Retail Transformation Study

How Retail Leaders Are Redefining IT and Transforming the Customer Experience

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Study Highlights

Store counts and Remodels up 4.9% & 4.2%

Enterprise & Store IT Spend up 4.5% & 4.7%

**POS spend up for 2017
(25% of retailers for HW, 32% for SW)**

**Cloud spend up for 2017
(34% of all software)**

Unified Commerce gains momentum

**Retailers that only see IT as a cost center will
be eliminated by Amazon and other retailers**

Source: IHL Group

Segment Definitions

They are not all created equal

> **For purposes of this study, we identify retail segments according to the following:**

- o **FDC** –Food/Grocery, Drug Stores, Convenience Stores / Gas Stations, and Mass Merchant / Warehouse Clubs. 32% of the respondents.

- o **GMS** –Specialty Softgoods retailers (shoes, accessories, apparel), Specialty Hardgoods retailers (DIY, consumer electronics, books, office supplies, auto parts, etc.) and Department Stores. 60% of the respondents.

- o **Hospitality** –Restaurants, Lodging and Entertainment (casinos / cruise lines, theme parks, theaters, sporting arenas, museums, etc.). 8% of the respondents.

Retailers, Leading and Otherwise

They are not all created equal

> **Average sales growth in the study was 4.1%**

> **For purposes of this study, we categorize retailers as:**

- o **Leaders** –growth of **5% or more**. 30% of study.

- o **Average Retailers** –growth of **between 0% and 5.** 38% of study.

- o **Below-Average Retailer** –2016 revenues were **flat or declined.** 32% of the retailer pool for this study.

Study Details

The 2017 Store Systems Study is the 14th annual collaboration of IHL Group with RIS News. Released at NRF each January, it represents the first retail tech study of the new year.

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Store Growth

More Stores and Remodels means more IT Spend

Store Count Growth

- o Overall 4.9% increase
- o Just below last year's highest figure in 13 years
- o Mass Merchants / Warehouse Clubs – -1.0%
- o Highest growth is in Tier III (6.6%)

Remodels Growth

- o Overall 4.2% increase
- o Highest figure ever in the history of this study
- o C-Stores up 7.0%
- o Highest growth is in Tier I (5.5%)

IT Spend Growth by Retail Tier

How the largest and smallest retailers plan to increase their IT spend
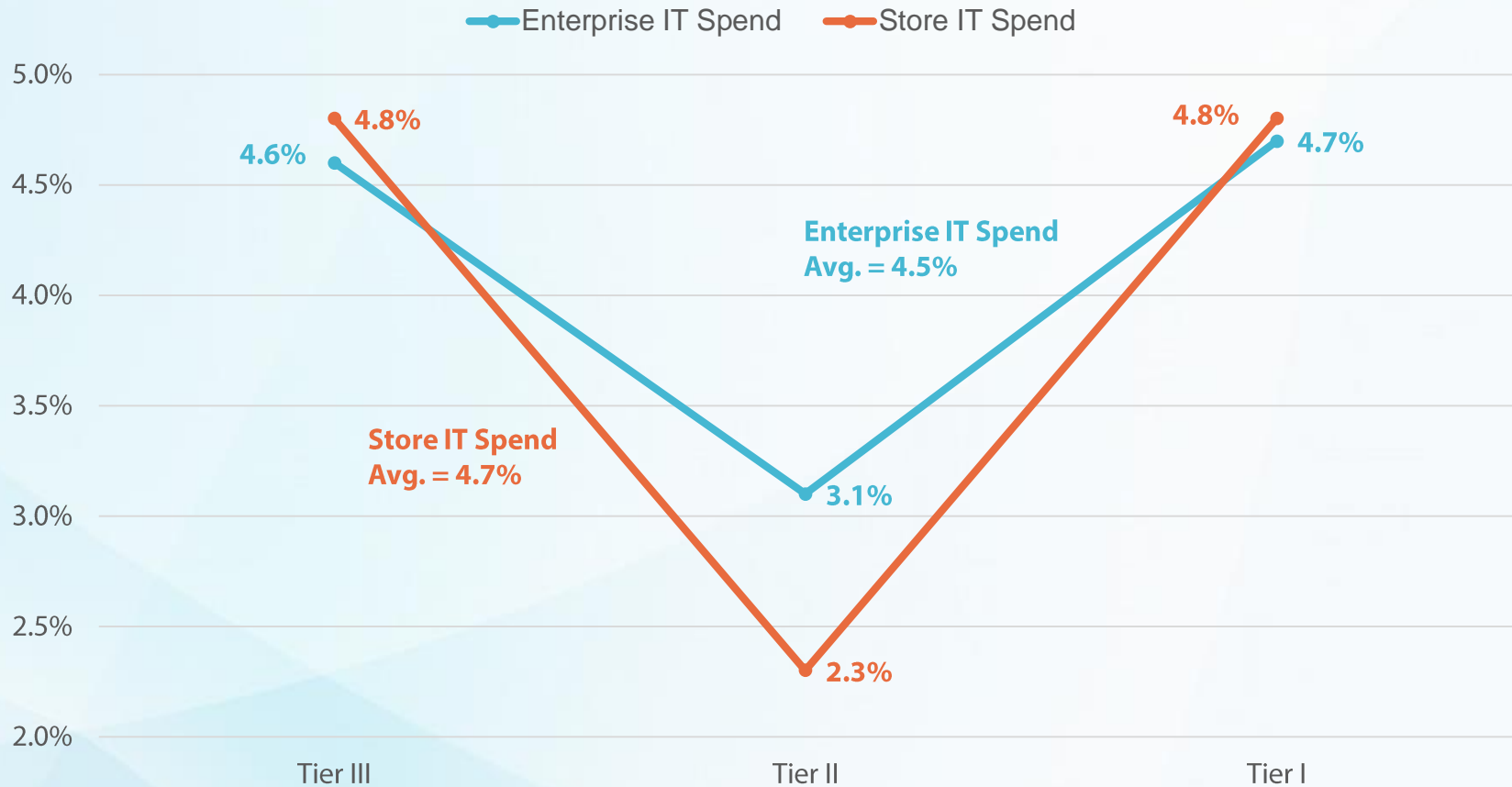
Source: IHL Group

IT Spend Growth

IT Spend continues to outpace the economy
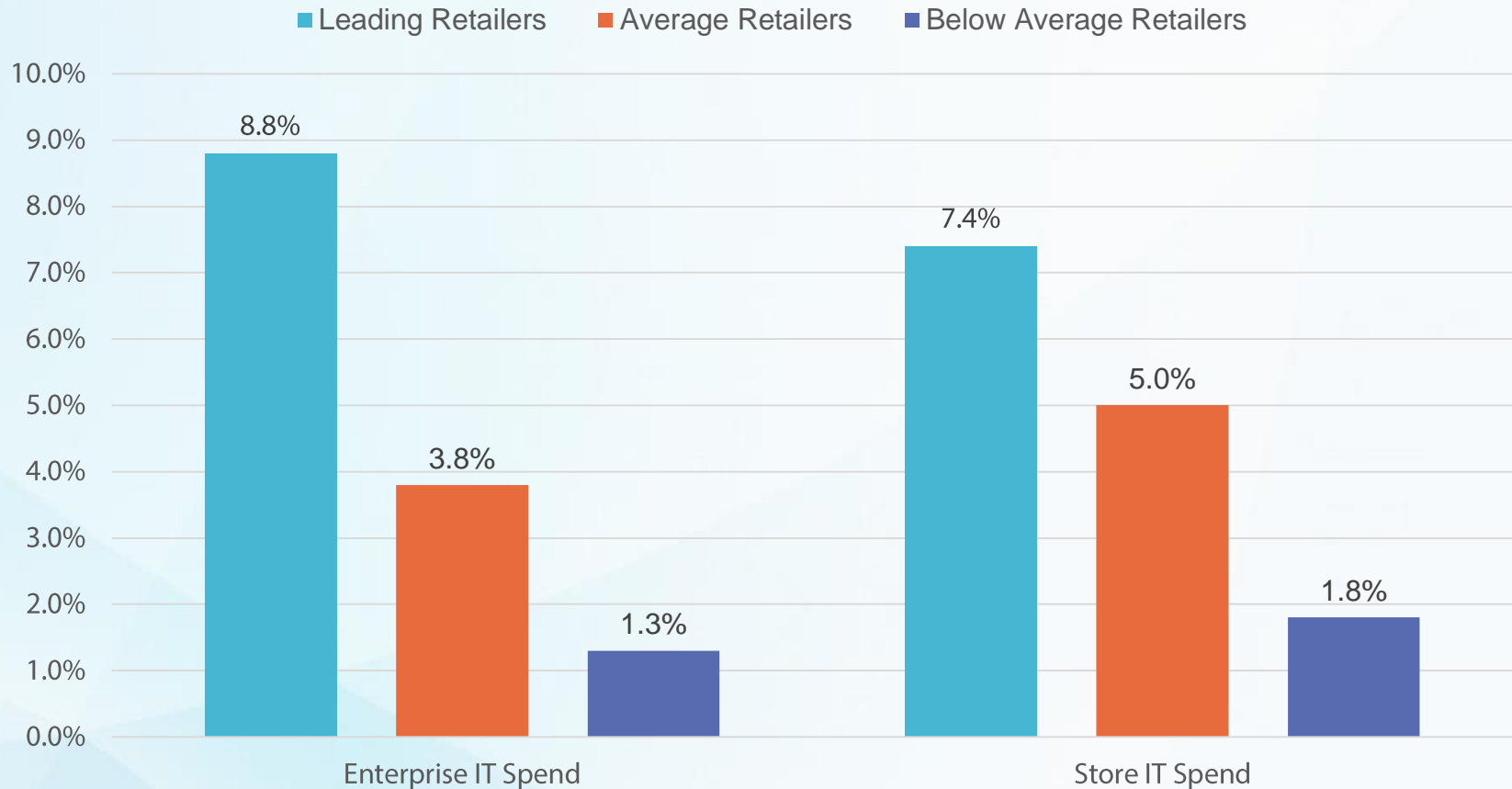
> **Enterprise IT Spend Growth**

- o Average down 2% from 2016

- o 2nd lowest increase in last 5 years

- o 22.8% increase over the past 5 years, which indicates a focus on getting back-end systems ready for Unified Commerce

- o Biggest increases come from Grocery (6.4%) and Specialty Soft (5.8%)

- o Has led Store IT Spend by 2.3% over the past 9 years

> **Store IT Spend Growth**

- o Average up 21% from 2016

- o 2nd-highest increase in 9 years

- o Biggest increases come from Specialty Soft (7.7%) and Food/Grocery (6.2%)

2017 Spend Growth

Planned IT Spend Growth for 2016 Leaders, Average, Below Average Performers

Source: IHL Group

Leaders and IT Spend
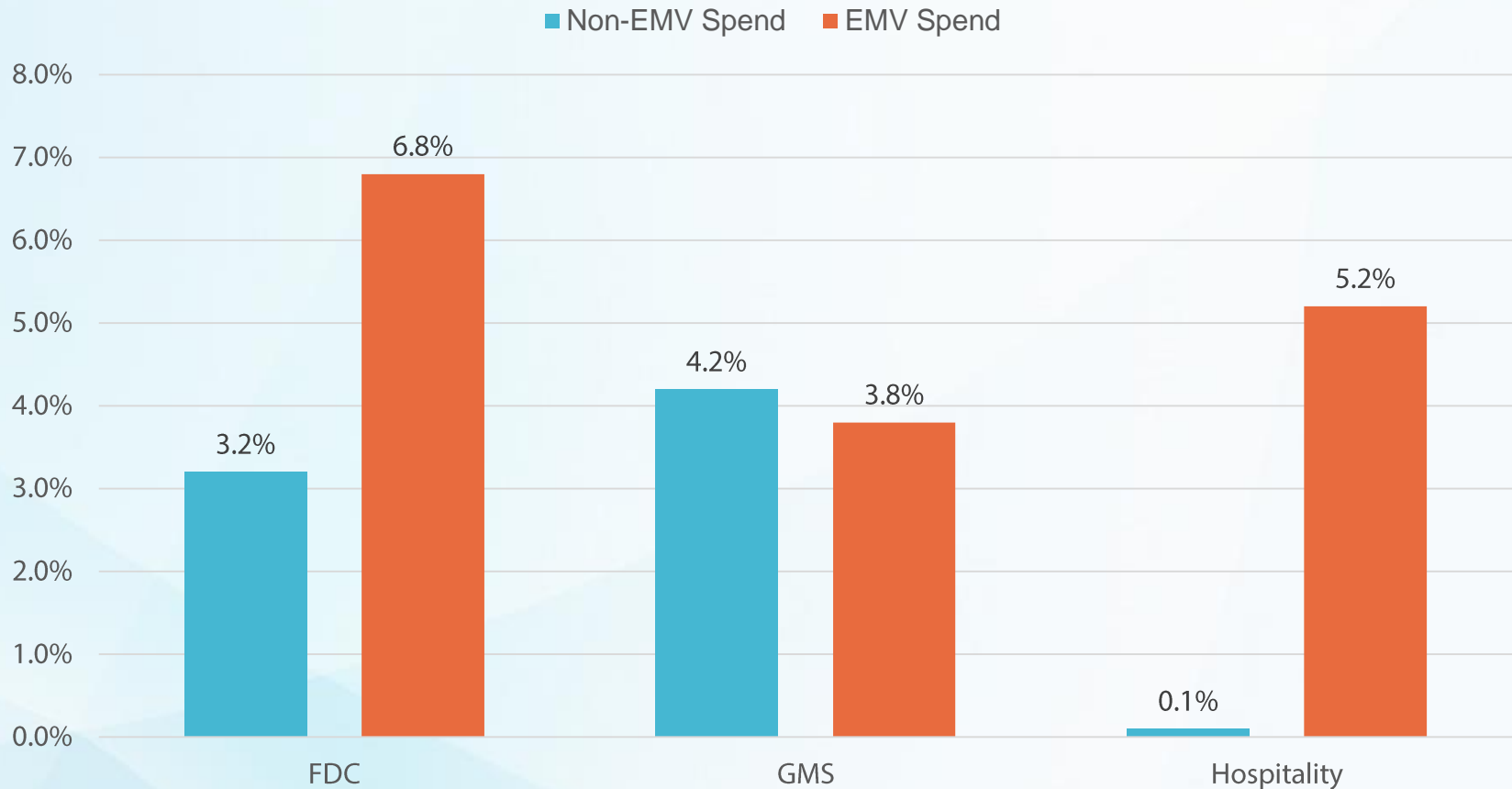
Retail Leaders vs. Average Retailers

Leaders:

> Grow Enterprise IT Spend at rate **677% faster** than Below Average Retailers and **131% faster** than Average Retailers

> Grow Store IT Spend **311% faster** than Below Average Retailers and **48% faster** than Average Retailers

> FDC Leaders are **12% less likely** to leave sales on the table due to lack of IT Investment than Average Retailers. GMS retailers are **14% less likely** to do so.

> Conclusion: Retailers that tie IT Spend only to last year's revenues do so at their own peril. **Those that see IT as only a cost center will likely be eliminated by Amazon and other retailers.**

Source: IHL Group

Security Spend By Segment

EMV has been and continues to be a distraction and disruption

■ Non-EMV Spend ■ EMV Spend

FDC: 3.2% (Non-EMV Spend), 6.8% (EMV Spend)
GMS: 4.2% (Non-EMV Spend), 3.8% (EMV Spend)
Hospitality: 0.1% (Non-EMV Spend), 5.2% (EMV Spend)

Source: IHL Group

Leaders vs Others on Security

Leaders, with the most at risk, are increasing spend faster than others
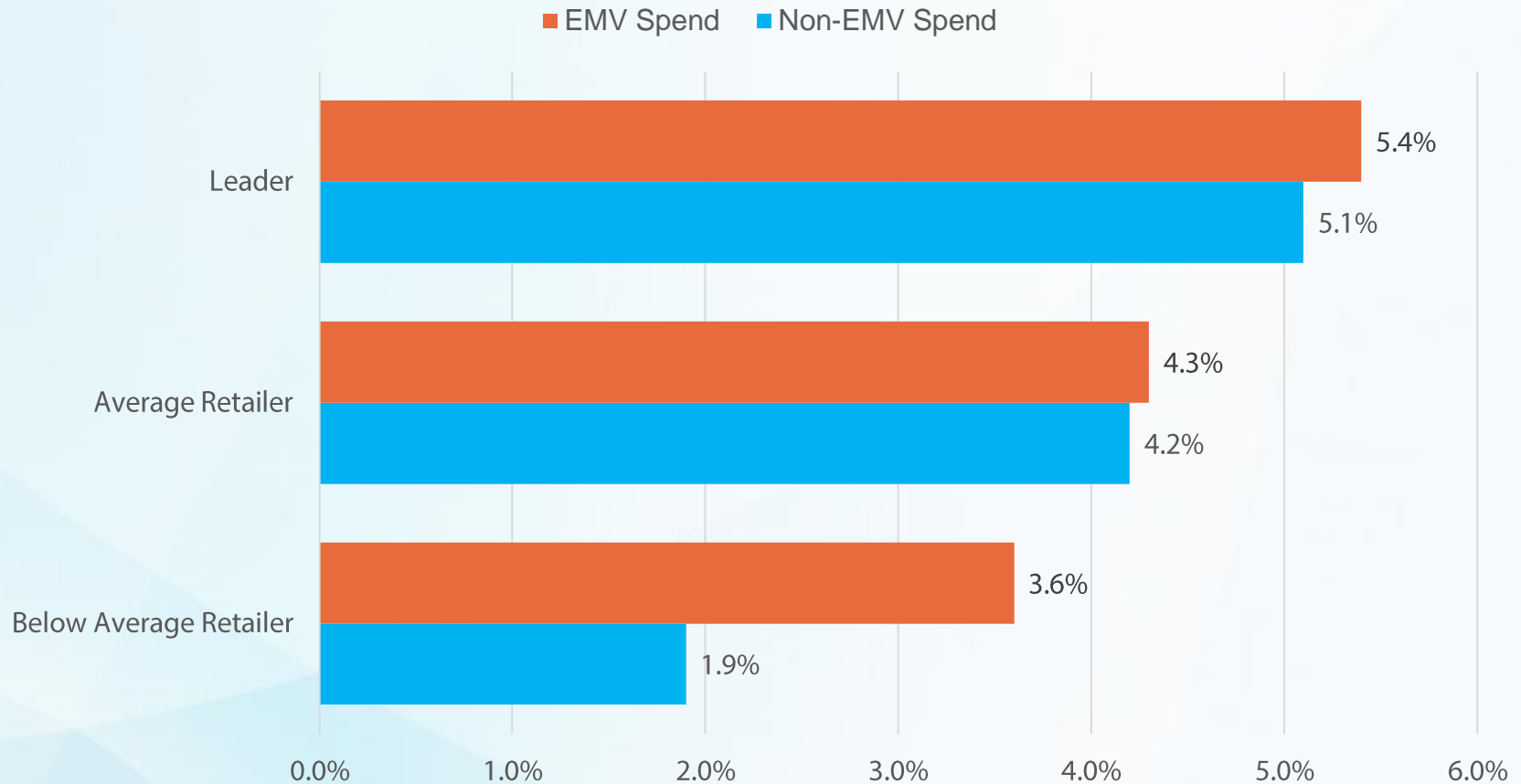
Source: IHL Group

Leaders and Security Spending

More spending than ever before

Leaders:

➤ **Have increased EMV spend 26% faster than average**

➤ **Increased non-EMV security spend 21% faster than average**
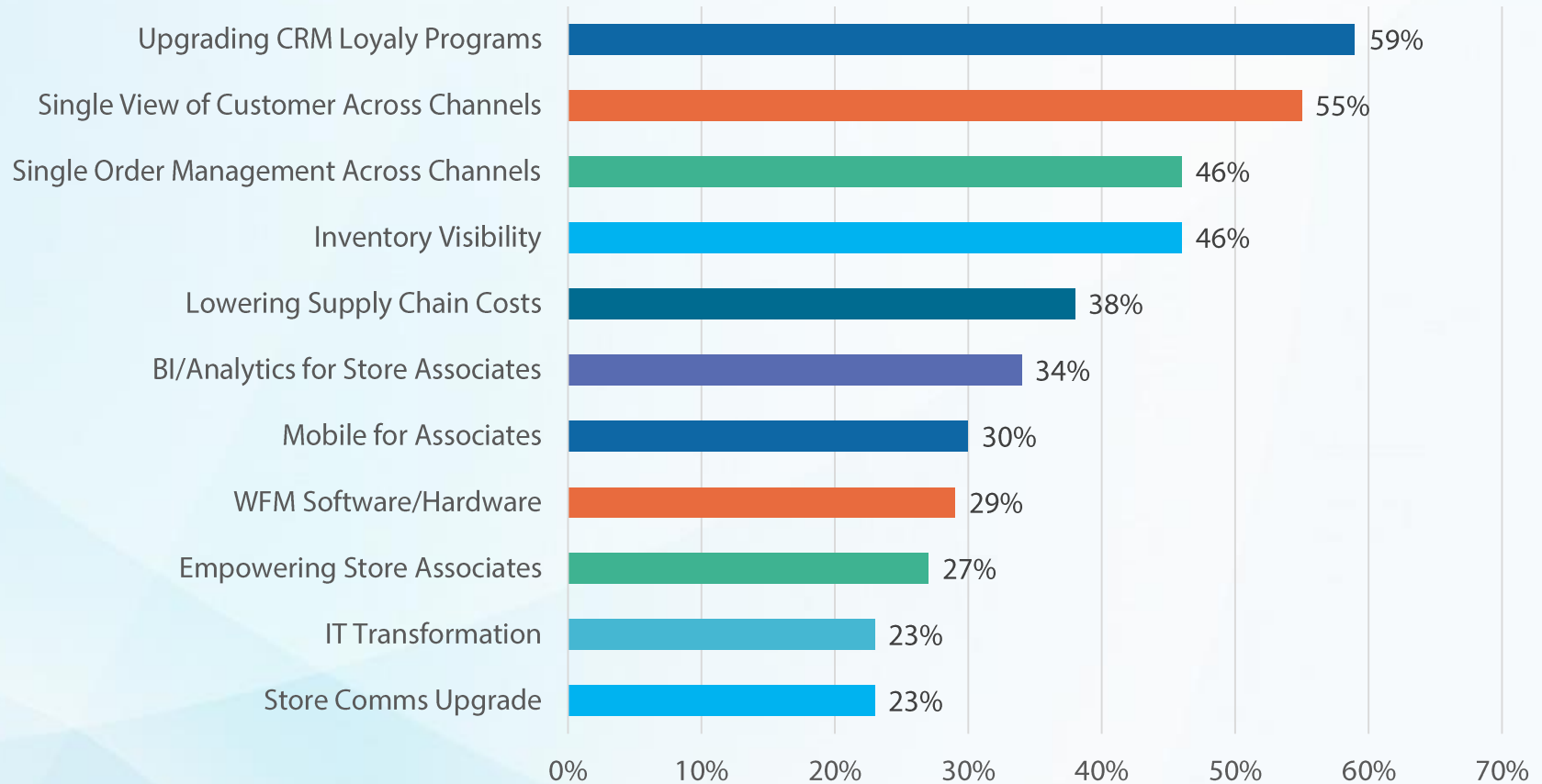
Source: IHL Group

Priorities and Purchase Intentions

This looks at the top priorities that retailers are focusing in terms of process and technologies for 2017 and what their purchase timeframe is going forward in key areas.

Top Retail IT Priorities

What Retailers see as the most important technologies going forward

Priority	Percentage
Upgrading CRM Loyaly Programs	59%
Single View of Customer Across Channels	55%
Single Order Management Across Channels	46%
Inventory Visibility	46%
Lowering Supply Chain Costs	38%
BI/Analytics for Store Associates	34%
Mobile for Associates	30%
WFM Software/Hardware	29%
Empowering Store Associates	27%
IT Transformation	23%
Store Comms Upgrade	23%

Source: IHL Group

Top Priorities of Leaders

Retail Leaders vs. Average Retailers

Leaders rate:

- **IT Transformation 135% higher** priority

- **Lowering Supply Chain Costs 145% higher**

- **Associate Training / Tools 194% higher**

- **Inventory Visibility 55% higher**

- **Clientelling / Assisted Selling 26% higher**

Source: IHL Group

Software IT Spend in Cloud

Overall 34% of software budget in Cloud vs 26% in 2016

31% increase in percent of software budget in cloud

27% Store Systems

33% BI/Analytics

47% eCom

29% Merch

46% Sales/Marketing

30% Core ERP

25% Supply Chain

Source: IHL Group

Cloud Spend by Retail Tier

Retailers plan to have this much of their Software Spend in the Cloud
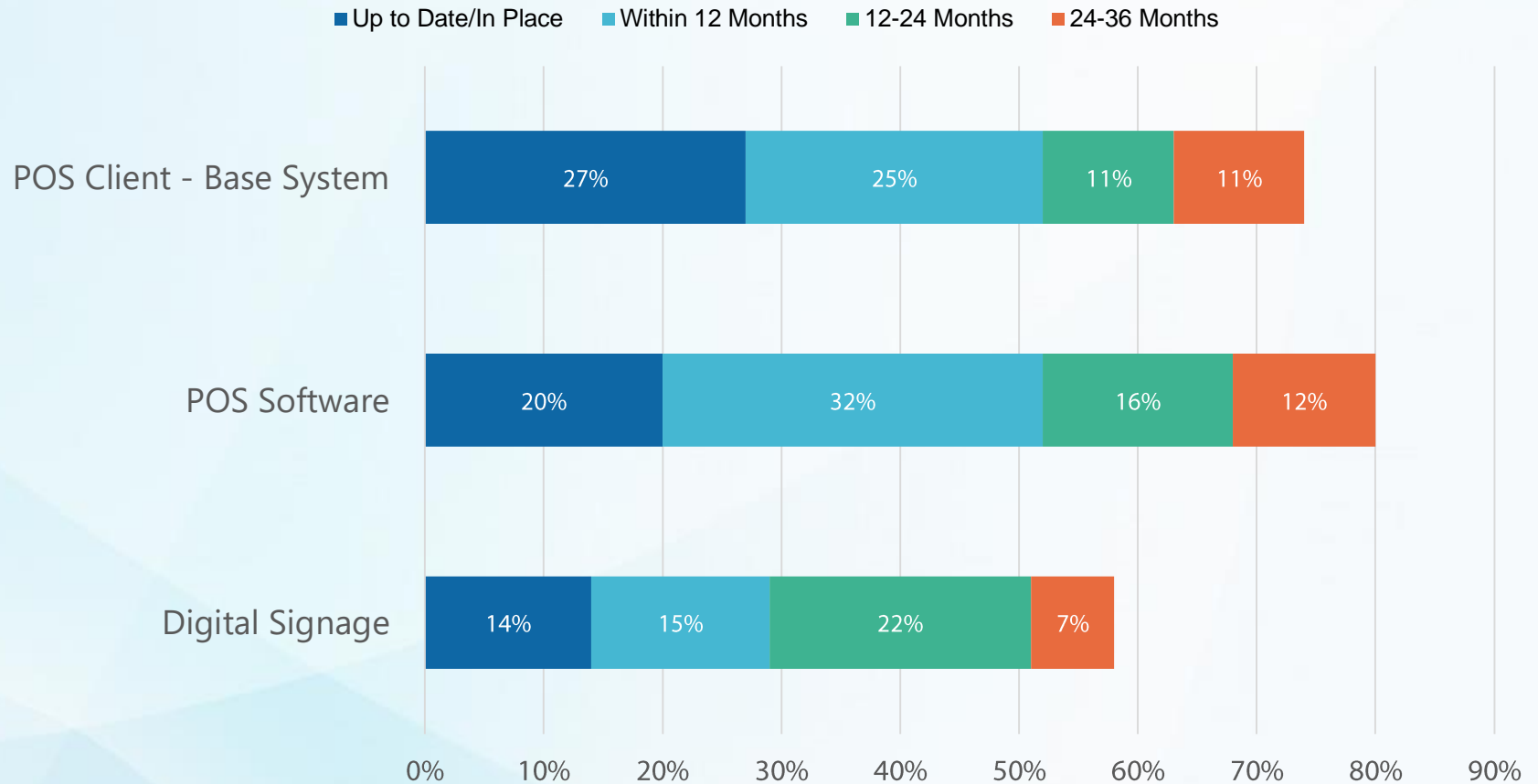
Cloud Solution	Tier I	Tier II & III
E-Commerce	39%	57%
Sales / Marketing	44%	49%
BI / Analytics	33%	33%
Core ERP	28%	33%
Merchandising	37%	22%
Store Systems	20%	40%
Supply Chain	28%	21%

Source: IHL Group

> Tier 1 Merchandising grew from 19% to 37% in 2017 **(95% growth in budget)**

> Tier 1 Supply Chain from 18% in 2016 to 28% in 2017 **(56% budget growth)**

> 1 of every 5 dollars in Store Systems now being spent on Cloud Solutions for Tier 1 **(up from 13% in 2016),** and 40% of Tier II and III.
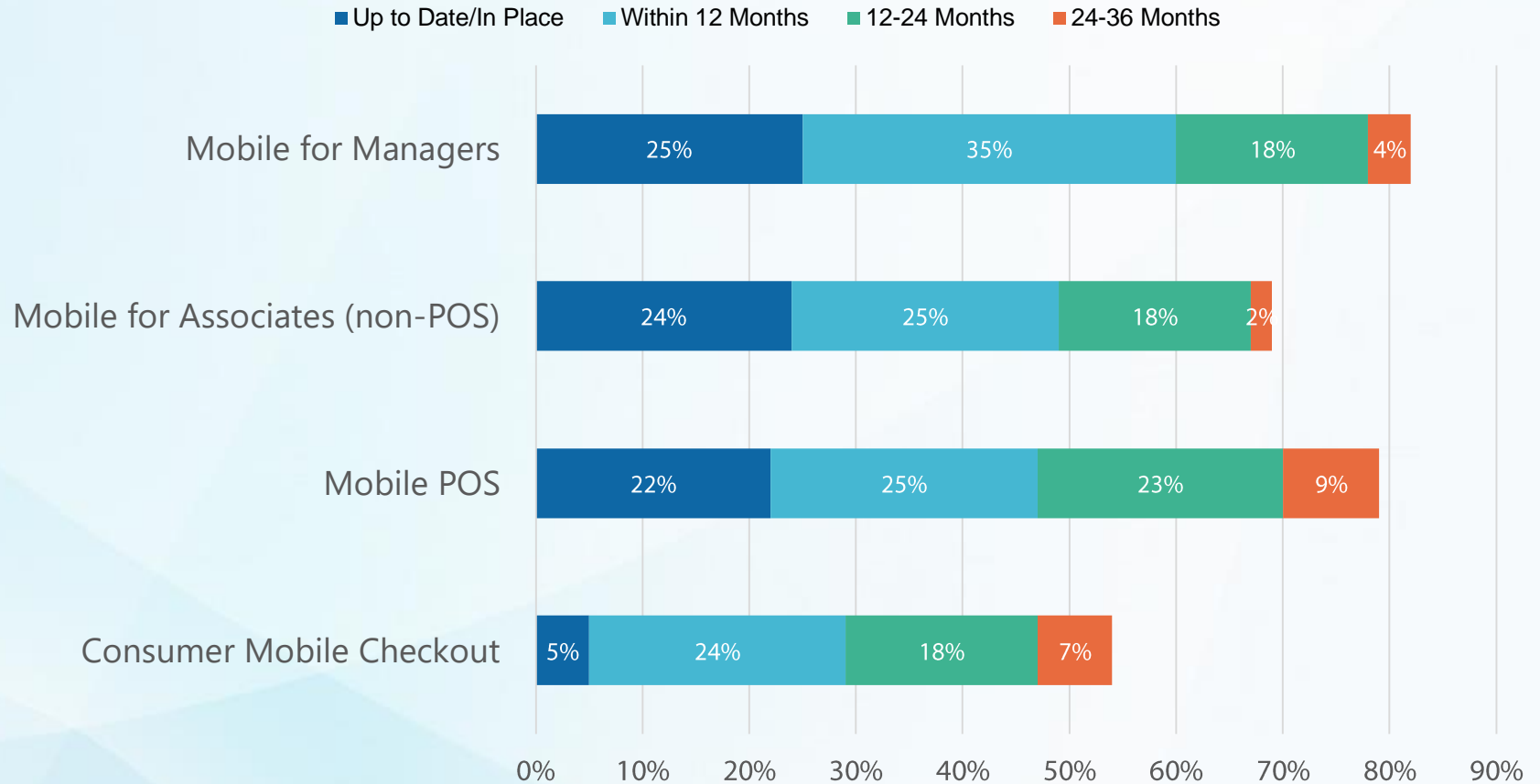
Store Systems Purchase Timeframe

POS and Digital Signage

Legend: ■ Up to Date/In Place ■ Within 12 Months ■ 12-24 Months ■ 24-36 Months

POS Client - Base System: 27% | 25% | 11% | 11%

POS Software: 20% | 32% | 16% | 12%

Digital Signage: 14% | 15% | 22% | 7%

X-axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90%

Source: IHL Group

Store Systems Purchase Timeframe

Mobile Technologies

■ Up to Date/In Place ■ Within 12 Months ■ 12-24 Months ■ 24-36 Months

Mobile for Managers: 25% | 35% | 18% | 4%

Mobile for Associates (non-POS): 24% | 25% | 18% | 2%

Mobile POS: 22% | 25% | 23% | 9%

Consumer Mobile Checkout: 5% | 24% | 18% | 7%

0% 10% 20% 30% 40% 50% 60% 70% 80% 90%

Source: IHL Group

Store Systems Purchases

Bread and butter of in-store technologies

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> **For FDC retailers in 2017, their biggest targets for purchase are:**

- o POS Software (37% of retailers intend to purchase), up 61% from last year due in part to the EMV mandate for fuel retailers (since pushed to 2020).

- o Mobile Devices for Managers (26%), flat from last year.

- o Mobile POS (26%), the highest it's been in this study, which bodes well since most of these retailers have been in a wait-and-see mode as GMS retailers pave the way.

> **For GMS retailers:**

- o Mobile Devices for Managers (36%), up 33% from 2016. These retailers continue to lead in adoption here.

- o Coming in at 32% each, POS Hardware (up 33% from 2016) and POS Software (flat from last year). Specialty retailers (especially Softgoods) keep these numbers propped up due to their more rapid replacement cycle.

Source: IHL Group

Store Systems - Leaders

Leaders vs Average Retailers for Store Systems Readiness for Unified Commerce
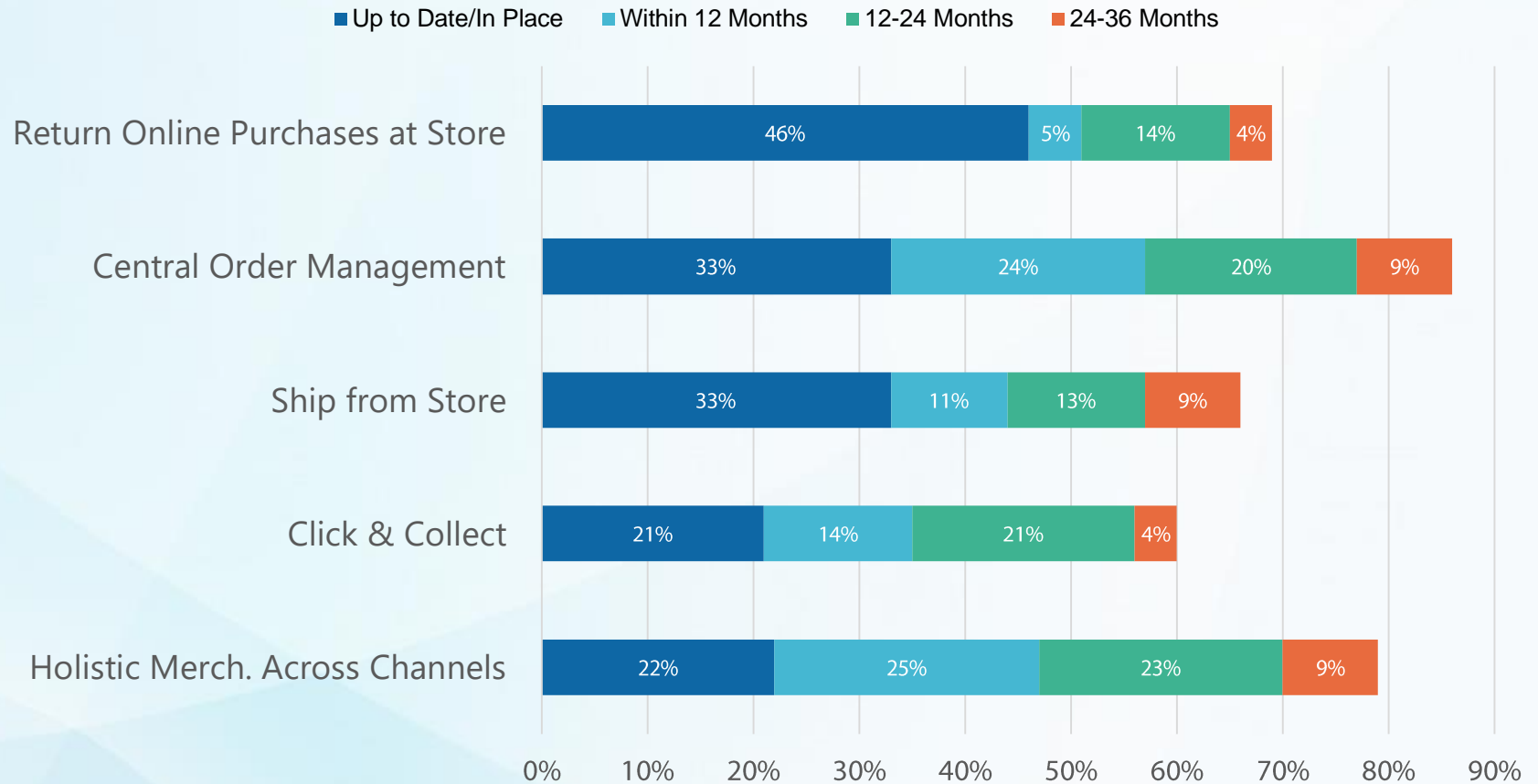
Leaders are:

> **96% more likely** to have Up-To-Date POS Hardware

> **96% more likely** to have Up-To-Date POS Software

> **21% more likely** to be using Mobile devices for Managers

> **250% more likely** to be using Mobile devices for Associates

> **150% more likely** to be using Mobile POS

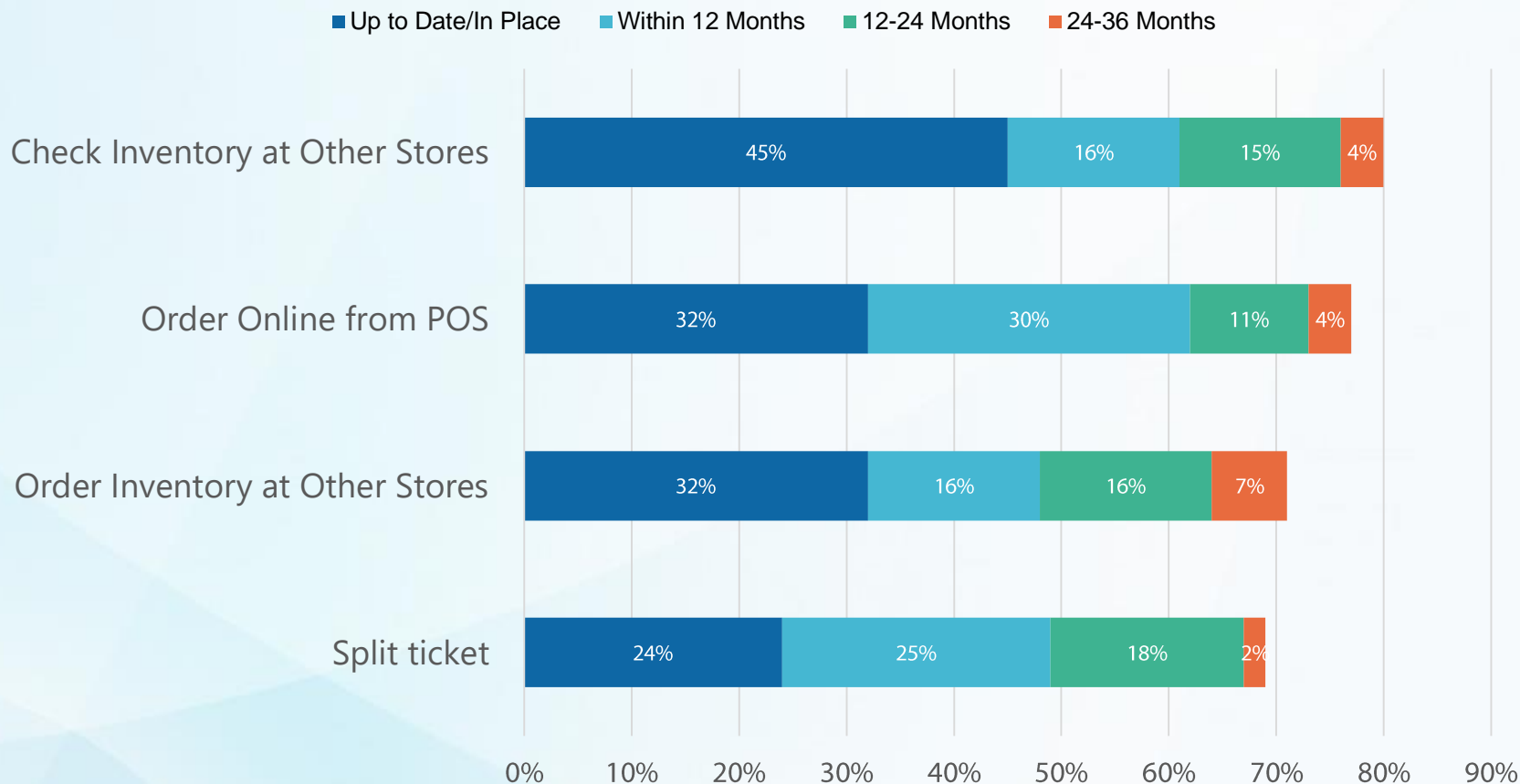> **160% more likely** to be using Consumer Mobile Checkout

Source: IHL Group

Cross-Channel Commerce Timeframe

Legend: Up to Date/In Place · Within 12 Months · 12-24 Months · 24-36 Months

Category	Up to Date/In Place	Within 12 Months	12-24 Months	24-36 Months
Return Online Purchases at Store	46%	5%	14%	4%
Central Order Management	33%	24%	20%	9%
Ship from Store	33%	11%	13%	9%
Click & Collect	21%	14%	21%	4%
Holistic Merch. Across Channels	22%	25%	23%	9%

Source: IHL Group

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Cross-Channel Commerce Timeframe

Legend: ■ Up to Date/In Place ■ Within 12 Months ■ 12-24 Months ■ 24-36 Months

	Up to Date/In Place	Within 12 Months	12-24 Months	24-36 Months
Check Inventory at Other Stores	45%	16%	15%	4%
Order Online from POS	32%	30%	11%	4%
Order Inventory at Other Stores	32%	16%	16%	7%
Split ticket	24%	25%	18%	2%

Source: IHL Group

Cross - Channel Adoption

FDC vs GMS Differences

> **For FDC retailers in 2017, their biggest plans for adoption include:**

  o Order Management System (33%), which serves as the central hub for all data related to products, suppliers and customers.

  o Order Online from POS (32%), which provides the competitive advantage of an "endless-aisle" capability.

> **For GMS retailers:**

  o Order Online from POS (32%), which assists greatly when a specific color or size is not available in the store.

  o Order Management System (19%). These retailers are much further along the adoption curve than FDC retailers, as competition (if not survival) is more dependent upon "one version of the truth" than it is for FDC retailers. This helps with:

  o Holistic Merchandise Planning Across Channels (also 19%), where one set (rather than multiple, redundant and contradictory sets) of planning resources are exploited.

Source: IHL Group

Unified Commerce Leaders

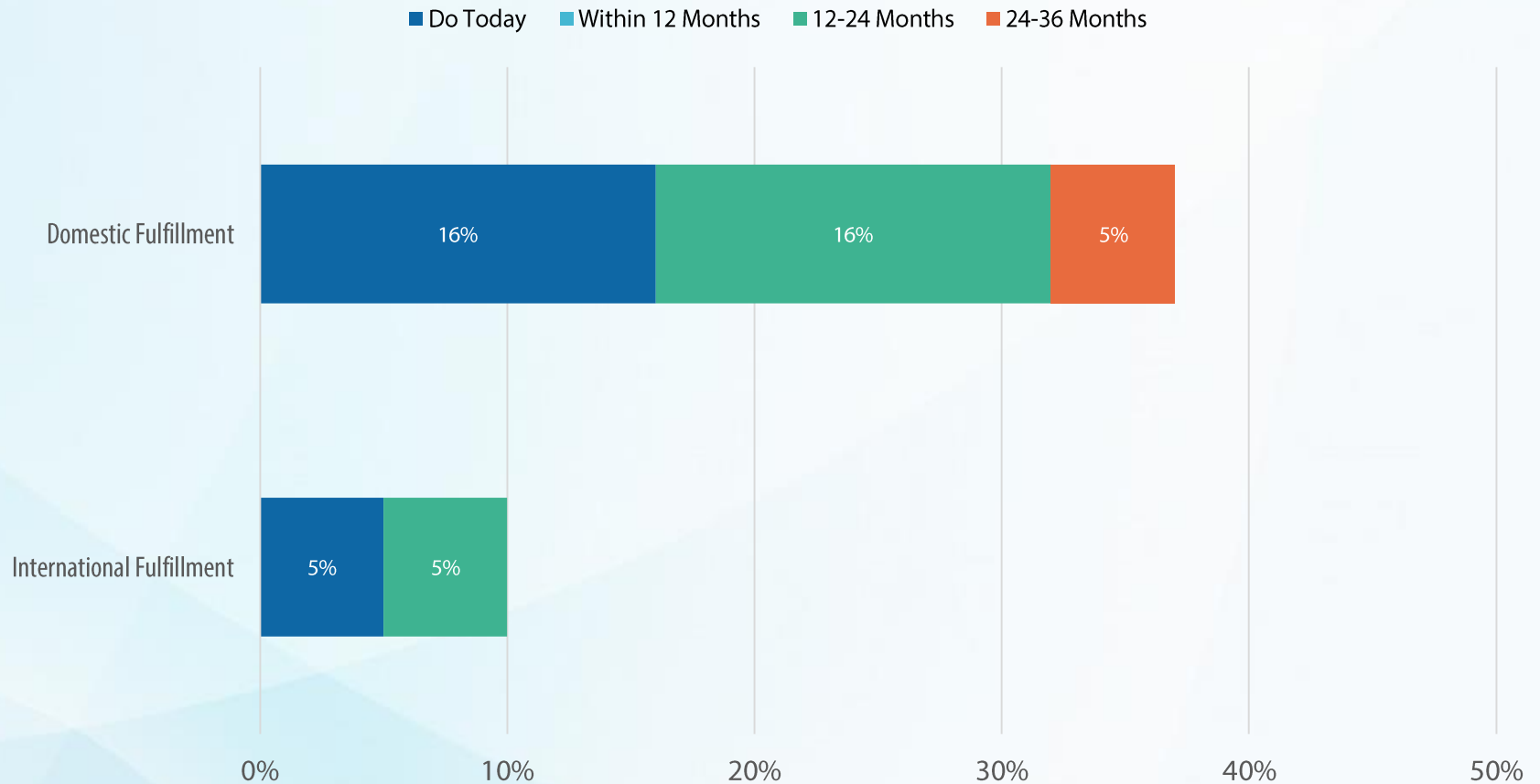Leaders in Sales Growth vs Average Retailers

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By the end of 2017, Leaders are:

> **46% more likely** to be using OMS

> **52% more likely** to be using Ship from Store

> **58% more likely** to be using Split Ticket
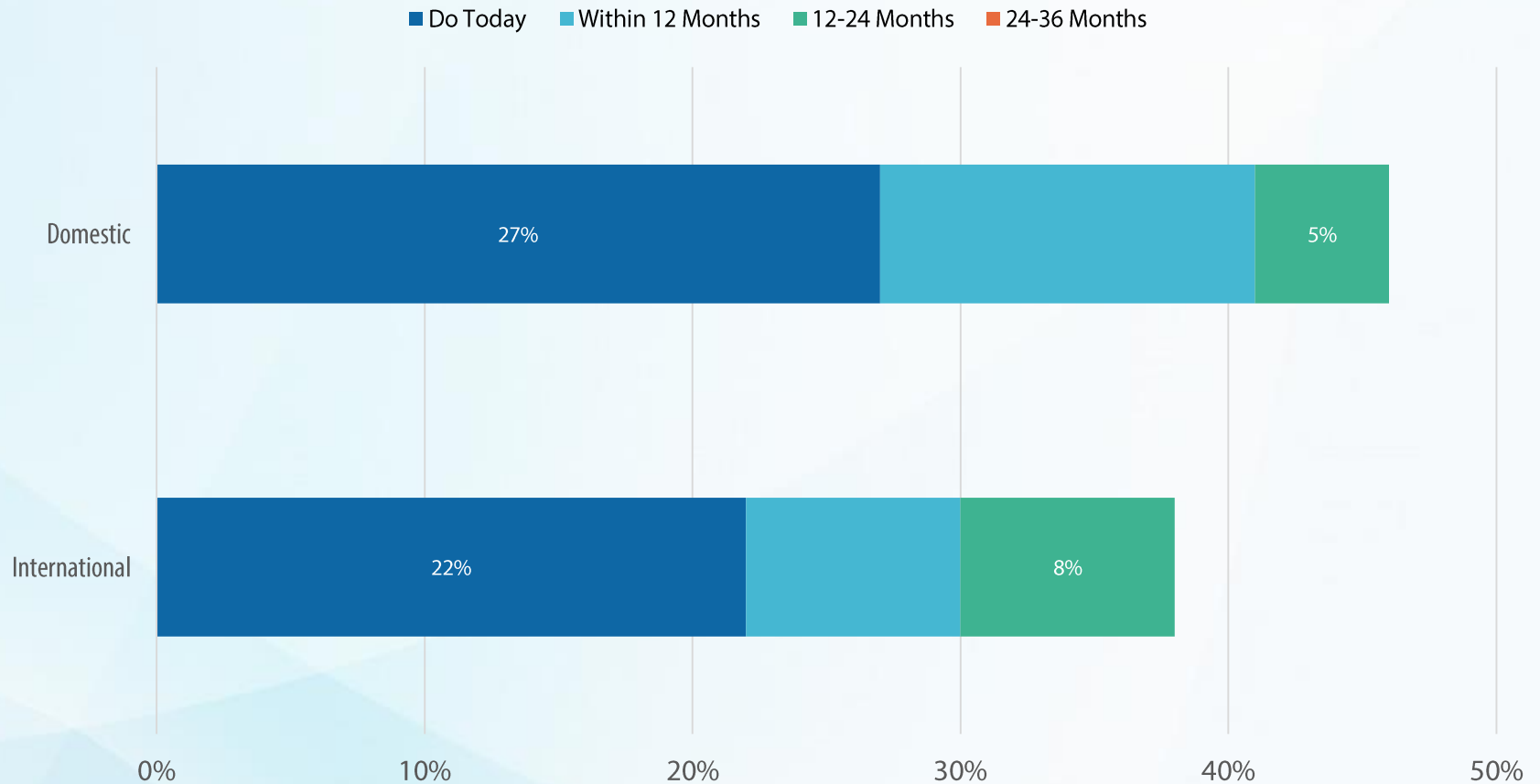
FDC Fulfillment Outsourcing

Here are retailers' plans for using a 3rd party for e-commerce fulfillment

Legend: ■ Do Today ■ Within 12 Months ■ 12-24 Months ■ 24-36 Months

Domestic Fulfillment: 16% | 16% | 5%

International Fulfillment: 5% | 5%

X-axis: 0% 10% 20% 30% 40% 50%

Source: IHL Group

GMS Fulfillment Outsourcing

Here are retailers' plans for using a 3rd party for e-commerce fulfillment

Legend: ■ Do Today ■ Within 12 Months ■ 12-24 Months ■ 24-36 Months

Domestic: 27%, 5%
International: 22%, 8%

Source: IHL Group

Fulfillment Outsourcing by Retailer Class

This is how different classes of retailers are currently approaching fulfillment outsourcing

Legend: ■ Domestic Fulfillment Outsourcing by YE2017   ■ Int'l Fulfillment Outsourcing by YE2017

- Leaders: Domestic 41%, Int'l 12%
- Average Retailers: Domestic 29%, Int'l 20%
- Below Average Retailers: Domestic 24%, Int'l 35%

Source: IHL Group

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Fulfillment Summary

Retail Leaders vs. Average Retailers, and GMS vs FDC

Food/Drug/Mass Leaders are:

> Outsourcing Domestic Fulfillment **41% quicker**

> Outsourcing International Fulfillment **40% slower than average (not really doing it yet)**

GMS Leaders are :

> Outsourcing Domestic Fulfillment **156% quicker**

> Outsourcing International Fulfillment **500% quicker** than Average Retailers

Source: IHL Group

Key Final Nuggets

Interesting things we found

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> **Retailers with Up-to-Date POS had 2016 sales growth 213% higher than those who don't and expect 73% higher sales growth in 2017**

> **Retailers doing Consumer Mobile Checkout Mobile had 80% higher sales growth in 2016 than those that don't and expect 21% higher sales growth in 2017**

> **Those with Up-to-Date POS Software are prioritizing Single OMS Transaction System 40% higher.**

> **Those who are prioritizing Empowering Store Associates are 67% more likely to be already using Mobile for Associates.**

Source: IHL Group

Speaking of Innovation Spend...

Amazon's annual spend is more than the amounts of the following retailers combined

How Does One Truly Compete?

There are many technologies in which retailers can invest their capital. Here, we show which ones really "move the needle" when it comes to increasing sales and ability to compete. Keep in mind, a retailer does not need to defeat Amazon or Walmart, just those within their own sphere.

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To Effectively Compete

Retailers must…

1. **Make massive investments in Unified Commerce**

2. **Leverage Cloud Computing for a jumpstart**

3. **Take advantage of mobile**

4. **Create the "WOW" customer experience**

Foundational Technologies

These are the foundational Unified Commerce technologies to compete with Amazon

These three technologies our research has found are foundational to successfully growing sales and competing effectively. Everything is built on these three technologies

- **Single View of the Order (OMS) across channels**

- **Single View of the Customer across channels (loyalty works everywhere)**

- **Up-to-date POS that can access the order, inventory, and loyalty in real time**

Source: IHL Group and NCR Studies

Technologies That Move The Needle

Not necessarily what one might expect

Sales growth increases:

› **1.1x more** due to Marketing Cross-channel Capabilities

› **1.07x more** due to Customer Preferences in All Channels

› **1.02x more** due to Cross-channel Demand Planning

› **92% higher** due to Mobile POS

› **84% higher** due to Loyalty Profiles Available in Real Time

› **77% higher** due to Integrated marketing Across Channels

› **72% higher** due to Mobile Devices for Associates

Source: IHL Group and NCR Studies

About the Survey

Background and Demographics of the Study

Retail Segments

Subtitle Goes Here

Respondents by Retail Segment

- Specialty Retailers
- Food, Drug, C-Stores
- Others

- 25%
- 24%
- 51%
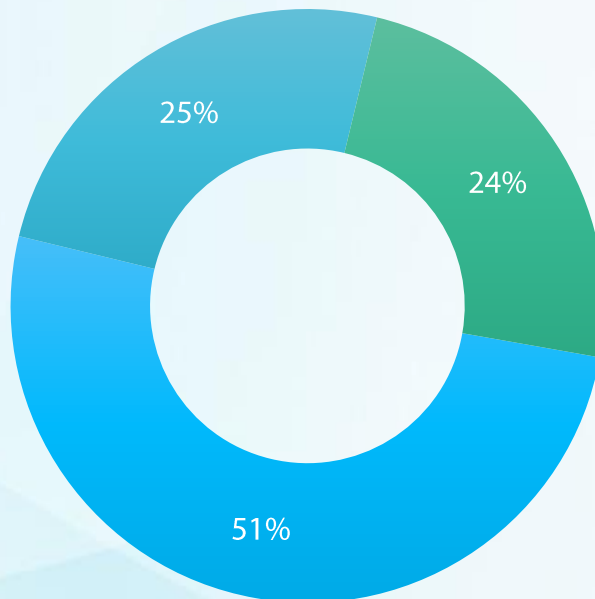
- ➤ 50+ retailers representing stores in 10 segments

- ➤ This is a reasonable representation of the retail landscape in North America

- ➤ The "Other" category includes Department Stores and Hospitality
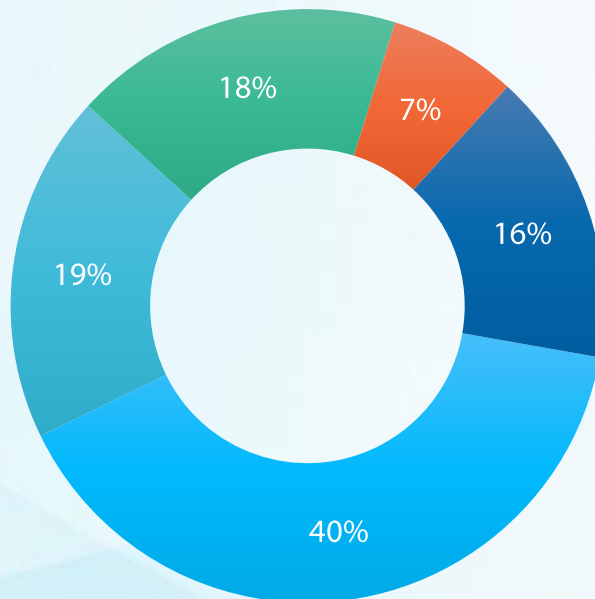
Source: IHL Group

Job Title / Position

Subtitle Goes Here

Respondents by Job Title

- CIO/CTO/VP MIS
- IT Director/Manager
- VP-Level (non IT)
- C-Level (non IT)
- Other

- CIO/CTO/VP MIS: 40%
- IT Director/Manager: 19%
- VP-Level (non IT): 18%
- C-Level (non IT): 7%
- Other: 16%

➢ The results indicate that the respondents are those who are "in the know", who have the necessary insight into operational plans, and who are able to provide the most up-to-date perspective available.
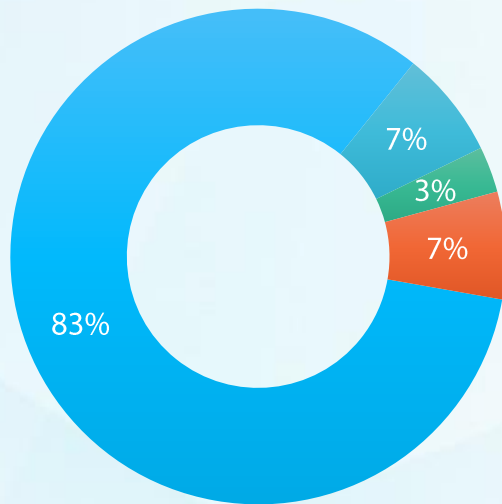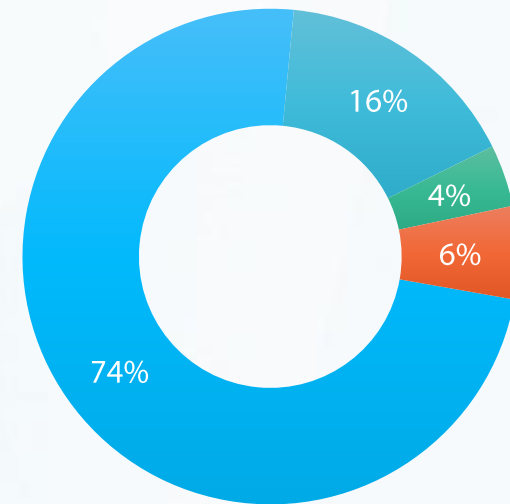
Source: IHL Group

Retail Revenues by Channel

FDC Revenues by Channel

- ■ Bricks & Mortar
- ■ E-Comm (non-Mobile)
- ■ E-Comm (Mobile)
- ■ Other

83%
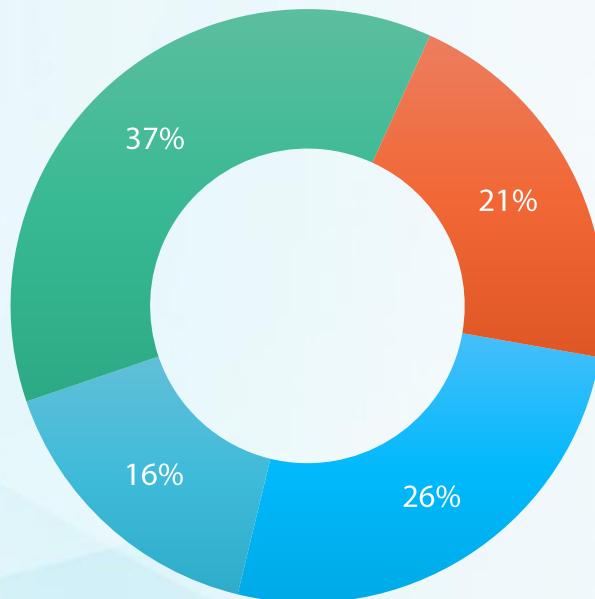7%
3%
7%

GMS Revenues by Channel

- ■ Bricks & Mortar
- ■ E-Comm (non-Mobile)
- ■ E-Comm (Mobile)
- ■ Other

74%
16%
4%
6%

Source: IHL Group

Retail Revenues

Respondents by Revenues

- Less than $500 Million
- $500 Million - $1 Billion
- $1 - $5 Billion
- More than $5 Billion

37%
21%
26%
16%

➢ 58% of responses came from retailers with annual revenues of > $1 Billion, who drive total IT spend as well as technology proliferation

➢ Smaller retailers are more agile, and the US mall structure helps them grow rapidly

Source: IHL Group

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Thank You

We at IHL Group appreciate you taking the time to review this study, and we trust that regardless of whether you are a retailer or a technology vendor, you have found actionable data contained herein.

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