



## **Microsoft Retail White Paper**

### ***Smarter Retailing 2006: Advisers & Clients***

### **A Report on the Retailers Knowledge-Exchange Roundtable**

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***Microsoft***<sup>®</sup>

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## Executive Summary

Canadian retailing is a dynamic and highly competitive industry. Contemporary consumers want high-quality products, top-notch service and the best possible prices. Profit margins are thin and a number of powerful market forces are re-shaping the retail landscape. In this environment, only the best flourish.

In early April, Microsoft Canada sponsored a day-long gathering of consumers, retailers and technology providers at the Microsoft Conference Centre in Mississauga, Ont. to exchange of-ideas about enhancing customer service and maximizing returns. In a series of roundtables and break-out sessions, the participants examined the trends that are transforming the industry. They discussed business strategies for maximizing returns and they debated the role of technology in providing superior customer service, better insight into operations and improved employee productivity.

Canadian retailers are currently benefiting from a strong economy that has seen unemployment fall to a 30-year low nationally while both interest rates and inflation have been stable for several years. These factors enhance consumer confidence and stimulate demand. At the same time, however, the retail environment is being transformed by the arrival of large and powerful multinationals from the United States and Europe, the growth of power centres and the decline in importance of the traditional, enclosed shopping centre.

Canadian consumers want broad, reliable selection. They want well organized stores. And they demand prompt, courteous service. They expect a good returns and exchange policy. They take advantage of multiple loyalty and rewards programs and they will shop in a variety of venues. In recent years, though, shoppers have become value hunters. Weekend sales and permanent price discounting are powerful motivators in the Canadian marketplace.

Innovative technology is playing an increasingly important role in retail operations. Experience has shown that the right software can have a major impact on operational effectiveness and bottom lines. Microsoft is uniquely positioned to help the retailer make those gains and that applies to single-store, proprietor-operated outlets as well as nation-wide chains. Microsoft's suite of solutions help the retailer harness information, the lifeblood of business today. They enable the retailer to turn data into insight, transform ideas into action, and turn change into opportunity.

How do we improve operational effectiveness? Through the Microsoft Smarter Retailing Initiative. Smarter Retailing is built on three pillars: Smarter Shopping, Smarter Selling and Smarter Operations.

"Leading retailers are fundamentally changing the way they do business," says Jordan Sheridan, Enterprise Retail Account Executive, Microsoft Canada Co. "They are embracing innovations that create new opportunities for collaborating with customers, understanding their shopping preferences, and tailoring the consumer experience to the specific shopping intentions of every visit. Microsoft has created the Smarter Retailing Initiative (SRI) to help retailers differentiate themselves from their competition by the raising the level of value they deliver to their customers."

In the future, technology will play an even larger role in retailing and Microsoft is working with major retailers around the world, as well as system integration specialists, to create the store of tomorrow. Emerging technologies will allow retailers to influence buying decisions while the consumer is in the store, detect fraud at the checkout stand and schedule staff based on customer traffic analysis.

## The Retail Landscape

*"Very large, sophisticated retailers from all over the world are coming to Canada and bringing their best game with them. It's an enormous challenge for Canadian retailers, but they are going to toe to toe with them."* - Peter Woolford, Vice-President Policy Development and Research, Retail Council of Canada

In the past decade, domestic retail icons like Eaton's have disappeared while powerful foreign brands like Home Depot, Wal-Mart and the Swedish-based clothier H&M have become familiar names in communities from coast to coast. Because of their size, the multinationals benefit from operating efficiencies and negotiating power that Canadian companies have a hard time matching. But some of the best in this country, like Canadian Tire and Quebec-based RONA, have successfully adopted larger format stores or acquired other companies in order to achieve the size necessary to compete. Transformative change is also occurring in the grocery sector. Loblaws Cos.' Real Canadian Super Stores now devote 55 per cent of their floor space to general merchandise in order to compete with general merchandisers like Wal-Mart and Costco, who also sell food products.

Power centres anchored by big box stores now account for 20 per cent of Canadian retail sales and they've taken that much of the market in the space of 10 years, largely from retailers in other venues. The big loser has been the enclosed shopping centre. Only one shopping centre--Vaughan Mills in the

Toronto suburb of Vaughan--has been built in Canada the past 15 years. According to Peter Woolford, time-pressed heads of households now find power centres an attractive option while malls now appeal overwhelmingly to one demographic--adolescent girls and young women.

The retail industry has become a competitive free-for-all in which the traditional boundaries between product categories and segments have disappeared. Grocers are selling general merchandisers and general merchandisers are selling food. The blurring of borders is a serious challenge for small specialty retailers. They have traditionally had to be better than their direct competitors. Now they face a new threat in the form of big box outlets who can take market share with high-quality, low-priced goods.

Peter Woolford summed up the retail scene by observing:

*“There are fewer animals out there. They’re becoming faster, bigger, stronger and meaner. It’s a battle of the titans and when they do battle the lesser creatures scurry for shelter.”*

## **The Consumer**

*“I’m looking for high quality merchandise, good prices and I want staff available if I need help.”*

*“I like to know that there are enough cashiers on duty so I can avoid long line ups. It’s a big issue when you’re shopping with little kids.”*

*“What really bugs me is when the cashiers don’t know prices and have to phone someone to check the price. Or when they scan a sale item and the cash register displays the regular price. Cashiers should always know what’s on sale or in the flyers.”*

Put a typical group of shoppers together, tell them to have a kitchen table conversation, and the result is an exchange of views that is candid, wide-ranging and illuminating. The Microsoft Canada consumer round table discussion included six women from ethnically diverse backgrounds, and some of their comments are quoted above. The participants were all suburban mothers in their late twenties to mid-thirties, who make most of the buying decisions in their growing households.

On many basic issues, their views converged. They all agreed that price is important. They look for good selection and interesting products. They like stores that are well organized with merchandise neatly displayed. They expect retailers

to have staff available to deal with their questions. They shop at a wide variety of venues, including specialty stores, video stores, department stores, dollar stores, big box outlets and enclosed malls. They also described their shopping habits by category and mentioned home improvement, furniture, shoes and sporting goods.

Most, but not all, dislike lineups at the cash register. One participant said she doesn't mind a short wait because it gives her an opportunity to scan the magazine rack and to read some of the articles. They all said they have tried the automated checkout counters at supermarkets and one said she uses them almost exclusively, even though it can take longer than using the cashier. As she explained it: "My kids like to scan and it feels faster because you're doing something."

The participants were also candid about what they like and don't like about the retail experience. Most said they like a central checkout with one line-up because everyone spends the same amount of time in line. One participant said she becomes extremely frustrated when she gets stuck in a slow line while others are moving quickly. This group of shoppers doesn't like retailers who make their cashiers handle sales transactions, exchanges and refunds, which can cause lengthy delays. They all felt that cashiers should be better informed about prices, the location of products and the weekly sales items.

A participant in one of the other discussions noted that Canadian consumers are strongly driven by a desire for sales and discounted pricing, something that sets them apart from Americans. He told the audience:

*"Americans get much more excited by "bling," glamour and features. Canadians are much more cautious. We're focused on value. The best parlor game in town these days is 'Guess how little I paid for this.' It's a reflection of how much tighter our budgets are."*

The distinction between Canadian and American consumers is due in part to the growing gap in personal disposable income per capita. In the early 1980s, the average Canadian earned about 85 per cent after tax of what a typical American earned. Today, the Canadian earns only two-thirds as much. Thus the Canadian shopper is much more value-driven and sales are powerful motivators.

## The Microsoft Smarter Retailing Initiative

*“If a consumer goes into that store and can’t get what they want, it’s the last time they shop there. So most retailers overstock. If a retailer has \$100,000 inventory, there’s usually \$10,000 worth that doesn’t need to be there. The Microsoft Retail Management System allows you to cut down on inventory. I have had retailers tell me that they’ve paid for their entire system investment with inventory they didn’t have to put on their shelves.”* Michael G. Steg, Senior Account Manager, Tri-City Retail Systems.

Technology does make a difference in retailing and it will have an even bigger impact on retail operations in the future. That’s why Microsoft developed the Smarter Retail Initiative. Created in conjunction with leading systems integrators and independent software vendors, the Smarter Retail Initiative harnesses the power of technology to help improve operational effectiveness, to help reduce costs, to make timely and accurate decisions and to help drive sales.

To achieve these far-reaching goals, Smarter Retailing focuses on three key areas:

1. Smarter Shopping recognizes that customers value excellent service, improved product availability, targeted promotions, and convenient access to information that makes it easier to make informed decisions. Smarter Shopping enables retailers to take advantage of existing IT investments and familiar consumer technologies to create personalized shopping experiences that deliver the products customers want, in ways that are convenient, easy, and compelling.
2. Smarter Selling enables retailers to maximize sales and help improve customer satisfaction by empowering employees with real-time information about products and customer preferences. With Smarter Selling solutions, sales associates can improve customer interactions, help increase cross-sell and up-sell opportunities, and anticipate customer needs. Smarter Selling also frees store managers from routine back office tasks so they can spend more time assisting customers.
3. Smarter Operations help improve business efficiency by providing real-time visibility into the metrics that drive profitability. With Smarter Operations, retailers can connect to suppliers, streamline inventory management, and deliver critical information to store managers and employees. Smarter Operations empowers store managers to make fast, accurate decisions about labour deployment, risk management, product promotions, health and safety compliance.

How well do Smarter Retailing solutions work? Here is what round table participant Mike Steg says about the Microsoft Retail Management system:

*“The vice-president of finance at a 33-store chain in Montreal told me that within three months of adopting a retail management system they had taken the burden of replenishing stock of the store managers and employees and given it to one person at head office.”*

## **The Smart Store**

*“We believe that the future of shopping lies in technology, both in the hands of consumers and extensively, but unobtrusively, deployed throughout the store, to create a more satisfying shopping experience and a more profitable, sustainable business.”* - Zygmunt Mierdorf, Chief Information Officer of METRO Group

Technology is going to revolutionize retailing and the store of the future will look something like this. Shopping carts will come equipped with Personal Digital Assistants—small screens and keyboards—mounted on the handle. The consumer will transmit a grocery list from a home computer to an in-store computer and from there it will be downloaded to the Personal Digital Assistant.

Sensors built into the ceiling will keep track of a shopper’s whereabouts. This information will be sent to the store system, which can then alert the shopper that he or she is going past a shelf or counter where there are products on sale. The system can also send the shopper personalized promotional messages based on their shopping history.

Electronic shelf labels will be used to post information about prices, weights and volumes. Sensors will be embedded in the shelves to inform the store system when items are removed, which will permit accurate, real-time tracking of inventory and inform store managers what is selling, especially during sales and promotions.

The store of the future is not far off. The German-based METRO Group, the world’s fifth-largest trading and retailing company, launched its Future Store initiative with partners from the consumer goods and information technology industries in order to develop a vision for the future of global retailing and the technologies to make that vision a reality.

Software development partner Sysrepublic and systems integration partner Wipro Technologies, developed real-time retailing solutions using Microsoft® software to help METRO Group meet this challenge. These solutions take advantage of the IP telephony capabilities that METRO Group is integrating into its stores, real-time application integration capabilities from Microsoft, and in-store wireless devices such as personal shopping assistants.

The Future Store initiative is just one example of the many ways in which Microsoft-based technology has helped retail and hospitality businesses deliver compelling, personalized experiences and transform the way in which goods and services are delivered to customers.

## Conclusions

Low unemployment, low interest rates and price stability are boosting consumer confidence and demand. But retailers are facing competitive pressures from new players coming into the market, the erosion of traditional market segments and the rise of the power centre, which has occurred at the expense of the enclosed mall.

Canadian consumers are bargain hunters who respond to sales and value pricing. That makes for thin margins at a time when consumers are demanding good, reliable selection, orderly stores and better customer service.

Retailers should be investing in information technology and using it to manage inventories as well as other aspects of their operations. A good retail management system allows single- or multiple-store operations to manage inventory, pricing, staffing and other functions more effectively and to reduce costs. The benefits can flow straight to the bottom line.

Technology will continue to change the way retailers do business and smart technologies will be embedded throughout retail outlets in the future. These devices will help provide enhanced inventory management, they will allow retailers to provide better customer service, and they will create promotional opportunities from the moment a shopper enters the store.

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