third annual

# RETAIL HORIZONS

## BENCHMARKS FOR 2004, FORECASTS FOR 2005

NRF FOUNDATION
RESEARCH & EDUCATION

BearingPoint

January 16, 2005

BearingPoint and the NRF Foundation are proud to deliver our third annual "state of retail" study—*Retail Horizons: Benchmarks for 2004, Forecasts for 2005*—to every enterprise, organization and individual who share our passion for retail.

For unbiased, objective and data-rich trend analysis across multiple retail functions and segments—validated by direct 1:1 surveys and dialogue with retail executives—the *Retail Horizons* series was designed to become the essential source for historic, current and future retail industry information. Having now concluded our third year, we are pleased to report that this mission remains strong and on course.

Interest in the 2005 survey was extraordinary, with more than 300 retail companies and more than 700 senior executives completing detailed queries and countless others offering anecdotal input and ambience. This breadth and depth not only serves to legitimize our analysis and perspective, but this level of participation may suggest a global opportunity; *Retail Horizons* 2005 may well span both the Pacific and the Atlantic.

Our sincere thanks and acknowledgment are due to all who participated in this year's study—from the survey design in early spring 2004 to the final printing completed for the 2005 NRF Annual Convention & Expo. This is a monumental, yearlong effort involving multiple parties and demanding perseverance. And of course, without retailer involvement, this would not have been possible. We are confident that the satisfaction, value and benefit you gain from this research will be at least proportional to the effort in developing it.

Your reaction to *Retail Horizons: Benchmarks for 2004, Forecasts for 2005* is welcome, and we hope that you will join the increasing number of retail participants in future editions. In 2005 and beyond, we wish you much personal gratification and professional success.

Sincerely,

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# ABOUT THE STUDY

*Retail Horizons*

As the new millennium continues to unfold, the retail world keeps pace by changing in dramatic ways. Last year, *Retail Horizons* stressed three overarching currents—customer centricity, the data-knowledge-action continuum and the boundaryless organization. While these trends have continued, this year's responding retailers have come to recognize the need for accelerated differentiation. A retailer must win the heart of today's savvy customer by standing out. The marketplace has necessitated that retailers be lean in terms of operations and more focused on customers. Optimizing products and prices in the stores, combined with building synchronized demand networks, will be the key to providing competitive advantage and robust prospects for profitability.

This report is the third of an annual study, including a quantitative survey of retailers, conducted by the NRF Foundation (NRFF) and BearingPoint. Our purpose is twofold: to define key benchmarks for the industry and to identify and discuss emerging retail trends. Contained in the report are quantitative survey findings, extensive independent research and the long-time experience of thought leaders working within the industry.

## APPROACH AND SCOPE

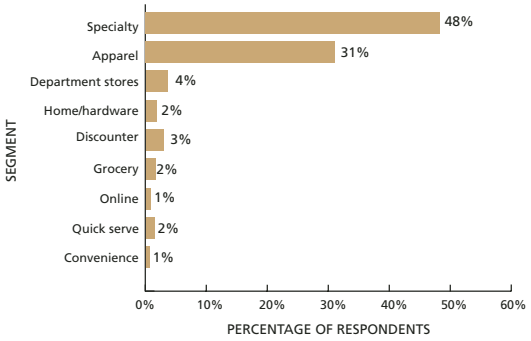
The quantitative content for *Retail Horizons: Benchmarks for 2004, Forecasts for 2005* was gathered through a survey designed by BearingPoint and NRFF subject matter experts. The survey respondents represent a cross-section of the industry and vary in size, growth potential and years in business—they represent a snapshot of the current and future retail landscape. This year's 300 participants provided over 200,000 data points across nine functional areas. For respondent profiles by segment, annual sales, number of stores, number of employees and comp store sales growth, please refer to the charts on page 5. All company-specific data is confidential. The detailed findings are located in the "Survey Results" section of the report.

Survey results were segmented this year by store count. The small-store segment includes retailers with 1 to 50 stores, the mid-size segment includes retailers with from 51 to 500 stores, and the large-size segment includes retailers with more than 500 stores.

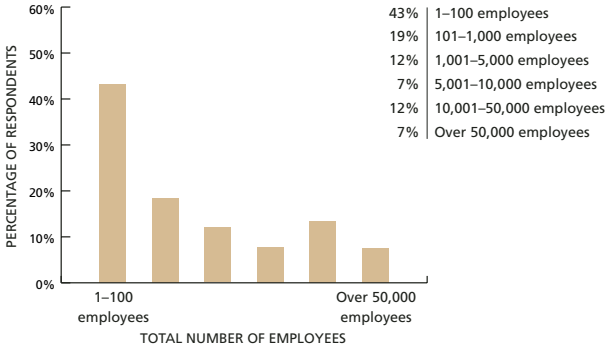
The qualitative content of the report comes from independent research and one-on-one interviews with leading retailers, academicians, industry analysts, trade groups, and BearingPoint and NRFF subject matter experts.

From the data gathered, a picture of this year's *Retail Horizons* company emerges from the wide assortment of department, specialty, apparel, grocery and home center stores that participated in the 2004 *Retail Horizons* study.

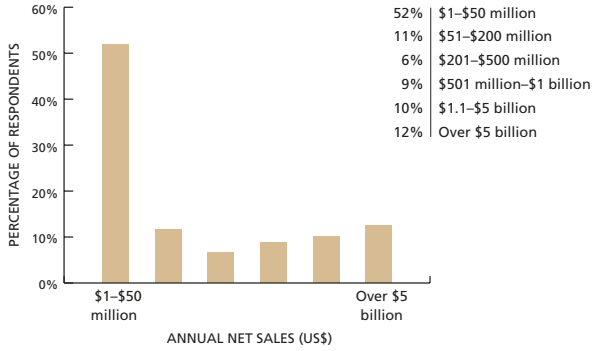
## Survey Respondents by Segment



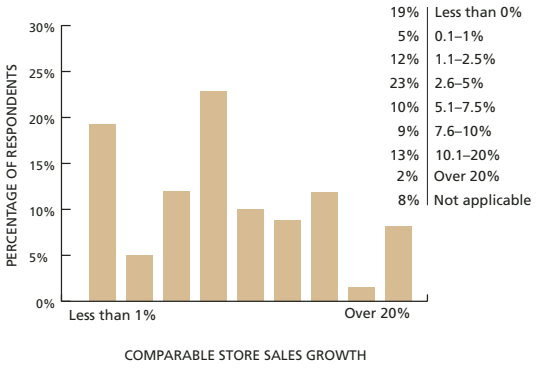

## Survey Respondents by Number of Employees



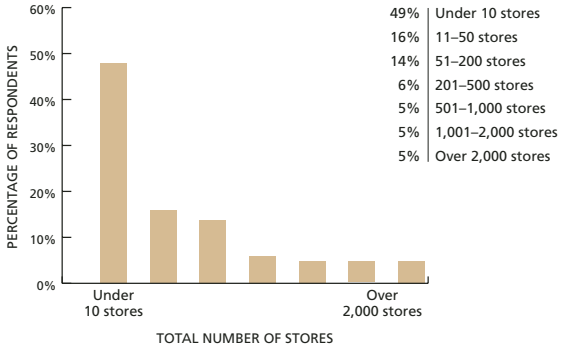

## Survey Respondents by Sales




## Comparable Store Sales Growth




## Survey Respondents by Number of Stores



## COMPANY FINANCIALS

This third annual *Retail Horizons* report gathered a wide range of data from respondent companies, including net sales, profit margins and company demographics such as number of stores and number of employees.

The following table offers a snapshot of the general and financial information gathered in the study:

| DATA | OVERALL AVERAGE BY RETAILER | LEADING CATEGORY PERCENT (MODE) |
|---|---|---|
| Number of stores | 257 | 1–10 (47%) |
| Number of employees | 8,126 | 1–100 (42%) |
| Annual net sales for most recent fiscal year | $1,027 million | $1–$50 million (47%) |
| Comparable store sales growth | 5.4% | 2.6–5% (23%) |
| SG&A costs as a percent of sales | 24.7% | 11–20% (33%) |
| Gross margin | 36% | 41–50% (24%) |
| Operating profit margin | 5.6% | 1–5% (59%) |
| Net profit margin | 3.8% | 2.1–3.0% (15%) |
| GMROI | 86% | 1–50% (29%) |
| Operating return | 6.7% | 1–2.5% (13%) |
| Annual shrink | 1.2% | 0–100 (25%) |
| Inventory turnover | 3.4% | 2.1–2.5X (18%) |

From the data gathered above, a profile of this year's *Retail Horizons* company emerges from the wide assortment of apparel, big box, department stores, grocery, discounters, convenience stores, department stores, direct selling, e-commerce, food service, wholesalers and specialty companies that participated in the 2004 *Retail Horizons* study.

The average selling, general and administrative (SG&A) percent was surprisingly consistent across all size segments, which suggests that the larger retailers are not achieving the type of expense leverage they used to. The gross margin percent for the small retail size segment was 550 basis points in excess of that of the large-size segment, perhaps reflecting more unique product offering and a superior shopping experience.

# 1 EXECUTIVE SUMMARY

*303 participating retailers*

What is on the horizon for retailers? To answer that question, the National Retail Federation Foundation (NRFF) and BearingPoint documented current retailer practices in eight areas: information technology, supply chain, merchandising, store and field operations, advertising and marketing, customer insight, online, and human capital—and then enriched that data with relevant insights and analysis.

This year's study highlights the emerging trends and technologies that are informing leading retailers' strategies around the globe. As Scott Hardy, managing director of BearingPoint's Retail segment, explains, "Retailers have realized that, in order to win, they must be on a path of accelerated differentiation. In order to do that, there are four business imperatives: to be a lean, agile operation, to be completely customer-centric, to optimize products to targeted customers and to build a synchronized demand network with trading partners."

## OVERALL MESSAGES OF DIFFERENTIATION AND GROWTH

In analyzing this year's survey data, there are two overarching messages: differentiation and growth.

In every section of this year's survey, retailers were asked to identify their top strategic initiatives for the functional area for both 2004 and 2005. When asked to list their overall strategic priorities, the respondents set the tone for the whole survey by emphasizing two overarching imperatives: the need for accelerated differentiation (through product, employees and locations) and the need for growth. Underlying both is the continued importance of being a lean, agile competitor.

While cost reduction and cost containment continue to be business imperatives for responding retailers, it would appear from this year's findings that cost reduction has become a price of entry and that this year's respondents are refocusing their efforts on growth initiatives in order to drive not only comp store sales but incremental sales as well. Last year's forecast reflected that cost reduction is here to stay— it has become the price of entry; we are now seeing an incremental focus on customers, products and employees to drive comp sales.

## ACCELERATED DIFFERENTIATION

Continuing, and building on, last year's theme of the need for accelerated differentiation, we see four top initiatives focused on delivering differentiation: lean retailing, customer centricity, product optimization and supply chain synchronization. Without differentiation, the typical retailer has a hard time competing against the "every day low price" format executed so effectively by Wal-Mart. All of these initiatives share two common purposes: attracting and retaining new customers while encouraging higher sales among the current customer base. In short, retailers understand the importance of leveraging one of their few nonreplicable assets, their customer base.

Today's retail consumer is more demanding than ever. She has myriad shopping options and is armed with near total information. So…how can a retailer win in this fiercely competitive market? It is all about differentiation. A retailer must win the heart of today's savvy consumer by standing out. The timeless retail paradigm of the five P's—product, price, place, people and promotion—needs to be considered with this in mind. A retailer must ask "How can I stand out? What is unique about my merchandise and service offering?" This is true now, more than ever, as the competitive swim lanes blur and retail segments become far less well defined.

Today's retailer is acutely aware of the need to seek competitive differentiation. What is new is the urgency of that imperative. While the survey respondents appreciate the importance of differentiation, many still do not succeed in achieving it consistently.

As retailers continue to seek points of compelling differentiation, we see a renewed emphasis on private label product. We also see larger retailers moving toward international sourcing.

Retailers—across all major functional areas—are leveraging innovative technology in order to provide a differentiated experience. Point of sale (POS) replacement, merchandising systems upgrades, supply chain technologies—all can contribute to growth and differentiation.

While previous years' findings found the clear emphasis to be on comp store sales growth, this year reflects a renewed emphasis on incremental growth, with domestic expansion with existing store front, cited by 41 percent of respondents for 2004, and international expansion, cited by 13 percent for 2004 (up from only four percent last year). This was true for all store size segments. The medium and larger segments are focused not only on expansion with existing formats but with new formats as well. Comp store growth initiatives include customer satisfaction, ranked first by this year's respondents, product differentiation, given the nod by 42 percent, and redesign/relocation of stores, cited by more than one-third of respondents for both 2004 and 2005, up from just one in five last year. This initiative is cited evenly across all size segments.

| GENERAL/FINANCIAL TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Customer satisfaction/retention | N/A | 55% | 51% |
| Cost reduction/cost containment | 1 | 54% | 54% |
| Customer relationship management (CRM) | 7 | 42% | 47% |
| Product differentiation | 3 | 42% | 42% |
| Domestic expansion with existing store format | 2 | 41% | 35% |
| Employee retention/development | 6 | 35% | 38% |

## LEAN RETAILING

The first overarching trend identified this year is the continued importance of lean retailing. The culture of cost containment has been consistent year over year. The process standardization, through portals and task management, which we saw in previous years, continues as an imperative. Moreover, the industry's shift from custom-development of IT applications to the use of packaged solutions further accelerates this standardization.

As more and more retailers leverage greater bandwidth into their stores, a new wave of productivity tools is being launched. Advanced integration technologies that link disparate systems together for a common, user-friendly look and feel foster a best-of-breed approach with common con-

nectivity. These technologies also support the portal-based dashboards, both internal and external, that support a retailer's overall operation.

In the area of associate productivity and training, we see employee self-service being leveraged across human resources and other functions while labor scheduling is being moved to Web-based architectures in order to optimize payroll while lowering the total cost of system ownership. Task management helps manage employee workloads and streamlines home office to store communications through exception-based reporting and alerts. And both of these are supported through greater use of mobile-computing options that extend all of this functionality all the way to the sales floor and the loading dock.

## THE CUSTOMER-CENTRIC ENTERPRISE

Turning to our second trend, customer-centricity, which just continues to gain in momentum, we see this year's respondents linking more of their people's pay to customer satisfaction measurements. Retailers understand the great importance of customer loyalty and are leveraging customer insight to drive customer-focused decision making across all aspects of their business models.

Retailers say "The customer comes first." But how many have really structured their businesses to make that statement true? The customer-centric enterprise understands current and target customers, segregates the high-value customers from the low- and no-value customers and then provides the right combination of products and services to satisfy the profitable customers and earn their loyalty.

Being customer-centric means marketing, merchandising and store operations work together to create compelling promotions as part of a local-market strategy. It means IT and CRM work together to apply the tools needed to personalize the shopping experience. It means merchandising and supply chain work together to find a cost-effective way to implement a demand-driven, customer-centric strategy.

The broadband connectivity to the stores, coupled with a near-tidal wave of next-generation POS installations, will let retailers provide infinitely greater degrees of personalization and customer-specific real-time promotions.

As consumers gain greater access to broadband connectivity (50 million Americans currently have this access), the shopping experience will continue to evolve. When pricing and in-stock information is available in the palm of the consumer's hand, it will become imperative for the successful retailer to deliver a truly integrated multichannel shopping experience, connected across all selling channels with near-perfect real-time information access.

## PRODUCT OPTIMIZATION

In the quest for differentiation, product optimization plays a key role. Customer insights have to be leveraged here as well, as customer segmentation and local preferences drive product design and assortment decisions. Assortment optimization can increase sales while minimizing markdowns. We see a significant number of retailers moving more toward private label, which can be a meaningful avenue to differentiation. This is particularly true for the larger retailers.

The merchants are focused on picking the product and are content to have their supply chain counterparts manage the flow. The merchants are also more focused on promotions and pricing optimization, whereby advertising is optimized

for profits and both initial and subsequent markdowns are linked to local (be it store- or district-level) demand.

## SYNCHRONIZED DEMAND NETWORKS

The notion of a synchronized demand network goes in concert with lean retailing, customer-centricity and product optimization. The successful 21st century retailer will be moving along all four dimensions simultaneously. While less than one-third of total respondents cited supply chain optimization as a priority, the majority of the medium- and large-size retailers named it as such.

As already mentioned, the trends explored in *Retail Horizons* are interrelated and interdependent. Getting closer to customers, then creating a relevant and compelling value proposition requires timely and insightful information, shared throughout the retailer's organization and supply chain. Clearly, being synchronized has two dimensions: internal and external. Today's successful retailer leverages portal technology to connect with its employees and with its suppliers. Tomorrow, it will also connect with its customers in this way.

A synchronized demand network will be designed for optimal flow-through of product and for the near-real-time sharing of forecasts and demand signals. These demand signals will be shared with trading partners and with their partners. True supply chain visibility will remove the latency and will eliminate the need for safety stock throughout the system.

This year's respondents are making significant investments in planning and forecasting technologies as well as in next-generation POS, which will allow for the sharing of demand signals right at the time of demand. This next-generation POS also sets the stage for the ultimate installation of item-level radio frequency identification (RFID), which will open up a whole new set of supply chain capabilities.

> "In today's competitive environment, a retailer must excel in virtually every area. The currents surfaced throughout *Retail Horizons* should help retailers focus on those areas that are likely to have the most profound impact on their ultimate success with the consumer. Those retailers who are winning have leveraged products, customer insights, their demand chains and cost control to create unique, differentiated business models"
>
> —Scott Hardy, BearingPoint's Managing Director of Retail

# 2 INFORMATION TECHNOLOGY FINDINGS

*Survey findings*

**SCOPE:** The IT section covers key initiatives, IT resources, build versus buy, outsourcing, integration and the adoption of new technologies, exclusive of Web activities.

## STRATEGIC INITIATIVES: STRATEGIC BUSINESS APPLICATION SYSTEMS INITIATIVES TAKE PRECEDENCE

When respondents to the IT section of this year's survey name their strategic initiatives for 2004 and 2005, the list is long but is dominated by a handful of priorities. These include technology replacements that go to the core of what a retailer does, along with outsourcing, a trend seen in other sections of the survey. While the top four IT strategic priorities have not changed from last year, their order has changed. Merchandising and inventory management system replacement has moved from the fourth most important initiative to number one, although it is far more commonly cited by small and mid-size retailers. Cost reduction and cost containment—last year's number one priority—slipped to third, behind POS replacement, which is a strategic initiative for all size retailers. CRM technology has slipped from a tie for second last year to fourth position this year, but it remains a priority for all size segments. And, as indicated above, for the first year, outsourcing of various IT functions made it to the top five most important priorities, reflecting its growing legitimacy as a way to do business. The next wave of outsourcing is reflected in the fact that it was cited by one-third of the smaller size retailers and by none of the mid-size to large-size tiers. Another interesting difference between the studies is that last year saw 30 percent of respondents choosing improving efficiency and effectiveness as a top initiative while this year it received a meager mention by only five percent of respondents.

In each survey section, the Strategic Initiatives chart reflects the 2003 ranking from last year's survey and the percent rankings from this year's survey.

| INFORMATION TECHNOLOGY TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Merchandising/inventory management system replacement or upgrade | 4 | 55% | 53% |
| POS replacement | 3 | 48% | 42% |
| Cost reduction/cost containment | 1 | 30% | 30% |
| Customer relationship management technology | 2 | 23% | 21% |
| Outsourcing | N/A | 19% | 21% |

All in all, this year's findings confirm what we began to see from the data last year: strategic business application projects take precedence over IT-driven cost and efficiency programs. The larger-size retailers are also looking at pricing optimization software and at collaborative planning with suppliers.

Retailers are replacing their merchandising and inventory management systems in record numbers (more than 50 percent in both 2004 and 2005) because their legacy mainframe applications have become outdated, with concomitant high costs to operate and maintain. Also, older systems cannot track the level of detail that RFID will require (detailed item-level data). Moreover, retailers have new requirements to drive local market assorting and pricing. A handful of global retailers already have this capability. Thus the rest of the industry are at a competitive disadvantage unless they update/replace their merchandise and inventory management systems.

A large number of this year's respondents will be replacing their POS systems in both 2004 and 2005, continuing a trend we saw in last year's survey. This POS replacement trend is being driven by reasons similar to those driving the merchandising system replacement. Most POS systems are at the end of their life cycle and are, more often than not, legacy register platforms on outdated legacy software. They are, thus, running on outdated devices with proprietary operating systems that have high maintenance costs. And, just as in the case of the merchandising systems, retailers are looking for new POS capabilities: a common multichannel selling and service platform that supports demand-driven supply chain networks and real-time customer analytics.

For the first year of this survey, RFID and electronic product codes (EPC) make their debut appearances on the top initiatives list, albeit with very low scores. Data mart consolidation, cited by 12 percent for 2004, reflects the overall emphasis on customer insight and CRM as retailers work to achieve a single, unified view of their customer bases.

However, as outsourcing has become widespread, cost reduction, IT efficiency and effectiveness considerations have to be front and center for a CIO in order to optimize the IT function. The outsourcing of nonstrategic functions will continue to gain momentum, from infrastructure to applications to call center operations.

## EFFECTIVENESS

When asked to assess their effectiveness on a number of activities on a scale of one (not effective) to five (extremely effective), retail IT executives feel that they are most effective in IT alignment with the business and in IT security and less effective in application portfolio management. This reflects the fact that, for retailers today, there is still a very fragmented vendor ecosystem vis-à-vis other industries where, for example, an enterprise resource planning (ERP) implementation might deliver as much as 70 percent of a manufacturer's required enterprise functionality. Additionally, outsourcing effectiveness scored the lowest, at 2.2. The smaller retail segment is still relatively new to the outsourcing world and will continue to struggle as the model matures.

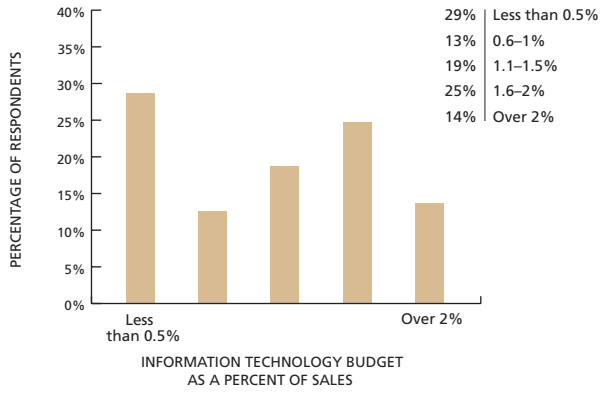
| INFORMATION TECHNOLOGY ASSESSMENT | MEAN RESPONSE |
|---|---|
| IT alignment with the business | 3.2 |
| IT security | 3.3 |
| IT governance | 2.8 |
| IT application portfolio management | 2.6 |
| Outsourcing | 2.2 |

## IT SPENDING

The majority (nearly 65 percent) of companies reported that their IT budget is one percent or less of total company sales. In fact, only nine percent of companies spend over two percent of sales on IT expenditures.

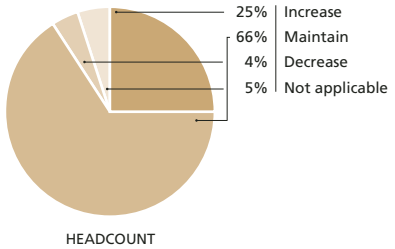
For those reporting an IT budget, the approximate average IT budget as a percent of sales was 1.13 percent. The mid-tier size segment had the highest cost as a percent of sales at 1.4 percent.

### Information Technology Budget as a Percent of Sales




One-fourth of all respondents plan to increase IT headcount in 2005, while two-thirds plan to maintain current levels. Very few are planning reductions.

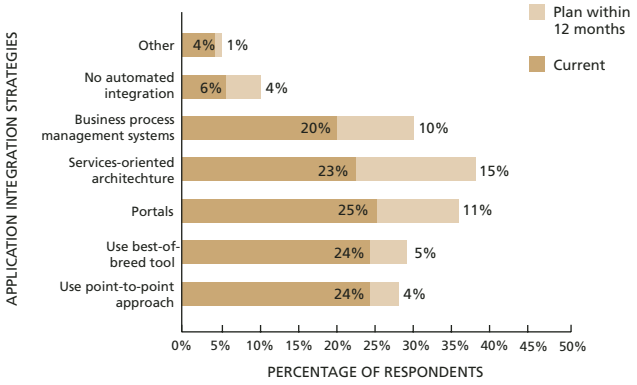
### IT Headcount




## INTEGRATION

As it relates to the integration of applications, data and infrastructure, integration technologies are shifting away from "point to point" to more advanced methods such as services-oriented architecture (SOA), portals and business process management systems. Advanced integration technologies will allow retailers to buy more specific point solutions (portions of suites) that can be seamlessly integrated through these new technologies. Portals allow all applications to have a consistent look and feel from a user perspective. This will enable retailers to leverage a "best-of-breed" approach on applications while standardizing the "plumbing" that ties them together. BearingPoint and the NRFF believe that these new integration technologies and their continued evolution toward composite applications will dramatically change the role of IT and the systems integration consulting landscape as retailers and their partners harness these tools to swiftly design new, more contemporary business and operating strategies.

### Application Integration Strategies

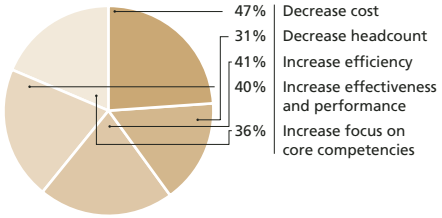


## OUTSOURCING

IT uses outsourcing to free its valuable in-house resources from noncore processes and activities and to gain access to specialized resources and skills not likely to be in-house. Reflecting the continued evolution of outsourcing in retail, 74 percent of companies reported that they do outsource some portion of IT. The areas most likely to be considered for outsourcing by those that do outsource include: application development (19 percent of respondents), application hosting (12 percent), integration projects (11 percent), and help desks, data centers and call centers (10 percent each). The most commonly cited benefits include decreased costs (47 percent), increased efficiency (41 percent) and improved effectiveness and performance (40 percent).

Because of the high presence of legacy, custom applications, many outsourcers find retail to be a higher risk proposition than some other industries. They are uncertain of the degree of risk they may be assuming by taking on a retailer's application portfolio and, as a result, are often demanding that retailers obtain certification for their portfolios—akin to placing an antique license plate on the back of an old car.

**Reason for Outsourcing**




REASON FOR OUTSOURCING

## BUY VERSUS BUILD

Consistent with last year's study, packaged/off-the-shelf applications continue to dominate the retail application landscape as in other industries and gained share in every domain area, with the heaviest concentration in commodity areas such as finance (83 percent), time and attendance (78 percent) and HR (74 percent). Areas most likely to have custom applications are planning/strategy (47 percent), supply chain management (46 percent), workforce management/labor scheduling (45 percent) and category management/merchandising (40 percent). The smaller-size retail segment leans far more heavily toward packaged applications while mid- and large-size companies are far more likely to custom-develop applications.

The top reasons cited for custom development of applications include lack of package fit (61 percent), different business model/functionality (56 percent) and convenience of in-house development (39 percent). Interestingly, the reason cited least frequently for custom development was time-to-market (8 percent). The reason large companies cite for custom development (three-quarters of respondents) is to enable competitive advantage.

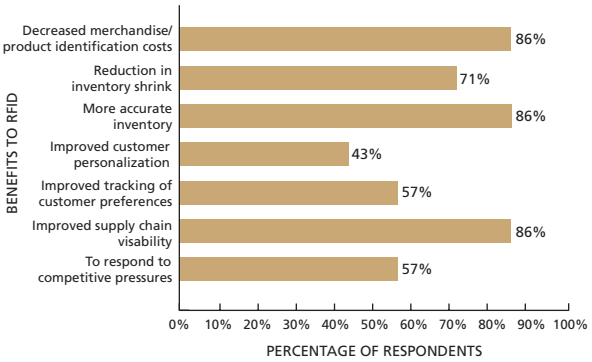
| TOP REASONS TO CUSTOM-DEVELOP AN APPLICATION | % OF COMPANIES |
|---|---|
| Lack of package fit | 61% |
| Different business model/functionality | 56% |
| Convenience of in-house development | 39% |
| Inability to integrate existing systems | 36% |
| Enable competitive advantage | 33% |
| Cost | 28% |
| Scalability considerations | 11% |
| Time-to-market | 8% |

## EMERGING STANDARDS AND TECHNOLOGIES

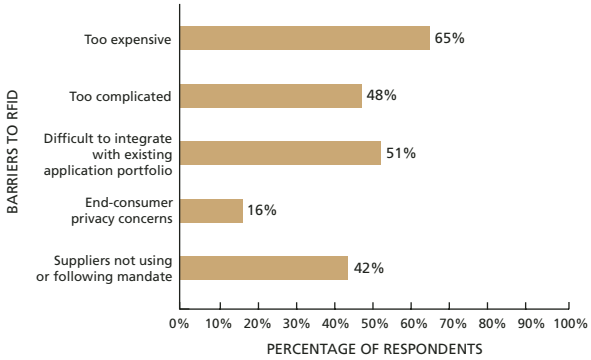
While adoption rates have been moderately higher from 2003, only 13 percent of responding retailers have adopted global trade identification numbers, or GTIN/Sunrise 2005, standards, with another four percent planning to do so within the next 12 months. BearingPoint and the NRFF find this surprising given the fact that the deadline for compliance is January 2005.

Only four percent of respondents have implemented RFID — all of which appear to be pilots. And, all of the reported RFID activity is in the mid- to large-size retail segments. The most commonly cited benefits to RFID are more accurate inventory, decreased merchandise/product identification costs and improved supply chain visibility.

### Benefits to RFID




### Barriers to RFID



# 3 MERCHANDISING FINDINGS

*Survey findings*

**SCOPE:** The Merchandising section covers merchandising initiatives, activities, in-stock, technology, pricing and key metrics.

## STRATEGIC INITIATIVES: MERCHANDISE OPTIMIZATION AND DIFFERENTIATION

The top three strategic initiatives remain the same as 2003, however their order has changed. The top focus is on improving margins (75 percent), followed by improving inventory turns (53 percent) and driving comp store sales gains (50 percent). Last year, the order was improving margins, driving comp store sales gains and improving inventory turnover. Increasing private label assortments and expanding assortments moved into the number four position (tied at 33 percent), reflecting the strong desire for differentiated merchandise offerings, coupled with higher margins. More than 50 percent of large retailers plan to increase their private label assortments and more than one-half also plan to increase international sourcing. Both can be big contributors to merchandise differentiation. Sales at any cost are no longer acceptable. Cost reduction has fallen out of the top five to the number nine position (at 27 percent). Virtually none of the mid- to large-size retailers cite cost reduction/cost containment as a strategic initiative. The streamlining seems to have already taken place. Interestingly, improving vendor compliance was near the bottom of the priority list, but the supply chain respondents see vendor management as a top priority for their organizations. This suggests that the industry has accepted a model that lets merchants be good assorters while allowing the supply chain specialists to focus on execution.

| MERCHANDISING TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Improve margins | 2 | 75% | 77% |
| Improve inventory turnover | 3 | 53% | 50% |
| Drive comparable store sales | 1 | 50% | 47% |
| Increase private label assortment | 6 | 33% | 32% |
| Expand assortments | 12 | 33% | 33% |

Strategies for successful merchandising that focus on activities inside the retailer's own operations (as compared with activities in the supply chain) and, therefore, within the retailer's control, seem more advanced at this time. All these initiatives reflect a growing awareness of the need to take a focused, differentiating stance in the marketplace (while, at the same time, reducing the costs associated with complexity).

### EFFECTIVENESS

The challenge for merchandising stays the same: differentiate the retailer's value proposition so that target customers will keep coming back. What continues to shift are three

variables that affect the merchant's likelihood of success: 1] competitors entering the market space with a better value proposition or a better execution of the same value proposition; 2] the retailer's skill (or lack thereof) in transforming customer data into merchandising insights, and then working with others (such as marketing and store operations) to make those insights come alive in the field; and 3] the degree and quality of supply chain collaboration, since a tight integration increases the likelihood that the right products, in the right amounts, are on the shelves, for both regular sale and promotions.

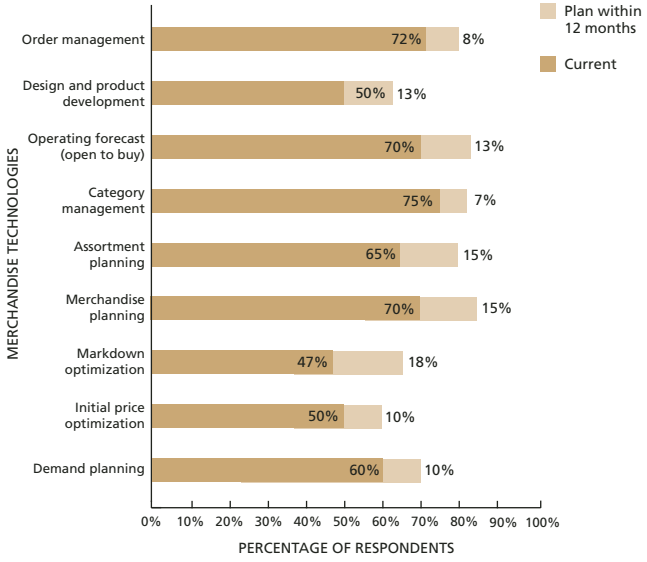
When asked to assess their effectiveness along a number of merchandise dimensions on a scale of one (not effective) to five (extremely effective), merchants felt that they were most effective at offering unique, differentiated merchandise. In fact, they were the only responding group to rate their effectiveness above four on a five-point scale, coming in at 4.2. In contrast, these merchants feel that they are least effective in optimizing markdowns, ranking their effectiveness an average of 3.0.

| MERCHANDISING ASSESSMENT | MEAN RESPONSE |
|---|---|
| Offers unique, differentiated merchandise | 4.2 |
| Creates optimized assortments | 3.8 |
| Optimizes initial prices | 3.7 |
| Minimizes out-of-stocks | 3.6 |
| Optimizes space planning | 3.6 |
| Controls inventory | 3.5 |
| Optimizes markdowns | 3.0 |

## TECHNOLOGY

As observed in the IT section, retailers and merchants, in particular, are no longer technophobic. In fact, as they seek to leverage technology in order to develop differentiated assortments, merchant respondents report some of the highest technology penetration rates of any functional group in the survey. Seventy-three percent report using replenishment technologies, while 17 percent report they will implement new, more analytically based technology within the next 12 months. Other top technology priorities for 2005 are: markdown optimization (18 percent), merchandise planning, and assortment planning (at 15 percent each). IT executives who list merchandise and inventory management systems as their top priority for 2004 and 2005 also support this focus.

### Merchandise Technologies

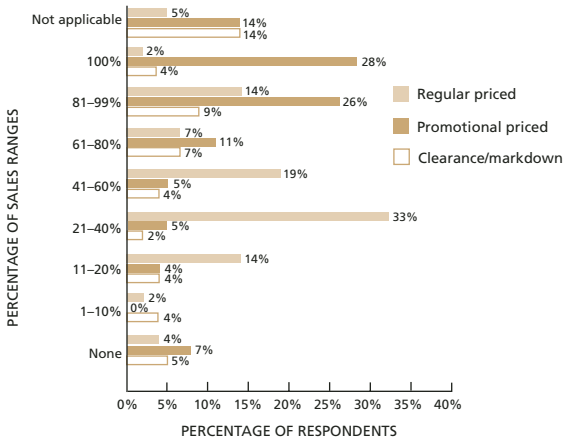


## PRICING

Although influenced by several factors, the most common driver of retail pricing is competitor pricing, examined by more than 85 percent of respondents for pricing input. In addition, 80 percent look to the manufacturer's price and 79 percent use past sales data; 74 percent use merchant input, and 65 percent use store input for pricing. Using competitor pricing is important but is a reactive approach to making pricing decisions. Given that 64 percent of respondents do not use pricing optimization software, the high reliance on competitor and manufacturer pricing is not surprising. When using pricing optimization software, historical point-of-sale data is used as a chief input and programmable rules and algorithms are applied to calculate optimum pricing. Less popular pricing inputs include the cost to promote merchandise (47 percent) and data from pricing software (23 percent).

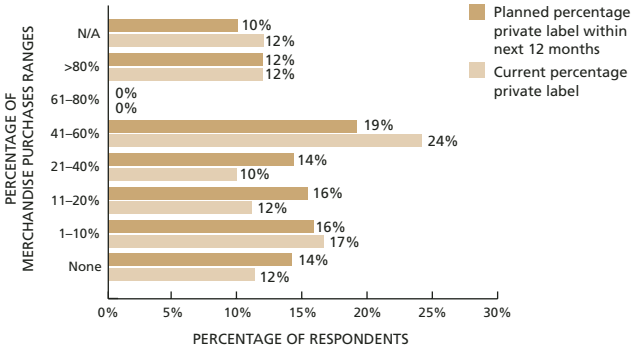
The majority (65 percent) of respondents employ a national pricing strategy where prices are the same at all stores. Almost 40 percent report that prices vary at the SKU level and 30 percent vary prices at the store or regional level. Given this response, it seems that many retailers set an initial price at a national level, while many institute price variations at the store and SKU level. A current trend in the retail industry is to address market and regional specialized assortments as well as pricing. Currently, 30 percent of the respondents of this survey vary prices regionally and 18 percent vary prices at the market level. When asked what their organization's 12-month pricing strategy plan was, the highest percent of respondents felt that market-focused pricing (prices may vary inside of local markets) would be a part of their strategy, second to prices varying by region.

Nearly half of the companies surveyed have a fixed clearance markdown schedule and most deploy it on a national level. The average breakdown of retail sales for regular, promotional and clearance-priced merchandise appears below:




## PRIVATE LABEL

Retailers are shifting more of their assortments into private label as a means of differentiating their assortments while improving margin. In 2004, the most common range of private label content was 40–60 percent, named by 19 percent of retailers. This percent increases to 24 percent in 2005. In last year's study, these percents were only five percent (2003) and eight percent (2004), respectively.



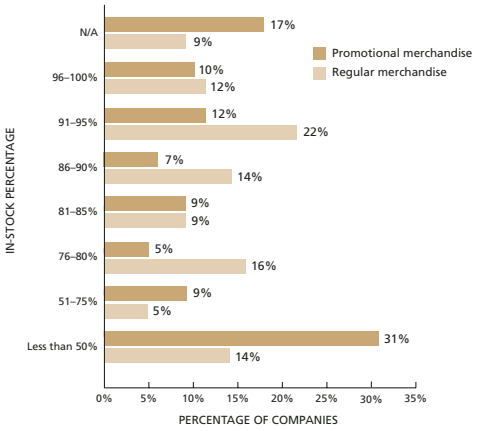
## VENDOR RELATIONS

Retailers are missing a major opportunity to truly partner with their suppliers to improve inventory levels and in-stock percentages. Of the survey respondents, only 30 percent currently employ vendor-managed inventory (VMI) and only five percent plan to employ it within the next 12 months. Some retailers are taking compelling advantage of their suppliers' capabilities and expertise to improve both in-stock and inventory productivity.

Forty-eight percent of retailers responding to this survey do, however, use collaborative planning, forecasting and replenishment (CPFR). Through utilization of these inventory management and forecasting techniques, and synchronizing supply and demand with their vendors, retailers can improve in-stock levels.

Large retailers tend to have fewer merchandise vendors. In fact, 80 percent of their purchases are with 20 percent of their vendors. For small retailers, purchases are spread over many more vendors. This obviously gives larger retailers more purchasing clout.

**In-Stock Percentage**




## IN-STOCK

The most common range for regular in-stock performance was 91 to 95 percent with 22 percent of retailers. However, the most common promotional in-stock range was less than 50 percent, cited by 31 percent. This represents a huge opportunity area for retailers to drive incremental sales and improve customer satisfaction levels. Clearly, promotional in-stock is one of the biggest single opportunities for driving revenue. Retailers must address the fundamental issues cited above in order to survive and flourish. The most commonly sighted root causes for out-of-stocks were: last-minute ordering (34 percent), poor store execution (33 percent) and poor promotional forecasts (29 percent), all of which are completely within a company's control. Only wait until the last minute if your organization is nimble enough to execute. Product shortages, late deliveries, ineffective tracking and poor data integrity also take their share of the blame for out-of-stocks, receiving a 20–25 percent respondent mention. Store operations needs to improve store execution, and merchants and logisticians need to address poor forecasts—through investments in technology in order to avoid product shortages and late deliveries. Interestingly, seven out of 10 retailers report having an aged-inventory reporting or tracking mechanism—this reporting mechanism would give retailers the ability to positively influence both promotional and regular in-stock performance.

# 4 SUPPLY CHAIN MANAGEMENT FINDINGS

*Survey findings*

**SCOPE:** The Supply Chain Management section covers supply chain key initiatives, planning, vendor collaboration, technology and key supply chain metrics.

## STRATEGIC INITIATIVES: THE MOVEMENT TOWARD SYNCHRONOUS DEMAND NETWORKS

Vendor management is the number one initiative for supply chain executives. Retailers are moving along a continuum—from tactical compliance on one end, to true value-added services on the other. Progressive retailers understand how moving along this continuum supports the overall growth message by asking suppliers to do more to help drive the business in areas such as fill rates, product design, packaging, local market assortments, performance analysis and other value-added services. Cost reduction, which was the number one initiative in 2003, slipped to number two this year but continues to be a high priority.

Supply chain organizations will support growth by optimizing their warehouses, which is the third priority, at 41 percent. This will enable them to focus on improving fill rates and cycle times, and reducing out-of-stocks. Others will be looking to improve cross-docking capabilities (27 percent) to improve flow. The mentality of "stocking"—putting goods in warehouses or on the shelf and waiting for someone to order or purchase—is suboptimal to a pull-based, flow-through network.

Supply chain visibility moved up to the number four position (at 39 percent) from sixth in 2003 at only 17 percent. This percent is considerably higher for the mid- and large-size retailer segments, at 60 percent and 50 percent, respectively. This is being driven by the maturation of technology and the need for exception-based response capabilities. When there is true supply chain visibility, processes and systems operate in a "synchronous" fashion versus the traditional "asynchronous" approach that retailers have used for many years.

This year's findings suggest urgency among retailers not just to contain the expenses associated with storing, handling and moving inventory but also to leverage inventory as a contributing factor in growth. Having the right amount of inventory—not too much or little—in the right place gives the retailer the power to keep store stock levels aligned with actual demand. And while the idea of a "synchronized" demand chain makes infinitely good business sense, this year's results show that few retailers have yet to achieve this desired end-state vision.

| SUPPLY CHAIN MANAGEMENT TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Vendor management | N/A | 49% | 54% |
| Cost reduction/cost containment | 1 | 44% | 48% |
| Warehouse optimization | 2 | 41% | 43% |
| Supply chain visibility | 6 | 39% | 30% |
| Distribution network optimization | 5 | 31% | 32% |
| Collaborative planning, forecasting and replenishment | 3 | 29% | 25% |
| Cross-docking | 8 | 27% | 21% |
| Cycle time reduction | 4 | 25% | 25% |

Some areas that did not make the top priorities but are still interesting to note include:

- Outsourcing had one of the largest increases, growing seven times, from two percent to 14 percent. This supports both cost-reduction initiatives as well as providing better focus on areas of core competency.
- We were surprised data synchronization, UCC Net and Sunrise 2005 did not receive more mention as a strategic initiative. Only five percent showed it as a strategic initiative for 2004 and only nine percent for 2005. As a core foundation of a synchronized demand chain, retailers and suppliers must standardize their methods of communication and information sharing.
- For the first time, RFID made this year's list of strategic initiatives, with a small group (three percent) dipping their toe in the water in 2004 and more (11 percent) starting initiatives in 2005.
- Extending the supply chain increased almost three times, from eight percent to 20 percent, as retailers seek to link all players together by providing information across the supply chain. The network must be solved as a system, not as individual nodes — constantly balancing operating expense and investment with the goal of maximized throughput.

## EFFECTIVENESS

When asked to assess their effectiveness on a number of activities on a scale of one (not effective) to five (extremely effective), retail supply chain executives feel that they are least effective at aligning performance metrics with their vendors (2.9 rating). This results in poor compliance, poor forecast accuracy and poor fill rates. As metrics become better aligned, overall vendor management becomes more effective and time can be spent addressing opportunities for improvement.

Responding executives said they were most effective at vendor management (3.6). Demand planning (3.2) and promotional forecasting (also 3.2) were given a self rating of "average"—all while reporting very significant out-of-stock rates on promotional items (see Merchandising section). In the perfect supply chain world, forecast variability is pushed back as far in the supply chain as possible to minimize the imperfection of forecasts.

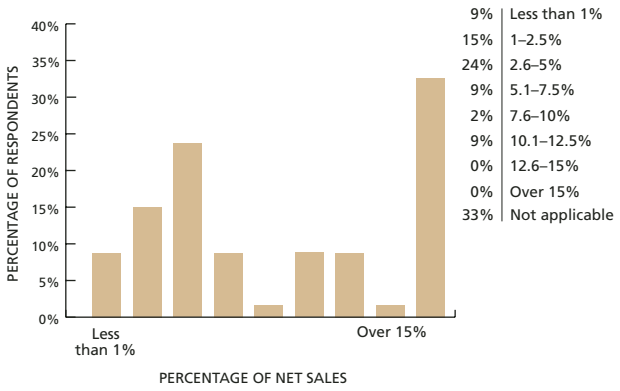
| SUPPLY CHAIN ASSESSMENT | MEAN RESPONSE |
|---|---|
| Vendor management | 3.6 |
| Demand forecasting | 3.2 |
| Managing promotional forecast | 3.2 |
| Collaborative planning | 3.1 |
| Reducing forecast error | 3.0 |
| Metric alignment with suppliers | 2.9 |

## SUPPLY CHAIN COSTS

Retailers in this study spend on average five percent of sales for total supply chain costs; as expected, costs vary based on the size of the chain. Surprisingly, the mid-size segment reports the highest costs at 5.8 percent of sales, while small-segment retailers report 3.4 percent and large-segment retailers report 3.9 percent. Within each size segment, there

is a significant range of performance. For example, in our largest size segment, nearly one-fourth reported costs below 2.5 percent, while an almost equal number reported costs over five percent. It should be noted that many companies pay for outbound transportation in the cost of goods, so these results could be misleading.

### Supply Chain Costs as a Percent of Sales

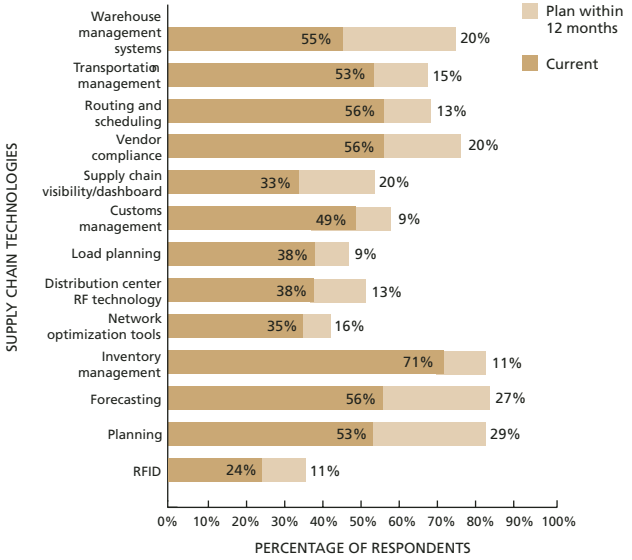



## TECHNOLOGY

What will lead supply chain technology investments in 2005? Supply chain executives report that they are most likely to adopt planning (29 percent) and forecasting (27 percent) technologies over the next 12 months. Other high-priority technologies for 2005 include supply chain visibility (20 percent) as retailers continue to implement dashboards across the enterprise, warehouse management (20 percent) and vendor compliance (20 percent).

As expected, some broadly accepted core technologies were deemed "not applicable" by a significant number of respondents from the small-store segment. These include transportation management applications (33 percent), routing and scheduling tools (31 percent), load planning (53 percent), and customs management technology (42 percent). Most mid- and large-size retailers have found that to operate competitively and effectively, relatively mature tools such as these need to be used.

### Supply Chain Technologies




## SUPPLY CHAIN PERFORMANCE

A successful supply chain process begins with planning and management. The data collected for this report demonstrates that success finds itself in many forms as companies use a multitude of inputs to plan the supply chain process. The following table highlights those inputs mentioned by a majority of retail respondents in the study:

| INPUTS USED TO PLAN THE SUPPLY CHAIN PROCESS | % OF COMPANIES |
|---|---|
| Current sales forecast | 82% |
| Historic sales trends | 78% |
| Historic shipments | 65% |
| Actual sales orders | 62% |
| Promotional plan | 60% |

Interestingly, current sales forecast is becoming the dominant input to the planning process—historic shipments and historic trends are not being used as much. Historic shipments are down from 83 percent in 2003 to 65 percent in 2004, while historic sales trends are down from 91 percent in 2003 to 78 percent in 2004. Combined with the ability to capture data quickly and accurately, this reflects the fact that retailers have begun to understand that, if you repeat the past, you are likely to relive the past.

Inventory turnover and cost continue to be the primary metrics companies use to measure supply chain performance. However, the industry has also adopted more balanced metrics such as cycle time, on-time delivery, lead time and quality.

| METRICS USED TO PLAN THE SUPPLY CHAIN PERFORMANCE | % OF COMPANIES (2004) |
|---|---|
| Inventory turnover | 85% |
| Cost | 84% |
| On-time delivery | 73% |
| Quality | 71% |
| Lead time | 69% |
| Efficiency | 69% |
| Accuracy | 67% |

Supply chain executives reported that they are least effective at aligning metrics with vendors. This may be driven by the fact that the most common vendor measure is cost (84 percent). While both internal and external measures appear consistent at the macro level, detailed metrics and performance improvement goals must be synchronized. By aligning internal and external measurement systems and truly collaborating with their trading partners, retailers may realize significant performance improvement across the supply chain.

| METRICS USED TO MEASURE VENDOR PERFORMANCE | % OF COMPANIES (2004) |
|---|---|
| Cost | 84% |
| Accuracy of shipments | 78% |
| Quality | 76% |
| On-time delivery | 76% |
| Inventory in stock | 71% |
| Efficiency | 69% |
| Cycle time | 64% |
| Lead time | 62% |
| Volume throughput | 45% |

The percent of orders generated with vendors using CPFR will increase next year. More than two-thirds of mid-size retailers generate orders using CPFR; that number increases to 80 percent for large retailers. However; the percent of orders generated varies widely within each size segment. Many report more than 30 percent of orders use CPFR, while for others CPFR represents less than five percent of total orders. Although the responding retailers cite many potential benefits to CPFR, including decreased costs (90 percent), improved inventory turnover (90 percent), faster order processing (79 percent) and more accurate forecasts (79 percent), there are many barriers to achieving success: difficult to integrate (54 percent); suppliers not using it (52 percent); unable to forecast store/SKU level (44 percent); and technology is cumbersome (41 percent).

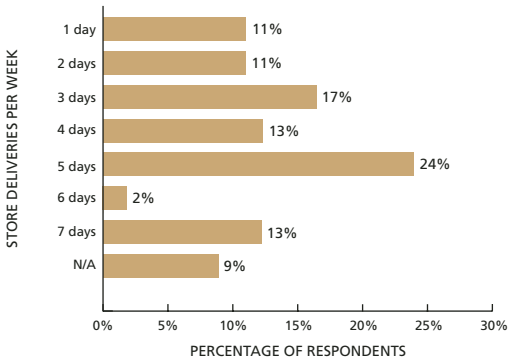
| COLLABORATIVE PLANNING, FORECASTING AND REPLENISHMENT | |
|---|---|
| BENEFITS | % OF COMPANIES |
| Improved inventory turnover | 90% |
| Decreased costs | 90% |
| Faster order processing | 79% |
| More accurate forecasts | 79% |
| Tighter integration | 76% |
| Higher in-stock | 72% |

| COLLABORATIVE PLANNING, FORECASTING AND REPLENISHMENT | |
|---|---|
| BARRIERS | % OF COMPANIES |
| Difficult to integrate | 54% |
| Suppliers are not using it | 52% |
| Suppliers cannot generate forecasts at store/SKU level | 44% |
| Technology is too cumbersome | 41% |
| Too expensive | 37% |
| Data security issues | 37% |

Merchandise shipment results show that retailers have not taken full advantage of merchandise flow concepts such as cross-dock, distribution center (DC) bypass and direct store delivery. The most common response shows that retailers are still using DC pick to stock, which usually creates inventory buffers throughout the supply chain. The mentality of "stocking"—putting goods in warehouses or on the shelf and waiting for someone to order or purchase—is suboptimal to a pull-based, flow-through network.

More frequent truck deliveries indicate that retailers have made progress in ordering smaller quantities more often, therefore allowing them to ship closer to the need date. More frequent, rapid replenishment with smaller batches is preferred to more accurately estimate demand and maximize throughput.

**Store Deliveries Per Week**




*Retail Horizons* again probed for the root causes of demand uncertainty and forecast inaccuracy. Retailers must address the key reasons for demand uncertainty if they are going to become agile. The chart below highlights the most common causes. Key reasons cited include uncontrollable external variables (45 percent), intense promotional activity (38 percent) and too many views of the forecast (36 percent). This may explain why many retailers are investing in planning and forecasting technologies and focusing on vendor management. And for those that attribute demand uncertainty to bad planning processes and data—fix them!

| SUPPLY CHAIN TOP THREE CONTRIBUTORS OF DEMAND UNCERTAINTY OR FORECAST INACCURACY | % OF COMPANIES |
|---|---|
| Too many uncontrollable external variables | 45% |
| Intense promotional activity (inherent SKU variability) | 38% |
| No formal sales and operational planning | 36% |
| Bad planning data (safety stock, lead times) | 32% |
| Poor forecast collaboration (CPFR) | 25% |
| Bad foundational data (item number info.) | 19% |
| Last-minute customer order changes | 19% |
| Inadequate software tools | 17% |
| Inadequate resources | 15% |
| Promotional demand inaccuracy | 13% |

# 5 STORE AND FIELD OPERATIONS FINDINGS

*Survey findings*

**SCOPE:** The Store and Field Operations section covers store initiatives, point of sale, store payroll, workforce, customer service, inventory, store services, technology and key operating metrics.

## STRATEGIC INITIATIVES: A FOCUS ON PROFITABLE GROWTH

For most retailers, store and field operations serve as the final moment of truth between the customer and the retailer's products, services and employees. Managing the store and field operations for a retail company requires an overall knowledge of the business, including products, services, procedures, sales and personnel. Survey data reveals that retailers' strategies with regard to store operations focused on increasing the bottom line through growth initiatives for existing stores, new store openings and strong customer service. When asked to prioritize the top five 2004/2005 strategic initiatives, the majority of retail executives emphasized the following (ranked in order of percentage):

| STORE AND FIELD OPERATIONS TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Growth initiatives for existing stores/drive comparable sales | 1 | 56% | 52% |
| New store openings | 6 | 47% | 49% |
| Customer service strategy | 2 | 46% | 48% |
| Employee training | N/A | 45% | 42% |
| Customer loyalty | N/A | 44% | 50% |
| Cost reduction/cost containment | 3 | 40% | 35% |
| Margin enhancement | 4 | 38% | 49% |
| Redesign or relocate stores | 7 | 35% | 36% |

Growth initiatives for existing stores and driving comp store sales remain the top strategic initiative in 2004 and 2005. New store openings have gained in importance significantly, coming in as the second highest priority, reflecting an apparent renewed sense of the importance of true organic growth. More than two-thirds of mid-sized and large retailers cited new store openings as a strategic initiative; almost twice the rate of the small retailer segment.

The importance of cost containment is up in absolute terms, at 40 percent this year versus 34 percent last year, but other areas have passed it in terms of overall importance. Finally, store process standardization, while being rated in importance at 24 percent, fell six spots from where it ranked in relative importance to other initiatives. These two indicators strengthen the trend that the retailer's focus is moving toward growth and customer service strategies.

With respect to in-store technologies, there continues to be a focus on labor scheduling (29 percent this year) and POS replacement/upgrade (18 percent both this year and last). What other trends are noteworthy? The respondents expect customer loyalty to gain significantly in emphasis in the upcoming year. And they anticipate a meaningful increase in attention paid to margin enhancement. Both shifts make sense in a competitive environment that, increasingly, favors retailers that can differentiate themselves. Cost cutting has reached its limits. The next plateau of performance will be reached by optimizing the levers of differentiation: space, merchandise, pricing, workforce and customers.

## EFFECTIVENESS

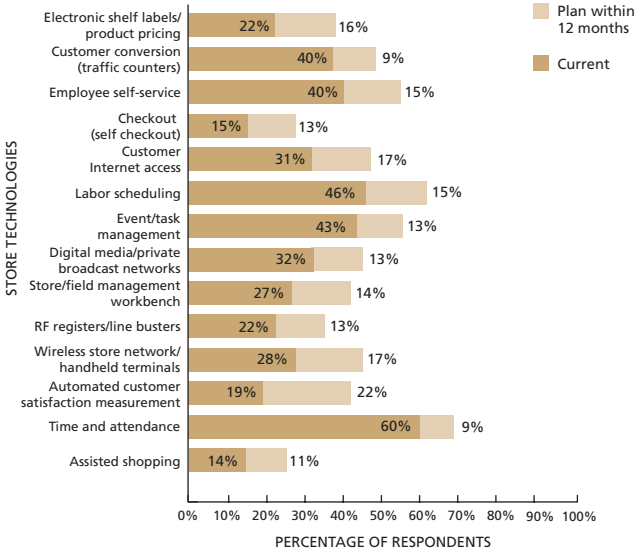
When asked to assess their effectiveness at a number of store operations tasks, with one being least effective and five being most effective, store operations executives ranked themselves slightly above average on store-level labor scheduling (3.7), well-defined store processes (3.6), effectiveness of home office communication (3.6) and consistency of store-level execution (3.5).

| STORE AND FIELD ASSESSMENT | MEAN RESPONSE |
|---|---|
| Effectiveness of store-level labor scheduling | 3.7 |
| Store processes well defined for efficiency and effectiveness | 3.6 |
| Effectiveness of communications of corporate direction to the stores | 3.6 |
| Consistent execution at store-level of all merchandising plans | 3.5 |

## STORE TECHNOLOGY

This year's respondents are currently leveraging, or plan to leverage, a wide range of in-store technologies to improve their ability to execute. In the next chart, executives were asked to show which store technologies they currently use and which they are planning to implement within the next 12-months.

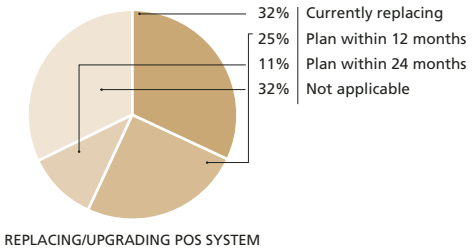
### Store and Field Operations Technologies




Sixty percent are currently using time and attendance and 46 percent are using automated labor scheduling. Other technologies currently being used include traffic counters (40 percent), employee self-service (40 percent) and event/task management (43 percent) and more plan to implement these technologies in the next 12 months. With respect to plans for 2005, the most commonly cited new technologies include automated customer satisfaction measurements (22 percent), customer Internet access (17 percent), wireless store networks (17 percent) and electronic shelf labels (16 percent).

Sixty-eight percent of respondents are either currently replacing/upgrading their POS technology or plan to within the next 24 months. This continues the dramatic trend shown in last year's study.

### Timeframe for POS Replacement or Upgrade

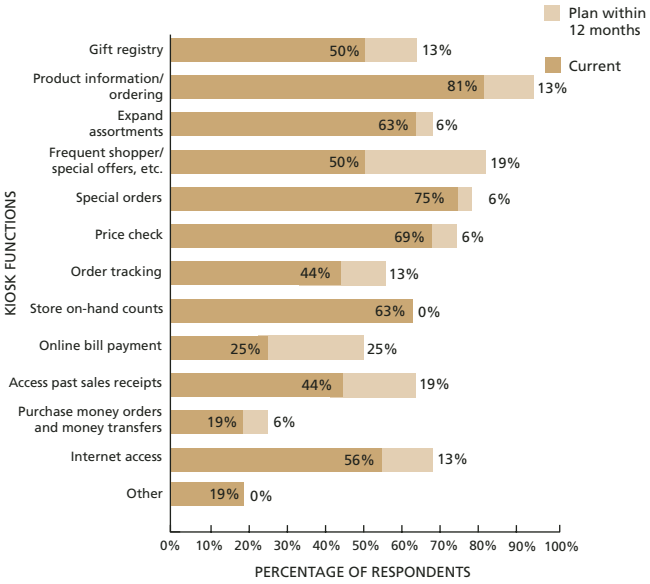



The expected benefits from a POS upgrade include customer service improvements (89 percent), easier maintenance (89 percent) and the enabling of loyalty programs (74 percent). This is consistent with a theme identified in the Information Technology section, where retailers are not just replacing legacy systems but also looking for major improvements in functionality to drive additional sales and differentiation. The biggest planned improvements in POS include gift cards (23 percent), real-time feeds from a corporate data warehouse (19 percent) and loyalty cards (18 percent).

Kiosks continue to gain widespread acceptance across all retail segments: 21 percent of all respondents have them in stores currently. Another 15 percent plan to implement them in the next 12 months. The top three functions provided through kiosks are product information/ordering, special orders and price checks. Top new functionalities planned within the next 12 months are online bill payment, frequent shopper programs and access to past sales receipts.

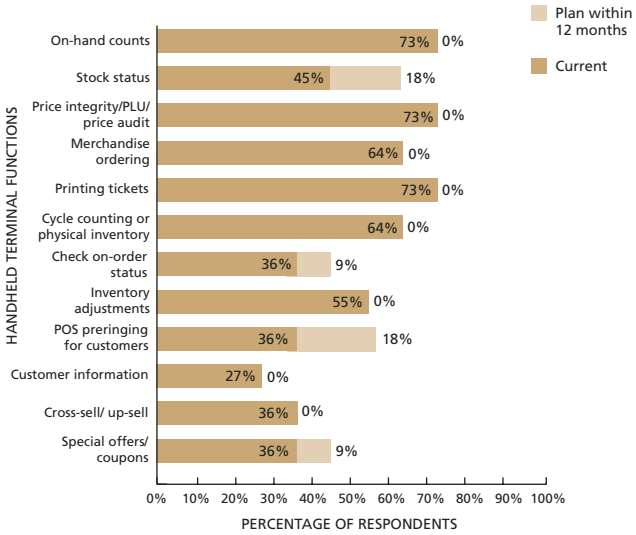
As reported last year, handheld terminals are driving increased productivity and customer service. Over a third

### Functions Performed on Store Kiosks




of respondents who use handhelds report they can currently prering customers to reduce lines and another 18 percent will be adding this capability in 12 months. This offers those retailers a clear advantage in customer service during peak hours, promotions and holidays.

### Functions Performed on Handheld Terminals

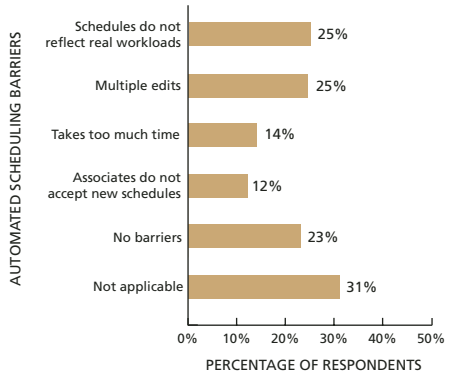


## WORKFORCE MANAGEMENT

While 46 percent of companies report they are using labor-scheduling technologies, it appears that mid- and large-size retailers have an advantage, where a majority are using fully automated labor scheduling. Contrast this with a majority of small-segment retailers that are writing manual schedules. For payroll budgeting purposes, 48 percent of retailers report using a combination of standards and sales per hour, while 19 percent say they have no fixed budgets.

| METHODS OF EMPLOYEE SCHEDULING | % OF COMPANIES |
|---|---|
| Manual schedules | 51% |
| Based on customer traffic patterns and workloads | 47% |
| Templates provided | 22% |
| Automated scheduling | 22% |

The biggest barriers for companies trying to implement automated scheduling are complaints that schedules do not reflect real workloads (25 percent) and that they require multiple, time-consuming edits (25 percent). Many systems fail to forecast true workload demands and many implementations do not properly address work rules and associate availability. As a result, managers spend much of their time recreating their old, manual schedules.




Only 18 percent of the retailers surveyed use store portals to manage employment functions; the number one functionality attributed to portals is enhancing communications (93 percent). Yet, a strong majority (more than 70 percent) also use store portals for providing scheduling information, training and labor information. One-fourth use kiosks or the Internet for employee applications, and just over one-third of all companies use software to screen applicants. As expected, mid- and large-segment retailers have adopted these technologies at a much greater rate.

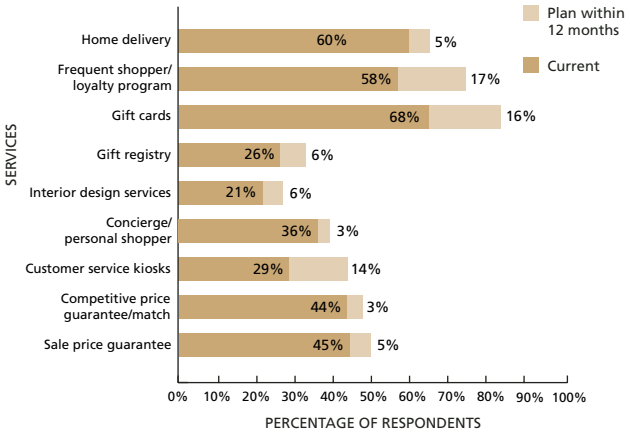
## CUSTOMER SERVICE

A reflection of the importance of the customer-centric theme, nearly three-fourths of respondents are measuring customer service in some form. More than 35 percent of the retailers surveyed measure customer satisfaction daily or weekly, and about 30 percent evaluate it monthly or quarterly. A small number — 10 percent — measure customer satisfaction only once per year, which leaves a surprising 27 percent that never gauge customer satisfaction. Within stores, customer satisfaction is most often appraised through the use of secret shoppers (58 percent). In addition, 38 percent of respondents use a sales receipt questionnaire/1-800 number/interactive voice response (IVR); 38 percent solicit feedback via the Web; and 35 percent call their customers directly. Over half are using customer feedback to make changes in store and sales associate procedures (65 and 72 percent, respectively), assortment (68 percent), and prices (54 percent).

## SERVICES OFFERED BY RETAILERS

Services that plan to be implemented over the next 12 months are all focused on improving the in-store experience and customer satisfaction. Retailers will focus on implementing additional services such as loyalty programs (17 percent), gift cards (16 percent), customer service kiosks (14 percent) and order on Web/pick up in store capability (14 percent).

### Services Offered By Retailers

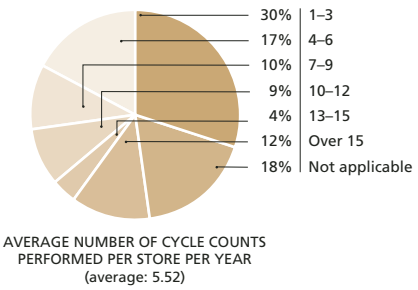



## ASSET PROTECTION

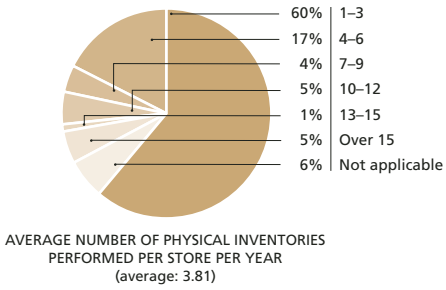
Loss prevention strategies range from traditional and nearly universal techniques of sales floor awareness, payment approval services and security cameras/videotapes to innovative applications of RFID. Of particular interest is the high number of respondents (43 percent) reporting the use of a frequent refunder database. They are likely only gathering data at this stage, since this technology is still both new and controversial in the industry. Another strategy that has increased significantly over last year's survey is the use of associate testing. The use of associate testing has increased to 55 percent of respondents — up from 36 percent last year.

For cycle counts, 57 percent of respondents average fewer than 10 per store per year, while 25 percent average more than 10. The remaining respondents do not track cycle counts. Sixty percent perform 1–3 physical inventories each year; only 11 percent conduct more than 10 each year.

### Average Number of Cycle Counts Performed per Store per Year




### Average Number of Physical Inventories Performed per Store per Year



## STORE DELIVERY AND STOCKING

When it comes to delivery and unloading practices, 77 percent of respondents operate by scheduled delivery times. This is up from 58 percent in last year's survey. Sixty percent also receive floor-ready merchandise. This is up significantly from last year's 42 percent, reflecting a move to shift costs upstream from the stores. Finally, 55 percent receive merchandise during delivery windows, and 55 percent use scanners. All of these practices help speed the flow of merchandise to the sales floor and improve productivity.

Overall, there's widespread adherence to standard stocking practices. Seventy-seven percent of respondents stock during all open store hours, 70 percent stock during off-peak store hours, and about one-third stock only before opening/after closing. Sixty-six percent do some kind of merchandise preparation in the backroom and deliver it floor ready to the sales floor. Half of the respondents use a dedicated stocking team, and about one-third prefer direct delivery to the sales floor and do any required processing there.

# 6 CUSTOMER INSIGHT AND FOCUS FINDINGS

*Survey findings*

## STRATEGIC INITIATIVES: CUSTOMER CENTRICITY IS HERE TO STAY

All of the Customer Insight priority initiatives are focused on driving growth. The customer centricity trend highlighted in last year's survey findings is continuing with loyalty programs (67 percent), leveraging customer information (64 percent) and customer retention/acquisition initiatives (64 percent) being named as top priorities. New consumer acquisition (55 percent) is also cited. In looking ahead to 2005, cutomer relationship management (CRM) executives want to increase efforts in these same areas and add more focus to new consumer research, including information regarding demographics and psychographics.

| CUSTOMER INSIGHT AND FOCUS TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Customer loyalty programs | 3 | 67% | 74% |
| Customer databases/customer information data mining | 2 | 64% | 68% |
| Customer retention/reactivation | 1 | 64% | 62% |
| New customer acquisition | N/A | 55% | 53% |
| Sementing/resegmenting customers | 6 | 38% | 38% |
| New consumer research (e.g., demographics, psychographics) | 4 | 38% | 43% |

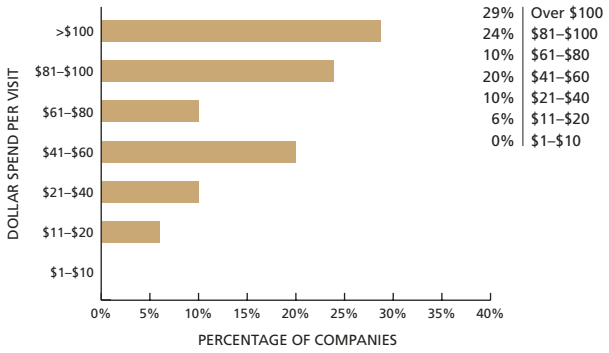
**SCOPE:** The CRM section covers key initiatives, customer satisfaction, data warehouses, customer loyalty, technology and privacy.

CRM — as a strategy, a business process and a technology — is significantly influencing the ways retailers do business. And rightly so. Without good customer data, the more granular the better, it would be difficult (if not impossible) to differentiate value in ways both meaningful and relevant.

### CUSTOMER PROFILE

Most retailers (82 percent) say that their customers make between one and 10 trips annually and that the average customer spend varies from $11 to more than $100.

**Dollar Spend Per Visit**

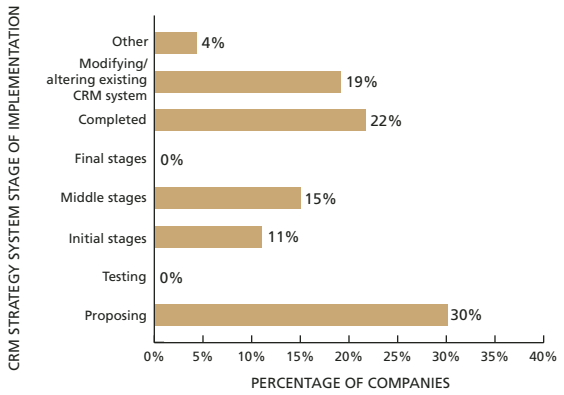


Acquiring and retaining new customers is a top priority for retailers. The acquisition cost for a new customer, at an average $23, is quite high. And, considering that nearly half of all respondents reported only a 60 percent customer retention rate, it is clear that keeping existing customers needs to be of paramount concern. At an average acquisition cost of more than $23, customer churn is literally costing the industry billions of dollars. Several approaches are used to keep customers coming back, including identifying customer behavior and preferences, maintaining customer information in databases, and implementing loyalty programs.

## CRM STRATEGY

Fifty-five percent of respondents have a formal CRM strategy, but many are at different stages of implementation. More than 40 percent are fully implemented or are enhancing existing programs. Thirty percent are proposing new programs. Despite all the bad press CRM has had in recent years, more than 85 percent of retailers say they are "satisfied" to "extremely satisfied" with their CRM program.

**CRM Strategy System Stage of Implementation**




## EFFECTIVENESS

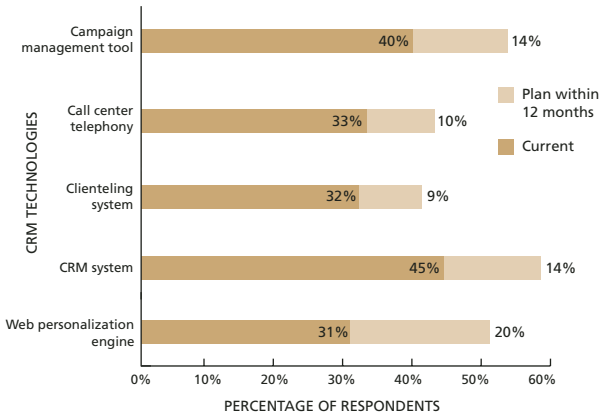
When asked to assess their effectiveness on a scale of one (not effective) to five (extremely effective), respondents to this section felt that they are most effective at acquiring new customers (3.3) and least effective at integrating CRM across the company (2.7). Some of this may be due to the lack of quantifiable benefits attributed to CRM initiatives. However, it would appear that the winners in retail CRM will be those that manage to achieve benefits across the enterprise by linking disparate systems and information.

| CUSTOMER INSIGHT AND FOCUS ASSESSMENT | MEAN RESPONSE |
|---|---|
| Acquiring new customers | 3.3 |
| Leveraging customer information | 3.1 |
| Growing market share | 3.0 |
| Growing share-of-wallet | 3.0 |
| Integrating CRM across the company | 2.7 |

## TECHNOLOGY

In the upcoming 12-months, the most widely planned CRM technology adoptions are web personalization (20 percent), CRM systems (14 percent) and campaign management tools (also 14 percent).

**CRM Technologies**



## LOYALTY PROGRAMS

With more than two-thirds of retailers implementing loyalty programs through 2005, it will be imperative for these retailers to enhance their analytical insight in order to drive differentiation. Thirty-seven percent have loyalty programs, which is down slightly from last year's response of 42 percent. However, similar to last year, another 35 percent plan to implement one over the next 12 months. Seventy-two percent claim that benefits have been achieved, while 28 percent say that no benefits were achieved or they cannot be measured. Most common benefits are incremental sales (100 percent), increased loyalty/satisfaction (92 percent and 85 percent, respectively), and increased profitability (also 85 percent). Retailers will have to create an environment that leverages a comprehensive information and analytics framework to exploit the benefits of loyalty programs. Simply having a loyalty program is not enough.

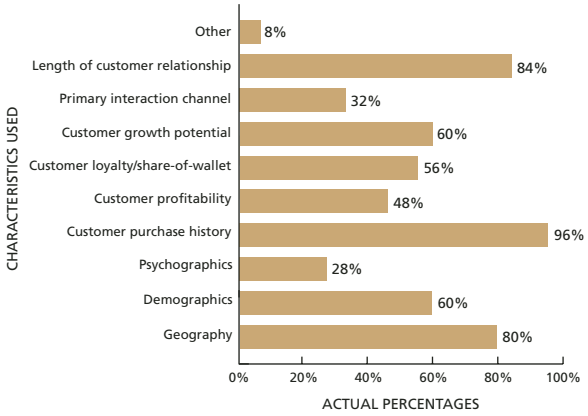
## CUSTOMER INFORMATION AND MANAGEMENT

Customer information and associated transaction data is being stored in disparate systems and databases, which is inhibiting a consistent, complete view of the customer. In order to achieve the full value of CRM, this information flow must be connected across the enterprise with the requisite supporting organizational structures and business process flows.

| CUSTOMER DATABASE/WAREHOUSE | % OF COMPANIES |
|---|---|
| Large data warehouse | 34% |
| Small PC tool (Excel, Access) | 26% |
| Multiple databases/data marts | 22% |
| Packaged software | 18% |

Although many retailers are using more sophisticated methods of segmentation such as psychographics (28 percent), customer profitability (48 percent) and customer loyalty/share-of-wallet (56 percent), these are down considerably from last year's survey findings. Additionally, there is still a large percentage of retailers that cannot get a comprehensive view of the customer because of nonintegrated data. More sophisticated retailers continue to pursue more sophisticated analytical techniques, but for many, the basics of purchase history (96 percent) and geography (80 percent) still prevail. With the POS replacement and enhanced capabilities offered by new technology, real-time offers based on true customer profile information instead of generic market basket offers will be possible. Both the collection of more data and true consumer interactivity will be enhanced, but it will be a challenge for many retailers to take action on this data.

**Characteristics Used to Segment Customer Database**




More than 50 percent of the companies are refining or building a multichannel strategy with an increasing focus on enhancing Internet services. Customer information is being leveraged primarily in store (88 percent), call center (62 percent) and Web (also 88 percent). Campaign

management and Web personalization applications lead the types of CRM applications being implemented. This is consistent with the ability of organizations to get more insight from their customer data.

Approximately 45 percent of retailers systematically identify customers during store, Web and call-center transactions. These companies most commonly use a telephone number or e-mail address for identification, although some use a store account number or unique customer ID. With all the data retailers are now collecting from consumers, they must ensure customers that their privacy will not be violated. To guarantee customer privacy, many companies do not share information with other companies and issue a written corporate policy. About 60 percent of stores have a customer opt-out policy, compared with nearly 45 percent where customers must opt-in for information to be kept on file; however, some companies use customer opt-in and opt-out simultaneously.

# 7 ADVERTISING AND MARKETING FINDINGS

*Survey findings*

## STRATEGIC INITIATIVES: SUPPORTING GROWTH BY INCREASING MARKET SHARE AND CUSTOMER WALLET SHARE, BUT BEING ASKED TO DO MORE WITH LESS

Increasing market share is the number one priority of this year's respondents, being cited by 72 percent of companies, up from 60 percent last year. Advertising effectiveness (63 percent) and modifying the advertising mix (54 percent) remain top priorities. Cost reduction (37 percent) and reducing marketing spend (25 percent), when combined, indicate that more than one-half of all respondents still feel pressure to do more with less.

We also see a big increase in branding (up from 14 percent last year to 37 percent this year), as retailers continue to seek ways to differentiate and stand out in a crowded marketplace. And, in what could be the beginning of a trend with respect to productivity of the ad planning and production process, that initiative increases from 14 percent in 2004 (up from 11 percent in 2003) all the way to 24 percent in 2005. This indicates that many retailers understand, or have learned, that streamlining old, disjointed planning processes is a key enabler to actually executing the insight gained from marketing effectiveness and customer insight. At the very least, retailers are trying to quantify, track and analyze metrics that will allow them to provide more insight into strategic priorities.

**SCOPE:** The Advertising and Marketing section covers marketing initiatives, advertising, marketing effectiveness, technology and key metrics.

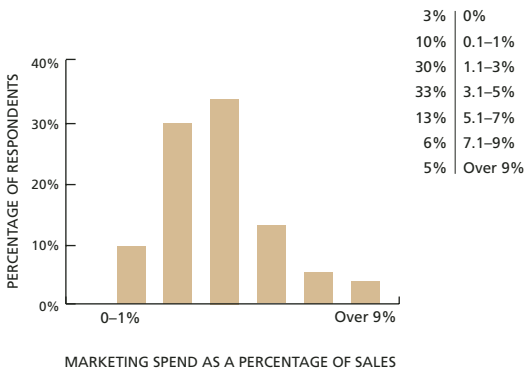
| ADVERTISING AND MARKETING TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Increase market share | 1 | 72% | 71% |
| Advertising effectiveness analysis | 2 | 63% | 61% |
| Modify advertising mix (e.g., print, online, etc.) | 4 | 54% | 58% |
| Increase customer share-of-wallet | 3 | 45% | 45% |
| Increase customer insight and data gathering | 5 | 42% | 33% |
| Launch a branding campaign | 8 | 37% | 35% |

While small- and mid-size companies are more focused on increasing market share, large retailers are much more focused on wallet share. Three-quarters of large retailers will modify their marketing mix versus 54 percent in total. The large retailers will be two times more focused on launching branding. More than 50 percent of the mid-size segment is reducing marketing spend, compared with 33 percent overall.

## MARKETING SPEND

Marketing still remains a key lever for demand generation. The overall average cost of marketing as a percent of sales is approximately 3.9 percent. The average cost for large-size retailers was 2.8 percent, for mid-size retailers 3.4 percent, and 4.3 percent for the small-segment retailers. More than 60 percent of companies spend between 1.1 and 5 percent of sales on marketing efforts, as shown in the chart below.

**Marketing Costs as a Percent of Sales**




## EFFECTIVENESS

Despite the ongoing reliance on marketing as a demand driver for retailers, there continue to be opportunities to improve the effectiveness of their marketing efforts. When asked to assess their effectiveness in key marketing areas on a scale of one (not effective) to five (extremely effective), Chief marketing officers report that they are most effective in creative development (3.6). Other areas seem to be mediocre at best, especially when it comes to leveraging data to gain insight and act on that insight (2.8). In light of the customer-centric findings woven throughout this study, this would appear to be a real opportunity area on which retailers should focus.

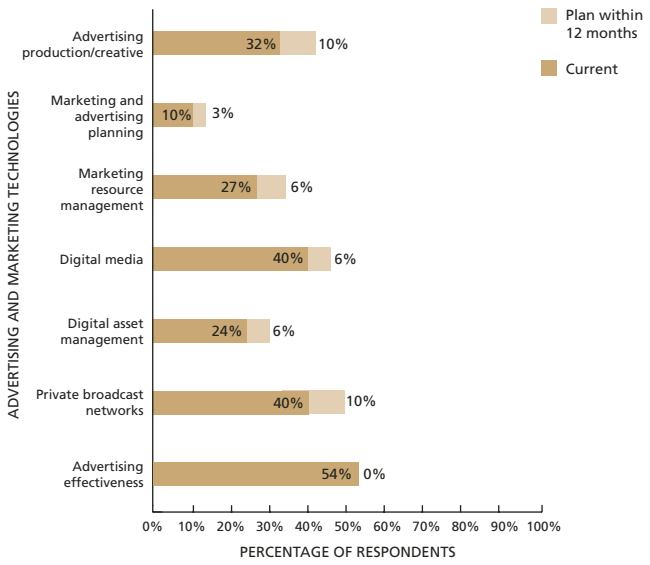
| ADVERTISING AND MARKETING ASSESSMENT | MEAN RESPONSE |
|---|---|
| Creative development | 3.6 |
| Streamlining ad production process/timeline | 3.1 |
| Integration of marketing processes with other planning activities (e.g., forecasting, finance) | 3.1 |
| Advertising effectiveness analysis | 3.0 |
| Developing and leveraging consumer insights | 2.8 |

Retailers have identified the need to improve their ability to streamline ad production and integration of marketing processes (3.1). Interestingly, more than 70 percent of respondents indicate that it takes more than 30 days lead-time for them to develop circulars. This indicates that most retailers do not have flexibility in their processes needed in order to execute insight that may be gleaned through advertising effectiveness and customer insight analysis. They simply cannot respond quickly to changes in the marketplace.

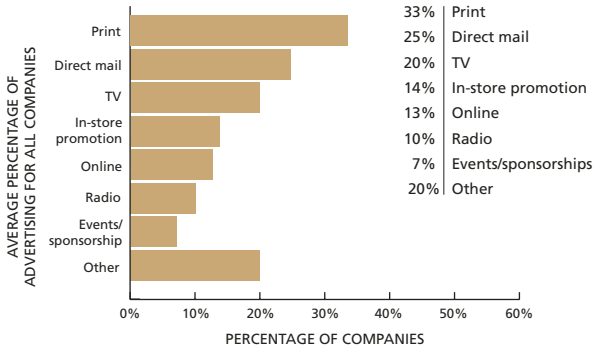
## MARKETING TECHNOLOGIES

Some marketing teams are employing software technologies in order to achieve their goals — the most popular of which being advertising production and creative software, reaching 54 percent respondent use. Marketing and advertising planning software and digital media are used next most frequently (both 40 percent). However, the largest percentage of respondents said that these technologies are not applicable to their marketing efforts and are not planned for use in the next 12 months. This can be attributed to the high concentration of small-segment retailers that do not leverage these types of technologies. There appears to be less penetration of enabling technologies and fewer technologies planned for implementation than other functional areas. This may be a function of the less-than-mature technologies in this space.

### Advertising and Marketing Technologies




### Average Percentage of Advertising For All Companies

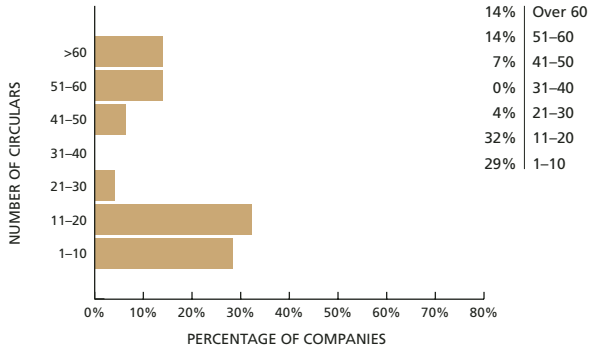



## ADVERTISING MIX

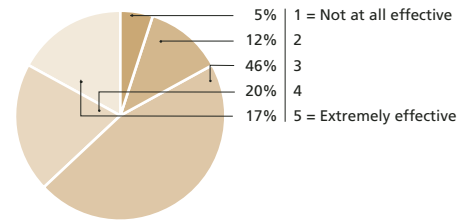
Substantial efforts are being devoted to analysis of advertising success, and there is a strong desire to modify the advertising mix. Modifying the advertising mix was a top priority for both 2004 and 2005. Once again, media mix patterns are dominated by a heavy emphasis on print and direct mail. The method of advertising that receives the highest percentage of advertising spend is print advertising: a solid 20 percent of companies spend more than 60 percent of their budget on print advertisements. The next highest percentages of spend goes to direct mail, where more than 10 percent of respondents spend 60 percent of their budget. The remaining advertising channels—including TV, radio, online, in-store and event advertising—receive a much more modest percentage of advertising spend, as displayed in the next table.

The number of circulars per year appears to have increased slightly, with 32 percent reporting 11 to 20 circulars per year (up from 20 percent last year) and 28 percent reporting 51 or more circulars per year, up from 20 percent last year. As noted earlier, the reliance on circulars can be limiting, in that it takes 71 percent of respondents in excess of 30 days to produce a circular. With the ubiquitous proliferation of digital media, and multichannel messages that are able to reuse this media, it will be imperative to improve its leverage in order to multipurpose and shorten life cycles.

### How many circulars does the company use per year?



**How many circulars does the company use per year?**




TRADE PROMOTION ASSESSMENT

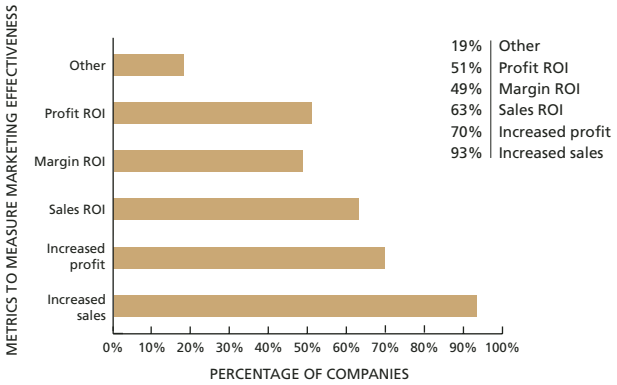
While 66 percent use trade funds, a significant number rate them ineffective (17 percent). For mid-size and large retailers, trade funds are supporting more than 20 percent of the marketing budget. Retailers are split between whether this number will grow or decline over the next three years. Consumer packaged goods companies, however, are not—they are attempting to drive the number down. The net effect is that retailers must find more effective ways to manage their trade funds and potentially work more collaboratively with their channel partners.

## ADVERTISING EFFECTIVENESS

If retailers are attempting to reallocate their marketing mix, many are flying blind in this prioritization process due to the lack of quantitative metrics and tools to measure advertising effectiveness by channel. If better information and tools are not leveraged to change the mix, it will be difficult to change the overall advertising effectiveness across channels. This need is reflected in the number two priority for 2003 and 2004 — advertising effectiveness.

There has been very little shift in the metrics or systems used to measure advertising effectiveness (which arguably links back to a lack of effectiveness). A full 93 percent of respondents list increased sales as the primary measure. This is a very rudimentary — and incomplete — measure of effectiveness since effectiveness implies return on investment (ROI). As marketers continue to be asked to do more with less, we can expect an increase in the utilization of more sophisticated — and accurate — sales, margin and profit ROI measures. This requires an integrated view of information along with redefined business and technical processes.

**Which of the following metrics does the company use to measure marketing effectiveness?**




## DIFFERENTIATION AND CUSTOMER FOCUS

Nearly 65 percent of marketing respondents differentiate their marketing toward diverse customers or customer segments. Factors most considered when engaging in marketing differentiation are customer sales, demographics and loyalty. Many companies also consider customer geography, preferences and growth potential.

With respect to in-store marketing, 39 percent of companies are able to offer customer-specific promotions at POS. This has increased from last year's response of 29 percent. This capability is comprised primarily of market

basket offers versus true customer-specific offers that take into account specific customer preferences and use that information to create tailored offers. Most companies also use a loyalty program and current purchases to determine which promotions to offer their customers. Cumulative and past purchases are also commonly used criteria. Only 21 percent use predictive modeling or overstocks to determine customer interests. Next-generation POS environments are capable of enhancing the customer-specific offers and will allow a higher level of sophistication in data capture, offer delivery and interaction Thus, the implementation of these POS systems is a prerequisite to achieving this capability. We see a significant increase in the use of loyalty programs to offer promotions at POS, up from 50 percent in 2003 to 83 percent in 2004.

# 8 ONLINE FINDINGS

*Survey findings*

**SCOPE:** The Online section covers online initiatives, Web site activity, integration within the company and online services.

## STRATEGIC INITIATIVES: MORE INVESTMENT GOING INTO THE ONLINE BUSINESS AS THE CHANNEL CONTINUES TO GROW

Those company respondents with an online presence were asked to choose the top three strategic online initiatives for both 2004 and 2005. No differences in the top initiatives were noted between the two years. Increasing online sales is by far the number one priority, gathering close to 80 percent of votes both for 2004 and 2005, as displayed in the table below.

| ONLINE TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Increase online sales | 1 | 77% | 80% |
| Modify/expand store assortment on Web site | 2 | 65% | 62% |
| Modify/launch online marketing | 4 | 58% | 62% |
| Integrate online presence with other channels | 3 | 55% | 50% |
| Modify or launch new online services | 5 | 45% | 48% |

This same initiative came in number one last year as well. Increasing sales was followed by modifying and expanding the store assortment on the Web site (65 percent), modifying or launching online marketing (58 percent) and integrating the online presence with other channels (55 percent). Rounding out the top five initiatives both for 2004 and 2005 was modifying or launching new online services (45 percent). These priorities nearly mirror those reported last year in this section. Lagging much further behind in priorities for online were CRM, customer service and customer privacy, indicating that companies are focusing on getting their online stores and products running and up to date before focusing on customer-centered activities and services. Cost reduction/containment received very low mention here, compared with responses in other sections of the survey.

## THE IMPACT OF BROADBAND AND INTEGRATION WITH BRICK AND MORTAR

We are seeing a significant increase in online marketing—more targeting of specific segments. This is being driven, in large part, by broadband connections in the United States reaching critical mass this year, with 50 million subscribers. That means that at least 20 percent of the population will have high-speed access. Retailers must focus on getting their share of online traffic, conversions and increasing the "shopping cart"—growing online store sales—each quarter. Multichannel retailers must leverage their entire portfolio into their Internet channel, including stores, catalogs, call centers and store systems, in order to avoid competing

just on price. Having said that, they also must avoid cannibalizing their other channels' sales. The pure-play dot-coms do not have these advantages and must spend incrementally in order to compete in the multichannel landscape.

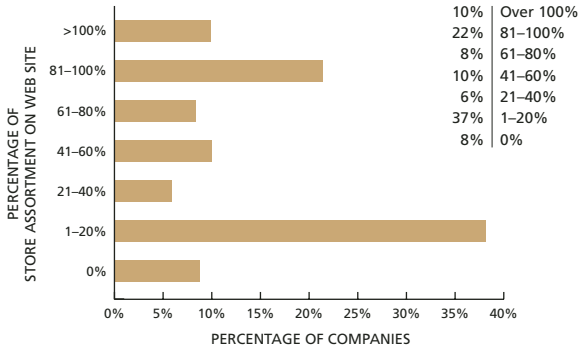
There is a renewed focus on multichannel integration. Within two years, we will all have the ability to access the Internet through our phones and/or other devices and retailers must understand how this capability will fit into their multichannel plans. One example: customers will use this technology to competitively shop real-time in stores—therefore product location and in-stock will become key differentiators.

## ONLINE ASSORTMENTS

The desire to expand assortments is being driven by shoppers who are using search engines. Retailers need to expand their "searchable" assortments and inventory to include the stores or risk missed sales (e.g., searching just a site versus searching the entire system). And many consumers prefer to pick up their products versus waiting and paying for shipping, so retailers can differentiate their service by linking store availability to their online storefronts. We see the "searchable" multichannel platform as a natural step toward dealing with the mobile phone handset as the shopper's device of choice.

The mean percent of the store assortment offered on the Web site is 14 percent, although 32 percent of respondents have in excess of 80 percent of their store assortments available online.

**Percentage of Store Assortment on the Web**




## EFFECTIVENESS

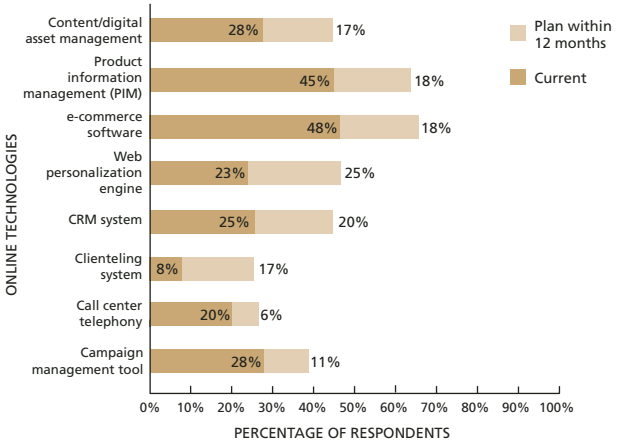
When asked to assess their effectiveness on a number of activities on a scale of one (not effective) to five (extremely effective), responding online executives felt they were best at the Web site look and feel (3.6) and worst at sales conversion (2.8) and personalization (2.4). The latter two are areas where we can see substantial focus over the coming year.

| ONLINE ASSESSMENT | MEAN RESPONSE |
|---|---|
| Web look and feel | 3.6 |
| Site performance | 3.4 |
| Sales conversion | 2.8 |
| Personalization | 2.4 |

## ONLINE TECHNOLOGIES

The areas of greatest focus for 2005 will be Web personalization (25 percent), CRM system (20 percent), e-commerce software and product information management (18 percent each).

### Online Technologies



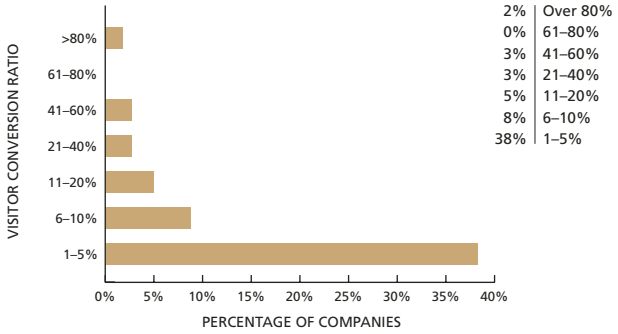

## ONLINE SERVICE FEATURES

The most popular services currently offered by retail Web sites are product information and store locators (offered by eight of 10 respondents). Six out of 10 retailers offer brand messaging, customer service, sales and return information, as well as linkage to other Web sites or tools. The highest mention of a service planned within the next 12 months is order management (23 percent), closely followed by satisfaction surveys (20 percent) and personalization (18 percent). The least offered service, and the least likely to be implemented in the next 12 months, is store layout even though that could be an interesting application of multichannel integration.

## TRAFFIC AND CONVERSION

The number of visitors per year to the retailers' Web sites was spread over a wide range: 30 percent receive less than 100,000 visitors each year, 30 percent between 100,000 and one million, and 30 percent get between one million and 20 million visitors per year. Almost 10 percent of respondents say that more than 20 million people visit their Web site annually. So how does this add up in sales for these companies? Retailers reported that the average visitor conversion ratio was low—in fact, 46 percent of respondents in this section reported a 10 percent or less conversion rate of visitors to online purchasers. Another 8 percent say they convert between 11 percent and 40 percent of visitors and only 5 percent convert more than 40 percent of online visitors to buying customers. This highlights the fact that the number one priority of these companies should be to increase online sales by converting visits to sales through compelling offers and enticements.

### Visitor Conversion Ratio




## PERSONALIZATION

Forty-five percent of retailers currently personalize their Web sites for customers. The most common method of personalization is retaining customer information so it does not have to be re-entered. Other common practices receiving at least a 50 percent mention include displaying the customer's name on the Web site and sending targeted marketing to customers based on perceived interests via click-stream monitoring. Notably, more than 60 percent of respondents say they measure click streams. Within the next year, 20 to 30 percent more companies plan to incorporate these commonly cited methods of personalization.

## INTEGRATION

Nearly half of the online respondents say their Web sites are integrated with call centers and a slightly smaller number (44 percent) also integrate with fulfillment centers. Thirty-eight percent integrate with ERP/back-office systems; less than 15 percent integrate with POS and 9 percent with vendors. Integration, is however, one of the more highly mentioned priorities for online respondents, so these numbers may increase even as soon as next year. This remains a huge opportunity area for retailers.

Clearly, the retailers participating in the survey see the need — and the opportunity — to leverage the powerful potential of their online presence. Consumers will only expect more from the online channel in the future; shoppers are forcing retailers to meet their ever-more sophisticated and demanding expectations. The retailers that do that the best will be the winners.

# 9 HUMAN CAPITAL FINDINGS

*Survey findings*

**SCOPE:** The Human Capital section covers human capital initiatives, HR costs, performance management, technology and outsourcing.

## STRATEGIC INITIATIVES: HOW TO GET THE MOST OUT OF YOUR PEOPLE

Human resource (HR) executives remain focused on the top four strategic priorities from 2003's survey: benefits and healthcare cost containment (21 percent), associate training (16 percent), leadership development (11 percent) and retention (also 11 percent). Benefits and healthcare cost containment has been the top issue for years as healthcare costs outpace inflation. Retailers can attack it on two fronts: by streamlining the administrative costs of the benefits plans and/or by reducing the costs of the plans themselves.

These findings are clearly and tightly linked. To have a high-performance workforce, a company must attract the right candidates with benefits and compensation, prepare them to do a good job with mentoring and training, and retain them with personal growth and career opportunities. But, of course, these strategies are expensive. The challenge becomes balancing the cost of keeping people against the cost of turnover.

| HUMAN CAPITAL TOP RETAIL STRATEGIC INITIATIVES | % OF COMPANIES | | |
|---|---|---|---|
| | 2003 RANK | 2004 | 2005 |
| Benefits and healthcare cost containment | 1 | 21% | 21% |
| Associate training | 2 | 16% | 17% |
| Leadership assessment, development and succession planning | 3 | 11% | 12% |
| Retention | 4 | 11% | 10% |
| Cost reduction/cost containment | 5 | 7% | 7% |

### EMPLOYEE TRAINING AND RETENTION

Overall, the industry is investing in training and development. Retailers spend an average of $100–$200 training full-time employees each year and less than $100 on part-time employees. Large retailers are investing the most, as they spend $200 per year or more per employee. Although training and development was a top five priority, just 24 percent of companies are investing more than 40 hours a year in training for full timers, with 20 hours the most likely training investment in part-time associates.

Small retailers have an advantage when it comes to retention. They report average hourly turnover rates of 35 percent versus 60 percent for mid- to large-size companies. Best-in-class turnover rates for mid- to large-size retailers are as low as 30 percent to 50 percent.

The focus on both associate training and retention reflects the importance retailers are placing on one of their few potentially nonreplicable assets besides their customer base—their employees. The retailer that can

excel in these priority areas stands to gain unique competitive advantage in motivating its employees to become focused on the customers' needs, thus increasing sales.

## EFFECTIVENESS

When asked to assess their effectiveness on a number of core HR activities on a scale of one (least effective) to five (extremely effective), HR executives reported that they are most effective at employee retention (3.7) and least effective at leveraging compensation to drive performance and developing a diverse workforce (both 3.0). Aligning compensation with performance is a complex business issue, but one that could deliver substantial benefit.

| HUMAN CAPITAL ASSESSMENT | MEAN RESPONSE |
|---|---|
| Employee retention | 3.7 |
| Employee hiring | 3.4 |
| Employee training | 3.4 |
| Standardizing HR processes | 3.3 |
| Developing talent for leadership roles | 3.2 |
| Developing a diverse workforce | 3.0 |
| Driving business performance through the compensation system | 3.0 |

Seventeen percent of respondents employ between 100 and 1,000 employees (both full- and part-time) and 20 percent employ between 1,000 and 5,000 people. Full-time employees are most often described as employees who work 30 – 40 hours per week (72 percent).

Retailers continue to use a strategy of part-time hourly associates to provide scheduling flexibility and assist with containing health and benefit costs. However, this strategy can have a negative impact on customer service, retention and development unless properly implemented.

## BENEFITS

The following chart summarizes the top six employee benefits offered to company employees, specifying which benefits are offered to full-time employees only, and which are offered to both full-time as well as part-time workers. One observes in the chart that almost all companies offer medical benefits; however, only about two in five offer such benefits to both full- as well as part-time employees. In contrast, employee discounts are similarly offered by almost all companies and to almost all employees. In an effort to provide a more compelling workplace, thereby attracting new talent and improving retention, 96 percent offer medical benefits to full-time employees; 77 percent offer dental; 65 percent provide short-term disability; 61 percent provide long-term disability; and 39 percent offer educational assistance/tuition reimbursement.

| EMPLOYEE BENEFITS | % OF COMPANIES | |
|---|---|---|
| | FULL-TIME | PART-TIME |
| Medical | 96% | 39% |
| Employee discount | 93% | 80% |
| Dental | 77% | 32% |
| 401(k) | 70% | 25% |
| Short-term disability | 65% | 18% |
| Long-term disability | 61% | 17% |

## CUSTOMER SERVICE

In this year's survey, the measurement of customer satisfaction has taken on more significance. More associates across the organization are having more of their compensation tied to customer satisfaction. In 2003, only half of retail associates had their compensation linked to customers. Today that number is closer to two-thirds. Improvement occurred at all levels of the organization—not just stores or management.

**Percent of Companies That Link Compensation to Customer Service**

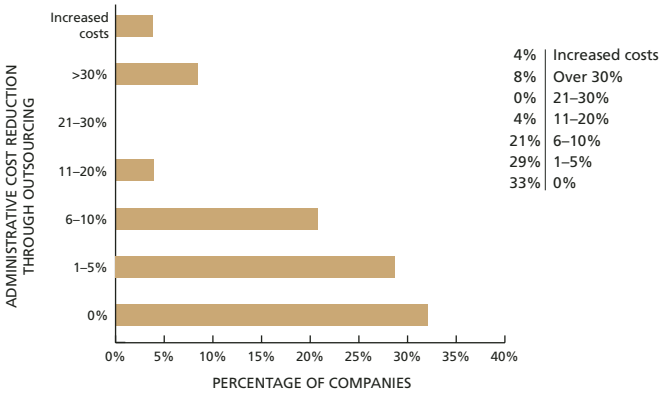
| % OF COMPENSATION LINKED TO CUSTOMER SERVICE | | | | | | |
|---|---|---|---|---|---|---|
| FUNCTIONAL AREA | 0% | <10% | 10–25% | 26–50% | 51–75% | >75% |
| Corporate office | 43% | 6% | 9% | 7% | 0% | 4% |
| Field management | 36% | 6% | 14% | 6% | 3% | 6% |
| Store management | 33% | 7% | 17% | 3% | 3% | 10% |
| Store selling associate | 34% | 7% | 7% | 11% | 1% | 11% |
| Central call center representative | 34% | 10% | 10% | 4% | 0% | 6% |
| Other | 38% | 3% | 6% | 1% | 0% | 3% |

## OUTSOURCING

Retail HR organizations have embraced outsourcing, with a full 36 percent reporting that they outsource a portion or all of their HR operations. Areas most likely to be outsourced are: pension/401(k) administration (60 percent), background checks (48 percent), payroll, and benefit administration (both 44 percent). Most likely to be outsourced next year include background checks and training administration. Most companies report savings of one to 10 percent, while a third say no savings were achieved. Yet a few did claim savings of more than 30 percent. It is important to note that outsourcing is not the right answer in all situations. A few companies have actually seen costs increase; oftentimes there is residual cost at the company even though the function is outsourced.

| % OF COMPANIES | | | |
|---|---|---|---|
| OUTSOURCING AREAS | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
| Health and welfare benefits administration | 44% | 0% | 24% |
| HR systems management | 4% | 4% | 24% |
| Payroll | 44% | 0% | 16% |
| Pension/401(k) administration | 60% | 0% | 20% |
| HR administration | 8% | 0% | 20% |
| Employee performance management | 4% | 4% | 20% |
| Employee relations | 4% | 4% | 28% |
| Recruiting | 8% | 4% | 24% |
| e-learning/training administration | 0% | 8% | 28% |
| Relocation | 8% | 4% | 24% |
| Employee assistance program | 28% | 0% | 36% |
| Check printing and distribution (EAP) | 20% | 4% | 20% |
| Background checks | 48% | 8% | 16% |
| Tax filing | 36% | 0% | 20% |
| Drug testing | 36% | 4% | 28% |
| Other | 20% | 0% | 40% |

On average, HR outsourcing saves companies 5.51 percent of HR costs. While outsourcing minimally impacts the cost of employee recruitment, development and retention, it does free the HR staff from time-consuming transactional activities so they can focus instead on succeeding in the more strategic HR initiatives.



# DETAILED SURVEY DATA

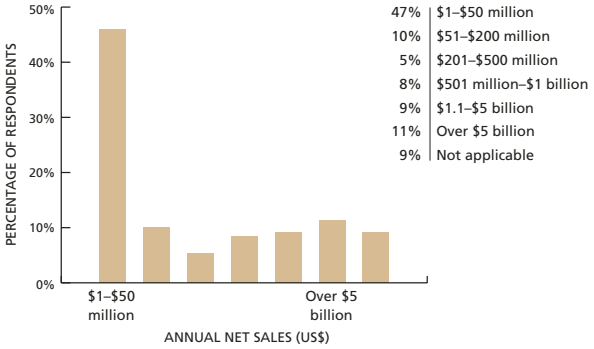
The following section presents the quantitative findings of the *Retail Horizons* study. For ease of use, the data is separated into nine sections: general/financial information, information technology, merchandising, supply chain management, store and field operations, customer insight and focus, advertising and marketing, online, and human capital.

# 1 GENERAL/FINANCIAL INFORMATION FINDINGS

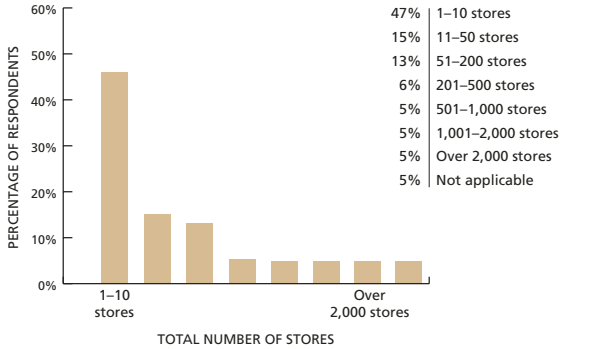
**1. What are the top overall, companywide strategic initiatives during 2004 and planned for 2005?**

| GENERAL/FINANCIAL STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Customer satisfaction/retention | 55% | 51% |
| Cost reduction/cost containment | 54% | 54% |
| Customer relationship management (CRM) | 42% | 47% |
| Product differentiation | 42% | 42% |
| Domestic expansion with existing store format | 41% | 35% |
| Employee retention/development | 35% | 38% |
| Redesign or relocate stores | 35% | 43% |
| POS replacement or upgrade | 29% | 22% |
| Supply chain optimization | 29% | 32% |
| Domestic expansion with new brick-and-mortar format | 19% | 15% |
| Category management | 17% | 22% |
| Strategic sourcing | 17% | 18% |
| International expansion | 13% | 12% |
| Acquisition of new business formats | 10% | 12% |
| Acquisition of similar formats | 8% | 11% |
| Outsourcing/managed services | 7% | 8% |
| Other | 15% | 13% |

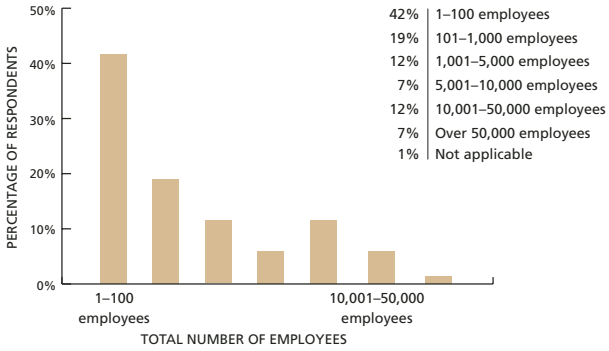
**2. What was the company's approximate annual net sales for the most recent fiscal year?**



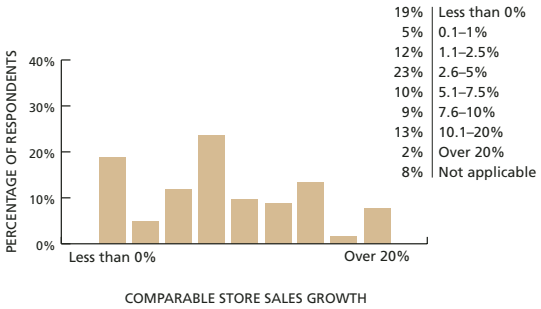

**3. What was the company's most recent fiscal year-end number of stores?**



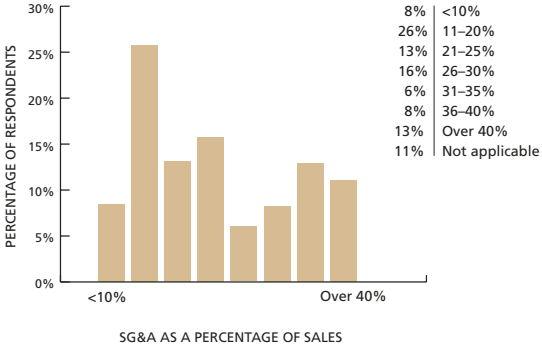

**4. What was the company's most recent fiscal year-end number of employees?**




**5. What was the company's most recent fiscal year comparable store sales growth?**




**6. What were the company's most recent fiscal year selling, general and administrative (SG&A) costs as a percentage of sales?**




**7. What was the company's most recent fiscal year gross margin (gross profit/net sales)?**

| GROSS MARGIN | % OF COMPANIES |
|---|---|
| Less than 0% | 2% |
| 1–20% | 14% |
| 21–30% | 18% |
| 31–40% | 17% |
| 41–50% | 24% |
| 51–60% | 16% |
| Over 60% | 2% |
| N/A | 6% |

Average gross margin—36%

Note: Base adjusted for N/A

**8. What was the company's most recent fiscal year operating profit margin (operating profit/net sales)?**

| OPERATING PROFIT MARGIN | % OF COMPANIES |
|---|---|
| Less than 0% | 7% |
| 0–1.0% | 7% |
| 1.1–2.0% | 7% |
| 2.1–3.0% | 13% |
| 3.1–4.0% | 7% |
| 4.1–5.0% | 8% |
| 5.1–7.0% | 8% |
| 7.1–10.0% | 11% |
| 10.1–15.0% | 8% |
| Over 15% | 9% |
| N/A | 16% |

Mean operating profit margin—5.6% Note: Base adjusted for N/A

**9. What was the company's most recent fiscal year net profit margin (net income/net sales)?**

| NET PROFIT MARGIN | % OF COMPANIES |
|---|---|
| Less than 0% | 12% |
| 0–1.0% | 7% |
| 1.1–2.0% | 13% |
| 2.1–3.0% | 15% |
| 3.1–4.0% | 9% |
| 4.1–5.0% | 7% |
| 5.1–7.5% | 7% |
| 7.6–10.0% | 10% |
| Over 10.0% | 7% |
| N/A | 14% |

Mean net profit margin—3.8% Note: Base adjusted for N/A

**10. What was the company's most recent fiscal year gross margin return on inventory (gross profit/ average inventory)?**

| GROSS MARGIN RETURN ON INVENTORY | % OF COMPANIES |
|---|---|
| Less than or equal to 0% | 3% |
| 1–50% | 29% |
| 51–100% | 12% |
| 101–150% | 6% |
| 151–200% | 7% |
| 201–250% | 6% |
| Over 250% | 3% |
| N/A | 36% |

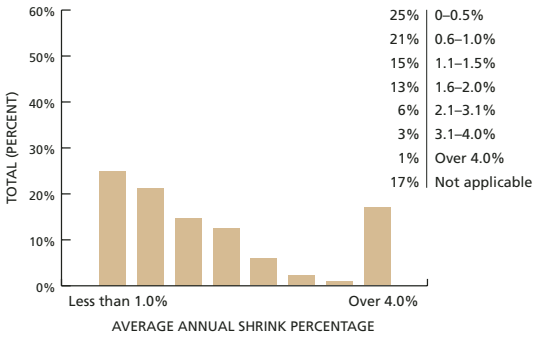
Mean gross margin return on inventory—86% Note: Base adjusted for N/A

**11. What was the company's most recent fiscal year pretax operating return on total assets (operating income/average total assets)?**

| PRETAX OPERATING RETURN ON TOTAL ASSETS | % OF COMPANIES |
|---|---|
| Less than or equal to 0% | 8% |
| 1–2.5% | 13% |
| 2.6–5.0% | 11% |
| 5.1–7.5% | 8% |
| 7.6–10.0% | 7% |
| 10.1–12.5% | 3% |
| 12.6–15.0% | 4% |
| 15.1–20.0% | 4% |
| Over 20% | 3% |
| N/A | 39% |

Mean pretax operating return on total assets— 6.7%
Note: Base adjusted for N/A

**12. What is the company's average annual shrink percentage?**




Mean average annual shrink—1.2% Note: Base adjusted for N/A

**13. What was the company's most recent fiscal year-ended inventory turnover?**

| INVENTORY TURNOVER | % OF COMPANIES |
|---|---|
| 1–1.5X | 8% |
| 1.6–2.0X | 14% |
| 2.1–2.5X | 18% |
| 2.6–3.0X | 8% |
| 3.1–3.5X | 6% |
| 3.6–4.0X | 7% |
| 4.1–4.5X | 6% |
| 4.6–5.0X | 5% |
| 5.1–7.5X | 4% |
| Over 7.5X | 9% |
| N/A | 16% |

Mean inventory turnover—3.4%X Note: Base adjusted for N/A

**14. Which accounting method does the company use?**

| ACCOUNTING METHODS | % OF COMPANIES |
|---|---|
| Retail accounting | 36% |
| Cost accounting | 38% |
| Both | 18% |
| Neither | 3% |
| N/A | 5% |

# 2 INFORMATION TECHNOLOGY FINDINGS

**1. What are the company's top technology strategic initiatives during 2004 and planned for 2005?**

| INFORMATION TECHNOLOGY STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Merchandising/inventory management system replacement or upgrade | 55% | 53% |
| POS replacement | 48% | 42% |
| Cost reduction/cost containment | 30% | 30% |
| Customer relationship management technology | 23% | 21% |
| Outsourcing | 19% | 21% |
| Data mart consolidation | 12% | 11% |
| Pricing/markdown optimization | 8% | 11% |
| Collaborative supply chain management technology | 7% | 12% |
| Multichannel integration (store, catalog, Web, repair/maintenance services) | 7% | 10% |
| Security, disaster recovery and contingency plans | 7% | 6% |
| Product data management and retail hub/data synchronization/UCC Net | 6% | 2% |
| Wireless infrastructure for stores, DC, H.O. | 6% | 6% |
| LAN/WAN upgrades/voice and data convergence | 6% | 5% |
| Business process analysis/management systems | 5% | 7% |
| Data warehousing/business intelligence | 5% | 5% |
| Increase bandwidth to stores | 5% | 5% |
| IT strategy to improve efficiency and effectiveness | 5% | 5% |
| Application portfolio management implementation | 4% | 4% |
| GTIN (Sunrise 2005) | 4% | 1% |
| Message delivery services (EAI) | 4% | 1% |
| Portals (stores, DCs, H.O.) | 4% | 5% |
| Recruiting and retaining technology employees | 4% | 2% |
| Electronic product code (EPC)/radio frequency identification (RFID) | 2% | 6% |
| Strategic sourcing (outsourcing/offshoring) | 1% | 1% |
| Content management | 0% | 6% |
| Services-oriented architecture (SOA) | 0% | 1% |
| Project portfolio and resource management software implementation and demand management/prioritization | 0% | 1% |
| Other | 1% | 1% |

**2. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| INFORMATION TECHNOLOGY ASSESSMENT | MEAN RESPONSE |
|---|---|
| IT alignment with the business | 3.2 |
| IT security | 3.3 |
| IT governance | 2.8 |
| IT application portfolio management | 2.6 |
| Outsourcing | 2.2 |

**3. What is the company's IT budget as a percentage of sales?**

| IT BUDGET | % OF COMPANIES |
|---|---|
| Less than 0.1% | 38% |
| 0.1–0.5% | 18% |
| 0.6–1.0% | 8% |
| 1.1–1.5% | 12% |
| 1.6–2.0% | 16% |
| Over 2.0% | 9% |

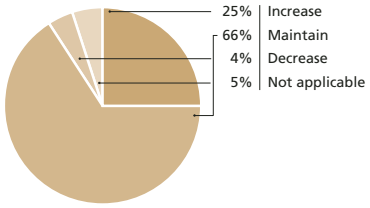
**4. How many IT professionals does the company employ?**

| IT PROFESSIONALS | % OF COMPANIES |
|---|---|
| 1–25 | 40% |
| 26–50 | 11% |
| 51–75 | 8% |
| 76–100 | 5% |
| 101–2,000 | 10% |
| Over 2,000 | 0% |
| N/A | 26% |

**5. What is the average number of IT professional contractors and consultants that the company employs?**

| IT CONTRACTORS & CONSULTANTS | % OF COMPANIES |
|---|---|
| 1–25 | 51% |
| 26–50 | 3% |
| 51–75 | 5% |
| 76–100 | 0% |
| 101–2,000 | 6% |
| Over 2,000 | 0% |
| N/A | 35% |

**6. Does the company plan to increase, maintain or decrease IT head count in the next 12 months?**




INFORMATION TECHNOLOGY HEAD COUNT

**7. Which of the following tools is the company using to integrate its applications?**

| INTEGRATION TOOLS | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Point-to-point approach | 24% | 4% | 73% |
| Best-of-breed tools (including middleware, EAI, ETL tools) | 24% | 5% | 71% |
| Portals | 25% | 11% | 64% |
| Services-oriented architecture (established Web service, including XML, SOAP, UDD) | 23% | 15% | 63% |
| Business process management systems | 20% | 10% | 70% |
| No automated integration | 6% | 4% | 90% |
| Other | 4% | 1% | 95% |

**8. Which of the following components is the company most likely to outsource in order to deliver the results?**

| COMPONENTS | YES |
|---|---|
| Application development | 19% |
| Application hosting | 12% |
| Integration projects | 11% |
| Help desks | 10% |
| Data centers and IT operations | 10% |
| Customer-facing call centers | 10% |
| Other | 2% |
| None—company does not outsource | 26% |

**9. For which of the following reasons does the company outsource some of its functions?**

| REASONS TO OUTSOURCE | YES | NO | N/A |
|---|---|---|---|
| Decrease cost | 47% | 5% | 47% |
| Decrease head count | 31% | 13% | 56% |
| Increase efficiency | 41% | 6% | 53% |
| Increase effectiveness and performance | 40% | 6% | 54% |
| Increase focus on core competencies | 36% | 13% | 51% |
| Other | 8% | 12% | 81% |

**10. Which of the following business functions are supported by applications that are package-based versus custom-developed?**

| FUNCTIONS | APPLICATION TYPE | |
|---|---|---|
| | PACKAGE-BASED | CUSTOM-DEVELOPED |
| Category management/ merchandising/planogramming | 60% | 40% |
| Supply chain management (distribution/logistics/transportation) | 54% | 46% |
| Sales/store operations | 69% | 31% |
| CRM/marketing | 64% | 36% |
| Human resources | 74% | 26% |
| Finance | 83% | 17% |
| Planning and strategy | 53% | 47% |
| Labor scheduling | 55% | 45% |
| Time and attendance | 78% | 22% |
| Resource management (legal, loss prevention, security) | 67% | 33% |

**11. Does your company custom-develop some applications?**

44% of retailers custom-develop some applications.

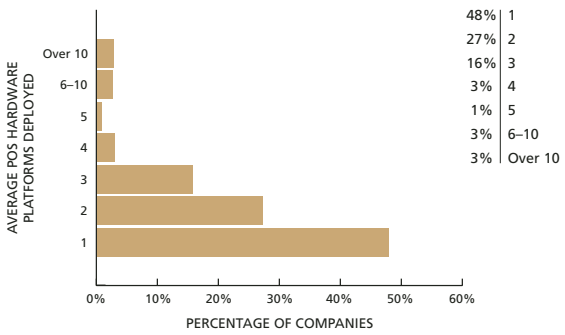
**12. What are the top three reasons why the company custom-develops an application?**

| REASONS TO CUSTOM-DEVELOP AN APPLICATION (TOP 3) | YES |
|---|---|
| Lack of package fit | 61% |
| Different business model/functionality | 56% |
| Convenience of in-house development | 39% |
| Inability to integrate existing systems | 36% |
| Enable competitive advantage | 33% |
| Cost | 28% |
| Scalability considerations | 11% |
| Time-to-market | 8% |
| Other | 6% |

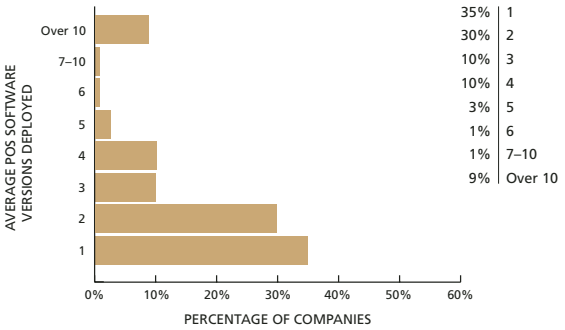
**13. What is the company's average POS hardware and software age?**

| AVERAGE AGE | POS HARDWARE | POS SOFTWARE |
|---|---|---|
| Less than 1 year | 10% | 13% |
| 1–2 years | 14% | 22% |
| 3–5 years | 45% | 32% |
| 6–10 years | 24% | 24% |
| Over 10 years | 8% | 9% |

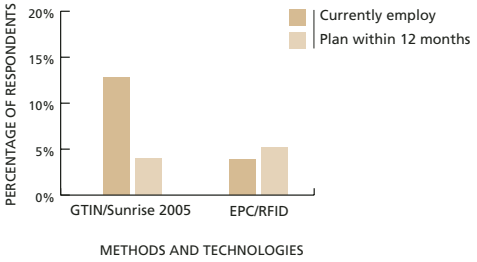
**14. How many different POS hardware platforms has the company deployed?**




**15. How many POS software versions/releases has the company deployed?**




**16. Is the company currently/planning to employ any of the following automatic item/product identification methods and technologies?**




**17. What current or planned percentage of merchandise has been or will be converted to GTIN within the next 12 months?**

| PERCENTAGE OF MERCHANDISE WITH GTIN | CURRENT | PLAN WITHIN 12 MONTHS |
|---|---|---|
| None | 50% | 0% |
| 1–5% | 0% | 0% |
| 6–10% | 50% | 0% |
| 11–20% | 0% | 0% |
| Over 20% | 0% | 100% |

**18. What current or planned percentage of merchandise has RFID?**

| PERCENTAGE OF MERCHANDISE WITH RFID | CURRENT | PLAN WITHIN 12 MONTHS |
|---|---|---|
| None | 100% | 50% |
| 1–5% | 0% | 0% |
| 6–10% | 0% | 50% |
| 11–20% | 0% | 0% |
| Over 20% | 0% | 0% |

**19. What are the benefits realized or expected of RFID?**

| BENEFITS | YES | NO | N/A |
|---|---|---|---|
| Decreased merchandise/ product identification costs | 86% | 0% | 14% |
| Reduction in inventory shrink | 71% | 0% | 29% |
| More accurate inventory (perpetual inventory) | 86% | 0% | 14% |
| Improved customer personalization | 43% | 29% | 29% |
| Improved tracking of customer preferences | 57% | 29% | 14% |
| Improved supply chain visibility | 86% | 0% | 14% |
| To respond to competitive pressures | 57% | 29% | 14% |
| Other | 0% | 29% | 71% |

**20. What are the barriers to employing RFID?**

| BARRIERS | YES | NO | N/A |
|---|---|---|---|
| Too expensive | 65% | 10% | 25% |
| Too complicated | 48% | 23% | 29% |
| Difficult to integrate | 51% | 20% | 29% |
| End-consumer privacy concerns | 16% | 39% | 44% |
| Suppliers not using | 42% | 19% | 39% |
| NO RFID barriers known or perceived by company | 8% | 27% | 66% |
| Other | 13% | 28% | 59% |

# 3 MERCHANDISING FINDINGS

**1. What are the company's top merchandising strategic initiatives during 2004 and planned for 2005?**

| MERCHANDISING TOP STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Improve margins | 75% | 77% |
| Improve inventory turnover | 53% | 50% |
| Drive comparable store sales | 50% | 47% |
| Increase private label assortment | 33% | 32% |
| Expand assortments | 33% | 33% |
| Implement an assortment planning process | 32% | 27% |
| Markdown optimization | 32% | 22% |
| Narrow assortments/SKU rationalization | 30% | 28% |
| Cost reduction/cost containment | 27% | 25% |
| Integrate merchandise strategies (online vs. store) | 23% | 33% |
| Category management | 17% | 30% |
| Increase international sourcing | 15% | 10% |
| Develop micromerchandising strategies | 13% | 15% |
| Initial pricing optimization | 13% | 18% |
| Integrate frequent shopper data into category management practices | 10% | 17% |
| Improve vendor compliance | 5% | 10% |
| Increase EDI invoicing and ordering | 3% | 10% |
| Implement scan-based trading/consignment | 2% | 2% |
| Other | 3% | 3% |

**2. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| MERCHANDISING ASSESSMENT | MEAN RESPONSE |
|---|---|
| Offers unique, differentiated merchandise | 4.2 |
| Creates optimized assortments | 3.8 |
| Optimizes initial prices | 3.7 |
| Minimizes out-of-stocks | 3.6 |
| Optimizes space planning | 3.6 |
| Controls inventory | 3.5 |
| Optimizes markdowns | 3.0 |

**3. How effective has pricing optimization software been rated on a 5-point scale, where 1 is not at all effective and 5 is extremely effective?**

| EFFECTIVENESS RATING | % OF COMPANIES |
|---|---|
| 1 = not at all effective | 0% |
| 2 | 3% |
| 3 | 12% |
| 4 | 12% |
| 5 = extremely effective | 8% |
| Does not use this software | 64% |

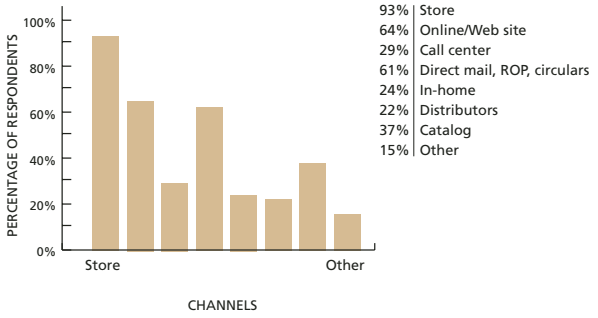
**4. Which of the following merchandising technologies does the company currently use or plan to use?**

| MERCHANDISING TECHNOLOGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Demand planning | 60% | 10% | 30% |
| Initial price optimization | 50% | 10% | 40% |
| Markdown optimization | 47% | 18% | 35% |
| Merchandise planning | 70% | 15% | 15% |
| Assortment planning | 65% | 15% | 20% |
| Category management | 75% | 7% | 18% |
| Operating forecast (open to buy) | 70% | 13% | 17% |
| Design and product development | 50% | 13% | 37% |
| Order management | 72% | 8% | 20% |
| Replenishment ordering | 73% | 17% | 10% |
| Store allocation | 60% | 7% | 33% |
| Space management/planogramming | 55% | 12% | 33% |
| Weather forecasting | 25% | 3% | 72% |
| Other | 8% | 2% | 90% |

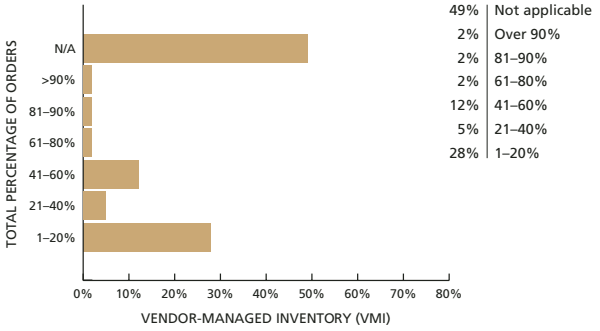
**5. What value-added/floor-ready services are the company's vendors required to provide or will be required to provide in the next 12 months?**

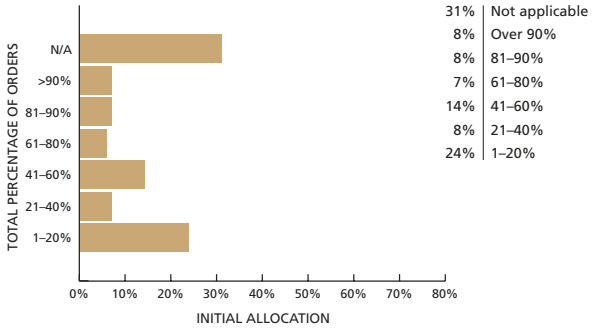
| VALUE-ADDED/FLOOR-READY SERVICES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Preticketing | 59% | 15% | 25% |
| UPC labeling | 56% | 8% | 36% |
| Special packaging | 47% | 7% | 46% |
| Special vendor pack | 37% | 3% | 59% |
| EAS tagging | 24% | 5% | 71% |
| Point-of-sale prepacks | 44% | 3% | 52% |
| Garment on hangers (GOH) | 39% | 5% | 56% |
| In-store support | 51% | 5% | 44% |
| Multilingual labeling | 27% | 5% | 68% |
| RFID receipt processing | 19% | 15% | 66% |

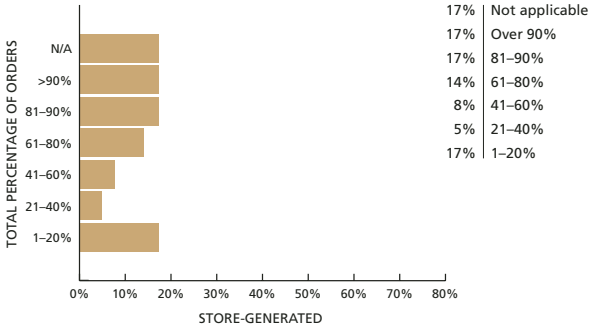
**6. Which of the following channels does the company use to sell its merchandise/services?**

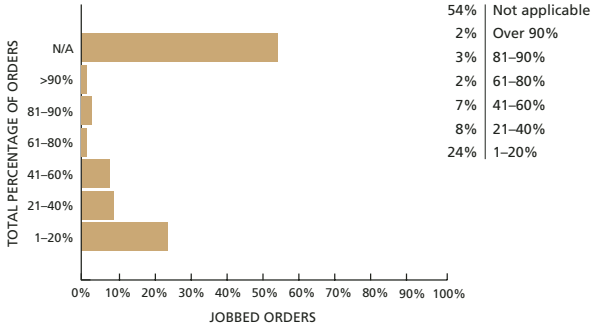


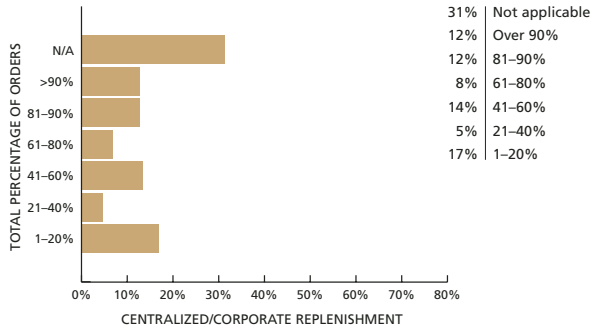
## 7. In what ways are orders generated?

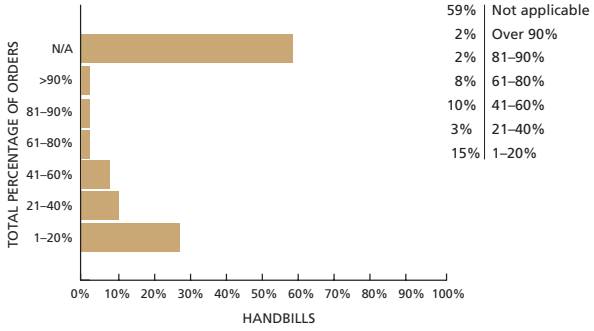


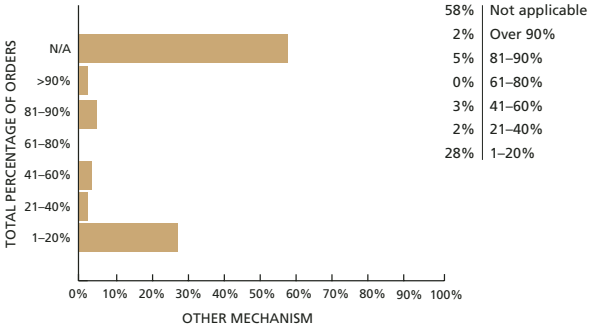



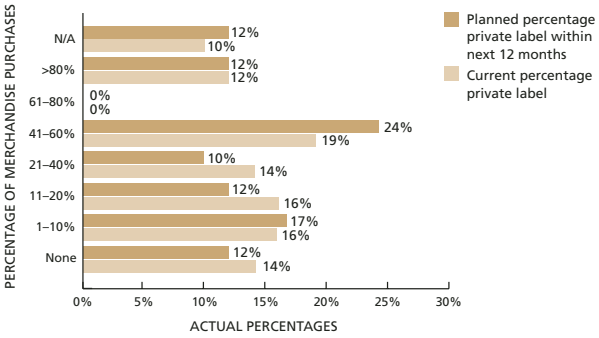



**8. Does the company require multilingual labeling for some products?**

31% of participating retailers require multilingual labeling for some products.

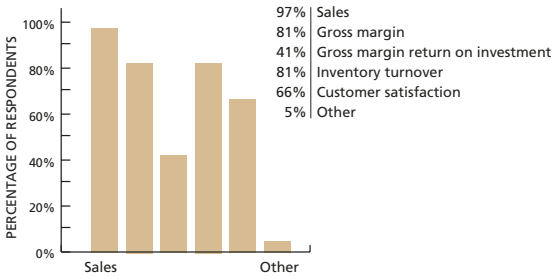
**9. What percentage of merchandise purchases are private label?**




**10. What percent of merchandise vendors represent 80% of total purchases?**

| MERCHANDISE VENDORS REPRESENTING 80% OF PURCHASES | % OF COMPANIES |
|---|---|
| 1–10% | 12% |
| 11–20% | 19% |
| 21–30% | 12% |
| 31–40% | 9% |
| 41–50% | 10% |
| 51–60% | 12% |
| Over 60% | 17% |
| N/A | 9% |

**11. Which of the following metrics does the company use to measure buyer performance?**




METRICS USED TO MEASURE BUYER PERFORMANCE

**12. What is the average sales volume per general merchandise manager (GMM)?**

| AVERAGE SALES VOLUME (PER GMM) | % OF COMPANIES |
|---|---|
| Under $5 million | 26% |
| $5–$10 million | 9% |
| $11–$25 million | 12% |
| $26–$50 million | 7% |
| $51–$75 million | 3% |
| $76–$100 million | 5% |
| Over $100 million | 17% |
| N/A | 21% |

**13. What is the average sales volume per divisional merchandise manager (DMM)?**

| AVERAGE SALES VOLUME (PER DMM) | % OF COMPANIES |
|---|---|
| Under $5 million | 33% |
| $5–$10 million | 14% |
| $11–$25 million | 2% |
| $26–$50 million | 5% |
| $51–$75 million | 0% |
| $76–$100 million | 0% |
| Over $100 million | 14% |
| N/A | 33% |

**14. What is the average sales volume per buyer?**

| AVERAGE SALES VOLUME (PER BUYER) | % OF COMPANIES |
|---|---|
| Under $5 million | 47% |
| $5–$10 million | 12% |
| $11–$25 million | 7% |
| $26–$50 million | 5% |
| $51–$75 million | 3% |
| $76–$100 million | 2% |
| Over $100 million | 9% |
| N/A | 16% |

**15. What is the company's in-stock percentage for regular and promotional merchandise?**

| IN-STOCK PERCENTAGE | REGULAR MERCHANDISE | PROMOTIONAL MERCHANDISE |
|---|---|---|
| Less than 50% | 14% | 31% |
| 51–75% | 5% | 9% |
| 76–80% | 16% | 5% |
| 81–85% | 9% | 9% |
| 86–90% | 14% | 7% |
| 91–95% | 22% | 12% |
| 96–100% | 12% | 10% |
| N/A | 9% | 17% |

**16. Does the company use collaborative planning, forecasting and replenishment (CPFR)?**

48% of participating retailers use CPFR.

**17. Which of the following are the top three factors that cause out-of-stocks?**

| OUT-OF-STOCK CAUSES | % OF COMPANIES |
|---|---|
| Last-minute ordering | 34% |
| Poor store execution | 33% |
| Poor promotional forecasts | 29% |
| Product shortages | 26% |
| Late deliveries | 24% |
| Ineffective tracking of out-of-stocks | 21% |
| Poor data integrity | 19% |
| Poor supplier performance tracking | 17% |
| Lack of inventory visibility | 14% |
| Poor perfect order delivery | 12% |
| Rigid pallet requirement | 10% |
| Poor allocations | 10% |
| Irregular stocking | 9% |
| Conflicting reports and data | 7% |
| Multiple performance goals | 5% |
| Optimization in silos | 2% |
| Other | 14% |

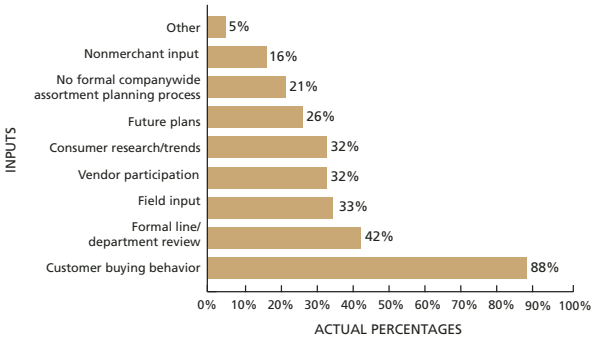
**18. Does the company currently do or plan to do scan-based trading or pay on scan?**

| SCAN-BASED TRADING OR PAY ON SCAN | % OF COMPANIES |
|---|---|
| Currently | 30% |
| Plan within 12 months | 9% |
| N/A | 61% |

**19. Does the company currently employ or plan to employ vendor-managed inventory (VMI)?**

| VENDOR-MANAGED INVENTORY | % OF COMPANIES |
|---|---|
| Currently | 30% |
| Plan within 12 months | 5% |
| N/A | 65% |

**20. Which of the following inputs are the three most commonly used in the assortment planning process?**




**21. What inputs does the company use for pricing?**

| PRICING INPUTS | YES | NO | N/A |
|---|---|---|---|
| Past sales data | 79% | 11% | 11% |
| Competitor pricing | 86% | 4% | 11% |
| Data from pricing software | 23% | 46% | 32% |
| Merchant input | 74% | 12% | 14% |
| Store input | 65% | 23% | 12% |
| Manufacturer's price | 81% | 14% | 5% |
| Cost to promote | 47% | 39% | 14% |
| Other | 23% | 23% | 54% |

**22. What is the domestic versus international source plan currently and over the next 12 months?**

| PERCENTAGE OF TOTAL BUY | CURRENT DOMESTIC | CURRENT INTERNATIONAL | PLANNED IN 12 MONTHS: DOMESTIC | PLANNED IN 12 MONTHS: INTERNATIONAL |
|---|---|---|---|---|
| None | 12% | 33% | 19% | 35% |
| 1–10% | 7% | 18% | 7% | 11% |
| 11–20% | 16% | 12% | 14% | 18% |
| 21–40% | 16% | 7% | 18% | 7% |
| 41–60% | 11% | 12% | 9% | 12% |
| 61–80% | 5% | 5% | 7% | 5% |
| 81–99% | 21% | 12% | 18% | 12% |
| 100% | 12% | 0% | 9% | 0% |

**23. On an annual basis, what is the average percentage of orders transmitted to vendors using the following methods?**

| PERCENTAGE OF ORDERS TRANSMITTED | PHONE | FAX | MAIL | EDI | WEB APPLICATION | OTHER |
|---|---|---|---|---|---|---|
| None | 22% | 15% | 47% | 40% | 46% | 40% |
| 1–10% | 25% | 26% | 11% | 8% | 18% | 11% |
| 11–20% | 14% | 6% | 3% | 3% | 1% | 0% |
| 21–30% | 7% | 6% | 4% | 4% | 1% | 3% |
| 31–40% | 6% | 4% | 1% | 0% | 1% | 4% |
| 41–50% | 4% | 7% | 1% | 4% | 4% | 1% |
| 51–60% | 0% | 3% | 0% | 0% | 1% | 1% |
| 61–70% | 0% | 3% | 1% | 3% | 0% | 1% |
| Over 70% | 6% | 21% | 0% | 18% | 0% | 4% |
| N/A | 17% | 10% | 19% | 19% | 26% | 33% |

**24. Please indicate your organization's pricing strategy at each of the following levels.**

| PRICING STRATEGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| National: Prices are the same at all stores | 65% | 2% | 33% |
| Regional: Prices may vary regionally | 30% | 11% | 60% |
| Market: Prices may vary inside of local markets | 18% | 12% | 70% |
| Store: Prices may vary at store level | 32% | 7% | 61% |
| SKU Level: Prices may vary at the SKU level | 37% | 4% | 60% |
| Day Part: Prices may vary within a day | 12% | 4% | 84% |

**25. Does the company have a fixed clearance markdown schedule?**

42% of participating retailers have a fixed clearance markdown schedule.

**26. Does the company vary assortments for multicultural markets?**

37% of participating retailers vary assortment for multicultural markets.

**27. Does the company have an aged inventory reporting or tracking mechanism?**

68% of participating retailers make special buys on a regular basis.

**28. At which level does the company deploy its markdown schedule?**

| MARKDOWN STRATEGIES | CURRENT | PLAN WITHIN 12 MONTHS |
|---|---|---|
| National: Prices are the same for all stores nationally | 62% | 13% |
| Regional: Prices are the same for all stores regionally | 42% | 33% |
| Market: Prices are the same for all stores in a market | 42% | 33% |
| District: Prices are the same for all stores in a district | 46% | 25% |
| Store: Prices are deployed at the individual store level | 46% | 29% |
| Other | 8% | 0% |

**29. On an annual basis, what is the average breakdown of retail sales?**

| AVERAGE BREAKDOWN OF RETAIL SALES | REGULAR PRICE SALES AS A PERCENTAGE OF TOTAL SALES |
|---|---|
| None | 5% |
| 1–10% | 2% |
| 11–20% | 14% |
| 21–40% | 7% |
| 41–60% | 19% |
| 61–80% | 33% |
| 81–99% | 14% |
| 100% | 2% |
| N/A | 4% |

| AVERAGE BREAKDOWN OF RETAIL SALES | PROMOTIONAL SALES AS A PERCENTAGE OF TOTAL SALES |
|---|---|
| None | 14% |
| 1–10% | 28% |
| 11–20% | 26% |
| 21–40% | 11% |
| 41–60% | 5% |
| 61–80% | 5% |
| 81–99% | 4% |
| 100% | 0% |
| N/A | 7% |

| AVERAGE BREAKDOWN OF RETAIL SALES | CLEARANCE SALES AS A PERCENTAGE OF TOTAL SALES |
|---|---|
| None | 14% |
| 1–10% | 4% |
| 11–20% | 19% |
| 21–40% | 7% |
| 41–60% | 4% |
| 61–80% | 2% |
| 81–99% | 4% |
| 100% | 4% |
| N/A | 5% |

# 4 SUPPLY CHAIN MANAGEMENT FINDINGS

**1. What are the top supply chain strategic initiatives during 2004 and planned for 2005?**

| SUPPLY CHAIN STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Vendor management | 49% | 54% |
| Cost reduction/cost containment | 44% | 48% |
| Warehouse optimization | 41% | 43% |
| Supply chain visibility | 39% | 30% |
| Distribution network optimization | 31% | 32% |
| Collaborative planning, forecasting and replenishment | 29% | 25% |
| Cross-docking | 27% | 21% |
| Cycle time reduction | 25% | 25% |
| Freight payments | 24% | 25% |
| Extending the supply chain | 20% | 20% |
| Warehouse management system | 19% | 25% |
| Fleet management | 17% | 16% |
| Point-of-sale driven supply chain | 15% | 11% |
| Outsourcing supply chain management functions | 14% | 13% |
| Just-in-time inventory management | 14% | 18% |
| Global sourcing | 8% | 7% |
| Real-time propagation of demand signals across the value chain | 7% | 5% |
| Data synchronization/Standards/UCC Net/Sunrise 2005 | 5% | 9% |
| Metric alignment with suppliers | 5% | 4% |
| Radio frequency identification (RFID) | 3% | 11% |
| Business-to-business auctions (B2B) | 2% | 0% |
| Scan-based trading | 2% | 4% |
| Other | 7% | 7% |

**2. Please rate the effectiveness of your company on each of the following using the 5-point scale, where 1 is low or poor and 5 is the best.**

| SUPPLY CHAIN ASSESSMENT | MEAN RESPONSE |
|---|---|
| Vendor management | 3.6 |
| Demand forecasting | 3.2 |
| Managing promotional forecast | 3.2 |
| Collaborative planning | 3.1 |
| Reducing forecast error | 3.0 |
| Metric alignment with suppliers | 2.9 |

**3. In the most recent fiscal year, what were the company's total supply chain costs as a percentage of net sales?**

| TOTAL SUPPLY CHAIN COSTS AS A PERCENTAGE OF NET SALES | % OF COMPANIES |
|---|---|
| Less than 1% | 9% |
| 1–2.5% | 15% |
| 2.6–5% | 24% |
| 5.1–7.5% | 9% |
| 7.6–10% | 2% |
| 10.1–12.5% | 9% |
| 12.6–15% | 0% |
| Over 15% | 0% |
| N/A | 33% |

**4. Which of the following supply chain technologies does the company currently use or plan to use within the next 12 months?**

| SUPPLY CHAIN TECHNOLOGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Warehouse management system | 55% | 20% | 25% |
| Transportation management | 53% | 15% | 33% |
| Routing and scheduling | 56% | 13% | 31% |
| Vendor compliance | 56% | 20% | 24% |
| Supply chain visibility/dashboard | 33% | 20% | 47% |
| Customs management | 49% | 9% | 42% |
| Load planning | 38% | 9% | 53% |
| Distribution center RF technology | 38% | 13% | 49% |
| Network optimization tools | 35% | 16% | 49% |
| Inventory management | 71% | 11% | 18% |
| Forecasting | 56% | 27% | 16% |
| Planning | 53% | 29% | 18% |
| Radio frequency identification (RFID) | 24% | 11% | 65% |
| Other | 5% | 4% | 91% |

**5. What percentage of the company's supply chain spend is currently incurred or planned to be incurred domestically versus internationally?**

| PERCENTAGE OF SUPPLY CHAIN SPEND TO BE INCURRED DOMESTICALLY | % OF COMPANIES |
|---|---|
| 1–10% | 9% |
| 11–20% | 7% |
| 21–40% | 13% |
| 41–60% | 5% |
| 61–70% | 4% |
| 71–90% | 2% |
| Over 90% | 25% |
| N/A | 35% |

| PERCENTAGE OF SUPPLY CHAIN SPEND TO BE INCURRED INTERNATIONALLY | % OF COMPANIES |
|---|---|
| 1–10% | 24% |
| 11–20% | 7% |
| 21–40% | 4% |
| 41–60% | 11% |
| 61–70% | 2% |
| 71–90% | 0% |
| Over 90% | 0% |
| N/A | 53% |

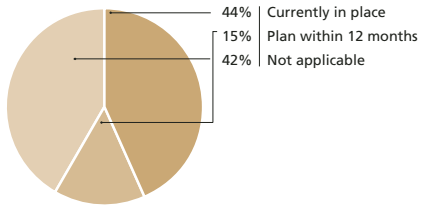
**6. Which of the following inputs does the company use in the supply chain planning process?**

| INPUTS | YES | NO | N/A |
|---|---|---|---|
| Current sales forecast | 82% | 5% | 13% |
| Historic shipments | 65% | 16% | 18% |
| Historic sales trends | 78% | 7% | 15% |
| Actual sales orders | 62% | 16% | 22% |
| Promotional plan | 60% | 16% | 24% |
| Customer estimates | 33% | 33% | 35% |
| Supplier plans | 42% | 31% | 27% |
| Supply availability | 49% | 24% | 27% |
| Other | 2% | 0% | 98% |

**7. Which of the following metrics does the company use to measure supply chain performance?**

| INPUTS | YES | NO | N/A |
|---|---|---|---|
| Inventory turnover | 85% | 6% | 9% |
| Cost | 84% | 7% | 9% |
| Efficiency | 69% | 18% | 13% |
| Cycle time | 58% | 25% | 16% |
| Accuracy | 67% | 20% | 13% |
| Internal customer satisfaction | 55% | 20% | 25% |
| External customer satisfaction | 51% | 27% | 22% |
| Volume throughput | 45% | 24% | 31% |
| Network optimization | 45% | 27% | 27% |
| Lead time | 69% | 13% | 18% |
| Quality | 71% | 15% | 15% |
| On-time delivery | 73% | 13% | 15% |
| GMROI | 56% | 25% | 18% |
| SVA (shareholder value added) | 27% | 49% | 24% |
| Cash flow | 62% | 22% | 16% |
| Other | 4% | 0% | 96% |

**8. Does the company currently have or plan to have a formal vendor compliance program and reporting infrastructure in place?**




VENDOR COMPLIANCE PROGRAM/ REPORTING INFRASTRUCTURE IN PLACE

**9. Which of the following metrics does the company use to measure vendor performance?**

| METRICS USED TO MEASURE VENDOR PERFORMANCE | YES | NO | N/A |
|---|---|---|---|
| Inventory in stock | 71% | 15% | 15% |
| Cost | 84% | 9% | 7% |
| Efficiency | 69% | 20% | 11% |
| Cycle time | 64% | 22% | 15% |
| Accuracy of shipments | 78% | 11% | 11% |
| Volume throughput | 45% | 24% | 31% |
| Lead time | 62% | 20% | 18% |
| Quality | 76% | 13% | 11% |
| On-time delivery | 76% | 11% | 13% |
| Other | 4% | 0% | 96% |

**10. Does the company have any shared benefit programs in place with any of its vendors?**

| SHARED BENEFITS PROGRAM IN PLACE | % OF COMPANIES |
|---|---|
| Currently | 27% |
| Plan within 12 months | 5% |
| No plan | 67% |

**11. What percentage of orders are generated currently and what percentage of orders does the company plan to generate with vendors using CPFR (collaborative planning, forecasting and replenishment)?**

| CPFR ORDERS GENERATED | CURRENT | PLAN WITHIN 12 MONTHS |
|---|---|---|
| None | 45% | 45% |
| 0.1–5% | 15% | 11% |
| 6–10% | 18% | 18% |
| 11–15% | 2% | 7% |
| 16–20% | 4% | 5% |
| 21–25% | 2% | 0% |
| 26–30% | 4% | 0% |
| Over 30% | 11% | 13% |

**12. Which of the following are the benefits of CPFR?**

| BENEFITS | YES | NO | N/A |
|---|---|---|---|
| Decreased costs | 90% | 3% | 7% |
| Tighter integration | 76% | 14% | 10% |
| Faster order processing | 79% | 10% | 10% |
| Higher in stock | 72% | 21% | 7% |
| Improved inventory turnover | 90% | 3% | 7% |
| More accurate forecasts | 79% | 14% | 7% |
| Cannot measure | 38% | 21% | 41% |
| No benefits realized | 28% | 17% | 55% |
| Other | 3% | 0% | 97% |

**13. What are the barriers to CPFR?**

| BARRIERS | YES | NO | N/A |
|---|---|---|---|
| Too expensive | 37% | 31% | 31% |
| Technology too cumbersome | 41% | 28% | 31% |
| Difficult to integrate | 54% | 17% | 30% |
| Data security issues | 37% | 28% | 35% |
| Suppliers not using | 52% | 17% | 31% |
| Suppliers cannot generate forecast at store/SKU level | 44% | 22% | 33% |
| No barriers | 11% | 15% | 74% |
| Other | 14% | 0% | 86% |

**14. What percentage of deliveries made to a store are full-load or less than full-load?**

| PERCENTAGE OF DELIVERIES | FULL-LOAD, AVERAGE PERCENTAGE | LESS THAN FULL-LOAD, AVERAGE PERCENTAGE |
|---|---|---|
| 1–10% | 17% | 13% |
| 11–20% | 11% | 6% |
| 21–40% | 4% | 9% |
| 41–60% | 7% | 7% |
| 61–70% | 13% | 4% |
| 71–90% | 6% | 9% |
| Over 90% | 1% | 17% |

**15. On average, what percentage of merchandise is shipped to stores in the following ways?**

| PERCENTAGE OF MERCHANDISE | DIST. CENTER PICK TO STOCK | CROSS-DOCK | DIRECT STORE DELIVERY | OTHER |
|---|---|---|---|---|
| 1–10% | 2% | 15% | 22% | 2% |
| 11–20% | 7% | 13% | 13% | 6% |
| 21–40% | 9% | 6% | 4% | 0% |
| 41–60% | 7% | 4% | 6% | 2% |
| 61–70% | 6% | 2% | 0% | 0% |
| 71–90% | 7% | 0% | 4% | 0% |
| Over 90% | 15% | 0% | 15% | 2% |
| N/A | 46% | 61% | 37% | 89% |

**16. On average, how many days a week does the company's stores receive delivery trucks?**

| NUMBER OF DAYS STORES RECEIVE DELIVERY TRUCKS | % OF COMPANIES |
|---|---|
| 1 day | 11% |
| 2 days | 11% |
| 3 days | 17% |
| 4 days | 13% |
| 5 days | 24% |
| 6 days | 2% |
| 7 days | 13% |
| Other | 9% |

**17. Does the company plan to be using global trade identification numbers (GTIN) by Sunrise 2005?**

30% of participating retailers plan to use GTIN by Sunrise 2005.

**18. What does the company consider the top three biggest contributors (primary root causes) of demand uncertainty (forecast inaccuracy)?**

| CAUSES OF DEMAND UNCERTAINTY | % OF COMPANIES |
|---|---|
| Too many uncontrollable external variables | 45% |
| Intense promotional activity (inherent SKU variability) | 38% |
| No formal sales and operational planning (too many views of the forecast) | 36% |
| Bad planning data (safety stock, lead times, inventory positions, etc.) | 32% |
| Poor forecast collaboration (CPFR) | 25% |
| Bad foundational data (item number info., location info., customer info., etc.) | 19% |
| Last-minute customer order changes | 19% |
| Inadequate software tools | 17% |
| Inadequate resources | 15% |
| Promotional demand inaccuracy | 13% |
| Inadequate understanding of competition influences | 0% |
| Other | 17% |

# 5 STORE AND FIELD OPERATIONS FINDINGS

**1. What are the top store and field operations priorities/strategic initiatives during 2004 and planned for 2005?**

| STORE AND FIELD OPERATIONS STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Growth initiatives for existing stores/drive comparable sales | 56% | 52% |
| New store openings | 47% | 49% |
| Customer service strategy | 46% | 48% |
| Employee training | 45% | 42% |
| Customer loyalty | 44% | 50% |
| Cost reduction/cost containment | 40% | 35% |
| Margin enhancement | 38% | 49% |
| Redesign or relocation of stores | 35% | 36% |
| Labor scheduling | 29% | 23% |
| Employee retention | 25% | 20% |
| Store process standardization | 24% | 32% |
| Shrink management | 21% | 21% |
| POS replacement/upgrade | 18% | 21% |
| Other | 4% | 3% |

**2. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| STORE AND FIELD OPERATIONS ASSESSMENT | MEAN RESPONSE |
|---|---|
| Effectiveness of store-level labor scheduling | 3.7 |
| Store processes well defined for efficiency | 3.6 |
| Effectiveness of communications of corporate direction to the stores | 3.6 |
| Consistent execution at store-level of all merchandising plans | 3.5 |

3. **What is the company's standard for average minutes per transaction?**

| AVERAGE MINUTES PER TRANSACTION: EMPLOYEE-ASSISTED CHECKOUT | % OF COMPANIES |
|---|---|
| 1–2 minutes | 18% |
| 2–3 minutes | 26% |
| 3–4 minutes | 14% |
| 4–5 minutes | 2% |
| 5–6 minutes | 2% |
| Over 6 minutes | 10% |
| N/A | 28% |

4. **In the most recent fiscal year, what was the company's average total payroll (including management) as a percentage of sales?**

| AVERAGE TOTAL PAYROLL AS A PERCENTAGE OF SALES | % OF COMPANIES |
|---|---|
| 0–5.0% | 4% |
| 5.1–10.0% | 22% |
| 10.1–12.5% | 22% |
| Over 12.5% | 42% |
| N/A | 9% |

5. **In the most recent fiscal year, what were the company's average sales per store employee?**

| AVERAGE SALES PER EMPLOYEE | % OF COMPANIES |
|---|---|
| $1–$10,000 | 8% |
| $11,000–$25,000 | 9% |
| $26,000–$50,000 | 8% |
| $51,000–$75,000 | 9% |
| $76,000–$100,000 | 16% |
| $101,000–$150,000 | 13% |
| $151,000–$200,000 | 10% |
| Over $200,000 | 9% |
| N/A | 18% |

6. **In the most recent fiscal year, what were the company's average sales per square foot?**

| AVERAGE SALES PER SQUARE FOOT | % OF COMPANIES |
|---|---|
| $1–$50 | 2% |
| $51–$100 | 8% |
| $101–$150 | 15% |
| $151–$200 | 9% |
| $201–$250 | 8% |
| $251–$300 | 10% |
| $301–$400 | 13% |
| Over $400 | 20% |
| N/A | 14% |

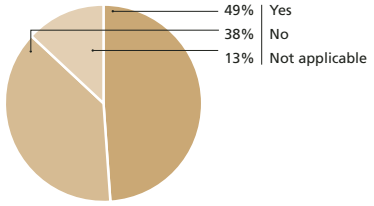
7. **In the most recent fiscal year, what was the company's average transaction size?**

| AVERAGE TRANSACTION SIZE | % OF COMPANIES |
|---|---|
| $1–$5 | 0% |
| $6–$10 | 3% |
| $11–$20 | 9% |
| $21–$30 | 10% |
| $31–$40 | 8% |
| $41–$50 | 11% |
| $51–$75 | 15% |
| $76–$100 | 7% |
| $101–$200 | 11% |
| Over $200 | 17% |
| N/A | 7% |

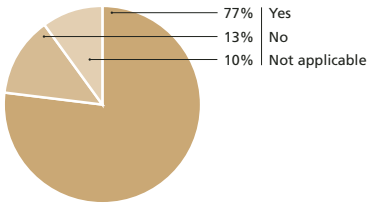
8. **What are the company's average units per transaction?**

| AVERAGE UNITS PER TRANSACTION | % OF COMPANIES |
|---|---|
| One (1) | 6% |
| Two (2) | 26% |
| Three (3) | 25% |
| Four (4) | 14% |
| Five (5) | 5% |
| Six (6) | 0% |
| Over Six (6) | 7% |
| N/A | 17% |

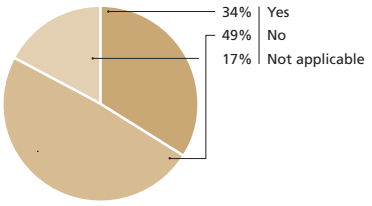
## 9. Which of the following models reflects the company's service model?



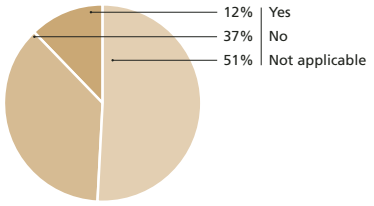

SELF-SELECT
(minimum service coverage)



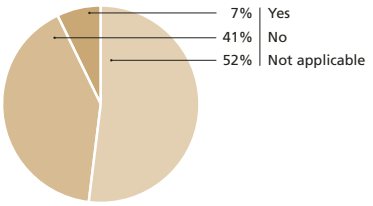

FULL SERVICE
(clienteling)



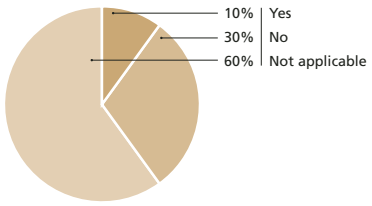

PERSONAL SHOPPER




QUICK-SERVICE DINING

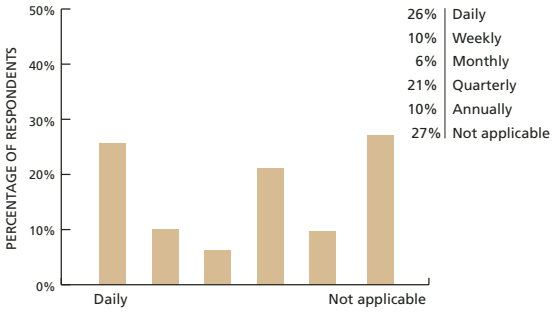



CASUAL DINING



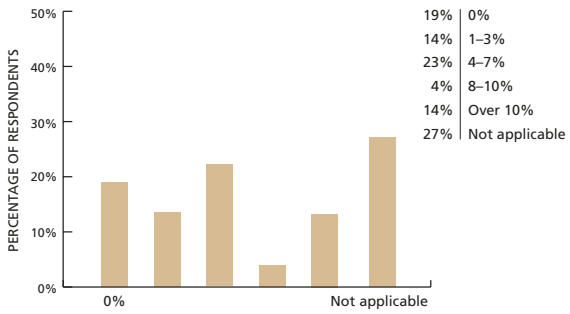

OTHER

## 10. How often is customer satisfaction measured?




HOW OFTEN CUSTOMER
SATISFACTION IS MEASURED

## 11. Approximately what percent of the customer population base is surveyed annual?

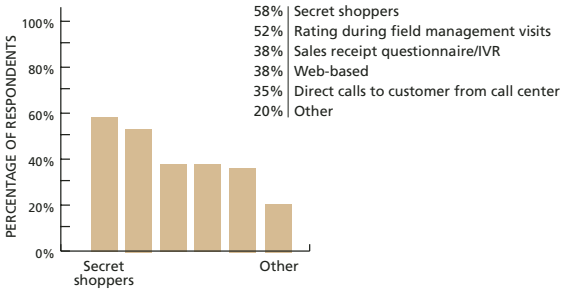



PERCENTAGE OF CUSTOMER
BASE SURVEYED

## 12. Which of the following does the company consistently (at least once a year) alter based on customer satisfaction scores?

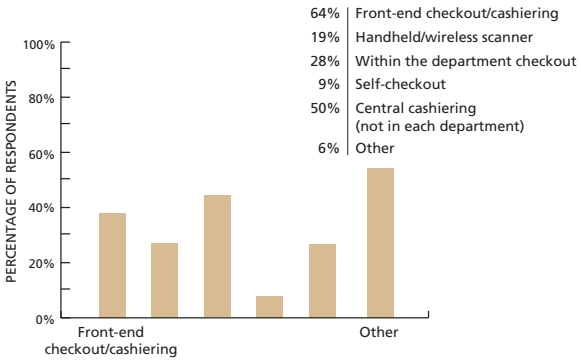
| AREA ALTERED | YES | NO | N/A |
|---|---|---|---|
| Store procedures | 65% | 22% | 12% |
| Sales associate procedures | 72% | 15% | 14% |
| Compensation/bonuses | 32% | 47% | 21% |
| Merchandise assortment | 68% | 19% | 14% |
| Merchandise prices | 54% | 30% | 16% |
| Call center | 38% | 33% | 28% |
| Web site | 41% | 33% | 26% |
| Other | 7% | 35% | 58% |

**13. How does the company measure customer service in stores?**




METRICS USED TO MEASURE CUSTOMER SERVICE

**14. Which types of checkout service does the company provide?**




TYPES OF CHECKOUT SERVICE

**15. Which of the following store technologies does the company currently use or plan to use in its stores?**

| STORE TECHNOLOGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Electronic shelf labels | 22% | 16% | 62% |
| Customer conversion (traffic counters) | 40% | 9% | 52% |
| Employee self-service (store management/associate communication portal) | 40% | 15% | 46% |
| Self-checkout | 15% | 13% | 73% |
| Customer Internet access (wireless Internet connection) | 31% | 17% | 51% |
| Labor scheduling | 46% | 15% | 39% |
| Event/task management | 43% | 13% | 45% |
| Digital media/private broadcast networks | 32% | 13% | 55% |
| Store/field management workbench | 27% | 14% | 59% |
| RF registers/line busters | 22% | 13% | 65% |
| Wireless store network/handheld terminals | 28% | 17% | 55% |
| Automated customer satisfaction measurement | 19% | 22% | 59% |
| Time and attendance | 60% | 9% | 31% |
| Assisted shopping (handheld shopping assistant/clienteling) | 14% | 11% | 75% |

**16. Which of the following functions are currently performed at kiosks and which will be performed in the next 12 months?**

| FUNCTIONS PERFORMED | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Gift registry | 50% | 13% | 38% |
| Product information/ordering | 81% | 13% | 6% |
| Expanded assortments | 63% | 6% | 31% |
| Frequent shopper/special offers, coupons, etc. | 50% | 19% | 31% |
| Special orders | 75% | 6% | 19% |
| Price check | 69% | 6% | 25% |
| Order tracking | 44% | 13% | 44% |
| Store on-hand counts | 63% | 0% | 38% |
| Online bill payment | 25% | 25% | 50% |
| Access past sales receipts | 44% | 19% | 38% |
| Purchase money orders and transfers | 19% | 6% | 75% |
| Internet access | 56% | 13% | 31% |
| Other | 19% | 0% | 81% |

**17. Which functions are currently performed on the handheld/portable data terminals and which are planned over the next 12 months?**

| HANDHELD/PORTABLE DATA FUNCTIONS PERFORMED | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| On-hand counts | 73% | 0% | 27% |
| Stock status | 45% | 18% | 36% |
| Price integrity/PLU/price audit | 73% | 0% | 27% |
| Merchandise ordering | 64% | 0% | 36% |
| Printing tickets | 73% | 0% | 27% |
| Cycle counting or physical inventory | 64% | 0% | 36% |
| Check on-order status | 36% | 9% | 55% |
| Inventory adjustments | 55% | 0% | 45% |
| POS preringing for customers to reduce customer lines | 36% | 18% | 45% |
| Customer information | 27% | 0% | 73% |
| Cross-sell/up-sell | 36% | 0% | 64% |
| Special offers/coupons | 36% | 9% | 55% |

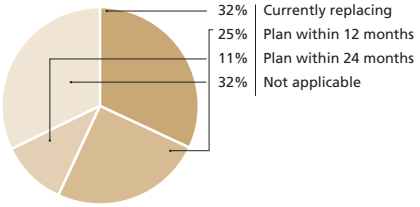
**18. Are you providing handheld/wireless terminals for customer use?**

9% of participating retailers use handheld/wireless terminals.

**19. Which of the following customer/handheld terminal functions are currently performed or are planned within the next 12 months?**

| HANDHELD TERMINAL USE | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| POS preringing | 0% | 0% | 100% |
| Price lookup | 100% | 0% | 0% |
| Gift registry | 100% | 0% | 0% |
| Cross-sell/up-sell | 0% | 100% | 0% |
| Special offers/discounts | 0% | 100% | 0% |

**20. Is the company currently replacing/upgrading or does it plan to replace/upgrade its POS system in the next 12 or 24 months?**




REPLACING/UPGRADING POS SYSTEM

**21. Which of the following benefits are expected from the POS replacement or upgrade?**

| BENEFITS | YES | NO | N/A |
|---|---|---|---|
| Easier to maintain | 89% | 6% | 6% |
| Easier to upgrade | 85% | 9% | 6% |
| Supports loyalty program | 74% | 17% | 9% |
| Increased real-time customer information | 87% | 7% | 6% |
| Increased pricing accuracy | 69% | 28% | 4% |
| Improve customer service | 89% | 7% | 4% |
| Improve transaction speed | 80% | 17% | 4% |
| Lower total cost of ownership | 48% | 43% | 9% |
| Increased revenue | 61% | 28% | 11% |
| Other | 13% | 31% | 56% |

**22. Which of the following in-store POS system practices/capabilities does the company have?**

| IN-STORE POS SYSTEM CAPABILITIES | CURRENT | PLANNED WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Computer-assisted ordering (CAO) | 56% | 13% | 32% |
| Perpetual inventory/SKU level | 71% | 14% | 15% |
| Ability to track lost sales | 33% | 15% | 52% |
| Debit card processing | 68% | 15% | 16% |
| Instant credit application approval | 41% | 14% | 46% |
| Loss prevention/fraud detection | 47% | 14% | 39% |
| Access past sales receipts | 71% | 11% | 18% |
| POS price lookup (PLU) | 82% | 4% | 14% |
| Radio frequency LAN-connected POS register | 33% | 15% | 52% |
| Special pricing deals | 53% | 15% | 32% |
| POS loyalty cards | 47% | 18% | 35% |
| Cross-sell/up-sell | 37% | 16% | 47% |
| Real-time feed from corporate data warehouse | 41% | 19% | 41% |
| Smartcards | 23% | 15% | 62% |
| Gift cards | 53% | 23% | 24% |
| Allow customers to view prior purchase receipts via Internet | 14% | 15% | 71% |
| Support self-checkout | 15% | 11% | 73% |
| Other | 5% | 0% | 94% |

**23. Which of the following means do you use to develop store payroll budgets?**

| PAYROLL BUDGET DEVELOPMENT MEANS | % OF COMPANIES |
|---|---|
| Combination | 48% |
| Standards/activity-based | 27% |
| Sales per hour | 22% |
| No fixed budget | 19% |

**24. Which of the following methods do you use to schedule store employees?**

| EMPLOYEE SCHEDULING METHODS | % OF COMPANIES |
|---|---|
| Manual schedules | 51% |
| Based on customer traffic patterns/ workloads | 47% |
| Templates provided | 22% |
| Automated scheduling | 22% |

**25. Does time and attendance integrate with schedules?**

60% of retailers integrate schedules with time and attendance.

**26. Which of the following are barriers to successful automated scheduling?**

| AUTOMATED SCHEDULING BARRIERS | % OF COMPANIES |
|---|---|
| Schedules do not reflect real workloads | 25% |
| Multiple edits | 25% |
| Takes too much time | 14% |
| Associates do not accept the new schedules | 12% |
| No barriers | 23% |
| N/A | 31% |

**27. Is the company using store portals?**

18% of participating retailers are using store portals.

**28. Which of the following services/information is provided on the store portal?**

| SERVICES/INFORMATION | YES | NO | N/A |
|---|---|---|---|
| Schedule information | 71% | 21% | 7% |
| Training | 71% | 7% | 21% |
| Labor information | 71% | 7% | 21% |
| Role-specific tasks | 36% | 50% | 14% |
| Benefits | 57% | 36% | 7% |
| Communications | 93% | 0% | 7% |
| Other | 21% | 17% | 64% |

**29. Which of the following store services does the company currently offer or plan to offer in its stores?**

| STORE SERVICES OFFERED | CURRENT | PLANNED |
|---|---|---|
| Home delivery | 60% | 5% |
| Frequent shopper/loyalty programs | 58% | 17% |
| Gift cards | 68% | 16% |
| Gift registry | 26% | 6% |
| Interior design services | 21% | 6% |
| Concierge/personal shopper | 36% | 3% |
| Customer service kiosks | 29% | 14% |
| Competitive price guarantee/match | 44% | 3% |
| Sale price guarantee | 45% | 5% |
| In-stock guarantee | 32% | 9% |
| Substitution of like items when out of stock | 42% | 8% |
| Special orders for expanded assortments | 77% | 0% |
| Order on Web, customer picks up order in store | 42% | 14% |
| Order on Web, return to the store | 53% | 9% |
| Ship from the store | 73% | 10% |
| Product assembly service | 25% | 4% |
| Time service guarantee | 26% | 0% |

**30. Do the company's stores use kiosks/Internet for employee applications?**

26% of participating retailers use kiosks/Internet for employee applications.

**31. Is software used to screen applicants?**

36% of participating retailers use software to screen applicants.

**32. Which types of loss prevention techniques does the company use to deter theft?**

| TECHNIQUES | YES | NO | N/A |
|---|---|---|---|
| Electronic article surveillance (EAS) | 38% | 51% | 12% |
| Radio frequency identification (RFID) | 21% | 57% | 22% |
| Ink tags | 26% | 57% | 17% |
| Cables | 39% | 47% | 14% |
| Camera and videotaping | 68% | 27% | 5% |
| Frequent refunder database | 43% | 39% | 18% |
| Check and credit card approval service | 78% | 14% | 8% |
| Associate testing | 55% | 34% | 12% |
| Guards or undercover agents | 43% | 43% | 14% |
| Transaction analysis | 65% | 25% | 10% |
| Sales-floor awareness programs | 87% | 5% | 8% |
| Bounty program | 32% | 51% | 17% |
| Other | 8% | 35% | 57% |

**33. Can store managers order directly from the distribution center(s)?**

60% of participating store managers order directly from the distribution center(s).

**34. Are interstore transfers allowed for customer service reasons?**

78% of retailers allow for interstore transfers for customer service reasons.

**35. What stocking practices does the company employ?**

| STOCKING PRACTICES | YES | NO | N/A |
|---|---|---|---|
| Stocking during all open store hours | 77% | 14% | 9% |
| Stocking only before/after store closing | 31% | 55% | 14% |
| Prepare merchandise in back room and deliver floor-ready | 66% | 25% | 9% |
| Stock sales floor based on automated alerts | 19% | 60% | 21% |
| Stocking during store off-peak hours | 70% | 21% | 9% |
| Dedicated stocking team | 48% | 43% | 9% |
| Deliver directly to sales floor, prepare on sales floor | 38% | 51% | 12% |
| Other | 1% | 0% | 99% |

**36. Which of the following delivery and unloading practices does the company employ?**

| DELIVERY AND UNLOADING PRACTICES | YES | NO | N/A |
|---|---|---|---|
| Scheduled delivery times | 77% | 12% | 12% |
| Receiving delivery windows | 55% | 29% | 17% |
| Assumed receiving | 30% | 45% | 25% |
| Advanced ship notice (ASN) | 49% | 31% | 19% |
| Scanned receiving | 55% | 26% | 19% |
| Floor-ready merchandise (FRM) | 60% | 23% | 17% |
| Direct store deliveries (DSD) | 52% | 21% | 27% |
| In-store support from rack jobbers | 25% | 42% | 34% |
| Other | 4% | 0% | 96% |

**37. What is the average number of cycle counts (of departments, subdepartments and style level or similar) performed per store per year?**

| CYCLE COUNTS PERFORMED | % OF COMPANIES |
|---|---|
| 1–3 | 30% |
| 4–6 | 17% |
| 7–9 | 10% |
| 10–12 | 9% |
| 13–15 | 4% |
| Over 15 | 12% |
| N/A | 18% |

Average per year—5.5

**38. What is the average number of physical inventories (of all product categories and departments performed per store per year)?**

| AVERAGE PHYSICAL INVENTORIES PERFORMED | % OF COMPANIES |
|---|---|
| 1–3 | 60% |
| 4–6 | 17% |
| 7–9 | 4% |
| 10–12 | 5% |
| 13–15 | 1% |
| Over 15 | 6% |
| N/A | 6% |

Average per year—3.81

# 6 CUSTOMER INSIGHT AND FOCUS FINDINGS

**1. What are the company's top customer-focused strategic initiatives during 2004 and planned for 2005?**

| CUSTOMER INSIGHT AND FOCUS STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Customer loyalty programs | 67% | 74% |
| Customer databases/customer information data mining | 64% | 68% |
| Customer retention/reactivation | 64% | 62% |
| New customer acquisition | 55% | 53% |
| Segmenting/resegmenting customers | 38% | 38% |
| New consumer research (e.g., demographics, psychographics) | 38% | 43% |
| Refining multichannel strategy | 27% | 30% |
| Building multichannel strategy | 25% | 23% |
| Understanding competitors' customers | 22% | 17% |
| CRM integration into other areas of company | 20% | 19% |
| Web-based CRM | 16% | 11% |
| Micromerchandising | 16% | 11% |
| Call center programs | 4% | 4% |
| Other | 18% | 19% |

**2. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| CUSTOMER INSIGHT AND FOCUS ASSESSMENT | MEAN RESPONSE |
|---|---|
| Acquiring new customers | 3.3 |
| Leveraging customer information | 3.1 |
| Growing market share | 3.0 |
| Growing share-of-wallet | 3.0 |
| Integrating CRM across the company | 2.7 |

**3. What type of customer database/warehouse does the company have?**

| CUSTOMER DATABASE/WAREHOUSE | % OF COMPANIES |
|---|---|
| Large data warehouse | 34% |
| Small PC tool (e.g., Microsoft Excel, Access) | 26% |
| Multiple databases/data marts | 22% |
| Packaged software | 18% |

**4. Which of the following CRM technologies does the company use currently or plan to use within the next 12 months?**

| CRM TECHNOLOGIES | YES | PLANNED IN 12 MONTHS | N/A |
|---|---|---|---|
| Campaign management tool | 40% | 14% | 47% |
| Call center telephony | 33% | 10% | 57% |
| Clienteling system | 32% | 9% | 59% |
| Customer analytics | 45% | 14% | 41% |
| Web personalization engine | 31% | 20% | 49% |

**5. Does the company leverage customer information across areas?**

54% of retailers leverage customer information across areas.

**6. Across which of the following areas does the company leverage customer information?**

| AREAS TO LEVERAGE CUSTOMER INFORMATION | YES | NO | N/A |
|---|---|---|---|
| Store | 88% | 4% | 8% |
| Call center | 62% | 23% | 15% |
| Web site | 88% | 12% | 0% |
| In-home | 27% | 42% | 31% |
| Third-party distributor | 8% | 54% | 38% |
| Third-party reseller | 4% | 58% | 38% |
| Third-party partner | 23% | 50% | 27% |
| On-site kiosk | 31% | 46% | 23% |
| Off-site kiosk | 8% | 62% | 31% |
| Other | 4% | 27% | 69% |

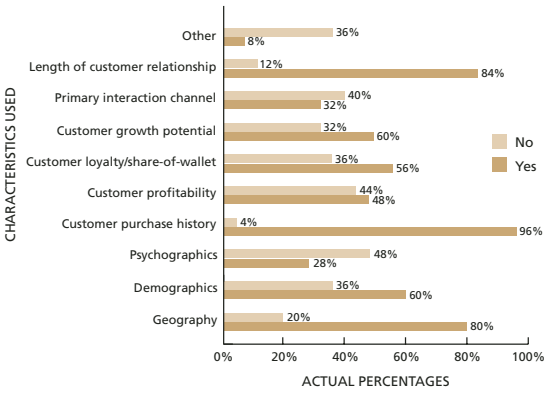
**7. Which of the following procedures does the company do consistently (at least once a year) with information from the customer database?**

| PROCEDURES PERFORMED | % OF COMPANIES |
|---|---|
| Set sales strategies | 85% |
| Conduct customer analysis (e.g., customer profitability) | 81% |
| Conduct direct marketing | 73% |
| Refine execution strategy | 58% |
| Change assortments | 58% |
| Set pricing strategies | 54% |
| Segment customers | 50% |
| Decide on media placement | 38% |
| Make real-time offers at POS, call centers, Web | 31% |
| Conduct predictive modeling | 27% |
| Make partner offers | 23% |
| Other | 4% |

**8. Does the company currently segment its customer base?**

51% of retailers currently segment their customer base.

**9. Which of the following characteristics are used to segment the customer database?**



**10. Please indicate which of the following methods the company uses to ensure customer privacy.**

| METHODS TO ENSURE CUSTOMER PRIVACY | YES | NO |
|---|---|---|
| Do not share specific customer information across departments | 52% | 32% |
| Do not share specific customer information with other companies | 76% | 20% |
| Customer opt-in | 44% | 20% |
| Customer opt-out | 60% | 8% |
| Written corporate policy | 72% | 16% |
| Adhere to European policies | 12% | 44% |
| Disable or remove RFID tags upon purchase | 12% | 32% |
| Other | 4% | 32% |

**11. Does the company systematically identify its customers during transactions (e.g., via company credit card, Web site, customer loyalty card number)?**

43% of retailers identify customers during the transaction.

**12. Through which of the following channels can the company identify its customers?**

| IDENTIFICATION CHANNELS | YES | NO |
|---|---|---|
| Store | 90% | 5% |
| Call center | 43% | 33% |
| Web site | 62% | 24% |
| In-home | 24% | 38% |
| Other | 0% | 33% |

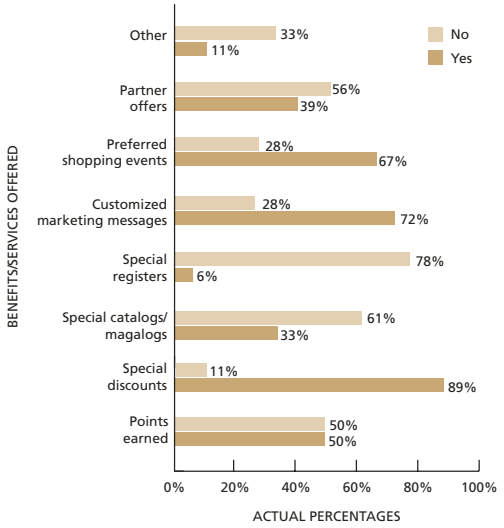
**13. Which of the following mechanisms does the company use to identify customers?**

| IDENTIFICATION MECHANISMS | YES | NO |
|---|---|---|
| Unique customer ID | 62% | 29% |
| Loyalty card number | 29% | 52% |
| Credit card information | 57% | 38% |
| Store account number | 67% | 29% |
| E-mail address | 76% | 19% |
| Telephone number | 81% | 19% |
| Biometrics (e.g., fingerprints) | 0% | 81% |
| Other | 0% | 52% |

**14. Does the company have a loyalty program currently in place?**

37% of the retailers have a customer loyalty program in place.

**15. Which of the following benefits/services are offered in the loyalty program?**



**16. Do you believe that some benefits have been achieved through the loyalty program or is that something that cannot be measured?**

72% of retailers believe that some benefits have been achieved through the loyalty program.

**17. Which of these benefits have been achieved by the loyalty program?**

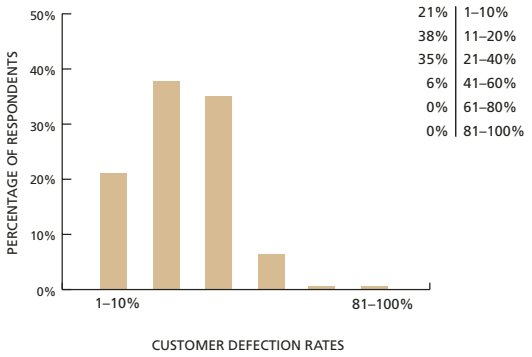
| BENEFITS | YES | NO | N/A |
|---|---|---|---|
| Incremental sales | 100% | 0% | 0% |
| Increased basket size | 62% | 31% | 8% |
| Increased average ticket | 69% | 23% | 8% |
| Increased customer loyalty | 92% | 8% | 0% |
| Increased customer satisfaction | 85% | 8% | 8% |
| Increased profitability | 85% | 8% | 8% |
| Increased customer base | 85% | 15% | 0% |
| Increased customer share-of-wallet | 77% | 8% | 15% |
| Other | 0% | 31% | 69% |

**18. Does the company plan to pursue a loyalty program in the next 12 months?**

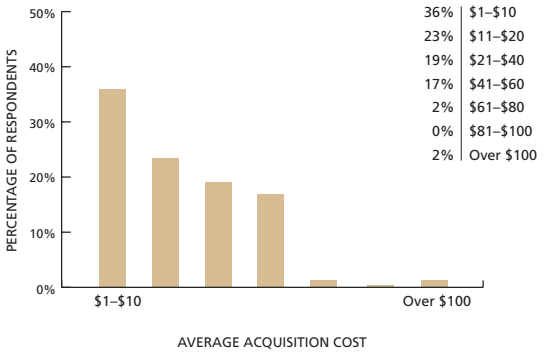
35% of retailers are planning on pursuing a loyalty program in the next 12 months.

**19. What is the company's approximate customer retention rate (percent of customers who shop in one year and return the next)?**

**20. What is the company's customer defection rate (percent of customers who shop in one year and not in the next)?**




**21. What is the company's average customer acquisition cost?**




**22. What is the average number of trips a customer makes annually?**

| AVERAGE NUMBER OF TRIPS ANNUALLY | % OF COMPANIES |
|---|---|
| 1–5 | 39% |
| 6–10 | 43% |
| 11–20 | 6% |
| 21–30 | 6% |
| 31–40 | 0% |
| 41–50 | 2% |
| Over 50 | 4% |

**23. What is the average customer spend per visit?**

| AVERAGE DOLLARS SPENT PER TRIP | % OF COMPANIES |
|---|---|
| $1–$10 | 0% |
| $11–$20 | 6% |
| $21–$40 | 10% |
| $41–$60 | 20% |
| $61–$80 | 10% |
| $81–$100 | 24% |
| Over $100 | 29% |

**24. Does the company have a customer relationship management (CRM) strategy/system in place—even if it is not yet implemented?**

55% of retailers have a CRM strategy/system in place.

**25. In what stage of implementation is the CRM strategy/system?**

| STAGE OF IMPLEMENTATION | % OF COMPANIES |
|---|---|
| Proposing | 30% |
| Testing | 0% |
| Initial stages of implementation | 11% |
| Middle stages of implementation | 15% |
| Final stages of implementation | 0% |
| Completed implementation | 22% |
| Modifying/altering existing CRM system | 19% |
| Other | 4% |

**26. Which of the following are components of the CRM strategy/system?**

| COMPONENTS | YES | NO | N/A |
|---|---|---|---|
| Customer analysis | 93% | 4% | 4% |
| Customer personalization | 78% | 19% | 4% |
| Call center | 67% | 26% | 7% |
| Web site | 85% | 7% | 7% |
| Customer loyalty | 81% | 19% | 0% |
| Clienteling | 33% | 52% | 15% |
| Campaign management | 48% | 41% | 11% |
| Customer segmentation | 74% | 22% | 4% |
| Point of sale | 67% | 30% | 4% |
| Cross-sell | 78% | 15% | 7% |
| Up-sell | 74% | 19% | 7% |
| Customer segment managers | 33% | 48% | 19% |
| In-home | 26% | 56% | 19% |
| Loyalty combined with in-store promotions | 78% | 19% | 4% |
| In-store smart carts or kiosks | 41% | 44% | 15% |
| On-demand coupons | 30% | 59% | 11% |
| Partner mailings/offerings | 44% | 52% | 4% |
| Other | 4% | 33% | 63% |

**27. Does the company measure the effectiveness of the CRM strategy/system?**

67% of retailers measure the effectiveness of the CRM strategy/system.

**28. Which of the following benefits have been achieved via the CRM strategy/system?**

| BENEFITS | YES | NO | N/A |
|---|---|---|---|
| Increased customer loyalty/ share-of-wallet | 84% | 11% | 5% |
| Incremental sales lift | 68% | 21% | 11% |
| Incremental margin | 58% | 26% | 16% |
| Increased customer satisfaction | 74% | 16% | 11% |
| Decreased customer acquisition costs | 32% | 37% | 32% |
| Decreased add-on selling costs | 21% | 47% | 32% |
| Decreased marketing costs | 26% | 53% | 21% |
| Improved customer retention | 89% | 5% | 5% |
| Other benefit | 5% | 32% | 63% |
| Benefits cannot be measured | 0% | 42% | 58% |

**29. Does the company plan to pursue a CRM strategy/system in the next 12 months?**

35% of the retailers plan to pursue a CRM strategy/system in the next 12 months.

**30. On a scale of 1 to 5 (1=not satisfied at all, 5=extremely satisfied), how would the company rate its satisfaction with its CRM strategy/system?**

| SATISFACTION LEVELS | % OF COMPANIES |
|---|---|
| 1 | 0% |
| 2 | 5% |
| 3 | 32% |
| 4 | 32% |
| 5 | 21% |
| N/A | 11% |

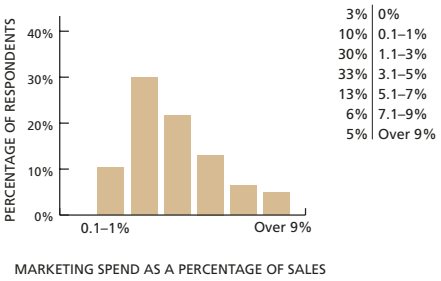
Mean satisfaction level—3.8

# 7 ADVERTISING AND MARKETING FINDINGS

**1. What are the company's advertising and marketing strategic initiatives during 2004 and planned for 2005?**

| ADVERTISING AND MARKETING STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Increase market share | 72% | 71% |
| Advertising effectiveness analysis | 63% | 61% |
| Modify advertising mix (e.g., print, online, television, etc.) | 54% | 58% |
| Increase customer share-of-wallet | 45% | 45% |
| Increase consumer insight and data gathering | 42% | 33% |
| Launch a branding campaign | 37% | 35% |
| Cost reduction/containment | 37% | 33% |
| Reduce marketing spend | 25% | 33% |
| Increase event sponsorship | 14% | 14% |
| Streamline ad production process and lead times | 14% | 24% |
| Automate/further automate the advertising planning and production process | 11% | 21% |
| Implement digital media/private broadcast networks | 10% | 9% |
| Launch/expand multicultural marketing | 7% | 6% |
| Market basket analysis | 6% | 15% |
| Digitization/content management | 3% | 6% |
| Engage a spokesperson | 1% | 0% |
| Other | 13% | 17% |

**2. In the most recent fiscal year, what was the company's marketing spend as a percentage of sales?**




**3. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| ADVERTISING AND MARKETING ASSESSMENT | MEAN RESPONSE |
|---|---|
| Creative development | 3.6 |
| Streamlining ad production process/timeline | 3.1 |
| Integration of marketing processes (e.g., forecasting, finance) | 3.1 |
| Advertising effectiveness analysis | 3.0 |
| Developing and leveraging consumer insights | 2.8 |

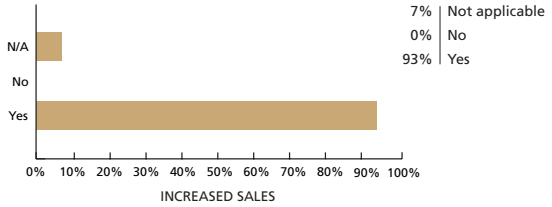
**4. Which of the following marketing software technologies does the company use or plan to use in the next 12 months?**

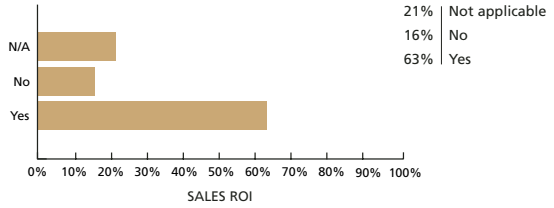
| MARKETING SOFTWARE TECHNOLOGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Advertising effectiveness | 32% | 10% | 59% |
| Private broadcast networks | 10% | 3% | 87% |
| Digital asset management | 27% | 6% | 67% |
| Digital media | 40% | 6% | 54% |
| Marketing resource management | 24% | 6% | 70% |
| Advertising and marketing planning | 40% | 10% | 51% |
| Advertising production/creative | 54% | 0% | 46% |

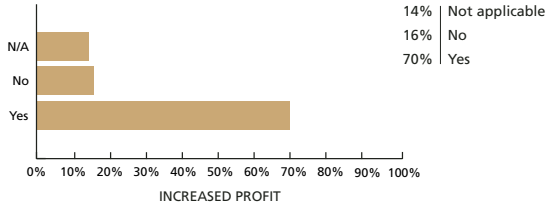
**5. Does the company measure marketing effectiveness?**

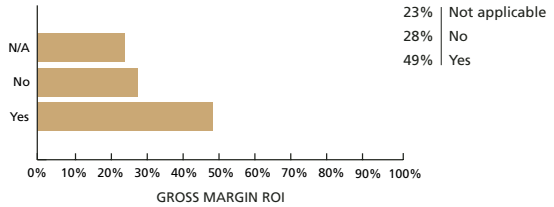
68% of participating retailers measure marketing effectiveness.

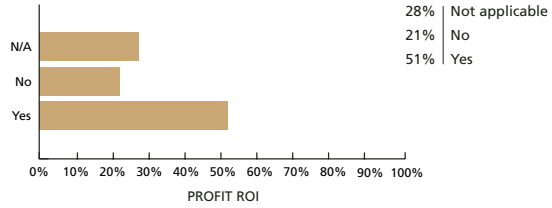
**6. Which of the following metrics does the company use to measure marketing effectiveness?**

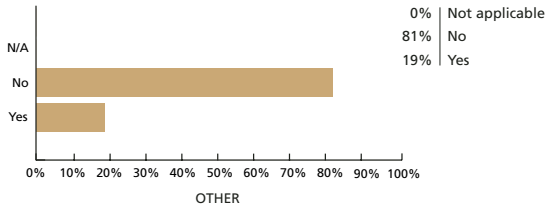


**7. How frequently does the company measure marketing effectiveness?**

| FREQUENCY | % OF COMPANIES |
|---|---|
| Daily | 21% |
| Weekly | 28% |
| Monthly | 35% |
| Quarterly | 9% |
| Semi-annually | 2% |
| Annually | 0% |
| N/A | 5% |

**8. At which of the following levels does the company measure advertising effectiveness?**

| ADVERTISING EFFECTIVENESS LEVEL | YES | NO | N/A |
|---|---|---|---|
| Corporate | 70% | 19% | 12% |
| Promotion/event/media level | 70% | 19% | 12% |
| Department | 51% | 30% | 19% |
| Item level | 49% | 30% | 21% |
| SKU level | 37% | 44% | 19% |
| Store level | 65% | 21% | 14% |
| Other | 9% | 91% | 0% |

**9. Does the company differentiate its marketing to different customers/customer segments?**

63% of participating retailers differentiate their marketing to different customers/customer segments.

**10. What factors does the company consider when differentiating marketing?**

| FACTORS | YES | NO | N/A |
|---|---|---|---|
| Customer sales | 85% | 10% | 5% |
| Customer demographics | 80% | 10% | 10% |
| Customer profitability | 45% | 45% | 10% |
| Customer loyalty | 77% | 17% | 5% |
| Customer geography | 65% | 25% | 10% |
| Customer psychographics | 43% | 35% | 22% |
| Customer preferences | 73% | 15% | 13% |
| Other | 8% | 92% | 0% |

**11. Does the company do direct marketing?**

79% of participating retailers do direct marketing.

**12. What percentage of the advertising spend is on direct marketing?**

| PERCENTAGE OF DIRECT MARKETING ADVERTISING SPEND | % OF COMPANIES |
|---|---|
| 0–5% | 22% |
| 6–10% | 12% |
| 11–20% | 20% |
| 21–30% | 8% |
| 31–40% | 12% |
| 41–50% | 0% |
| 51–75% | 8% |
| Over 75% | 8% |

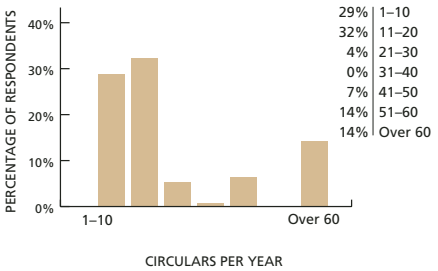
**13. As a percentage of total advertising spend, which of the following channels does the company use?**

| PERCENTAGE OF ADVERTISING SPEND | PRINT | RADIO | TELEVISION | ONLINE | IN-STORE PROMOTIONS | DIRECT MAIL | EVENT SPONSORSHIP | OTHER |
|---|---|---|---|---|---|---|---|---|
| 0% | 7% | 36% | 51% | 30% | 21% | 15% | 25% | 62% |
| 0.1–5% | 8% | 26% | 7% | 26% | 25% | 18% | 43% | 7% |
| 6–15% | 20% | 18% | 10% | 13% | 28% | 16% | 16% | 3% |
| 16–30% | 13% | 7% | 18% | 10% | 5% | 15% | 7% | 2% |
| 31–45% | 13% | 3% | 3% | 3% | 3% | 11% | 0% | 0% |
| 46–60% | 13% | 0% | 3% | 0% | 2% | 5% | 0% | 2% |
| Over 60% | 20% | 0% | 0% | 5% | 2% | 11% | 0% | 2% |
| N/A | 7% | 10% | 8% | 13% | 13% | 8% | 10% | 23% |

**14. Does the company use circulars?**

45% of participating retailers use circulars.

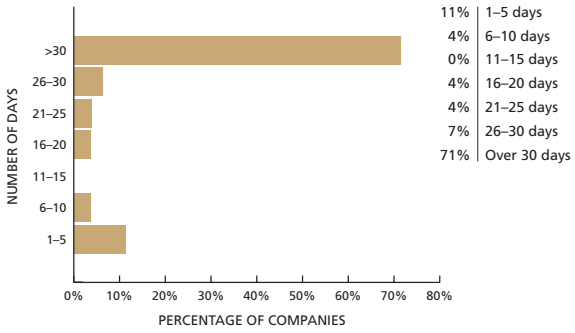
**15. How many circulars does the company use per year?**




**16. Is the circular ZIP code-specific?**

71% of participating retailers use ZIP code-specific circulars.

**17. What is the typical lead time to develop circulars?**




**18. Does the company offer the circular online?**

71% of participating retailers offer the circular online.

**19. Does the company plan to use electronic media?**

63% of participating retailers plan to use electronic media.

**20. Which of the following types of digital media does the company use or plan to use?**

| TYPES OF DIGITAL MEDIA | CURRENT | PLAN WITHIN 12 MONTHS | NO PLAN | N/A |
|---|---|---|---|---|
| Digital signage | 5% | 26% | 51% | 18% |
| In-store broadcast platform (private broadcast network) | 26% | 8% | 59% | 8% |
| Electronic shelf labels | 5% | 8% | 69% | 18% |
| Other | 5% | 3% | 59% | 33% |

**21. Does the company use trade promotions/vendor co-op?**

66% of participating retailers use trade promotions/vendor co-op.

**22. How does the company rate its trade promotions using a 5-point scale, where 1 is not at all effective and 5 is extremely effective?**

| TRADE PROMOTION RATING | % OF COMPANIES |
|---|---|
| 1 = not at all effective | 51% |
| 2 | 12% |
| 3 | 46% |
| 4 | 20% |
| 5 = extremely effective | 17% |

Mean—3.3

**23. What percent of your marketing budget is funded by trade promotion/co-op dollars?**

| PERCENTAGE OF MARKETING BUDGET FUNDED BY TRADE PROMOTIONS | % OF COMPANIES |
|---|---|
| 0–5% | 51% |
| 6–10% | 20% |
| 11–20% | 12% |
| 21–30% | 7% |
| 31–40% | 2% |
| Over 40% | 7% |

**24. Do you see this percent growing over the next two to three years?**

49% of participating retailers see this percent growing over the next two to three years.

**25. Does the company have a multicultural marketing program?**

26% of participating retailers have a multicultural marketing program.

**26. Does the company plan to launch a multicultural marketing program in the next 12 months?**

4% of participating retailers are planning to launch a multicultural marketing program in the next 12 months.

**27. Does the company have the capability to offer customer-specific promotions at POS?**

39% of participating retailers have the capability to offer customer-specific promotions at POS.

**28. What criteria does the company use to offer promotions/coupons at POS?**

| CRITERIA | YES | NO | N/A |
|---|---|---|---|
| Current purchase | 75% | 17% | 8% |
| Past purchase | 54% | 42% | 4% |
| Predictive modeling | 21% | 58% | 21% |
| Loyalty program | 83% | 13% | 4% |
| Overstocks | 21% | 54% | 25% |
| Cumulative purchases | 63% | 29% | 8% |
| Other | 8% | 92% | 0% |

**29. Are promotional buys placed in support of specific advertising events?**

92% of participating retailers report that promotional buys are placed in support of specific advertising events.

# 8 ONLINE FINDINGS

**1. Does the company have an online presence?**

44% of retailers have a presence online.

**2. What are the company's top online strategic initiatives during 2004 and planned for 2005?**

| ONLINE STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Increase online sales | 77% | 80% |
| Modify/expand store assortment on Web site | 65% | 62% |
| Modify/launch online marketing | 58% | 62% |
| Integrate online presence with other channels | 55% | 50% |
| Modify or launch new online services | 45% | 48% |
| CRM | 29% | 32% |
| Cost reduction/cost containment | 23% | 21% |
| Customer privacy | 21% | 20% |
| Refresh the online information technology environment | 20% | 24% |
| Consolidate multiple company Web sites | 12% | 11% |
| Online chat/customer service | 12% | 17% |
| Other | 11% | 6% |

**3. Which of the following online technologies does the company currently use or plan to use within the next 12 months?**

| ONLINE TECHNOLOGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Campaign management tool | 28% | 11% | 62% |
| Call center telephony | 20% | 6% | 74% |
| Clienteling system | 8% | 17% | 75% |
| CRM system | 25% | 20% | 55% |
| Web personalization engine | 23% | 25% | 52% |
| e-commerce software | 48% | 18% | 34% |
| Product information management (PIM) | 45% | 18% | 37% |
| Content/digital asset management | 28% | 17% | 55% |

**4. Which of the following online services does the company currently offer or plan to offer within the next 12 months?**

| ONLINE SERVICES | CURRENT | PLAN WITHIN 12 MONTHS | NO PLAN | N/A |
|---|---|---|---|---|
| Store locator | 80% | 6% | 9% | 5% |
| Store layout | 12% | 3% | 68% | 17% |
| Sales | 58% | 14% | 18% | 9% |
| Account management | 32% | 15% | 35% | 17% |
| Order management | 49% | 23% | 20% | 8% |
| Service requests | 38% | 9% | 38% | 14% |
| Delivery requests | 46% | 11% | 34% | 9% |
| Customer service | 66% | 6% | 22% | 6% |
| Satisfaction surveys | 42% | 20% | 25% | 14% |
| Product information | 83% | 6% | 8% | 3% |
| Local store inventory availability | 22% | 11% | 52% | 15% |
| Return information | 55% | 8% | 32% | 5% |
| Brand messaging | 68% | 9% | 17% | 6% |
| Preordering merchandise | 32% | 8% | 51% | 9% |
| Linkage to other Web sites or tools | 54% | 6% | 29% | 11% |
| Gift registry | 15% | 12% | 57% | 15% |
| Personalization | 37% | 18% | 34% | 11% |
| Other | 2% | 5% | 55% | 38% |

**5. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| ONLINE ASSESSMENT | MEAN RESPONSE |
|---|---|
| Web look and feel | 3.6 |
| Site performance | 3.4 |
| Sales conversion | 2.8 |
| Personalization | 2.4 |

**6. Does the company sell products online?**

77% of retailers with a Web site sell products online.

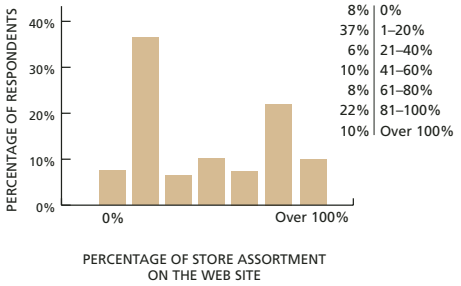
**7. Does the price vary between the Web site and the stores?**

30% of retailers selling product online vary prices between the Web site and the stores.

**8. Do the prices online reflect local prices?**

53% of online retailers' prices online reflect local prices.

**9. What percent of the store assortment is on the Web site?**



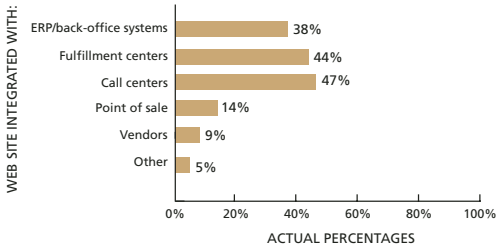
**10. On an annual basis, what is the approximate number of visitors to the Web site?**

| VISITORS | % OF COMPANIES |
|---|---|
| 1–100,000 | 30% |
| 100,001–500,000 | 16% |
| 500,001–1,000,000 | 14% |
| 1,000,001–5,000,000 | 17% |
| 5,000,001–10,000,000 | 8% |
| 10,000,001–20,000,000 | 6% |
| Over 20 million | 9% |

**11. On an annual basis, what is the company's average visitor conversion ratio?**

| VISITOR CONVERSION RATIO | % OF COMPANIES |
|---|---|
| 1–5% | 38% |
| 6–10% | 8% |
| 11–20% | 5% |
| 21–40% | 3% |
| 41–60% | 3% |
| 61–80% | 0% |
| Over 80% | 2% |
| Incalculable | 20% |
| N/A | 22% |

**12. Is the Web site integrated with the following?**




**13. Does the company show local store inventory availability on its Web site?**

11% of retailers show local store inventory availability on their Web site.

**14. Does the company monitor customer click streams?**

61% of retailers monitor click streams.

**15. Does the company personalize its Web site for its customers currently, or does it plan to within the next 12 months?**

45% of retailers personalize or plan to personalize their Web sites for their customers within the next 12 months.

**16. Which of the following methods does the company currently use or plan to use to personalize the Web site experience?**

| WEB SITE PERSONALIZATION METHODS | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| Retain customer information | 62% | 21% | 17% |
| Offer customer-specific purchase suggestions | 45% | 21% | 34% |
| Show the customer's name on the Web site | 52% | 17% | 31% |
| Send targeted information based on click streams | 52% | 28% | 21% |
| Other | 3% | 3% | 93% |

# 9 HUMAN CAPITAL FINDINGS

**1. What are the company's top human capital strategic initiatives during 2004 and planned for 2005?**

| HUMAN CAPITAL STRATEGIC INITIATIVES | % OF COMPANIES | |
|---|---|---|
| | 2004 | 2005 |
| Benefits and healthcare cost containment | 21% | 21% |
| New sales associate compensation/incentive model | 5% | 5% |
| Diversity | 3% | 5% |
| Associate training | 16% | 17% |
| Developing e-training for employees | 2% | 3% |
| Retention | 11% | 10% |
| Leadership assessment, development and succession planning | 11% | 12% |
| Standardize HR processes | 2% | 2% |
| Outsource HR operations | 1% | 0% |
| Employee self-service | 0% | 1% |
| HIPAA compliance | 1% | 1% |
| HR system implementation (e.g., HRIS) or upgrade | 5% | 3% |
| Cost reduction/cost containment | 7% | 7% |
| HR vision/strategy development | 5% | 1% |
| HR governance and alignment | 1% | 0% |
| Talent management | 5% | 5% |
| Employee/labor relations | 1% | 2% |
| Other | 3% | 3% |

**2. Using a 5-point scale, where 1 is low and 5 is the best, please rate each of the following items for your company.**

| HUMAN RESOURCES ASSESSMENT | MEAN RESPONSE |
|---|---|
| Employee retention | 3.7 |
| Employee hiring | 3.4 |
| Employee training | 3.4 |
| Standardizing HR processes | 3.3 |
| Developing talent for leadership roles | 3.2 |
| Developing a diverse workforce | 3.0 |
| Driving business performance through the compensation system | 3.0 |

**3. Which of the following HR technologies does the company use or plan to use in the next 12 months?**

| HUMAN RESOURCES TECHNOLOGIES | CURRENT | PLAN WITHIN 12 MONTHS | N/A |
|---|---|---|---|
| e-training | 17% | 21% | 62% |
| Hiring | 46% | 10% | 44% |
| Self-service kiosk | 17% | 10% | 73% |
| HRIS | 45% | 10% | 45% |

**4. What percentage of the compensation is based on customer service scores for the following areas?**

| PERCENTAGE OF COMPENSATION BASED ON CUSTOMER SERVICE SCORES | CORPORATE OFFICE | FIELD MANAGEMENT | STORE MANAGEMENT | STORE SELLING ASSOCIATE | CENTRAL CALL CENTER REPRESENTATIVE | OTHER |
|---|---|---|---|---|---|---|
| 0% | 43% | 36% | 33% | 34% | 34% | 38% |
| Less than 10% | 6% | 6% | 7% | 7% | 10% | 3% |
| 10–25% | 9% | 14% | 17% | 7% | 10% | 6% |
| 26–50% | 7% | 6% | 3% | 11% | 4% | 1% |
| 51–75% | 0% | 3% | 3% | 1% | 0% | 0% |
| Greater than 75% | 4% | 6% | 10% | 11% | 6% | 3% |
| N/A | 31% | 30% | 27% | 27% | 36% | 49% |

**5. In the most recent fiscal year, how many full-time and part-time employees did the company employ?**

| NUMBER OF EMPLOYEES | % OF COMPANIES | |
|---|---|---|
| | FULL-TIME | PART-TIME |
| 1–100 | 39% | 49% |
| 101–1,000 | 17% | 16% |
| 1,001–5,000 | 21% | 19% |
| 5,001–10,000 | 10% | 7% |
| 10,001–50,000 | 9% | 3% |
| 50,001–100,000 | 0% | 1% |
| Over 100,000 | 1% | 1% |
| N/A | 3% | 4% |

**6. What is the average number of employees per store?**

| AVERAGE NUMBER OF EMPLOYEES PER STORE | % OF COMPANIES |
|---|---|
| 1–10 | 44% |
| 11–20 | 13% |
| 21–50 | 21% |
| 51–75 | 3% |
| 76–100 | 4% |
| 101–150 | 1% |
| 151–200 | 7% |
| Over 200 | 1% |
| N/A | 6% |

**7. How many HR employees does the company have?**

| NUMBER OF HR EMPLOYEES | % OF COMPANIES |
|---|---|
| 1–50 | 74% |
| 51–100 | 11% |
| 101–150 | 3% |
| 151–200 | 2% |
| 201–250 | 0% |
| 251–300 | 0% |
| 301–400 | 0% |
| Over 400 | 5% |
| N/A | 6% |

Average number of HR employees—57

**8. What is the number of employees per salaried HR employee?**

| NUMBER OF EMPLOYEES PER SALARIED HR EMPLOYEE | % OF COMPANIES |
|---|---|
| 1–10 | 32% |
| 11–25 | 8% |
| 26–75 | 7% |
| 76–125 | 6% |
| 126–200 | 7% |
| 201–500 | 17% |
| 501–1,000 | 10% |
| Over 1,000 | 3% |
| N/A | 10% |

**9. What is the number of stores per salaried HR employee?**

| NUMBER OF STORES PER SALARIED HR EMPLOYEE | % OF COMPANIES |
|---|---|
| 0 | 7% |
| 1–2 | 25% |
| 3–5 | 7% |
| 6–10 | 8% |
| 11–20 | 7% |
| 21–50 | 13% |
| 51–75 | 3% |
| Over 75 | 10% |
| N/A | 20% |

**10. What is the approximate average cost (recruitment and training costs) to hire a new sales associate or support staff member?**

| AVERAGE COST TO HIRE SALES ASSOCIATE OR STAFF MEMBER | % OF COMPANIES |
|---|---|
| $1–$250 | 36% |
| $251–$500 | 21% |
| $501–$1,000 | 17% |
| $1,001–$2,000 | 13% |
| Over $2,000 | 13% |

**11. What is the approximate average cost (recruitment and training costs) to hire a new store management staff member?**

| AVERAGE COST TO HIRE STORE MANAGEMENT STAFF MEMBER | % OF COMPANIES |
|---|---|
| Under $2,500 | 46% |
| $2,501–$5,000 | 32% |
| $5,001–$7,500 | 13% |
| $7,501–$10,000 | 6% |
| Over $10,000 | 3% |

**12. What percentage of the company's store workforce is hourly versus commissioned?**

| PERCENTAGE OF WORKFORCE | % OF COMPANIES | |
|---|---|---|
| | HOURLY | COMMISSIONED |
| None | 13% | 68% |
| 1–10% | 3% | 7% |
| 11–20% | 3% | 3% |
| 21–30% | 0% | 3% |
| 31–40% | 4% | 7% |
| 41–50% | 4% | 1% |
| 51–60% | 4% | 3% |
| 61–70% | 1% | 1% |
| 71–80% | 29% | 1% |
| Over 80% | 39% | 6% |

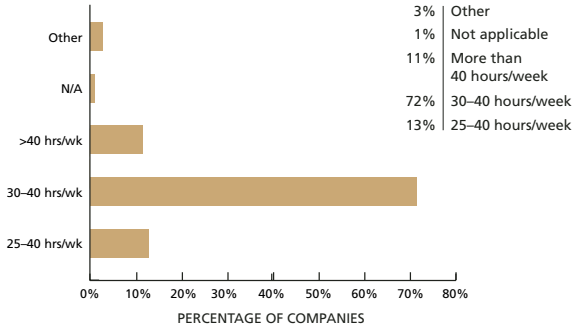
**13. What percentage of the company's employees are unionized?**

| PERCENTAGE OF EMPLOYEES THAT ARE UNIONIZED | % OF COMPANIES |
|---|---|
| None | 90% |
| 1–5% | 3% |
| 6–10% | 1% |
| 11–15% | 0% |
| 16–20% | 0% |
| Over 20% | 6% |

**14. Which of the following benefits does the company offer to full-time and part-time employees?**

| BENEFITS | % OF COMPANIES | |
|---|---|---|
| | FULL-TIME | PART-TIME |
| Medical | 96% | 39% |
| Employee discount | 93% | 80% |
| Dental | 77% | 32% |
| 401(k) | 70% | 25% |
| Short-term disability | 65% | 18% |
| Long-term disability | 61% | 17% |
| Educational assistance/ reimbursement | 39% | 15% |
| Employee assistance program | 34% | 15% |
| Pension | 30% | 14% |
| Stock options/employee stock ownership plan | 21% | 11% |
| Something else | 17% | 7% |
| Legal assistance program | 15% | 3% |
| Retiree medical coverage | 7% | 1% |
| Mortgage assistance program | 3% | 1% |
| Other | 20% | 13% |

**15. Which of the following best defines a company's full-time employees?**



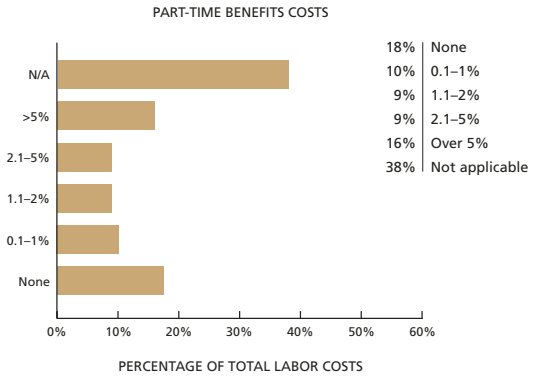

**16. How many hours per week must a part-time employee work to be eligible for benefits?**

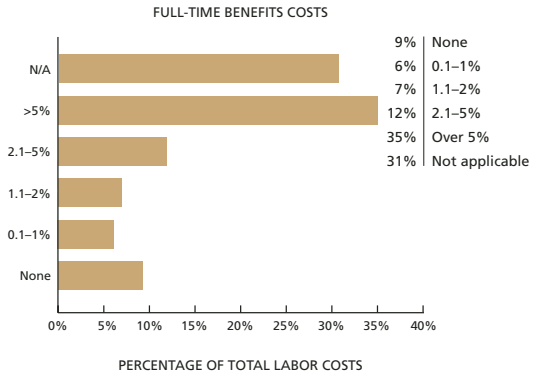
| HOURS PER WEEK TO BE ELIGIBLE FOR BENEFITS | % OF COMPANIES |
|---|---|
| Under 10 hours/week | 11% |
| 10–15 hours/week | 6% |
| 16–20 hours/week | 18% |
| 21–25 hours/week | 14% |
| 26–30 hours/week | 11% |
| 31–40 hours/week | 13% |
| Other | 4% |
| N/A | 23% |

**17. What are the labor costs for full-time and part-time employees as a percentage of sales?**

| LABOR COSTS AS A PERCENTAGE OF SALES | % OF COMPANIES | |
|---|---|---|
| | FULL-TIME | PART-TIME |
| None | 1% | 3% |
| 0.1–1% | 3% | 6% |
| 1.1–2% | 4% | 4% |
| 2.1–5% | 6% | 7% |
| 5.1–7% | 4% | 9% |
| 7.1–8% | 3% | 4% |
| 8.1–9% | 6% | 6% |
| 9.1–10% | 4% | 4% |
| 10.1–11% | 3% | 1% |
| Over 11% | 25% | 9% |
| N/A | 40% | 45% |

**18. What are the employee benefit costs as a percentage of labor costs for full-time and part-time employees?**




**19. What is the company's average annual turnover percentage for salaried and hourly employees?**

| ANNUAL TURNOVER PERCENTAGE FOR SALARIED AND HOURLY EMPLOYEES | % OF COMPANIES | |
|---|---|---|
| | SALARIED | HOURLY |
| None | 14% | 7% |
| 1–10% | 30% | 16% |
| 11–20% | 17% | 13% |
| 21–30% | 9% | 3% |
| 31–40% | 12% | 10% |
| 41–50% | 1% | 7% |
| 51–60% | 1% | 6% |
| 61–70% | 1% | 10% |
| 71–80% | 0% | 3% |
| Over 80% | 1% | 10% |
| N/A | 12% | 13% |

**20. What is the company's annual training cost per full-time and part-time employee?**

| ANNUAL TRAINING COST PER EMPLOYEE | % OF COMPANIES | |
|---|---|---|
| | FULL-TIME | PART-TIME |
| None | 24% | 29% |
| $1–$100 | 17% | 24% |
| $101–$200 | 6% | 11% |
| $201–$300 | 3% | 11% |
| $301–$500 | 13% | 6% |
| $501–$700 | 6% | 4% |
| $701–$900 | 3% | 1% |
| Over $900 | 19% | 13% |

**21. What are the annual average training hours per full-time and part-time employee?**

| AVERAGE TRAINING HOURS PER EMPLOYEE | % OF COMPANIES | |
|---|---|---|
| | FULL-TIME | PART-TIME |
| None | 1% | 6% |
| 1–5 | 11% | 16% |
| 6–10 | 17% | 17% |
| 11–20 | 13% | 19% |
| 21–30 | 11% | 10% |
| 31–40 | 13% | 11% |
| Over 40 | 23% | 10% |
| N/A | 10% | 11% |

**22. Does the company outsource any of its HR operations?**

36% of participating retailers outsource a part of their HR operations.

**23. Which of the following areas is the company outsourcing?**

| OUTSOURCING SERVICES | CURRENT | PLAN WITHIN 12 MONTHS | NO PLAN | N/A |
|---|---|---|---|---|
| Health and welfare benefits administration | 44% | 0% | 32% | 24% |
| HR systems management | 4% | 4% | 68% | 24% |
| Payroll | 44% | 0% | 40% | 16% |
| Pension/401(k) administration | 60% | 0% | 20% | 20% |
| HR administration | 8% | 0% | 72% | 20% |
| Employee performance management | 4% | 4% | 72% | 20% |
| Employee relations | 4% | 4% | 6% | 28% |
| Recruiting | 8% | 4% | 64% | 24% |
| E-learning/training administration | 0% | 8% | 64% | 28% |
| Relocation | 8% | 4% | 64% | 24% |
| Employee assistance program (EAP) | 28% | 0% | 36% | 36% |
| Check printing and distribution | 20% | 4% | 56% | 20% |
| Background checks | 48% | 8% | 28% | 16% |
| Tax filing | 36% | 0% | 44% | 20% |
| Drug testing | 36% | 4% | 32% | 28% |
| Other | 20% | 0% | 40% | 40% |

**24. How much has the company reduced administrative costs through outsourcing?**

| REDUCTION OF ADMINISTRATIVE COSTS | % OF COMPANIES |
|---|---|
| 0% | 33% |
| 1–5% | 29% |
| 6–10% | 21% |
| 11–20% | 4% |
| 21–30% | 0% |
| Over 30% | 8% |
| Increased costs | 4% |

Average reduction of administrative costs —3.6%

**25. Does the company offer employee self-service (e.g., benefits)?**

37% of participating retailers offer employee self-service.

**26. Does the company currently have a performance management process in place?**

74% of participating retailers have a performance management process in place.

# acknowledgment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