

FIRST ANNUAL

CUSTOMER ENGAGEMENT

TECH TRENDS STUDY

THE PERSONALIZATION IMPERATIVE

Focusing on omnichannel strategies that begin and end with the customer

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CAPTURING CUSTOMER OPPORTUNITY: EXTENDING A PERSONALIZED EXPERIENCE



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TOSHIBA GLOBAL COMMERCE SOLUTIONS

Q Has the mobility wave crested or is it the key to the future for retailers?

Mobility is here in a big way – most grandmas have a mobile device today and it’s already shaping the way that consumers interact with retailers inside the walls of the physical store. Looking back, a 2012 study found that 90% of Americans already had their phone within 3 feet of them 24 hours a day. By 2014, 44% of respondents in a separate study indicated that mobile influences at least 75% of their purchases. Today’s consumers are truly empowered with all types of information at their fingertips. Savvy retailers will ensure a strategy to engage more with these mobile “device at hand” consumers.

Q How can retailers deliver personalized promotions and services in-store?

Consumers crave a seamless and interactive experience across all touch points of a retailer; making that experience valuable is key. With omni-channel, retailers can offer tailored promotions, discounts, or services particular to the individual customer, driving loyalty and recurring business. By leveraging mobile, retailers can fur-

ther provide a differentiated shopping experience, and connect with their customers not only when it’s appropriate but wherever they are, even in the aisle, and by the customers’ own terms. By having a store platform designed to work with real-time data enterprise-wide, promotions can be designed based on browsing history, purchase history (no matter the channel), location, and return history. Using this data, a sports store won’t send a golf promotion to someone who only buys baseball gear. Now if that same store is closing out its baseball stock to bring in winter ski gear, this customer would probably love to know about the clearance sale. Knowing your customer is no longer a “nice thing” but a “must have” to build brand loyalty.

Q Since stores are a big part of omni-channel plans, how can retailers leverage new capabilities to drive traffic and conversions?

The POS needs to be at the hands of the associates to better serve their customers. With mobility and personalization, retailers have a great opportunity to build a customer for life. At the end of the day, it comes down to being able

to provide the best possible service to each of your customers in a way that is consistent across your brand, and doing so in a differentiated and sustainable way. Through today’s technology, a store can get the associate out on the floor with the customer to boost the brand experience, with added value to the experience by having the right systems in place to make the interaction personal and tailored for each customer.

Q What does the future of POS look like in an omni-channel world?

For Toshiba, it’s about leveraging technology to transform the shopper’s experience. Retailers already have many POS options today – whether a traditional POS, kiosk, mobile device, or self-checkout – but omni-channel capabilities enable stores to treat customers in similar ways whether they are at home, on the go, or inside a store and with a personalized experience.

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FORGET OMNICHANNEL, CUSTOMER ENGAGEMENT IS THE GOAL

AS RETAILERS UPGRADE OMNICHANNEL CAPABILITIES THEY ARE FOCUSING ON THE NEXT STEP OF BUILDING MUTUALLY PROFITABLE RELATIONSHIPS WITH SHOPPERS

BY GAURAV PANT

“Omnichannel” is a useful shorthand term for a retailer’s ability to execute orders seamlessly across channels. It describes the internal transformation retailers undertake to deliver a seamless multi-channel experience to customers, but it is also a misunderstood and over-used term.

Retail is not about being omnichannel. It is about forming long-term, mutually profitable relationships with consumers. Omnichannel is a capability; customer engagement is the goal.

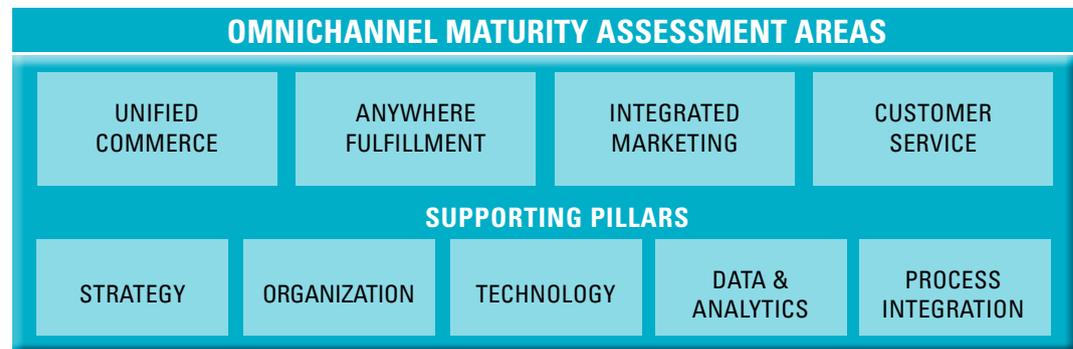
With retailers aggressively considering and adopting a unified order and commerce capability, the time is right to elevate the conversation from “how do we execute seamlessly across channels” to “how do we

build profitable customer relationships?”

For this reason, we’ve taken the difficult but necessary step of recalibrating our seven-year-old “Cross-Channel” benchmark study to become focused more directly on customer engagement. Omnichannel execution remains a factor in retailing today, but it is not an end in itself. It is only one element of a retailer’s strategy toward creating richer customer experiences and deeper engagement.

VALUE OF DEEP ENGAGEMENT

Consumer data from the 2014 EKN Millennial Study shows that shoppers are willing to pay up to a 31% premium for an excellent customer experience, which refers to



(SOURCE: EKN OMNI-CHANNEL MATURITY FRAMEWORK)

10% ADDITIONAL REVENUE THAT COULD BE GAINED IF TIGHT CROSS-CHANNEL INTEGRATION AND UNIFIED COMMERCE WERE IN PLACE TODAY. FOR A BILLION-DOLLAR RETAILER THIS WOULD AMOUNT TO \$100 MILLION.

contextual, personalized engagement across retailer touchpoints.

Additional revenues can also be gained by successfully engaging loyal shoppers who have adopted a modern lifestyle by frequently using multiple devices. This study shows that these multi-channel shoppers are 23% more profitable than those who shop in a single channel.

Clearly, there is significant financial upside to delivering differentiated customer experiences across channels and developing deeper customer engagement, yet three in four retailers do not know who their multi-channel customers are. If you don't know who they are, how can you nurture engagement with your most profitable customers?

TIMELINE FOR OMNICHANNEL EXECUTION

Lack of tight integration between systems that handle omnichannel capabilities hinders a single view of items, orders, inventory and customers. In this year's study we find that the lack of tight systems'

integration causes up to a 10% loss in sales.

To achieve the ideal level of omnichannel maturity that will enable retailers to build customer engagement and avoid leaving money on the table, we recommend planning and executing a roadmap that consists of four key business pillars powered by five supporting capabilities.

The four pillars are: unified commerce (one transaction engine), order anywhere and fulfill anywhere, integrated marketing (a holistic plan), and advanced customer services that recognize omnichannel shopper behavior.

These pillars are supported by a long-term transformation strategy, a reorganization of department structures and responsibilities, technology tools that are flexible enough to include future changes, sophisticated database and analytic abilities, and restructuring core processes to integrate omnichannel transformation.

Based on this model, few retailers are capable of omnichannel execu-

AMAZON SETS THE STANDARD FOR OMNICHANNEL EXECUTION AND CUSTOMER ENGAGEMENT

Mobile Commerce & Engagement		
1	Amazon	56%
2	Starbucks	9%
3	Apple	7%

Unified Commerce		
1	Amazon	28%
2	Macy's	9%
3	Nordstrom/Walmart/Best Buy	7%

Customer Engagement		
1	Amazon	33%
2	Nordstrom	8%
3	Best Buy/Starbucks	5%

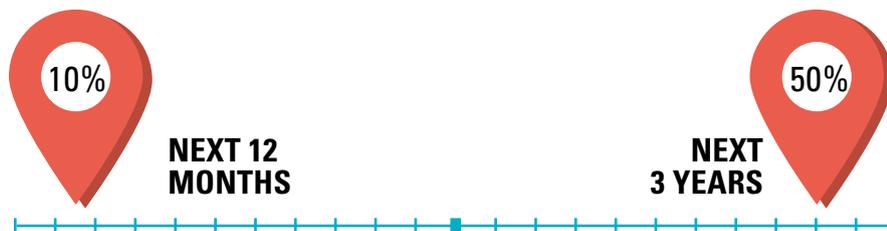
tion today. However, retail is entering a period of heavy investment toward achieving maturity, with one in two retailers set to be capable in three years.

In both consumer and retailer studies, Amazon consistently emerges as the gold standard of customer experience, engagement and omnichannel execution.

Regardless of whether a retailer competes with Amazon directly or not, benchmarking capabilities across three specific areas — mobile commerce/engagement, unified commerce and customer engagement — is imperative. In this report we explore what sets the Amazon experience apart and what lessons emerge for brick-and-mortar retailers. •

Gaurav Pant is SVP Research and Principal analyst for EKN Research. www.EKNResearch.com

OMNICHANNEL READINESS TIMELINE



PERSONALIZATION IS THE MISSING OMNICHANNEL INGREDIENT

AS ENGAGEMENT STRATEGIES EMERGE AND MATURE, THE LINES WILL BLUR BETWEEN WHAT IS TECHNOLOGY AND WHAT IS THE STORE ITSELF

It is clear that possessing more engaged customers is the key to improving business performance. Retailers know this just as they know they need to become omnichannel ready to more fully engage customers. However, the concept of customer engagement involves a complex retailer-consumer relationship that requires ongoing commitment and consistent behaviors on both sides of the equation for it to work.

It is important for retailers to create a long-term, consistent strategy for engagement, and when they do it should focus on the following key recommendations, which were aggregated from recent interviews with retailers and study responses:

- **Value:** Customers that spend the most
- **Volume:** Customers that shop the most
- **Profitability:** Customers that deliver the largest share of profits
- **Influence:** Customers that have an influence over networks (friends, family, office, social media)
- **Strategic alignment:** Customers that display behavior that is of strategic importance, such as: those that use mobile checkout during a pilot implementation, those that try newly released products or

THE VALUE OF NURTURING CUSTOMER ENGAGEMENT IS HIGH

AN OMNICHANNEL CUSTOMER IS

23%

MORE PROFITABLE THAN A SINGLE CHANNEL CUSTOMER

BUT

76%

OF RETAILERS DON'T KNOW HOW PROFITABLE OMNICHANNEL CUSTOMERS ARE

YET A

31%

PREMIUM WILL BE PAID BY MILLENNIALS FOR AN EXCELLENT EXPERIENCE

those that agree to share personal data to use in-store WiFi.

In addition, retailers must further develop their domain expertise in the emerging area of personalization, which requires a deep understanding of customer segments and utilizes the means to effectively market to them in a relevant way.

To do this retailers need to build detailed customer profiles or personas, and then develop a holistic strategy that targets, engages and rewards select behaviors. These select behaviors can include full-price purchasing, liking brand pages on Facebook, posting photos on Instagram or pinning on Pinterest.

However, there are significant roadblocks that prevent retailers from carrying out an effective per-

sonalization campaign:

- **Heightened consumer expectations:** Consumer expectations are increasingly conditioned by their experiences across the digital spectrum. Not all retailers can deliver such leading-edge capabilities as starting in one channel and picking up the flow in any other channel or scheduling timed appointments with store associates, but because some retailers can do it shoppers are conditioned to expect it.

- **Low barrier to customer defection:** There are fewer second chances in retail. With tools such as price comparisons, mobile coupons and next-day delivery available, the barrier to customers defecting from the path of engagement is lower than ever before.

IN-STORE ENGAGEMENT MUST HAVES

66%

OF RETAILERS
HAVE CURRENTLY
DEPLOYED STORE
SPECIFIC SOCIAL
MEDIA INITIATIVES

46%

HAVE STORE
SPECIFIC
WEBSITES

1 IN 2

HAVE DEPLOYED
DIGITAL COUPON
READING IN-STORE

75%

WILL USE THEIR
STORE AS A
DELIVERY HUB
FOR ONLINE
ORDERS BY 2015

- **Omnichannel analytics:**

Retailers do not have a clear, consistent way to measure and track engagement across channels. You are flying blind if you can't measure how your shoppers are flowing throughout your many touchpoints.

When retailers develop deeper customer profiles and institute organizational changes to help overcome roadblocks, the following key areas of customer engagement will offer low-hanging fruit for retailers to achieve short-term gains that will lead to bigger opportunities in the future.

IN-STORE ENGAGEMENT

Stores are the lifeblood of brick-and-mortar retail, but their role needs to morph into one that effectively becomes an omnichannel hub that brings the entire spectrum of the retail experience together. "Last mile" connectivity with the customer in a personalized way — i.e. identifying him or her when entering a store and tailoring the experience based on the context of historical engagement remains a significant challenge.

To meet this challenge, retailers will need to focus on:

- **Store layout and design:**

Redesign stores to be an omnichannel hub. Re-allocate space to better manage ship-from-store fulfillment,

customer pick up of online orders, new services and experiences, online product showcases, and loyalty offerings.

- **Sense-and-response intelligence:** The lines will quickly blur between what is store technology and what is the store itself when widespread use of the following occurs: RFID tags on products, iBeacon location-based sensing and communication, NFC communication and payment, customer WiFi and eventually the Internet of Things. Retailers should explore automating control and compliance of such routine processes as receiving, signage, setting up promotions and shelf replenishment through the use of task management technology embedded in the store design.

- **Raising the bar on customer service:** Develop a customer service model that is optimized to incent and deliver customer sat-

isfaction versus cost savings. Empower associates with information to better serve customers — i.e. customer profiles, online prices, competitive prices, inventory availability. Other emerging capabilities include: ship an out-of-stock product from another store, present a real-time personalized offer, and match an online price.

- **Bring the web experience into the store:** Customers should be able to perform all the functions they can do online at home or on their mobile devices in the store, such as social network sharing, receiving digital receipts, checking inventory, viewing product information and reading reviews. Once these functions are in place they can begin to develop unique digital interactions in-store that are difficult to replicate online.

MOBILITY IS STILL THE NEXT BIG THING

Mobility has the potential for being transformational and being used as a strategic tool in the battle to drive customer engagement. The reason mobility still has so much untapped potential is that it has two big but essentially different spheres of opportunity — use by consumers and deployment to store associates. To

IN-STORE MOBILITY MUST-HAVES

86%

WILL OFFER ASSISTED
SALES TASKS ON
STORE ASSOCIATES'
MOBILE DEVICES IN
THE NEXT 12 MONTHS

67.5%

WILL PROVIDE
CUSTOMER PROFILE
INFO ON STORE
ASSOCIATES' MOBILE
DEVICES IN THE
NEXT 12 MONTHS

61.3%

ALLOW CUSTOMERS
TO READ REVIEWS
AND LOOK UP
PRODUCT
INFORMATION
USING RETAILER'S
MOBILE APP

58.6%

ALLOW CUSTOMERS
TO VIEW INVENTORY
AVAILABILITY BY
STORE USING THEIR
MOBILE DEVICES

HOW DO YOU RATE YOUR CUSTOMER ANALYTICS ABILITY COMPARED TO COMPETITORS AND AMAZON?

33%

BELIEVE THEY ARE BETTER THAN THE INDUSTRY

8%

BELIEVE THEY ARE BETTER THAN AMAZON

take full advantage of these opportunities, mobility initiatives must be supported by significant investments in wireless infrastructure and a mobile-first technology architecture.

- **Consumer mobility:** Retailers need to move their consumer mobility focus away from providing product or store information to improving engagement. Key areas include mobile loyalty card, mobile payments, location and context based content, and promotions.

- **Store associate mobility:** For store associates and managers, the focus must be on assisted selling, mobile business intelligence, in-store compliance and productivity, and mobile workforce management.

ONLINE ENGAGEMENT: WEB & SOCIAL

The value of a holistic web strategy stretches far beyond the growth opportunity that retailers see in e-commerce retailers. The web features prominently in the buying cycle — from initiation of product search to price comparisons, from product availability to product information. It can also serve as the one common factor that ties stores, mobile platforms and social networks together. To be able to effectively tap into these three opportu-

nities, retailers should focus on:

- Investing in improving their web presence to match Apple's and Amazon's ease, features and functionalities. Smart recommendations, saved shopping carts across channels, live chat and other personalization capabilities are a good start. So is making sure that your website is mobile optimized.

- The best approach to social media engagement is to listen, learn and be helpful, as opposed to driving commerce. While having Facebook fan pages and Twitter feeds are necessary, they rarely produce shopper interaction, a two-way conversation or the kind of engagement that leads to deep brand loyalty.

- The social strategy must be "social" by design — sharing, commenting, re-sending, passionate and fun. It must execute a product and brand promotion mission with a light touch. It should identify "influencers" and nurture/reward their engagement. It should always be aware there is a line that can be crossed that will do social damage that is difficult to undo.

CONSUMER ANALYTICS & INSIGHTS

Advanced customer data capabilities and analytics that can produce

insights that can't be seen in historical reports — forecasts, recommended actions based on modeling, predictive behaviors — are the foundational building blocks for creating a competitive customer engagement and personalization strategy in the age of Amazon.

- **Database consolidation:**

Efforts need to focus on establishing data consistency, quality and privacy, strengthening enterprise data management, and integrating POS, loyalty, e-commerce and social data.

- **Analytics tools & machine intelligence:** In-store analytics, customer analytics, mobile business intelligence and visualization tools emerge as key focus areas.

- **Skills & ingenuity:** One in two retailers are challenged by the lack of skilled resources to interpret and act on insights. Invest in visualization, skills training and capability building.

- **Strategy codification:** An analytics strategy needs to be directly tied to customer engagement goals. An under appreciated aspect of Amazon's recommendation engine is how closely it is tied to its business model and user experience.

- **Privacy & security:** Though consumers often allow retailers to use their personal data to improve personalization, recent data breaches have heightened sensitivity toward confidentiality and security. Security and privacy guarantees will soon emerge as a differentiator in the marketplace for online and in-store purchasing.

Customer engagement is a tall mountain to climb and the peak can only be reached by mastering the tools and art of personalization. •

FORGET BOILING THE OCEAN, FAST EXECUTION IS CRUCIAL

THE BIG QUESTION NOW IS NOT WHAT RETAILERS NEED TO DO TO BECOME MORE CUSTOMER-CENTRIC,
BUT HOW TO DO IT

With one in two retailers set to acquire deep cross-channel integration within three years while executing an omnichannel strategy that better serves customers, it has become clear that many omnichannel capabilities are fast becoming table-stakes as opposed to marketplace differentiators. The soon-to-be-table stakes features and functions include:

- **Unified commerce:** The ability to have a common view of an order and to allow customers the ability to conduct transactions seamlessly across all channels.

- **Anywhere fulfillment:** The ability to support fulfillment and returns in a non-linear buying process.

- **Integrated marketing:** The ability to provide personalized context-based communication and marketing messages to customers across all channels.

- **Unified customer service:** The ability to provide new levels of data-informed services at all customer touchpoints — call centers, stores, online, mobile and social networks.

Since these broad concepts have been well articulated by a consis-

THREE-STEP OMNICHANNEL EXECUTION TIMELINE

	SINGLE VIEW OF INVENTORY	UNIFIED TRANSACTION PLATFORM	SINGLE VIEW OF CUSTOMER
12 MONTHS	37%	15%	15%
1-2 YEARS	24%	18%	38%
2-3 YEARS	17%	26%	18%
>3 YEARS	37%	31%	23%

tent body of research from *RIS News* and other industry sources, the looming question for retailers at this point isn't what to do, but how and when to actually do it.

We asked retailers about their timeline for rolling out of major components of their cross-channel, customer engagement journey and

discovered a three-step process is emerging. The first step is to produce a single view of inventory, where 37% of retailers say they will support inventory transparency within 12 months. (Another 24% says they will support it within two years.)

The next step in the transforma-

OMNICHANNEL EXECUTION

RISING SHARE OF TECHNOLOGY BUDGET DEDICATED TO OMNICHANNEL EXECUTION



ALTHOUGH SIGNIFICANT TODAY (14.7%), THE SHARE OF A RETAILER'S IT BUDGET DEDICATED TO OMNICHANNEL EXECUTION WILL CONTINUE TO GROW AND CONSUME MORE THAN ONE-FIFTH OF THE BUDGET WITHIN THREE YEARS.

tion will be to support a single view of the customer within one to two years (38%). The final phase will be to roll out a unified transaction platform, which is pushed out to two-to-three year timeframe for 26% of retailers.

Every study *RIS* has ever done about multi-channel features and functions has revealed that retailers have a laser focus on managing inventory, so it is not surprising that it tops the priority list for a phase-one rollout ahead of a unified view of customers across channels or a unified transaction platform.

Although a unified transaction platform is an important step in every retailer's omnichannel journey it is not viewed as a fix for a problem that is currently paralyzing growth, sales and customer satisfaction. Today's hybrid approach of using two transaction systems — POS for stores and an e-commerce platform for online — is not broken to the point where it produces significant pain for most retailers. As a result, there is no rush to fix it. Plus

industry standards and best practices are yet to emerge to reveal exactly what the ideal unified transaction platform will look like.

Rolling out a transformative execution roadmap over three years will require a large amount of CapEx, OpEx and staff resources. All three of the major projects we included in our timeline are not islands and instead bleed over to touch a large number of adjacent departments and technologies. The impact of making changes to these core systems of the enterprise will be disruptive, which is why many retailers want to take a cautious approach. However, it is not clear if the marketplace will enable slow-moving retailers to take all of the time they want. In retail, the race goes to the hare and not the tortoise.

Technology: Retail spending on omnichannel execution projects will continue to increase. Many large investments will focus on foundational solutions, such as order management, and on upgrading consumer and associate mo-

bile applications to include in-store customer-centric contextual features and functions. Some emerging areas that will see aggressive experimentation in 2015 are micro-location sensing, RFID and interactive digital assets for the store. The Internet of Things has yet to find its way into the mainstream mix and today it is on the radar screens for less than 10% of retailers.

Process transformation and change management: Getting ready for disruption is probably the best precaution any retailer could take as it proceeds with an omnichannel rollout. With 55% of retailers targeting omnichannel readiness in the next three years and retail IT investment rising at a CAGR of 15% between 2014 and 2017, the level of disruption will be significant throughout the industry. For many retailers the biggest challenges to overcome will be in the areas of change management, training and re-engineering internal processes. In fact, these challenges are so crucial to success that some transformative projects will fail if change management is not successfully executed.

Organizational commitment: Taking the necessary steps to achieve organizational change is the trickiest aspect of rolling out an omnichannel execution roadmap. We have been tracking data on this topic for several years and find that retailers are making slow progress — close to 60% have an executive at a high level who is accountable for customer engagement across channels. This number has not changed much over the last three years. The shift we are seeing is the emergence of a customer experi-

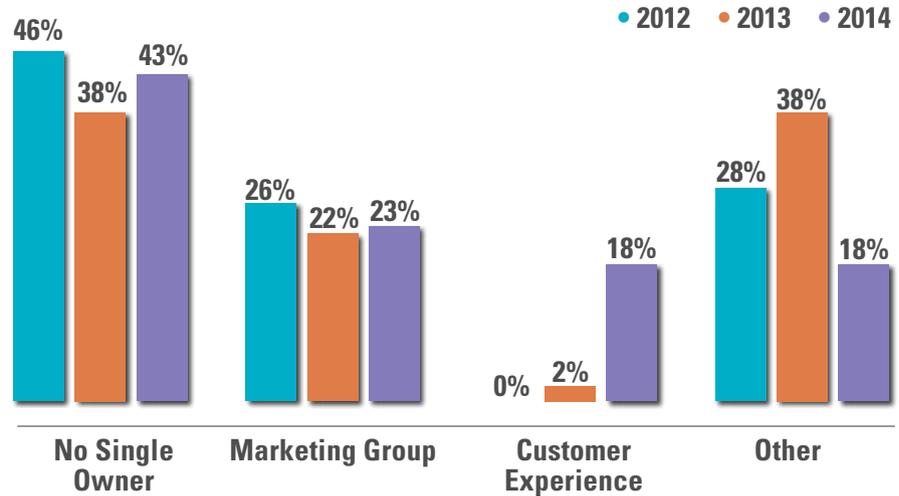
ence department or job title that is taking responsibility for the entire omnichannel effort. While this is a good step forward, the next phase will be to give this title more teeth by extending it beyond marketing and e-commerce departments and empowering it with a larger role to manage integrating and transforming the entire retail experience.

A greater focus on customer engagement must bring with it a corresponding change in how retailers define and measure success. A close inspection of retailer KPIs reveals a gulf between customer-centric rhetoric and the reality of relying on traditional BI dashboards and reports.

Data & analytics: A smarter, fully integrated style of retailing cannot be achieved without supporting the ability to improve decision-making by resting it on top of a strong foundation of deeper customer insights. Retailers are data rich and insight poor. They need to focus on improving their analytic capabilities and then elevating the use of customer insight to fine tune marketing and merchandising efforts.

In 2015, retailers will focus on

WHO OWNS THE CUSTOMER EXPERIENCE?



THE BIG DROP IN "OTHER" AND THE SHIFT TO THE "CUSTOMER EXPERIENCE" JOB FUNCTION INDICATES THAT RETAILERS ARE GRADUALLY ELEVATING CUSTOMER ENGAGEMENT INTO THE HIGHER LEVELS OF THE CORPORATE STRUCTURE.

delivering existing insights to the right person at the right time. These include pushing relevant contextual data to stores, which we see being supported by investments in mobile BI and digital dashboards. Also, on the rise is a new wave of data visualization tools that ensure

relevant insights are more easily consumed and easier to act upon. Another area of increasing activity is in-store customer location tracking, which is emerging as a major trend in pilot tests and rollouts. This is in contrast to investments being made in big data, which continue to deploy at a sluggish pace throughout the retail industry.

To build sustainable, competitive differentiation through the use of business analytics, retailers will need to go a step beyond just focusing on data, tools and resources. Retailers that are able to overlay new analytic capabilities with a personalization strategy aligned with emerging business models will lead the way in growth, financial performance and, most importantly, long-term customer engagement. •

ALIGNING KPIs WITH CUSTOMER ENGAGEMENT GOALS

TOP KPIs THAT RETAILERS MEASURE	KPIs THAT THEY NEED TO PAY MORE ATTENTION TO
Sales/channel (82%)	Customer lifetime value (22%)
Customer satisfaction (57%)	Recency, frequency, monetary value (17.6%)
Average margin (45%)	Share of wallet (8%)

THE KPI IMPERATIVE — IF YOU DON'T MEASURE CUSTOMER ENGAGEMENT YOU ARE FLYING BLIND AND CAN'T MAKE THE CHANGES NECESSARY TO HOLD ONTO CUSTOMERS, REDUCE ACQUISITION COSTS AND INCREASE CONVERSIONS.



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