

STORE-LEVEL LOCALIZATION: INCREASE SALES BY IMPROVING CUSTOMER RELEVANCE

With increasingly empowered shoppers entering stores armed with detailed information about products, prices and promotions—both yours and your competitors’—retailers need to ensure that their store assortments remain relevant to their customers’ needs. But the recent recession forced many retailers to tighten inventories, leading to less selection and, in some cases, out-of-stocks. This combination has renewed interest in localized assortments, based not just on a store’s characteristics and sales history but on sophisticated customer intelligence. New technology solutions designed with localization in mind are making it possible for retailers to create relevant product assortments, and even to use those assortments to gain a competitive edge and achieve strategic goals.

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› INSIDE

- 3 DEFINING CUSTOMER-CENTRIC LOCALIZATION
- 5 ROLE OF FORECASTS AND INVENTORY OPTIMIZATION
- 7 TO SUCCESSFULLY LOCALIZE, RESET INTERNAL CULTURE
- 8 USING LOCALIZATION TO BOOST CUSTOMER RELEVANCE

WHAT'S AT STAKE FOR RETAILERS

The power equation between retailers and shoppers has been moving steadily toward the latter group. Increasingly, consumers entering stores are well-informed about products, prices, and offerings from a retailer's competitors both in the physical world and online. If shoppers don't already possess this information before their shopping trip, it's easier than ever for them to get it through smart mobile devices while they shop.

These changes in consumer behavior, empowered by technologies that provide instant information, have created a whole new set of challenges for retailers, ranging from decreased brand loyalty to increased price sensitivity. Retailers are finding that if they can't supply the exact product a shopper wants—either immediately in the store, or through an endless aisle/save-the-sale solution—they risk losing not just a single sale but all of the shopper's future business.

As we are all aware, these challenges have been made tougher due to the global recession and ongoing economic uncertainty that continues to keep many shoppers cautious about making purchases beyond the basics. Many retailers reacted by trimming, and in some cases slashing inventory levels, trying not to be caught with excess product that would require steep markdowns to achieve sell-through. The result was that in some cases, retailers experienced higher out-of-stock levels, leaving shoppers disappointed and decreasing sales even further. Now that the recession is easing its grip, retailers are seeking to both build up and sharpen their merchandise assortments.

NEW INTEREST IN LOCALIZED ASSORTMENTS

This combination of empowered shoppers and tighter inventories has brought new luster to an old concept: localized assortments. Prior to the era of growth and consolidation in the retail industry that created national and international chains, merchandise assortments were “local” because the retailers themselves were “local.” As chains grew and centralized their operations to achieve economies of scale, they adopted a more top-down, product-centric approach to merchandising decisions. Obviously retailers made some distinctions between different stores and adjusted assortments accordingly, but the trend was toward standardization and allocation by averages.

Today, there's been more than a simple pendulum swing back to localization. The factors that go into creating these assortments have broadened and changed. Today, the most effective localized assortments take their cues from the attributes of the customers the retailer serves. Local assortments focus on using customer data mapped against stores to create demographic, geographic, or store-specific assortments tailored to local customer preferences, according to “Going Local: Emerging Best Practices in Localized Pricing and Promotions,” by Nikki Baird and Paula Rosenblum, managing partners, RSR Research (January 2009).

Retailers have also expanded their concept of store clusters. Despite their name, store clusters are not necessarily located near each other geographically. Based on specific customer characteristics, a cluster could consist of stores located in large urban areas located across the country, or of stores serving suburban communities from Long Island, NY to Orange County, CA.

Clustering can delve deeper than the store level, applying to departments and categories. For example, sizing and styles for women's apparel may vary greatly depending on a store's customer base, but preferences for large appliances could be fairly similar from region to region. Gardening supplies need to

[TAKEAWAY]

➤ **SEEKING SHARPER ASSORTMENTS: TIGHTER INVENTORIES OVERALL COMBINED WITH INCREASINGLY EMPOWERED CONSUMERS HAVE RETAILERS SCRAMBLING TO SHARPEN THEIR ASSORTMENTS IN AN EFFORT TO BOOST SELL-THROUGH AND DECREASE THE NEED FOR MARKDOWNS.**

be allocated based on seasonality and what will grow in a specific part of the country (or the world, given the global reach of many retailers).

To add another level of complication, different customer segments will seek different product assortments. Retailers who want to use their assortment strategically, for example to increase their share of wallet among their best customers, must be able to not only intimately understand these customers but be able to associate specific categories, products and brands with their behaviors. They must also be able to execute on this customer intelligence data, and connect their valuable customers with the products they prize the most.

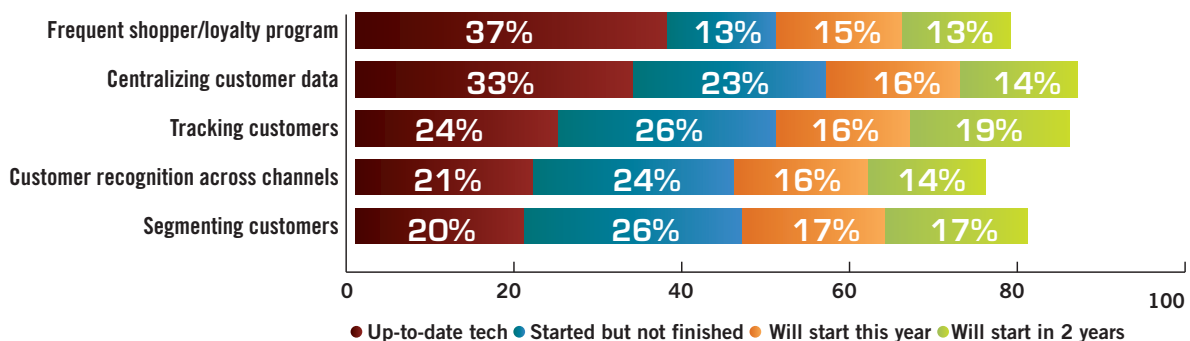
Retailers recognize the importance of improving their understanding of what makes customers tick (and what might motivate them to make a purchase). Among retailers responding to the *RIS News/Gartner* April 2010 Retail Tech Study, approximately one-quarter had already started customer analytics projects such as centralizing customer data, tracking customers, achieving customer recognition across channels and segmenting customers. The percentages planning such an implementation within the next two years ranged from 28% to a healthy 35% of respondents. (See “Customer Analytics” chart for specific numbers.)

Clearly, achieving localization involves more than customer analytics and assortment planning. Multiple initiatives, many of them interdependent, should be part of the localization process. (See “Retail Segments and Associated Initiatives” table on page 4.) Achieving localization is a journey, and retailers will need to determine their current strengths and weaknesses to determine what path is right for them. In addition, localization is not a single “Big Bang” style implementation that occurs once and then stays set. As customers themselves change, new products come into the market and the demographics around individual stores and in the country as a whole shift, retailers will need to continually adjust their localization efforts in order to stay relevant.

The good news is that once retailers achieve localization and put systems in place to update it, its benefits will continue to pay off for years to come. And even if retailers can only achieve localization in a few key product categories or for a few key store locations, the benefits in improved sales and lower markdowns can help pay for further localization efforts down the road.

[TAKEAWAY]
> CUSTOMER-CENTRIC LOCALIZATION:
TODAY’S LOCALIZATION EFFORTS INVOLVE MAPPING CUSTOMER DATA AND USING IT TO CREATE DEMOGRAPHIC, GEOGRAPHIC OR STORE-SPECIFIC ASSORTMENTS.

Customer Analysis



SOURCE: *RIS/GARTNER* 2010 RETAIL TECH STUDY

LIMITATIONS OF OLDER ASSORTMENT SYSTEMS

While the interest in localization has been growing for several years, those retailers that actually wanted to create localized assortments have, until recently, been hampered by the limitations of existing technologies. To do localization right, retailers must collect, aggregate and analyze data from multiple sources—not just sales and promotion history but demographic data about customers, as well as information about specific customer segments and their relationship with individual product categories, and in some cases individual products.

The classic negative example is a retailer that wants to delete a specific item from its assortment because it has a low turnover, with customers purchasing it on average only three times per year. But these relatively rare purchases might be associated with preparing a special holiday meal for a religious or ethnic group, so the slow-moving product might be the key to sales of many other products in their market baskets. Eliminating the slow mover would not only endanger sales of related products, but could affect the customer loyalty levels of an entire group.

Traditionally, however, space and assortment planning and allocation systems had few easy ways to incorporate sophisticated customer analysis. They also lacked the ability to easily test new assortment plans or engage in “what-if?” projections about the impact of specific decisions. Adding these factors to existing parameters, such as store planograms, promotional offers from manufacturers and the retailer’s financial goals, has therefore been a difficult, cost- and labor-intensive point-to-point integration process.

In addition, systems designed for producing product-centric, top-down assortments often lacked the granularity to execute store-by-store assortments down to the level of categories, brands and individual SKUs.

[TAKEAWAY]

>INTERNAL INTEGRATION REQUIRED: ACHIEVING LOCALIZATION INVOLVES MULTIPLE DEPARTMENTS AND SYSTEMS, FROM CUSTOMER INTELLIGENCE AND ANALYSIS THROUGH PLANNING AND PRICING TO LOGISTICS AND STORE-LEVEL EXECUTION.

Retail Segments and Associated Initiatives

Retail Segment	Initiatives
Specialty and apparel retail, department stores	<ul style="list-style-type: none"> • Size and pack optimization utilized pre/in/end of season activities • Intelligent store clustering based on consumer demand metrics • Markdown optimization • Advanced assortment planning and optimization
Mass merchants, FMCG	<ul style="list-style-type: none"> • Consumer demand preference analytics • Lifecycle price optimization • Intelligent store clustering based on consumer demand metrics • Assortments and space plans aligned with store clusters combined with known constraints • Integrated category plans

SOURCE: AMR RESEARCH 2010

[INDUSTRY INSIGHT]

LOCALIZATION REQUIRES SOLID FORECASTS AND SMART INVENTORY OPTIMIZATION

Lorraine White, Senior Director, Product Management, Manhattan Associates

Q. WHAT'S BEHIND ALL THE RECENT ATTENTION BEING GIVEN TO LOCALIZATION IN STORE ASSORTMENTS?

LORRAINE WHITE: Localization itself isn't new; it's just a new buzzword around something that everyone should have been doing for years, but until recently it hasn't been a compelling necessity, particularly in the U.S. For a long time, retailers got away with doing fairly generic store and assortment planning, using the traditional A, B, C and D classifications for their stores. Now, however, retailers have realized that in order to be more competitive, they have to get more profits out of their inventory allocation, not just in the store channel but in multiple channels.

Q. IN BROAD TERMS, WHAT'S INVOLVED IN CREATING A LOCALIZED ASSORTMENT?

WHITE: Optimizing and localizing inventory means putting it in the places where it's needed most and where it will sell really well. Retailers can no longer afford to take the risk of buying too much of every item and keeping safety stock just in case. At the same time, however, retailers have to meet customers' expectations, and customers can be quickly disappointed—if a shopper doesn't see something they want in your store, an alternative is just a click away.

It's about achieving a balance. Retailers can't squeeze too much out of their inventory, because they'll have stock-outs. All of these competing forces point to the need for assortment planning, because if retailers get the assortment right up front, it solves a lot of problems that appear down the road.

Q. WHAT ARE THE BASICS THAT RETAILERS SHOULD BE ABLE TO ACCOMPLISH IN THIS AREA?

WHITE: Most retailers look at a store's volume and size to come up with the basic ABCD classifications, and that's a minimum requirement. Some don't even cluster by product category, and they should all be doing that by now, because different categories sell differently in different stores. The optimum is to fine-tune their store clusters down to the level of customer preferences or profiles. To some extent retailers have been limited by the available tool sets—they haven't had the capabilities to do this until recently.

The ultimate sophistication is to go beyond ABCD and incorporate other factors—climate, urban vs. rural location, customer profiles, demographics—and within the assortment planning process and solution, allow the merchant to dynamically regroup a store not just by its ABCD designation but by any of these characteristics. The tools available now empower merchants to go to unprecedented levels of detail. Solutions also need to tie in financials, so that they are an integrated part of the process.

Q. WHAT ARE SOME OTHER TOOLS THAT ARE HELPFUL IN ACHIEVING THIS?

WHITE: Demand forecasting solutions that are integrated at all levels can provide forecasts down to the item level and feed inventory optimization solutions to drive ongoing replenishment. As part of our planning and inventory optimization systems, Manhattan Associates has a patented forecast method that can determine the selling profile of an item even if the item has very little sales history associated with it. That's very powerful, and our retail customers have gotten great benefits from that. An accurate forecast that includes inventory requirements, receipt flow, anticipated clearance and markdowns provides a good starting point on the road to executing a sound localization strategy. ■

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LOCALIZATION TOOLS BUILT IN TO NEWER SYSTEMS

Now, however, there's both a pressing need for customer-centric localized merchandise assortments and the tools and technologies needed to make it a reality. Many solutions available today use sophisticated customer intelligence and analytics and offer easier links to promotion planning, pricing, merchandising, marketing, logistics and store-level execution systems.

And while the omni-channel nature of today's retailing has added yet another layer of complexity in terms of localization, it has also relieved some of the pressure on physical store assortments. So while it might be important for a brick-and-mortar store to stock the latest fashion apparel item, if the retailer has an effective endless aisle/save-the-sale solution, the store itself may not have to stock every size or color variation in order to complete the sale.

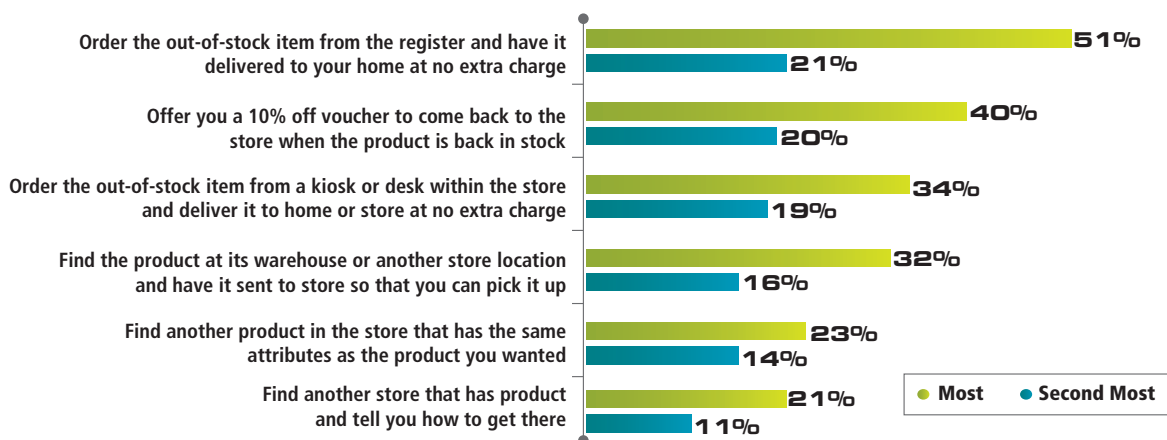
Shoppers who have become accustomed to ordering apparel items online are likely to be more comfortable seeing and touching a product in the store's aisles, then having the item with the particular color and size they want delivered to their home, or to the store, on an as-needed basis. Among respondents to the 2010 *RIS Shopper Experience Study*, which surveyed 2,200 consumers, 51% indicated that ordering an out-of-stock item from the register and having it delivered to their home (albeit at no extra charge) was their most desired remedy for an out-of-stock situation. Approximately one-third of respondents chose ordering the product from a store kiosk or customer service desk for no-charge home delivery, or having the product shipped to the store from another location so the shopper could pick it up at a later date. (See chart for more details.)

"While it's true shoppers have more information about products than ever before, retailers also have access to more detailed information about their shoppers," says Joe Skorupa, Group Editor-in-Chief, *RIS News*. "Many retailers can track not just who their customers are and what they buy but when, where and how they make purchases. In addition, retailers have had to invest in more flexible, granular replenishment and fulfillment systems as part of the move to a multi-channel world."

[TAKEAWAY]

› **LOCALIZATION IS AN ONGOING EFFORT: ACHIEVING A LOCALIZED ASSORTMENT IS NOT A SINGLE "BIG BANG" BUT A CONTINUAL PROCESS, INVOLVING TRACKING CUSTOMER PREFERENCES, DEMOGRAPHIC SHIFTS AND THE IMPACT OF NEW PRODUCTS.**

If a store is out of a product you seek, which of the following would you MOST want the retailer to do to remedy the situation?



SOURCE: RIS/COGNIZANT 2010 SHOPPER EXPERIENCE STUDY

[INDUSTRY INSIGHT]

RESETTING RETAILER'S INTERNAL CULTURE KEY TO LOCALIZATION SUCCESS

Frank Zarrello, Practice Lead, Planning and Optimization, RPE Solutions

Q. WHAT ARE SOME OF THE KEY CHALLENGES RETAILERS FACE IN PURSUING A STORE-LEVEL LOCALIZATION STRATEGY?

FRANK ZARRELLO: The first is re-examining the internal structure of a product-driven company, and to reset it to be customer-driven. For example, a retailer today might have a buyer for sweaters, a planner for sweaters and an allocator for sweaters—all product-driven positions. As retailers become more customer-driven, you will see more location planners and regional or store cluster buyers emerging.

The next challenge is understanding what type of systems are the best fit to accomplish the company's goals in the changed retail environment, and making the commitment of resources to get it done. And then there's the integration of people, process and systems, which takes a commitment of time and money and the will to change.

But it's process first, systems second. Retailers can't ignore these cultural changes, which they need to embrace and to actually execute. This is often the biggest challenge within a company. Most retail companies, except for the newer ones, have all been product-driven. The newer companies, like Under Armour and Target, are executing on localization extremely well, and it's in part because they were born in a different era.

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Q. ASSUMING RETAILERS CAN MAKE THIS CULTURAL SHIFT, WHAT'S NEXT?

ZARRELLO: Retailers also need to change their technology infrastructure to be more consumer-driven. Fortunately, the technology is finally coming into place to integrate and share the data and the processes in order to execute localization. Both the knowledge sharing and the integration are crucial, because in essence retailers have to treat each store as if it were the only one in the chain. The 'cookie-cutter' approach is gone.

Q. IS THAT REALLY PRACTICAL FOR A RETAILER WITH DOZENS OR HUNDREDS OF STORES?

ZARRELLO: Technology, along with getting processes, people and systems together, makes it possible. Let's say you only had one store. You would know the customer—what assortment excites her, when she needs it and what prices she wants to pay. You would also know the space you have, and what drives your profitable business and its categories. How do you duplicate that knowledge to hundreds of stores? You would use space planning and store planning systems, and assortment planning that's done from the store level and the customer's point of view. The assortment planning would be integrated with the merchandise planning system, which is the product-driven portion of the equation. All of these have to be integrated and shared—it's the only way to deliver true localized assortments.

Q. WHAT KINDS OF BENEFITS COULD A RETAILER EXPECT FROM A SUCCESSFUL LOCALIZATION STRATEGY?

ZARRELLO: In the short term, retailers would see increased sales and improvements in gross margin, turn and conversion rates. Localization also helps retailers make better use of their inventory, and when Open-to-Buys are tight, retailers need to use their inventory to the fullest—reducing costly markdowns and reducing their exposure or risk on the inventory that they have. In the long term, localization gives retailers the ability to grow their store count or add new concepts. Without question, it's the direction all retailers need to go in. ■

USING LOCALIZATION TO BOOST CUSTOMER RELEVANCE

The ideal state for retailers would be to create and maintain merchandise assortments that are not just local but *relevant* to their customers. Shoppers would find the products they're seeking and would be able to purchase them when and how was most convenient for them. Retailers would only purchase products that would sell, and would be relieved of the difficulties (and costs) of dealing with excess inventory, safety stock and end-of-season markdowns.

Obviously, this retailing utopia doesn't exist and probably never will. But there are significant benefits for retailers that make localization their goal and take specific steps to move in that direction. "When done right, localization has the potential to increase same-store sales," says Skorupa. "The effort to customize assortments based on customer group insights can pay off in higher sales and better margins due to fewer markdowns. The alternative—assorting by averages or using historical formulas rather than new, more specific data and customer insights—will often leave money on the table rather than bringing the products people want to the stores where they shop."

Localization is also crucial to improving same-store sales, one of the key metrics watched by Wall Street to judge a retailer's financial performance and viability.

Many industry experts believe that localization efforts must involve customer relevance to really work. In the August 2010 study "The State of Personalization in Retail," RSR Research managing partners Nikki Baird and Steve Rowen discuss the difficulties retailers have faced in trying to improve customer loyalty and the tools they have used to accomplish this. They believe "loyalty" is a less valuable goal than "relevancy," writing: "What all of these activities—from segmentation, to offers, to analytics—are really trying to do is to *increase customer relevancy*. If you cast all of your customer programs in the light of relevancy, a lot of the baggage of past efforts falls to the wayside.

"Personalization and loyalty are the result—the outcome—of focusing on increasing customer relevancy, not the drivers," they add. "Relevancy is the motor of the virtuous customer cycle: the more relevant you are, the more you will delight your customers. The more they are delighted, the more loyal they will be—thus giving you permission to know more about them so that you can further increase your relevancy." (The complete RSR report is available at www.retailssystemresearch.com.)

Localization is more than just a way for retailers to survive in the new era of the empowered consumer; it's a means for them to achieve a significant competitive edge by creating stronger engagement with their customers, particularly their most valued customers. Retailers that can prove their relevance to these customers in the most basic way—with the products they stock on their shelves, both the physical and virtual kind—will be in the best position to grow as the economy grows stronger. They will gain a better understanding of what their customers want, perhaps even before the customers themselves know what that is. These retailers will also be more prepared for whatever the next big change is, and will have a greater ability to respond quickly and efficiently to it. ■

[TAKEAWAY]

›LOCALIZATION KEY TO ACHIEVING RELEVANCE:

THE REAL GOAL OF LOCALIZED ASSORTMENTS IS IMPROVING RETAILERS' RELEVANCE TO THEIR SHOPPERS, WHICH PROVIDES A COMPETITIVE EDGE TODAY AND A BETTER GUIDE TO FUTURE SHIFTS IN CUSTOMER BEHAVIOR.

ABOUT MANHATTAN ASSOCIATES

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