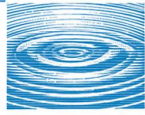


KING·CASEY



KING·CASEY REPORT

Insights and Trends in Retail Branding, Merchandising and Design



Digital Merchandising Systems

Why They're Not Working... Yet

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A KING-CASEY REPORT by Howland Blackiston, Principal, King-Casey

In the last few years a number of retail stores and restaurant chains have looked into Digital Merchandising Systems (DMS). Some have even implemented small-scale pilots of the new technology. But so far, the business value and ROI of such systems have been lack-luster. In this article, King-Casey shares some insights regarding digital merchandising systems. We'll take a look at what's working and what's not. And why.

Who's Measuring Results?

The problem is, there is very little published information available on the return on investment regarding these adventures in DMS. Retailers remain secretive about their experiences with DMS. Not even the companies offering the technology have shared quantitative data regarding how DMS has impacted the bottom line.

Burger King, McDonald's, Carl's Jr, Little Caesar's, and Red Lobster are a few among those that have tested Digital Merchandising Systems (DMS). But none of these big players are yet deploying DMS on a widespread basis.

Burger King (in Germany) installed plasma screens in 400 of their stores. Cost for screens, computer and software was about \$5000 per store. They saw a double digit increase in sales at these stores. Not bad. Carl's Jr. realized only a slight "blip" in sales. Some other brands we spoke to reported no sales increases. And McDonald's (who tested digital menuboard in the USA and Japan during 2001 and 2003) decided to not implement DMS across the system (which may speak volumes about their ROI).

So when all is said and done, there's not much across-the-board data that digital merchandis-

ing is showing a big payback. The potential might be there, but so far, the evidence has been underwhelming. We at King-Casey believe there are some reasons for the less than stellar ROI.

The Number One Problem: Lack of Strategy

When it comes to the messages on these screens, there is far too much creative energy being spent on the "wow" factor. That's why most DMS have been slow to increase sales. Those developing the content seem carried away with the cool things this technology can do. The result is seductive images of food being sliced, diced and simmered. Products spinning and zipping around the screen. Video clips from advertising campaigns. And brand icons prancing around from panel to panel. The images are indeed engaging and entertaining. Even dazzling. But do they influence purchasing behavior? We don't think so. What's missing is strategic creative development that leverages the technology to make options clearer, feature desirable products, encourage up-sell and otherwise influence purchasing behavior. Those responsible for developing the creative content must first develop *strategic business objectives* for their DMS:

- What are the critical business objectives that you want to accomplish?
 - How will you measure success?
 - What is it that you must communicate to achieve this business objective?
- Until companies embrace "strategic design development" for this technology, we are unlikely to see meaningful business returns.

A Brief History of Digital Merchandising Systems

Digital Merchandising Systems (DMS) emerged 20 years ago when some retailers utilized conventional TV sets (CRT's) linked to dial-up modems to communicate simple messages in their stores. The next to embrace the technology was the hospitality industry, using the hotel's closed circuit TV system to communicate information to their guests (a practice still in use today).

In the USA, an early pioneer in the restaurant arena was McDonald's. Using projection screens (predecessors of today's flat screens) the messages had little to do with merchandising their products. Franchisees used the boards to sell advertising space as a means for increasing store revenue. In at least one instance, the message advertised toilet paper! A puzzling disconnect with the brand's real objective: to sell more food. Such were the early pioneers.

The Investment is Too Steep

The cost of digital merchandising systems are several times that of conventional signage. For the independent, one-store operator, that extravagance might be manageable. But for the big chains, cost is a big problem. Until they can show a healthy ROI, the cost of digital

The Touted Benefits

In the last few years, with the introduction of thin-profile plasma and liquid crystal display screens, more and more restaurant chains have been experimenting with using digital signage and digital menuboards. The providers of these systems site the benefits:

- Change anything on the menuboard quickly
- Animate promotions to draw attention and entertain customers
- Network your menu boards (so listings can be managed and updated by corporate)
- Schedule day parts and menu cycles
- Get around cultural/language barriers (an image is worth 1000 words)

TECHNOLOGY	DESCRIPTION & COMMENTS
LCD (liquid crystal display)	Sharp image. Thin profile, easy to mount on wall. Longer life than PDP. Image burn-in not a problem. More reliable than PDP (5 year life span). Currently one of the best choices for DMS applications. Price of 40" screen: \$2500 to \$4000
PDP (plasma display panel)	Sharp image. Thin profile, easy to mount on wall. Big problem with image burn-in. Short life span (less than 3 years). A poor choice for in-store applications. This technology will likely phase out. Price of 40" screen: \$1400 to \$2000
Projection TV or DLP (digital light processor)	Sharp image. Either front or rear screen projection. Frameless design allows you to pair up multiple screens and create one giant seamless image. Great for creating large banner or billboard. Image burn-in not a problem with DLP. Price of DLP projector: \$1200 to \$4000
CRT (cathode ray tube)	Either direct view or projected image. CRT technology has been around for decades and is what most people have at home. Today's CRT color television screen is bright and quite clear — particularly the "high definition" versions (HDTV). Units are heavy and bulky for mounting on wall. There is high risk of image burn-in with CRT's. Not a good choice for in-store applications. Also may be perceived by customers as "old fashioned". Price of 40" screen: \$2600 (more common 36" screens cost less than \$500)

technology will continue to be a serious deterrent. The good news is that the costs are coming down fast, but it will be several years before the cost gets close to traditional menuboards. Today, a typical menuboard installation is around \$14,000 (Two 42" LCD's). A merchandiser runs around \$5,000 (One 37" LCD). In two years the cost will likely be half these amounts. Maybe less. Interestingly, it's consumers that are driving the costs down. Flat screen TV's are all the rage for home use. Consumer demand is a powerful motivator for lowering prices.

We Suggest Starting Small

At this point in time we question the value of replacing an entire menuboard and merchandising system with digital technology. For one the cost is one huge issue. One also needs to consider what happens if you have a computer glitch or a power failure, and the whole system goes dark? Then what? You'll wish you still had those old translights.

We recommend starting small with one or two strategically placed pieces. Consider pre-sell and/or messages to promote new offerings, specials or day parts. This keeps costs reasonable, while providing a dynamic way to present messages that change frequently.

As with any merchandising message, make

certain that you identify your business objectives and strategic selling proposition before coming up with the creative. Your digital solutions should be designed to achieve specific and business goals (e.g., drive check, improve thru-put). Without this strategic bit, you will have a hard time justifying the costs.

An Array of Technologies

Although a number of different technologies are used for Digital Merchandising Systems, flat-screen video has emerged as the most popular. Two technologies lead the pack: plasma display panels (PDP) and liquid crystal displays (LCD). LCD technology that is likely to take the lead in the next few years (until something better comes along). The table (above) compares some of the various options.

Key Elements of a DMS

Digital Merchandising Systems consist of several critical elements, as follows:

Software: this is the brains of the system. It's the software that allows you to manage content, create, edit, update and project the messages on the digital screens.

Server: This is the computer behind the system. Some digital menuboard manufacturers

utilize Macintosh systems, and some utilize PC Windows systems.

Displays: This is the bit of hardware that is seen by the consumer. Rather than a conventional printed or magnetic signage, the graphics (text and visuals) are projected on a display screen (usually some sort of video display).

Creative: This is the artwork and message that appear on the screens. With DMS the possibilities are extensive: animated displays, video, sound, etc. The creative is typically put together using readily available design software, such as Illustrator, Flash, QuickTime, Director, etc. The creative piece can be a very expensive (and ongoing) component of a DMS.

Some Conclusions

- There's no strong indication that the use of DMS influences customer purchasing behavior.
- The technology does seem to have value related to the ease and flexibility of changing product listings, prices, day parts, seasonal listings, etc.
- There is value in the ability to network DMS so that corporate can instantly monitor and manage messages and product listings.
- Some who have tested DMS have reported

a desirable “halo” effect (their post installation research indicated that customers perceived cleaner stores, friendlier service and better food; although none of these elements changed).

- There is indication that the “wow” factor can actually slow down thru-put, as customers pause to gawk at the graphics and wait for the messages to run their cycle. Too many bells and whistles can be dangerously distracting.
- At present, cost is the single largest prohibiting factor. With the absence of hard data on increased sales, it is difficult to justify the investment. Companies will want measurable sales increases before they take the plunge.
- Costs are dropping fast. This will eventually help justify the ROI, and lead to more and more restaurants trying DMS. A basic merchandising system costing \$5000 today will likely drop to less than \$2000 in 2-3 years.

A Look Into Our Crystal Ball

So are Digital Merchandising Systems a passing fad or a revolutionary way to sell and communicate? Time will tell. But we are willing to make a few bold predictions:

- Creative content will be driven by business objectives and customer-focused strategies. This shift from the “wow” school of design will ensure meaningful and measurable business results. Then ROI will become clear.
- In less than five years, the price of the technology will drop to the point that cost is no longer the key deterrent.
- The flexibility this technology offers (updates, change-outs, new pricing) is a significant attraction. This will prove to be a powerful draw for restaurant operators.
- As we see more DMS in retail stores and restaurants, the novelty factor will diminish. This, combined with persuasive creative content, will prevent consumers from gawking at the technology and slowing thru-put.
- The technology itself will improve, and systems will become easier to maintain, and more cost-effective to update and utilize.

DMS: THE PROS	DMS: THE CONS
Can play moving video and animation	Systems are capital intensive and premium priced versus traditional systems
“Quickly” make changes (pricing, day-parts, menu cycles, seasonal, demographic shifts)	Unproven from a sales generation and return on investment (ROI)
Network capability - control on line or locally	No quantitative data on key measurement criteria - awareness generation, increased viewing time, persuasiveness etc.
Selectively target messaging	Can be technically problematic (software and hardware quirks and bugs)
Bridges cultural barriers	More costly to operate than traditional boards (energy costs, maintenance, updates to creative content)
Trendy, leading edge technology can communicate “successful” and differentiate you from the competition	Too much “wow” can create customer distractions that sub-optimize thru-put
Enhanced brand image and perception (“halo effect”)	Creative content can be more expensive to develop than traditional creative content
Provides entertainment value that might reduce perceived wait time	When the system fails (e.g., power outage) you’ve lost your messaging system

Customer Perceptions at Red Lobster

A couple of Red Lobster stores are using DMS in an interesting way. When customers arrive a greeter takes their name, enters it into a computer, and invites them to have a seat while they wait for their table. In the wait area is a flat panel digital stanchion. The customers are told their name will appear on the sign as soon as their table is ready (“Mr. Jones your table is ready”). But of course that's not all that appears on the digital screen. Patient customers are treated to a stream of entertaining digital messages that promote specials, upcoming events, and meal and beverage suggestions. Of course customers remain riveted to the screen for fear of missing the announcement of their table's availability. Although there is no hard data as of yet, Red Lobster’s feedback suggests that their customers’ perceived wait time has been reduced.

King-Casey is a pioneer in retail consulting and design. For more than half a century, we have been building competitive brands for a broad array of retail companies by dramatically improving the customer experience at every point of contact. King-Casey provides a complete range of services including assessment, research, branding, visual merchandising, retail store design, and rollout. We develop innovative solutions that result in increased customer loyalty, higher sales and greater ROI.

King-Casey has been particularly successful in helping restaurant brands optimize their guest communications, menuboard and menu systems, having worked with many of the leading QSR, Fast Casual and Casual Dine concepts.

If you would like to discuss the development of meaningful business strategies for your digital merchandising applications, please call Howland Blackiston at King-Casey. Telephone (203) 571-1776. Or visit our website: www.king-casey.com