



Retail Insight: Strategies and Trends for 2013 and Beyond

SPS Commerce Industry Benchmark

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In Cooperation with:



SPS COMMERCE

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Research Overview

In October 2012, SPS Commerce commissioned Retail Systems Research (RSR), the only research company run by retailers for the retail industry, to survey, analyze and report on the retail industry, insights across the supply chain today, and plans for the future. Because the retail industry spans the entire supply chain, we took the opportunity to find both similarities and differences in perceived external and internal challenges, opportunities and threats to the ecosystem. We also looked at technologies in use today and respondents' budget plans for the coming years.

Executive Summary

The SPS community reflects **cautious optimism for 2013**, with more investments planned and slightly bigger budgets on average, in anticipation of a better year ahead than 2012. Overall, all participants are looking to improve both customer engagement and supply chain, with an emphasis on customer insights for the former and collaboration improvements for the latter.

The **focus on customer insights** is being driven primarily by the increased power that consumers have over the entire retail ecosystem. From retailers through to suppliers, the perception of extreme price sensitivity by consumers still shapes many opportunities and challenges, with logistics providers the exception - and a harbinger of changes to come. Their focus is on service and speed - two capabilities that retailers and suppliers alike will need to be able to answer the competitive threat that Amazon and other e-tailing giants pose to the retail industry.

The consumer focus promises to further complicate relationships within the retail ecosystem, particularly as suppliers look to reach and engage with consumers more directly, including selling directly to them. In this situation, customer insights become even more critical to the entire ecosystem, as **retailers and suppliers increasingly find themselves in "coopetition" types of relationships**.

This leads to the **sensitive topic of supply chain collaboration**, where nearly all participants in the survey expressed that it is a priority for 2013, even though most of them define their current levels of collaboration as "adequate". Across the segments of the ecosystem, survey participants reported that they are waiting for someone else to pick up the collaboration standard and move the industry forward. However, **changes promised by the consumerization of IT** - where corporate IT strategy is driven less by enterprise-grade investments and more by the pace of change in consumer electronics - now sit on the doorstep of collaboration processes, promising a renaissance around the topic in the near future.

Overall, the future is brighter: the industry is prepared to do more, and sees brighter days ahead. With the directions indicated by survey participants, we expect to see investments in consumer insights yield further investments in supply chain collaboration and responsiveness - all in an effort to maintain success in an increasingly competitive market.

Survey Participants

RSR launched this survey in October 2012. We received responses from 553 qualified companies, focused on the SPS Commerce community of customers and partners. All responses were anonymous.

- 32% self-identified as retailers or distributors
- 4% self-identified as logistics providers
- 65% identified themselves as vendors/suppliers

Corporate roles spanned a variety of functional areas, with the majority of respondents in executive positions as follows:

Executive Management	34%
Information Technology	12%
Finance	10%
Supply Chain	8%
Logistics	8%
Marketing	7%
E-Commerce	7%
Business Development	7%
Merchandising	4%
Procurement/Product Development	2%
Warehouse	1%

It should be noted that among retailers, respondents were four times as likely to be part of the supply chain group (21% vs. 5% of other company types). Conversely, vendor respondents were more likely to be part of executive management than their retailer counterparts (39% vs. 23% respectively).

Methodology

For the core of this benchmark report, we'll use RSR's "BOOT" methodology to frame the forces shaping industry trends. A detailed explanation of this methodology can be found in Appendix A. Put simply, we'll look at:

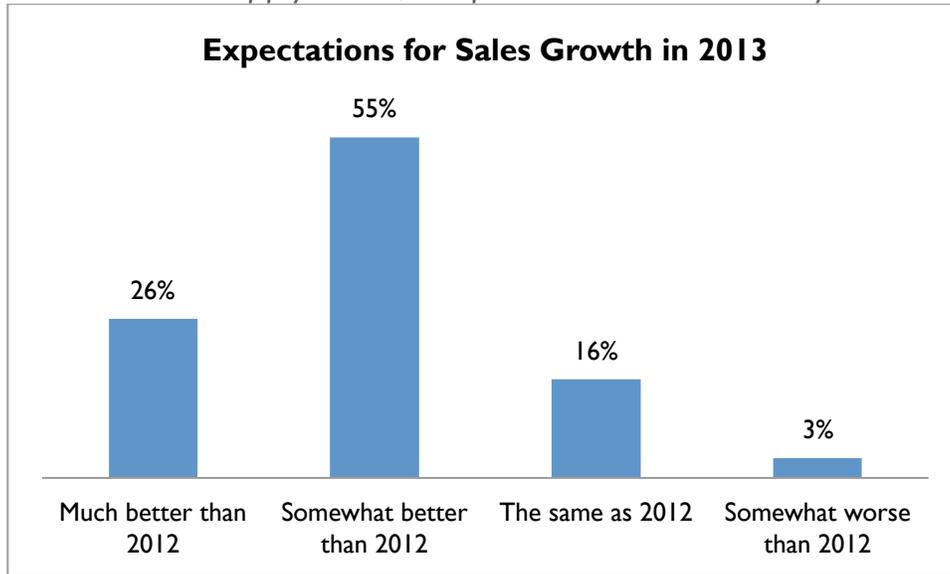
- Business Challenges: External forces exerting pressure on the industry
- Opportunities: Ways our respondents believe they can overcome those pressures
- Organizational Inhibitors: Internal forces and challenges that might prevent the ecosystem from taking advantage of the opportunities they have identified
- Technology Enablers: In the 21st century, technology is often integral to taking advantage of opportunities. In this section we'll look at budgets and planned investments

With this as a backdrop, let's take a look at the respondents; perception of "the state of the union."

Better Days Ahead

First, and perhaps most importantly, almost all our respondents see better days ahead. Overall, more than 80% are optimistic about sales growth in 2013 (Figure 1).

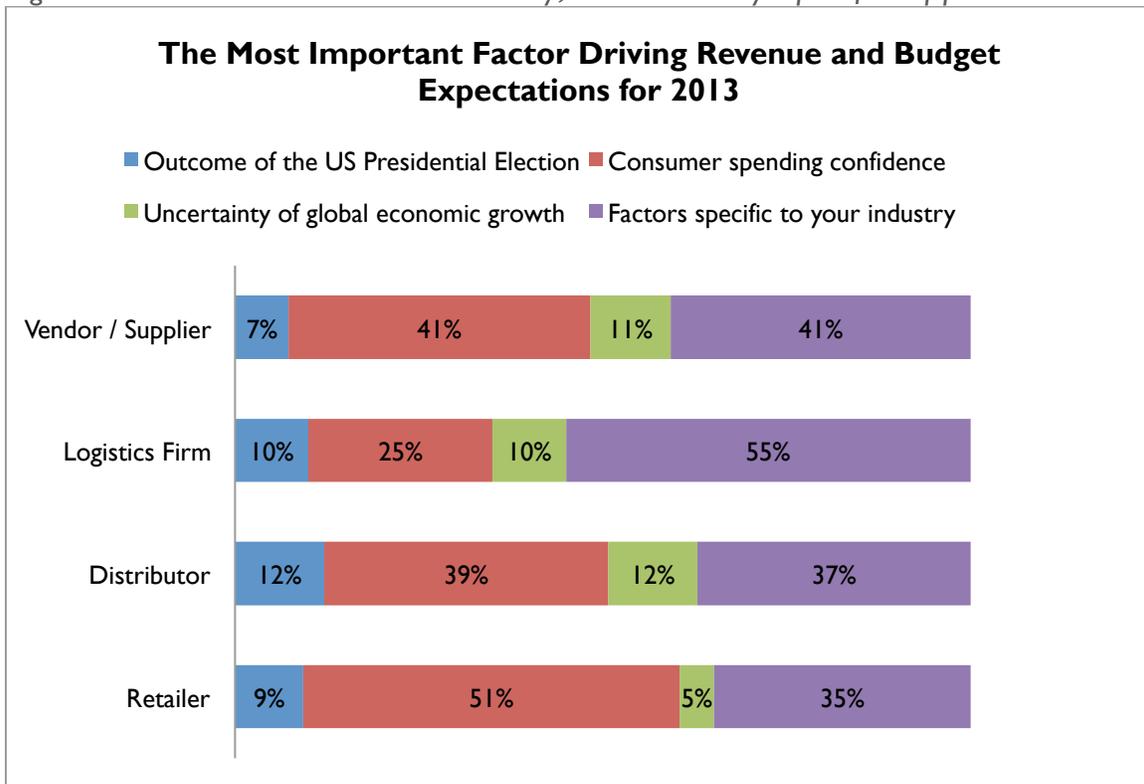
Figure 1: Across the Supply Chain, Respondents See Better Days Ahead



Source: RSR Research, November 2012

None of our respondents believe sales will be “much worse” in 2013, and responses overall were very consistent regardless of company category or functional position. Perceptions on the cause of these generally bullish sales projections vary somewhat, however (Figure 2).

Figure 2: A Consumer Driven Economy, with Industry Specific Opportunities



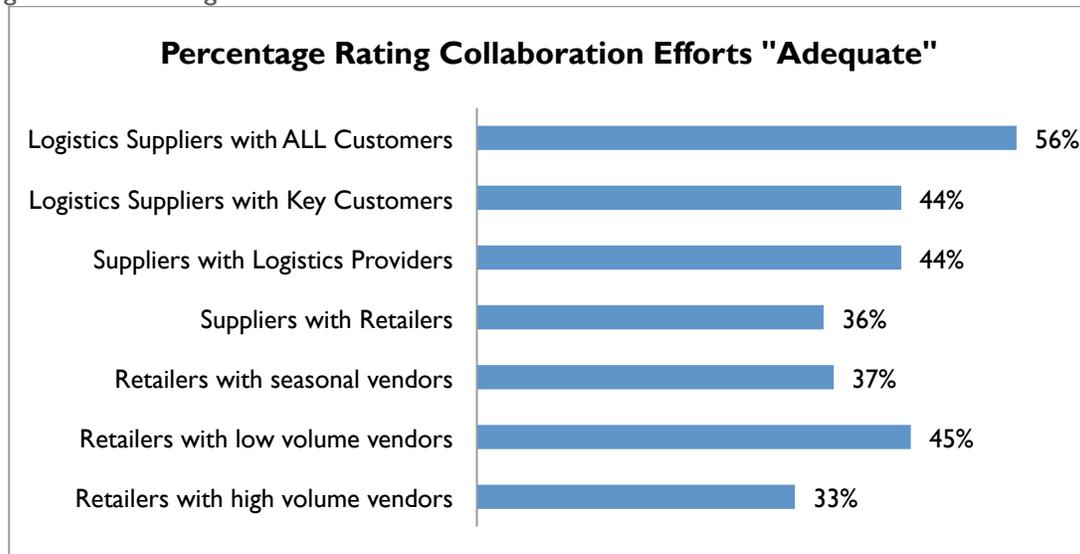
Source: RSR Research, November 2012

Notwithstanding all the hoopla surrounding the 2012 US Presidential elections, very few respondents believe the outcome will make a big difference to their companies. Instead, they focus on consumer confidence and “industry-specific factors.”

Collaboration is “Adequate;” Everyone Looking for Improvements

We asked our respondents to rate their ability to collaborate with their various supply chain partners - retailers, suppliers, and logistics partners. As we can see in Figure 4, a plurality generally rated their efforts as “adequate.”

Figure 3: Moving Collaboration Forward



Source: RSR Research, November 2012

In a few cases, respondents reported that collaboration is proceeding at pace that is better than just “adequate.” For example, forty-six percent of retailers did report they are collaborating “very well” with their high volume vendors, but in general, most respondents across the Supply Chain recognize a need for improvement. **Approximately 90% of all respondents rate improving that collaboration a medium to high priority in 2013.**

The tools used for collaboration currently are not surprising. Most respondents report traditional EDI as their most common form of collaboration (90%), shipping notices (47% of retailers and 73% of suppliers), and collaborative forecasting (36% of retailers and 34% of suppliers).

“Big Data” Drives Customer Insights and Big Opportunities

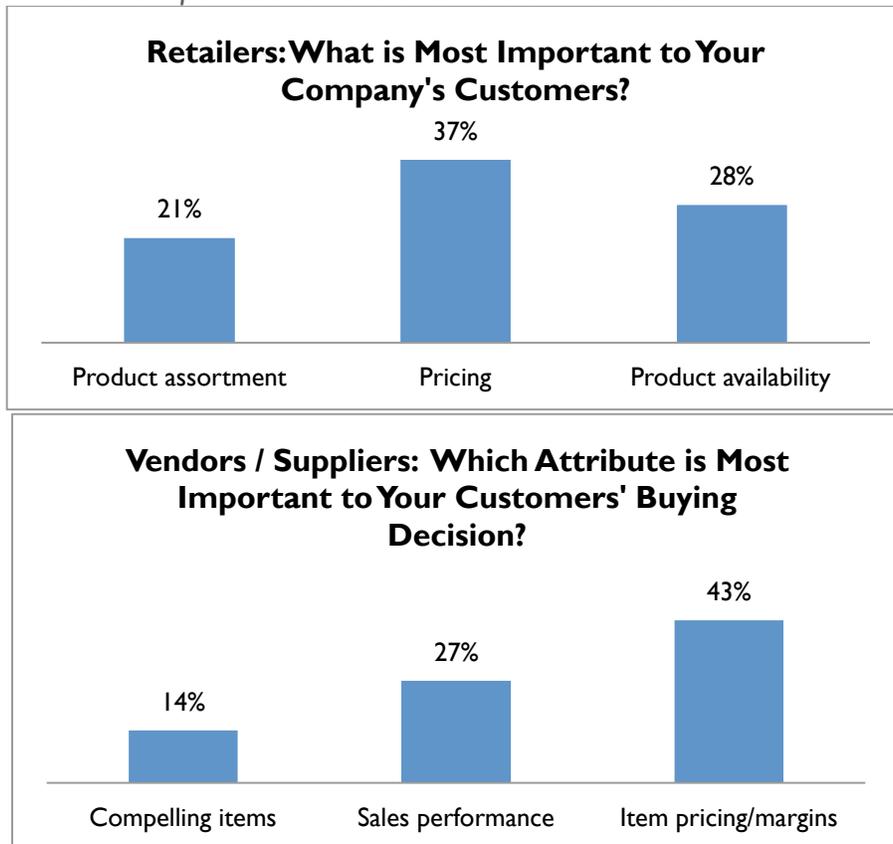
The industry is generally abuzz with the term “Big Data.” RSR uses this term to refer to previously hard-to-quantify insights into customer preferences. Survey respondents are certainly eager to dive into these waters. **Fully 86% of retailers and 64% of vendors / suppliers have placed a priority on improving these insights in 2013.** We will see later in this document how many have actually allocated budget to technology required to support these insights.

However, we asked respondents what they currently believe is most important to their customers.

Retailers Fixate on Price, Suppliers Follow

Retailers continue to fixate on low price, to the exclusion of assortment, availability, user ratings and other attributes. Suppliers follow. Figure 3 shows their top three responses.

Figure 4: Price Trumps Assortment and Value - For Now



Source: RSR Research, November 2012

RSR's annual pricing benchmark report, published earlier this year, yielded similar insights¹. Even as apparel shoppers (for example) complain about a lack of interesting designs, retailers continue to promote, and increasingly promote deep discounts. Even suppliers' perspectives in this survey reveal a distortion created by pricing challenges: when suppliers believe that item pricing is three times as important as "compelling items", something is terribly wrong. Only logistics providers seem to have stayed above the pricing fray, with 44% recognizing that "reliability" is most important to their customers, and only 22% citing price as the single most important attribute. One can only hope that the answers revealed from Customer Insight investments in 2013 and beyond reassure retailers and suppliers alike that consumers can be sold on more than just low price.

In fact, retailers specifically report they hope to improve their understanding of customer behavior in four key ways:

- Increased reporting on buying trends (56%)
- Increased monitoring of social media trends (49%)
- Advancing customer loyalty programs (39%)
- Deploying new analytical solutions to hone even greater understanding (39%)

¹ *Retail Pricing in a Post-Channel World, Benchmark Report 2012*, by Nikki Baird and Paula Rosenblum, April 2012

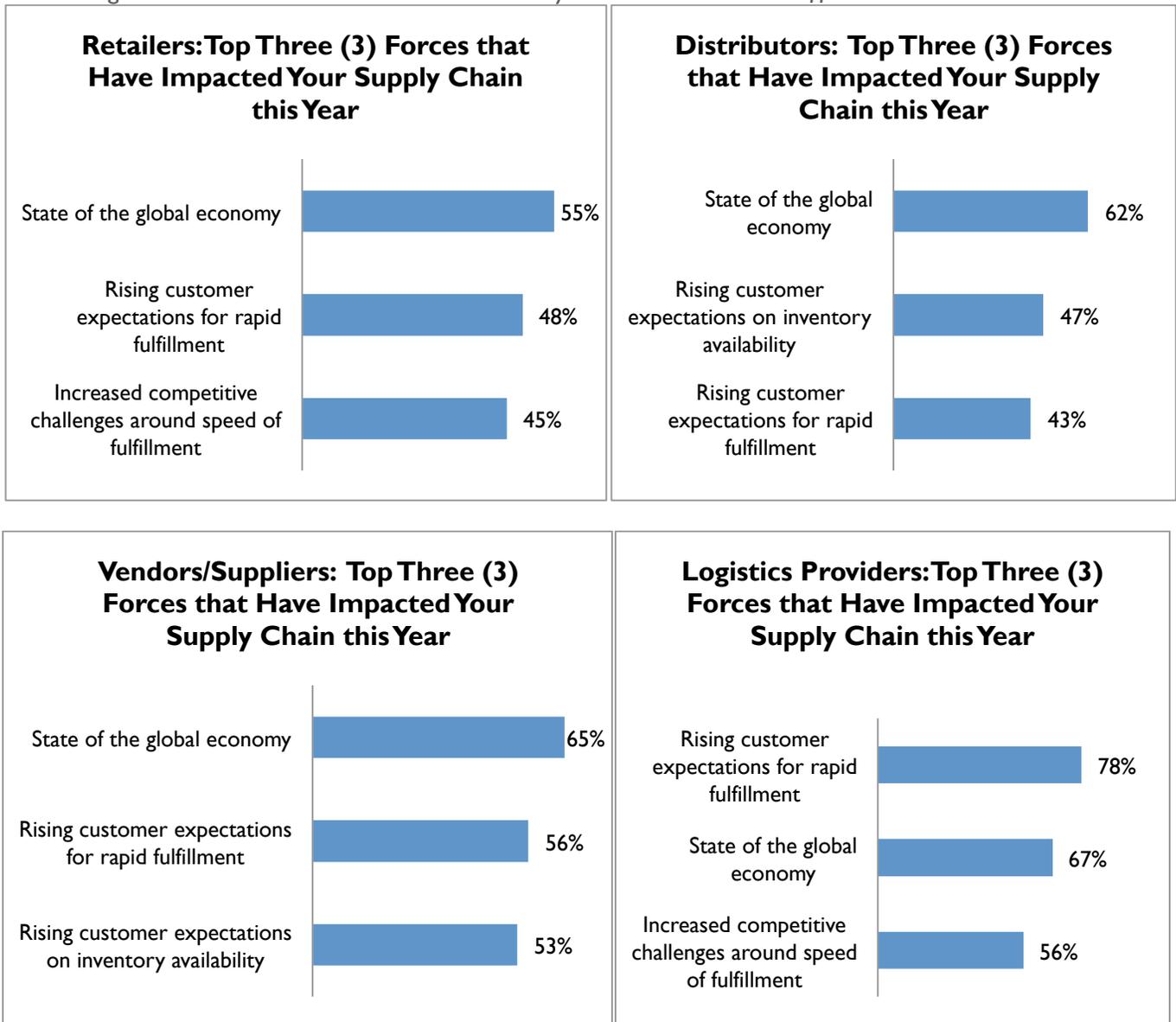
Supplier responses essentially mimic those of their retail counterparts with some minor differences. A higher number are looking to touch customers directly through social media (51%) and also plan to increase reporting on buying trends (64%).

Business Challenges

Taking a Look Back: Forces Impacting the Supply Chain

We asked survey respondents to identify the three forces that have impacted the supply chain over the past year. Overall, the uncertain state of the economy has had a profound impact, with almost two-thirds of all respondents citing it as a top-three concern (Figure 5).

Figure 5: This Past Year: The Economy and the Amazon Effect



Source: RSR Research, November 2012

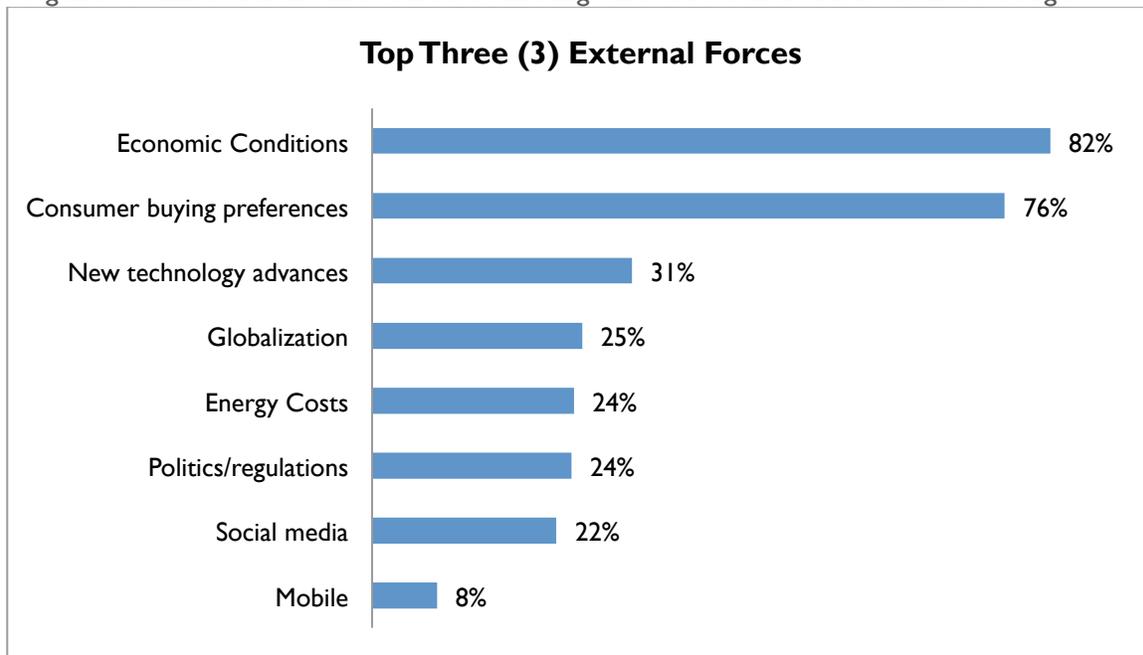
But even with uncertain and challenging economic conditions, the customer continues to exert pressure on the entire ecosystem. That pressure is best described as “**The Amazon Effect.**” While much has been made of the Amazon Effect with regard to prices – and the heavily reported problem of “Showrooming,” **Amazon’s most disruptive effect may well have been in**

changing consumer expectations on the order-to-fulfillment process. This concern weighs on the entire ecosystem, with retailers also making note of the ‘competitive challenge.’ That competitive gauntlet has been thrown down by Amazon.com, and very few have been able to come close to its customer satisfaction levels anywhere in the world.

Economic Conditions and Consumer Preferences Shape Our Future

We asked respondents to identify the three external forces that will have the most impact on their business over the next five years. As we can see in Figure 6, there was broad consensus on two out of those top three issues: the economy and the consumer take center stage. We could argue that economic conditions are causal to consumer buying preferences as well, but there are certainly other forces affecting those preferences: profitable product lifecycles continue to compress, and a global economy has also created a global market. Clearly the power of the consumer will be shaping the priorities and requirements of retailers and suppliers – essentially becoming the new “normal” for the industry.

Figure 6: Innovation and Understanding the Customer Take Center Stage



Source: RSR Research, November 2012

Logistics Providers with a Different Point of View

We saw some differences among our logistics provider respondents. These companies were twice as likely to cite energy costs as a top-three external force than the overall respondent pool (50% vs. 24% respectively). They were also half as likely to identify consumer buying preferences as a top-three issue. This is surprising:

- Clearly logistics providers cannot absorb the impact of increased energy costs. We expected it to be far more important to other members of the ecosystem.
- Consumer buying preferences and the speed with which they change will assuredly add pressures to logistics firms. We fully expect suppliers and retailers to demand ever faster delivery cycles and logistics visibility from those providers.

Not surprisingly, logistics providers were almost unanimously unconcerned about Social Media. This just does not enter their world, yet.

Finally, logistics providers were almost twice as likely to identify politics and regulations as a top-three external force. These providers do most typically bear the brunt of additional documentation and other requirements when moving product across national and even provincial borders.

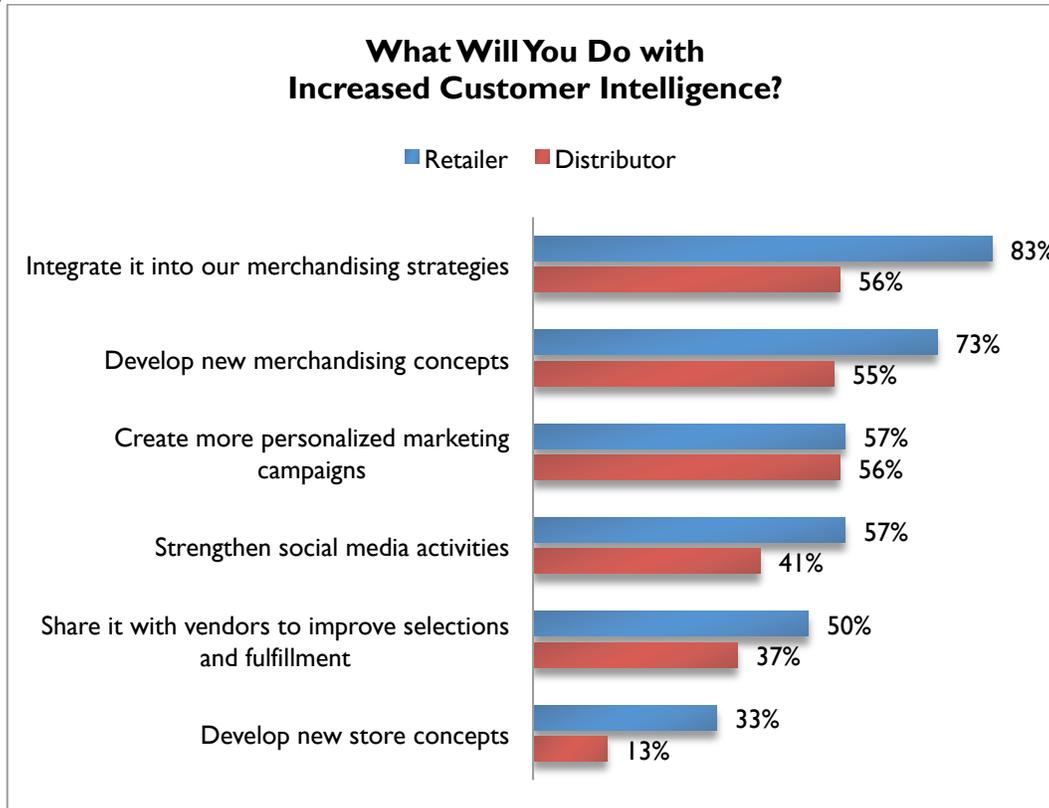
Clearly, we'll continue to see the impact of disruptive economic events and disruptive companies like Amazon for years to come. But our ecosystem is nothing if not resilient, and so we'll take a look at the opportunities available within these challenging times.

Opportunities

If Customer Insights Are the Priority...

From the overview, it's clear that customer insights are critical to the retail industry. When asked what they plan to do with those insights, some key differences emerge among SPS Commerce's constituents (Figure 7).

Figure 7: Consumer is the Focus - Part I



Source: RSR Research, November 2012

Retailers, who have a more direct relationship with consumers than distributors tend to, are naturally more focused on the types of opportunities that are best suited for consumer engagement, like merchandise assortment, social media, and new store concepts. However, retailers and distributors equally stress the relative importance of personalization, placing it third on their list of opportunities.

Yet, in the continuing dance between retailers and product suppliers, suppliers are at least as focused on consumers as their retailer partners - **vendors' top priority is to incorporate customer insights into their marketing strategies** (Figure 8).

Figure 8: Consumer is the Focus - Part 2



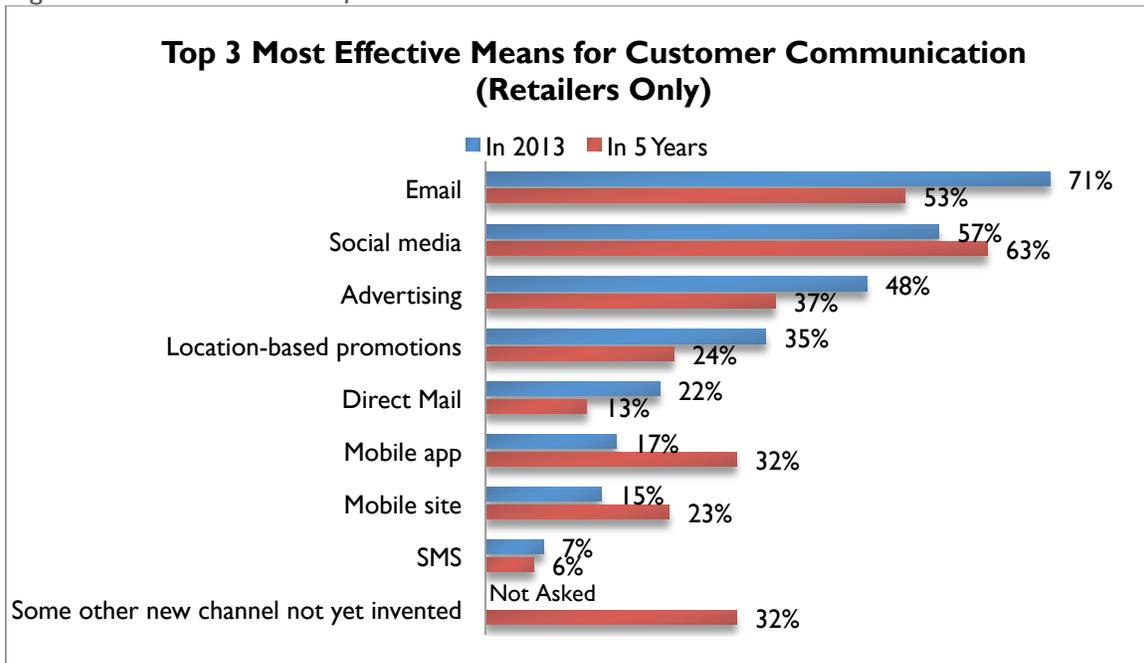
Source: RSR Research, November 2012

Number two on the list is to share customer insights with retailers, and personalization is also third on their list of opportunities.

A Communication Shift to Social/Mobile

Retailers who struggle the most with changes in consumer behavior, reflect those struggles in their response to how their communication strategies will evolve over the next 5 years (Figure 9).

Figure 9: The Decline of Old Media



Source: RSR Research, November 2012

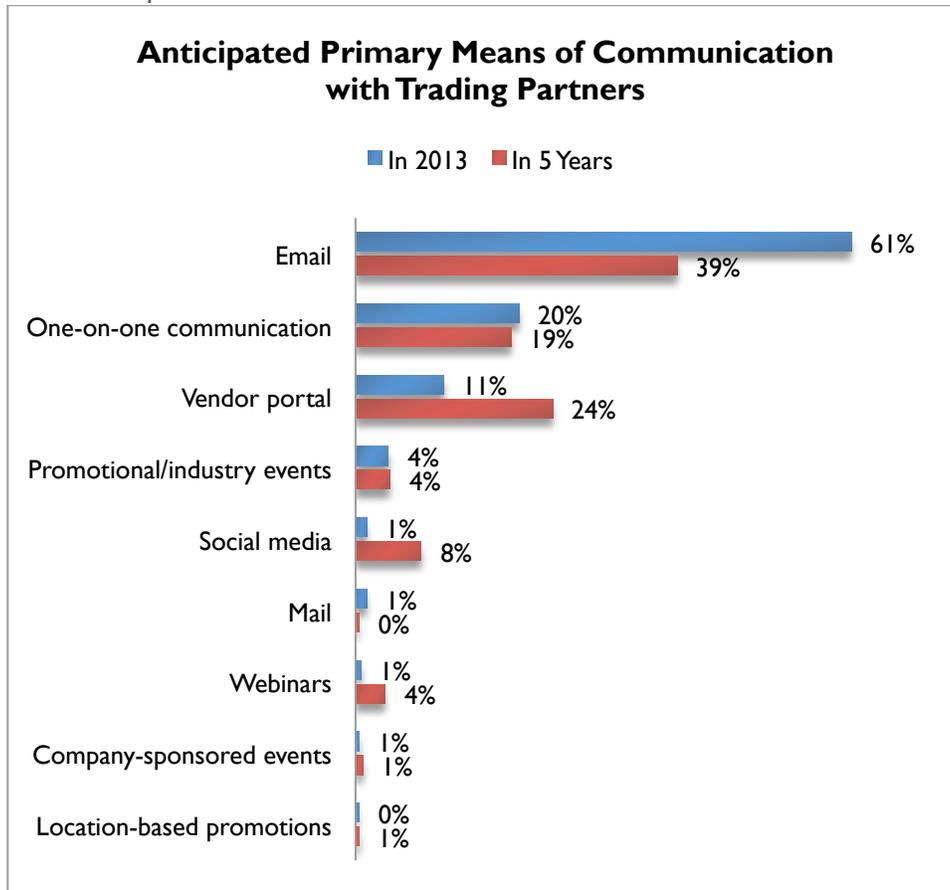
Nearly one third of retail respondents believe that their outbound communications to consumers will be transformed in the next five years by some other new channel not yet invented. This means that retailers are operating with a lot of question marks and placeholders in their longer-term communication strategies - flexibility becomes more important as retailers need to be positioned to react to new, unexpected channels in the future. And the rest of their existing channels continue to be impacted by consumers' shift toward mobile communications and social media.

The expected growth in communication via social and mobile platforms will be offset by expected declines in email, advertising, and direct mail. Location-based promotions pose an interesting outlier – they are not nearly mature enough today to expect a decline so soon. A more likely explanation is that retailers have yet to see value or effectiveness from location-based communication strategies at all, and have a hard time envisioning its future.

As Go Consumers, So Go Trading Partners - Sort Of

Turning to communications between trading partners, email is also expected to decline significantly over the next five years, with communications increasingly moving to vendor portals or private marketplaces (Figure 10).

Figure 10: A Shift to Automated and Social Communications



Source: RSR Research, November 2012

Some respondents see a future for social media as a form of engagement between trading partners, but the reality is that ***these communications will most likely take the form of social media-like interactions incorporated into vendor portals.***

Among the different types of constituents, retailers are much more bullish about vendor portals than their ecosystem partners - at 42% of respondents they are almost twice as likely to anticipate communication with their trading partners occurring through a portal than distributors, logistics firms, or suppliers. They anticipate that the growth in this type of communication will come primarily at the expense of face-to-face meetings - only 9% of retailers expect to be communicating with trading partners this way in five years, vs. 21% of suppliers.

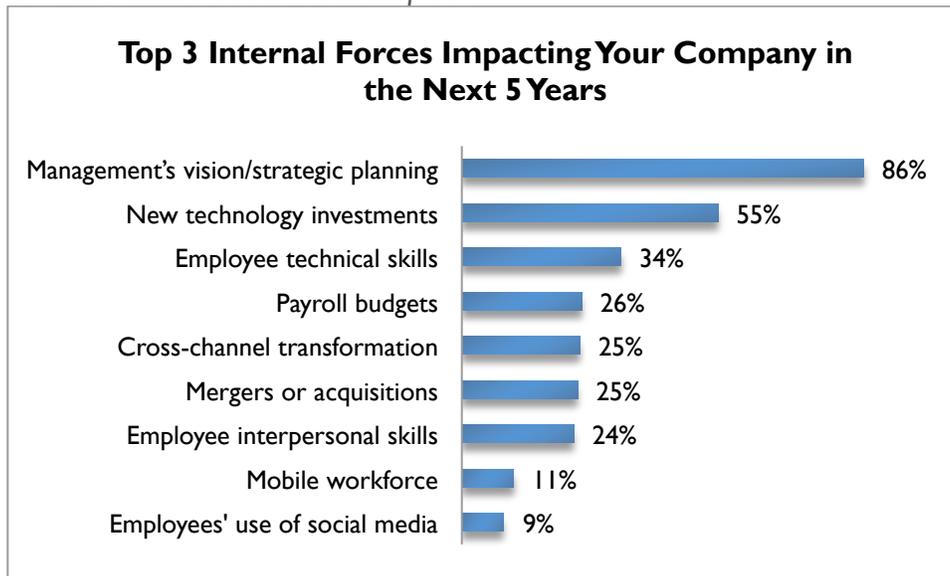
While logistics providers earlier in this report did not indicate much interest in social media, they are the driving force behind the respondents that report social media as a future communication channel, with 15% anticipating this channel vs. 7% of retailers and suppliers, and 11% of distributors. Logistics providers aren't thinking Twitter here, but partner communications that take advantage of Twitter-like capabilities: supply chain events naturally lend themselves to automated broadcasted updates.

Organizational Inhibitors

Management's Vision Drives Everything

Despite their emphasis on the customer insight opportunity above, survey respondents in general report that they are only somewhat equipped to respond to customers insights enabled by new capabilities - 63% of retailers and distributors, and 56% of vendors/suppliers agreed they were only "somewhat" equipped. In terms of the internal forces having the most impact on their companies over the next five years, respondents pointed firmly to management vision and strategic planning (Figure 11).

Figure 11: Internal Forces with Impact



Source: RSR Research, November 2012

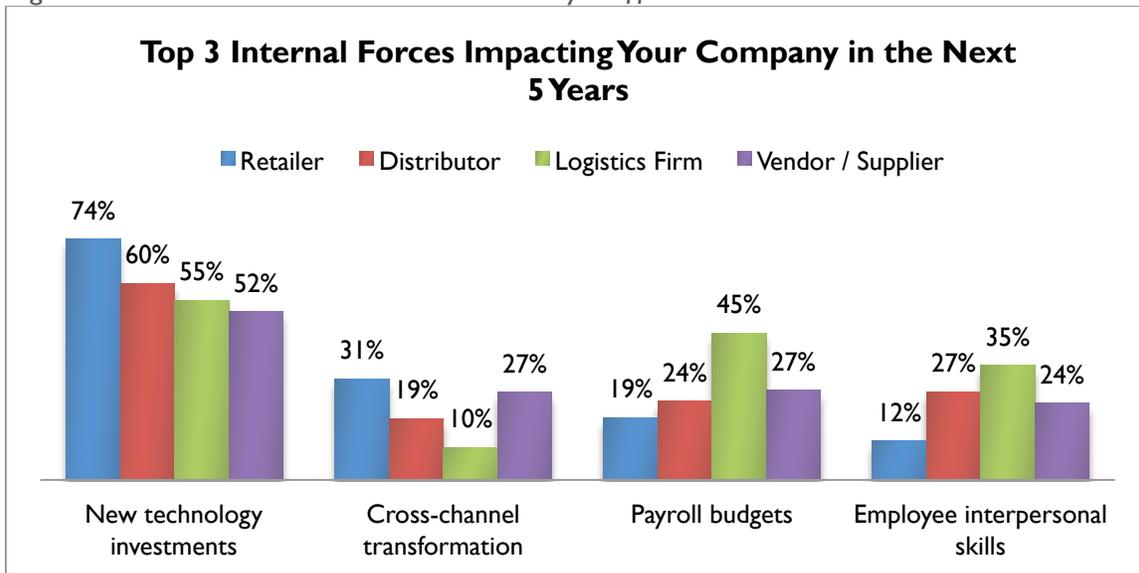
This is an interesting combination - a middling capability around customer insights, even though it is a high priority for the business, alongside a firm belief that it is management's vision that will have the greatest impact on the company. If customer insight efforts are not being championed by the executive team, or at a minimum the CEO, they will most likely not have the desired internal impact.

New technology investments rank second on the list, followed in kind by employee technical skills. Forces like mobile and social media are anticipated to have little overall impact internally over the next five years. Given the winds of change being blown by the consumerization of technology in general, and the idea that consumer-grade applications will have a more significant impact on the future of business than enterprise-grade technologies, it's perhaps a bit short-sighted to believe that mobile and social will have little impact over the next five years. When you combine this incongruity with participants' strong belief that technology investments and employees' corresponding technical skills will play a major role in the future of their business, this is a particularly befuddling gap.

New Technologies: Enterprise, or Consumer?

Across all survey respondents we see a lot of alignment in many of these topics, but there are some significant differences in a few areas (Figure 12).

Figure 12: Consumers Make the Priority Difference



Source: RSR Research, November 2012

Retailers, at the mercy of consumers and the technology they bring with them while shopping, are more likely than their peers to cite new technology investments as a top-three internal force impacting their company. This will make for an interesting juxtaposition in the Technology Enablers section below. Retailers, along with suppliers, are also feeling the cross-channel transformation impacts more acutely than their distributor and logistics peers - not surprising for retailers at all, and a continuing dynamic for suppliers that struggle to define how best to approach consumer-direct businesses.

Logistics firms are more likely to cite payroll budgets and employee interpersonal skills as top-three forces having impact. Given their mediator-like role between the other segments, this isn't surprising. More than any other type of company represented, logistics firms are service providers. Their investments in their employees and how they interact with their customers *are* their products, and therefore have a greater impact on the future of the business.

Technology Enablers

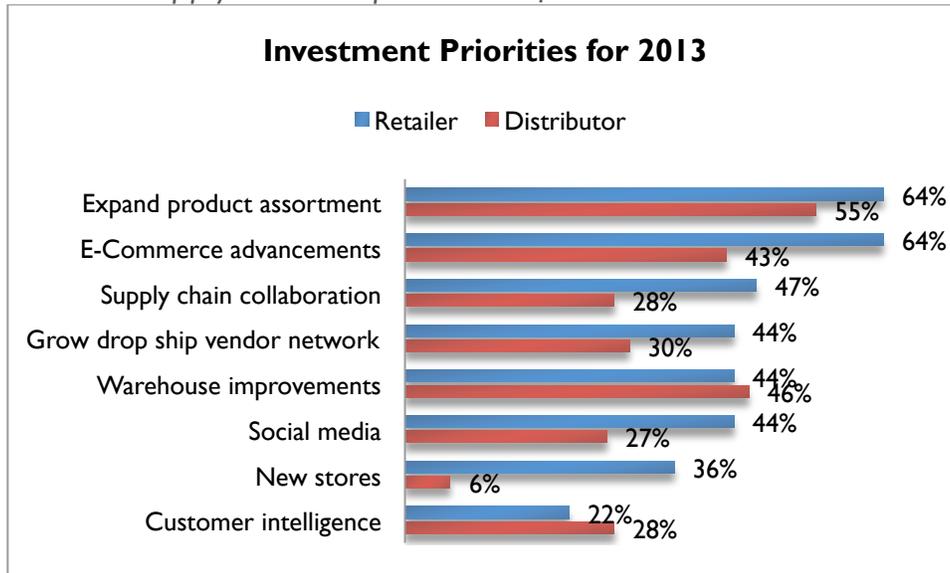
Where to Go From Here: Anticipated Technology Investments

As each constituent group has a different set of investment priorities, it makes sense to look at each group individually. However, some common themes will emerge.

Retailers & Distributors

Because distributors have retailers as their customers, and occasionally also consumers, their investment priorities differ to a large degree from retailers' priorities, with the exception of investments in warehouse improvements (Figure 14).

Figure 13: The Supply Chain Implications of Consumer Focus



Source: RSR Research, November 2012

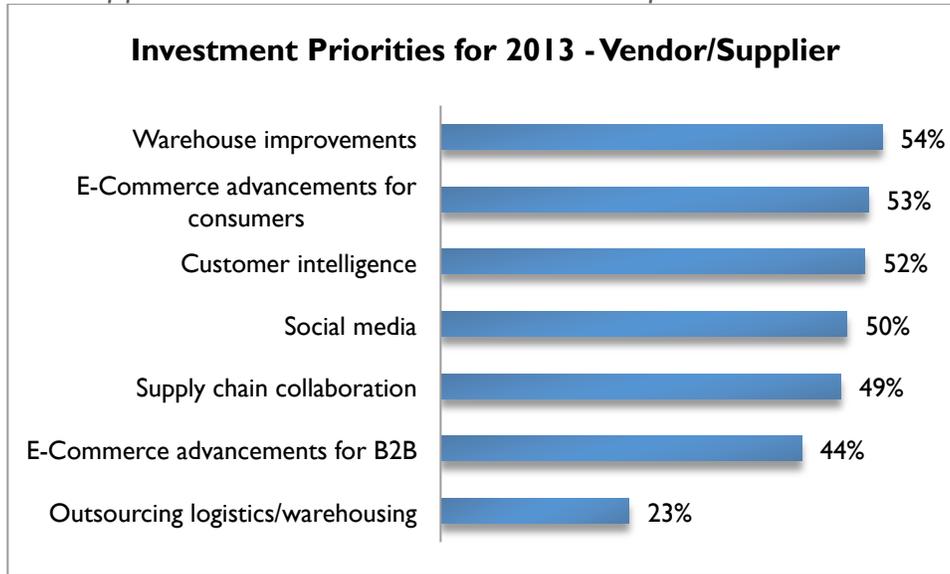
Retailers put expanded product assortment and e-Commerce advancements at the top of their list, followed by additional supply chain priorities around supply chain collaboration and growing their drop-ship vendor network. This last priority goes hand-in-hand with assortment expansion plans. Surprisingly, after a few years of new-store droughts, **36% of retailers responding to this survey report that they plan to open new stores in 2013** - a good sign for growth prospects in 2013. Retailers are less likely than distributors to report investments in customer intelligence capabilities, but this isn't too surprising: retailers are currently in a phase where they are absorbing the significant investments they've already made in this area.

On the other side of the coin, distributors put expanded product assortment and warehouse improvements at the top of their priority list, followed by e-Commerce enhancements. In some ways this is responding to retailers' own desire for greater assortment and drop-ship flexibility, and in some ways reflects distributors who operate their own chains alongside their customers' stores.

Vendors / Suppliers

Warehouse improvements top the list for suppliers, followed by e-Commerce enhancements and customer intelligence (Figure 15).

Figure 14: Suppliers Focus on B2C and All That Implies



Source: RSR Research, November 2012

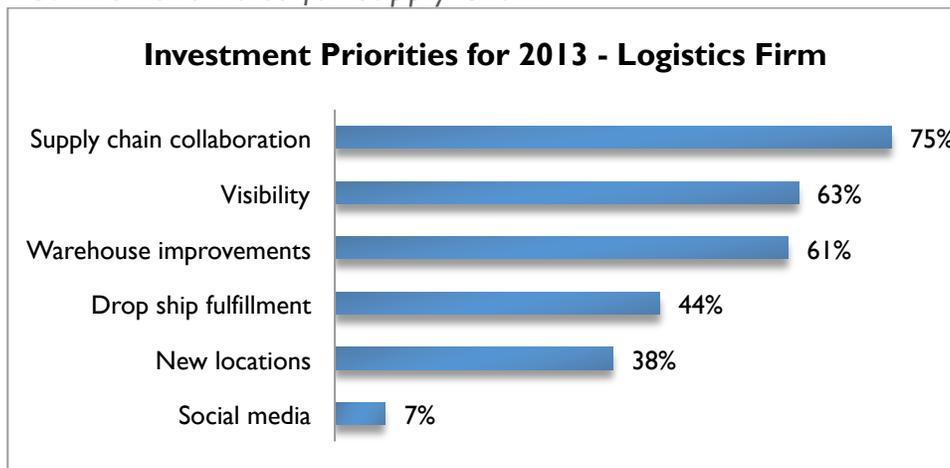
Suppliers' priorities appear to be shaped almost entirely by the Amazon effect. Suppliers are caught in the middle of the crossroad between responding to retailers' needs for greater speed in the supply chain, in order to respond to Amazon's increased speed in this area (and threats of even greater speed in the near future), and providing their own speedy and responsive capabilities directly to consumers.

As a result, more B2B focused supply chain initiatives fall lower on their list, like supply chain collaboration and e-Commerce advancements focused on B2B.

Logistics Firms

Not surprisingly, supply chain collaboration and visibility top logistics providers' priority lists (Figure 16).

Figure 15: The Lone Voice for Supply Chain



Source: RSR Research, November 2012

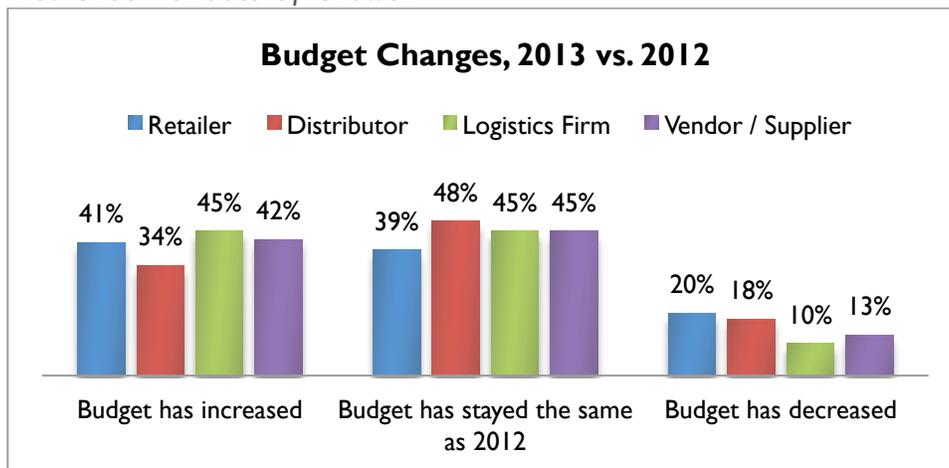
Collaboration and visibility have long been priorities for logistics providers, and from RSR's own research into the topic, they consistently remain challenges across the supply chain - not just for logistics firms, but for all parties in the supply chain. However, given retailers' focus on consumers and responding to the Amazon threat, and suppliers' focus on balancing B2B responsiveness against growing their B2C presence, logistics providers seem like the lone voice in the supply chain that will be fighting for collaboration and visibility improvements in 2013.

The Money to Spend

The good news across the board is this: a clear majority of respondents expect the economy to improve in 2013, and they additionally expect that improvement to translate into investments in their own businesses in the next year. To that end, 41% of respondents overall reported that they expect their budgets to increase in 2013.

The enthusiasm differs slightly by segment of the supply chain. Logistics firms are the most likely to report a budget increase, and the least likely to report a decrease (Figure 17).

Figure 16: Green Shoots of Growth



Source: RSR Research, November 2012

Retailers and distributors are the most likely to report a budget decrease - they are still on the front lines of consumer price sensitivity and a market somewhat distorted by the extreme discounting necessary to survive during the depths of the Great Recession.

However, it's important to keep it all in perspective. This is a long way from 2008-09, when everyone was wondering whether Recession would become Depression. A large majority of respondents report that their budget will increase or at least will stay the same in 2013. Retailers are planning on opening stores and growing their e-Commerce business, suppliers are also planning on growing their B2C business, and everyone believes that greater customer insights will become an important opportunity for their company, opening new doors to growth.

The Way Forward

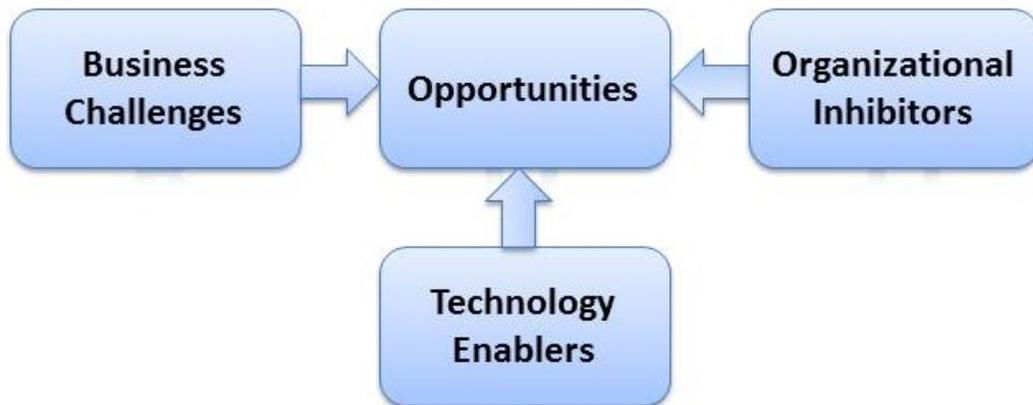
The clear opportunities are focused on the consumer, but no customer strategy will be successful without some significant supply chain differentiation - as Amazon is busily proving out. The one thing that is guaranteed in 2013: it's going to be an interesting year in the consumer industries.

Appendix A: RSR’s Research Methodology

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

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

A graphical depiction of the BOOT follows:



Appendix B: About RSR Research



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

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

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