Empowering the Store Employee

Benchmark Report 2015

Nikki Baird and Paula Rosenblum, Managing Partners

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Executive Summary

In recent years, the omni-channel world has turned retail on its ear. But after all the innovation, retailers have spoken: *the store is back* - and employees are going to be a key driver to its success. Our retail respondents tell us that they are ***trying to provide services in stores that consumers just can't get online*** – something they know their current workforce simply can't provide. How, then, will this play out? Here are just some of the highlights of what this report uncovers:

Key Findings

- This year, retailers worry less about technology, and more about how their employees will make the store more enticing than just another online order. But to "get them there", payroll-to-sales ratios become a key **Business Challenge**. Learn how wages – and other ways to incent/compensate employees - as well as in-store WiFi challenges become increasingly important to our retail respondents, beginning on page 6.
- Educating and empowering in-store employees using technology has jumped to the top of the priority list for all respondents. Similarly, reducing the out-of-stock problem by giving stores the ability to locate and sell merchandise anywhere in the company has risen in priority for respondents regardless of performance. However, significant differences in perceived **Opportunities** emerge by retailer performance. Learn what those differences are, beginning on page 9.
- Within the **Organizational Inhibitors** section of this report (page 13), we find that most retailers report their top-three store organizational inhibitors are the existing technology infrastructure, a cap on stores' capacity for change, and a lack of faith that the technology solutions available for in-store will actually and really help them. However, the urgency to figure out the right technologies for stores – no matter the hard ROI – is increasing, and you might be surprised to learn that it is the mid-market driving this charge.
- As it relates to **Technology Enablers**, Retail Winners' implementation of both customer-facing AND employee-facing technologies far outstrips those of their peers. However, when it comes to omni-channel inventory technologies, even Retail Winners have not necessarily made the connection between omni-channel visibility into inventory and orders and transactions; a dangerous trend. Learn more beginning on page 18.

Lastly, we provide some suggestions for how ALL retailers can improve their current store efforts. These ideas can be found in the **Bootstrap Recommendations** portion of the report.

We certainly hope you enjoy it,

Nikki Baird and Paula Rosenblum
RSR Research

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Research Overview

A Dramatic Shift In A Very Mature Model

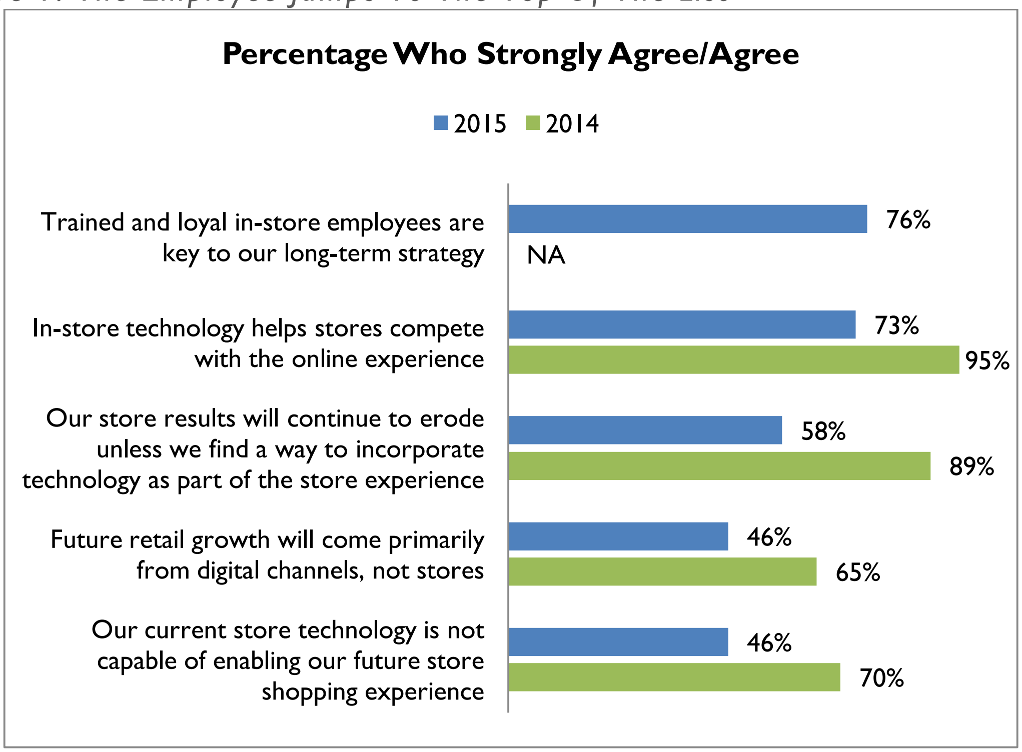
Back in March 2015, in the wake of some real and significant initiatives on the part of Walmart, TJX and others, RSR declared this "The Year Of The Retail Store Employee." Since that time, momentum has only accelerated. Respondents to this year's store benchmark survey confirm the hypothesis: the store is back, and employees are a key driver of any expected success.

As we'll see throughout this report, this shift changes retailers' view on in-store technologies pretty dramatically. They hope it will change customers' minds on the in-store experience as well.

The Well-Trained And Loyal In-Store Employee Is Key

The pendulum of perception has swung once again and the shift in retailer opinion is nothing less than staggering (Figure 1).

Figure 1: The Employee Jumps To The Top Of The List



Source: RSR Research, July 2015

In the early days of eCommerce, retailers sought to make the online experience seem like a store. Early technologies like virtual shopping malls were meant to make the customer feel more "at home." Then the pendulum swung the other way. With Amazon.com voted America's favorite retailer seven years running, retailers clearly tried to make the store experience feel more like shoppers on digital channels.

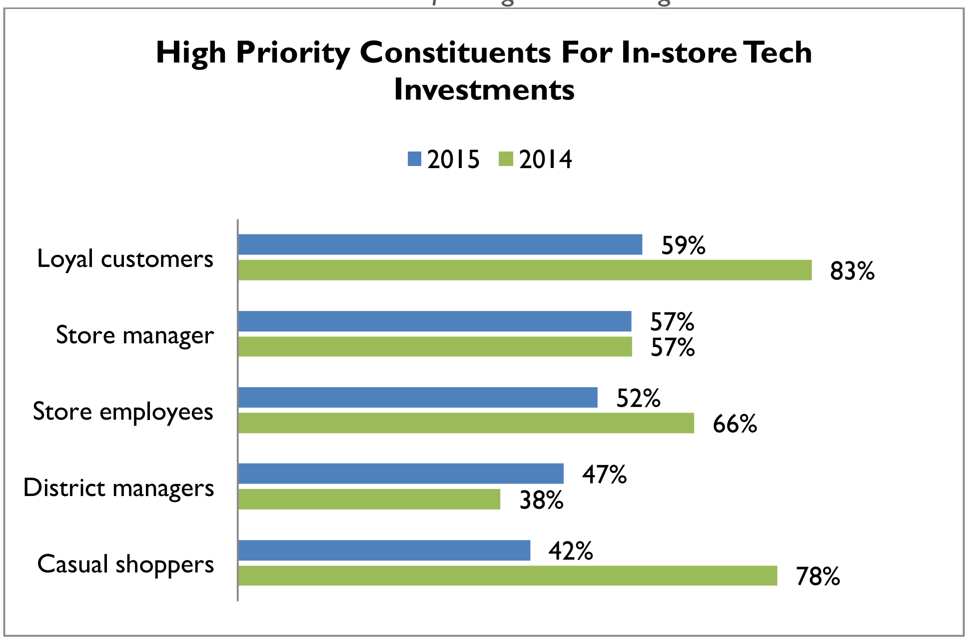
Last year's results illustrate this clearly. Just about all retailers felt in-store technology would help stores compete with the online experience, and there was a sense of desperation among the 89% who felt their store results would continue to erode until technology was better incorporated into the in-store experience.

This year, retailers worry less about technology, but more than three-quarters see employees as key. It seems that instead of trying to replicate the online experience in stores, ***retailers are trying to provide services in stores that consumers just can't get online***, and for that, store employees become a clear differentiator. This explains the increase in base wages, and new emphasis on training: retailers now have employee religion.

Tech Investment Priorities: Putting Money Where Their Mouth Is

The emphasis on employees extends to technology investments as well (Figure 2).

Figure 2: Less Interest In Customer-facing Technologies



Source: RSR Research, July 2015

On the surface it might appear that overall interest in in-store technology has waned. This is not a bad thing: technology for technology's sake has never been a successful retail strategy. But as we'll see later in the report, those who believe they can afford it are, in fact, still bullish on tech investments. The focus has clearly shifted.

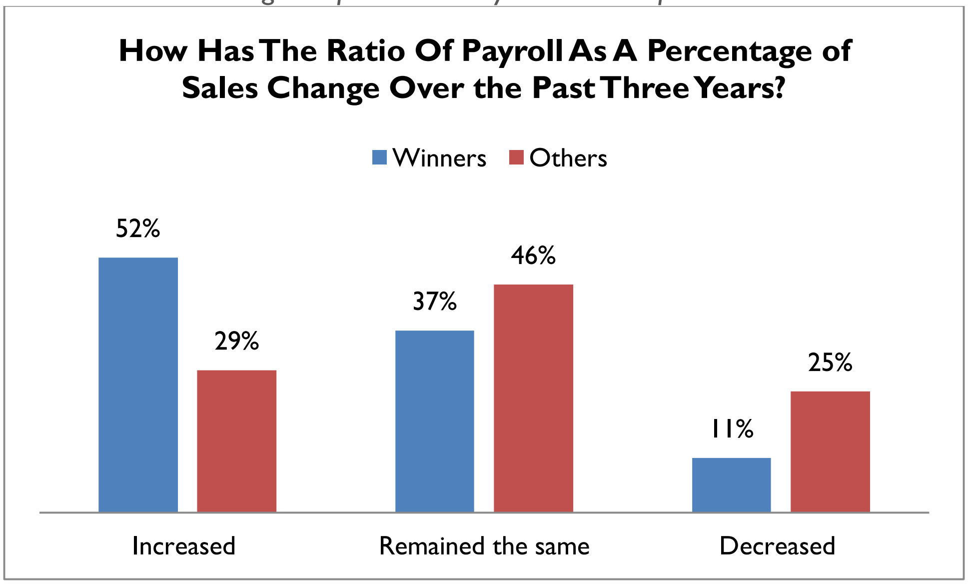
Retail Winners Get To Work

RSR's research always focuses on a category of retailers we call "Retail Winners". Our definition of Retail Winners is simple. We judge retailers by year-over-year comparable store/channel sales improvements. Assuming industry average comparable store/channel sales growth of **4.5 percent**, we define those with sales above this hurdle as "*Winners*," those at this sales growth rate as "average," and those below this sales growth rate as "*laggards*" or "also-rans."

Focusing on Winners' perceptions is always interesting. It turns out that Winners don't merely do the same things better. They think differently. They plan differently. They respond differently. And they're far more apt to invest in people and technology.

To illustrate this point, let's take a look at changes in payroll-to-sales ratios (Figure 3).

Figure 3: Winners Adding Proportionately More People



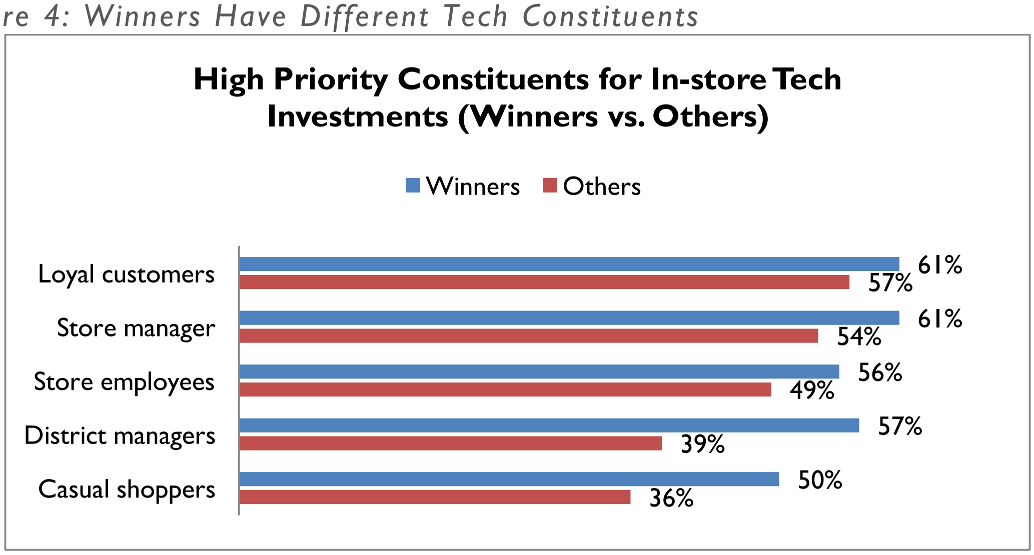
Source: RSR Research, July 2015

The payroll-to-sales ratio is a key retail metric. In a perfect world, the ratio itself would remain constant. If sales fall, payroll allocation would fall proportionately, and if sales rise, payroll would do the same.

We can see from Figure 3 that "non-winners", those whose sales are either at or below average, have an almost symmetrical bell curve of historical ratios. Roughly half have kept the ratio constant, while slightly more than a quarter have increased payroll as a percent of sales; exactly a quarter have decreased it. Winners' ratios on the other hand, have no such shape. Instead, the majority have increased their overall payroll as a percentage of sales, about a third have held it constant and only around a tenth have decreased it.

Retail Winners are adding people. And their technology constituents are different as well (Figure 4).

Figure 4: Winners Have Different Tech Constituents



Source: RSR Research, July 2015

RSR believes it is key to provide District and Store managers with improved technologies. These are the people guiding the workforce and executing home office directives. It's wise to put a focus on them.

The focus on casual shoppers also makes sense. As we'll see later, retailers are keen to steal customers from their competitors. These casual shoppers represent their best opportunity to do so, and technology will help make a good first impression.

Methodology

RSR uses its own model, called The BOOT Methodology©, to analyze Retail Industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

The BOOT Methodology© helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Survey Respondent Characteristics

RSR conducted an online survey from April-June 2015 and received answers from 124 qualified retail respondents. Respondent demographics are as follows:

- Job Title:

Executive (C-level)	13%
Senior Management (SVP)	15%
Middle Management (VP/Director)	22%
Line Manager	12%
Individual Contributors	21%
Other	17%

- 2014 Revenue (US$ Equivalent)

Less than $50 Million	8%
$50 - $249 Million	5%
$250 - $999 Million	22%
$1 - $5 Billion	39%
Over $5 Billion	26%

- Products sold:

Fast Moving Consumer Goods	27%
Apparel and Footwear	24%
Hard Goods	12%
General Merchandise	17%
Hospitality, Retail Services	11%
Brand Managers	9%

- Retail Headquarters/Retail Presence :

	HQ	Presence
USA	62%	71%
Canada	2%	24%
Latin America	1%	12%
UK	13%	31%
Europe	5%	26%

Middle East	1%	10%
Africa	1%	8%
Asia/Pacific	16%	27%

- Year-Over-Year Sales Growth Rates (assume average growth of 4.5%):

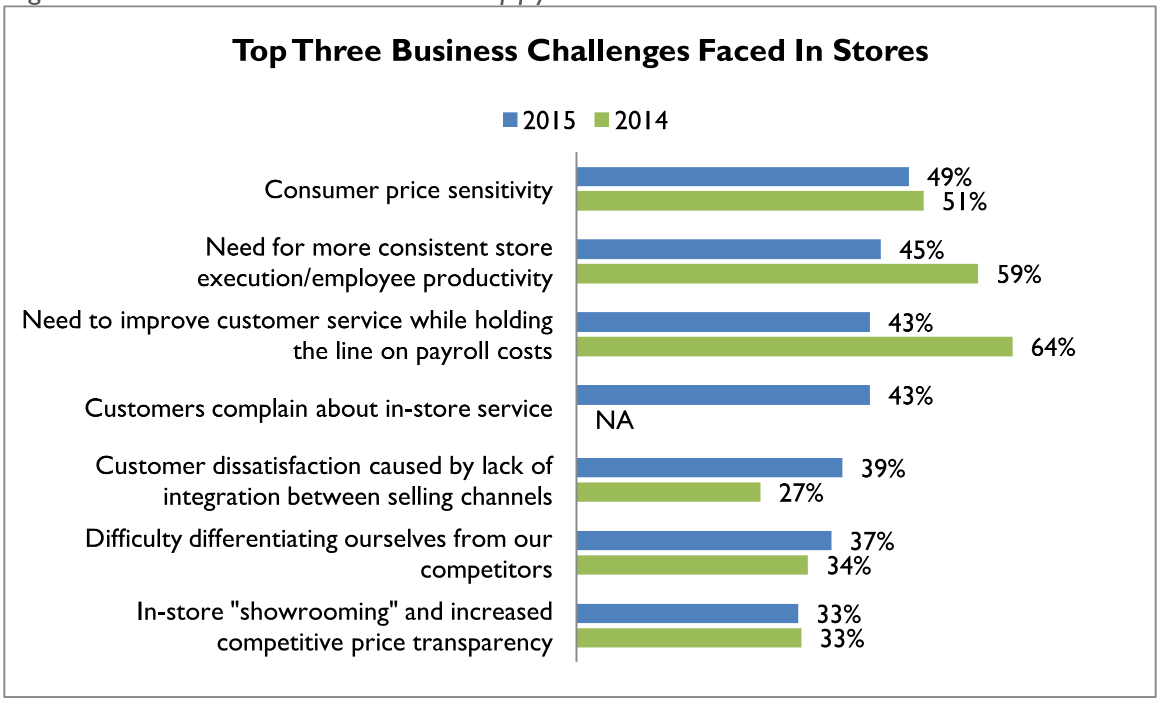
Better than average (Winners)	44%
Average	44%
Worse than average	12%

Business Challenges

The Customer Is Always Right… And We're Not

In a reinforcement of both the need for stores and a real change in priorities we can see a significant shift in many perceived business challenges from 2014 to 2015 (Figure 5).

Figure 5: The Customer Is Not Happy



Source: RSR Research, July 2015

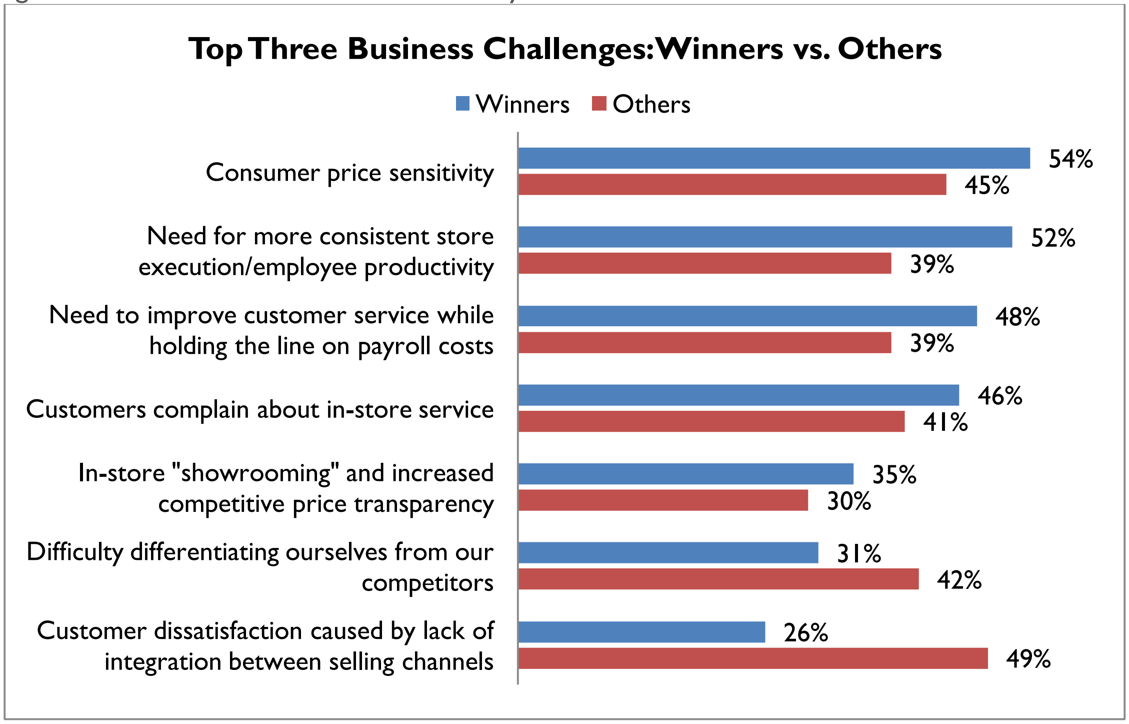
Competitors are just not as important as satisfying customers once they are in the store. Once we get past the most frequently cited business challenge – consumer price sensitivity – we can see almost equal concern over lack of consistency and consumer dissatisfaction with the experience they're being offered. Adding the option to cite customer complaints yielded results: half of respondents call it out as a top-three issue.

As we can see below in Figure 6, Retail Winners, in particular, are almost completely customer focused. While only a third of those respondents still cite showrooming as a top-three in-store challenge, they're leading the way in customer-focused areas.

Most interesting is what Winners *don't* cite as a top-three business challenge: only a quarter believe lack of selling channel integration is one of their biggest concerns. Perhaps their technology investments have rendered that problem obsolete, or perhaps it pales in comparison to what happens when the customer arrives in their stores.

The bottom line is that Winners have shifted their focus conclusively to the customer, and expect their employees to improve the customer experience.

Figure 6: Winners Almost Exclusively Customer-Focused

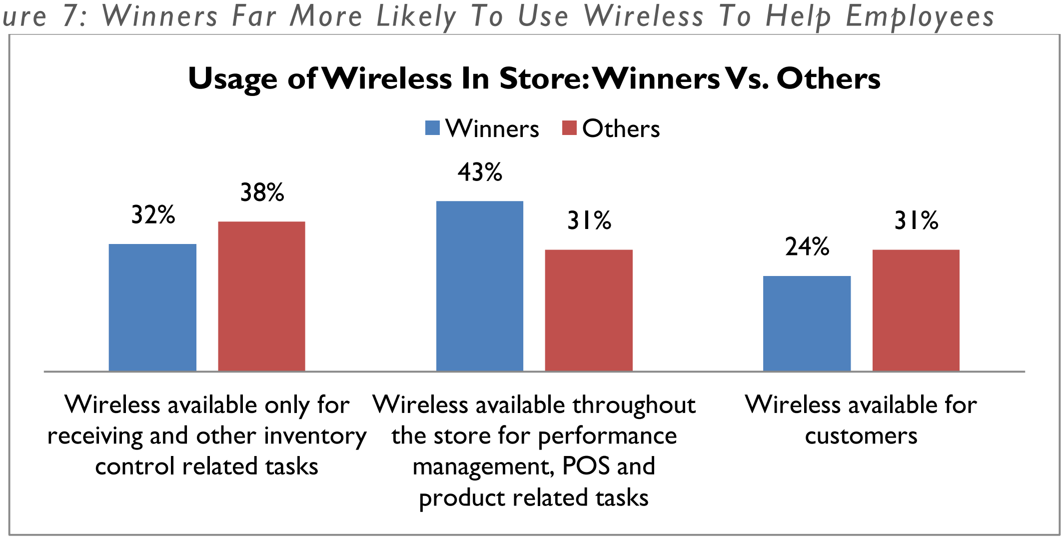


Source: RSR Research, July 2015

Making Employees Smarter: Lack Of Wi-Fi Is A Real Problem

RSR has consistently observed that the lack of wireless throughout the store is a real problem for retailers. We keep waiting for the benchmark that shows a significant majority have made the move. So far, it just hasn't happened. This year, fewer than 50% report they have wireless available on the selling floor at all. Still, it's interesting to look at what respondents who *do* have Wi-Fi are using it for (Figure 7).

Figure 7: Winners Far More Likely To Use Wireless To Help Employees



Source: RSR Research, July 2015

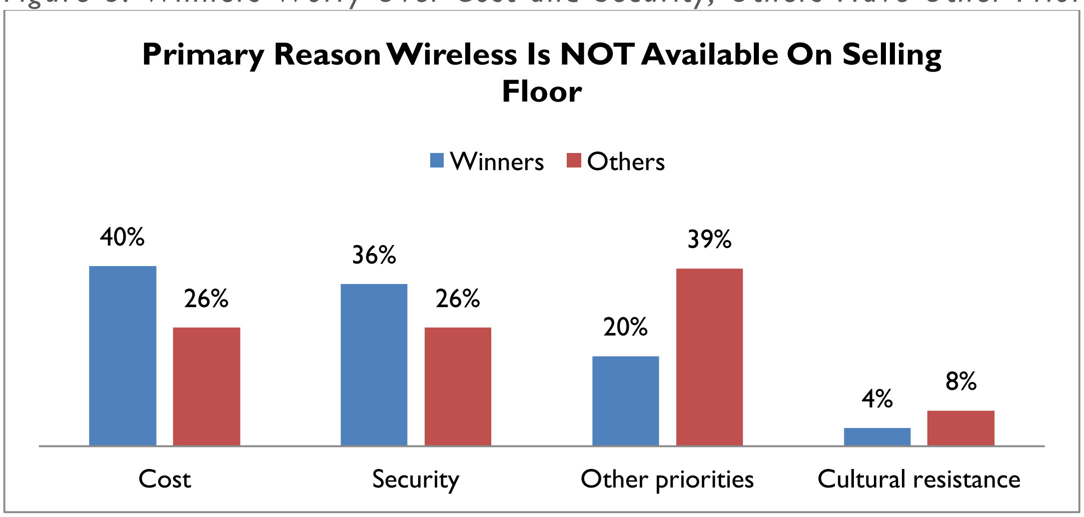
In yet another testimony to Winners' focus on employee empowerment, we can see that among those who DO have Wi-Fi, almost half use it to support employees and management. Others are as likely to use wireless to support customers or simply for inventory control purposes in the back room. They lag Winners in supporting their employees.

We believe these numbers are still shockingly sub-optimal, but it does beg the question: What is taking so long? Why have we been talking about the lack of Wi-Fi for almost a decade, when almost every home now has the technology installed as part of their internet connection?

What's The Wi-Fi Holdup?

The answers from those who have no Wi-Fi are instructive. The "store multiplier" along with sheer size of the store footprint drives costs up. This is the most frequently cited reason Retail Winners are holding off on Wi-Fi implementations. Only slightly behind cost is the "security problem." Retailers are growing weary of seemingly endless data breaches, and even though the majority of criminals gained access to corporate networks through email phishing messages, the perception remains that Wi-Fi is a weak spot criminals can exploit to gain access to their systems (Figure 8).

Figure 8: Winners Worry Over Cost and Security, Others Have Other Priorities



Source: RSR Research, July 2015

Others have different priories, likely associated with the lack of cross-channel integration cited above or supporting the implementation of EMV-compliant PIN pads. EMV is an unavoidable priority: without it retail chains will bear the burden of the full cost of future data breaches. Still, almost a third have managed to implement wireless for their customers: perhaps they should consider moving employee support up on their priority list.

We can provide one anecdote explaining the value of supporting employees with wireless. One of this report's authors paid a visit to a Target store and was looking for a kitchen wastebasket. A store employee pulled a mobile phone out of her pocket, found the location of the product, and walked us to the location. En route, in conversation, we found out she'd only been working at the store for three days. Here was a clear example of an opportunity to get an employee up to speed, productive and educated very quickly while creating a positive customer experience. For others, this is an opportunity missed.

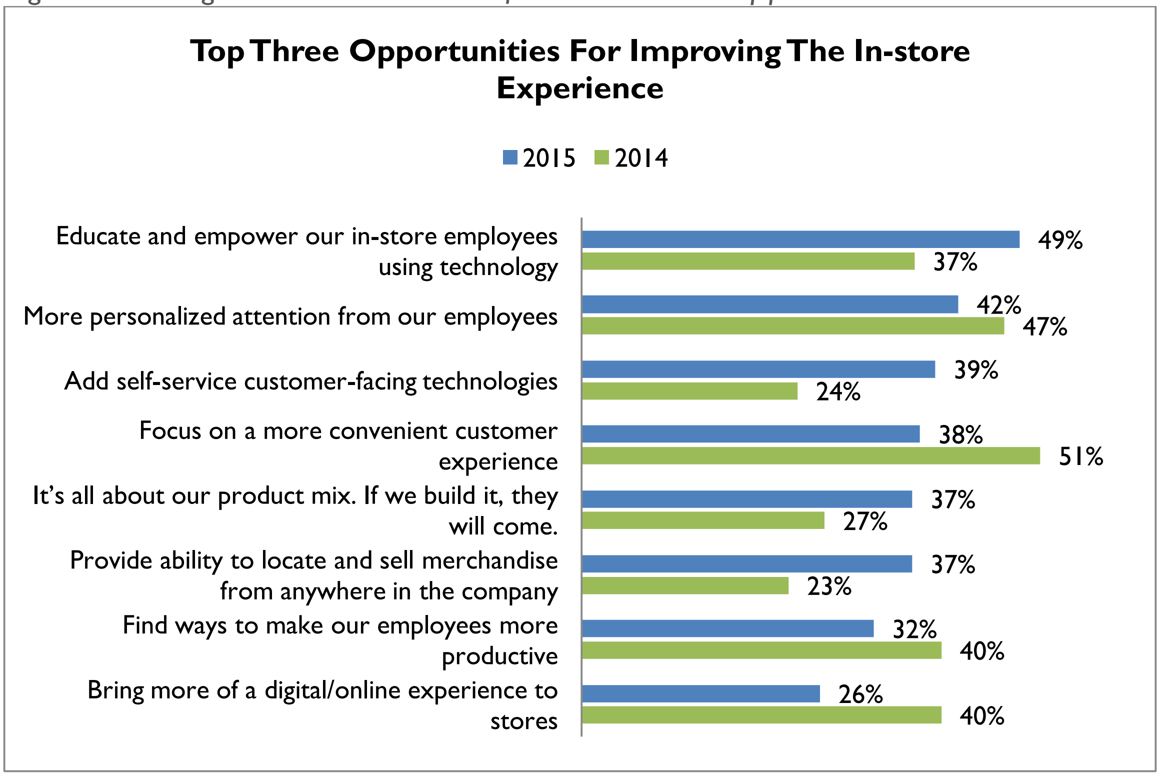
So what opportunities DO retailers see for the in-store experience? Let's take a look.

Opportunities

Hello Customer: Have It Your Way

There's no doubt that retailer priorities for improving the in-store experience have changed. Educating and empowering in-store employees using technology has jumped to the top of the list for all respondents. Similarly, reducing the out-of-stock problem by giving stores the ability to locate and sell merchandise anywhere in the company has risen in priority for respondents regardless of performance (Figure 9).

Figure 9: A Big Year-Over-Year Shift In Perceived Opportunities

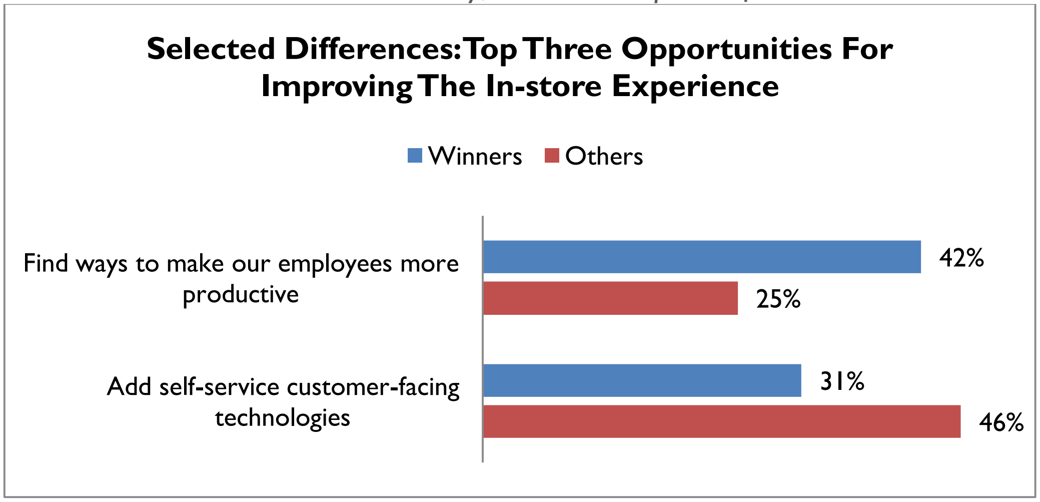


Source: RSR Research, July 2015

In fact, there is agreement across all respondents around most of the opportunities they perceive. However, there are two notable and significant areas of difference between Retail Winners and their peers, and it's a telling set of data.

As mentioned in the overview, Winners are far more likely to have increased payroll in their stores as a percentage of sales. They are therefore laser-focused on finding ways to make employees more productive. Others, for their part, being far less likely to have increased payroll, still place a lot of trust in self-service technologies (Figure 10).

Figure 10: Winners Seek Productivity, Others Hope Self-Service Works



Source: RSR Research, July 2015

Surprisingly, those with the lowest margin products (FMCG) are even less likely to cite adding more self-service technologies into their stores than those with the highest margin products (Fashion) – 31% vs. 37% respectively. RSR believes that those selling fast moving consumer goods have gone as far as they can with self-service technologies, while fashion retailers are exploring kiosks and endless aisles as part of omni-channel initiatives.

Winners Bring Omni-Channel Into The Store

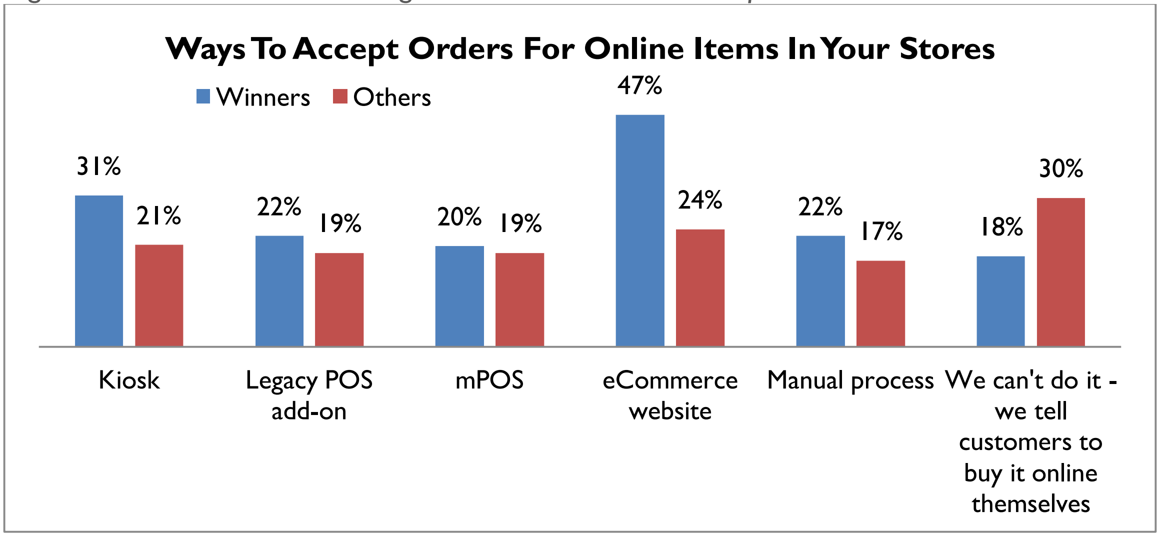
The industry has been abuzz with "the O word" – omni-channel retailing - for nearly a decade. Early focus was on customer-facing initiatives but clearly the focus has begun to shift.

This year, we discovered in our Mobile benchmark report[1] that the single most frequently cited purpose of retailers' mobile strategy is to drive traffic to stores. But if retailers worry about customer dissatisfaction when they get into their stores, and if product isn't always available, what are the choices they're giving their customers?

The industry as a whole is moving surprisingly slowly. ***Regardless of revenue level, performance or industry vertical, a majority cannot accept in-store orders of online items***. There's still a lot of headroom for growth. However, when we look at the data tabulated based on retailer performance, we can see that Winners have at least made *some* headway (Figure 11).

[1] *Mobile Retail Finds New Purpose*, RSR Research, January 2015

Figure 11: Winners Working To Make Almost All Options Available



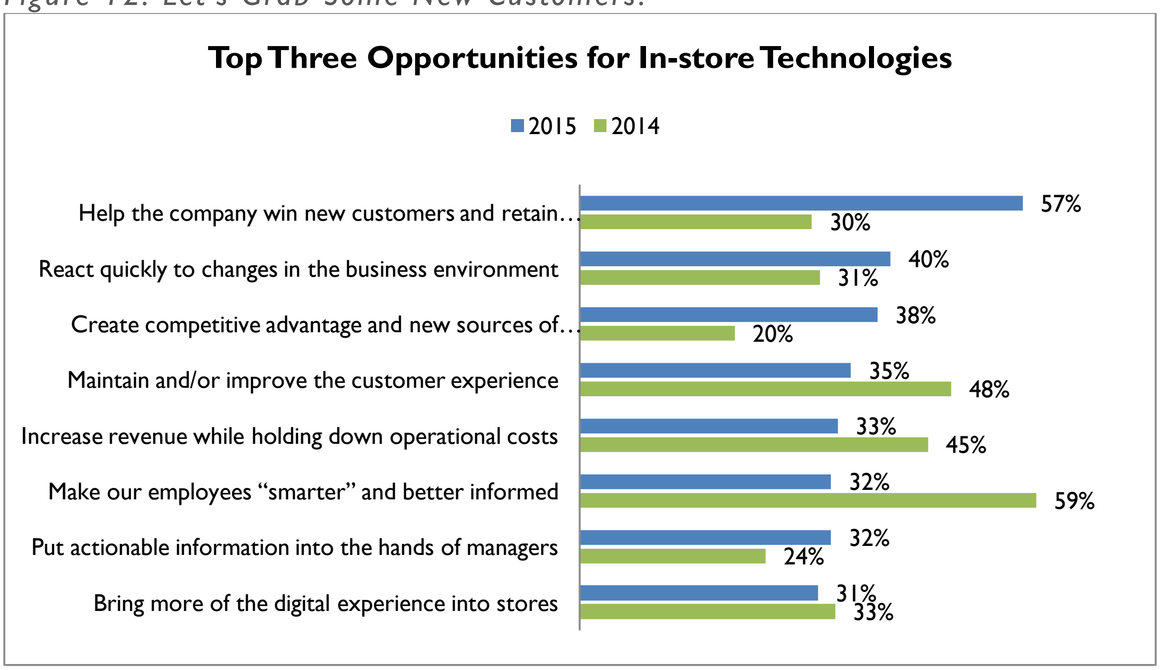
Source: RSR Research, July 2015

We're frankly surprised that more retailers haven't set up ways to support online orders from within the store – it doesn't strike us as cost-prohibitive, but we are particularly surprised that almost a third of non-winners leave customers to fend for themselves. This is an odd tack to take, given that the customer is already a "captive audience," in the retailer's house and ready to buy,

Business Focus On Employees, Technology Focus On Driving Business

We must now ask the question "How can technology help?" Again, the answers are instructive (Figure 12).

Figure 12: Let's Grab Some New Customers!



Source: RSR Research, July 2015

Retailers have some high hopes for their soon-to-be technology-empowered employees. And those hopes move away from looking within, shifting straight toward acquiring and retaining customers while taking business from competitors. As we can see in Figure 11, thought processes have shifted dramatically in some cases.

Differences are marginal between Winners and their peers, with Winners more likely to cite technology's opportunity to create a competitive advantage (42% vs. 35%) and others more likely to cite winning new customers (60% vs. 54%) as a top-three opportunity for technology.

Still we have to return to the data from Figure 11. If retailers haven't simply provided the option to place an online order in store yet, how much value are they really finding in the technology opportunity? What are they missing? And what's getting in the way?

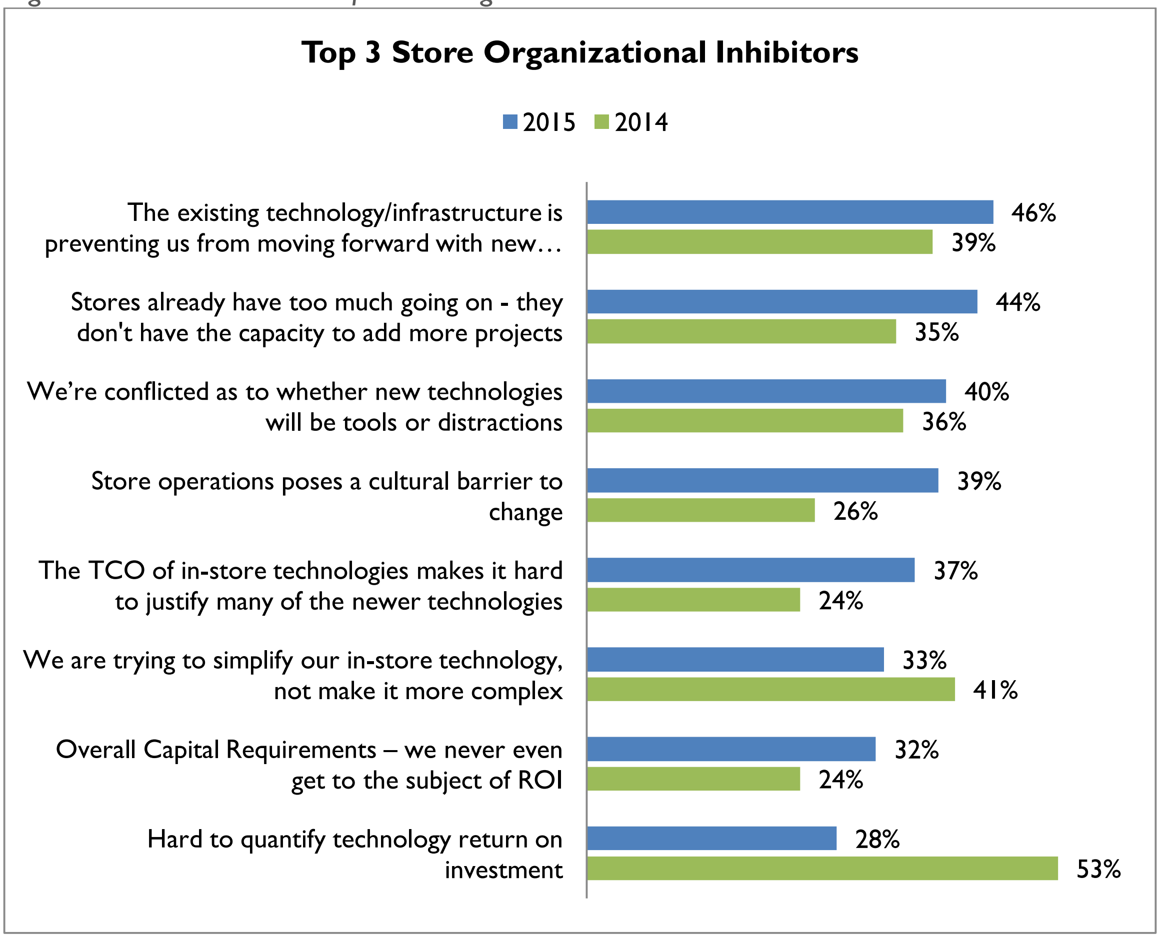
To get a sense of this, we'll take a look at internal challenges.

Organizational Inhibitors

It's No Longer About ROI

Overall, retail survey respondents report their top-three store organizational inhibitors are the existing technology infrastructure, a cap on stores' capacity for change, and a lack of faith that the technology solutions available for in-store will actually and really help them (Figure 13).

Figure 13: Dramatic Shifts Among Inhibitors



Source: RSR Research, July 2015

Several of these challenges have shifted significantly from last year. The top five challenges – including cultural barriers to change in stores and whether the total cost of ownership of in-store technology is worth the investment – all caught the eye of more survey respondents.

Only two internal challenges – a need to simplify in-store technology, and the challenge of quantifying the ROI of in-store investments – fell relative to last year. However, the ROI challenge fell significantly, almost by half. This is not because in-store investments suddenly went from questionable to paying off – note that a larger percent of retailers said that TCO was a challenge for them in 2015 vs. 2014, and ROI plays a substantial role in TCO calculations. Rather, this reflects a shift in retailers' way of thinking about what technology investments mean to their stores. A technology-enabled store is not quite at the level of "must have no matter the cost" in the retail enterprise, but clearly **the urgency to figure out the right technologies for stores – no matter the hard ROI – is increasing.**

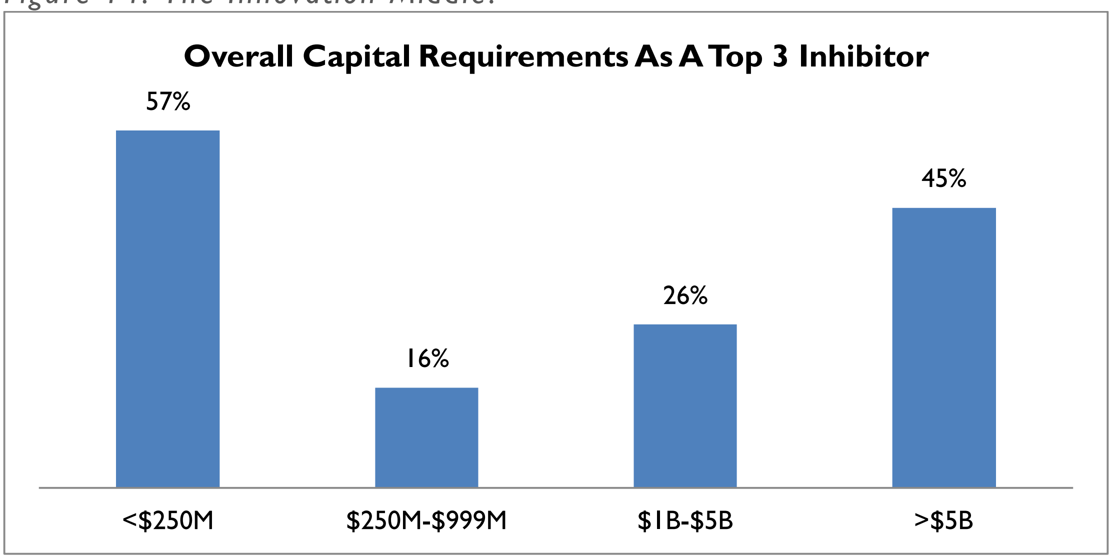
Learning From The Differences

There are only two places where Retail Winners differed significantly from their peers: that store operations pose a cultural barrier to change (50% vs. 31%, respectively) and the fear that they are making in-store technology more complex, when it should be simpler (40% vs. 28%).

At first it was surprising to us that Retail Winners found cultural barriers to change in their stores, as they historically have seemed more aware of and prepared for this kind of barrier, not to mention that it is harder to drive change when things seem to be going well. But we have seen this pattern before. In the years we have conducted our pricing studies, we have found that Retail Winners make significant process and organizational changes before they make major technology changes. It's too soon to tell, but this sharp difference in Retail Winners' perception of cultural barriers could presage major process changes in stores to come.

There is one other major difference among respondents when it comes to organizational inhibitors: Company revenue. Our retail survey respondents exhibit a classic U-curve, where the smallest retailers have more in common with their largest peers than with closer competitors (Figure 14).

Figure 14: The Innovation Middle?



Source: RSR Research, July 2015

The challenge for the smallest tier of retailers and the largest is the same: it doesn't matter what the ROI is for in-store technology investments. There simply isn't enough money lying around in the first place. But there is a significant difference in the reason why.

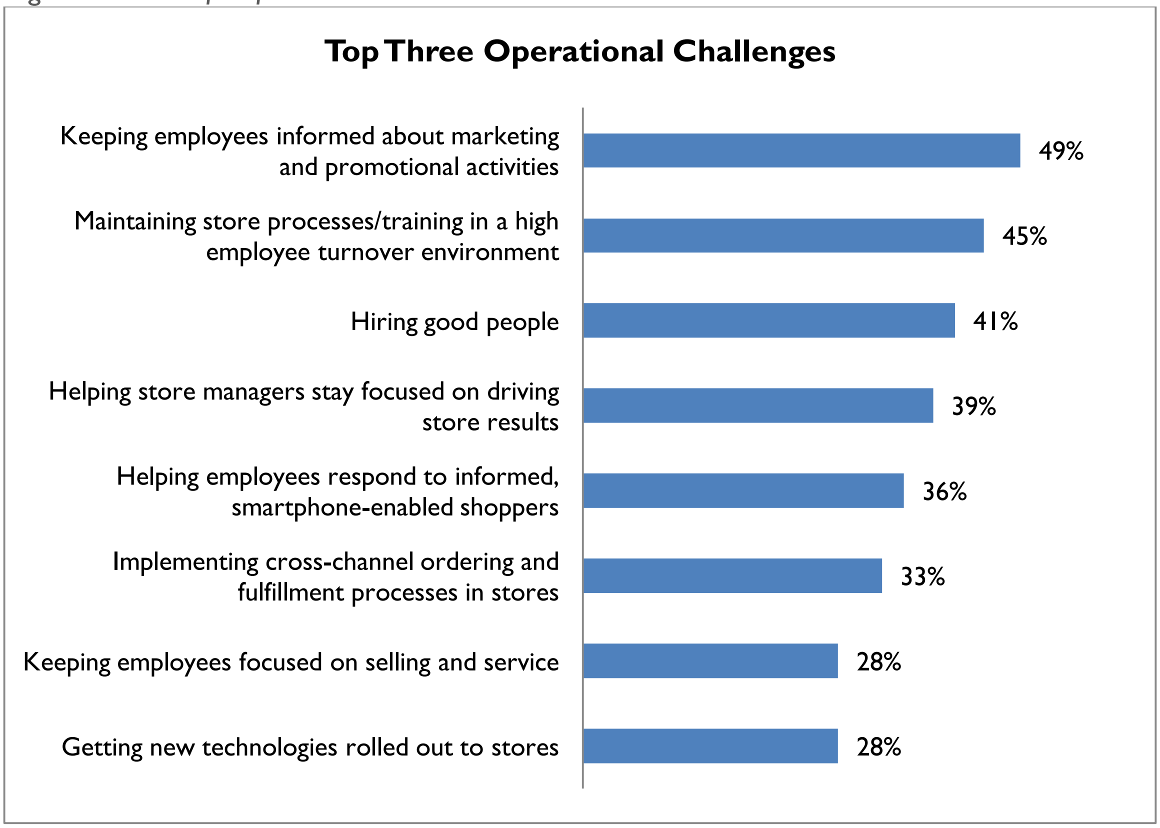
For the smallest retailers, it's all about cash flow. They just don't have enough money set aside to pay for a big capital outlay. At the other end of the revenue spectrum, the store multiplier comes into effect – in order to reach $5 billion or more in revenue, retailers need a large base of stores, and while a per-store investment of even 5 figures may seem relatively small, it rapidly becomes a significant budget hit when multiplied across a thousand stores, let alone four thousand or fifteen thousand.

Why is this particular data point significant? Because it implies that **in-store technology innovation will most likely come from mid-tier retailers, rather than the largest or the smallest**. Their risk profile is different from their peers at either end of the revenue bands – they're already getting squeezed by larger competitors who have the benefits of scale on their side. And they don't face the same store multiplier when it comes to making technology investments. On the other hand, they have more money to play with than their smallest peers, and they have more technology infrastructure in place to support in-store tech investments – which gives them the opportunity to experiment where others can't.

Front-Line Inhibitors

Operationally, retail respondents report that they are most challenged to keep their employees informed about marketing and promotional activities, maintaining processes and training in a high employee churn environment, and hiring good people in the first place (Figure 15).

Figure 15: Self-Inflicted Wounds



Source: RSR Research, July 2015

But most fascinating about these challenges is how they have evolved over time. Getting new technologies rolled out to stores is less and less of an issue, as is keeping employees focused on selling and service (Figure 16, below).

Helping *managers* stay focused on results, however, has increased as a challenge. As has maintaining processes in the face of employee churn and keeping employees informed about marketing and promotional activities.

Figure 16: The Store's Shifting Sands

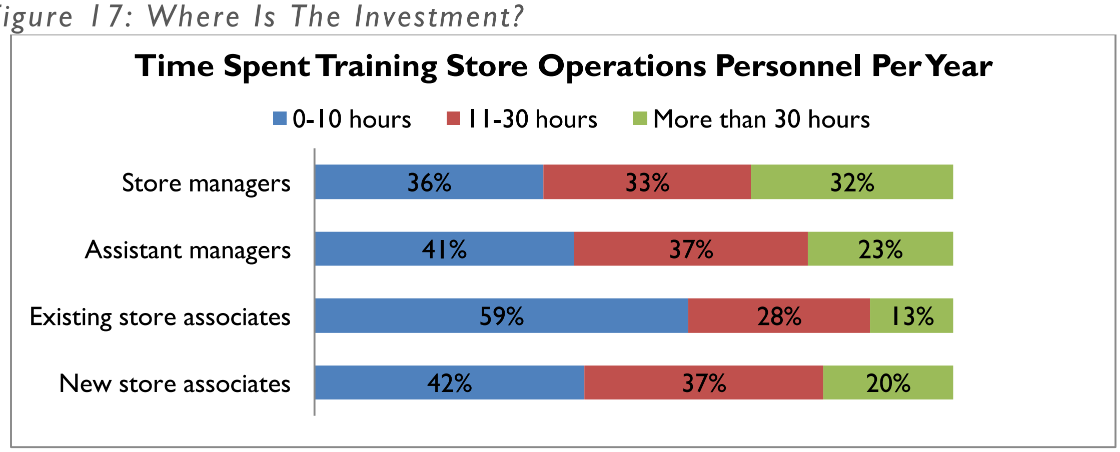
Source: RSR Research, July 2015

You Get What You Pay For

It's not at all surprising that retailers increasingly find it difficult to keep employees informed about marketing and promotional activities. From other research conducted by RSR, we have found that retailers are becoming more promotional, and those promotions are becoming more complex as they cross channels or originate out of immature digital channels to migrate into stores. At the same time, marketing, in general, has been in disarray internally for many retailers, as they struggle to align digital and traditional marketing. Stores, where consumers bring their mobile devices and force the physical and virtual together are feeling those channel conflicts most keenly.

But many of retailers' challenges in this regard also come from a lack of investment in their employees – whether managers or frontline workers. In fact, 59% of respondents report that they invest 10 hours or less *per year* in training their existing employees (Figure 17).

Figure 17: Where Is The Investment?



Source: RSR Research, July 2015

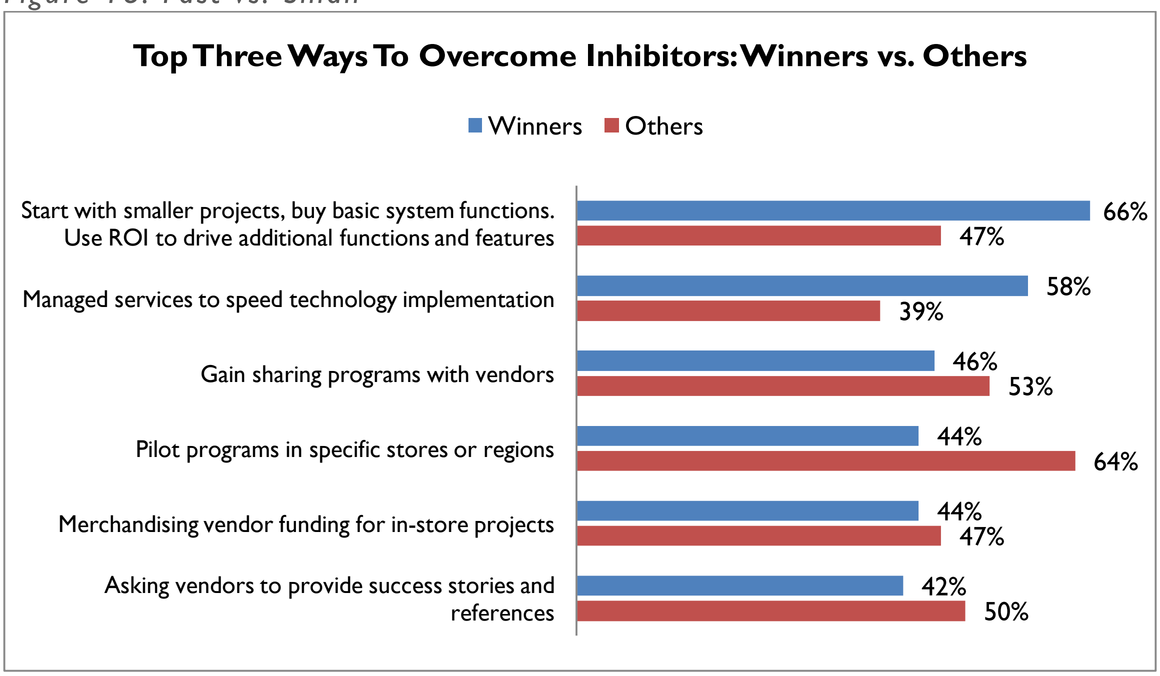
It gets worse: 56% of retailers over $5B in revenue spend 0-10 hours per year training *new associates* – the ultimate in a "sink or swim" attitude that surely cannot translate into a positive customer experience. An even greater percentage of mid-sized retailers ($250-$999 million in revenue) – 59% – report the same. Those same retailers report investing 10 hours or less of training per year for *store managers*, compared to 38% of those with less than $250M in revenue who report *30 hours or more* of training per year for their store managers.

What difference will it make to invest in technology to enable stores, when no training – especially on-going training to keep skills fresh – is provided to help employees take advantage of these investments? Even Retail Winners, for whom stores presumably are doing well or they wouldn't be experiencing higher-than-average sales, are vulnerable here. Retail Winners may be adding more labor hours into stores, as we found at the beginning of this report, but apparently little of that is going to training. There is virtually no difference in the percent of Retail Winner respondents (vs. overall results) who invest ten hours or less per year across each employee type. Retail Winners thus face a two-pronged challenge: convincing stores to abandon what seems to be working now, and persuading them to do it with virtually no training to go with that change. It's no wonder Retail Winners are sensing pushback from stores.

Overcoming Inhibitors

When it comes to getting past these internal challenges, Winners and their peers have two completely different views. Winners want to start small and move fast, while less well-performing retailers want controlled pilot programs (Figure 18).

Figure 18: Fast vs. Small



Source: RSR Research, July 2015

But which technologies do retailers plan to roll out to stores in the near future? Let's look to the Technology Enablers to find out.

Technology Enablers

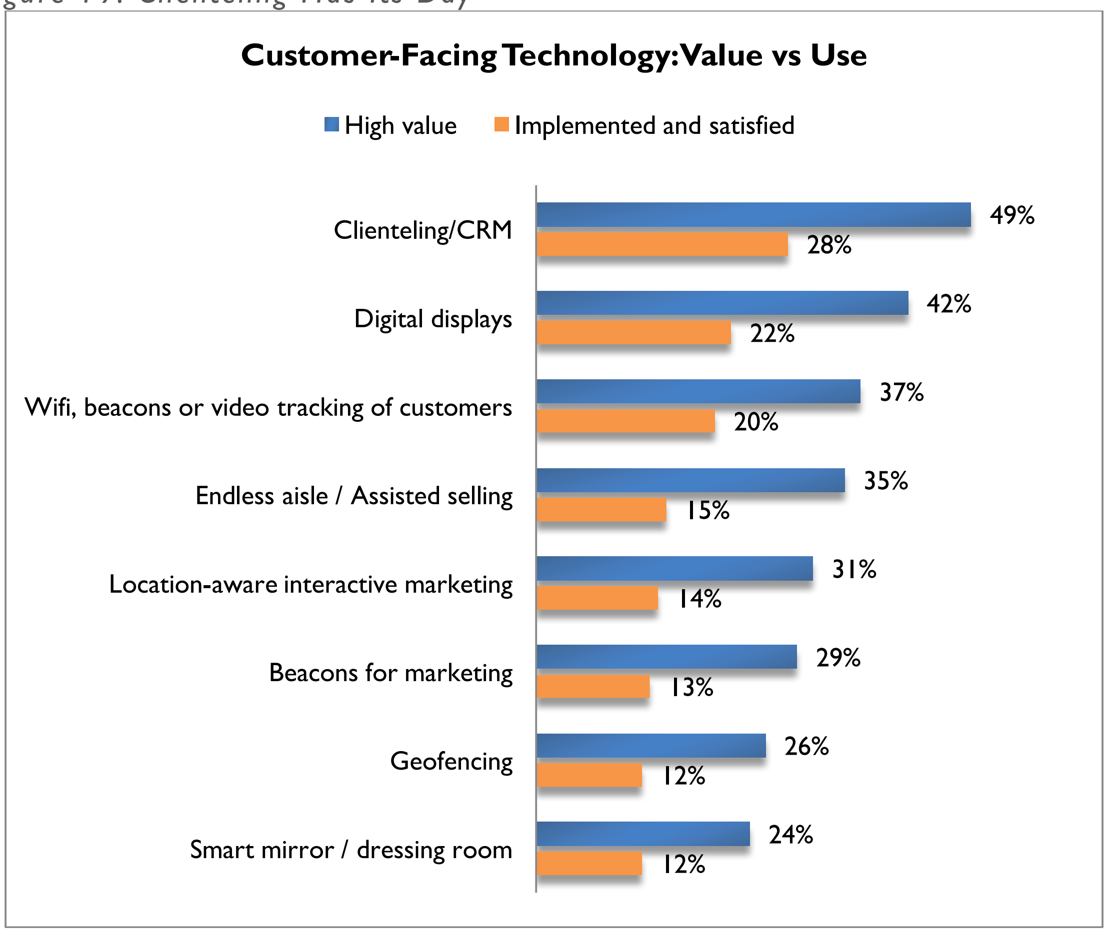
Navigating Store Technology Priorities

Part of retailers' challenge when it comes to in-store technology is deciding whether to focus on investing in customer-facing technologies or in employee-facing solutions. Earlier in this report, we found that retailers – especially Retail Winners – were more focused on employee-facing efforts than customer-facing ones. Does that translate into the money they are putting behind their technology investments? We'll look at customer-facing technologies, then employee-facing, and then both together.

Customer-Facing Investments: Traditional Over Flash

When it comes to in-store, retailers report that their perceived highest value technology opportunity is with clienteling, followed by digital displays, and methods for in-store tracking of customers (Figure 19).

Figure 19: Clienteling Has Its Day

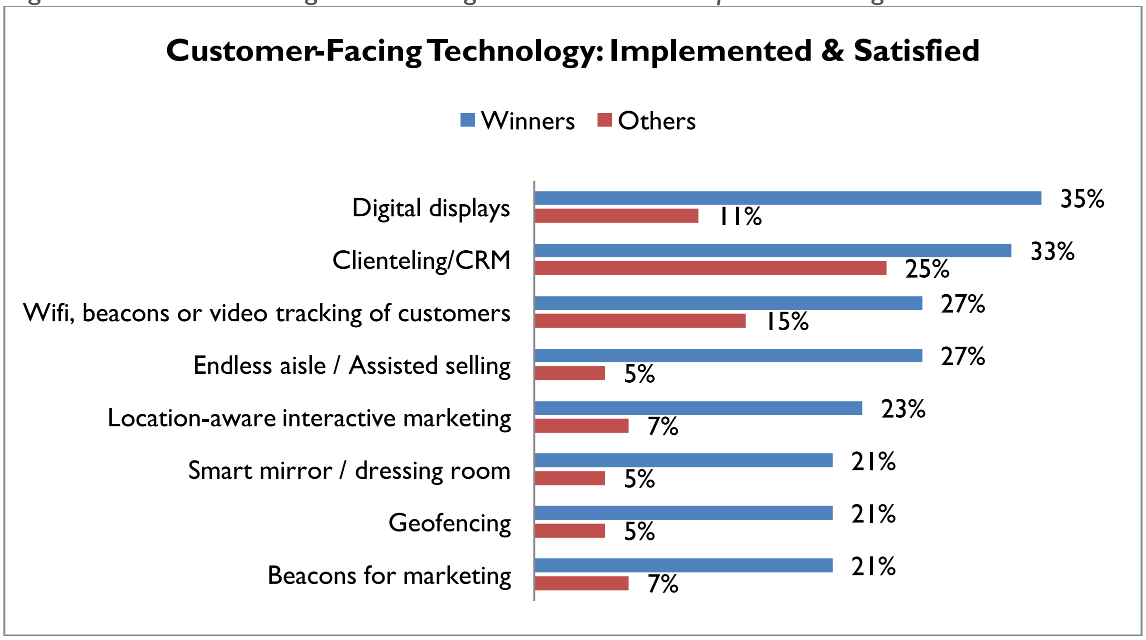


Source: RSR Research, July 2015

Consistent with their fears that technology might create more complexity when in-store investments need to be simple, few retailers assign "high value" to technologies that, if you visited any trade show, would seem to be the hottest technologies in retail – for example, beacons for marketing purposes, geofencing, and smart fitting rooms. Rather, retailers are more interested in solutions that have been around a lot longer, like clienteling and digital displays.

However, while it would appear on the surface that implementation is low across all of these solution types, the averages hide significant differences by performance (Figure 20).

Figure 20: Connecting Marketing And Relationship To Selling



Source: RSR Research, July 2015

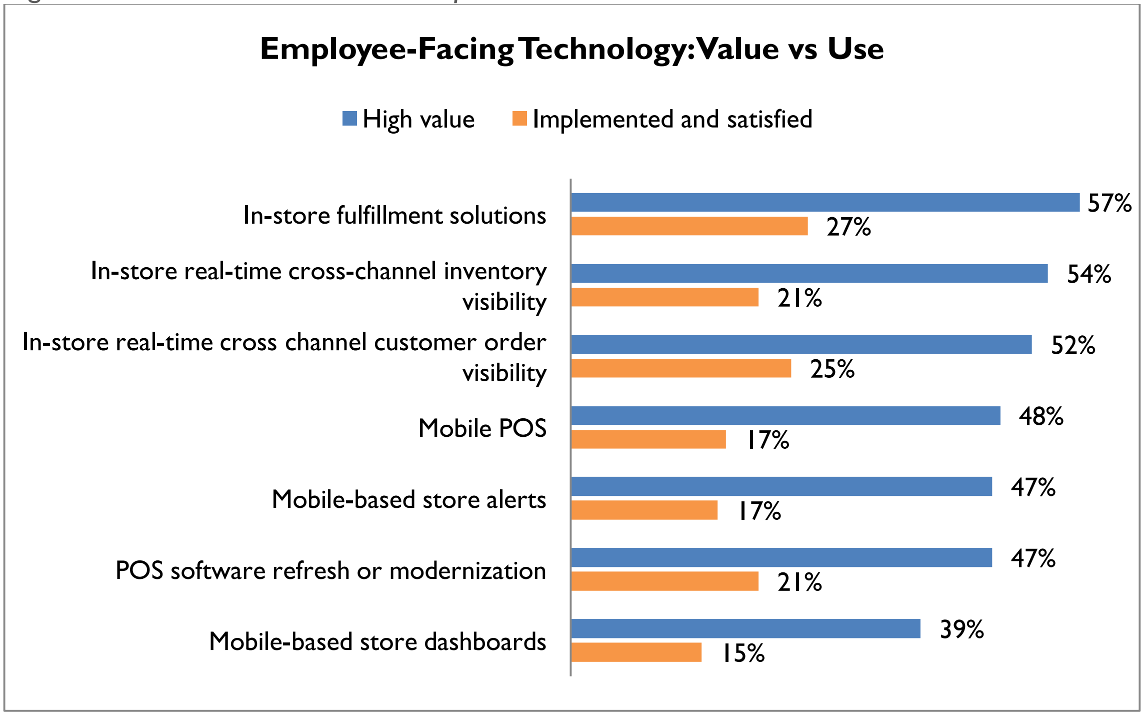
Retail Winners' implementation of these technologies far outstrips those of their peers. One of the most notable is the gap between Winners and their peers when it comes to endless aisle / assisted selling. It's an interesting gap given that the two groups of retailers are fairly close on having implemented clienteling. But only Winners have connected their customer relationship solutions to actually selling, especially without regard to the channel. Their peers still have a long way to go in making the connection between customer understanding and actual selling based on that understanding.

Employee-Facing Technology: Connecting Channels Trumps All

Even though our retail respondents profess that they want employee-facing technology investments, what they really mean, according to this data, is investments that better connect the store to other channels – fulfillment, inventory, and orders (Figure 21, below).

Retail respondents report having made the most progress in implementing in-store fulfillment and visibility into cross-channel customer orders. But they have made the least progress in providing the tools for in-store employees to convert that visibility into sales – only 17% of respondents report that they have implemented mobile POS. And tools for employee enablement, like mobile store alerts or dashboards, don't fare much better in terms of implementation.

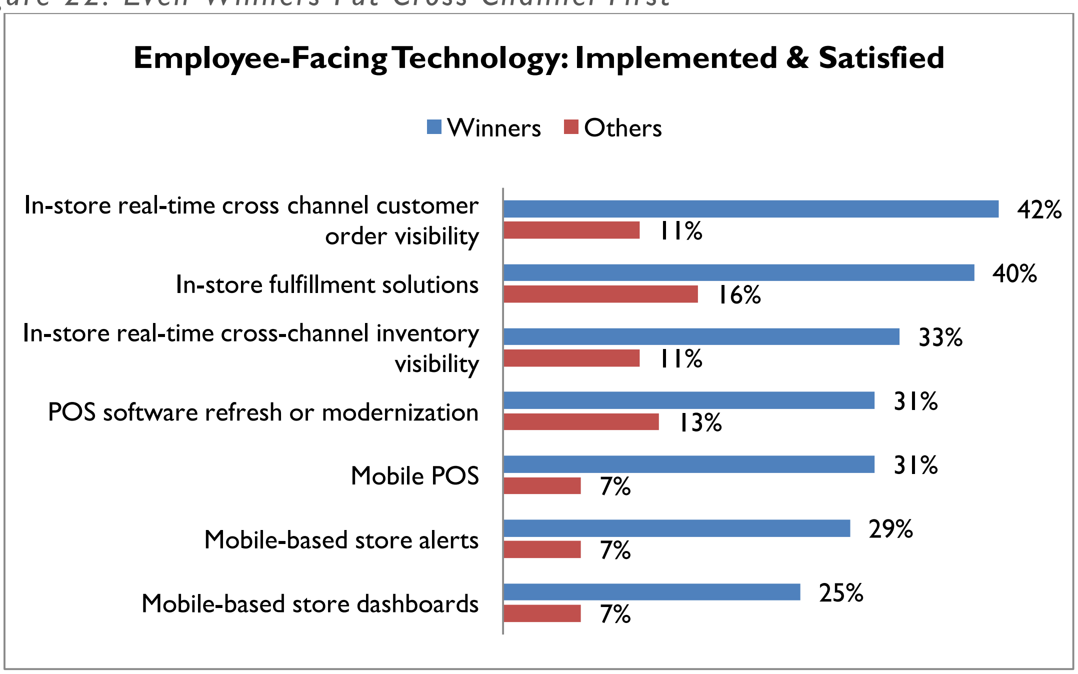
Figure 21: Omni-Channel Trumps In-Store Enablement



Source: RSR Research, July 2015

However, once more there are clear differences between Winners and their peers when it comes to adoption. Winners have made the most progress when it comes to the cross-channel capabilities that have the highest perceived value – customer order visibility, in-store fulfillment, and real-time inventory visibility for stores (Figure 22).

Figure 22: Even Winners Put Cross-Channel First



Source: RSR Research, July 2015

Even Retail Winners have not necessarily made the connection between omni-channel visibility into inventory and orders and transactions – Winners have implemented mobile POS or a "modern" POS at a significantly slower rate than they have implemented order or inventory visibility. And implementation of true employee-facing enablement – like alerts and dashboards – fell to the bottom of the list. RSR believes this is a bad decision.

Employee-Facing Technologies Win A Hollow Victory

In the competition for in-store investment priorities, employee-facing technologies win. On average, 49% of respondents report that employee-facing technologies have high value, vs. 34% for customer-facing technologies. And implementations follow a similar path. The advantage is driven primarily by the need to connect channels, by providing stores with visibility into customer orders and inventory across the chain.

However, when it comes to future plans, budgeted projects lag significantly – an average of 18% for employee-facing, and 14% for customer-facing. Only mobile POS and POS modernization exceed 20% of intended budgeted projects over the next 12-18 months (21% for mobile POS and 22% for POS modernization).

Why are the numbers so low? It comes back to the organizational inhibitors. One of respondents' top three inhibitors was a lack of trust in the technology to actually make things simpler (the third most frequently cited on the list). Given that ROI has dropped significantly as an inhibitor, it's not about proving that there is a business case. It appears that **retailers have come to terms with the idea that they need technology in stores, not because it will grow the business but because it will help stores compete.**

The problem is, outside of omni-channel visibility, retailers don't seem to know what the technologies they're investing in will actually do for them. That's a problem – for retailers, and for the solution providers offering these solutions. We'll get into that further in the Recommendations section of this report.

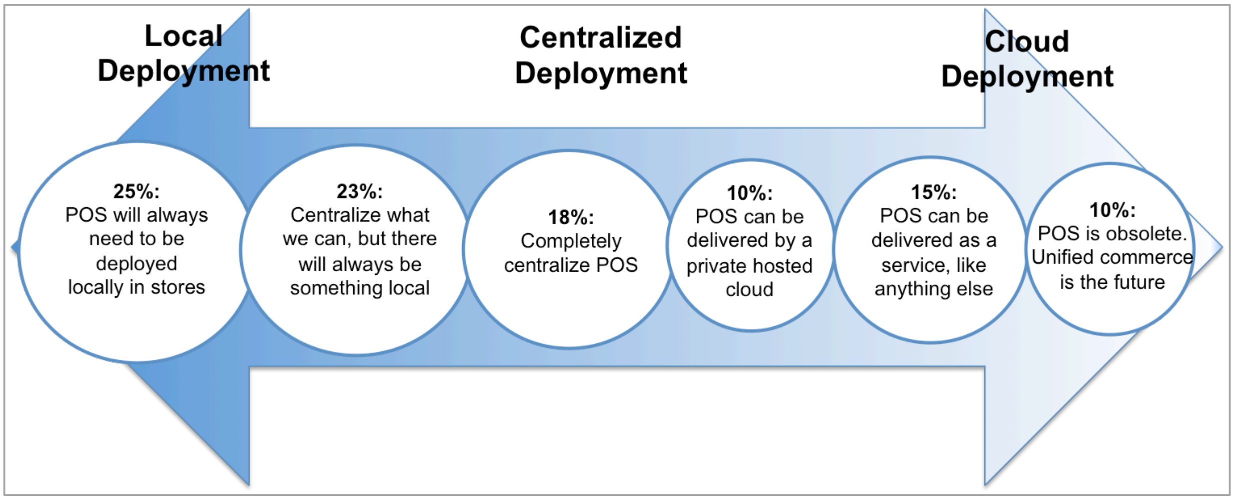
So What About POS?

It is impossible to talk about the future of the store – or the store employee – without talking about point of sale. It is the area where retailers report the most budgeted activity over the next 12-18 months, even if that activity is relatively anemic compared to other investment plans in other areas of the business, at least compared to RSR's benchmarks on other topics.

However, it is also the area undergoing some of the greatest amount of disruption, thanks to the increasing possibility that the eCommerce platform will take over some – if not all – of a unified commerce platform that serves stores as well as digital channels. RSR covered that possible convergence separately. But one of the outcomes of that research showed that before convergence can even be a possibility, POS can no longer be distributed and isolated in stores.

So how far has retailers' thinking progressed when it comes to centralizing POS? Retailers still have some reserves that keep them leaning toward at least some footprint in stores (Figure 23, below).

Figure 23: Not Ready To Make The Virtual Leap



Source: RSR Research, July 2015

Winners are far less reserved about this than their peers: 22% believe that POS can be delivered as a service, and 28% believe they can centralize a lot, even if they may need to leave some kind of footprint in stores. Lagging and average performing retailers are more divided – 28% believe POS will always live locally to stores, while 16% believe it should be hosted in a private cloud.

Part of the issue is that retailers' infrastructure tends to be old and tangled and would need to be updated in order to support a fully virtual POS strategy. But again, Winners are doing more to address the issue than their peers – while 39% of Winners report real-time updates between stores and headquarters, 44% of their peers are still using batch updates for everything.

BOOTstrap Recommendations

Seeking Differentiation

While it may be true that stores will never be eclipsed by digital channels, it is also true that retailers complacent about their store experience may soon find themselves struggling to stay in business. A sub-par store experience will only drive consumers online, or into competitors' arms (as we observed, retailers are very focused on grabbing competitors' customers).

Omni-channel retailing forces retailers to face up to a very basic question about stores: If a consumer can get whatever she needs online, why does she need to go to a store? Retailers must develop a strong answer to that question – saying "Because stores have always been around and they always will be" is not enough.

This report reveals dismaying gaps in retailers' thinking. They seem to believe that engaged and loyal employees are critical to stores' future, and Retail Winners, at least, seem to be adding labor hours back into stores after a lengthy period of cuts. But even Winners are doing so without investing in training – and this while they are placing a greater focus on employee-facing technologies over customer-facing ones.

If a consumer can get whatever she needs online, why *does* she need to go to a store? The answer should be self-evident. Yes it's true she can touch and feel product. But there's more to it than that. Stores have employees – people who can engage with shoppers and help them achieve their objectives. For high-touch retailers, those objectives may be lifestyle needs. For basics retailers, those objectives may be foundational, like affordable, healthy meals to feed a family of four for a week.

This requires a fundamental shift in the way retailers view in-store employees – a move from viewing employees as an expense or "bodies" to fill space, towards assets that require investment to maintain or grow their value. Retailers appear to be halfway there. They know employees need to be more than they have been, and some are willing to put real dollars into providing wage increases and/or more hours for store labor. And they're willing to invest in technology to enable store employees – so committed that ROI is no longer a meaningful barrier.

What's missing are ways to connect employees and the technologies to enable them – in a meaningful way. Here are our recommendations for how to make those connections.

First You Need Labor Hours

Laggards, in particular, need to put payroll back in the store. For a very long time, financial markets have treated employees as an expense to be managed, and have demanded that retailers constantly cut that expense to drive profits. But cutting labor hours in the store has an impact on a retailer's ability to sell, as surely as if the retailer decided to cut the number of hours the store is open. No one reasonably expects to be open fewer hours and somehow sell more product – why should retailers expect something different when it comes to labor?

The results of all that cutting were already being felt by the tail end of the Great Recession. Now, as consumers expect and demand something more from stores than they already get online, retailers MUST respond. ***Rather than an expense, think of employees as assets which need investment to grow in value.***

Next You Need Tools

Increasingly, even primary school students have tablets and their teachers make their email addresses available to them. We expect children to use technology to help them learn and we expect to communicate with them digitally.

Given that, why is it that, in today's connected age, we expect store associates to "make do" with little to no technology? Why do so many retailers sing the praises of their contact center customer service representatives, who have been surrounded by technology and use it every day, and at the same time hear those same retailers bemoan the churn and burn of store associates and protest the need for in-store technology? Do these two sets of employees not perform the same exact job? Why is it so easy to see what enables the CSR, and yet not be able to see that these same tools could and should benefit store employees?

The industry has at least come this far: Retailers, with the exception of some laggards, recognize that self-service for the customers in-store is not the answer. Customers can serve themselves more easily from their homes – why do they need to go to a store for that? ***Employees are a big part of differentiating the store from digital channels.*** And to help those employees, retailers are investing in tools that support omni-channel customer service – inventory and order visibility. And these are excellent first steps. They must be done.

But retailers don't seem to recognize that this is only half of the equation. Store employees must be able to transact, even if the inventory to fulfill that transaction comes from somewhere else. And too many retailers don't enable that kind of transaction. Store employees must also be able to provide the same kind of customer service functions as contact center CSRs – and that means a holistic view of the customer via some kind of clienteling or CRM, not just a view into that customer's current order.

And Then You Need Training

If you're going to do all of this - invest in payroll, provide technology solutions to enable in-store associates - you might as well make sure they're trained and know what they're doing. While the amount of time retailers report spending on training store resources is hardly surprising – we at RSR have been in the industry a long time and seen the reality of retailers' training budgets for stores – it was still disappointing.

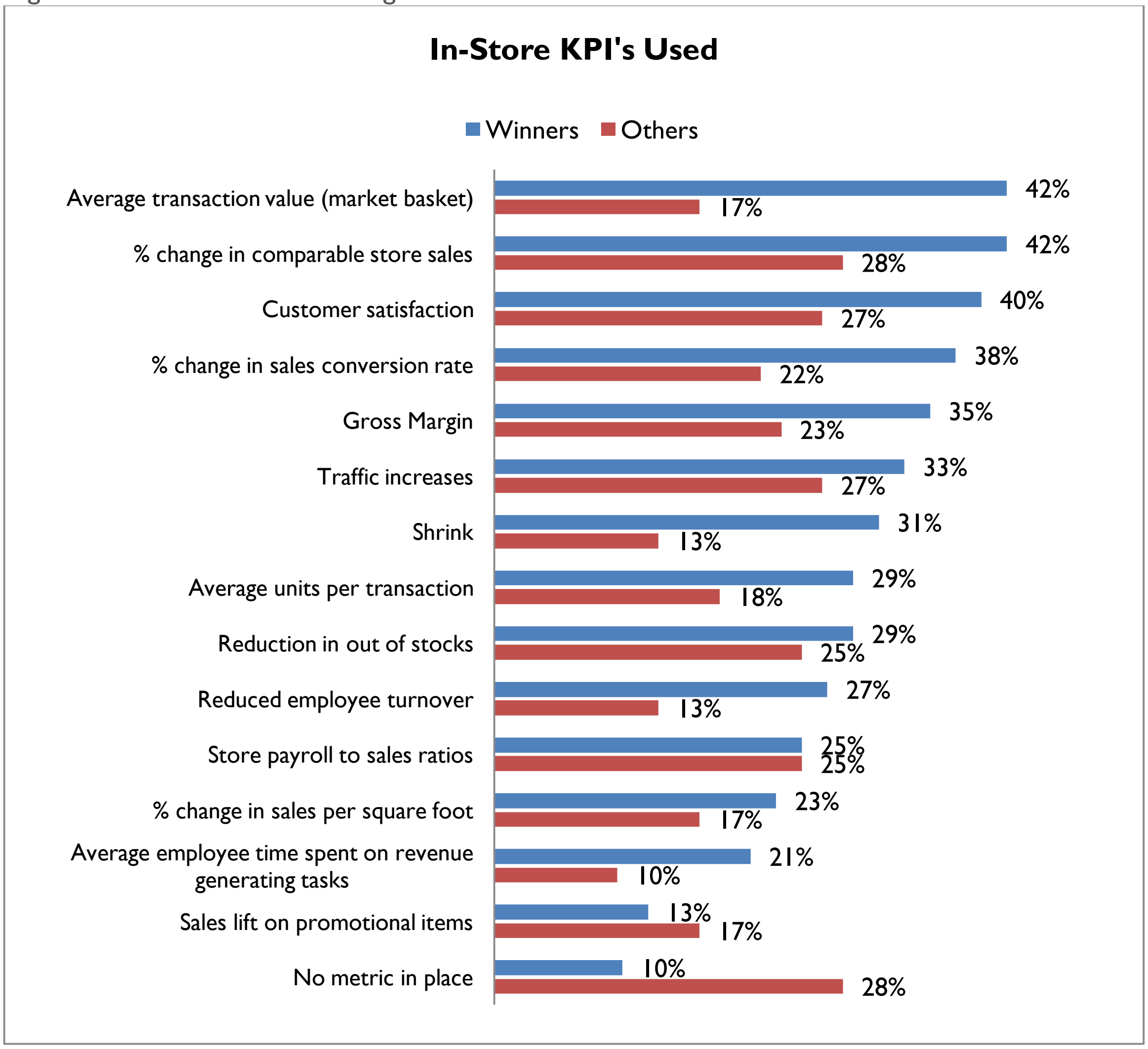
Massive change is coming to the retail store. It cannot be stopped – consumers will bring it with them, in their pockets and in their purses, and in their *expectations*. The day of the store employee as isolated resource, the body to stock shelves and take cash, is over. ***The new store employee needs to be wholly customer-service focused*** – as good as the best contact center CSR, or even better. That's the only way the store employee will be able to be a differentiator, and the only way to get them there is to train them.

Finally, Measure – And Then Measure Some More

When it comes to consumer behavior, retail stores have long been something of a black box. Retailers are very interested in ways to crack open that black box, but are constrained by fears of a privacy backlash from consumers.

With employees, those concerns are minimal – no such issues should be raised in measuring the impact of their activities in stores. In this benchmark, we gave retailers a list of fourteen metrics and asked them to identify which ones they use to measure store performance, plus an option to indicate if none of the listed metrics were used. Survey respondents on average selected seven options, but none of them achieved a majority of overall responses. And when we looked at it by performance, an amazing gap was revealed (Figure 24).

Figure 24: You Can't Change What You Can't Measure



Source: RSR Research, July 2015

It's hard to expect a successful outcome in this scenario: few tools, little to no training, way too many things to focus on and no metrics to provide guidance or focus. We believe success – long term, sustainable success – will be very hard to come by in this situation.

Ultimately, As With All Things Retail, It's About The Customer

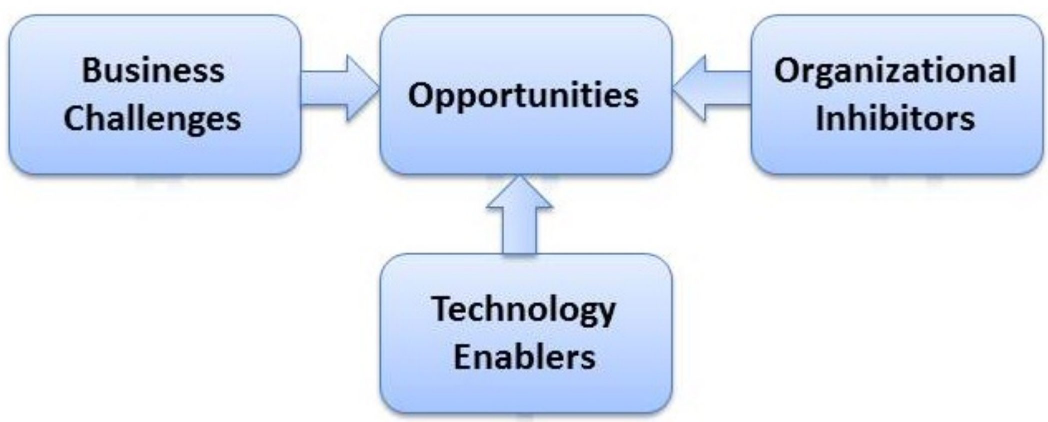
It is a turbulent time in retail, and stores, while not sinking the ship, no longer seem to be doing their part to keep it afloat. That is a problem. Technology solutions that help stores, or help employees, help, but are only a part of the picture. While employees clearly need to play a significant role in redefining the value that stores provide to consumers, the focus needs to remain on those consumers – on how employees can provide something differentiating towards helping consumers solve their needs.

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 Methodology© follows:



Appendix B: About Our Sponsors

Manhattan Associates brings companies closer to their customers. We design, build and deliver market-leading Supply Chain Commerce Solutions that drive top line growth by converging front-end sales with back-end supply chain execution and efficiency. Our software, platform technology and unmatched experience help our customers around the world adapt to the challenges of the omni-channel marketplace.

Manhattan Associates solutions deliver unique Flexible Fulfillment capabilities, allowing retailers to anticipate and strategically respond to variable demand by flexing parts of the fulfillment network in different ways based on desired business considerations—such as margin protection, maximizing conversions, speed of delivery, seasonality, and peak-period volume. To learn more, visit www.manh.com/flex

Oracle provides retailers with a complete, open, and integrated suite of best-of-breed business applications, cloud services, and hardware that are engineered to work together to enable commerce anywhere. Leading fashion, grocery, and specialty retailers use Oracle solutions to drive performance, deliver critical insights, and fuel growth across traditional, mobile, and commerce channels. For more information, visit our website at www.oracle.com/retail.

Tyco Retail Solutions is a leading provider of integrated retail performance and security solutions, deployed today at more than 80 percent of the world's top 200 retailers. Customers range from single-store boutiques to global retail enterprises. Operating in more than 70 countries worldwide, Tyco Retail Solutions provides retailers with real-time visibility to their inventory and assets to improve operations, optimize profitability, and create memorable shopper experiences.

The Tyco Retail Solutions portfolio for retailers is sold direct through Tyco businesses and authorized business partners around the world. For more information, please visit TycoRetailSolutions.com or follow us on LinkedIn, Twitter, and our YouTube channel.

Appendix C: 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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