



FOR 2012

Succeeding in Multi-Channel Commerce

By Lauren Freedman, President, the e-tailing group | Sponsored by Acquity Group

**NOW IS A VERY INTERESTING—AND CHALLENGING—
TIME TO COMPETE IN ECOMMERCE. IN AN ECONOMY
WHERE CONSUMERS ARE IN THE DRIVER'S SEAT –
SEAMLESS, VIBRANT SHOPPING EXPERIENCES
ACROSS CHANNELS ARE A 'MUST-HAVE'. RETAILERS
ARE REVAMPING THEIR APPROACH FOR MANAGING
AND EXPANDING THEIR CUSTOMER EXPERIENCE,
ADOPTING NEW TECHNOLOGIES AND TRENDS, WHILE
ENHANCING OLDER INVESTMENTS. EVALUATING
THE CROSS-CHANNEL EFFORTS (SUCH AS ONLINE,
IN-STORE, MOBILE AND SOCIAL INITIATIVES) OF
TODAY'S ECOMMERCE MERCHANTS PROVIDES
VALUABLE PERSPECTIVE INTO THEIR PLAN FOR
FUTURE SUCCESS.**

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THE CONSUMER

Today, consumers are constantly connected—with their iPhone at the airport to their desktop in the office, trips to the mall are becoming less efficient than surfing the web. Retailers report that customers are seeking a new type of value. They are more discriminating about when, and how much, they buy; reacting more to coupons and promotions, particularly free shipping; and seeking out comparable pricing on services.

Today's consumers are more tech-savvy, seek more value and seek it through more channels than ever before.

More Tech Savvy “Consumers are more tech savvy, treating shopping like a game they want to win. Retailers realize people will research, find a product of interest, and simply cut and paste the SKU number into Google in search of the best price elsewhere. Merchants must sharpen their pencils to retain customers against a diverse array of competitors,” emphasizes Peter Cobb, Sr. VP Marketing/Cofounder, eBags.

“Interest in engaging with different technologies sees greater adoption of tools among consumers,” notes one technology player. “The younger generation’s move away from phone to chatting is just one of many shifts we are seeing from the texting generation.”

Our own e-tailing group 1Q11 survey saw chat becoming a preferred way to communicate with retailers. When we asked 1,000 US-based shoppers, “Thinking in general about shopping online, what is your overall preferred way to contact an Internet retailer?” Twenty-percent answered live chat, while 21% preferred the phone. Fifty-eight percent mentioned email.

One merchant observed they are chatting with more people, and that ROI is higher for chat than for their call center. In post-chat surveys, 25-40% respond that if a chat box had not popped up, they would have left the site. This company handles chat internally, and its knowledgeable support staff view it as a sales channel, leveraging an integrated customer database.

More Value Consumer expectations increase with cross-platform access as shoppers expect the ability to interact with a brand wherever and whenever they want. At the same time, it is important for companies to present a consistent brand experience across channels, while optimizing each channel’s unique capabilities.

“Value” takes on many meanings. James Connell, Vice President of eCommerce and Marketing at Roots suggests, “Product differentiation is critical where retailers must have unique, new, exclusive and/or discounted product; otherwise they will find themselves competing only on price.” He, like others, sees that service can be the source of that differentiation.

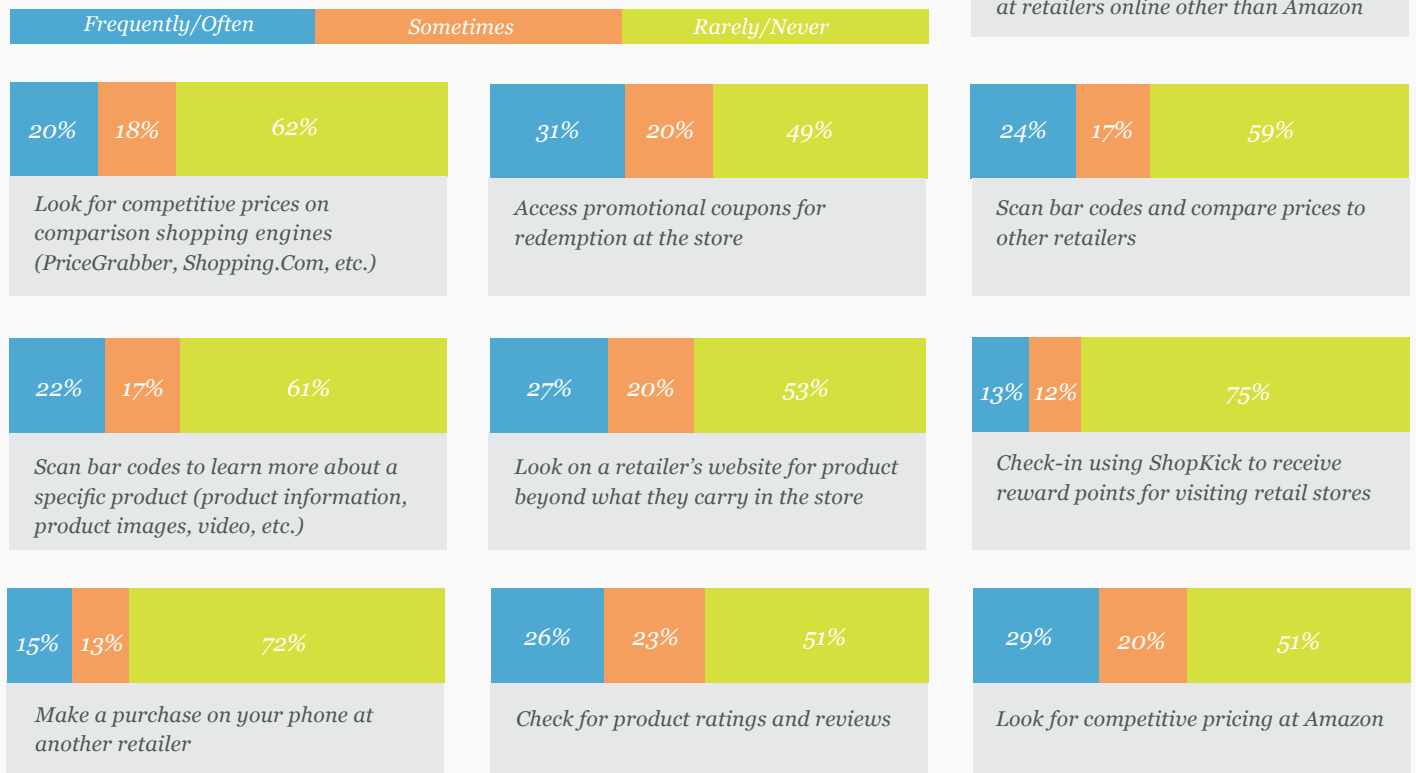
Brad Wolansky, CEO of The Golf Warehouse, agrees: “Service can be a necessary differentiator that should be seen partially as a marketing expense in order to retain customers with greater value forthcoming relative to other marketing spends. Today it’s important to price sharply and pass on great deals to one’s customer seizing a ‘get it while it lasts’ mentality. That formula funds the service cost of providing ‘raving fan’ service and is not the huge expense many executives believe it to be.”

“At Abt Electronics, our mantra is ‘yes’ to any reasonable request, knowing that if the first sale is not profitable the next one likely will be,” shares their President, Jon Abt.

More Channels Mobile technology has changed the shopping dynamics of today's consumer, empowering them to access information from the palm of their hand. "Shoppers now are bringing competitive data inside the retailer's four walls in unprecedented ways. They can scan bar codes to get competitive prices from Amazon and others, which turns control upside down. This empowered consumer is two-clicks from ordering from somewhere else while standing in your store; whereas in the past, they may not have left your store without making a purchase," laments John Lazarchic, VP of eCommerce at Petco. Our e-tailing group 1Q11 research confirms such activity, indicating that one in four customers show this behavior while shopping at retail stores (see chart below).

Customer empowerment via social media means retailers are looking for more meaningful ways to connect and respond to their customers. While initial Facebook strategy centered on the number of fans one acquired, today it's also about responding to issues within that environment. Retailers indicate they are seeing customer service issues surface in social media, from bad store experiences to product deficiencies; and the expectation for response time is nothing short of "immediate."

WHEN VISITING PHYSICAL RETAIL STORES HOW LIKELY ARE YOU TO PARTAKE IN THE FOLLOWING BEHAVIOR WITH YOUR SMARTPHONE?



Source: Coffee Table/the e-tailing group Mindset of the Mobile Shopper Survey, 2011

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THE FOUNDATION

Organizational Structure, Technology

Competing in an omni-channel environment often requires investment in organizational and technological infrastructure. We discussed with many retailers the initiatives they are working on, and the challenges they have faced.

Organizational Structure In the past two years, Belk, a regional department store, has seen significant eCommerce growth—from \$20M to \$35M, and associated margins are also higher than planned. Belk has committed to support its e-initiatives with a growing workforce, often difficult to come by in larger organizations. This includes both rebuilding the IT infrastructure to fuel eCommerce and adding 24 positions to support the rapidly growing eCommerce business. Ivy Chin, SVP of eCommerce at Belk, acknowledges they are in a catch-up mode, and

recognizes the challenges of getting the team to work effectively while continuing to on-board new positions, particularly when trying to accelerate growth.

Coordination across channels has been a long-standing topic of interest at the e-tailing group. According to our 2011 Merchant Survey, 10% of merchants already have a seamless shopping experience in place while 46% plan to deliver one by next year as the chart below indicates

WHAT IS YOUR TIME FRAME FOR DELIVERING A SEAMLESS SHOPPING EXPERIENCE?

(CHANNELS ARE WELL INTEGRATED FOR SHOPPERS) ACROSS SALES CHANNELS (INTERNET/WEBSITE, EMAIL, MOBILE, STORE, CATALOG, TV, SOCIAL)



Source: the e-tailing group Merchant Survey, 2011

Understanding one's vision for cross-channel execution can certainly impact organizational design. Steve Wentzell, Director of eCommerce for LIDS, speaks of aligning some functions as customer care has been elevated across the organization, now being addressed at the corporate level. In order to focus more on eCommerce, the team is reaching out to the store operations group and social marketing team to ensure a tighter integration with the store calendar.

James Connell, Vice President of eCommerce and Marketing at Roots, notes that he has taken over all of marketing (digital spend vs. traditional spend) to achieve better integration. This centralization allows them to create unique landing pages based on online promotions, along with differentiation strategies that drive more cost-effective marketing spends.

Scaling the Technology John Rogers, VP/GM of eCommerce at Under Armour, marvels at the rate of adoption of new technologies: "With multiple shopping platforms, including mobile phones and tablets, multi-channel has reached a new dimension; and as merchants we need a platform that is device-agnostic."

Mature multi-channel players with legacy systems and traditional merchandising organizations are continually trying to reconcile systems developed separately. One retailer spoke of spending two years completely integrating channels, which ultimately spun off more infrastructure projects. One multi-channel party retailer sees the power of automating processes as they need to scale quickly. With 30,000 SKUs, she references the ability to test for optimal performance as being critical to proper decision-making.

Discussions of infrastructure development naturally lead to discussions of in-house versus outsourcing options. Several retailers, like Petco, continually evaluate their internal processes. Subsequent to such an evaluation, Petco undertakes an RFP process, looks at search agencies and affiliates, and explores which is the optimal solution for the company.

Content Management Significant discussion surrounds content management systems as many retailers are strapped with legacy systems although merchant needs have evolved. Reflecting back, one early to eCommerce department store, and now omni-channel retailer, believes that content management systems will be their next big infrastructure investment. "Despite development of a state-of-the-art management system in 1999, times have changed and there are better tools available that can accommodate our asset needs including video. A more dynamic solution is required today given the growth of both channels and assets."

Hybrid Solutions Now providing products for 20 different sites, eBags lays out the challenge from their vantage point. It is essential that they have standard protocol to achieve efficiencies where possible. Others are addressed using tools like Channel Advisor or Commerce Hub, and delivered to respective merchants.

Petco also takes a hybrid approach, sharing assets across the corporation. Although it is not always seamless, they continue to work with the advertising department to take advantage of other parts of the organization. While copy is set up internally, additional asset creation is often contracted out, and India is used for mass production needs.

Outsourced Models Whether digital or not, using third-party vendors can be difficult, because all have to work in sync with the site as well as each other. One large apparel retailer explains that their content management tool is part of their ATG platform. Via Scene 7, they can host images and do some production work, streamlining promotion and product setup. No matter the scenario one faces, digital asset creation and maintenance is critical and should be continually monitored, paying attention to efficiencies and scale.

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AMAZON

In our 2011 Merchant Survey, Amazon was often mentioned by retailers for its amazing growth, domination of the digital landscape, and sophisticated personalization. Its dominance has resulted in many smaller merchants being forced out. Amazon is currently on track to do \$16B in revenue this year, a 40% increase, and is often the place many consumers start a product search instead of Google. Traffic via mobile apps to check prices from inside retail stores is also an important dynamic playing in Amazon's favor. Its Prime loyalty program locks in customers who get hooked in a way that's difficult to decouple, prompting loyalty program evaluation and optimization in other retailers.

Several retailers noted that they seek to stay ahead of Amazon on selection, pricing, and service, as competing on logistics and one-click is virtually impossible. As many of us already know, Amazon does not always provide the level of service some shoppers need, so retailers feel that they can beat them on that score. Many customers have questions and service needs, so this is a place for them to differentiate with service above and beyond what is provided by Amazon.

Backing up such a Retail 101 strategy is another merchant who emphasizes, "We want to gain more brand loyalty by offering a huge, well-priced selection with the best customer service around. We're a small company and can provide the one-on-one personal attention that cannot be experienced at the big companies."

Ivy Chin, SVP at Belk, makes an important point that not all businesses are directly competing with Amazon. In Belk's case, its customers tend to primarily visit competitive departments stores, making Amazon less dominant in its space.

Lenovo is the first major manufacturer to implement "Checkout with Amazon," and views Amazon as a way to expand their global presence. "We will partner to offer a convenient and familiar checkout experience. In addition we can better target and segment, taking advantage of Amazon's personalization prowess, onsite and via email," reports Lewis Broadnax, Executive Director of Sales and Marketing at Lenovo.

Loyalty programs, another excellent way to circumvent Amazon, are suggested by several multi-channel players. For some like Moosejaw, a model of engagement serves as a differentiator coupled with their Super Altitude Loyalty program, according to Harvey Kanter, CEO. John Rogers, VP/GM eCommerce, Under Armour concurs, "We must look for ways to give our customers something to come back for versus the convenience of going to Amazon. It's certainly a challenge and we believe that loyalty programs will become more important under this scenario."

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PRODUCT ASSORTMENT

Beyond branding, assortment strength should not be underestimated. The different dimensions of the brand strategy come to life in assortment decisions, and are represented by the size and diversity of the assortment; the amount of information that accompanies different products, categories, brands, or styles; and product extensions.

Consumers have embraced broad online assortments from basics to luxury goods. “They are justifying their chosen retailer through pre-shopping behavior patterns, where they desire comprehensive information to make informed buying decisions,” reports Karyn King, Senior Manager of Site Development & Operations at Staples.com.

Dennis Hernreich, COO/CFD at Casual Male Retail Group (CMRG) emphasizes: “It’s important we develop our Destination XL for the big and tall man, which is predicated on a wide selection of clothing.” This breadth of selection and inherent knowledge of their demographic is what allows CMRG to compete against larger players.

Advance Auto is another SKU-intensive business with 100,000 SKUs today, conscious that broad assortment is an important part of their model. They are also in the process of rapidly expanding assortment as consumers add more electronics, garage controls, and general comfort to their cars.

For Under Armour, this means being more disciplined as a company by going deeper with SKU proliferation and product extensions. “We need the breadth to be more

forceful, and such an approach will deliver a stronger point-of-view online,” suggests John Rogers, VP/GM eCommerce at Under Armour. eBags is changing their assortment strategy through two major company initiatives centered on growth. Private label, given its margin contribution, is a significant effort along with creatively carving out distinct businesses as seen in their Handbags.com program.

There are multiple ways that assortments can be extended. Retailers like Jos. A. Banks introduce new product lines built off current success, while another technology merchant drives assortment changes based on profitability, evaluating performance at the item level.

Exclusivity can be vital from both a margin and marketing perspective. Roots plans to devote more effort to limited edition runs and higher-touch leather products, versus mass-oriented merchandise, while providing brand fans previews to product catalog and limited edition products via Facebook.

One specialty department store is looking at organic growth from product extensions (additional sizes, colors, and drop-shipping). One example of such an effort is their Sports Fan Shop, capitalizing on past sales and interest from this enthusiastic customer base. They outsourced this marketplace to create 200,000 team products. At the same time they are advantage of interactive tools, developing customer initiatives such as Bali’s custom window program or diamond ring configurators, and are looking for outsourced capabilities from nontraditional partners to support these efforts.

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MULTI-CHANNEL BRAND ALIGNMENT

Leading retailers recognize the differentiation a well-managed customer experience can deliver, and are working to ensure that they engage their customers in a manner that is appropriate to the customer, the brand and the channel.

Retailers realize that competing is all about differentiation. “At Crutchfield we are focused on what we can do uniquely and smartly from a communication standpoint,” explains Todd Cabell, Sr. Manager of Web Strategy, Crutchfield.com. “Paying attention to best practices and trends—along with spending our resources and time smartly—goes a long way.”

We begin with brand alignment, as proper experience, tools and merchandising sets the stage for the success or failure of the brand. With digital channels rapidly adding new dimensions and platforms consumers expect brands to understand how each channel contributes to the experience, and in some cases how the experiences overlap.

Nordstrom supports a long-term value proposition of taking care of customers by “knowing” them. Website and store experiences are tailored by location, and a single voice dominates all communication. The ability to buy online and pickup in-store remains core to many retailers. Powerful product locators make retail inventory more accessible, and extend their reach beyond a single location without further inventory exposure. From a specialty perspective, Sephora keeps the customer experience consistent with their Beauty Insider loyalty program, which has seamless deployment across channels.

In our Annual Merchant Survey, 74% of respondents “strongly to somewhat” agreed that consistent branding was deployed across channels.

RATE YOUR LEVEL OF AGREEMENT WITH EACH OF THE FOLLOWING STATEMENTS RELATIVE TO YOUR COMPANY’S CURRENT INTEGRATION OF CROSS-CHANNEL INITIATIVES. (STRONGLY TO SOMEWHAT AGREE CHARTED-TOP 2)



Source: e-tailing group 2011 Merchant Survey

Our discussion with Churchill at Patagonia emphasized this challenge. With all these new channels, he recognizes that companies must work much harder to make a single brand statement. Patagonia has recently hired an Executive VP to oversee all channels. There is much to be addressed as they hope to develop social media initiatives and test Lookbooks on Facebook and Twitter, while expanding wholesale.

There will be immeasurable challenges and opportunities for this new position, but the company hopes the position will be valuable.

Ben Viscon, eCommerce Manager of Merchandising and Marketing at REI, discusses goal alignment between the store and the web, and the importance of having a singular set of goals across the company. “Today, 80% of web traffic is looking for stores, thus shared revenue allows us to do more than sell on the website. This means potentially doing something different, as we will be less conversion-focused and more cross-channel and marketing-driven. By observing our visitor interactions and the competitive landscape, our website can best deliver against customer expectations where we will continue to differentiate in customer experience and service on which we pride ourselves.”



MERCHANDISING

Our Annual Merchant Survey asked merchants to rank favored merchandising and customer retention tactics. As charted, aggregated responses run parallel to many of the initiatives shared by retailers interviewed for this report.

“One should start with simplicity; today’s consumer is demanding more, basically looking for you to ‘get out of my way’ when it comes to shopping,” observes John Rogers, VP/GM of eCommerce at Under Armour. This means paying attention to key elements that remove buying obstacles, starting with making it easy for consumers to find what they’re looking for. Guided navigation and product attribute-driven approaches serve most merchants well.

Everything needs to be easily understood, from clarity of offers that peak shopper interest to streamlined cart checkout (ideally in four steps or fewer), which encourage completing the transaction. Karyn King,

Senior Manager of Site Development & Operations at Staples points out, “While we might understand what current customers are doing, we need to know what may be inhibiting potential new customers from completing a purchase.”

Many merchants also cite avoiding website clutter, aiming efforts at convenience. “This also means having a reliable and fast site, with the less clicks the better,” according to Howard Blumenthal, Advance Auto’s Director of eCommerce Platform Solutions. He’s emphatic that while shoppers might put up with slow performance for a product emergency, they might not ultimately return.

TOP RATED MERCHANDISING/NAVIGATIONAL AND MARKETING/ CUSTOMER SERVICE TACTICS FOR CUSTOMER RETENTION WITH “5” BEING THE MOST IMPORTANT TO YOUR STRATEGY AND “1” BEING THE LEAST IMPORTANT.

<i>Search engine marketing</i>	90%	<i>“My Account” features like stored addresses or shopping lists to encourage return visits</i>	66%	<i>Inventory stock status notification</i>	48%
<i>Faster site load time</i>	70%	<i>Social media elevation</i>	49%	<i>Pricing or promotional strategies from free shipping to private sales directed to current customers</i>	74%
<i>A/B, multi-variate or other usability testing</i>	56%	<i>Making it easier to find products with enhanced onsite search relevance, sort options, and/or landing page optimization</i>	78%	<i>Editorial content, expert reviews, user-generated content, and/or other helpful tools to position your site as a “go-to” expert</i>	62%
<i>Exemplary customer service</i>	88%	<i>Faster fulfillment/shipping to the customer</i>	66%	<i>Elevated brand differentiation</i>	43%
<i>The “right” in-stock assortment</i>	69%	<i>Alternative payment methods</i>	48%	<i>Streamlined checkout</i>	73%
<i>Emails to minimize cart abandonment</i>	53%	<i>Targeted and/or segmented email marketing campaigns</i>	77%	<i>Personalization strategies including placement of up-sells/cross-sells</i>	61%
<i>Analytics evaluation to see what works</i>	88%	<i>Rich media or related tools (zoom, alternative views, audio, video, etc.) that engender consumer confidence</i>	66%	<i>Frequent shopper programs</i>	31%
<i>Email that utilizes an array of tactics sent on pre-established frequency</i>	69%			<i>Proactive chat</i>	30%
<i>Retargeting/display ad</i>	53%				
<i>Site redesign or enhancements that improve the customer experience and navigation</i>	85%				

Source: e-tailing group 10th Annual Merchant Survey, 2011



PERSONALIZATION

Personalization is vital for customer experience management. Merchants realize this, as 25% of respondents to our Annual Merchant Survey report that their emails are “very personalized,” and 36% intend to add it this year.

REI’s Viscon mentions the recent creation of a Customer Insights team. By composing rich data on co-op members—such as where and how they shop, and what they buy—REI can take advantage of analytics and cross-channel behavior, with a goal of being more relevant and personalized to all customers.

James Connell, Vice President of eCommerce and Marketing at Roots, believes the customer wants to be spoken to on a one-to-one basis, making personalization vital to their growth. This could include using customer profiles to create different experiences in browsing patterns. “Every person is an individual, and as such we try to understand that customer, including use of their spend pattern and social graph to incorporate that experience into the site. For example, we might look at someone who liked us on Facebook and provide a much different perspective. Ultimately we take advantage of trigger-based communication (abandoned cart; automated recommendations) to drive conversion, which is a very targeted approach to selling.”

Awareness and correct use of relevant customer information, such as personalization, segmentation, and targeting can deliver strong results. In the case of Lenovo, knowledge of certain information may push out a promotion of a particular product or service, with the timing of merchandising also derived from personalization information.

Many begin with point of entry, then transition to understanding previous browse and purchase patterns confirms John Rogers, VP/GM of eCommerce at Under Armour. “This, along with information from open-graph preference like behavior onsite, helps turn the website into a value-add and even better experience. Following such a formula, the site acts based on multiple data points and many sources drive how the site experience is displayed. We have several disparate customer segments and we must act differently with each to be relevant.”

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DIGITAL ASSETS

The growth of web technologies requires merchants to be conscious of how they create and manage their digital assets. As part of our merchant survey we asked, “How are you utilizing digital assets internally and through outsourced vendors, and what if any challenges are you facing in streamlining these efforts?”

Todd Cabell, Sr. Manager of Web Strategy at Crutchfield reinforces the importance of common standards regarding digital asset management. They work with vendors to consistently deliver across all platforms, controlling most of their content production in-house to ensure it meets brand standards. Although happy to rely on partners to help enhance their assets, they do not see that as a substitute for their own participation and direction.

Several retailers secure some of their assets through third-party services like Web Collage, which automatically places them in other merchants’ systems. Others mention that smaller vendors often lack the necessary imagery, or do not meet merchant standards for supplying assets. Because of this, retailers like LIDS have increased their capabilities internally by investing in equipment to deliver desired imagery.

At CMRG, Hernreich discusses the need to update imagery particularly for better wardrobing, a growing area of differentiation for their customers.

James Connell, Vice President of eCommerce and Marketing, says Roots has an internal photo studio, and copy is now written across the entire organization, which allows them to disseminate data quickly and cost-effectively. The automated sharing of ratings and review content with designers helps improve product mix and customer satisfaction. Access will be both valuable and streamlined.

As retailers want greater control and desire for products to look consistent across their channels, many find they must create digital assets for that product themselves. As brands make changes to their voice, digital assets must also change, and one merchant suggests looking for new talent to assist with this undertaking.

One manufacturer is changing their copywriting group to write in a more “direct” tone. Currently operating in an isolated environment, they are making asset changes a company-wide initiative. Merchants will spend more time styling outfits and complementary items. They will also be able to take advantage of these assets, using imagery for wholesale accounts to be consistent in their branding and better aligned with channel partners.

Patagonia is investing in a photo studio, expanding photo shoots so every product can be seen on a model, along with delivering incremental alternative views. Increased sales and decreased returns are already being seen from these efforts. This is all supported by a central warehouse of assets controlled by their content management system, according to Churchill.

Ben Viscon, eCommerce Manager of Merchandising and Marketing, reports REI has also built a studio to better address digital asset needs, and in some cases can tap into vendor assets, including video, for campaigns, although most are handled internally. They have developed a procedure to handle video where cleanup is done internally. Like several others, they use partners to create 30-second pop-up videos. At their current pace, 50 streams can be produced in 90 minutes. “The video publishes itself, is automatically delivered to the site, and we find significantly greater ROI on video-centric pages,” he notes.

Video The way in which customers seek and retain information has changed immensely in recent years. Customers want more information in an easily accessible medium – and with stimulating visuals. Hence the increased demand for video. Many of the merchants interviewed were strong advocates of video, citing the visual aspects and personalized approach as key factors in its usage.

The shift to video usage as an eCommerce tool is apparent with an 88% penetration among our EG100 sites. According to data, the product page is the dominant location for video to help with conversion, based on its ability to guide the shopper at a timely decision-making juncture. Its usage, however, is seen across the landscape, in everything from branding to category content, often supplied via manufacturer and third-party content delivery engines.

Video/Audio Features		4Q10	4Q09	4Q08
<i>Videos/Audio</i>		88%	64%	N/A
<i>Location</i>	<i>Home Page</i>	16%	N/A	N/A
	<i>Category Page</i>	36%	N/A	N/A
	<i>Brand Boutique</i>	41%	N/A	N/A
	<i>Product Page</i>	73%	55%	N/A
	<i>Other</i>	75%	N/A	N/A
<i>Type</i>	<i>Branding Content</i>	69%	N/A	N/A
	<i>Manufacturer Content</i>	47%	N/A	N/A
	<i>Category Content</i>	53%	N/A	N/A
	<i>Guides/ How To's</i>	33%	N/A	N/A

Source: the e-tailing group Mystery Shopping Survey, 4Q 2010

Well conceived video exploitation begins with branding power, as Patagonia describes renting a helicopter to capture their brand essence while at the same time creating a 'how to stuff a down jacket into a pocket' video, shares Kevin Churchill, Director of Merchandising. Lenovo is pursuing video to help shoppers better understand complex products where it serves as a confidence builder and can also help to drive click-throughs to the product pages. One specialty apparel retailer emphasizes the many great things happening in their stores including events, fashion director appearances, and the need to talk about and integrate these into the site experience. These same videos can also serve as an excellent tool for sales training so its usage is certainly multi-faceted given proper execution.

Under Armour emphasizes the importance of video, with just under 100 productions on their eCommerce site. Their outsourced model allows them to scale quickly without resources. Petco launched videos in 4Q10, though they are now just making them more

prominent on the site. John Lazarchic, VP eCommerce at Petco, knows they need more focus, but also knows that content generation doesn't come cheaply. Despite that admission, he still expects to see value in their proliferation. Merchants are also addressing how to put their own "stamp" on creative from both a branding perspective as well as a desire to meet design standards within their own organization and as a single voice.

Peter Cobb, Sr. VP Marketing/Cofounder at eBags notes that on their videos of private label product, 52% of people are still watching at 200 seconds. He believes this gives potential customers a better feel for the product instead of debating in their minds why they would pay \$179 for a particular bag. Cathy McManus, Marketing Director at Stacks and Stacks reports a 25% lift with video, and viewers 144% more likely to buy after viewing. Despite such performance results she still advises fellow merchants to make choices about which ones make financial sense.



SOCIAL

Social is quickly changing the eCommerce landscape. Our Annual Merchant Survey and discussions with retailers helped us understand the opportunities and challenges merchants face transitioning to social strategies.

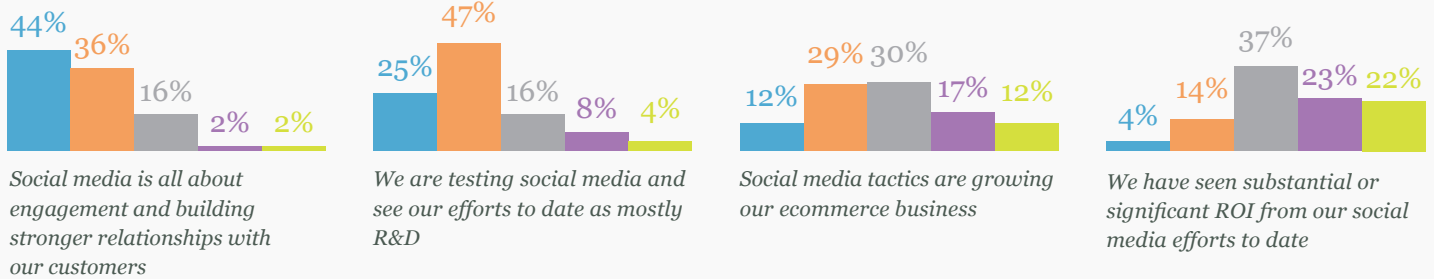
The outdoor gear retailer Moosejaw has found great success expanding their brand virally. The Michigan-based retailer is perceived as fun and irreverent, and their customers, like most, use new technologies for enjoyment and efficiency; experiences with Moosejaw deliver both.

Merchant sentiment regarding Facebook is mixed. Most have not yet found it to be a meaningful revenue stream, but merchants realize the need to establish a presence. Many are investing in Facebook without certainty of ROI potential.

Our Annual Merchant Survey results show the main reason firms invest in social media is increased engagement and relationship building, rather than focusing on ROI.

RATE YOUR LEVEL OF AGREEMENT WITH EACH OF THE FOLLOWING STATEMENTS RELATIVE TO YOUR COMPANY'S ROI FROM SOCIAL MEDIA INITIATIVES.

■ Strongly Agree
 ■ Somewhat Agree
 ■ Neutral Agreement
 ■ Somewhat Disagree
 ■ Strongly Disagree



Source: the e-tailing group Annual Merchant Survey, 2011

Regardless of a merchant's positioning or customer base, Facebook will be an undeniable eCommerce force over a five to eight year horizon. While today it is more about engagement, one retailer believes it may eventually replace email, and views it as a marketing channel.

Abt has a dedicated social media expert, and finds information shared on its page valuable for customer service. They want to be "liked" more, and hope to see time spent with their brand grow via Facebook. Lenovo has a successful pilot with 100,000 fans, and is looking to test Facebook Commerce. For two years, LIDS has been using Facebook emphasizing brand awareness and customer engagement. A team, including field reps, meets weekly to address promotions, develop strategies, and define goals. One specialty department store hired a social media manager and held several store events where bloggers participated. "We gave them \$50 gift cards and introduced visual merchandisers plus our fashion team; the buzz was forthcoming from Facebook to Twitter. So for us it's clearly about great engagement and pushing [the] brand, not sales."

Facebook and Twitter are also avenues for streaming video. "We see more exposure, new visitors, and an opportunistic avenue for shopping where the viral impact

is powerful," says Cathy McManus, Marketing Director at Stacks and Stacks. eBags looks at it in a similar way, with one person monitoring social efforts, updating Facebook, Twitter, and blogs. "We rotate through 400 videos, and can see great success from products that go viral, such as our airline flight lunchbox cooler, which gets posted on many [Facebook] walls," observes Peter Cobb, Sr. VP Marketing/Cofounder at eBags. "It's early and today it's more about branding versus revenues, though we view it as a distinct sales channel."

American Greetings Interactive fosters interaction by choosing topics for discussion and listening for ideas and feedback. Strong believers that what you can track you can measure and optimize, they are testing and analyzing social technologies along these lines, reports Dawn Wayt, VP of Marketing.

Ivy Chin, SVP of eCommerce at Belk shows how social media strategies can vary by region. "Fashion in the South demands a different level of editorial engagement, where we must be careful how we introduce commerce. This can mean starting conversations on Facebook, then moving to Belk's website to go where the customers are congregating. Additionally, we have good relationships with designers and brands and enlist their support in participating on the page, using keyword and linked-based strategies to optimize."



MOBILE

Our Annual Merchant Survey findings on mobile adoption show that mCommerce is already employed (with more planned for the future), with iPhones receiving the most attention.

WHICH MOBILE AND SMS CAPABILITIES DOES YOUR COMPANY EMPLOY OR PLAN TO EMPLOY?

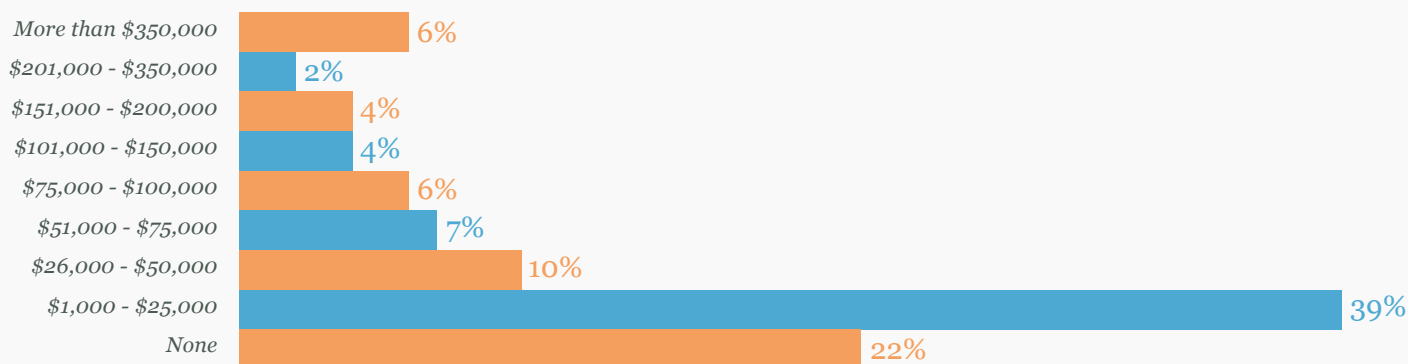
	Employ Today	Plan to Employ in the Next 12 Months	Considering for the Future, Beyond 1 Year	No Plans to Employ
mCommerce site	25%	34%	22%	19%
Android application	9%	22%	23%	48%
Blackberry application	8%	14%	22%	56%
iPhone application	20%	20%	26%	34%
SMS	14%	22%	24%	40%
Mobile usage within the retail stores via associates	5%	13%	18%	64%
Mobile as an opt-in preference via email or checkout	10%	19%	24%	47%
Opt-in promotion codes in print advertising	7%	12%	24%	57%

Source: the e-tailing group 10th Annual Merchant Survey, 2011

Investments and planned spending break down as follows:

- One-half of investments in mobile will be under \$26,000 this year; one-third plan to spend more than \$100,000, showing a divide in strategic approaches
- 38% of merchants report traffic to websites from mobile greater than 2%, with 41% reporting traffic via mobile less than 2%
- 17% of merchants report website revenue from mobile 2% or greater, with 48% reporting website revenue via mobile less than 2%

WHAT LEVEL OF INVESTMENT WILL YOU MAKE IN MOBILE THIS YEAR?



Source: the e-tailing group 10th Annual Merchant Survey, 2011

Numerous merchants are still debating mobile plans, with some managing the project internally and others outsourcing. Those not choosing to invest are either worried about the lack of ROI, or are not sure whether mobile or social technologies will deliver.

Jos A. Bank sees potential in SMS/texting promotions to business customers, and is hoping to support these initiatives. Mobile accounts for 9% of eBags' traffic, and 7% of its sales. The iPad alone now represents 5% of sales; additionally, the iPad's AOV is higher than for PC and smart phones, by 14% and 29% respectively.

Staples aims to provide a pure multichannel offering, incorporating Staples.com, mCommerce and retail locations to make it easy for customers to shop whenever and however they want. Consistent with a number of externally-run surveys, Staples finds that their cross-channel customers are significantly more engaged and generate more revenue and margin than single channel customers. That data has been consistent over the years and remains true today, says Karyn King, Senior Manager of Site Development & Operations at Staples.com.

Crutchfield views mobile as a key strategic area and is seeing successful traffic growth after one year. They will continue to improve the UI as they learn what users expect from the mobile experience.

One department store is witnessing the power of driving store traffic and mobile couponing. They are capturing mobile phone numbers on the web in hopes of increasing their database. Ideally they want an internal platform to handle mobile initiatives that are currently outsourced.

Though their traffic today from mobile browsers is fairly high (with 5-10% month-over-month growth), Petco predicts future growth in the mobile channel. John Lazarchic, VP of eCommerce at Petco, predicts that it will represent mid-single digits by 2012. He expects a combination of mobile tactics to reach the customer pre-shopping and while in the store, encouraging them to be more aggressive on the transaction front. He also acknowledges the efforts required, having started to secure mobile phone numbers on their website, and look to ready their platform for spring selling.

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BRICK N' MORTAR

Store efforts seem to center on infrastructure and inventory visibility strategies, along with addressing how mobile will be tied into retail experiences. We recently conducted insightful research on mobile consumers and their in-store activity.

WHEN VISITING PHYSICAL RETAIL STORES HOW LIKELY ARE YOU TO PARTAKE IN THE FOLLOWING BEHAVIOR WITH YOUR SMARTPHONE?

Frequently/Often
Sometimes
Rarely/Never



Source: Coffee Table/the e-tailing group Mobile Shopping Survey, 2011

Mobile investments serve as the connection between the web and in-store traffic. Mobile also gives retailers another way to communicate with customers. Localization grows in importance as consumers access available inventory, respond to promotions, and take advantage of advertising at the local level. Research completed on mobile phones on product information, inventory and/or reviews play a role in confidence building. Customers continue to come to stores well prepared, and mobile facilitates that knowledge. Merchant platforms must therefore be able to accommodate all of those needs.

Visibility into inventory is becoming a customer must-have. In recent surveys that the e-tailing group conducted, many customers are taking advantage of features to access inventory across the enterprise, so stores can ship desired products as directed. One retailer is integrating a platform with the ability to understand which store is most cost-effective as a shipping base.

Point-of-sale systems are another topic of discussion as everyone seeks to have the best technology. These systems are neither inexpensive nor easy to implement, and require training. Insights gained through POS tools across channels will shed better light on consumer behavior and allow for more effective targeting.

Moosejaw notes that they already have state-of-the-art computer terminals in their stores where they can access both online and store-based inventory. With the growth of tablets, retailers are assessing how to use these devices as both self-service and associate-enhanced tools. Abt talks about wiring their stores for web access, which becomes important as more individuals look to access the web via their own mobile devices or for testing products in-store. Dennis Hernreich, COO/CFO at Casual Male Retail Group cites the use of iPads in Destination XL to assist the impatient customer in reviewing outfits prior to making selections.

Patagonia has created an app that will allow customers to scan a product to see if it is available online and in-store. They understand this means bringing competition into their own store, but believe that staying on top of mobile technology is a priority, given that sales from the iPad represent 1% of their business. In support of driving traffic to retail stores, REI has iPhone and iPad tests

in place where customers can scan a product code on the shelf for more information from the web, along with store availability and an option to purchase. eCommerce executives continue to remind their store counterparts that they are significant traffic drivers, says Ivy Chin, SVP of eCommerce at Belk.

Portable checkout is another convenience, already common in Europe, expected to grow in the United States. One retailer also hinted at customers being able to buy via digital in-store kiosks.

As mobile technology continues to improve, merchants will continue to find new applications. One party supplies retailer envisions that a customer might see an ad and then, through the right mobile device, be able to watch a related video. Focused on technology products, Staples foresees a convergence of the web and retail experience, with more information on in-store products available via mobile, or through other in-store devices. This information will give the customer confidence to buy, and influence them at point-of-sale. Digital software and technology service strategies will also be part of the discussion.

In response to our inquiries about a series of new cross-channel technologies, adoption levels appear to vary based on the merchant's channel composition, eCommerce sophistication, and overall progressive nature. HTML5 has some interest, particularly as it relates to tablet growth and influence for certain retailers. Shopkick and Foursquare are being played with and on the radar of a handful of forward thinkers, but many honestly say it is an area they will address once mobile is in place.

QR coding is a tool that one-half of these merchants have in their consideration set. Efforts range from retail floor testing on tags and redirecting to web pages, to access of video in-store that embraces both catalog and digital ads. One retailer honestly reports that they can't really say if it's buying them anything. Adoption is forthcoming, with younger audiences embracing the technology but ROI is not yet being discussed.

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ANALYTICS AND TESTING

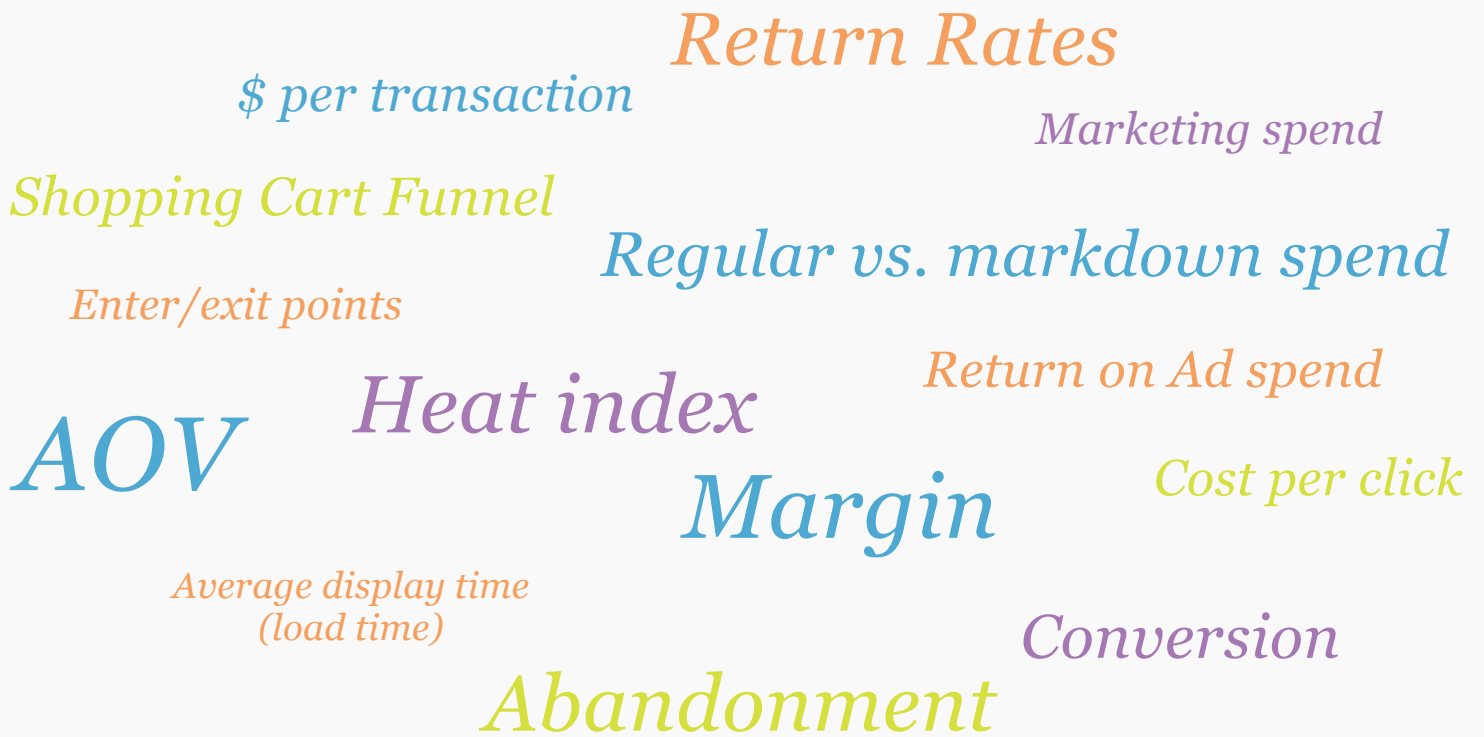
Our Annual Merchant Survey reveals that when merchants rate their top merchandising and navigation tactics for customer retention, cited first and foremost is analytic evaluation. This means having in place a robust database, analytics tools, and resources to assist in analysis. “Such a process allows retailers to make informed decisions rather than taking a seat-of-the-pants approach to their business,” adds The Golf Warehouse’s Wolansky.

Pete Zophy, DVP of eCommerce at Jos. A. Bank, reminds us to listen to our customers. This includes looking at web stats, survey data, and call center input. They take this data and assess its ROI potential, always monitoring analytics and their conversion rate. Conversion is always their highest priority. Todd Cabell, Sr. Manager of Web Strategy, Crutchfield.com knows that watching customers use the site can reveal much, and are involving customers to refine goals. Qualitative measures including customer comments and survey feedback are also factored in.

“We examine web analytics + customer satisfaction measurements, and then utilize Session Replay to drill down even deeper to better understand our customer,” explains Advance Auto Parts’ Blumenthal. “The visual record where one can see mouse movement is invaluable. In the end it is the combination of analytics, customer perception and visuals that allows us to see what really happened and the marriage of the three is powerful.”

KPI Thinking

When choosing KPIs, retailers use many metrics. The chart below is not all-inclusive, but serves as a good starting point.



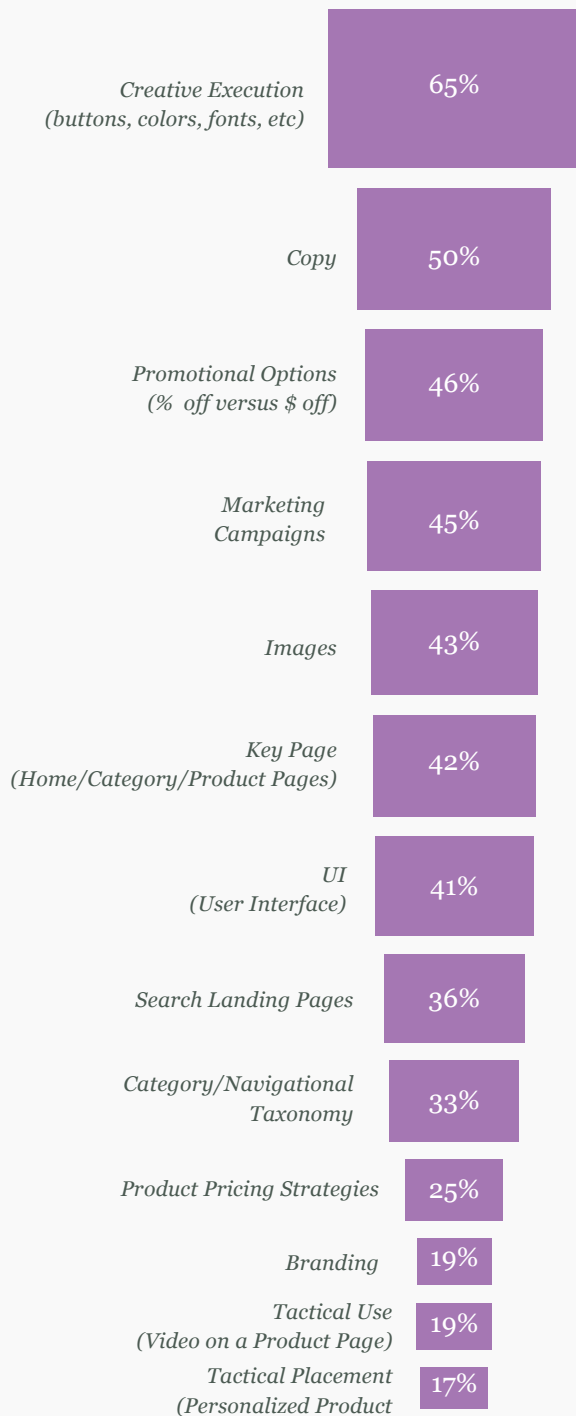
Petco sees great value from cross-channel customer knowledge. John Lazarchic, VP eCommerce at Petco reports that customers buying both in-store and online spend significantly more than single-channel shoppers. “We are being careful to understand what content is of interest, and to not force shoppers down poor paths, but engage them where they already are.”

adjustments, assortment, or promotion exposure must be adjusted. As one merchant said, “Good data is the basis of optimization and it must be actionable to use where resources are available, to help our buying organization understand best what’s working online and across channels.”

When using web analytics to track performance, profitability remains the highest priority. One department store tracks traffic generation and response rates, looking for high traffic and high return correlation. Often price

WHICH OF THE FOLLOWING HAVE YOU TESTED IN 2010?

CHECK ALL THAT APPLY.



Source: Amadesa/the e-tailing group Testing Survey, 2011

Testing

A/B testing is an important tool for every merchant. Our research confirms that firms tend to be either very active (33%) or “once in a while” testers (38%). Merchants report that testing has the most impact on improving the user experience (61%) and increasing site conversion (57%). Not surprisingly, testing is being used to improve many areas, from creative execution to copy, promotions, and marketing campaigns.

“Analyzing load times and restructuring how the site loads has been extremely critical, particularly when using third-party vendors for different site functions. Having a custom platform means all must work in sync, and it’s a prerequisite for working with any given vendor,” says Cathy McManus, Marketing Director at Stacks and Stacks.

American Greetings Interactive (AGI) takes advantage of A/B testing, changing out variables based on performance results. Dawn Wayt, AGI’s VP of Marketing, cites the importance of good attribution management: exploring where traffic and sales actually come from, and which channels help close sales. At Belk, Ivy Chin, SVP of eCommerce takes a holistic approach, where quantitative and qualitative measures are both used.

NOW IS AN INTERESTING—AND VERY CHALLENGING—TIME TO COMPETE IN ECOMMERCE. MERCHANTS CONTINUE TO JUGGLE THE NEED TO MAINTAIN AND ENHANCE SITES, WHILE CONTINUING TO EMBRACE NEW TECHNOLOGY. THERE ARE MANY CHOICES TO BE MADE, BUT TESTING AND ANALYTICS' TOOLS CONTINUE TO SERVE MERCHANTS WELL IN THEIR QUEST TO OPTIMIZE CONVERSION. LEARNING THE NECESSARY SKILLS FOR CUSTOMER OPTIMIZATION MANAGEMENT IS ESSENTIAL TO SUCCEED IN THIS EVER-CHANGING WORLD. AWARENESS OF IN-STORE, MOBILE, AND ONLINE POSSIBILITIES WILL DRIVE MERCHANTS WHO DESIRE TO COMPETE IN OMNI-CHANNEL COMMERCE. CONTINUED TESTING OF SOCIAL MEDIA AND MOBILE TECHNOLOGIES IS VITAL, AND LEARNING FROM EACH OF THESE AREAS SHOULD HELP MERCHANTS BUILD THE FOUNDATION FOR FUTURE SUCCESS.

ABOUT ACQUITY GROUP Acquity Group is the world's leading multi-channel commerce and digital marketing company, creating award-winning digital experiences for global brands. Our multi-disciplinary approach brings together strategy, design, and technology to create brand-unique experiences that build unbreakable customer relationships. Acquity Group is headquartered in Chicago, with offices across the U.S. To define a unique perspective for your business, contact Acquity Group at www.acquitygroup.com.

ABOUT THE E-TAILING GROUP the e-tailing group is a niche e-commerce consultancy that helps merchants deliver the right customer experience on their websites and across all of their channels while adeptly assisting technology companies to create and execute go-to-market strategies that simultaneously educate the retail community and deliver cost-effective thought leadership and lead generation. For more background about our research or for additional information on the e-tailing group, inc. please contact Lauren Freedman via email at LF@e-tailing.com, by phone to 773-975-7280 or visit the e-tailing group website www.e-tailing.com

