



Digital Retailing in a Physical Store Environment



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The World of Digital Media Content

The world of digital media content has now been around for more than a decade. Mp3 music files got the ball rolling. But digital book publishing wasn't far behind. In 1997 Ingram Book Group introduced the publishing world to the new company *Lightning Print, Inc.* (later changing the name).

In 1998 a website called Audible.com (now owned by Amazon) debuted capitalizing on the mp3 format by using it to sell audio books. Today the mp3 format is the fastest growing segment for sales of audio books.

In late 2007, Amazon introduced their digital reader for books called the Kindle™. As of this date, it has exceeded Amazon's sales projections and it presently takes 4-6 weeks for delivery of orders for the Kindle. The introduction of this digital reader is not a fluke nor is it ahead of its time.

The past eighteen months has seen the rise of movie download sites. While the first attempts were painfully slow and offered little content, this is rapidly changing. On March 17, 2008, Hulu.com debuted offering not only a vast selection of movies but also an extensive selection of TV shows both past and current. Hulu.com is owned by a consortium of television networks and movie studios.

At the dawn of digital media content, the Web was *the* reason eCommerce sprang up around it. Perhaps, more significantly, it was the advantages of the Web that allowed it to develop. The advantages include:

- Immediate availability to hundreds of millions of potential shoppers.
- Unlimited virtual shelf space for display of titles.
- Relatively no inventory cost.
- Better knowledge-based search (than salespeople) enabling the shopper to find what he/she was interested in.

A decade ago no physical retailer could compete with the advantages afforded by the Web. To be competitive the physical retailer had to focus on web weaknesses. The major obstacles were:

- Website reliance of dialup connectivity due to lack of available and affordable broadband. The result was websites lacking 'intuitive discovery' meaning a user had to be very precise of defining what he/she wanted to search for.
- Impersonal with no caring salesperson-to-shopper interaction.
- Not appealing to consumers than liked the social aspect of physical shopping.

The web is the logical place for selling digital content. Chris Anderson in his timely book *The Long Tail* points out that a digital retailer can continually increase its "inventory" at very little cost and always be in-stock. This plays beautifully to consumers that in ever-increasing numbers are drawn to retailers that offer a wide selection. He empirically illustrates that the titles in the long tail account for greater sales than the top 20% of the best sellers. But, no physical retailer, no matter how many book, music or movie titles are stocked, can offer the "long tail" of what is available. The physical retailer simply cannot compete on selection with the digital eCommerce retailer.

That is, until now.

The Second Technology Wave

The majority of today's consumers have become accustomed to using technology in their daily lives. The devices are numerous. While the majority of the population does not own an iPod or mp3 player, they are familiar with them.

The first retail technology wave profoundly changed retail operations through point-of-sale systems (POS) and supply chain management. The next technology wave is going to profoundly change how consumers shop in stores.

While the use of self-service kiosks first got their start in the banking industry with ATMs, it has been the airline and supermarket channels that have moved retail transaction kiosks into the forefront. The dam really broke in 2007 with kiosks moving mainstream into more than two dozen major channels to facilitate everything from entering prescriptions to checking into hotels, creating photos, and at JC Penney placing orders for items not in stock.

According to the *Self-Service & Kiosk Association* the use of kiosks to guide shoppers in retail stores is set to explode. The primary uses are:

- Discover products stocked or available to the shopper.
- For products not in stock complete transaction facilitation including the choice of picking item up in the store or having it shipped direct to the shopper's home.

Retailers of media products, namely books, music, and video, are facing the strongest competition from eCommerce. According to data released in early 2007 by *Internet Retailer* eCommerce accounted for 12% of all retail sales of media products. This is *twice* the percentage of all retail products sold through eCommerce. All physical retailers are feeling the effects of this including Barbers & Noble and The Borders Group.

This is a key reason why The Borders Group embarked upon researching a new prototype design eighteen months ago. One of their major objectives is to establish themselves on the forefront of digital delivery to their customers. Word of their new concept was released in spring of 2007 first through a *Wall Street Journal* story and later in reports from trade publications. The new prototype opened on February 22, 2008 in Ann Arbor, MI. In response to customer interest, in less than two months, Borders expanded from 4 burn stations to 7 stations.

"I do not see the value of tying up thousands of resource dollars placed on a shelf and then playing the stupid return game.

"If your backlist product is not currently burnable... the media distributor will continue losing revenue dollars..."

Rick Poorman, Owner
Footsteps Concord, NC

The store is a remarkable effort to connect with physical shoppers in a digital world. A central core presentation area forms their digital media center. Custom photo books can be created. Songs can be selected and burned to a CD. Plans include selling eBooks in various formats. Photos can be viewed at: www.bgimediacenter.com/CSMRphotos.html.

The Bigger Picture Helps Level the Playing Field

Physical store retailers are at a distinct disadvantage against eCommerce retailers. The physical world simply cannot compete with the digital world in selection of products, ways to discover this vast selection of products in micro-categories, and convenience of purchasing.

Digital burning and delivery systems can significantly help to level the playing field and enable the retailer to better compete with eCommerce. The eCommerce advantage of *The Long Tail* is significantly neutralized. One of Chris Anderson's conclusions is that vast inventory is only part of the equation. The real key is *discovery*...helping the consumer find exactly what is desired.

The average CBA channel retailer familiar with in-store burning systems thinks of only burning music. But this is shortsighted. The savvy retailer is only *beginning* to grasp the bigger picture and realizes music is but one slice of the pie. Any product that can be put into a digital format can now be created on-demand within the physical retail store.

Integra created the first digital sampling system for the CBA channel in 1996. By 2001 we had observed the drop in hardware prices and the rise in hard drive storage capacity. Our experience and market research indicated that this trend would continue resulting in making a burning system affordable *if approached properly*.

We began sketching out a burning system that could handle any type of digital content. Integra's long-standing experience had taught us that "being ahead of the curve" meant needing to develop a

strategy that vendors and retailers could relate to. Not long thereafter, our strategy broadened to developing not merely a 'burning' system but a 'digital delivery' system. The distinction is critical which will be explained later.

The one category that had universal support was accompaniment tracks. It was readily recognized that the diversity of what shoppers wanted could not be adequately served no matter how many accompaniment track titles are stocked. It took five years of persistence to bring the strategy to fruition. When *myMEDIA BurnBar™* (MMBB) launched in June 2007, it launched with the support of *all* accompaniment track companies. But, this was just the beginning.

Digital Sales Results

The results from a survey of the 270+ MMBB retailers taken in March 2008 give interesting insight into the results of accompaniment track burning. It has been nothing short of spectacular! The highlights are:

- The Top 25 MMBB Retailers have seen a 83% increase in accompaniment track sales over a minimum three month period compared with the previous year period. These stores are burning a minimum 100 CDs per month have.
- Retailers with pre-MMBB accompaniment track physical sales of less than 50 CDs per month have seen a minimum 87.2% increase in sales with MMBB.
- In response to the question "On a scale of 1 -10 how significant do you anticipate MMBB being for the future health of your store?" (10 being highly significant) the average rating is 8.5. Just over 30% of responders rated it a 10.

"To ignore our generation's eagerness for instant gratification would be nothing short of ludicrous and to deny that Christian retail customers' have the same buying urges as the secular marketplace would demonstrate complete naiveté. Bottom line: customers want "it" now, and any item you can tag and make "it" just doubled or tripled its chances of rolling out your retail door, leaving cash behind in the register.

"Every person on my entire staff, from the teenage part-timer through a 75 year-old retired pastor, and every staff member in between, knows what products can be burned, and how to find them. The only drawback is the companies that yet hesitate to get onboard, and provide digital content. And wherever possible, if a digital product co-exists with a regular hard-copy, we will push digital delivery (if hardcopy is not in-stock) for instant gratification and sale. Digital is easy."

Andrew L. Criswell, Jr. CEO Pee Dee Christian Book & Supply, Inc. Florence, SC • #1 Digital Burning Store in America

The following data reflects results in March 2008:

- The median number of accompaniment tracks burned per store that had operational at least 90 days was 51.
- The highest number of accompaniment track titles burned for a single store was 677.
- The 10th ranked store burned 157 accompaniment tracks.
- The 25th ranked store burned 120 accompaniment tracks.
- The 50th ranked store burned 78 accompaniment tracks.

Results for vendors have been equally interesting. In February 2008, N'Vision Entertainment began to release to MMBB the E-Z Key line of accompaniment tracks that had been out of release for several years. N'Vision had purchased the masters from the now defunct Landmark Entertainment Company. An initial 129 titles were available to burn for just under three weeks in February. Without any publicity, a total of 120 E-Z Key tracks burned in February and increased to 202 in March. Shoppers simply "discovered" them among the over 7,000 titles available at that time.

From the outset of MMBB Christian World began to add titles in digital format only. These had long been out-of-release. In February 2008, there were 1,588 Christian World digital-only titles and another

1,046 titles that were available both physically and digitally. Twenty-eight percent of all Christian World burns were from digital-only titles.

Custom song mix CDs where customers create their own selection of songs from different artists are outselling full album artist CDs by at least a 3-to-1 ration.

Burning System vs. Digital Delivery System

To the casual observer there doesn't seem to be much of a difference between the descriptions 'burning system' and 'digital delivery system' but there is. Until very recently, nearly all the focus has been on burning music CDs through a kiosk application. But simply facilitating the burning of music to CD severely limits the technology and belies a lack of understanding of current trends.

A burning kiosk limits the content to serving only shoppers wanting music in CD play format. This is wonderful for shoppers not owning an iPod or mp3 player. But, if the kiosk can only burn full artist CD albums it is significantly missing the *sweet spot* of consumer interest.

Evidence is abundant that consumers that do not own an iPod or mp3 player would like to purchase songs individually. More significantly, they are very interested in creating custom mixes of songs to give as presents. If the kiosk installed in a retail store cannot do this, sales will be significantly less.

But what about consumers owning an iPod or mp3 player? Can they be drawn into a retail store to purchase songs digitally? The answer is yes if the kiosk can deliver songs in mp3 format loaded either directly to the mp3 player or onto a customer-supplied USB storage device. There is no method for loading songs directly to an iPod or Zune® because these are "closed" systems requiring the use of their respective software applications on a user's computer.

Most songs purchased at iTunes are recorded at 128k bitrate. While this sounds okay on inexpensive earbuds, it is far inferior to CD quality. The *myMEDIA* BurnBar kiosk records songs at 192k bitrate which is the highest quality available on all major mainstream burn kiosks. A retailer can market their burn kiosk to owners of iPods to get higher quality songs.

There are still many Americans lacking high speed Internet connections some which own iPods or other mp3 players. It is a painful experience to try to download a song using a dialup connection. A burn kiosk can also be marketed to this consumer as a way to quickly get songs.

Indie artists are not easily discovered within the major download stores such as iTunes or Amazon Music. A kiosk application that has a long-tail of indie artists coupled with really great discovery features can attract owners of an iPod and mp3 player. This is a competitive advantage that must be exploited.

The *myMEDIA* BurnBar software application has been developed to handle *any* current type of digital content. It is a digital delivery kiosk not merely a burning kiosk. It handles the obvious in various formats:

- Music
- Audio books
- Video games
- Software titles
- Movie, music video and educational DVDs

"We believe that Christian Retail has to lead the way into the future if stores are going to survive. myMEDIA BurnBar is exactly the type of innovation that shows our customers that we are leading the way. They are coming to see us as the place that has new and innovative ideas rather than a stale old place that their grandmother shops."

"This is technology a (retailer) cannot afford not to add. Customers are already there."

Bryan Brock, Christopher Matthew's Christian Store, Bel Air MD • Selected by *Christian Retailing* as one of the CBA channel's 40 innovative leaders under 40 years of age

It will also handle the not so obvious:

- eBooks
- PDF versions of printed content
- Pastor's sermons
- Podcasts
- Ringtones

Kiosk Equipment

Integra Interactive offers multiple equipment solutions to meet a variety of burn volumes and pricing levels. *It cannot be underestimated that more than 75% of all retailers cannot afford a kiosk system that is priced over \$2500.* This insight is gained from Integra associates that have personally visited over 250 retailers in their stores from August 2006 to April 2008.

While an Auto CD/DVD Publisher (combines printing and burning in one machine) has an appeal, it is both too expensive for most stores and too restrictive for high volume stores. Nonetheless, Integra offers a solution for retailers that want this option. The notion that such a machine is totally automated is false for two reasons:

1. Printing the jewel case artwork must still be done on a separate printer and the artwork sheet must be inserted into the plastic jewel case. This is done while the CD or DVD is burning. The amount of time it takes to print, tear the perforated paper, and insert into a jewel case is 60-75 seconds.
2. Burning visual tracks, movies, music videos, educational videos, and some software titles, requires the operator to remember to take the CDs out of the machine to insert a DVD. The operator must then place CDs back in the machine. Those that say burning DVDs will be rare simply underestimate the consumer interest or are purposefully promoting an agenda designed to downplay the competition's lack of burnable DVD content.

Entry Volume:

- Price: \$1934
- Equipment: 2-burner computer w/front-loading USB device port, LCD monitor, scanner, receipt printer, HP inkjet printer. A third burner can be added for \$40
- Description: Commercial grade DVD/CD burn drives. HP printer handles both full color graphics printed direct to the surface of the CD and full color artwork jewel case/DVD case packaging.
- Monthly Capacity: Designed for handling up to 150 discs burned per month
- Production Time: 3 ½ minutes per CD, 4-6 minutes per DVD (depends on length of content). Two CDs/DVDs can be burned at once.

Mid Volume:

- No change in equipment for store purchasing the Entry Level package.
- A label is printed for affixing to the CD or DVD using the Stomper® device. This is an 'idiot-proof' method of labeling a disc. Integra approved disc labels have been tested in dozens of players.
- Monthly Capacity: Designed for handling up to 300 discs burned per month.
- Production Time: 2 ½ minutes per CD, 4-6 minutes per DVD. Using all three burners at a time reduces the effective time to less than 2 minutes per disc (DVDs longer).

High Volume:

- Price: \$2734
- Equipment: 3-burner computer w/front-loading USB device port, LCD monitor, scanner, receipt printer, Lexmark color laser printer.
- Description: Commercial grade DVD/CD burn drives. Lexmark printer has separate storage trays for disc labels and artwork jewel case/DVD case packaging. It prints two sides of the paper at the same time.

- Monthly Capacity: Designed for handling over 300 discs burned per month.
- Production Time: 2 ½ minutes per CD, 4-6 minutes per DVD. Using all three burners at a time reduces the effective time to 1 ½ minutes per disc (DVDs longer).

DVD/CD Auto Publisher:

- Price: \$3544
- Equipment: Computer, LCD monitor, scanner, receipt printer, Microboards Auto Publisher, HP inkjet printer
- Description: Auto publisher prints to the surface of the disc and burns content in a single operation. HP printer prints jewel case/DVD case artwork packaging.
- Monthly Capacity: It can handle high volume but because only one disc can be burned at a time it is impractical for burning multiple discs in a row within a short period of time.
- Production Time: 3 minutes per CD, 4-6 minutes per DVD.

Options:

- Existing System Printer Upgrade: \$700-\$800 to add the Lexmark
- Existing System Burner Upgrade: 2nd 3-burner computer \$788 (full 6-burning capacity)
- Direct –To-mp3 Player Interface: \$100. This is expected to be available by early 2009 and will handle plugs for the most common types of players.

“Why did we select Integra Interactive’s myMEDIA BurnBar? Common Sense. Trust and Expertise. Period. I like all of the guys in both companies. But as many entrepreneurs have discovered in our technologically oriented society, big and fancy equipment of today often lands on the ash-heap of rapidly moving obsolescence tomorrow. Keeping costs low in exchange for a little bit of human intervention makes a great deal more sense to a marketplace that is cash-strapped to begin with.

“Modular design and low-initial investment will always win when competing with a few less seconds of production. And I can say that with authority as America’s #1 Digital Delivery Christian Retailer. If those reasons aren’t enough for you, toss in the transparency and trust elements that you find in Integra Interactive, coupled with the technical prowess of a dedicated and competent staff, and you have a winning combination.”

Andrew L. Criswell, Jr. CEO Pee Dee Christian Book & Supply, Inc. Florence, SC
677 CDs burned in March 2008

Categories of Content

Integra is carefully following a strategy of content introduction designed to maximize sales potential for the retailer at a reasonable investment cost for equipment.

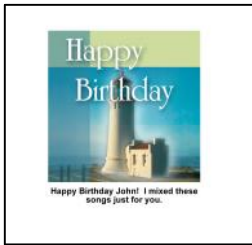
Music:

This is the obvious content category for burning. But simply burning a full album CD isn’t nearly enough. Today’s consumer wants personalization. The hotbed of interest is in selecting individual songs to create a custom mix that is either burned to a CD or downloaded direct to a portable USB storage device. Of the two burning systems in the CBA channel, only MMBB offers this capability.

MMBB is going several steps further in personalization. Front cover art can be selected from over two dozen images. These include seasonal and special occasions such as birthdays, weddings, anniversaries, and Valentine’s Day. It also includes putting a personalized message of up to 200 characters on the front cover.

MMBB is planning a variety of marketing methods to encourage custom song mix CDs to encourage gift-giving. These include ‘pre-packaged’ suggested CDs on themes and popular artist recommended song mixes.





Exploiting the *long tail* of music is all about discovery. The new shopper interface is a very cool experience and is packed with ways to intuitively discover songs to purchase based on what you like.

- Top 20 Radio Airplay Songs in four radio formats
- Find songs by knowing just a few words from the chorus
- Really good recommendations for *If you like this artist, try this artist*
- Rate The CD on a 1-5 star rating engages the user

A key discovery method coming this fall will recommend songs similar to the song the shopper is sampling. This technology is the result of a partnership with MUSICip®, a worldwide leader in relational song analysis software.

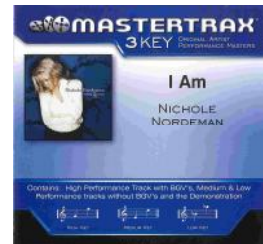
Delivery Formats:

- Standard CD Play burned to CD disc
- mp3 (192K bitrate) downloaded to customer supplied USB device

Accompaniment Tracks:

The discovery experience for accompaniment tracks shines high on MMBB. Exclusive discovery points include:

- On the artist CD play screen: Each song that has an AC track is noted by an icon that when touched takes the shopper immediately to the AC track selection.
- On the search screen all AC track titles are organized to show the “series” name on the title line.
- Original versions are always listed first in the alphabetical listing.
- MMBB has the widest selection of categories (24) for narrowing the selection.
- Lyrics are printed on the inside front cover and are in a PDF file on the disc.



Delivery Format:

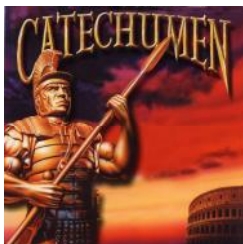
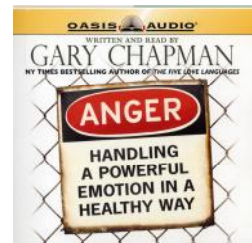
- Standard CD Play burned to CD disc. Reproduces exactly as physical CD with all keys.

Audio Books

The hotbed of growth in audio book titles is the mp3 format. Yet, less than 10% of all audio book titles released in the CBA channel are available in a physically packaged mp3 format. Discovery takes the front seat as MMBB categorizes titles by over 50 subjects. Search can also be done by author and title. A 90 second sample can be heard.

Delivery Formats:

- Standard CD Play burned to CD disc if contained on 1-2 discs
- mp3 burned to CD
- mp3 downloaded to customer supplied USB device



Video Games

Trailers for many of the video games may be viewed. Searching can be done by title and subject. Screen information shows rating and system requirements. Instruction manual is in a PDF file on the disc.

Software Titles

A variety of titles including Bible Study, Clip Art, Church Management, and Lesson Preparation are available. Includes vendors providing packages for PC, Mobile phone, and PDAs.

In the future, QuickBooks plans to release a selection of add-on titles that have never been available to the retail market but only sold on their website.



Audio Bibles

Most audio Bibles are multi-CD packages and these are not practical to burn in standard CD play format. Selected audio Bibles can be purchased as individual books of the Bible similar to selecting songs.

Delivery Formats:

- mp3 burned to CD if entire Bible can be contained on 1-2 discs
- Books of the Bible selected ala carte burned to disc
- Books of the Bible selected ala carte downloaded to customer supplied USB device

eBooks

The eBook format has struggled to catch on but this is changing with the introduction last year of the Sony Reader® and Amazon Kindle™. Two publishers have agreed to participate with MMBB with others expected to join upon adding this category this fall. Titles will be available for both devices.

The New Digital Media Department

While a retailer may start by installing just one shopper touchpoint station now the near future (12-18 months) is much bigger. A new department will emerge within the store consisting of several components:

- Multiple shopper touchpoint stations
- Comfy chairs or sofas
- Large screens (plasma/LCD)
- Free Wi-Fi – Free Coffee

The entire intent is to create an energetic, fun environment that is also a place to relax while perhaps waiting to use one of the stations. The shopper touchpoint stations might be on a bar along a wall or on a curved bar in the center of the store. The large screens (32"-40") will be used to promote the Digital Media Dept. and to create visual excitement.

Do not underestimate a well presented department. Christian retailing is so often “reactive” to general market retailing trends. Often the tailing behind means lost opportunities. With digital delivery systems, Christian retailers have the unique opportunity to be proactive and to be among the first in their community to offer this service. Integra has seen no less than two stores featured in photo articles in their local newspapers because the technology is leading-edge. Christian retailers need to take full advantage of this now.

With less than ten companies worldwide having created retail store based burning kiosks *myMEDIA* BurnBar has emerged as the second largest deployed system behind market leader *mix&burn*™. Only one of the kiosk solutions offers music and movies. *myMEDIA* BurnBar is the only platform offering multiple content categories.

“Our store is in a 15,000 square foot free-standing facility, with 12,000 square feet of dedicated sales floor. We carved out 400 square feet of our consumer music department, dropped \$33,000 of inventory, and made a capital expenditure of about \$20,000 in order to dedicate six myMEDIA ConneXion stations situated in contemporary self-service counters. Additionally, two sofas and two widescreen TVs keep shoppers who are waiting their turn occupied.

“We initially installed a two-burner myMEDIA BurnBar system which is being expanded to five burners manned by two music service personnel during peak hours. Additional myMEDIA ConneXion stations in the music warehouse and on the retail book floor serve phone calls and non-music customers, respectively.

“Now nine months into our digital media campaign, sales have stabilized and begun to rise, a trend not seen in our consumer music department in four years. The coming recession will be a good test of peoples' buying habits, but I feel we are better positioned to weather the coming storm now than before myMEDIA BurnBar was around.”

Andrew L. Criswell, Jr. CEO Pee Dee Christian Book & Supply, Inc. Florence, SC

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