The Canadian Retailer-

Challenges & Opportunities

Benchmark Report: 2008

Sponsored by:

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EXECUTIVE SUMMARY

For far too long, the assumption that retailers in Canada have the same needs and requirements to satisfy their customers as US-based retailers has permeated the retail ecosystem. However, there is little data to show how Canadian retailers face differing and unique business challenges, how they create opportunities from those challenges, and what internal roadblocks they face. We launched this report to fill that void.

Business Challenges

Canadian retailers are focused on shoring up the fundamental building block of the retail business: ***customer service***. Employee turnover is a very real problem in Canada, with 97% of the overall pool identifying the ability to find and retain good employees as a "somewhat" or "very important" priority. In fact, 82% of respondents identified it is the top "very important" challenge they face in the current environment. Retail Winners, however, focus on different aspects of retail. Canadian Winners are much more interested in improving employee productivity, executing better in-store, and interestingly enough, differentiating themselves from competitors via *price* (50% to laggards 36%).

Opportunities

Compared to their average and underperforming peers, Canadian Winners put greater emphasis on the ability to "help consumers get the most value for their shopping dollars until economic times improve" as a viable opportunity to win consumer loyalty. Sixty-two percent of Winners also tell us that "synchronizing our channels to offer a consistent brand image to our consumers" is just as important: a telling indicator of where Winners' collective heads are at. Once more, Winners are much more in tune with what the customer experience looks and feels like. Average and lagging retailers, by comparison, are more inclined to attribute lackluster sales to their workforce (82%), with only 36% feeling that the consumer's perception of their brand is linked in any way to product prices or a seamless shopping experience.

Organizational Inhibitors

Purity of data is the top concern for Canadian respondents, making actionable decisions in any number of retail operations much more difficult. Unfortunately, this trend remerges across a number of areas in the Canadian retail landscape, including product pricing strategies, merchandising, loyalty programs, workforce management and business intelligence. This is in stark contrast to what US retailers consistently tell us their number one inhibitor is, where regardless of the topic, "fractured planning processes" and "existing infrastructure" are always the number one inhibitors to forward progress.

Technology Enablers

As RSR has seen in virtually every one of its recent studies, Winners draw a straight line between business performance and technology adoption. In the case of Canadian retailers, we see that Canadian Winners are allotting less percentage of their 2009 budget to supply chain efficiency improvements (38%) and POS systems (25%) than the general respondent pool (50% and 30%, respectively). Instead, they are focusing more attention on revamping their centralized merchandising processes and systems to support their emphasis on multi-channel integration. Winners also show a greater understanding of the connection between demand management and new merchandising capabilities.

Bootstrap Recommendations

RSR offers a full section of baseline suggestions to retailers in Canada at the end of this report, based on what our survey respondents have told us. To effectively boil them down, we put forth the following:

- The disconnect between getting sales transaction data correct and improving systems that use that data must be resolved;
- Store managers must be further empowered; and,
- Store mangers require more accountability for their results.

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SECTION I: OVERVIEW

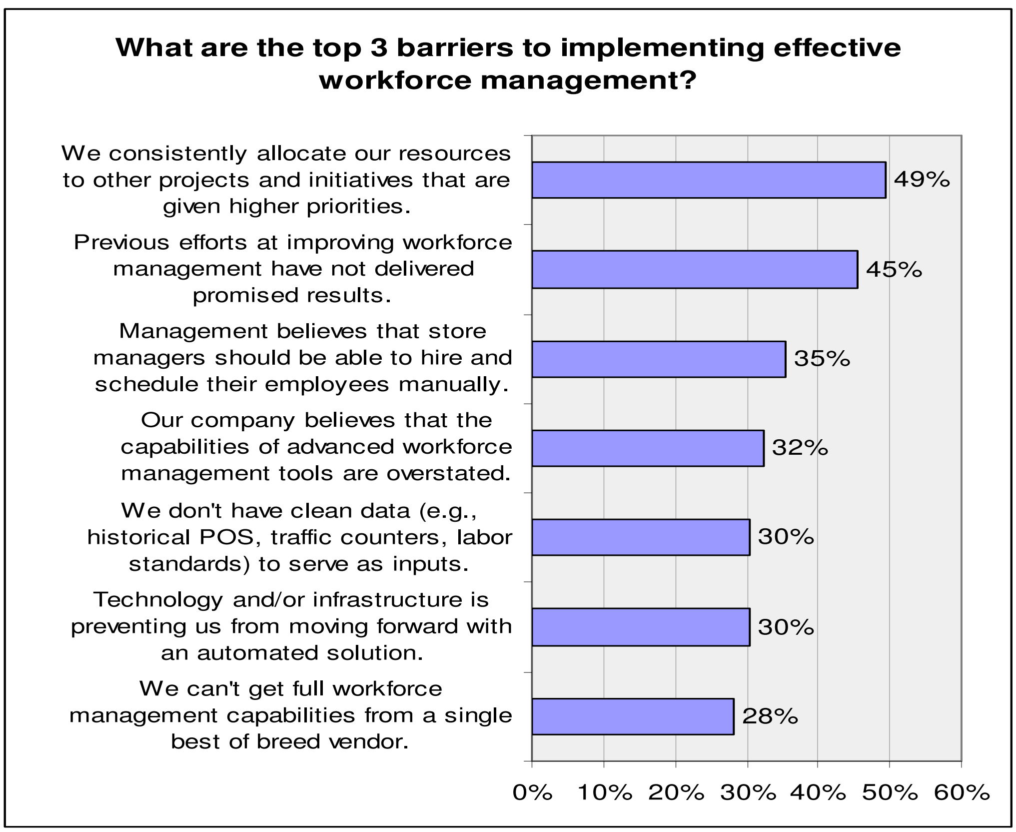
Why the Study Was Conducted

For far too long, the assumption that retailers in Canada have the same needs and requirements to satisfy their customers as US-based retailers has permeated the retail ecosystem. However, there is little data to show how Canadian retailers face differing and unique business challenges, how they create opportunities from those challenges, and what internal roadblocks they face. We also sought to uncover what technology enablers are perceived as having the most value to Canadian retailers, as well as how they are planning to implement new retail-focused technological advancements. For these reasons, we launched our first-ever benchmark study of how Canadian retailers are addressing business challenges and opportunities with information and technology in today's market.

Even assuming that real differences exist between U.S. and Canadian retailers, we were surprised to see how much differently Canadian retailers view the challenges surrounding elevating the quality and efficiency of their customer-facing workforce.

For example, US-based retailers told us in our recent "State of Retail Workforce Management" Study that conflicting demands on resources prevent them from implementing effective workforce management solutions (Figure 1), as does the failure of previous efforts to improve workforce management.

Figure 1:
Workforce Challenges in the US

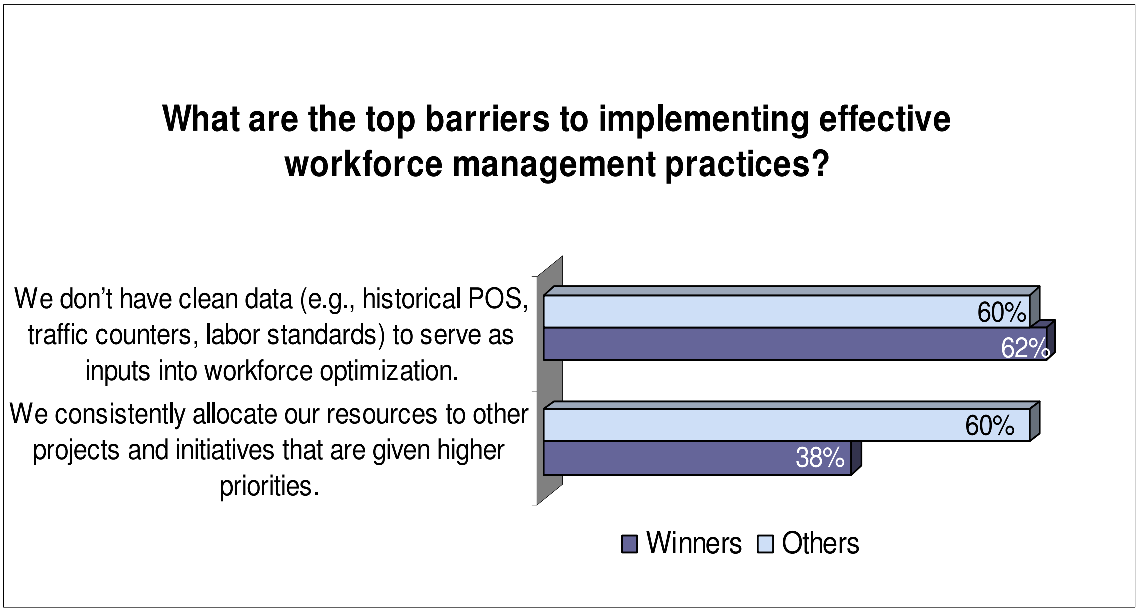


Source: RSR Research, October 2008

However, although Canadian retailers express an even greater level of concern about conflicting demands that prevent them from implementing effective workforce management practices (52% compared to

49%), an even greater concern was expressed about a basic building block for workforce management systems: clean POS transaction data. While only 30% of our US respondents felt that the purity of data was an issue, it is *the top concern* for Canadian respondents (67%), shown here in Figure 2.

Figure 2:
The Data is Key



Source: RSR Research, October 2008

Methodology

RSR uses its own model, called the "BOOT," to analyze Retail Industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

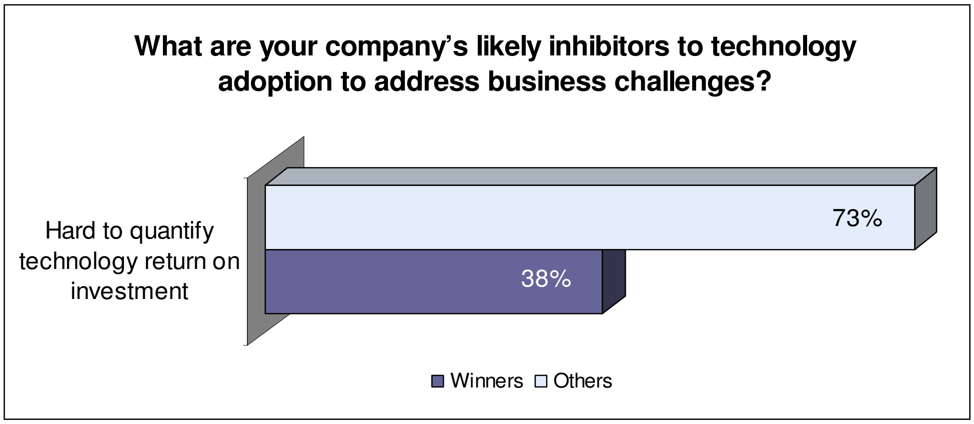
In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Defining Retail Winners and Why They Win

We've already introduced the concept of Retail Winners in this report. Our definition of these Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that **Winners don't merely do the same things better, they tend to do different things**. They think differently. They plan differently. They respond differently.

For example, in *Figure 3*, we can see that Canadian Retail Winners have far less trouble than others in identifying a business case for technology investments. Whereas 73% of non-winners indicate that they struggle to identify the ROI from technology investments, only 38% of Winners say so. As we have seen in other research, retail Winners understand the value of technology to improve efficiencies and create new value, whereas laggards are skeptical of technology's value to their organizations.

Figure 3:
Winners "Get" ROI



Survey Respondent Characteristics

RSR conducted an online survey from June-September 2008 and received answers from 44 qualified Canadian retail respondents. Respondent demographics are as follows:

- **Job Title**:

Senior Management (CEO, CFO, COO)	17%
Vice President	11%
Director/Manager	56%
Internal Consultant & Other Staff	17%

- **2007 Revenue ($ Equivalent)**:

$50 Million or less	20%
$51 - $499 Million	35%
$500 Million - $999 Million	0%
$1 Billion - $5 Billion	20%
Over $5 Billion	25%

- **Segments**:

Fast Moving Consumer Goods (FMCG)	15%
General Merchandise and Apparel (GMA)	80%
Hardware/Do-it-Yourself/Other	5%

- **Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3%)**:

Worse than Average	26%
Average	32%
Better than Average (Retail Winners)	42%

SECTION II: BUSINESS CHALLENGES

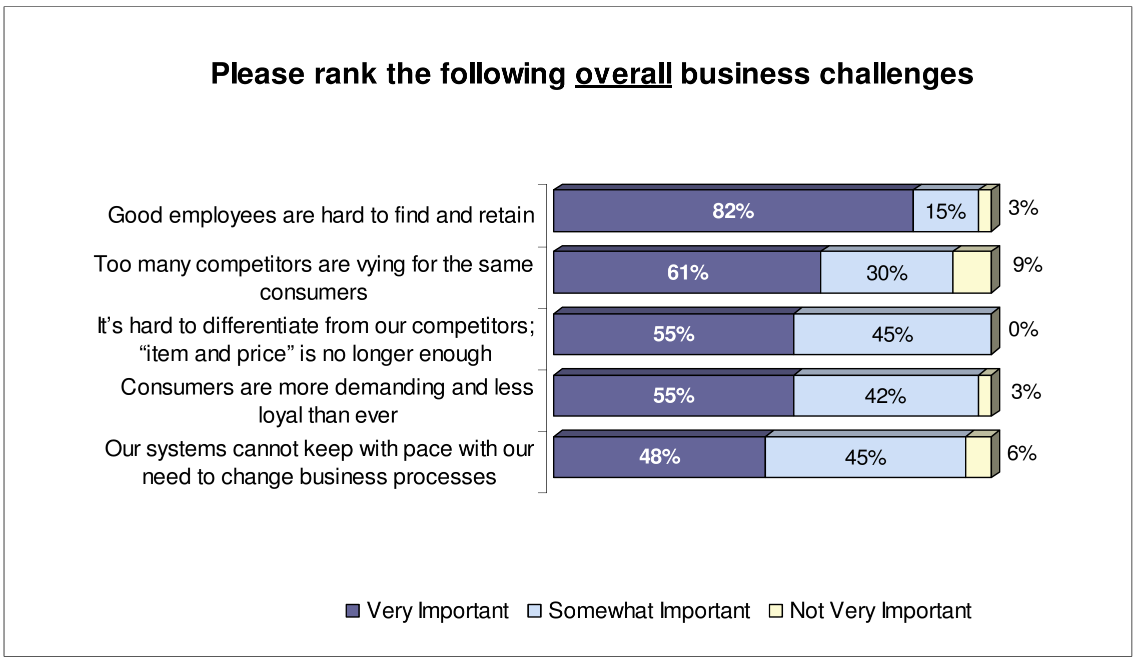
FACING THE CUSTOMER

Canada's biggest trade partner, the United States, is generating less demand for products. One result of the sagging US economy is that while Canadian culture tends to be very European-centric in its approach to (among many things) retail, Canadian retailers cannot escape feeling the pinch of a global market affected by America's economic uncertainty.

How does this reality affect the ways in which our Canadian respondents identify the biggest challenges they face?

As we've already seen, it appears that Canadian retailers are far more focused on shoring up the fundamental building block of the retail business: ***customer service***. Employee turnover is a very real problem in Canada, with 97% of the overall pool identifying the ability to find and retain good employees as a "somewhat" or "very important" priority (Figure 4). In fact, 82% of respondents identified it is the top "very important" challenge they face in the current environment.

Figure 4:
A Good Employee is Hard to Find



Source: RSR Research, October 2008

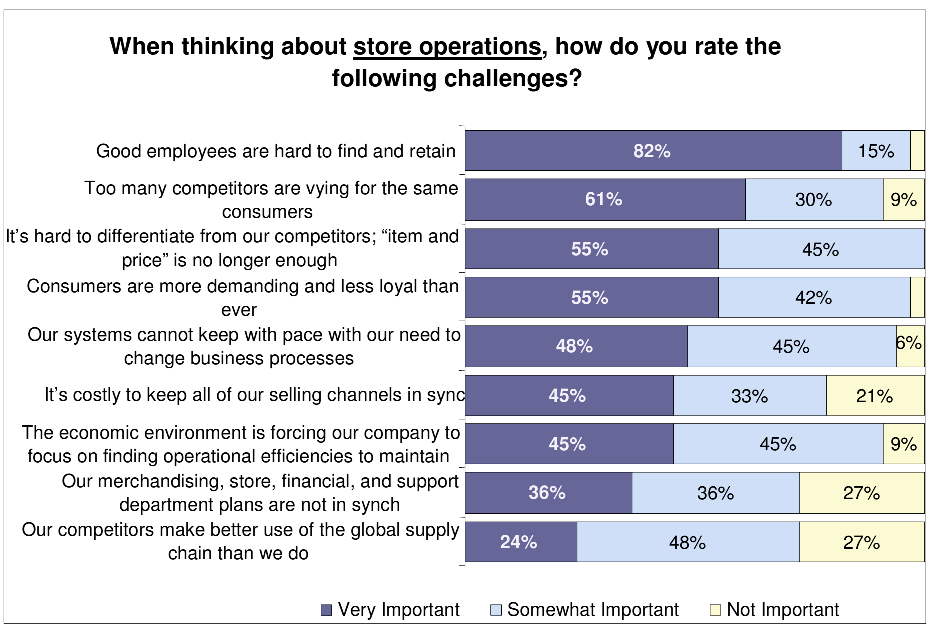
At the same time, a full 100% of Canadian respondents indicate that the ability to differentiate from competitors is a real challenge and that "item and price are no longer enough" to satisfy the customer, with 55% identifying differentiation as a "very important" challenge, This is in stark contrast to what US respondents told us in the recent RSR *Customer Centric Merchandising Study*. That study indicated that winning US retailers feel that price is just as important to the customer as product selection. Seventy-five percent of retail Winners, in fact, identified price as a key differentiator, versus 27% of laggards. U.S. retailers told us they are heavily focused on getting their product assortment localized, and further, that price optimization technologies will serve as the lynch pin to gaining consumer loyalty. For U.S. retailers, only those selling basics (t-shirts, socks) felt that their stores were a "sea of sameness" (48%), that creating a differentiated store experience was becoming more difficult, and that new competition was appearing in new and unlikely places (34%) as a result of segment blurring (hardware stores selling ubiquitous basic goods, for example.)

This begs the question: Are Canadian retailers less interested in product and price optimization for cultural reasons, or is this a case where the Canada's retailers are reacting to market conditions similarly to US laggards?

The Difference with Winners Is…

As we see so frequently, Retail Winners focus on different aspects of retail. It's what sets them apart. Canadian Winners demonstrate this notion as well. Figure 5 shows that these retailers are much more interested in improving employee productivity (62% versus laggards 55%), executing better in-store (60% versus laggards 55%), and interestingly enough, differentiating themselves from competitors via *price* (50% to laggards 36%). This is encouraging, showing that winning retailers in Canada recognize the re-emergence of price as a primary concern of today's customer, and it further answers our question from above. It's not that Canadian retailers are ignoring their customers' sensitivity to price, it's that laggards (regardless of borders) are doing so - at their own peril.

Figure 5:
It's All About the Customer Experience



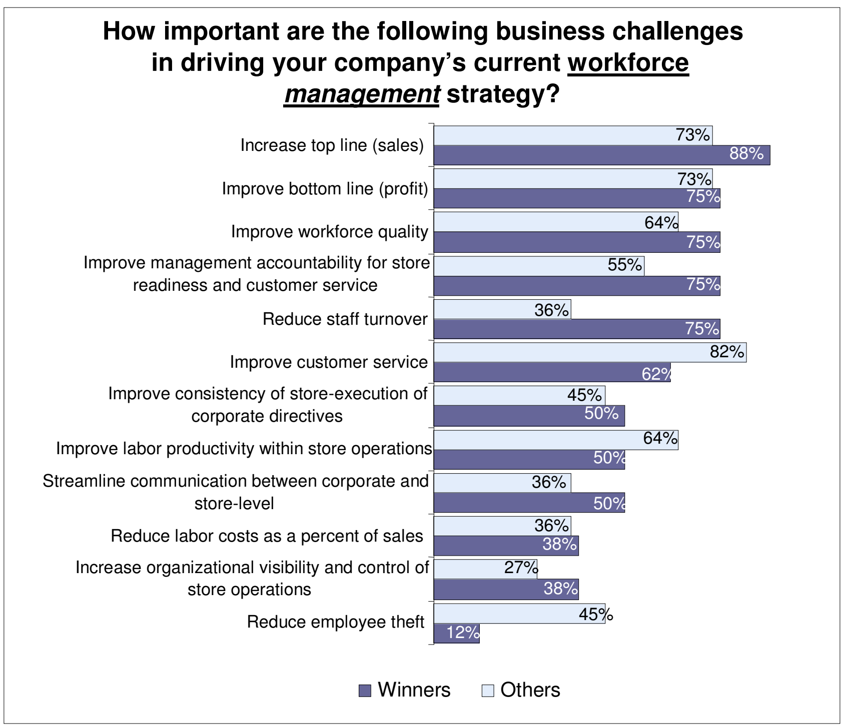
Source: RSR Research, October 2008

In our survey responses, we see that Winners don't use the customer or their competitors as an excuse to shy away from new practices and technologies, but instead, take a far more customer-centric approach to literally every aspect of their value offering. Canadian Winners know that their stores, in order to not only survive in tough economic times, but thrive as well, benefit most from having a knowledgeable staff on the floor, a more efficient store layout, and better prices on the products they are making available. By way of comparison, laggards are far more concerned with cost-cutting their way to survival, as evidenced by the priority they've placed on making sure that the product returns process is efficient (45% of laggards versus Winners' 12%).

WINNERS TARGET EMPLOYEE RETENTION AND MANAGER ACCOUNTABILITY

To no surprise, Canadian Retail Winners also differ in their view of how vital that floor-staff and store management asset really is. *Because Winners focus on employee productivity and more consistent execution, these retailers see a need to improve employee retention and improve store manager accountability.* Figure 6 shows that while most of our survey respondents focus on both the top and bottom lines, *Winners are more focused on top-line sales, and understand that the path to that is a better staff and more store manager accountability.* Interestingly, this is an area where Canadian Winners are even more sensitive than their US counterparts, for whom only 21% saw any real challenge surrounding staff turnover. Because turnover rates are quite similar in both geographies, this is an area where winning Canadian retailers clearly have a "leg up."

Figure 6:
The Store Needs Help



Source: RSR Research, October 2008

Non-winners on the other hand don't see the connection between reduced staff turnover and improved customer service and improved store labor productivity. These retailers are also much more concerned than Winners about employee theft. These points are perhaps indicative of a negative attitude on the part of these retailers towards their employees. As RSR commented in our November 2007 ***State of Retail Workforce Management Benchmark Study:***

> *"When there is very little stability in your workforce, it's hard to develop a relationship of mutual respect between employer and employee. At RSR we once heard a VP of Store Operations state that his company's workforce profile seemed to be 'welfare moms' – single mom with no*

> *education, a lot of kids, and little desire to work hard – an extremely unfair assessment, but indicative of the company's relationship with its employees."*[1]

In addition to seeing the relationship between staff quality and retention, and overall improved performance, Canadian Winners also understand that streamlining and improving the communication between store employees and corporate headquarters, and having greater visibility into store operations, is key to enabling greater store manager accountability.

Online is a Whole Different World

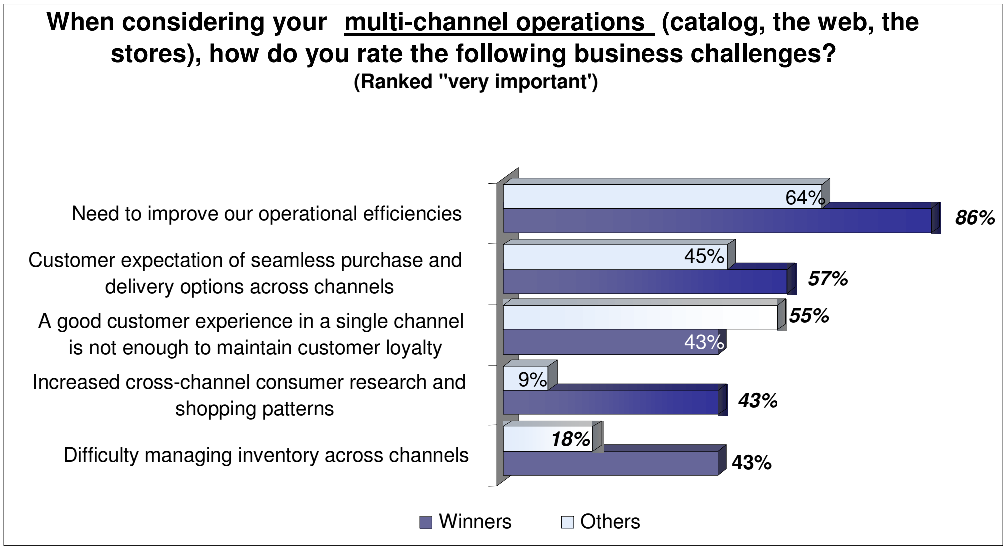
Retailers the world over are still challenged to understand what the consumer ultimately demands/will bear from the online channel. We saw in our recent *eCommerce Benchmark* and in our earlier *Cross-Channel Retailer Benchmark Reports* that pure-play eCommerce retailers (due to their nimbleness and need) are somewhat more adventurous in utilizing new features and functionalities such as social networking, video reviews, and 3D applications to make their sites more intriguing. Multi-channel retailers, however, are waiting to see how the "wisdom of the crowd" shakes out. For those who operate stores, Winners' primary goal is rapidly becoming the need to use the online resource to drive traffic to that primary investment. This point is reinforced by this study's finding that more Canadian Winners recognize the amount of research the customer is performing online before setting foot into a store (43% to 9%).

According to our study's respondent pool, Canadian retailers are focused on shaking out the costs of running parallel operations for each of their channels; *but this trend is even further heightened by retail Winners.* Those retailers place greatest emphasis on integrating their channels, with 86% saying this challenge is 'very important' (in comparison, only 40% of underperforming laggards think this is important). And while Winners acknowledge more cross-channel inventory difficulties than do their underperforming peers (43% vs. 18%), this is likely attributable to their greater awareness of the issue.

This is just another example of how Winners continue to win – even in a down economy. Winners recognize that the customer has many options for whom to shop with and how, and is entirely agnostic as to how that seamless experience between web, call center, catalog and store is made possible. To her, the only channel that matters is the one she is currently shopping.

[1] The State of Retail Workforce Management Benchmark Study: November 2007, by Nikki Baird, © 2007 RSR Research LLC, p.13

Figure 7:
A Differing View of the Future



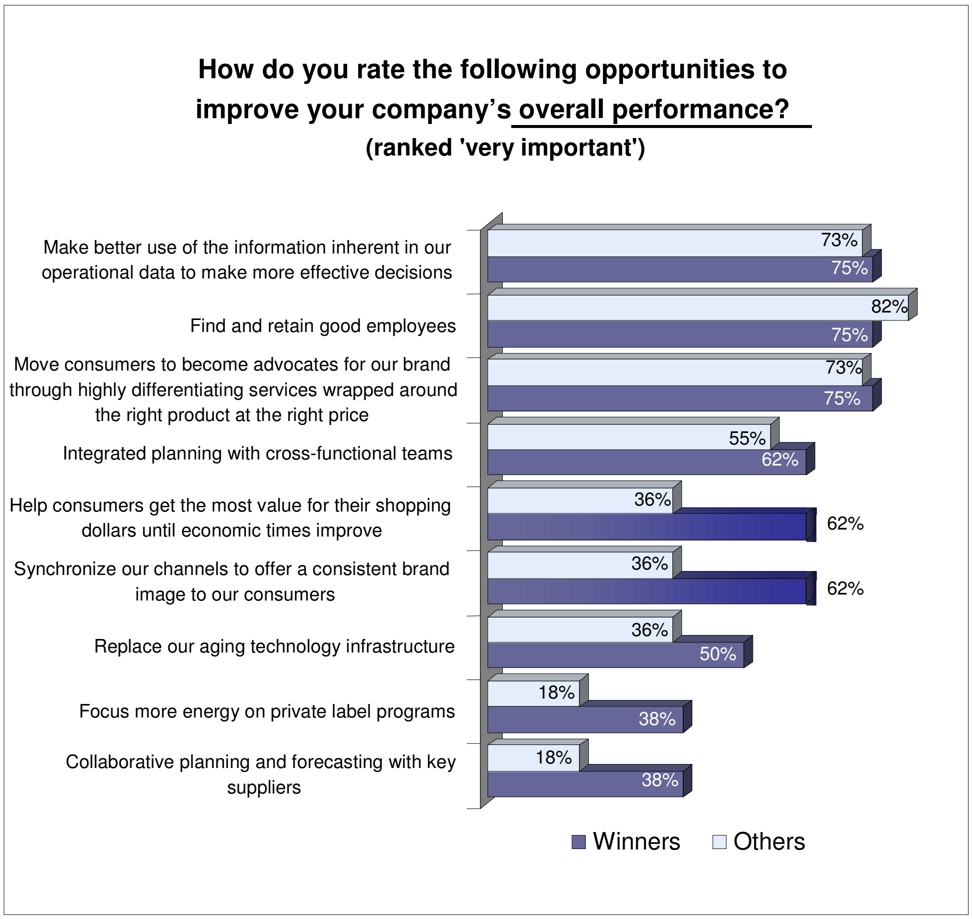
Source: RSR Research, October 2008

SECTION III: OPPORTUNITIES

LOYALTY IS THE NAME OF THE GAME

Just as Canadian retailers have unique business challenges, the opportunities that await those who care to act are just as different. We've already seen that Canadian Winners place more emphasis on price, but here in Figure 8, we can see that Winners further recognize how important *value* becomes in times of economic downturn.

Figure 8:
The Opportunity Resides in Shoppers' Value Perception



Source: RSR Research, October 2008

Compared to their average and underperforming peers, Canadian Winners put greater emphasis on the ability to "help consumers get the most value for their shopping dollars until economic times improve" as a viable opportunity to win consumer loyalty. Sixty two percent of Winners also tell us that "synchronizing our channels to offer a consistent brand image to our consumers" is just as important: a telling indicator of where Winners' collective heads are at. Once more, Winners are much more in tune with what the customer experience looks and feels like. Average and lagging retailers, by comparison, are more inclined to attribute lackluster sales to their workforce (82%), with only 36% feeling that the consumer's perception of their brand is linked in any way to product prices or a seamless shopping experience.

WINNERS DON'T FORGET WHO THEY'RE WORKING FOR

This focus on the connection between value and loyalty extends into how Canadian Winners' view of loyalty programs' efficacy varies from that of average and lagging retailers. While both Winners and all others view a tremendous opportunity to increase margin dollars and percent (57% and 55% respectively), Canadian Winners break free from the pack in their perception of what a loyalty program does to bring customers back through the door (or to pick up the catalog/phone or visit the website).

In Figure 9, we see that 75% of Winners view a loyalty program as a prime opportunity to drive repeat purchases, compared to all others' 45%.

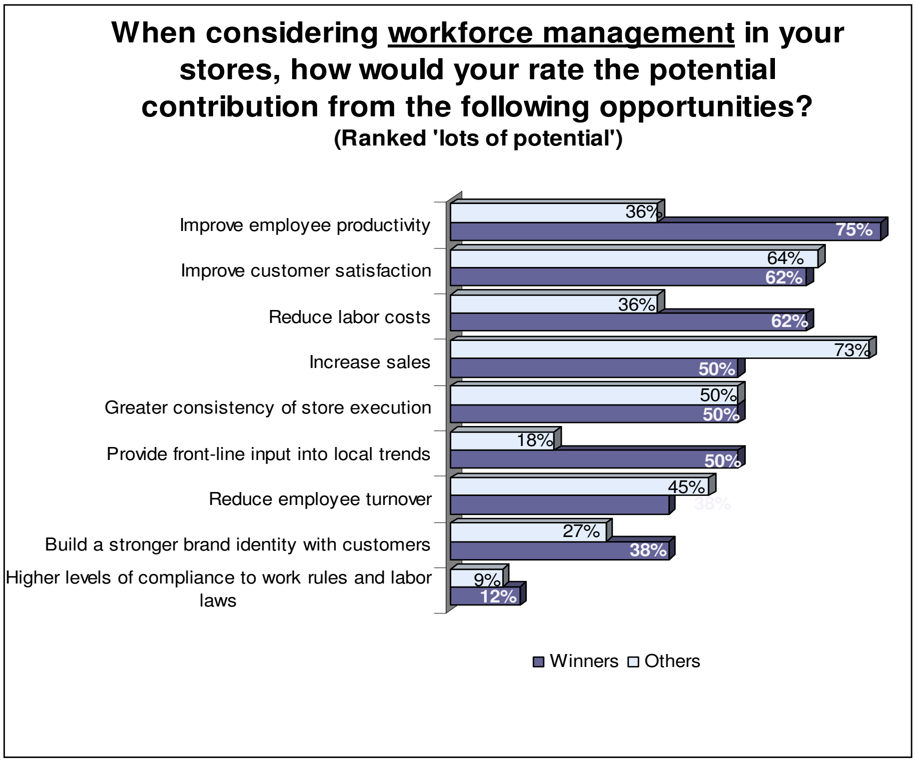
Figure 9:
Loyalty Programs are Winners' Territory So Far

Source: RSR Research, October 2008

WINNERS LOOK TO TECHNOLOGY TO SOLVE AND AGE-OLD PROBLEM

Non-winning retailers want to improve customer satisfaction to increase sales, but they don't see their store employees as having much to do with it. Canadian Winners know better, however, and therefore place a tremendous weight on improving employee productivity to improve customer satisfaction *and* reduce labor costs. Though average and lagging retailers are more likely to put the lion's share of poor sales performance on their workforce, once again we see that Winners have a more holistic view of how to convert a challenge into opportunity (Figure 10). Instead of accepting "poor hired help" as an excuse, Winners see assistance in the form of technology.

Figure 10:
Better Sales Require Better Employees



Source: RSR Research, October 2008

Seventy-five percent of Winners (compared to 36% of all others) view workforce management solutions as an enabler to a more productive in-store staff. Further, a greater percentage of Winners see WMS technology as a way to reduce labor costs (62%), build a stronger brand identity with customers (38%), and perhaps most interesting, as a way to provide more front-line input into local buying trends (50% of Winners vs. 18% of all others). We've already noted from recent research that US-based Retail Winners are heavily focused on localizing the products sold for the varying geographies, demographics, and psychographics that each individual store serves. The fact that Canadian Winners are looking to their workforce to provide input into how to better delight a varying customer base is encouraging, indeed.

Supply Chain, Business Intelligence, and New Channels: Winning Differences

It is worth noting that Canadian Winners are also much more aggressive in their view of near-term opportunities arising from enabling a more effective Global Supply Chain than averaging and lagging performers (50% are focusing on long-term contracts with trusted suppliers compared to 18% of all others). These Winners are also more interested in the elevation of customer satisfaction that could benefit from enabling more customer-centric selling channels (50% of Winners are interested in exploring new channels such as mobile phones for product discovery compared to 27% of all others). Finally, Winners have a healthier appetite for improved business intelligence capabilities: 75% of Winners see opportunity in better markdown optimization engines compared to 45% of all others, and 75% of Winners agree that BI system enable them to respond more quickly to changes in consumer demand compared to only 36% of non-Winners (and only 20% of laggards).

SECTION IV: ORGANIZATIONAL INHIBITORS

THE DATA DILEMMA

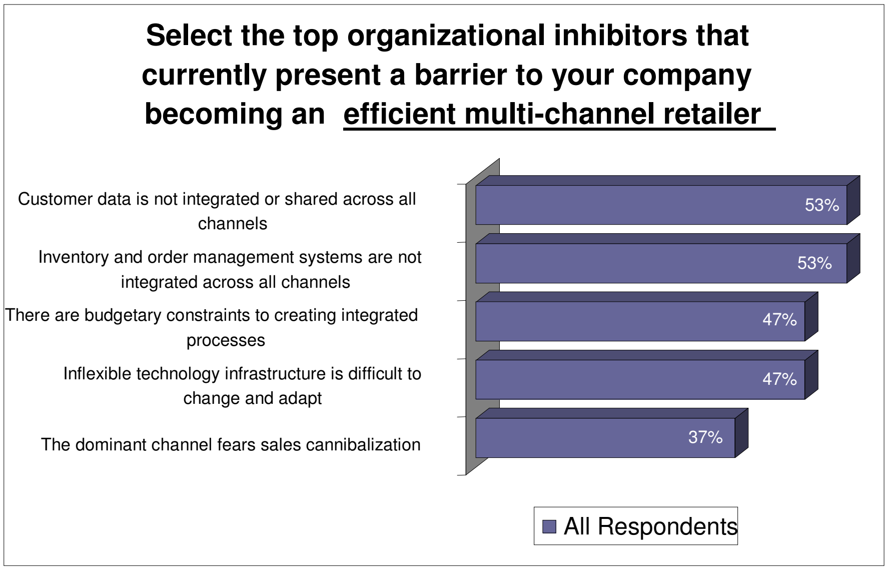
We saw in back in Figure 2 that ***purity of data is the top concern*** for Canadian respondents, making actionable decisions regarding the workforce much more difficult. Unfortunately, this trend remerges across a number of areas in the Canadian retail landscape, including product pricing strategies (Figure 11a) and workforce management (Figure 11b). "Lack of clean data to serve as the starting point" ranked as the highest inhibitor to implementing more effective pricing strategies (47%). This is, again, in stark contrast to what US retailers consistently tell us their number one inhibitor is. Regardless of the topic (loss prevention, eCommerce, merchandising, business intelligence or even loyalty programs), US respondents always identify "fractured planning processes" and "existing infrastructure" as the number one inhibitors to forward progress.

Figure 11:
Bad Data…

Source: RSR Research, October 2008

The fact that Canadian Retailers don't trust the operational data streams required to make actionable decisions is further compounded when this data must cross multiple selling channels. Figure 12 shows that Canadian Retailers cite the unverifiable data asset as a top inhibitor to the ability to please the customer across whatever channels they operate (53%), but also that the lack of integration between channels (53%) prevents forward progress.

Figure 12:
…Lack of Integration…



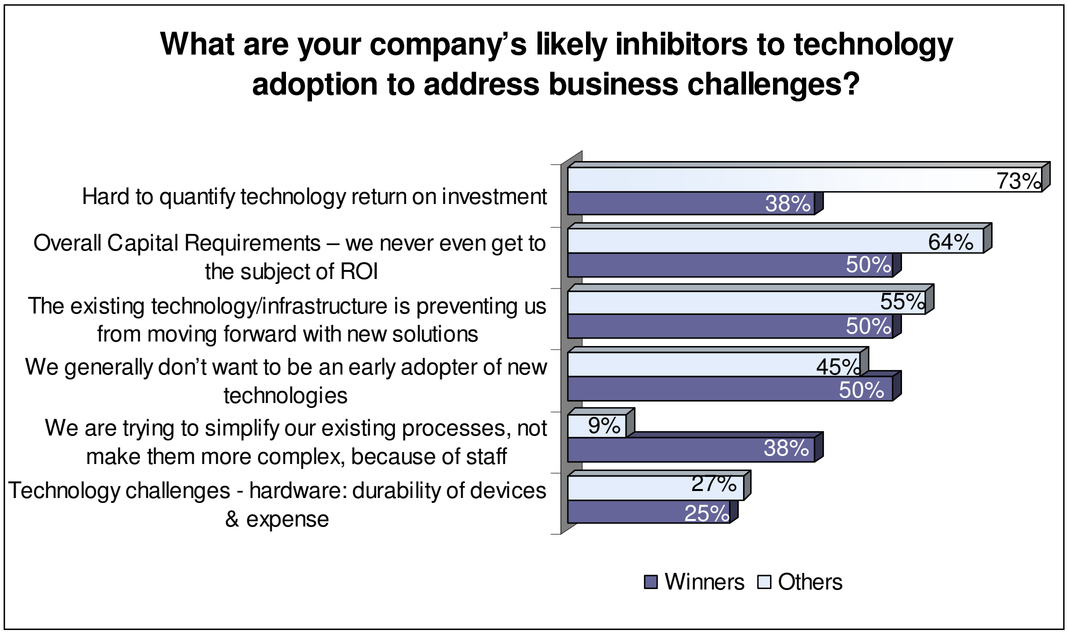
Source: RSR Research, October 2008

This is really quite surprising, since we expected Euro-centric Canadian retailers to be actively pushing toward a better cross-channel shopping experience. As evidenced in both the US version and EMEA cut of our recent *Finding the Integrated Multi-Channel Retailer Benchmark Report*, European retailers are far ahead of their US counterparts in making the shopping experience across all the available channels seamless to the customer. One cornerstone of their progress has been in utilizing the customer's interest in researching products on the web to help drive traffic into their largest financial investment: stores. So while US retailers look to overcome existing technology infrastructure challenges in the hope of emulating the European model, Canadians retailers appear equally challenged to not only justify the rationale for using the online channel to drive sales to stores (37% cite fears that the dominant channel fears sales cannibalization), but also to create the verifiable data required to move forward.

Hope is Not a Strategy

Once again we see the difference in culture and attitude of Winning Retailers in regards to the opportunities that technology affords. Even though 50% of Winners tell us that they don't necessarily need to be "early adopters" of new technologies (Figure 13), they are far less inclined to be skeptical of technology's ability to address the business challenges they face.

Figure 13:
…And Skepticism



Source: RSR Research, October 2008

Here, 73% of others question the ability to quantify ROI for technology adoption, compared to Winners' slight 38%. A greater number of average and lagging retailers never even get to the topic of ROI (64% vs. Winners 50%), and blame the existing technology infrastructure for the inability to move forward. This is consistent with what we have seen in the US retail market, and confirms that Winners on both sides of the border continue to win by recognizing that ROI is not the only key metric worthy of attention. Instead, Winners know that knew tech investments are required to please an evolving customer whose choices (and power) are steadily growing.

Getting Past the Obstacles

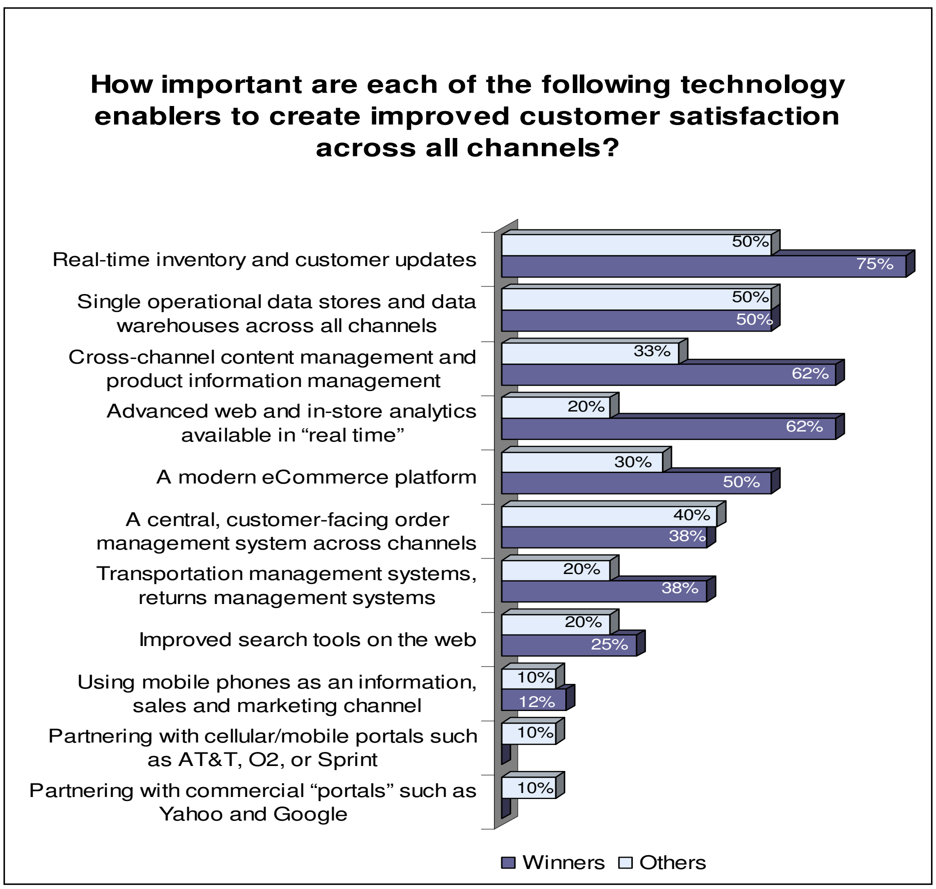
With such hesitance in mind, where do Winners see the best chances to overcome their internal roadblocks?

SECTION V: TECHNOLOGY ENABLERS

THE WINNER'S MINDSET FURTHER EXPOSED

As we saw earlier in this report, Canadian Retail Winners recognize the amount of research the customer is performing online before setting foot into a store, and therefore these retailers place great emphasis on integrating their selling channels. Winners recognize that to accomplish these goals while at the same time gaining maximum cross-channel efficiencies, they must embrace new technologies. And while this does not mean that retail Winners must necessarily be bleeding edge (or even very early) adopters, it does reinforce the notion that laggards who shun technology's role to an evolving customer base do so at great risk. Our study results show that those Canadian retailers who are already outperforming their competitors have greater interest in virtually every technology enabler that we offered as a choice to increase customer satisfaction levels across all the selling channels (Figure 14).

Figure 14:
Winners Way Out in Front Cross-channel



Source: RSR Research, October 2008

Seventy-five percent of Winners view real-time inventory and customer updates as powerful, compared to others' 50%. When asked about cross-channel content management and product information management, 62% of Winners saw value, versus 33% of all others. At a time when more and more customers are researching products online – even those who plan to buy in-store - more Winners are interested in enhancing the search tools they provide on the web. And the ability to provide advanced web and in-store analytics in real time was identified as important by 62% of Winners, while only 20% of average and lagging retailers identified it as an issue worthy of discussion.

When comparing how Canadian retail Winners view technology enablers to their U.S. and UK counterparts, we see more similarity than differences. Most U.S. and UK retailers who responded to RSR's 2008 multi-channel study agree that "real time inventory and customer updates," "cross channel content and product information management," and "a central customer facing order management system across all channels" are important.[2] Indeed, these technical capabilities are important to support a single brand identity across all channels to the consumer (the #1 opportunity identified in that study, and also a top opportunity for Canadian Retail Winners). However, UK retailers differ from their Canadian counterparts in indicating "how" they hope to make acquire these capabilities. UK retailers stand out with their desire to find "a modern eCommerce platform" (84% rate this choice "very important" compared to 50% Canadian retail Winners and only 30% of other Canadian companies).

So while Winners clearly take a more proactive approach to channel integration, where do our Canadian retailers tell us they plan to spend their budget dollars this coming year?

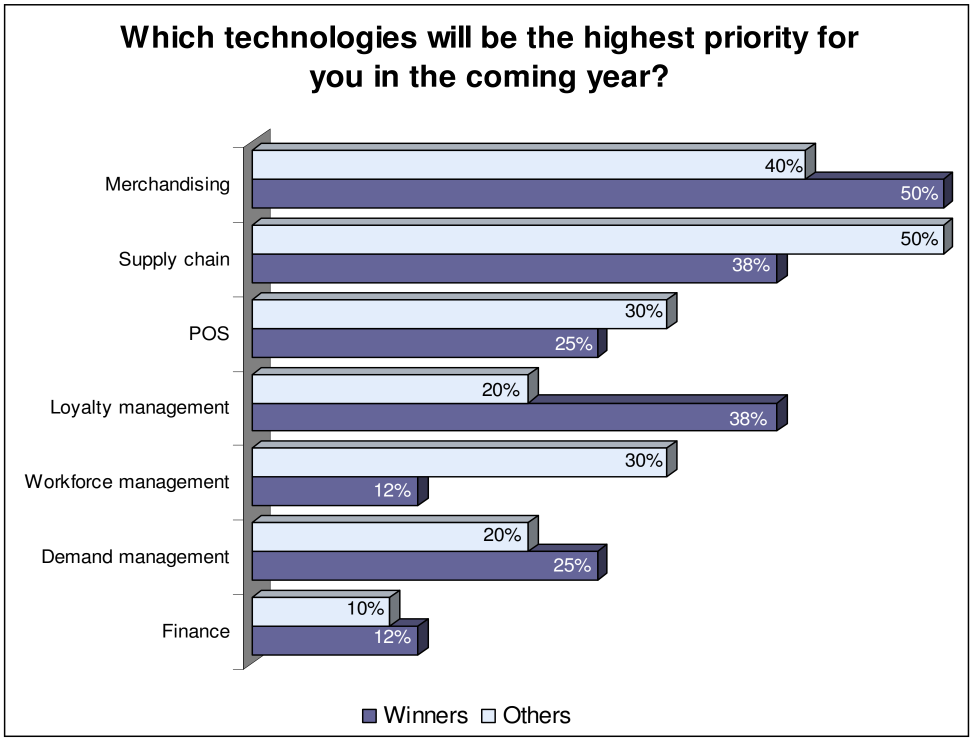
THE CHICKEN OR THE EGG?

As RSR has seen in virtually every one of its recent studies, Winners draw a straight line between business performance and technology adoption. In the case of Canadian retailers, we see that while Canadian Winners are allotting less percentage of their 2009 budget to supply chain efficiency improvements (38%) and POS systems (25%) than the general respondent pool (50% and 30%, respectively). Instead, they are focusing more attention on revamping their centralized merchandising processes and systems to support their emphasis on multi-channel integration (Figure 15). Winners also show a greater understanding of the connection between demand management and new merchandising capabilities.

However, the data also shows the difficulty that retailers are facing in prioritizing their technology investments. Survey responses indicate that many retailers are facing a "chicken or an egg" problem, i.e. they have a lot to modernize and are challenged to pick a place to start. While it is natural to start with centralized merchandising capabilities, the "atomic" data that drives virtually every technology used by modern retailers (accurate, detailed, and timely transactional information) remains suspect – until the POS issue is addressed. But Canadian retailers, including Winners, do not put much emphasis on modernizing POS, in apparent contradiction to their stated concern that the poor quality of transactional data captured at the point of sale stands in the way of improved workforce management and better pricing practices (both deemed to be important opportunities). Indeed, the relatively low interest in addressing the POS issue may be *the* factor causing a similar low interest in workforce management systems.

[2] ***Finding the Integrated Multi-Channel Retailer Benchmark Study 2008 - UK Perspective***, Brian Kilcourse, © 2008 RSR Research LLC, p.8

Figure 15:
Centralized Processes Outweigh Store Technology Investment

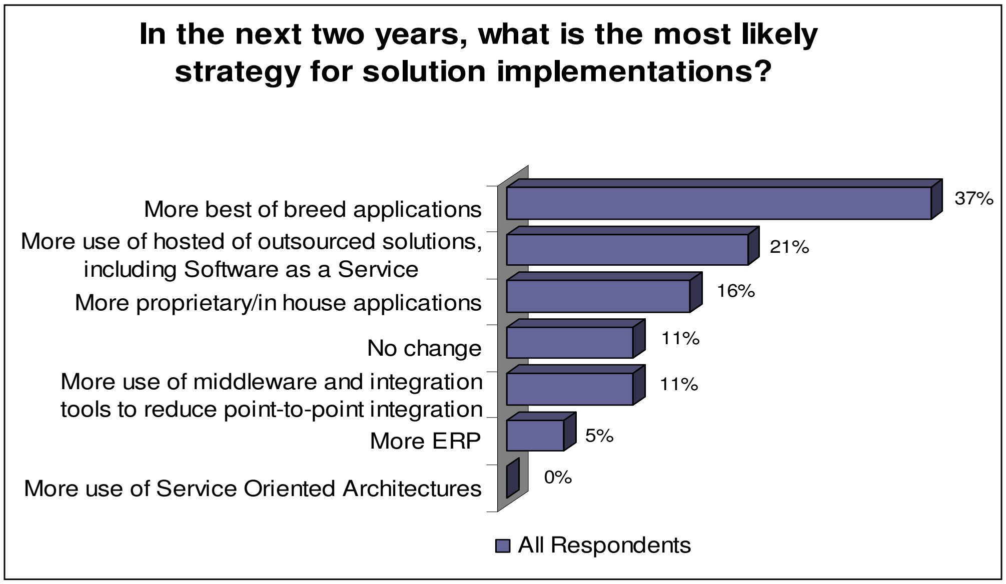


Source: RSR Research, October 2008

CANADA VS. U.S.: BUSINESS APPLICATION DELIVERY MODELS

One area where Canadian Retailers seem to significantly differ from their neighbors to the south is in their choice of Business Application Delivery models. While both U.S. and Canadian retailers indicate that proprietary system development is increasingly a thing of the past, Canadian retailers continue to strongly favor a more conservative “Best of Breed” approach (Figure 16), as opposed to pre-integrated solution “suites”(“ERP’s”). U.S. retailers, on the other hand, have a much more favorable view of suites as an application delivery model., and this interest is driven primarily by a desire to dramatically lower to initial and ongoing costs of maintaining the integrations between components of the application portfolio.

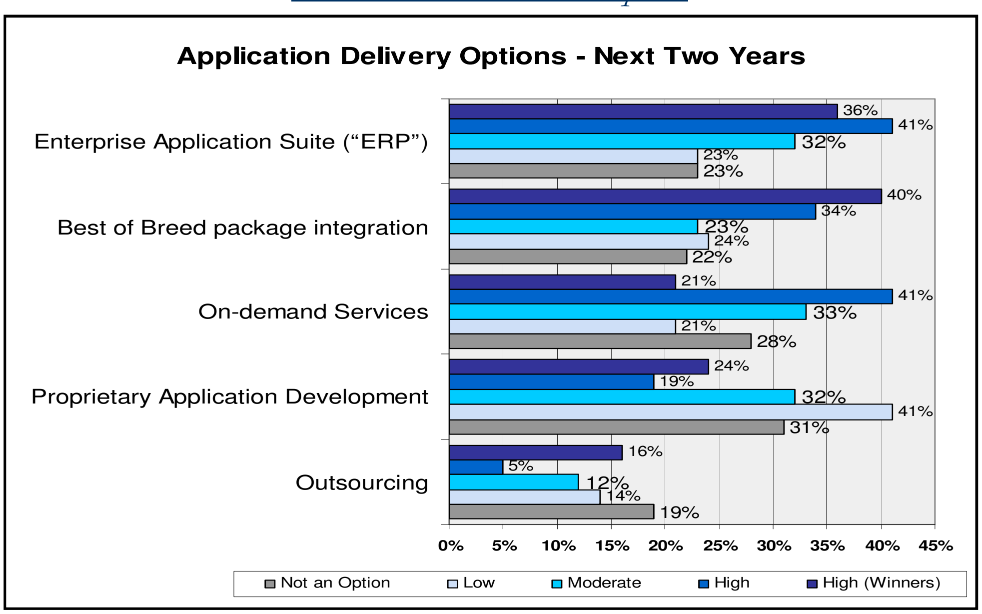
Figure 16:
Canadian Favor More Conservative Application Delivery Strategies…



Source: RSR Research, October 2008

In our recent *The Future of Application Delivery in Retail Report*, US-based retailers - and mid-tiered retailers in particular ($500MM to $1B U.S.) - indicated a strong desire to change the dynamic of their IT value delivery capabilities. On the two-year horizon, mid-tiered retailers indicate high hopes for both ERP and "Best of Breed" solutions, as well as outsourcing. The reasons behind this focus by U.S. mid-tiered retailers has to do with the ongoing costs associated with integrating best-of-breed and proprietary applications – especially without middleware integration technologies (indeed, middleware was favored mostly by large retailers with revenues greater than $1B U.S.).

Figure 17:
…Than their US Counterparts



Source: RSR Research, October 2008

SECTION VI: BOOTSTRAP RECOMMENDATIONS

Garbage In, Garbage Out

Canadian retailers are aware of the biggest inhibitor to opportunities to use technology to address their business challenges, and that is the ***poor quality of transactional data captured at the point-of-sale***. Although the POS investment is in all likelihood the single biggest capital outlay a retailer will make for technology, the downside of tolerating out-of-date or functionally inadequate systems that interact with the customer is incalculable. Poor quality transactional data captured from the point-of-sale not only stands in the way of being able to taking advantage of work force management systems, it also corrupts the value of the retailer's business intelligence capabilities, and that in turn impacts merchandise planning, pricing, loyalty, and supply chain capabilities. On the other side of the coin, "old and in the way" POS systems cannot be easily modified to present new value to consumers, for example, by being extended to present personalized value in the form of in-store offers, etc.

For these reasons, the relative priority that Canadian retailers put on certain technologies in the next year is akin to "throwing good money after bad." For example, as we saw in Figure 2, retail Winners are even more concerned than other retailers (62% compared to 60%) in the quality of transactional data coming from POS as a barrier to implementing workforce management systems. But that same data affects, merchandising, supply chain, and loyalty capabilities, and each of those is ranked by Winners more highly than POS as a priority in the coming year.

The disconnect between getting sales transaction data right and improving systems that use that data must be resolved.

Retail is a "People" Business

Winning retailers know that a formula for success is to wrap up finely tuned product offerings with exceptional service. Given that the labor ratio (to revenue) is under constant pressure, Canadian retail Winners are focused on finding and retaining the best people while at the same time lowering labor costs. For this reason, workforce management ("WFM") capabilities are important to them. WFM systems help retailers standardize and optimize non –selling workflows so that a proportionally greater amount of their labor spend goes to providing exceptional customer service.

All Service Is Local

Canadian retailers are clear that in addition to finding and retaining good employees, it is in their (and their customers') best interests to ***empower the store manager*** to manage customer service, and to ***hold the store manager accountable*** for the outcome. Non-winning retailers want improved customer service and to increase revenue, but don't as clearly see the connection between those goals and improving productivity through empowerment as Winners do.

The Brand is Defined By The Total Offering

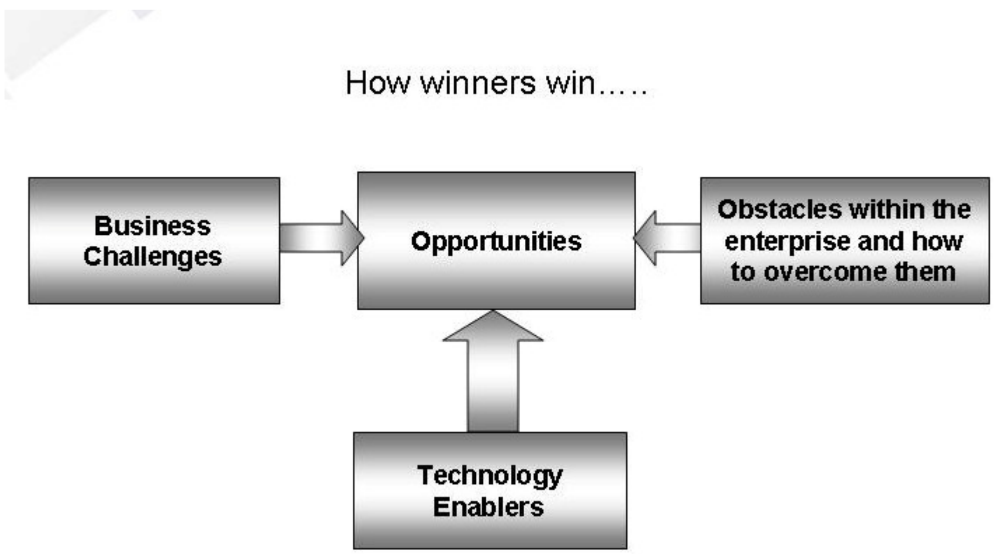
Canadian retail Winners understand that the "total offering" defines their companies' brand. Price is increasingly important to consumers, especially in hard times, but so is cross-channel consistency and excellent customer service. To those ends, Winners are focused on getting the right product to the right place at the right time at the right price, and wrap that up with a compelling and consistent service offering. Winners are much more focused than average and underperforming retailers on enabling these capabilities with real-time customer and inventory updates, content management, and real-time analytics.

APPENDIX A: THE BOOT METHODOLOGY

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT OUR SPONSORS

SAP is the leading provider of application solutions for the retail industry. SAP helps retailers of all sizes to understand the shopper, anticipate the need and inspire the experience. The SAP® for Retail solution portfolio provides specific solutions for retail companies in the food, fashion and hardlines businesses. The solution portfolio consists of building blocks that cover the areas of merchandise lifecycle (including lifecycle pricing and optimization); shopper experience (including a portfolio of POS and multi-channel solutions); supply chain (including inventory and replenishment), corporate operations (including finance and human resources) and a business process platform. SAP allows companies to implement solutions in a step-by-step approach, and provides an easy, cost-effective means to connect information across the business. Additional information at http://www.sap.com/retail/.

APPENDIX C: ABOUT RSR

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.