THE STATE OF RETAIL: KEY INVESTMENTS & GROWTH PRIORITIES FOR 2016

retail TouchPoints
WHITE PAPER

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TABLE OF CONTENTS

INTRODUCTION

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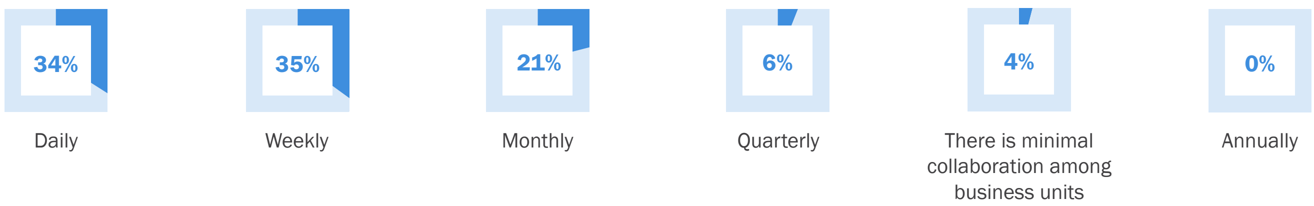
OVER THE PAST 12 MONTHS, RETAILERS HAVE DODGED NUMEROUS OBSTACLES THAT COULD HAVE PUT THEIR PRODUCTIVITY AND OVERALL FISCAL HEALTH PRODUCTIVITY AT RISK.

Consumer sentiment has undoubtedly improved, leading to a year-over-year increase in retail sales — especially during the holiday season. However, the global economy is still volatile, which is making shopping behaviors and retail sales moving targets.

At the same time, retailers have had to keep pace with customer expectations, which are constantly shape-shifting with the emergence of new tools, apps and services. Even disruptive organizations such as Netflix, Airbnb and Uber have raised the bar on customer experience. Although they are not retailers in the traditional sense, they are giving customers more control over their experiences, and are fueling their desire for personalized anytime, anywhere service.

How often do your business units collaborate within your organization today?



As a result, retailers are tasked to create more seamless, relevant and tailored experiences, while tackling their own internal health challenges. For example, they are tasked to improve internal collaboration, optimize omnichannel operations and accelerate growth, all while pleasing their boards of directors.

For the second year, UXC Eclipse has commissioned *Retail TouchPoints* to take the temperature of today's market and see how retailers are keeping pace with these new industry trends and business imperatives. For the ***The State of Retail Survey***, we asked retail executives to not only share their growth projections for 2016, but also their key IT investments, internal practices, and their overall confidence with the health of their current systems and strategies.

Tapping into a wide variety of executive titles and retail brands, this survey report touches on several hot-button topics, including:

BI/Analytics

Omnichannel Fulfillment

PCI Compliance/Payment Security

International Expansion

Mobile Engagement

Sustainability & Charitable Giving

With all of these different elements at play — and new touch points constantly emerging — retailers need to ensure their businesses are running like well-oiled machines. To do so, they are collaborating across different business units on a weekly, or even daily basis. By breaking down these business boundaries, retailers are trying to get a better view of their strategies and tech investments and, in the end, make smarter decisions that lead to more delightful shopping experiences.

RETAILERS THINK BEYOND STORE COUNT TO REACH GROWTH OBJECTIVES

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THROUGH 2015, THE BULK OF OUR RESPONDENTS (53%) SAID THEY WERE PROJECTED TO GROW BETWEEN 10% AND 50%. As a result, their top organizational priorities have revolved around supporting their corporate business goals and initiatives.

That doesn't mean retailers' journey to growth and business success has been easy. In fact, 56% of retailers said their top organizational priority was better managing financial challenges.

Is your company budgeted to grow this year?

Which of the following organizational priorities are most important for your business today?

(Each response is ranked on a scale of 1-7, 1 being most important. Results reflect respondents that ranked each item 1 or 2.)

RETAILERS THINK BEYOND STORE COUNT TO REACH GROWTH OBJECTIVES

Rather than spending more time and manpower on increasing their store count, most retailers realize they need to make smarter, more strategic decisions around optimizing their omnichannel experiences and operations.

Walmart, the world's largest retailer, is streamlining its brick-and-mortar operations and reallocating resources towards e-Commerce and omnichannel practices. Shortly after CEO Doug McMillon said the company would review global operations and close underperforming stores, **Walmart representatives revealed** that the retailer would be shuttering its Walmart Express format, as well as 269 stores around the world.

Legendary department store chain ***Macy's*** is also making changes to its business. Due to poor financial results in 2015, the retailer is **closing 40 locations** — 36 of which will be closed in early spring 2016. However, Macy's representatives say the closures will lead to significant cost savings, allowing the retailer to further invest in omnichannel capabilities for both Macy's and Bloomingdale's.

Please describe your global commerce efforts over the past year.

(Select all that apply.)

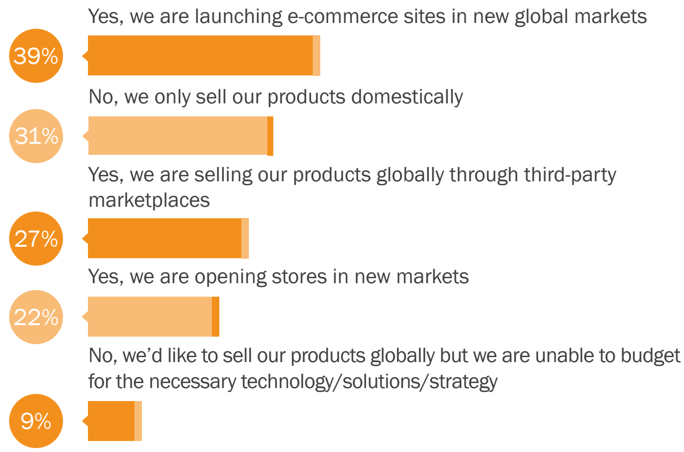
Even Amazon has increased its fulfillment center count and experimented with different store formats to place a stake in omnichannel ground. For example, Amazon opened a pick-up and drop-off location on the campus of **Purdue University** in West Lafayette, Indiana. In the store, students can order textbooks, laptops and even groceries. The online giant has also opened a bookstore at **University Village** in Seattle, Washington. Although Amazon has kept mum, reports point to new job listings for Amazon Books, the division responsible for the Seattle location, which means more store locations may be on the way.

These developments confirm the store is not going away. If anything, retailers realize that to be successful, they need both a store network as well as a strong online presence. Omnichannel, or bricks-and-clicks, is the new reality, and retailers cannot meet their growth objectives unless they do business across all channels.

Retailers' desire to make smarter omnichannel business decisions aligns with our survey results. While only 24% of retailers said they opened stores in new markets over the past year, nearly twice as many (41%) said they launched e-Commerce sites in new global markets. Launching internal e-Commerce sites is a powerful mechanism to expand into new markets, connect with global shoppers and increase brand awareness with minimal investment. Retailers can use performance data from these web sites to understand their impact on a global scale and refine their omnichannel strategies accordingly.

Are you expanding your global commerce efforts through 2016?

(Select all that apply.)



Over the next year, retailers plan to focus on expanding their operations globally and better connecting with shoppers around the world.

But as noted earlier, the most time and investment will be allotted towards e-Commerce. The primary reason for this digital focus could be the rapid growth of the global e-Commerce market: By the end of 2014, retail e-Commerce sales worldwide reached $1.3 trillion, according to **eMarketer**. At the end of 2018, sales totals are expected to reach $2.5 trillion.

There are other factors that also make e-Commerce an optimal expansion channel. For one, it takes less time, manpower and financial capital to develop international e-Commerce sites than to open a flagship store overseas. You can also tailor online shopping experiences, content and imagery based on local preferences and customs — in an efficient and scalable way.

Better yet: retailers have access to a variety of digital tools and apps designed to help them improve their e-Commerce sites. They can track the products customers click on, the offers they redeem, and the number of pages they click to during each shopping visit. All of this data can be turned into valuable insight that will help retailers better understand the unique behaviors and preferences of their shoppers and improve their experiences.

MERGERS & ACQUISITIONS BECOME THE NORM

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IT IS CLEAR THAT RETAILERS WANT TO EXPAND THEIR PRESENCE AND CUSTOMER BASE ACROSS ALL CHANNELS AND COUNTRIES. But at the same time, they realize that they need to be smart with their investments and should not dive headfirst into initiatives that they don't know are profitable.

CVS Health, Hudson's Bay, Kroger, Nordstrom and Walgreens, are among a slew of retailers that have expanded their businesses and improved their industry positioning by merging and/or acquiring retailers.

In some cases, retailers find value in acquiring or merging with competing retailers. A great example of this is **CVS Health's acquisition** of Target's pharmacy and clinic businesses. As part of the $1.9 billion transaction, CVS Health will operate Target's 1,672 pharmacies through a store-within-a-store format. Additionally, Target's clinic locations will be rebranded as Minute Clinic. The acquisition was announced in December 2015 and CVS Health hopes to complete the transition by August 2016.

Others however, will benefit from acquiring smaller brands that have cutting-edge business practices, strong brand positioning, innovative technology and a quality executive team that they can benefit from having on board. For example, **Hudson's Bay recently acquired Gilt Groupe** for $250 million in cash. Gilt will be folded into Saks Fifth Avenue and will operate online as part of Saks OFF 5TH. There will also be Gilt store concepts included in Saks OFF 5TH locations, according to a company press release.

What growth areas will your company be focusing on over the next 12 to 24 months?

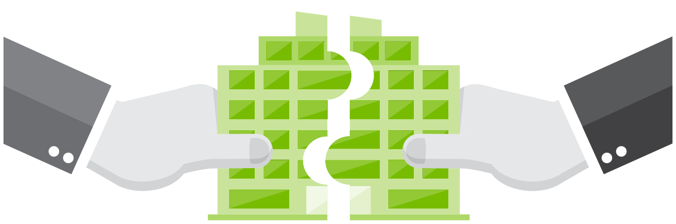
(Each response is ranked on a scale of 1-7, 1 being most important. Results reflect respondents that ranked each item 1 or 2.)

Up to 45% of our survey respondents are taking note of these headline-stealing business deals and, as a result, plan to investigate merger and acquisition opportunities. This is a stark increase over last year's installment, when only 33% of retailers were considering mergers and acquisitions as a key business opportunity.

If retailers are thinking about absorbing another business, they need to think critically about whether the other company aligns with the core brand story and values, and if the deal will make sense to consumers. Technology and infrastructure are also important factors to consider. Attempting to merge systems and/or migrate information into an existing environment can be quite costly — especially if the two companies have large, complex infrastructures. Conversely, smaller brands are more likely to not have a lot of systems in place. Although it may be easier to integrate their operations, the acquired retailer may not have as much data, its infrastructure may not be as powerful, and they may not have as many team members to bring to the organization.

How is the current economic climate affecting your business strategies?

(Select all that apply.)

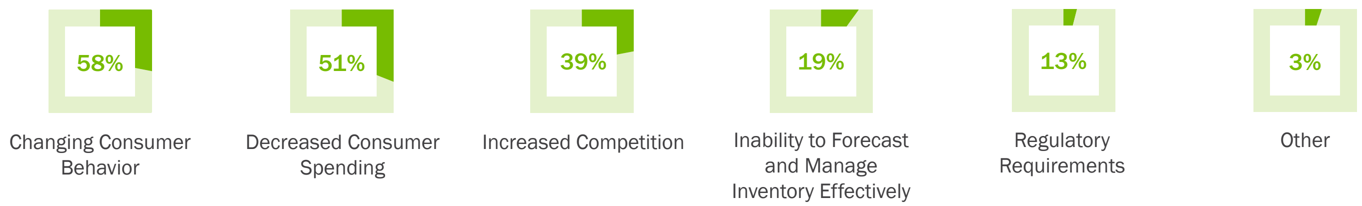


Retailers are realizing new growth opportunities and are researching their options for expansion but internal and external challenges remain.

The most significant challenges come from an ever-present, yet invaluable source: the shopper. Retailers rely on customers to survive but 58% said shifting shopper preferences and behaviors were plaguing their businesses. It is undeniable that consumer behaviors are constantly shifting, leaving retailers constantly tasked with "catching up" and refining strategies to meet demands and expectations.

What external factors are preventing your company from achieving key business goals?

(Select all that apply.)



Additionally, 9% more retailers this year said "decreased consumer spending" was an issue for them. This is an interesting point, considering the fact that the U.S. consumer sentiment — and the job market — has improved significantly over the past 12 months. The **National Retail Federation** (NRF) also indicated that total retail sales for the 2015 holiday season reached $626.1 billion — a 3% increase over 2014. And in 2016, the NRF also predicts that retail sales will improve by 3.1% over 2015.

When combined, all of these data points point to one hard truth: Consumers have money to spend, but not all retailers are creating great experiences that make them want to spend money with them. The key to winning customer attention, retention and loyalty is to appeal to customers across all channels.

Internal issues were also present in 2015, preventing retailers from reaching their quarterly and annual goals. Like our 2014 survey, collaboration was a challenge for the majority of our respondents. This will undoubtedly remain as retailers work to break down organizational silos and capture a more comprehensive picture of their customers, marketing tactics, engagement strategies and other areas of the business.

Beyond collaboration, there were some interesting shifts in top internal challenges. For example, in 2014, IT issues were cited by 47% of respondents. This year only 35% said it was an issue. Evidently, retailers are also prioritizing goals and initiatives more effectively (44% in 2014 vs. 39% in 2015).

What internal factors are preventing your company from achieving key business goals?

(Select all that apply.)

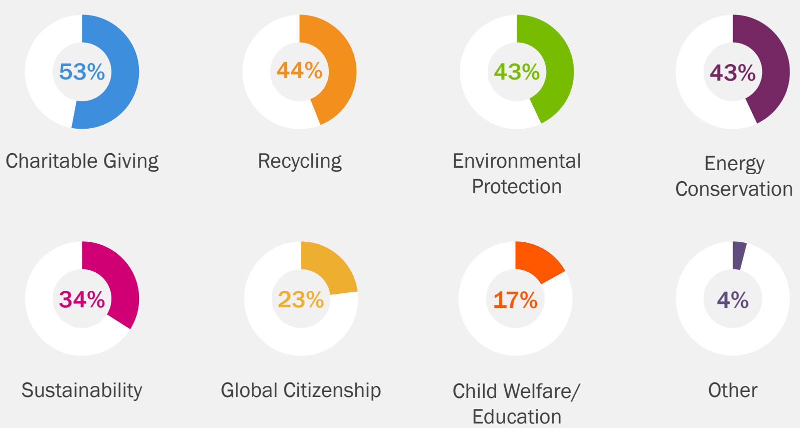
It is clear that internal challenges and obstacles will always be present. But the top priority for retailers as they go through 2016 is to better understand shoppers and the types of products and shopping experiences they demand across all channels.

SUSTAINABILITY & CHARITABLE GIVING HELP RETAILERS DIFFERENTIATE

A VARIETY OF RETAILERS, SUCH AS LUSH, TOMS AND MICROSOFT, ARE COMMITTING TO THE GREATER GOOD BY INVESTING IN SUSTAINABILITY AND CHARITABLE GIVING. How retailers approach their initiatives can vary significantly based on their category, target audience and other factors.

However, it is clear that retailers are taking notice of these innovative brands and are investing in their own strategies.

Which environmental and charitable initiatives are in place at your company?
(Select all that apply.)



Want to learn more about how global brands are embracing social good and sustainability to improve their business practices and drive customer loyalty? Download this **brief** to learn more!

RETAILERS STRIVE TO OPTIMIZE BI & ANALYTICS

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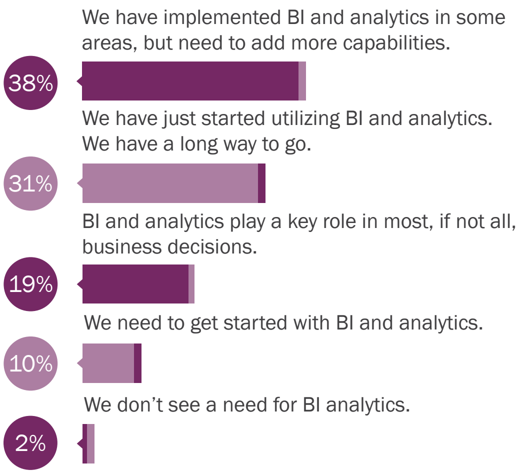
RETAILERS ARE COLLECTING MORE DATA THAN EVER BEFORE. AS THEY IMPLEMENT NEW TECHNOLOGIES — SUCH AS MOBILE APPS AND BEACONS — THEIR SEA OF DATA GROWS. Now they're focusing on how to leverage that data effectively, making data collection and analysis retailers' top strategic focus.

For our 2014 installment, mobile was undoubtedly the shining star in the retail tech universe; 43% of our retail respondents said it was their top priority, higher than all other technologies and goals. This year, mobile dropped significantly, garnering only 25% of responses.

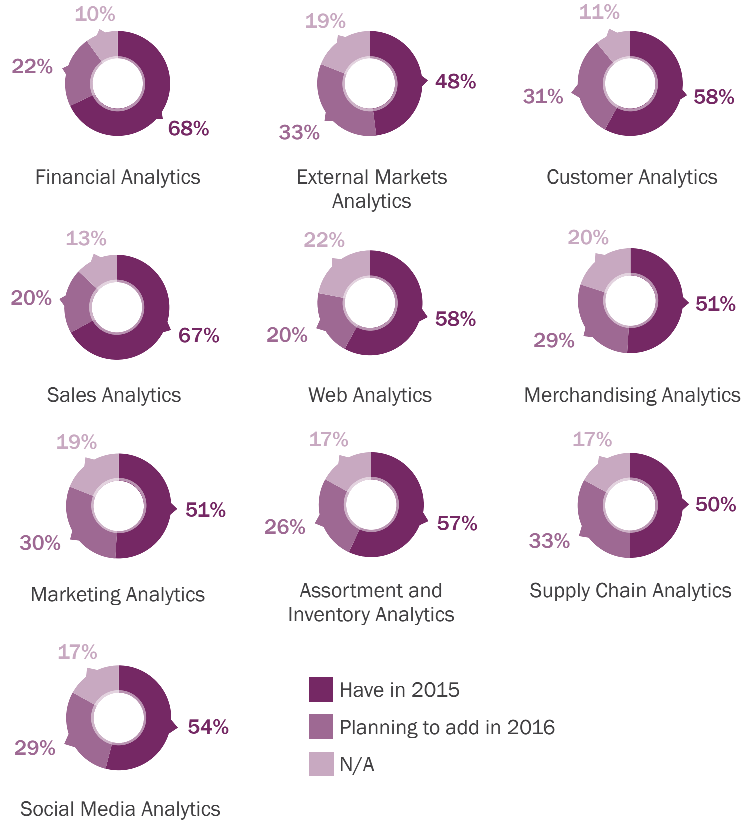
Instead, retailers are focusing more time, manpower and money on honing their marketing, promotions and sales strategies. These findings point to several possible implications. For one, retailers may have ramped up their mobile investments in 2014, thus leading to their shift in focus for 2015. However, it is also possible that retailers are in the mode of "getting back to business basics." When they focus on collecting and interpreting customer and business data, they can better understand their shoppers and, in turn, improve their marketing, promotions and customer service strategies.

What key areas have you become strategically more involved in over the past year?
(Select all that apply.)

How would you rate your business' maturity in the area of business intelligence and analytics?



What types of analytics are you using?



For years, retailers have been able to collect valuable information about their customers through POS data, branded credit cards and customer loyalty accounts. But as retailers have expanded their businesses across channels, they have acquired even more data about their customers — from the products they buy, to the stores they visit, categories they shop on the e-Commerce site, the social accounts they follow, the social feedback they share, and so much more.

Despite having an abundance of data to work with, this information is still siloed in different systems and departments. As a result, retailers are struggling to aggregate this data in one central system, analyze it and use it to their advantage. These struggles show why only 19% of retailers say business intelligence and analytics play a key role in most, if not all, business decisions.

Overall, our survey results indicate that retailers have implemented BI and analytics in some areas or that they are just starting to make sense out of all the data they have.

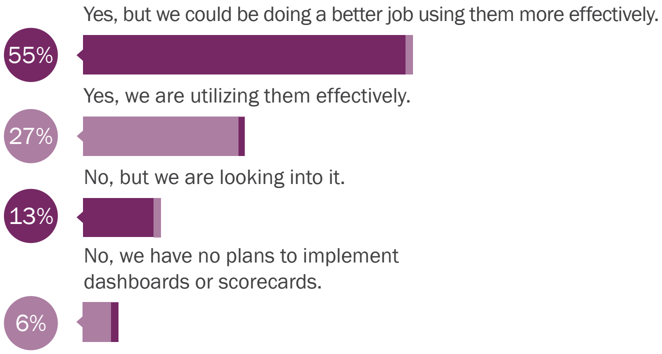
To truly become data-driven organizations, retailers need to break down organizational silos and aggregate all pertinent data in one readily accessible location. Most of all, they need to have the tools and systems in place to analyze this information, mine valuable insights, and respond quickly and efficiently.

Retailers' increased focus on BI and analytics is confirmed by their current use of dashboards and scorecards — and their goals for the future. Most respondents said they have dashboards and scorecards, but they need to learn how to use them better. While collecting data and information is an important first step, there's no point in having that data unless you identify and measure the most important metrics, and apply it to your business effectively.

Surprisingly, these results are consistent with our 2014 installment, where 56% of respondents said they should be using dashboards and scorecards better. Retailers have spent a lot of time and money implementing the hottest tools and technologies but Big Data is still a looming issue that all retailers are still struggling to address.

In fact, 41% of retailers are currently using their dashboards and scorecards to look at key performance indicators and financial information. This shows that retailers are more reactive than proactive in their approach. True data-driven organizations don't just look at information and make changes as soon as they can, sometimes within a few days, weeks or months. Rather, they use data to predict future outcomes, which allows them to be more effective in their marketing, merchandising and engagement strategies.

Are you using dashboards or scorecards today?



Which business goals are you focusing on in your dashboards?

(Select all that apply.)

POS & MARKETING ACQUIRE LARGER SHARE OF BUDGETS

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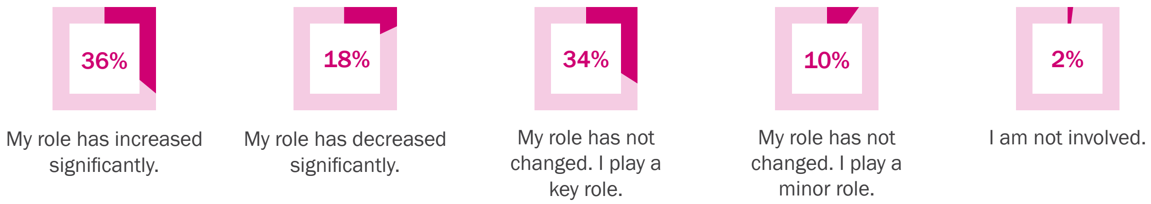
GIVEN THE DIVERSE RANGE OF SURVEY RESPONDENTS AND THEIR RESPECTIVE TITLES, IT IS PROMISING THAT VERY FEW (18%) SAY THEIR ROLE IN SELECTING TECHNOLOGY SOLUTION PROVIDERS HAS DECREASED.

In fact, the majority of respondents say either their role has increased significantly or that they have consistently played a key role in the IT researching and buying process. Overall results from this year's survey are consistent with last year's results.

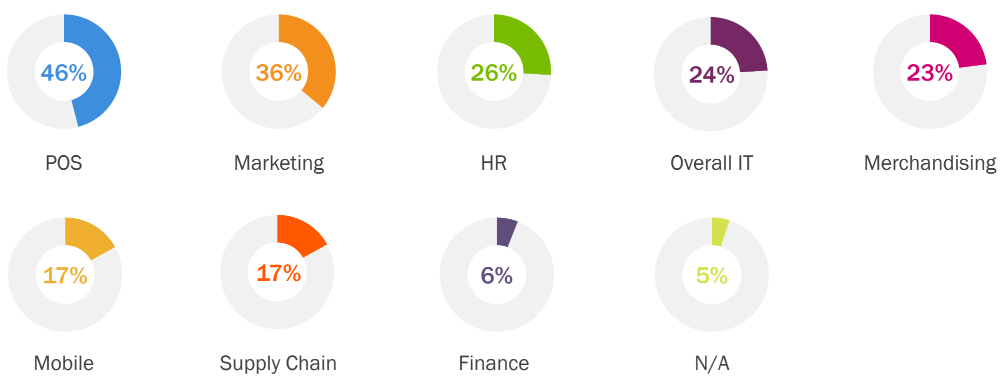
How has your role in identifying and selecting technology solution providers changed over the past 12 to 24 months?



What *has* changed significantly year over year, though, is *how* retailers are spending their IT budgets. Last year, the largest portion of retailers invested their budgets in marketing (46%) and POS (40%).

Which of the following business areas are receiving the greatest increase in budget in 2016?

(Each response is ranked on a scale of 1-9, 1 being most important. Results reflect respondents that ranked each item 1 or 2.)



This year retailers have reallocated their marketing spending to POS implementations and updates (46%). A potential reason for this boost could be that retailers plan to update their POS systems to accept EMV and alternative payment methods such as mobile wallets.

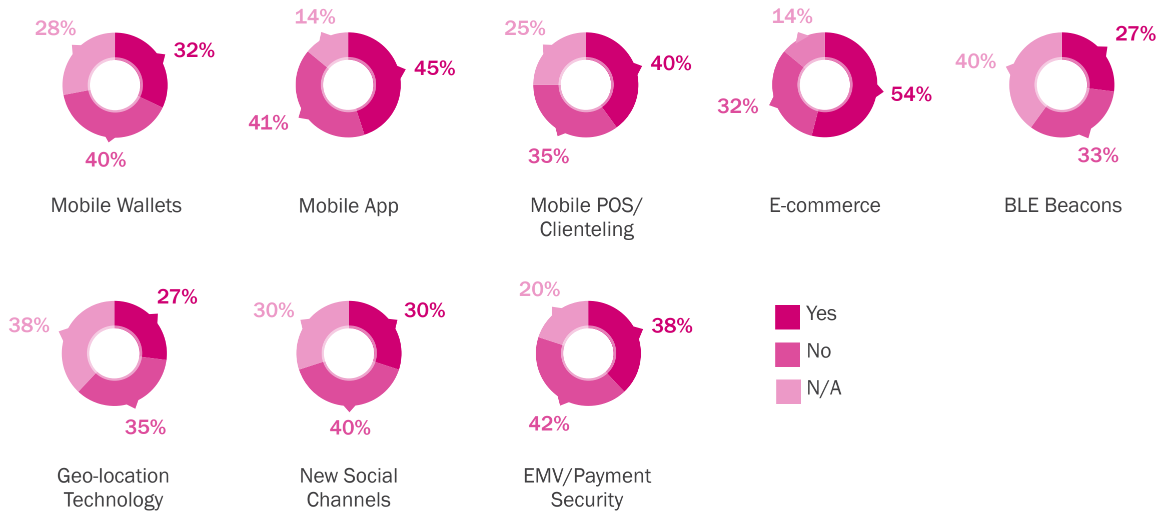
Retailers' Oct. 1 2015 deadline for implementing EMV or "chip-and-PIN" credit card technology came and went. But it is clear that many retailers were not so eager to comply with the new regulations, despite the threat of being held liable for any fraud. According to **CSO**, "the percentage of merchants lacking new payment terminals ranged from 50% to as high as 75%."

The CSO research aligns with our survey results, as 42% of our respondents said they invested in EMV and payment security or plan to invest in these areas through 2016.

Mobile payment also has a long road to adoption, as noted by **Accenture**. The number of North American consumers who know they can use their smartphones as payment devices has jumped nearly 10% over 2014. However, actual mobile payment adoption has increased by only 1%. Younger, more digitally savvy consumers, however, will lead the mobile payment revolution. Accenture notes that 23% of Millennials use their mobile phones to pay for items at a merchant location at least once a week, compared to an average of 18% for other age groups.

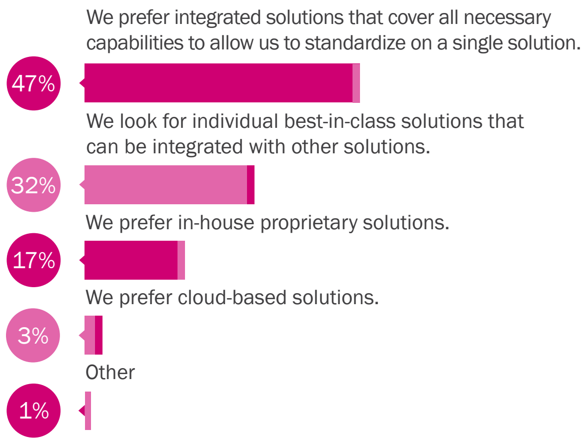
Other technologies that are topping retailers' wish list focus on e-Commerce, mobile apps and mobile POS/clienteling — all trends that have been ever-present throughout this report.

Which of the following channels/technologies have you implemented or do you plan to implement in 2016?



As retailers invest in new technologies and platforms, they are focusing more on finding unified solutions. These fully integrated technologies are more efficient and cost-effective than a series of solutions that they need to stitch together manually. Last year, 39% of retailers said they were seeking integrated solutions; this year, 47% said it was a focus.

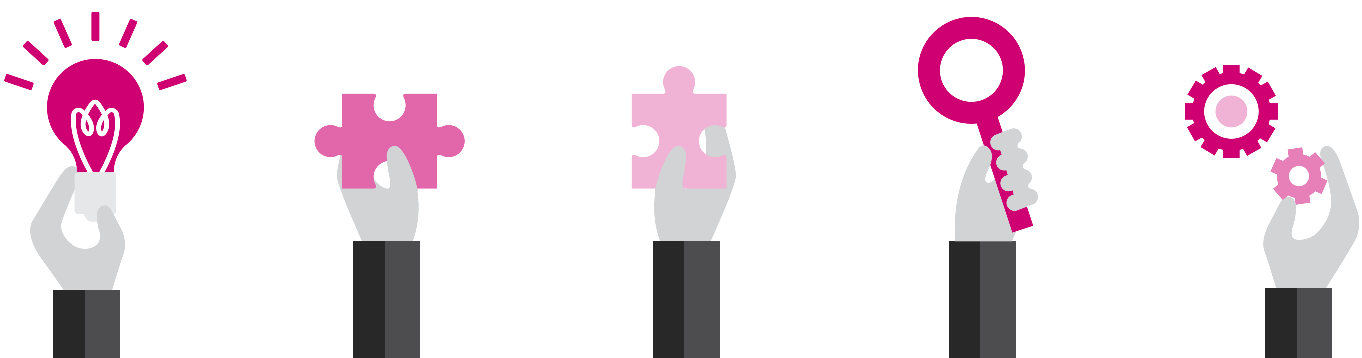
What is your strategy for selecting solutions?



As in our 2014 survey, retailers are more confident in certain technologies than others. Although retailers have the most confidence in billing technologies, their confidence in other technologies have dropped year over year.

In 2014, 61% of retailers said they had confidence in their omnichannel fulfillment strategies. However, that number has dropped nearly 20% in this year's installment. This drop may be due to one of several reasons: either retailers are realizing there are operational challenges that they need to address, consumers are responding unfavorably to certain offerings, or retailers are rethinking the fulfillment offerings they should invest in.

A key challenge with omnichannel fulfillment is that there are so many different ways to approach it. Of course, retailers' investments will vary based on their product assortment, their target customer and their total number of stores, distribution centers and warehouses. It is a very complex topic and customer preferences are always changing, so it makes sense that retailers' confidence is shaking.

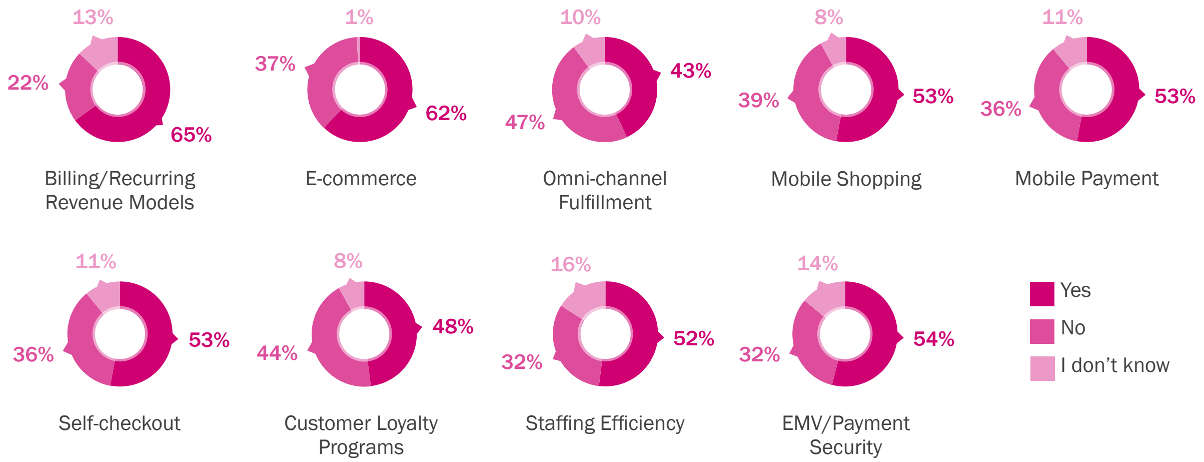


Customer loyalty programs saw a similar drop. Up to 60% of retailers said they were confident in their loyalty programs in 2014, but this year, only 48% said the same. Retailers may feel like their loyalty programs are wavering due to consumers' poor engagement with them. The average number of programs consumers are enrolled in has climbed from 10.9 per member in 2014, to 13.3 programs in 2015, according to **Bond Brand Loyalty research**. However, the same study indicates that consumers' overall engagement with these programs is dropping exponentially year over year. In 2014, consumers were active in 7.8 programs, but in 2015, that number dropped to 6.7 programs.

Consumers' decreased engagement with retailer loyalty problems is not necessarily due to the fact that they don't want to engage. Rather, it's the fact that retailers are leveraging the same old school tactics to try and keep them interested. In this new era of retail, consumers don't respond favorably to batch-and-blast marketing messages, offers and coupons. They're looking for relevant interactions and compelling deals and sales that align with their wants, needs and preferences.

These findings point to the increased importance of BI: Retailers can't achieve this level of relevance unless they have a comprehensive view of customers and have the ability to turn these insights into great experiences.

Do you feel your current technology is equipped to handle changes in the following areas?



BUY ONLINE, PICK UP IN-STORE BECOMES A RETAIL REQUIREMENT

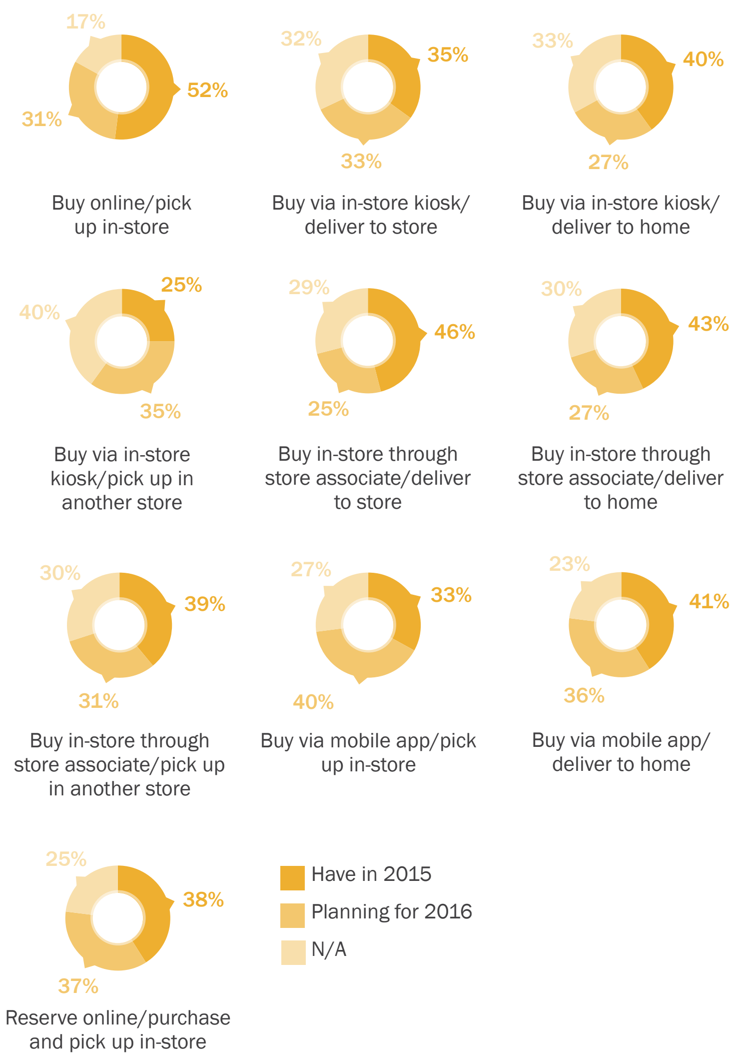
BUY ONLINE, PICK UP IN-STORE BECOMES A RETAIL REQUIREMENT

THE OVERALL IMPORTANCE OF BUY ONLINE, PICK UP IN-STORE HAS INCREASED SUBSTANTIALLY BETWEEN LAST YEAR (52%) AND THIS YEAR (61%). It's safe to say that this offering has become table stakes for retailers. Merchants are also emphasizing the importance of buying via an in-store kiosk and delivering to store (41% and 44%, respectively).

The key value of these fulfillment strategies is that they bring more shoppers into store locations. When consumers visit a location to pick up an order, they tend to roam around the store and purchase a few last-minute items. These options are also valuable for consumers because they're usually free of shipping and service charges. This is a far more enticing option than having to pay for shipping.

Please rank the importance of implementing the following inventory fulfillment models in order to improve customer service.

Which inventory fulfillment models do you have in place today? Which do you plan to implement in 2016?



However, retailers may be overlooking one very important fact: When consumers visit a store, they crave one-on-one interaction with store associates. According to research from **Deloitte**, 50% of consumers value in-person advice from associates while they're browsing in aisles. Retailers have the opportunity to capitalize on this opportunity by arming store associates with technology that allows them to show options, guide the purchase journey and even complete transactions. In the long run, investing in associate-facing technology may be more important than self-service technology because it presents more opportunities for cross-sells and up-sells.

CONCLUSION

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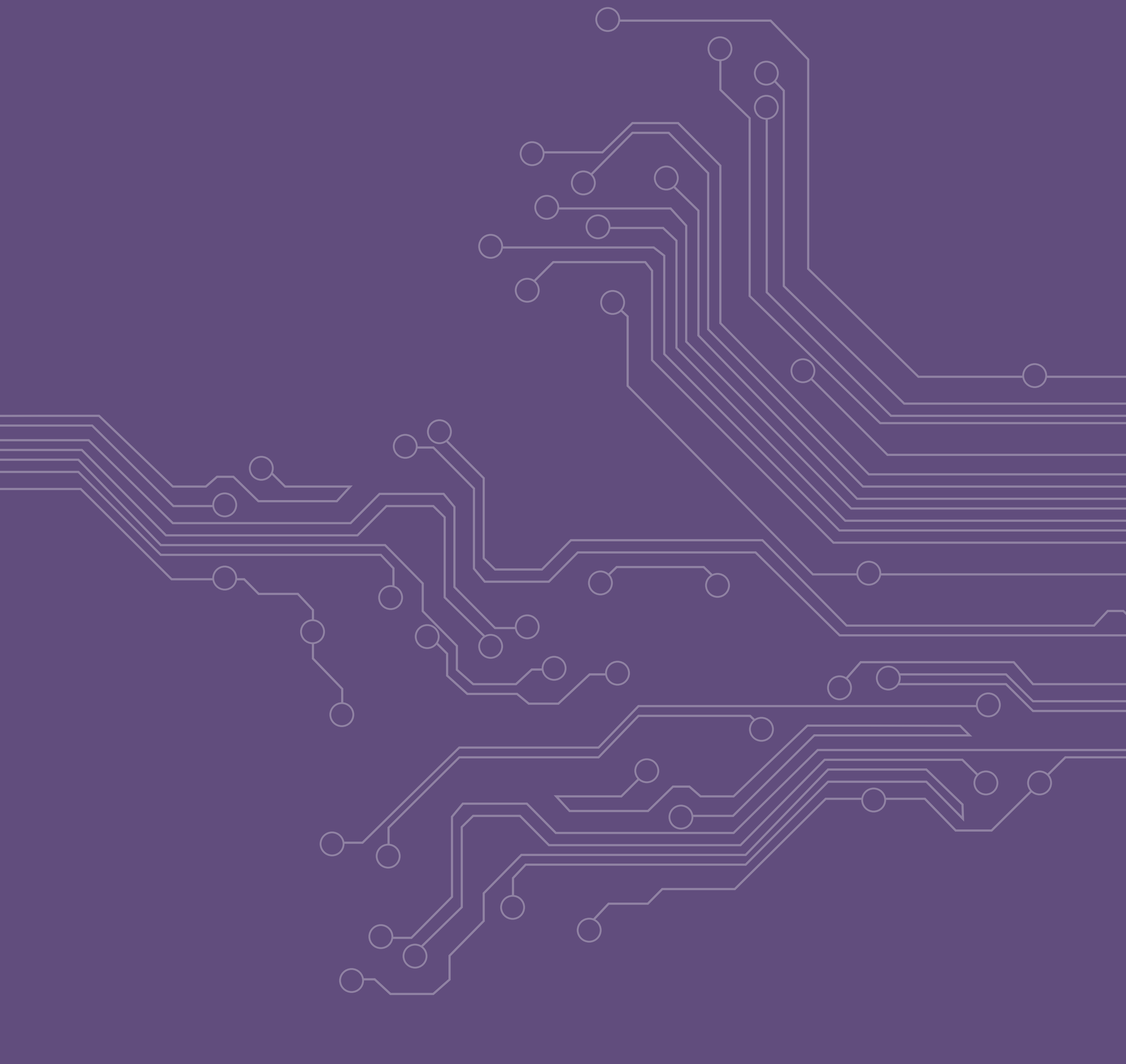
Omnichannel has been a hot topic in the retail industry for years. While some organizations created new divisions and executive roles to show their stamina to keep pace with market trends, others focused on getting their operations in shape and investing in new customer engagement tools and tactics.

However, the industry is changing so rapidly that retailers must constantly shift their attention and dollars. While executives seemed confident in their investments and tactics in our 2015 survey, this year, they realize they still have a lot of work to do to ensure business health and wellness.

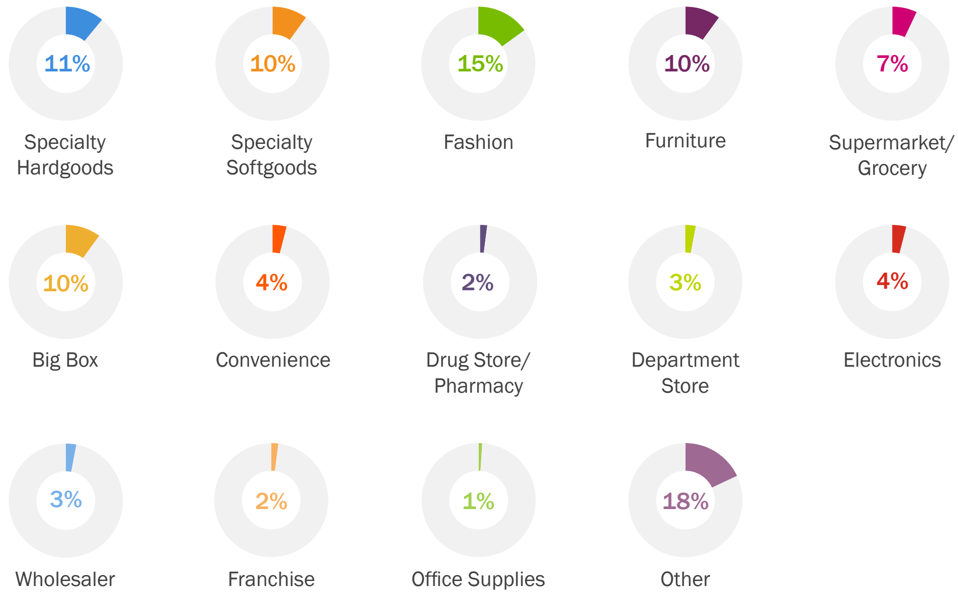
In 2016, we will see retailers work tirelessly to improve collaboration across teams and departments, break down organizational silos and create a 360-degree view of not only their businesses, but of their customers'. Only then will they be able to achieve the level of relevancy that consumers demand and reach the omnichannel finish line.

SURVEY DEMOGRAPHICS

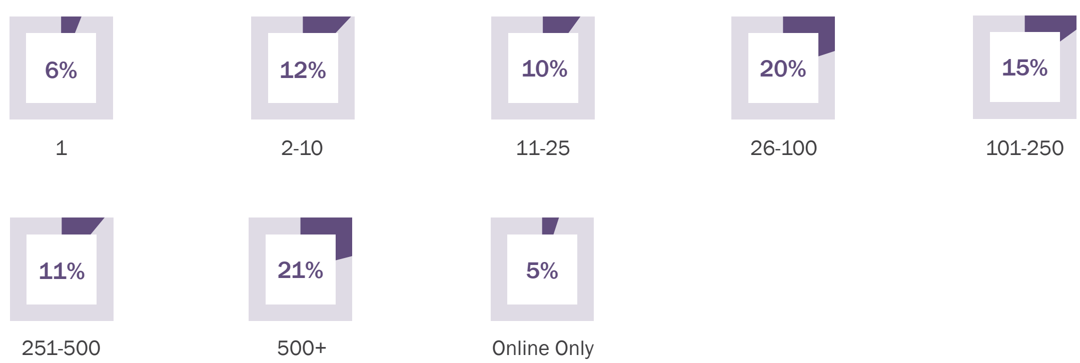


SURVEY DEMOGRAPHICS

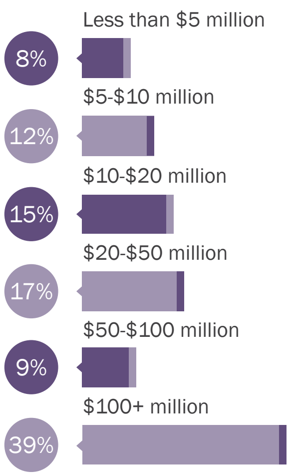
Retail Category:



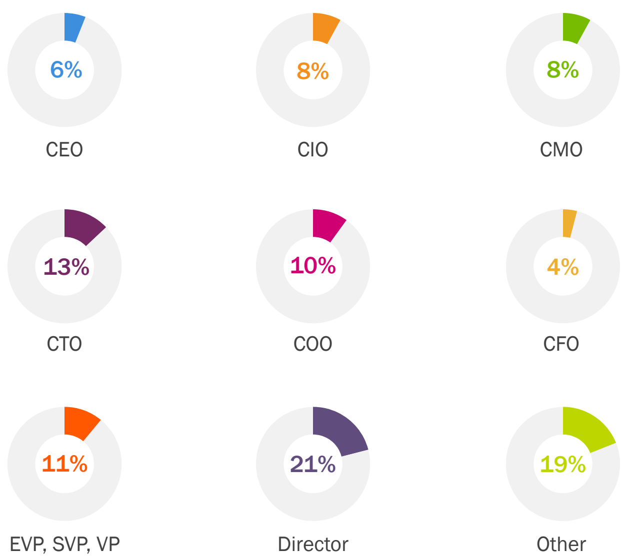
Number of Stores:



Annual Revenue:



Please Describe Your Role:



ABOUT UXC ECLIPSE

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