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The Store as Media: Digital Signage in 2005

By Bill Collins and Laura Davis Taylor

The scale and sophistication of what retailers commonly call "digital signage" networks grew noticeably in North America in 2005, both at retail and in other out-of-home venues such as airports, hospitals and schools.

And vendors within the digital signage industry project continued solid growth of in 2006 -- unless the general economy takes an unexpected nosedive this year.

Among the major developments in 2005 that will affect the evolution of digital signage at retail for years to come:

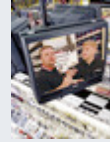
- PRN Corp., the producer of in-store TV networks at Wal-Mart, Sam's Club, Costco, Best Buy and Circuit City, was acquired last summer for \$285 million by Thomson, the French electronics/media company. Thomson also owns Screenvision, the world's largest cinema advertising company, which is currently transforming itself from a producer/seller of movie-house slide advertising to a satellite-delivered network bringing full sound-and-motion advertising into thousands of multiplex cinemas around the world.

In effect, the acquisition makes Thomson something of a major TV network operator like NBC Universal, CBS/Viacom or Walt Disney/ABC, the one exception being that Thomson's networks are not "broadcast" but "narrowcast" into retail stores, movie theaters and, in the coming years, many other out-of-home venues.

- 3M, the world's largest producer of technologies and materials for large-format digital print imagery, jumped into the digital signage, or "narrowcasting," industry in summer 2005 by acquiring Mercury Online Solutions, Bainbridge Island, Washington. Mercury produces software for narrowcasting and maintains an operations center for customers' digital signage networks. With the acquisition, 3M is positioning itself to support retailers with both print/signage technologies and narrowcast capabilities.
- Kroger, the second-largest U.S. supermarket chain after Wal-Mart, announced that it would roll out a multi-channel in-store network to all 2,500 stores by the first quarter of 2007. The operators of this new "Kroger Perfect Media" network will be In-Store Broadcasting Network, a Salt Lake City-based media company that today operates in-store radio networks at Kroger and such other major U.S. retailers as Walgreens, Safeway, Rite Aid and Duane Reade.

Kroger Perfect Media will be the first effort anywhere in U.S. retail to integrate a new screen media channel with an

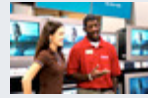
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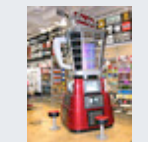
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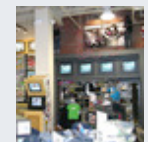
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retail to integrate a new screen media channel with an existing radio network.

Three Models for In-Store Screens Networks

As these and other digital-signage networks roll out and are enhanced with new technologies such as hi-definition signals and wide-screen monitors, they will tend to follow three types of models. Although many of the networks being deployed are actually hybrids, it is helpful to classify them according to these three in order to understand them better:

1. The Media/Advertising Model: In the U.S., the best example of the Media/Advertising Model for narrowcasting at retail is Wal-Mart TV. In this model, a media company such as PRN produces and deploys the network with the primary goal of selling advertising to third parties. In most cases, these third-party advertisers are the consumer product brands (like Kraft Foods and Colgate-Palmolive at Wal-Mart) whose products are sold in that store. Over time, however, you can expect to see product advertising from brands that you cannot buy in the store, such as Toyota automobiles or travel packages from United Airlines.

2. The Movie-and-Music Sampling Model: When the product for sale in the store is media such as music on CD, movies on DVD or video games, the narrowcast networks actually deliver the product themselves on screen as a free sample to shoppers. These networks, seen at such retailers as Best Buy, Musicland chains Suncoast Video and Sam Goody's, and Target, are the entertainment equivalent of the supermarket sales associate who slices baked ham on Saturday afternoons and offers free samples to hungry shoppers.

3. The Indirect Revenue Model: In the U.S., the best example of the Indirect Revenue Model is the narrowcast network at Advance Auto Parts stores. Retailers adopting this model are looking first and foremost to enhance the store environment and improve the shopper experience -- not create additional revenue streams. They typically sell products (like auto parts) that do not require content "sampling" and often do not generate sufficient hourly foot traffic to entice big advertisers.

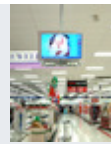
However, networks employing the Indirect Revenue Model can "move the needle" on sales in the following ways:

- The network enhances the environment, making the shopper feel more comfortable, stimulating her senses and enticing her to visit unfamiliar areas of the store and make impulse purchases.
- Content educates store associates about new products and services so that they can sell the products more effectively to shoppers. At Advance Auto Parts, the network helps educate 41,000 employees at 2,800 locations in 40 states.

From a media perspective, it's important for retailers to remember that satellite radio, digital video recorders (such as TiVo) and blockers for online advertising are increasingly eroding the value of garden-variety media advertising. This trend is likely to accelerate as young people who are accustomed to media interactivity -- and to tuning out marketing messages -- enter middle age.

In the not-too-distant future, traditional one-way electronic media that is laced with advertising (broadcast and cable TV, along with commercial radio) will decline in significance, leaving the bricks-and-mortar retail store as the only place (or medium) that is guaranteed to reach consumers.

As retail stores are increasingly recognized as a medium, the value



Zellers In-Store TV Network

of digital signage networks and other in-store media (signage, floor decals, shelf talkers, product packaging, sampling, events, etc.) will ramp up in value within the marketing community. This will allow in-store screen networks to be regularly included in the media-planning process for both retailers and manufacturers.

However, this will not happen automatically. Perhaps the biggest barrier to the inclusion of in-store screen networks in integrated media plans is a lack of understanding on the part of advertising agencies about store operations and shopper behavior. Over time (probably sooner rather than later), advertising agencies will be forced to focus more of their time, money and attention on retail as a medium and devote fewer resources to TV, commercial radio, newspapers and magazines.

When this happens, it will be critical for ad agencies to engage with P-O-P and retail experts, because the skills and content expertise required to create successful in-store campaigns are very different than those of traditional and interactive advertising.

We also believe that, over the long haul, most retailers will fully embrace the Indirect Revenue Model for digital signage cited above while they simultaneously enjoy new direct-revenue streams through the sale of third-party advertising. Although the Media/Advertising Model was the first one out of the box (when Wal-Mart TV launched in 1999), we believe that advertising-intensive networks will morph in such a way that they deliver the benefits of the Indirect Revenue Model (educating staff, increasing sales and enhancing the shopping experience) while also generating advertising revenue.

Now, let's take a look at the status of in-store media networks in North America by retail categories and sectors.

BIG BOX, DEPARTMENT STORES: Wal-Mart, Target lead the way

Activity picked up significantly in 2005 among big-box discounters, whose networks typically operate on the Media/Advertising Model. What we did not see in 2005, and may still not witness for a few more years, is big box retailers fully embracing the more complex and powerful Indirect Revenue model. However, Target Stores quietly rolled out a network last year that comes closest to embracing the principles of the Indirect Revenue model.

Highlights from 2005 include:

Nationwide rollout of Channel Red: Target Corp. quietly undertook one of the most impressive technical and content deployments in the digital signage world by introducing Channel Red into the electronics department of its 1,400-plus U.S. stores.

Target converted its former one-channel MTV-style Target Video Network (which ran on the TV wall) to Channel Red by converting "from analog signals to a digital media network that will provide controllable and metered high-definition content," merchandising manager Steve Eastman said in a January 2005 interview with TWICE (This Week in Consumer Electronics), an online consumer-electronics newsletter.

By the 2005 holiday season, the Channel Red network had rolled out nationwide with at least three channels serving the electronics/entertainment department. (Target declined comment on the initiative for this article.)

One of the channels serves the music/movies section using the

Movie-and-Music Sampling Model cited above. A second channel runs in the video game area, mostly to entice young people to buy the newest titles in a slight variation of the Movie-and-Music Sampling Model. The third channel runs on the bank of televisions offered for sale and offers content (some of which appears to be high-definition) that is a combination of Target's own TV advertising, ads from electronics brands, and image advertising that highlights Target's involvement in the community.

Collectively, this content tilts more toward the Indirect Revenue Model than most of the digital signage networks currently deployed in big-box retail.

It appears that, unlike Wal-Mart TV and other major narrowcast initiatives, Target owns the network and controls content much more directly. (Within the digital signage industry, it is common knowledge that software vendor Reflect Systems, Dallas, is helping Target with deployment.) In 2006, it will be interesting to see if and how Target expands Channel Red, how much direct control it maintains over the network, and how much more it evolves toward the Indirect Revenue Model.

The new Wal-Mart TV: Now that PRN has been acquired by Thomson, it has the capital and backing necessary to upgrade Wal-Mart TV. The new configuration at Wal-Mart encompasses thousands of plasma screens, which replaced conventional CRT TVs at 600 stores during 2005. PRN says it will roll out the network's modernized version to another 1,400 stores in 2006.

In the new configuration, Wal-Mart TV has six channels that serve different zones of the store, including pharmacy, electronics, video game, music, and grocery in Wal-Mart Supercenters. In addition, PRN rolled out a channel for checkout lanes in eight major media markets.

Costco: PRN operates a one-channel, high-definition network that airs on banks of plasmas, LCDs and other cutting-edge screen technology near the entrance to most (if not all) U.S. warehouse stores. The network is designed to demonstrate the high-definition capabilities of the screens.

Sam's Club: PRN has operated a network at all Sam's Club locations for several years.

Kmart/Sears: Kmart and Sears have not initiated a large-scale retail digital signage effort since their merger, although Kmart began what the company said was a one-store test of a 12-screen network last fall. Sears continues to host PRN's Home Electronics Network, which runs on banks of TVs in the electronics department to demonstrate the differences between high-definition and conventional video signals.

In Canada, Sears conducted a one-store test of seven displays with digital screens during 2005, but had removed them by the end of the year. However, some digital signage is still in use at select Sears Travel locations in Canada.

Macy's/Federated: After a three-year pilot at Macy's that combined the Media Model and the Indirect Revenue Model, Macy's decided to end all digital-signage testing and is currently removing screens. The company cites a failure to prove tangible ROI as the reason.

The Bay: The Hudson's Bay Co., North America's oldest continuously operating retail organization, is currently piloting an in-store screen network at a small number of The Bay department stores. The company is reportedly utilizing a small number of

screens to feature store and brand-product advertising. Early last year, Hudson's Bay-owned discount chain Zellers partnered with a Vancouver-based media company to roll out a multi-channel Media Model network, but decided not to move forward with the pilot.

SUPERMARKETS: A breakout year

With network rollouts undertaken at Albertsons, Price Chopper and Pathmark, and with the modernization of the grocery network in Wal-Mart Supercenters getting underway, 2005 was a breakthrough year for in-store screen networks in U.S. supermarkets. These networks are all based on the Media/Advertising Model. And it may still be a few more years before supermarket chains incorporate the more complex Indirect Revenue Model into their networks.

Highlights of the year include:

Wal-Mart Supercenters: PRN continued operating the existing network at all Wal-Mart Supercenters, where a full range of groceries are sold. Wal-Mart is the largest grocer in the U.S.

Albertsons: Operator of about 1,800 Shaw's, Jewel-Osco, Acme, Star Market and Albertsons supermarkets, Albertsons partnered with media company SignStorey in early 2005 to begin rolling out a network employing the Media/Advertising Model. The network places screens in two specific departments: floral/produce and bakery/deli. SignStorey estimates that most supermarket shoppers spend about eight minutes in those two departments. The network was installed in 948 locations in 2005, leaving about 600 installations for 2006.

Price Chopper and Pathmark: SignStorey also deployed networks using the same model at 134 Pathmark supermarkets and all 104 Price Chopper supermarkets in the Northeastern U.S. The only locations at either chain still awaiting installation are a handful of stores currently being remodeled.

PRN's Your Channel Network: This network of screens in supermarket checkout lanes is rolling out to about 1,000 locations in major U.S. cities. Labeled "Your Channel," the network is being installed in ShopRite, Pathmark and Albertsons stores located in major cities such as New York, Chicago, Los Angeles, Philadelphia, San Francisco/Oakland, Seattle, Las Vegas, San Diego and Sacramento. This network is a good example of a pure-play Media/Advertising Model. Many of the advertisers, which include TV networks promoting shows airing that night, do not sell products or services that can be purchased or consumed in-store.

Kroger Perfect Media: Kroger and In-Store Broadcasting started down the implementation road in late 2005 by testing a multi-channel network at two stores in the Kentucky suburbs of Cincinnati. In January, In-Store Broadcasting planned to begin a more substantial test at about 25 stores in the Houston area, where the company plans to survey hundreds of Kroger shoppers about the network to evaluate its effectiveness prior to further rollouts later in 2006. Again, the big potential value of this network is the integration of in-store radio with in-store TV. This is a skill that supermarket retailers will probably force all in-store media suppliers to master in the coming years.

ShopRite: In addition to the PRN checkout network at many of its 197 stores, ShopRite has another Media/Advertising Model channel in delicatessen departments operated by Vernon, NJ-based Captive Audience. The network primarily targets local advertisers such as real estate agents, lawyers, and limousine services.

Safeway: Safeway has been testing various in-store screen networks using the Media/Advertising Model for the last several years, but has not yet committed to a large-scale rollout.

Supermarkets in Canada: Canadian supermarkets have not yet embraced Media Model networks like their U.S. counterparts have. However, one large chain has been running a very quiet digital-signage pilot and, after testing throughout much of 2005, has reportedly purchased hardware sufficient for a 100-location rollout in 2006. In the pilot, screens were placed in just one department, but the expected announcement in 2006 should encompass widespread screen deployment.

PHARMACIES: Big chains balk, but independents sign up

For years, the conventional wisdom in the digital signage business has been that pharmacies and pharmaceuticals should be a sweet spot for the new medium, especially based on the Media/Advertising Model. Outside of retail, private narrowcast networks in the lobbies of physicians' offices and in hospital rooms are successfully grabbing a small but growing share of pharmaceutical companies' huge advertising budgets.

At retail, the new wide-screen version of Wal-Mart TV includes a channel specifically designed for the pharmacy department at hundreds of stores. Also, a few hundred independent pharmacies and small chains have set up networked screens in stores with the help of media companies like Pharmasee TV from Kyle Private Networks and The Pharmacy Channel. The big puzzle is why none of the top national pharmacy chains -- Walgreens, CVS, Eckerd, Rite Aid, Duane Reade -- has yet embraced either the Media Model or the concept of digital signage in general.

Pharmasee TV: This Media/Advertising Model network, operated by Kyle Private Networks, Miami, operates in about 600 independent pharmacies and small chains such as Buehler's, The Medicine Shoppe and Medicap Pharmacy.

The Pharmacy Channel: This U.K. company reports networks at more than 2,000 independent pharmacies in its home country. Since it set up a U.S. shop in New York City about one year ago, The Pharmacy Channel has established a network of 100 or more independents in the New York/New Jersey/Connecticut area, and promises many more for 2006. The Pharmacy Channel's CEO claims that many consumer product companies prefer to advertise through independent pharmacies because there is none of the competition from private-label products they encounter at the large pharmacy chains. The network itself is supplied by Digital View Inc.

Chain rollouts: None of the major chains in North America has moved on a national deployment, although Walgreens reportedly is testing digital signage in a few Florida locations that have liquor stores. In Canada, however, the Katz Group, operator of 1,800 pharmacies in Canada and the U.S., reportedly has committed to a 50-store rollout at some Pharma Plus locations in the first quarter and a ramp-up to 100 stores by the year's end. Based largely on the Media/Advertising Model, the Pharma Plus network is being developed by Impulse Media. Also in 2006, you may see some digital signage activity based on the Media/Advertising Model at the Duane Reade chain in New York City.

CONVENIENCE STORES: Inside and Out

Although there have been many failed attempts to develop narrowcast networks both inside convenience stores and outside at petroleum forecourts, we are now seeing a resurgence of digital-

signage activity. The bottom line in this channel is that networks have tremendous potential to generate third-party advertising based on the Media/Advertising Model. Right now, there are two key questions:

1. Which c-store chain will be first to create a significant, successful rollout?
2. Will the leading petroleum brands (BP, Citgo, Exxon/Mobil, Shell) develop their own forecourt networks or contract with narrowcast media companies to develop and operate them at locations where their fuel brands are sold?

Below is a summary of the current state of digital media installations:

VST International: VST now serves 200 forecourts with 1,300 pump-top screens in North America. In Canada, VST continues to build a presence at 100-plus forecourts at Esso-branded store locations (run by Exxon/Mobil) in the Toronto area and a small number of recent installations at Canadian Tire stores. In the U.S., after a forecourt pilot at 16 locations in California proved successful in 2005, Shell officially endorsed VST and began recommending the company's digital media solution to its c-store and petrol station operators. During 2006, VST plans to expand to 620 more sites in Canada and more than 1,400 sites in the U.S.

EZ Show: This media/advertising company announced in August 2005 that it had secured agreements to roll out a network inside 500 independent convenience stores in the Seattle area. Installation is expected to be completed during 2006. In addition, EZ Show has ambitious plans for expansion in other areas. The company offers an ad platform running on 32- to 40-inch NEC monitors inside stores only. Three channels play simultaneously on segmented split screens.

All Over Media: This company offers print advertising for stores and forecourts and digital-signage screens for inside stores. Heavily focused on servicing franchised stores and local advertisers, All Over Media serves 25 major markets and claims to lease space at more than 4,000 locations. However, the company has not made clear how many digital-signage screens it has deployed to date.

Outsite Networks: Outsite has created a unique audio-only loyalty solution for the forecourt that is not based on selling third-party advertising. The Indirect Revenue Model system utilizes RFID technology to identify loyalty customers at the pump via their key fobs, then streams audio to promote, target-market and cross-promote to them. The company is in the process of adding video to the audio offering, with the goal of reaching 2,500 forecourts with true digital signage by the end of 2006.

A major U.S. c-store chain: There is one major chain of franchised c-stores in the U.S. that hosted a large narrowcasting network several years ago, but removed all the screens after the network developer went bankrupt. During 2005, this chain (which is not ready to talk about the pilot publicly) reportedly completed a test for a new network at 10-plus stores and was pleased with the results. During 2006, it may roll out to hundreds of locations.

Truck stops: Transcore is in the process of modernizing a digital-signage network that started in the late 1970s with a single-line green-screen network at truck stops. Called Dial A Truck (DAT), this indoor network at 1,200 locations functions mostly as an on-screen classified service to help truckers locate loads for return trips. At this stage in the modernization, Transcore has placed some DAT screens inside 20 truck-stop c-stores operated under

the Pilot, Travel Centers of America and Petro Stopping Center brands, among others. The screens play advertising, provide travel information and, as always, help truckers locate loads. By this time in 2006, the network -- a helpful combination of the Indirect Revenue Model and the Media/Advertising Model -- should be in place inside about 40 stores.

SPECIALTY APPAREL

Specialty apparel brands in North America are also slowly testing the waters with systems based on the Indirect Revenue Model, in which the digital signage is incorporated into store design and enhances the shopping experience. During 2005, Louis Vuitton installed LED screens in New York and Hawaii flagship stores and large-format video screens in Hawaii and Las Vegas DKNY stores. It has also started using digital signage at some stores in Europe.

Nine West has also created a solution that is currently deployed in 100 new and remodeled stores. It features a self-contained array of three 17-inch flat screens ensconced in a deep display shelf at the rear of the store, where customers wait for orders to be filled. (See image at right.)

In Canada, Mark's Work Wearhouse installed a screen network at approximately 100 of its 325 stores. According to Digital View, the chain's technology supplier, the retailer is evaluating current installations to determine plans in 2006 and beyond. (Mark's, which operates in Quebec under the L'Equipeur brand, is a division of Canadian Tire.)

Tests like these at Mark's, Nine West and Louis Vuitton clearly point to a growing maturity among specialty retailers, which are identifying Indirect Revenue objectives for networks and sourcing technology solutions that meet their cost and strategy parameters. Expect more similar tests in specialty apparel during 2006.

AUTOMOTIVE: Advance Auto Parts Really is Advanced

In this sector, there are essentially two camps: the advanced and the absent. Except for Advance Auto Parts, there doesn't appear to be any major U.S. chain (such as AutoZone, Pep Boys Auto, Carquest, NAPA and Checker) that has embraced digital media. In Canada, Canadian Tire is testing the waters.

But Advance Auto Parts has developed perhaps the most sophisticated Indirect Revenue Model network in all of U.S. retail. With the help of RMS Networks, Fort Lauderdale, FL, the chain launched the Advance Auto Parts Network (AAPN) in 1999, mostly to help educate staff and brand itself more powerfully after doubling in size through the 1998 acquisition of the Western Auto and Parts America chains.

Today, the network is comprised of multiple channels: an all-English channel, a bilingual English/Spanish channel and a Store Operations and Support channel for employee training and motivation. The shopper channels operate about 14 to 15 hours per day, playing audio-heavy content before the stores open to train employees as they stock shelves and prepare to open. Content production duties are shared by RMS Networks and an in-house unit at Advance Auto Parts' corporate office in Roanoke, VA.

Programming for shoppers is fast-paced and specifically designed for their lifestyle, with a majority of content consisting of "infotainment" features from SpeedChannel, Fox, the Associated Press, WX Channel and other third-party sources, along with news/weather/sports and internally produced content such as

features on the Advance Auto Parts-sponsored racing teams. Regular features on the network include Shop Talk, which teaches shoppers how to do various car repairs, and Fix-It Quiz, where car-repair questions are presented in a multiple-choice format. The remainder of the content is comprised of vendor advertising and store promotions, which increase in proportion during the busy spring season.

Because the advertising is not audited by Nielsen, Arbitron or other media-research firms, it is not sold in the conventional CPM (cost-per-thousand impression) manner used by other networks. Instead, Advance might, for example, help Monroe Shock Absorbers produce a two-minute how-to video on a new shock absorber in exchange for a favorable wholesale price and retail margin on the product.

CONSUMER ELECTRONICS, VIDEO/MUSIC STORES

The concept of networked digital media at retail established its first solid beachhead with the Home Electronics Network, which PRN acquired in the late 1990s. Today, consumers in electronics stores can view HEN programming on TV sets (plasma, LCD and conventional models) that are offered for sale at Best Buy, Circuit City and Sears. At a minimum, HEN guarantees retailers that shoppers will not be able to see advertising for competing retailers on their networks. HEN often features high-definition signals that clearly demonstrate the enhanced picture quality of high-definition TV compared with conventional sets.

Another digital-media model that is well suited to electronics retailing is the Movie-and-Music Sampling Model, in which shoppers can view music videos and movies on videotape and DVD prior to buying them. At first, networks employing this model were not controlled via networks, but were managed store by store with VCRs and DVD players. Many still are controlled by DVD today, but most top chains have moved to networks.

Important digital-media networks in electronics and video/music stores are listed below:

Best Buy: For years, Best Buy has led the electronics sector in digital-media innovation. The company recently completed a strategic consolidation of all in-store electronic media -- which had grown to include 17 different systems. Two types of networks remain in Best Buy's 700-plus stores: the Home Electronics Network produced by PRN and a private store network that feature channels such as Entertainment, Best Buy Branding and High-Definition TV. In 2006, Best Buy plans to fine-tune both digital-media offerings to better complement its customer-centric store strategy, as well as to explore more digital interactivity and customer retention strategies.

Circuit City: PRN's Home Electronics Network remains the only major presence for digital media in Circuit City's 600-plus stores, where it can be viewed in the TV/video department and on video walls. HEN content features Circuit City branding messages as well as sponsored brand promotions, sports and infotainment. The chain has yet to disclose any plans for piloting a private network.

Sears: PRN's network continues to operate in the TV/video department of more than 850 Sears stores and as part of the TV wall in some locations. As noted previously, Sears has been testing new media concepts in Canadian locations but no private channel rollouts or U.S. tests have been publicly disclosed.

Future Shop: The Canadian division of Best Buy, Future Shop

completed the third iteration of a private network in 96 of its 114 stores in 2005. Also located in the TV/video department, the single channel network primarily features "high-quality eye-candy entertainment," but also third-party advertising and customer-service programming. In 2006, Future Shop plans to field multiple in-depth research studies with the goal of providing compelling data to media buyers looking for alternative advertising venues.

CompUSA: An electronics retailer with a heritage in computer sales, CompUSA maintains a network driven by DVD players at all 225 U.S. stores. Research conducted in 2004 found that the network has a huge impact on store employees' knowledge of products. Another 2004 study found that products advertised during a three-month period enjoyed an average sales increase of 29%, with the lift ranging from a low of 11% to a high of 61%.

Tweeter: The Tweeter Network has 155 active locations, each with 25 to 38 flat panel and DLP rear-projection systems. The content loop, refreshed monthly, displays 40 minutes of high-definition content, advertising and Tweeter branding messages. It also features six employee-addressable interactive channels of Sports, Entertainment, Lifestyle, Learning, Product Spotlights and "Learn More." In 2006, Tweeter plans to prototype interactive channels and initiate centralized demonstration management.

Ovation: An 11-store chain of high-end audio/video stores in the Midwest, Ovation developed a digital signage network with the help of systems integrator Johnson Digital AV, Fort Wayne, IN. Content is designed largely to introduce customers to new products and educate the staff.

Musicland: The operator of Suncoast Video, MediaPlay and Sam Goody's video/music stores, Musicland has a network that apparently serves all 800 of its stores (although the company recently said it would shutter all 61 Media Play locations). Produced with the help of RMS Networks, the network generally follows the Movie-and-Music Sampling Model. However, it also appears as if Suncoast Video sells advertising in some manner to the music and movie industries. Although the network consists of standard CRT televisions in most stores, a prototype Suncoast Video store in Albuquerque, NM, weaves digital media into the store-design concept with heavier use of 16:9 ratio plasma screens.

Blockbuster Video: The Blockbuster Channel, a Movie-and-Music Sampling Model network delivered by DVD, continues to operate in more than 5,300 U.S. locations. Programming is produced by Screenplay Inc., Seattle, and focuses on merchandising in-store product, music, movies and games. Advertising space is sold by Channel M.

Hollywood Video: Hollywood Video reportedly has created a 2,000-store network with a content strategy rooted in entertainment, merchandising and ad revenue. More in-depth details on the network have yet to surface.

SPORTING GOODS/APPAREL

In this youth-oriented sector, the leaders in retail video continue to be Nike, with its high-concept in-store video program, and the In-Store Sports Network at Foot Locker, Champs and FootAction stores.

In 2005, retailers in this sector continued to shift their video content away from DVD players managed at the store level and toward national networks controlled either at company headquarters or the home office of a media partner. As these retailers invest in

centralized systems, they improve their ability to standardize and control the look and feel of stores, thereby realizing the full potential of the Indirect Revenue Model.

More detail on these networks follows:

The In-Store Sports Network: Although content is driven by DVDs, which technically disqualifies it as a "network," the In-Store Sports Network operated by media company Mediaplace has a large presence at 2,200 U.S. Foot Locker, Champs and FootAction shops. Content on the two networks (one oriented toward white youth in suburbs and the other toward African-American youth in cities) includes music videos and other infotainment configured for the chains' primary shopper demographic: males aged 15-24.

Because young men are difficult to reach through traditional media, this network offers advertisers the benefits of the Media/Advertising Model while also offering chains the many benefits of the Indirect Revenue Model by creating an environment that keeps shoppers in stores longer. According to Nielsen data reported by Mediaplace, 89% of shoppers said that the TV programming is "cool" and makes their time in the store more enjoyable.

Nike: Nike has digital signage in 170 Niketown, Nikewomen, Nike Factory Outlet and Dick's Sporting Goods stores. The primary objective is to enhance the brand while marketing sports apparel to younger consumers. Formats range from one to nine screens, with content tailored to store zones. Nike has several channels (basketball, running, and women's sports) with unique content targeted by store, screen, day-part and frequency. The brand is currently exploring options to utilize the screens for interactivity with shoppers.

West49: The Canadian skateboard and surf clothing retailer has installed a clever network based on the Indirect Revenue Model at about 15 of 50 stores. Like the In-Store Sports Network at Foot Locker, content is designed to appeal to young males. However, because the screen media is integrated so effectively into the store design, it delivers more of an immersive experience than most digital media at retail. At one location, a large video wall is placed above an indoor skate park. In other stores, an interactive media station called "The Blender" allows shoppers to watch movies and skateboard videos or play Xbox video games. (See images at right.) The network is produced by AdFlow Networks, Burlington, Ontario.

Hollister: Hollister, the surf and beachwear division of Abercrombie & Fitch, has integrated a live video feed from a California ocean pier into its store designs. Because the stores are enclosed to keep out natural light, the live video feed at 50 or more locations gives shoppers the impression that they are peering out the window at the beach. This installation, a pure example of the Indirect Revenue model, earned the Digital Retailer of the Year award at the Digital Retailing Expo in Chicago in May 2005.

Roots: The Canadian sportswear retailer continues to play branded messaging and video footage on plasma screens both inside and outside locations at seven stores in Ontario and Quebec. Roots originally operated a DVD-based TV network, but changed to a digital signage solution in 2002. The network is used to endorse product, execute affiliate promotions, and also showcase different product customization options from which shoppers can choose. The network is produced by AdFlow Networks.

Bass Pro Shops: After two years of testing seven 42-inch plasma displays in 19 stores, the sporting-goods retailer feels that it has proven the medium's value and may be ready to expand to

additional locations. The typical product ad on the network gets a reported sales lift of 18% to 20%, although some sales have spiked beyond 200%. The programming mixes 15- and 30-second ads with information and education. The network is produced by Digital Media Assets and Direct Link Marketing, both of South Florida.

Turner's Outdoorsman: The Southern California sporting-goods chain has deployed a digital signage network at all 13 locations. The network also is produced by Digital Media Assets and Direct Link Marketing.

Golf Town: A Canadian golf superstore targeting middle-aged men, Golf Town has deployed a network at most of its 24 locations. Content includes store promotions, golf news and live broadcasts of tournaments. Advertising is included on the network, but its primarily goal is to enhance the store's golfer-friendly environment per the Indirect Revenue Model. The network is produced by Club TV Media.

BEER/WINE/SPIRITS

Kyle Private Networks produces Beverage Entertainment Television (BEVision), a Media/Advertising Model network that serves the off-premise segment of the alcohol/spirits industry, operating almost exclusively at independent liquor stores. Content on the 400-store network is produced by RMS Networks and consists of liquor advertising, mixed-drink recipes, and alcohol trivia.

According to Phillip Jarrell, BEVision's general manager, the company is now piloting the network at four Walgreens liquor stores in Florida, with expansion to other locations expected in 2006. Walgreens operates beer/liquor stores in a few U.S. states that permit liquor sales by pharmacy and supermarket chains. The liquor stores have their own storefronts and entrances, but are attached to the pharmacies.

OFFICE SUPPLY

Although office-supply chains such as Staples and Office Depot have to date shown little inclination to deploy in-store media networks, one of the most interesting announcements of 2005 came from OfficeMax. What makes a planned 2006 deployment at 100 new-format stores unique is that it won't follow the Media/Advertising Model, but the Indirect Revenue Model.

According to an article published by aka.tv in November 2005, OfficeMax will place the network in the print/document area in an effort to improve customer support and increase the dwell time of female small-business owners, the target audience for the new format. The solution includes two screens running a loop that features OfficeMax branding, product promotions, educational tips, and CNN news. OfficeMax operates more than 1,000 stores in the USA, but the digital signage network is not currently set for expansion beyond the 100 new stores. The network tested successfully in 2005 and rolled out to stores in Texas, Florida, Georgia, Ohio, Wisconsin and Illinois.

HOME IMPROVEMENT

In this sector, there really is nothing of significance to report. It seems that digital media at Lowe's, The Home Depot, and other chains is still largely comprised of little TVs driven by DVD players showing how-to videos about various home-improvement products. This video content is produced by vendors and provided to the retailers free of charge.

One possible indication of change came in early 2006, however, when Philips Lighting quietly began a test of digital screens and interactive kiosks in a handful of Home Depot stores. The signs run three- to five-minute content loops with intermittent sound. The kiosks are embedded seamlessly into the product run below and offer product information and printable tearsheets.

Integrating Digital Media with Traditional P-O-P

A critical and often overlooked element to current digital retail activity is the fixtures, enclosures and overall store designs into which screens are placed. Specific digital-media companies, such as Ovation In-Store (formerly DSI), GFX Dynamics, and AdFlow Networks have articulated the view that attaching TV screens to walls, ceilings and standard fixtures is not the best answer for digital media at retail. Instead, these companies embrace the Indirect Revenue Model, which integrates digital systems into fixtures and thus tries to ensure that the narrowcast media is a natural extension of the store or manufacturer's brand. These companies live by the philosophy that digital systems play an active role in the shopping environment and must therefore be a natural extension of it.

To date, we have seen good integration of fixtures and digital media by brands such as Aramis, Dockers, West49, Bank of America and Buffalo Technology at Fry's Electronics stores. We also have seen store design firms such as Chute-Gerdeman and Big Red Rooster embrace this philosophy by creating designs with digital media in mind from the get-go. We feel that this trend -- which is facilitated by the rapid development of wireless technology for digital signage -- is very important to the overall success of digital networks and look forward to seeing more of it in 2006 and beyond.

The Secret is Out

In summary, this article has shown that the amount of digital media activity at retail in North America is growing much more rapidly than most retailers realize. Also, it's clear that many of the largest and most visible networks today in big box stores, supermarkets, pharmacies and electronics chains follow what we've defined as the Movie-and-Music Sampling Model or the Media/Advertising Model.

However, we can see from some of the smaller and less visible networks (some of which are still controlled store by store via DVD technology) that retailers are starting to understand how digital media networks can be integrated into attractive store designs to improve the shopping experience. As we have cited, the Indirect Revenue Model is starting to emerge among retailers as varied as Advance Auto Parts, Louis Vuitton, Nine West, Mark's Work Warehouse, West49, Hollister, Nike-branded stores, Office Max and even at Target Stores and convenience stores affiliated with Outside Networks.

On the media side of the equation, it appears likely that 2006 will be the year in which advertising agencies and big consumer-product brands really start to tap into retail stores as a "new media" venue that ultimately will be more powerful than television and print.

The net effect of all this is that, as digital media networks are embraced by retailers and consumers, and as advertising dollars start to flow into these networks, the impact of this new media in North America will be nothing short of explosive.

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