Merchandising Today

Benchmark Report 2013

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Executive Summary

Last year, RSR's merchandising benchmark put a stake in the ground and described a new generation of merchants, one that grew up in a world of ubiquitous digital channels, commoditized products, uncertain economic conditions, and supply chains optimized to deliver merchandise to stores as quickly and efficiently as possible. This year, in RSR's sixth annual merchandising benchmark, this new merchant perspective comes into sharper focus – as does a host of new challenges, opportunities, and technology enablers.

Some highlights at a glance:

- The largest retailers (>$5 billion annually) report they're challenged to identify *new ideas and innovate quickly*, while facing encroachment on all sides. Most vulnerable to losing business to Amazon, they are also most likely to worry about segment blurring and new competitors coming from unexpected directions. Their plight is one of the newest external challenges we find among all those discussed in the **Business Challenges** section of this report on page 6.
- In a prescription for failure, many underperforming retailers – knowing that their products aren't up to snuff – are admittedly using promotions as a lever to drive sales. The worst part is that they know these promotions further erode their brand equity. We also examine this trend within the **Business Challenges** section.
- More than 50% of underperforming retailers see their next 3-5 years *just trying to get away from home-grown applications*. This is just one of the most surprising components we discuss in this year's **Opportunities**, which begin on page 9.
- More than a quarter of respondents have implemented in-season demand forecasting within the past 12 months, and 37% of retailers are budgeting or planning to implement integrated assortment and space planning. These are relatively new technologies, and as you'll see in the **Technology Enablers** section of this report, there are a great number of "up and coming" technologies holding retailers' fancy.

Throughout this report, we'll refer to the finding that *it's critical for retailers to understand what they're buying* and ensure they don't consider an implementation complete until processes have matured and the enterprise has been educated and prepared. To that end, we'll also offer several in-depth and pragmatic suggestions on how retailers should proceed. These recommendations can be found in the **Bootstrap Recommendations** portion of the report.

We certainly hope you enjoy it,

Paula Rosenblum and Steve Rowen

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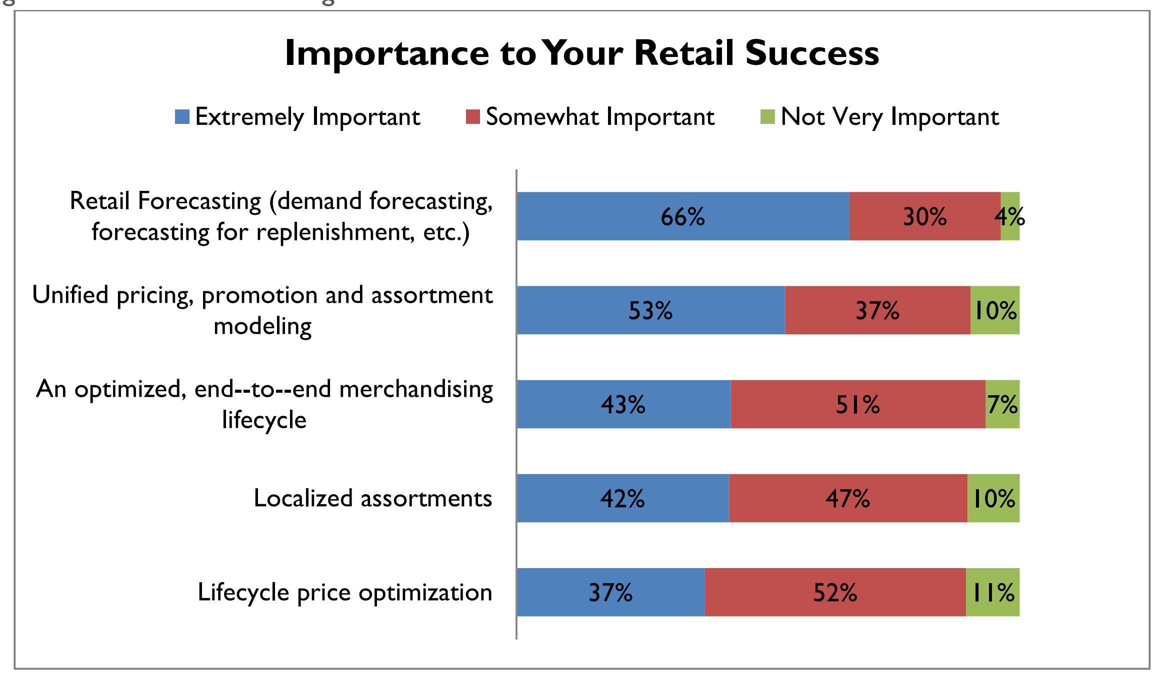
Research Overview

The world has changed. Last year, RSR's merchandising benchmark put a stake in the ground and described a new generation of merchants, one that grew up in a world of ubiquitous digital channels, commoditized products, uncertain economic conditions, and supply chains optimized to deliver merchandise to stores as quickly and efficiently as possible.

This year, in RSR's sixth annual merchandising benchmark, this new merchant perspective comes into sharper focus. While our respondent sample differs somewhat from prior years (a higher ratio of marketing and store operations respondents, and more 'web-only' retailers than in the past), we see some consistent trends: a quest to integrate across departments, a critical need to infuse customer data into the traditional mix of attribute-driven product and location plans, and a drive for pragmatism. Merchandising is no longer an island, and the Merchant Prince must work in the context of cross-functional teams far more than ever before.

We fully recognize that the art of merchandising is not dead. Product selection and an appealing visual assortment remain core to most retailers' success. Still, today's realities dictate the use of science to support matching supply with demand and to optimize prices. The enterprise clearly needs technology tools and techniques to help today's merchant get these mechanics of the job done (Figure 1).

Figure 1: Science Driving Retail Success



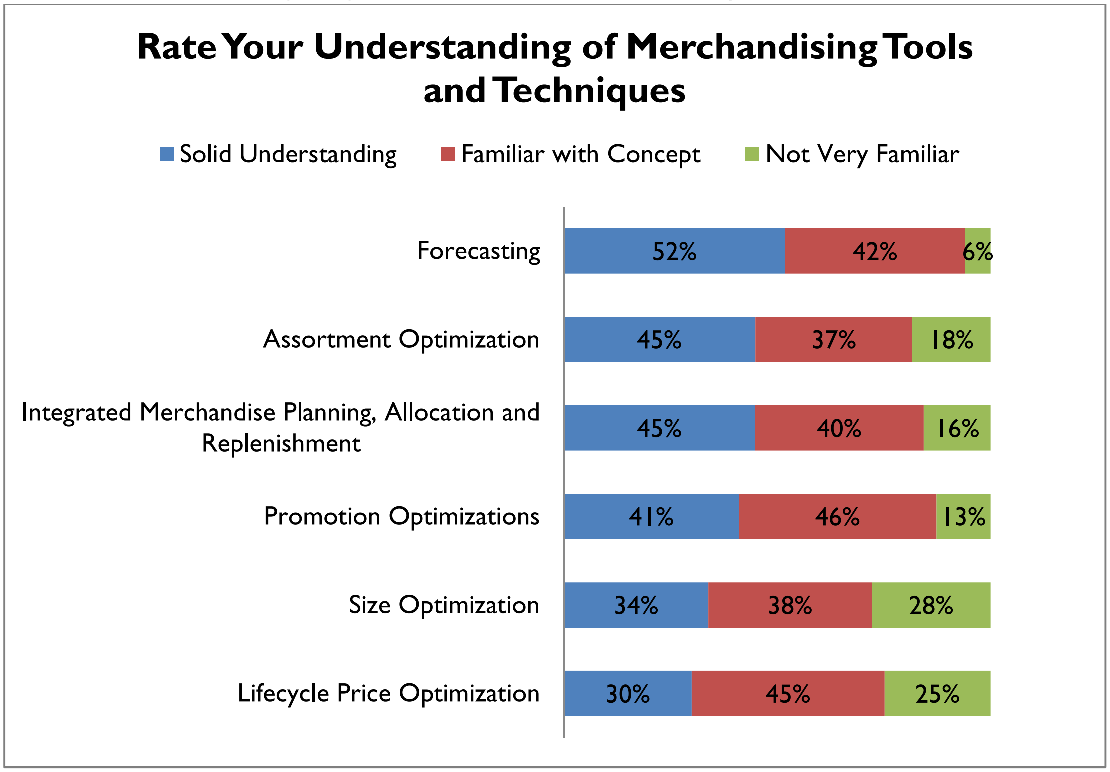
Source: RSR Research, September 2013

Retail forecasting has become a must-have technology. Unstable economic conditions create a compelling need for a single demand forecast across the board: pre-season, in-season, and every day for pricing and assortment modeling. This trend continues from last year. Overall it remains a critical factor to retailing success.

'She Blinded Me with Science'

Even as retailers continue to recognize the importance of new processes, tools and techniques to support merchandising, they show a remarkable lack of understanding of how those tools actually work. Ratings have shifted slightly from prior years but the meaning is essentially the same: retailers would be well-served to gain a better understanding in the tools they rely on to drive success (Figure 2).

Figure 2: Understanding Lags, Sometimes Dramatically



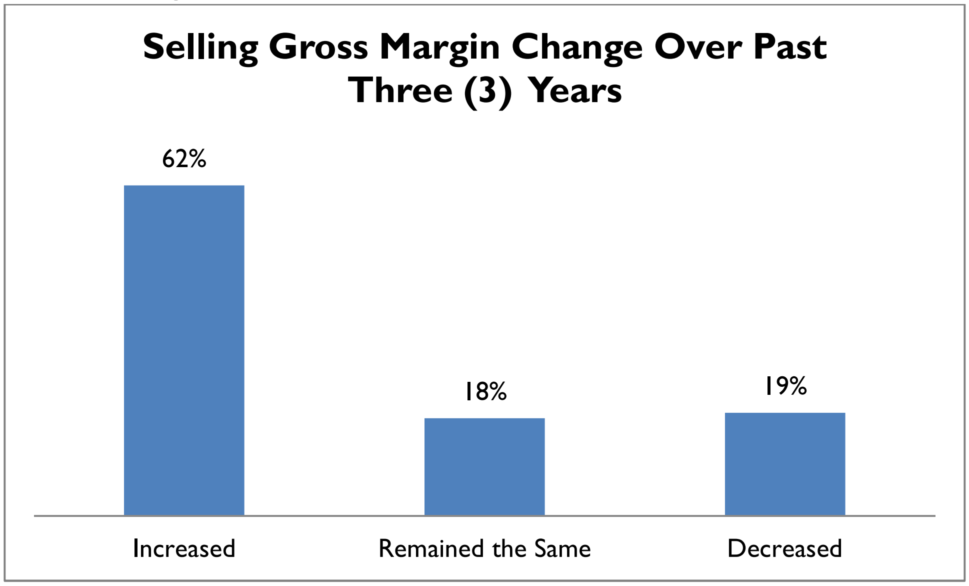
Source: RSR Research, September 2013

Our concerns expressed in prior years still hold true: we worry retailers will place unrealistic expectations on otherwise good tools and techniques and not do the work required to derive value. Even the best tools need to be wielded by savvy technicians, and we start as we will likely end this report: ***it's critical for retailers to understand what they're buying and ensure they don't consider an implementation complete until processes have matured and the enterprise has been educated and prepared***.

Have Gross Margin Improvements Peaked?

Year after year, even in our hyper-promotional world, retailers have continued to overall report continued gross margin improvements. This year is no exception. Across all revenue bands and product types, sales may be rising anemically, but companies remain profitable by driving gross margin improvements (Figure 3).

Figure 3: Gross Margin Continues to Rise, But Has It Peaked?



Source: RSR Research, September 2013

Given changes in the Chinese economic environment, the need for more rapid response to consumer demand, and a rising interest among consumers for more locally sourced merchandise, we believe these gross margin improvements may be peaking and may also be coming at the expense of return on inventory investment (GMROII).

We'll see some reflection of this in the Business Challenge section of the report. Out-of-stocks now pale in comparison to unproductive inventory as a top-three retailer concern. In the meanwhile, we are left to wonder if the days of accelerating gross margin are coming to a close. If they are, it will only add stresses to get pricing and inventory right.

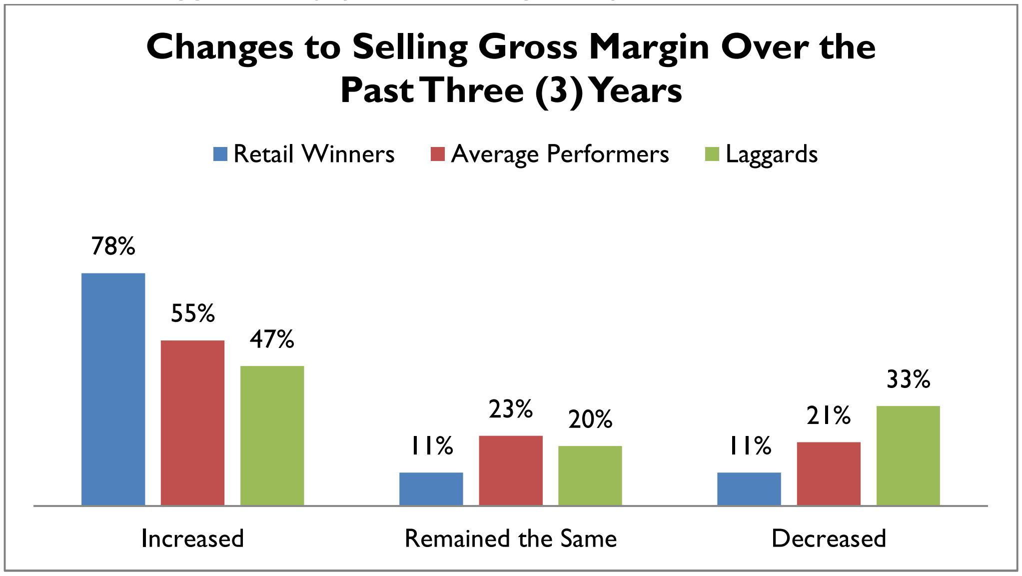
Defining Winners and Why They Win

RSR's research always focuses on a category of retailers we call "Retail Winners". Our definition of Retail Winners is straightforward. We judge retailers by year-over-year comparable store/channel sales improvements. Assuming industry average comparable store/channel sales growth of **three 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*." 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.

Markdowns Can't Buy You Sales

The classic way retailers try to boost their sales is by lowering prices. Yet for laggards, this step has not proven fruitful. If we look at the data from Figure 3 cross-tabulated by retailer sales performance, we can see that far fewer of those who have self-identified as laggards have been unable to enjoy the gross margin improvements of Winners. In fact, we can see that the percentage enjoying gross margin improvements rises with performance (Figure 4).

Figure 4: Fewer Laggards Enjoy Gross Margin Improvements



Source: RSR Research, September 2013

Clearly different thought processes are required, but laggards have a hard time shifting gears.

Methodology

RSR uses its own model, called the "BOOT Methodology^{SM}," 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 – Retail Winners. The BOOT model 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 June - August 2013 and received answers from 137 qualified retail respondents. Respondent demographics are as follows:

- Job Title:

Executive/Senior Management (CEO, CFO, COO, CIO)	19%
Vice President	14%
Director/Manager	39%
Internal Consultant/Staff	25%
Other	3%

- 2012 Revenue (US$ Equivalent)

Less than $50 Million	25%
$51 - $249 Million	18%
$250 - $499 Million	7%
$500-$999 million	12%
$1 - $5 Billion	22%
Over $5 Billion	16%

- Products sold:

Fashion / Short Lifecycle	24%
Seasonal	17%
Basic / Replenishment Goods	25%
Durable / Hard Goods	24%
Perishable	10%

- Headquarters/Retail Presence:

	HQ	Presence
USA	77%	86%
Canada	9%	41%
Latin America	2%	21%
Europe/UK	4%	28%
Middle East	2%	14%
Africa	1%	12%
Asia/Pacific	6%	29%

- Year-Over-Year Sales Growth Rates (assume average growth of 5%):

Better than average (Retail Winners)	35%
Average	51%
Worse than average (Laggards)	14%

Business Challenges

Retailers Expect Better Return on Inventory Investment

We've seen a gradual shift in merchandising business challenges over the past several years. While out-of-stocks were traditionally one of the most frequently cited top-three business challenges, retailers now worry more about underperforming inventory. Last year's most frequently cited issue - the inability to innovate quickly - has fallen a bit lower on the list as well (Figure 5).

Figure 5: Underperforming Inventory Tops the Aggregate Charts

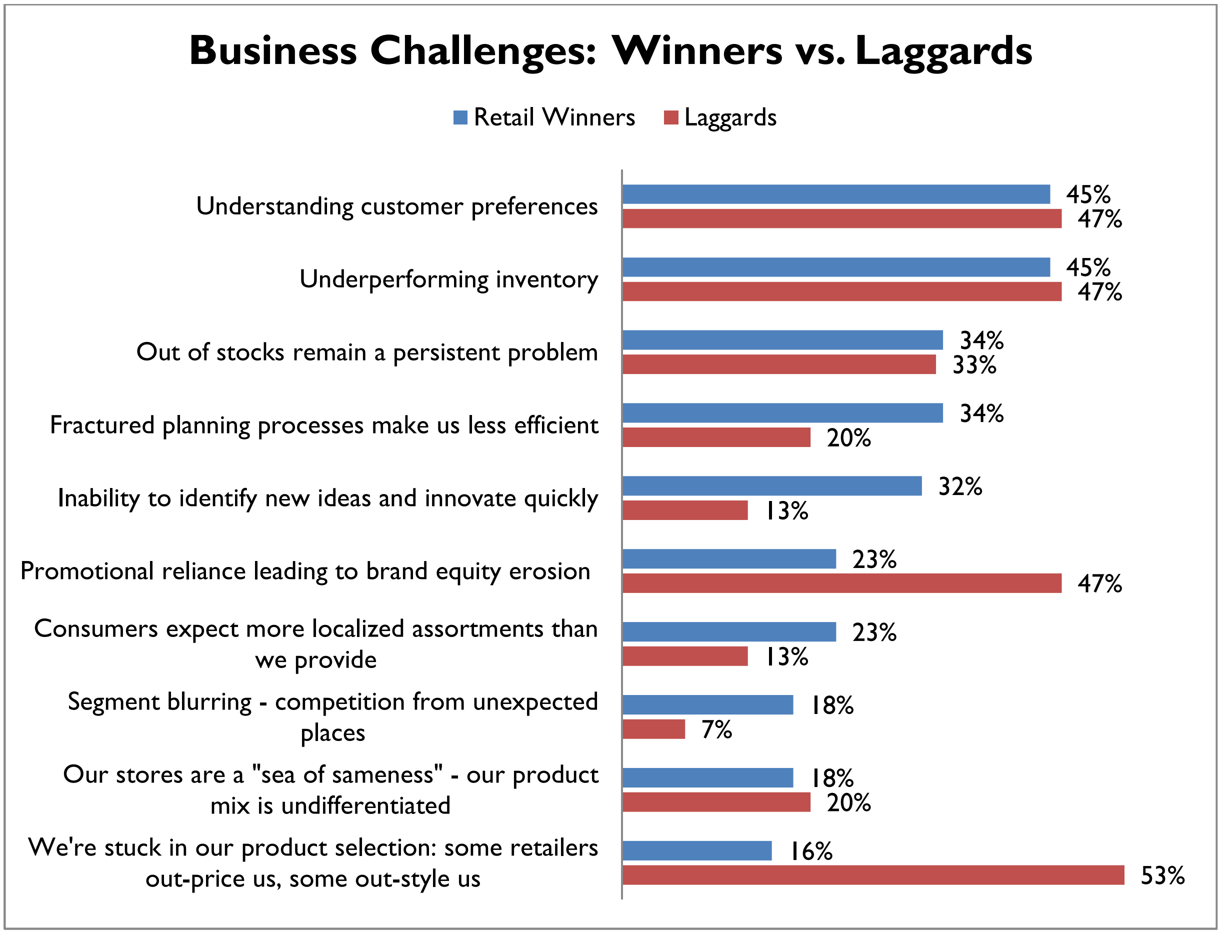
Source: RSR Research, September 2013

Fractured planning processes, which plagued retailers just a few short years ago, have definitely been usurped by other issues as retailers shift their focus to cross-enterprise integration and gathering customer data. For the second consecutive year, only a quarter of respondents cited this as a top-three concern, mostly among laggards and those with annual revenue of $250-$500 million. *Compare this to 53% and 47% of the total respondent pool in 2008 and 2009, respectively*. We believe this illustrates some of the most compelling evidence of a sea change in merchandising.

More Proof that Markdowns Can't Buy You Sales

When we look at business challenges based on retailer performance, we find a few compelling differences between Winners and laggards (Figure 6).

Figure 6: Laggards Caught in a Trap



Source: RSR Research, September 2013

Laggards are stuck in a twin trap. They believe their problems are product-oriented (even though, as we'll see later in this document, they believe customer data is the cure for those problems), and continual markdowns have eroded their brand equity. The problem is telling and basically can be spelled out like this (speaking in the voice of the retailer):

- We're concerned that our products aren't up to snuff, so we use promotions as a lever to drive sales;
- Those promotions further erode our brand equity; and,
- We don't get expected sales boosts and our comparable sales are still below average, but we do erode our gross margin along with our brand.

Clearly this is a prescription for failure.

As Retailers Grow, Their Business Challenges Evolve

We invariably find differences in business challenges for retailers of different sizes and this year was no exception. It's interesting to see the progression of problems as the enterprise increases in size and attempts to scale.

The smallest retailers (annual revenue less than $50 million USD) are particularly concerned about underperforming inventory (50% cited it as a top-three challenge), understanding customer preferences, product selection (43%) and out-of-stocks (37%). A similar pattern emerged in the 2012 study.

We remain surprised about product selection and customer preference issues, since conventional wisdom presumes the independent retailer survives on his unique assortment tailored to his local customers.

The mirror image concerns of out-of-stocks and underperforming inventory are less surprising, however. In our experience, the independent retailer is challenged to manage inventory levels, typically over-buying to ensure he never disappoints his customers.

Retailers with annual revenue from $51-249 million most frequently worry about understanding customer preferences (40%) and product selection (40%). Again, these issues remain surprising, as these retailers are generally still small enough to keep their fingers on the pulse of their customers.

Mid-market retailers with annual revenue between $250 and $500 million overwhelmingly cite underperforming inventory (75%) as a top-three business challenge. We believe the excess inventory carried when they were smaller becomes a haunting problem as they attempt to scale their businesses. This trumps any other cited issue by a wide margin in this revenue band.

Mid-market retailers with annual revenue between $500 million and $1 billion find themselves suddenly faced with the problem of fractured planning processes. To reach this size, enterprises start to stove-pipe departmental functions, and what was once easy (communicating with each other on what and how much to buy) becomes very troublesome. In fact, this retailer size cited fractured planning processes as a problem twice as often as any other retailer segment.

Lower-tier one retailers, with annual revenue from $1-$5 billion find themselves in a different situation. They also most frequently cite underperforming inventory and out-of-stocks as top-three business challenges (57% and 36% respectively). Yet between those two we suddenly find the challenge of promotional reliance eroding brand equity. Promotions are one way retailers try to solve their unproductive inventory problem, and it's also a way to drive traffic into stores. It strikes us that the business challenges uncovered at this level of revenue help explain why so many retailers "top out" at this size – their problems grow ever-more expensive.

Finally, with the **largest retailers**, those with annual revenue greater than $5 billion, we find the inertia of mass: 50% report they're challenged to identify new ideas and innovate quickly (50%), and they face encroachment on all sides: they are most likely, by far to worry about segment blurring and new competitors coming from unexpected directions. One could say they are most vulnerable to the Amazon effect.

So what's the way out? What opportunities do our respondents see to mitigate or overcome the challenges they face?

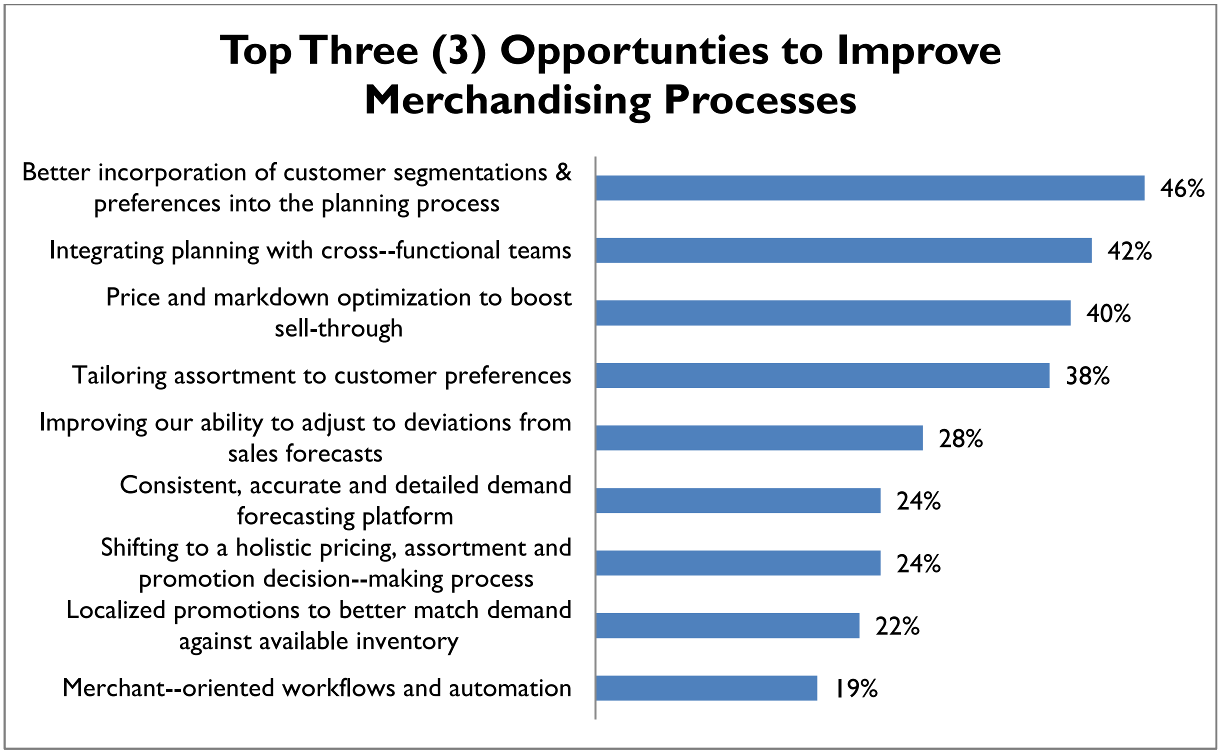
Opportunities

The Song Remains the Same

Retailers are quite consistent in the opportunities they see to improve their merchandising processes. In fact, not only did retailers identify the *exact same* top three opportunities this year as they did twelve months ago, but their *priorities* remain unchanged. The flood of data generated by digital customer engagement has created something of a Wild West environment: aggressive competition on the downside, but the opportunity to use that customer data on the other.

Within the context of that new world, retailers are determined to remain relevant by folding customer segmentation and preferences into the product planning process, relying on well-connected team members from multiple departments within the enterprise to achieve that goal, and boosting sell-through as much as possible. This is the aggregate perspective.

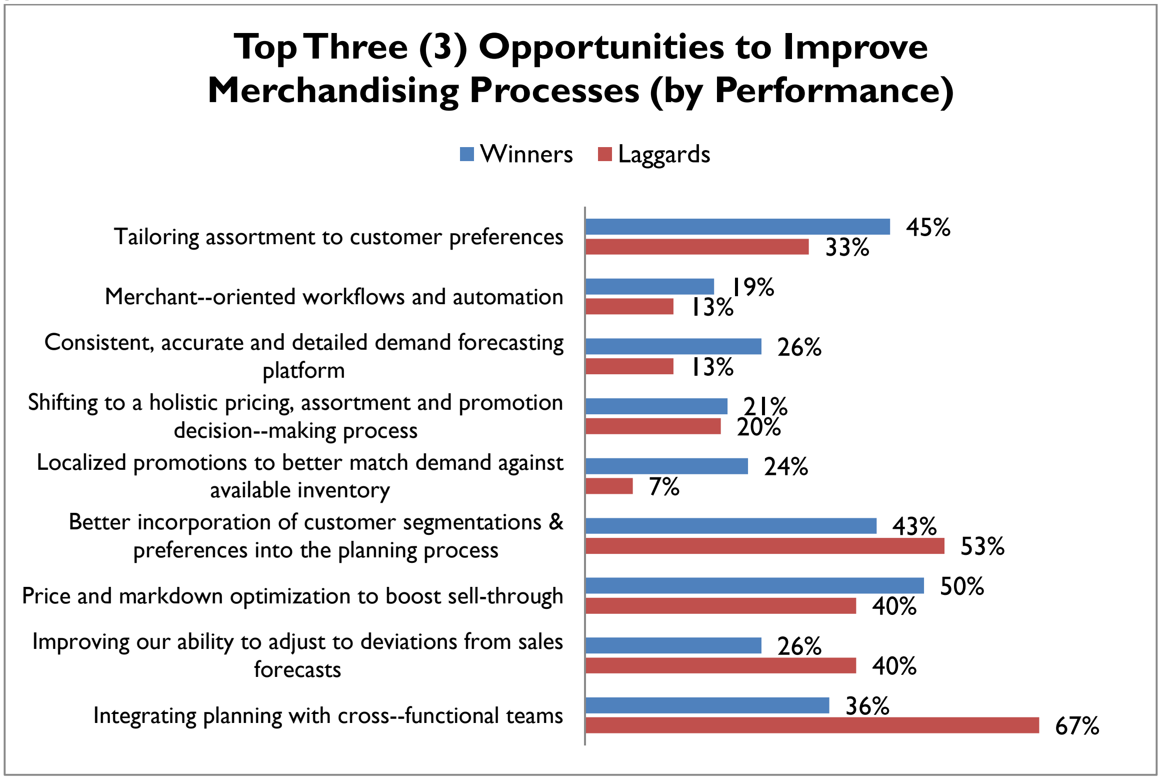
Figure 7: Making the Most of It…



Source: RSR Research, September 2013

However, when we look at responses based on performance the story starts to unfold in a much more informative manner (Figure 8).

Figure 8: ...Or So It Would Seem



Source: RSR Research, September 2013

The best performers are much more interested in tailoring their product assortment to customer preferences. This comes as little surprise; one of the hallmark behaviors of winning retailers – and a significant reason for their continued success – is an unwavering focus on the customer. In our most recent Marketing report[1], Winners reported they have a greater ability to segment their *messaging* efforts based on customer preferences; in this study we see then moving beyond tailoring just the messaging – but the *product mix* as well. This is just further confirmation of the customer segmentation and data analytics legwork forward-looking retailers have already undertaken to deliver an experience that makes the consumer feel special. Even if few retailers have the insight (or the data purity… or the technological sophistication… or the human resources… or the supply chain) required to deliver a truly personalized consumer experience to the nth degree, they have begun the journey: ***the best are trying*** to get there in a step-wise fashion.

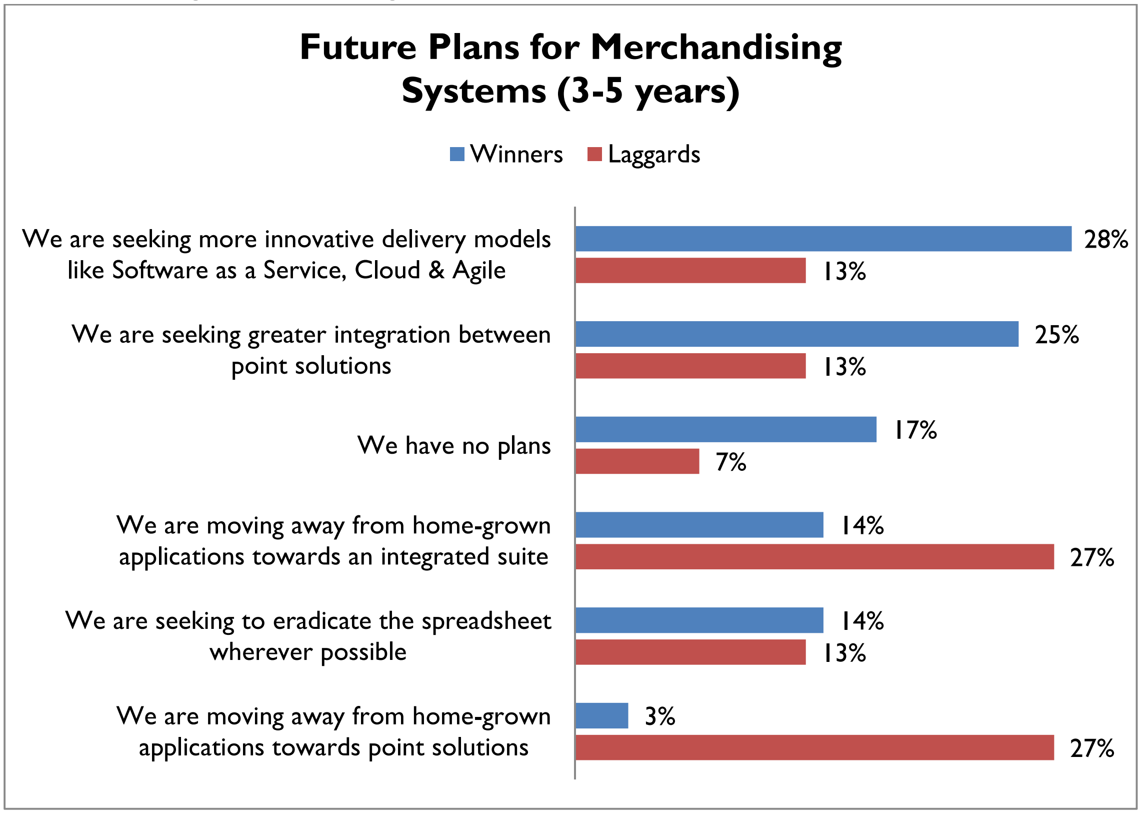
However, within that same marketing report, Winners told us they were treading lightly around organizational change within the enterprise - even though they reported needing marketing and merchandising to work better together. Their explanation was simple: as old-world and new-world marketing functions collide, moving too quickly to consolidate them runs at great peril. Does the same apply to new generation of merchants – the digital natives we mentioned at the outset of this report – and those whose experience is steeped in more traditional, artful thinking? Only one thing is for certain: regardless of how this collision of worlds plays out from one retailer to the next, ***cross-functional teams play a vital role in making the transition as seamless as possible***: Winners are remiss to rate their importance so much lower than laggards.

[1] RSR Benchmark Report *Retail Marketing 2013: Organizational Drift*

A Cloudy Vision

As we look forward, we know the factors shaping the perceptions of these opportunities today will create change tomorrow. And we can clearly see a pragmatic need for speed in future merchandising applications (Figure 9).

Figure 9: Through the Looking Glass



Source: RSR Research, September 2013

Winners already ponder how "the cloud" will *really* simplify their systems in the mid- and longer-term future (28% to laggards 13%, Figure 9), while also maintaining a pragmatic eye towards how they'll be able to leverage the most from more familiar point solutions. Laggards, however, still have their work cut out for them. ***More than 50% of underperforming retailers see their next 3-5 years just trying to get away from home-grown applications*** – half of them (27%) in an effort to move toward point solutions and the other half (27%) trying to get towards an integrated suite. Quite simply, Winners have moved on, putting home-grown merchandising applications in their rear view mirror.

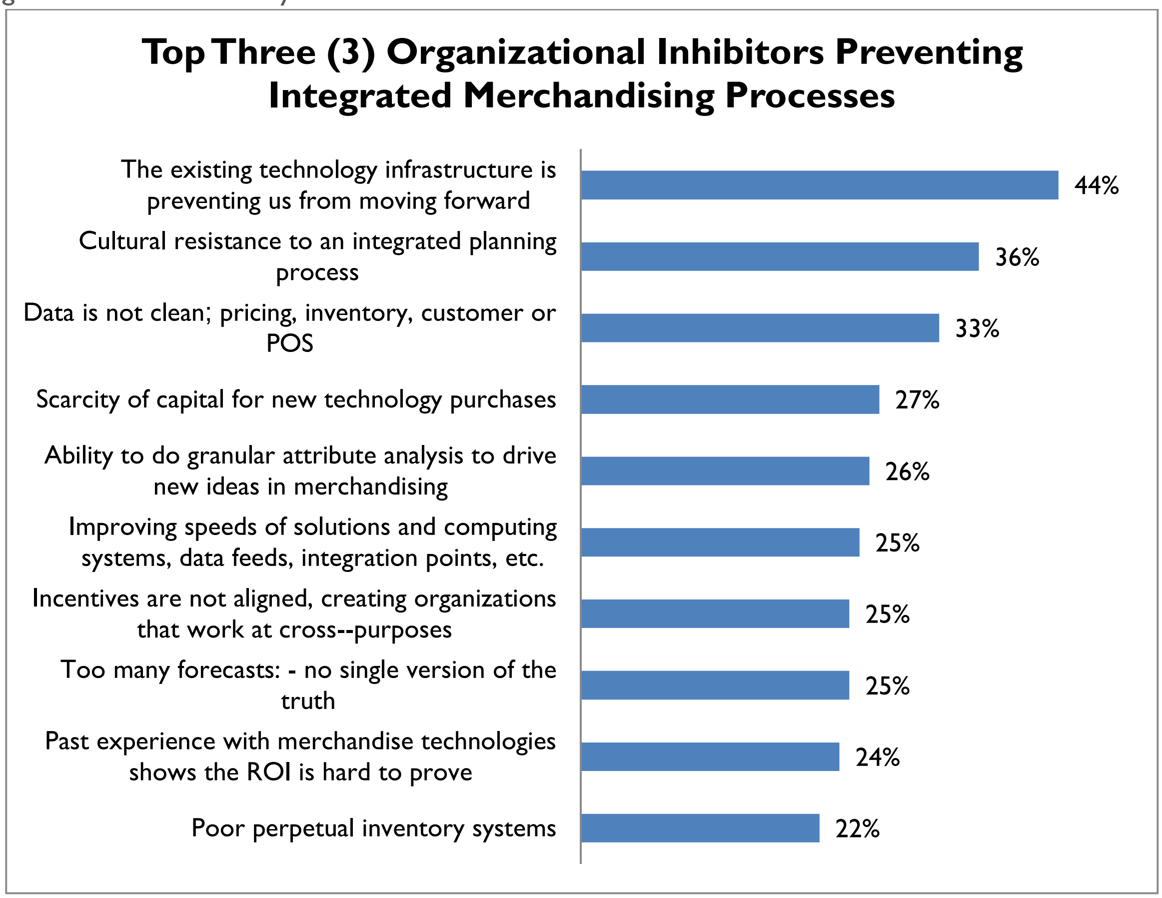
In the meantime, let's examine what's standing in the way of capitalizing upon these opportunities.

Organizational Inhibitors

The Show Must Go On

On the surface, what's impeding forward progress is retailers' existing technology infrastructure, internal cultural pushback, and impure data (or the inability to *trust* that data's potential to be clean); the same challenges that plague them year after year. Or to simplify it even further: ***the current state of merchandising is preventing the future of merchandising from happening as it should*** (Figure 10).

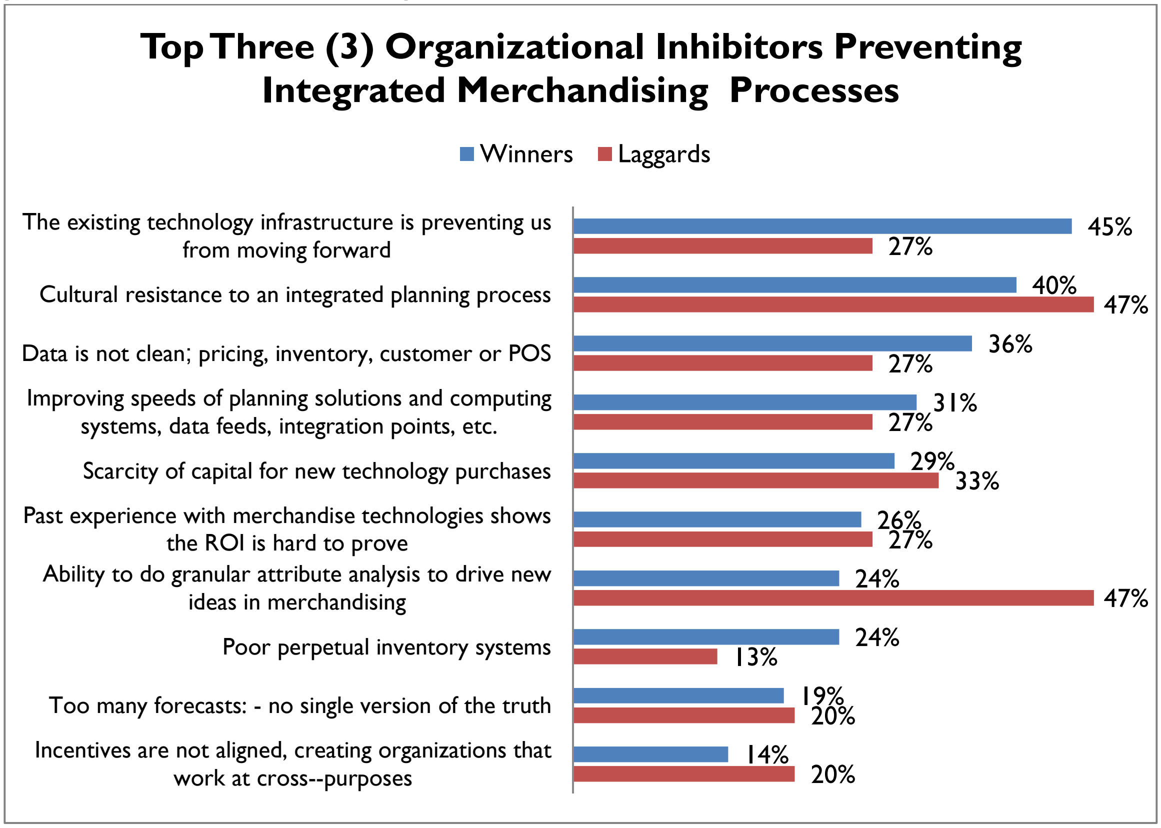
Figure 10: The Enemy Within



Source: RSR Research, September 2013

However, when viewed by performance, we see that Winners and laggards are facing starkly different realities, and as a result: different obstructions within those realities (Figure 11).

Figure 11: A Matter of Vantage Point



Source: RSR Research, September 2013

Winners' top roadblocks are all indicative of their disproportionate effort to date. They have a far better knowledge of the fact that their infrastructure is an impediment, their data is not clean, and that they have poor perpetual inventory systems – not because they are ascribing random blame, but because they are further into the process of addressing their internal issues. Laggards, on the other hand, look to place the blame elsewhere (more on that in a moment) – in this case, blaming their attribute analysis tools' lack of ability to get granular enough (47% to Winners' 24%) for their troubles.

It is a trend that continues in the following chart (Figure 12), where not only is Winners' *pain* a result of their enhanced effort, but their *way out* reflects the inroads they've already made, as well.

Figure 12: Chicken or Egg?

Source: RSR Research, September 2013

Laggards immediately tell us that that, for them, the keys to the kingdom have to come from *someone else* – and that they'll have to be *small*. Sixty-seven percent of underperforming retailers (vs. 37% of Winners) say that only once merchandising projects become more easily digested will they have a feasible chance of building to a larger and integrated end-state. This strikes a chord for a couple of reasons: firstly, the poorest performing retailers consistently look to ascribe blame elsewhere. Regardless of the topic we are studying, laggards perennially look for an "outside" reason they haven't been able to progress. By way of comparison, Winners have the harder conversation: looking internally at what *they* can do differently to move forward.

However, in this case, laggards may have a point. From last year's report:

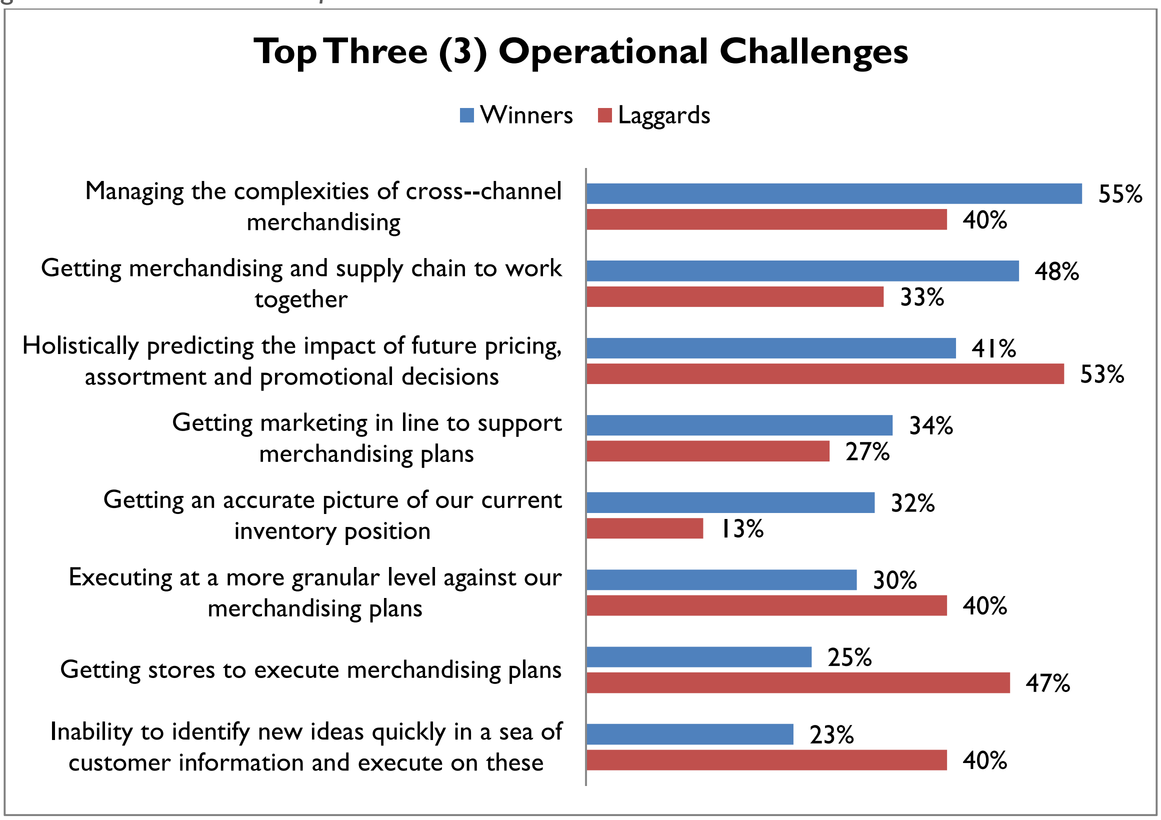
> In general we can see that over the past two years, retailers have grown savvier about the tools at their disposal, commensurate with their belief that these tools and techniques will help them grow their business. The largest retailers have definitely educated themselves, with more than 75% of those with annual revenue exceeding US $1 billion reporting a solid understanding of most tools and techniques…
>
> (However)…**our greatest concern is for those retailers in the mid-market, with revenue between $50 million and $999 million in annual revenue**. *Only a third of these retailers report a solid understanding of most (merchandising) tools and techniques…*

In recent years, the merchandising vendor community has focused the majority of its efforts on the largest retailers, leaving smaller – and often struggling – retailers to find their own way. ***Could this disproportionately large percentage of lagging retailers who cite the need for smaller, easier to digest projects simply be the result of a lack of understanding about the current wave of merchandising tools and techniques?*** If so, where does the burden of responsibility lie: on vendors to convince them that such tools are easily digestible for retailers of all sizes and stripes these days? Or is it on the retailers themselves to get past their own, longstanding misconceptions about modern technologies' complexity?

As if It Wasn't Hard Enough

To further complicate matters, virtually all retailers have a host of operational challenges to overcome. And like all of the other roadblocks we've seen previously, Winners' are directly related to the amount of time they've already invested in delivering on a more seamless cross-channel experience (Figure 13)

Figure 13: The Reward for Hard Work… Is More Hard Work



Source: RSR Research, September 2013

Winners are ***far more challenged*** to manage the pieces of the omni-channel puzzle that they've already started to put together, citing complexities in the merchandising department alone, as well as its ability to coordinate with marketing, supply chain, and even store (inventory) personnel. In short, ***no one said this was going to be easy.***

Let's now see how technology can help.

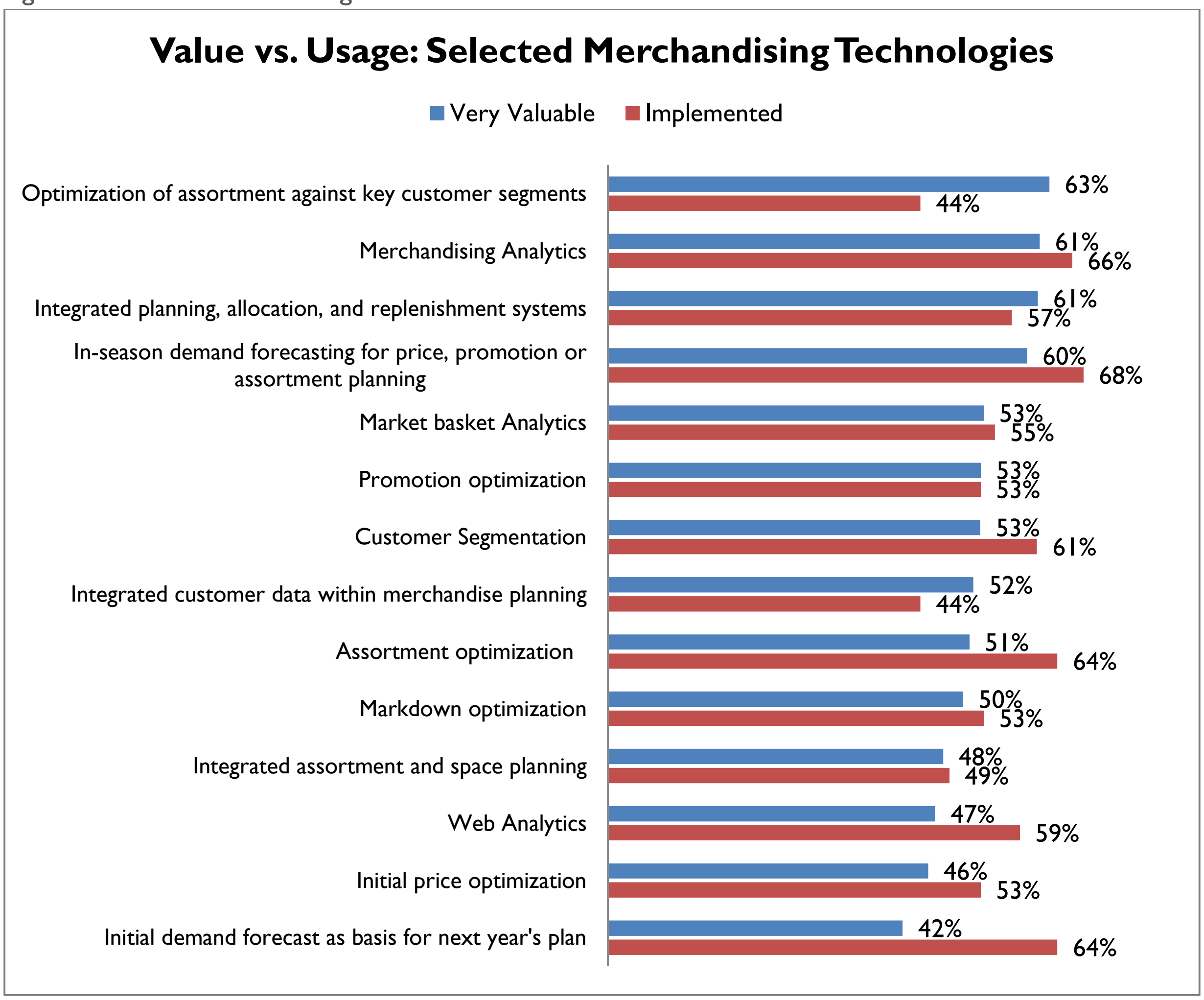
Technology Enablers

Making Sense of Apparent Incongruity

Figure 1 at the very beginning of this report showed perceived relative value of specific processes to retailing success. Retail forecasting was most frequently cited as "extremely important." Throughout this survey retailers also highlight the importance of infusing merchandise plans and execution with customer data. This led us to wonder how important those same retailers perceive supporting technologies to be?

As we can see from Figure 14, there's a significant disconnect between some of the processes heralded as extremely important to retailing success and the technologies that support those processes.

Figure 14: Mixed Messages



Source: RSR Research, September 2013

While we were not surprised to find the relative importance of optimizing the assortment against key customer segments rated highly, we were very surprised to find that relative importance of an Initial Demand Forecast as a basis of next season's plans deemed far less important as a technology. Even though 66% of respondents cite Retail Forecasting as 'extremely important for retailing success,' only

42% cite Initial Demand Forecasting as a very important technology. Actual usage (64%) is much more in-line with process importance.

RSR believes this and other seemingly counter-intuitive answers are driven by the age of the technology implementations in question. Infusing customer data into merchandising data is new, and a pure byproduct of the age of the internet and social media. Demand Forecasting, on the other hand, has been used by various departments across the enterprise for a longer time. It may well be time for a technology refresh to support new factors that have entered the equation.

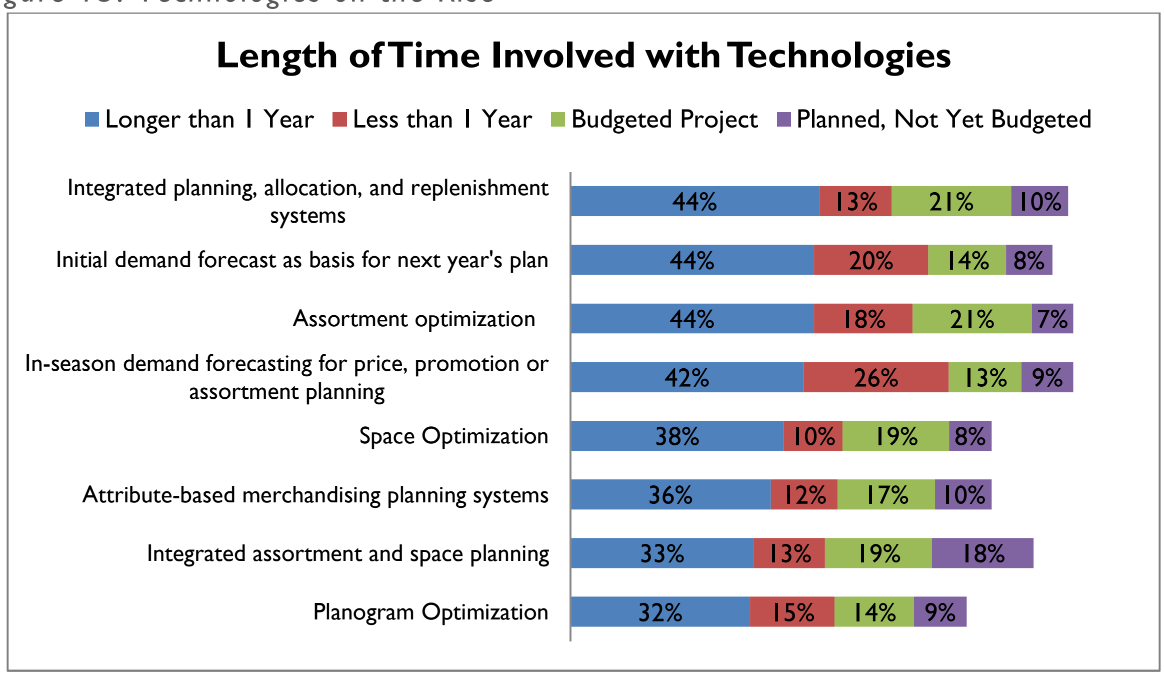
Similarly, retailers have been segmenting their customers in some form or another for years, but applying that segmentation to merchandising decisions is new. And so we see a variance between the value of customer segmentation, rated “highly valuable” by 53% of respondents, and “Optimizing assortments against key customer segments,” rated highly valuable by 63% of respondents. Similarly, the technologies to actually execute on the latter are relatively new, while the technology to execute on the former have existed with limited capabilities for many years.

With this in mind, and realizing that we did not ask about refreshes of existing technologies, let’s take a look at the status of various merchandising tools and techniques.

Usage of Merchandising Technologies

Figure 15 clearly shows technologies that are on retailers’ radar screens along those that have been commonly used.

Figure 15: Technologies on the Rise

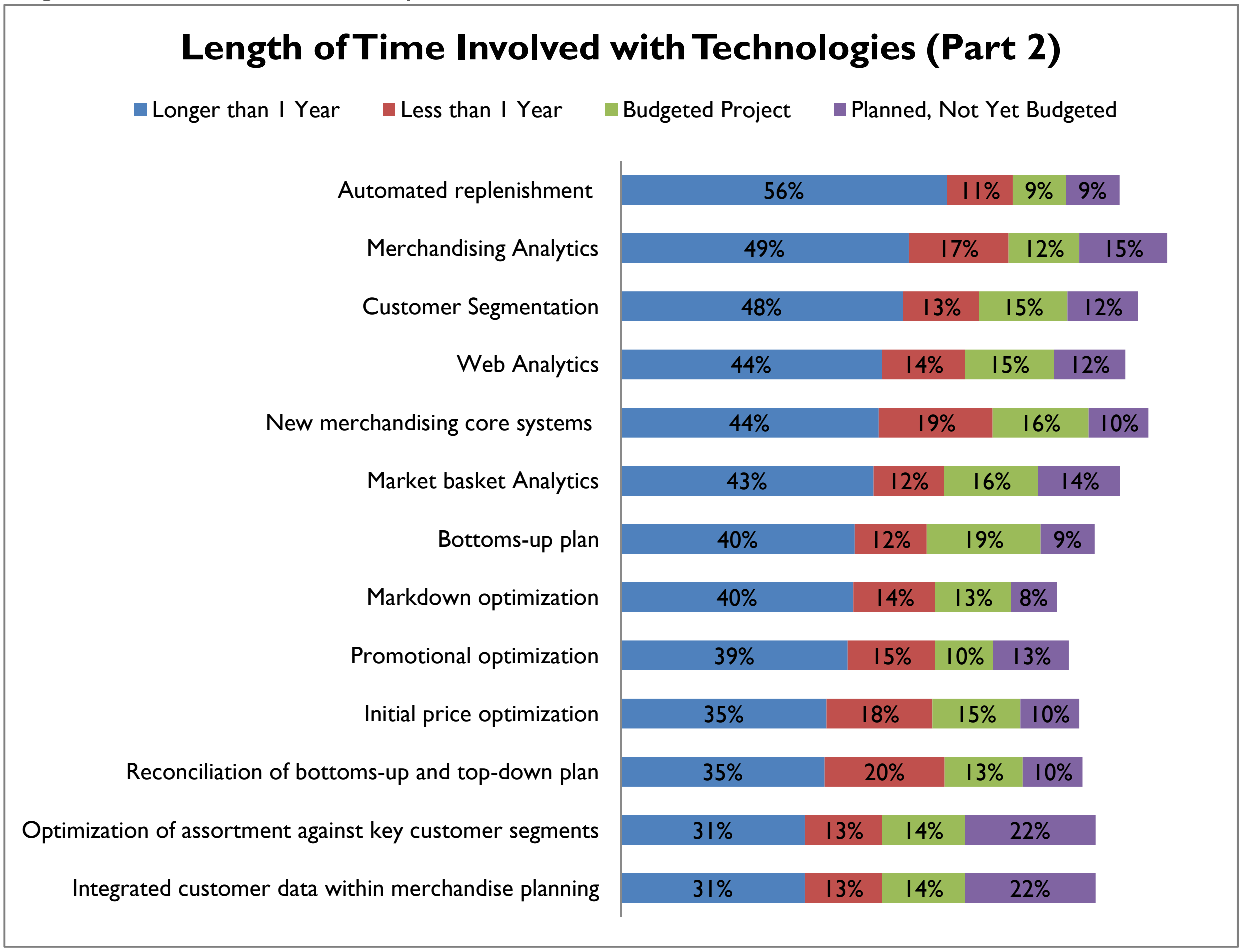


Source: RSR Research, September 2013

In this set of data, what stands out the most is **the relative newness of in-season demand forecasting** (more than a quarter of respondents have implemented within the past year) and **integrating assortment and space planning**, with 37% either already budgeting or planning for implementation.

We saw similar results with another set of merchandising technologies (Figure 16).

Figure 16: Still a Lot of Gaps to Fill



Source: RSR Research, September 2013

As above, we find a lot of mature technologies. We also find “up and comers” that focus predominantly on customer data and analytics. The fact that 36% of respondents have converged customer and product data on their radar screens reinforces the notion that we’ve entered “the fourth dimension”: the traditional three of products, location and time, and the fourth - the customer.

BOOTstrap Recommendations

Last year, our advice to retail merchants was very straightforward: We encouraged retailers to do four things:

- Get predictive
- Get responsive
- Get automated –and–
- Get scientific

This year we wanted to add a few more ideas into the mix.

Don't Chase Organizational Change, Anticipate It

We found a really interesting progression of business challenges retailers face as they grow. It takes a lot of intestinal fortitude to think about growth and its implications, rather than just the problems of the day. Towards that end we recommend the following:

- For the smallest retailers: You have a unique opportunity to interact directly with your customers. Learn all you can about them now, as this knowledge will be invaluable in determining future product, location, and channel selections going forward. As hard as it may be, try to budget your buys. Even if you don't have 'a boss,' create an open-to-buy at a pretty granular level, and stick to it.
- For mid-market retailers: If you haven't already established a process to manage your open-to-buy, now is clearly the time. It would be best to have that process look forward with a demand forecast, rather than backwards at last year's performance.
- For higher-tier mid-market retailers: Before you allow your organization to become stove-piped with communications constrained by physical distance, ensure you've put cross-functional teams in place. It gets all too easy to "ask for forgiveness instead of permission" when you've reached this size, but today's retailing realities just don't allow enough runway to make those mistakes.
- For lower tier-one retailers: If you possibly can, try to avoid the perceived promotional panacea (PPP) that grips our industry today. Promotions can [mostly] just erode the value of your brand even though it may give you a brief top-line pop.
- For the largest retailers: We recognize this is easy to say and a lot harder to do, but perhaps pay close attention to when you've started to top out your addressable market. One of the most profound things we've heard a chief retail executive say is, "We seem to have built out all the stores we need in the United States, and our activities internationally have not been fruitful." That's brave, and it's also smart. If you stay close to the Amazons of the world on price, but keep your eyes on product and serving your customers, you'll continue to protect your territory.

Start Thinking About a Technology Refresh

With all the pressure consumers are placing on retailers today, it's hard to imagine replacing an application that has been "working well" for five to ten years. It's downright painful! But advances in technology have been coming quickly and furiously. It's important to ask yourself, "Am I doing my customers and shareholders justice by continuing to run core merchandising applications that were built 20 years ago? With the advent of Cloud and SaaS based solutions, the time to value seems to be shrinking.

Hop on an Integration Bus

While some retailers will find a full enterprise solution is right for them, our data is telling us retailers will be living in a heterogeneous technology world for some time to come. With that in mind, it's important to start untangling the mélange of point-to-point integrations that make today's technology infrastructures such an inhibitor of change. So as you think about your technology refresh, be sure to pay attention to the "sill work" of integration. It's not sexy, and it's not an easy sell to management, but it's really important. Without it, everything else will be more time-consuming and expensive.

Don't Lose Sight of the Art of Merchandising

We would be remiss if we did not end with a truism. Merchandising is more than just science and numbers. There's an art form associated with selecting the right product for the right customer at the right time. We fear that many retailers are starting to lose sight of that irrefutable fact in the midst of low cost commoditized products that reach us from far-flung shores.

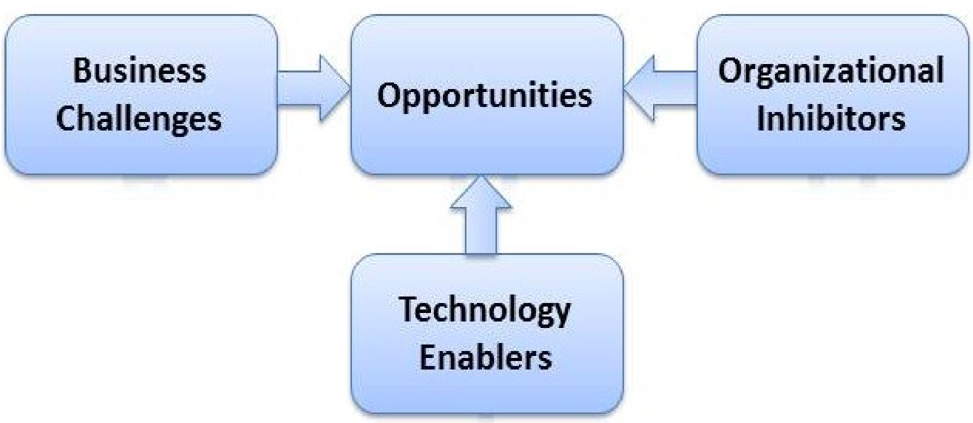
More than ever it's important for retailers to remember and acknowledge the value of the people who know what customers want to buy. Not every company can have an iconic flagship product, but selection remains really important. Today's shopper is easily bored, and while service delights, so does a new and cool product – from office supplies to big-screen TVs. She's most appreciative of retailers who curate their assortments to suit her tastes. While science will help us understand the demographics, psychographics and sentiment, *anticipating* her needs remains an art. It is always our wish to see that art form flourish.

Appendix A: RSR's BOOT Methodology^{SM}

The BOOT Methodology^{SM} 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 August 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^{SM} follows:



Appendix B: 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.