

**2007: The Year in Preview**

**01/17/07**

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Predictions, advice, and suggestions from industry thought leaders can be of great assistance to retailers seeking to capitalize on the hope and opportunity that the New Year brings. Luckily for me, I happen to work with two such thought leaders. The following is a forward-looking interview conducted with RSAG's own CEO, Brian Kilcourse, and Paula Rosenblum, our VP of Content and Research.

**Q: What technologies will retailers be focusing on most this coming year - which SHOULD they be focusing on most?**

**Paula:** I'd like to see some additional focus on educating the work force, as well as on multi-channel initiatives and improving the customer experience.

When you look at workforce management and optimization, retailers still see this as an expense reduction tool. But the linchpin - getting the right person in the right place at the right time - is really more about making the customer happy. So task management and workforce optimization are really important, not just as cost reduction, but as customer service tools.

**Brian:** I agree, and would also add business intelligence to the list. Retailers are looking to localize product assortment to some degree. That degree is determined by two things: do they have the information that enables them to do so, and is the market really demanding it?

Tied to that, the ability to analyze atomic data becomes a business intelligence issue - workforce management metrics included. Retailers continue to get beat up on item and price. Those who are basing a business around item and price are doing it so well that it becomes very unlikely that a smaller retailer can top that performance. Therefore, one of the business intelligence challenges for retailers to conquer is ensuring that assortments are appropriate to the neighborhood that the market operates in, as a way to differentiate.

**Q: What area of the STORE stands most to benefit from technology in the coming 12 months?**

**Brian:** Customers want to be treated as individuals. They want products that are relevant to them. When you're buying fashion or high-end gifts, this becomes all that much more important. As a result, the one size fits all mentality that has been prevalent in retail for such a long time creates real problems for the evolving market.

One of the problems in moving from the widespread JLP model (store looks "Just Like the Pictures") to a consumer-centric model is that much of the skill set required to do so has been decimated. To compound this issue, the systems that have been implemented are also not capable of supporting a localized shopping experience. As a result, the customer is rising in revolt, and the challenge has become fundamental. Digital signage doesn't do a damn thing if it's the same message in every store across the country.

**Paula:** Absolutely. I want some sense when I'm in a store in a certain market that it differs from the previous store I visited - and that means more than a stucco store front to one and brick at another.

In general, the pace of change in technology in retail is glacial. The one area that has altered this pace is the multi-channel phenomenon - because it's running at Internet time. Twenty-six percent year-over-year compound growth rates change everything. Retailers have to respond to their empowered customers with an integrated consistent brand, products and pricing.

**Q: Name a retailer to watch that you feel is on the right track - who'll be 2007's turnaround/Cinderella story?**

**Brian:** Nordstrom. Their corporate strategy, clearly puts more value on meeting their local consumer's needs than on growing new stores and new markets. At the same time, they have done a really nice job of updating a technology structure that was far behind the curve. Spending mountains on technology doesn't automatically make you relevant to your market; have a look at what took place at Home Depot last week. Nordstrom is living proof that you can have your cake and eat it too: you can have economies of scale and still be sensitive to your local market.

**Paula:** Costco, Trader Joes and by all means Apple. Trader Joe's is a great alternative to high-end "natural" food stores. Costco has managed to appeal to both 'everyman' and Mercedes owners. As both a retailer and manufacturer, Apple has turned a commodity into a fashion item. You can probably count the number of people who received a discount on their Ipods with one hand. Their Mac vs PC campaign is brilliant, they're using technology to move their products - evidenced by their sales this year - and have essentially moved to a \$2 billion a year retailer in just a few short years.

**Q: What should retailers have learned from this holiday season that they can turn around/learn from to improve next year's?**

**Paula:** Retailers can compete on one of three models: by offering the coolest products, by offering the best service, or by offering the lowest prices. This year, there were several electronics retailers who were doing fabulously at servicing their customers, but they got caught up in a price war with EDLP retailers at the holidays. Not only did it ruin their quarter, but it's going to ruin their year. They got their comp store sales improvements, but reduced their profit margins to nothing. Plasma TV's are the opposite of iPods.

Apple turned a commodity (face it, it's a disk drive with a headphone jack) into a fashion statement. Electronics retailers have turned a fashion statement (exquisite picture quality delivered by flat screen TV's) into a commodity. What a mistake!

**Brian:** I couldn't agree more. It is nearly impossible to staff your stores with employees that can outsmart the customer. Through ubiquity of product and the ease of information available, superior knowledge of product is no longer possible - leaving the opportunity to be helpful. Customers are loaded with information they've already learned on the Internet, so focus on service.

**Paula:** Also, it keeps coming back to what I call "markdown chicken". Thanksgiving day, stores were opening at 9PM with deals, and that set a terrible tone. There's no reason to even wait till the last minute for deals any longer, the conditioning of the customer is just wrong.

**Brian:** A very good point. Which makes it clear that after all of the money retail spends on technology to learn what's in the demand chain, what's in the supply chain, what it should be priced - it's still not being used properly.