

RETAIL DEMAND

2006

INSIGHTS:

WHAT DRIVES CONSUMERS?



EXECUTIVE SUMMARY

ABOUT THIS RESEARCH

This report brings together multiple years of research from **Adjoined Consulting** that examines why consumers desire to shop at particular retailer formats. In 2005, the **NRF Foundation (NRFF)** partnered with Adjoined to expand the breadth of the study into new and emerging retail formats.

The purpose of this research is to:

- Understand where shopper desires are shifting to today, and over the next 3 to 5 years.
- Define and measure how well each retailer format delivers against those desires.
- Provide key strategic insights into the actions retailers can take to better meet untapped shopper desires, and increase revenues and market share.

Retailer Formats in this Study

Apparel
Auto Parts
Books
Department
Drug Store
Electronics
Home Improvement
Internet
Mass
Office
Pets
Specialty
Sporting Goods
Toys

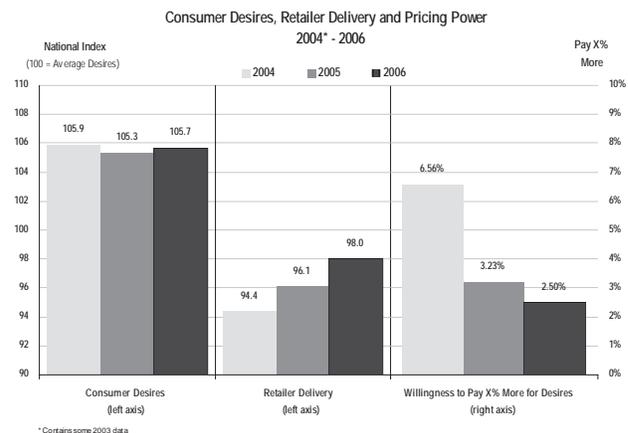
For this year's study, we assembled an advisory council of top experts in retail, technology, forecasting, and consumer psychology. The council helped guide the specific questions in the study according to their most compelling challenges today.

The Adjoined research team then conducted quantitative interviews online, bringing the total number of subjects studied over 3 years to 10,201. Results are weighted to match the estimates provided by the U.S. Census for Age, Gender, Income and Geographic Location. Subjects were randomly selected from a US Consumer Panel of over 180,000 consumers. All subjects were pre-qualified to have visited a retailer's store, website

or catalog within the last 6 months. Response rates were above 80%.

DESIRES, DELIVERY & PRICING POWER

Since 2004, Retailers continue to make significant improvements in their performance, indicated by both overall revenue growth and how consumers rate their delivery capabilities. As retailers have been conquering their challenges, though, their pricing power with consumers has been on a decline. **Pricing Power** – the ability to raise prices without impacting quantity purchased – is measured as the willingness of consumers to pay more in order to obtain their desires.

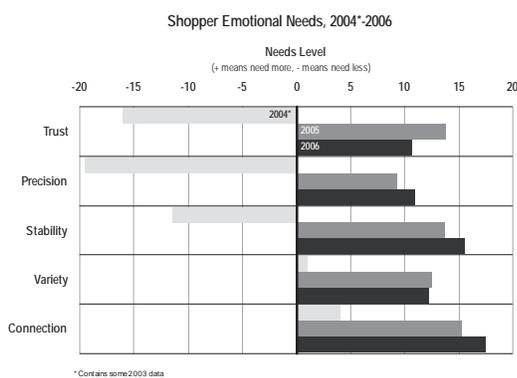


Since 2004, retailers' pricing power has declined steadily to 2.5%. In comparison to other industries Adjoined has studied, this decrease indicates a possible commoditization of the retail industry as whole. The lack of significant growth in consumers' desires level supports this as well.

How do industries re-energize their customers to prevent commoditization? What can retailers do to regain their pricing power? Where does untapped demand with consumers exist?

NEW SOURCES OF CONSUMER DEMAND

The way consumers want to feel while they shop with retailers has changed drastically. Overall, consumer expectations have shifted along a number of factors – from a questioning, flexible and anxious shopping experience to a more trusted, precise and stable one.



The two greatest sources of change revolve around consumers' need for connection and the need for precision. Consumers want retailers to "connect" with them...and that connection must be "precisely" what they expect. What can retailers do to connect with customers in a precise way?

Retail Demand Insights 2006 explores the many ways retailers can connect with shoppers today. Using both the functional and emotional desires of consumers, this research breaks through traditional views of consumers so that retailers can see how tangibles can intertwine with intangibles to create a compelling experience for shoppers.

Throughout the report, we explore and discover consumer needs in diverse areas such as fair-pricing, customer loyalty, incentive usage, advertising influence, effect of economic variables on retail spending, and shopping methods across channels.

We also provide details on groups of consumers that each have a common set of shopping desires within a common price range. The four Shopper Types provide retailers of all sizes the ability to quickly assess and respond to their specific needs in an efficient manner.

SHOPPER TYPES

Based on our analysis of 10,000+ shoppers over the past 4 years, consumers fall into four shopper types. Each group has a common set of emotional needs and functional desires, but is only willing to pay a certain amount in order to obtain them.

- **Thrifties** focus on price but are averse to sacrifice other key attributes.
- **Elites** focus on getting high quality but also have deep emotional desires in terms of retailer staff and competence.
- **Speedsters** focus on the length of time required throughout the shopping process.
- **Allures** focus on getting a unique social experience which retailers can achieve in a variety of ways.

Much more information on shopper types and retailer formats is available. You can purchase a full report, including detailed data, at the online NRF Bookstore: www.nrf.com/bookstore.

If you are interested in learning more about how to integrate the findings into your retail organization, please go to www.adjoined.com. To learn the latest trends of consumer desires and see company delivery ratings, subscribe to Adjoined's research at www.demand3d.com/subscribe.



ABOUT THE NRF FOUNDATION

NRF Foundation is the research and education arm of the National Retail Federation. The Foundation conducts original research on topics of importance to retailers worldwide and develops educational and certification programs to provide the skills and knowledge to drive success. The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet and independent stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.4 million U.S. retail establishments, more than 23 million employees – about one in five American workers – and 2004 sales of \$4.1 trillion. For more information on the NRF Foundation, visit www.nrf.com/foundation.



ABOUT ADJOINED CONSULTING

Adjoined Consulting is an industry-focused, full-service management consulting, technology services and outsourcing firm that offers strategic operational consulting, leading-edge technology integration, outsourcing solutions and original, independent research. With more than 200 Global 2000 companies as clients, Adjoined focuses on solving business challenges for clients in the consumer packaged goods & retail, life sciences, industrial products, financial services, communications & media and travel & leisure industries. Headquartered in Miami, Adjoined also has offices in New York, Boston, Philadelphia, Washington, D.C., Atlanta and Tampa and outsourcing data centers in Boston and Phoenix. Adjoined Research is an independent group within Adjoined Consulting that conducts syndicated studies across multiple consumer markets of the U.S. economy: Communications, Media & Entertainment, Travel & Leisure, Restaurant & Beverage, Retail and Specialty Retail. Armed with the key findings from these continual studies, Adjoined provides advisory services and tailored research to its client base. For more information on Adjoined Consulting, visit www.adjoined.com.



ABOUT SAP

SAP is the world's leading provider of retail business software solutions. Today, more than 2,900 retailers worldwide are SAP customers, more than 450 of which are using industry-specific applications from the SAP for Retail solution portfolio. SAP for Retail is a solution portfolio that combines mySAP™ Business Suite solutions with a broad set of integrated retail applications to help companies profitably serve consumer demand across multiple channels. Built on the open architecture of the SAP NetWeaver® platform, SAP for Retail includes core capabilities for financial management, human resources, supplier relationship management and customer relationship management, as well as support for industry-specific merchandise management and planning, store and channel management, demand forecasting, replenishment, sophisticated allocation, workforce management, POS data management and RFID. For more information on SAP, visit www.sap.com/usa/retail.

NRF FOUNDATION
325 7th St NW
Suite 1100
Washington, D.C. 20004
800-NRF-HOW2
www.nrf.com/foundation

**ADJOINED CONSULTING
RESEARCH OFFICE**
2325 Dulles Corner Boulevard
Suite 500
Herndon, VA 20171
800-840-5148
research@adjoined.com
www.adjoined.com

SAP AMERICA INC.
3999 West Chester Pike
Newtown Square, PA 19073
866-879-5739
info@sap.com
www.sap.com/usa/retail