“Experience” Retailing

How To Compete and Win in the Connectivity and Home Networking Markets

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Executive Summary

- Despite positive signs, consumer electronics (CE) retailers face significant challenges to realize the full potential of the connectivity and home networking markets
- This situation is due to an inability to cross a “usage chasm,” competition from service providers (SPs), and an ongoing inability to market and merchandise the value of home networking
- Retailers can solve these challenges by implementing the five “E’s”: 1) Experience, 2) Ease, 3) Education, 4) Ecosystem, and 5) Expertise
- Although no company has fully implemented the five E’s, one U.S. CE retailer is experiencing success in test environments
- By following Cisco IBSG’s approach and next steps, a typical 1,000-store CE retailer can increase revenues by $2 billion annually

Source: Cisco IBSG, 2010

1 The Promise and Reality of Connectivity

Connectivity Represents Next Great Opportunity for Retailers

Wave 1 (Basic Connectivity)

Third-party content to specific devices

facebook

iTunes

XBOX LIVE

NETFLIX

Connectivity Chasm

Wave 2 (Advanced Connectivity)

Wave 1 plus shared content among devices

Take pictures / print online

shutterfly

facebook

Share with community

Show at home

Wave 3 (Connected Life)

Integrated, interactive connectivity

Home health

Physician

Mobile alerts / scheduling

Data monitoring

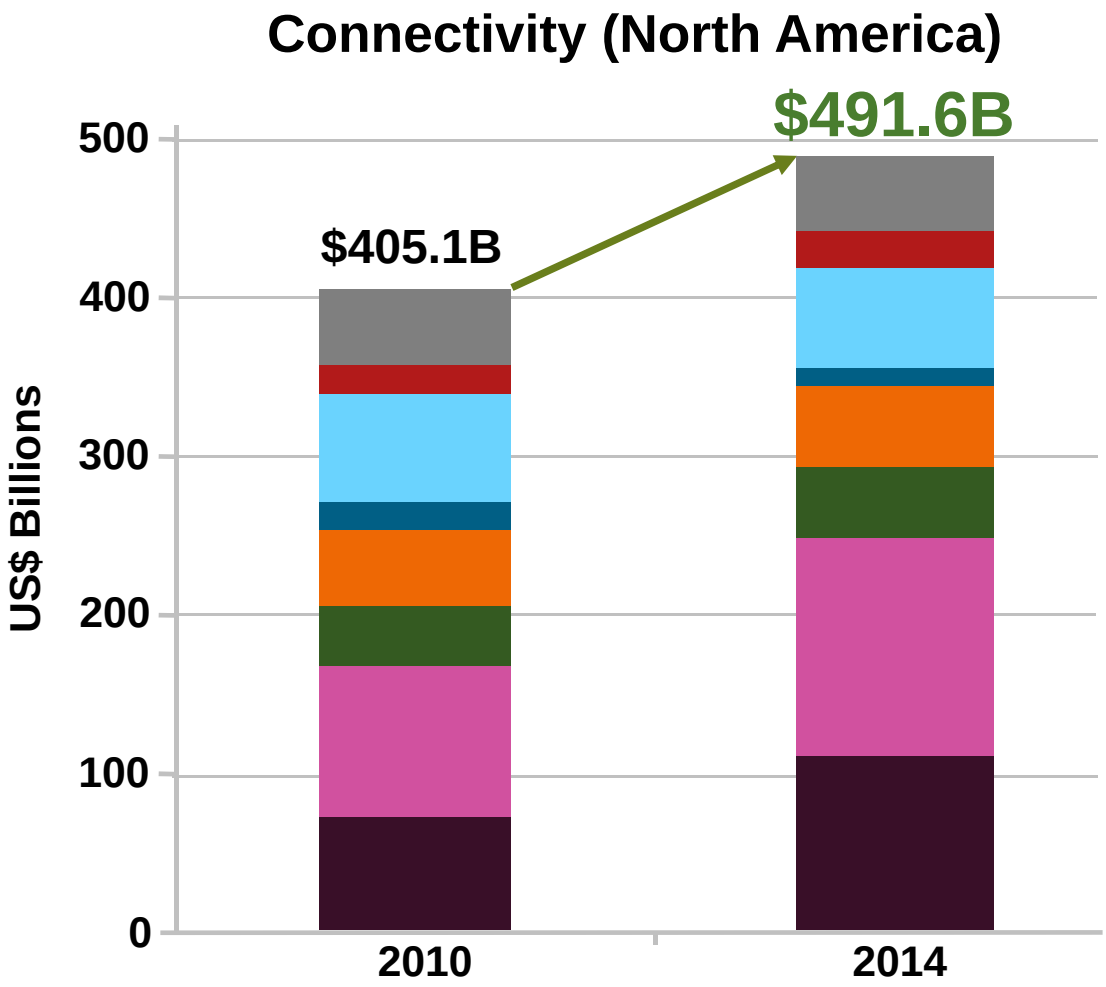
Home telehealth

Device-to-Device Wireless Content Sharing

Content and Application Solution Breadth

Source: Cisco IBSG, 2010

Wave 1 Total Addressable Market: Nearly $500 Billion by 2014 in N. America

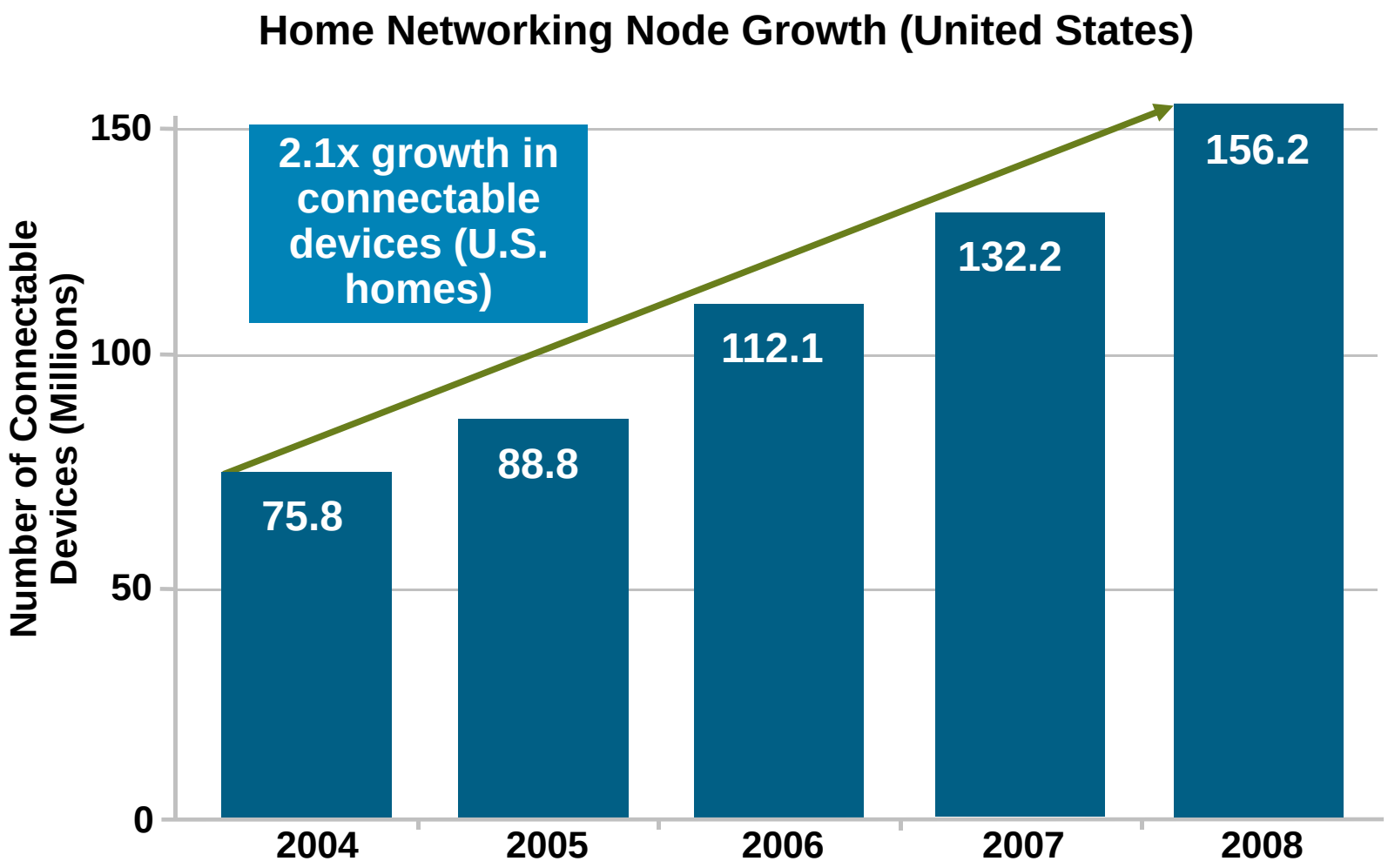


Waves 2 and 3 create new revenue opportunities for interactive services: health, education, energy management

- Broadband
- Gaming, music, radio
- Home PCs / networks
- Media centers, players, cameras
- Mobile
- Online and TV advertising
- TV dist. / filmed entertainment
- TVs and related devices

Sources: ABI Research; eTForecasts, 2010; IDC, 2009; 2010 In-Stat, 2010; Infonetics, 2010; IMS, 2010; Parks Associates, 2010; PwC, 2009; SNL Kagan, 2010

More than 150 Million Connectable Devices in Households Is Promising…



Source: "Home Networks for Consumer Electronics," Parks & Associates, April 2009

…Yet, Home Networking Is Not Achieving Full Potential

The Reality of Home Networking

Slow growth: Home networking ranks 9th out of 11 connectivity categories, with CAGR of 5.9% (2010-2014)

Low interest: Home networking ranks 28th out of 31 categories in consumer purchase intent

High returns: Post-sale home networking returns average 18%–20% across all brands

Minimal use: 85% of home networks connect just PCs and printers

Sources: ABI Research; eTForecasts, 2010; IDC, 2009; In-Stat, 2010; Infonetics, 2010; IMS, 2010; Parks Associates, 2010; PwC, 2009; SNL Kagan, 2010; "Home Networks for Consumer Electronics," Parks & Associates, April 2009; Consumer Decision Process Surveys, 2009; large U.S.-based CE retailer, 2010

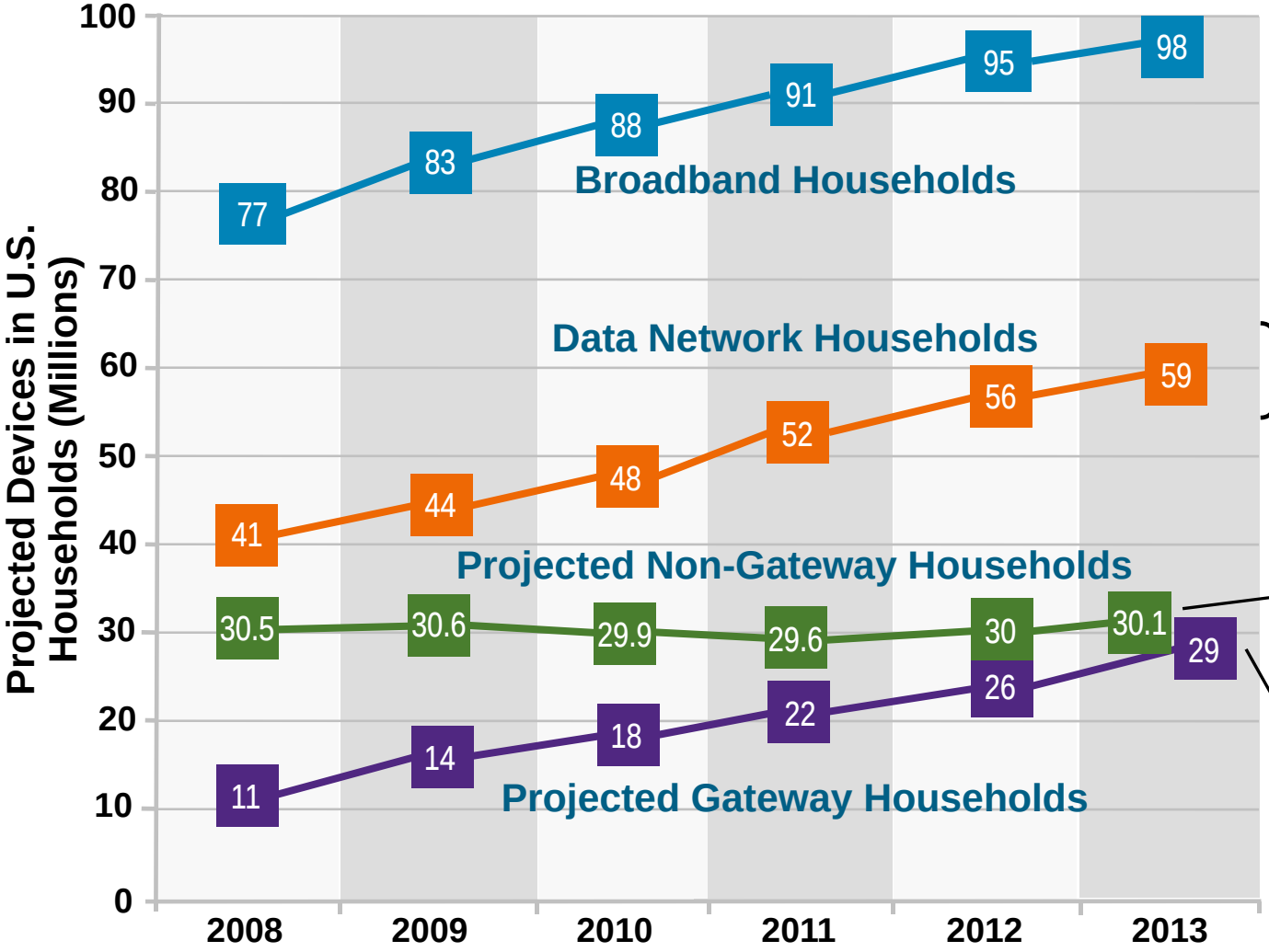
Seven Reasons for Current Home Networking Situation

1. **Lack of consumer knowledge:** One-third of consumers are unfamiliar with—or have never heard of—home networking
2. **Lack of general consumer interest:** Only 13% of non-networked households show interest to buy
3. **Lack of concise value proposition:** Hard for consumers to understand value; less “tech speak,” more benefits
4. **Poor choice of language:** “Home network” implies difficulty; experience / benefit description increases consumer interest by three times
5. **Inadequate in-store marketing:** “Geeky” setting is undesirable; need cross-merchandising with “experiential” SKUs
6. **SPs winning in home:** Meeting basic needs (networking PCs and printers), but no answers for more complex experiences
7. **Consumer connectivity is challenging:** Lack of confidence and knowledge create chasm that keeps mainstream consumers from adopting home networking

Sources: “Broadband and Home Networking Diffusion Among U.S. Households,” Cisco Consumer Business Group, 2008; Diffusion Group, 2008

2 SPs Taking Advantage of Current Situation

SPs Winning Ever-Larger U.S. Home Networking Market Share…



43.5% of all households; 60% of broadband households

Retail relies on upgrades / second home devices; market flat

Growth driven by SPs

Source: Parks & Associates, 2009

…But May Not Be Able To Address Full Connectivity Market Opportunity

SPs Are Winning Basic Connectivity (Wave 1)

- **Integrated:** Gateways bundled with content
- **Installed:** Easy, in-home service relieves consumer of installation burden
- **Simplified:** SPs enable simplest usage model—wireless data to PC

Why SPs Struggle To Address Full Connectivity Opportunity

- Consumption and cross-device sharing of IP-based content
- Managed web, PC, and game content to the TV
- "Own" content sharing and storage, including photos, videos, and social networking
- Don't support interactive services such as home health, education, home management (Wave 3)

Source: Cisco IBSG, 2010

3 To Win, Retailers Must Become Sellers of “Experience”

The Connectivity and Home Networking Paradox

When faced with complexity, CE consumers default to simplicity

Because of this, SPs continue to win basic connectivity (and home networking) with simple devices, setup, and experiences

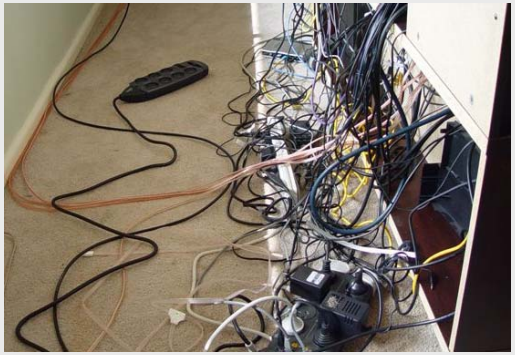
To differentiate and win against SPs, CE retailers must accelerate consumer adoption of Wave 2 and Wave 3 solutions...

…by making them simple to operate, easy to install, and of high value to everyday life

Source: Cisco IBSG, 2010

Retailers Must Translate Complexity Into "Experiences" Consumers Want

Complexity



- No single usage model per device
- Confusing operation
- No clear value
- Multiple content sources

Desired "Experience Models"

Movie Night at Home

- No wait
- No mail
- Family-friendly content

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Simple "Experience Recipes"

Ingredients

1. Netflix
2. PC
3. Cisco router
4. Flat-panel display

Source: Cisco IBSG, 2010

“Experience” Retailing Requires Five Elements (E’s)

Together, Elements Deliver Value and Simplicity

1. **Experiences**
   - Experience models of interest to early majority and mainstream consumers
   - In-store experience demos placed in key SKU departments
2. **Education**
   - Clear proposition: why an experience is of value and how consumers can do it
3. **Ease**
   - “Experience recipes” make device, content, and service selection easy
   - Do-it-for me installation options
4. **Expertise (CE retailer)**
   - Ability to envision unarticulated needs
   - Expert installation and service of multi-SKU connectivity setups
5. **Ecosystem**
   - Recipe elements demoed with merchandising adjacencies
   - Tested / reliable interoperability for all experience SKUs

Sources: Leading U.S.-based consumer electronics retailer, 2009-2010; Paula Payton, Oxford University Institute of Retail Management, 2010; Cisco IBSG, 2010

Value of Consumer Experience Must Be Greater than Difficulty + Complexity

Why
Value of Experience

- **Identification**
  "This is for people like me"
- **Aspiration**
  "I'd like to do that"
- **Applause**
  "My peer groups will compliment me"
- **Repetition**
  "This is something I would do frequently"

>

What
Difficulty in Store

- **Conception**
  "I don't even know what's possible"
- **Completion**
  "I don't know what to buy"
- **Compatibility**
  "Will everything work together?"
- **Care**
  "Who will set it up and fix it for me?"
- **Comfort**
  "I feel stupid"

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How
Complexity at Home

- **Ease of setup**
  "If I follow the directions, will it work?"
- **Interoperability**
  "Will it work with my other stuff?"
- **Ease of operation**
  "Is the whole solution easy to use?"
- **Care**
  "Who can I find to help me set it up?"

Note: Operational formula tested with a leading CE retailer, 2009–2010.
Sources: Kristen Bowring, leading U.S.-based CE retailer; Cisco IBSG, 2010

Leading U.S. Retailer Example

	Description
Challenge	▪ Home networking siloed in computing department ▪ No integrated, cross-department approach to Wave 2 sales success ▪ Home networking sales stagnant, with high return rates
Solution	**Experience** – Advertise experience models – Ask customers experience questions **Education** – Clear value proposition – Simple "experience recipes" **Ease** – Pre-test experience recipes at HQ – Bundle setup with networking SKUs **Expertise** – Select / train Wave 2 expert – Train to sell across departments **Ecosystem** – Pre-test experience recipe interoperability – Position ads in primary SKU depts.
Key Takeaways	▪ Experience recipes make requirements clear ▪ Small, single-experience, in-department demos are preferable ▪ Success with Wave 2 and Wave 3 requires new labor model

Sources: Leading U.S.-based CE retailer, 2010; Parks & Associates, 2009; Cisco IBSG, 2010

Four Examples Bring Experience Retailing to Life

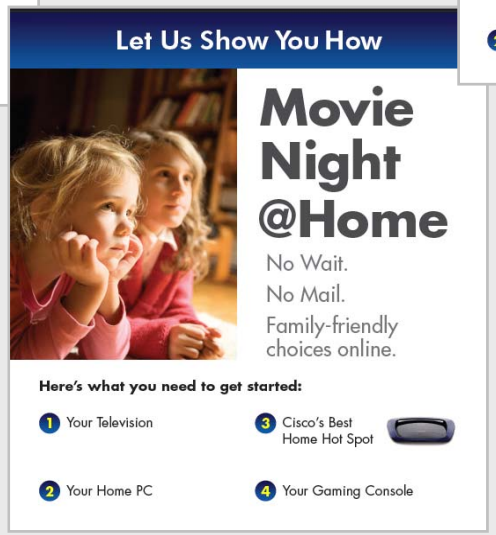
Digital Imaging

Customer need
Showing videos and photos to family and friends; safe-in-one-place storage

Computing

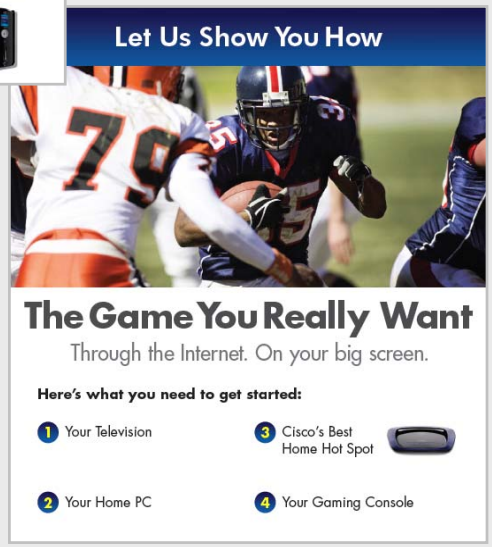
Customer need
Children's safety and security

Home Movies



Customer need
On-demand entertainment that's convenient and family-friendly

Local Sporting Events



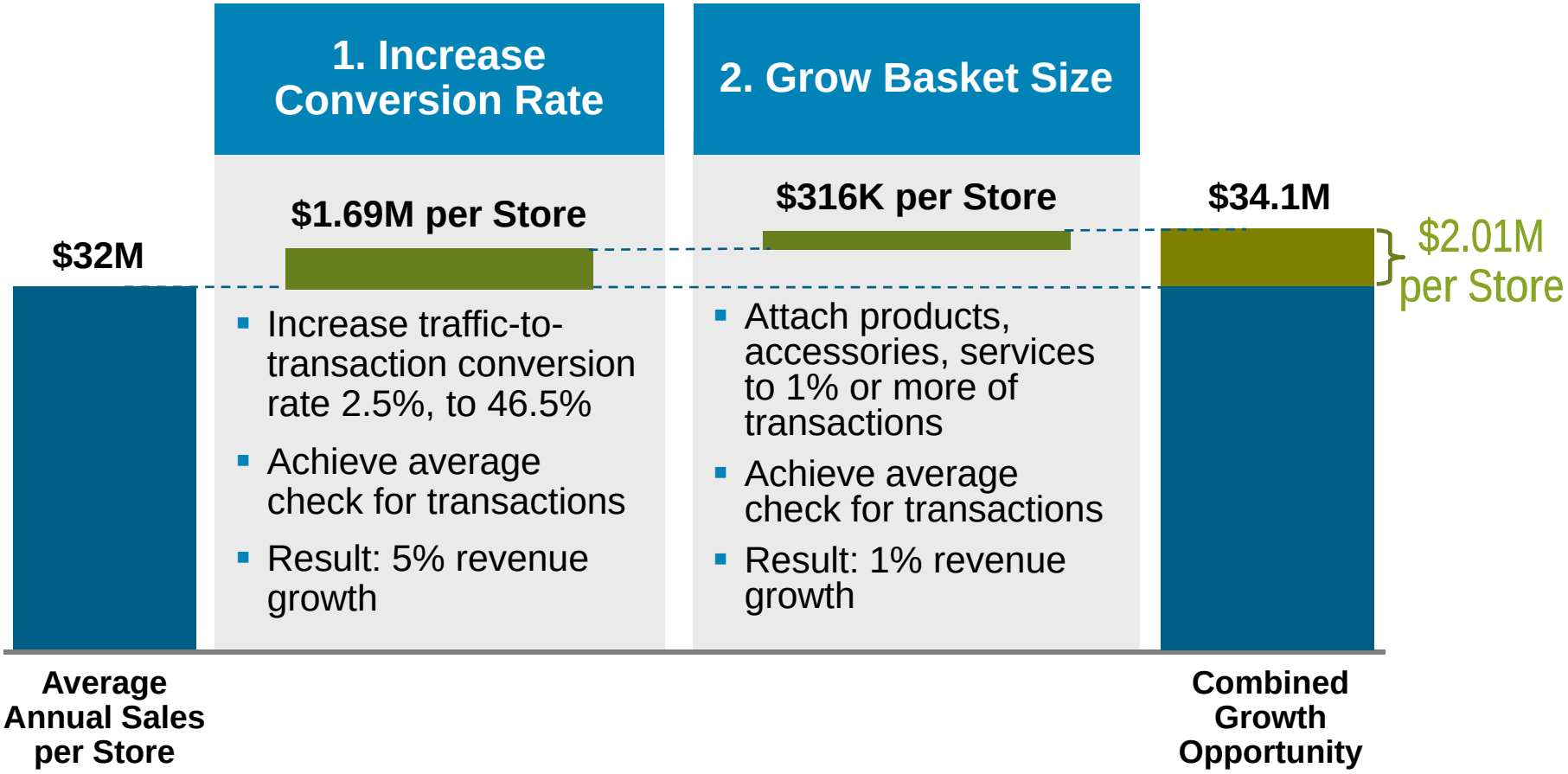
Customer need
Big-screen viewing of web-streamed high school football

Sources: Leading U.S.-based CE retailer, 2010; Cisco IBSG, 2010

4 “Experience” Selling Offers Significant Benefits

$2B Annual Revenue Growth for 1,000-Store Consumer Electronics Retailer

Potential Sales Increase of $2M Per Store Per Year



Source: Cisco IBSG, 2010

5 How to Become an “Experience” Retailer

“Experience” Selling Requires Organizational Adjustments

	Today’s Reality	Tomorrow’s Opportunity
Merchandising Governance	▪ Siloed traditional departments ▪ Siloed connectivity definitions ▪ Siloed P&L centers	▪ Connectivity group across depts. ▪ Cross-department work streams ▪ Joint P&L
Store Labor	▪ Trained in single department ▪ Too busy to sell solutions ▪ Afraid to pursue Wave 2	▪ One or more Wave 2 specialists ▪ Specialists sell solutions ▪ Wave 2 demos for each dept.
Consumer Behavior	▪ “Grab-n-go” from one department ▪ Don’t know what’s possible ▪ Use simple, old models	▪ >20% interactions are “slowed” ▪ Customers discover what’s possible ▪ Adopt new models
Connectivity Results	▪ 18–20% home networking returns ▪ Low attach rate ▪ SPs taking share ▪ Discount CE retailers taking share	▪ <10% returns ▪ >10% attach rate ▪ Retailers win 50% of wireless home networking share

Source: Leading U.S.-based CE retailer, 2010; Cisco IBSG, 2010

Conclusions and Recommendations

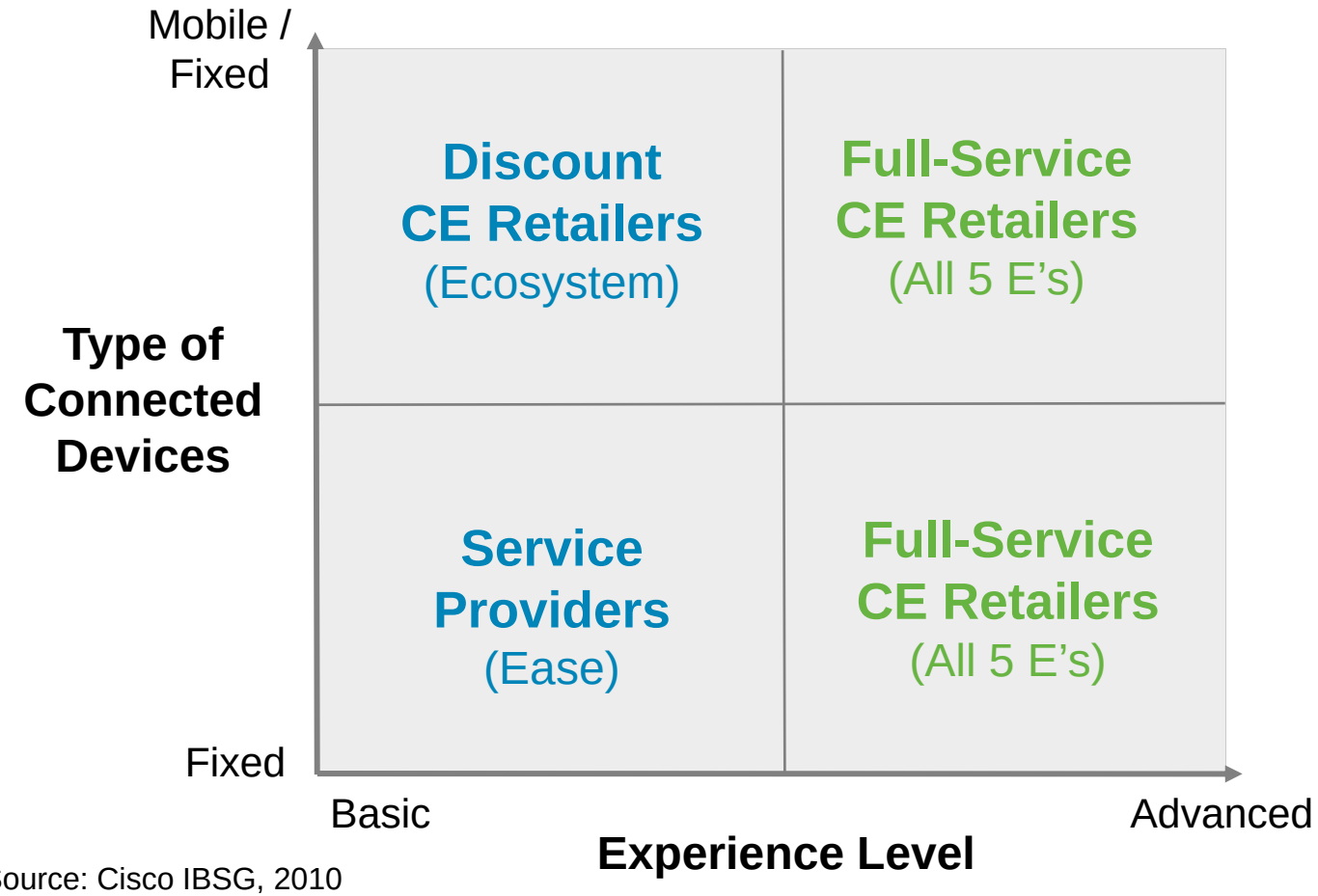
1. Deliver the five “E’s” to differentiate and win
2. SPs are primary connectivity competitor and best at simple experience models
3. Build upon your differentiating strengths
4. Drive rapid experimentation to test these and other concepts—no one has figured this out yet

Source: Cisco IBSG, 2010

CISCO

How Do Full-Service Retailers Win?

Content Sharing Across Mobile and Fixed Devices Gives Advantage to Full-Service Retailers



Source: Cisco IBSG, 2010

Home Networking Growth Forecasts Lag Behind Other "Connectivity" Categories

North American Home Networking ($ Millions)

Connectivity Category	2010	2014	CAGR
Interactive TV advertising	$133	$4,297	+138.4%
3-D TVs	$3,539	$21,025	+56.1%
IPTV	$6,100	$14,496	+24.2%
Fiber broadband	$3,030	$6,746	+22.2%
Film and TV (digital media)	$426	$868	+15.3%
Music (digital)	$3,264	$5,200	+12.0%
LCD TVs	$39,092	$56,437	+9.6%
Mobile devices	$43,551	$57,078	+7.0%
Wireless home networking	**$1,186**	**$1,579**	**+5.9%**
Game consoles	$5,717	$6,415	+2.9%
Personal computers	$75,400	$70,689	-1.6%

Sources: ABI Research; eTForecasts, 2010; IDC, 2009; In-Stat, 2010; Infonetics, 2010; IMS, 2010; Parks Associates, 2010; PwC, 2009; SNL Kagan, 2010