A SUPPLEMENT TO RIS NEWS APRIL 2009

19TH ANNUAL

RETAIL TECHNOLOGY STUDY

Innovate Execute Adapt

Strategies and technologies for surgically adjusting to today's challenges and widening the gap when the economy rebounds.

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PRODUCED BY:

RIS RETAIL INFO SYSTEMS NEWS

Gartner

Presented By:

ORACLE

RETAIL TECHNOLOGY TRENDS
Supplement to RIS News
April 2009

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Who Responded

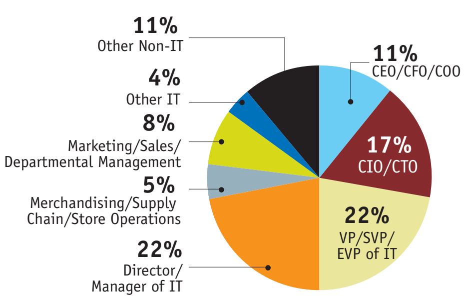
The respondent pool for the 2009 Retail Technology Study consists of more than 80 senior-level retail executives who have significant responsibility for IT decision making in their organizations. Of the total, 28% are C-level executives and 22% are vice presidential level for the IT department. This means that the largest portion of our respondent pool is comprised of executives who are the senior-most decision makers in their organizations when it comes to IT matters.

In addition to job titles, all retail segments are well covered and help us reflect a broad spectrum of insight across the industry. We see 21% are in specialty, 20% in specialty soft goods, 16% in grocery, and 9% in specialty hard goods.

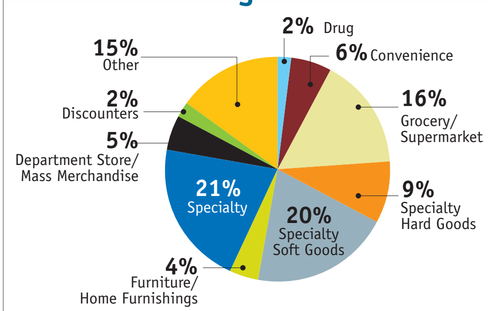
While it is important to achieve a good mix of respondents in each of the annual revenue categories, the truth is the study is best served when there is a slight bias toward large retailers, because these are the engines that drive the wheels of IT in the retail industry. We achieve this goal with 40% of respondents saying that have more than $1 billion dollars in annual revenue. The rest of the respondent pool is roughly divided in categories between $50 million and $1 billion.

This year we added a new demographic – number of stores in the chain. The bulk of our respondents, 58%, have at least 100 stores. The average number for all respondents is between 244 and 377 stores.

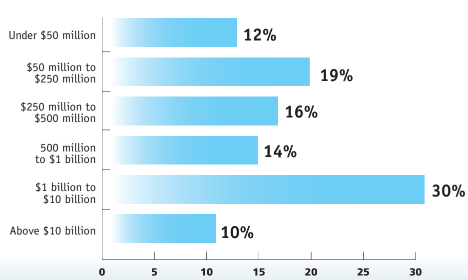
Job Title



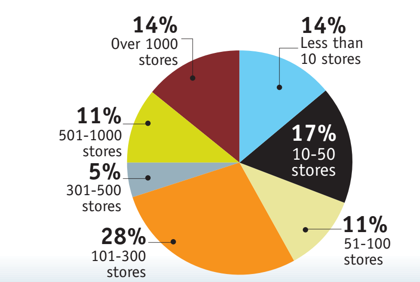
Retail Segment



Annual Retail Sales



Number of Stores in Chain



ABOUT GARTNER

Gartner Research is a leading provider of research and analysis about the global information technology industry. It worked with *RIS* to bring out this study, which was conducted during the first two months of 2009. In conjunction with the *RIS* editorial team, Gartner created the survey and posted it online. Gartner performed the analysis of the data and was then interviewed by *RIS* on the meaning of the data. Gartner was not paid for its involvement and *RIS* did not involve any of the advertisers in the report during the preparation or analysis phases. ■

BY JEFF ROSTER, GARTNER RESEARCH VP IMS, RETAIL

Year of Reassessment, Reallocation and Cost Containment

CUSTOMER-CENTRICITY, PCI COMPLIANCE AND MULTI-CHANNEL COMMERCE INITIATIVES RISE TO THE TOP OF IT BUDGETS IN A TOUGH YEAR.

The year 2009 will long be remembered as a time of great challenge for retailing as a whole and the retail CIO in particular. No one wants to focus on doom and gloom on a steady basis, but as of this writing there are few positive economic signs to point to on the horizon. The stock market continues to produce daily declines, the revaluation of housing has yet to stabilize, and the consumer continues to remain stingy on all but the most necessary of purchases and only buying items on deep discount.

So what's in store for 2009? Will retailers slash their IT budgets in a desperate bid to improve their income statements? Slash, no, but they will definitely reassess, redirect, reallocate and remove costs as much as possible.

However, here's why I don't see overall IT budgets decreasing dramatically in 2009:

- Customer-Centricity is STILL the dominant strategy today in retailing. In all but the smallest retail formats this requires technology enablement to successfully carry out.

- PCI compliance is a major focus in all tiers and subsectors in retailing, and it requires ongoing investments in consulting, hardware and software.

- Predominance of first-generation e-commerce platforms still exists across all tiers and subsectors, which requires significant upgrading or replacement.

MAJOR STUDY THEMES

Among the findings in this year's study, highlighted here and analyzed in greater detail in the following pages, are:

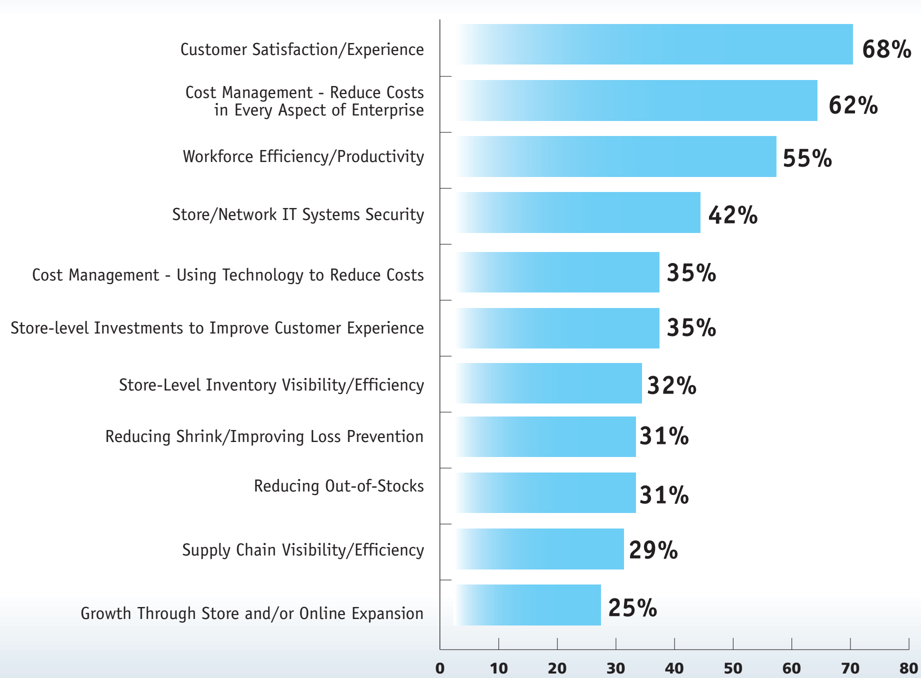
- Customer Satisfaction and Experience has occupied the top slot on our list of key strategies for the last few years. It's a very positive sign that even in these economic times these high-level strategies remain on the front burner.

- Cost reductions are sweeping across organizations, and since many of these initiatives are technology enabled it actually leaves IT in a better position than most other departments.

- Multi-channel initiatives will get significant attention over the next three years, which represents an ongoing transformation that shows no signs of slowing down even in a challenging economy.

- Overall, we will see a softening in IT spend, but it won't occur uni-

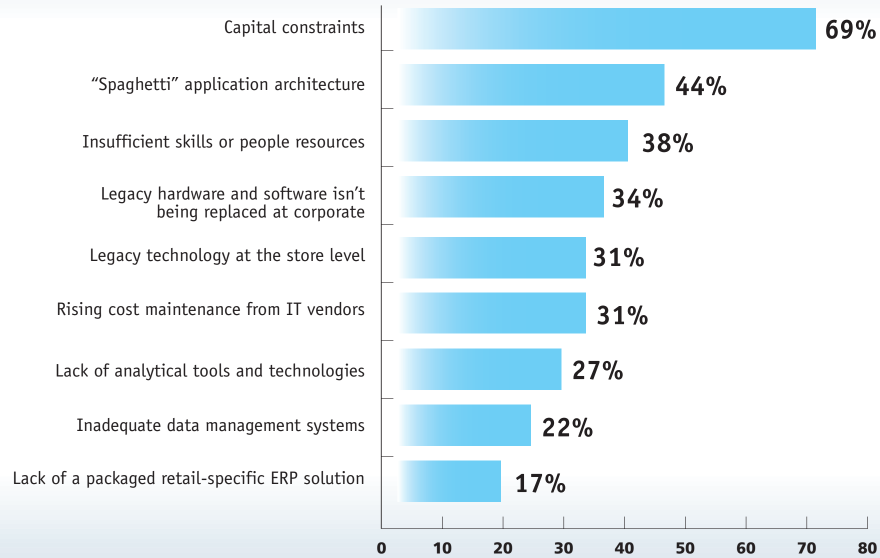
Key Business and IT Stategies for Next 18 Months



Top 10 IT Initiatives Started in 2009

21%	Real-time reporting of key data
21%	Creating enterprise-level performance dashboards for headquarters executives
17%	Kiosks
16%	POS software
15%	Voice/digital bandwidth
15%	POS hardware
15%	Portable inventory terminals/scanners
14%	Loss prevention
14%	Creating targeted performance dashboards for regional and store managers
14%	Centralizing customer data/intelligence

Obstacles That Stand in the Way of Improving Efficiency



formly throughout the industry. Aggressive adopters and grocers, for example, still plan on increasing their overall IT spend

NO SHORTAGE OF OBSTACLES

The economic uncertainty gripping the industry has scrambled our annual list of obstacles that stand in the way of improving efficiency, which we have been tracking for several years now. No surprise that concern about Capital Constraints sits atop the list this year, moving up from the number two slot in last year's ranking.

Insufficient Skills/People Resources falls from first to third place on the obstacles list as turnover and retention fade to the background in recessionary times. With the economy in the shape it is in, most of us are just happy to have a job and we aren't about to complain about not having enough staffing resources to cope with current workloads.

Spaghetti Application Architecture moves up the list from third to second place this year, but not because it made a dramatic leap in interest level. The reason for the move is that Insufficient Skills/People Resources incurred such a dramatic drop. Spaghetti Application Architecture actually holds relatively steady interest year over year.

TOP 10 IT INITIATIVES STARTED IN 2009

I've spent the last six months worrying what answer I would give to the question: What are retailers working on in 2009? "Nothing" was the most common answer I received from my blog and twitter efforts. While I understand it's become fashionable to deliver negative news in this environment, fortunately the real answer to the question is much more positive.

The new initiatives can be summed up in two words: customers and data. A fair number of retailers are still wrestling with long-term POS and kiosk projects, which focus on improving customer service and satisfaction. And a larger block of retailers is wrestling with concerns surrounding data: How to find it, speed it up, and make it available to wider audiences within the organization.

SO WHERE DO WE GO FROM HERE?

This year will be a time of phenomenal challenges to the retail community. We will see more retailers fall this year, like Circuit City and so many others. And as they pass from the scene their competitors will grow stronger.

We will see many retailers close unprofitable stores. Some will claim this is another sign on the pending retail apocalypse. While others, me included, believe this is a healthy development. It's the pruning of the orchard in preparation for the next crop. Some of these stores should have been closed years ago. Better late than never.

We will most likely see housing valuations remain fluid and 401Ks still depressed. But those of us in the industry need to buckle down and persevere. And we will.

Finally, we need to begin preparations for a coming upturn. Despite all the doom and gloom a rebound will happen. And smart retailers will be ready when it does. ■

Gauging Economy's Impact

RETAILERS REACT TO MARKET GYRATIONS IN PLANNING 2009 IT BUDGETS

Is it possible 36% of retailers had revenue decreases in 2008? It is when you recall that the fourth quarter of 2008, which usually performs as the goose that lays retailling's golden egg, took a historic nosedive in October, November and December.

Still, 38% of respondents were up in revenue year over year and the rest recorded flat sales. Will this happen again in 2009? Not likely. The reason is last year's nosedive was faster and steeper than anything ever seen before, and it occurred just as retailers headed into the holiday season. Even retailers with real-time systems could not adjust that quickly. No one could.

The whipsawing of shoppers by a credit meltdown, massive Wall Street bailouts, and frightening headlines ripped right out of the Great Depression had a chilling effect on consumer confidence. But here's an interesting insight: Replace these once-in-a-lifetime circumstances with normal recessionary forces, which are typically slower moving than what we are now experiencing, and the revenue figures probably would have looked similar to previous years with the total number of retailers reporting decreases in the mid-teens.

Is this a reason for optimism in 2009? As far as profits go, the answer is "yes." Revenue? Not so much. It will take a few years to reverse the economic contraction occurring today through store closings and a sharp consumer reluctance to spend, but smart retailers have now caught up with the trend and are now fully prepared to adjust to current demand levels while at the same time focusing on productivity and efficiency to protect margins.

IMPACT ON IT SPENDING

The fourth quarter also is a time when CIOs plan the following year's technology budgets, so the economic gyrations last fall likely had a major impact on IT plans. One logical area to feel the squeeze is capital investment. Compared to last years' study cap-ex spending is down 10%, a sharp but expected decline.

Overall, we find that 63% of retailers either increased their IT budgets for 2009 or stayed the same as last year. This is a solid majority for a political election, but it is far from par compared to previous years. Typically, we find retailers report year-over-year IT budget decreases in the single digits. This year the figure is a whopping 36%, which closely corresponds to those who reported depressed revenue in 2008.

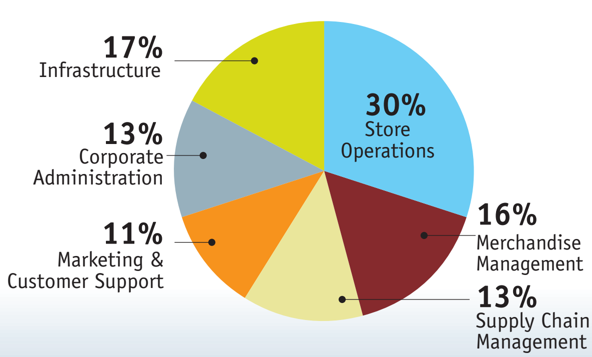
Digging deeper into budget allocation for 2009 we find the largest chunk going to internal staffing. Good, skilled staffers are worthwhile investments in any economic environment and worth the resources to retain them.

There are no surprises in other areas of IT budget allocation, including hardware, software, communications, training and change management. The one area that shows an up tick is third-party services, which is a good option for CIOs to explore as they seek alternative ways to squeeze more out of ever tightening budgets.

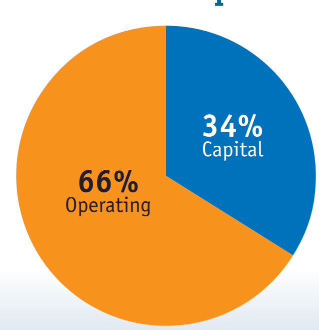
STORE OPERATIONS

Breaking down the IT budget further we see that store operations accounts for 30% of the overall IT budget. The

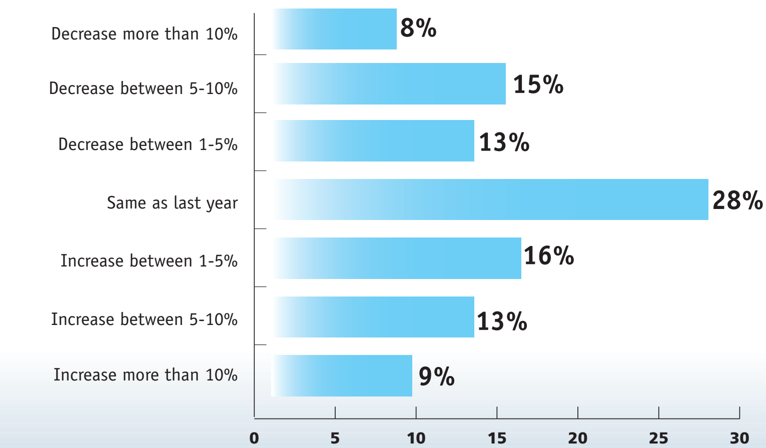
Detailed Allocation of IT Budget



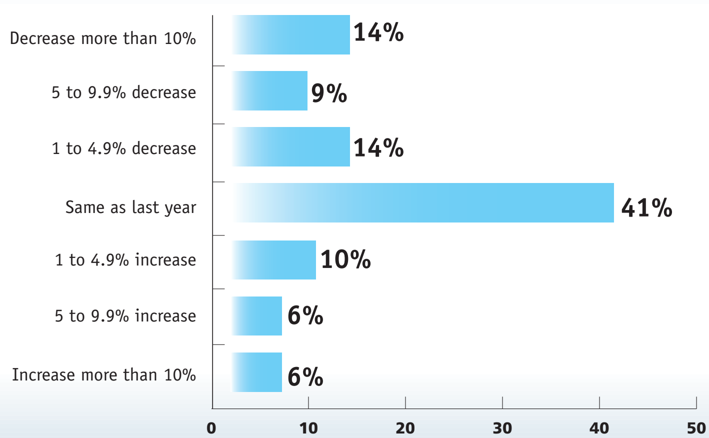
Percentage of Budget for Capital Investment and Operating Expenses



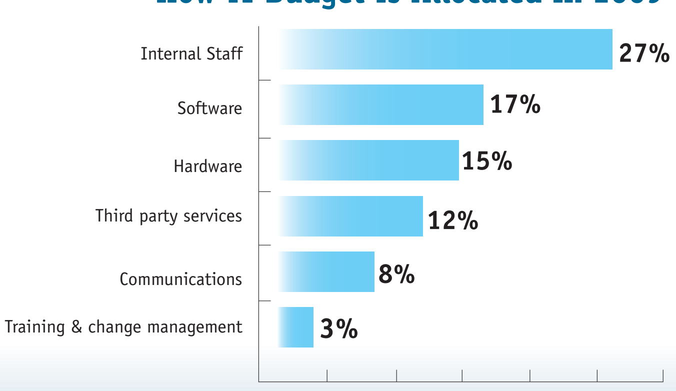
Margin of Revenue Change in Last 12 Months



Comparing 2009 IT Budget to 2008



How IT Budget Is Allocated in 2009



other categories, including infrastructure and merchandise management, come in a distant second and round out budget allocation at fairly equal levels.

Running a widely distributed network of stores is a costly undertaking and subject to chain-math, which means that every dollar spent on a store is multiplied by the number of stores in the chain. Since our respondents average between 244 and 377 stores it is easy to see how spending on store operations can add up quickly. Chain math works to a retailer's advantage in good economic times when sales gains add up quickly when multiplied per store.

During a recent presentation by a noted Wall Street analyst it was pointed out that only 150 of the Fortune 500 companies avoided posting a loss in 2008. Just as important, he pointed out, the drop in economic activity was the fastest and steepest the country has ever seen.

So, if there is any reason for hope in these dark economic times, it is because retailers have adjusted to the shock and awe of 2008. Store openings have been delayed, store closings of underperformers have been increased, purchasing levels have been decreased, inventory has been cleared out, layoffs have been announced, and, in general, retailers have become right sized for today's demand levels.

Some retailers have been exposed as vulnerable, primarily due to carrying too much debt and having too little cash on hand, and the apparel and luxury verticals have been hit particularly hard.

But there are strong segments that are performing extremely well, such as grocery, mass merchants and discounters. And some individual winners are posting enviable gains like Amazon, Aeropostale, The Buckle, Hot Topic and Autozone to name a few.

But there is no doubt that when the record of this era is written and reasons for making budget decisions are analyzed the underlying theme will be: It was about the economy, stupid. ■

Strategy and Transformation

PCI COMPLIANCE AND PACKAGED APPLICATION SUITES MOVE TO THE FRONT BURNER

Technology pros are never satisfied with their current systems, and they shouldn't be. Their job is to know the best IT options and align them with business processes to help their organizations improve results or solve problems.

So, it is interesting to see that 57% of respondents believe their IT architecture is best described using the word "Basic" as opposed to "Advanced." That's a big number and not where organizations want to be in a time when efficiency and customer satisfaction have never been more critical.

To be fair, retail technology has been evolving at a rapid pace in recent years, especially packaged applications. As we continue to track this datapoint in future studies we expect to see the "Basic" percentage decline and "Advanced" increase. Many impediments stand in the way, such as capital constraints and legacy systems, but this is a battle that ultimately must be won.

SOFTWARE PHILOSOPHY

Partly confirming this point is the delta discovered between integrated solutions suites and best-of-breed when selecting software deployment philosophy. When we first began tracking this datapoint and learned (to our surprise) that integrated solutions beat out best-of-breed by roughly 10 points, we have been expecting the delta to grow. But it held steady until this year when it widened to 16 points.

We know that CIOs don't want to be over-committed to a monolithic platform, especially as software maintenance fees continue to rise. But as retail-specific software apps mature, a growing number of retailers are beginning to leverage the benefits of one-throat to choke, or should we say one partner to rely on, as they transform from "Basic" to "Advanced."

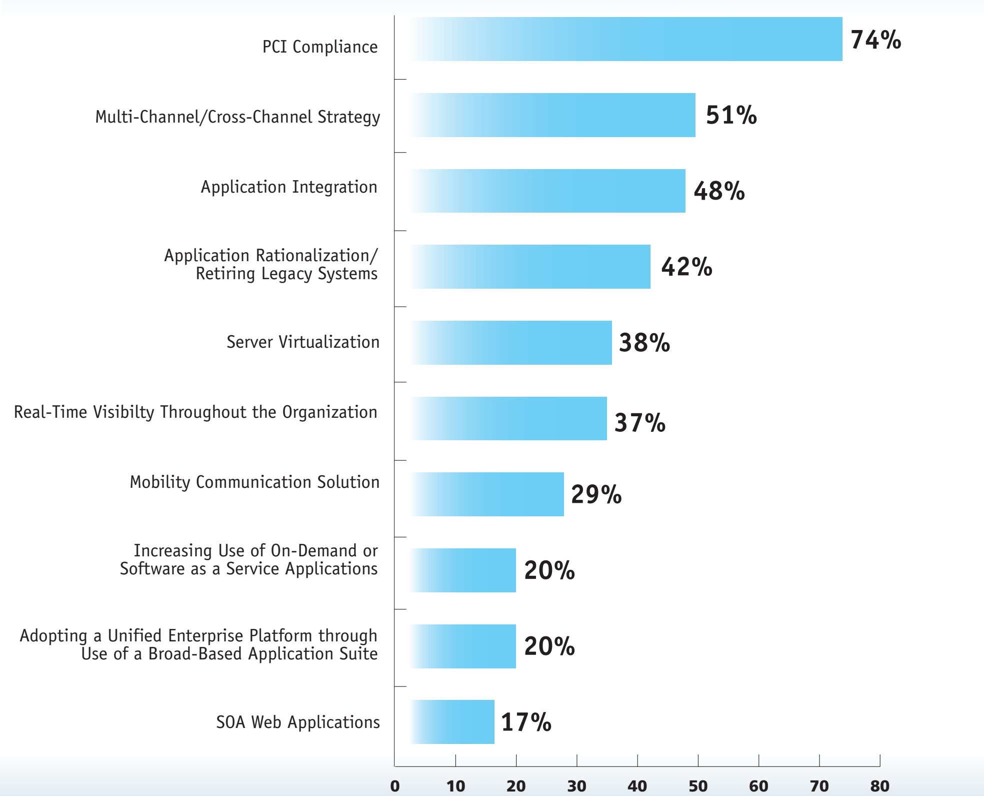
There will always be a role for best-of-breed applications (and also third-party and in-house developed apps, especially for highly targeted solutions). But we are starting to see packaged application suites pull away as the most frequently taken road when CIOs upgrade enterprise functionalities and services.

We find a confirming point to this takeaway in a question asked about IT outsourcing trends in 2009.

Here we see that the largest bloc of respondents planning a decrease in IT outsourcing plan to do it in the area of custom application development at 27%. And correspondingly, we see the largest bloc planning an increase in IT outsourcing plan to do it in the area of packaged application implementation/integration at 29%.

Another large bloc of retail CIOs planning an increase in IT outsourcing in 2009 fall into the category of telecommunications/networking at 26%. This is

What Concerns/Challenges Will You Devote Significant Resources to in the Next 3 Years



an area of technology that is well served by IT service providers and CIOs have clearly come to the conclusion they have the right solutions to their needs. As a result, just 6% plan to decrease their budget in this area in 2009.

We are starting to see packaged application suites pull away as the most frequently taken road when CIOs upgrade enterprise functionalities and services.

PCI COMPLIANCE

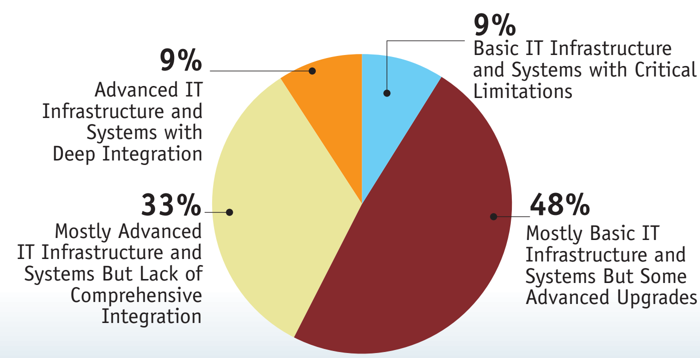
Looking three years out is an exercise in clairvoyance, something no one has yet perfected. But our respondents can easily see that PCI Compliance isn't going away any time soon.

Last year, when most retailers were thought to be fully compliant due to deadlines set by the credit card industry, PCI Compliance was fourth on our concerns/challenges list. This year it is number one by a wide margin, selected by 74%. The cumulative effect of data breaches, attacks by sophisticated organized gangs and costly damages are enough to justify this level of concern.

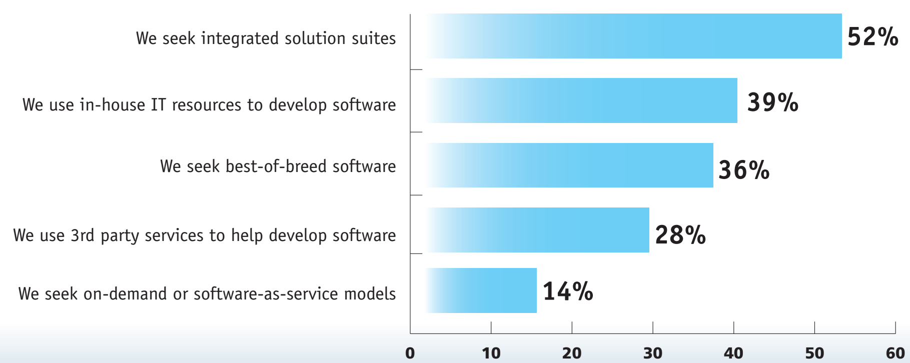
What is equally interesting is that Multi-Channel/Cross-Channel Strategy jumps up from fifth to second, with 51%. With e-commerce being one of the few bright spots last year and consumers now expecting retailers to have deep cross-channel functionality it's not surprising that CIOs are stepping up to the plate with long-term cross-channel plans.

What a difference a year makes. Virtually every concern/challenge has jumped several spots up or down the list. In today's economy, sticking with old strategies is simply not an option. ■

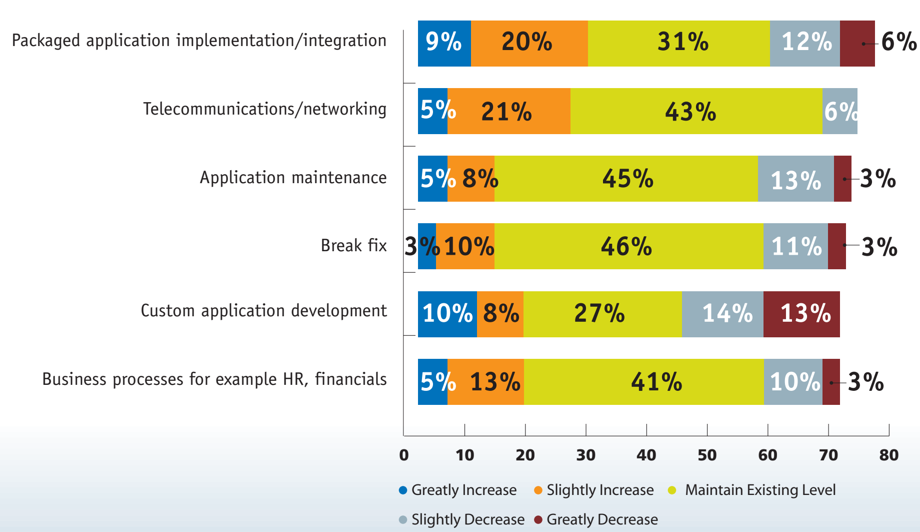
Where Does Your Organization's IT Architecture and Applications Fit into a Maturity Model



Software Deployment Philosophy



IT Outsourcing Budget Trends for 2009



Point of Service

SYSTEMS FOR THE ULTIMATE SHOPPER EXPERIENCE — INSTANT GRATIFICATION

Despite all the advantages of shopping online there is a huge advantage only be found in stores: instant gratification. You walk into a store, you see what you want, you touch it, you buy it, you take it home immediately.

To a shopper nothing beats this experience. But for retailers it comes with a hefty price. As our study found in the IT budget section, store operations takes the lion's share of the IT budget. In fact, it doubles the spending levels on such major systems as infrastructure, merchandise management and supply chain management.

POS HARDWARE/SOFTWARE

At the heart of store operations is the critical role played by the POS system. This can range from a simple terminal for performing transactions to a full-featured PC computer equipped with inventory visibility, ship from another store, ship from online, contactless payment, CRM/loyalty, employee portal, and the ability to accept cell phone coupons and charges.

It is these additional functions that define an up-to-date POS system, and it is the ability to accommodate expanded functions and analytical needs that determines when the POS needs to be replaced.

POS system upgrades are expensive because they need to be installed in every single store, which produces the dreaded chain-math effect. In a year when IT budgets are squeezed we would expect to see a slowdown in planned POS deployments, but this is not the case.

True, we find that POS hardware and software rollouts already underway in 2009 are low compared to last year at just 11% and 8% respectively. But looking ahead to the end of 2009 and into 2010 we see that 33% and 34% of respondents say they are planning POS hardware and software upgrades, which is a slightly higher level than last year.

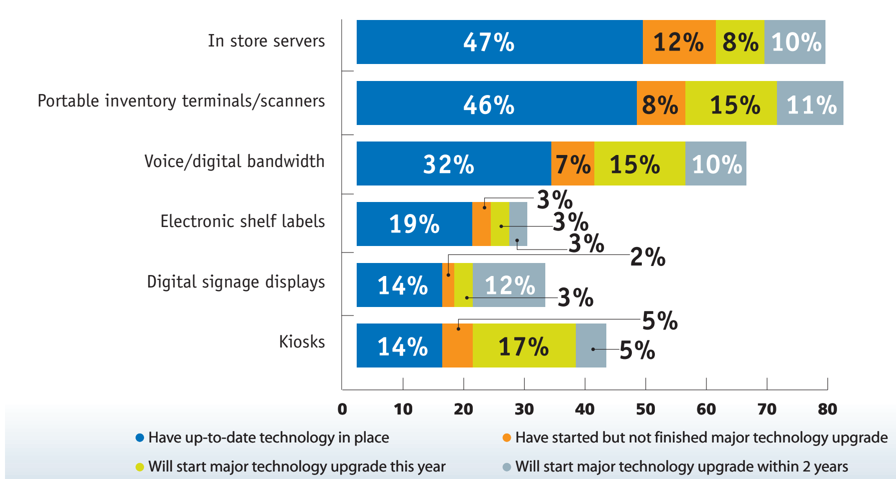
Despite this somewhat rosey outlook, we have discovered in past studies that CIOs tend to err on the optimistic side when planning IT projects two years out, especially big-ticket projects like POS which take several years to complete. If the economic recession continues through the end of the year it is likely a significant portion of these projects will get postponed.

IN-STORE TECHNOLOGIES

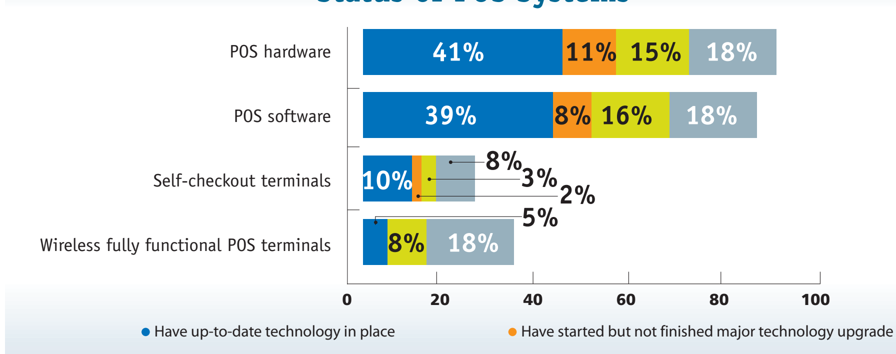
Self-service systems continue on a steady growth track as retailers recognize that younger generation shoppers are very comfortable using the technology. As these usage rates rise retailers will finally be able to deploy self-service devices and achieve measurable benefits from labor savings, labor redeployment and cost-reduction.

As a result, we find that kiosk deploy-

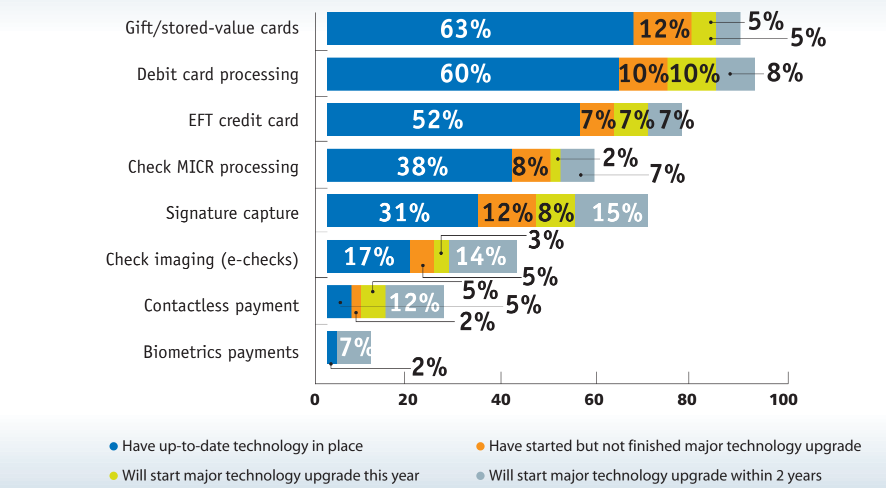
Status of In-Store Technologies



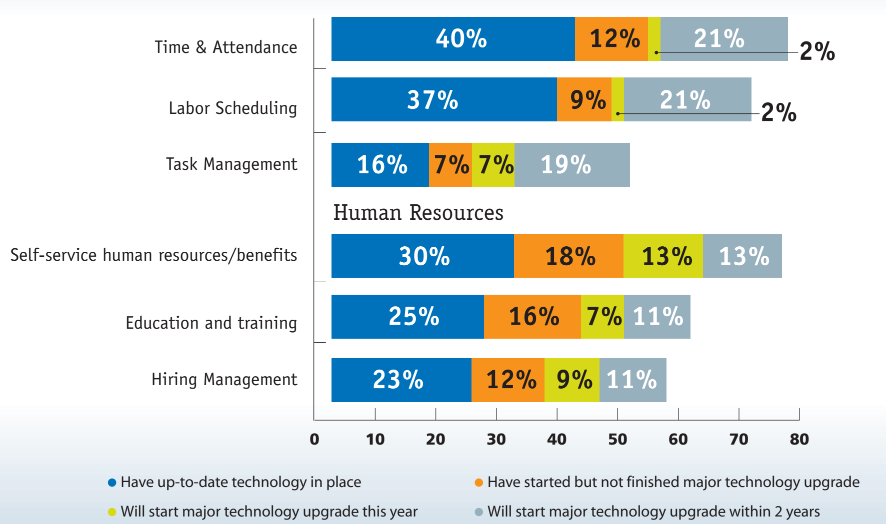
Status of POS Systems



Status of Payment Systems



Status of Workforce Management



ment at 22% over the next two years shows strong growth plans and only gets beaten among in-store technologies by such necessities as voice/digital bandwidth (25%) and portable inventory terminals (26%).

Not all retail verticals today embrace self-service technology, but as someone pointed out recently, if Wegman's is finally piloting self-service POS then we have crossed a major threshold and widespread acceptance can't be too far away. (Wegman's, a high-touch, up-scale regional grocer with a strong emphasis on a personalized customer experience, has been famous for resisting any technology that sits between its well trained staff and its beloved shoppers.)

For a number of years we categorized biometric payments as an emerging technology, but its growth track has stalled just as surely as has RFID in the supply chain. It didn't help that a major biometric vendor suddenly went bankrupt last year, but the larger issue is lack of shopper acceptance. In the future we may feel more comfortable relying on fingerprint, iris, palm or facial scans for identity recognition, but that day is still several years ahead of us.

WORKFORCE MANAGEMENT

The problems of retention and turnover, which are traditional painpoints in retailing, have been supplanted in the current economic crisis by the necessity to get right sized to meet lower demand. Retailers forced to reduce head counts must balance multiple and often competing needs: meet lower labor budgets, keep as many good employees as possible, increase productivity, and maintain high customer satisfaction.

They do this by using advanced workforce management systems, which have matured in recent years by expanding capabilities into a sophisticated workforce suite. As a result, over the last few years we have tracked a strong replacement rate of older workforce applications, especially in the areas of time and attendance and labor scheduling.

Even in this time of lean IT budgets these categories are still holding steady because the benefits from upgrading these systems are proven and return on investment can typically be achieved in less than a year. The same is true for the human resources technologies we track, especially self-service human resources/benefits, which has a 26% growth rate over the next two years.

But one area that shows a significant increase in activity, year over year, and stands out as a true bright spot in this year's study is task management. Although still a relatively young technology, no more than a handful of years old, it has a 26% growth rate over the next two years.

The growing interest in task management is due to two converging factors. First, the technology itself has demonstrated it can deliver measurable results in store-level efficiency and productivity. And second, with store openings on hold due to the slowing economy, the prime benefits that task management technology is known for (efficiency and productivity) have never been more important. ■

Merchandising and Supply Chain

EMPOWERING THE DATA-DRIVEN ENTERPRISE BY FEEDING BI TO POWER PLAYERS

Last year's study found that tapping into business intelligence (BI) to make smarter, better and more accurate decisions was an overarching theme that emerged from the data. This year's study confirms this finding by posting some of the strongest numbers for planned adoption in the next two years for BI and analytical capabilities, especially in the area of CRM,

The popularity of this tech grouping, even in a year when IT budgets are spare, is partly due to the fact that projects of this type are not just plumbing (infrastructure) or data warehousing, both of which often are invisible to end users. BI is mission critical to the success of key power players within the organization and to the overall organization itself.

Every top executive is a numbers person at heart, and knows the business value of good data. As a result, BI resonates in good budget years and bad. Creating enterprise-level dashboards, for example, has the lowest up-to-date installed base in this grouping (16%), but it has the highest deployment interest over the next two years (47%).

And what's good for the home office is good for the store manager. Starting with a low installed base of up-to-date technology (16%), CIOs indicate a high level of deployment activity for performance dashboards for regional and store managers (42%) through 2010.

Key to the effectiveness of these dashboards is a back-end system that provides real-time reporting of key data, a technology where 42% of respondents say they have already begun work or will begin by year's end. This work consists of breaking down data silos, solving issues with data quality, achieving consistency of classifications, and other data-reconciliation issues. And it must be done prior to creating accurate BI dashboards for executives.

Our findings align with this approach as a huge amount of real-time reporting is already underway or will begin in 2009 while the bulk of the dashboard projects are planned for two years out.

MERCHANDISING CAPABILITIES

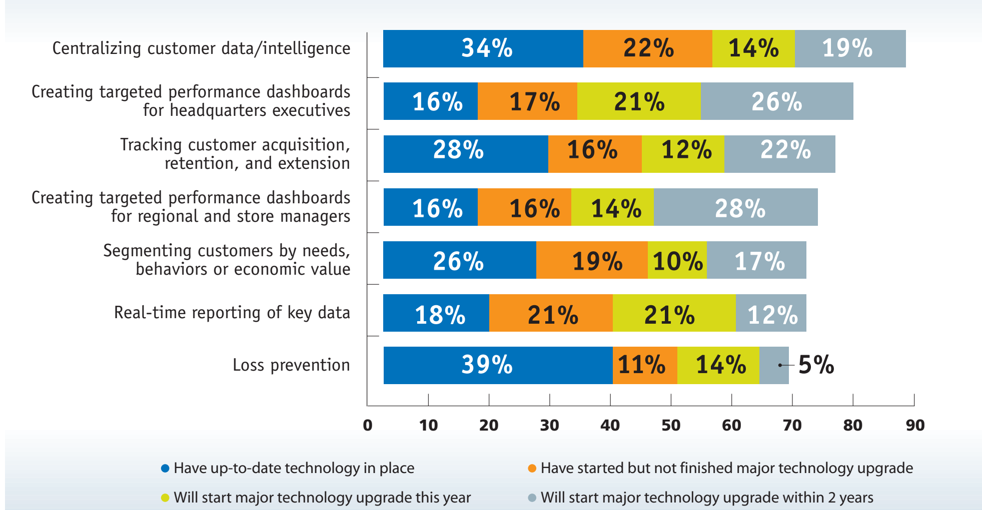
In the area of merchandising we can see clear signs that lean budgets are putting the squeeze on new project planning. Across the broad grouping of merchandising technologies we see low numbers (single digits) for work scheduled to begin by the end of the year. Last year these levels were in the mid-teens.

A bright spot in this grouping is in the area of inventory management, which shows 27% of respondents will begin a project by the end of this year or in 2010. The reason we see this level of near-term activity in inventory management is that retailers are making an effort to squeeze more inventory out of their pipelines while at the same time trying to avoid jacking up the rates for out of the stocks. The only way you can achieve this balancing act is by upgrading inventory management systems.

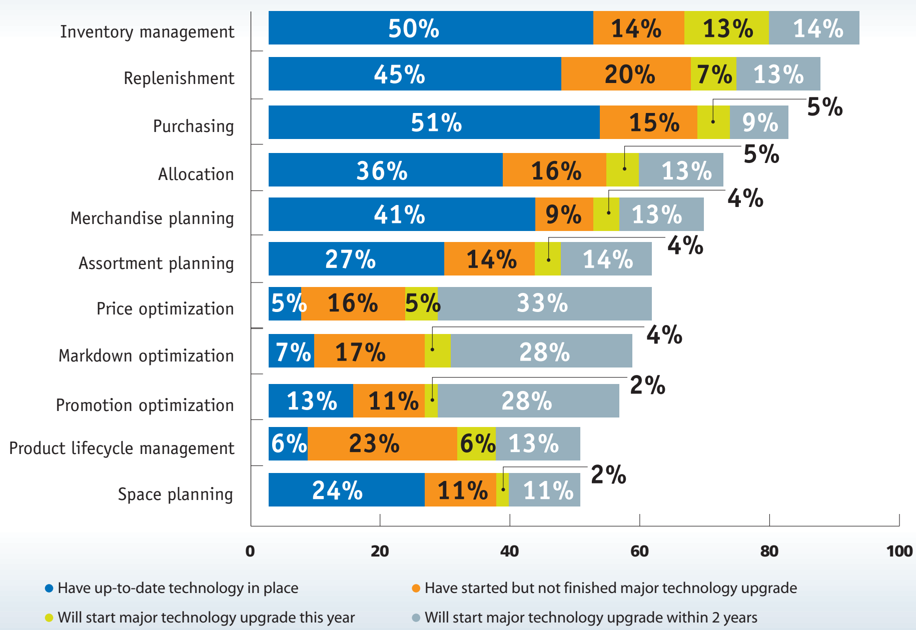
Two years out, several technologies in this grouping show strong levels of

Every top executive is a numbers person at heart, and knows the business value of good data. As a result, BI resonates in good budget years and bad.

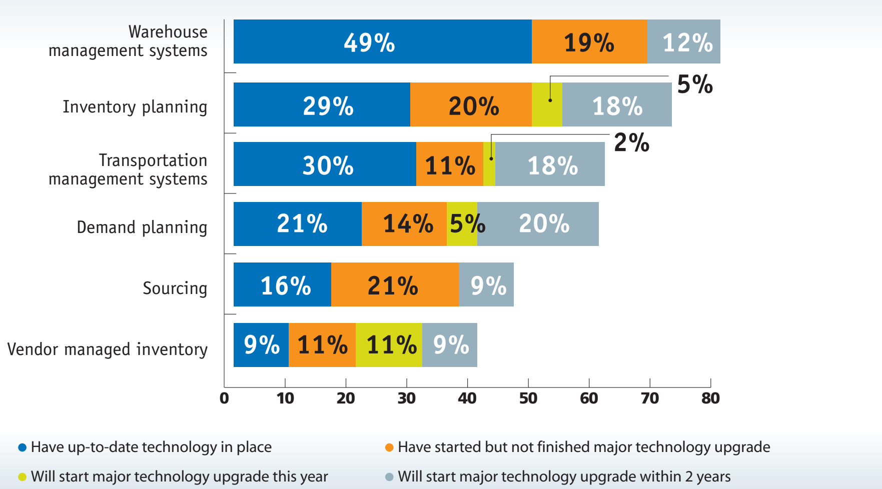
Status of CRM Capabilities



Status of Merchandising Management Capabilities



Status of Supply Chain Management



interest, including price optimization (33%), promotion optimization (28%) and markdown optimization (28%).

Because of this strong level of planning it would appear that the title for the 2010 or 2011 retail tech trends study will have to be the Year of Optimization. However, as mentioned in a previous chapter, this is probably another case of high optimism by CIOs who are creating a wish list now but may change their plans as they get closer to pulling the budget trigger.

One final point: many technologies in this grouping (such as purchasing, merchandise planning, allocation and assortment planning) can be considered fairly mature applications that retailers have likely implemented in recent years. In a time of budget constraint it makes sense to postpone upgrading these systems. Doing this serves to extract more value from the original investment and avoids causing an unnecessary disruption during a time of stress.

SUPPLY CHAIN MANAGEMENT

Looking at the grouping of supply chain management technologies, we see a similar picture to what we find in merchandising capabilities for deployments slated to begin by the end of 2009. In other words, it is about as low as you can go.

Warehouse management systems (WMS) and sourcing, for example, pull off the rare feat of racking up zero percent that plan to start by the end of the year, something that is best explained as a statistical anomaly relative to the study sample as opposed to an accurate reflection of the marketplace. Still, the deployment numbers are low by any measure.

But WMS, like several core merchandising technologies noted above, is a mature technology that has seen heavy investment by retailers for many years. At some point you would expect to see the up-to-date technology in place grow to a large figure (49% in this case) and future deployment numbers start tailing off. This is indeed what appears to be happening this year.

When looking two years out we see strong levels of interest in demand planning (25%), inventory planning (23%), transportation management (20%) and vendor managed inventory (20%).

In a year when merchandising and supply chain projects tail off due to lean IT budgets, we see levels of interest in BI projects remains as strong as ever. During the last recession, when many IT budgets were cut to the bone (or into the bone), many experts wondered if CEOs actually understood the importance and value of the data-driven enterprise. Today, we see clear evidence that lessons have been learned from past mistakes. ■

Integration across Channels

MUCH WORK STILL NEEDS TO BE DONE TO SYNCHRONIZE SALES CHANNELS

The battle to engage the hearts and minds of retailers in deep cross-channel integration has been decisively won after a long and steady campaign throughout this century. The tipping point was reached a few years ago when dollar volume from online sales jumped sharply ahead of sales delivered by a single store in a chain. Once this occurred, retailers felt compelled to devote resources to a large and growing part of their business.

The first phase of cross-channel integration was focused on customer-facing functions and brand consistency, a phase some retailers are still wrestling with. This is especially true for retailers whose primary revenue source is from brick-and-mortar stores. This segment, not surprisingly, accounted for 91% of respondents in our study.

It is interesting to note that an increasing number of pure-play e-commerce sites (5% of our respondent pool) are in the process of opening or planning to open brick-and-mortar stores. The irony is that they will then require cross-channel integration plans just like brick-and-mortar chains, but they will approach it from the opposite angle and accomplish it easier without the legacy systems most retailers have to contend with.

2ND PHASE OF INTEGRATION

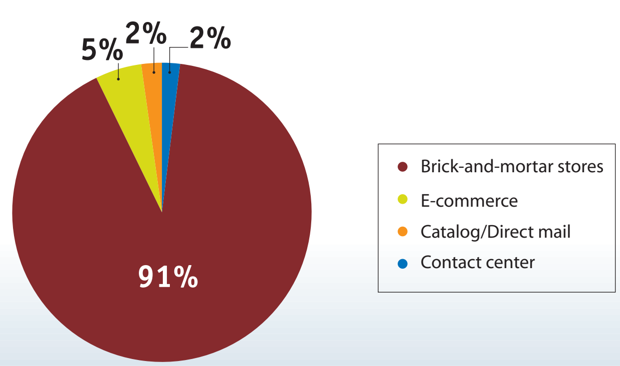
The next phase of cross-channel integration, the one most retailers find themselves working on now, is characterized by upgrading critical e-commerce platforms. Most e-commerce platforms enable posting of product catalogs, offering ways for search and navigation, shopping carts, ability to run special promotions and, most importantly, the ability to enable secure transactions.

But these are just the basics, and problems have arisen with first-generation platforms when retailers try to add Web 2.0 capabilities and peak traffic crunches begin stressing the system as Web sites continue to grow.

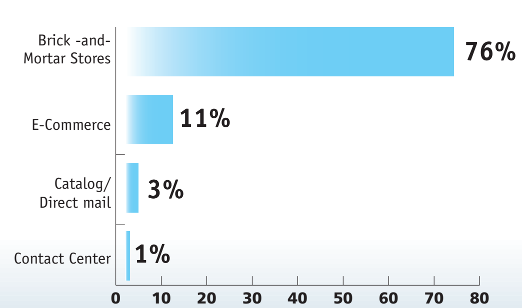
With only 21% of respondents saying they are currently using second generation e-commerce platforms that have Web 2.0 capabilities it means the vast majority (79%) still need a major upgrade. Of this group, 53% say they are either upgrading now or will begin upgrading in 2010. This represents a massive amount of IT activity to keep CIOs busy for the next couple of years.

As these retailers map our their future e-commerce platform strategies they will be seeking such important system upgrades as the following: personalized experiences for shoppers, greater control for merchandisers, A/B promotion testing, consumer feedback, natural language search capabilities, easier management of e-mail campaigns, better site analytics, and improved ability to service and support customers.

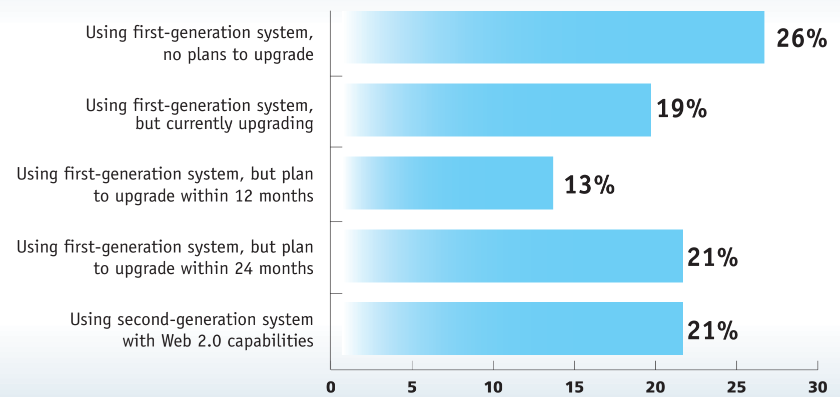
What Is Your Primary Business Model/Revenue Source



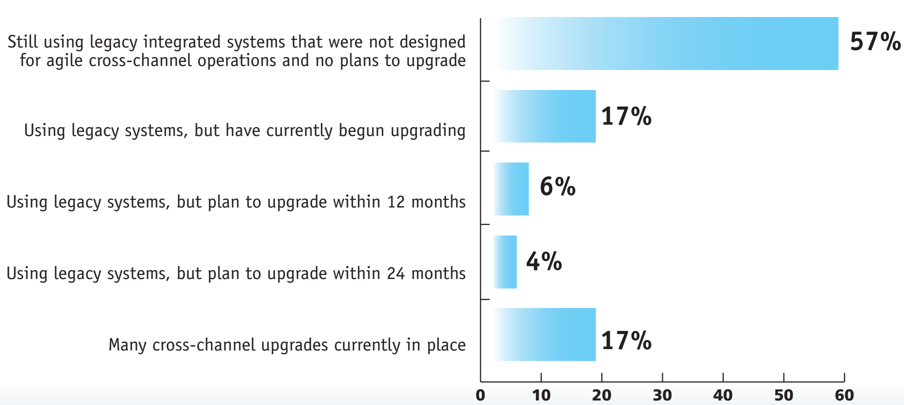
Percentage of Annual Sales from Channels



Status of E-Commerce Platforms



Ability to Seamlessly Enable Cross-Channel Initiatives



The tipping point was reached when dollar volume from online sales jumped sharply ahead of sales delivered by a single store in a chain.

THIRD PHASE OF INTEGRATION

As previously noted, the dollar volume from e-commerce sales caught the attention of C-level executives a few years ago when it surpassed sales by a single store. Today, according to our respondents, the e-commerce figure is about 11% of total sales, with another 4% coming from catalog, direct mail and contact center sales.

With so much revenue coming in from non-store channels, the next challenge retailers face is a third phase in the process of cross-channel integration that focuses on tightly coupling front-end systems with back-end systems and operations. This includes integration with technologies that are generally considered fairly mature in the typical retailer tech stack, such as merchandising, logistics, reverse logistics, fulfillment and warehouse management, to name a few of the most critical.

Re-engineering these systems so they are seamlessly integrated across all sales channels represents a difficult challenge to retailers, one that is complicated by a fragmented and complex IT and operations infrastructure.

Because of this complexity, retailers have been sluggish in achieving tight cross-channel integration, and a great deal of work still needs to be done. According to our data, 57% of respondents are using legacy systems not designed for agile cross-channel operations and have no plans to upgrade. When these retailers begin losing customers and sales to their competitors they will probably change their tune about investing in cross-channel integration.

Just 17% say they have currently begun upgrading their cross-channel integration capabilities, and another 17% say they are currently up to date and have already achieved many cross-channel upgrades.

As we move through 2009 and head into the year's holiday season planning, one emerging and differentiating technology on the horizon is the linkage of cross-channel systems to achieve purchase anywhere, fulfill anywhere functionality. Want to buy online and pick-up in a store? No problem. Want to buy in one store and pick up in another store? No problem. Want to buy in a store and have it delivered at home? No problem. Want to buy on your cell phone and have it delivered anywhere? No problem.

But it is a huge problem for retailers to make this happen without a great deal of work done tightening integration between cross-channel orders and back-end systems and operations. As with upgrading e-commerce platforms, there is much work that needs to be done in this area, and it is something that will keep CIOs busy for several years to come. ■

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