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NEWS AND ANALYSIS FOR RETAIL EXECUTIVES

Getting Back to Basics and Moving Forward

Solutions for achieving sustainable success now!

By Deena M. Amato-McCoy

The collective sigh of relief is clearly audible. The economy is inching toward recovery, and retailers are happy to have survived one of the worst years in economic history. With a renewed sense of determination, aggressive organizations are fashioning new business strategies that are supported by many of the tried-and-true technology solutions and processes that helped them initially achieve success. To sustain once the economy is back in the black however, companies are relying on their new secret weapon: IT integration, the powerful strategy that ties everything together.

During the month of March, shoppers finally began opening their pocketbooks, and as a result, retailers posted strong sales gains that surged past analysts' expectations. Crediting an early Easter and pleasant, warmer-than-seasonal weather nationwide as inspirations pushing shoppers into stores, most retail segments noted sales improvements. Specifically, companies that sold apparel, home goods, outdoor equipment and furniture led the charge, according to the National Retail Federation, Washington, D.C. Not only did these retailers beat analyst expectations, some companies also reported double-digit increases.

"It's evident consumers were feeling much better about the economy and their finances last month (March)," said Rosalind Wells, chief economist, NRF. "Pent-up demand combined with an early Easter and warm spring weather significantly boosted consumers' moods and retail sales."

While many industry insiders cite increased consumer spending as a sign of economic recovery, the fiscal future still remains very uncertain. Consumers are only showing hints of spending confidence, and this outlook can change at a moment's notice. Thus, rather than sit on their laurels, hunker down and ride out the lingering wind of the fiscal storm, chains must create their own destiny to ensure their brands will endure.

It is time for retailers to get "back to basics," and focus on the core solutions that will keep companies viable and competitive as the economy gets stronger and as discretionary spending rises.

Getting Back to Basics

Going forward, the following solutions are among those that retailers should consider top priorities for maximum performance:

Solution #1: Merchandising/Execution

While there have been some recent glimmers of hope, feelings of financial insecurities continue to plague consumers. Until worries about job security are tamed and personal savings and investments are on the upswing, shoppers will remain cautious about where they shop and what merchandise they are actually willing to purchase. And unlike last year, deeply discounted merchandise is just not going to cut it. Thus, retailers will be hard-pressed to lure in shoppers, meet consumer demand and most importantly, deliver a superior, valuable shopping experience.

"Retailers' goal should be to simplify choices for recession-weary consumers, but still maximize your products at the right time and place for the right price. Otherwise there is huge exposure on products, which directly affects bottom-line profitability," said Randy Misener, director of retail industry, Avanade Americas.

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An inventory management system is a prerequisite for any business, but it is more important than ever to learn to use the technology to ensure they always have the perfect amount of merchandise on-hand. During the boom years, retailers never thought twice about being over-stocked in stores, as well as in distribution centers. If they learned anything as times got leaner however, it was that items sitting idle on store shelves lead to weak sales and lost profits. More importantly, this tied-up capital could have been invested elsewhere in the business.

To combat this challenge, chains began cutting SKUs out of the mix. While this strategy clearly helps chains trim costs, it often leads to out-of-stock on fast-moving or high-demand merchandise. Unfortunately, the industry continues to suffer from an 8% OOS rate, a factor that contributes to an approximate $93 billion loss for retailers across the board.

"To optimize inventory assortment, retailers need to leverage concepts like SKU rationalization and assortment optimization," Misener said.

Retailers that can combine inventory management systems with accurate forecasting and automatic replenishment solutions are primed to better serve shoppers through optimized assortments. They are also able to lower operating costs by freeing up that capital tied up in unused inventory.

Savvy retailers are also optimally fulfilling stores with the help of model stock optimization tools. Based on predictive analysis, merchants are primed to carry the appropriate level of in-store inventory on a store-by-store basis.

Most importantly, better-managed and allocated inventory is key for retailers to rebuild customer loyalty during this critical time.

Solution #2: Workforce management

The sluggish economy has clearly taken a toll on retailers' labor management. It is no secret that labor costs are typically the biggest expense on a retailer's profit and loss statement. More specifically, retailers often spend between 10% and 15% of their revenue on labor, and most of that goes to the stores, according to Retail Systems Research, Miami.

And as the uncertain economy continues to take a toll on retailers' operating costs, it is critical to keep labor costs in check.

"Mall traffic is down considerably, and consumer shopping behavior is erratic. This puts more pressure on us to have the optimal staff on-hand when the shoppers do enter stores," said Roger Underwood, senior VP information systems, Finish Line. "We also feel pressure to manage our work force and stay in compliance with new minimum wage laws enacted nationwide."

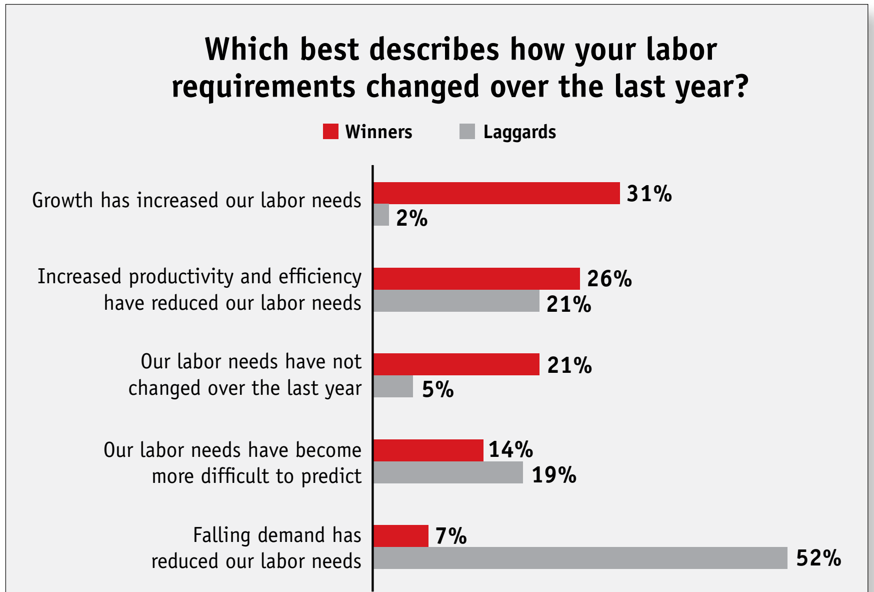
While some chains might have been quick to slash employee hours, or worse, eliminate associate positions in hopes of recouping operating costs during the recession, this strategy certainly wasn't conducive to maintaining the service levels to which shoppers have grown accustomed.

For example, a mere 7% of retail winners reported that sluggish consumer demand pushed them to reduce labor needs, compared with 52% of industry laggards, according to the "Enterprise Workforce Management: Redefining the Boundaries of Customer-Centric Retailing," released by RSR.

"Regardless of the economic climate, retailers need to do more than just cut labor costs in an effort to succeed," said Liz Moughan, senior manager, retail and hospitality marketing, Kronos. "Instead, they need to focus on staffing to [meet] demand."

Clearly, over-staffing leads to unnecessary labor costs, however under-staffing has the potential to cause a poor shopping experience, which can push consumers away. "By leveraging an integrated workforce management solution, retailers have the ability to put the right person, in the right place, at the right time and position themselves ahead of their competition as the economy continues to recover," she said.

Now more than ever, retailers must present shoppers with "the total package:" clean stores; ideal, even tailored assortments, promotions and pricing; more seamless navigation of store aisles and departments; and what could be most important, having the most knowledgeable associates available at store level when the most loyal and profitable shoppers visit. The only way to account for this is to leverage a workforce management suite.



Source: "Enterprise Workforce Management: Redefining the Boundaries of Customer-Centric Retailing," from Retail Systems Research

Getting Back to Basics

Chains are no strangers to basic labor scheduling and time and attendance solutions, but overall, many chains still rely on gut instinct. While many "old school" retail executives will argue this "art" is often overshadowed by the science of technology, savvy chains realize the only way to configure the proper team needed to serve shopper advocates is to create a true partnership between the two.

When adding a workforce management suite, retailers need to be mindful to ease the pain of a historically paper-driven process that consumes valuable management time and resources of managers, but still celebrates managers' gut-instinct to ensure the proper associates are performing the best tasks needed to best serve shoppers.

As a result, the new technology configuration of workforce management should be comprised of a suite that encompasses the sourcing, selecting, hiring and on-boarding of new employees; a labor forecasting and scheduling module; as well as a time and attendance application. By adding reporting and analytics functionality to the mix, retailers can monitor sales lift during peak and off-peak times, and adjust shifts and employees accordingly.

Solution #3: Financials

When discussing financials, many companies quickly affiliate the term with accounting and profit and loss statements. But the term means so much more.

Thanks to today's budding multichannel retailing strategies, financial information is constantly being produced and filtered throughout a typical organization at any moment in time. Sales pass through point-of-sale systems at store-level, and through customer user interfaces online. Merchandising systems leverage financials to procure merchandise and manage and allocate inventory.

Enterprise resource planning systems use financial data to support human resources and payroll functionality. Labor management systems use financial information to ensure that mandated hours and shifts comply with wage and salary-scaled associates. And the list goes on and on.

As vast as financials are within a company, so are the systems that process them. As a result, too many companies still operate disparate solutions that are supported by individual databases of financial data. Besides being costly to maintain these silos of information, it is nearly impossible to leverage data between lines of business, and this information is often prone to manipulation, leaving it inaccurate and riddled with errors.

By improving their understanding of financials from a business perspective, chains are in a strong position to decipher all of the fiscal happenings across the enterprise and even learn how to improve business. "Chains need to plan their operations and understand the financial impacts from every point in the supply chain," Avanade's Misener said.

Retailers should break down the internal barriers, share "one version of the financial truth," and work from one stream of financial data, according to Misener. Having a deeper, much simpler insight into how financials shape the enterprise, retailers can better leverage their funds, whether it is to invest in inventory or improve store performance.

"Focusing on this complete visibility into financial operations will optimize a enterprise's whole end-to-end supply chain, versus operating with a siloed approach," Misener said.

Tying it All Together

Once the details surrounding these must-have "basics" are tended to, it is time to ensure that the company is positioned for long-term success. At the core of this long-term road map is the power of systems integration.

While integration takes on different meanings for different companies, simply stated retailers need to deploy an end-to-end platform that uses one real-time, accurate data stream to seamlessly link as many business processes together as possible. In an ideal world, this platform should be flexible enough to handle a company's current business needs, but it can be scaled so that it remains viable in the future. In the end, a centralized platform "delivers centralized control of operations, with the ability to execute executive-level strategies, while simultaneously considering regional and departmental needs," Misener said.

This is the strategy of successful retailers. These are also the chains that understand how important it is "to be flexible, adaptable and able to exhibit the ability to quickly evolve to meet the needs of the customer — regardless of the economic climate," said Larry Negrich, senior retail industry marketing manager for Microsoft's business management solutions. "Retailers understand the important role that computer systems play. They are no longer willing to tolerate onerous integration and support costs or restrictive architectures that may limit their ability to succeed."

With one eye on recovery and another toward the future, the following is a bird's eye view of the impact an integrated platform can play for core systems:

Merchandising/Execution:

When retailers have a clear understanding of who is buying their products, they can better respond to seasonal changes, as well as those dictated by fickle shoppers. That's why it is imperative for chains' inventory management systems to merge traditional sales movement data with loyalty card program data. This sales history will allow chains to understand buying patterns down to a shopping segment or individual level.

The next step is to integrate merchandising with forecasting and demand modules, as well as business intelligence solutions. Information extracted from these solutions will allow retailers to embark on consumer-centric programs and feature more tailored, customer-specific assortments. It also allows them to ensure the right inventory is available in the right place at the right time for the right promotion.

After having the correct inventory in place, pricing becomes crucial — especially in this economic environment. By adding pricing optimization to the mix, chains can measure price elasticity based on shoppers' buying patterns and understand the price points it takes to keep a shopper loyal and even strengthen her shopping basket. Specialty retailers can also use the combination to optimize the price of merchandise packs and specific sizes sent to store-level. "It's all about execution," Misener explained. "Chains need to be able to forecast demand, merchandise stores and price it to move. This is what retains your customer base."

Workforce Management:

Chains strive to keep their most in-tune associates available for their best shoppers' visits. By leveraging business intelligence and reporting solutions to dissect point-of-sale transaction data and even more importantly, loyalty data, chains will be able to uncover peak shopping times and the appearances of its loyal, and most profitable shoppers.

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Digging deep inside data warehouses will also uncover consumer-specific shopping patterns. And these patterns run the gamut, from product affinities and the impact of customer loyalty during each visit, to merchandise returns and potential fraud instances. The placement and availability of merchandise in store aisles also impacts each of these variables. By merging this data with employee data and shifting information filtering into workforce management, chains can create optimal labor schedules and optimize staff and sales potential.

Financials:

As more retailers begin considering their financials applications as the heart of their company, it stands to reason that all financial data is the blood pumping through the heart of the company. Chains that are able to break down the silos and use financials data as a "portal" of insight into company investments will be better able to manage profit and loss for all retail departments.

For example, by integrating financials into workforce management systems, chains will be able to see when peak sales are happening and can better schedule associates accordingly.

Similarly, with an understanding of capital investments tied up in inventory, chains can apply forecasting and demand solutions to ensure that product is being ordered efficiently, and stock is being planned for, procured and allocated at store level in seamless way that will produce sales, not margin deficits.

Putting the knowledge to work

The goals of integration sound easy enough, yet it was a lack of integration that industry experts feel contributed to the demise of many companies during the recession. Too many chains could not adjust business processes or remediate IT solutions quickly enough to respond to the drastic changes in consumer shopping patterns. As a result, this inflexibility caused a downward spiral that pigeonholed too many chains that couldn't satisfy consumer demand or serve shoppers.

While some chains still shudder at the mere thought of an IT overhaul, adding an operating platform doesn't have to be a grueling experience.

First, chains are urged to "pow wow" with trusted technology partners in the marketplace, and understand their role in the integration strategy. Overall, the goal should be to add a platform that can reduce the silos, redundant data and excessive hardware and software associated with a company's current IT infrastructure. The new platform should strive to leverages existing technology assets and be fueled by a single, accurate data stream.

That said, be wary of a strategy that only requires a complete overhaul. Rather than "rip and replace" existing solutions with newer, more expensive systems, chains need to identify their core business operations, and the role they play together. It is this foundation that will help a company sustain in the short term, as well as be scalable and flexible enough to execute existing and new processes to continue success in the long term.

The next step is to scrub and clean all data, remove errors and redundancy, and then load it into centralized databases attached to strong reporting tools to ensure that retailers can slice and dice data to make decisions and execute their vision.

Finally, their new operating platform needs to be able to provide a holistic view of how these solutions work together. With a clearer understanding of how these assets are tied together, retailers can leverage information better and operate more successfully in the future.