FORRESTER®

CHALLENGE THINKING. LEAD CHANGE.

Fiona S. Swerdlow, VP and Research Director
eBusiness and Channel Strategy

February 15, 2016
Established industries – and industry practices – are disrupting themselves

February 5, 2016

Burberry’s Bold Move: To Make Shows Direct to Consumer

By Samantha Cont

February 5, 2016

Tom Ford Switches Show to Consumer Schedule

By WWD Staff

Sources: WWD, The Business of Fashion
“The pace of change is accelerating faster than anticipated a year ago.”

Blake Nordstrom, Co-President of Nordstrom

April 2014
Agenda

› The Age of the Customer is here
› B2C eCommerce trends
› B2B eCommerce evolution
› The compass for businesses: Be customer obsessed
The Age of the Customer is Here
John Lewis’ Mayfield challenges companies: “Do you speak channel or customer?”

Source: Twitter - @experienceNRF
We Are In The Age Of The Customer

- **1900**: Age of manufacturing
  - Mass manufacturing makes industrial powerhouses successful.
  - Companies: 3M, Ford, GE, RCA

- **1960**: Age of distribution
  - Extensive store or branch networks and mergers for scale make distribution key.
  - Companies: Bank of America, Walgreens, Wal-Mart, Toyota

- **1990**: Age of information
  - Connected PCs and supply chains mean those that control information flow dominate.
  - Companies: MBNA, Google, Comcast, Amazon

- **2010**: Age of the customer
  - Empowered buyers demand a new level of customer obsession.
  - Companies: Macy’s, Salesforce, USAA, Amazon

Source: Forrester Research, Inc. Unauthorized reproduction or distribution prohibited.
“Digital Strategy”? – No More!

There is no such thing as a digital strategy anymore.

Just strategy in a digital world.
The Age of the Customer is Defined by Four Market Imperatives

- Create contextual mobile offerings in the customer’s moment of need.
- Turn insights into action to drive sales and service.
- Transform digitally enabled customer experiences.
- Lead digital business transformation to drive competitive edge.

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B2C eCommerce

*Keep one eye on Amazon; keep the other eye on mobile.*
US consumers were forecast to spend $3.3 trillion on retail purchases in 2015.
90% forecast to be spent in stores...

Source: Forrester Research
US Cross-Channel Retail Sales Forecast: 2014 To 2018
...and 10% forecast to be spent online

Source: Forrester Research
US Cross-Channel Retail Sales Forecast: 2014 To 2018
49% of sales paid for in a store are influenced online

Source: Forrester Research
US Cross-Channel Retail Sales Forecast: 2014 To 2018
“Uneasiness is the new normal.”

Marian Salzman
CEO, Havas PR North America

January 2016
U.S. Consumers Are Still Fiscally Cautious

42.5% of U.S. consumers are confident or very confident in an economic recovery – but that’s down from 50.1% one year ago

Source: NRF Retail Insight Center / Prosper Insights & Analytics

U.S. Average Unemployment:
December 2014: 5.6%
December 2015: 5.0%

Source: U.S. Bureau of Labor Statistics

Image source: Customer Communications Insights (http://customercommunications.com/)
Gas Prices Have Dropped Dramatically – But Consumers Aren’t Necessarily Spending

Average U.S. price per gallon of gasoline

$3.30
January 2014

$1.83
January 2016

Source: GasBuddy.com
"At the tail end of [2014], most economists were dead sure that lower gasoline prices would spark a wave of incremental spending, as [often] in the past ...As is now painfully obvious, the American consumer took their gas savings, bypassed the mall, and just went home."

Nick Colas
Chief Market Strategist, Convergex
July 2015
Amazon keeps gaining share...

Total revenues ($US billions)

Source: “Form 10-K,” United States Securities And Exchange Commission
...Makes a splash with digital assistants...

Source: Amazon
...And is diving more deeply into logistics

Amazon poised to take on UPS, FedEx in delivery business

Sources: The Seattle Times, The Wall Street Journal
By the end of 2016:

- 4.8 billion individuals use mobile phones
- 46% of global population are smartphone subscribers

Image source: http://www.engadget.com/2015/10/01/starbucks-app-uk-mobile-order-pay/
Mobile becomes the primary access device for many consumers, driving retail sales and traffic

Source: The State of Retailing Online 2016: Key Metrics, Business Objectives and Mobile Study produced by Forrester, Shop.org and Bizrate (a division of Connexity)
Holiday sales via mobile grew 59% YOY, per comScore

Mobile Holiday Sales Reach $13 Billion; 64% Of Retailers To Increase Smartphone Investments

by Chuck Martin, January 13, 2016, 3:05 PM

The impact of mobile on this past holiday shopping season was projected to be huge, and huge it was.

Source: MediaPost
Mobile changes how companies operate and serve customers

30%

The % of U.S. retail sales that will have a mobile cross-channel component by the end of 2016

Source: Forrester “Web-Influenced Retail Sales Forecast, 2015 To 2020 (US)”
“Unlike the web that offers all things to all people, mobile serves individuals with just want they want in their moment of need. Where the web is static, mobile is dynamic and depends on context.”

Julie Ask
VP and Principal Analyst, Forrester

“2016 Predictions: Key Trends Will Transform Mobile Engagement”
November 2016
B2B eCommerce

Take B2C eCommerce cues and tailor for the B2B customer
U.S. B2B eCommerce is twice the size of B2C eCommerce

2015: $780 B
2020: $1.13 T

Source: Forrester Forecast 2015
Investment levels by sellers mirror this trend

“Please rate the estimated 2015 investment priorities for the following channels on a scale of 1 (very low) to 5 (very high).”

<table>
<thead>
<tr>
<th>Channel</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2B website</td>
<td>73%</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Smartphone</td>
<td>44%</td>
<td>30%</td>
<td>23%</td>
</tr>
<tr>
<td>Tablet</td>
<td>42%</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>3rd party partner B2B websites</td>
<td>36%</td>
<td>19%</td>
<td>35%</td>
</tr>
<tr>
<td>3rd party partner B2C websites</td>
<td>34%</td>
<td>22%</td>
<td>36%</td>
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<td>Call center/phone</td>
<td>24%</td>
<td>20%</td>
<td>45%</td>
</tr>
<tr>
<td>B2B print catalog</td>
<td>21%</td>
<td>12%</td>
<td>53%</td>
</tr>
<tr>
<td>In-person (store, branch, showroom, etc.)</td>
<td>19%</td>
<td>15%</td>
<td>36%</td>
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Base: 110 B2B online sellers

Source: Q2 2015 Forrester/Internet Retailer B2B Sell-Side Online Survey
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“When we achieve some measurable sales success, we take that upstairs ASAP to justify more investment.”

Senior Director, Multichannel company

2015
The Rise of the Digitally Enabled B2B Selling Model

Customer

Account team
- Field sales
- Inside sales
- Call center

Self-serve website
- Mobile
- PC/laptop
- Tablet
Self-service B2B eCommerce rivals full-service B2B commerce in importance

- 53% prefer gathering information online on my own
- 59% prefer not to interact with a sales rep
- 74% buying from a website is more convenient
- 93% prefer to buy online when I’ve decided what to buy

Base: 224 B2B online buyers

Source: Forrester/Internet Retailer Q1 2015 US B2B Buyer Channel Preferences Online Survey
47% of B2B executives say their customers who have migrated to online self-service are more likely to become repeat customers.

Forrester Q1 2013 Global B2B eCommerce Portal Online Survey
Image source: Mashable.com
B2B eCommerce self-service customers will try new products – and also reconsider lapsed brands

<table>
<thead>
<tr>
<th>2-1</th>
<th>Customers migrated online are more likely to try a new product online than they were offline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Customers you have migrated from offline sales environments to online self-serve product purchase environments are more likely to try new products online than they were to try new products in an offline sales environment.”</td>
</tr>
<tr>
<td>Agree</td>
<td>38%</td>
</tr>
<tr>
<td>Disagree</td>
<td>20%</td>
</tr>
<tr>
<td>Base: 45 B2B eCommerce executives</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2-2</th>
<th>Migrated customers are more likely to reconsider lapsed brands online than offline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Customers you have migrated from offline sales environments to online self-serve product purchase environments are more likely to reconsider old or lapsed brands online than they were to reconsider old or lapsed brands in an offline sales environment.”</td>
</tr>
<tr>
<td>Agree</td>
<td>30%</td>
</tr>
<tr>
<td>Disagree</td>
<td>10%</td>
</tr>
<tr>
<td>Base: 45 B2B eCommerce executives</td>
<td></td>
</tr>
</tbody>
</table>

Source: Forrester’s Q1 2013 Global B2B eCommerce Portal Online Survey
38% of B2B executives say their customers who have migrated online for self-service spend more than other customers.
Customer experience is the one sustainable competitive advantage.
Every time customers are exposed to an improved shopping experience, their shopping expectations are reset to a new higher level.
Experience is a significant factor in the online shopper’s journey

“\textquote[I am unlikely to return to a website that does not provide a satisfactory customer experience.]

\begin{itemize}
\item \textbf{68\%}
\end{itemize}

\textit{Base: 4,485 US online adults (ages 18 and over)}
\textit{Source: Forrester’s North American Technographics\textregistered Customer Life Cycle Survey 2, 2015}
The experience bar for B2B eCommerce sites will continue to rise

“How would you rate your company’s B2B website customer experience versus . . .?”

<table>
<thead>
<tr>
<th>Your B2B competitors</th>
<th>Amazon.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better</td>
<td>46%</td>
</tr>
<tr>
<td>Comparable</td>
<td>36%</td>
</tr>
<tr>
<td>Worse</td>
<td>18%</td>
</tr>
<tr>
<td>Better</td>
<td>20%</td>
</tr>
<tr>
<td>Comparable</td>
<td>16%</td>
</tr>
<tr>
<td>Worse</td>
<td>64%</td>
</tr>
</tbody>
</table>

Base: 86 B2B eCommerce professionals

Source: Forrester/Internet Retailer Q2 2015 Global B2B eCommerce Online Survey

90701 Source: Forrester Research, Inc. Unauthorized reproduction, citation, or distribution prohibited.
Across sectors, business leaders prioritize customer experience

“Which of the following initiatives are likely to be your organization’s top business priorities over the next 12 months?” (4 or 5 on a scale of 1 [not on our agenda] to 5 [critical priority])

- Improve the experience of our customers: 70%
- Improve our products/services: 69%
- Address rising customer expectations: 59%
- Improve our ability to innovate: 55%
- Reduce costs: 52%
- Increase influence and brand reach in the market: 52%

Base: 2,526 US business influencers and decision-makers (multiple responses accepted)

Source: Forrester’s Business Technographics® Global Priorities And Journey Survey, 2015
Brick and mortar retailers buy digital experience know-how

Nordstrom paying $350 million for Chicago's Trunk Club

Nordstrom Tech Shopping Spree Continues with Stake in Custom Shoe Retailer

Sources: WWD, Chicago Tribune, Fortune
Branded manufacturers strategize, pivot, partner, invest to compete…

Source: Twitter - @experienceNRF
...And aim high to capture direct customers and sales

Source: Twitter - @experienceNRF
“Department stores must be a place for customers to come and get away from the everyday challenges in their lives, and to be entertained while they shop.”

Terry Lundgren, CEO, Macy’s
January 2016
Customers expect associates to be able to do more

"Imagine that you are shopping in a store where the sales associates are equipped with mobile devices such as smartphones or tablets. What would you expect them to be able to do for you with the mobile device?"

- Look up product information: 60%
- Check additional store inventory (when the shelf is empty): 59%
- Look up inventory at nearby store: 55%
- Provide basic information such as return policy or warranty information: 47%
- Reserve products for me to pick-up at a nearby store: 45%
- Perform a checkout for me: 37%
- Look up trend recommendations and product reviews: 24%
- Look up my past purchases and make product recommendations: 18%
- I do not have any expectations of sales associates equipped with mobile devices: 17%
- Know that I've entered the store and greet me personally: 13%

Retailers transform stores from places to shop to places to engage

“We believe it’s our job to put the customer at the center of everything we do, by giving them easy access to Nike products and experiences in distinctive retail environments online and in-store.”
-Christiana Shi, Nike
Sephora adds value by providing a unique, engaging, personal shopping experience.
“It’s hard to find experienced B2B eCommerce folks… we’re having to steal talent from B2C.”

Vice President
Multichannel Company
2015
Omnichannel Expectations Are High
Unfortunately, too many omnichannel experiences today are broken
“Who gets credit for the sale?”

If everyone gets credit, then everyone is focused on the customer
29% of consumers agree they are less likely to visit a store if its in-store inventory is not available online.
Available / Not Available doesn’t cut it

<table>
<thead>
<tr>
<th>Address</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>6360 WEST THIRD STREET, LOS ANGELES, CA 90036</td>
<td>Available</td>
</tr>
<tr>
<td>323-937-3019</td>
<td></td>
</tr>
<tr>
<td>7021 HOLLYWOOD BOULEVARD, LOS ANGELES, CA 90028</td>
<td>Not Available</td>
</tr>
<tr>
<td>323-836-0307</td>
<td></td>
</tr>
<tr>
<td>14735 VENTURA BOULEVARD, SHERMAN OAKS, CA 91403</td>
<td>Available</td>
</tr>
<tr>
<td>818-788-0208</td>
<td></td>
</tr>
<tr>
<td>5985 WEST PICO BOULEVARD, LOS ANGELES, CA 90035</td>
<td>Available</td>
</tr>
<tr>
<td>323-965-9161</td>
<td></td>
</tr>
</tbody>
</table>

Promotions, item prices and product availability may vary by store and online. Because item quantities are always changing, the inventory information given here is approximate and item availability is not guaranteed.

LOW-PRICE GUARANTEE: If a product is priced lower in store at time of pickup, you will receive the lower price.

Source: CVS website
Transparency wins the consumer’s heart

Source: Canadian Tire website
Hand over your enterprise supply chain

Source: IKEA website
Communicate clearly and early

Source: Bloomingdale’s email; Futureshop
Store pickup has to be fast

“When you use the ‘buy online, pick up in store’ or ‘reserve online, pay and pick up in store’ option, when do you expect to be notified that your items are ready for pick up?”

<table>
<thead>
<tr>
<th>Time</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 5 min</td>
<td>4%</td>
</tr>
<tr>
<td>Within 10 min</td>
<td>5%</td>
</tr>
<tr>
<td>Within 20 min</td>
<td>5%</td>
</tr>
<tr>
<td>Within 30 min</td>
<td>12%</td>
</tr>
<tr>
<td>Within 1 h</td>
<td>18%</td>
</tr>
<tr>
<td>Within 2 h</td>
<td>9%</td>
</tr>
<tr>
<td>Within 4 h</td>
<td>9%</td>
</tr>
<tr>
<td>Within 8 h</td>
<td>5%</td>
</tr>
<tr>
<td>Within 1 d</td>
<td>20%</td>
</tr>
<tr>
<td>Within 2 d</td>
<td>12%</td>
</tr>
<tr>
<td>In more than 2 d</td>
<td>9%</td>
</tr>
</tbody>
</table>

53% of US consumers expect their store pickup orders to be ready for collection within 2 hours of placing the order.

Image source: Best Buy Canada (www.bestbuy.ca)
The in-store experience has to be flawless

Image source: addressed.gapinc.com
Customer Obsession Is The Compass

*Be customer-led to change your organization*
Digital leaders and their teams must adapt to the principles of the Customer-Obsessed Operating Model

Guess who designed Vanderbilt’s pathways?

Image source: Redditweekly.com
Customer-Obsessed Companies Embrace Four Mutually Reinforcing Market Imperatives

<table>
<thead>
<tr>
<th></th>
<th>Embrace the mobile mind shift</th>
<th>Turn big data into business insights</th>
<th>Transform the customer experience</th>
<th>Accelerate your digital business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Depot</td>
<td>New systems will enable contractors to order on the smartphone, pick up in store</td>
<td>Monitors social media for insights into customer shifts</td>
<td>Staffers armed with handheld devices can direct customers to find desired products</td>
<td>Investing over $300 million to update systems to power these new experiences</td>
</tr>
</tbody>
</table>

Source: Forrester - Winning in the Age of the Customer. April 2015
In Summary

› Competition and market complexity grow

› Develop self-service options as part of your suite of offerings for your B2B customers

› Invest in a robust metrics framework to know how your business is tracking – and how to adjust

› Learn best practices from the industry – don’t fall into the trap of “Not Invented Here”

› The Age of the Customer is here: obsess about your customer – not shiny objects
Thank you

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fswerdlow@forrester.com