White Paper:

Unified Commerce
Retail is Coming Together

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Two of the more exciting developments that retailers are currently embracing are Cloud Computing and Unified Commerce. Both technologies, independent of one another, are showing healthy adoption moving forward across a broad range of retail segments and tiers, and in retailer discussions the main reasons given include cost savings and a more seamless data flow (for both the retailer and the consumer). While there may not be a universal agreement on what these technologies constitute, at IHL Group we use the following working definitions.

> **Cloud Computing** – The situation where the user accesses software that is located on a server that is not in the same location as the user. Practically, this means "over the Internet". No regard is given as to whether the software is located at headquarters or a third party

> **Unified Commerce** – The holistic technology stack that provides one version of the truth for data pertaining to customers, products, pricing and sourcing, that in turn enables the procurement, sale and delivery of merchandise independent of channel.

Our view is that in the next five years, the most successful retailers will embrace these two technologies wholeheartedly, and the result will be a foundational enterprise order management system (EOM) that is able to look at orders independent of the originating channel. The Cloud will be used to interface the EOM with five key technology pillars consisting of Store/POS, E-Commerce, Sales/Marketing/CRM, Merchandising/SCM and BI/Analytics, resulting in the figure shown to the right.
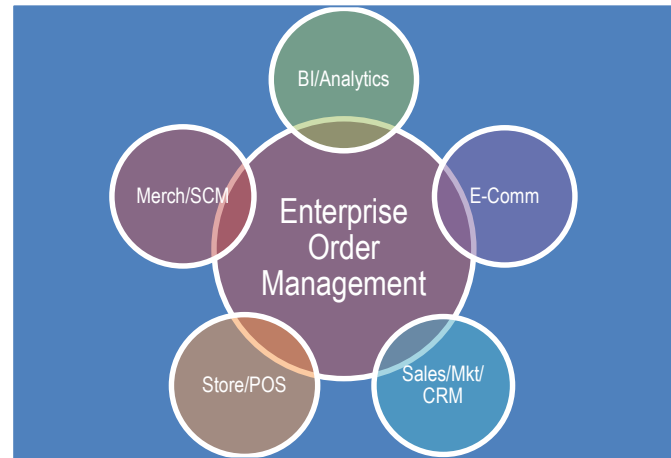

The challenge that retailers currently face actually rests in their history. When a given retailer launched their first channel (typically bricks and mortar), they established a technology silo that was focused solely on that first channel. In their rush to bring subsequent sales channels on board (catalog, e-commerce, mobile, etc.), they chose to establish additional silos rather than attempting an integration with the first silo. The resulting siloed view of products, customers, orders, customer data, etc. was not only expensive to establish and maintain, but it offered little in the way of data integrity cross-silo. The graphic below highlights the current disparate nature of store architecture.
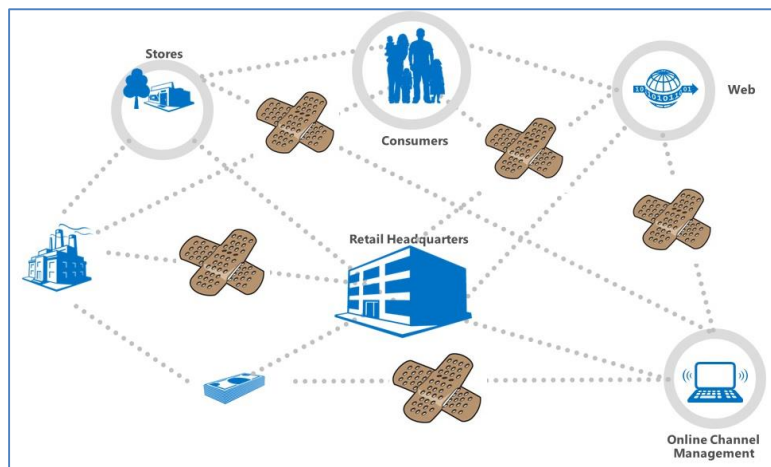
Lest we sound critical here, one needs to remember the very disparate growth curves of these additional channels. For instance, Hudson's Bay is widely viewed as the oldest brick and mortar retailer in North America, and they were first chartered in 1670. The first additional channel (Mail Order / Catalog) came 175 years later, as Tiffany issued their Blue Book in 1845, followed shortly by Montgomery Ward (1872) and Sears (1888). The first e-commerce transaction was, reportedly, the online purchase of a Sting CD through Net Market in 1994, and the first mobile transactions were conducted at Coca-Cola vending machines in Finland in 1997. The speed with which the various channels have matured and become relevant with consumers is the greatest driver for the resulting architecture. Consumers are driving this change, and while it might be easy for those of us in IT to talk about channels, in the consumer's mind the concept of channels is foreign, since 87% of them believe retailers need to create a seamless customer experience for store, online and mobile transactions.
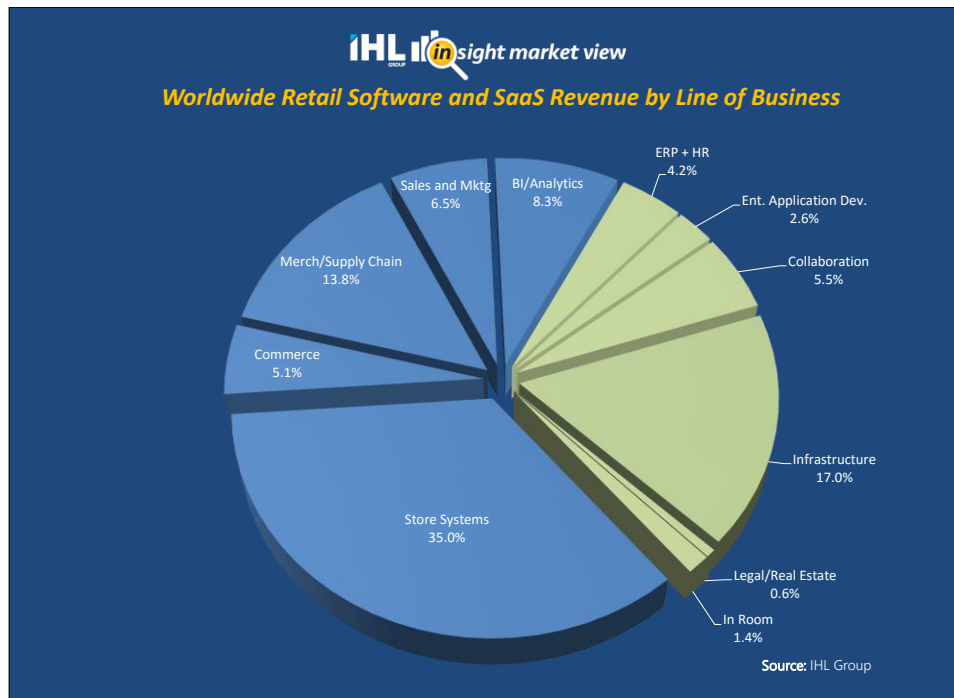
This is where Unified Commerce comes in. The payoff is tremendous, and given the very thin IT budgets retailers work with, expect this transition to be much slower than anyone wants, especially the vendor community. Of all discrete industry verticals, Retail is known for spending among the lowest percentage of revenue on IT. One of the tools which we believe will help facilitate this transition is Cloud computing. The attached chart shows our projected growth of SaaS/Cloud software offerings (compared to Total Software growth) over the next four years. To place this growth in perspective, for North American, we project overall growth from 2015 to 2019 to be 263%.
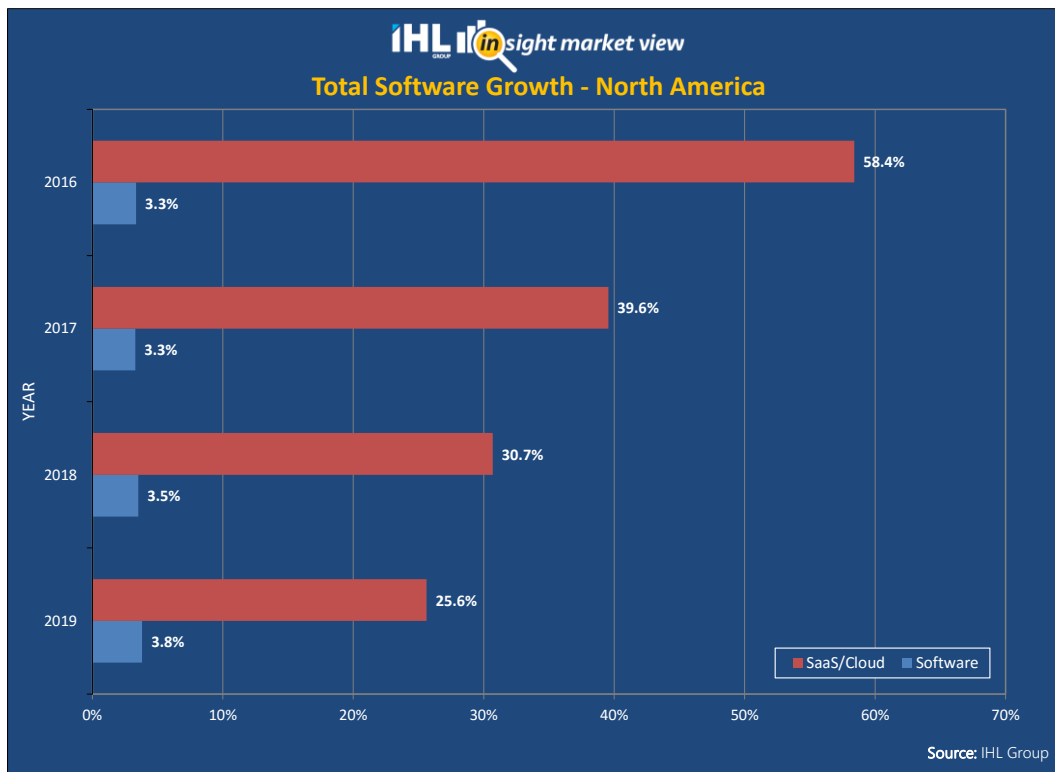
We are currently seeing some really strong adoption numbers for Cloud around those core technologies related to Unified Commerce (at the expense of Cloud ERP adoption), and this just a year or two after many retailers were expressing concerns about embracing Cloud technology. One need only look at the annual reports of enterprise software companies to see the bottom line impact that is taking place. Further consider the investment in both research and marketing. All of these are great indicators that the vendor community is generally in agreement and alignment concerning where the market is heading and where growth lies.

With great last mile connectivity, broad functionality in suites available in the market place, and the general reduced integration points to manage, Cloud is becoming a very viable choice. We hesitate to quote numbers, but our ongoing dialogue with retailers suggests significant cost savings once implementation is complete, thus allowing them to extend their limited IT budgets further. Retailers like the more-frequent software updates and the ability to take a reduced role in managing IT systems that embracing Cloud enables. And vendors like the resulting more-intimate relationship with a retailer, which facilitates continued solution adoption and enhanced customer management/retention.

The current influence of Unified Commerce on IT spend is quite significant. For the five key technology pillars we identified earlier (shaded in light blue in the figure below), the influence is approximately 69% of Total Retail Software and SaaS/Cloud IT spend. This includes the current spend on new license software, software maintenance on existing installations, and SaaS/Cloud implementations. This percentage will continue to grow.

IHL insight market view

Worldwide Retail Software and SaaS Revenue by Line of Business

ERP + HR 4.2%
BI/Analytics 8.3%
Sales and Mktg 6.5%
Ent. Application Dev. 2.6%
Collaboration 5.5%
Merch/Supply Chain 13.8%
Commerce 5.1%
Infrastructure 17.0%
Store Systems 35.0%
Legal/Real Estate 0.6%
In Room 1.4%

Source: IHL Group

It is our fundamental belief that systems supporting the Unified Commerce vision are the future of the industry. The small and medium business space (SMB) has actually been experiencing this for the past couple of years. We would not begin to equate the features and functions of packages predominant in SMB with those that service the Enterprise, but the vast majority of the offerings in the SMB space provide some level of rudimentary functionality associated with each of the five key pillars comprising Unified Commerce. We would estimate there are currently in excess of half a million installations in the SMB space of software packages supporting at least four of the five pillars. Fundamentally, these systems operate with the view of a customer placing an order supported by the systems that enable the procurement, sale and delivery of merchandise independent of channel procured from. While simple conceptually, the execution of such is quite challenging to pull off, especially on an enterprise scale.

As one looks at not only what is selling, but also who the strongest vendors are in this space, all of them support at least four of the five solution areas. If one further looks at the influx of the venture capital funding

within retail over the last several years, a very large portion has been supporting these integrated solutions predominately provided by mPOS players in the SMB space. Another key feature of these systems is the very tight integration between POS and e-commerce. On the enterprise side of the house we see similar investment, but via acquisition as a large portion of M&A activity has been aligned around vendors acquiring the needed functionality to support retailers' Unified Commerce needs, and espeically in the cloud. The supporting evidence for a future that looks like the figure below seems quite convincing.

For all of the challenges, barriers and opportunities highlighted in the previous discussion, an introductory discussion of Unified Commerce would not be complete without taking the opportunity to mention the state of maturity afforded by the vendor community. By first defining the space, we are then able to quantify this with the IHL Insight Market View Positioning Map. This strategic view displays vendors by innovation, market strength, and market share. It is a 3-dimensional view of the market that takes into consideration the scale of the vendors involved and not just their direction. Over 75% of the ratings and positioning come from completely objective measures that leverage our WorldView IT Sizing and Forecasting model and our Sophia data service comprising tens of thousands of data points on validates technology installations. Only 25% of the total positioning is from any softer measure, such as review of innovation or customer satisfaction. While the concept of Unified Commerce is early in the adoption cycle, our analysis suggests there are several vendors aligned with our view of the state of commerce moving forward and well positioned to meet a broad range of needs.

We hope this discussion has been enlightening to you. Should you have any further questions, or want additional information around IHL's Insight Market View Positioning Map for Unified Commerce or any of the five key pillars referenced here, please feel free to contact us at *info@ihlservices.com*.

About IHL Group

Who We Are

IHL Group is a global research and advisory firm specializing in technologies for the retail and hospitality industries. The company, based in Franklin, Tenn., generates timely data reports, offers advisory services and serves as the leading retail technology spokesperson for industry and vendor events.

What We Do

IHL provides customized business intelligence for retailers and retail technology vendors, with particular expertise in supply chain and store level systems. Our customers are retailers and retail technology providers who want to better understand what is going on in the overall technology market, or wish to identify specific equipment needs for the retail market.

When We Started

Greg Buzek served as Product Development Manager for two Fortune 500 retail technology suppliers for 6 years. Faced with making recommendations to senior management with spotty reports stuffed with technical jargon and unsubstantiated data, in 1996 he left to form IHL Group as an arms length consulting firm that delivers exacting research to corporate managers.

How We Work

Reliable market analysis is essential for corporations to accelerate revenue and expand their market share. Most research providers do not disclose data sources or statistically defend the validity of their assumptions. We do. We disclose in precise detail exactly how and why we reached our conclusions so that our customers can be comfortable with the data they are using.

What We Know

Our associates and advisors have over 100 years combined years of retail technology experience. Our associates have worked as product managers, sales representatives and executives in the retail market. We have the relationships, tools, and experience to meet your research and consulting needs.

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