



RETAIL HORIZONS

BENCHMARKS FOR 2011 – FORECASTS FOR 2012

EXECUTIVE SUMMARY

Retailers spent 2011 focused on growth, building on the efficiency gains made in prior years. Although the outlook for most retailers improved, many stores found themselves battling higher commodity prices on the one hand and an extremely price-sensitive buying public on the other. With uneven consumer demand and fewer store visits, marketers had to work harder to find and attract customer attention amid a profusion of technology platforms and competing offerings.

Navigating that array prompted retailers to redouble their efforts to enrich the customer experience. With sales growth the uppermost consideration, retail executives recognized that the formula lay in fostering deep customer engagement and improved satisfaction along key value measures. Achieving this required different things of different functions. For pricing teams, for instance, that meant, among other things, working harder to find the right price points; for brand and product teams it meant fine tuning assortments and allocations; for supply chain executives, it meant delivering the right inventory at the right time; and for marketers and information technology (IT) professionals, it meant more targeted messaging and a streamlined cross-channel experience.

Backing this was a concerted push for better customer insights. To accomplish this, retailers analyzed their customer spend, market research, and digital clickstream data to determine how consumers are using their time and money.

They also relied on data mining and analytics to derive customer insights and make real-time offers at POS, improve the one-to-one marketing experience, and segment the customer base by profitability, long-term value, and other parameters.

The desire to forge better connections pervaded retail operations as well. Store executives renewed their emphasis on integration, ensuring that their ever-more-critical online sales devices were fully linked into the company's operating systems and that consumers received a consistent cross-channel experience.

The result of these activities is greater balance among investing and cost saving agendas. Where cost concerns dominated last year's agenda, retailers allowed themselves to pursue a more rounded strategy in 2011, one that sought to preserve operational improvements while letting the sail out on a wider range of programs designed to court consumer interest and loyalty.

With those steps taken, the survey data suggest that retailers head into 2012 with a guarded sense of confidence, hopeful that a sustained emphasis on delivering a positive consumer experience will pay dividends in the form of improved sales and customer loyalty.

The attitude, outlook, and performance of the U.S. retail sector in 2011 are reflected in the major findings of the *Retail Horizons* study, which follows.

MORE RETAILERS RETURN TO PROFITABILITY

- Retailers reaped the benefit of operational improvements and better customer engagement. Nearly two-thirds of those polled reported gross margins greater than 40% in 2011, a gain of close to 25% over 2010. In addition, for the first time in several years, most retailers indicated they had positive operating profit margins, with over one-half (53%) reporting operating profit of more than 5%.
- Comparable store sales also grew. Twice as many retailers in 2011 reported same store sales of 5% and higher. But sharply higher selling, general, and administrative (SG&A) costs gave retailers little breathing room and put continued pressure on pricing.

STRATEGY SHIFTED FROM COST CONTAINMENT TO GROWTH ACCELERATION

- Executives in every function, with the exception of the supply chain, downshifted the emphasis on cost reduction this year, as efficiency gains and other operating improvements helped buffer margins and stem losses.
- Retailers spent the year focused on generating top-line growth by expanding their product lines and footprint. In support of that, marketing and advertising spend rose for the first time in a few years, with most retailers employing funds to increase awareness, improve the quality of customer outreach, and deepen their multi-channel presence.
- Headcount also stabilized, even growing in some cases as functions like IT added staff in an effort to keep pace with the increased demands placed on it.

RETAILERS DEMONSTRATED IT'S ALL ABOUT THE CUSTOMER

- Retailers see customer satisfaction as the key conduit to accelerating sales growth, particularly amid declining retention rates and increased buyer fragmentation. As a result, expanding wallet share now rivals or exceeds market share in importance. Stores have stepped up efforts to build customer engagement in response, with investments targeted at personalized, one-to-one marketing and customer-specific promotions.
- Retailers demonstrated that improved customer service is more than talk this year. Far more organizations linked compensation to customer satisfaction. This was true from the leadership level on down: 36% said it influenced compensation at the corporate level; 73% at the field management level; 77% at the store management level; 50% at the store associate level; and 59% at the call center level.

SHOPPING IS INCREASINGLY MOBILE AND ONLINE

- Survey data suggests that having a digital presence (i.e., Web, social, mobile) is now considered a business necessity: 100% of those polled have a Web presence, and the majority make close to their full in-store assortment available online. Retailers continued to work hard to plan and integrate their Web assets and offer a consistent look and feel across channels. They also focused on effective use of social networking sites (40%), integrating their online presence with other channels (40%), and creating a more interactive online offering (38%).
- Mobile payment platforms for consumers to make purchases either in store or online will continue to gain momentum in 2012. Four in 10 say building out their

mobile shopping and payments capabilities will be a key strategic priority over the next 12 months, a 15% increase over 2011.

A BUSINESS IS ONLY AS GOOD AS THE PEOPLE WHO RUN IT

- Retailers recognize the need to groom leaders with the skills and acumen to manage across disciplines, assess new growth markets, and work through solving business complexities. More than 80% of human resources executives responding to this year's *Retail Horizons* study said leadership development and succession plan-

ning was their top strategic priority – and 91% intend to make it their lead initiative heading into 2012.

- Challenges with talent management resonated beyond the top echelons of leadership. As retail business models transition from their physical, brick-and-mortar roots to an increasingly digital marketplace, stores must balance the need for newer, nontraditional skillsets, while deepening their core management experience set. With hiring back on the agenda, those issues have become more pressing. Talent management came in second only to leadership development as the key priority for 2012.

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