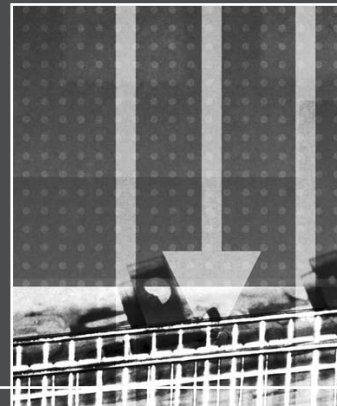


2008 CROSS-CHANNEL TECH TRENDS STUDY

# SYNCHRONIZING CHANNELS



- ▶ STRATEGY AND INFRASTRUCTURE
- ▶ ORGANIZATIONAL ALIGNMENT
- ▶ OPERATIONS INTEGRATION
- ▶ INVESTMENT PRIORITIES
- ▶ M-COMMERCE



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EXECUTIVE SUMMARY

# State of Cross-Channel Operations 2008

Evolution and significant technology investment are the hallmarks for the next two years

BY CHRIS FLETCHER, ERIC KLEIN AND KEVIN STERNECKERT, AMR RESEARCH

Retailers are continuing to evolve toward tightly integrated cross-channel operations and will be making significant investments in technology, infrastructure and organization over the next two years to implement this strategy.

Challenges remain, however, as retailers grapple with fragmented systems architectures, aligning organizational structures, and integrating warehousing, merchandising, analytic and business intelligence systems, in-store kiosks, Web stations, and mobile devices into their cross-channel environment. An additional challenge is the relative maturity of customer-facing technology in comparison to the relative immaturity of the back-end infrastructure required to support tightly integrated cross-channel business activities.

A majority of retailers are convinced of the value and need for an effective cross-channel strategy in their organizations, and are moving forward with investments in technology, infrastructure and the organization to support this evolution. Integrating the multiple channels of in-store operations — e-commerce, call centers and catalog sales — and in-store technologies, such as kiosks or mobile devices, is clearly a major initiative with significant challenges.

## Investment Remains Strong

However, these challenges do not appear to have delayed or discouraged investment in this area: 21% of retailers report 2008 investments in cross-channel operations of between \$5 million and more than \$10 million, and 46% plan to upgrade to their company's third-generation cross-channel infrastructure by the end of 2010.

AMR Research collaborated with *RIS News* in the fall of 2007 to examine the retail industry's progress in evolving to next-generation e-commerce and cross-channel strategies. In 2008,

AMR Research and *RIS* again surveyed senior executives in the retail industry to measure progress and commitment to integrating customer-facing cross-channel strategies into their company's core operations.

This research is based on input from a variety of executive, operational, marketing and cross-channel positions, and across a wide range and size of retailers. AMR Research's insights will focus on four key areas: strategy and IT infrastructure, organizational initiatives, operations and investment priorities and future directions. •

## FIVE KEY TAKEAWAYS

Five key takeaways that will have a major impact on cross-channel strategies for the rest of the year and beyond.

- ▶ **Investment in cross-channel continues** — 21% of retailers report cross-channel budgets of between \$5 million and more than \$10 million in 2008, with the average budget across all retailers pegged at \$2.6 million in 2008.
- ▶ **Major evolution toward third-generation systems** — 46% of retailers plan to upgrade to a third-generation platform by 2010. Only 7% of retailers have already completed this transition, while 17% plan to stay with their first- or second-generation systems.
- ▶ **Complex and challenging IT infrastructure** — 78% of retailers use point applications or application suites with extensive customization, creating a highly-tailored but very complex infrastructure that can be challenging to evolve to cross-channel operations.
- ▶ **Organizational commitment** — 61% plan to have a dedicated cross-channel executive team by 2010, while 34% have no plans to put a dedicated executive team in place.
- ▶ **Integration and operations still a challenge** — Tightly integrated cross-channel systems are still a work in progress. Only 30% have tight integration between cross-channel and merchandising systems, just 15% report tight integration with logistics and reverse logistics systems, and only 5% have well-integrated cross-channel loyalty services.

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# Synchronizing Channels

Resolving big challenges with infrastructure, organizational alignment and operations integration.

Investment in systems, operations and an organizational structure that will support effective cross-channel operations continues to be a priority for retailers and does not yet seem affected by current economic conditions.

Progress toward a complete and integrated cross-channel environment is being affected, however, by a fragmented and complex IT and operations infrastructure. As one example, only 20% of retailers indicate they are relying on application suites from a single technology vendor with minimal customization, and 56% rely on either multiple vendor applications or extensive customization to an application suite.

## Rapid Evolution of Technology

While reliance on a single set of vendor applications is not a guaranteed way to limit complexity and obsolescence, use of multiple vendors and extensive customization can make integration of new functionality — such as an upgraded e-commerce engine or customer loyalty system — into a cross-channel strategy more complex.

The findings also indicate that most retailers with a committed cross-channel strategy are actively refreshing their e-commerce technology stack. By the end of 2010, 46% of retailers expect to upgrade to their third generation of e-commerce technology, and an additional 7% have already completed this evolution. Only 17% expect to continue with their first- or second-generation e-commerce or cross-channel systems.

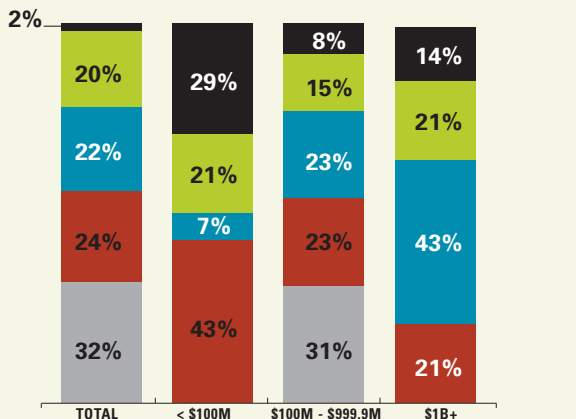
This relatively rapid technology refresh is a reflection of the rapid pace of change — and possibly of the relatively immature functionality of the first- and second-generation systems that were implemented.

Furthermore, integration between multiple customer-facing channels — for example, between store operations and e-commerce activities — is challenging enough. The more forward-thinking retailers already recognize that the next challenge is looming on the horizon.

This next challenge is tight integration with back-end systems and operations that either manage functions such as merchandising or logistics and reverse logistics, or pro-

## Packaged vs Point Solutions

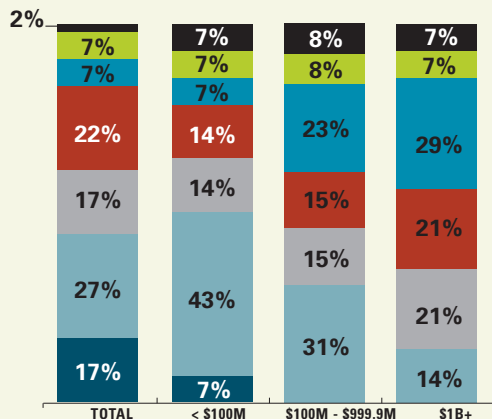
What best describes your company's strategy of implementing software technology that supports your cross channel operations?



- Other
- Suite solutions from a single technology vendor are used as much as possible, but with extensive customization
- Best of breed or "point" technology solutions are developed in-house
- Best of breed or "point" technology solutions are acquired from a service or technology vendor
- Suite solutions from a single technology vendor are used as much as possible, with minimal customization

## Evolution to 3rd Generation Systems

What best describes the status of your core e-commerce platform software application?



- Other
- We currently utilize our first or second generation e-commerce and/or cross-channel systems and have no plans to upgrade
- We currently utilize our first or second generation technology platform
- We plan to upgrade to a new technology platform by end of 2010
- We plan to upgrade to a new technology platform by end of 2009
- We plan to upgrade to a new technology platform by end of 2008



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vide management insight through analytics and business intelligence.

Of the executives surveyed, 35% report having tight levels of integration with warehouse management systems. On the other hand, only 15% report tight integration with logistics or reverse logistics (in-store pick up or returns, for example), and only 5% have customer loyalty systems that can be accessed across all in-store, Web, kiosk or POS channels.

### Organizational Alignment

Quantitative research and face-to-face interviews with retailers confirm that organizational issues are one of the more significant challenges in evolving toward a cross-channel retailing organization. Retailers are making progress, however, as evidenced by the formation of either specific executive roles with cross-channel responsibility and authority or executive teams that are focused on cross-channel operations.

By the end of 2010, 61% of retailers report they plan to have a dedicated executive or executive team whose sole responsibility is cross-channel operations. This does not mean, however, that the head of cross-channel operations will necessarily have a cross-channel title: the director of marketing, COO or CIO are likely to have primary responsibility for cross-channel operations by 2010 in a majority of retailers.

A sense of competitiveness between a retailer's various channels can and does affect the success of cross-channel initiatives. We found that in many instances (48%) store associates and management did not receive any compensation or recognition for orders that originate online, even when that store was responsible for providing related services such as

in-store pick up and returns.

In spite of these challenges, retailers are making progress on the organizational front and are embracing cross-channel as an integral part of their strategy: last year 33% of retailers indicated they didn't even

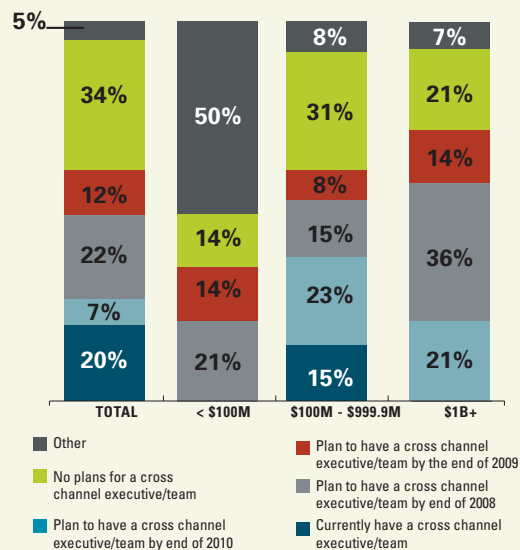
have an identified executive or organization that owned responsibility for cross-channel operations.

### Operations Integration

In general, retailers have done a fair-to-good job of integrating their

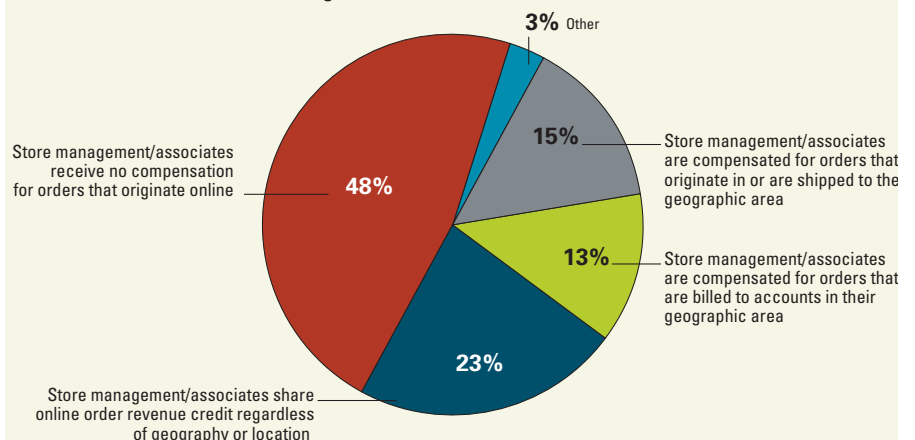
### Cross-Channel Executive Team

Does your company have or plan to have a dedicated executive or team whose sole or primary responsibility is Cross Channel Operations?



### Aligning Store Ops with E-Commerce

How does your company provide incentives to store management and associates for online orders?





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cross-channel operations with back-office applications (order management, warehouse management and inventory management). A majority of retailers report tight or loose integration among these systems.

However, significant work remains in integrating other critical operational or analytic areas with cross-channel. Only 22% of retailers have tight integration between their analytics and business intelligence systems and cross-channel operational systems. Only 30% report tight integration with merchandising systems.

Inventory visibility and cross-channel order fulfillment capabilities also need improvement at most retailers: 36% of retailers report having siloed product visibility that limits customers to purchasing a product within the channel of their current interaction. Only 14% have a level of cross-channel operational efficiency that allows the customer or associate to have inventory and order visibility across all available channels.

### M-Commerce

Mobile commerce capabilities are planned for 2009 or 2010 availability by a majority of the retailers, but only 12% report having mobile commerce capability today. Retailers did report in terms of budget priorities for 2010 that mobile devices for either customer or store associate use would be either the largest (21%) or second largest budget spend (39%).

The level of integration between cross-channel operational systems and back-office systems for order management, warehousing, data warehousing and inventory management will become increasingly critical as retailers look to improve margins by optimizing orders, inventory and logistics.

While retailers are addressing current challenges with customer-facing channels today, the next challenge looming on the horizon is to achieve tighter levels of operational integration with these mission-critical applications and data repositories.

### Investment Priorities

Investment and budget plans for the next 18 months provide an interest-

ing window into just how significant cross-channel operations have become for retailers. To support their cross-channel initiatives, 21% of retailers report 2008 budgets of \$5 million to more than \$10 million, with the average budget, across all retail sizes and segments exceeds \$2.5 million.

One of the more interesting findings is the reduction in investments

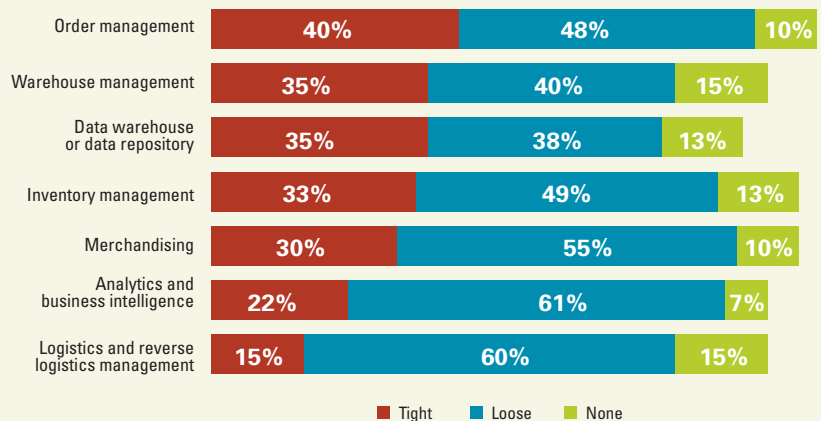
### Cross-Channel Inventory and Loyalty Visibility

Which of the following statements best describes your company's inventory visibility and cross-channel customer order fulfillment capabilities? (Greater than \$1B in revenue)



### Cross-Channel Integration

What level of integration do you have between your cross-channel and e-commerce technology platform and the following operational or back-office software packages?





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for Web site developments and enhancements, an indication that — possibly on the heels of effective third-generation e-commerce engines and better Web development tools and environments—retailers have gotten a good grasp on their Web environments.

This investment appears to be channeled, and increased, into other areas that will provide greater customer intimacy or better operational and inventory management. It also follows the insight that retailers are implementing applications that have measurable ROI over soft benefits like look and feel of a Web site.

The largest cross-channel investments planned for 2010 are in the following areas:

- Analytics and business intelligence
- Inventory visibility and customer order fulfillment
- E-commerce engines
- Cross-channel merchandising
- In-store Web stations and kiosks
- Enterprise 2.0 and Web 2.0
- Mobile devices (used by store associate or customer)

### Conclusion

Retailers are making significant investments in the infrastructure, technology and organizational resources needed to support effective cross-channel operations. They have shown, in many cases, significant progress in dealing with the challenges brought on by integrating e-commerce, in-store, call center and catalog, and kiosk-based channels.

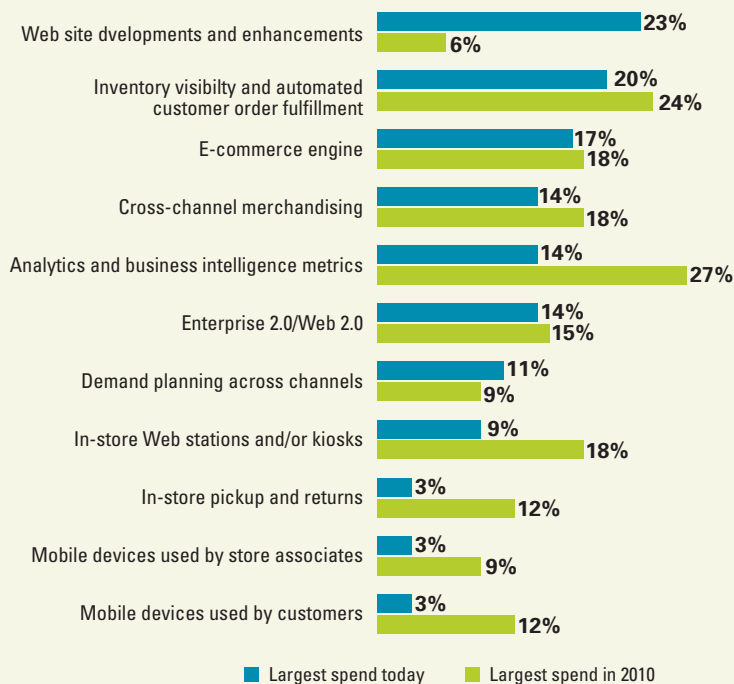
While retailers are likely to continue their reliance on best-of-breed or in-house developed systems, they also recognize the need to almost continually upgrade, enhance and integrate these systems in order to remain competitive.

Investment in new or emerging technologies such as in-store kiosks and mobile devices will continue, but the next challenge on the horizon will be to invest in tighter integration with mission-

critical warehouse, order management and merchandising systems that will drive closer customer relationships, effectively manage inventories and product, and protect margins. •

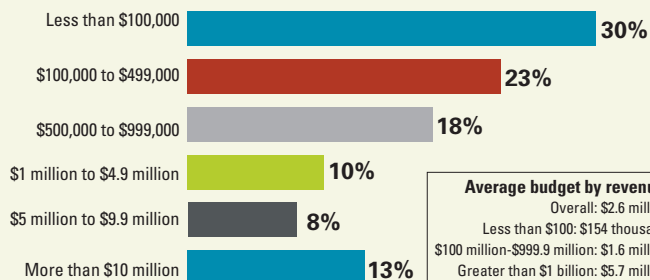
### Cross-Channel Investment Priorities

Which of the following capabilities will be your largest dollar investments in 2008 vs. 2010?

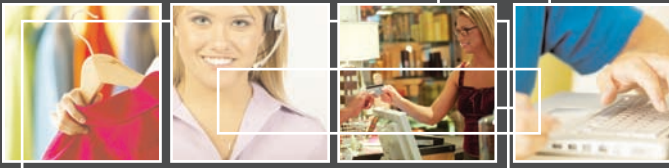


### Cross-Channel Investment Plans

Approximately what is your company's budget for software and services to support cross-channel operations and initiatives in 2008?



**Average budget by revenue:**  
 Overall: \$2.6 million  
 Less than \$100: \$154 thousand  
 \$100 million-\$999.9 million: \$1.6 million  
 Greater than \$1 billion: \$5.7 million



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