Digital Divergence: The Future of Digital Commerce

Benchmark Report

By Nikki Baird and Steve Rowen, Managing Partners

February 2016

Sponsored By:

RSR
Retail Systems Research

Sas
Executive Summary

Key Findings

In this, our 6th consecutive report on eCommerce, retailers steadfastly tell us that – despite the best intent – digital convergence is still a long ways off. However, things get particularly interesting when we start to look at what form this convergence will ultimately take – because it increasingly looks like digital convergence means different things to different types of retailers.

The following are some of the highlights from this research:

• Retailers’ top **Business Challenges** (page 7) center on two main, inter-related areas: maintaining growth rates and keeping up with evolving consumer shopping patterns. But retailers increasingly believe they know where demand is going to come from, even as they report being challenged by consumers’ shifts in shopping patterns to social, mobile, and beyond. As confidence grows, they are more interested in stepping on the gas – looking to drive overall growth in digital channels.

• In the **Opportunities** section of this report, we find that Personalization tops retailers’ lists, and they are defining what personalization means according to how their specific shoppers shop their specific verticals. But their expectations for what personalization will do for them seems very high – perhaps unrealistically high. We examine the dangers of this trend beginning on page 11.

• Retailers have two main operational problems: getting various channels to work together, and optimizing the ways inventory is deployed across these channels. However, Winners are much less challenged by existing infrastructure than their competitors. Instead, Winners are more challenged by the eCommerce platform’s ability to be updated in a timely fashion. Clearly they are playing a different game. We examine these differences in the **Organizational Inhibitors** section, starting on page 16.

• As it relates to **Technology Enablers**, Winners are the ones pushing the pace. The best performers value virtually every **behind-the-scenes** technology – including platforms, analytics and content management systems – far more than their competitors. Even more tellingly, they are implementing **customer-facing** technologies at a far greater rate than their competitors, as well. eCommerce is rapidly becoming a Winner’s game.

Based on our data, we also offer several in-depth and pragmatic suggestions on how retailers should proceed. These recommendations can be found in the **Bootstrap Recommendations** portion of the report.

We certainly hope you enjoy it,

*Nikki Baird and Steve Rowen*
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Research Overview

Digital Divergence
RSR has been tracking retailers’ eCommerce strategies for more than 5 years. During that time we’ve seen interest in a major platform refresh, the introduction of mobile and social as eCommerce considerations, as well as convergence – where retailers increasingly view mobile and other non-commerce online activities in the context of their overall "digital" strategy, with their eCommerce platform as the centerpiece.¹

Digital convergence has not yet been achieved – it takes only a stroll through a retailer’s online touchpoints to see how disconnected their digital strategy really is. However the intent is clearly there (Figure 1).

Figure 1: Digital Consensus

<table>
<thead>
<tr>
<th>Statements on Digital Strategy</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying and enabling customer journeys is critical to digital channel success</td>
<td>47%</td>
<td>45%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>A single owner of the customer experience is critical to our brand success</td>
<td>43%</td>
<td>51%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Our eCommerce platform will ultimately become our digital platform across all channels</td>
<td>41%</td>
<td>48%</td>
<td>8%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: RSR Research, February 2016

Where things get interesting is not in whether retailers will achieve their goals of understanding consumers’ cross-channel journeys, establishing one owner of the customer experience, or converging the digital experience onto their eCommerce. It’s not even in how they will get there. Where things get interesting is when we start to look at what form this convergence will ultimately take – because it increasingly looks like digital convergence means different things to different types of retailers.

A quick look at the channels operated by retailers of different verticals shows some of those differences (Figure 2, below).

¹ Note: This report focuses exclusively on retailers’ strategies for bringing together their various digital touchpoints across eCommerce, mobile, and social. For an in-depth look at retailers’ strategies for managing convergence between digital and physical, please read our latest Omni-channel research.
Fashion and boutique retailers are least likely to report operating social sites or mobile commerce, while hospitality and fast moving consumer goods retailers (think grocers) are least likely to operate a traditional eCommerce site, for example.

And when retailers end up operating different sets of channels, their overall strategic priorities for digital also differ significantly (Figure 3).

For example, even though hard goods retailers are the most digitally connected – according to Figure 2 they are the most likely type of retailer to operate mobile, social, and eCommerce channels all together – they are also most interested in pursuing a strategy that blends stores and digital, rather than focus on one over the other.
In contrast, fashion retailers, who are the least likely to be digital, are more divided than their peers, with a majority split between digital vs. stores rather than blending both. And FMCG retailers, latecomers to the digital space even today, are still more likely than their peers to be focused purely on stores.

The differences by revenue are even more dramatic (Figure 4).

**Figure 4: Does Digital Make My Company Look Bigger?**

<table>
<thead>
<tr>
<th>Strategic Priorities</th>
<th>$5B and up</th>
<th>$1-$5B</th>
<th>$250m - $999m</th>
<th>Under $250m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital</td>
<td>11%</td>
<td>15%</td>
<td>39%</td>
<td>50%</td>
</tr>
<tr>
<td>Stores</td>
<td>0%</td>
<td>35%</td>
<td>0%</td>
<td>33%</td>
</tr>
<tr>
<td>Digital and stores are equally important</td>
<td>67%</td>
<td>35%</td>
<td>65%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: RSR Research, February 2016

A wide majority of the smallest retailers see only a digital future for themselves, while larger retailers place more importance on a blended approach between digital and stores. For the smallest retailers, this approach makes sense – their battles for customers will be won or lost in the digital space, not at the store shelves where their lack of scale makes it very difficult to compete against lower-priced rivals.

So even as retailers increasingly agree that they need to have a converged digital strategy, they are moving farther and farther apart on what that strategy actually needs to look like. How does this context shape their investment priorities for the eCommerce space? That's what this report set out to identify.

**Retail Winners And Why They Win**

In our benchmark reports, RSR quite frequently cites differences between retailer over-performers in year-over-year comparable sales and their competitors. We find that consistent sales performance is an outcome of a differentiating set of thought processes, strategies and tactics. We call sales over-performers “Retail Winners.”

RSR’s definition of these Winners is straightforward. Assuming industry average comparable store/channel sales growth of **4.5 percent**, we define those 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.**”
These differences, especially between Retail Winners and their peers, are important. A different perspective on challenges drives a different perspective on a strategy in response to those challenges, which in turn translates into a different set of technology investment priorities.

For example, Retail Winners are not any more likely than their peers to operate different digital touchpoints, but they definitely have different expectations for what those digital touchpoints will do for them (Figure 5).

Figure 5: More Aggressive About Convergence

<table>
<thead>
<tr>
<th>Statements On Digital Strategy &quot;Strongly Agree&quot;</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying and enabling customer journeys is critical to digital channel success</td>
<td>62%</td>
<td>36%</td>
</tr>
<tr>
<td>A single owner of the customer experience is critical to our brand success</td>
<td>54%</td>
<td>33%</td>
</tr>
<tr>
<td>Our eCommerce platform will ultimately become our digital platform across all channels</td>
<td>44%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: RSR Research, December 2015

Retail Winners expect to be able to provide a single customer journey across channels, defined through a single owner of the brand experience. And they increasingly expect that their eCommerce platform will ultimately deliver the digital parts of that brand experience.

How do these differences in priority translate into technology investments? Read on to find out.

**Methodology**

RSR uses its own model, called The BOOT Methodology© to analyze Retail Industry issues. We build this model with our survey instruments. See Appendix A for a full explanation.

In our surveys, we continue to find the kinds of differences in thought processes, actions, and decisions cited above. The BOOT helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

**Survey Respondent Characteristics**

RSR conducted an online survey from October 2015 – January 2016 and received answers from 120 qualified retail respondents. Respondent demographics are as follows:

- **2014 Revenue (US$ Equivalent)**
  - Less than $5 million: 33%
  - $6 million - $49 million: 18%
  - $50 million - $499 million: 19%
$500 million - $999 million 8%
$1 Billion to $5 Billion 11%
Over $5 Billion 11%

• **Products sold:**
  - FMCG 14%
  - Fashion 20%
  - Hard Goods 19%
  - General Merchandise 26%
  - Hospitality 14%
  - Boutique Retail 7%

• **Headquarters/Retail Presence:**

<table>
<thead>
<tr>
<th></th>
<th>HQ</th>
<th>Retail Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>48%</td>
<td>61%</td>
</tr>
<tr>
<td>Canada</td>
<td>0%</td>
<td>28%</td>
</tr>
<tr>
<td>Latin America</td>
<td>1%</td>
<td>17%</td>
</tr>
<tr>
<td>UK</td>
<td>30%</td>
<td>49%</td>
</tr>
<tr>
<td>Europe</td>
<td>9%</td>
<td>42%</td>
</tr>
<tr>
<td>Middle East</td>
<td>0%</td>
<td>17%</td>
</tr>
<tr>
<td>Africa</td>
<td>1%</td>
<td>7%</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>11%</td>
<td>28%</td>
</tr>
</tbody>
</table>

• **Year-Over-Year Sales Growth Rates** (assume average growth of 4.5%):
  - Worse than average ("Laggards") 12%
  - Average 48%
  - Better than average ("Retail Winners") 40%
Business Challenges

Stepping On The Gas
Retailers’ top business challenges center on two main, inter-related areas: maintaining growth rates and keeping up with evolving consumer shopping patterns (Figure 6).

Figure 6: Keeping A Good Thing Going

<table>
<thead>
<tr>
<th>Top 3 Business Challenges In Digital Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining growth rates</td>
</tr>
<tr>
<td>Keeping up with evolving consumer shopping patterns: social networks, mobile, etc.</td>
</tr>
<tr>
<td>Finding differentiation in a fiercely competitive market</td>
</tr>
<tr>
<td>Getting consumers to engage more with us online</td>
</tr>
<tr>
<td>Creating a competitive product assortment</td>
</tr>
<tr>
<td>Providing more ways for consumers to connect with each other through our brand</td>
</tr>
<tr>
<td>Generating acceptable margins</td>
</tr>
<tr>
<td>Uncertain consumer demand</td>
</tr>
<tr>
<td>Price transparency</td>
</tr>
</tbody>
</table>

Source: RSR Research, February 2016

After those two, things get muddled very quickly. Competition, customer engagement, and product assortment challenges round out the top five of the list. However, what is at the bottom of list is just as important as what is at the top. Price transparency and uncertain consumer demand were the top challenges of the Great Recession. At least in digital channels, those days are over.

The year-over-year comparison highlights some of these changes (Figure 7, below).

According to our survey respondents, uncertainty about consumer demand is declining, and profitability concerns are also declining. But retailers increasingly believe they know where demand is going to come from, even as they report being challenged by consumers’ shifts in shopping patterns to social, mobile, and beyond. As confidence grows, they are becoming interested in stepping on the gas – looking to drive overall growth in digital channels.
Diving into specifics:

- Winners drive maintaining growth rates: 66% vs. 47% of peers
- Peers are more aggressive about engagement, continuing the trend from last year:
  o 44% of peers cite getting consumers to engage with us more online as a challenge vs. 34% of Winners
  o 38% of peers cite providing more ways for consumers to connect with each other through the brand vs. 27% of Winners
- Hard goods retailers feel the pinch from online pure plays the most:
  o 57% want to provide more ways for consumers to connect with each other through the brand – vs. 32% from the next closest vertical (fashion)
  o 50% want to find differentiation in a fiercely competitive market vs. 41% from the next closest vertical (fashion)

**High Hopes And Expectations**

With strong interest in high growth rates and increasing confidence in consumer demand, retailers expect that annual sales from digital channels will see big increases in the next three years – from 49% seeing sales at less than 25% currently, to 69% expecting digital channel sales to exceed 25% by 2019 – with more than half of those respondents expecting digital to drive 50% of their sales or more by that time (Figure 8, below).
However, when we ask what percent of total sales are influenced by digital channels, it rapidly becomes clear that retailers have no clue. Eighteen percent of respondents report that they currently have digital sales of 50% or greater of total sales. But only 31% of respondents report that they think digital influences 50% or more of total sales (Figure 9).

The inconsistency is highlighted by the underlying numbers:

- Of those that answered less than 10% of current sales comes from digital, 42% also said that same range is influenced by digital (33% said 25-49%).
- Of those that answered 10-24% of current sales, 58% said that digital influences the same range of sales (42% said 25-49%).
- Of those that answered 25-49% current sales, fully 75% said digital influences that same bracket of sales.
Either retailers believe they are doing a very good job capturing digital influence within digital channels, or they are significantly under-estimating the impact that digital has on all channels.

**Unwarranted Confidence?**
Digital commerce seems to be entering a new age, one where retailers feel more confident in their ability to understand consumers, even if they are concerned about keeping up with those consumers’ changing shopping habits. Their concerns over margin are declining, while their interest in keeping growth high has increased.

But while the operating assumption of most of the industry is that digital has influence beyond digital channel sales, the retailers in this survey don't seem to feel like this is a challenge that digital commerce needs to be overly concerned about. Is this a blind spot? Or is it because retailers already feel like they have the influence aspects of digital commerce well in hand? Let's take a look at their opportunities for digital to find out.
Opportunities

The Personalization Mandate
Survey respondents report that their top opportunities for digital channels center most heavily on personalization, mostly by creating more personalized customer experiences in digital channels (Figure 10).

Figure 10: Personalization Is Key To Digital

<table>
<thead>
<tr>
<th>Top 3 Opportunities For Digital Channels</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating more personalized customer experiences in our digital channels</td>
<td>51%</td>
</tr>
<tr>
<td>Providing richer product detail information (photo, video)</td>
<td>41%</td>
</tr>
<tr>
<td>Improving fulfillment processes</td>
<td>38%</td>
</tr>
<tr>
<td>Improving search and browse capabilities</td>
<td>37%</td>
</tr>
<tr>
<td>Improving our site’s ability to mix content and commerce on the same page</td>
<td>34%</td>
</tr>
<tr>
<td>Embedding more social capabilities in our full site</td>
<td>29%</td>
</tr>
<tr>
<td>Improving the payment process</td>
<td>28%</td>
</tr>
<tr>
<td>Adding additional selling channels (including third party)</td>
<td>22%</td>
</tr>
<tr>
<td>Embedding more selling capabilities in our social sites (buy buttons, etc.)</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: RSR Research, February 2016

After this top opportunity, retailers look to providing richer product detail information, improving fulfillment processes, and improving search and browse capabilities. At the bottom of the list are third-party related opportunities: embedding more selling capabilities into social sites, and adding additional selling channels.

In the year over year comparison, only two areas stand out: richer product detail and improving search and browse. Both could be considered aspects of personalization. But one is clearly now taking a priority over the other (Figure 11, below):
In RSR’s past experience evaluating retailers’ eCommerce personalization strategies, we have found that retailers generally do poorly at both. But the switch in focus is not due to major accomplishments in search and browse, nor is it about abandoning search and browse in favor of focusing on product details.

Rather, it is Retail Winners who are driving the shift. They appear to be adding product details to their priorities, while their peers remain focused on improving search and browse (Figure 12).

**Figure 12: Expanding The Definition Of Personalization**

<table>
<thead>
<tr>
<th>Top 3 Opportunities For Digital Channels</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing richer product detail information (photo, video)</td>
<td>56%</td>
<td>31%</td>
</tr>
<tr>
<td>Creating more personalized customer experiences in our digital channels</td>
<td>51%</td>
<td>51%</td>
</tr>
<tr>
<td>Embedding more social capabilities in our full site</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>Improving fulfillment processes</td>
<td>42%</td>
<td>20%</td>
</tr>
<tr>
<td>Improving search and browse capabilities</td>
<td>38%</td>
<td>30%</td>
</tr>
<tr>
<td>Improving the payment process</td>
<td>40%</td>
<td>21%</td>
</tr>
<tr>
<td>Improving our site’s ability to mix content and commerce on the same page</td>
<td>30%</td>
<td>22%</td>
</tr>
<tr>
<td>Adding additional selling channels (including third party)</td>
<td>7%</td>
<td>33%</td>
</tr>
<tr>
<td>Embedding more selling capabilities in our social sites (buy buttons, etc.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: RSR Research, February 2016*
There are additional differences between Winners and laggards. Winners are more focused on embedding social capabilities on their own eCommerce site, while their peers are for more interested in embedding selling capabilities in social sites – the exact opposite objective.

Both Winners and their peers see a lot of opportunities in offering more personalization, but they ultimately are defining what that means in different ways. Winning retailers see opportunities in product detail information and embedding social within their eCommerce platform, while their peers tend to place a higher priority on improving search and browse capabilities, and doing more to bring content and commerce together.

But it does raise the question, what does personalization really mean in the digital space? We asked retailers to define what they saw as their top personalization priorities (Figure 13).

Figure 13: Personalization Is About Engagement, Not Service

<table>
<thead>
<tr>
<th>Top 3 Personalization Priorities For Digital Channels</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emails that are customized based on past online behavior or purchase history</td>
<td>64%</td>
</tr>
<tr>
<td>The ability to customize the online browsing experience for an anonymous visitor based on other similar browsing patterns</td>
<td>60%</td>
</tr>
<tr>
<td>Retargeting ads or promotions based on past online behavior (e.g., online ads based on cart abandonment or product viewing history)</td>
<td>59%</td>
</tr>
<tr>
<td>A home page that learns from past visits and browsing history</td>
<td>54%</td>
</tr>
<tr>
<td>In-store associates who can access customers’ past online activities and purchase history during the purchase process</td>
<td>42%</td>
</tr>
<tr>
<td>In-store associates who can access customers’ past online activities and purchase history in a customer service capacity post-sale</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: RSR Research, February 2016

A strong majority of retailers define personalization more in terms of how to drive deeper engagement with the eCommerce site, than in terms of how to carry personalization capabilities across channels – and clearly, personalization is more important for engagement and sales than it is for customer service, the option at the bottom of the list. This focus on digital convergence over convergence between digital and physical tends to reflect the priorities of eCommerce and digital marketing teams, rather than the larger challenge of how to marry digital and the store.

While there are some slight differences in perspective when comparing Winners vs. peers, the most dramatic differences emerge when looking at these priorities by vertical, and it is here that what to do with the store plays a bigger role (Figure 14, below).
The differences that stand out the most revolve around fashion vs. hard goods retailers. In many ways, these verticals live at two ends of a spectrum. Hard Goods retailers (especially consumer electronics) exist in an environment where online has already had a massive impact. These retailers find themselves competing directly with Amazon and struggling to find differentiation in the market. So it should not be too surprising that these retailers rate in-store customer engagement as their highest priority, alongside retargeting. If they actually get a customer in a store or online, highly engaged, these retailers recognize they must do everything they can to make sure they don't lose those customers to fierce online competition.

Fashion retailers, on the other hand, have led a relatively sheltered online life to-date. They have been slow to put their full assortment online, and with the exception of department stores, they are often brands in their own right, that face competition for mindshare and share of wallet rather than having to engage in a knife fight over who has the lowest price for a national brand. Their priorities reflect this major difference: they want to make sure they are providing an assortment tailored to their customers' preferences, whether that is through email communication designed to...
drive consumers to the eCommerce site, or through personalization of the browsing experience itself. They are not nearly so concerned about losing an engaged customer to the competition.

Making A Kind Of Progress
Retailers appear to be headed in the right direction with their perceived digital opportunities. Personalization tops their list, and they are defining what personalization means according to how their specific shoppers shop their specific verticals. But their expectations for what personalization will do for them seems very high – perhaps unrealistically high, especially when respondents seem to be discounting cross-channel opportunities for personalization and personalization across the customer journey in favor of a focus on engagement only, and within digital channels only.

Are organizational inhibitors creating obstacles that keep retailers' focus small? Read on to find out.
Organizational Inhibitors

The Big Picture
As it relates to what stands in their way of seizing more of these opportunities, retailers have two main operational problems: getting varying channels to work together, and optimizing the ways inventory is deployed across these channels (Figure 15). Everything else pales in comparison.

By performance, these numbers are only exacerbated. Fifty-eight percent of Winners (not pictured) report optimizing inventory across channels as their top inhibitor. And Winners drive the coordination issue, as well: 54% say that coordinating with other channels in an effort to create a seamless brand experience for the consumer is a top operational challenge. What is even more telling is how quickly both of these issues have risen in prominence in just the past 12 months (Figure 16, below).
A year-over-year comparison shows that inventory and channel coordination have leapt to retailers’ focal points in just the past year. What can we take from this sudden rise in interest? That retailers are becoming deadly serious about creating the seamless customer experience they’ve been talking about for years now: the deeper they get into “action,” the more glaringly apparent it becomes that inventory and inter-departmental cooperation need to be dealt with. To put it bluntly: no significant progress can occur until inventory information is reliable – and information can be shared across internal teams with confidence.

**Within The Four Walls**

However, once we look past the scope of operational challenges, channel coordination and inventory deployment cease to become retailers’ only obstacles. As we see in Figure 17 below, retailers’ top organizational challenges remain as they have for years: legacy infrastructure scares them off, internal silos make life tough, and the lack of a single view of the customer only further complicates matters. None of this is going to be easy.
By segment, some interesting differences emerge:

- Winners are much less challenged by existing infrastructure than their competitors. Only 38% of the best retail performers cite this as an organizational inhibitor, compared to 49% of all others. This is a telltale example of winning behavior. It is not as though Winners’ legacy technologies have been any easier to work around than anyone else’s, but rather that they’ve already been chipping away at making their existing infrastructure more future-adaptable for quite some time, far longer than their average and lagging competitors.

- Instead, Winners are more challenged by the eCommerce platform’s ability to be updated in a timely fashion (36% vs all others’ 24%). Clearly they are playing a different game. While average and lagging retailers bemoan legacy solutions for being too steep a challenge to overcome, Winners have been steadfast at working towards the future. Now they want to press the “go faster” button. It is a clear indicator of just one more way they’ll soon pull away from the pack.
- By revenue, the largest retailers are far and away the most challenged by not having a single view of the customer. 1 in 2 mega retailers (vs a quarter of small and SMB retailers and 1/3 of 1-5$b) say they have too much scattered data to generate a comprehensive view of exactly who the customer is. This makes perfect sense, as the largest retailers have been collecting more information in more disparate ways than anyone else in the market. However, new technologies loom, promising to take this pain away from mega retailers in the not-so-distant future. For smaller retailers who have thus far been able to leverage their nimble nature to paint such a picture of the consumer, the path forward is clear: lean on that advantage as much as possible in the near term, as it may well disappear as a differentiator quickly.

- However, we were very surprised to see that it is the smallest retailers – not the largest – that report legacy solutions as their biggest impediment to progress (67% of retailers under $250m)

- The good news is that budget issues seems to have waned in recent years. 63% of retailers reported this as a top inhibitor just 2 year ago; it is down to a steady 33% both this year and last. It seems, for now at least, that budgetary issues lag organizational challenges.

- Not having enough resources to manage all the available opportunities remains a ubiquitous challenge across all segments. Across retailer size, performance level or by product sold, roughly 1 in 3 retailers say this is a top three issue over the past 3 years we’ve been offering it as an option.

**The Way Forward**

As vital as it is to know where retailers perceive their own internal challenges, it is equally important to gauge how they plan to get over these matters. As you can see below in Figure 18, retailers increasingly see “one platform to rule them all” as the way forward.
Indeed, when viewed directionally from 2013 until today, nearly all of the options put forth gain momentum with time. Retailers recognize that if they are to provide an enhanced digital (and cross-channel) experience to consumers, they are going to need a streamlined technology platform, more coordination with stores, and executive who owns the customer relationship across channels – the lot of it.

Now let’s see how technology will play a role.
**Technology Enablers**

**Marching Towards The Future**

In theory, a technology’s value should outstrip its use. But in many other areas of our research, we find retailers have often been coaxed into implementing various technologies before realizing the value for their specific needs. This has happened all too often in stores, in particular, and is either usually the result of fear that if a retailer doesn’t ride a particular wave, they will be left out or because so much “infrastructure technology” must be implemented before any value can be had from the investment. This is not the case with eCommerce.

On rare occasions within this particular research report over the years we’ve seen cases where retailers have begrudgingly implemented a technology for which they don’t see much value. This year, however, as it relates to infrastructure technologies, that list is a short one (only call center solutions take the blow) and retailers – as a whole – are steadily marching towards implementing the behind-the-scenes technologies they see as most useful (Figure 19).

---

**Figure 19: Behind The Scenes**

<table>
<thead>
<tr>
<th>Technology</th>
<th>Very Valuable</th>
<th>Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modern eCommerce package</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsive design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site performance monitoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online analytics (i.e. page-view analysis, source, etc)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content Management Systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced price and promotion management tools</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unique mobile app</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud management and analytics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attribute-based grouping of product catalog items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A robust Web Services or platform “app” community</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site internationalization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call Center/CRM solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adding commerce/products to lifestyle or blog pages</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RSR Research, February 2016
However, as usual, Winners are the ones pushing the pace. Figure 20 highlights that it’s the best performers who value virtually all of the behind-the-scenes technologies we put forward — including platforms, analytics and content management systems — far more than their competitors.

Figure 20: Winners Showing Why They Win

More Praise

Just as we saw back in Figure 19, where retailers were relatively happy with the value of the back-office technologies they have implemented, we see this trend extends to those technologies which are customer-facing, as well (Figure 21, below). Indeed, only site experience surveys (whose ubiquity has likely rendered them a nuisance to both shopper and retailer, by this point) have been implemented past the point of their perceived value.
Figure 21: High Marks For Customer-Facing Technologies, Too

![Customer-Facing eCommerce Technologies Value vs Use](image)

The Source: RSR Research, February 2016

**Winners Just Keep Pressing**

When viewed by performance, though, we see that Winners are *once again* driving the vast majority of interest in which customer-facing technologies will comprise the next wave of implementation. Consider Figure 22, below, and just how much more strongly Winners view the value of virtually every customer-facing tech, from product availability to gift cards to item-level social networking. Their appetite is enormous.
Following suit, then, we see that Winners aren’t just hungry for these technologies – they are investing heavily: already off to a massive head start in the race toward eCommerce excellence. Figure 23, below, shows just how wide the gap has already grown between the best performers and their peers across the broad spectrum of customer-facing technologies. In short, eCommerce is rapidly becoming a Winner’s game.

Source: RSR Research, February 2016
With digital commerce becoming such a key component of virtually every shopping experience today – and at a pace only promising to quicken – if average and lagging retailers do not mimic Winners’ pace towards eCommerce improvements, they will fall further behind. Granted, all retailers recognize the value of the modern eCommerce technologies available to them in the market today. However, Winners are pushing at a pace that so vastly outstrips that of their competitors that, unless drastic measures are taken, average and lagging retailers are in danger of falling behind past a point where return is possible.
BOOTstrap Recommendations

What have we learned from this research? While retailers still cite uncertainty about how consumers use digital channels to engage with them, that uncertainty is on the decline and retailers are increasingly ready to speed their investments in their digital engagement strategies.

Unfortunately, while they are certain that personalization will be a core tenant of their strategy, there are many different meanings for what personalization really is and ultimately how to implement it. In some ways part of the challenge is the divide that still exists between digital and physical engagement (physical, meaning stores). Retailers seem to underestimate the influence that digital has on stores, which skews their perception (especially that of lagging retailers) of the value digital technologies can have.

How do retailers overcome this major challenge? We have a few recommendations.

Define Your Shopper Journeys
The term "shopper journey" or "customer experience map" has recently come into vogue. But all too often that shopper journey is mapped only within digital touchpoints, or is lost into a black box when a customer enters a store.

But caution is needed when taking on shopper journeys. There are so many gaps that still exist just within the digital realm: videos that work on the desktop experience but don't on mobile, hashtags that are promoted on Facebook but never used on Twitter – there is a new gap revealed among retailers' digital touchpoints every day.

However, retailers don't have the time to take a two-step approach to convergence – they can't afford to get their digital house in order before taking on how digital and stores should work together. This is why shopper journey mapping – to include every touchpoint across every channel – is critical now. Retailers need to understand the influence that each touchpoint has across the whole journey, and not just on the next step in that journey. Going through this effort alone will reveal a whole host of gaps and cracks that must be shored up quickly if a retailer is to stay relevant to shoppers – and it should, once and for all, help retailers prioritize their opportunities for customer engagement across all channels, for their particular set of challenges.

Define What Personalization Means To You
The term "personalization" is rapidly becoming so overused as to be meaningless. According to solution provider stands at tradeshows, absolutely everyone does every kind of personalization. Retailers need to take a step back from this hype and focus on what personalization means to them. And they need to develop that definition into a set of guiding principles. Does personalization literally mean one to one or are small groups of like-minded or like-behaving shoppers close enough? How should the "creepy" factor be managed? How much of the decisioning that goes into personalized experiences be exposed to shoppers, if they have an interest in understanding such decisions? How much access should shoppers have in influencing those factors?

A personalization strategy and guiding principles will help retailers cut through all of the competing and often conflicting messages around personalization. And if those guiding principles
are mapped against a shopper journey, retailers will end up with a detailed strategy for managing their future digital investments – something even more valuable than the shopper journey alone.

**Digital Is A Way Of Life**

The concept of “digital” as a converged space within retail – as something larger than just eCommerce – is still relatively new to many retailers, forget about blending digital and physical, which is a whole other, even bigger, challenge.

Supporting a shopping journey that now suddenly includes social and mobile in addition to traditional eCommerce and stores seems like somehow tacking on more work for what is ultimately no incremental gain. And so it can be difficult to muster internal enthusiasm to support digital investments – especially when some of that investment must come at the expense of other channels, like stores.

Retailers need to get past this perception and embrace digital convergence as a way of life. This is how shoppers want to engage. If retailers want that engagement, they need to be where their shoppers are. And they not only need to provide a single, unbroken and supported experience across all digital touchpoints, they need to carry that experience in to stores. And, given how fast shoppers move and how fickle they can be, retailers need to accomplish all this quickly – before consumers consign them to irrelevance.
Appendix A: RSR’s 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 Methodology follows:
Appendix B: About Our Sponsor

With SAS’s 35 years of advanced analytics and industry expertise, retailers choose SAS to improve business results with solutions for merchandise planning, size optimization, localized assortment optimization, space planning and optimization, price optimization, cross-channel campaign management, customer insight, social media analytics, and advanced forecasting across the enterprise. Retailers turn to SAS because SAS drives better results.

Used at more than 55,000 sites in 131 countries, including 90 of the top 100 companies on the 2011 Fortune Global 500® list, SAS is proud to give our customers THE POWER TO KNOW®.

For further information, visit http://www.sas.com/retail/
Appendix C: About RSR Research

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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