, as noted in a recent report RSR conducted on social networking, “From Sentiment to Insight: How Social Networking Can Support Engaged, Customer-Centric Retailing,” there are still three primary questions that must be addressed: Can structure be brought to these mountains of unstructured bits and bytes? Once structure is brought to it, can it be used? And if it can be used, what are the best uses of it – even in a down economy? These are highly personalized questions for every retailer to examine, and vary wildly by products being sold (does my product mix even inspire/warrant such networking opportunities?), percentage of goods sold online (can I fall back on store sales until someone else figures this out?), and brand/channel status (bleeding edge vs. fast follower vs. status quo adopter). None have a single “right” response, and require the core components of successful retailing in the 21<sup>st</sup> century – knowledge of your consumers’ demands and the business intelligence to act accordingly – in order to even debate them effectively.

Some notable differences by performance, revenue, and percentage of goods sold online include:

- Pure-play retailers have more plans (though still no budget) to examine social networking opportunities than any other group (50% vs. 6% of mixed-model and 16% of multi-channel retailers);
- Nearly half (47%) of multi-channel retailers have no plans to utilize employee or corporate Twitter accounts in any way;
- Pure-play and mixed-model retailers are already far more invested in call center/CRM solutions than are multi-channel retailers (50% and 47%, respectively, vs. multi-channel retailers’ 25%). This represents a viable opportunity to steal away market share based on an enhanced service model;

- Mobile is the domain of Retail Winners – 22% of Winners have budget allocated for new mobile applications, while 24% have budget set aside for mobile sites;
- Average and lagging retailers have much work still to do getting product information on their sites up to date: 38% of laggards and 40% of average performers have no plans to integrate to manufacturers' product and content information; but,
- Laggards DO lead in adoption of product reviews (75%), recommendations (76%), and site performance monitoring (75%). The best performing retailers are well-advised to take a page from their playbook, as the first two have become guaranteed fan favorites among online shoppers, the third a prerequisite to completed transactions. This statistic may be one of the few reasons struggling retailers have been able to hang in, online, for as long as they have.

## SECTION VI: BOOTSTRAP RECOMMENDATIONS

### YES, VIRGINIA, ECOMMERCE IS STRATEGIC

If eCommerce is not a C-level issue in your retail organization, it may well soon become one. Whether your channels consist of multiple eCommerce banners, or a true merging of online, stores, catalog, and mobile, the future of retailing is apparently cross-channel, and with sales predicted by our in-the-trench respondents as topping out beyond 10-15% of overall retail sales, that means structural changes to the business of retail. With social and mobile expanding online capabilities beyond the "four walls" of the retailer's website, that impact will be driven as much by other channels' influence on eCommerce as it is eCommerce's influence on other channels. So how to navigate?

### MOBILE IS TO STORES AS SOCIAL IS TO SITES

Our survey respondents report that mobile is a bigger priority for retailers with stores in their channel mix, while social media is a bigger priority for online pure-play retailers. Ultimately, both types of retailers will have forays into each other's territories, yet this split in emerging channels reflects the fundamental difference between online pure-plays and their store-based peers. Online retailers must push the boundaries of online and work to make that experience so compelling that no consumer ever misses the store experience. Social helps them do that. For store-based retailers, mobile becomes an important conduit that connects the virtual world to the physical one. Store-based retailers that blindly ape the innovations of pure-plays are leaving fundamental differentiators on the table.

### MOVING BEYOND PRODUCT REVIEWS AND RECOMMENDATIONS

Product reviews and recommendations are popular. There is no doubt, as RSR has seen in the two years that we have run an eCommerce survey, that reviews and recommendations are an important part of the online retailing arsenal. The question is, what next?

The answer is complicated. There is temptation to use online reviews in stores. But do you then take the bad with the good and post bad reviews at the shelf? There is temptation to use product recommendation tools as employee selling tools - an easy way to provide an upsell tool in stores. The challenge is that product recommendations are often based on browsing behavior. How do you replicate that in stores? Additionally, what do you do if a product gets miserable reviews? As a retailer, you may have little influence over the quality of the product or the issues involved with the complaints. But how do you legitimately position yourself as caretaker and arbiter of a quality product selection when single-star ratings continue to live on on your site?

The answer appears to be that, in the short term, it doesn't matter. Consumers buy products, and reviews help them buy products - and they'll even buy products that get bad reviews. It's not as simple as whether a product has one star or five - it's what makes it a one-star. And sometimes even one-star products, with all their flaws, are still a good value for the price. So retailers have a dilemma: low-rated products need to be managed, and customer complaints need to be acknowledged. But that may manifest itself in a way that is not easily automated.

## THE \$64 MILLION QUESTION: CROSS-CHANNEL IMPACT

One clear learning from mixed-model retailers for store-based retailers: if you do not have metrics in place that at least make an attempt to measure cross-channel influence, then you are creating a problem for yourself later. It's a lot easier to put in metrics when the stakes are low (i.e., online is a small percentage of overall retail sales) than it is when the stakes are high (when both stores and online have something to lose). Unfortunately, a lot of work is needed to figure out which metrics are the right metrics. The only lesson that this research can offer is that the most difficult metrics to obtain are often the ones most worth having.

## A NEW MODEL IS NEEDED

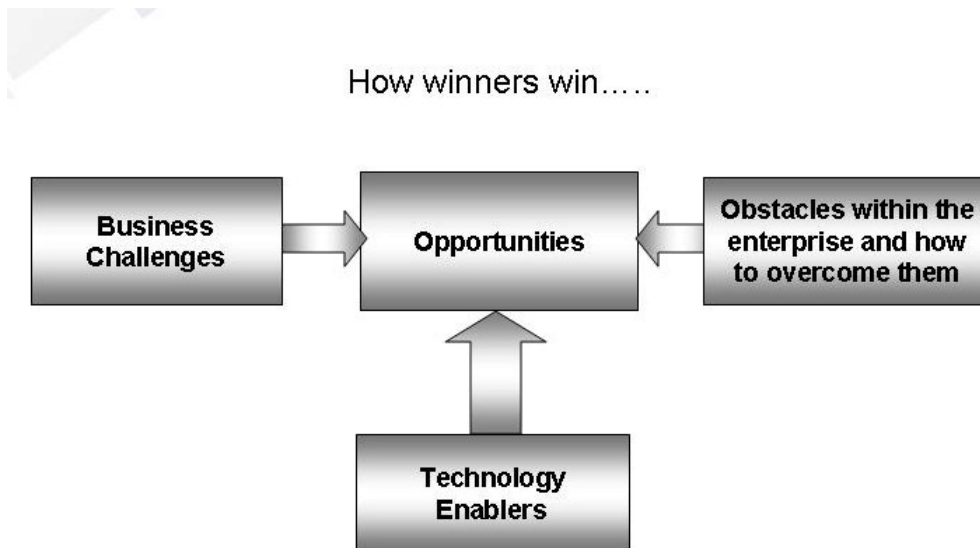
If the growth of online has the potential to disrupt the fundamental structure of retailing, if not today then tomorrow, then it becomes moot to talk about cross-channel. One retailer we spoke to in the course of this research said they had started referring to customers that engaged with them through multiple channels as "blurred" consumers. That blurring is needed in how we regard retail today. Currently we view retail through a bottom-up paradigm: starting from within the channels we're most comfortable dealing with. A top-down view is needed - and soon: one that views the customer shopping process in terms of which resources need to be marshaled together to enable whatever it is the customer wants to achieve. It is not, after all, about how retailers want to sell, but how consumers want to buy.

## APPENDIX A: THE BOOT METHODOLOGY

The “BOOT” methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and “also-rans.”** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



## APPENDIX B: ABOUT OUR SPONSOR



A trusted, global specialist in e-commerce, ATG (Art Technology Group, Inc., NASDAQ: ARTG) helps companies maximize the success of their online businesses. ATG Commerce is the commerce platform and business user application solution top-rated by industry analysts for powering highly personalized, efficient and effective e-commerce sites. ATG's optimization services can be easily added to any Web site to increase conversions and reduce abandonment. These services include ATG Recommendations and ATG's eStara Click to Call and Click to Chat services. The company is headquartered in Cambridge, Massachusetts, with additional locations throughout North America and Europe. For more information, please visit <http://www.atg.com>.

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## APPENDIX C: ABOUT RSR



Retail Systems Research (“RSR”) is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.



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