

The State of Retail in a Digital World

Women's Wear Daily
in partnership with
berglass+associates

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Background

About Women's Wear Daily

For 100 years, Women's Wear Daily (WWD), a property of Fairchild Fashion Media, has been the daily media of record - and the industry voice of authority - for senior executives in the global women's and men's fashion, retail and beauty communities as well as the consumer media that cover the market. Often referred to as "the fashion bible," WWD provides a balance of timely, credible business news and key fashion trends to a dedicated global readership of retailers, designers, manufacturers, marketers, financiers, Wall Street analysts, media executives, ad agencies, trend-makers and socialites. As an increasingly complex marketplace heightens the need for information and competitive intelligence, WWD delivers with frequency, integrity, independence, spirited coverage and a long tradition that demands staffers get the story and get it first.

About Berglass + Associates

Berglass+Associates is a well respected executive search firm serving the retail industry - both in the traditional brick-and-mortar and pure-play digital retail spaces. Since its inception, Berglass+Associates has been committed to one very specific goal - to be where consumers are shopping today and where they will be shopping tomorrow. For more than 25 years, the company has thrived, and continues to grow, based on this vision - including being among the first in retail to anticipate the impact that digital technology would have on the industry overall. As that revolution began to take shape, and alter the very nature of retail, Berglass+Associates became the proactive category leader, identifying the most innovative executive talent and partnering with retail's most influential brands to successfully navigate an industry that is reinventing itself year-over-year. The digital world has changed the landscape forever. Today, e-commerce represents almost a quarter of their practice. Their digital clients include both pure-play innovators and established brick-and-mortar retailers.

Hypothesis

The world is heading toward an omnichannel retail landscape, where the customer can get whatever he/she wants, wherever, whenever, and however he/she wants it. That future -- which is not very far away -- implies the convergence of brick-and-mortar retail with online retail. Until that day arrives, brick-and-mortar players and pure-play businesses are operating in a fragmented landscape. They have different views on what the future looks like, and may not be learning from one another as effectively as they should be. This study, conducted in September 2012, was developed to assess the extent of the gap between these two worlds as it relates to industry outlook, sector outlook, and talent/leadership.

Methodology

- Targeted online survey
- 107 senior executives professionally involved in retail*
 - 77 brick-and-mortar
 - 25 pure play
 - 4 catalog
 - 1 TV home shopping
- Titles of Director or above
- All respondents included in this study work at companies that operate e-commerce sites
- Primarily apparel/footwear/beauty industry

* Base sizes are small and should be used for directional purposes only.

Definitions

Term	Definition
Senior Retail Executive	An individual at the Director level or above who is professionally involved in the retail sector, whose company sells consumer goods primarily in stores, online, through a catalog, or through television, and whose company has an e-commerce site that sells products to consumers
Brick-and-Mortar Executive	An individual at the Director level or above who is professionally involved in the retail sector, whose company is a retailer or manufacturer of consumer goods that sells <u>primarily in stores</u> , and whose company also has an e-commerce site that sells products to consumers
Pure Play Executive	An individual at the Director level or above who is professionally involved in the retail sector, whose company is a retailer or manufacturer of consumer goods that sells <u>primarily online</u> , and whose company has an e-commerce site that sells products to consumers

Summary of Findings

Summary of Findings - Industry Outlook

- 96% of senior retail executives surveyed agree that apparel/footwear/beauty retail is back in growth mode.
- There is lack of alignment between brick-and-mortar and pure play executives on the source of anticipated growth, the competitive landscape , and what the future of the apparel/footwear/beauty retail industry looks like.
- Difficulty finding talent, economic/budgetary issues, and changing consumer behavior are all perceived as obstacles to growth by senior retail executives surveyed.
- Senior retail executives surveyed are significantly more concerned about retaining future customers than acquiring them.

Summary of Findings – Sector Outlook

- Brick-and-Mortar
 - The majority of brick-and-mortar executives surveyed look to e-commerce as their fastest driver of future growth; 36% believe that growing web sales will be more important than growing store sales.
 - Though 95% of brick-and-mortar executives surveyed believe that exciting store experiences will continue to drive customers into stores, almost 25% believe that web sales will eventually surpass store sales.
 - More than half of brick-and-mortar executives surveyed acknowledge the impact that the web is having on their physical stores: they recognize the importance of a strong web presence, expect to send fewer catalogs, believe they need to offer fast delivery, expect to train their store associates online, and see the web influencing in-store purchases.
 - More than half of brick-and-mortar executives surveyed expect mobile checkout and mobile wallets to become industry standard in the future.
- Pure Play
 - 80% of pure play executives surveyed expect growth of 11% or more in the next 12 months.
 - 64% of pure play executives surveyed believe that customers in the future will primarily buy online.
 - 67% of senior retail executives surveyed agree that shopping online has become easier than shopping in stores; 40% of pure play and almost 15% of brick-and-mortar believe that it has become more exciting as well.

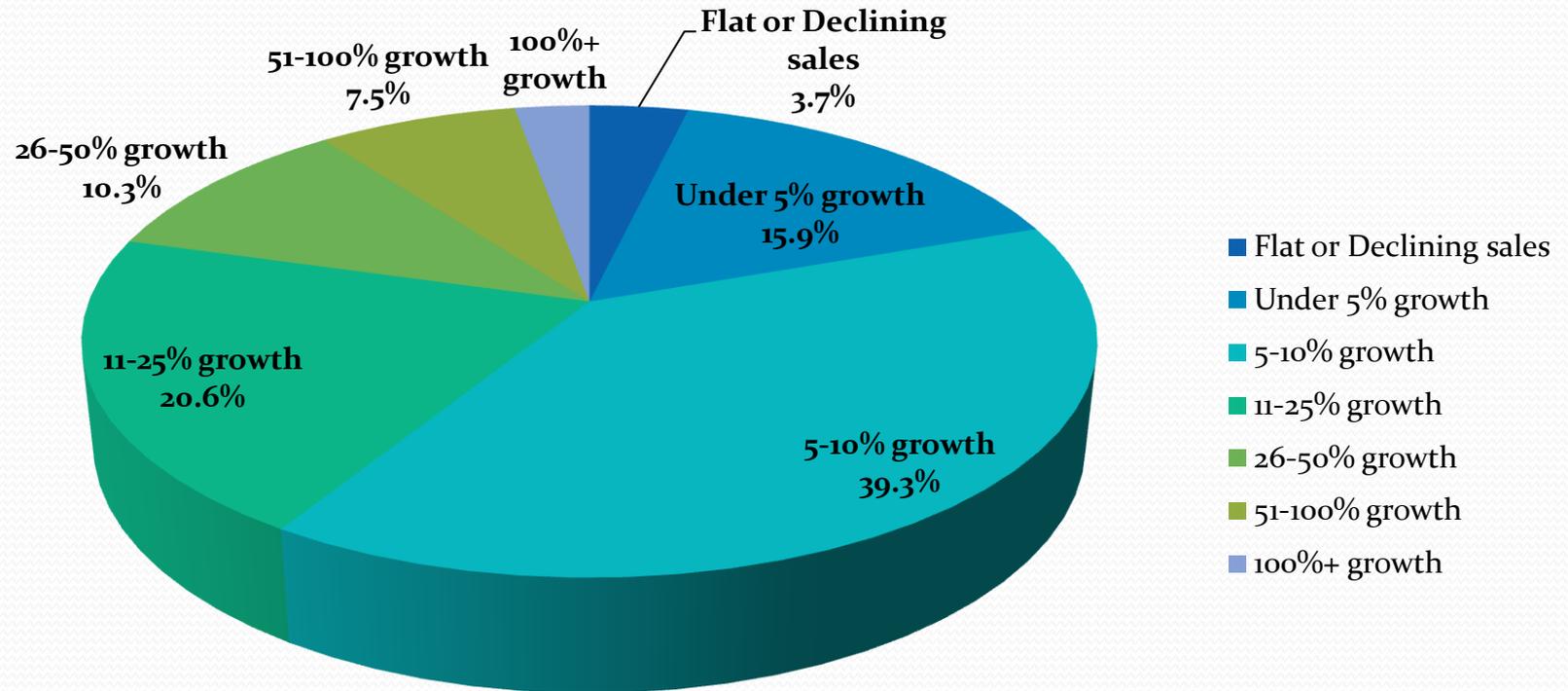
Summary of Findings – Talent & Leadership

- The majority of brick-and-mortar executives surveyed feel that their senior leadership teams and Boards of Directors are not particularly digitally savvy, and that their web sites are not as effective as they could be.
- 100% of pure play executives surveyed feel that their senior leadership teams are marketing/merchandising savvy; 80% feel the same way about their Boards of Directors.
- The majority of brick-and-mortar executives surveyed report that their senior digital leader was an internal promotion, not an external hire.
- The majority of pure play executives surveyed report that their senior marketing/merchandising leader was an outside hire.
- More than half of brick-and-mortar executives surveyed report that their senior digital leader is not responsible for multi-channel integration.
- More than half of pure play executives surveyed report that their senior marketing/merchandising leader is not responsible for multi-channel integration.
- 30% of brick-and-mortar executives surveyed report that their senior digital leader is beneath the VP level.
- 92% of pure play executives surveyed report that their marketing/merchandising leader reports directly to the CEO.

Retail Industry Outlook

Growth Expectations – Next 12 Months

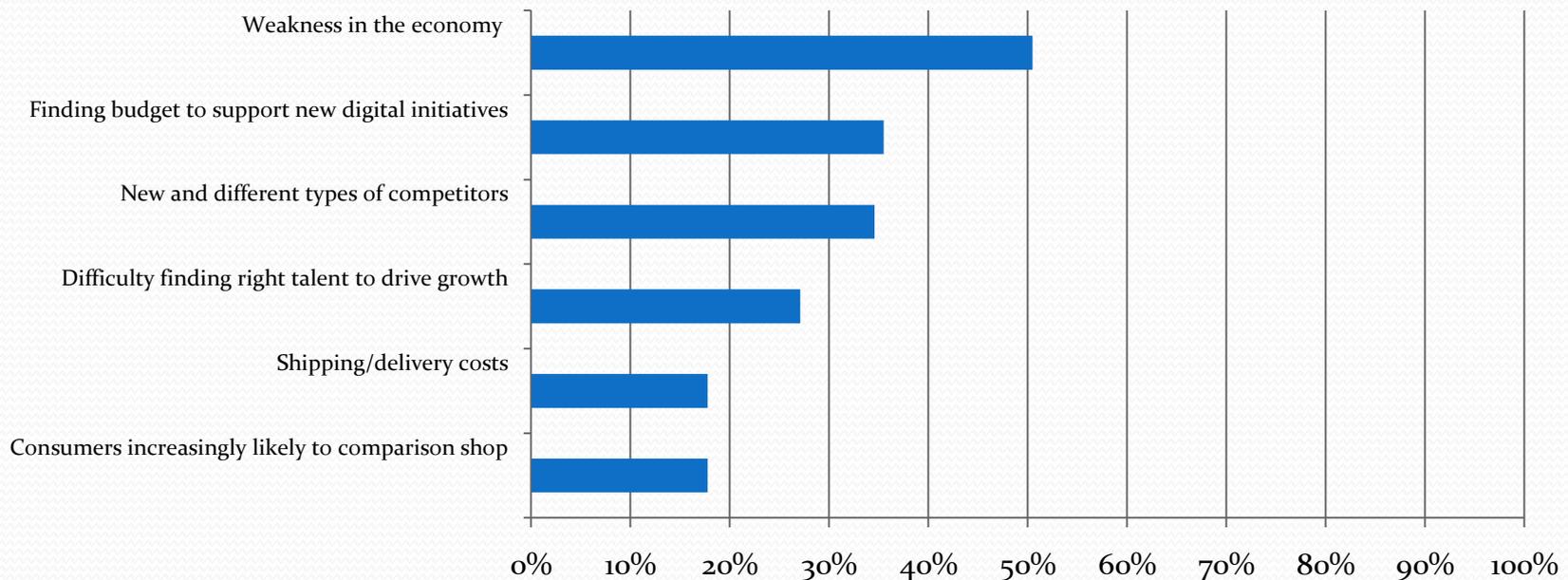
- More than 96% of senior retail executives surveyed are expecting growth in the next 12 months.



Obstacles to Growth

- Although the vast majority of senior retail executives surveyed are expecting growth in the next 12 months, they also identified a number of obstacles that stand in the way.

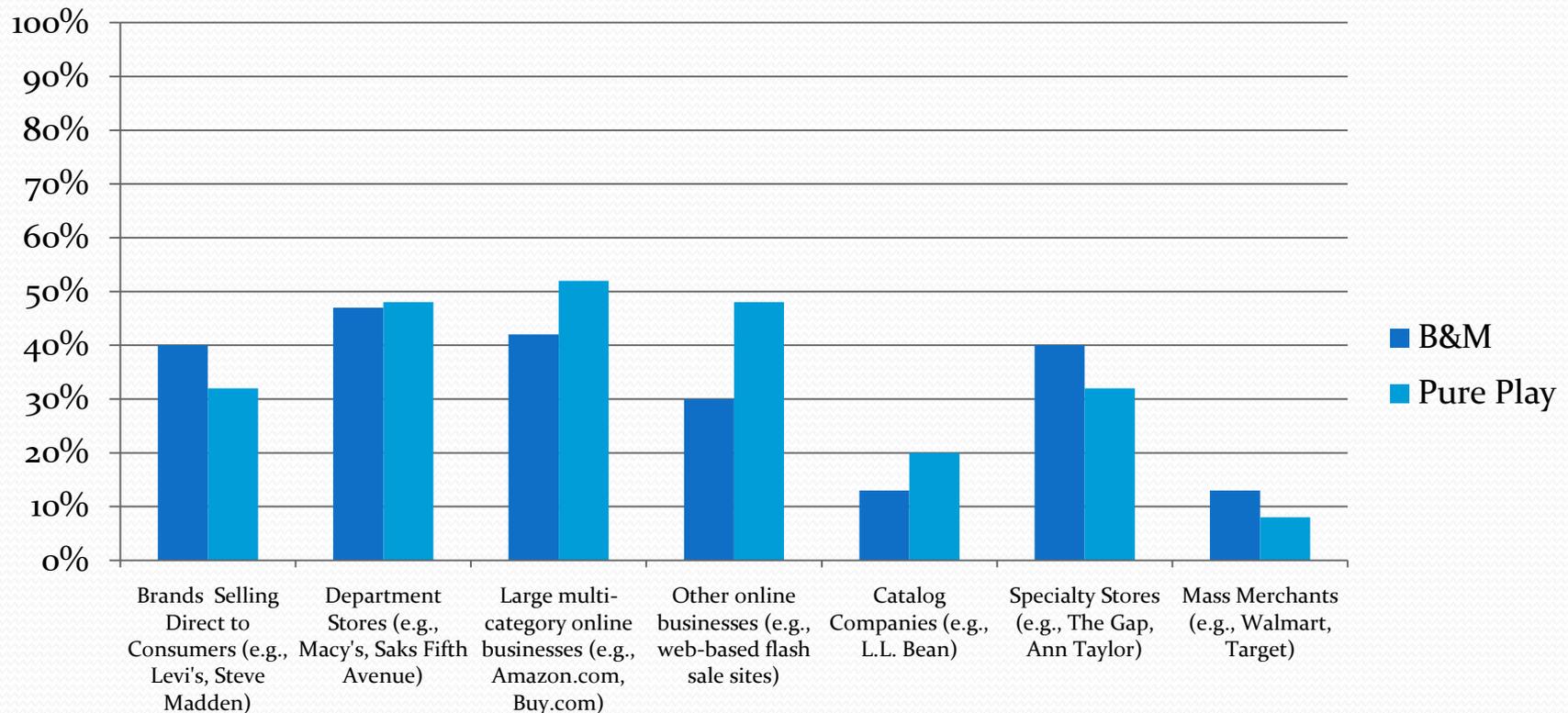
What are the biggest obstacles to your company's growth overall?



The Competitive Landscape

- With the exception of department stores, which almost half of all senior retail executives surveyed perceive as major competitors, brick-and-mortar and pure play executives have different perceptions of the retail competitive landscape.

Who Are Your Major Competitors?

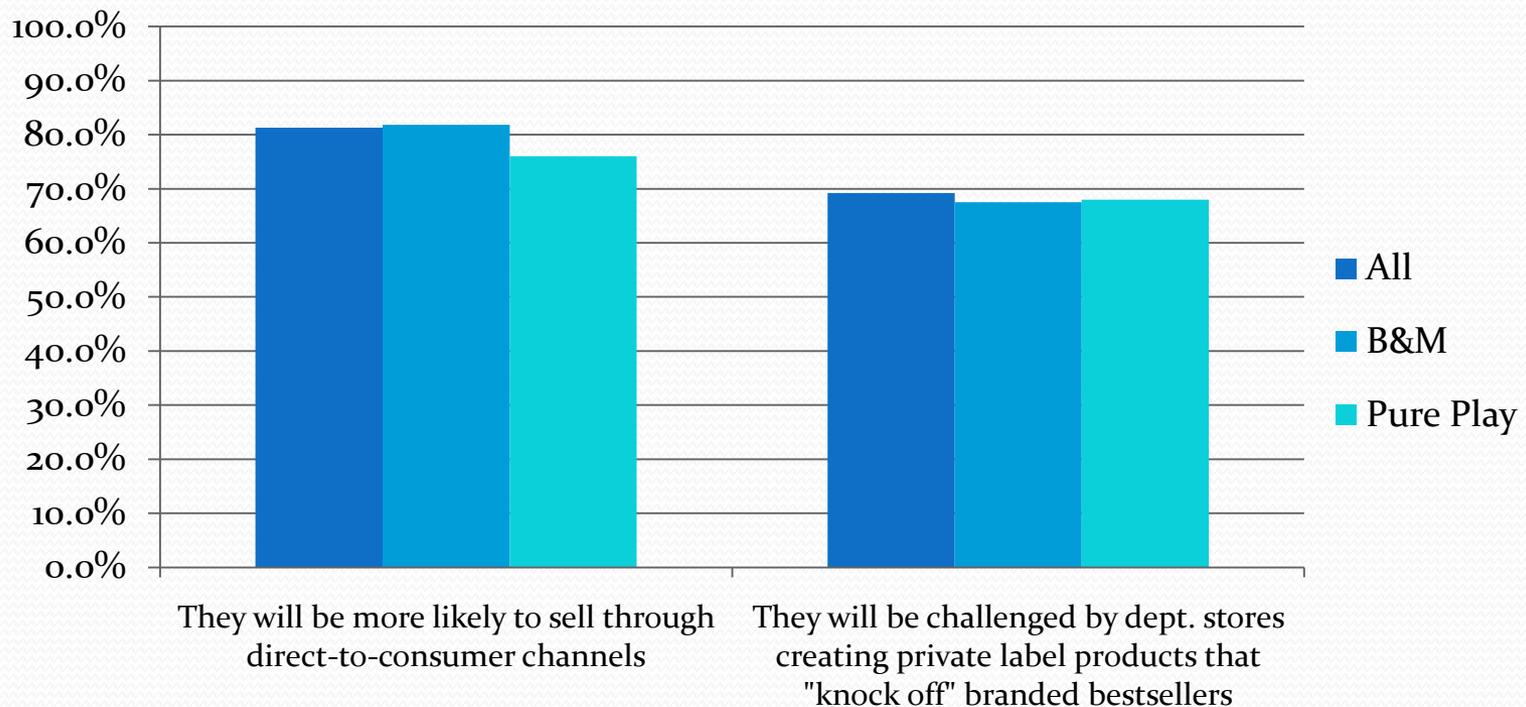


Base: Brick-and-Mortar (77); Pure Play (25)

Competition from Wholesale

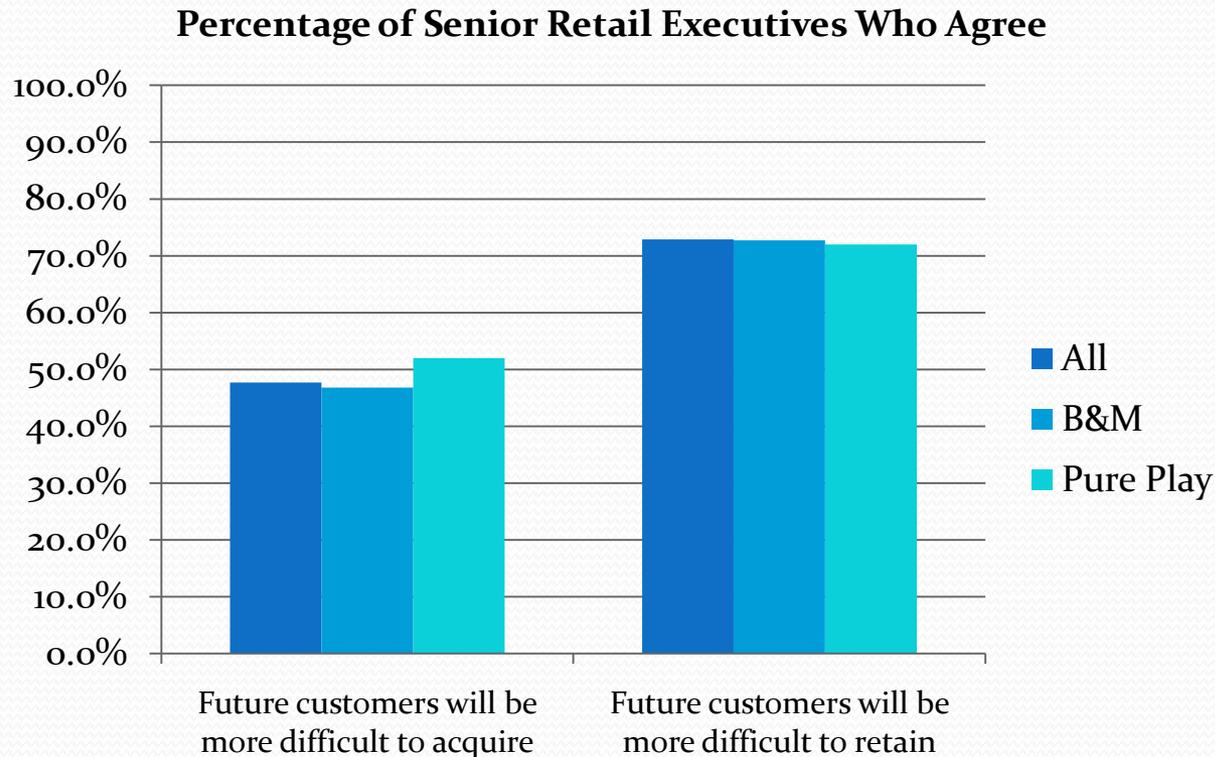
- 81% of all senior retail executives surveyed believe that wholesale manufacturers will be more likely to sell through direct-to-consumer channels in the future.
- 70% believe that they will be challenged by department stores creating private label products that “knock off” branded bestsellers.

Percentage of Senior Retail Executives Who Agree



Acquisition vs. Retention

- Senior retail executives surveyed are significantly more concerned about retaining future customers than they are about acquiring them.

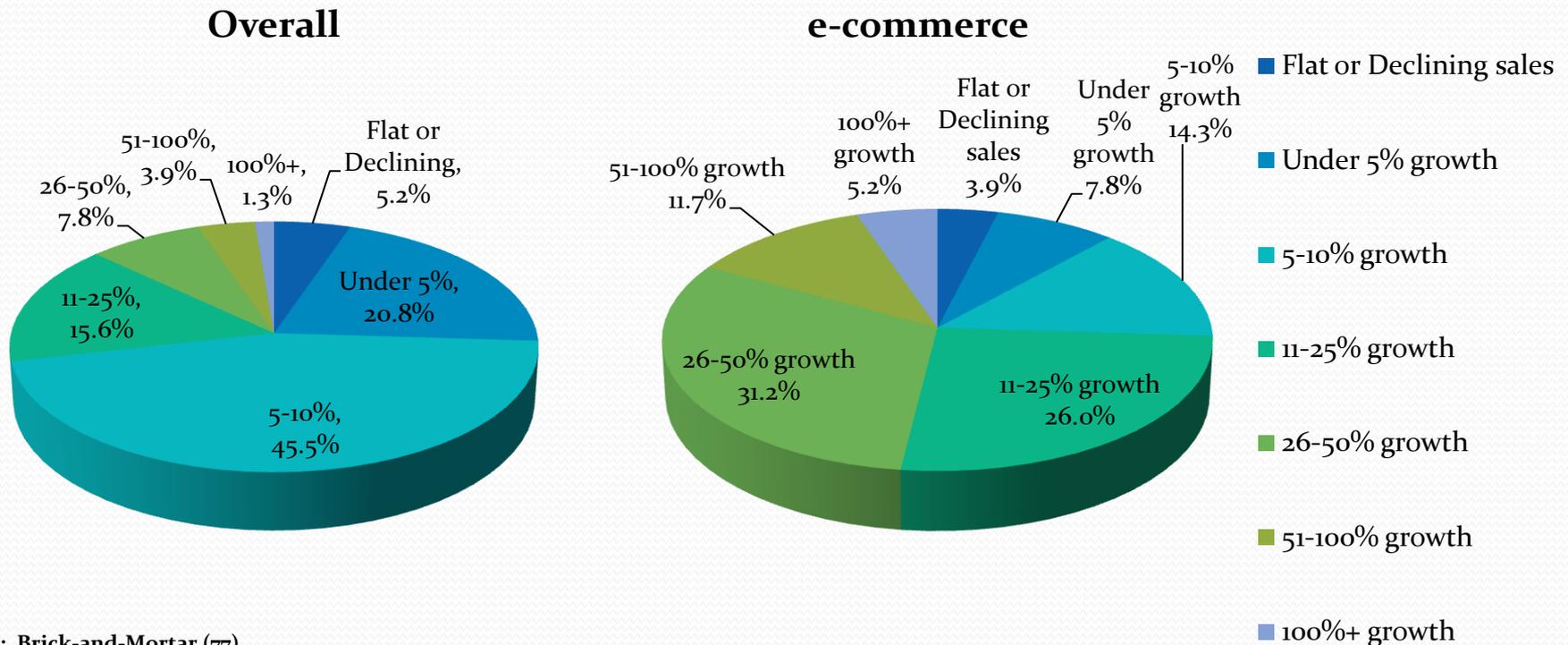


Brick-and-Mortar Sector Outlook

Growth Expectations – Next 12 Months

Brick-and-Mortar – Overall vs. e-commerce

- 71% of brick-and-mortar executives surveyed expect overall growth of up to 10%.
- 74% expect their e-commerce businesses to grow at a rate of 11% or more.

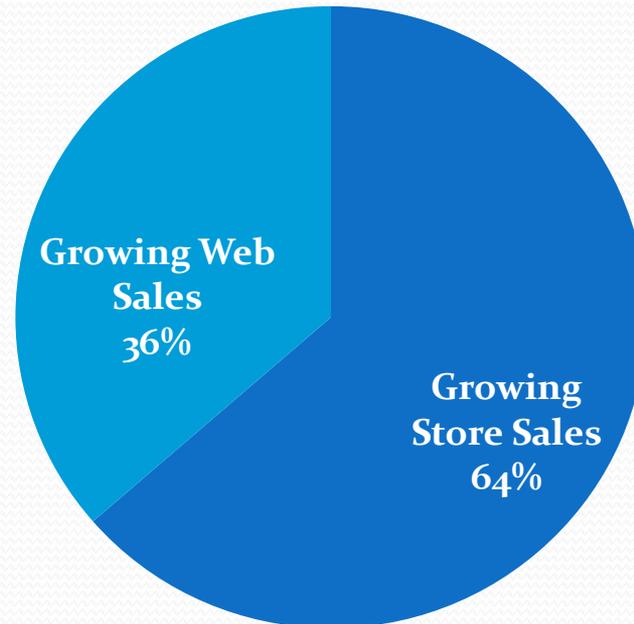


Store Sales vs. Web Sales

Brick-and-Mortar

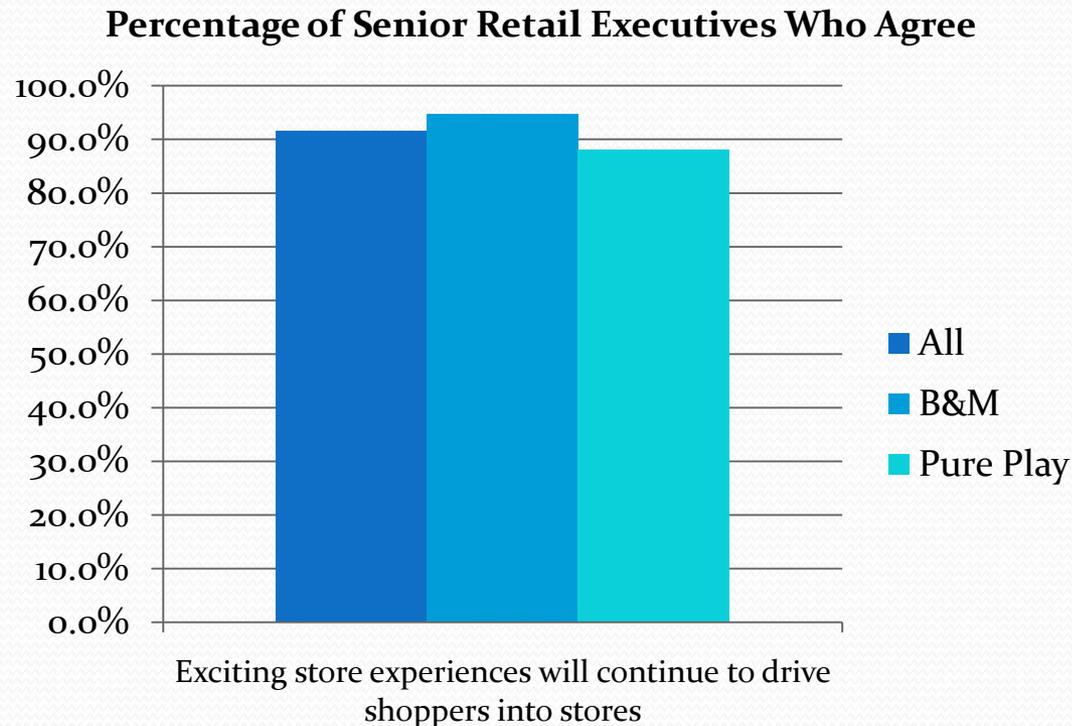
- In spite of the fact that 74% expect their e-commerce businesses to grow at a rate of 11% or more, 64% of brick-and-mortar executives surveyed state that growing store sales is more important to the future of their businesses than growing web sales.

Which is more important to the future of your business?



Importance of Store Experience

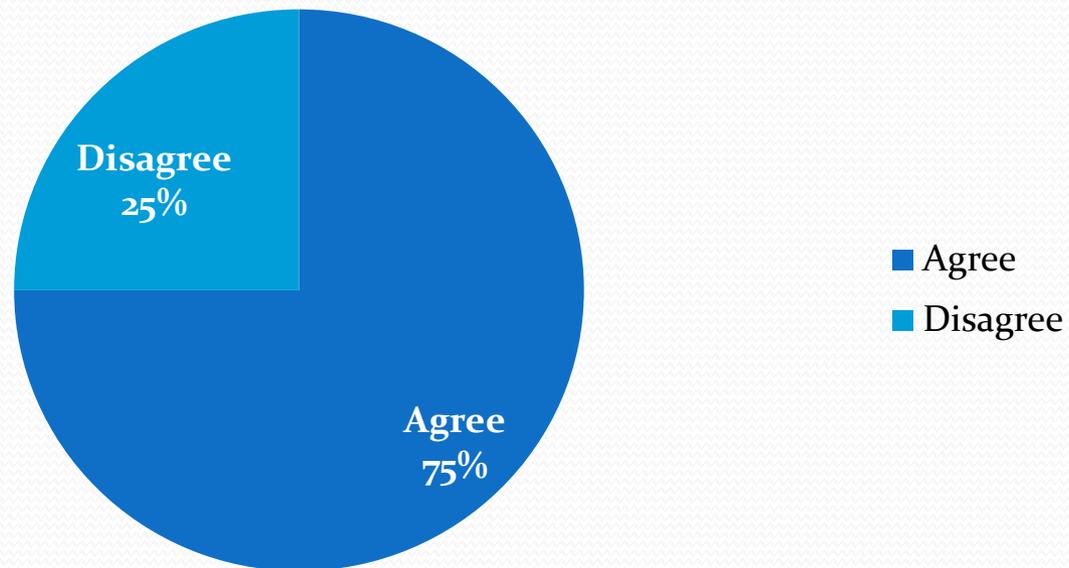
- 95% of brick-and-mortar executives surveyed believe that exciting store experiences will continue to drive shoppers into physical stores.
- 88% of pure play executives surveyed agree.



Loyalty Program Efficacy

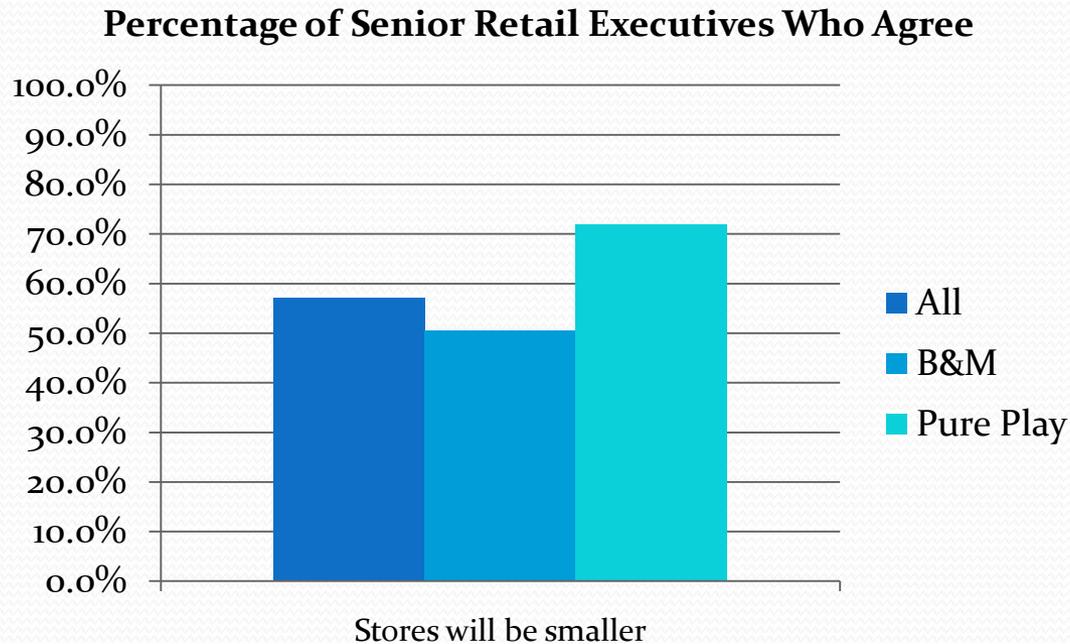
- 75% of brick-and-mortar retailers surveyed agree that brick-and-mortar loyalty programs will become more effective in the future.

Loyalty programs will become more effective



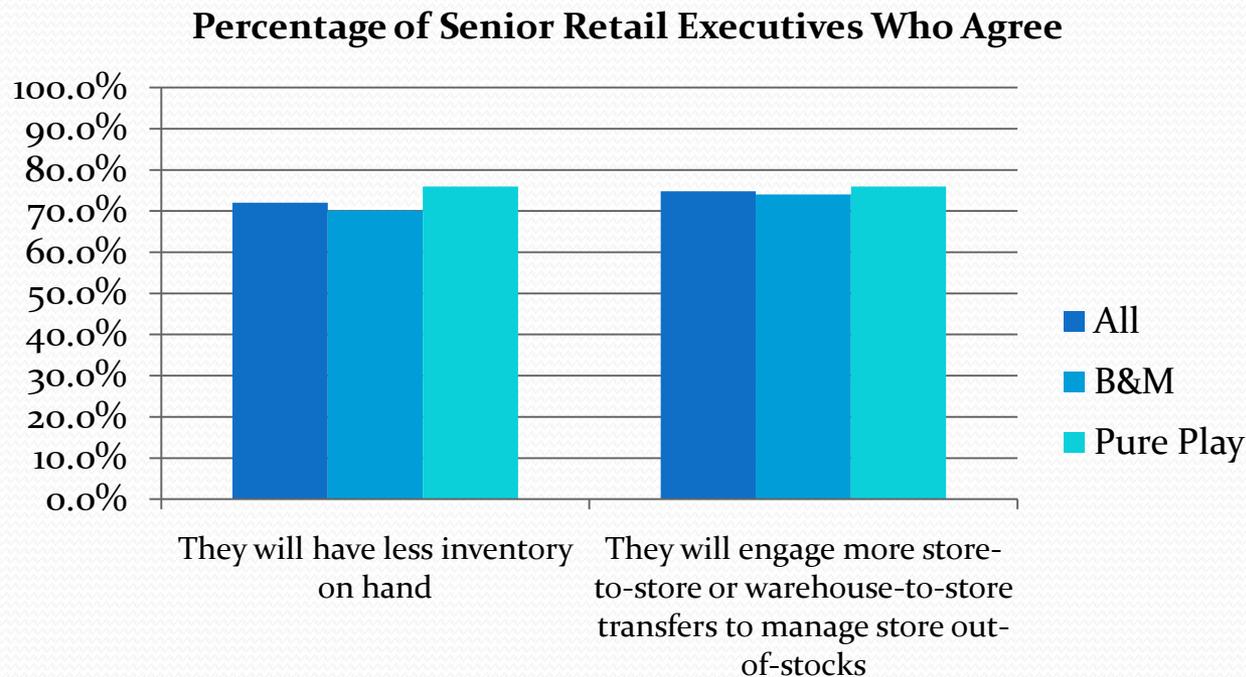
Future Store Size

- 51% of brick-and-mortar executives surveyed believe that physical stores will be smaller in the future.
- 72% of pure play executives surveyed agree.



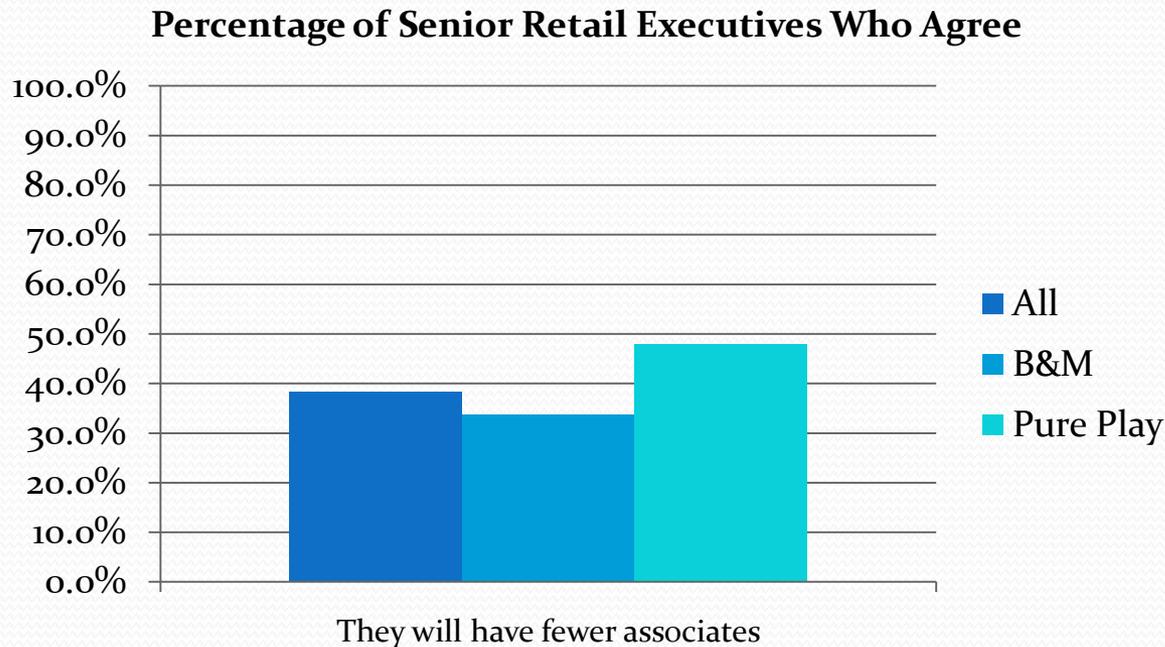
Future Inventory

- More than 7 out of 10 brick-and-mortar executives surveyed believe that physical stores in the future will have less inventory on hand and that they will engage more transfers to manage store out-of-stocks.
- 76% of pure play executives surveyed agree.



Future Staff Size

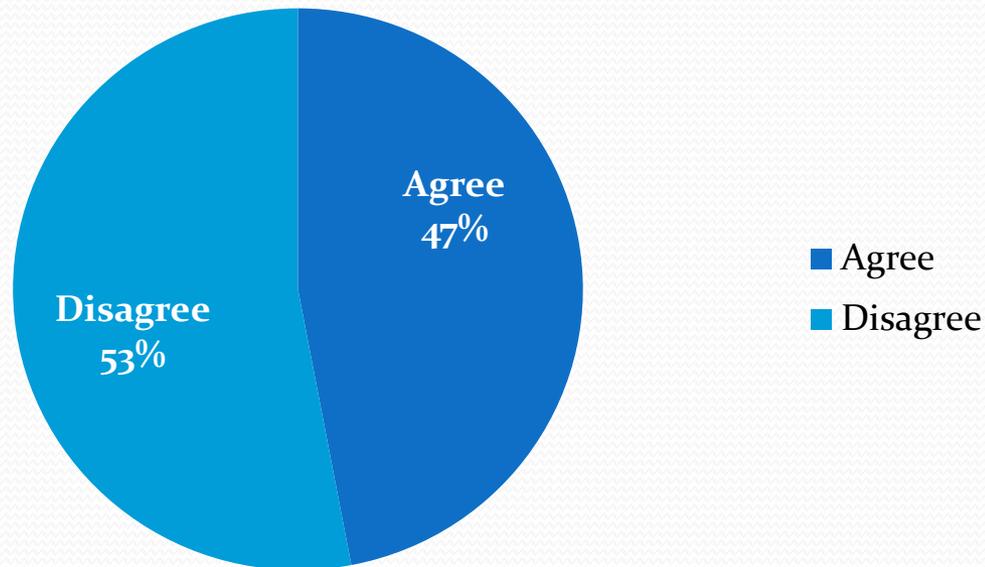
- 34% of brick-and-mortar executives surveyed believe that brick-and-mortar stores will have fewer associates in the future
- 48% of pure play executives surveyed agree.



Stores-within-Stores

- 47% of brick-and-mortar retailers surveyed believe that stores-within-stores will be essential for profitability.

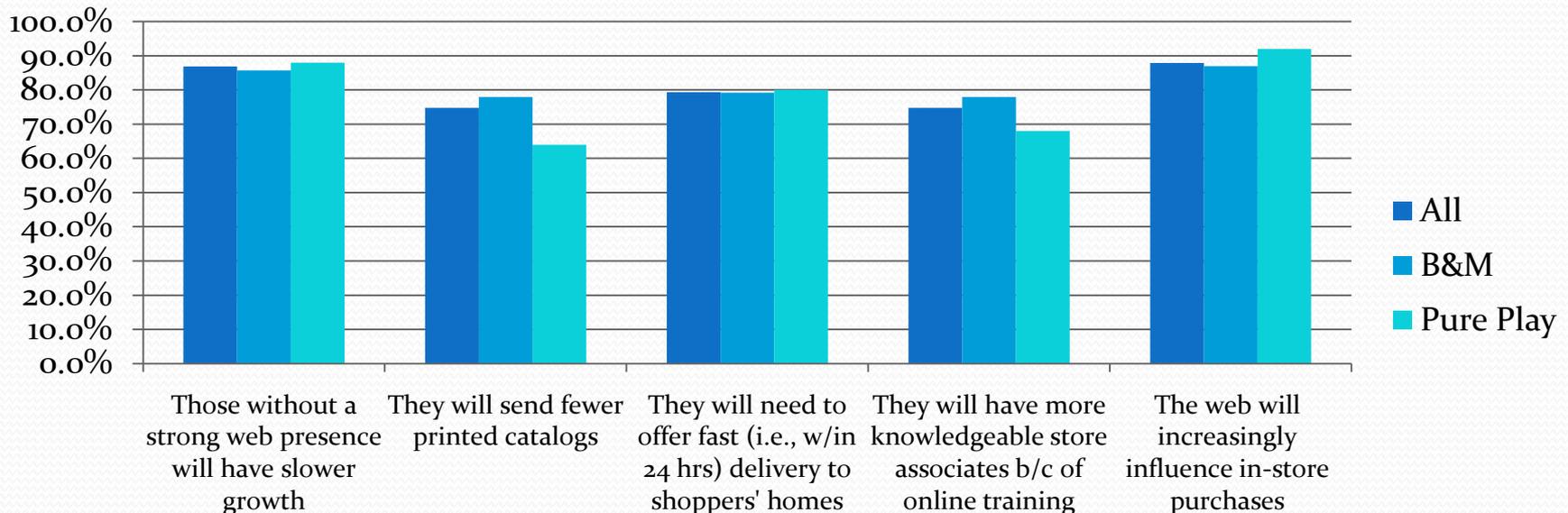
Stores-within-Stores will be Essential for Profitability



The Web's Impact on Brick-and-Mortar

- 87% of senior retail executives surveyed believe that future brick-and-mortar growth will depend on a strong web presence.
- 79% believe that fast delivery will be critical for brick-and-mortar retailers in the future.
- 75% believe that fewer printed catalogs will be sent by brick-and-mortar retailers, and that store associates will be trained online.
- More than 4 out of 5 agree that in-store purchases will increasingly be influenced by the web as time goes by.

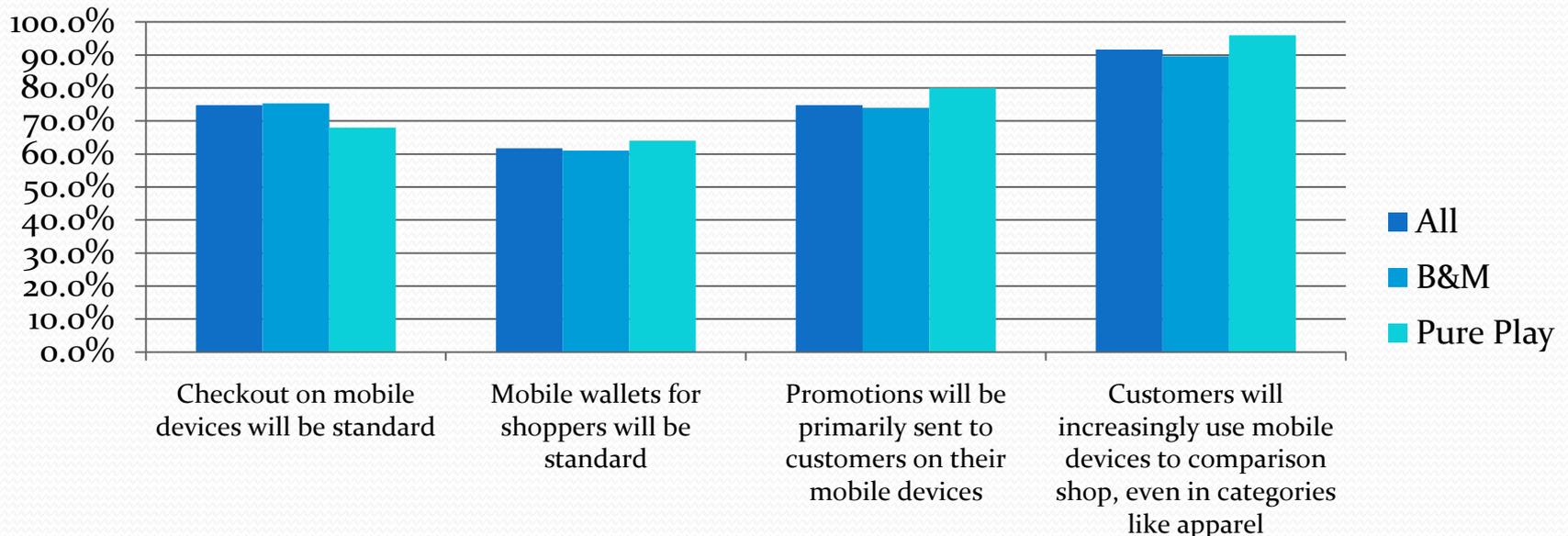
Percentage of Senior Retail Executives Who Agree



Mobile's Impact on Brick-and-Mortar

- 75% of senior retail executives surveyed agree that checkout on mobile devices will be standard in the future.
- 62% agree that mobile wallets for shoppers will be standard.
- 75% agree that brick-and-mortar store promotions will be primarily sent to customers on their mobile devices.
- More than 90% agree that customers will increasingly use mobile devices to comparison shop in stores, even in categories like apparel.

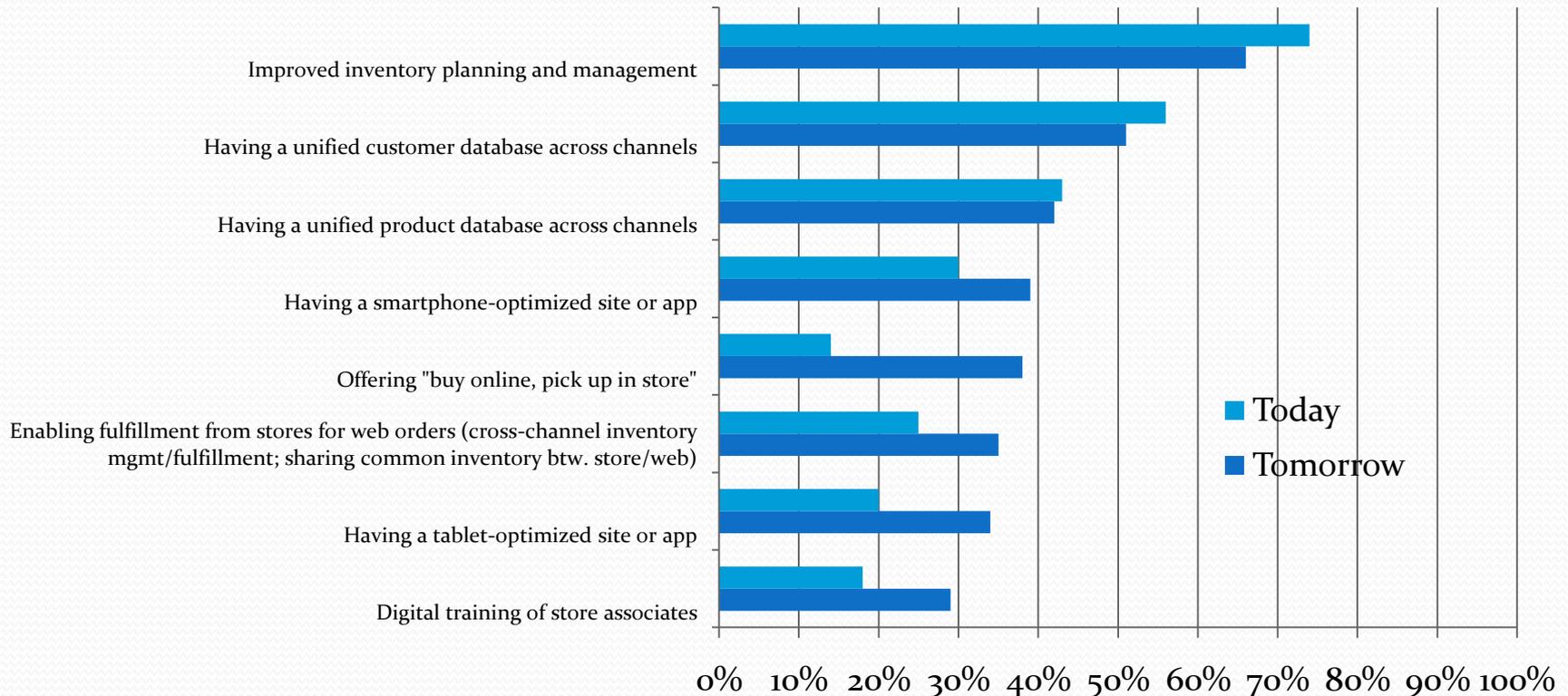
Percentage of Senior Retail Executives Who Agree



Brick-and-Mortar Use of Technology

- When presented with a series of technology-enabled strategies and tactics, brick-and-mortar executives pointed to many that they expect to have an impact on their businesses in the future, and some that are already having an impact today.

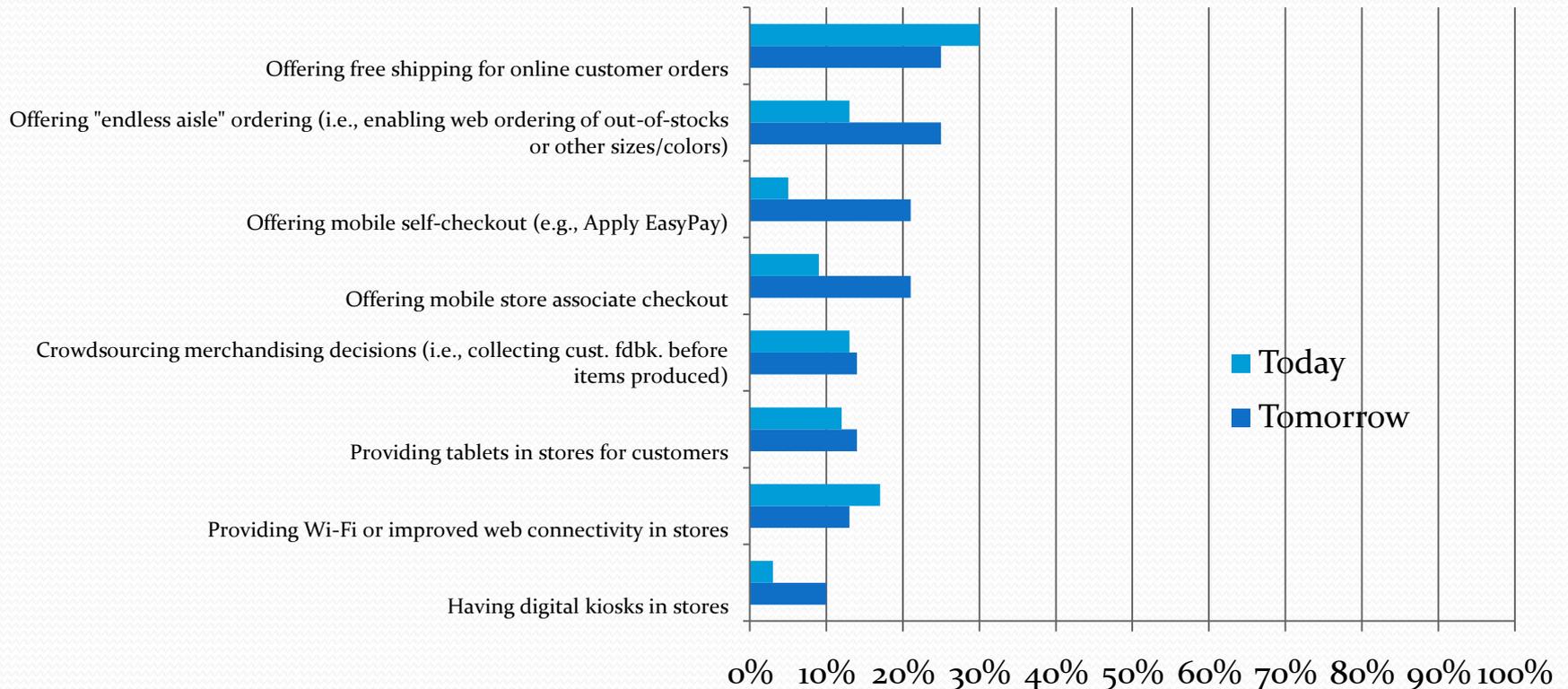
Technology Making Positive Impact - Part 1



Brick-and-Mortar Use of Technology (cont'd)

- When presented with a series of technology-enabled strategies and tactics, brick-and-mortar executives pointed to many that they expect to have an impact on their businesses in the future, and some that are already having an impact today.

Technology Making Positive Impact – Part 2



Digital Progress Report

Brick-and-Mortar

- 31% of brick-and-mortar executives surveyed report that their senior leadership teams do not understand the digital needs of their customers.
- 81% believe that their websites are not effective as they could be.
- 47% do not feel that they are investing adequately in digital effort to support their businesses.
- 86% agree that multi-channel initiatives will be a significant driver of future growth.
- 59% believe that new in-store technologies (e.g., virtual fitting rooms, tablet checkout) will make shoppers more loyal to their stores.

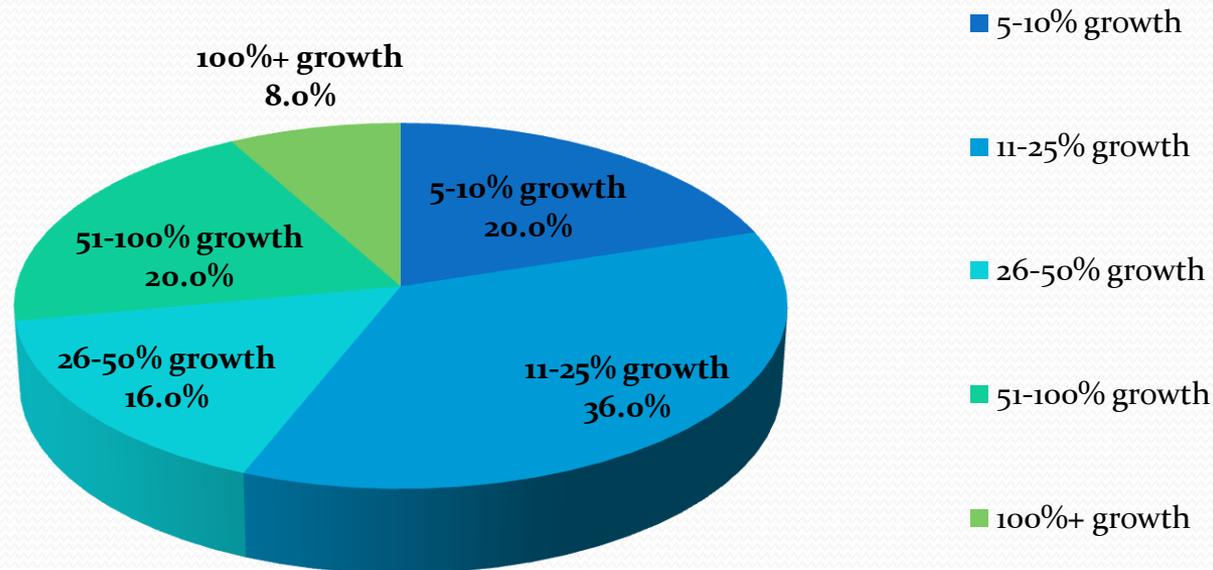
Pure Play Sector Outlook

Growth Expectations – Next 12 Months

Pure Play

- 80% of pure play executives surveyed expect growth of 11% or more over the next 12 months.

Growth Expectations – Next 12 months



Shopping In Store vs. Shopping Online

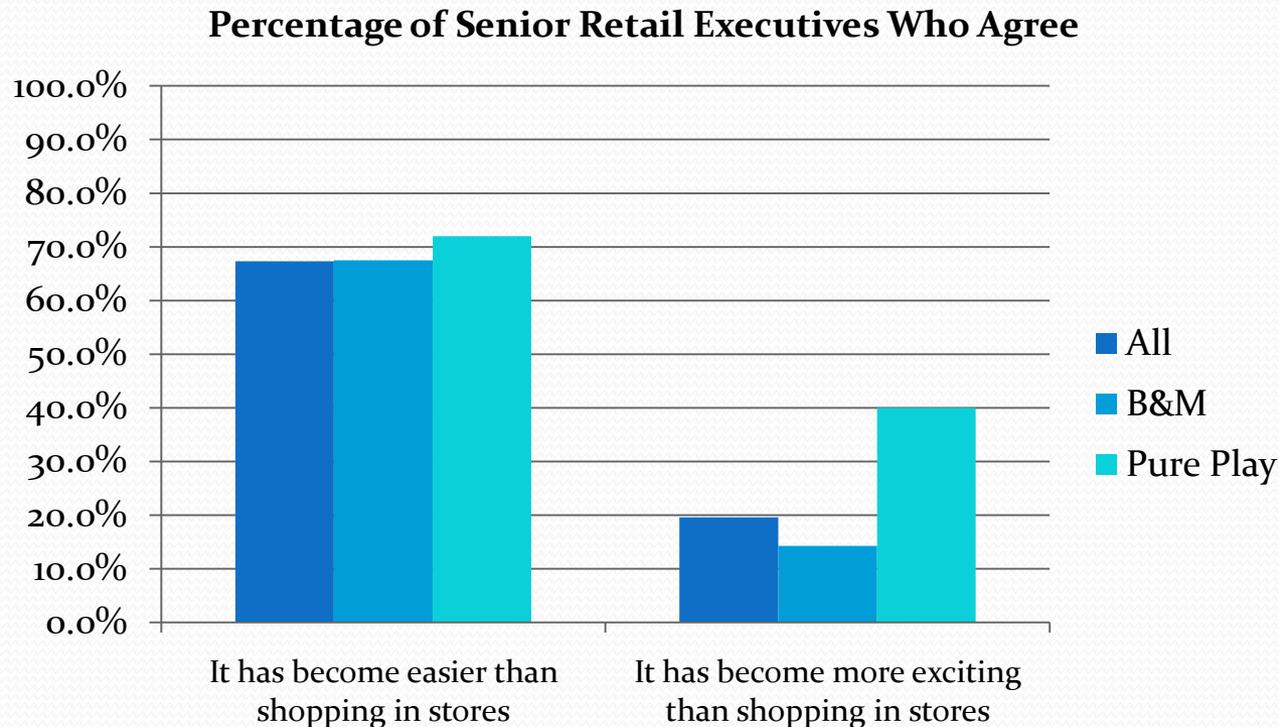
- 64% of pure play executives surveyed believe that customers in the future will primarily buy online.
- Almost 25% of brick-and-mortar executives surveyed agree.

Percentage of Senior Retail Executives Who Agree



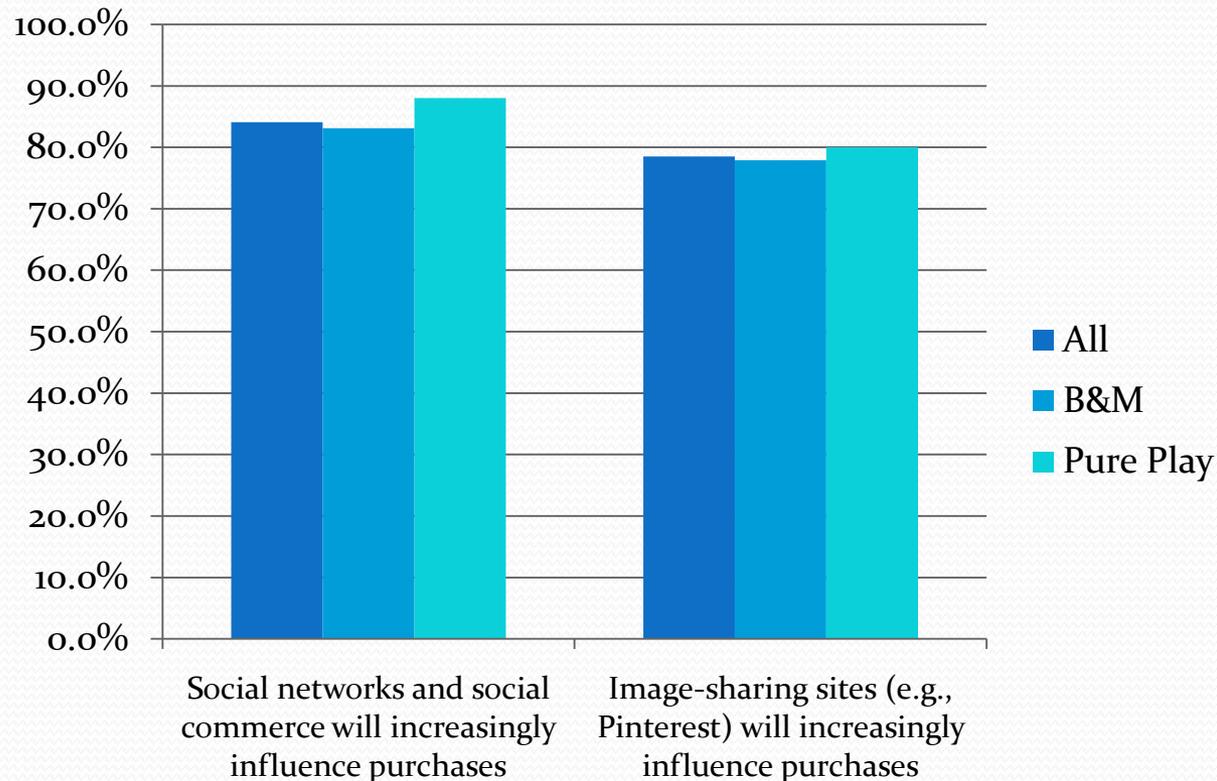
Shopping In Store vs. Shopping Online

- 67% of senior retail executives surveyed agree that shopping online has become easier than shopping in stores.
- 40% of pure play executives surveyed believe that shopping online has become more exciting than shopping in stores; almost 15% of brick-and-mortar senior executives agree.



Social Media's Impact on Online Shopping

- 84% of senior retail executives agree that social networks and social commerce will increasingly influence online purchases.
- 79% believe that image-sharing sites (e.g., Pinterest) will increasingly do the same.



Talent and Leadership Brick-and-Mortar

Digital Savvy

Brick-and-Mortar

- 75% of brick-and-mortar executives surveyed rank their Board of Directors a 3 or below in terms of digital savvy.*
- 52% rank their executive leadership team a 3 or below.

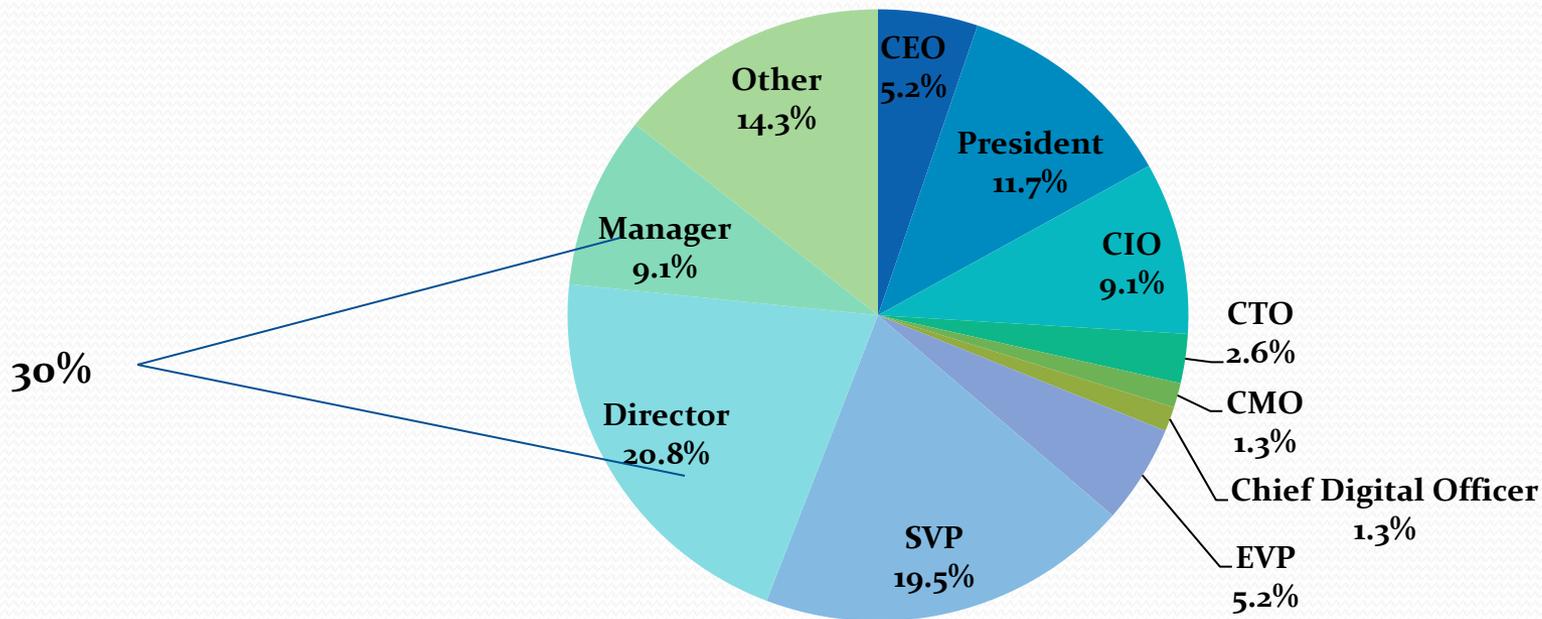
*Scale of 1-5, with 1 being least digitally savvy and 5 being most digitally savvy.



Who Runs Digital?

- 30% of brick-and-mortar executives surveyed report that the person overseeing digital affairs at their companies is below the Vice President level.

What is the title of the senior-most digital person in your organization?



Digital Leader's Responsibilities

Brick-and-Mortar

- More than half of brick-and-mortar executives surveyed pointed to website design, website operations, customer experience, marketing, and social networking initiatives as falling within the purview of their digital leader's responsibilities.
- Less than half included multi-channel integration, mobile initiatives, or tablet initiatives.

More than Half
Web Site Design
Web Site Operations
Customer Experience
Marketing
Social Networking Initiatives

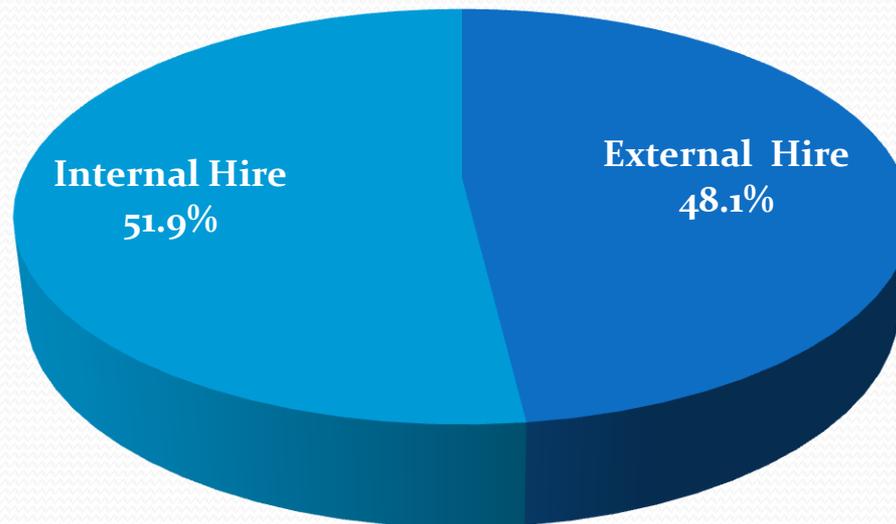
Less than Half
Multi-Channel Integration
Advertising/Promotions
Merchandising
Customer Service
Fulfillment
Mobile Initiatives
Tablet Initiatives

Digital Leadership – Background

Brick-and-Mortar

- Brick-and-mortar executives surveyed report that their digital leaders come from inside the company and the outside world in almost equal measure.

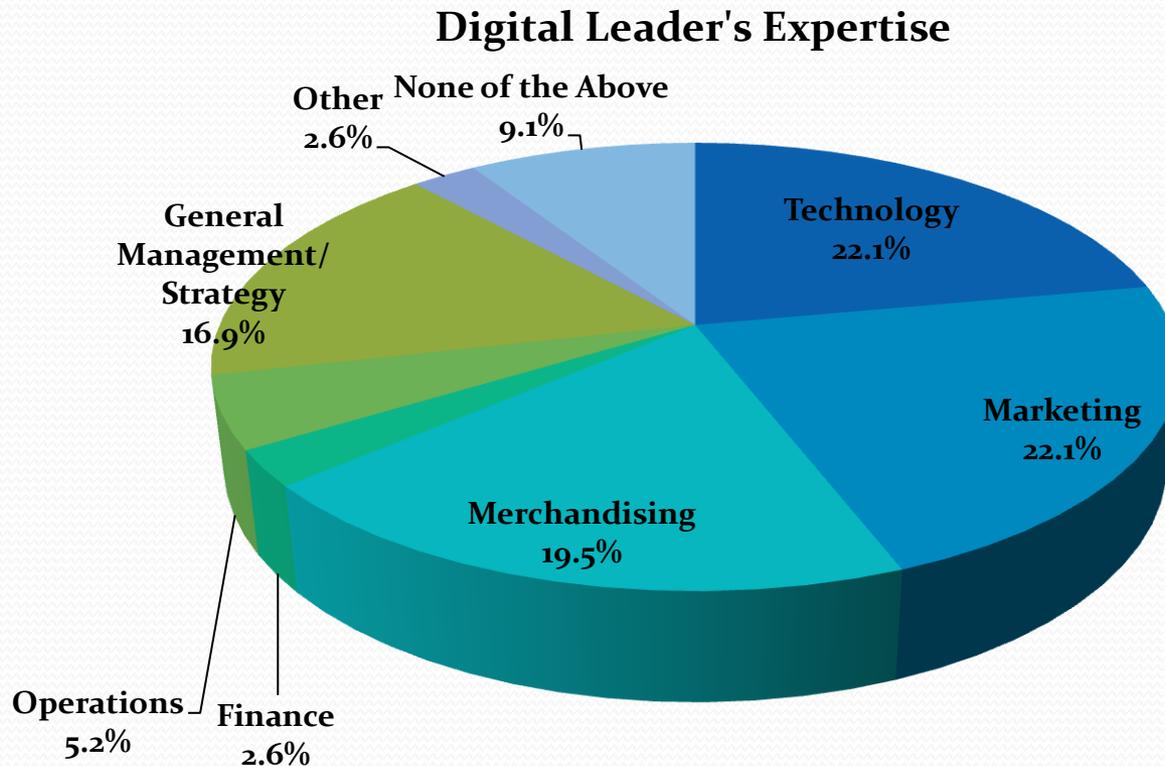
Digital Leader's Background



Digital Leadership – Expertise

Brick-and-Mortar

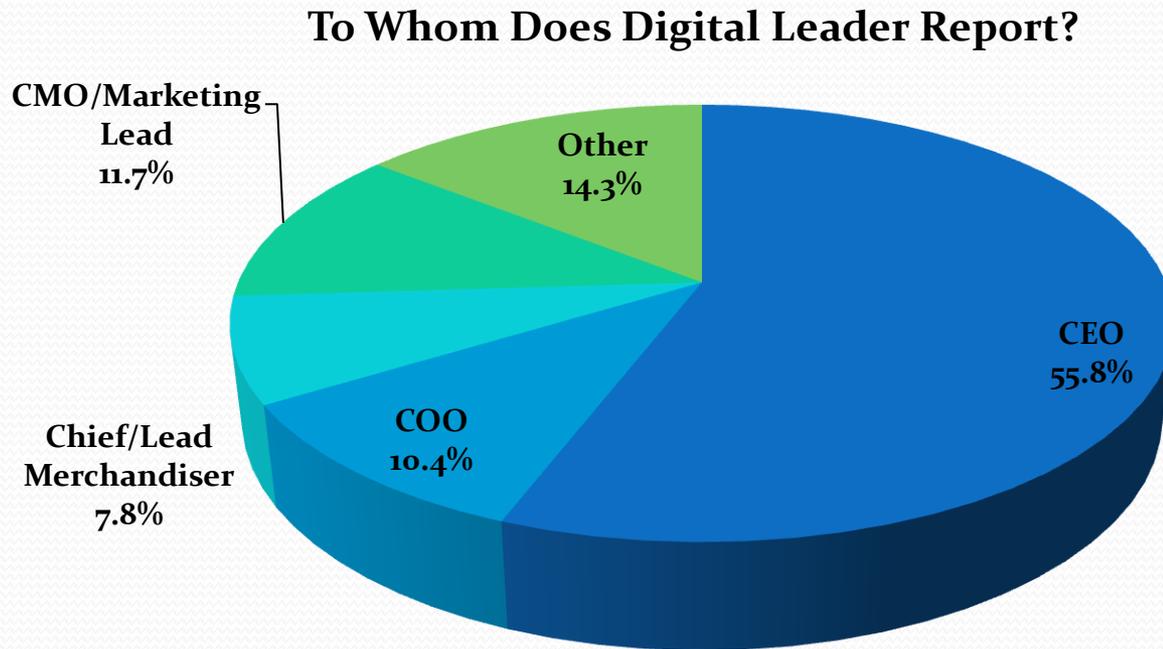
- Brick-and-mortar executives surveyed report that the prior experience of digital leaders at their companies varies greatly across a wide variety of functional areas.
- They report that digital leaders are as likely to come from a marketing background as they are from a technology background.



Digital Leadership – Reporting Structure

Brick-and-Mortar

- 56% of brick-and-mortar executives surveyed state that their senior digital leader reports directly to the CEO.
- 30% state that their senior digital leader reports to another C-level executive.



Talent and Leadership

Pure Play

Marketing/Merchandising Savvy

- 80% of pure play executives surveyed rank their Boards of Directors a 3 or above in terms of marketing/merchandising savvy.*
- 100% rank their executive leadership teams a 3 or above.*

*Scale of 1-5, with 1 being least marketing/merchandising savvy and 5 being most digitally savvy.

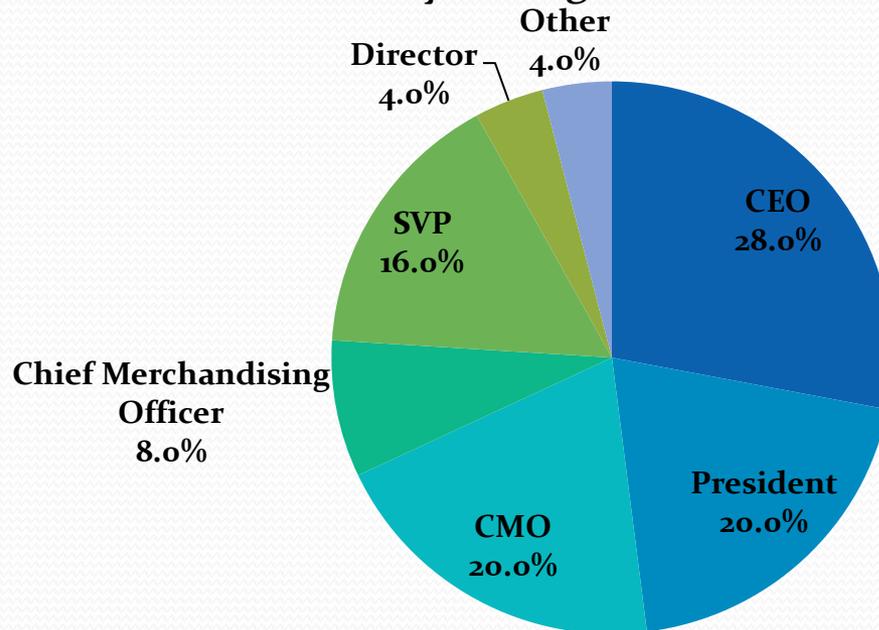


Who Runs Marketing/Merchandising?

Pure Play

- 76% of pure play executives surveyed report that their company's marketing/merchandising leader has a C-level title or is the president of their organization.

What is the title of the senior-most marketing/merchandising person in your organization?



Marketing/Merchandising Leader's Responsibilities

- More than half of pure play executives surveyed pointed to website design, customer experience, advertising/promotions, mobile initiatives and social networking initiatives as falling within the purview of their marketing/merchandising leader's responsibilities.
- Less than half included multi-channel integration or tablet initiatives.

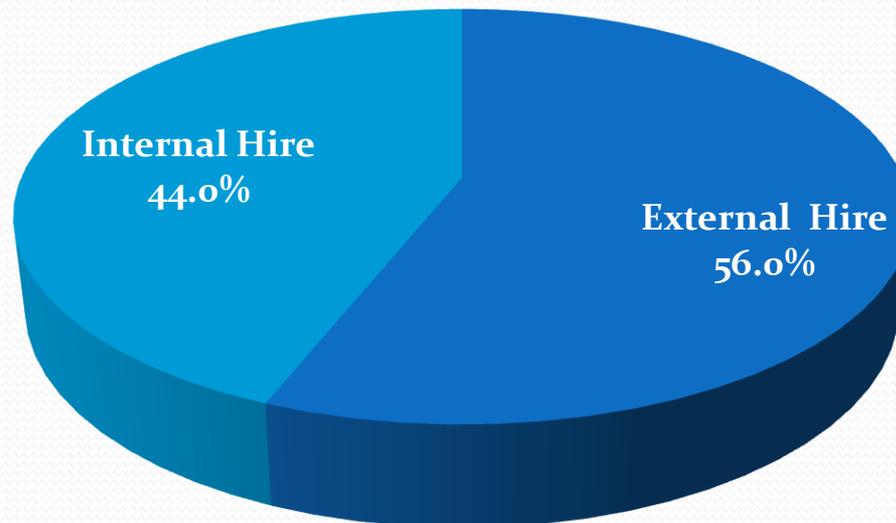
More than Half
Web Site Design
Customer Experience
Advertising/Promotions
Mobile Initiatives
Social Networking Initiatives

Less than Half
Website Operations
Multi-Channel Integration
Customer Service
Fulfillment
Tablet Initiatives

Marketing/Merchandising Leadership – Background

- 56% of pure play executives surveyed report that their marketing/merchandising leader came from the outside world – not from within their own organizations.

Marketing/Merchandising Leader's Background



Marketing/Merchandising Leadership – Expertise

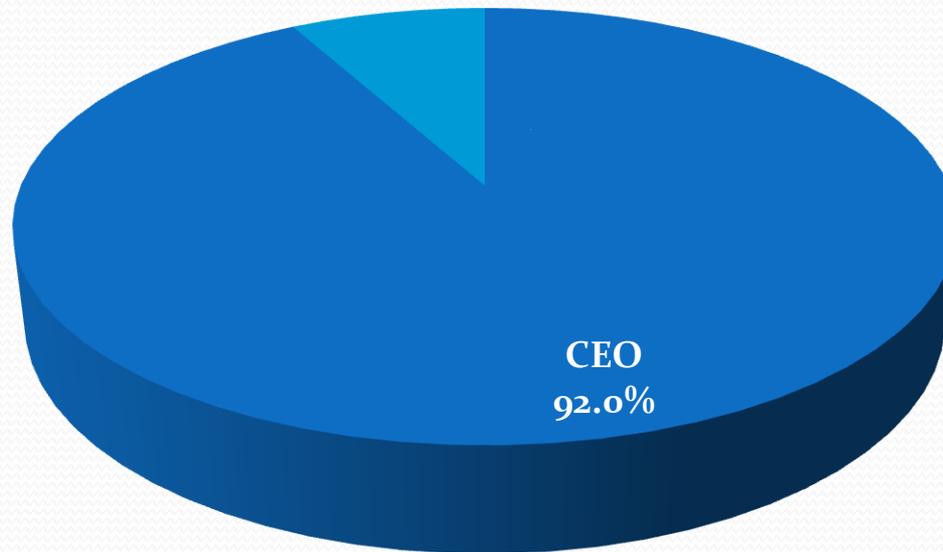
- 76% of pure play executives surveyed report that their marketing/merchandising leader has a background in either marketing or merchandising.



Marketing/Merchandising Leadership – Reporting Structure

- 92% of pure play executives surveyed state that their marketing/merchandising leader reports directly to the CEO.

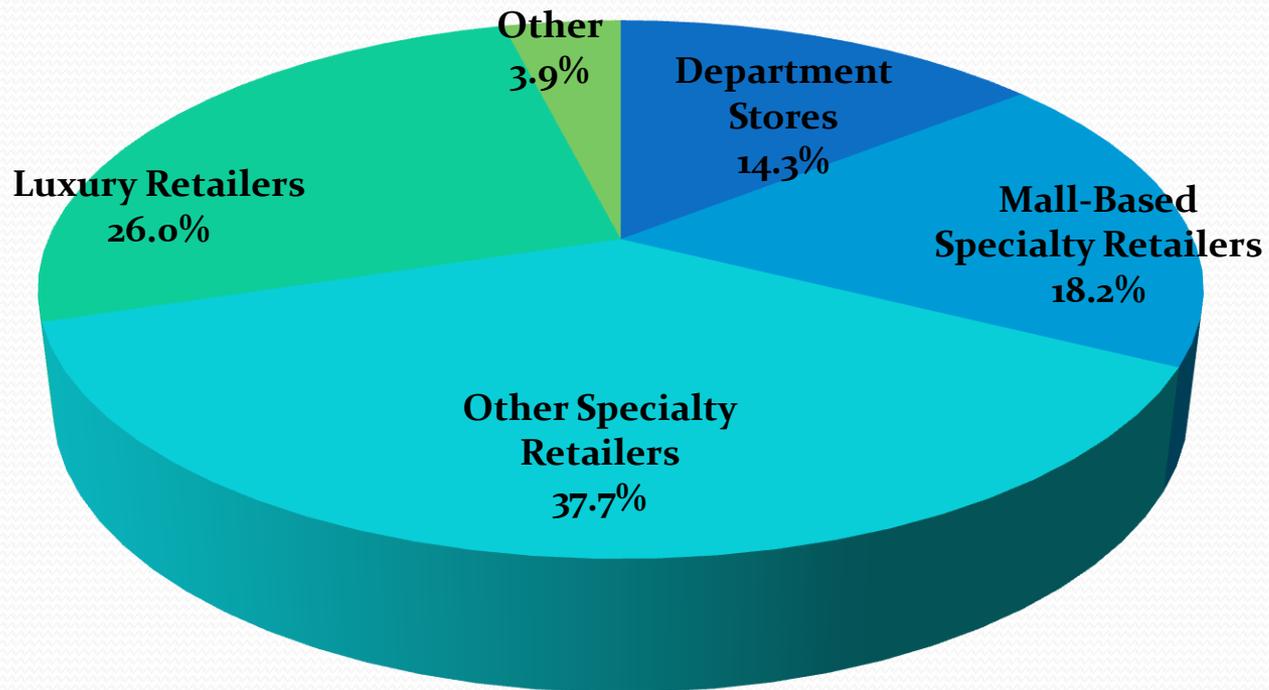
To Whom Does Your Marketing/Merchandising Leader Report?



Appendix 1: Brick-and-Mortar Respondent Breakdown

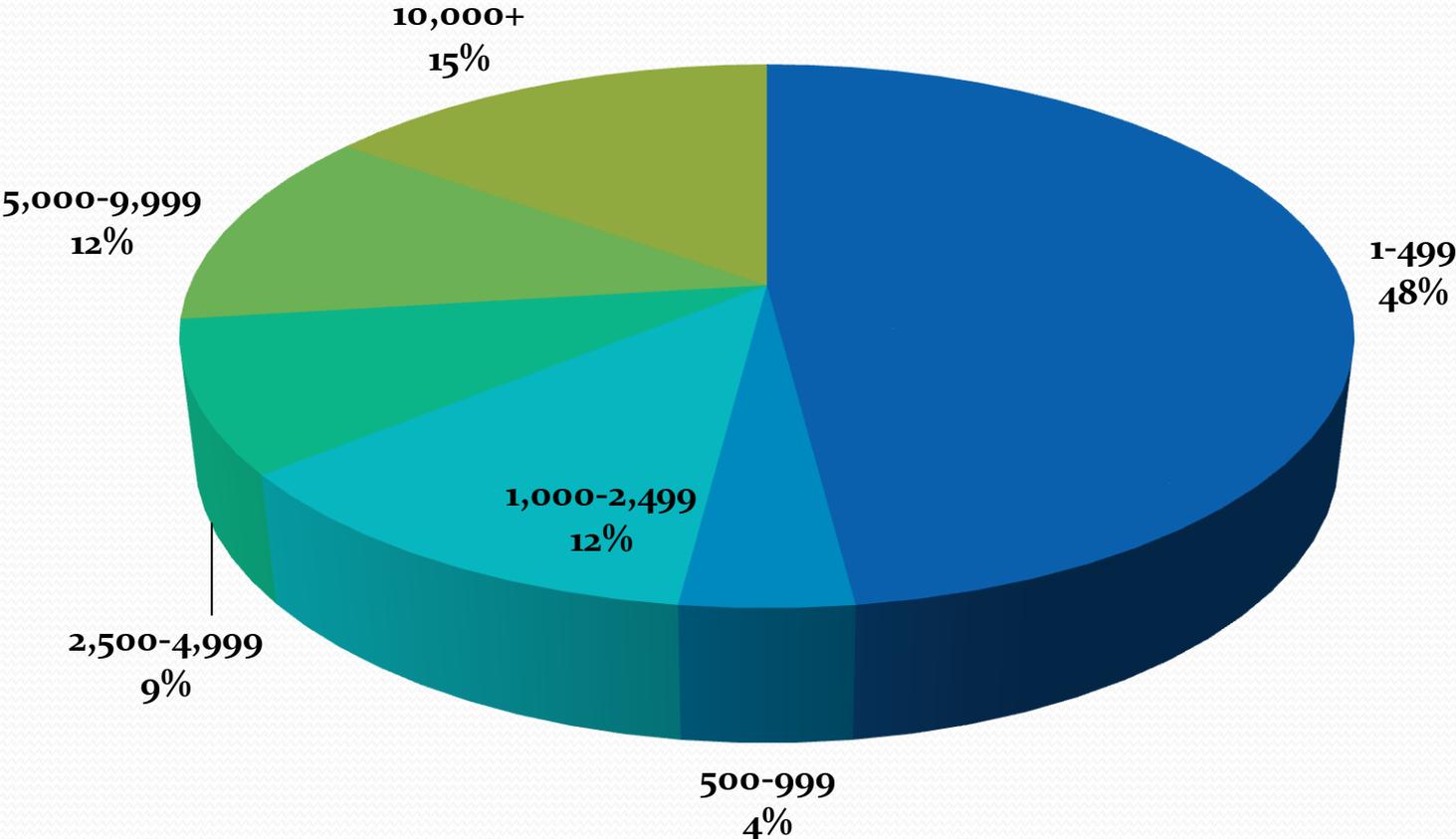
Types of Stores

Which best describes your company's store(s)?



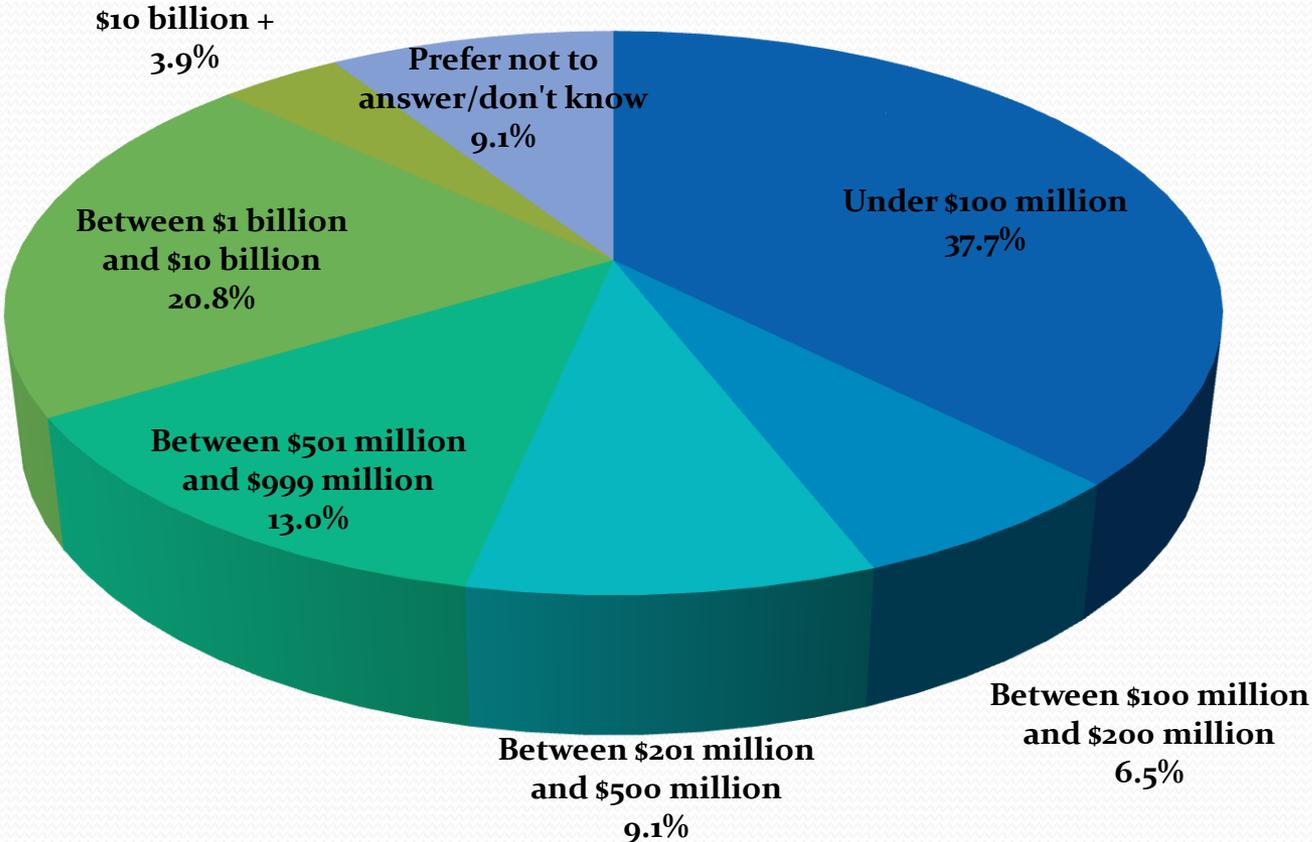
Company Size

of Employees



Company Size

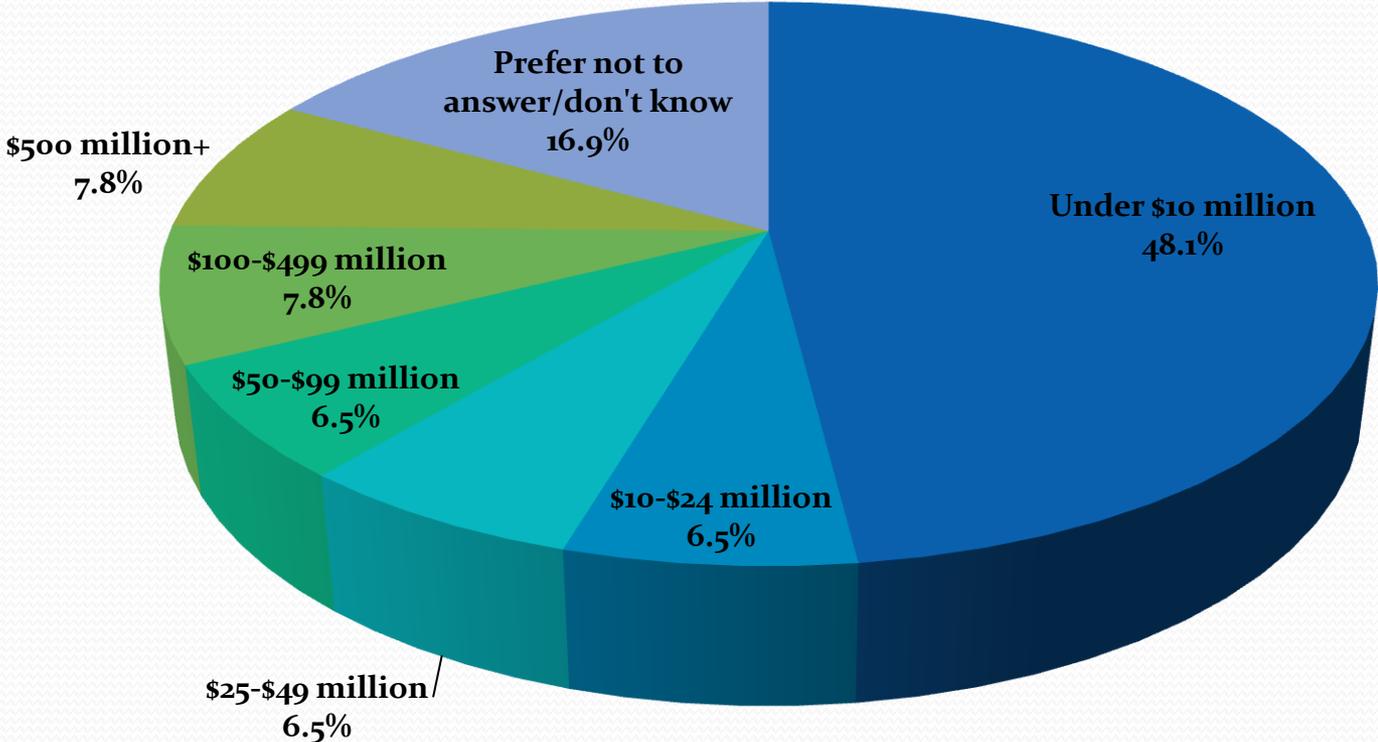
2011 Annual Revenue



Base: Brick-and-Mortar(n=77)

Online Revenue

2011 Online Sales



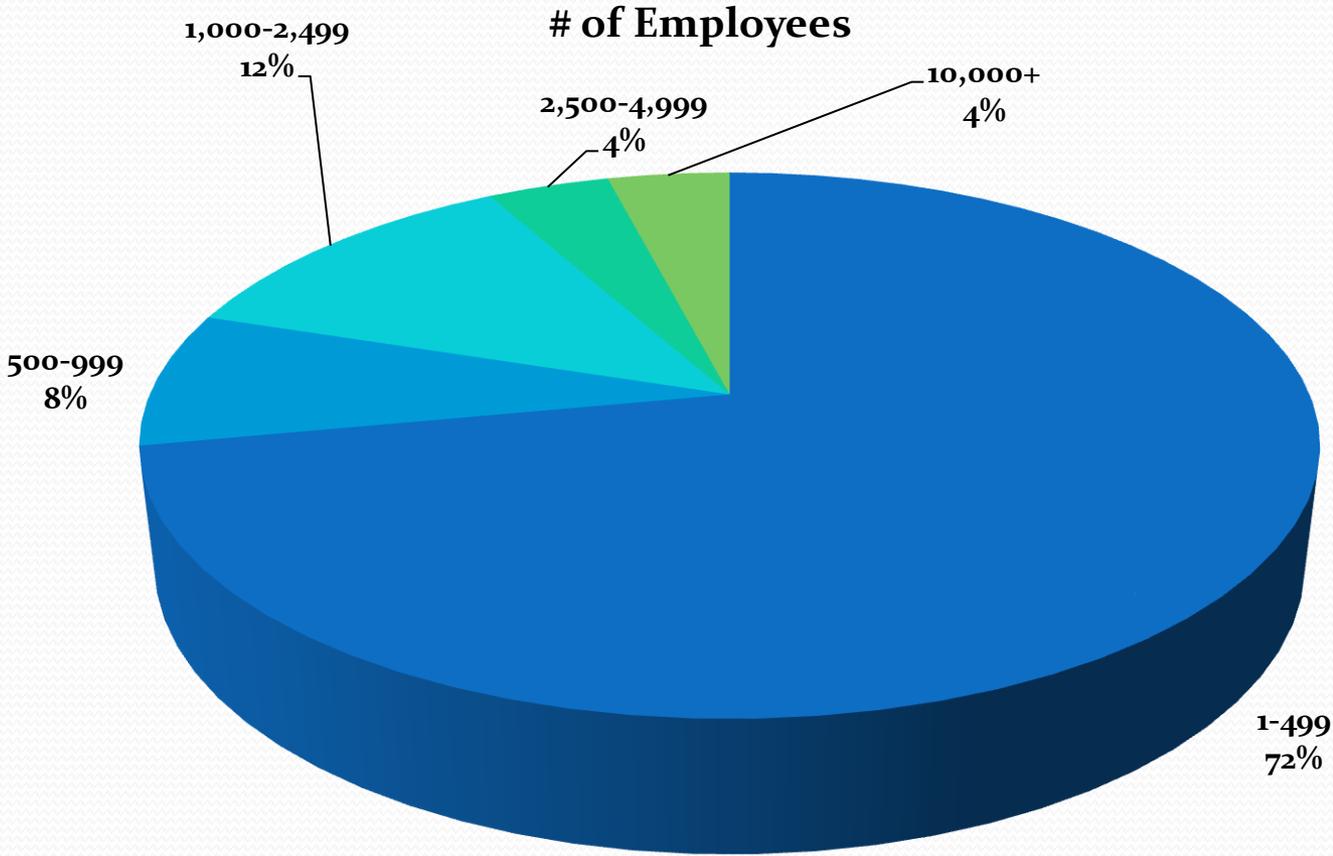
Base: Brick-and-Mortar(n=77)

Titles

Title	# Surveyed
Board Member	2
Chairman	1
CEO/President	38
COO	3
CTO/CIO	1
CMO	3
Chief Merchant/GMM	1
CFO	2
VP/SVP/EVP	18
Director	7
Other	1
TOTAL	77

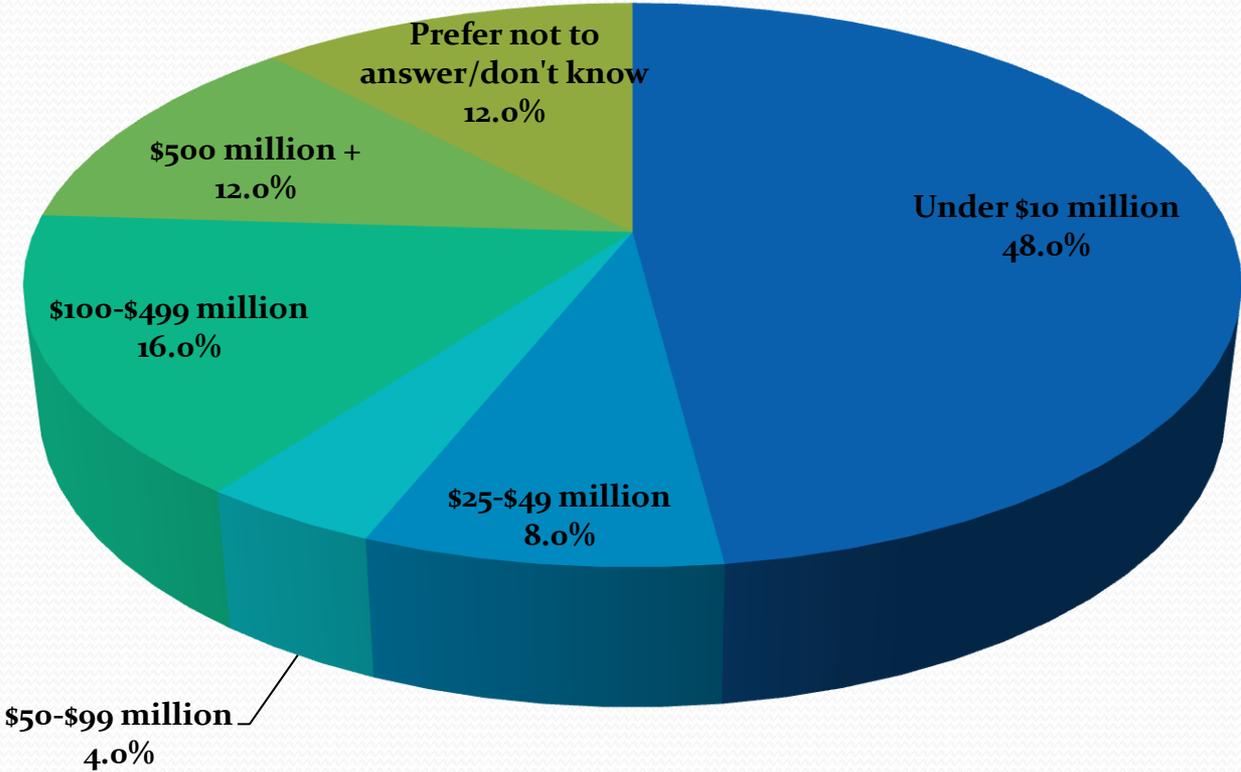
Appendix 2: Pure Play Respondent Breakdown

Company Size



Company Size

2011 Online Sales



Titles

Title	# Surveyed
CEO/President	16
COO	1
Chief Merchant/GMM	2
CFO	1
VP/SVP/EVP	2
Director	3
TOTAL	25