**futureconnect**
Developing Food Retail Leaders

LEADERSHIP SUCCESS

FMI
THE VOICE OF FOOD RETAIL

April 29-May 2, 2013 ♥ The Peabody-Orlando ♥ Orlando, Florida
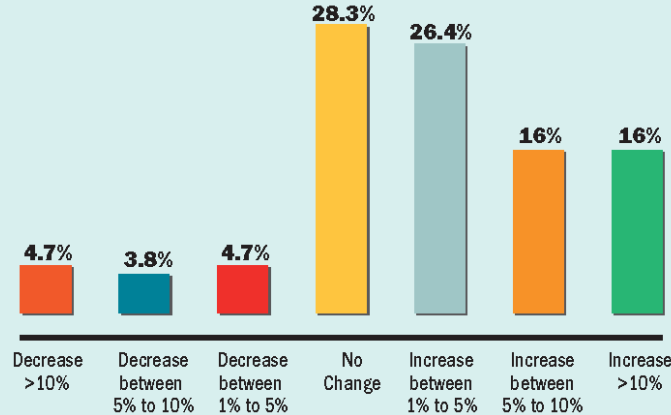
**booz&co.**

# Retail Technology and Operational Excellence
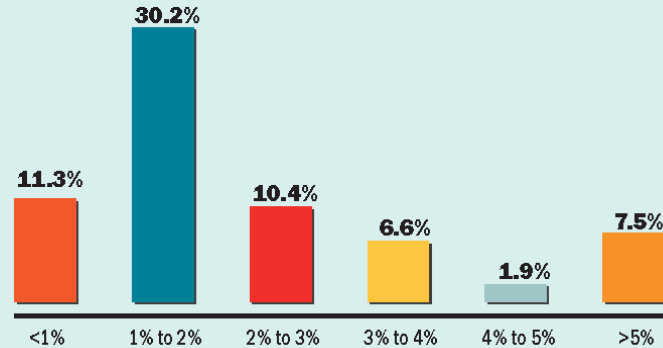
# Christopher Perrigo

- **Lots of change**

- **Many opportunities to spend money on technology – a potential black hole**

- **Where to place the big bets?**

# Retailers are spending more …

Decrease >10%: 4.7%
Decrease between 5% to 10%: 3.8%
Decrease between 1% to 5%: 4.7%
No Change: 28.3%
Increase between 1% to 5%: 26.4%
Increase between 5% to 10%: 16%
Increase >10%: 16%

**IT BUDGETS AS A PERCENT OF TOTAL REVENUE**



<1%: 11.3%
1% to 2%: 30.2%
2% to 3%: 10.4%
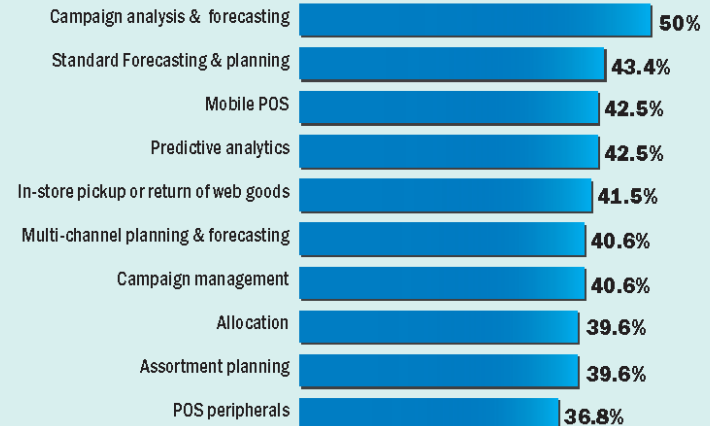3% to 4%: 6.6%
4% to 5%: 1.9%
>5%: 7.5%

*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

# … Driven by Mobile and Digital

## MAJOR ACTION ITEMS OVER THE NEXT 18 MONTHS

| Action Item | % |
|---|---|
| Developing a mobile enterprise and/or store strategy | 42.5% |
| Expanding multichannel (synchronization) initiatives | 41.5% |
| Developing a mobile commerce strategy | 30.2% |
| Campaign management and promotions effectiveness | 24.5% |
| Leveraging social media | 20.8% |
| Adopting a unified enterprise platform | 19.8% |
| Cost containment | 18.9% |

## TOP 10 TECHNOLOGIES FOR 2013

| Technology | % |
|---|---|
| Campaign analysis & forecasting | 50% |
| Standard Forecasting & planning | 43.4% |
| Mobile POS | 42.5% |
| Predictive analytics | 42.5% |
| In-store pickup or return of web goods | 41.5% |
| Multi-channel planning & forecasting | 40.6% |
| Campaign management | 40.6% |
| Allocation | 39.6% |
| Assortment planning | 39.6% |
| POS peripherals | 36.8% |

*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

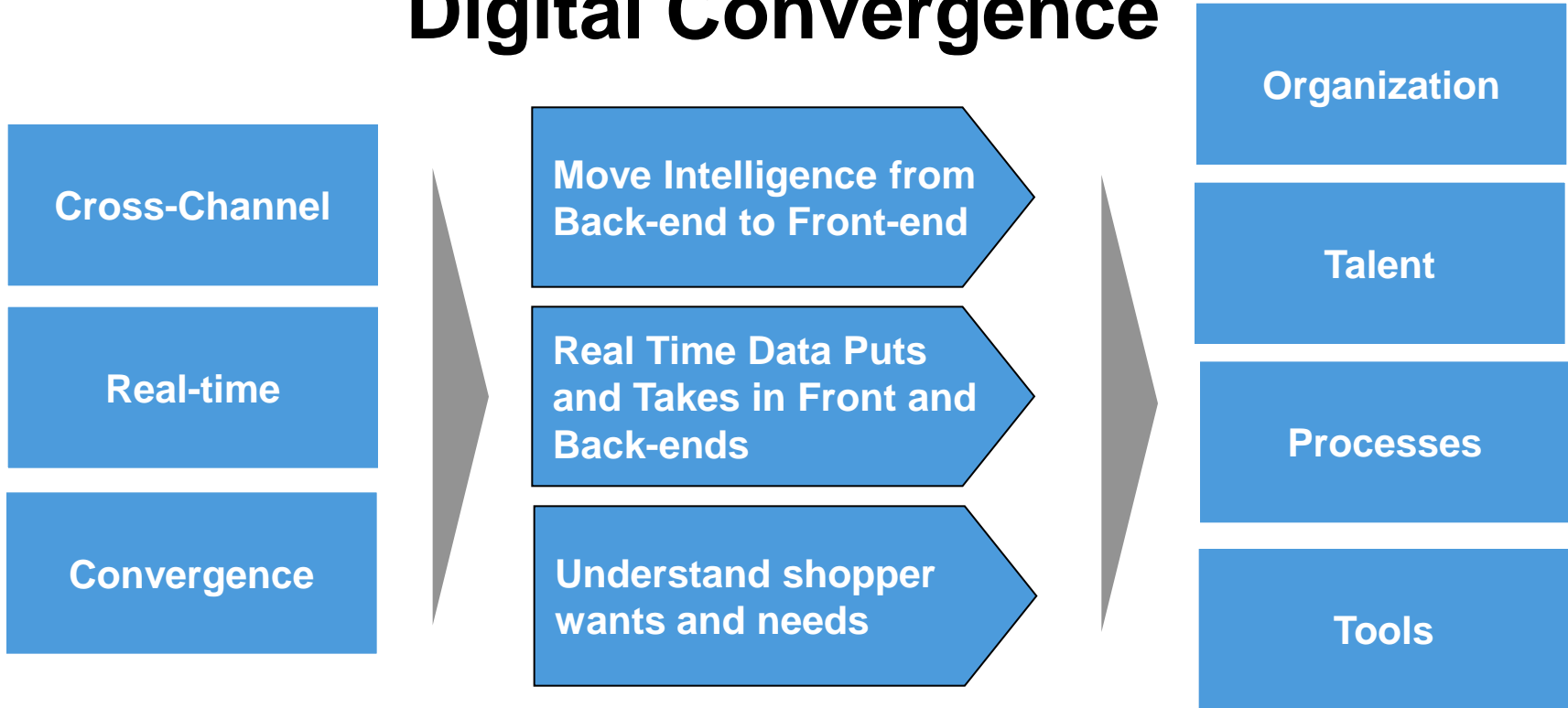# E-com remains hot *but* ROI is "in process"

**A View of The e-Commerce and Engagement Landscape**

# More fundamental challenge – Digital Convergence

Cross-Channel

Real-time

Convergence

Move Intelligence from Back-end to Front-end

Real Time Data Puts and Takes in Front and Back-ends

Understand shopper wants and needs

Organization

Talent

Processes

Tools

**Digital is not a "project" or a new team**

**Digital is pervasive and foundational**

**Digital requires a re-think in
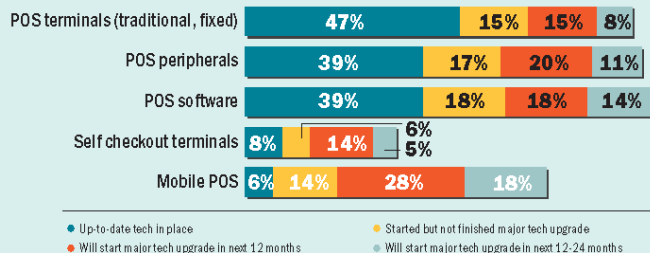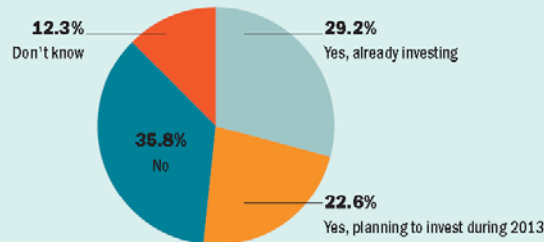every part of the business and
technology portfolio**

# Point of Sale

# Mobile is emerging – Fixed gets an Upgrade



**STATUS OF POS TECHNOLOGY**

- POS terminals (traditional, fixed): 47% | 15% | 15% | 8%
- POS peripherals: 39% | 17% | 20% | 11%
- POS software: 39% | 18% | 18% | 14%
- Self checkout terminals: 8% | 14% | 6% | 5%
- Mobile POS: 6% | 14% | 28% | 18%

Legend:
- Up-to-date tech in place
- Will start major tech upgrade in next 12 months
- Started but not finished major tech upgrade
- Will start major tech upgrade in next 12-24 months

**DOES YOUR ORGANIZATION PLAN TO INVEST IN MOBILE POINT OF SALE (POS) IN 2013?**

- 12.3% Don't know
- 29.2% Yes, already investing
- 35.8% No
- 22.6% Yes, planning to invest during 2013

**WILL YOUR ORGANIZATION DECREASE FIXED POS UNITS IN STORES DURING 2013 DUE TO MOBILE POS INVESTMENTS?**

- 10.9% Don't know
- 25.5% Yes, plan to decrease fixed POS
- 63.6% No plans to decrease fixed POS
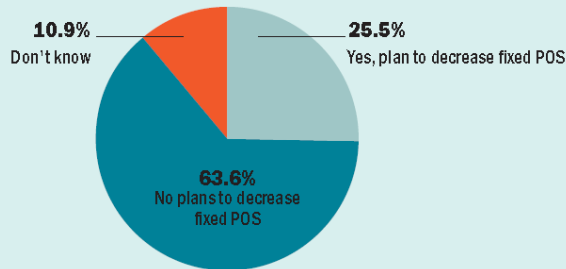
*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

# POS continues to evolve

## Traditional POS Priorities

- Speed
- Loyalty
- Targeted Offers
- Regulatory, Fraud, Loss Prevention
- Associate-to-Consumer Point of Contact
- Associate Productivity

**+**

## New Technology Priorities

- Mobility
- Multichannel
- Self Checkout

**=**

## Evolved POS Delivery Model

- Emerging technologies
- Complex functionality
- Flexible, scalable POS platforms
- Multiple channels
- Value-added services

Source: Booz & Company analysis

# Traditional priorities are still relevant

**Traditional POS Priorities**

| | |
|---|---|
| **Speed** | • Getting customers through the check-out process as quickly and efficiently as possible remains a top priority for POS<br>• More than half of shoppers express extreme dissatisfaction when waiting in line at grocers and mass merchants, with nearly half indicating that they will abandon purchases due to long lines and slow check lanes |
| **Loyalty** | • The on-the-spot recognition and reward redemption that comes with a POS loyalty program provides immediate reinforcement and brings that particular card to the top of the wallet position that consumers reach for first |
| **Targeted Offers** | • POS increasingly is used to deliver personalized and relevant offerings in real time by accessing purchasing history |
| **Regulatory, Fraud , Loss Prevention** | • Fraud and loss prevention continues to be an important capability, and becomes even more critical with the use of mobile payments and self-scanning<br>• POS must ensure compliance to regulations and standards such as PCI |
| **Associate-to-Consumer Contact** | • POS is the only guaranteed person-to-person touch point throughout the entire in-store path to purchase<br>• POS can empower the associate with value-add information to improve customer experience – be it comparative pricing, product availability, and even customer-specific information |
| **Associate Productivity** | • Maximizing productivity of associates at POS continues to be a primary objective<br>• Given labor turnover in the store, POS must be easily trained and intuitive to use<br>• Exception handling must be a streamlined process to ensure productivity and customer satisfaction |

# New priorities are emerging and expected

**New Technology Priorities**

**Mobility**
- mPOS will allow associates to complete transactions away from a traditional register ("line busting") and mitigate lengthy check-out lines; however, issues with bagging in-aisle can create a stumbling block
- mPOS can create new ways in which to interact with the customer (i.e. A consumer's online shopping list can get updated based on what is scanned in-store)
- Smartphones will facilitate in-aisle product scanning while shopping, and new locations in the store can become check out areas
- Mobile wallets (e.g., MCX) will offer a new way to pay

**Multichannel**
- Consumers are accessing product/pricing information and are shopping across a variety of channels
- Pricing consistency/transparency is an important consideration given this behavior; POS associates must be as informed of online pricing and promotions as customers
- Inventory checking (across multiple channels) is another critical issue that a future POS system must handle
- Multichannel promotions should be able to be seamlessly redeemed at POS
- Returns of merchandise purchased online need to be handled by in-store POS
- Multiple new fulfillment options (e.g., buy online, pick up in store) must be handled by POS

**Self Checkout**
- Consumers strongly favor self-checkout options, citing speed of getting through the line as the top benefit
- NFC technology combined with mobile has the potential to allow for self-checkout anywhere in the store

# However, many POS platforms are not ready

### Inventory and Fulfillment

- Inventory lookup across chain, in DCs and online to satisfy customer needs
- Ship to customer from warehouse, store or vendor
- Ship-to-store or alternate store pick-up

### Mobility

- Line Busting
- Mobile POS
- Self scan / checkout
- Mobile wallet, payment, and loyalty
- Personal shopping list

### E-Commerce

- Buy online from POS
- Return items purchased online
- Digital receipts
- Price transparency and consistency

### Loyalty and Promotions

- Loyalty status visibility through all channels
- Targeted real time offers and coupons
- Cross-sell
- Up-sell
- Trade promotion optimization

### Global

- Multi-language
- Multi-tender
- Tax and Accounting
- Regulatory
- Location specific customer expectations and shopping patterns

### New Services

- In-store services: copy and print, alterations, personal shopping
- Delivery and installation
- Service plans
- Cafeteria

### Common Challenges

- Many POS systems are long time legacy packages which have been updated through customizations and bolt-ons over the years

- The resulting architecture and code base can be highly complex and fragile

  - An unruly mix of undocumented extensions with multiple point to point integrations

  - High cost to maintain and to add new functionality

  - Long lead times to make any changes

  - A small set of internal talent who truly understand the system

  - An inability to recruit new talent to understand and work on the "old" technology

- Additionally, retailers with multiple banners can have multiple POS systems that do not work well together and are difficult to manage holistically
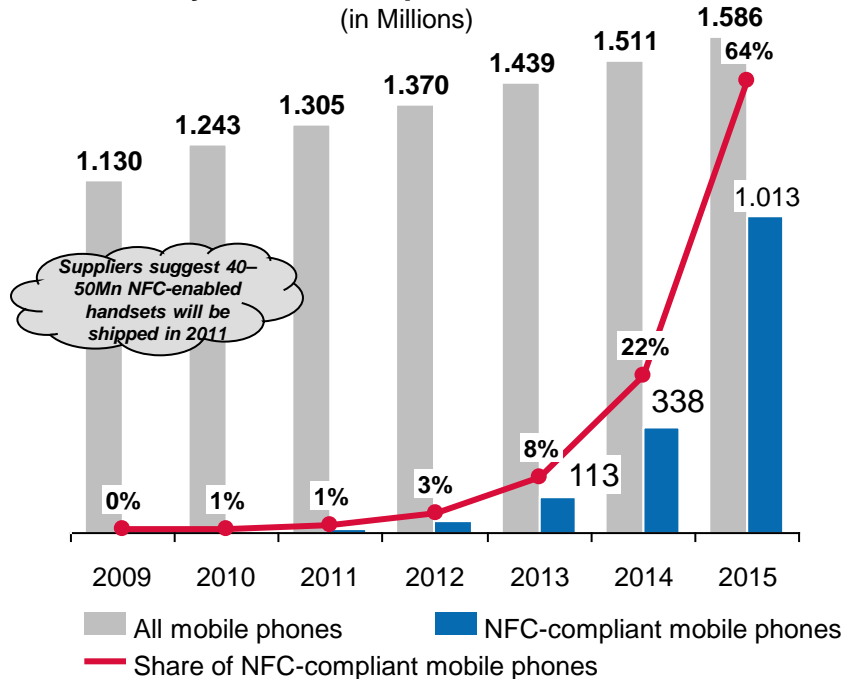
# Multiple strategies are being pursued

- Legacy custom applications are being replaced with packages and modern foundational technologies – Target, Retalix

- POS capability is being packaged within "Store ERP" including back room, labor management – Oracle, SAP

- New architectures (e.g., cloud based, centrally managed) are emerging – NCR

- Some traditional fixed POS is being replaced by mobile POS – Nordstroms, Home Depot

- Mobile wallet and payment approaches continue to gain tractions – MCX

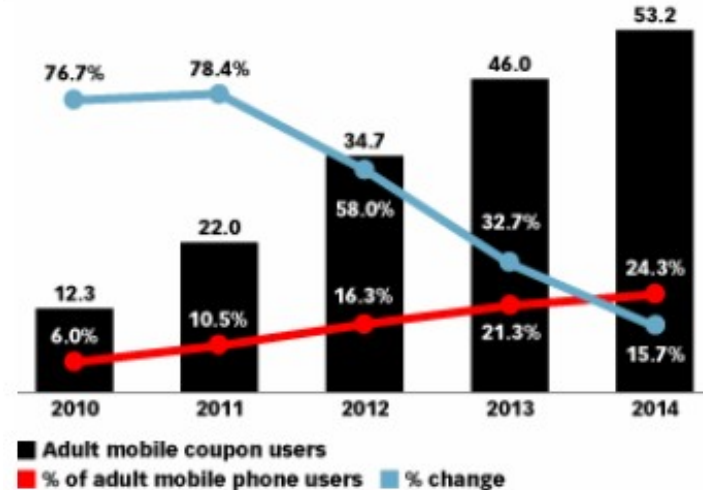- Retailers are experimenting with self service options – Wal-Mart Scan and Go



**POS Vendors**

EPICOR.    ORACLE

FUJITSU    Retalix

micros     SAP

Microsoft  TOSHIBA

NCR        WINCOR NIXDORF

# NFC is coming – we should be prepared

**Delivery of NFC-Compliant Mobile Devices**
(in Millions)



- All mobile phones
- NFC-compliant mobile phones
- Share of NFC-compliant mobile phones

Data labels (All mobile phones): 1.130 (2009), 1.243 (2010), 1.305 (2011), 1.370 (2012), 1.439 (2013), 1.511 (2014), 1.586 (2015)

Share of NFC-compliant mobile phones: 0% (2009), 1% (2010), 1% (2011), 3% (2012), 8% (2013), 22% (2014), 64% (2015)

NFC-compliant mobile phones: 113 (2013), 338 (2014), 1.013 (2015)

*Suppliers suggest 40–50Mn NFC-enabled handsets will be shipped in 2011*



**US Adult Mobile Coupon Users, 2010-2014**
*millions, % of adult mobile phone users and % change*

Adult mobile coupon users (millions): 12.3 (2010), 22.0 (2011), 34.7 (2012), 46.0 (2013), 53.2 (2014)

% of adult mobile phone users: 6.0% (2010), 10.5% (2011), 16.3% (2012), 21.3% (2013), 24.3% (2014)

% change: 76.7% (2010), 78.4% (2011), 58.0% (2012), 32.7% (2013), 15.7% (2014)

- Adult mobile coupon users
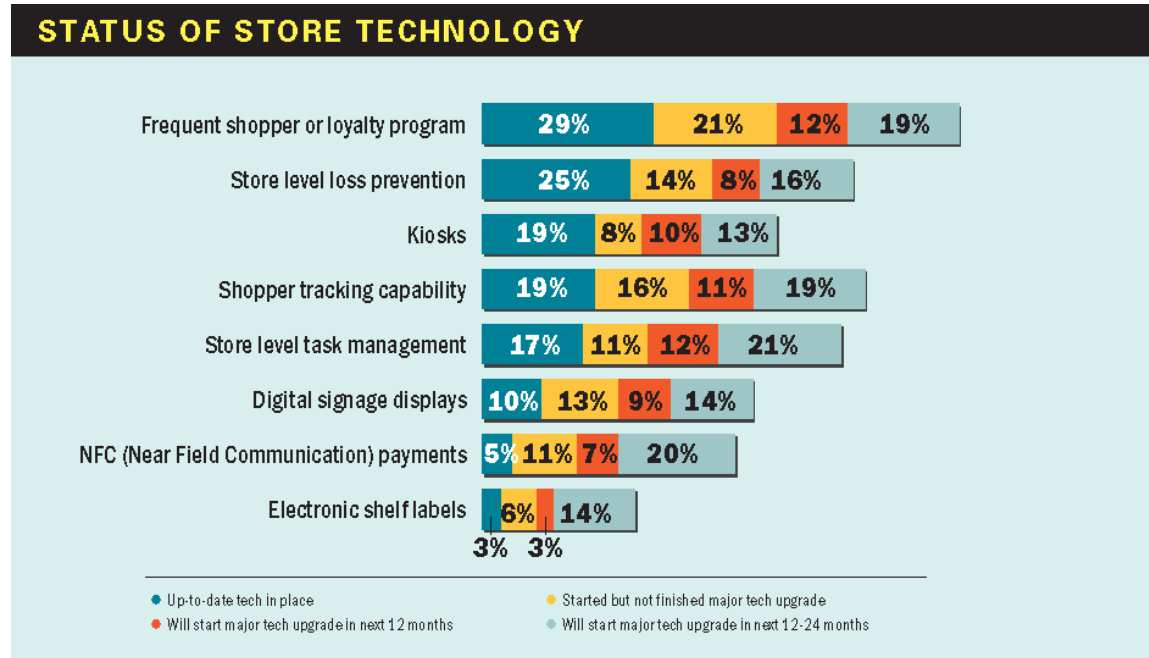- % of adult mobile phone users
- % change

Note: ages 18+; used mobile phone in the past year to redeem coupon/code obtained from SMS, application, mobile internet or mobile barcode for online or offline shopping; includes group buying coupons purchased via mobile phone
Source: eMarketer, Dec 2012
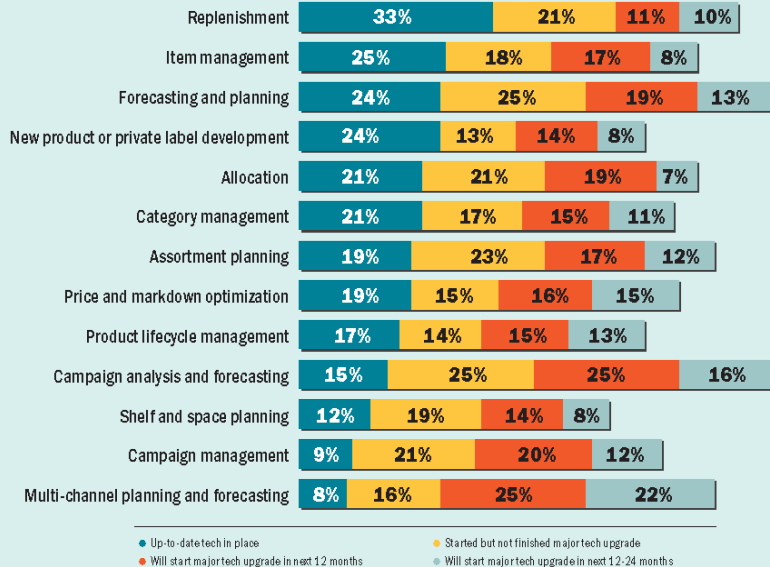
149212 www.eMarketer.com

Sources: ABI Research; Smart Card Alliance; Mobey Forum white papers; IDC; Industry interviews; Booz & Company analysis

# Loyalty, shopper tracking investments – who are we serving



**STATUS OF STORE TECHNOLOGY**

| | Up-to-date tech in place | Started but not finished major tech upgrade | Will start major tech upgrade in next 12 months | Will start major tech upgrade in next 12-24 months |
|---|---|---|---|---|
| Frequent shopper or loyalty program | 29% | 21% | 12% | 19% |
| Store level loss prevention | 25% | 14% | 8% | 16% |
| Kiosks | 19% | 8% | 10% | 13% |
| Shopper tracking capability | 19% | 16% | 11% | 19% |
| Store level task management | 17% | 11% | 12% | 21% |
| Digital signage displays | 10% | 13% | 9% | 14% |
| NFC (Near Field Communication) payments | 5% | 11% | 7% | 20% |
| Electronic shelf labels | 3% | 3% | 6% | 14% |

- Up-to-date tech in place
- Started but not finished major tech upgrade
- Will start major tech upgrade in next 12 months
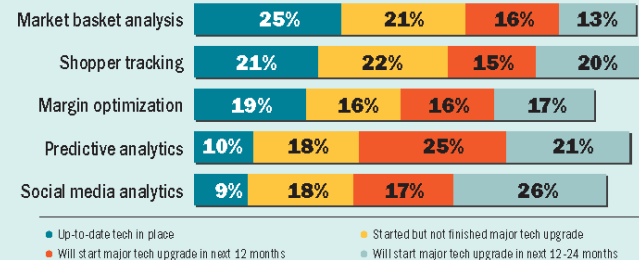- Will start major tech upgrade in next 12-24 months

*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

# *Science* of Merch and Marketing is a focus -
# Analytics



**STATUS OF MERCHANDISE TECHNOLOGY**

| | Up-to-date tech in place | Started but not finished major tech upgrade | Will start major tech upgrade in next 12 months | Will start major tech upgrade in next 12-24 months |
|---|---|---|---|---|
| Replenishment | 33% | 21% | 11% | 10% |
| Item management | 25% | 18% | 17% | 8% |
| Forecasting and planning | 24% | 25% | 19% | 13% |
| New product or private label development | 24% | 13% | 14% | 8% |
| Allocation | 21% | 21% | 19% | 7% |
| Category management | 21% | 17% | 15% | 11% |
| Assortment planning | 19% | 23% | 17% | 12% |
| Price and markdown optimization | 19% | 15% | 16% | 15% |
| Product lifecycle management | 17% | 14% | 15% | 13% |
| Campaign analysis and forecasting | 15% | 25% | 25% | 16% |
| Shelf and space planning | 12% | 19% | 14% | 8% |
| Campaign management | 9% | 21% | 20% | 12% |
| Multi-channel planning and forecasting | 8% | 16% | 25% | 22% |

- ● Up-to-date tech in place
- ● Will start major tech upgrade in next 12 months
- ● Started but not finished major tech upgrade
- ● Will start major tech upgrade in next 12-24 months

**STATUS OF BI/ANALYTICS TECHNOLOGY**

| | Up-to-date tech in place | Started but not finished major tech upgrade | Will start major tech upgrade in next 12 months | Will start major tech upgrade in next 12-24 months |
|---|---|---|---|---|
| Market basket analysis | 25% | 21% | 16% | 13% |
| Shopper tracking | 21% | 22% | 15% | 20% |
| Margin optimization | 19% | 16% | 16% | 17% |
| Predictive analytics | 10% | 18% | 25% | 21% |
| Social media analytics | 9% | 18% | 17% | 26% |

- ● Up-to-date tech in place
- ● Will start major tech upgrade in next 12 months
- ● Started but not finished major tech upgrade
- ● Will start major tech upgrade in next 12-24 months

*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

- **90% of the world's data created in last 2 years**

- **68% of retails at a nascent stage of analytics maturity**

- **5% of retailers have a Big Data strategy, 30% have executed a Big Data project, another 50% planning on doing their first project in Merchandising or Marketing**

- ***30% of retailers will run out of data storage in the next two years***

*Source: State Of The Industry Research Series: Big Data in Retail, EKN, Summer 2012*

# More Data is Available

Figure 5: Retailers' estimate of data growth (per year)



Legend:
- More than 60%
- Between 40% - 59%
- Between 20% - 39%
- Less than 19%
- I don't know
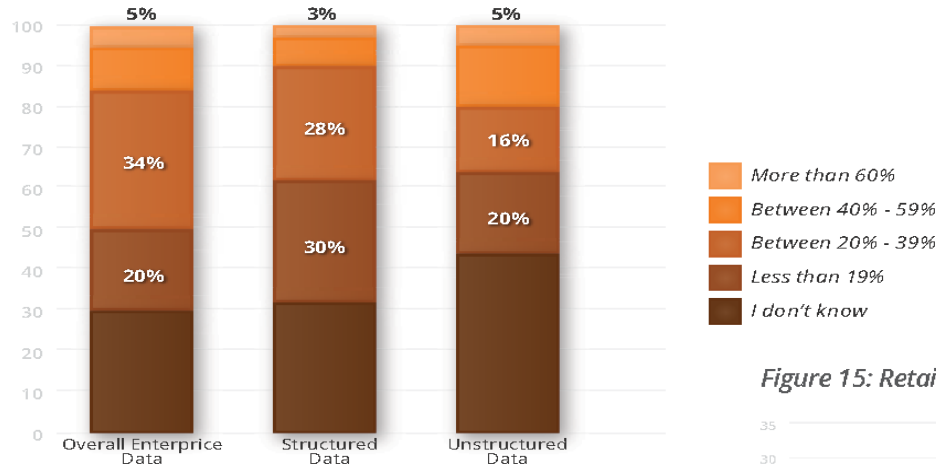
Figure 15: Retail functional areas experiencing the most data growth



Legend:
- 11% Store operations
- 26% Merchandising
- 33% Marketing (including mobile, social)
- 13% Supply chain
- 10% Operations (i.e. finance, IT, HR, etc.)
- 33% eCommerce or multi-channel
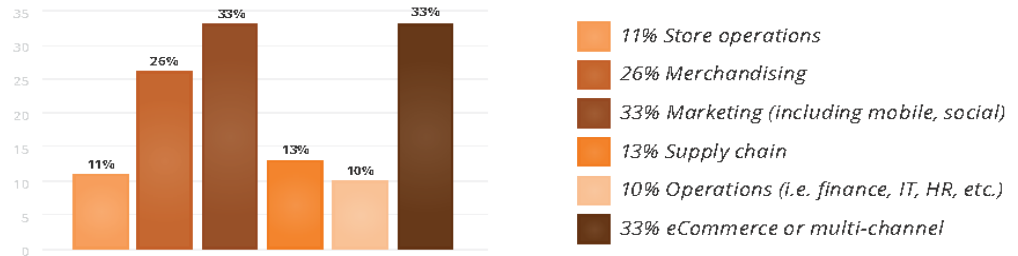
*Source: State Of The Industry Research Series: Big Data in Retail, EKN, Summer 2012*

# Retailers are spending on Analytics

Figure 16: Functional area of first planned Big Data project



- 13.0% Store operations
- 20.4% Merchandising
- 29.6% Marketing (including mobile, social)
- 9.3% Supply chain
- 3.7% Operations (i.e. finance, IT, HR, etc.)
- 20.4% eCommerce or multi-channel
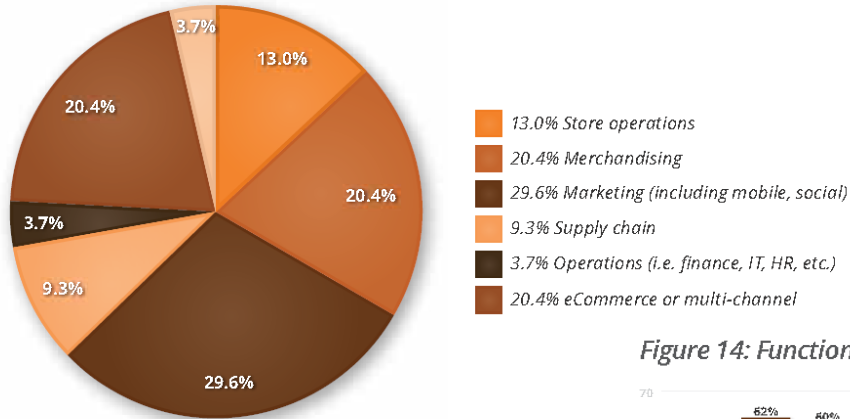
Figure 14: Functional areas that will benefit most from Big Data initiatives in retail



- 25% Store operations
- 62% Merchandising
- 60% Marketing (including mobile, social)
- 29% Supply chain
- 14% Operations (i.e. finance, IT, HR, etc.)
- 44% eCommerce or multi-channel
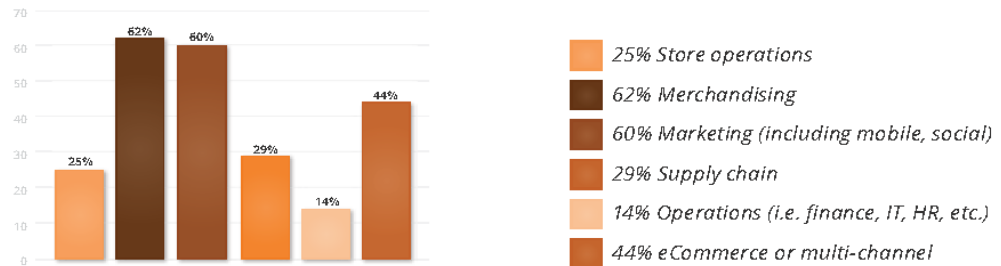
*Source: State Of The Industry Research Series: Big Data in Retail, EKN, Summer 2012*

# Convergence Challenges on the Back End

**A** **Traditional Data Integration**

**Business Intelligence and Analytics**

Dashboards

Analytics Reporting

**ODS**

**EDW**

ODS

DM | DM

EDW | Analytics Warehouse

Granular, low-level details Data Feeds

Granular, low-level details Data Feeds

**Extract/Transform/Load (ETL)**

**Data Sources**

Application DB

**Relational**

XML | CSV

**Flat Files**

Application DB

**External Feeds**

**B** **Unstructured Data Integration using Hadoop**

**Business Intelligence and Analytics**

Fraud Detection | Behavioral Ad Targeting | Consumer Analytics

Dashboards | Analytics Reporting | Algorithmic Models

**ODS** | **EDW** | **MapReduce**

Distributed Cloud Servers for Scalability

ODS | DM | DM

EDW | Analytics Warehouse

Granular, low-level details Data Feeds

"Mapped" and reduced data sets

**Extract/Transform/Load**

**Create MapReduce/Import**

**Data Sources**

Application DB

**Relational**

XML CSV

**Flat Files**

Application DB

**External**

EDI | LOG | Objects

Text | JSON | Binary

**Unstructured Data**

## Highlights

**A** Traditional technologies are optimized for processing structured data and presenting results for a narrow range of analytical applications. Substantial manipulations are required to process large volumes of unstructured data

**B** New distributed technologies such as MapReduce (developed by Google) and Hadoop (open source Apache platform) are created for the purpose of processing large volumes of unstructured data and importing the results for use of a broad range of analytical applications

# Another Challenge …

# What Are the Right Questions for A Merchant To Ask?

# Price and Promo are a Differentiator

**Pricing and Promotion Capabilities**

| Pricing | Promotion | Hyper -Localization |
|---|---|---|

- Price / Value Strategy
- Base Pricing and Elasticities
- Pricing and Margin Optimization
- Markdowns
- Comp Shop
- Price Perception
- Etc.

- Promotion Strategy and Coherence
- Promotion Evaluation and Optimization (e.g., War-gaming)
- Execution Effectiveness
- Post Event Analysis
- Etc.

- Clustering
- Dynamic Pricing
- Geo-Fencing and Couponing
- Planogram Optimization
- Etc.

# However, we see gaps in Promo capabilities

| Nascent Capability | Mature Capability |
|---|---|

**Nascent Capability**

- Product only

- Sales unit volume and profitability only

- One "flavor' of promo considered

- "What did we do last year during this week"?

- Targets are driven by buyer incentives

- Different processes, expertise and execution across buyer teams

- Limited tools to analyze events performance or compare offers from competing manufacturers

- Data in Excel on isolated desktops

**Mature Capability**

- Product AND enterprise considerations

- Focus is broadened to include assortment, basket size / profitability, traffic impact

- Promotions are evaluated within the context of a holistic promotions strategy, not just executing a calendar

- "What if" scenarios for modeling of promotions

- Promotions must address not only buyer targets, but also for whole store, whole enterprise targets

- Global process, tools and predictive analytical models

- A growing data library and knowledge base around promotions excellence

# More insight is available from internal data

## Key Retailer Data - Examples

### POS Data

- Store-level point-of-sale data provides greater detail and precision regarding sales numbers (relative to syndicated data, which manufacturers typically rely on)

- In addition, this data provides the ability to disaggregate unit volume into key drivers, including number of transactions and units per transaction (i.e., basket size)

### Store Traffic

- Store-level traffic data provides the ability to disaggregate volume data even further, breaking number of transactions into traffic and conversion

### Loyalty Card Data

- Loyalty card data provides the ability to track data about consumers

- This data can be used to understand behaviors of different consumer segments and test hypotheses about the effectiveness of promotions for reaching specific segments

## Example Analysis:
## Impact of Promotions on Gross Margin Drivers
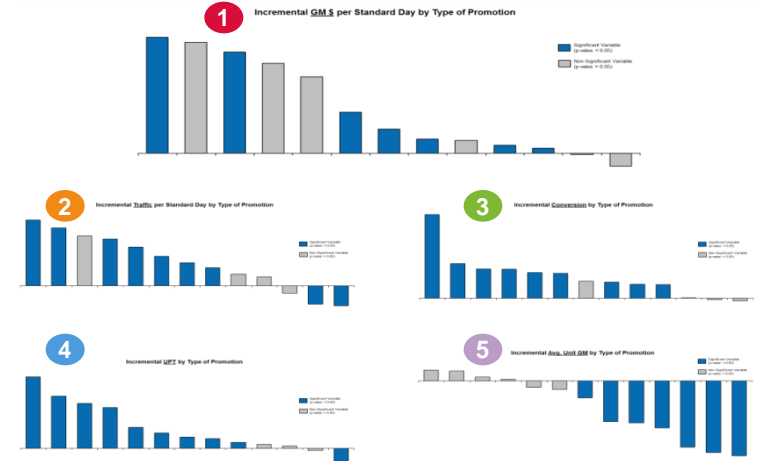
# External data provides deeper, richer insight

**Booz Big Data Framework**

External structured data is a logical extension of the current analytics done on internal structured data in the enterprise

This quadrant represents the largest area of opportunity for the enterprise to gather consumer insights

Internal structured data is the category best understood by the enterprise, but enterprise needs to integrate external and internal unstructured data

Internal unstructured data is a prime learning ground for the enterprise to understand how to mine value from these data formats

**Data Source**

*External*

Consumer Data · IRI · Nielsen · Media · Competitor Data · Agency · Manufacturer

Google+ · Facebook · Twitter · Instagram · Pinterest · Blogs · External Sensor Data

*Internal*

CRM · Web Profiles · Sales Records · HR Records · Financials · Inventory

Online Forums · Web Feeds · SharePoint · Sensor Data · Text Documents

*Structured*          *Unstructured*

**Data Type**

# Analytics must also be consumable

### Promotional Lift for Each Key Lever
(expressed as % of incremental divided by base for each key lever)

| Event Type | Traffic | Conversion | UPT | Sales Units | Sales $ | Unit GM | GM $ | Brand Risk |
|---|---|---|---|---|---|---|---|---|
| Event Type M | 7.8% | 12.8% | 26.7% | 55.3% | 30.5% | -24.9% | 16.6% | Highest |
| Event Type N | 3.1% | 7.0% | 12.5% | 23.9% | 10.7% | -14.7% | 5.8% | Highest |
| Event Type O | 10.3% | 11.2% | 9.2% | 34.3% | 12.2% | -23.1% | 3.3% | High |
| Event Type J | 6.1% | 6.1% | 5.7% | 18.9% | 4.8% | -14.1% | 2.1% | High |
| Event Type K | -2.1% | -1.1% | 2.3% | -3.7% | 2.1% | 3.5% | -0.3% | High |
| Event Type L | -5.4% | -0.4% | 1.3% | -6.5% | -3.4% | 1.4% | -5.2% | High |
| Event Type G | -4.9% | 0.2% | 6.7% | 1.4% | 6.7% | 3.8% | 5.3% | Low |
| Event Type F | 4.8% | 6.0% | 3.5% | 16.7% | 12.8% | -5.9% | 9.8% | Medium |
| Event Type B | 2.3% | 12.7% | 24.3% | 49.3% | 56.4% | -2.9% | 44.9% | Lowest |
| Event Type A | 17.4% | 15.1% | 31.1% | 75.9% | 61.8% | -16.4% | 47.0% | Medium |
| Event Type C | 12.4% | 36.5% | -8.1% | 41.9% | 43.8% | -2.2% | 38.7% | Lowest |
| Event Type C | 15.4% | 10.9% | -1.4% | 28.0% | 31.3% | 0.5% | 28.6% | Lowest |
| Event Type D | 13.2% | 7.4% | 42.5% | 71.0% | 47.0% | -26.1% | 26.3% | Medium |

▭ - Confidence level is less than 95%    ▭ - Top 3    ▭ - Bottom 3

# Supply chain investment in inventory visibility and multi-channel
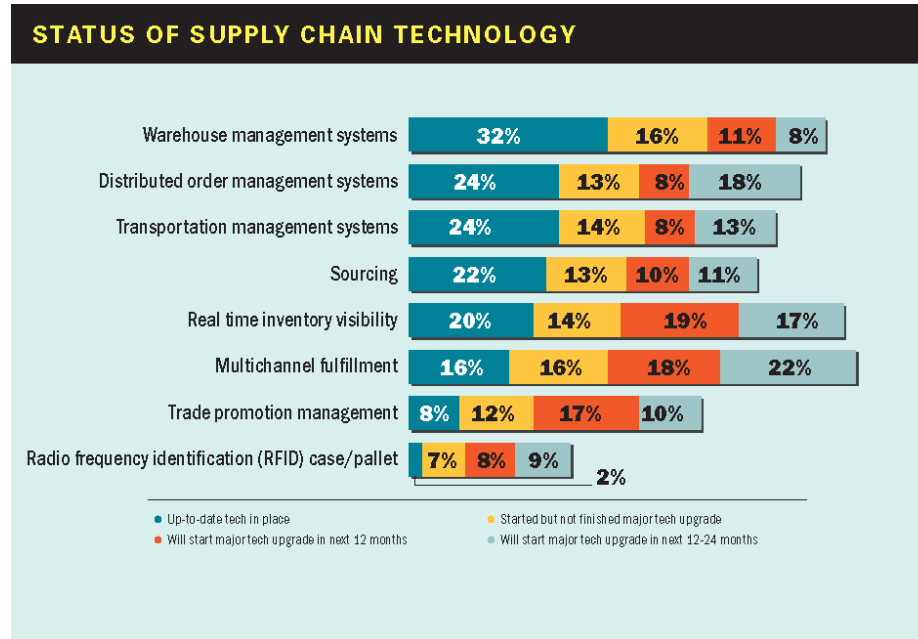


*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

# Customers will find their best channel

**Customer Buying Journey – Examples**

**Digital Customers**

| Research Products Compare Offers/Prices | Select/Compare Product | Purchase | Delivery | Post-Sale Support |
|---|---|---|---|---|
| | Visit shops to compare | In-Store purchase | Pick-up at Partner Retailer | Return-to-Store |
| | Compare online | On a computer | Home delivery | Return by mail |
| | Check word-of-mouth on social media | On a mobile device | Delivery to closest store | Customer Support |
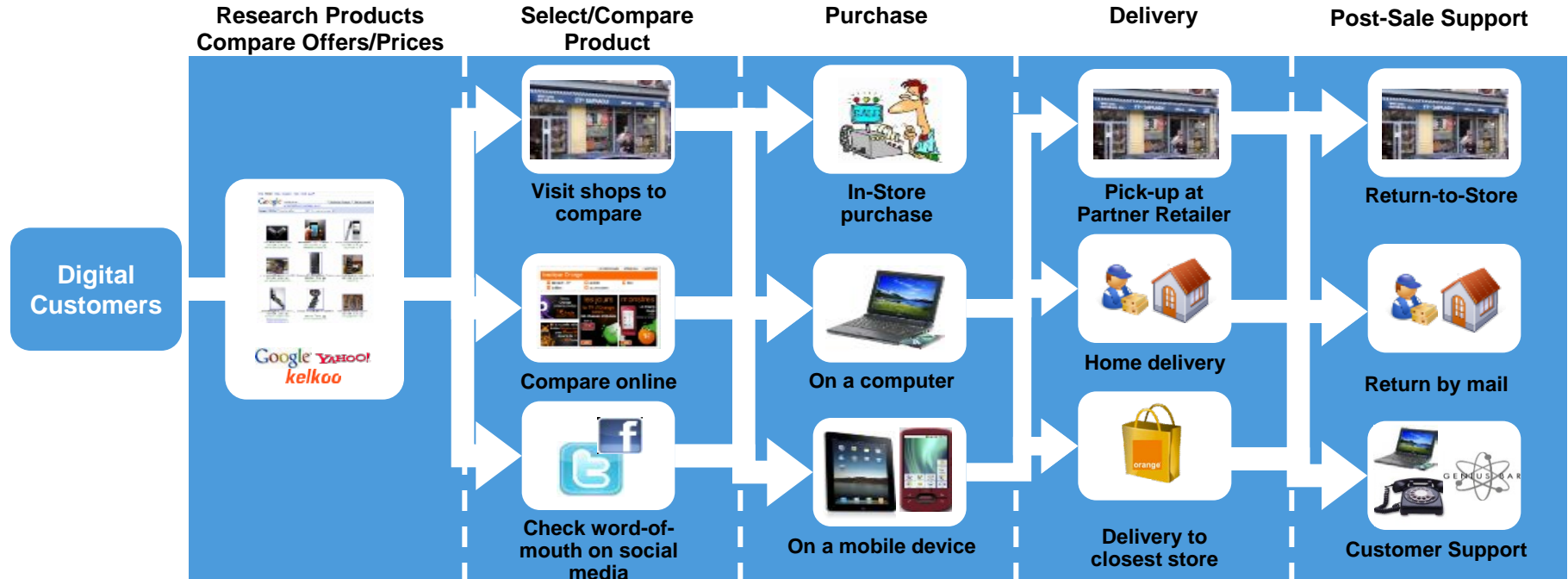
# Supply chain tech must address breaks …

**Virtuous Cycle of Customer Experience**
Stages and Potential Breakdowns



| Break Points of Customer Experience |
|---|
| ❶ Store shoppers don't have access to reviews and ratings, sales reps don't use product information that can be found online |
| ❶ Store does not offer online long-tail of assortment |
| ❷ No option to review in-store inventory online |
| ❷ Item out of stock in-store can't be ordered for home delivery from store |
| ❷ Inconsistent online and offline pricing |
| ❸ Channel specific promotions can cause buyer's remorse if discovered only after a purchase |
| ❹ No option to reserve and pick up in store and order from store for home delivery |
| ❺ Online returns cannot be returned to store or can only be returned to store |

# … and must offer multiple experiences

| | **Traditional Retail** | **Online Retail** |
|---|---|---|
| **Procurement** | ▪ Retailers job is **assortment selection** to fill limited shelf space, **cut long tail** <br> ▪ Items are procured and negotiated in **bulk** and will get sold through the channel | ▪ **'Long tail'** or virtually unlimited assortment is a **key value proposition** of online retail <br> ▪ Slow moving (long tail) items may be **procured in very small** quantities |
| **Inventory Management** | ▪ **Inventory** exists **at up to three levels**: DC, regional DC and store level <br> ▪ Inventory value is mostly **driven by stock levels by SKU** | ▪ Inventory only exists at **one level** of DCs <br> ▪ Inventory value is mostly **driven by scale of assortment** |
| **Warehouse Operations** | ▪ **Lower number of orders, stable throughput** <br> ▪ Limited need for small order size pick/packing <br> ▪ **Fork lift and palettes to trucks** | ▪ **High number of orders, high** throughput **growth** <br> ▪ Significant **need for small order size pick/packing** <br> ▪ High degree of manual labor or smart automation (e.g. Kiva) |
| **Transport & Logistics** | ▪ Often company owned fleet that delivers between DCs and to stores <br> ▪ **Logistics cost per item are low** | ▪ Freight carrier picks up large number of shipments from DC <br> ▪ **Logistics cost per item are high** |
| **Post-Sale Support** | ▪ **Return to store** can create reverse logistics complexity <br> ▪ Return to store creates **additional touch point** to retain and upsell | ▪ **Return by mail** (or store for some multichannel players) returns item faster to sellable inventory <br> ▪ Often extensive service levels and **generous policies** |

**Customer Experience**

# **Some additional things to watch in the future**

# Mobile Device becomes the Center

**Central Payment Mobile Device**

Credit Cards, Debit Cards, Customer Cards

eMoney

Mobile Banking

Online Brokerage

Credit

Electronic Identification Card
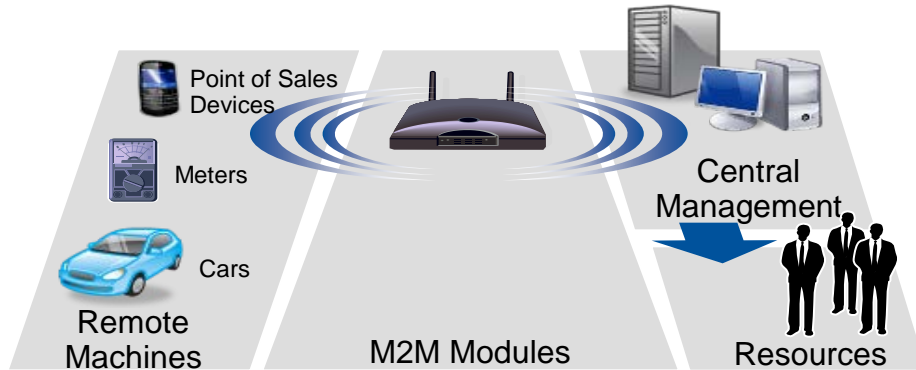
Access Keys

Fuel Card
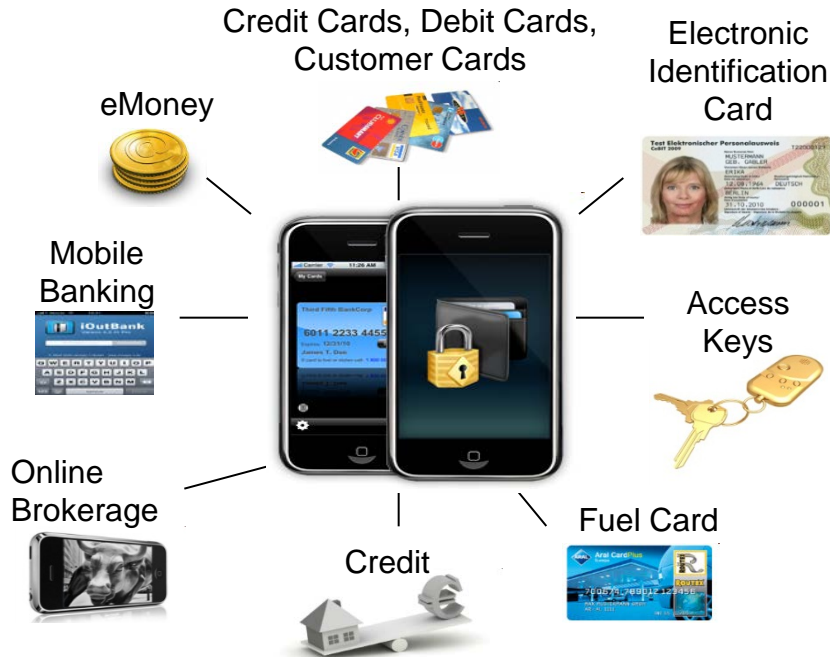
**Vision**

- **„Supersession of the wallet"** through replacement of physical means of payment (cash, cards)

- Utilization of **one mobile device** for communication, entertainment, banking, transactions, etc.

- **Maintaining** of **diverse payment methods**, such as "cash", VISA, AMEX, EC, etc. but execution through new technologies (e.g. app on mobile phone)

- **Independence from** additional **hardware infrastructure** (e.g. card reader, etc.)

- **Data security** even when mobile device gets lost (sensitive data is stored "remotely", local information is encrypted)

"In 30 years, physical credit cards may no longer exists"
Mastercard Head of Division Product Innovations[1]

1) Joshua Peirez, FAZ, 18 March 2010
Source: Booz & Company

# M2M - using sensors to talk to each other

**Architecture Overview of Machine-to-Machine (M2M)**



- Point of Sales Devices
- Meters
- Cars

Remote Machines

M2M Modules

Central Management

Resources

- M2M combines machine connectivity, communications, and information technology in an all-IP environment (Web 3.0)

- It allows connection & communication between remote parts of an enterprise: people, assets, infrastructure
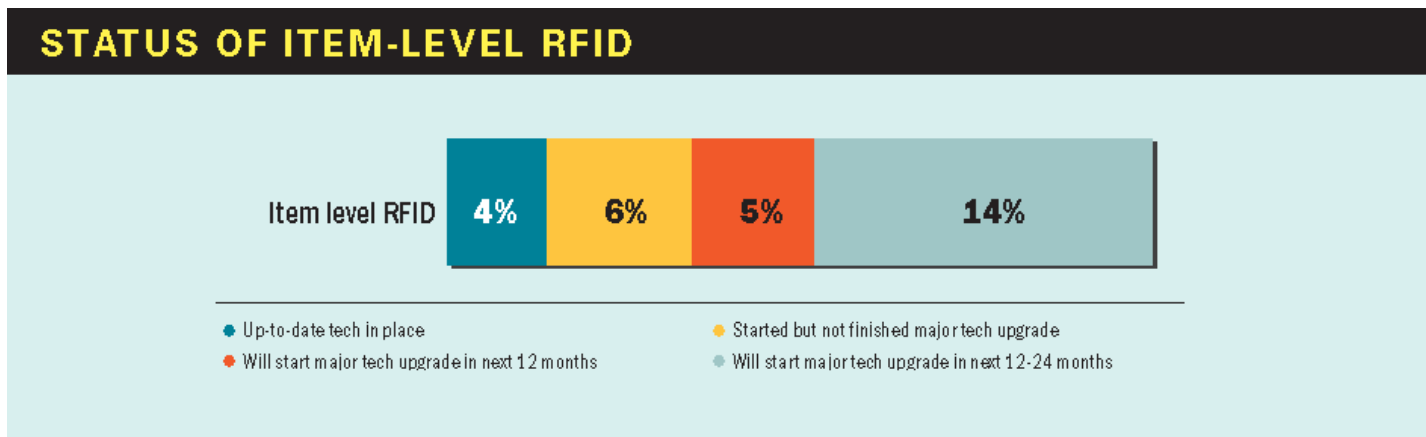
Source: GSM Mobile New Zealand, Booz & Company analysis

**Customer Facing**

- Technology delivers 100 different flavors from single spout
- Touchscreen display for enhanced customer engagement
- Digital pricing enabling NFC, credit card & biometrics

**Operator Facing**

- RFID tagged flavor cartridges report stock status to central controller
- Cellular based telemetry reports inventory stock, machine state of health, and customer preferences to back end systems

# Item Level RFID stays Alive



STATUS OF ITEM-LEVEL RFID

Item level RFID    4%   6%   5%   14%

- Up-to-date tech in place
- Started but not finished major tech upgrade
- Will start major tech upgrade in next 12 months
- Will start major tech upgrade in next 12-24 months

*Source: Gartner / RIS 23rd Annual Retail Technology Study - Four Forces of Change – April 2013*

- **Lots of change**

- **Many opportunities to spend money on technology – a potential black hole**

- **Where to place the big bets?**

# Why do companies pursue markets that look appealing … but are unreachable?
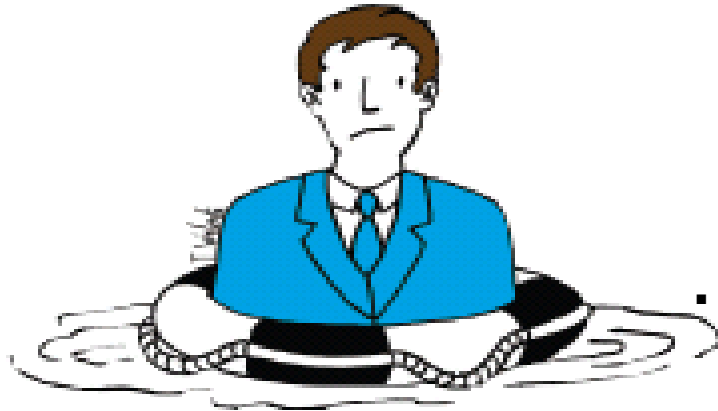
- Our recent survey of 1800 senior executives identified **the problem:**
  - More than half of the respondents **don't** think that they have a winning strategy
  - 2 out of 3 companies admit that they don't have the capabilities needed to create value in the marketplace
  - Only 1 in 5 are fully confident they have a right to win
  - And, the vast majority agree that they're chasing far too many opportunities

- We see many companies struggling to grow despite heavy investment.
  - They grab hastily for what seems like the next answer to growth
  - They don't have a solid framework to decide which opportunities will lead to sustained success
  - They end up stretched thin

Note: Illustration from "The Coherence Premium," by Paul Leinwand and Cesare Mainardi, published in *Harvard Business Review* (June 2010)

# Companies are not asking the right question

They ask "Where do we want to grow?"
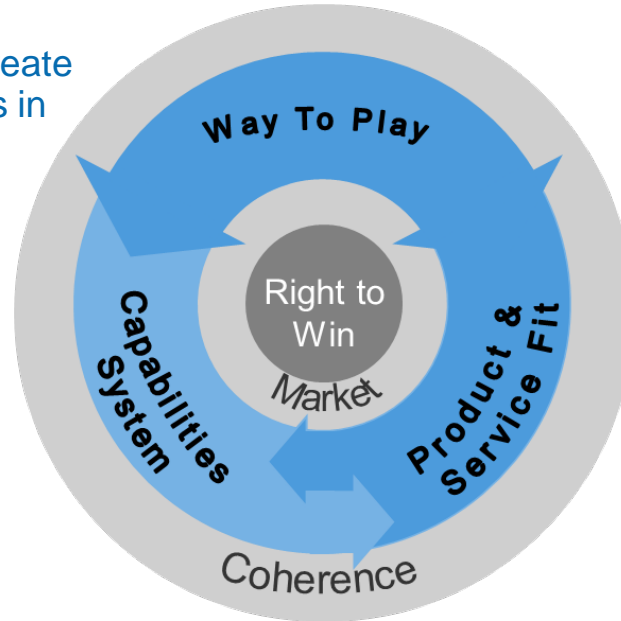and "What do we want to do?"

They should be asking: ***"Who do we want to be?"***

In other words: "How should we be different to create value?"

# Three strategic choices for coherence

➔ How are we going to create value for our customers in this market?

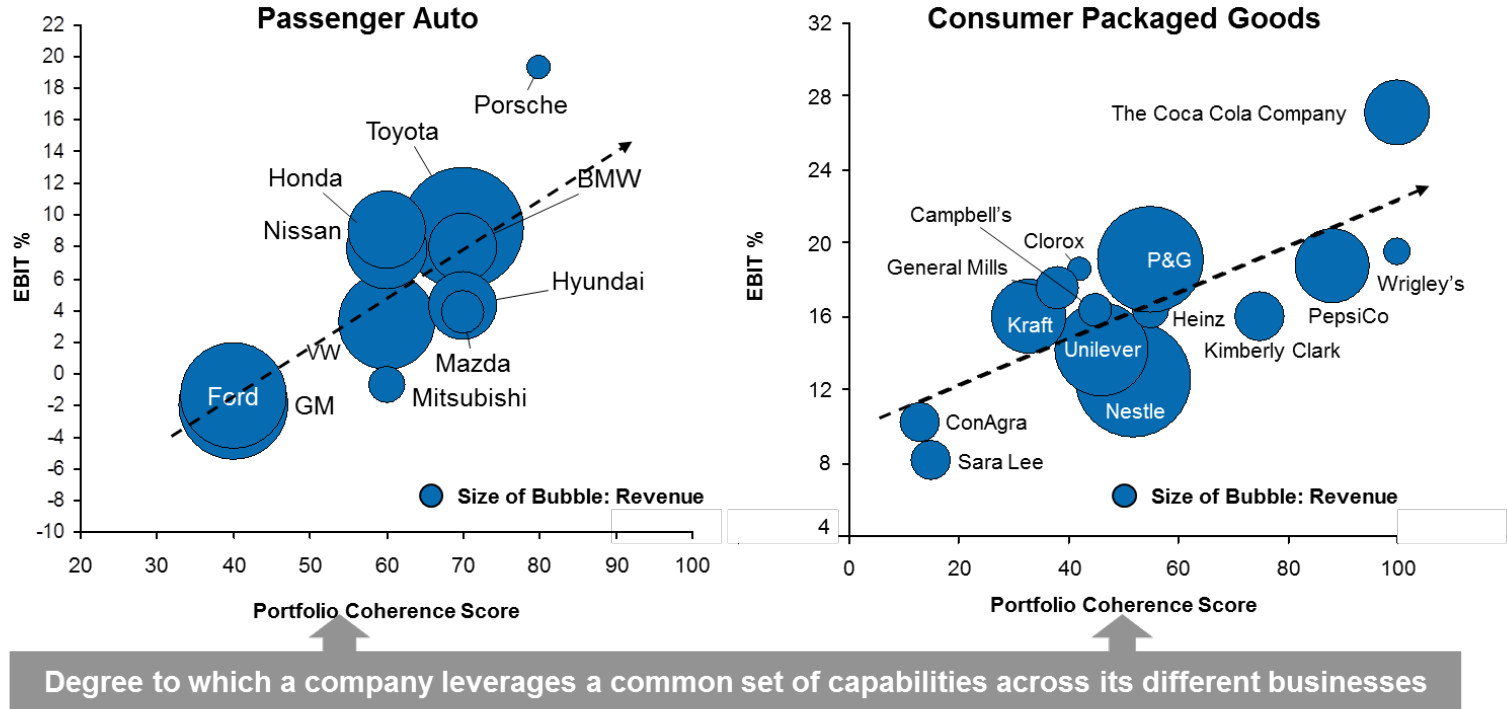➔ What do we need to do well to deliver that value proposition?



➔ What are we going to sell in this market and to whom?

**Winning companies align their strategic direction to the capabilities that make them unique. They make hard choices about differentiation and stick to them.**

# Coherence matters

## Link between Coherence and Performance



**Passenger Auto**

Porsche
Toyota
Honda
BMW
Nissan
Hyundai
VW
Mazda
Ford
GM
Mitsubishi

EBIT %

Portfolio Coherence Score

Size of Bubble: Revenue

**Consumer Packaged Goods**

The Coca Cola Company
Campbell's
Clorox
General Mills
P&G
Kraft
Heinz
Wrigley's
Unilever
PepsiCo
Kimberly Clark
Nestle
ConAgra
Sara Lee

EBIT %

Portfolio Coherence Score

Size of Bubble: Revenue

**Degree to which a company leverages a common set of capabilities across its different businesses**
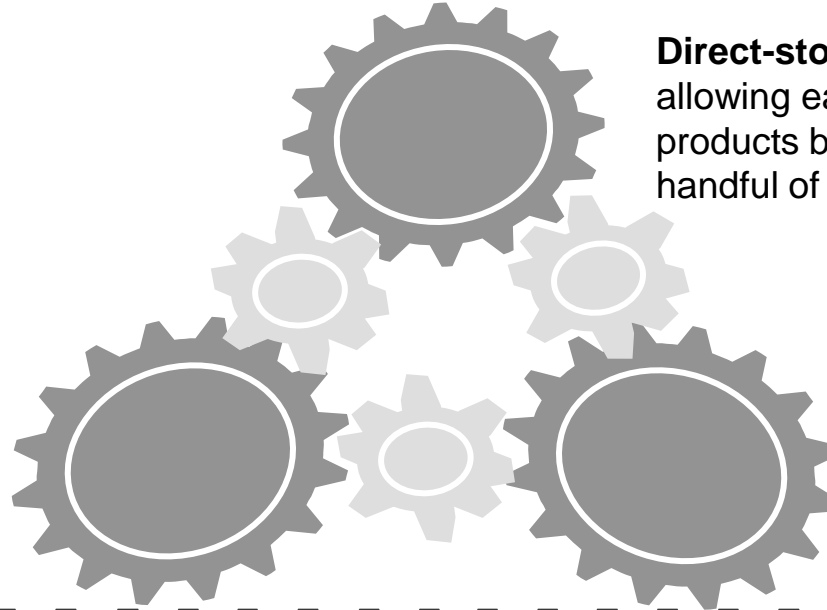
Sources: Booz & Company; Capital IQ; Bloomberg; Automotive analysis based on 2003-2007 financial data

# Technology investment should focus on differentiating capabilities that are mutually reinforcing and integrated

**Example: The Pepsi-Frito Lay Capabilities System**



**Direct-store delivery (DSD)** allowing easy testing of new products by introducing them in a handful of stores

**Continuous innovation of new products** with store level response information going directly to R&D

Skillful global **consumer marketing** to rapidly build demand for initially successful products

**Rapid innovation, distribution and marketing to stimulate and meet customer snacking needs**

# Closing Thoughts

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