Getting Back to Good: Retail Pricing 2010

Benchmark Study: January 2010

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EXECUTIVE SUMMARY

Today, even though unemployment and commercial real estate vacancies remain high, the worst of the storm appears to be behind us. The economy has stabilized and most economists report that the recession is over. As the dust settles, it appears that the ability to maintain gross margins and reduce inventory levels served many retailers well, and pricing capabilities helped play a critical role in saving the "retail bacon." However, going forward, a new challenge emerges: how to wean consumers off of an expectation of heavy discounts, and back to some semblance of a value-based price proposition.

THE BUSINESS CHALLENGE

While price helped retailers maintain margins while moving excess inventory during the worst of the "Great Recession," survey respondents report that they are now turning to price to drive sales much more so than in the past, not out of a competitive response necessarily, but simply to entice consumers to buy. That doesn't mean that competitive pricing is not an issue, only that it has moved from a strategic one to more of an operational concern. In a more complex, multi-channel world, retailers are also focusing on how to measure the impact of their pricing decisions.

OPPORTUNITIES

Given retailers' preoccupation with localization, survey respondents report that they continue to move away from everyday low price as a strategy, with more focus on key item pricing and promotions. Also, while retailers continue to look to margin improvements as the main driver behind price strategies, for the first time RSR saw an increased interest and awareness of the opportunity that price has in *shaping* demand, not simply using price to stimulate purchases or respond to forecast errors.

ORGANIZATIONAL BARRIERS AND HOW TO OVERCOME THEM

Cultural issues continue to plague retailers around price, but not in the way that you might expect. While laggards do still struggle internally to convince constituents that price optimization is a worthy endeavor, Winners have moved on to consider the process implications of price strategy. Increasingly, they look to drive alignment between Merchandising, Marketing, Finance, and Supply Chain. Store Operations plays much less of a role in the new world - as cross-channel customers become the rule, rather than the exception, stores are no longer the main source of information about what customers want. Retailers can not only no longer rely on stores exclusively for that view, they need to work quickly to provide outside information to stores so that they can continue to be effective customer service enablers.

TECHNOLOGY ENABLERS

Clearly, retailers did not stop their investments in pricing capabilities because of economic conditions. In fact, in many areas related to pricing, they accelerated their investments. However, there is still a lot of work to be done around core pricing functions, including base price setting, promotions, and end-to-end lifecycle pricing. Retailers are also taking their process focus to technology too, looking to integrate planning elements of price optimization more closely into the execution platforms of their various channels.

BOOTSTRAP RECOMMENDATIONS

A process orientation towards pricing - one that spans multiple departments, rather than residing exclusively in Merchandising - means that retailers need to pay attention to some process design best practices as they continue on their price optimization journey. Laggards prove that just because someone negotiates a vendor deal does not mean they should be setting prices - that should be done with customers in mind, not vendors. Retailers will also benefit from baselining internal process metrics, for example around promotion planning and execution, before tinkering with process change.

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SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

In September and October 2008, the global economy was collapsing. Businesses and consumers alike were shell-shocked as they watched stock portfolios and home values plummet. During those two months, RSR conducted our second annual survey on retail price management. Not surprisingly, these events were having a dramatic effect on retailer pricing strategies. The resulting report showed those trends and changes.

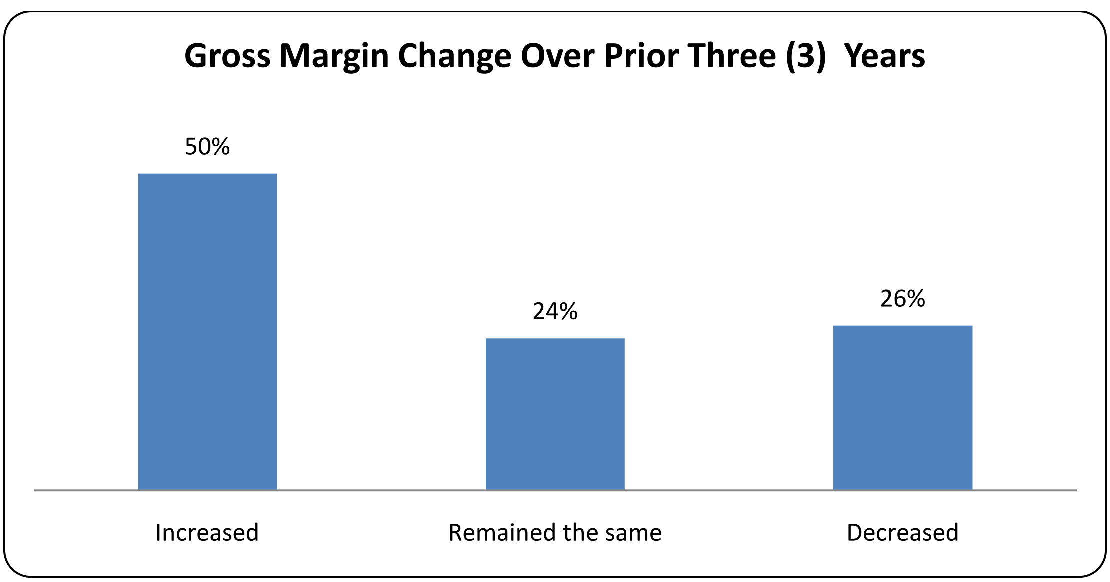
Hope was not on the horizon. We're all familiar with the number of retailer casualties in the first half of 2009. Those who were already lagging failed, and banks rarely came to their rescue with "DIP" financing. Yet some retailers held their own in the storm. Even as sales continued to decline, the ability to maintain gross margins and reduce inventory levels served many retailers well.

Today, even though unemployment and commercial real estate vacancies remain high, the worst of the storm appears to be behind us. The economy has stabilized and most economists report that the recession is over. Within this context, early in the holiday season, RSR conducted its third annual pricing benchmark survey. The results of that survey and comparisons to prior years comprise the bulk of this report. As we'll see in the pages that follow, some practices established during the "Great Recession" are here to stay, while others were transient, and have been left behind.

PRICING HELPS "SAVE THE BACON"

While price and promotion became a bigger differentiator than ever before, merchants' ability to control the MIX of prices helped keep margin on target. As we can see in Figure 1, even as sales fell, gross margin held steady or improved for almost three quarters of our retail respondents.

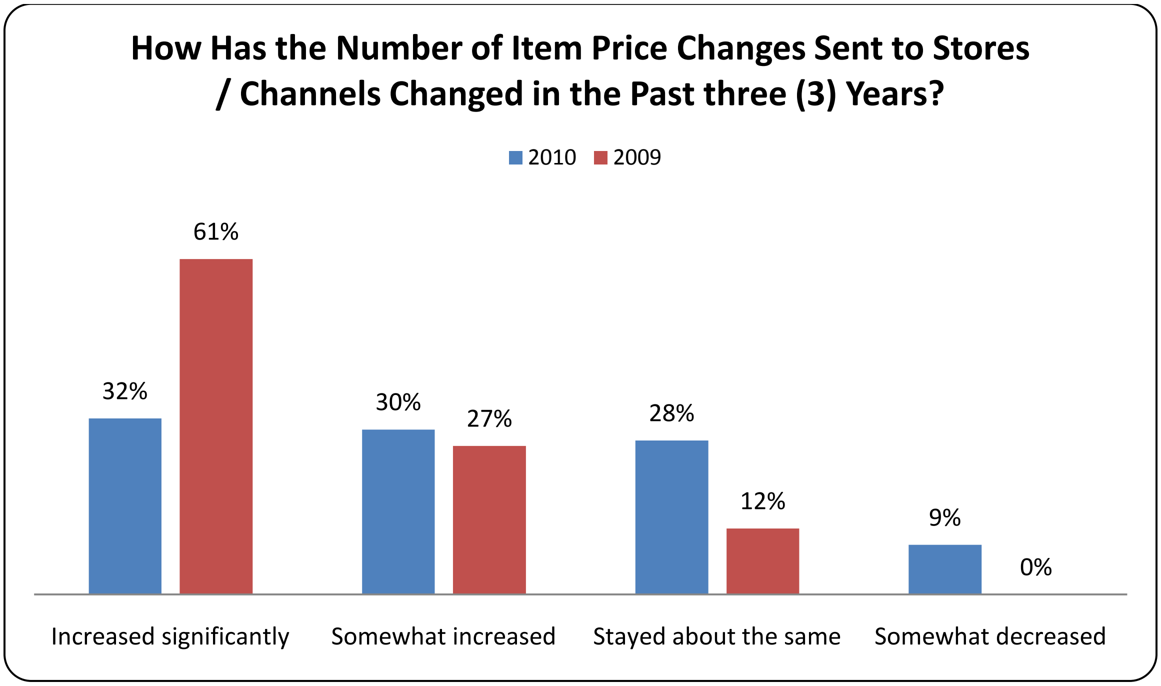
Figure 1: Gross Margin Continues to Improve



Source: RSR Research, January 2010

Interestingly, even as they have been able to control the "quality" (i.e. aggregate gross margin) of their prices, retailers are also getting the quantity of price changes under control. As we can see in Figure 2, the volume of price changes sent to stores and other channels has started to peak. Nine percent of respondents even managed to decrease the number of price changes executed in their various channels.

Figure 2: The Volume of Item Price Changes Begins to Level Out



Source: RSR Research, January 2010

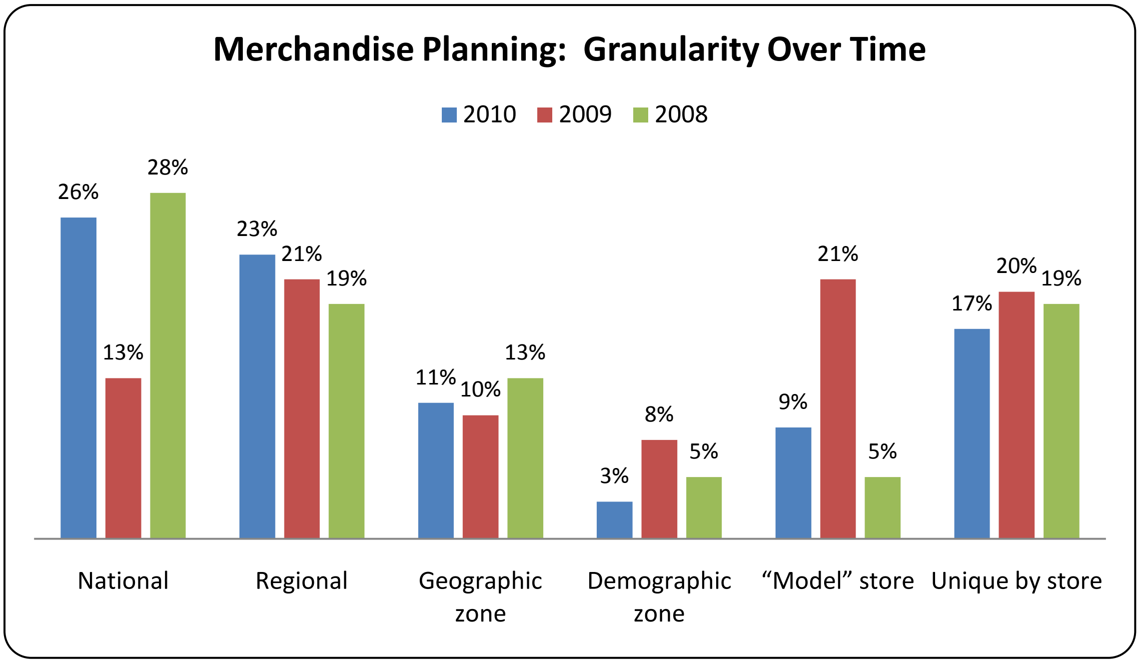
We can attribute this, to some extent, to two things: the realities of reduced store payrolls to execute price changes, and reduced inventories ending the panic to "get out of" excess inventory. But there is a third factor at play. ***We believe increased adoption of technology has helped retailers set better prices in the first place.***

Planning Granularity Re-stabilizes

RSR looks at the details of merchandise and inventory planning in its annual merchandising, cross-channel and inventory management benchmark reports, but an overview of the process is useful when looking at pricing strategies.

Along with stabilizing the number of price changes executed, we're seeing a concurrent stabilization in merchandise planning processes (which directly affect pricing decisions). Last year, respondents were experimenting with different types of granular planning processes, while this year, retailers have essentially returned to the planning processes used prior to the economic storm (Figure 3).

Figure 3: Reverting to the Norm in Merchandise Planning Processes



Source: RSR Research, January 2010

Retailers are maturing in the planning and price management process: recognizing that too much is as bad as too few planning and pricing zones.

Methodology

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

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Defining Retail Winners and Why They Win

Our definition of Retail Winners is straightforward. We choose to follow top line performance. Retailers cannot cut their way to successful growth, and only those retailers that can consistently demonstrate that they understand and can meet the needs and desires of their customers are going to succeed.

Assuming industry average comparable store sales growth of three percent, we define retailers 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." It is consistent throughout much of RSR's research findings that Winners don't merely do the same things better, they tend to do different things. They think differently. They plan differently. They respond differently.

Obviously, in a selling environment like we saw in late 2008 and most of 2009, it's challenging to find retailers whose comparable store sales improved over prior years. **In an attempt to normalize results, we asked retailers to report their historical performance levels, rather than just current year results**. Holiday sales results began to show what we suspected to be true: past Retail Winners remain best-poised to recover as the consumer finds her footing again.

Survey Respondent Characteristics

RSR conducted an online survey from October-November 2009 and received answers from 123 respondents. Respondent demographics are as follows:

- **Job Title:**

Senior Management (CEO, CFO, COO)	30%
Vice President	15%
Director/Manager	39%
Internal Consultant & Other Staff	8%

- **2008 Revenue ($ Equivalent)**:

$50 Million or less	46%
$51 - $999 Million	19%
$1-$5 Billion	21%
Over $5 Billion	15%

- **Locations (Headquarters vs. Retail Presence)**:

Region	HQ	Retail
United States	74%	76%
Canada	5%	29%
Latin America	1%	16%
Europe	10%	22%
United Kingdom	2%	12%
Middle East	1%	11%
Africa	0%	4%
Asia/Pacific	6%	20%

- **Segments**:

Fast Moving Consumer Goods (FMCG)	31%
General Merchandise and Apparel (GMA)	41%
Hardware/Do-it-Yourself & Other	22%
Food/Hospitality	4%

- **Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3%)**:

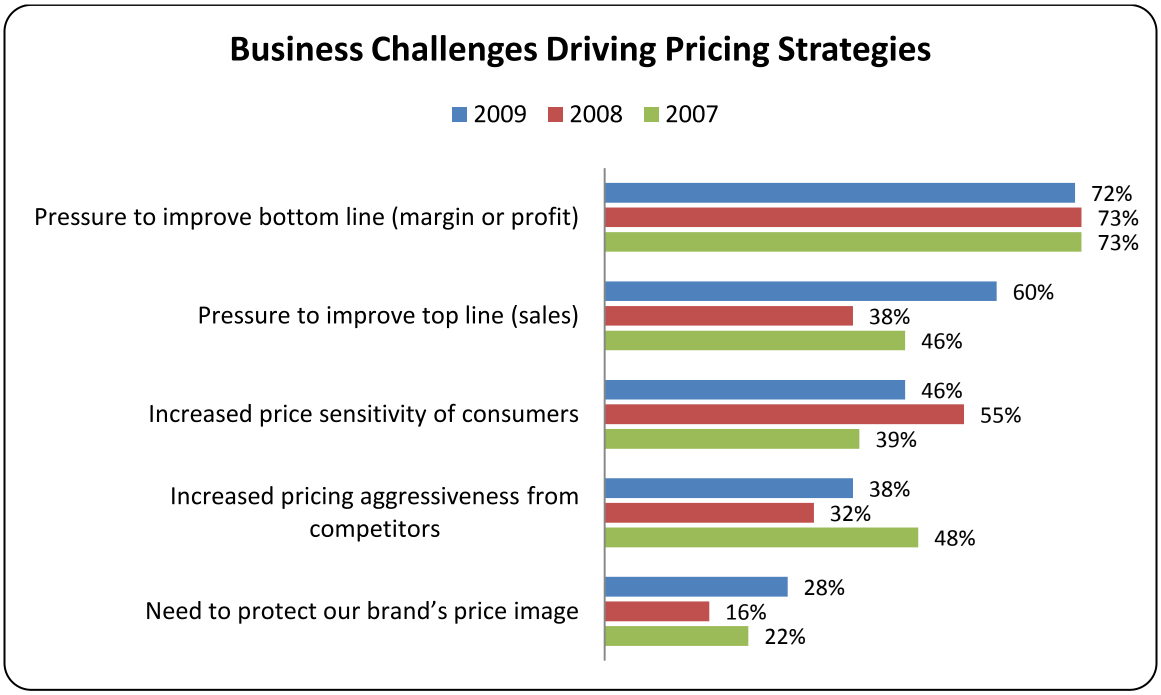
Worse than Average	22%
Average	44%
Better than Average (Retail Winners)	33%

SECTION II: BUSINESS CHALLENGES

AN ENDURING LEGACY: PRICING RETURNS AS A TOP-LINE SALES DRIVER

It's not surprising to see the need to improve margin / profit as a driver of pricing strategies. In fact, most retailers have rated it as a top-three business challenge in every RSR pricing benchmark. However, this year, price is seen as a driver to improve top line sales far more than it was in prior years (Figure 4).

Figure 4: Attracting the Consumer with Pricing a New Top-Three Challenge



Source: RSR Research, January 2010

These pressures are not correlated to concerns over competitors' pricing like they were in the past. Retailers are less concerned about aggressive competitor prices than they are with overall spending patterns (of course, there are certainly exceptions to this rule, including the recent price wars on books and toys). While Walmart and other retailing giants may have seen some bump in sales from the down economy, the industry at large has been challenged to entice the consumer to shop. Aggregate spending is down. In 2008, the consumer was more price sensitive, but in 2009 it became a matter of inducing any discretionary spending at all. As we'll see in Figure 5 below, keeping up with competitor prices proves to be more of an *operational* business challenge than a strategic one.

Not surprisingly, laggards drive concerns about top line sales (65%) – after all, when sales are already weak, there isn't far lower to fall. Winners, on the other hand, worry more about consumer price sensitivity (57%).

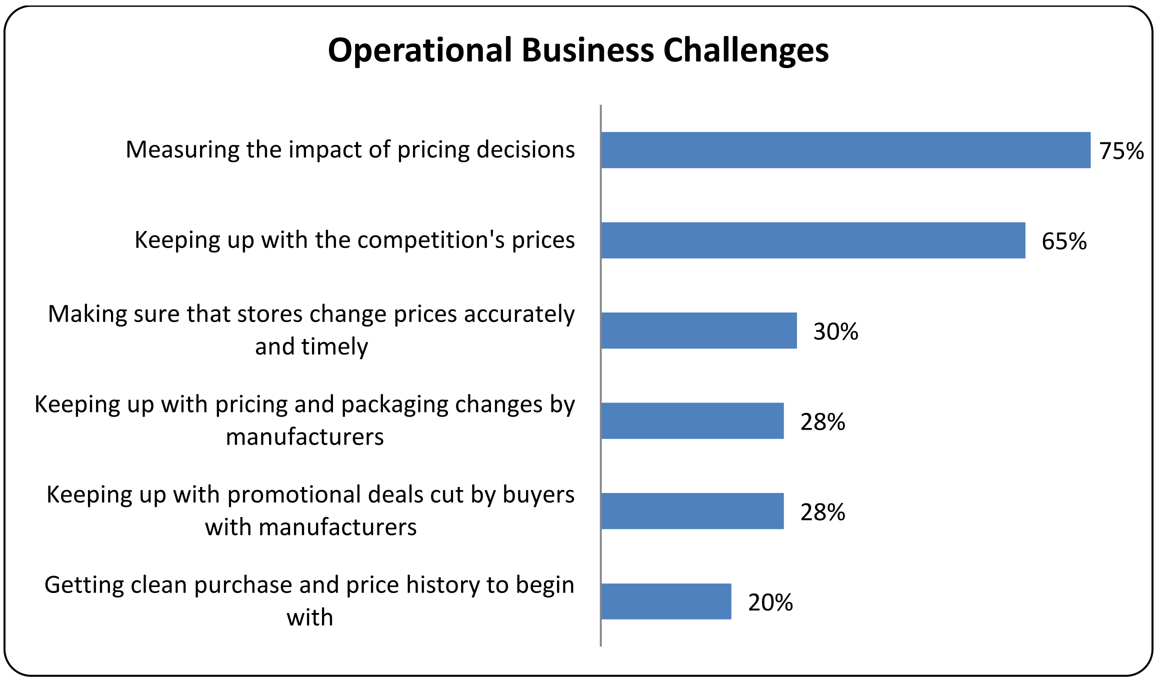
Looking at the data across retailing segments, we find large-box specialty stores, otherwise known as "category killers," most concerned about improving top line sales and gross margin (71% and 86%

respectively), retailers selling fast moving consumer goods most concerned about preserving gross margin (79%), and small box specialty stores, who are most typically the smallest retailers, almost universally concerned about their top line sales (92%).

RETAILERS CHALLENGED TO MEASURE THE IMPACT OF THEIR PRICING DECISIONS

We were surprised to discover how little retailers really understand the effects of their price strategies. Three-quarters of respondents cite measuring the impact of pricing decisions as a top-three operational challenge (Figure 5).

Figure 5: Retailers Can't Measure the Impact and Can't Keep Up



Source: RSR Research, January 2010

This problem is consistent across all segments, performance levels and revenue bands. *RSR believes the solution to this problem lies in improved near-real-time Business Intelligence*. Throughout 2009, consumer demand has remained uncertain and difficult to predict, but we expect it to stabilize in 2010. Price management and optimization tools will help set the best prices, but Business Intelligence can and should be used to evaluate the results of the pricing decisions retailers make.

CHALLENGED TO KEEP UP WITH THE JONESES

Operationally, the other major business challenge for retailers is clearly keeping apprised of competitors' prices. In fact, 88% of retailers surveyed report competitors' prices having at least some role in helping set prices. This is true across all performance levels and segments with the exception of Category Killers.

Category Killers rely on staying "close" on price, while quite literally killing the competition on assortment and convenience. However, the past two years has seen an inordinate number of Category Killer failures (Circuit City and Linens N Things in the US, and Barnes and Noble in the UK among others). As we mentioned above, surviving retailers in this segment are most concerned about top line sales and gross margin, as they struggle to differentiate from mass merchants and web-only sellers.

Challenged to Keep Up, Period

The final important group of operational business challenges retailers face in setting prices also revolves around “keeping up”: keeping up with their merchandise vendors, keeping up with promotional deals cut by the merchandising department, and keeping up in the stores by getting prices changed in a timely and accurate fashion.

Each of these challenges has its own solution and as we’ll see later in this document, retailers have begun to employ them. Most specifically, they report a desire to get more departments involved in the setting and changing of prices, and a need for improved task management to improve store compliance with price changes and promotional events.

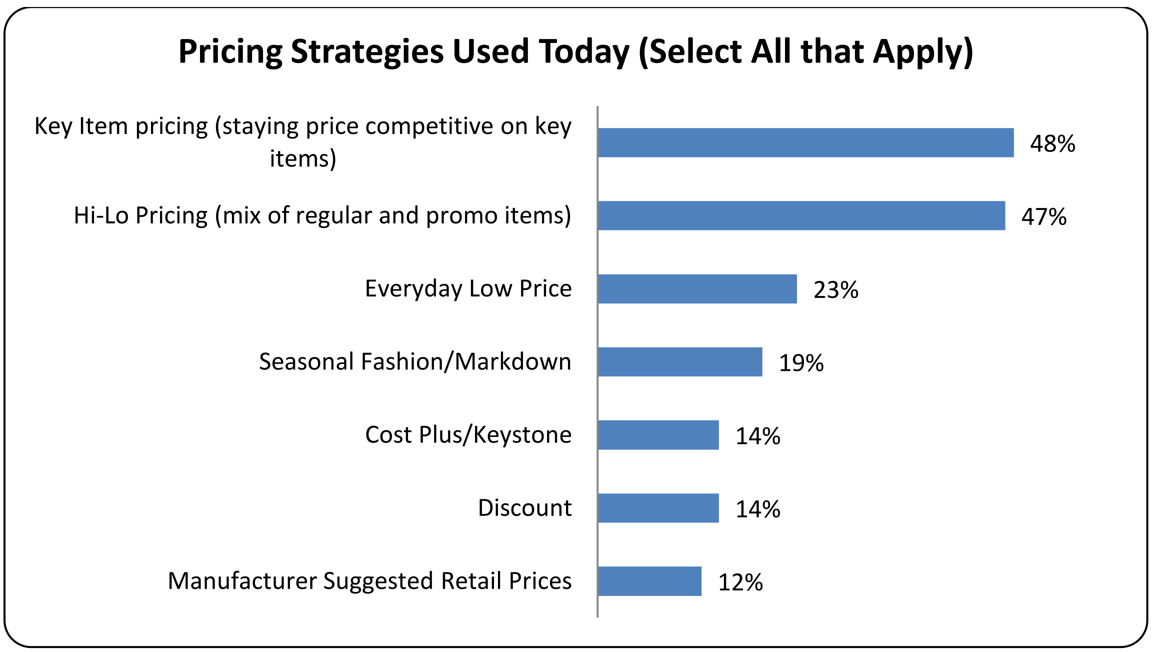
SECTION III: OPPORTUNITIES

WHAT DOES "GETTING BACK TO GOOD" LOOK LIKE?

Having just survived the worst crisis in seventy years, it's somewhat challenging for anyone to articulate what the future will look like. There is lots of talk about a "new normal," a permanent shift in values, and consumer spend patterns that look like an hourglass – with success at the high and low-end of the market, while mid-priced retailers continue to be squeezed by high unemployment. In other words, uncertainty still abounds.

Our retailers have put a stake in the ground, however. Hyper-promotional pricing, which grew in usage to 14% of respondents last year, has dropped to a negligible strategy. Instead, the most commonly used pricing strategies are key-item pricing and high-low (Figure 6).

Figure 6: A Judicious Mix of Pricing Strategies



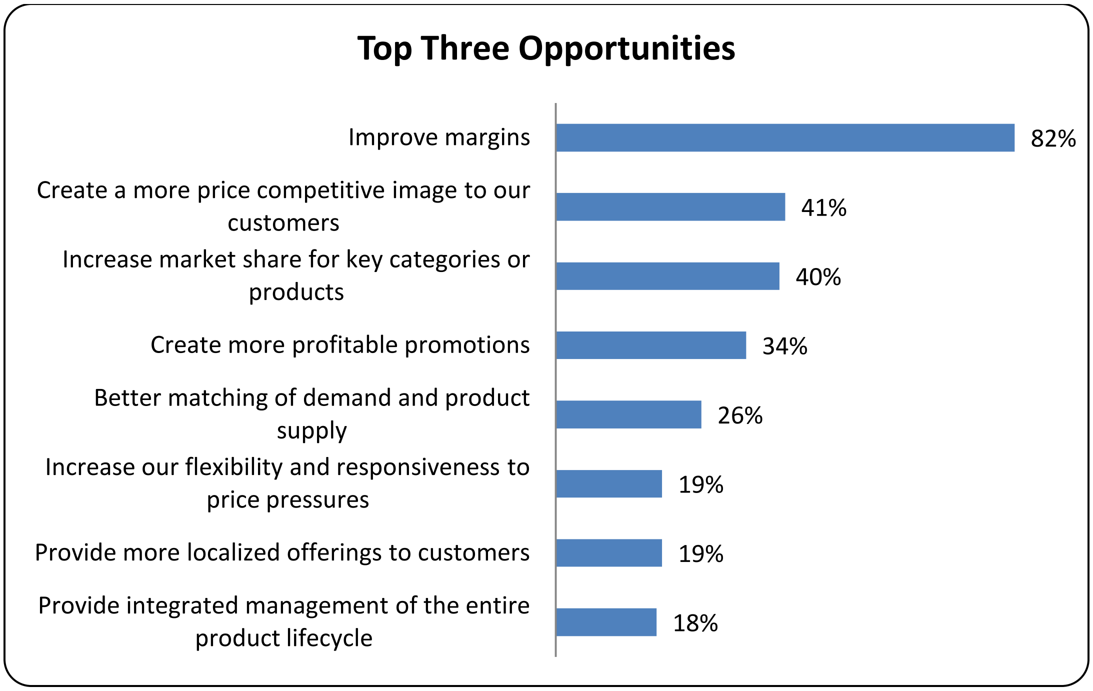
Source: RSR Research, January 2010

Everyday low pricing (EDLP) spiked in 2009 to 31%. While it is still used more frequently as a strategy than in was in 2008 (17%), RSR believes it will either stabilize or continue to decline as a strategy. Hi-lo pricing is more appealing to retailers and consumers alike, and by targeting these prices to consumers, can offer opportunities for localization of prices.

CONTINUING TO MILK MARGINS

Across all segments, performance levels, geographies and revenue levels retailers look to pricing as a means to improve gross margin. In the early 21st century, retailers looked to sourcing strategies like reverse auctions and bidding events as a bigger driver of gross margin dollars. Certainly, the continued shift to private label merchandise is still a large gross margin lever, but strategic pricing supported by technology is now recognized as an enormous opportunity (Figure 7).

Figure 7: Gross Margin, by Far the Most Important Opportunity



Source: RSR Research, January 2010

Once we get past the obvious however, interesting trends begin to emerge based on retail performance levels.

Laggards Seeking Change, Winners Pressing their Advantage

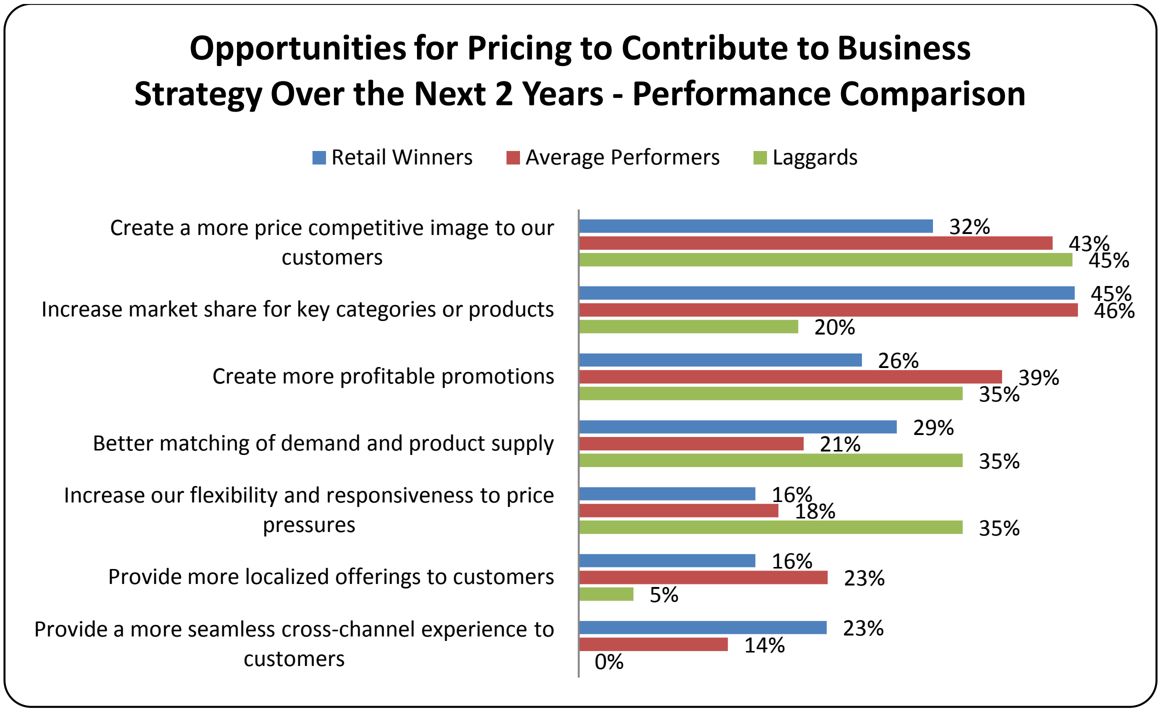
Those laggards that have survived the economic storm seem to be looking up and surveying the wreckage around them. This benchmark might well be the first time we've seen a shift in how they collectively perceive new opportunities. While they recognize they need to create a more price-competitive image to their customers and create more profitable promotions, they also believe pricing can help them improve their balance of supply and demand, as well as increase their flexibility to pricing pressures. This last is significant, as historically, a common trait of laggards was inflexibility and resistance to change.

Retail Winners are most interested in pressing their advantage, and increasing their market share for key categories and products. They, like laggards, are interested in improving their match of supply and demand. Unique to Winners, however, is the realization that pricing can be used to provide a more seamless cross-channel experience to customers. Laggards may have this concern as well, but it never makes it into their "top-three".

Average performers are aligned with Retail Winners in some areas, and Laggards in others. Like laggards, they are most interested in a more price competitive image and improving promotion profitability. They align with Winners, however, in their desire to increase market share for key categories or products.

RSR believes the two most significant data points in the set are Winners' growing recognition of pricing as a part of a consistent cross channel experience, and Laggards embracing the need for flexibility. While the other data points are interesting (and shown in Figure 8), those two represent the best possibility for change and future success.

Figure 8: Next Steps Differ Depending on Past Performance



Source: RSR Research, January 2010

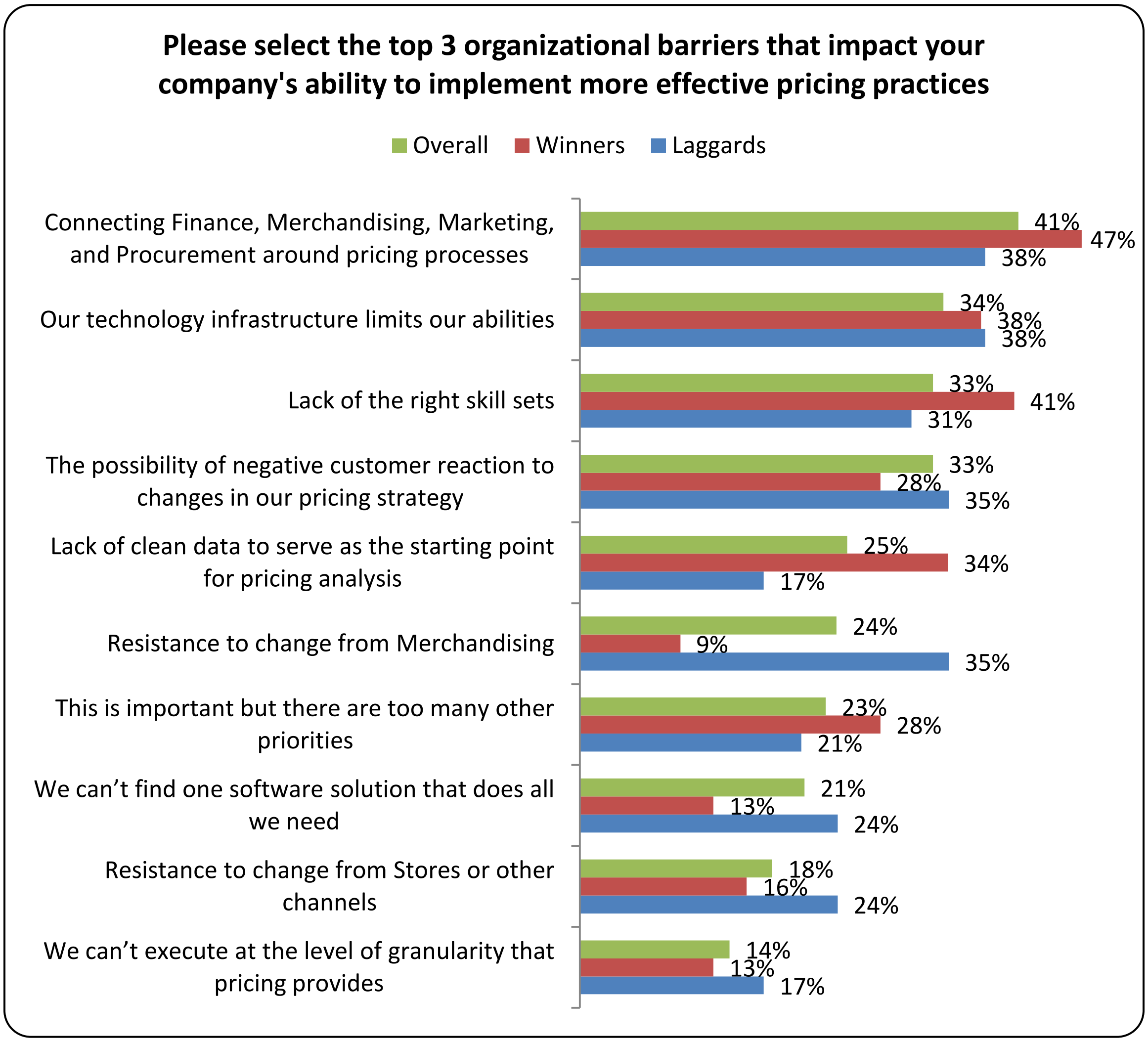
This answers the business side of the question, "What does 'getting back to good' look like?" However, organizational roadblocks remain that might prevent retailers from taking advantage of these opportunities. These roadblocks will be detailed on the following pages.

SECTION IV: ORGANIZATIONAL INHIBITORS

The Organization as the Inhibitor

The top three organizational inhibitors, according to survey respondents, are connecting Finance, Merchandising, Marketing, and Procurement around pricing processes, technology infrastructure limits, and a lack of the right skill sets (Figure 9).

Figure 9: Organizational Issues with a Side of Technology



Source: RSR Research, January 2010

While technology and skill sets have long been organizational inhibitors, cultural resistance, both from Merchandising and Store Operations has fallen in importance year after year. However, that does not mean that the issues that stem from organizational or cultural differences are behind us completely. As retailers continue to build maturity in price optimization and localization, they are increasingly seeking a more connected process to enable a cohesive price strategy from planning through execution.

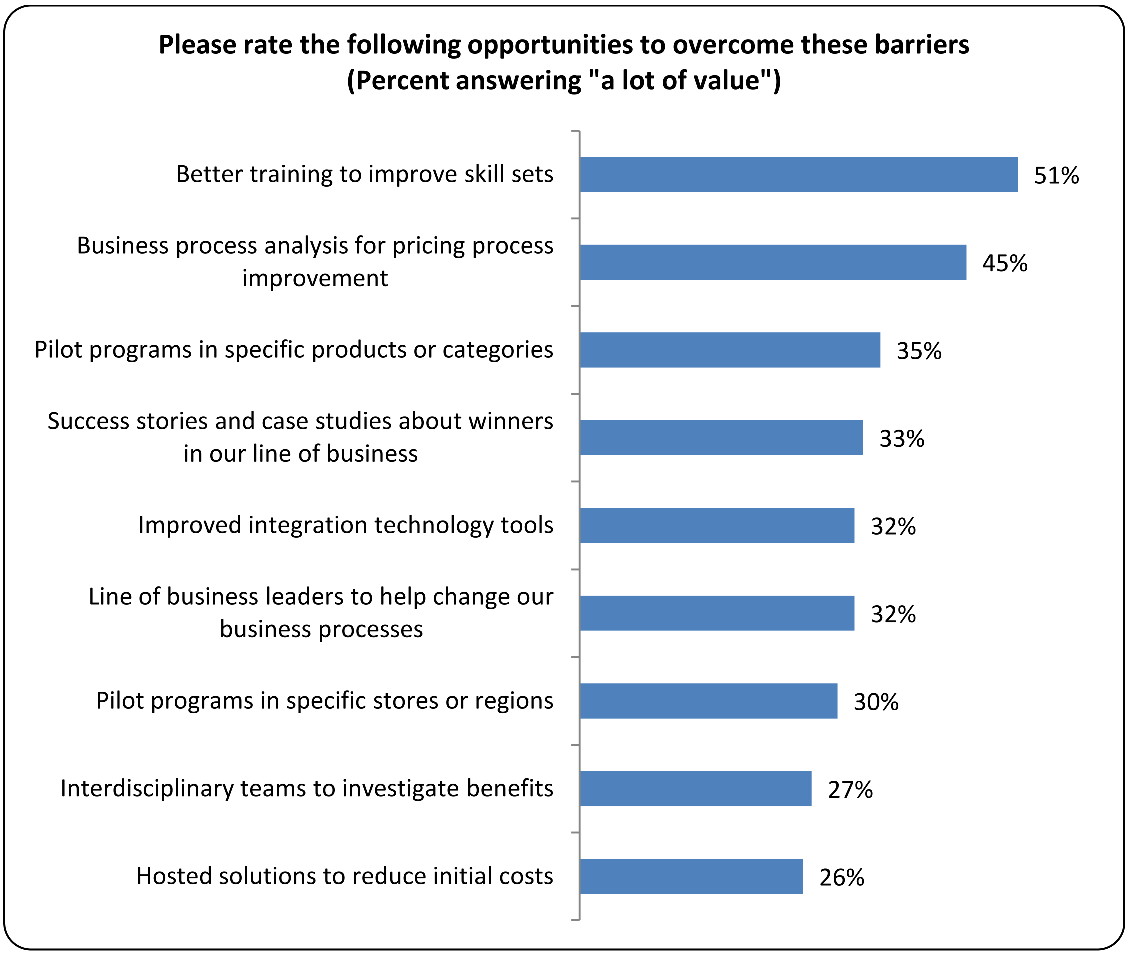
Unfortunately, for Laggards, the story of cultural resistance is not entirely over. With 35% of lagging retailers reporting resistance from Merchandising, vs. only 9% of winning retailers, and 24% reporting resistance from Store Operations vs. 16% of winning retailers, there is still a lot of work to be done to convince Laggards' internal constituents that price optimization is a winning strategy.

Winners, on the other hand, are much more focused on the top three issues than their peers, along with challenges around data cleanliness. Without the right process, the right technology, the right people, and the right data, they understand they will not achieve their pricing objectives.

The Right Process for the Right Price

When process is your top organizational inhibitor, it should come as no surprise that training and business process analysis top the list as opportunities to overcome those inhibitors (Figure 10).

Figure 10: Improving Skills and Process Trump Technology



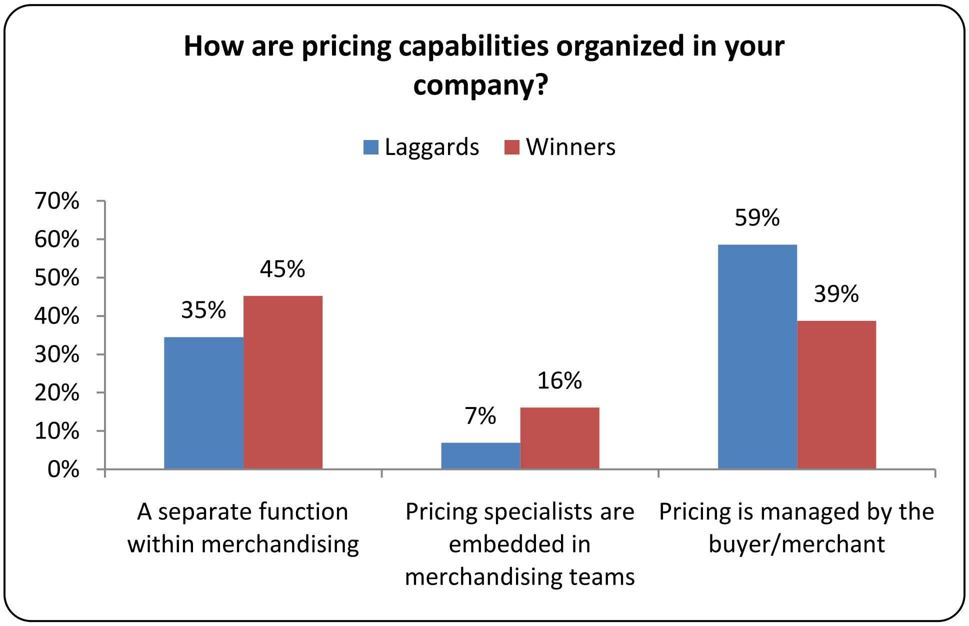
Source: RSR Research, January 2010

Addressing skill sets and process at the same time offers an even bigger opportunity than addressing each individually, as process design will, to some extent, drive training needs. Winners have placed more emphasis on defining the process first, with 55% rating business process analysis as a very valuable opportunity vs. 45% overall, making it their top opportunity. Laggards, on the other hand, are focused more on skill sets: 57% rate training a very valuable opportunity vs. 51% overall. Laggards also see more opportunity for technology to play a role, despite the fact that clean data or infrastructure issues were not as important to them as these issues were to Winners - 37% of laggards cite the need for improved integration tools, vs. 31% of winners.

THE RIGHT PLACE FOR THE RIGHT PROCESS

With process design and a process focus such a pricing priority, looking at how the pricing function is organized within the enterprise is very revealing. Overall, it is divided: Forty percent of survey respondents hold pricing as a separate function within merchandising, 52% ask the buyer or merchant to set and manage prices, and another 8% are embedding pricing analysts within merchandising teams. However, the differences by performance are stark (Figure 11).

Figure 11: An Evolution Away from Buyer-Driven Pricing



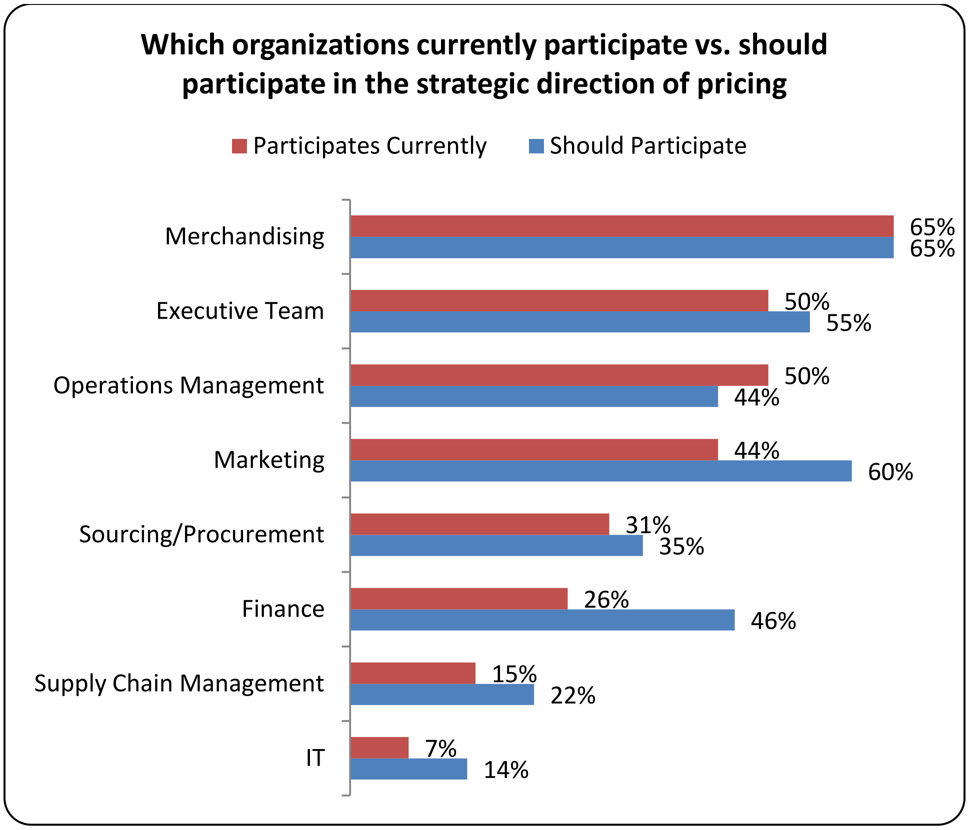
Source: RSR Research, January 2010

Winners are more inclined to keep a separate price function than laggards, who are more inclined to give the responsibility directly to the buyer. However, winners are also much more likely than peers to have pricing specialists embedded in merchandising teams. As category and customer knowledge become more important in managing a price strategy, having pricing specialists embedded in teams - or, at a minimum, assigned specific categories - seems to be a natural evolution. But with merchants holding on to the responsibility to begin with, it's no wonder that laggards have a much greater cultural issue than their peers - they must wrest pricing control from their buyers or merchants, whereas winners have already accomplished this.

THE RISE OF MARKETING AND FINANCE - AND THE DESCENT OF STORE OPERATIONS

When it comes to the impact of a process focus in pricing, nothing drives the issue home more than deciding who ought to be participating in pricing strategy. Winners have already removed control over pricing from the merchant, and seek a better process connection between merchandising, finance, marketing, and procurement. But whether a Winner or a laggard, retailers agree that marketing and finance in particular need to be involved in pricing decisions much more than they are today (Figure 12).

Figure 12: Cross-Function Coordination



Source: RSR Research, January 2010

What is fascinating is that **respondents feel that operations should be involved *less* than they are currently**. Taken together with the fact that the organizational challenge around executing prices falls near the very bottom of the list, it appears that price execution is not nearly as much of a concern as setting the right prices in the first place - and coordinating across all of the departments involved in contributing to the right price is critical.

The Customer, Not the Product

For retailers seeking to get back to stronger pricing and fewer discounts or promotions, this shift from merchant to more involvement from marketing is a critical one. It reflects the larger trend of a movement away from a product orientation in retail, to a customer one. Ironically, that does not mean more power for the stores - as survey respondents showed. ***While stores may once have been the heart of "local" expertise, they no longer have the best view into what is best for the customer***, thanks to cross-channel shopping and a wider view of customer behavior. They have become "too local," and retailers have learned that pricing is more a function of the brand than of the local competition per se.

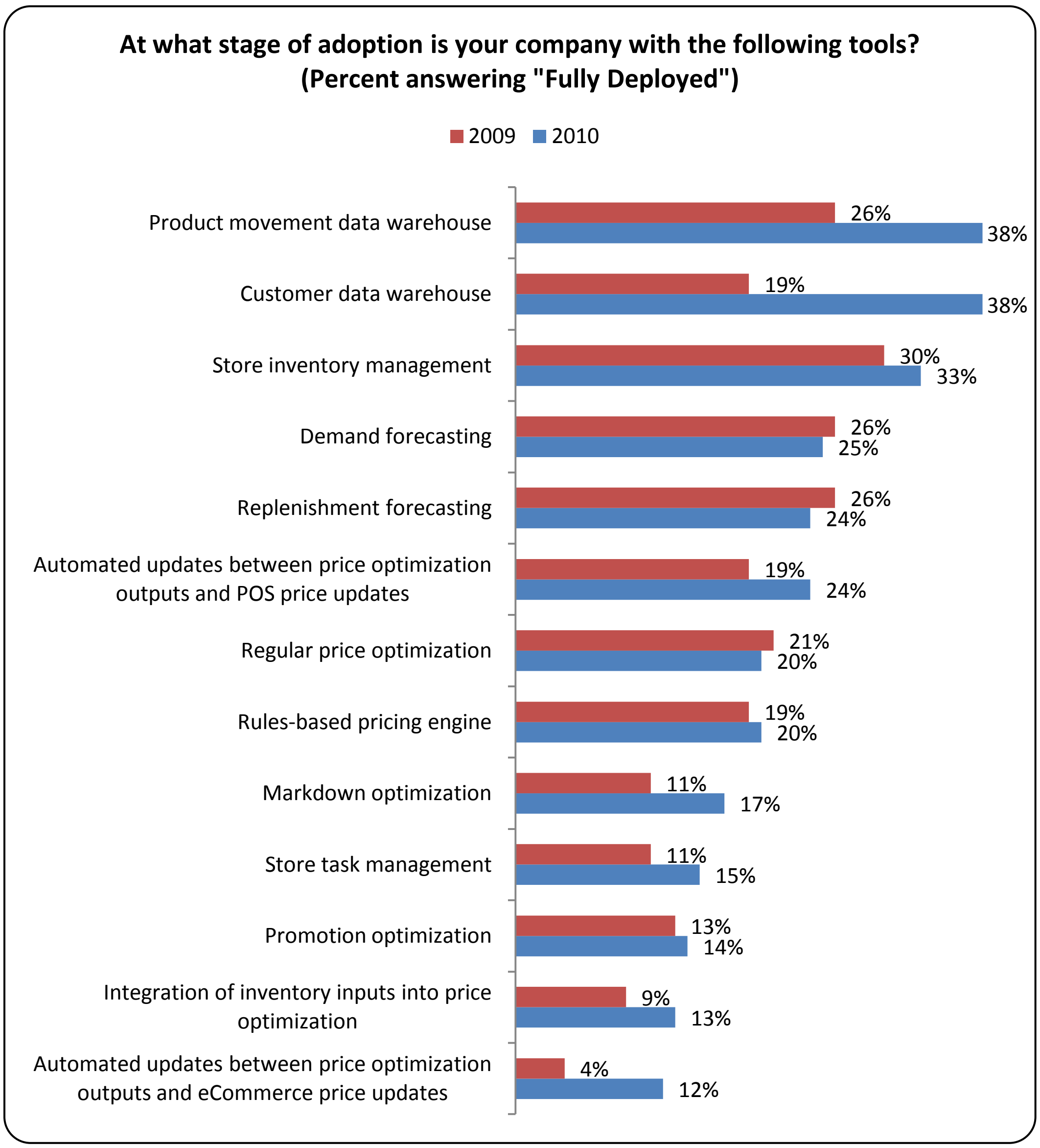
This is a remarkable transformation. Consider: at the beginning of the decade, Customer Centricity had hardly been uttered as a concept, let alone embraced by retailers. Yet, truly in the last five years, and through a stunningly painful economic contraction, retailers have not only embraced this concept, they have made significant internal changes to accommodate this new customer reality. The fact that retailers recognize that pricing isn't just a calculation tacked on the end of a purchase or a black-box function managed by math geeks, reflects a significant shift in a very short amount of time.

SECTION V: TECHNOLOGY ENABLERS

ACCELERATION CONFIRMED

At the beginning of 2009, retailers told RSR that one significant difference between the current economic downturn and previous ones was the continued and uninterrupted focus on technology investments. In fact, not only were projects continued that focused on customer insights, or on providing flexibility to respond quickly to the rapidly deteriorating environment, some focused projects in these areas were accelerated. This can be seen in comparing year-over-year adoption figures for pricing-related technologies (Figure 13).

Figure 13: A Lot of Progress



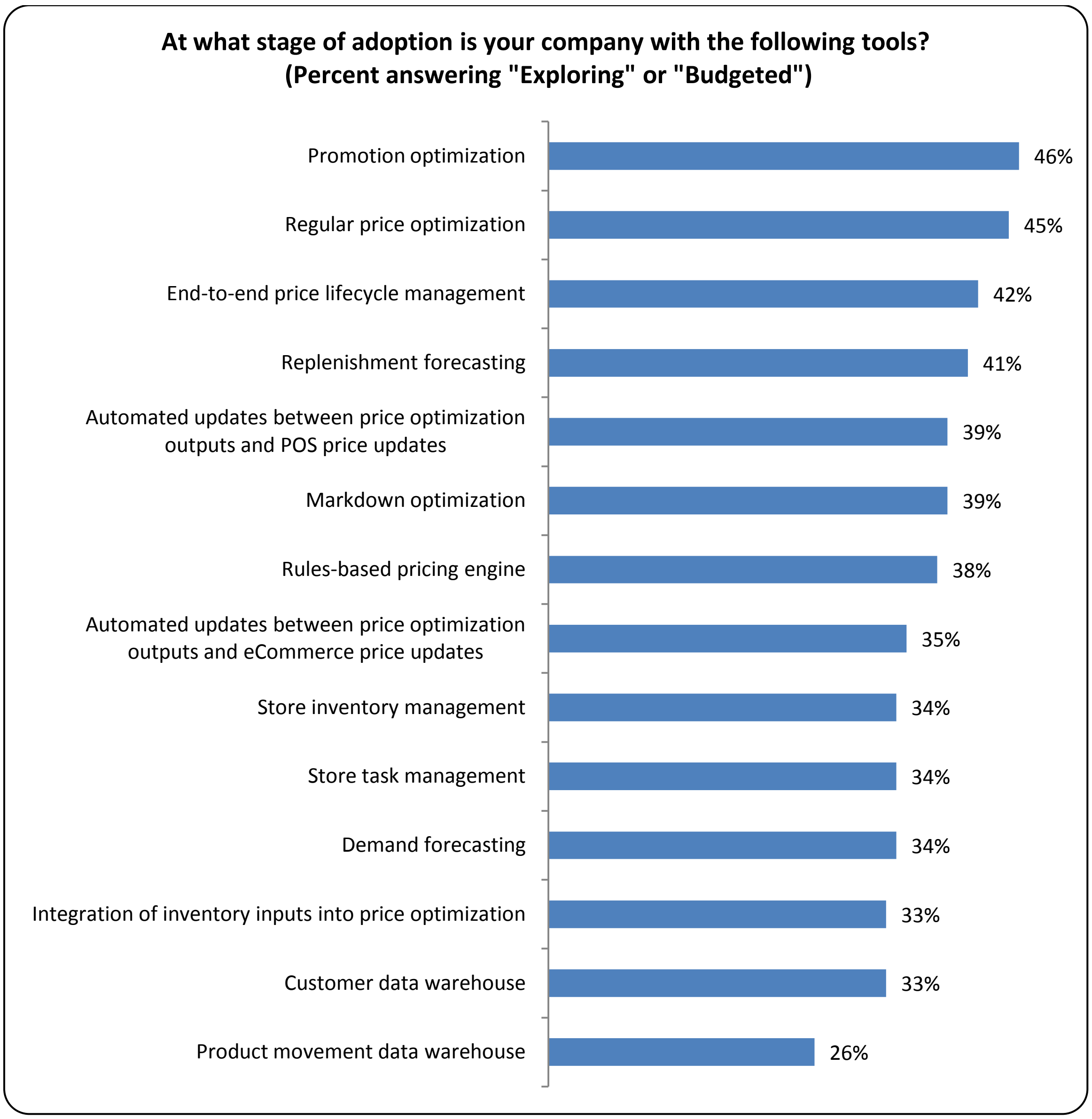
Source: RSR Research, January 2010

In fact, in several areas, last year's budgeted adoption plans match this year's increase in adoption, particularly around customer data warehouse, store inventory management, and updates between price optimization outputs and POS price updates. This is not at all representative of how RSR has seen investments play out across other areas of the business, particularly merchandise planning, which saw significant delays in technology investments in 2009.

Keeping a Focus on the Core

However, even given the progress made, there are still a lot of future plans centered on improving core capabilities within a pricing process, particularly promotion optimization, regular price optimization, and more comprehensively, end-to-end price lifecycle management (Figure 14).

Figure 14: Future Plans Continue to Focus on Core Capabilities



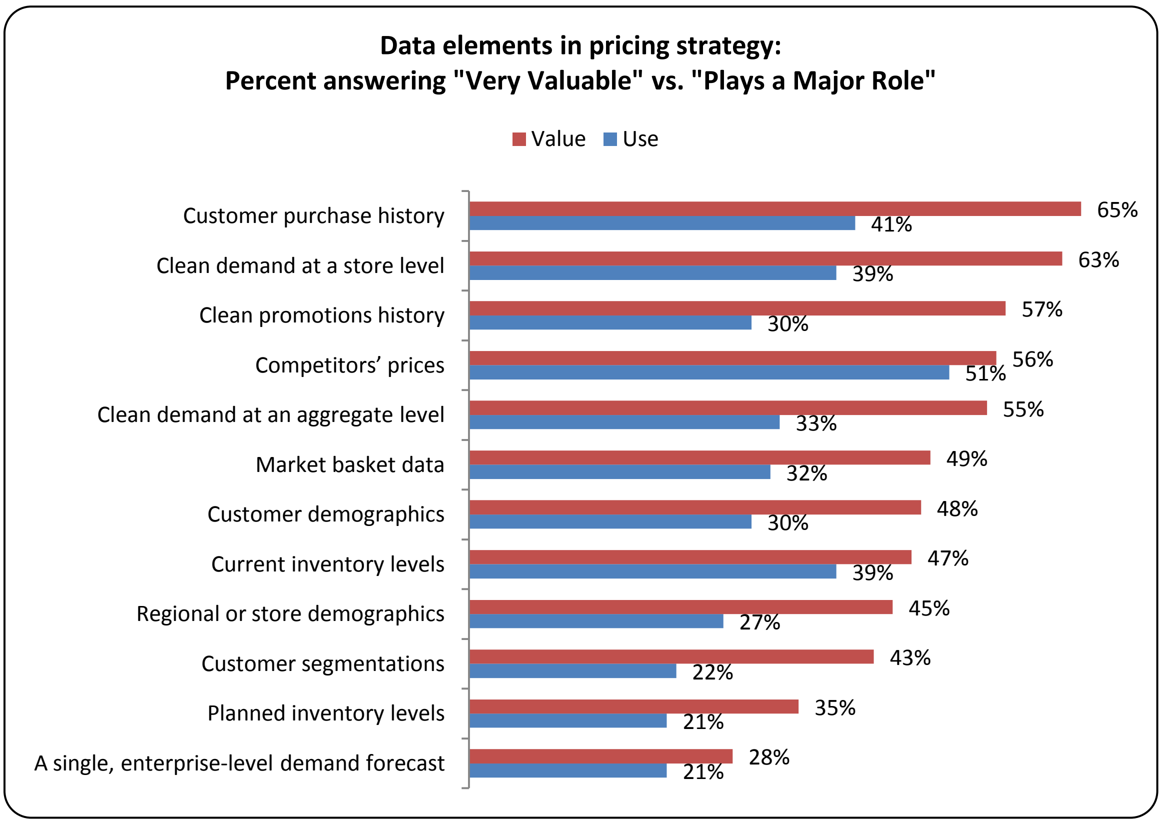
Source: RSR Research, January 2010

With so much work still to be done to support "core" pricing capabilities, there is also a lot of work to yet to be done integrating these capabilities into other parts of the business, for example, inventory inputs into the pricing process - a critical step in ensuring that price strategies are focused on items that have the greatest inventory impact (or at a minimum, will actually be available at an optimized price).

Changing Data Priorities

Data elements used as inputs into pricing strategies reflect the work that lies ahead. According to survey respondents, the gap between perceived value afforded by using customer purchase history vs. the percent of respondents who report that the data actually plays a major role in their process today is enormous (Figure 15). As long as these gaps between value and use exist, there will still be work needed to maximize the value of pricing tools and technologies.

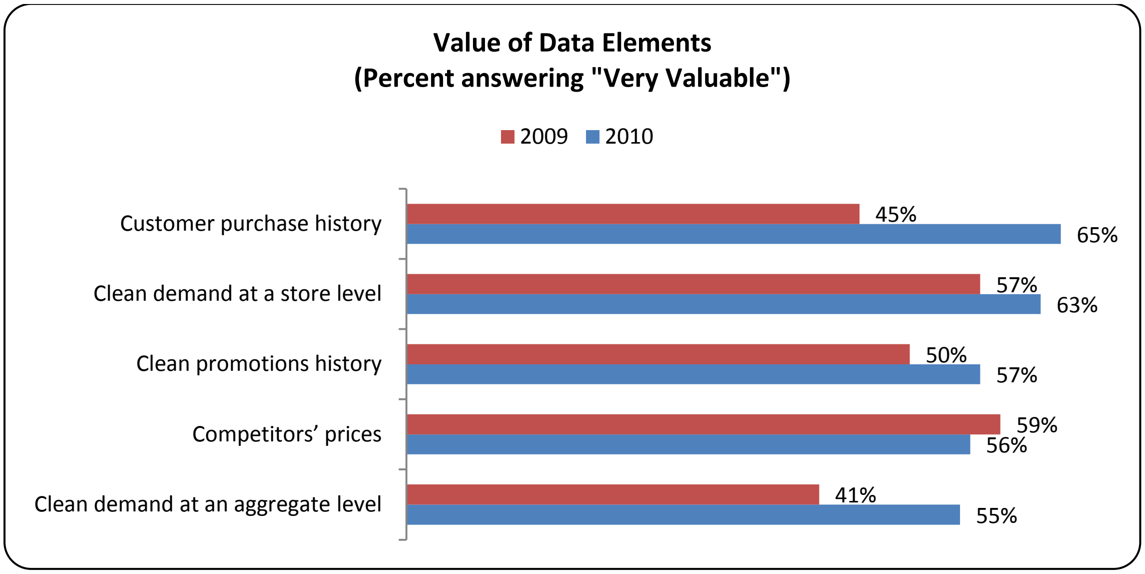
Figure 15: Quality Inputs Yield Quality Outputs



Source: RSR Research, January 2010

However, as pricing capabilities have matured, the relative importance of different data elements has shifted significantly (Figure 16).

Figure 16: Data Demanded by the Technology



Source: RSR Research, January 2010

It appears that as retailers increase their reliance and trust on price optimization solutions, their dependency on certain types of data increase, while others decrease. Most interesting is a decrease in their reliance on competitors' prices. As we noted above, competitive parity increasingly becomes an operational issue, rather than a strategic one. However, customer purchase history, clean promotions history, and clean demand have all become significantly more important to survey respondents.

Rounding a Corner

It is not just the economy that appears to be rounding a corner in 2010. Retailers used the uncertainty in consumer spending habits to adjust their strategies away from a reliance on product movement forecasts, to an alignment between product movement inputs and demand-shaping opportunities via prices. This evolution is by no means complete, as adoption intentions show. As retailers move from optimizing prices to optimizing the process for setting and changing processes, there is a lot of opportunity yet to be realized in price optimization.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

BUILDING A "PRICING PROCESS"

One clear result of this year's research is that pricing is no longer simply a capability - a calculation. It is a process, one that requires a strategy spanning from planning through execution. It's a cross-functional process, reliant not just on merchandising, but also on finance, marketing, supply chain, and store operations. It's not just a driver of margin, it is integral in the brand promise that a retailer makes to customers. As such, it should not be treated as the tail-end of merchandising. To ensure a strong pricing process:

WHOEVER NEGOTIATES VENDOR DEALS SHOULD NOT NECESSARILY BE SETTING PRICES

A significant portion of Laggards have not yet wrested control of pricing out of merchants' hands and into a pricing capability, and they suffer the most in terms of getting pricing capabilities accepted internally. But just as stores no longer have the best view into local customer needs, merchants no longer necessarily have the best view into demand - this isn't about product forecasts, it's about customer insights.

DEFINE SOME BASELINE METRICS FOR MEASURING THE IMPACT OF PRICING DECISIONS

From this year's survey results, retailers have shown a strong interest in building better pricing processes - processes that reach beyond merchandising into other parts of the organization, particularly finance and marketing. However, one important aspect of good process design is to define some metrics that you want to impact as part of the process, baseline those metrics, and then pursue process changes. Otherwise, you won't know if your changes have increased your effectiveness. What metrics would those be? They might very well be purely operational, rather than results-oriented. For example, what percent of items that had optimized promotions developed for them had marketing department input? What percent of promotion decisions used customer purchase history and analysis as the basis for setting the promotion price?

INVEST IN PRICING BI

A corollary to defining process metrics is a clear need for more business intelligence and analytics related to measuring the impact of pricing decisions. Whether a technology or capability is in vogue or not, every investment needs to be able to prove its worth, and pricing is no exception. Additionally, insights about what's working and what isn't become the basis for future process improvements.

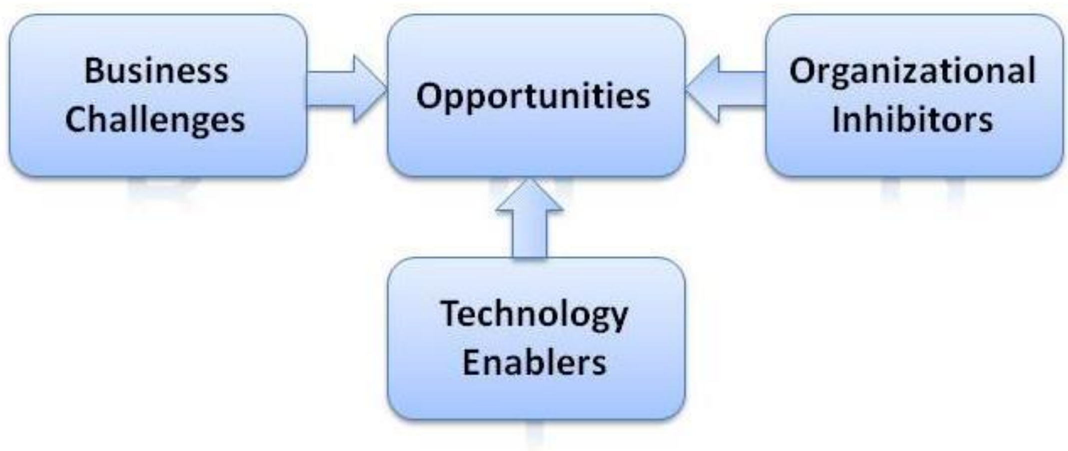
Price optimization received a lot of attention for the quick results it could drive in the business. However, it increasingly is receiving recognition as a strategy that can both reshape retail organizations, and increase the flexibility that retailers have in meeting customer needs. That promises a lot of "good" around the corner for retailers and consumers alike.

APPENDIX A: THE BOOT 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

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, and thought leadership and advice on navigating these challenges for specific companies and the industry at large. RSR's services include benchmark reports covering the state of retailer technology adoption for topics ranging from merchandising and supply chain, store operations and workforce management, to customer-facing and multi-channel technologies. Custom research reports provide more in-depth views into topics of industry interest, and advisory services help retailers and technology vendors make the most of the insights RSR provides. To learn more about RSR, visit www.rsrresearch.com.