The value of a smarter shopping experience

Exploring the benefits of creating differentiated customer relationships
Today’s retail environment is undergoing a dramatic shift as consumer expectations reach unprecedented highs. With 4.5 billion mobile phones, 2 billion Internet users, and 750 million active Facebook users, new consumer touch points are evolving at a rapid pace. Consumers are embracing these and numerous other touch points along with modern technologies, incorporating rich information, price transparency and real-time connectivity into their buying decisions, significantly impacting the shopping experience in ways we wouldn’t have anticipated just a few years ago. Traditional methods of marketing are quickly becoming obsolete, superseded by innovative approaches that engage consumers in a more timely, relevant manner. Retailers must adapt by providing a rich customer-unique experience that reflects a more informed, empowered and demanding consumer: a “smarter consumer.”

To win in today’s increasingly competitive marketplace, it is imperative for retailers to understand how consumers engage with their brand across all possible points of interaction. No longer is a one-size-fits-all approach good enough, as today’s smarter consumers demand that retailers meet their unique needs and timeframes. Retailers must engage consumers with timely, relevant interactions while providing a seamless experience across all touch points and consistently delivering on their brand promise. This requires retailers to transform their product-centric, push-based operating model and adopt an experience-centric, pull-based approach driven by unique insights about individual consumers.

Consider a scenario: A woman walks into a store and spots a pair of shoes she likes. Unfortunately, she’s told her size is not in stock. She turns around, pulls out her smartphone, and searches local and online merchants for availability and prices. By having easy, real-time access to relevant product information she is able to make a value-based decision—opting to purchase the item right there in the store…but from a competitor. The retailer may have been successful at getting her through the door, but by not empowering their sales staff with pertinent information, they missed a golden opportunity to convert her into a customer.

Making this transformation is easier said than done, but the rewards can be immense. The deeper level of consumer engagement and intimacy that result from providing a smarter shopping experience can create brand affinity and generate loyalty through a relationship that’s rewarding for both the retailer and their customers. Successful execution can mean both immediate and long-term benefits for the retailer. According to our estimates, a group of 18 top retailers globally could see bottom-line increases in the range of US$3B to US$10B by fully adopting these strategies.
A gap between consumer expectation and retail reality
As consumer touch points continue to proliferate and expectations rise, 41 percent of retailers believe that those expectations outpace their ability to deliver cross-channel experiences. In reality, this gap between consumer expectations and retail execution is more like a chasm. A recent study found that 85 percent of consumers expect “a seamless experience across all channels”, however only 13 percent of retailers are able to deliver this type of consolidated cross-channel shopping experience.

This disparity between what consumers want versus what retailers can deliver, combined with the “new normal” of consumers demanding more value and trading down, poses both an enormous opportunity, as well as a grave threat for today’s retailers. To capitalize on this opportunity, retailers need to deliver a smarter shopping experience; one that utilizes individual consumer insights to deliver timely and relevant interactions, resulting in differentiated customer relationships based on mutual trust and value.

Raising the bar: Defining a new shopping experience
What if a retailer could engage consumers at precisely the right time, with the right information, and the right offer, to motivate them to become a customer? What if a consumer could begin their shopping process on the web, stop that experience, and then resume where they left off as they enter the store, without repeating prior actions? The shopping experience of the future will be many things but routine won’t be one of them. Today’s smarter consumers have unlimited access and rich information, a powerful combination that they are using to redefine shopping to meet their unique needs and timeframes.

Characteristics of the consumer-defined shopping experience
- **Omnipresent**: engrained into all aspects of a consumer’s daily lives enabled by the proliferation of touch points, persistent connectivity and ubiquitous access
- **Deconstructed**: a collection of multiple, discrete interactions based on the consumer’s ability to start and stop their shopping process using a growing number of touch points
- **Collaborative**: cooperative communications between the consumer, their friends/family, and the retailer
- **Contextual**: focused on individual relevancy and personalized service as consumers demand tailored solutions to meet their unique needs
- **Real-time Aware**: “location” and “presence” provide the foundation for proactive and timely interactions
- **Experiential**: focused on how the consumer experiences products and the brand

A true consumer-centric approach to the shopping process will allow retailers to create a clear differentiation in the marketplace by satisfying the unique needs and expectations of the smarter consumer. But how do you get there?

By developing the right business competencies, retailers can consistently deliver on their brand promise throughout the shopping lifecycle. With deeper insights supported by a holistic view of consumer-relevant information, it becomes possible to understand consumers and be proactive in satisfying their needs. Individual interactions can be designed to be timely and relevant, with experiences shaped to reflect consumers’ interests and lifestyles. Perhaps most significantly, retailers can build a strong relationship with their customers by fostering trust through open and continuous communication.
A business competency model that illustrates how a smarter shopping experience can be created is shown in Figure 1.

**Delivering a unique shopping experience enables retailers to achieve differentiated life-time customer relationships.**

![Figure 1](image-url)  
*Figure 1: Delivering a smarter shopping experience takes a strategy, supported by new competencies, that places the consumer at the center of the business.*

Source: “Smarter Shopping Value Quantification,” IBM Center for Applied Insights and the IBM Global Retail Industry. October 2011
A closer look at the stages of smarter shopping

Delivering a smarter shopping experience requires a new way of thinking about how the organization operates and what business competencies are required as outlined in Figure 1. It represents a multifaceted transformation that spans people, processes, information and technology.

To begin this transformation, many retailers have launched individual initiatives to address immediate short-term needs. In order to complete the journey, they will need to build on these initial investments and align their current and future capabilities with a customer-centric strategy. By doing so, retailers can increase their ability to deliver the experiences consumers seek.

This evolutionary path starts with a solid base of information, enabling retailers to create both a broad and deep understanding of the consumer. With complete, accurate and trusted information in hand, they can leverage analytics to better understand consumers and uncover important trends. The insights gained can help the company allocate its marketing spend to communicate with consumers more efficiently and effectively. As a result, it becomes possible to develop more tailored communications and targeted offers that are both timely and relevant, delivered seamlessly across all channels and touch points. Ultimately, retailers will be able to deliver personalized interactions that can lead to stronger, more profitable relationships.

The following five key competencies are required for retailers to realize the rewards of investment in a smarter shopping experience.

- **Integrated information** – Capture and consolidate product, inventory, order, market and interaction data to provide an accurate and trusted view of consumer-relevant information
- **Prescriptive insight** – Obtain an intimate knowledge and understanding of consumer preferences, interaction histories, needs and motivations in order to determine the next best action to progress consumers in the shopping process
- **Precision marketing** – Optimize marketing spend by channels and touch points, and deliver consumers targeted and personalized communications and offers
- **Relevant experience** – Provide timely, tailored and seamless shopping experiences that span multiple interactions and touch points to satisfy consumer-specific needs and timeframes
- **Continuous dialogue** – Achieve differentiated lifetime customer relationships by fostering loyalty and trust through open and ongoing communication, and consistently delivering on the brand promise

It is important to recognize that the level of maturity within and across each competency may vary greatly. Retailers have invested in capabilities to address their unique business needs and requirements. Most already have at least basic foundational capabilities in each of the competencies described above, but they still need to invest in order to progress in maturity. However, these investments do not necessarily require a “rip and replace” approach or strategy. The competency model shown in Figure 1 is based on an interconnected set of capabilities—some new and others existing—that build on and reinforce one another to create the desired shopping experience.

### How we put a value on “smart”

Throughout this report you’ll see charts that provide insight into how smarter shopping competencies can help deliver real financial benefits. This information is based on our primary research, conducted with retail leaders around the world and supported by secondary industry information. The research findings were then vetted with industry experts and key retail executives. To develop the potential value ranges presented in this paper we modeled a set of retailers across several key segments to determine how smarter shopping competencies could impact key retail value drivers including revenue, margins, SG&A efficiency and marketing expense.
Ask yourself…

- To what extent is your information centralized into master repositories for customer, product, order and inventory?
- Do you have a holistic and trusted view of all consumer-relevant information?
- Is information continuously updated and accessible in real-time?

Building the information foundation

The first stage of the smarter shopping journey is, in many ways, the most important because integrated information lays the foundation to execute the other competencies effectively. By integrating disparate consumer-relevant data from multiple sources, retailers can improve visibility across the enterprise, generating a holistic, accurate and trusted view of consumer and operational information. The other competencies depend on this information in order to fully realize their potential benefits.

Macy’s vision is to create a personalized customer experience that grows stronger each time customers interact with the brand, regardless of channel or store location. In order to support that goal, Macy’s knew that the key to success would be creating the right data management infrastructure. As a first step, they broke down walls between various systems to provide marketing and cross-channel teams with a “360 degree” view of the customer. Macy’s knows that continued successful implementation will be a critical part of their vision of providing a dynamic customer experience.8

As with every competency, retailers exhibit varying levels of maturity related to the management of consumer-relevant information. At the lowest level, information is managed tactically with little governance. The information at this level is incomplete, inconsistent and inaccurate. When information is managed by a formal well-governed process, it becomes cleansed, normalized and organized into a set of integrated master repositories. That’s exactly what Macy’s did: They eliminated isolated silos of information to generate greater value by making available a 360 view of customer information to marketing and other cross-channel teams. Ultimately, to achieve the highest level of maturity, information is managed as a strategic asset, available in near real time, and trusted by internal and external parties.

“[As a multi-channel retailer] you can get this great information [from] e-commerce [and] catalog [sales] about specific customers, and yet you lose that whole thing in [the retail] store… so how do you link those customers together so that you know the same customer who bought in-store buys [through] catalog [or] e-commerce?” – Hardline CMO9

Integrated Information

US$27M to US$93M
(0.1% to 0.4% of revenue)

Potential annual operating profit benefits from Integrated Information solutions

Contribution by value driver

27% Profit from incremental revenue
73% Increased SG&A efficiency
0%

Figure 2: Nearly three quarters of economic benefit from information integration comes from sales, and general and administrative (SG&A) savings, due to reduced complexity and greater efficiency.
Ask yourself…

- To what extent are your business decisions supported by actionable insights?
- To what extent are you able to incorporate unstructured data (forums, blogs, social media) into your advanced analytic efforts?
- How accurately are you able to analyze individual consumers?

Generating actionable insights

With rich and accessible information on hand, the second step in the smarter shopping journey is to generate prescriptive insight. This goes far beyond describing or even predicting how consumers will respond to a given value proposition. It provides specific recommendations about how to achieve particular objectives. The key to solving this puzzle is based on a retailer’s ability to analyze multiple dimensions about the consumer. By analyzing historical transactions, behavioral, affective and cognitive traits along with both implicit and explicit preferences, retailers can determine the “next best action.” That is, the one that motivates the consumer to make a purchase or take the next step in their shopping process. These insights and recommendations can be the difference between a successful marketing tactic and one that doesn’t achieve its desired objective.

Putting information to work, Kroger implemented a new initiative called “Customer 1st”. The goal was to understand – and treat – its customers better. Using insight gleaned from buying patterns, Kroger provides customers with personally targeted offers and relevant incentives. This strategy is having a positive impact according to David Dillon, Kroger’s CEO. “I am pleased with the strong positive identical sales growth [3.8% in non-fuel sales] we achieved…Our “Customer 1st” strategy continues to deliver results through improvements in all four key areas we target: our people, our products, the overall shopping experience in our stores and prices. As a result, the total number of families we serve continues to grow and our most loyal customers are buying more with us.”

Retailers that lack maturity in this area tend to manually generate insights through the use of spreadsheet-based reports, custom ad hoc queries and “out-of-the-box” reporting from application vendors. The analysis is descriptive and backwards looking. As sophistication increases, consumer insights are systematically generated by advanced analytic capabilities, and supported by dashboards and “what-if” scenario modeling. Retailers at this level have seamlessly integrated predictive insights into their business processes and decision making.

At the highest level of maturity, insights are created to provide prescriptive recommendations that direct retailers to the “next best action.” The winners in retail are those companies that live by these insights. The use of analytics is engrained into their corporate culture to a point where the “art of retail” is replaced by the “science of retail.”

“We can get a read on where our customer is headed faster than ever before. [Analysis of social media data] gives us unbiased, immediate feedback on what the customer is doing with the merchandise.” – Wet Seal CEO Ed Thomas

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**Prescriptive Insight**

US$55M to US$185M (0.2% to 0.7% of revenue)

Potential annual operating profit benefits from Prescriptive Insight solutions

- **8%** Profit from incremental revenue
- **56%** Improved margins
- **15%** Reduced inventory
- **1%** Increased SG&A efficiency
- **20%** Reduced market expense

Figure 3: Over half of the projected financial benefit comes from improved profit margins, generated through insight-driven initiatives such as cross-channel loyalty integration.
Ask yourself…

- How effectively are you able to create, manage and measure marketing budgets and plans?
- Is your marketing budget optimized to the channels and touch points that will deliver the greatest return on investment?
- To what extent are you able to create and deliver personalized campaigns consistently across all channels?

**Optimizing marketing effectiveness**

The days of marketing only to the masses are over, as consumers expect **precision marketing**; timely, relevant and personalized communications and offers. To deliver the right communications, at the right time, in the right channel, retailers must optimize each and every marketing activity across the shopping lifecycle. They need to understand which channels and touch points their targeted customers prefer and carefully balance those preferences against their most profitable mediums to allocate the marketing budget accordingly. This is the type of precision today’s smarter consumers demand.

Through the implementation of a new CRM strategy, a specialty retailer was able to develop and deploy more targeted personalized marketing strategies. As a result, they now execute custom, individualized mailings that increase revenue and reduce overall production costs. This strategy supports a hybrid- or multi-channel marketing campaign and shifts the management strategy from product-centric to customer-centric.

For many retailers, marketing at this level of precision is currently beyond reach. Retailers who lack both process and technology maturity typically manage and maintain marketing budgets and plans manually, using spreadsheets. Campaign activities tend to be directed toward the masses with little efficiency or measurement. As retailers streamline processes and leverage advanced technologies, their level of maturity increases to a point where budgets and plans are systematically managed with an integrated workflow.

Campaign activities are directed toward targeted, pre-defined customer segments, and effectiveness is regularly assessed.

“We have to sell in a way the customer wants to buy.” – Dev Mukherjee, President, Sears Home Appliances

At the highest level of maturity, budgets and plans are actively managed via automated alerts, and continuously revised and optimized to achieve the desired outcome. Campaign activities that are multi-wave, cross-channel and personalized to individual consumers become not only feasible, but also economical.

**Precision Marketing**

**US$33M to US$94M**

(0.1% to 0.4% of revenue)

| Contribution by value driver | 100% | 17% Profit from incremental revenue | 16% Improved margins | 8% Increased SG&A efficiency | 59% Reduced market expense | 0% |

*Potential annual operating profit benefits from Precision Marketing solutions*

Figure 4: As marketing activities become more effective and efficient, most financial gains are attributable to reduced marketing expense.
Tailoring the shopping experience

Today’s smarter consumers have lofty expectations of the shopping process; a **relevant experience** that is also seamless and timely. Gone are the days of the retailer controlled shopping experience, where they could employ a one-size-fits-all approach and dictate which touch points consumers should use to shop. Consumers demand the freedom to shop in any channel, at any time, in any location, while expecting retailers to deliver an experience that is contextually relevant and seamless so they can easily accomplish their shopping objective. This new retail imperative is about delivering a tailored shopping experience. One that is meaningful to the consumer’s immediate needs and aligned with past interactions, while affording them the control to shape experiences that reflect their interests and lifestyles.

Savvy retailers are integrating information to create a quality customer experience. To meet its customer demands Orvis implemented new technology that provides accurate and timely behavior-based cross-sell recommendations on its website. Revenues from product recommendations jumped by 70 percent and now account for at least 6 percent of site revenue.¹⁴

Just as with every competency along the smarter shopping journey, there are varying levels of capabilities in existence today. Many retailers have chosen to optimize one channel leading to an inconsistent and fragmented experience for consumers who shop across multiple channels. Consumer interactions tend to be generic and not tailored to individual needs and preferences.

As information becomes more consistent and readily available across channels, the retailers’ ability to drive a relevant experience improves. The shopping experience is consistent and delivered seamlessly within a given touch point, and interactions are tailored based on historical transactions. At the pinnacle, the shopping experience is timely, relevant and seamless across all touch points, and interactions are personalized in real time based on current, past and predicted behavior.

“**The goal [of offering a relevant experience] is to take our store…to wherever customers are…as opposed to making them come to us.”** ~ Specialty Retail; EVP Marketing¹³

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**Relevant Experience**

**US$78M to US$319M**  
**(0.3% to 1.3% of revenue)**

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<td>Increased SG&amp;A efficiency</td>
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**Potential annual operating profit benefits**  
from Relevant Experience solutions

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**Figure 5**: The ability to deliver a relevant shopping experience has the power to increase revenue and improve margins.
The Value of Smarter Shopping Experience

Developing differentiated relationships
A retailer that is open to listening and communicating with its customers, essentially establishing a two-way **continuous dialogue**, can create a trusting partnership with their customers and not be just another retailer. It does not matter if you are big or small, a web pure-play, or a multi-channel retailer—the key is to nurture a mutually beneficial relationship in which customers feel that the retailer is looking out for their best interests.

Today’s consumers desire an experience similar to that of the neighborhood corner store where they were once greeted by name and with a warm smile. Store employees knew their customer’s preferences, purchase history, current and future needs, and welcomed their input and feedback.

What does smarter shopping look like?
Retailers who are able to transform their operating model by infusing the consumer-dimension into the shopping process stand to grow market share and profitability. We created a short video that depicts the benefits from investments in capabilities to deliver unique experiences to individual consumers.

Visit ibm.com/retail/theshoppingexperience for a glimpse into the future of retail.

Over the years, retailers seem to have lost this one-to-one relationship with their customer. The key for sustainable success is the ability of retailers to recapture the customer insight they instinctively had decades ago and harness it into a systematized and repeatable process. This will allow them to continuously deliver a differentiated shopping experience without incurring the high costs of completing it manually.

Creating the conditions for and seamlessly executing a continuous dialogue sets the stage for much greater loyalty, brand advocacy and increased share of wallet.

This competency, at its highest maturity, is a culmination of the previous four. At the very early stages of maturity, customer relationships are purely transactional, based on satisfying an immediate customer need. Retailers tend to be product and transactional focused with little to no visibility to individual customers. As maturity increases, relationships become value-based for both the customer and retailer. There is a desire, but lack of capabilities, to address the needs of each individual customer. At the highest level, there is a relationship that is predicated on an ongoing two-way dialogue based on trust, value and loyalty for both customer and retailer.

“Our customers are asking us to know them, empower them, offer them and support them. We’re inclined to listen.” – Specialty Retail, SVP & GM

Continuous Dialogue

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- 20% Profit from incremental revenue
- 47% Improved margins
- 33% Reduced market expense
- 0%

*Potential annual operating profit benefits from Continuous Dialogue solutions*

*Figure 6: Our model demonstrates that an ongoing dialogue prompts consumers to buy because of greater affinity, which drives revenue and margins. Getting closer to customers also increases marketing effectiveness, making campaigns less costly.*
Making the case for investments in smarter shopping

The journey to smarter shopping that we’ve outlined in this paper shows how retailers can achieve a fundamental change in the nature of their customer relationships. Acting on the research-based insight in this paper is, we believe, critical in today’s dynamic and fast-changing marketplace. The retailer that does not develop the right business competencies risks being left behind by its customers and competitors.

The primary purpose of our research is twofold. First is the qualitative view: We worked to understand the competencies retailers need to develop in order to drive better business outcomes. Second is the quantitative case: We created a rigorous, objective methodology to quantify the potential benefits in order to guide businesses as they build out the capabilities within those competencies. The results – a potential annual pre-tax income benefit of between US$236M and US$873M for a hypothetical retailer – illustrate what can be accomplished in real terms by building out smarter shopping competencies that line up with business objectives.

The combination of vision for transformation and the potential financial benefits tells a compelling story. To differentiate your business in a marketplace defined by smarter consumers, retailers need to adapt their current business practices to create a new, customer-centric, retail business model. Doing so should be both possible and profitable.

Could this be you?

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Potential aggregate return: US$236M to US$873M (1% to 3.5% of revenue)

Annual economic benefits by competency.

Investment Highlights

Integrated Information produces the greatest SG&A efficiency benefits.

Prescriptive Insights comes from improved margins.

Relevant Experience produces nearly equal gains in both revenue and margins.

Precision Marketing helps the illustrative retailer cut market costs by millions.

Continuous Dialogue for the hypothetical retailer: from 0.2 to 0.7 percent of revenue.

*Figure 7*: To determine the potential of investments in smarter shopping, we modeled a hypothetical US$25 billion soft-line retailer. These results indicate what may be possible after five years, assuming a full range of investment and typical levels of business and IT sophistication. The same methodology that produced these results can be applied to any retailer to produce relevant results.
Seize The Opportunity
Most retailers are well aware of both the potential and challenges presented by the “smarter consumer”, but many are not yet prepared to fully deliver a smarter shopping experience. The first step is to develop a strategic roadmap and understand how the competencies and capabilities can provide value.

We can show you how to take advantage of your current capabilities and evolve them to support an end-to-end smarter shopping strategy. Our research demonstrated that each business has its own unique set of circumstances, while also showing common threads that can yield ongoing success. We encourage you to contact us to find out more about the full scope of our work and how it can be applied to your business.

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At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to help give them a distinct advantage in today’s rapidly changing environment. Through our integrated approach to business design and execution, we help turn strategies into action. And with expertise in 17 industries and global capabilities that span 170 countries, we can help clients anticipate change and profit from new opportunities.

About the IBM Center for Applied Insights

The IBM Center for Applied Insights integrates deep industry and analytical expertise to help chart the course to new value for clients. The Center develops research and tools with pragmatic guidance and tangible outcomes to provoke organizations to action.

The model for smarter retail investment that emerged from this research, along with the hypothetical value projections, is designed to help retailers gauge their potential returns from their own, similar investments. The model can be scaled for different industry segments and maturity profiles to produce individually tailored results directly applicable to your organization.
Notes
1 “Global Mobile Phone Subscribers to Reach 4.5 Billion by 2012.”

2 http://www.internetworldstats.com/stats.htm


7 “Smarter Shopping Value Quantification.” IBM Center for Applied Insights. August 2011


9 Source: Retail Executive Interviews, IBM Center for Applied Insights, May 2011


11 Source : http://brandedretailer.com/reatailer_quotes.html#wet


13 Source: Retail Executive Interviews, IBM Center for Applied Insights, May 2011


16 Source: Retail Executive Interviews, IBM Center for Applied Insights, May 2011