



IBM Global Business Services



IBM Global CEO Study:

# The Enterprise of the Future

Retail Industry POV

July 2008

## Executive Summary

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- CEOs are facing faster, broader, more uncertain change and their ability to manage change is not keeping pace
  - Retail CEOs believe market factors, people skills and socioeconomic factors will cause the most change for their organizations in the coming years
- The majority of CEOs view the changing customer as an opportunity for differentiation
  - Retail CEOs see the trend of informed and collaborative customers as having a positive impact and plan to increase their investments in this area
  - 'New and changing customers' is the topic most retailers say is of primary importance for the Enterprise of the Future; other industries report business model innovation is equally important
- Companies in many industries outperform competitors when there is a global focus on most business traits; in retail, many aspects must be localized to cater to consumers
  - Localizing brands and products, rather than globalizing brands
  - Optimizing operations locally, rather than globally
  - Growing organically, rather than growing through M&A
- Many Retail CEOs are evolving their businesses using enterprise model innovation, i.e. changing which functions are internally owned vs. driven by collaboration or partnering
- The focus on environmental issues has doubled globally since 2004 and CEOs view corporate social responsibility as an opportunity for growth

## We spoke to 1,130 CEOs and conducted in-depth analysis to determine the characteristics of the Enterprise of the Future



### How are organizations addressing:

- New and changing customers – changes at the end of the value chain
- Global integration – changes within the value chain
- Business model innovation – their response to these changes

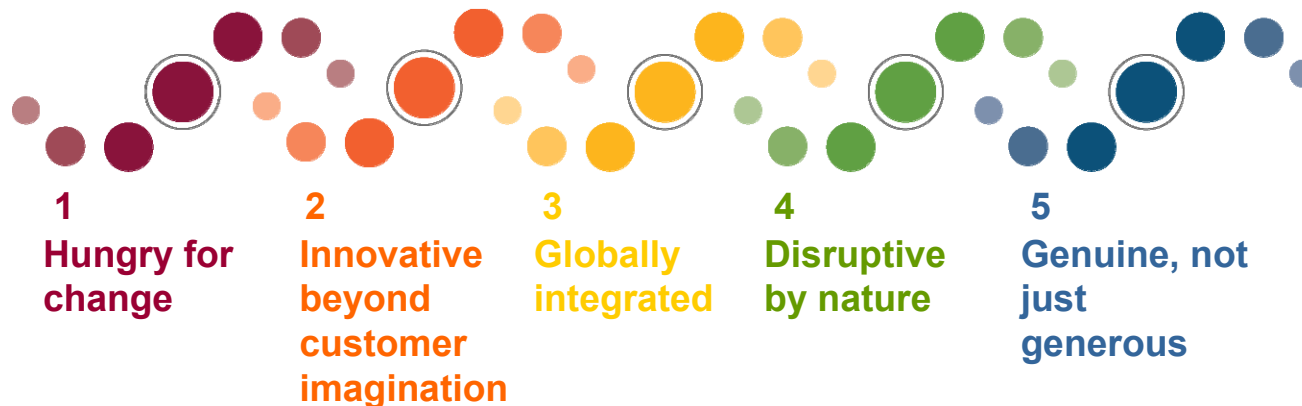
| Scope   | Approach   | Analysis  |
|---|--|---|
| <ul style="list-style-type: none"> <li>▪ Focus on company and public sector leaders                             <ul style="list-style-type: none"> <li>- CEOs and leaders from the private (78%) and public (22%) sectors</li> <li>- Representative sample across 40 nations and 32 industries*</li> <li>- Organization size                                     <ul style="list-style-type: none"> <li>• Companies of over \$500Mn (established economies) and \$250Mn (emerging economies*) in annual revenue</li> <li>• Public sector organizations with over 1,000 employees</li> </ul> </li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>▪ Interviews with 1,130 CEOs worldwide                             <ul style="list-style-type: none"> <li>- Vast majority one-hour interviews of CEOs using a structured questionnaire</li> <li>- Survey of 50 CEOs in India and China, in partnership with the Economist Intelligence Unit</li> <li>- 33% Asia, 36% EMEA and 31% Americas</li> <li>- 80% Established, 20% Emerging Economies</li> </ul> </li> <li>▪ Retail represents 59 interviews</li> </ul> | <ul style="list-style-type: none"> <li>▪ Quantitative and qualitative analysis                             <ul style="list-style-type: none"> <li>- Analysis of respondents' current behaviour, investment patterns and future intent</li> <li>- Analysis of choices being made by financial outperformers</li> <li>- Multivariate analysis to identify clusters of responses to multivariable questions</li> <li>- Selective case studies of individual companies that excel in specific area</li> </ul> </li> </ul> |

## The collective wisdom of these CEOs has led us to the five core traits of The Enterprise of the Future

- Organizations are bombarded by change, and many are struggling to keep up
- CEOs view increasingly demanding customers not as a threat, but as an opportunity to differentiate
- CEOs are moving aggressively toward global business designs, deeply changing capabilities and partnering more extensively
- Nearly all CEOs are adapting their business models—two-thirds are implementing extensive innovations
- Increasing customer expectation for corporate social responsibility is viewed as an area of opportunity and CEOs plan to make significant investments
- Financial outperformers are making bolder plays



### Core Traits of The Enterprise of the Future



Of those interviewed, 59 were CEOs from retail organizations, representing both established and emerging economies

*Counts/Regions Breakdown*

**Established economies**

(companies of over \$500Mn)

|             |     |
|-------------|-----|
| Australia   | 7%  |
| Belgium     | 3%  |
| Canada      | 2%  |
| Denmark     | 3%  |
| France      | 14% |
| Germany     | 5%  |
| Italy       | 10% |
| Japan       | 8%  |
| Netherlands | 2%  |
| New Zealand | 2%  |
| Norway      | 2%  |
| Portugal    | 2%  |
| Spain       | 3%  |
| Sweden      | 2%  |
| Taiwan      | 2%  |
| UK          | 2%  |
| US          | 10% |

**Emerging economies**

(companies of over \$250Mn)

|          |    |
|----------|----|
| Brazil   | 7% |
| China    | 7% |
| Colombia | 2% |
| India    | 5% |
| Peru     | 2% |
| Uruguay  | 2% |

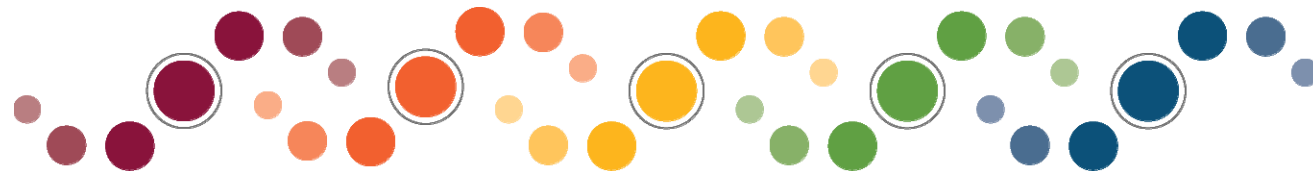


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The Enterprise of the Future is ...

**Hungry for Change**





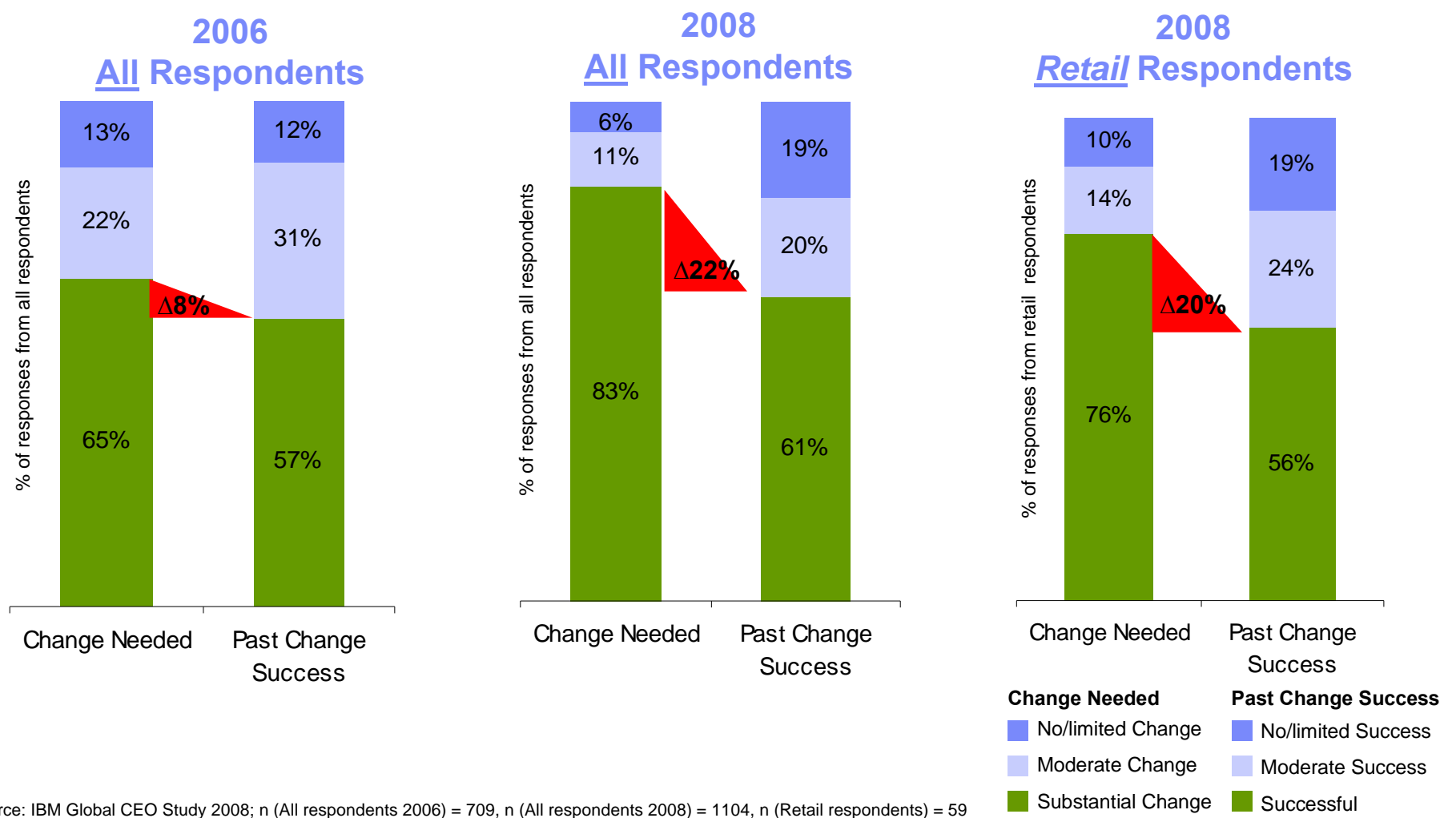
## CEOs are facing faster, broader, more uncertain change and their ability to manage change is not keeping pace

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- The “change gap” triples as the pace of change accelerates
  - Although CEOs are more confident about managing change, the gap between their capability and the challenge ahead is growing
  
- CEOs must manage a broader agenda and greater uncertainty
  - CEOs told us market factors and people skills will cause the most change for their organizations over the next three years
  - For Retail CEOs, socioeconomic factors are the third most impactful factor, while CEOs from other industries said it is technological factors
  
- Outperformers are better at managing change
  - Companies that delivered higher revenue growth managed change more successfully
  - Retailers with lower revenue growth report three times as large a change gap compared to those with higher revenue growth



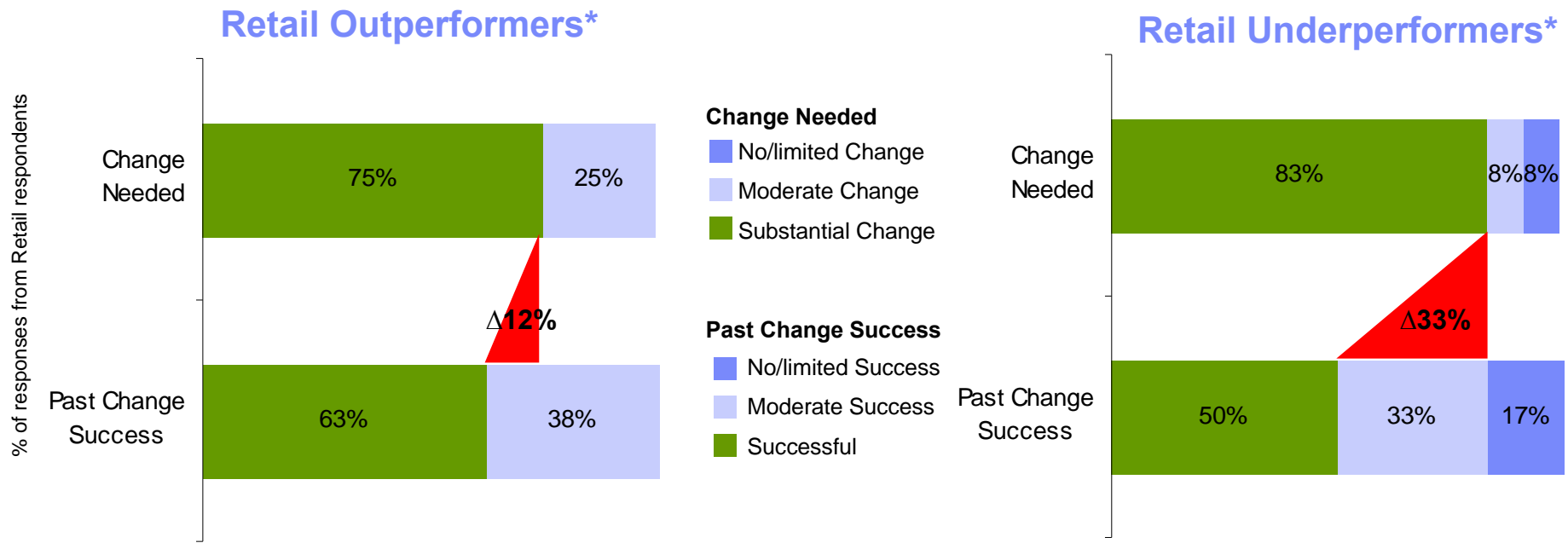
# CEOs report a growing difference between the anticipated level of change ahead and their capability to manage change



Source: IBM Global CEO Study 2008; n (All respondents 2006) = 709, n (All respondents 2008) = 1104, n (Retail respondents) = 59



# Retail companies that delivered higher revenue growth managed change more successfully

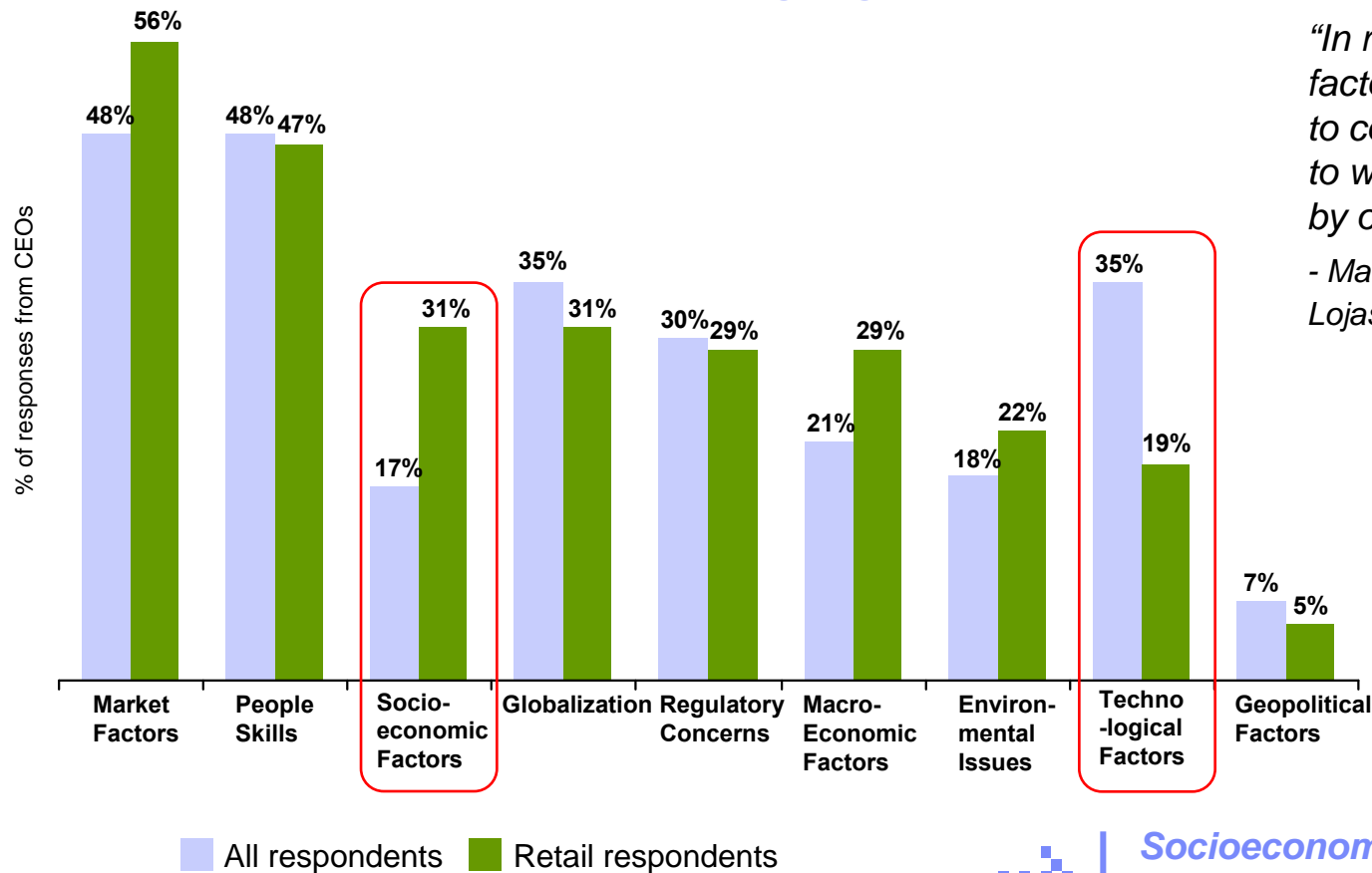


\*Performance based on industry comparisons within survey sample of revenue CAGR 2003 to 2006  
 Source: IBM Global CEO Study 2008; n (Retail underperformers) = 12, n (Retail outperformers) = 8



## In contrast to other industries, retail CEOs believe socioeconomic forces will have a greater impact on their business than technological forces

### Top external forces impacting organizations



*“In retail, the critical success factor is people. Our challenge is to connect 14,000,000 customers to what we sell, and that is done by our 14,000 associates”*

*- Marcelo Jose Ferreira e Silva, CEO, Lojas Pernambucanas*

**Socioeconomic forces have historically impacted the Retail industry more so than Technological forces.**

Source: IBM Global CEO Study 2008; n (All respondents) = 1130; n (Retail respondents) = 59



## IKEA: The world's largest furniture manufacturer and retailer has grown internationally by changing fundamentals in home furnishing



- Revolutionized the home furnishing industry by significantly reducing shipping and transport costs for the mass market furnishings; use innovative flat packaging
  - By shipping customers unassembled pieces in flat boxes, the costs for labor, shipping and storage are significantly reduced for the customer and IKEA
  - Consumers can also pick up many products in the store, increasing market share and enabling global expansion
- Embraced environmental concerns by using alternative and creative materials, focusing on maximizing the use of raw materials and minimizing packaging waste
  - For example, constructed a storage system made out of recycled milk cartons
  - Also created a new packaging method for the LAMPAN in which the lampshade is used as a bucket for the lamp base, thus reducing waste, package size and cost
- Entered the housing market with 'live smart' flat pack houses called BoKlok
  - Provides high-quality homes at affordable prices which are manufactured off site, allowing for quicker build time and less waste
  - Whole wall sections are delivered to the site, complete with doors, windows and insulation already installed
- Created inspirational, lifelike and convenient retail spaces that keep customers coming back
  - Fully furnished and accessorized walk-through model homes and living spaces
  - Supervised children's areas that replicate a typical Swedish farmhouse and forest

Sources: "IKEA West Chester Offers Swedish Furnishings & Meatballs as Ohio's 1<sup>st</sup> IKEA Store Opens in Cincinnati Area", BusinessWire, March 12, 2008; "Housing Expert – And not an Allen key in sight", DowJones, March 28, 2008; "In an IKEA state of mind; So much more than a store, It's a Lifestyle", DowJones, March 7, 2008



## The Enterprise of the Future is hungry for change



Goal for the future

### Recommendations

- Strategic**
  - Continue to build the expectations of continuous and disruptive change into the culture of the organization
- People**
  - Hire, recognize and retain visionary challengers who are given freedom to infuse deep change
- Process**
  - Develop processes to ensure viable new ideas can be quickly exploited
  - Develop process internally – and across partners - that can adapt to frequently changing business models
- Technology**
  - Leverage technologies that create new and disrupt current industry structures
  - Develop adaptive IT infrastructure to support changing business models



## Common characteristics of organizations which are hungry for change: A self assessment

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What is your organization's appetite for change?

Have you seeded your organization with visionary challengers and provided them with the freedom to effect meaningful change?

Are you able to manage change as a structured program and measure change management effectiveness?

Have you taken into account the local as well as global socioeconomic and macro-economic factors that will affect retail companies?

What processes are in place to incubate new product, service and business model concepts — and redirect investment when required?

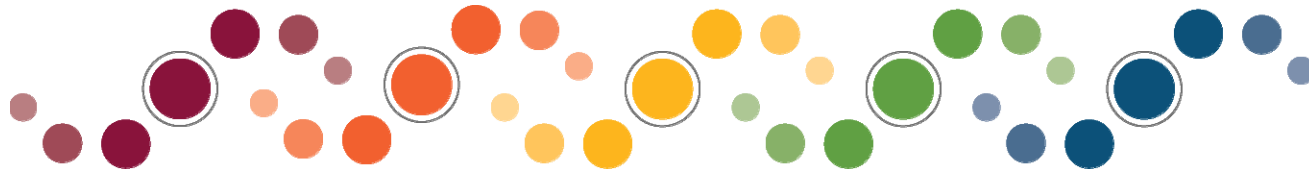


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The Enterprise of the Future is ...

# Innovative Beyond Customer Imagination

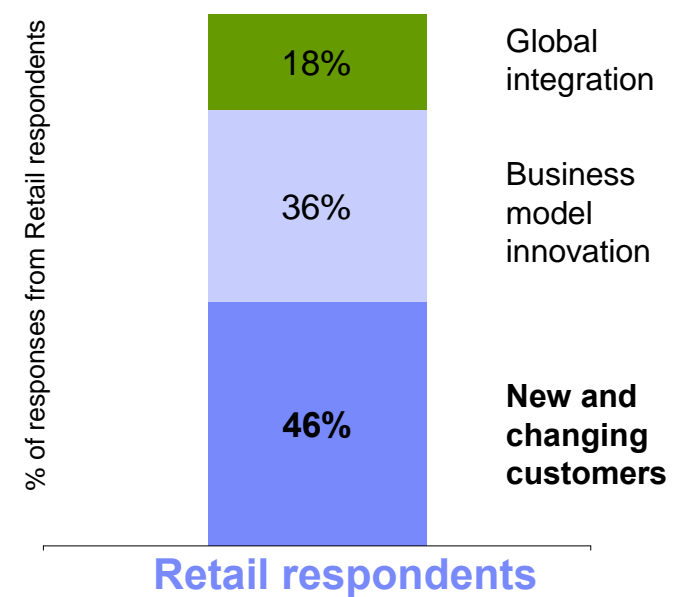




## Many retail CEOs view the new and changing customer as an opportunity for differentiation

- Of the three key trends shaping the Enterprise of the Future, retailers see new and changing customers as most important
  
- The majority of responding CEOs regard the informed and collaborative customer as an area of opportunity
  - Compared to respondents from other industries, retailers reported a more significant increase to investments in this trend
  - Across all industries, most CEOs plan to develop new operational capabilities to identify more nuanced segments and to provide greater transparency
  - Retailers also intend to focus on new business relationships

*Which of the three topics of the Enterprise of the Future are most important to your organization over the next three years?*



Source: IBM Global CEO Study 2008; n (Retail respondents) = 58



## A strong customer-focused business approach, which is centered on deep customer insight, is the new mandate for growth in retail

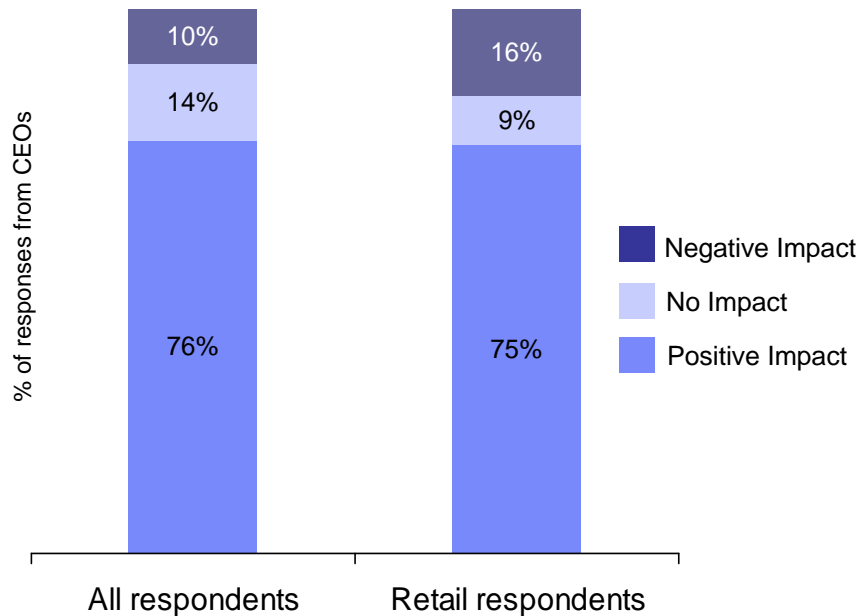
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- Outperformers in all industries are investing more than underperformers in customer trends
  - Both past and future investment in customer purchasing power is higher amongst outperforming companies
  - Outperformers plan to increase their investment in informed and collaborative customers by 36% over the next 3 years
  
- These findings are reinforced by prior studies conducted by the IBM Institute for Business Value:
  - Advocates spend a greater wallet share, have a bigger basket size per customer and increase total spend over time
  - Advocates are those retail customers who recommend their primary retailer to others, buy more from them when new products and services become available, and stay with them over time
  - Those retailers which have more Advocates and greater customer focus outperform competitors in terms of gross margin return on inventory, same store sales or both
  
- Deep customer insights enable retailers to focus on the key attributes and prioritize the operational capabilities that turn shoppers into Advocates



## Three-fourths of CEOs anticipate a positive impact due to the rise in informed and collaborative customers

*What impact will the rise of informed and collaborative customers have on your organization over the next 3 years?*



*“In the future, we will be talking more and more about the ‘consumer’— a consumer/producer who is even more extensively integrated into the value chain. As a consequence, production processes will be customized more precisely and individually.”*

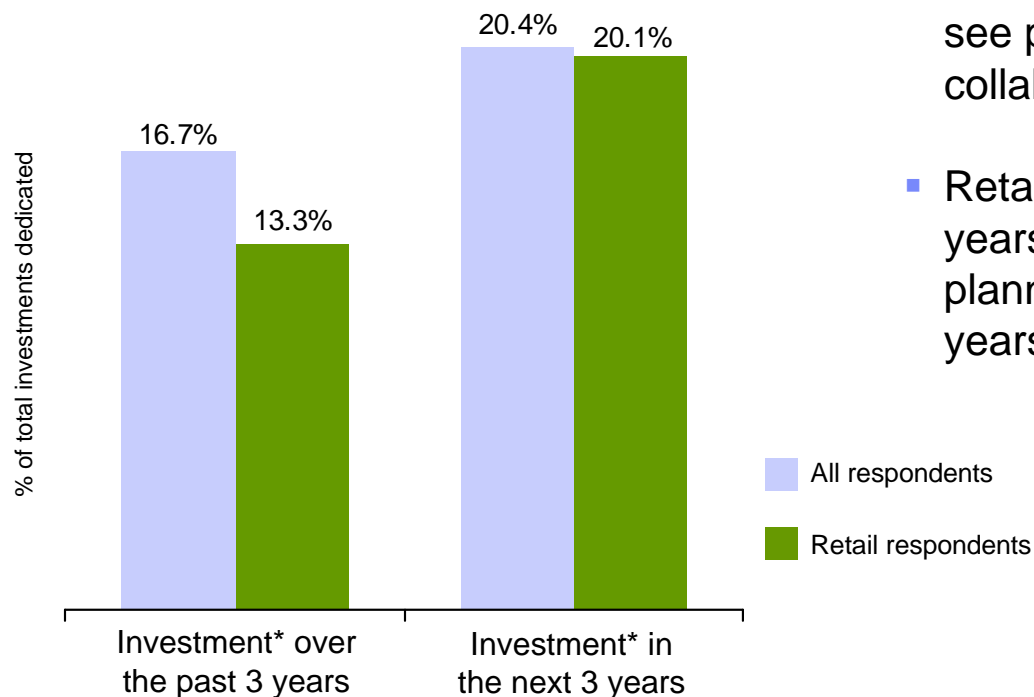
*- Hartmut Jenner, CEO, Alfred Kärcher GmbH*

Source: IBM Global CEO Study 2008; n (All respondents) = 609, n (Retail respondents) = 32



## Retailers report plans to increase investments around the informed and collaborative customer by 51%

*What percent of your total investments\* have you dedicated and plan to dedicate to this trend?*

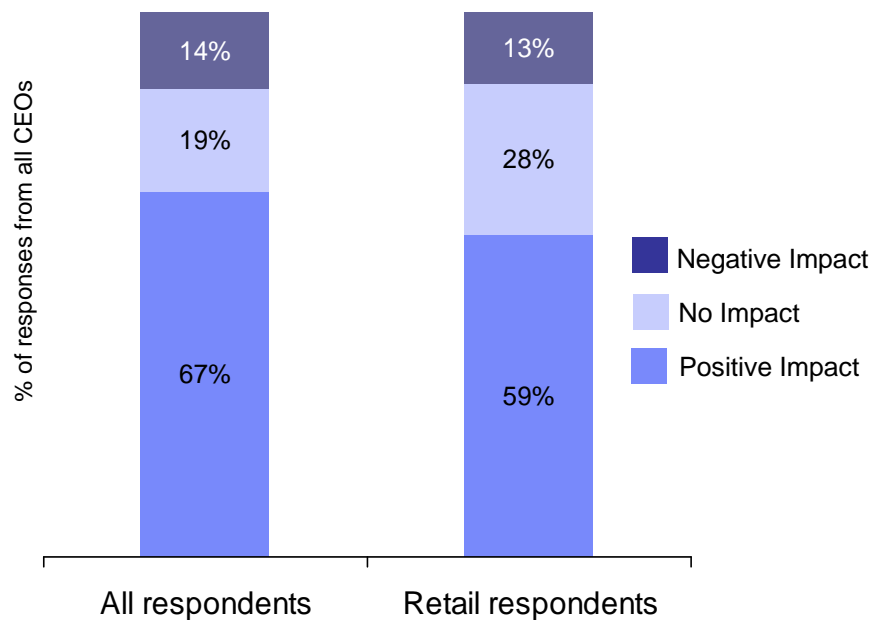


- Three-quarters of all responding CEOs see potential with the informed and collaborative customer
- Retailer investments over the last three years have trailed other industries, but planned investments over the next three years bring the industry to parity

\* Total investments= all asset investments + all investments in R&D, marketing and sales  
Source: IBM Global CEO Study 2008; n (All respondents) = 609, n (Retail respondents) = 27

## Generally CEOs across industries see more demanding customers, those with rising purchasing power, as having a positive or no impact

*What impact will rising purchasing power (in both rapidly developing and mature economies) have on your organization over the next 3 years?*



*“Purchasing power is key... The customer is far more expectant and demands more.”*

*- Interviewee, Bazaar Kolkata*



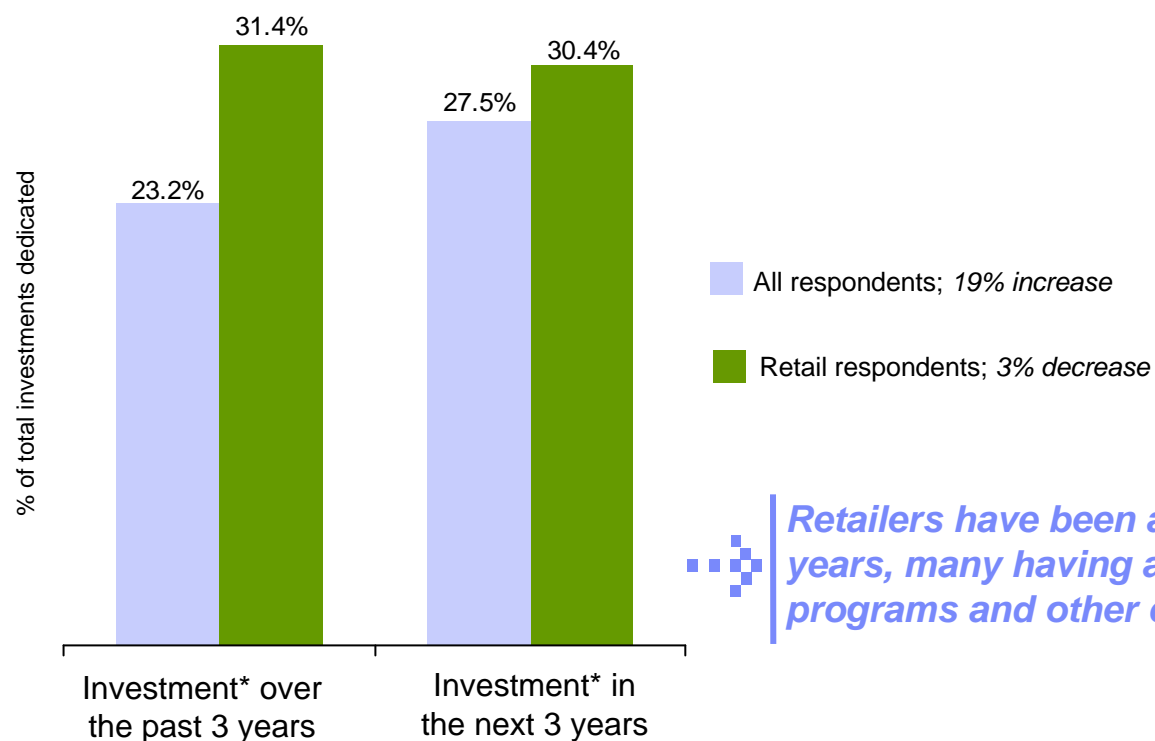
*Even with skyrocketing fuel and commodity prices, the long term trend is a shift in power from manufacturers and retailers to consumers.*

Source: IBM Global CEO Study 2008, n (All respondents) = 609; n (Retail respondents) = 32



## All industries plan to investment heavily to address the rise of customer purchasing power, including retailers

*What percent of your total investments\* have you dedicated and plan to dedicate to this trend?*



*Retailers have been addressing this trend for several years, many having already invested in loyalty programs and other consumer focused projects.*

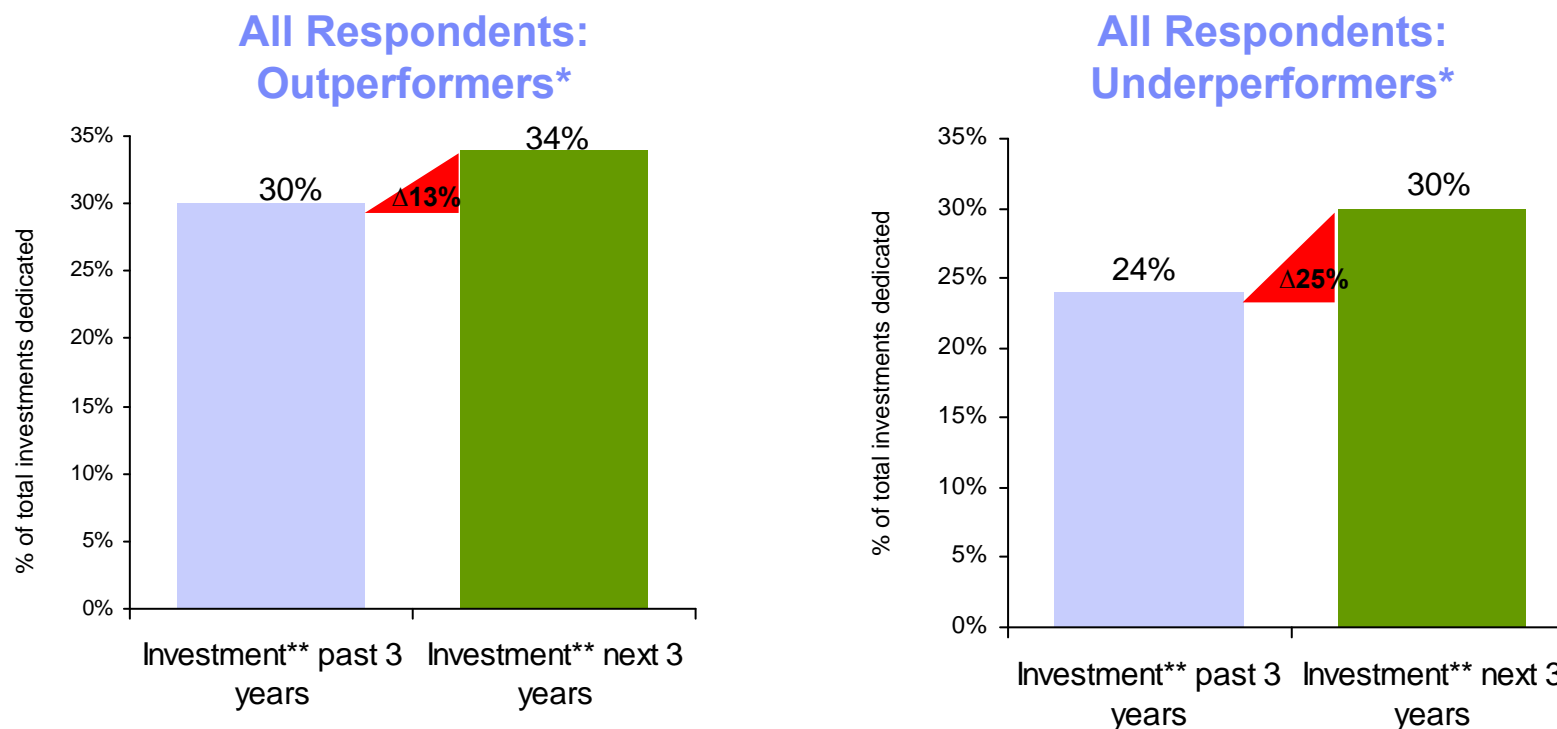
\* Total investments= all asset investments + all investments in R&D, marketing and sales

Source: IBM Global CEO Study 2008, n (All respondents) = 609; n (Retail respondents) = 32



## Both past and future investment in customer purchasing power is higher among outperforming companies across all industries

Investment in the rise of customer purchasing power / informed consumers



*“In a growing market, strong product functionality is most important to customers. However, in a mature market, we must also appeal to customers’ feelings and emotions. It’s critical to find the ideal balance of both.”*

*- Motoki Ozaki, President and CEO, Kao Corporation*



## Staples: Always looking to make the customer's lives easier; gathering consumer ideas for new product development



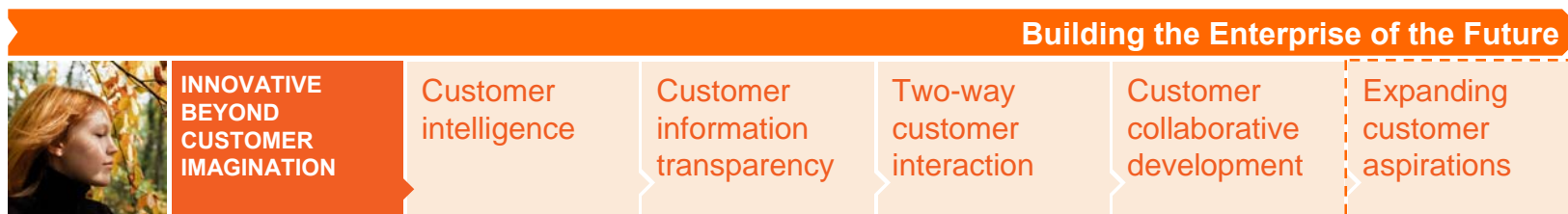
- In order to improve customers' shopping experience...:
  - Staples conducted 'The Life of an Order' field study to better understand how supplies are ordered, processed and received
    - Research completed at customer sites, involving 23 companies
    - Staples team members followed customers around their offices noting:
      - How information was accumulated on what supplies were needed
      - How orders were entered and then processed when received
      - How and where supplies were stored
  - As a result, Staples created the 'Easy Reorder' feature
    - Research revealed companies were in need of an easy way to access previous orders and organize their purchases
    - Information on customers' previous online, phone or fax orders is now aggregated into a comprehensive, pre-assembled list is updated with each order
  - Noting that customers hated dealing with rebates, Staples developed the 'Easy Rebate' feature decreasing wait time to 4-6 weeks from 10-12
- To gain customer insight into gaps in product offerings and perceived problems, Invention Quest was launched
  - Customers enter their ideas for the next great office product
  - One winner from thousands of entries is chosen for a \$25k prize and royalty rights



Sources: 'Extreme Makeover', Information Week, Tony Krontzer, November 21, 2005; "America wants the spindlerack! Staples Invention Quest unveils the next great office product", September 8, 2005, Staples press release



# The Enterprise of the Future is innovative beyond customer imagination



**Goal for the future**

| Recommendations   |  |
|-------------------|--|
| <b>Strategic</b>  | <ul style="list-style-type: none"> <li>Build collaborative relationships with key external partners and key customers for open innovation</li> </ul>                     |
| <b>People</b>     | <ul style="list-style-type: none"> <li>Proactively approach customers to co-develop ideas for mutual benefit</li> </ul>  |
| <b>Process</b>    | <ul style="list-style-type: none"> <li>Develop and integrate processes and guidelines for external partner management</li> <li>Enable open innovation</li> </ul>         |
| <b>Technology</b> | <ul style="list-style-type: none"> <li>Leverage collaborative tools to support co-development</li> <li>Deliver technology platform to support open innovation</li> </ul> |

## Common characteristics of organizations which are innovative beyond customers' imagination: A self assessment

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Which of your products and services are breaking new ground, making you more attractive to some of your current customers or opening exposure to entirely customer groups?

What can you learn from them?

Are you systematically evaluating potential new customer groups?

When customer preferences shift, are you the first to understand and act on this or do your competitors react more quickly? Are you able to anticipate changing customer wants and needs?

Do you have more Advocates than your competitors? How can you attract more, turning the average shopper into an Advocate?

How well do your data and systems allow you to gain new customer insights... to truly understand not only their current lifestyle, but their aspired lifestyle?



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The Enterprise of the Future is ...

**Globally Integrated**



## Companies in many industries outperform when their business traits are globally focused, but in retail, many aspects must be localized

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- CEOs across all industries plan radical changes in business design to capitalize on global integration
  - Most are focused on deep changes in their capability, knowledge and asset mix and plan to partner pervasively
  - Global integration is enabling many companies to enter new markets
- Outperforming CEOs outside of retail plan to implement business designs with more of a global focus, whereas retailer CEOs plan for more balance locally vs. globally
- Retailers tend to balance globalization with localization due to the need to understand and cater to customer preferences in each local market. This approach is supported by:
  - Localizing brands and products, rather than globalizing brands (i.e. localized merchandise assortments)
  - Optimizing operations locally, rather than globally
  - Growing organically, rather than growing through M&A



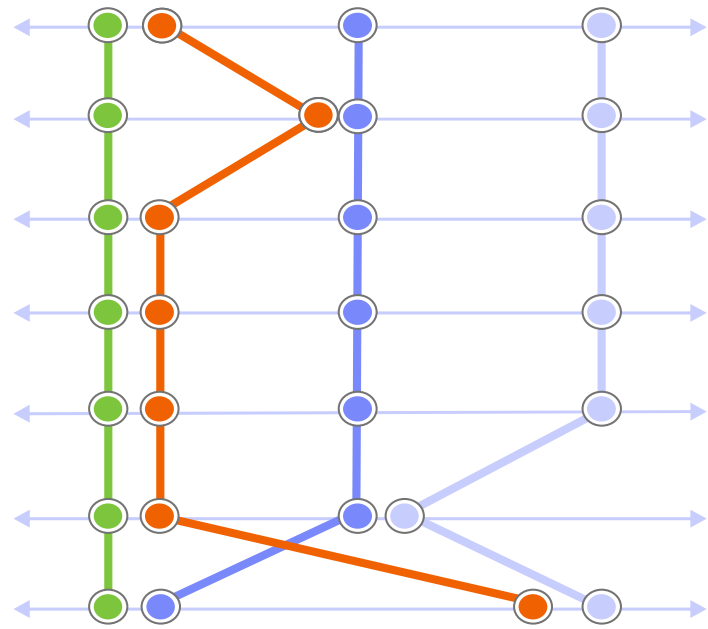
# We asked CEOs across industries to rate their focus in seven categories along a spectrum of a global vs. local focus; analysis resulted in four groups

## Global focus

- Actively enter new markets
- Deeply change mix of capabilities, knowledge and assets
- Partner extensively
- Globalize brands/products
- Optimize operations globally
- Grow through mergers & acquisitions
- Drive multiple cultures

## Local focus

- Defend your core
- Maintain current mix of capabilities, knowledge and assets
- Do everything in-house
- Localize brands/products
- Optimize operations locally
- Grow organically
- Strive for one culture

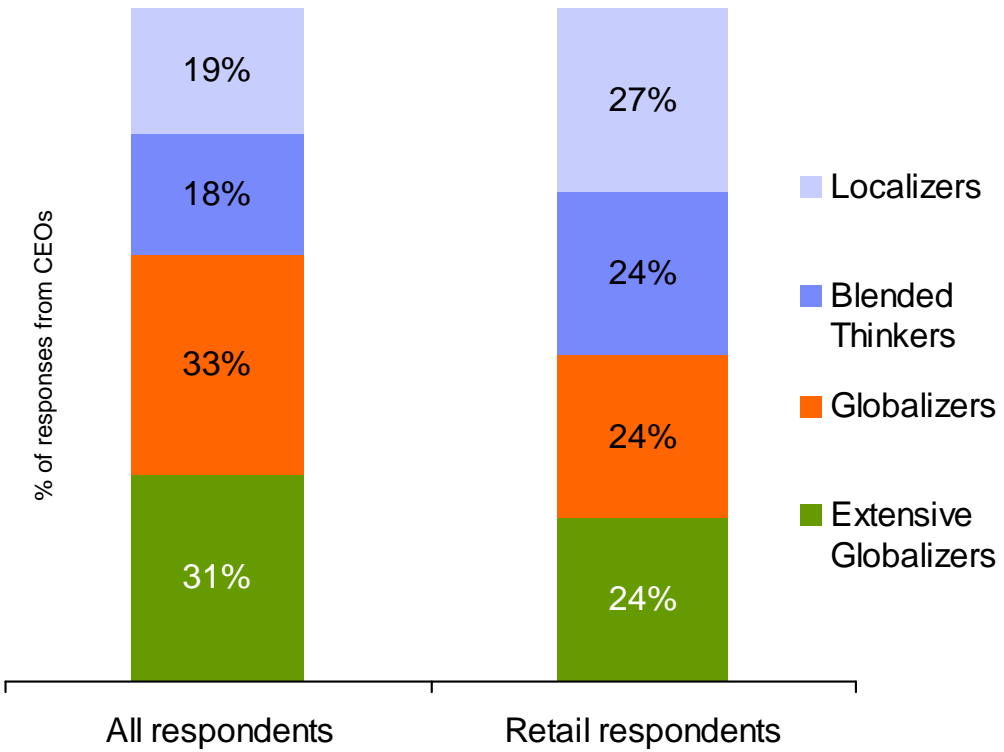


- Extensive Globalizers (n=230), Retail n = 12
- Globalizers (n=246), Retail n = 12
- Blended Thinkers (n=131), Retail n = 12
- Localizers (n=140), Retail n = 13

Source: IBM Global CEO Study 2008; n (All respondents) = 747



## Cluster analysis reveals fewer Globalizers in retail than in other industries



1. **Extensive Globalizers**
  - Highly networked business, adopting a global approach to all elements of integration
2. **Globalizers**
  - Business which optimize globally, but already have the capabilities, knowledge and assets they need, and focus on a single not a multiple culture
3. **Blended Thinkers**
  - Businesses trying to optimize through a mix of global and local approaches, with multiple cultures
4. **Localizers**
  - Insulated business with a blended growth approach

*To be Globally Integrated, most retail CEOs plan to focus on changing their capabilities mix, partner extensively and drive toward multiple cultures.*

Source: IBM Global CEO Study 2008; n (All respondents) = 747, n (Retail respondents) = 49



## The balance between local vs. global focus is important, yet somewhat different across industries

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.....  
*"We prefer to stay local for product sourcing, but the need for quality products may reach beyond our geographic borders."*

- David Schools, CEO, Piggly Wiggly

.....  
*"Localization provides better control and alignment."*

- Interviewee, Bazaar Kolkata

.....  
*"The success of global integration depends on how well we can utilize locally available assets in the markets we are in. It also depends on whether we can elevate our sensitivity to these matters and build a sense of urgency."*

- Toru Uchiike, Chairman & CEO, Toshiba America Inc.

.....  
*"A few years ago, we were a national company; now we're a global company. Our integrated supply chain must adapt to meet demand in 50 countries. We're going to have to bring people in from the outside."*

- Jim Guyette, President and CEO, Rolls-Royce North America

.....  
*"We must move to global coordination, but with local sensitivity. Even the back office requires balance."*

- Martin Sorrell, CEO, WPP

.....  
*"Products have to be local with a global brand. I see us as a globally integrated organization with a local presence and localized products."*

- Georg Bauer, CEO, BMW Financial Services



## Retail CEOs identified three primary areas for global focus, but maintain a predominantly local focus for other factors

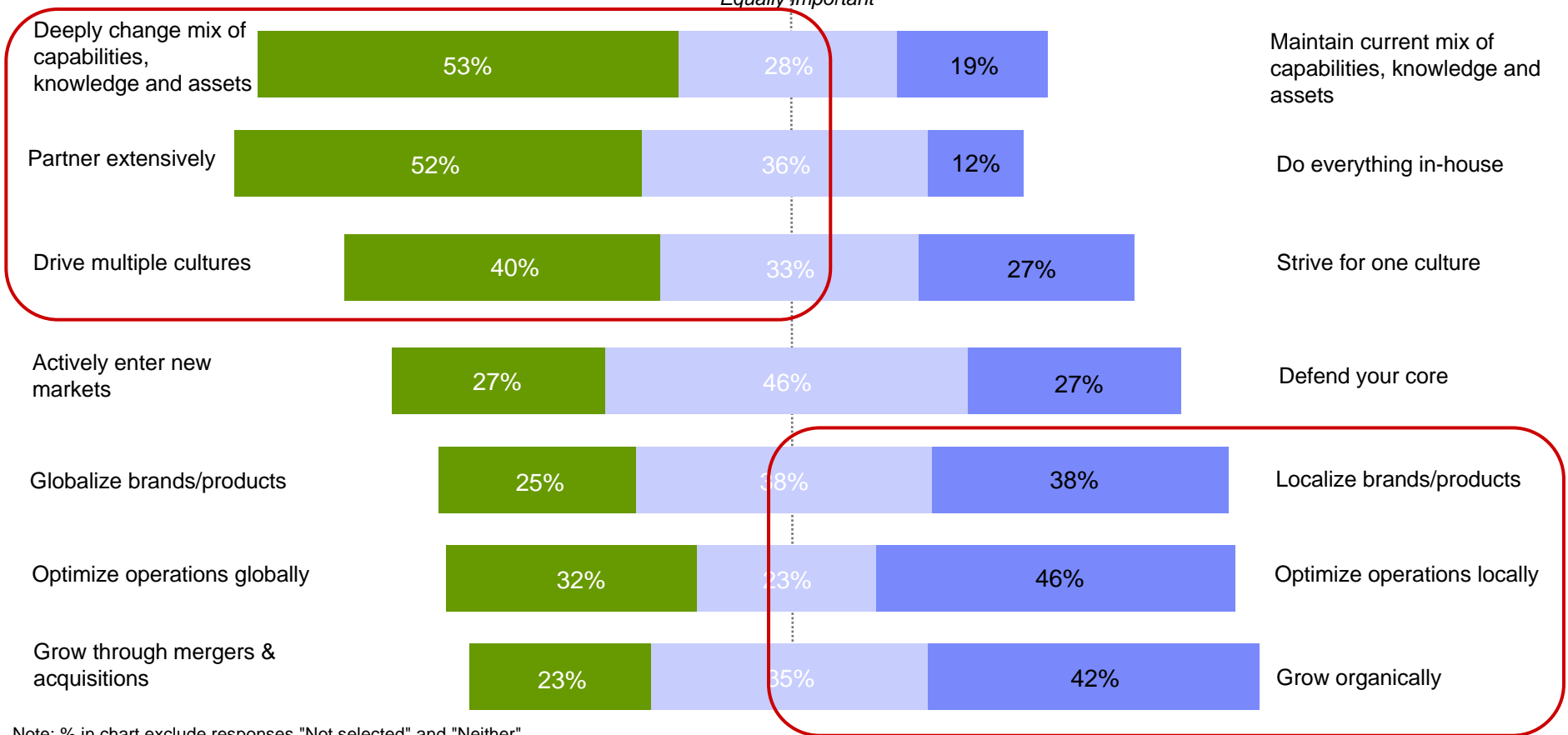
### Retail CEOs plan to...

Global focus

Local focus



Equally important



Note: % in chart exclude responses "Not selected" and "Neither"  
 Source: IBM Global CEO Study 2008; n (Retail respondents) = 59



## Carrefour: Extensive and expanding global presence is helping to keep sales and profit afloat



- Presence in 30 countries, over 14,000 stores and with over 455,000 employees
- Implementing a 'localized' global strategy is proving to be successful
  - Recruiting local managers, giving them power to manage assortment, pricing and marketing so stores are tailored to local market tastes
  - Giving priority to country's own supply chain
    - Locally supplied products currently comprise 90% of products in each country
    - 99% of the approximate 500,000 people working for Carrefour are local
- European operations, outside of France, have yielded the biggest international sales gain, proving to be Carrefour's major growth engine
  - Accounting for 38% of total company sales in 2006, 59% of stores and 37% of profits
- In Latin America, Brazil has become the 3<sup>rd</sup> most important contributor to Carrefour Group sales after acquiring discount hypermarket Atacadao
- In Asia, China is expected to be a significant growth market
  - Opened 23 new hypermarkets in China in 2007, breaking their own records
  - 40% of Carrefour's stores are in secondary regions in China

Sources: "Strategic Focus: Carrefour", TNS Retail Forward, January 2008; "At a Glance 2007", groupecarrefour.com; "Carrefour: out with the old world, in with the new", The Grocer, October 27, 2007



# The Enterprise of the Future will be globally integrated



## Goal for the future

| Recommendations   |   |
|-------------------|---|
| <b>Strategic</b>  | <ul style="list-style-type: none"> <li>Adopt a proactive position across multiple innovation levers to drive new value and maintain market leadership</li> </ul>  |
| <b>People</b>     | <ul style="list-style-type: none"> <li>Embed collaboration into performance management system</li> <li>Identify new business opportunities based on global talent sourcing</li> </ul>   |
| <b>Process</b>    | <ul style="list-style-type: none"> <li>Business services enable new market innovations</li> <li>Enable processes to support open innovation</li> <li>Leverage global “centers of excellence” to optimize capability and delivery</li> </ul> |
| <b>Technology</b> | <ul style="list-style-type: none"> <li>Create technology services to enable new market innovations</li> <li>Deliver technology platform to support open innovation across the ecosystem</li> </ul>  |



## Common characteristics of organizations which are globally integrated: A self assessment

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Are you effectively integrating differentiating capabilities, knowledge and assets from around the world into networked centers of excellence?

Does your organization have a globally integrated business design (even if it does not have a global footprint)?

What is the organization's detailed plan for global partnering? Where can you drive efficiencies and lower costs by partnering?

What is your plan for maximizing operations while maintaining the best global verses local balance for your company?

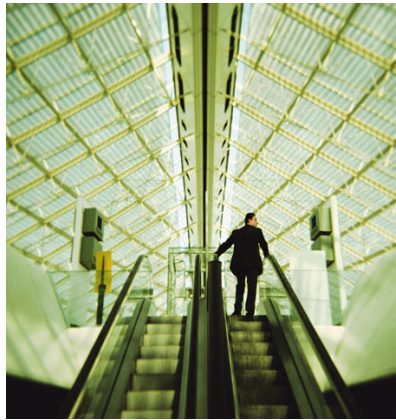
In what ways can you balance the efficiencies of global brands, products and services while remaining locally relevant to your core customers?

Are you developing leaders that think and act globally, who find innovative ways to drive multiple cultures?

Do you nurture and support social connections to improve integration and innovation?



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The Enterprise of the Future is ...

**Disruptive by Nature**





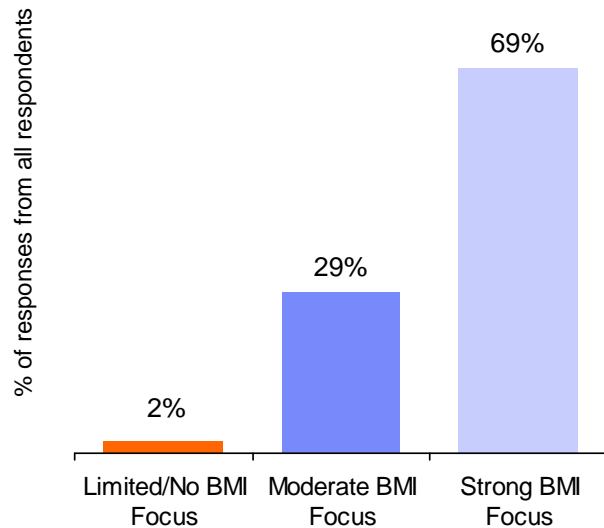
## CEOs are implementing initiatives to evolve their business model

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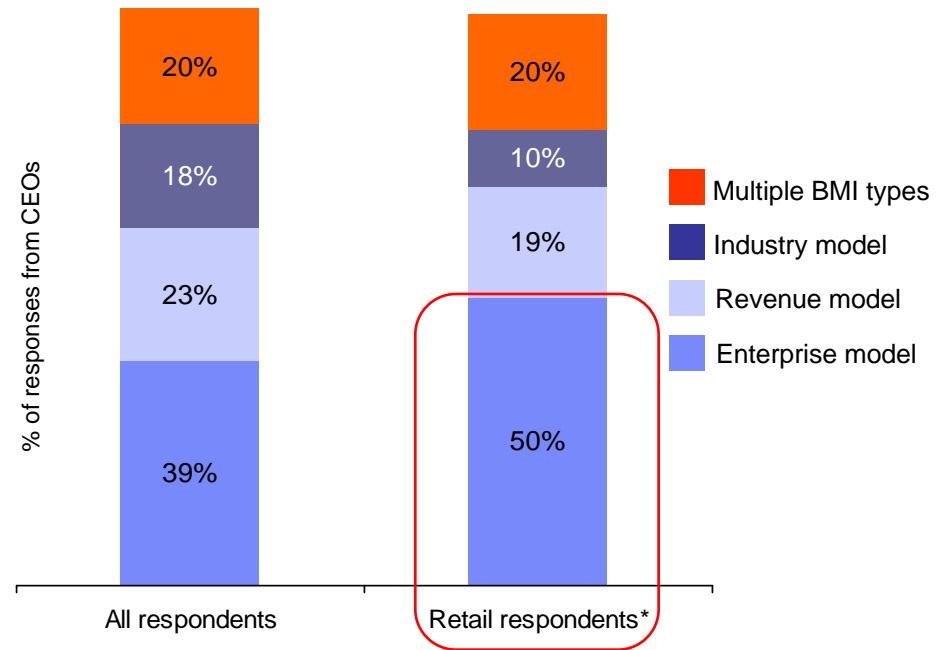
- Across the globe, a full two-thirds of all CEOs plan to be engaged in some form of business model innovation (BMI) over the next 3 years:
  - Enterprise model innovation (*changing the balance of what you do yourself and where you collaborate*) is the most common approach with retailers
  - Revenue model innovators (*shifting the value mix*) are primarily reconfiguring product / service / value mix
  - Industry model innovation (*redefining the industry or creating new ones*) remains rare
- Retail respondents are increasingly embracing enterprise model innovation whereas they had reported supply chain efficiency and cost reduction as the primary areas of focus in the past
- Outperformers typically embrace enterprise model innovation and some even take on the challenge of industry model innovation
- Underperformers are more focused on innovating their revenue model

## Most CEOs plan a *strong* focus on future business model innovation; retail CEO's have a bias towards enterprise model innovation

*What level of business model innovation focus are you planning for the next 3 years?*



*What type of business model innovation will you implement over the next 3 years?*



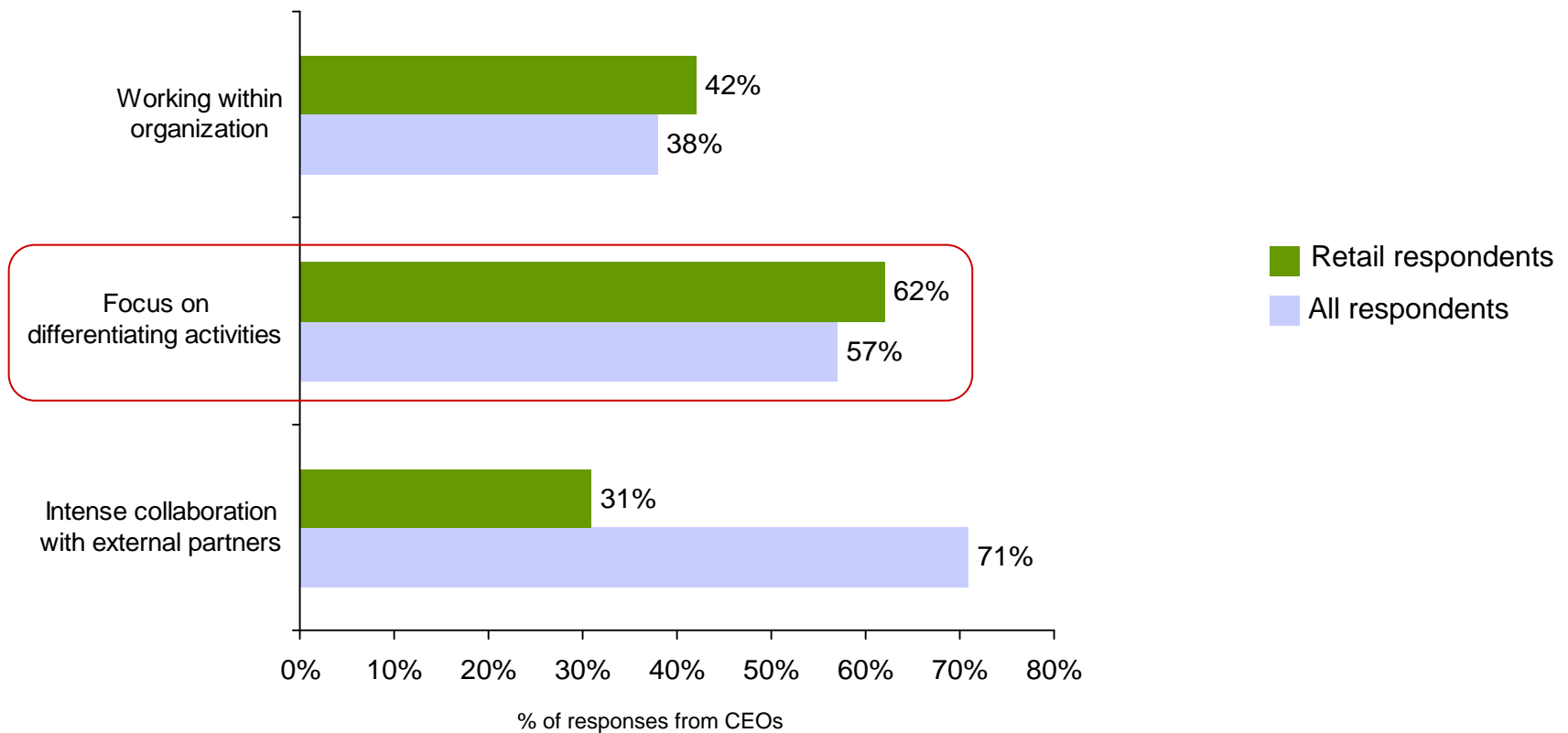
\*Note: 'No prominent business model' was selected by one account of the 58 responses, making the total is less than 100%

Source: IBM Global CEO Study 2008; Level of BMI focus: n (All respondents) = 1106; Type of BMI: n (All respondents) = 757, n (Retail respondents) = 58



## Within enterprise model innovation (EMI), retail CEOs are looking to focus on differentiating activities

*EMI= Redefining what you do yourself and where you collaborate*



Source: IBM Global CEO Study 2008; n (All respondents) = 234, n (Retail respondents) = 27

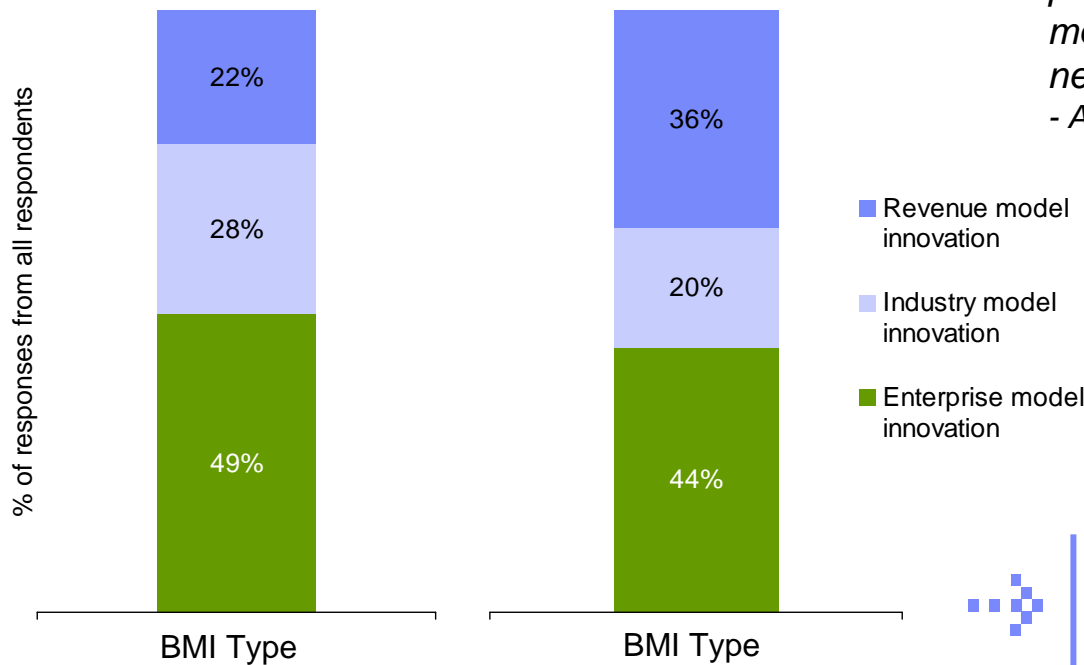


## Outperformers focus on enterprise and industry model innovation; revenue model innovation is more prevalent with underperformers

### Business Model Innovation Focus

All Respondents:  
Outperformers\*

All Respondents:  
Underperformers\*



*“For us, enterprise model innovation is primarily about having the right business model to enter other markets and secure new capabilities.”*

*- Andrew Brandler, CEO, CLP Holdings Limited*



***Most retail outperformers embrace enterprise model innovation, even more so than companies in other industries.***

\* Performance based on industry comparisons within survey sample of absolute profit margin (average of 2003 and 2006)  
Source: IBM Global CEO Study 2008; n (All respondent outperformers) = 120, n (All respondent underperformers) = 109



## Outperformers aim to be more disruptive using enterprise or industry model innovation

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- Leading retailers adopting Enterprise Model Innovation
  - **Tesco** - redefining grocery shopping in the US with the Fresh & Easy 'neighborhood' store format
  - **Limited Brands** - continuous innovation in the portfolio: incubation of new brands, formats and categories (Pink, VSX, C.O. Bigelow) and the spin-off of mature brands (Abercrombie & Fitch, Limited Too)
  - **Zappos** - the best selection AND the best service online, which will enable Zappos to expand from shoes and bags into virtually any category
  
- In addition, many leading retailers have embraced Industry Model Innovation:
  - **CVS** - becoming a healthcare provider, merging with Caremark for prescription benefit management services
  - **Reliance Retail** – diversifying from its focus on oil and textile businesses to include multiple retail formats
  - **Latin American retailers** - moving into finance (Falabella and C&A, Walmex)



## Limited: Reinventing itself by cutting ties with mature concepts and pursuing growth through new categories, markets and relationships

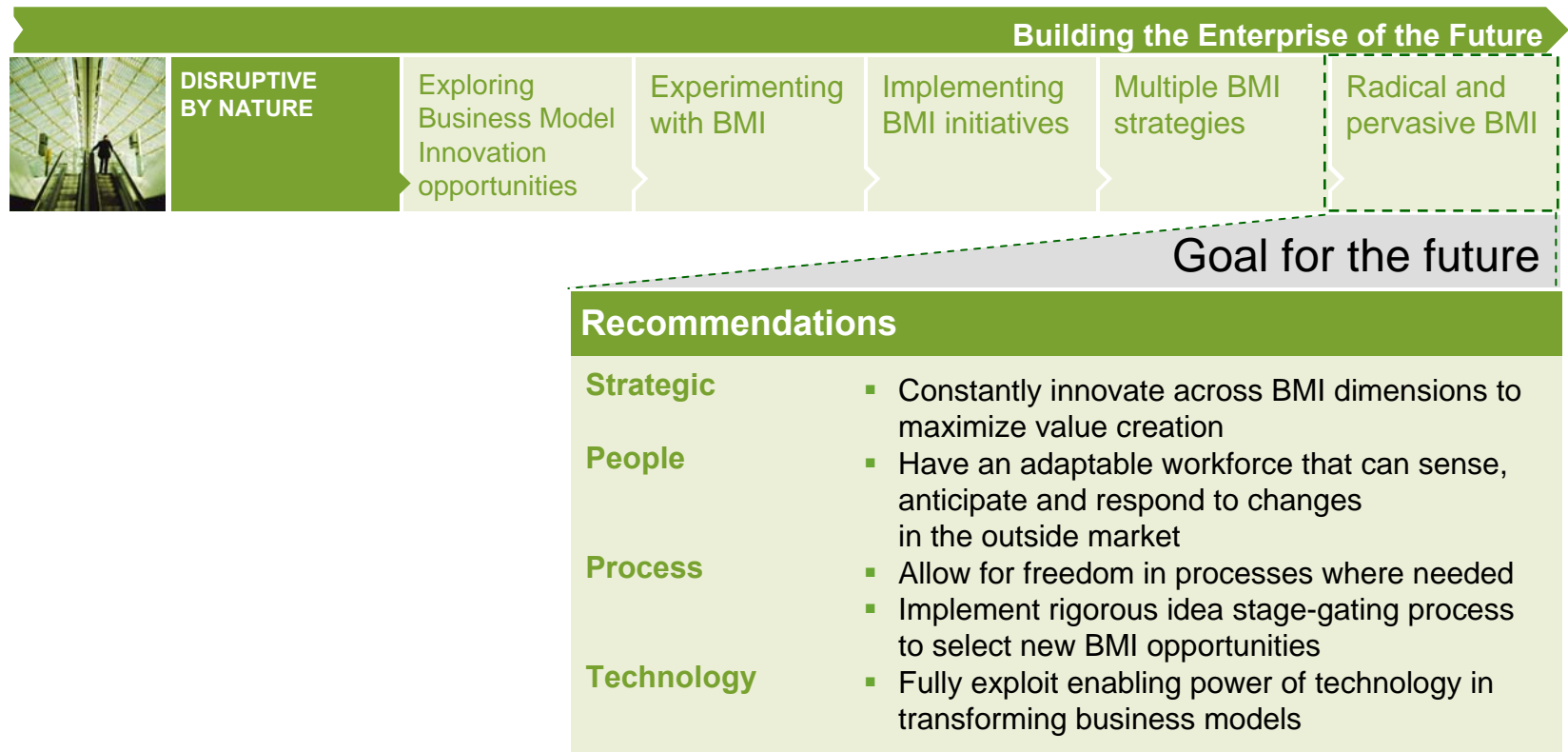


- The company's name change from The Limited, Inc. to Limited Brands in 2002, emphasized its dedication to building a collection of the world's best brands
  - Sales of mature brands include: The Limited, Express, Lane Bryant, and Lerner New York/ New York & Company
- Exploring with new categories has led to success
  - Pink: dormwear and intimates, approaching \$900 million in sales
  - VSX: activewear inspired line of clothing and sports bras, rolling out to 30 stores
  - Victoria Secret's Beauty (VSB): fragrance and body care products, representing \$1B of the \$5B of sales generated by Victoria's Secret lingerie stores
  - Acquired Slatkin & Co., a prestigious home fragrance brand, in 2006
- Developing new business relationships with experts in various categories
  - Partnered with 'dermatologist-to-the-stars' Dr. Patricia Wexler on a skincare line in 2005
  - Collaborated with QVC to successfully sell both Wexler and Slatkin & Co. products
  - Teamed up with C.O. Bigelow, America's oldest apothecary, to sell its products in all BBW stores and to open and operate stores bearing the C.O. Bigelow name
- Entering international markets with the acquisition of Canada-based apparel chain La Senza in January 2007
  - Provided entry to more than three dozen international markets where La Senza is sold through licensing agreements

Sources: "Limited Brands: The Evolution Continues", TNS Retail Forward, October 2007; [www.limited.com](http://www.limited.com)



## The Enterprise of the Future is disruptive by nature





## Common characteristics of organizations which are disruptive by nature: A self assessment

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Is a disruptive business model about to transform your industry? Is it more likely to come from you or your competitors?

Who is responsible for thinking about where the next disruption will come from?

Which other industries concepts and business models have the potential transform the retail market?

What will it take to create space for entrepreneurs and innovative business models while continuing to drive performance today?

What key differentiating activities will you focus on to redefine what you do yourself and where you collaborate?



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The Enterprise of the Future is ...

# Genuine, Not Just Generous





## CEOs view corporate social responsibility as an opportunity, and the focus on environmental issues has doubled

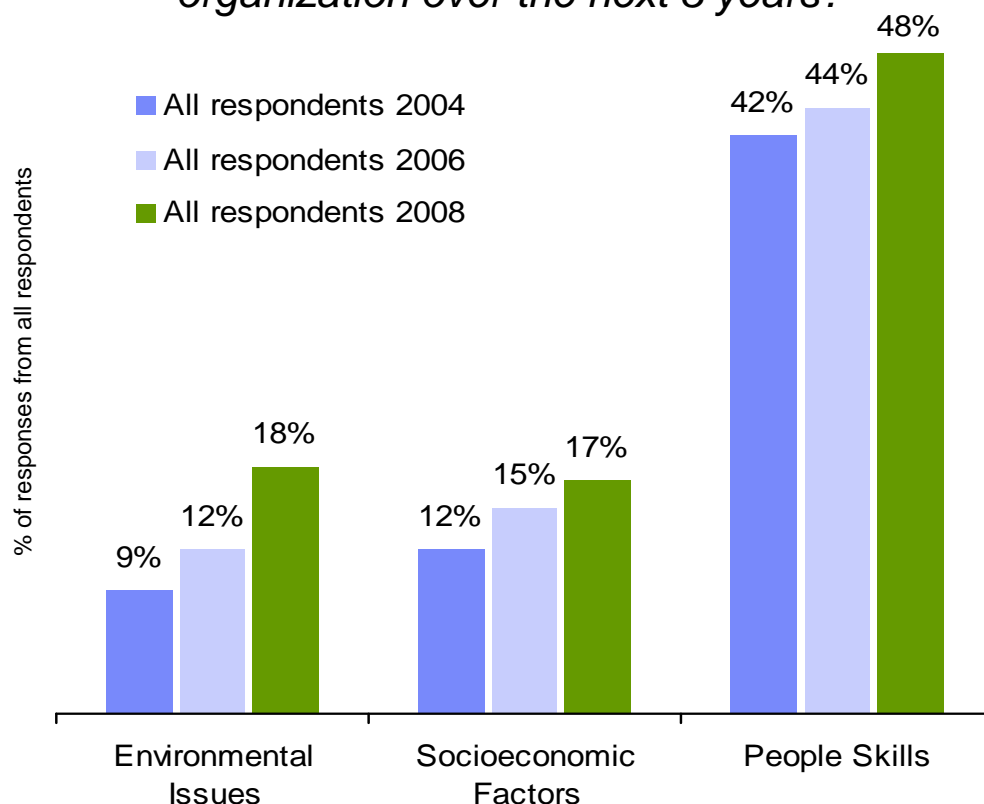
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- CEOs are racing to meet rapidly increasing corporate social responsibility (CSR) expectations
  - There are three external forces consistently on the CEOs' agendas which are all linked to CSR
  - Since 2004 CEOs' focus on environmental issues has doubled globally with strong differences between geographies
  
- CEOs are positive about the impact of rising CSR expectations
  - The majority of CEOs see CSR as an opportunity and plan to make significant investments
  - While retailers investment level in CSR lags that of other industries, retailers plan to invest more in an effort to catch up
  
- A recent study showed that consumers reward companies with a price premium for ethical behavior and punish those believed to be unethical
  - The premium / penalty was greater for consumers with high standards for corporate social responsibility than consumers with low expectations
  - Tests also showed that consumers are willing to pay a *slight* premium for ethically produced products and tend only to buy unethically made products at a *steep* discount



## Three external forces consistently rising on the agendas of CEOs across industries are all linked to Corporate Social Responsibility, similar to the agenda of retail CEOs

*What are the most important external forces that will impact your organization over the next 3 years?*



*“Our company is investing extensively in corporate social responsibility. We need to be a reference in this domain. As the leader of the luxury industry, we have to stay ahead.”*

*- Yves Carcelle, Chairman and CEO, Louis Vuitton*

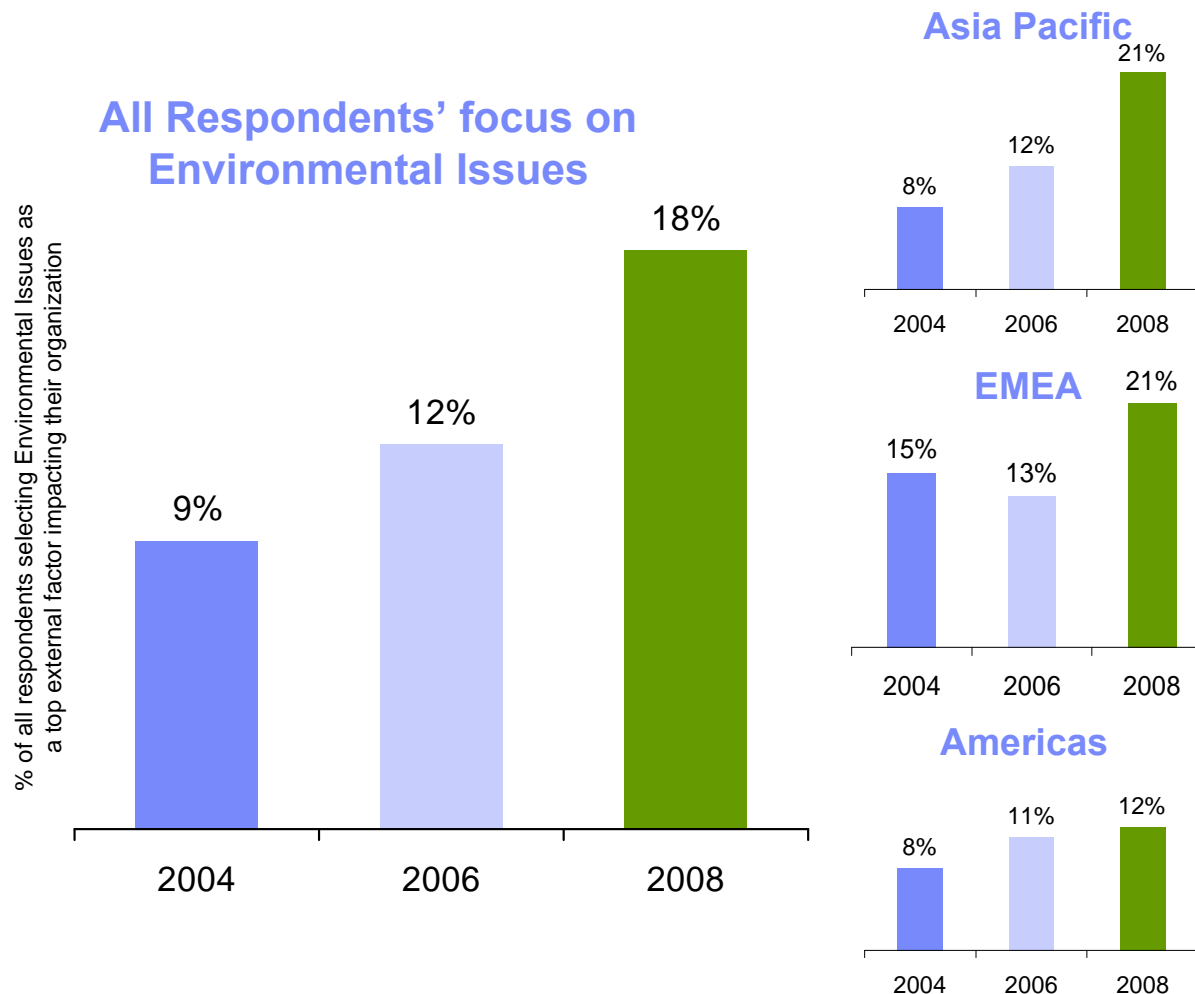
*“... in the future what will determine the consumer’s shopping preference will be the compromise of companies with social responsibility (CSR) more than price.”*

*- President, Columbian retail company*

Source: IBM Global CEO Study 2008; n (All respondents 2004) = 403, n (All respondents 2006) = 760, n (All respondents 2008) = 1130



## On a global basis, CEO-focus on environmental issues has doubled although there are strong geographic differences



.....

*“As the world becomes more “green”, we can replace a plastic-based music distribution system with a waste-free music distribution system.”*

- Chris Gorog, CEO, Napster

.....

*“We must double our investment in environmental areas.”*

- CEO, Industrial Products Co., Sweden

.....

*“Environmental issues are driving entry into new market segments as avenues of growth.”*

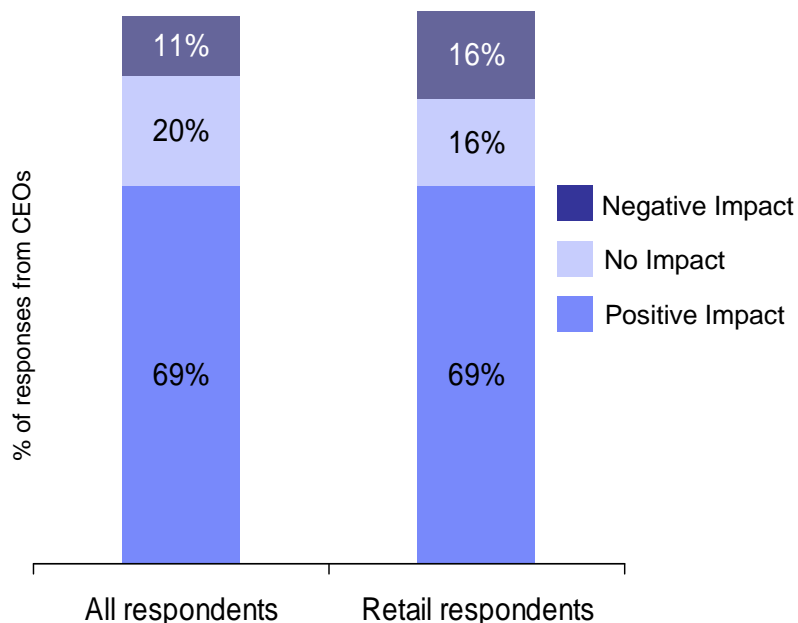
- President and CEO, Automotive Company, Australia

Source: IBM Global CEO Study 2008; All respondents n (2004) = 403, n (2006) = 760, n (2008) = 1130

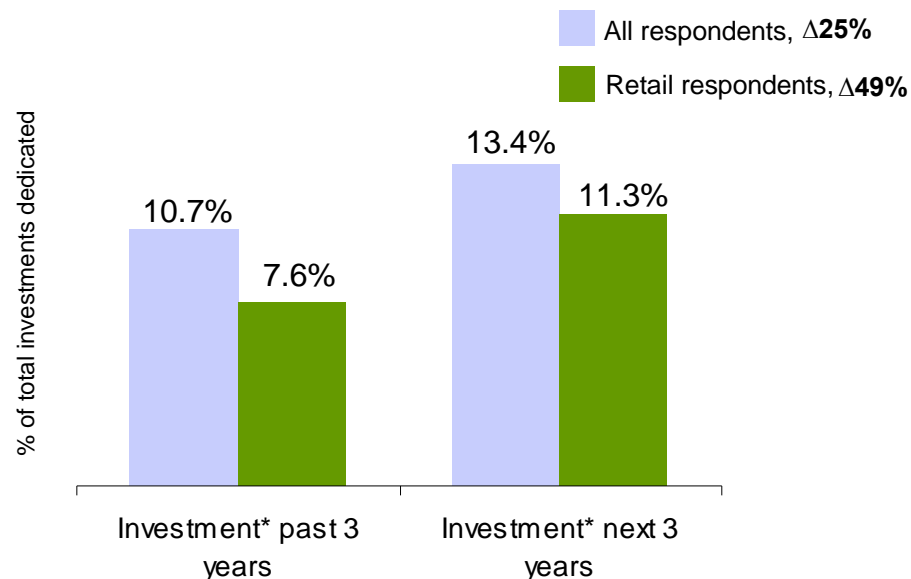


## The majority of CEOs see corporate social responsibility as having a positive impact and plan to increase their investment in this trend

*What impact will increasing customer expectations of corporate social responsibility have on your organization in the next three years?*



*What percent of your total investments\* have you dedicated and plan to dedicate to this trend?*



*“The consumer’s concept of quality will no longer be measured by only the physical attributes of a product — it will extend to the process of how the product is made, including product safety, environmental compliance and social responsibility compliance.”*

*-- Victor Fung, Chairman, Li & Fung*

Source: IBM Global CEO Study 2008, 'Impact' n (All respondents) = 609, n (Retail respondents) = 32; 'Investment' n (All respondents) = 609, n (Retail respondents) = 26

\* Total investments= all asset investments + all investments in R&D, marketing and sales



## The Wall Street Journal recently covered a study which showed companies can benefit financially by ethical practices

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- Ivey Business School conducted research to determine if investments into social responsibility by companies pay off
- Tests showed that consumers are willing to pay a slight premium for ethically produced products and would only buy unethically made products at a steep discount (coffee and T-Shirts were used as examples)
  - Conclusions were that investments in socially responsible business operations do pay off with acceptance of slightly higher price points, but it's even more important for companies to stay away from unethically produced products
  - Negative information about a company had twice the impact positive company information had on a consumer's willingness to pay
  - Increasing levels of ethical production (e.g. t-shirts made from 50% organic cotton verses 100% organic cotton) did not result in corresponding increased price premiums
- Consumers with high standards for corporate behavior rewarded ethical companies with bigger premiums and punished unethical companies more severely than consumers with low expectations



## As noted by the numerous studies providing rankings and 'Best of' lists, CSR is clearly gaining in significance

### 2007 Global Dow Jones Sustainability Index (DJSI)

- Dow Jones rates companies based on an analysis of corporate economic, environmental and social performance
  - They assess issues such as corporate governance, risk management, branding, climate change, supply chain standards and labor practices
  - Half of the assessment measured general sustainability criteria and half related to industry specific issues
- Marks & Spencer was named the Global Sector Leader for Retail
- Some of the other retailers highlighted were: Carrefour, Gap, Inc., Kesko, Limited Brands, Macy's Inc., Metro AG, Office Depot Inc., Staples, Inc., Target Corporation, Tesco, Walgreens, and Whole Foods Market

### 2008 World's Most Ethical Companies, by Ethisphere Institute

- Ethisphere basis its review on a company's codes of ethics, litigation and regulatory infraction histories, investment in innovation and sustainable business practices, and activities designed to improve corporate citizenship
- To make it to the final list, companies had to show that they
  - Go beyond CSR basics, responding to issues with real action, not just a PR campaign
  - Bring about innovative and new ideas to improve the public well being
  - Use ethical leadership as a purposeful method to drive profits
- Ninety three companies around the world, cross-industry, were named the most ethical companies
- Retailers highlighted were: Gap, Inc., IKEA, Marks & Spencer, Target Corporation, Ten Thousand Villages and Trader Joe's



## Marks & Spencer: Integrating 'Plan A' throughout every business aspect in order to make a positive impact world-wide

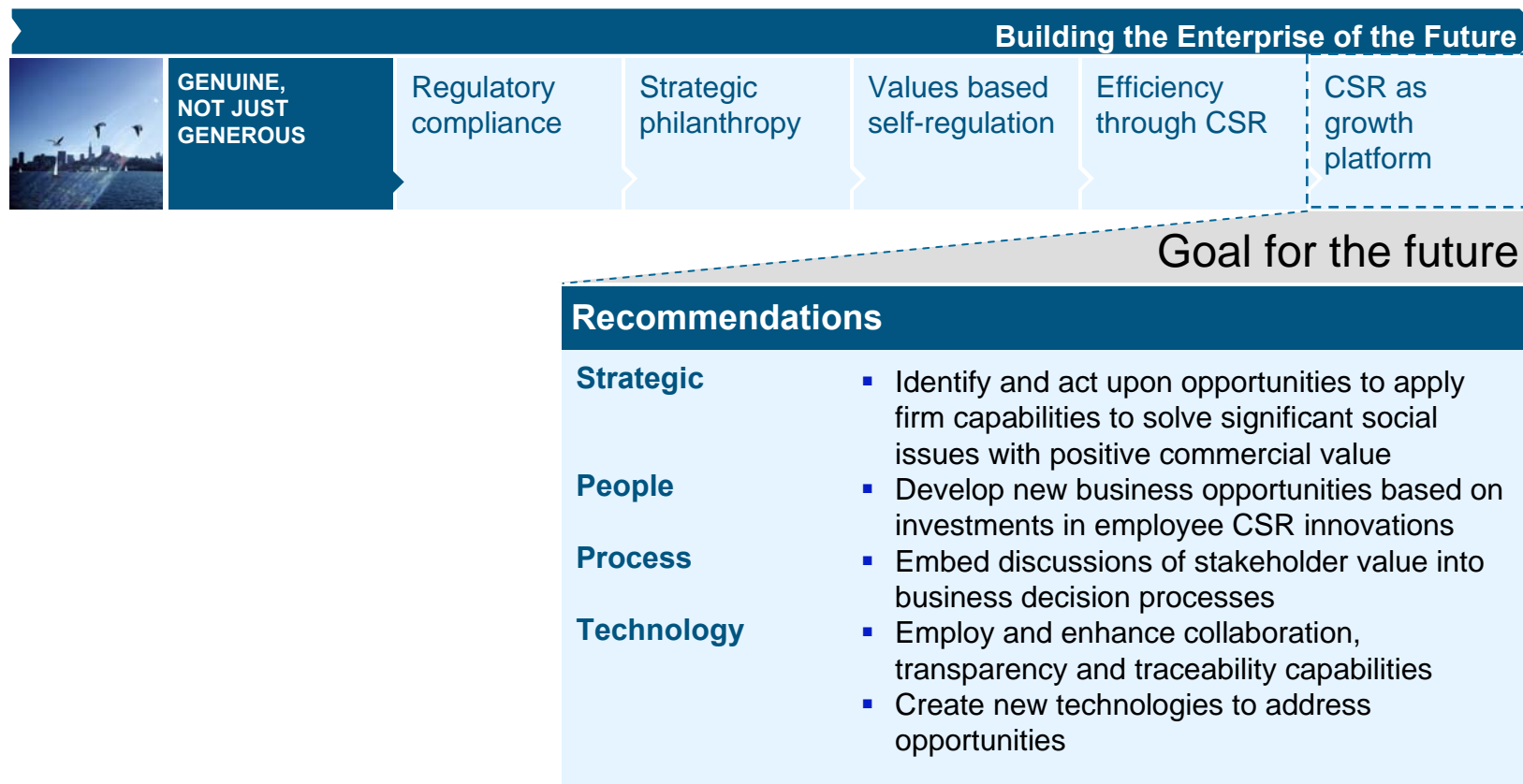


- Marks & Spencer created Plan A, a five year eco-plan, with 100 points of commitment across five areas:
  - Climate Change - minimizing energy use, maximizing the use of renewables and plans to make operations carbon neutral by 2012
    - Reduced carbon footprint by 28% compared to 2005-2006
    - Planted 10,000 trees to offset the emissions caused by home delivery of furniture
  - Waste - reducing packaging and eliminating transport of store waste to landfills
    - Started recycling unsold food into biogas and fibre fuels
  - Sustainable Raw Materials - ensuring raw materials come from the most sustainable sources available
    - Incorporated Forest Stewardship Council certified materials into furniture, food packaging, store décor and leaflets
  - Fair Partner – improving the lives of people in the supply chain and community
    - Bought over one third of the world's supply of Fairtrade cotton
  - Health - creating healthier lifestyles through product choices and clear labelling
    - Removed all hydrogenated fats from M&S food products
    - Highlighted healthy choices by using front-of-pack nutrition labels and color coded 'traffic lights'
- Named Dow Jones 2007 Sustainability Index retail sector global leader and one of 2008's World's Most Ethical Companies by Ethisphere Institute

Source: marksandspencer.com - "How we do business" 2007 report; "2008 World's Most Ethical Companies", Ethisphere Magazine, June 3, 2008; DJSI Annual Review 2007



## The Enterprise of the Future is genuine, not just generous





## Common characteristics of organizations which are genuine not just generous: A self assessment

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How well do you understand your customers' CSR expectations? How are you involving them in solutions?

Do you know which NGOs your customers listen to and are you collaborating with those groups?

Do you know how much extra your customers are willing to pay for ethical practices on your part? Are you aware of any 'penalties' you are enduring from your customer for practices believed to be unethical?

Can insights gained from current green initiatives be applied to your broader corporate social responsibility strategy?

Do your employees have the opportunity to personally make a difference?

Are practices in place to ensure that actions taken throughout the enterprise — and the extended value chain — are consistent with your CSR values and stated policies?



IBM Global Business Services



The Enterprise of the Future

# Positioning for Your Future

## Questions for the CEO and the board






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- What is the explicit design for your Enterprise for the Future?
  
- Do you have the capability and plan to be
  - Hungry for change – How do you encourage and capture visionary thinking?
  - Innovative beyond customer imagination
    - Are you able to anticipate the changing wants and needs of your customers?
    - Do you have initiatives in place to reap the benefits of and respond to customers that are increasingly informed and have greater purchasing power?
    - How do you plan to differentiate yourself amongst your competitors so that you are the retailer of choice amongst ever more demanding customers and capture more Advocates?
  - Globally integrated
    - What mix of globalization verses localization comprises your business plan?
    - Will this plan allow you to optimize operations and grow while still meeting the needs and customer preferences in each local market?
    - How do you plan to change your mix of capabilities and assets as well as expand partnerships in order to embrace globalization?
  - Disruptive by nature - What has the potential transform your market? Do you?
  - Genuine, not just generous: How do customers' and employees' ethical desires match with corporate practices?
  
- Do you have the leadership and change capability to get there fast?

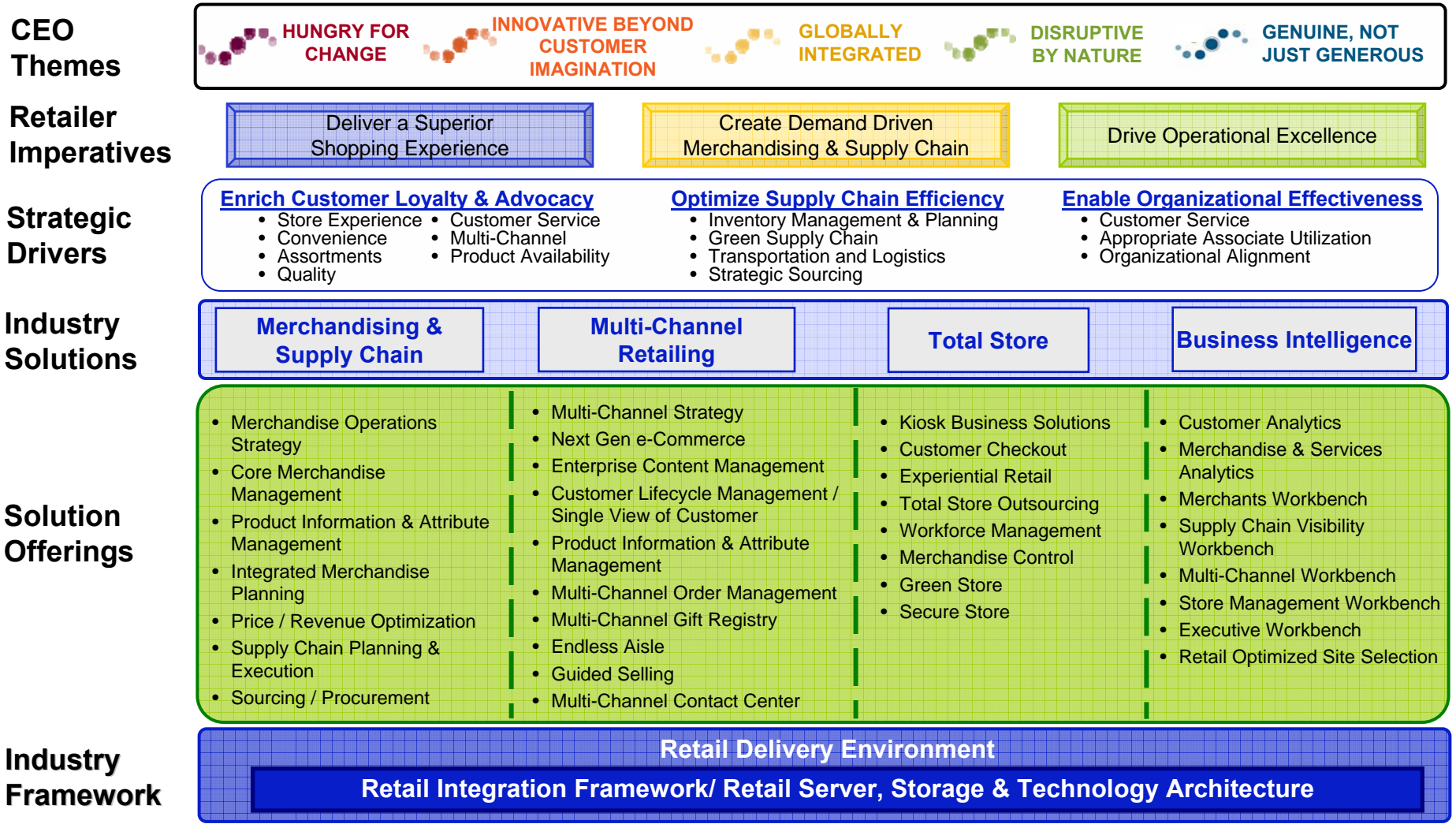
# How far along the continuum are you in building an Enterprise of the Future?

| Building the Enterprise of the Future |   |   |                                     |   |                                    |                                |
|---------------------------------------|---|---|-------------------------------------|---|------------------------------------|--------------------------------|
|                                       | <b>HUNGRY FOR CHANGE</b>                      | Ad hoc and reactive change                        | Project driven change               | Change portfolio and program                | Anticipating and proactive change  | Change becomes the strategy    |
|                                       | <b>INNOVATIVE BEYOND CUSTOMER IMAGINATION</b> | Customer intelligence                             | Customer information transparency   | Two-way customer interaction                | Customer collaborative development | Expanding customer aspirations |
|                                       | <b>GLOBALLY INTEGRATED</b>                    | Exploring global opportunities                    | Driving specific global initiatives | Building global capabilities systematically | Global centers of excellence       | Global enterprise innovation   |
|                                       | <b>DISRUPTIVE BY NATURE</b>                   | Exploring Business Model Innovation opportunities | Experimenting with BMI              | Implementing BMI initiatives                | Multiple BMI strategies            | Radical and pervasive BMI      |
|                                       | <b>GENUINE, NOT JUST GENEROUS</b>             | Regulatory compliance                             | Strategic philanthropy              | Values based self-regulation                | Efficiency through CSR             | CSR as growth platform         |

# IBM is well positioned to help companies build capabilities across all dimensions of the Enterprise of the Future

| TRAITS   | AREAS OF OPPORTUNITY  | KEY CAPABILITIES / INITIATIVES  | IBM SOLUTION   |
|--|---|---|--|
|  <p><b>HUNGRY FOR CHANGE</b></p>                      | <ul style="list-style-type: none"> <li>The change gap is widening</li> <li>Faster, broader, more uncertain change</li> </ul>  | <ul style="list-style-type: none"> <li>Integrated Finance Organization</li> <li>Adaptable Workforce</li> </ul>  | <ul style="list-style-type: none"> <li>Strategy &amp; Change</li> <li>Financial Management</li> <li>Human Capital Management</li> </ul>  |
|  <p><b>INNOVATIVE BEYOND CUSTOMER IMAGINATION</b></p> | <ul style="list-style-type: none"> <li>Heavy investment in new markets</li> <li>The informed and collaborative customer is a chance to differentiate</li> </ul>   | <ul style="list-style-type: none"> <li>Customer Centric Merchandising</li> <li>Customer Segmentation/ Deep customer insight</li> <li>Superior Shopping Experience</li> <li>Enterprise View of Customer</li> <li>Rapid Innovation and Deployment Platforms</li> <li>Integrated Channels</li> </ul> | <ul style="list-style-type: none"> <li>Merchandising &amp; Supply Chain</li> <li>Multi-channel Retailing</li> <li>Total Store</li> <li>Retail Business Intelligence</li> </ul>   |
|  <p><b>GLOBALLY INTEGRATED</b></p>                    | <ul style="list-style-type: none"> <li>Radical changes for business design to capitalize on global integration</li> <li>Deep changes in capability and asset mix</li> <li>Extensive partnering and M&amp;A</li> </ul> | <ul style="list-style-type: none"> <li>Product Information Management / Unified content</li> <li>Globally Integrated Supply Chain</li> <li>Flexible fulfillment / Optimized distribution network</li> <li>Alignment of investments/capabilities to strategic business imperatives</li> </ul>      | <ul style="list-style-type: none"> <li>Merchandising &amp; Supply Chain</li> <li>Multi-channel Retailing</li> <li>Retail Business Intelligence</li> <li>Retail Integration Framework</li> <li>Outsourcing &amp; Application Mgmt Svcs</li> <li>Mergers and Acquisitions</li> </ul> |
|  <p><b>DISRUPTIVE BY NATURE</b></p>                 | <ul style="list-style-type: none"> <li>Technology enables broader business model possibilities</li> <li>Enterprise model innovation most common</li> </ul>  | <ul style="list-style-type: none"> <li>Adaptable Infrastructure and Platform</li> <li>Integrated Channels</li> <li>Seamless Customer Experience</li> <li>Adaptable Workforce</li> </ul>   | <ul style="list-style-type: none"> <li>Merchandising &amp; Supply Chain</li> <li>Multi-channel Retailing</li> <li>Retail Business Intelligence</li> <li>Retail Integration Framework</li> <li>Outsourcing &amp; Application Mgmt Svcs</li> <li>Mergers and Acquisitions</li> </ul> |
|  <p><b>GENUINE, NOT JUST GENEROUS</b></p>           | <ul style="list-style-type: none"> <li>CSR related issues rise on the CEO Agenda</li> <li>Rapidly increasing customer expectations for CSR</li> <li>CSR is seen as creating opportunity, not threat</li> </ul>        | <ul style="list-style-type: none"> <li>Carbon Footprint Management</li> <li>Energy and Water Management</li> <li>Full Value Traceability</li> <li>Validation at the Source</li> </ul>   | <ul style="list-style-type: none"> <li>Merchandising &amp; Supply Chain</li> <li>Multi-channel Retailing</li> <li>Retail Business Intelligence</li> <li>Retail Integration Framework</li> </ul>  |

# The characteristics and traits of the 'Enterprise of the Future' are aligned with IBM's Retail Industry Solutions Portfolio



## For more information

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For all study materials and book orders please refer to:

- [www.ibm.com/enterpriseofthefuture](http://www.ibm.com/enterpriseofthefuture)
- [w3.ibm.com/services/gbs/ceo\\_study\\_2008.html](http://w3.ibm.com/services/gbs/ceo_study_2008.html)

- GBS S&C Leadership Team

- Americas
  - Marc Chapman, marcchap@us.ibm.com
- Asia Pacific (excluding Japan)
  - Steven Davidson, steven.davidson@hk1.ibm.com
- Japan
  - Ryuichi Kanemaki, kanemaki@jp.ibm.com
- Northeast Europe
  - Rainer Mehl, rainer.mehl@de.ibm.com
- Southwest Europe
  - John Papatheohari, jpapathe@fr.ibm.com
- IBM Institute for Business Value
  - Peter Korsten, peter.korsten@nl.ibm.com

- CEO Study Project Team

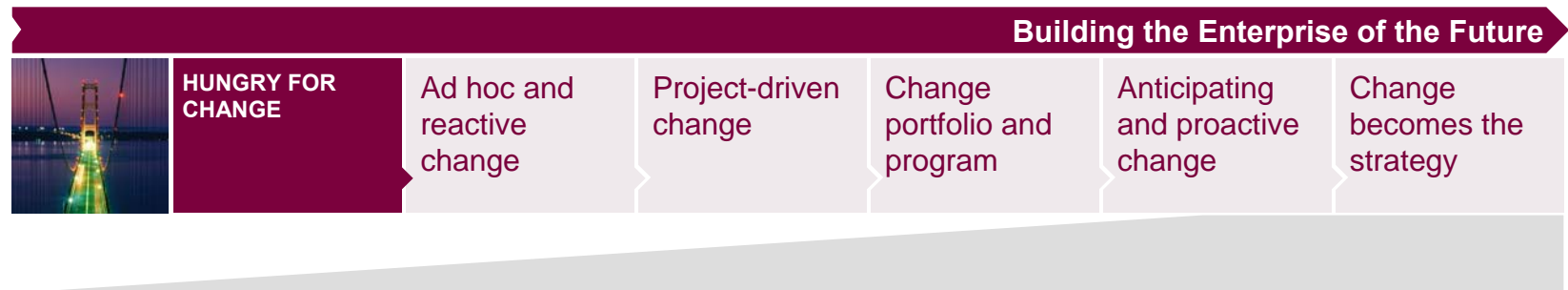
- Global:
  - Phaedra Kortekaas, phaedra.kortekaas@nl.ibm.com
- Asia Pacific
  - Magesh Vaidheeswaran, mvaidhee@in.ibm.com
- Americas
  - Kathleen Martin, kathleen.martin@us.ibm.com
- EMEA
  - Sally Drayton, drayton@uk.ibm.com
- S&C Solutions Portfolio Management
  - Ragna Bell, ragna.bell@us.ibm.com
- S&C Marketing
  - Keith Landis, keith.c.landis@us.ibm.com
- Retail CEO team
  - Fred Balboni, fbalboni@us.ibm.com
  - Robert Garf, rgarf@us.ibm.com
  - Maureen Stancik Boyce, staboyce@us.ibm.com
  - Laura VanTine, katzl@us.ibm.com
  - Yolanda Wang, yolwang@us.ibm.com
  - Shannon Miller, shannonm@us.ibm.com



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## Solution Appendix

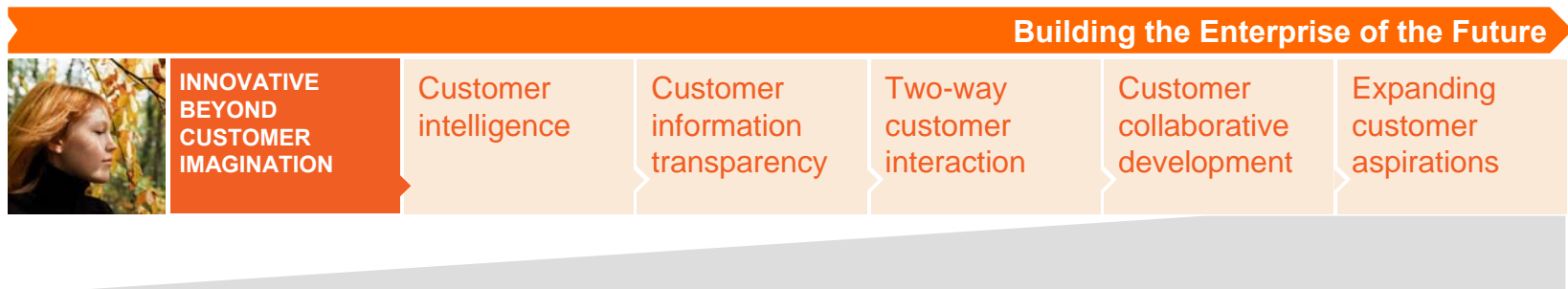
# The Enterprise of the Future is hungry for change



| Recommendations   |  |
|-------------------|--|
| <b>Strategic</b>  | <ul style="list-style-type: none"> <li>Continue to build the expectations of continuous and disruptive “damage” into the culture of the organization</li> </ul>  |
| <b>People</b>     | <ul style="list-style-type: none"> <li>Hire, recognize and retain visionary challengers who are given freedom to infuse deep change</li> </ul>   |
| <b>Process</b>    | <ul style="list-style-type: none"> <li>Develop processes to ensure viable new ideas that can be quickly exploited</li> <li>Develop process internally – and across partners - that can adapt to frequently changing business models</li> </ul> |
| <b>Technology</b> | <ul style="list-style-type: none"> <li>Leverage technologies that create new and disrupt current industry structures</li> <li>Develop adaptive IT infrastructure to support changing business models</li> </ul>                                |

- ### Solutions / Offerings
- **Strategy and Change**
    - Organization Change Strategy
    - Business Strategy
  - **Financial Management**
    - Finance Management Consulting
    - Business Risk Management
  - **Human Capital Management**
    - HR Strategy & Transformation
    - Knowledge and Collaboration
    - Learning Solutions
    - Workforce Transformation

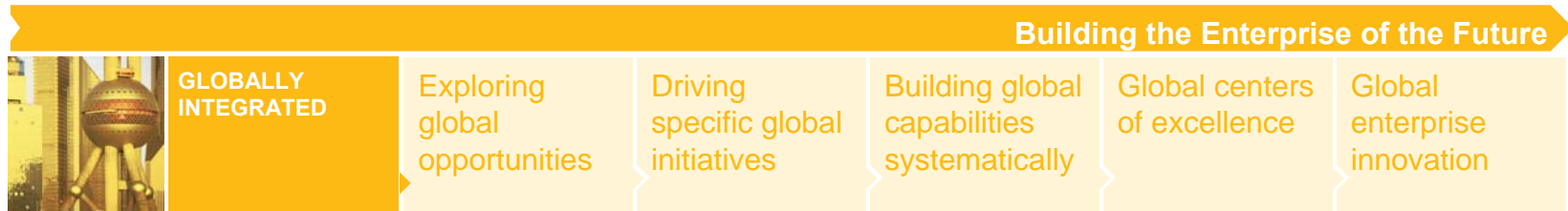
# The Enterprise of the Future is innovative beyond customer imagination



- ### Recommendations
- Strategic**
    - Build collaborative relationships with key external partners and key customers for open innovation
  - People**
    - Proactively approach customers to co-develop ideas for mutual benefit
  - Process**
    - Develop and integrate processes and guidelines for external partner management
  - Technology**
    - Enable open innovation
    - Leverage collaborative tools to support co-development
    - Deliver technology platform to support open innovation

- ### Solutions / Offerings
- **Merchandising and Supply Chain**
    - Merchandising Operations Strategy
    - Integrated Merchandise Planning
    - Sourcing/Procurement
  - **Multi-Channel Retailing**
    - Multi-Channel Strategy
    - Next Gen e-Commerce
    - Customer Lifecycle Mgmt / Single View of Customer
    - Endless Aisle
    - Guided Selling
    - Multi-Channel Contact Center
  - **Total Store**
    - Kiosk Business Solutions
    - Customer Checkout
    - Experiential Retail
    - Merchandise Control
    - Workforce Management
  - **Retail Business Intelligence: Customer Analytics**

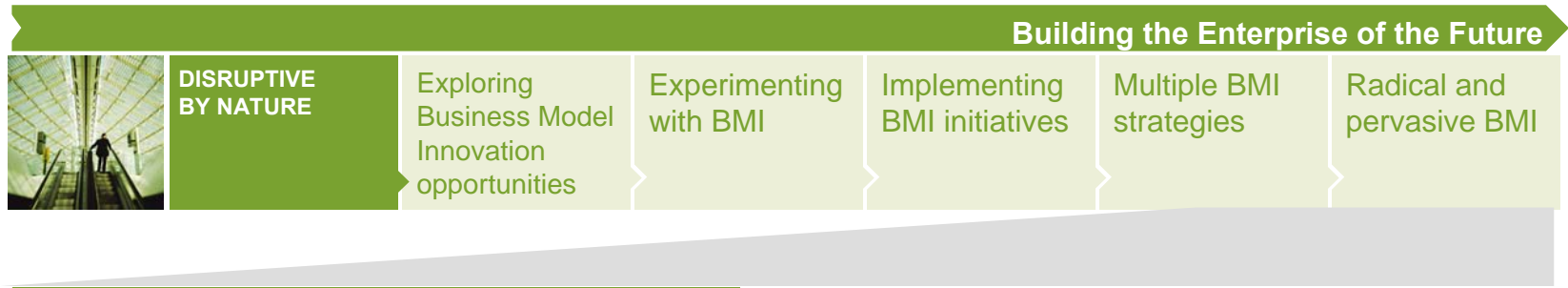
# The Enterprise of the Future will be globally integrated



| Recommendations   |   |
|-------------------|---|
| <b>Strategic</b>  | <ul style="list-style-type: none"> <li>Adopt a proactive position across multiple innovation levers to drive new value and maintain market leadership</li> </ul>  |
| <b>People</b>     | <ul style="list-style-type: none"> <li>Embed collaboration into performance management system</li> <li>Identify new business opportunities based on global talent sourcing</li> </ul>   |
| <b>Process</b>    | <ul style="list-style-type: none"> <li>Business services enable new market innovations</li> <li>Enable processes to support open innovation</li> <li>Leverage global “centers of excellence” to optimize capability and delivery</li> </ul> |
| <b>Technology</b> | <ul style="list-style-type: none"> <li>Create technology services to enable new market innovations</li> <li>Deliver technology platform to support open innovation across the ecosystem</li> </ul>  |

- ### Solutions / Offerings
- Merchandising and Supply Chain**
    - Core Merchandise Management
    - Product Information and Attribute Management
    - Price/Revenue Optimization
    - Supply Chain Planning and Execution
    - Sourcing/Procurement
  - Multi-Channel Retailing**
    - Enterprise Content Management
    - Multi-Channel Order Management
  - Retail Business Intelligence**
    - Merchants Workbench
    - Supply Chain Visibility Workbench
    - Multi-Channel Workbench
    - Store Management Workbench
    - Executive Workbench
  - Retail Delivery Environment / Retail Integration Framework**
  - Strategic Outsourcing (incl. store), Managed Business Process Outsourcing, and Application Mgmt Services**
  - Mergers and Acquisitions**

# The Enterprise of the Future is disruptive by nature



### Recommendations

- Strategic**
  - Constantly innovate across BMI dimensions to maximize value creation
- People**
  - Have an adaptable workforce that can sense, anticipate and respond to changes in the outside market
- Process**
  - Allow for freedom in processes where needed
  - Implement rigorous idea stage-gating process to select new BMI opportunities
- Technology**
  - Fully exploit enabling power of technology in transforming business models

### Solutions / Offerings

- Merchandising and Supply Chain**
  - Core Merchandise Management
  - Integrated Merchandise Planning
  - Price/Revenue Optimization
  - Supply Chain Planning and Execution
  - Sourcing/Procurement
- Multi-Channel Retailing**
  - Customer Lifecycle Mgmt / Single View of Customer
  - Product Information and Attribute Management
- Retail Business Intelligence**
  - Customer Analytics
  - Merchandise and Services Analytics
  - Retail Optimized Site Selection
- Retail Delivery Environment / Retail Integration Framework**
- Strategic Outsourcing, Managed Business Process Outsourcing, and Application Mgmt Services**
- Mergers and Acquisitions**

# The Enterprise of the Future is genuine, not just generous



## Recommendations

- Strategic**
  - Identify and act upon opportunities to apply firm capabilities to solve significant social issues with positive commercial value
- People**
  - Develop new business opportunities based on investments in employee CSR innovations
- Process**
  - Embed discussions of stakeholder value into business decision processes
- Technology**
  - Employ and enhance collaboration, transparency and traceability capabilities
  - Create new technologies to address opportunities

## Solutions / Offerings

- **Merchandising and Supply Chain**
  - Merchandise Operations Strategy
  - Sourcing/Procurement
  - Supply Chain Planning and Execution (Mastering Carbon Management)
- **Total Store**
  - Green Store
  - Secure Store
- **Retail Business Intelligence**
  - Supply Chain Visibility Workbench
  - Executive Workbench
- **Retail Delivery Environment / Retail Integration Framework**