



Solutions to Dramatically Improve Your Business

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The key to thriving in this environment is to meet challenges head on by developing a roadmap that closes gaps in an organization's IT capabilities and identifies key enablers that produce measurable results.

This report highlights four proven solutions that drive sales, raise margins and increase operational efficiencies. They are: Business Intelligence, Price Optimization, Enterprise Planning and Multi-Channel Fulfillment.

Deployed in an agile, short-duration roll out these solutions deliver strong bottom-line performance measured in months and not years. Put into the hands of results-oriented executives they can help retailers make real-time decisions to leap-frog the competition and grow their businesses.

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Four Proven Solutions That Deliver Sales, Raise Margins And Increase Operational Efficiencies



The good news for retailers today is the economy is finally turning a corner, a spring thaw is warming up the marketplace and consumer demand is on the rise. But the end of the recession does not mean there will be a return to status quo. Instead, it means retailers must meet a fresh set of challenges in a dramatically altered post-recession marketplace.

Value-based shopping patterns have taken hold with today's cautious consumers, whose current behavior clearly shows renewed price sensitivity and reliance on coupons and offers.

New channels for social media and mobile commerce have emerged that put consumers in the driver's seat like never before.

And marketplace dynamics have shifted as some competitors have gotten stronger while others have closed their doors, creating an opening for newcomers to gain traction with disruptive business models.

The key to surviving and thriving in this environment is to meet current challenges head on by developing an IT roadmap that closes gaps in an organization's IT capabilities and identifies key enablers that produce measurable results.

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1 Leveraging Business Intelligence for Smarter, Faster Decisions

There is nothing quite so frustrating for a retail executive as sitting in front of a computer and watching the hourglass spin while awaiting an answer to a data query. Unfortunately, many retailers believe the solution to the problem – business intelligence (BI) software that can be used to shorten analysis and reaction times – is equally frustrating, especially during deployment.

“There is an impression among some retailers that sophisticated BI tools are costly deployments,” says Bruce Ash, vice president strategic consulting for RPE. “These retailers believe BI software is difficult to install, often resides on proprietary hardware, and requires a long implementation time. But this is no longer the case. BI solutions have evolved rapidly in the last few years, and when installed the right way they can be easy to implement, flexible to adapt, and capable of achieving ROI in a short period of time.”

Deployed correctly, BI software can leverage operational data to improve store performance, create plans that look forward instead of in the rearview

mirror, and foster a data-driven corporate culture that aligns performance initiatives with enterprise goals.

“This recession has driven home the point that retailers need BI and performance management (PM) tools more than ever to survive the down times, but also to thrive during good times,” says Janet Suleski, retail research director for AMR Research, in the 2009 report “The State of Retail BI Post-Economic Meltdown.”

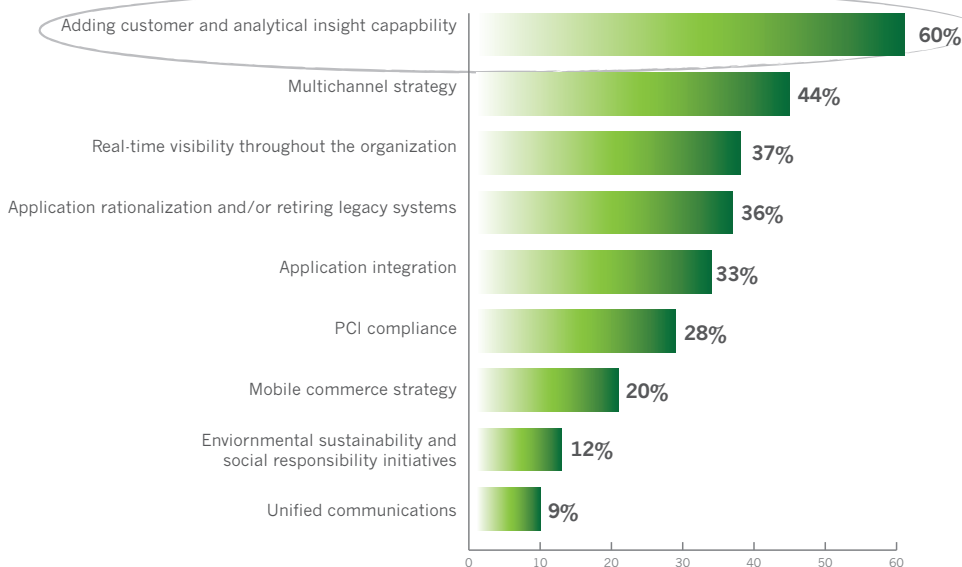
As most retail IT executives know, traditional data warehouses are expensive to install, maintenance is high, and data cleansing is required to ensure reports are accurate across all business departments.

Fortunately, many retailers have done a good job in the past few years in cleansing their data, so what was once a time-consuming preliminary step has become simplified.

In addition, BI tools have evolved by adopting retail-specific functionalities with pre-built templates and workflows that support things like real-time product movement at store or SKU level, sell-through by style/size/color, market basket analysis, multiple price points, and promotions.

“A blank-slate approach to BI rarely thrives in retail,” says AMR’s Suleski. “It must be modeled with retail concepts and retail language.” She notes that other industries have no problem starting from scratch and building a custom BI environment, but retailers have specific requirements that must be met. Fortunately, BI vendors have gotten the message and created retail-specific solutions that are easily adaptable to the retail vertical.

Top Challenges or Concerns Over Next Three Years



Source: 2010 RIS/Gartner Retail Tech

The evolution of BI technology also plays a big role in making modern deployments quicker and easier. The complexity and length of time it once took to pre-summarize or cube data to support analysis has been streamlined, which enables non-technical business executives to become power users of BI query and drill-down tools. As a result, non-IT users are now taking a more active role in evaluating and funding BI projects.

Also, a number of strong BI applications are available through the SaaS delivery model, which produces a number of critical benefits including: reduced start-up costs, faster deployment times, quicker ROI, and the ability to structure contracts and licenses on a flexible pay-as-you-go model.

This new flexibility has opened up BI benefits to all retailers, big or small. Today, BI tools enable data mining in ways previously possible only for billion-dollar retailers. Mid-size retailers taking advantage of the pay-as-you-go model can add BI tools for such specific functions as market basket analysis, for example,

without the necessity of investing in expensive infrastructure. The infrastructure is owned and maintained by the provider and retailers only pay for using the applications that help fine tune allocation and promotions.

This means that BI tools can now produce value incrementally. A big-bang approach is no longer a necessity. Today, BI implementations can produce value when deployed in pieces. If a retailer just wants market-basket analysis, then it contracts with a BI provider for a fixed amount of data storage, integration with a limited range of merchandising applications, and restricted user access. Deployed in this way, retailers gain immediate benefits while setting the stage

for broader deployments and long-term business improvement at a later date.

Affordable and flexible solutions have become available at just the right time to help solve the number one challenge cited in the recently published “2010 RIS/Gartner Retail Tech Trends Study” – adding enhanced customer and analytical insight capability. This challenge was picked out of a long list of concerns by 60% of respondents,

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which put it in the top spot by a wide margin.

“The good news is that with some current BI solutions retailers can get up and running very quickly,” says Ash. “They are easy to implement and get operational. Also, they are flexible and they scale, which makes ROI easy. But more importantly, they enable retailers to get a more accurate picture of their customers, which is more important now than ever before.”

2 Price Optimization for Sales and Margin Gains

Pricing is at the top of the list of core competencies in retailing and an essential ingredient for generating sales and profits. The applications retailers use to perform pricing are critical to success and have evolved significantly in the last five years.

As a result, retailers find themselves on one of three steps in the pricing software maturity ladder: 1. Custom-built legacy apps, many of which are based on inflexible and unscalable spread sheets, 2. Basic software that comes with planning and allocation applications that lack the ability to access multiple sources of data (both internal and external sources) and perform advanced forecast modeling functions, and 3. Demand-centric applications, that leverage massive amounts of data to gain deep insight into shopper behavior, discover key product affinities in market baskets, which enable flexible forecast models to determine optimum outcomes.

Located at the top of the maturity ladder is pricing optimization, which adds science to the art of pricing and, as a result, has evolved into one of the most sophisticated weapons in the retail arsenal.

“Price optimization software and techniques have evolved to the point where they can challenge traditional pricing strategies and produce better results,”

says Bruce Ash, of RPE. “You can analyze your own historical data as well as publicly available data from other retailers. You can simulate the impact on sales and profitability as a result of price changes and create detailed plans that incorporate zone prices and regional prices in different markets.”

Price optimization tools have the ability to make thousands of individual pricing decisions that break the mold of planning by using averages. Instead planning can take place at a level that looks at specific shopper segments, product SKUs and individual stores.

And, perhaps most importantly, retailers can create a pricing plan that not only meets financial goals for sales and profit, but also is in synch with customer expectations to stimulate return visits and increase loyalty.

Of the top 10 technologies chosen by retailers for investment in 2010, according to the recently released “RIS/Gartner Retail Tech Trends Study,” price optimization was in second place just behind forecasting and planning, which is a related merchandising function.

Lifecycle Pricing Benefit Opportunities

INITIATIVE	SALES	UNITS	GROSS MARGIN
Price Determination/ Revenue Optimization			
Base Price (non-promoted)	+1% to 3%	+0% to 1%	+2% to 5%
Promotional Prices	+1 to 12%	+1% to 9%	+5% to 20%
Markdowns	+0% to 5%	+5% to 10%	+6% to 10%

Source: AMR Research “The Lifecycle Price Is Right: Balancing Art and Science”

The reason price optimization is such a powerful retail weapon is that it helps retailers fine tune a core competency to a micro level, one that reduces unintended cannibalization of products, for example, or maximizes market basket affinities. The result is a measurable boost in sales, notes AMR Research, of roughly 1% to 3% in sales and an increase in margin of 2% to 5%, according to the report “The Lifecycle Price is Right: Balancing Art and Science,” by Mike Griswold and Jessica O’Brien.

The advanced software is able to do this by analyzing internal sales and customer data, and then combining it with other sources of relevant data. These other sources include current and historical sales in the competitive landscape, multi-dimensional customer profiles, SKU rationalization, and space planning to make sure assortments fit stores.

The tools enable executives to run simulations that test the impact of pricing on sales and profitability before the plan is implemented, and then make recommendations that challenge traditional pricing plans and produce better results.

“Price optimization software can help retailers add to the bottom line and achieve a quick ROI by determining if the best possible initial price is \$9.99 or \$11.99, as an example, to preserve margin and maximize sales,” says Ash. “And over time the software and executive team become smarter, especially on margins for every day pricing or regular pricing, areas where many retailers see the biggest impact.”

As with BI, pricing software can be added incrementally. For example, a retailer could start with every day pricing and then later add promotional and mark down capabilities.

And, of course, it is also available in a cost-effective SaaS delivery model, where you can just load your data and start to use the tools immediately in a quick implementation that delivers fast ROI.

3 Enterprise Planning Tools That Do More with Less

Smart retailers, the ones that are set to leapfrog the competition when the economy rebounds, are those capable of making better and more informed decisions. Equally important, they have enterprise planning systems in place that enable them to do more with less. On the other end of the spectrum from these successful retailers are those with poorly aligned enterprise functions. They will pay a heavy price for their lack of productivity, inefficiency and lost opportunities when economy heats up.

Fortunately, this is a solvable problem, although not an easy one. At its heart is a complex enterprise planning system with many interoperable parts, such as financials, supply chain, CRM and HR. Since each of these parts moves at its own pace through a maturity cycle, the typical IT architecture for retailers consists of a combination of old and new software and infrastructure.

Modern, streamlined enterprise planning systems enable confident decision-making that drives the ability to execute against strategies, optimize future opportunities, and create a permanent advantage by lowering total cost of operations.

Legacy systems constrain retailers from adding new functionalities and enhancements, such as real-time visibility into the supply chain, adding new sources of data to improve forecasting accuracy, and maintaining a consistent customer view across channels to improve one-to-one service.

“The issue with getting your arms around problems in enterprise planning is that it involves so many cross-functional depart-

ments, including operations, marketing, finance and sales,” says Mark Stanford, senior project manager for RPE. “It is really a classic people, processes and technology issue, with an emphasis on the people. Many times you are dealing with different departmental agendas and views on alignment.”

While big-bang rip-and-replace upgrades are possible, few retailers have the budget or appetite to go this route today. Instead, they prefer doing it in bite-size chunks over an extended period of time to minimize risk and disruption. But going too slow carries risks, too.

Today’s retail environment is increasingly complex and penalizes slow movers. It puts additional stresses on employees and supporting business systems.

By aligning core enterprise functions retailers create a foundation that enables them to turn the crank on innovation and growth. They convert budgets into living strategy and execution plans that drive the organization to achieve shared, high-performance goals.

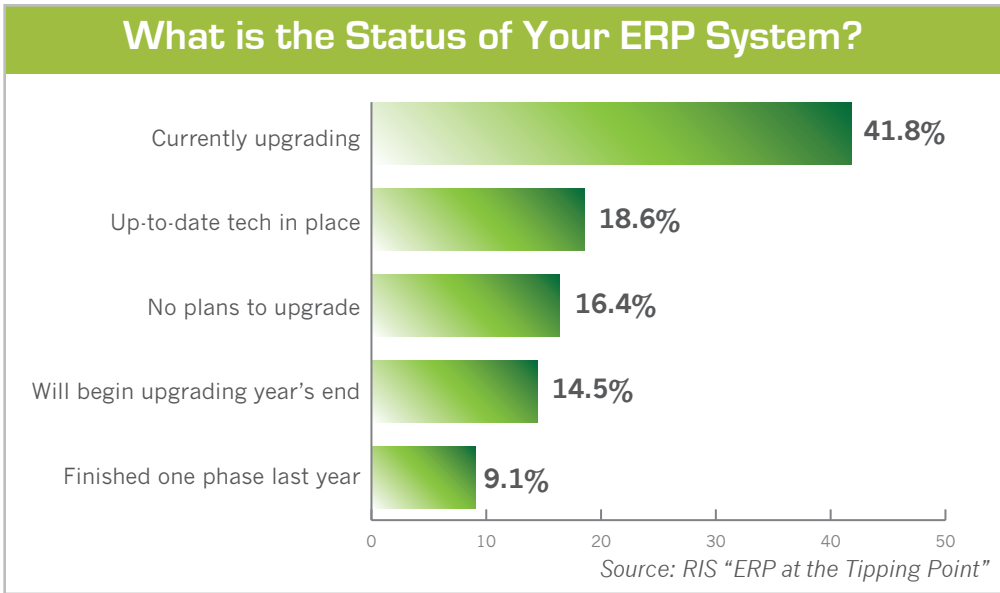
But to get to this point, where budget reports are using actual sales and cost figures that can be trusted, retailers need to break down departmental silos and get at accurate enterprise data. “Planning tools are only as good as the data supplied to them,” says RPE’s Stanford. “Which is why it is important to reconcile databases into a single version of the truth that is shared across all departments. When this happens not only are reports more accurate, but the organization comes into alignment and operates at peak efficiency.”

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In the current era of economic challenges and cost containment retailers that squander dollars will not be tolerated long by shareholders and stakeholders alike.

As a result, 41.8% of retailers have already begun upgrading portions of their enterprising planning systems and another 26% plan to begin upgrading by

the end of the year, according to the RIS News study, “Retail ERP at the Tipping Point.” This strong level of investment interest is an indication of just how critical these systems are to retail organizations even in today’s lean-budget environment.



4 Multi-Channel Fulfillment

Today’s shoppers expect to be able to conduct nearly any retail activity from any channel. Order online and pick up in the store? Sure, we can do that. Return online orders in stores? No problem. Come right in.

But the truth is most retailers are not prepared to handle functions like these because they are hard to do. To customers it seems like it should be the easiest thing in the world. What they don’t understand is that to retailers it means going through a complex, manual and costly process that isn’t sustainable.

Retailers realize it is important to offer this service to their best customers, but unless the process is streamlined through a reorganization plan, then inefficiency will add shipping cost to sales, reduce margins and add labor at multiple touch points.

“One of the downsides to store fulfillment of online sales is the potential to add incremental shipping cost from multiple ship points for multi-line items,” says Janet Sherlock, research analyst at AMR Research, in the report “Channel Agnostic Retailing,” a study produced with RIS News. “In addition, in-store labor costs are impacted by processing online orders.”

To offset these costs and achieve the benefit of incremental sales lift retailers need to retool their systems for order management, fulfillment and inventory visibility to cut down on inefficiency, excess labor, safety stock and online inventory.

Again, these aren't easy things to do, but physical stores are a key differentiator for brick-and-mortar retailers and a weapon they should exploit to successfully fight back against growing online-only retailers.

Many retailers report 15% to 30% of online transactions are picked up in stores, according to Sherlock. This surprisingly large pool of customers is motivated by several reasons: saving shipping costs, flexibility in browsing online prior to buying, reserving products in their favorite stores, and the ability to see, feel and try the product before it ends up at home.

However, while ship-to-store and in-store pick up produce similar results for customers, they have very different processing requirements and profitability implications for retailers.

In-store pick up using store inventory allows customers to get online purchases immediately, but only as long as the retailer has the ability to pass orders to the store in real-time to reserve the selected inventory and process the order.

Ship-to-store involves sending online purchases to stores. Some retailers absorb the shipping charges to process these orders, while others charge customers for ship-to-store transactions.

Often retailers are limited to just one of these options because they don't have the ability to handle both. The solution is to create an end-to-end system of integrated applications that automate key processes for order management, inventory management and fulfillment. This comprehensive system identifies each item sold through any channel and then removes it from the in-stock pipeline.

"After you stabilize the order management system across channels to accurately account for items promised for sale, you are able to deliver a service that has a great impact on customer satisfaction and profitability," says RPE's Stanford. "Also, you are able to move toward a virtual inventory or endless-aisle approach where a store is never out of stock for products customers want to buy. One benefit of this approach is to enable retailers to reduce certain allocations to stores, say for fringe sizes and colors, and rely on endless-aisle capabilities to reduce inventory positions."

In today's complex retail environment, cross-channel fulfillment is the key to efficiently serving the multi-channel consumer, which in turn is the key to satisfying shoppers that are far less tolerant and loyal than they used to be. •



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