

## IBM AND THE FUTURE OF SHOPPING

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**By the end of 2008, the web is expected to garner 20 percent of the total retail spend. Retailers must evolve both their physical and online stores with innovations such as endless aisles and mobile checkout; and tightly integrate the channels to create an enhanced shopping experience that will drive customer advocacy.**

MCTIGHE: Hi, I'm Jenny McTighe, and today we're here to talk about The Future of Shopping. I've got some great guests here. I've got Rob Garph, vice president retail strategies with AMR Research. And I've got Fred Balboni, who is our Global Leader for Retail with GBS [IBM Global Business Services]. Thanks for joining me today.

So, Fred, I'm a shopper and I like to shop. What am I going to see or experience that's going to be different? What can I expect?

BALBONI: Well, multi-channel retail is clearly changing the way shoppers interact with their retailers. Now if I look at this notion of multi-channel, that doesn't just mean a Web browser. That also means a call center, possibly mobile computing. The challenge is, today's consumer requires all of them to be interactive, interchangeable: I can buy one place, I can return to another. I can check availability here. I want to be notified about this. And our younger generation of consumers, this is no longer a barrier. Technology's a natural part of their life.

GARPH: Yes, you're right, Fred. I mean when you think about retailing, it's all about, traditionally, the merchandise, right? You need to get the right product there at the right time for the right price. But retailers are really rethinking the way the customer experience should be. And we have to think about it from a continuum perspective where many retailers now are looking at totally blowing up the checkout event, getting rid of the front end of the cash store where traditionally the transactions took place, and looking for ways to perhaps use a kiosk or hand-held device to not only browse for the consumer but actual check out.

This becomes really important where you see retailers changing their formats, moving from mall and strip center formats down to urban street formats which typically are smaller in footprint, right? 50,000 square foot down to 5,000.

We not only have to figure out what the right assortment is in the store but creating, if you will, a portal into the inventory, into the enterprise to create an endless aisle totally cross channel related. We have one client where more than nine percent of in-store sales are for product that don't physically reside in that store. And they can do that because they have visibility into inventory and they can really capture that order for product both in the store and not in the store.

MCTIGHE: If I'm at a store and I try on a shirt and I want it in a different size or a different color and they don't have it at that store, today I have to stand there while the sales associate calls around to the stores, or they take my phone number, they say they'll call me tomorrow. How will they make sure that they sell that item to me?

GARPH: Well, the device is irrelevant. That's the delivery mechanism.

But the idea is that through either assisted selling or total self-service, the consumer can gain access to that inventory information that might reside in another store. It might reside in the retailer's DC. In some cases might not even reside in the retailers inventory; it might be from a partner where they're complementing the product assortment. Retailers are investing heavily in their assortment management practices. And what retailers are doing now are actually creating size profiles, understanding what sizes should be in what store based on different demand and size of the consumer. And better understanding weather information and other demand inputs, as I mentioned, to get more proactive around what should be in the store.

MCTIGHE: How is technology going to help retailers to do that?

BALBONI: Well, it's interesting, because the technology dimension of this really isn't the hard part. The challenging thing for retailers is the business model to operationalize. How do I...if I understand that somebody in a certain market wants a certain product, how do I, in a cost-effective manner, get that product to them? The ability to manage from these large quantities of customer information I think is going to change retail over the next five years.

GARPH: That's a good point I mean, it is totally organizationally related...or, not totally, there's certainly a technology element to it as well. A lot of the treasure trove of information resides in the marketing department. But all too often that information isn't shared with the merchants who are actually making product decisions around again, not only what colors we should buy and what sizes, but what product should go and into what store? So actually we're seeing more and more retailers have an overview, an executive that sees both marketing and merchandising. So more of that information is actually shared and intelligence is utilized more effectively.

MCTIGHE: Something you guys brought up earlier that's really interesting to me is mobile shopping. Where do you see that heading?

BALBONI: Well, if history is any indicator, using existing business models to create a new business hasn't worked. So I think about the early days of the Internet, when we decided that we would make the Internet look like a physical store. They weren't...the early adopters in this area gave way to new business models, where they created Web sites and offers that made sense for this new format.

I think the same thing's going to happen in mobile computing. Using the Web browser interface that we know today as a portal on a mobile device isn't what is going to be the king hit. The king hits are going to be using mobile technology in clever ways to create loyalty, to make you the company I want to go to.

GARPH: Yes, I fully concur. I mean, when you look at the emerging markets, aren't really burdened by the infrastructure in place through their legacy applications are leapfrogging some of the existing or more mature geographies.

So you have China and other parts of the world, who, consumers are using mobile devices today to do things like mobile checkout and doing things like bill payment online through their mobile device. So it's not a question of if, it's really a question of when.

And it certainly, as Fred mentioned, will happen. Retailers, what they need to think about, is what type of platform they can invest in to make sure that, again, that information is delivered in a timely and relevant fashion, no matter what that touch point is.

It might be a mobile device because that's how the consumer wants to interact. It might be through a PC. It might be through or it will be through the television. So certainly mobility takes a key role here, putting a platform in place for the retailer is essential to do.

MCTIGHE: We're talking a lot about mobile devices, Internet shopping. What will the role of the store be, then, in the future? Is there going to still be a need for a store? If I'm going to do all my shopping with my cell phone and my computer, why would I need to go into a store still?

BALBONI: One of the things that's really important is at the end of the day getting your hands on the product. So as a store is a place where you browse, I think that's still going to be a component to the retail experience.

Getting the product in your hands to get it home, the store might shift to become possibly more of a depot where you go collect what it is that you've already browsed and selected. I think that's a real possibility in the future.

The second thing is that the other major growth in retail we see happening is the rise of services. So you go to your pet store to also get your dog shampooed or your dog clipped. You used to buy a suit and you'd get it altered. The services around your core retail experience. So as we see services increasing in retail, the store also becomes a place where you organize your services -- a service center, if you will.

So it's not just a place where you return the merchandise, but you get it configured. You get it set up for you. You organize those services. I think that's another new offer the store is going to have.

And then finally, I think the store's always going to have an important part of the social experience and the entertainment value that retail brings. So there are retailers putting really exciting, entertaining entertainment to the retail experience. And so therefore in the same way that Disney got clever about selling merchandise in their theme parks, I think we see stores that feel more and more like theme parks.

GARPH: Yes, I'm totally with you. There are really three areas that I see shifting as relates to the physical store. First of all, as Fred mentioned, I like the term depot center; also utilizing the physical assets to perhaps create a partner network for the depot. So if I don't deliver or carry certain products I can open that up to other retailers or suppliers who can't physically open the amount of stores that they want to. So it becomes a great channel for companies, again,

that can't put the physical assets in place already.

The second piece is we can't forget, Fred touched upon the services piece; I want to go specific to the store associate. I think what you'll see is a shift in the empowerment around the store associates. They can't just be folks that sit at a point of sale and check people out. They need to be a lot more smart. They need to be a lot more empowered. They really need to understand the products and services and become consultative not only on the high end, right? We need to differentiate more on the mass merchandise side as well.

And the third area certainly is again the big shift around online and being an area of opportunity to create that cross-channel opportunity.

MCTIGHE: That's really interesting. Well, thank you both so much for your time. I really appreciate you taking time to talk to us about The Future of Shopping. And that concludes today's conversation about The Future of Shopping. Please tune in for more Future of podcasts in our Future of series at [ibm.com/podcasts/future](http://ibm.com/podcasts/future). Thank you.

GARPH: Thanks, Jenny.

BALBONI: Thanks Jenny.

[END OF SEGMENT]

For more on how apparel retailers are building advocacy, see [Ideas from IBM](#).