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The Merged Channel Nirvana

(Which Is Awfully Close To
The Merged Channel
Nightmare)

*A Special Report From
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StorefrontBacktalk tracks retail technology, E-Commerce and Mobile-Commerce issues for retail IT executives at the world's largest retail chains and sites. StorefrontBacktalk's editors are routinely quoted in major media (Wall Street Journal, Time, Forbes, Reuters, BusinessWeek, American Banker, etc.) for context on retail technology trends.

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From StorefrontBacktalk's Editor:

As retailers continue to try and embrace—slowly, hesitantly for sure, but embrace nonetheless—merged channel strategies, they are discovering the benefits they had been promised along with new headaches that are added bonuses.

Consider a recent Best Buy site outage. It suffered in-store pains as a result that simply wouldn't have existed 20 years ago. Order status, for example, was unavailable to associates as it now hung off of the Web. Mobile was also knocked offline.

Merged channel is the only route to take and it's where customers will insist that chains be within 18 months. And that means integrated databases, refund/return procedures, and simply common experiences. But it also means being prepared for the inevitable setbacks that such a transition will force—and thinking through the scenarios way beyond system upgrades.

Evan Schuman, Editor-in-Chief, StorefrontBacktalk

From ChainLink's Editor:

The concept of multi or omni-channel is a hot topic, brought on by the suddenness of mobile popularity. Beyond buzz are the not so simple facts. Companies need to provide the right mix of services, messages, and pricing for each customer, using the channel by which the customer is accessible.

More than Mobile—Understanding your channels: Do your planning, pricing and promotion systems know which channel is the most effective for each kind of customer?

Don't Forget Fulfillment! No doubt, different channel pricing strategies have a lot to do with the perceived costs of operating a channel. But ironically, companies have few analytics to assess the success of these channels.

Technology Interplay: On-the-ground technology such as demand sensing, RFID for real-time inventory, cross-channel integrated customer systems need to work together. Companies are left with expedient tech investments that don't talk to each other. That won't work in a multi channel world.

In this issue on Merged Channel, the writers will challenge your thinking about what it takes for successful merged channel management.

Ann Grackin, Editor-in-Chief, ChainLink Brief

Toys"R"Us Chief Shows Gap Between CEOs, E-Commerce

By Frank Hayes, *StorefrontBacktalk*

A large chasm still exists between the thinking of retail CEOs and e-commerce execs. Case in point: Toys"R"Us CEO Jerry Storch, who gave a tradeshow keynote on Tuesday (Sept. 11) defending brick-and-mortar chains and promoting merged channel, not just online, retail. That defense of bricks isn't an issue. What's worrisome is that Storch's view of merged channel (a.k.a. omnichannel) is far behind what customers already expect—namely, that it's all the same retailer, and online-versus-stores better not get in the way.

When it comes to merged channel thinking, customers are already there. E-commerce execs are getting there. But chain CEOs don't get it yet.

Merged Channel Ideal



Part of what Storch was trumpeting was a new Toys"R"Us service called "Ship To Store," in which customers can order items online and have them shipped free to a store for pickup seven to 14 days later. OK, that's great—but it's not to be confused

with a different Toys"R"Us program called "Buy Online, Pick Up In Store," which lets customers shop online and then pick up the items in a store three hours later from the inventory that's already in the store.

Yet a different soon-to-arrive (in October) Toys"R"Us feature is called "My Store" and lets customers browse the inventory in a particular store. And still another, non-customer-facing capability is called "Ship From Store," which enables e-commerce orders to be filled and shipped from a store's inventory instead of from a distribution center.

Those are all useful functions (and they're certainly not unique to Toys"R"Us). But the fact that they all have their own names—sometimes confusingly similar names—that are being rattled off by a retail CEO demonstrates something is wrong.

Customers won't remember the names of all those services, which won't be the same at Toys"R"Us and other chains anyway. (Try this: Without looking back, try to remember what the difference was between "Ship To

Store," "Buy Online, Pick Up In Store" and "Ship From Store." And good luck with that.)

For customers, the chain is the chain, online or in-store. They want to buy the product and either pick it up or have it delivered. *That's all.* They don't know or care where the product comes from—their local store, a DC, some other store—just how long it will take to arrive either at a store or a delivery address. Customers especially don't care what the name is for some element of that process—any more than they care what SKU or DC or POS mean.

And that's true whatever online/in-store lines they cross. And that's true whether they shop on a chain's e-commerce Web site, check a local store's inventory online, call the store, ask an associate in person or walk down a store's aisles. Remember, some of these customers want to save time by shopping in-store, buying on their mobile phone and having the product delivered at home. Others want to shop online from home and pick up the item in-store. Still others would *really* like to call ahead to have an associate pull the item, then pay online and get in and out of the store in 90 seconds.

That's the merged channel ideal—shop anywhere, pay anywhere, receive the merchandise anywhere. Anything less than that is a hole in the process. And, increasingly, customers have already figured it out.

Meanwhile, big chain e-commerce execs are frantically working out what will be required for the necessary single view of inventory for stores, logistics for inventory balancing, compensation strategies for sales that cross the in-store/online boundary—and, ultimately, how to get rid of that boundary, because with a chain that's doing merged channel, there's no such thing. There are lots of technical and organizational legacy to plow up, in addition to new technical and organizational systems to develop, but at least e-commerce execs have the picture.

The CEO Perspective

But no one seems to have explained the picture to some retail CEOs. Yes, the CEO signed off on a lot of merged channel

initiatives. And every one of them provides a useful feature for customers (and, hopefully, more sales to more customers).

But as soon as each of those initiatives is done, it should become invisible. It's easy to understand why a CEO wants to call out particular initiatives—it looks good for PR, and CEOs want initiatives to show a return on investment. But that won't work with omni-channel, where—if it's done right—every new project sends customers where they want to go, but not in ways that make it easy to calculate ROI. In reality, there's no way to think about the ROI of an individual project when things are that intertwined. And the people who should be

When it comes to merged channel thinking, customers are already there. E-Commerce execs are getting there. But chain CEOs don't get it yet."

thinking through that under-the-covers stuff are the software developers—not CEOs.

Which means that if a CEO is proudly announcing the names of a batch of newly launched merged channel services, either something is seriously wrong with how well integrated the chain's operations really are, or the CEO needs a much better understanding of what merged channel actually means within the chain.

Either way—whether the chasm to cross is explaining to the CEO or integrating the merged channel process—e-commerce execs have their work cut out for them.

Omni-Channel Inventory: Getting the Big Picture

By Bill McBeath, ChainLink Research

Retailers want to provide a great omni-channel experience. This requires a foundation of precise, real-time inventory visibility all the way from the supplier to the end consumer and everywhere in between.

The Omni-Channel Challenge

The holy grail in the retail supply chain has been integration across an omni-channel environment, all the way from the supplier to the consumer. The moment of truth happens when the consumer wants an item, whether at the store, on the web, on the phone, or via any channel. Can the end customer be reliably told where that item is, when they can get it, and offered at a price that is profitable to the retailer, yet attractive to the consumer? Unfortunately, most retailers still struggle with this. With a decade or more of e-commerce experience under their belt for most companies, why is providing a seamless merged channel experience still such a challenge?

Fragmented Fulfillment and Visibility

To understand why this is difficult for retailers, it is helpful to look at how we got here. In the late '90s and early 2000s, retailers felt immense pressure to build online e-commerce capabilities as quickly as possible, without causing major disruptions to their existing business. For their existing bricks and mortar business, the retailer monitored store shelf inventory and placed regular, bulk restocking orders in a batch mode to their DC. Furthermore, most retailers tried to position their DCs in locations that provide the most cost-effective logistics to their stores.

In contrast, e-commerce fulfillment happens in 'eaches'—one-at-a-time customer orders. And the optimum location for that inventory might be near one of the big parcel carrier's hubs, not necessarily near the stores. As a

result, retailers generally put in place separate, parallel inventory locations and processes, and separate fulfillment systems for store vs. e-commerce sales. Furthermore, the e-commerce fulfillment was (and still is) often done by a third party.

With separate systems and separate inventory stocks in place (see Figure 1 - *Islands of Visibility*), if the retailer was out of stock of a desired item in the store, the store associate did not have the tools to check other available inventory at the other stores, or across the network of stocking locations—distribution centers, 3PLs, or inventory at the manufacturer that was available to fulfill an order. Furthermore, they had no visibility into inventory in transit or on order, which were managed by yet other systems.

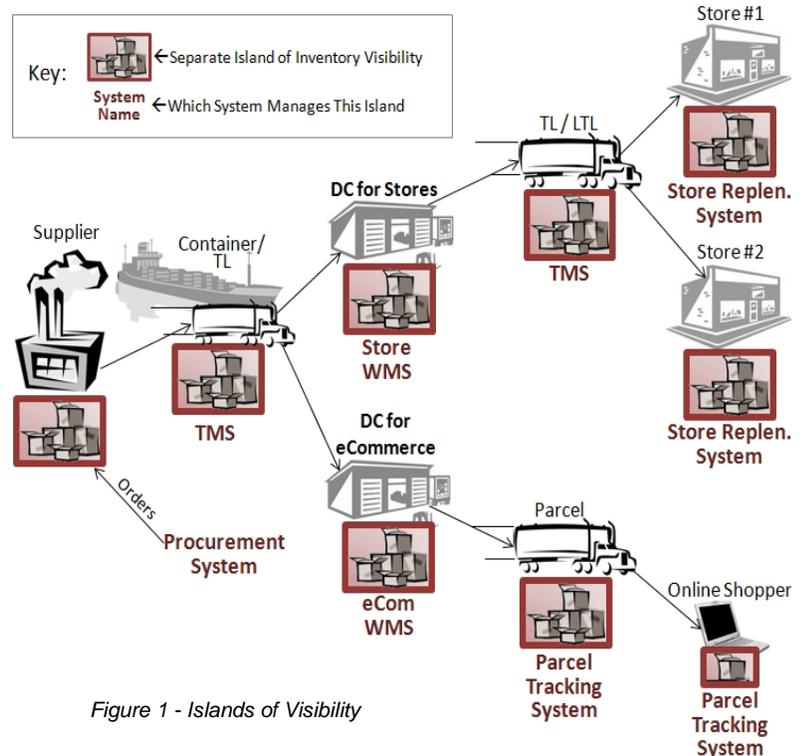


Figure 1 - Islands of Visibility

Source: ChainLink Research

Solving the Problem

To provide a good merged channel experience at that desired moment of purchase (through any channel), the retailer must know what is available and the best way to fulfill the order. A variety of supply chain capabilities have to be in place to make that happen. Better forecasting, optimization, and allocation systems are important, but even more foundational is the need for a unified, real-time, highly granular view of inventory at each stocking location, knowing exactly what is in each store, the retailer's DC, the supplier's finished goods, in-transit, and on-order. That underlying, detailed, real-time data about inventory location and capability to fulfill is the foundation for cross-channel order promising.

The Right WMS Can Be a Foundation for Merged Channel Capabilities

Warehouse Management Systems are great at locating things *inside* the warehouse. Can these tools be used for finding inventory *outside* the warehouse? Some WMS vendors have extended that visibility beyond the four walls, to get a true end-to-end picture, starting with the order placed with supplier, all the way to the delivery to the consumer, and returns as well.

The system should capture the actual P.O.s and DC replenishment orders to get visibility into expected future shipments and dates. It should also track and manage inbound shipments from the supplier, including receiving the ASN and providing visibility to inbound shipment status. The system should manage not only the outbound transportation to the store, but also receiving and managing goods in the back of the store, replenishment to the sales floor, and returns and reverse logistics as well.

Locations in the system should be as specific as needed, down to the individual shelf and bin. The system should allow instant searches of available inventory across the entire network, all locations, including in transit and on order, if desired.

Providing a Great Merged Channel Experience ...and More

That level of granularity, unified in one system, all the way from supplier to store shelf—or to delivery at the consumer’s location for e-commerce and direct-to-customer store sales—provides true precision and completeness in knowing where your inventory is, whether it is in motion or at rest or in the hands of the customer. That is foundational for the unified omni-channel experience that so many have written about and are hoping for. Cloud-based extended warehouse management, reaching all the way from the supplier to the consumer, can be the master database of all transactions affecting inventory.

With a decade or more of e-commerce experience for most companies, why is providing a seamless omni-channel experience still such a challenge?

Warehouse management has always been a key component of effective fulfillment and supply chain management. Now, cloud-based extended warehouse management can help fulfill the promise of omni-channel integration as well.

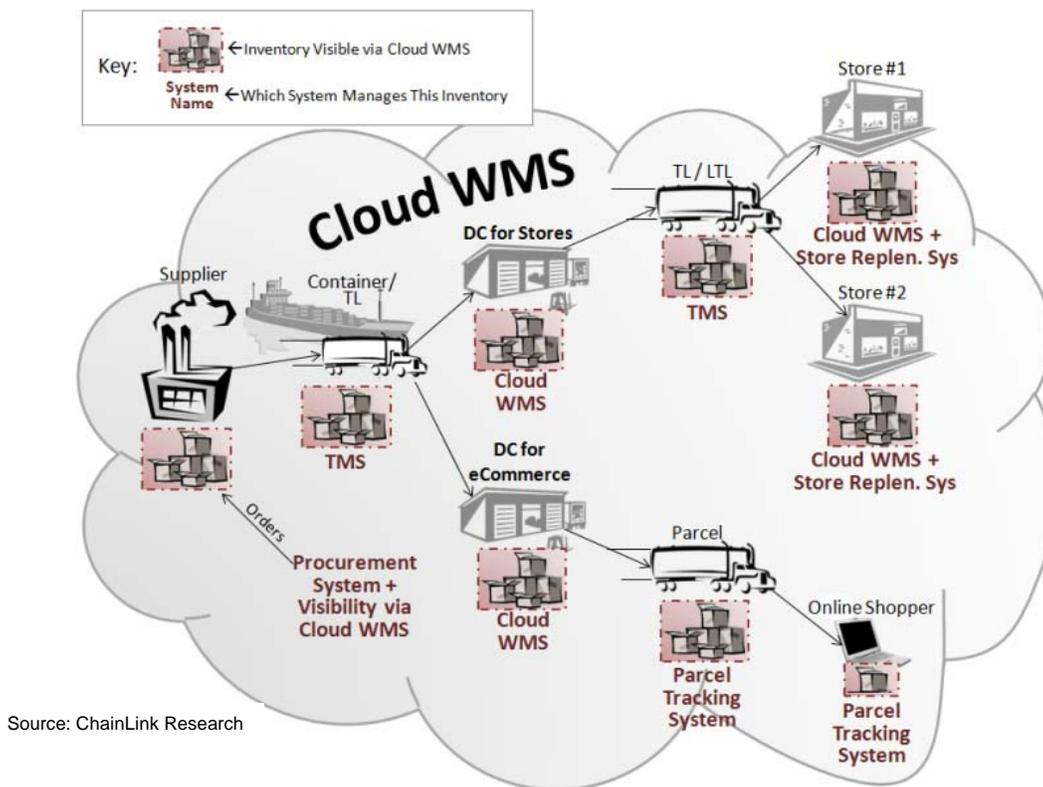


Figure 2: Cloud-based WMS Providing Inventory Visibility Across the Network

e-Tailers

Run on NetSuite

Wine Accessories, Serena & Lily, 2 Pure, Bluw, Afloral, GoPro, Yamme
Skin Authority, Wrigleyville Sports, Groupon, SouthCypress.com,
Supply, Beyond the Rack, Outback Toys, All About W8, UK Home Shop
Kitchenware Direct, Ruff Wear, Lilla P, Evernote, Audi Collection
Nescafe Doce Gusto, Lytro, Teno, Tree of Life, Inkjet, Kask, Evernote
Knowledge Universe, Lionel NASCAR Collectables, SportStop, A
Foundation Store, Red Hare, Caterparts, Roku, One System, Ma
All For Color, YouSendIt, RST Outdoor, Azalea, Skunkfunk, Boom
ingshot Sports, Skin Authority, Igloo, LittleMissMatched, Yamme
Aircraft, One System, Ooma, Splunk, Casa Life, Bluw, Sonoma, T
Wine Accessories, Niner Bikes, 2 Pure, Afloral, Beyond the Rack
kunkfunk, Wrigleyville Sports, SouthCypress.com, Red Hare, Por
Supply, Magellan, Outback, All About W8, Ibex, UK Home Shop
Kitchenware Direct, Ruff Wear, Igloo, Nescafe Doce Gusto, Ter
Illa Tree of Life, Inkjet, Kask, Groupon, Knowledge Universe, Sling



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Understanding Channel Effectiveness

By Ann Grackin, ChainLink Research

Each channel has positive attributes to attract customers. But with customers cruising cross channel, it is time for companies to analyze which channel is most effective before they build programs where shoppers don't come.

The challenges associated with dealing with (yet another) technical channel (social, mobile, web) as well as the burgeoning sales channels—wholesale, retail, e-commerce, and increasingly popular liquidation sites—have companies focused on creating strategies to deal with them.

Demand- and promotion-management systems are stretching themselves as quickly as possible to help merge the islands of software—sales history, promotion planning, etc.—to create a real business model.

Each channel has its own characteristics and benefits. First-run store shoppers want fresh merchandise. They want to be ahead of the curve, and they may be willing to pay full price. And today, high-end e-commerce liquidators can provide fashion hungry bargain seekers with a crack at the top brands for less. Additionally, customers not only have their preferred channel—mobile, web, catalog/call center, or store—but will use other channels to access sales under the 'right' circumstances.

At every twist and turn, companies need to decide how they will use marketing, sales, and technical channels; which types of promotions they will push through omni-channel technologies; and what kind of fulfillment methods might be best. Many models of multi-channel look like the diagram below.

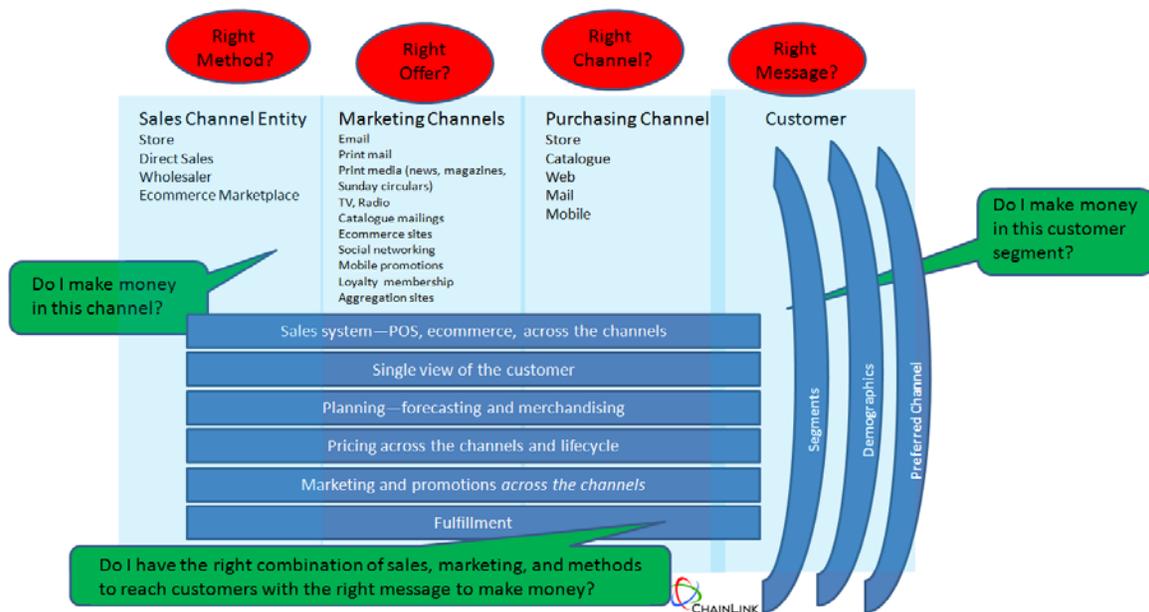
Analytics-driven Multi-Channel Management

Questions:

- What are my customers' segments, i.e. demographic, lifestyle, tastes? What events drive them to buy?
- How do I access better—more direct information about my customers, to refresh my current thinking, change my target markets, or gain more sales and profits?
- What is my customers' preferred channel? Can I alter that? Can I track my customers as they move from interest to sale? Can I track that as they move across channels?
- Was this the right message for each customer segment? What information or deal is most important to them?
- How much does it cost me to actually operate a channel? Most assumptions about lower—or higher—costs to operate channels are often not accurate. Do I have good information on profitability for each channel?

Having the analytics across the channels, from price through profit, to understand how well we price; how well we *maintain* price within each channel; and when we do offer discounts and promotions, how effective they are at achieving the goals, should be part of the critical technology for any brand or retail company. Unfortunately, today, no such analytics exist. But they're on the horizon. Demand- and promotion- management systems are stretching themselves as quickly as possible to help merge the islands of software—sales history, promotion planning, etc.—to create a real business model.

However, if we don't make doing this a priority, the goal of effective multi-channel management will elude us. You can build multiple channels, but you can also lose your shirt.



Walmart's Clever Price-Comparison Trial: Show-and-Tell Without Going to the Store

By Evan Schuman, *StorefrontBacktalk*

Walmart has started a trial in three cities where shoppers can email photos of competitors' receipts, inviting Walmart to do its price comparison without the shopper ever having to actually walk into a Walmart. This clever gambit shares some of the strategy of its online cash program, where the chain didn't want to lose online shoppers merely because they didn't have—or didn't want to use—a payment card.

In this trial program, called logically enough the "Receipt Comparison Tool," the idea is to showcase hopefully lower prices to consumers who don't want to walk into a Walmart store. (It's not like such hesitation is totally unwarranted.)

But Show Me First



It's sort of a Missouri approach, with the shopper in effect saying, "Show me. I like my store. But if you show me concretely how you'd charge me less for the same stuff, I'll drive over to your store quickly enough. But you show me first."

On the practical side, the move—which started mid-August—collects emails from prospects (potentially for future promotions) and then associates those prospects with specific products of interest.

Walmart has not announced the list of retailers it will compare its product pricing with, which puts consumers in a frustrating position. Many will go through the effort of taking a picture of their receipt, filling out the Walmart form and submitting it—only to then be told they needn't have bothered, because that retailer is not eligible for the program.

Why not announce the list, so Walmart could avoid alienating some of the very customers it is trying to woo? Could the extra data from all those don't-have-a-chance submissions really be worth that alienation risk?

This process is quite complex, because Walmart does two fairly common things for its in-store pricing. It localizes pricing, so one store in one neighborhood could

have different pricing than a store in another area, and it updates pricing throughout the day based on various issues, including supply and demand.

This means quite a bit has to happen with that receipt. First, the merchant must be identified—such identification is not in any uniform spot—and matched against Walmart's

confidential list of retailers that it will compare against. Second, the items must all be identified, which is not necessarily easy, given the huge number of rather cryptic codes many retailers—especially smaller ones—use.

Next, the system must identify the nearest Walmart to that location (relatively easy). It must *then* do a lookup to determine what the pricing was for that item at that specific store at that specific date and time. That's one of the reasons for a seven-day limit. This database is huge enough as is, let alone if it needed to record every item's price for every store for every hour going back months.

"We do have to go through and use various tools to—in real time—cross-reference the prices," said Deisha Galberth Barnett, a senior director for Walmart media relations.

Bloomberg Report

Walmart's marketing goal with this program—to reinforce its pitch that it delivers the lowest prices for most items—is especially critical now, given a late August report from *Bloomberg* that found Target's prices were actually lower.

Galberth Barnett tried to put the *Bloomberg* report into a Walmartian context. She legitimately pointed out that pricing changes with various specials and that only a long-term view is meaningful. "We have beaten Target (*in the Bloomberg pricing surveys*) for the last 10 months straight. In any marketplace, from time to time, you will see a shift like that." She added that Target has unusual sales, which she said do not ultimately help the shopper. "We don't do gimmicks," she said. In the terms and conditions on the Walmart site for this trial, the chain points out that not only will it use the data for a price-comparison pitch back to the customer, but it will also share the results with Walmart suppliers "for purposes of calculating the comparison." That raises some questions. Doesn't Walmart know its own prices? Why would it have to check with Nike or Nabisco to determine its sneaker or cereal pricing?

More to the privacy point, what's to prevent those suppliers from reaching out to those customers directly

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with their own email pitches? There's nothing P&G or J&J love more than some closure, being able to identify the consumers purchasing their products through major chains. But why would Walmart want this? It seems an odd move, especially given that it was included in a section titled "privacy."

The Fine Print

The fine print also rattles off the usual restrictions. (What would a Walmart price-comparison offer be without lots of restrictions?) It starts with being only offered in specific markets—Albuquerque, Atlanta and Chicago are the first—"and against select competitors."

Won't that sound to consumers as though Walmart is saying, "We'll only compare prices with those we know are more expensive than we are"?



It reasonably limits transaction matches to those purchased within the prior seven days ("I found this receipt from 1969. It's a bit faded, but the prices sure look good"), and it also requires that "there must be a Walmart location nearby the competitor location where you shopped. Only receipts with at least ten (10) items can be compared." That 10-item requirement is a nice touch, as it reinforces the message that—theoretically—Walmart would save money on full shopping trips, not necessarily when a shopper grabs a single item on a special sale.

Then there's the restriction that will rule out many potential comparisons, a group that gets even bigger as chains try and differentiate products more to thwart showcasing. "To ensure an accurate comparison, we only compare items that are exactly alike. Therefore, we do not compare private label or random weight items such as meats and non-bagged produce. We only compare exact items that we carry at Walmart." It also adds a reasonable coupon-eliminator: "We do not include any redeemed coupons in the comparison due to the difficulty in matching up coupons with the items shown on the receipt."

The best of this new trial: It shows that Walmart is willing to think creatively, to not accept the routine assumptions about online, in-store or anything else. Using cash for online? Heresy. Have an in-store price-comparison program where the customers don't have to go in-store (well, at least not into *your* store)? Ridiculous.

And, of course, from a marketing standpoint, it sends the message to shoppers that Walmart must be convinced it really does offer lower prices or else why try such a trial? Some unorthodox merged channel thinking on top of price confidence and the willingness to play a little Missouri, "OK, we will show you first"? There's a reason Walmart is such a frightening competitor.

Multi-Channel Collaboration—Take the Offense

By Ann Grackin, *ChainLink Research*

The retailer-supplier relationship represents the most critical linkage in the multi-channel strategy. And in the outsourced global world, it's more critical to get it right than ever. But often the brand or manufacturer feels like they have the short-end, left with faulty demand plans, charge-backs and excess inventory.

Channel Management provides an opportunity to increase sales and improve insights into end-markets.

[Managing channels](#) is not simply orchestrating events; rather it is a set of holistic programs that provide more sales at lower cost through a more precise process. One area that brand companies and manufacturers can improve is the supply chain and forecasting practices within their channels.

Challenging the Forecast

The farther away we *perceive* ourselves from the end-market, the more challenging the forecast. With the *one up/one down* serial forecasting model, suppliers often don't trust retailers' forecasts. But without some type of forecasting method, they miss orders and profits. In addition, they resort to antiquated methods to stimulate demand by creating unnecessary pricing discounts—blunt instruments—due to lack of market visibility.

So what if the supplier, instead of the retailer, managed the demand process? This approach is actually taking the offense in the relationship. Brand companies could significantly improve market planning and protect themselves in what often feels like an unbalanced relationship, ultimately becoming better collaboration partners.

Outmoded approaches of relying on the channel to dictate demand while keeping customer data sacred can be countered through two important approaches:

1. **Customer engagement**—social networking, e-commerce, web brand and loyalty programs, and mobile commerce allow a supplier or brand company to have a much more direct connection with customers.

The retailers-supplier relationship represents the most critical linkage in the multichannel strategy. And in the outsourced global world, it is more critical to get it right than ever. But often the brand or manufacturer feel like they have the short-end, left to faulty demand plans, charge backs and excess inventory.

2. **Geographic market analysis**—the combination of regional sales numbers with demographics and events that drive or alter demand can create a picture of contrasting demand patterns across the globe. In reality, only the suppliers can create this model since only they know how their products perform across channels.

In essence, the supplier can know a lot more about your customers and your markets. Most retailers, in spite of their opportunistic position with the customers, may know little about them, especially if the customer uses non-store credit cards and print coupons.

Different Channel, Different Opportunity

Different markets require different promotions: regional tastes and trends, different lifestyles, and shoppers looking for different deals all require different messaging and advertising. Most promotions are *spray and pray* events used for a general purpose—bring shoppers into the store, introduce shoppers to a new product, or move excess merchandise. However, little is known about what is actually attractive to the customers.

These efforts neither build loyalty, brand, or profit. So why continue to do it? It's too late. The genie is out the bottle and we may never get it back: we have trained customers to wait for these promotions. Instead, why not leverage promo's to fine tune your knowledge about your customers?

By building on knowledge gained from customer engagement and geographical analyses, brand companies can enter collaborative promotion management programs with select retailers. Again, offense holds the key to success. Various technologies such as QR codes included in promotional print, web, or mobile advertising allow brand companies to leap over the retailer's POS system so manufacturers can know precisely the popularity of each offering per region.

Power in the Supply Chain

The basic assumption of 'the more channels, the better,' may not be true. But today, suppliers just don't have the data to make an informed decision. By applying demand management techniques as well technologies such as

source tagging, RFID, or QR, suppliers can receive a treasure trove of data that retailers may not care to store or analyze.

Armed with more power, suppliers' relationships with retailers can move from supplicant to collaborator.



Macy's Store-To-Door Gets Smarter and Prepares to Take On Amazon

By Frank Hayes, *StorefrontBacktalk*

Most retailers have yet to dip a toe into merged channel inventory, but Macy's is already starting to tweak the model. The Macy's "Store to Door" pilot (if a store is out of a product, it can be shipped to the customer's home from another store) is set to expand from 23 to 290 of the chain's 810 stores this year, but with a twist: Items will ship not from the closest store, but from the store where they're most likely to be remaindered.

That improves Macy's revenue, but also sets it up to take on its most threatening rival—Amazon—where the online giant *should* be at its strongest.

The new Macy's system, which will be live this summer, "will pull the inventory from the store least likely to sell the goods, so it's frankly a markdown that would have happened had we not sold it, as opposed to a lost sale," Macy's CFO Karen M. Hoguet told an earnings call on Tuesday (Feb. 21). "It's really quite cool if it works properly."



Pull goods From Slowest Stores

Hoguet added, "There'll also be a factor built in for distance to customer. But the telling part of the logic—the key driving factor—will be where the goods are selling through the slowest, to pull it from those stores."

That's a clever improvement on just having an enterprise view of inventory. In that respect, Macy's is about two years behind Nordstrom, which rolled out its buy-it-anywhere inventory system in 2010. Making sure the system also keeps merchandise from having to be discounted is the sort of thing that makes CFOs a lot happier to OK these initiatives.

But the real challenge isn't just squeezing out the last few dollars from every sale. Macy's is edging closer to taking away the advantages of online retailers like Amazon.

Consider: Until now, except in the handful of stores in its "Store to Door" trial, if the product a customer wanted was out of stock at a Macy's store, the likely next stop was Amazon, which would deliver it in a day or two. End of story. The customer could even order from her phone as soon as she was told the item was out of stock—and before leaving the Macy's store.

Who Can Get the Goods to the Customer the Fastest

Now Macy's has the chance to even up that game. Of course, it will depend on how efficient the Macy's stores are at shipping out those packages. Turning every Macy's (actually, only about one-third of them) into a distribution center isn't just a technology challenge. Each store has to become a mini-Amazon DC. If the individual stores can't execute, customers will figure out that Amazon is a better alternative. To at least some degree, it's about who can get the goods to the customer the fastest.

In practical terms, Macy's is now in a three-way race to shorten the time between merchandise and customers. Amazon is building more DCs, spread across the U.S., so it can cut delivery times. (Could that explain why Amazon has flipped its long-held stance against collecting sales taxes? With enough DCs in enough states, it becomes impossible for Amazon to claim it doesn't have an in-state presence.)

The new Macy's system "will pull the inventory from the store least likely to sell the goods, so it's frankly a markdown that would have happened had we not sold it, as opposed to a lost sale. It's really quite cool if it works properly."--Macy's CFO Karen M. Hoguet.

Meanwhile, Nordstrom in December 2011 quietly launched a pilot program to offer same-day delivery in Seattle and La Jolla, Calif., for online orders, including all weekend. Yes, there's a \$10 delivery fee, which would probably seem stiffer if this wasn't Nordstrom. And the service is only available for items that are in stock at the handful of stores participating in the trial.

But what happens when that trial expands to all Nordstrom stores? Suddenly, Nordstrom has an advantage that Amazon can't match, at least as long as it's using overnight delivery services. If an item is out of stock but available in a Nordstrom store across town, the customer can wait for Amazon or have it hand-delivered that day.

And what's impractical for Amazon and possible for Nordstrom is also possible for Macy's—in fact, it's old hat for the local department stores that were bought up to form today's Macy's chain, many of which were still

delivering merchandise to customers' homes as recently as the 1970s.

Does that sound like too much of a throwback—1970s delivery trucks to beat Amazon's Internet advantage? Five years ago, it would have sounded crazy. Now it may be the most effective way for brick-and-mortar chains—especially the biggest chains—to leverage those merged channel inventory systems to actually take sales away from their biggest competitor.

Integrated Store

By Bill McBeath, *ChainLink Research*

We are moving from the era of silos to integration of functions and systems within the retail store. Customer experience, sales associates, mobile systems, workforce management, inventory management, promotion management, merchandising processes, and security/loss prevention can all be integrated on a common, underlying store platform.

Evolution to the Integrated Store

Historically, each major retail store function has been managed in silos—security and loss prevention, labor/workforce management, inventory, promotions, and merchandising—each with its own separate systems, strategies, and personnel. That is starting to change. Leveraging one network, from customer experience through to the back of the store can be integrated. And now there is the wild card of customers bringing their own devices into the store. We are moving towards the concept of the *Integrated Store*.

This is being driven by the evolution of in-store technology, integrating the multiple channels marketing cycle—reaching customers on mobile or web, enticing them into the store and reaching them via in-store technology.



Integrating a Broad Portfolio of Store Technologies

We are moving from the EAS (Electronic Article Surveillance) tag, which does not distinguish between items, to item-level RFID tags, which can identify each unique item. We have already moved to digital video systems, to support customers' experience in the front of the store and to support store operations. This video data can be analyzed—not just for security purposes, but also for traffic pattern analysis, as well as inventory management. Mobile devices and the wireless networks in the store are becoming more powerful, higher bandwidth, and cheaper. There is value in combining these disparate platforms, instrumenting the store with sensors, and integrating all the information in the store together on one platform to solve business problems in ways not possible just a few years ago.

In most cases, retailers have had to piece together individual solutions they have acquired from many vendors. No single vendor has all the pieces, but some companies are working towards building a single platform that incorporates all of the data across the store—video, sensor (RFID, EAS, traffic sensors, etc.), wireless, POS, and mobile systems.

By integrating this technology onto one platform, a more complete picture emerges. Once this data is available on a common platform, a wide variety of new applications can be built that consume those currently disparate data streams and provide value beyond what the single-data-source systems can provide.

Follow the Shopper

For example, there is a lot of potential value in being able to follow each shopper's journey through the store (assuming privacy issues are resolved)—understanding what route they took, how much time they spent at each location, where they currently are, what they looked at and are currently looking at, what they put in their basket, what they took out of their basket, and what interactions they had with sales associates. This can help design a superior store layout for better display and creating a more attractive retail space, as well as helping merchants understand why certain choices are made—or not made.

By combining video feeds with WiFi tracking, RFID, smart shopping carts, and other technology, this starts to become feasible. The potential value spans many different arenas. This includes actions taken in real-time while the shopper is in the store, such as:

- real-time targeted offers
- preventing shoplifting
- knowing when a shopper needs help and alerting a store associate
- sensing restocking needs with precision
- sensing misplaced items
- identifying a possibly defective item (all shoppers who pick it up, reject it)

Inventory Intelligence

An integrated platform can also be used to be smarter about inventory management. Item-level RFID provides a precise picture of what has been received, what is in the back-store or the sales floor, and what has been sold. But retailers are only putting readers at the chokepoints, not on every shelf. That won't indicate if an item has been misplaced. Combining video data analysis together with item-level RFID can provide that extra level of inventory intelligence.

Beyond the store—integrating a demand pull model—direct store delivery applications can be integrated to have merchandise flow through the distribution channel right to the floor. These applications become extremely useful when 3rd party merchandisers are contracted to maintain displays and inventory, and for categories that have short shelf life. In-store technology can be integrated for the in-store execution of direct store delivery, such as confirming the delivery and correct stocking/setup of items and displays.

Realizing the Vision

Up to now, solution providers have not addressed this higher level of integration. But this is starting to change. Some solution providers have the vision to bring together many of the pieces into a cohesive platform, within the store and across the chain, to the customer channel, making the Integrated Store that much closer to a feasible reality for retailers.

Best Buy Outage and the Downside To Merged Channels

By Evan Schuman, *StorefrontBacktalk*

When Best Buy wrapped up a planned 17-hour site outage on Wednesday (March 28), it came away with more than an updated e-commerce system. The retailer learned the downside of tight merged channel integration and what happens when in-store becomes too dependent on online operations.

Years of improved online-offline integration has been great news for chains, but the level of day-to-day integration is now only keenly felt when that site disappears for the bulk of a day. Associates who are used to looking up information on the site, placing online orders for customers when inventory doesn't exist and using the site as a virtual catalogue suddenly found themselves having to rely on in-store systems.



Best Buy's Pre-announced Journey into HTML Darkness

What Best Buy did, though, is becoming more common. Just last month, it was Home Depot's turn. (Home Depot was down for 18 hours.) Best Buy's pre-announced journey into HTML darkness started at 10 PM (New York time) on Tuesday and ended right on schedule at 3 PM (New York time) on Wednesday.

As Best Buy's own FAQ pointed out, bestbuy.com has integrated itself throughout in-store, call center and, generally, all operations. *"While the updates are occurring, customers will be unable to search or browse products, place orders or check order status on*

"As you more closely integrate Web systems and the store systems, the inevitable Web blowout is going to have more implications"—
NPD Group Analyst
Stephen Baker

BestBuy.com, m.bestbuy.com (mobile or tablet), BestBuy.com/espanol and store kiosks," the FAQ said. Customers also *"will not receive emails regarding orders while the updates are in progress"* and checking order status—plus, of course, making online purchases—*"will also be inaccessible to store employees, call center agents and online support representatives."*

Although mobile sites were also down—more on that in a moment—Best Buy was able to keep about 14 of its sites operational. These sites seem to have no transactional functions and included GeekSquad.com, Best Buy Careers, Best Buy Investor Relations, MyRewardZone.com, Best Buy Community Relations and Best Buy Credit Card Account Management.

Stephen Baker, an analyst with the NPD Group, said few retailers have given much thought to the downsides of embracing merged channel. *"As you more closely integrate Web systems and the store systems, the inevitable Web blowout is going to have more implications,"* Baker said.

One interesting part of the integration is mobile. There are two general ways to handle mobile sites and the easiest way is to have the mobile constantly grab and convert content from the Web site, with the mobile site being essentially a mirror of the core site. The second approach is to manage them as separate operations. The mirror approach is cheaper—no ongoing team needs to constantly populate the mobile content—and it makes it less likely that some product change will fall through the cracks.

The parallel approach, though, has the advantage of enabling customers to be able to do product research, find stores and at least access historical data. And, done properly, orders might be possible, ideally on a batch-and-forward approach. In the same way that in-store

purchases during a power outage can be updated once operations are restored, a mobile site could operate as an emergency backup. This would be helpful during a planned outage—such as the one Best Buy experienced this week—but it could be a lifesaver during unplanned outages.

Admittedly, part of this approach would play to shopper psychology. A message such as the one Best Buy and Home Depot published, which essentially said, *"We'll be down for almost a day and that's just the way it is. You can drive to a store or wait for us. Or maybe try Amazon,"* can be viewed as harsh.

Softer Message

But consider how much softer that message would have been had it said, *"You can, of course, still place any orders with us and check on status via your mobile device."* Even if few shoppers take you up on the offer, it will sound less like you're abandoning them.

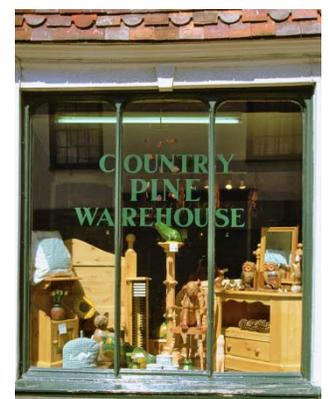
Like the Home Depot situation, some are going to question whether a major site such as these really needs to be taken down for a planned upgrade. The counter, though, is that taking the site fully down might be a less risky approach than worrying about losing orders when the site is up and key upgrades are happening. The cloud can help—and Best Buy is aggressively experimenting with cloud efforts—but, ultimately, biting the bullet and shutting down for less than a day may be the safest near-term approach. Now if only the mobile sites could help out.

The Evolving Role of E-Commerce Systems in Merged Channel Settings

By Bill McBeath, *ChainLink Research*

E-commerce systems were originally designed for online customers to shop on their desktop or laptop computer. However, increasingly retailers would like to leverage many of those same e-commerce capabilities within the store, mobile, on the floor, and in the call center..

In the early days, the traditional brick and mortar retailers saw e-commerce largely as an experiment, separate from their store business. This is reflected in the separate inventory management systems put in place, as described in *"Omni-Channel Inventory: Getting the Big Picture"* on page 2. Even more distinct is the 'front end', where your online system



looks very different than your traditional POS system, which looks quite different from the system used for taking orders in a call center, which looks different from the newer mobile commerce systems.

On one level, it makes total sense to have different systems on the front end, as these environments have such diverse requirements. But you do want to make the most efficient use of development resources, and minimize the work required to support all these different front ends. Furthermore, in the backend you really want a unified system that integrates with the various front ends: i.e. a common backend system for inventory management (a unified view across channels), pricing (avoid unintended, potentially disastrous misalignment of pricing between channels), promotion management (avoid promotions in the different channels that are at cross purposes), merchandising and procurement (obtaining economies of scale, whenever it makes sense), and other backend systems.

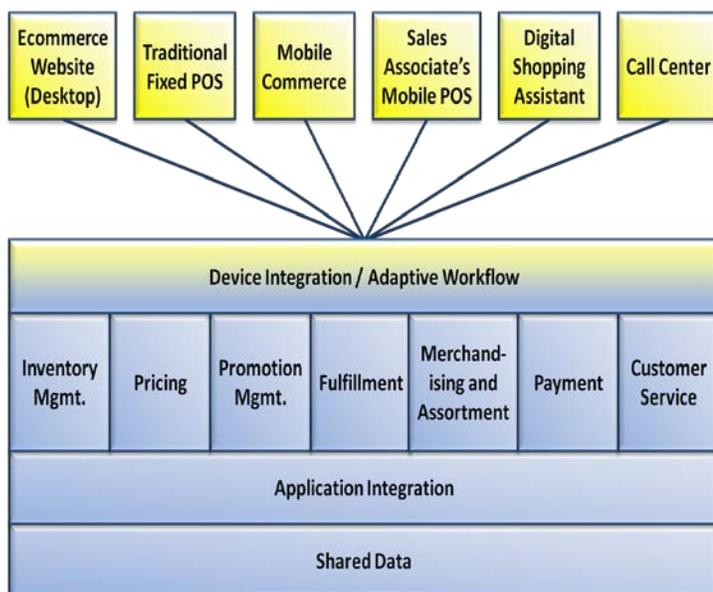


Figure 1 - Multiple Front Ends—Unified Back End

Though the front end interfaces are different, some of the rich functionality we see within the e-commerce front end can make a highly valuable addition to these other environments. In fact retailers have been experimenting with this. Consider how this works in the three phases of a customer's experience 1) Find and Evaluate, 2) Purchase and Pay, 3) Service and Return.

Find and Evaluate

Online, a customer has a quite rich set of tools to help them find what they are looking for. On one level, there's Google and other search engines, which give the ability to instantly search the entire planet, across hundreds of retailers. On another level, a shopper at a specific retailer's website can be presented with parametric or faceted search capabilities that guide them to the type of

product they are looking for, even if they haven't fully thought through the specifics of what they want. And they are more likely to get specific availability and lead time information for the items they are considering.

Then there are the descriptions and pictures and videos of each product, that can be as rich and deep as the retailer wants. You don't have the limitations of printed pages or signage. And they can be updated in real-time. Want to tie your web copy in with some current event or trend or your latest promotion? No problem in the digital world. Perhaps most powerful and different from the physical store is access to reviews, peers comments, and ratings.¹

However, there are certainly parts of the customer's 'find and evaluate experience' where the store has the clear advantage. You can't try on that dress or suit online (attempts to simulate that online have fallen short). You can't feel the fabric and experience how it moves or feel the fit. You can't really see and feel what that coffee table looks like or try out that sofa. You can't test the quality of that new stereo or HD TV. And (provided the retailers have hired and trained and motivated their associates well—really, there are some out there), there is a person there in the store that can actually give you useful information, advice, feedback, and 'moral support' in your quest for the perfect item. There are some store experiences that simply can't be replaced by an online equivalent.

Best of Both Worlds

So is it possible to combine the best of both, bringing some of the more valuable and appropriate elements of e-commerce tools and capabilities to the store associate on the floor, or to a kiosk, or to a shopper's mobile device, or the call center operator? Of course we can, but it is not as simple as sticking the website into a computer within the store (or on the phone). There is a need to integrate into the physical environment and the way people interact on the store floor. It might be as simple as allowing the associate to scan items with a tablet ... and then giving them a menu of the most common things they might want to do for the customer regarding that item (search inventory, provide product information, and so forth.). Or if the retailer has implemented an integrated store concept (see The Integrated Store on page 10), then the in-

¹ The quantity and quality of these reviews and ratings are dependent on having a good system in place and the critical mass of shoppers in that venue. For example, comments and ratings on Amazon are generally much more numerous and some are higher quality than those found on smaller e-commerce sites.

store e-commerce capabilities might be fed information about what items are already in the shopper's basket, and if opted in, fed with information gleaned from the shopper's loyalty program participation and past purchases.

If the retailer has made the investment to provide deep product information and search capabilities on their e-commerce site, these can be a quite useful addition to the retail store floor as well. Here a large touch screen display, perhaps with a bar code reader, could make sense. Some of these e-commerce tools might be useful additions to the call center operator's tool kit.

Of course there are plenty of gotchas. The retailer is not necessarily eager for the shopper to find items that are online, but not available in the store. Furthermore, as Best Buy found out painfully (see “Best Buy Outage and the Downside To Merged Channels” on page 11) once the sales associate becomes very dependent on these online tools, then website outages cause a lot of problems. However there are ways to mitigate these issues.

Purchase and Pay

The purchasing and payment process in e-commerce is by nature entirely self-service.² It also typically offers more payment options than in-store (with the exception of cash). And it provides an electronic receipt, as well as the potential for detailed electronic information about what was bought (which can be valuable for businesses in tracking and categorizing expenses). However it is the advent of mobile payment solutions that is really driving radical change in the in-store payment experience. Mobile payment systems are distinct from e-commerce front ends though there is often commonality in the backend merchant services and payment networks used by both. So here, the role of mobile payment, rather than e-commerce payment systems, is the real driving factor of change to the purchase and pay part of the in-store customer experience.

Repair and Return

The customer return experience is a challenge for both e-commerce and the store. The retailer usually has an unhappy customer on their hands, but still has the opportunity to turn that experience around. Turning that negative experience into a positive is considerably harder in the pure online environment than in the store or on the phone (provided ... and this is a big if ... that in the store

² Self-service is the fundamental nature of all aspects of e-commerce (with the exception of integrated online chat or phone connection to customer service personnel). This total reliance on self-service, with no chance for user training or for a person to come along and ask “can I help you”, has forced e-commerce system designers to create a whole new level of intuitiveness and ease of use, not normally found in enterprise applications.

or on the phone, the retailer has short or no wait times and a well-trained and empowered customer service staff). There is some opportunity for leveraging e-commerce functionality in the store returns process by giving customers the option of using the self-service capabilities that e-commerce provides, to allow customers to circumvent long lines waiting for customer service staff. The self service option is far from ideal (customer has to do more work and there's no chance for a human being to try and mend the relationship), but it still may be better than forcing the customer to wait in a long, slow line. Of course, making the line short and fast is much better.



Making It Happen

The desire is there among retailers to leverage the most powerful aspects of e-commerce within the other merged channel settings. However, it requires really thinking through the use cases and then learning by doing in small steps. It also helps when your e-commerce system is designed to support this type of broader and more diverse use (see “The Implications of E-commerce Systems’ Architecture for Merged Channels,” next). Done right, integrating e-commerce capabilities can add a lot to enhance the customer’s experience across a retailer’s many channels and it can bring them closer to becoming truly merged across those channels.

The Implications of E-Commerce Systems’ Architecture for Merged Channels

By Bill McBeath, *ChainLink Research*

Retailers want to leverage e-commerce capabilities within their other channels and settings. This has significant implications for the architecture of the underlying e-commerce platform.

Implications for E-commerce Systems

As described in “The Evolving Role of E-commerce Systems in Merged Channel Settings” (above), we see retailers increasingly wanting to use some of the most valuable and appropriate e-commerce capabilities within the store environment, or in the call center, or on mobile devices in the hands of consumers and associates in the store. What are some implications for the design of the underlying e-commerce system?

Device Independence

We have all experienced the dissatisfaction of using a browser on a cell phone and trying to scroll across a page on that tiny screen that was designed for a full-sized desktop or laptop screen. Of course many apps (including e-commerce) have since been designed specifically to be used on a smartphone or tablet, providing a much more satisfactory experience, but with considerable additional development and support effort (see sidebar “Approaches to Device Independence”). Therefore, this is a base level requirement for an e-commerce system—to make the process of developing e-commerce applications for different format devices as efficient as possible. And to do it in a way that can accommodate future devices that have not yet been invented. In a word, e-commerce platforms should support efficient development and support of device independence that performs well and provides the best customer experience.

Use Case-specific, Context Aware Features

To really integrate e-commerce capabilities beyond the shopper’s desktop computer, e-commerce applications need to be componentized and able to adapt to the specific use cases within the store, the call center, and mobile environments, such as some of the use cases we described in “The Evolving Role of E-commerce Systems in Merged Channel Settings.” Different use cases require different workflows, data, and screen sequences, not just different screen layouts.

Approaches to Device Independence

There are several approaches to achieving device independence, with different tradeoffs to the amount of effort and results:

- *Per-device-type Implementation*—the developer can create a completely different set of pages for each device class or experience. This will provide the most device-optimized experience, but at the expense of additional development and maintenance effort.
- *Responsive web design (RWD)*—uses fluid grids and images, and a layout that adapts to the size of the devices screen. It detects the devices characteristics to adapt accordingly. The advantage is the same code-base, deployment, and URL provides access to many devices, including future ones not yet encountered. However, video, images, and third party widgets do not resize in a satisfactory manner. And differences in the workflow are constrained.
- *RWD with Server Side Components (RESS)*—Similar to RWD (single code base and URL) except that the device detection is done on the server and the server provides device-specific components for the web page. This overcomes some of the shortcomings of RWD.

Take, for example, dynamic merchandising, where the e-commerce system decides which items to display to the shopper based on a variety of factors—for example, offering a special promotion based on past spending, inventory that needs moving, items in their cart or their top search terms, and so forth. Compared with the customer’s online experience of dynamic merchandising, it needs to look very different in the context of a call center operator on the phone with the customer. The call center operator wants the efficiency of seeing a more comprehensive list of cross-sell and up-sell suggestions, side by side with the customer’s past purchase history, and past interaction history (i.e. calls/emails, complaints/resolution, returns, etc.), and other customer information all on a large screen. Store associates, on the other hand, need to keep eye contact with the customer as naturally as possible and don’t want to be distracted by too many other pieces of information, though they do want the option to easily call those things up when needed. Perhaps a ‘recent problems’ icon (green if everything OK, red if the customer has had complaints) which with a single touch can give more info. An e-commerce system needs to be able to serve these diverse use cases while maximizing common content and the reuse of development efforts behind the scenes.



Modular Design / Integration Capabilities

To provide use-case specific, context-aware capabilities requires a highly modular e-commerce architecture—the ability to easily configure and piece together components. And flexible data connections—for example, being able to drive dynamic merchandising decision algorithms using any data field within any ERP or other systems used by the retailer. And some degree of control over the algorithms used by the e-commerce system to decide what is relevant to display, so that it can meet the needs of the context. It should also provide control over the design aesthetics, which will be quite different on the public e-commerce website than on the call center desktop or sales associate’s handheld.



E-commerce systems that are already easily highly customizable and modular and that have flexible built-in configuration with ERP systems and that have the ability to sense and adapt to different roles and contexts will be better positioned to bring e-commerce capabilities into these other multi-channel

settings. This type of system can help the retailer to economically leverage the most powerful aspects of the e-commerce experience within the store and call center, thereby improving the customer experience.

Why New Best Buy E-Commerce Chief Is Focused On In-Store

By Frank Hayes and Evan Schuman, *StorefrontBacktalk*

Best Buy's new e-commerce chief is planning to make changes to the troubled 1,400-store chain that, in their own way, will be as big a shakeup as JCPenney's so-far-so-disastrous makeover. Scott Durchslag, the former Expedia exec who on Monday (Oct. 8) was brought in as president of online and global e-commerce, appears to want to flip the usual merged channel model: Instead of making online a mirror of the in-store experience, he wants to replicate the online experience inside Best Buy stores.



That's way outside the traditional scope of an e-commerce president. Then again, Durchslag's lack of retail experience and tech background might explain much of his optimism—and his scope creep.

Durchslag's appointment comes against the backdrop of the ongoing battle for financial control of Best Buy—founder Richard Schulze is still

trying to take over the company and CFO Jim Muehlbauer announced his resignation on Wednesday (Oct. 10). That boardroom chaos may be the environment that gives Durchslag the latitude to push his vision into the stores themselves.

But he's still up against Best Buy's reputation as a victim of showrooming, unknowledgeable associates, high prices and the customer perception that it's the electronics retailer of last resort—after Amazon, Walmart, Target and Costco have turned up empty.

Perception Issues to Overcome

Durchslag understands some of the huge perception issues his team must overcome. "Showrooming is a symptom, not a cause," he said. "It's arrogant to think that you're going to cause or prevent that kind of behavior. It is a reality that is happening today. The only question is: Are you going to harness that and make things easier, or

are you going to try and put your head in the sand and deny reality?"

If he were coming from a retail background, we might suspect Durchslag was thinking of Target's efforts to fight showrooming by making it harder for shoppers to make meaningful online comparisons.

His next thought, though, was that Best Buy could avoid that through deep investment, not just in technology but in associate training. "Best Buy is a Fortune 50 company with an incredibly strong foundation and a strong balance sheet that can invest tens of millions of dollars in training those blue shirts to be able to provide information and support using these new technologies and tools that we're talking about. That's a very hard thing for other folks to be able to instantly match."

It might be just as hard for Best Buy, which is under extreme financial pressures right now, to do any type of serious investments. Meanwhile, customers see Best Buy associates as focused on upselling and pushing products the chain wants to move.

At the same time, Durchslag sees part of his job as getting the pricing right—which almost inevitably means getting prices down. "You need price competitiveness on the key items that drive consumer perception. That's an area where there is some work that needs to be done," he said.

BestBuy.com

And then there's BestBuy.com itself, which would be the traditional focus for a new e-commerce exec. After listing some of his near-term goals (price competitiveness, promotions and offers, the site performing well and customers being able to find what they want), Durchslag offered a candid Best Buy assessment: "To be honest, compared with last year, being able to do those things well is an enormous improvement."

That was apparently a reference to a huge mishap at Bestbuy.com on Black Friday 2011, when the site took and confirmed Black Friday orders in November and then waited until a few days before Christmas to cancel those orders. But it could have also been referencing a 17-hour site outage from Best Buy early this year, one that highlighted the chain's merged channel advances and,

"When Geek Squad comes to your house, if you've opted in to the personalized offers, they would be able to do an inventory of what other stuff you have in your house that would then be the basis for our ability to make other recommendations of highly relevant things to you." --
Scott Durchslag,
Best Buy president,
Online/Global
e-commerce

ironically, its interdependencies.

Geek Squad.

Durchslag touched on a different Best Buy perception challenge when he spoke of new and aggressive ways to use the chain's Geek Squad. Given how many high profile incidents we've heard about—arrests of Best Buy customers who were turned over to police when Geek Squad associates found illegal files, cases where associates found social-media passwords and defaced customers' accounts—we'd think privacy sensitivity should be uppermost. How would shoppers feel if their dry cleaners scanned all clothes for marijuana residue and turned in any customers with the illegal scent?

But Durchslag offered this example of where the Geek Squad could go, starting with an enhanced, in-store mobile-fueled experience: *"I can immediately offer you a deal to extend the warranty for two years. You just bought this great Xbox. Do you want to be able to get Geek Squad coming by on a quarterly basis, (so the Geek Squad would) update all of your software? Do you want a subscription for those periodic visits? When Geek Squad comes to your house, if you've opted in to the personalized offers, they would be able to do an inventory of what other stuff you have in your house that would then be the basis for our ability to make other recommendations of highly relevant things to you. That's kind of the experience I am talking about."*



Invasive

It's true that the Geek Squad operation lets Best Buy get closer to customers than almost any other chain: not just virtually into their phones and computers, but physically into their homes. There's a two-decade track record, and that softens a little bit of the creepiness of invading in retail-chain associates. But trusting these techs to

launch an invasive inventory of everything Best Buy might want a piece of in the future? Remember, Best Buy sells refrigerators, washers, car stereos and DVDs for kids. That creepiness gap can close pretty quickly.

The e-commerce chief also spoke of how gradual such changes would have to happen, and he spoke in more programming than marketing terms: *"It's the difference between a waterfall approach to technology development versus an agile approach. You want to be able to get to a model that lets you be able to make lots of small changes quickly—test, iterate and learn. And be able to continuously improve. I think we'll be able to make a*

series of small changes quite quickly and then those start to build on each other. It isn't like you just turn on the site one day in six months and, all of a sudden, everything looks and feels radically different. You wouldn't want to do that anyhow, because you would lose a lot of consumers in the process. You want this to be a journey of continuous improvement."

Still Working Through

That doesn't sound like a retailer at all; it sounds like a pure IT guy, which may end up being Durchslag's biggest advantage (he doesn't know what's impossible, so he'll do it anyway) or his Achilles heel. Retail brands aren't software systems. They don't behave rationally. And retail customers behave even less rationally than conventional application users. Changing how those customers view Best Buy is a problem *on top of* fixing Best Buy's actual pricing, associate training and customer experience problems—a lesson the pure retailers who are revamping JCPenney are still working through.

Fixing those technology issues first might be a really good idea. They may be the easiest problems on Durchslag's list.

Mobile Mania in Multi-Channel

By Ann Grackin, ChainLink Research

Mobile has brought a revolution in customer experience, but which technology are we really talking about. With multiple wireless options, consumers and retailers are often undecided. What to do until the market grows and shakes out?

Mobile has brought a revolution in the customer experience. Concept stores, intelligent environments, and mobile customer engagement all have been created by leveraging wireless. With multiple frequency options: cellular, Wi-Fi, GPS, sensors, RFID, bar-coding, and high frequency audio, shoppers can interact across cellular or store wireless networks.

Our research has shown a significant increase in the number of enterprises that will buy these technologies over the next two years (2012 and 2013). Budgets are increasing, though most companies would identify themselves as pilots. Many companies such as Starbucks and Avon, for example, have already embraced and implemented mobile technologies,



committing whole-heartedly to one approach. But many companies have taken a multi-technology and multi-frequency strategy. Long-term, they will align with a few critical partners. But the market for mobile POS, promotional channels, brand and item location, loyalty, and many other mobile shopping capabilities is really still in the formative stage with many technology innovations beginning to roll-out, and many carriers and card companies still in the process of forming consortia and partnerships.

Recently, I hosted a session called *What Technology Will Dominate Retail?* Our panelists were from both start-up mobile companies and dominant retailers. This session



was right on the heels of the Apple *non-event* as far as mobile payment goes—no NFC in the Apple iPhone5. There won't be a POS mobile revolution this year. This is one of the key stalling points of mobile POS sales, since some of the mobile POS consortia are relying on the iPhone. (No

stalling for Android users, by the way). No mobile POS revolution for other reasons, too (a topic for another article). However, other mobile uses—shopping, pricing, locating and promoting will continue their rise. And the momentum for mobile has steeply increased for supply chain and store operations, with billions of RFID tags sold each year to the apparel industry.

So What Does Mobile Look Like?

Locating applications—interact in real-time to determine retailers in your proximity. Proximity is now more practical and easier to implement. The ability to fine-grain location and lead the shopper to an exact location—the very shelf—is possible. The geo-fencing comes from GPS as well as and other technologies such as RFID or high frequency audio. And don't count out the QR code. Proponents of the ubiquitous—and far cheaper option—are finding ways to keep QR relevant and leverage their relationships with cellular carriers and merchants to provide not just geo-fencing, but of course in-store-deal look-ups. As well, QR codes are part of scanning and self-checkout. All this is to bring shoppers into the store, of course, due to the fact that *conversion rates from 'interest to buy'* are far higher in stores than on the web.

Within the store—UHF RFID looks like it will accompany or possibly replace EAS tags, giving



retailers far more data about products and provide real-time inventory monitoring. What is important about RFID is its value beyond store operations as brand companies see that the technology can be leveraged for brand protection and other applications (especially for high-end products like designer bags, consumer electronics, health and beauty, and pharmaceutical products).

Backroom—behind the scenes are analytic engines—the technology sector with the highest planned investment by merchants, according to our [2012 Business Priorities](#) research—that capture and analyze all that data about customers and operations in order to improve performance.

In the home—the home computer is still predominately the research channel. The store is the higher purchasing channel, although internet purchasing is increasing significantly. Here, statistics about channel purchasing are really important. More interaction is occurring between mobile and various technologies like QRs, alerting applications, etc.

The consumer—the reality is that on the consumer side of the equation there are always shoppers who will prefer a certain approach. And the retailer is better off really following the customers on this one, rather than engaging in the technical merits of methodologies, because the technology that will dominate is an unknown at this point.

Retailers—can influence the outcome by forming federations that embrace member-based loyalty programs that provide broad access to the consumer (much as the travel industry does). For retailers, this is a huge departure from their current *modus operandi*. With the low retention rate of apps and *opt-in fatigue*, consumers are looking for something else: broad-based memberships that aggregate retailers so that they can locate retailers, accumulate points and manage other interactions without 50 separate log-in accounts. We have seen some emerging companies that can handle this, allowing both merchant control as well as consumer convenience.

Our recommendation

Our recommendation is that retailers and brand companies look at their options and collaborate across the spectrum. As Best Buy said, *"Keep all your options open and connect to everything."* Or as another retailer told us, *"We will let the customer decide, because they can—and they did already. We were late to the party with these types of technologies."*

Mobile has brought a revolution in customer experience, but which technology are we really talking about. With multiple wireless options consumers and retailers are often undecided. What to do until the market grows and shakes out?

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