AMR Research

Retail Strategies Service

NRF 2008: Dark Economic Clouds Fail to Dampen Retailers' Technology Spending Moods
Friday, January 25, 2008
Robert Garf

The stormy weather forecasted for New York during NRF's Big Show never materialized, nor did the economic cloud that threatened to dampen the 97th annual retail event. The first positive sign was during AMR Research's fourth annual Sunrise Breakfast, where approximately 250 retailers gained insights on vendors to visit and sessions to attend. The mood was upbeat, especially for 6:45 AM, as retailers took notes on important trends in store and cross-channel operations, assortment management, retail business intelligence, product development and sourcing, and inventory management.

While the *Wall Street Journal* reported January 18 that **Chico's** is "cutting $100 million of capital spending, including scaling back a distribution center expansion and delaying a new computer project until 2009," we contend that retailers as a whole will continue investing in packaged software applications to help fuel global growth, category expansion, and vertical integration.

The difficult retail climate is certainly forcing retail executives to scrutinize investment priorities like never before, but AMR Research still predicts that the retail business applications market will grow at a CAGR of 7% over the next five years, passing the $10B mark in 2011.

Packaged applications play a critical role in technology portfolios

Vendors and retailers were understandably concerned about the effect the economy will have on software sales. Our conversations and research shows retailers remain committed to commercially available software applications to help improve their businesses. In fact, the role of packaged applications in retail continues to expand with more than 50% of retailer portfolios composed of packaged applications for the first time in history. This is a dramatic and recognizable shift for the industry, as retailers traditionally rely on in-house application development.

The prevailing strategy for most attendees focused on technology projects that are finite in length, 6 to 12 months, and designed to receive a demonstrable return within one year. This may put at risk large-scale enterprise merchandise management initiatives that are typically multiple years and often distributive to the business during implementation. On the other hand, targeted technology investments related to consumer experience and store productivity were a priority for the 18,500 walking the floor.

Excessive maintenance fees dampened excitement

The move toward packaged applications has caused retailers to absorb accompanying maintenance fees as part of IT operational budgets. The appearance of this line item is being exasperated by the significant percentage increases required by many software vendors.

With no inherent value attached to these increases, CIOs are frustrated by what is perceived as unfair maintenance fee proliferation and are finding it increasingly difficult to justify the spending to their CFO. The diversion of IT operational budgets for annual software vendor maintenance (along with excessive spending in PCI and security) has, unfortunately, caused retailers to pull back on innovative and new projects and instead redirect spending toward basic maintenance.

During the CIO Innovators panel, hosted by AMR Research, aggravation over this topic was apparent. Discouraged by pressure from key vendors, Michael Jones, CIO of **Michael's Stores**, asserted that, while he has been a long-time proponent of packaged applications, he may need to consider an alternative to the acquired assets from the vendor that is fusing them together. He noted that the rise of service provider utilization—onshore and offshore—introduces a potentially viable approach to using and enhancing software packages without paying excessive maintenance fees.

With the economic and vendor climate as a backdrop, the following sections highlight technology investments in store and cross-channel operations that we anticipate continuing to gain traction in 2008 and beyond.

Squeezing excess out of already lean store operations

Ken Brame, CIO of **AutoZone** and another panelist at the CIO Innovators session, said IT capital expenditures will not slow down in 2008. In fact, his organization has created a governance and technology portfolio management structure that allows IT to measure the performance of projects and reinvest operational savings to fund future strategic technology initiatives.

Two such projects that were recently rolled out are sophisticated systems for locating and procuring parts from other locations and upgrading to broadband connectivity between the home office and store network. Based on operational savings, the automotive superstore was able to fund other capital investments, including an initiative aimed at enterprise workflow and store execution compliance that should prove successful.

Rooted in the fact that retailers put about $1.65T worth of merchandise at risk annually by only executing 59% of merchandising and promotional initiatives in the intended fashion, AutoZone invested in **Reflexis** for sustainable collaboration across the enterprise. The plan is to establish a clear understanding of requirements and duration, documentation of steps, visibility into the entire process, and measurement of compliance.

Other workforce and task management vendors are eyeing an opportunity to improve the domino effect that often occurs in the merchandise operations process: low visibility leads to poor measurement, which leads to no accountability, which results in no confidence. Besides Reflexis, **Infor**, **Kronos**, **Red Prairie**, and **Tomax** all market software aimed at aligning resources to tasks and streamlining communication and workflow between merchandising and store operations.

Not just e-commerce, but a cross-channel customer interaction platform

While there are plenty of conferences focused on e-commerce—eTail, Internet Retailer, Shop.org, RIS News Cross-Channel Summit—many attendees were intent on learning best practices for cross-channel technology and operations at the Big Show.

One salient theme was the convergence of e-commerce and loyalty software to provide a seamless customer interaction platform. A recent AMR Research survey found 59% of respondents let consumers gain, redeem, and check the status of loyalty rewards consistently across all channels. And another 23% plan to incorporate this function by the end of 2008. With approximately 70% of retailers planning to revamp their e-commerce platform, providing a personalized online and cross-channel experience based on consumer identification and profile should be a priority to build relationships, stickiness, and loyalty without compromising margin.

Circuit City reported that approximately 70% of in-store sales are influenced by online research and discovery; this is essential for bridging the communication and service at each touchpoint. Executives from **Borders** and **Cabelas** highlighted the evolution of their cross-channel strategies, including organizational re-alignment and creating a backend order fulfillment platform to optimize inventory and ensure perfect orders.

Vendors in the following categories reported high traffic and positive buying signs from retail visitors:

- E-commerce platforms—**ATG**, **Cactus Commerce** (in **Microsoft** booth), **Escalate Retail**, **iCongo**, **IBM**, and **Sterling Commerce**
- Customer intelligence and loyalty—**Fujitsu**, Infor, **Modiv Media**, **NCR**, **Retaligent**, and **SAS**

New in-store selling technologies and digital media networks

Bill McCorey, CIO of Circuit City and third member of the CIO Innovators panel, talked about his organization's investment in tablet computers for store associates to service customers and merge the browsing and checkout processes. This is just one example of numerous investments that retailers are exploring in the store hardware and infrastructure category.

The industry has witnessed a resurgence in kiosk investments and a new fascination with in-store media networks that include digital signage. As far as kiosks, retailers are getting it right this time around, focusing on employee training, usability, location, and most importantly, the inclusion of the killer application.

Some of these applications include product configuration and visual selling from vendors such as **Edgenet**; wish list and clienteling from vendors such as Escalate Retail, iCongo **NetKey**, and Retaligent; and price lookup and product finder functionality from **mCosm**.

Vendors with kiosk hardware products, such as **ELO**, IBM, Fujitsu, NCR, and **Ultimate Technology**, experienced healthy interest at the show. We anticipate continued investments in these and other devices well into the future.

Vendors focusing on in-store media networks that often include digital signage were prevalent at the show as well. Retailers are intrigued by in-store networks as they can assist in the timely delivery of relevant information throughout the entrance, browse, and checkout stages of the closed-loop shopping experience. Not typically visible at the Big Show, presence by vendors such as **Cisco**, **EK3/Shopcast**, NetKey, **Real Digital Media**, and **TELentice** (in Fujitsu's booth) marks an emerging channel and industry for these providers.

But wait, there's more

While we focused on investment priorities for Big Show attendees within store and cross-channel operations in this article, we give an update on merchandising, business intelligence, retail ERP, and inventory management in the following two articles:

- Technology Alternatives That Improve On-Shelf Availability
- Retailers Remain Bullish on Enterprise Applications Despite Bearish Economy