CISCO

Winning the Connected Consumer
New Retail Strategies for Growth and Profitability in a Connected World

Cisco Internet Business Solutions Group
April 2008

- Today we are going to talk about real opportunities for retail companies to drive growth and profitability.

- These opportunities will require retailers to move beyond the tried-and-true focus areas of the past—location, product, and supply-chain efficiency. The new frontier of opportunity is in getting closer to the consumer and providing a new level of shopping experience, involving concepts such as individual profitability, lifetime value, customer experience, loyalty, personalization, and wallet share.

- At the heart of this opportunity is the new "connected consumer": a consumer who rapidly adopts new technology in his or her personal life and uses new capabilities to communicate and collaborate while shopping.

- Today's growth opportunities require new organizations, processes, technologies, and, most important, new mindsets.

- Cisco IBSG believes the rewards will far outweigh the costs and risks for those who succeed. This new focus will be good not only for your customers and employees, but also for your shareholders.

- For the next hour, let's explore some of the ways you can win with connected consumers.

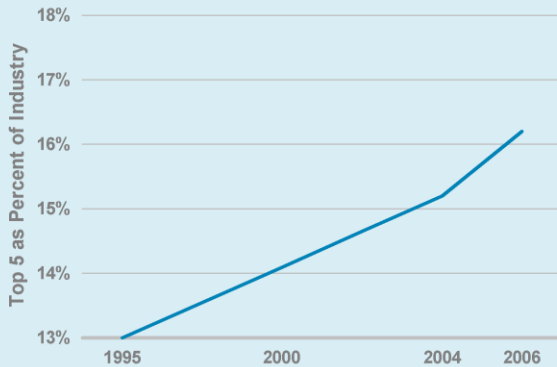**Connected Consumers and the Experience Opportunity**

- Let's start by briefly looking at where retailers and consumers are today, and where they are evolving in the area of customer experience.

The Big Keep Getting Bigger

Competition / growth is through low-price and high-volume commodity transactions

Top 5 U.S. Retailers' Total 2006 Sales:

$630 Billion

Wal-Mart:	$349B
Home Depot:	$ 91B
Kroger:	$ 66B
Costco:	$ 64B
Target:	$ 60B

Source: Economagic, Zacks Investment Research, Cisco IBSG Economics & Research, 2007

• The past dozen years have seen an unmistakable trend toward the "big getting bigger" and taking a larger percentage of the overall retail market—primarily through low-price and high-volume commodity transactions. There has been a notable lack of focus on the quality of the shopping experience.

Two Basic Competitive Strategies

Price

Features

WAL★MART
ALWAYS LOW PRICES
Always.

WHOLE FOODS MARKET

Source: Cisco IBSG

- Some retailers are differentiating themselves from the commodity- and volume-based "Wal-Mart" strategy by offering more features at an increased price and margin.
- While both of these strategies are showing success, companies caught in the middle are at the highest risk for becoming uncompetitive.

Today's Experiences Frustrate Consumers

Today's Consumer Frustrations	Risks
■ Inefficient transactions (price / checkout) ■ Lack of in-store information ■ Out-of-stocks ■ Disconnects among channels (store, Web, call centers) ■ Lack of personal attention / knowledgeable associates ■ Uninspiring experiences	■ In today's Internet-driven world, customers have more power than ever. Through "consumer-generated media"—blogs, social networking pages, message boards, product review sites—even a single disgruntled customer can broadcast his complaints to an audience of millions.*

Source: Ciso IBSG; *Peter Blackshaw

- This is evident when you look at the top consumer shopping frustrations.
- Note that these frustrations—with the exception of finding products out of stock—are not really about the supply chain, which has been the historical focus for most retailers. Instead, these frustrations are about experiences: Was a knowledgeable salesperson available to help find the products and information needed, quickly and efficiently? How long was the wait in the checkout line? Was it easy to return an item purchased online to the physical store?
- Customers want quality products, low prices, convenient locations, AND great experiences. Too often, retailers deliver on the first three but fall notably short on the fourth.
- These frustrations have a significant impact on your business. Two-thirds of customers who have a negative experience in a store simply stop going to that store. They may never complain to store management, but are likely to talk about their experiences with friends.
- Think about your own experiences: when you have a positive experience, how often do you tell someone else about it? Are you more likely to tell someone if you have a negative experience? And when you have a negative experience, how much does that affect your future shopping at that store? Do you remember negative shopping experiences more vividly than positive ones?
- Retailers who go beyond the basics of product, price, and location, and emphasize experience, will have a distinct advantage with consumers.
- Source: Cisco IBSG, 2008

Connected Consumers Are Taking Control

Source: Cisco IBSG, 2008

- Given the power of Internet connectivity and the many options it provides for sharing information, price comparisons, and reviews, consumers are now in the driver's seat.
- We are now dealing with a new generation of consumers who have different skills, different expectations, and different needs.

Connected Consumers Are Changing the Shopping Process
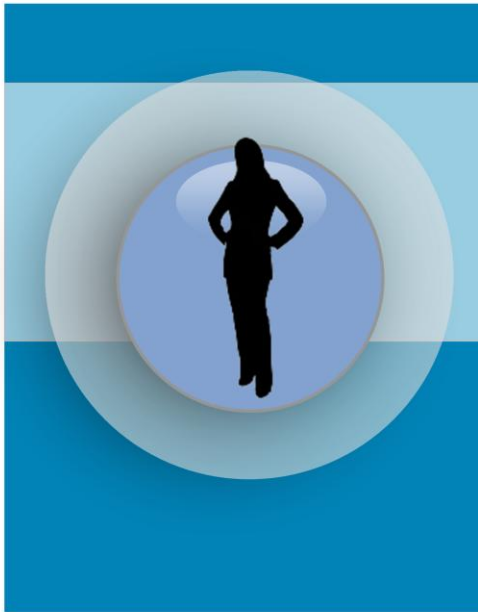
- **69%** research products online before going to store to make purchase
- **62%** have looked at least once at an online peer review before making a purchase
- **39%** compared a product's features and price across retail outlets online before buying
- **61%** want to scan bar codes and access information on other stores' prices
- **9%** used a cell phone to text message a friend or relation about a product while shopping

Source: David Butow/Redux, *BusinessWeek*, December 2007

- Consumers not only know how to research products to become more educated buyers—they also write product and store reviews on sites such as Yelp; easily compare prices from a myriad of sources on sites such as Yahoo! Shopping; provide tips to other consumers via social networking sites; and bargain-hunt on eBay.

- Retailers must take this into account as they formulate customer experience strategies.

The New Competitive Landscape

Differentiated Experiences for Connected Consumers

Old Retail Playbook
Right Product
Right Place
Right Time
Right Price

New Retail Playbook

Right Solution
Right Customer
Right Way

Visit the Cisco Store online at www.cisco.com/go/marketplace/

Source: Cisco IBSG, 2008

- Because connected consumers have so many options and tools at their fingertips, retailers must change their traditional mode of operation to a model that is more suited to consumers' increased expectations.

- This can be represented in a shift from the traditional retail model of "right product, right place, right time, right price" to a new approach: "right solution (products and services), right customer (customer offers that generate profitability), and right way (using multiple channels and modern communication tools to allow customers to shop the way that they want, and moving from a focus on transactions to a focus on interactions)."

- This shift is the secret that drives today's growth and profitability metrics.

Three Key "Connected Consumer Experience" Technologies

- With connected consumers adopting and using new technologies, retailers can capitalize on this trend to improve their customers' experiences.
- Let's take a closer look at three of the key "experience" technologies.

Key Customer Experience Technologies

Right Solution
Right Customer
Right Way

Video   Collaboration   Mobility

Source: Cisco IBSG, 2008

- Video, collaboration, and mobility are playing a significant role in the lives of consumers. Keep in mind that connected consumers also are the individuals that make up the retail labor pool, so they are bringing these skills and experiences into the workforce—presenting additional opportunities for retailers.

The Connected Consumer and Video
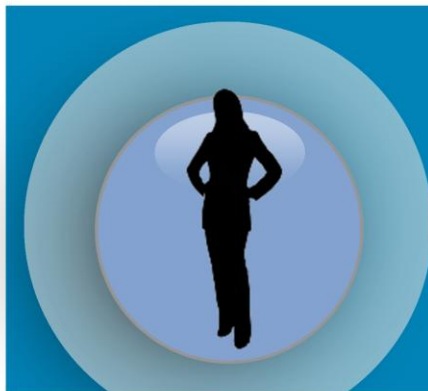
- Video is a more effective mode of communication than written words
- Becoming the preferred mode among younger generations across channels and devices
- A key element in today's collaboration (Web 2.0) applications

In the United States:
- **74%** of users watch or download video from the Internet
- **52%** of Internet users watch online video at least once per week
- Users who watch online video average **>3 hours of viewing** per month
- **82%** of major retail Websites use video

Source: comScore Video Metrix, September 2007; Magid Associates, March 2007; *Internet Retailer*, August 2007

- In terms of video adoption, the pervasiveness of high-speed connectivity among consumers, along with big pushes in media and entertainment, have resulted in a trend toward more video on the Internet. With the advent of sites like YouTube, users are becoming increasingly comfortable with creating as well as consuming online video content.

- Retailers have started to use video in their Websites, mostly with traditional advertising and promotional content. We see a larger opportunity for retailers, which we will discuss shortly.

The Connected Consumer and Collaboration

- Heavy adoption in youth populations along with video
- Displacing classic TV watching
- Becoming key community / lifestyle aggregator and powerful social force

- **60%** of users aged 12-21 use social networking at least once a week
- **5 of the 10 most-visited Websites** are social networking sites (up from 2 in 2005)
- **Wikipedia**: 100,000 people writing 5 million pages (versus Encyclopedia Britannica, with 19 editors and 4,000 contributors)
- **Craigslist**: Displacing 50% of local newspaper classified revenue

Sources: Cisco IBSG Connected Consumer Research; Forrester Research; Morgan Stanley; BCG, 2007

• One of the biggest user-driven trends over the last couple of years has been social networking, which in many cases is evolving to collaboration. This form of online aggregation of users is becoming a powerful force.

• Examples like Wikipedia and Craigslist are challenging traditional business models.

The Connected Consumer and Mobility

- **Globally, mobile phones will replace PCs as the preferred device for accessing the Internet**
- **Consumers are comfortable using phones as communication tool (voice and SMS)**
- **Mobile-enhanced versions from key content providers (Google, Yahoo!, MySpace,…)**

- **3G phone** use reaches critical mass (13% of phones and 35% of new contracts)
- **More than 80%** of new phones have Internet capability
- **Cost of browsing and SMS messaging** down substantially

Source: Cisco IBSG, 2008

- Finally, let's talk about mobility. We are rapidly moving from mobile voice and text to *mobile everything.* Increases in speed are enabling the easy flow of multimedia content, including pictures and videos as well as access to Web applications. We continue to see a blurring of traditional lines between PCs and mobile PDAs.

- We expect that over the next several years, the balance will shift as more phones are Internet-capable and more applications are written for phone access.
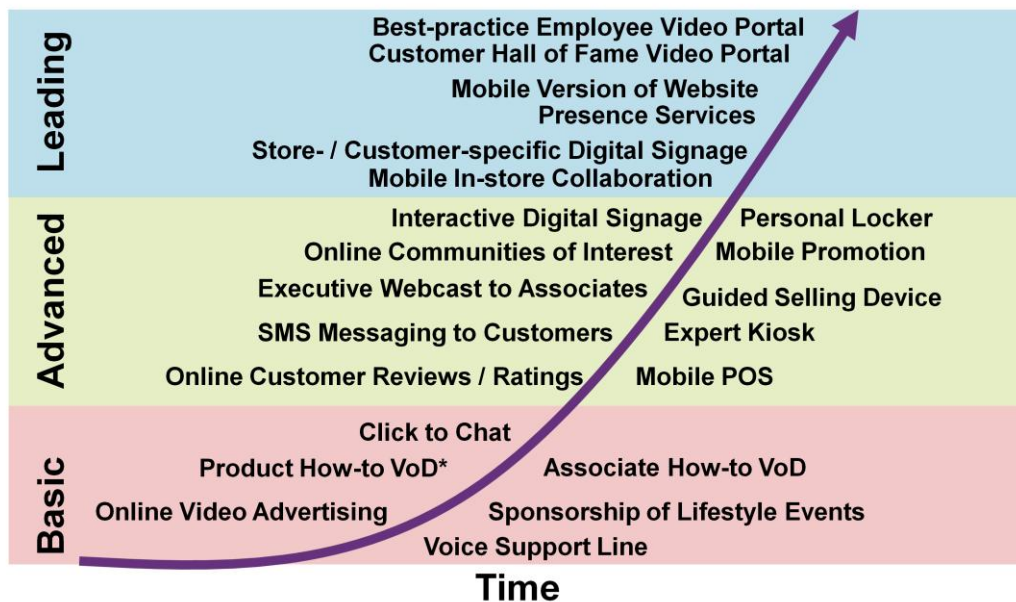
Customer Experience Solutions

- Retailers are beginning to capitalize on the trends we've just covered: video, collaboration, and mobility.
- Now let's talk about some retail solutions that can be implemented today to deliver improved customer experiences, growth, and profitability.

Experience Solutions—
Video / Collaboration / Mobility

Leading
- Best-practice Employee Video Portal
- Customer Hall of Fame Video Portal
- Mobile Version of Website
- Presence Services
- Store- / Customer-specific Digital Signage
- Mobile In-store Collaboration

Advanced
- Interactive Digital Signage
- Personal Locker
- Online Communities of Interest
- Mobile Promotion
- Executive Webcast to Associates
- Guided Selling Device
- SMS Messaging to Customers
- Expert Kiosk
- Online Customer Reviews / Ratings
- Mobile POS

Basic
- Click to Chat
- Product How-to VoD*
- Associate How-to VoD
- Online Video Advertising
- Sponsorship of Lifestyle Events
- Voice Support Line

Time

Source: Cisco IBSG, 2008   * VoD = video on demand

- Many of the basic solutions being piloted and deployed use combinations of video, collaboration, and mobility.
- As retailers build sophistication with these technologies, the solutions possibilities multiply.
- A more advanced suite of capabilities might include:
  - Interactive digital signage that can personalize messages to consumers in-store. For instance, if a sensor picks up that the shopper has placed a frozen turkey in his or her grocery cart, an interactive sign can offer a pinpoint sale on dressing and packaged gravy.
  - Executives can communicate to associates through a Webcast, assuring that all sales associates receive exactly the same message.
- Still more advanced techniques personalize the experience to a greater degree:
  - In-store systems can recognize individual shoppers, access personal buying records, and offer specials or sales customized to the individual, via interactive signage.
  - A Web portal for associates could offer a number of best practices, helping associates improve their sales and customer service skills.

Five High-impact Solutions for Retail

1	Best-practice Collaboration
2	Targeted Promotion
3	Regional Teamwork
4	Knowledge-based Selling
5	Mobile Interaction

Source: Cisco IBSG, 2008

- Let's focus on a few solutions that can have a significant impact for retailers, associates, and customers:
    - Best-practice collaboration
    - Targeted promotion
    - Regional teamwork
    - Knowledge-based selling
    - Mobile interactions

Solutions: Best-practice Collaboration   1

Applications

- Capture best practices and make them accessible to store associates in-store or from Web
- Capture and gather feedback on innovative ideas from geographically dispersed associates

Technologies

- Video on demand
- Associate collaboration portal
- Digital Media Manager

Benefits

- Sales
- Associate productivity
- Associate satisfaction
- Customer satisfaction

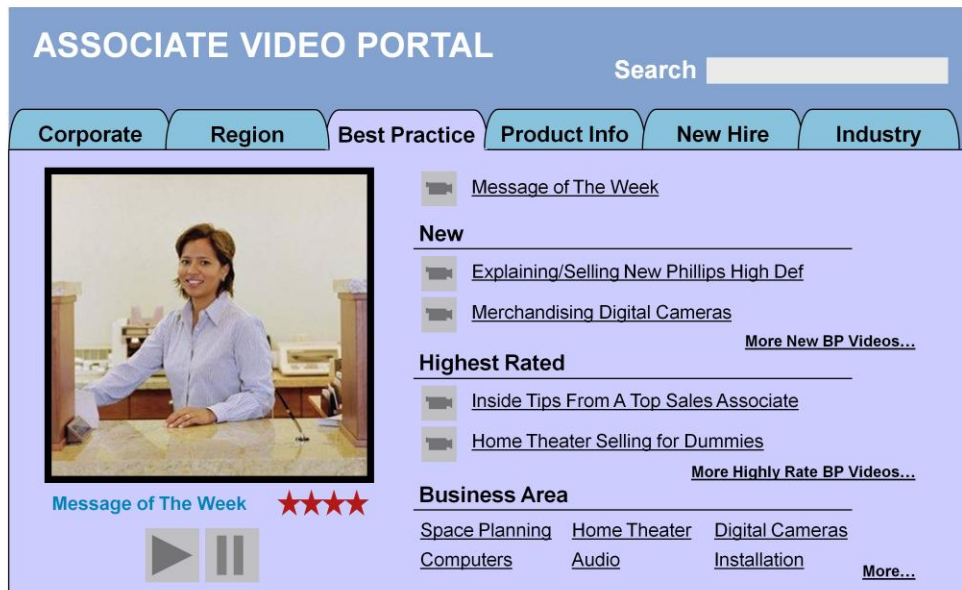Source: Cisco IBSG, 2008

- The first solution, "best-practice collaboration," is all about capturing best practices where they happen and quickly deploying them across the organization.

- One potential solution is a short video that can be accessed across the network and used on-demand. This solution helps break down the geographic barriers associated with retail store locations.

- Speedy deployment and the video medium's high impact allow retailers to cut their time-to-benefit for making best practices available to store associates. Furthermore, using video on demand (VoD) as part of a collaboration forum can further enhance the potential of this solution.

Solutions: Collaboration Tool 1

ASSOCIATE VIDEO PORTAL

Search

Corporate | Region | Best Practice | Product Info | New Hire | Industry

Message of The Week

New
Explaining/Selling New Phillips High Def
Merchandising Digital Cameras
More New BP Videos…

Highest Rated
Inside Tips From A Top Sales Associate
Home Theater Selling for Dummies
More Highly Rate BP Videos…

Message of The Week ★★★★

Business Area
Space Planning | Home Theater | Digital Cameras
Computers | Audio | Installation
More…

Source: Cisco IBSG, 2008

- Here is a simple example of how VoDs could be used with a portal to share and collaborate. This solution takes best practices outside the four walls and uses the collaboration potential of associates on the front line with customers. Videos can be created, evaluated, and commented on by associates. It is no longer just about pushing content from headquarters to the store.

- This relatively low-tech solution can drive associate productivity and satisfaction along with improving service to retail customers. The combination of video and collaboration unleashes the true potential here.

- Our second solution is "targeted promotion." This involves building a digital signage infrastructure that allows advertising and promotions to be deployed to specific, customer-facing locations. Compared to today's highly paper- and labor-intensive signing / promotion process, great efficiencies can be expected over time.

- Video is a high-impact advertising medium that is appealing to consumers and associates alike. Video offers the ability to customize content to specific store demographics, so that stores can offer different sales and specials tailored to their clientele. Video also offers the ability to educate consumers, demonstrate how certain products are used, and call attention to products on sale. Video is a direct and effective means of providing training and company information to associates. This provides an opportunity to drive a better ROI on inventory as well as promotional spend.

- Retailers should look to vendors and advertisers as partners to help pay for the content and the networking infrastructure required for a targeted promotion solution.

- We are starting to see increased investments in digital signage with expanded value propositions. METRO AG, one of the largest retailers in the world, is currently piloting a digital signage program in its Media Markt chain of consumer electronics stores.

- The company is targeting operational cost savings and increased responsiveness to specific situations in the store, along with increased sales.

- OTHER INFORMATION:

  – One hundred stores are participating in phases, upgrading LAN infrastructure (upgrade plan was already in the works. Cisco Digital Media System [DMS] is accelerating its update, which was originally for IP telephony / in-line power).

  – The main concept of deployment is based on the Application and Content Network System (ACNS) and DMS:

    - In each store: two to four Cisco Digital Media Players, ACNS, 42-inch screens with high-definition multimedia interface, and router. In the data center: Cisco Digital Media Manager, root Cisco Wide Area Application Engine, and content distribution manager. Doing flash, zoning, video. Not using ticker right now.

  – Targeting specific content and messages in specific areas of store (where they sell refrigerators, at the entrance of the store).

  – Content strategy: marketing drives content strategy; building display infrastructure to support messaging.

Digital Signage Revenue Opportunity 2

Illustrative ROI Model

Average transaction size	$11.57
Average number of transactions per week	3,324,247
$ value of average transactions from promo items	8%
Percent of average transactions from promo items	$0.93
Lift from in-store media	**15%**
$ value of in-store media lift	$0.14
Lift from compliance	**10%**
$ value of compliance lift	$0.09
Total $ of lift	$0.23
New average transaction value	$11.80
New revenue	$2.04 billion
Contribution to revenue	$40 million
Percent increase in revenue	**2.0%**

UPS Canada reported a 2.5%+ increase in revenue in stores with digital displays versus stores without them

Source: Retail Systems Research, 2007

- The business model for digital signage is still evolving, with mixed results from early pilots. This is a suggested framework developed by Retail Systems Research that makes some basic assumptions. Assuming a 15 percent lift for in-store media and a 10 percent lift from compliance for promotional items that represent 8 percent of average transaction volume, you can expect a 2 percent revenue increase.

- In a recent pilot at UPS Canada, they were in this ballpark with a 2.5 percent revenue increase in stores with digital displays versus those without them.

- Again, this is a basic framework. With today's technologies, you can easily customize content to specific screens in specific locations, further increasing the overall ROI.

- Eventually, with in-store "presence" capabilities that let you know when the customer is in-store, you could even push customer-specific content to individual screens.

- Improved communication can enhance *teamwork,* the foundation for our third solution—"regional teamwork."

- Key coordination messaging for a region can be communicated to associates via live Webcasts and VoDs. For example, a "Monday morning huddle" used to review the weekend's results and set objectives for the coming week can be conducted by a regional manager via live Webcast to all stores. By recording the session as a VoD, you can also make this direct communication available to the 80 to 90 percent of store associates that weren't on duty during the "Monday morning huddle."

- These capabilities can also improve traditional corporate communications. By using live Webcast capabilities coupled with VoDs, corporate leaders can more directly, effectively, and quickly communicate with their highly distributed workforce in stores, call centers, distribution centers, regional offices, import offices, and so forth.

- This allows you to use the more effective video medium to drive improved execution messages, and also to build a sense of shared teamwork and culture across the organization by allowing your leaders to be seen and heard by all of your associates.

- Imagine reinforcing corporate culture and priorities around community service by sharing simple video stories about the organization's good works. Imagine a pep talk from the CEO prior to the peak season. Video can be much more effective in these examples than traditional, text-based communications.

- Let's look at a video of how Coca-Cola has deployed these capabilities for cross-organizational communications from the company's leaders.
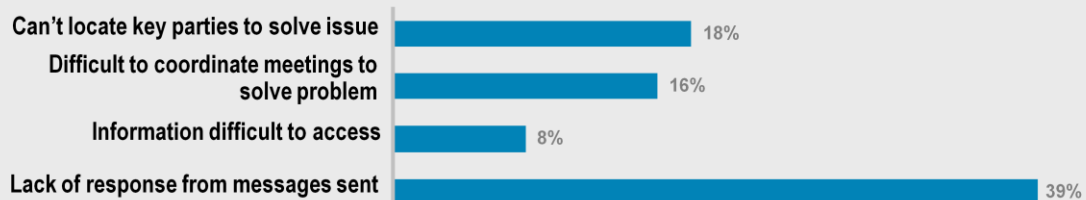
- **[Click to start video]**

Communication delays:

- Are a frequent occurrence
- Cause slowdowns in the time it takes to meet fill rates and deliver products to customers as promised

Communications bottlenecks that occur when trying to meet demand for promotional products (% of respondents identifying issue as bottleneck)

Can't locate key parties to solve issue	18%
Difficult to coordinate meetings to solve problem	16%
Information difficult to access	8%
Lack of response from messages sent	39%

Source: Commissioned study completed by Forrester Research on behalf of Cisco, February 2006

- This research pertaining to communications issues for retailers in dealing with promotional demand highlights a major area of opportunity to improve both customer experiences and sales and productivity.

Solutions: Knowledge-based Selling   4

Applications

- Provide live, two-way video interaction with product / solution experts
- Associates and customers access data and video on demand
- Provide hand-held mobile device with customer and product information

Technologies

- Unified Communications
- Expert video kiosk with life-sized, high-quality video display
- Hand-held mobile devices

Benefits

- Sales (includes up-sell & cross-sell)
- Customer satisfaction
- Associate productivity

Source: Cisco IBSG, 2008

- One of customers' leading complaints is a lack of knowledgeable assistance in stores. For many retail segments with big-ticket, complex products and solutions (such as consumer electronics and home improvement), this can have a major impact on sales.

- Using live, two-way interactive video kiosks to provide this expert assistance is one way to address this issue.

- It is difficult to have expert assistance available all the time with traditional labor models that include extended hours, high turnover, and lower-wage workforces. Certainly, educated and connected consumers have taken some of the responsibility upon themselves, and a high percentage of shopping now takes place online before consumers reach the store.

- Some progressive retailers have "click to chat" capabilities that further enhance their expertise offered on the Web. Using Unified Communications / call center and video technologies, retailers can now expand this offering to the store.

- By balancing the workload across physical locations, retailers can apply better selling and solution expertise to the most critical point in the customer's shopping experience. Using two-way video gives it a personal touch that cannot be replicated via phone or text chat. In addition to driving customer satisfaction, this solution can also drive up-sell and cross-sell opportunities as a complement to the in-store associate workforce.

- Hand-held associate mobile devices are another way to bring the knowledge to the customer.

- CircuitCity uses a video kiosk (shown in the photo) to provide specialized expertise to customers on the floor, which helps to drive and close sales.

Solutions: Mobile Interactions 5

Applications

- Use consumer wireless devices to drive more efficient and effective interactions

    Convenience (your product is ready)

    Presence (you are in-store)

    Payment (fast / secure transactions)

    Promotion (personalized)

Technologies

- Unified Communications
- SMS gateway / services
- Sensing technologies (RFID, location-based services)

Benefits

- Sales (includes up-sell & cross-sell)
- Customer satisfaction
- Associate productivity

Source: Cisco IBSG, 2008

- The final solution we want to highlight is "mobile interactions."

- This is all about taking advantage of the devices with which consumers are comfortable—devices that they are carrying into your stores.

- Some retailers are beginning to target promotions to consumers via their mobile devices, such as sending a text message saying "Your product is ready for pickup." As presence becomes more mainstream, it is not hard to imagine additional applications that customize a consumer's shopping experience.

NearbyNow

- Service that sends text messages to consumers about where they can buy a product, and what it costs
- Also can provide the store's location and parking information
- Consumers can respond to the message and place a product "on hold" until they arrive at the store

Cellfire

- A service that sends offers and coupons to consumers' cell phones
- Customers determine who contacts them, and when
- Coupons can be redeemed at checkout, directly from a cell phone

Source: Cisco IBSG, 2008

- Shopping services are now using customers' mobile capabilities to disrupt the traditional in-store shopping process. Once customers know the price of an item online and at retail, what will your value proposition be? This is not a future concept; it is real today, as these two examples illustrate.

- One key question for retailers is whether to leave this customer experience element to third-party services, or to deliver these capabilities from their own in-store network. We call this having a "mobile concierge"—where any device that has Internet capabilities can be used by your customers in-store. Imagine services like request for assistance, item location, customer reviews, list management, and loyalty interactions. The added advantage of using customer devices is that retailers can focus on building high-value services rather than propagating more of their own in-store solutions.

Connected Consumer Strategies

- With a shift to these kinds of solutions, retailers must make changes to traditional approaches for viewing and measuring customers and associates, and how they deploy technology.

Connected Consumer Strategy: Guiding Principles

- Know when and where the customer is shopping
- Provide knowledgeable, customer-specific resources to assist with shopping
- Reward top customers with personalized service
- Focus on the customer's full lifecycle, lifetime value, and share of wallet
- Create virtual in-stock through multi-channel capabilities, online and in-store
- Create multichannel capabilities that allow customers to customize the process
- Empower customer-facing employees and reward for increased customer satisfaction

Source: Cisco IBSG, 2006

- These are the hallmarks of a connected consumer strategy, developed from Cisco IBSG's retail experience and lessons learned from other industries.
- You should evaluate your technology investments in terms of how they support these principles.

Changing Traditional Retail Metrics

"Making budget at the expense of service is a very bad idea. If you're not making your numbers, you don't cut back on staff."

Gary Loveman, CEO
Harrah's Entertainment

- Labor Expense to Labor **Productivity**
  - How do I measure employee productivity?
  - How do I reward employee productivity?
  - How do I budget / allocate labor resources based on productivity performance?

- Customer Revenue to Customer **Profitability**
  - How do I measure customer profitability over time?
  - How do I reward my most profitable customers?
  - How do I allocate labor resources to my most profitable customers?

- Multiple Channels to **Multichannel**
  - How do I measure and reward multichannel sales?
  - How do I measure a customer's profitability across channels?
  - How do I allocate investments across channels?

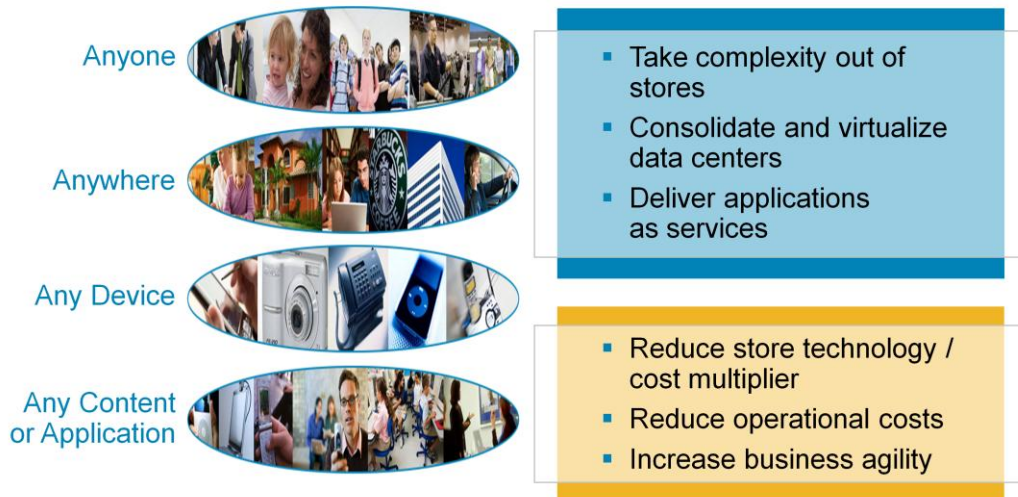Source: Cisco IBSG, 2008

- Traditional retail metrics can be a barrier to pursing a connected consumer strategy. These are some ways they will need to change:

  – Labor is generally viewed as an expense. With a connected consumer strategy, it will also need to be measured and managed more broadly in terms of productivity. Once it can be measured in terms of productivity, it will be possible to make allocation decisions that improve experiences for your most profitable customers. This will also prevent the common issue of immediately cutting labor as a response to difficult business conditions (or at least let you cut where it makes the most sense). This quote from Gary Loveman, CEO of Harrah's, challenges the perspective of many retailers today.

  – While evaluating labor in terms of productivity, you will also need to examine the profitability of customers over time. Much of today's retail model is based on driving store traffic and a one-size-fits-all customer perspective. With the knowledge of WHO your most profitable customers are, you can create more compelling and personalized offerings—further driving profitability, differentiation / market share, and wallet share.

  – Lastly, many retailers stumble with measurement as it relates to the Web and store channels. Issues around who gets credit for the sale can be problematical, and the more you take a customer-centric view, the more you need these channels to be working for a common purpose.

- One of the biggest challenges facing retailers is cost-effectively deploying new technologies in their stores. With strategies that are primarily distributed (number of devices per store), retailers are challenged in the areas of ROI, speed of deployment, and flexibility for adding new solutions.

- We believe now is the time for retailers to change their architecture strategy to . . .

    – Remove complexity from the stores

    – Consolidate and virtualize data centers

    – Deliver applications as services

- . . . In an effort to . . .

    – Reduce store technology / cost multiplier

    – Reduce operational costs

    – Increase business agility

- This is not a new concept. The new demands of these experience solutions and new technologies, however, make this the right time for retailers to make this shift.

Experience Architecture
Savings / Benefits

In-store	
Hardware Savings	**Software Savings**
1. Annual maintenance	1. Software licenses
2. Administration costs	2. Annual maintenance
3. Refresh cost	3. Administration costs

Data Center	
Servers	**Storage**
1. Load balancing	1. 30–70% increase in efficiency
2. Consistent, faster software upgrades	2. Tape backup consolidation
3. Fewer servers	3. Consistent encryption

1. Better application performance at the store
2. Better compliance
3. Easier integration of acquisitions
4. Lower cost to open new stores
5. Easier business continuity / disaster recovery
6. Faster mean time to repair
7. Business agility

Source: Cisco IBSG, 2008

- Here are some of the key benefits of pursuing this architectural strategy.

- In-store, you can experience savings by reducing the hardware-related cost of maintenance, administration, and refresh. On the software side, there are savings in annual maintenance, licensing fees, and administration.

- In the data center, load balancing and software upgrades become easier and more efficient, while reducing the number of servers required. Storage becomes 30 to 70 percent more efficient, tape backup is consolidated, and encryption becomes consistent across the organization.

- All of this results in better in-store application performance, improved compliance, easier integration of acquisitions, lowered cost to open new stores, better business continuity and disaster recovery, faster time to repair, and overall improvement in business agility.

Bringing It All Together
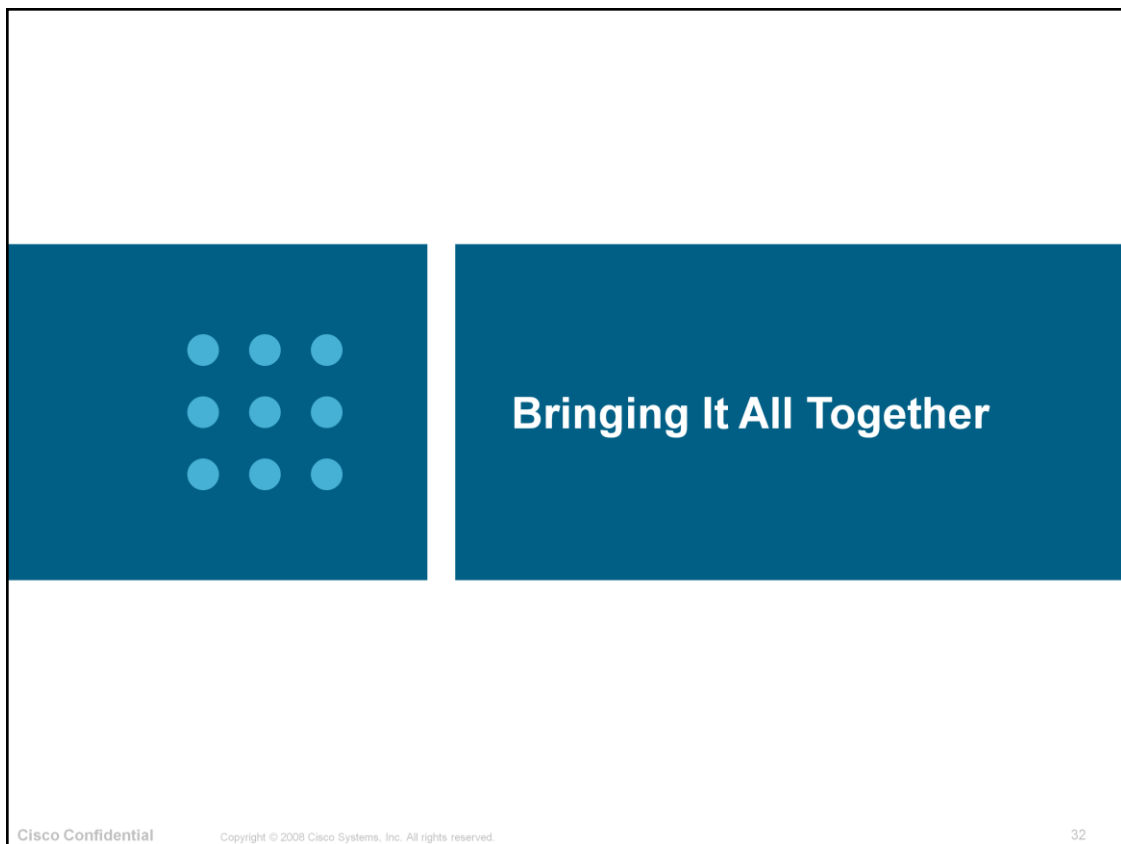
- Let's examine the day-to-day impact of these combined ideas and technologies on customers and associates, as well as the broader value proposition for retailers.

Growth and Profitability

Customer Focus
- Optimized sales
- Targeted / customized promotion
- Conversion-rate increases
- Increased wallet / market share
- Destination brand

Associate Focus
- Daily execution in / across stores
- Associate knowledge, skills, and effectiveness
- Best practices deployment
- Collaborative, innovative solutions
- Right expertise to right situation

Increased Revenue / Customer
- "Their associates can answer all my questions confidently and correctly"
- "I can easily find assistance"
- "The store environment is very cool and easy to shop in"
- "I am rewarded for being a loyal customer"

Reduced Turnover Costs
- "I know who we are"
- "I know the company's leaders"
- "I use cool tools and have a forum"
- "I am confident in my job"
- "I make can make a difference and I am part of a team"

Source: Cisco IBSG, 2008

- As we described the solutions earlier in this presentation, we highlighted several key benefit areas associated with each. If we summarize the business case for using these and other potential solutions, the four basic economic levers are: (1) Customer Focus, (2) Increased Revenue / Customer, (3) Associate Focus, and (4) Reduced Turnover Costs.

- Two of these levers relate to customers and two to associates. They cover increases in revenue, cost reductions, and productivity improvements. When introducing any of the solutions we've discussed, retailers should benchmark these economic measures.

Great Customer Experiences Pay Today

10 Retailers Known for Differentiated Experiences

- Apple Computer, Inc.
- Staples, Inc.
- Amazon.com, Inc.
- Nordstrom, Inc.
- Starbucks Corporation
- RadioShack Corporation
- Whole Foods Market, IP, L.P.
- eBay Inc.
- Target Corporation
- Best Buy Co., Inc.

2007* Versus 2006 Performance		
	Differentiat-ed Group	Industry Average
Revenue Growth	17%	11%
Stock Price	5%	-19%
P/E Multiple	41	19
Return on Assets	10%	7%

*As of November 23, 2007
Sources: Reuters, 2007; Cisco IBSG Economics & Research, 2007

- Even today, many retailers who have successfully created a reputation for differentiated experience have, in fact, outperformed the broader retail industry in revenue growth, stock-price performance, and return on assets.

- This does not suggest that customer experience is all that counts. You can look at this list and find companies with other significant business challenges, but it does suggest that making customer experience a key element of your strategy can help drive growth and profitability.

- Sources: NYSE Group, Inc.; NASDAQ; Cisco IBSG, 2007

Imagine Tomorrow's Experience

- So what might the future retail experience look like with these technologies deployed?
- This video shows how many of the solutions we've discussed can come together to drive significant benefit for connected consumers, connected associates, and retailers.
- **[Click to play video]**
- Through this illustration, you can see the power of making video, mobility, and collaboration a key part of your retail culture to drive communication effectiveness, increased collaboration, and improved execution.

**Getting Started:
Partnering with Cisco
on Customer Experience
Innovation**

• Let's discuss some steps you can take to begin implementing these ideas.

Making It Happen

Customer Experience Innovation

1. Refine your value proposition and customer segments
2. Make customer experience a cross-organizational focus
3. Define your portfolio of solutions and key metrics
4. Define your technology architecture
5. Reallocate resource investments to focus on improving customer experience
6. Deploy and train on new processes, governance models, and technologies
7. Pilot solutions, measure, and refine
8. Roll out and accrue benefits

Source: Cisco IBSG, 2008

- We've talked about a variety of retail solutions, and the benefits associated with them.

- Achieving these benefits requires both a fundamental shift in mindset and a concrete action plan. Here are some of the foundational, strategic next steps to make it happen.

- First, decide what you want to be as a retailer—what is your value proposition? What is your market position? What do you mean to your customers? Then, find out who your customers are, and define your most important customer segments. Most retailers today do not have the segmentation data they need to change an individual customer's experience.

- Next, make a cross-organizational commitment to customer experience. We are not suggesting that you completely reorganize your operation. Rather, create a common link through all customer-facing operations and develop a rallying cry around customer experience. Reward employees for their customer focus, whether they are on the front line, or people in the back office who create the systems that impact customer experience.

- Define the portfolio of solutions that can help meet your customer experience goals, then reallocate your resource investments and deploy the technology infrastructure to support your solution portfolio.

- We suggest that you begin with a pilot program, measure results, and then refine your solutions to make them even more effective. Finally, you'll be ready for a full solution rollout. If you have done your homework and relentlessly focused on your consumers at every stage, you will be ready to reap the benefits.

Making It Happen:
Partnering with Cisco

1. **What do we need to do to be successful?**

   Cisco's innovation and experience diagnostics

2. **What does Cisco do well, and what can we learn from them?**

   Cisco-on-Cisco best practices

3. **What do other companies and industries do?**

   Industry expertise and networking

   Retail e-commerce benchmarking

4. **Which solutions should we pilot?**

   Customized solution design and ROI

5. **Which technologies will we need to support these solutions?**

   Technology architecture design

   Technology products and partners

6. **What should we roll out?**

   Technology deployment services

   Pilot solution execution and measurement

Source: Cisco IBSG, 2008

- Cisco has a lot to offer in terms of helping you with this journey—from helping craft your specific vision, to applying diagnostic tools and Cisco (as well as industry) best practices, to defining and implementing pilots. And, of course, we can help define and implement the necessary technologies to scale these solutions to your unique business.

- How can we best apply these capabilities to help YOU increase growth and profitability by winning with connected consumers?