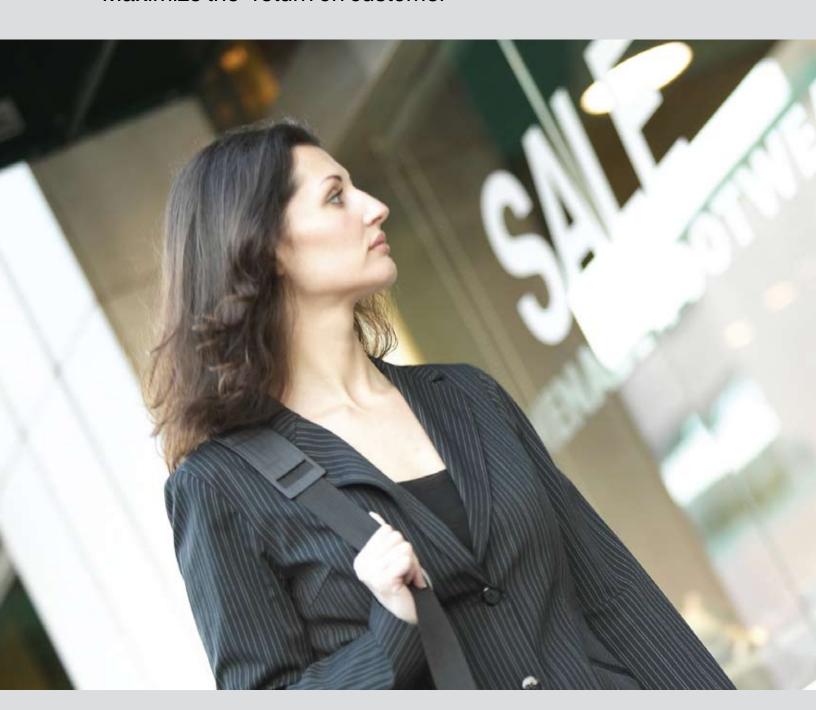# Retail perspectives
Maximize the "return on customer

The retail environment is fragmenting. Consumers want personalized shopping experiences. That means more stores, more channels, more choice–and an increasingly segmented customer base.

How to maintain market share and a competitive advantage? Retailers have to focus on customers because they are their most valuable resource, says business guru Martha Rogers. Of their brand, employees, products, and customers, only customers bring in revenue.

Fortunately, information technology can help chains maximize their "return on customer."

"Analytics technologies are driving a new competitive era," Dr. Rogers argues. "Smart companies will use these technologies to get to know customers who trust them, to look out for their interests, and to give them the greatest possible individual value.

"The information and insight they possess will let them do things for their customers that their competition is powerless to do."[1]

Beyond understanding the consumer, in-store execution is where the rubber meets the road. Here, retailers have to engage all parts of the organization–supply chain, merchandise, finance, marketing, and operations–to work together to manage supply and demand.

The IBM Institute for Business Value says the key to an integrated merchandising and supply organization is creation of common processes and information flows. The result is better-informed, more effective decision-making to optimize sales, inventory, and margins.

In this paper, we offer three perspectives on retail. First, we explore why retail marketers need customer data to drive more successful campaigns. We also look at how retailers can keep goods moving and shelves stocked through tighter integration with their supply chains.

Finally, we explore one solution for matching demand with strategy to optimize inventory investment: the *IBM Cognos® Financial Merchandise Planning Blueprint*.

[1] *What's your return on customer?* An interview with Martha Rogers, IBM Cognos Performance Perspectives, October 24, 2007.

Retail marketing: prisoner of the mass-market mindset?

Last year, American men spent billions of dollars on store merchandise. But until recently, this huge market has barely registered on the radar of most retailers and marketers. "Truth is, marketers are only beginning to understand the secrets of the male shopper," writes Nanette Byrnes in BusinessWeek.[2]

This may be a symptom of an industry that's lagging behind the times in marketing to an increasingly diverse population. In the face of a splintered market and sophisticated consumers, best-guess marketing isn't bringing the same payoffs.

According to the IBM Institute for Business Value, "pronounced shifts in demographics, attitudes and consumer values have polarized the marketplace. Retailers competing in a 'world of extremes' will have to become much more innovative."[3]

The complex world of consumer marketing

In the early years of TV, marketers could successfully deliver a single message to a mass audience. Not so with today's media and channel fragmentation, says David Lubars, chairman and chief creative officer of ad agency BBDO, North America.

"In the old days, you could run crap, and it was inescapable. Today, whether it's traditional or new media, consumers have unprecedented choice about what they will or won't watch."[4]

To reach the right consumer, retailers and marketers have to know their market. And that requires a nuanced and dimensional view of what people will buy and why. "If retailers are to develop offerings that reflect actual customer demand, they must start with an understanding of their customers that goes beyond traditional demographics," says IBM.

And as Jim Koppenhaver of MarketingProfs writes, you can't rely any more on generic data like household income to measure the potential spending power of customers. The reality is that "millionaires shop at Wal-Mart. And many people...are living well beyond their means."[5]

[2] Nanette Byrnes. *Secrets of the Male Shopper.* BusinessWeek, Sept. 4, 2006.

[3] Gina Paglucia Morrison and Anca Van Assendelft. *Charting a New Course: The retail merchandising-supply network.* IBM Institute for Business Value, 2006.

[4] Theresa Howard. *Marketers Aim for "Engaged" Consumers.* USA Today, June 20, 2006.

[5] Jim Koppenhaver. *The Driving Force Behind Purchase Decisions Marketing.* Profs.com, July 11, 2006.

Missing the mark

So how do you identify and target your customers? One of the biggest assets retail marketers have is a wealth of consumer data—not just POS transactions, but customer surveys, loyalty cards, and online click-through patterns. But retailers don't use it optimally. And disparate operations means data from each channel is locked in its respective silo.

Retail consulting firm Martec International puts it this way: "In many retailers, consumer input must travel through seven or eight layers of staff before reaching the CEO. Each layer adds their own spin, reducing the impact and value of the consumer interaction."[6]

It's next to impossible to market to consumers if you don't know who they are, what they like, or what they listen to and watch.

"Most companies still regard consumer insights as an isolated research capability," says the McKinsey Quarterly. So they don't obtain data "at the points where segments, channels, and categories intersect, nor can they integrate the information to form valuable insights."

The result? Many companies can't transform insights into action and don't have a common way of looking at customers across functions.[7]

A consumer insights network

Instead, says McKinsey, what organizations need is "an insights network that helps them look at the world through a number of lenses and to develop truly proprietary knowledge about customers." That means crossing functions and segments that might include "loyalty card and point-of-sale data, which could be combined with region-specific shopper-segmentation data and with in- and out-of-store market research on the drivers of shopper's behavior."[8]

Ideally, a consumer intelligence network would also include supplier insights and information from product manufacturers to complete the picture.

"Retailers will have to know what different customer segments value, and how those values shape what they want when they shop," says IBM.[9]

> *"Pronounced shifts in demographics, attitudes and consumer values have polarized the marketplace. Retailers competing in a 'world of extremes' will have to become much more innovative."*
>
> *– IBM Institute for Business Value*

[6] *Retail Performance Management*, an IBM Cognos white paper, Martec International, 2006.

[7] John E. Forsyth, Nicolo' Galante, Todd Guild. *Capitalizing on Customer Insights* The McKinsey Quarterly, Number 3, 2006.

[8] Ibid.

[9] Gina Paglucia Morrison and Anca Van Assendelft. *Charting a New Course: The retail merchandising-supply network*. IBM Institute for Business Value, 2006.

The benefits of dimensional data

ERP systems can't support this approach. But business intelligence can–by integrating data across systems and delivering dimensional views of the information. And analytics help marketers see patterns and relationships in new ways to unravel customer attitudes and behavior. The payoff? "The information and insights derived from marketing analytics can help your business accomplish a variety of goals–from targeting campaigns more effectively to driving greater demand and optimizing cross-sell and up-sell opportunities," says the DM Review.[10]

Planning and store operations

Customer insights can also feed back into key functions: store staffing, promotion handling, and store-level initiatives such as upgrades, or adding new departments or services. By leveraging sales and product movement information, retailers can develop targeted initiatives like promotions and assortment changes to increase loyalty and basket size.

With in-depth consumer knowledge and enterprise planning, they can also develop more customized merchandising and store promotion strategies. And retailers will be able to adapt more quickly to new consumer demands, competitive challenges, and shifting markets.

Customer insight for better results

"Information has always been the key for marketers to remain competitive and to pull ahead of the competition," argues James Koppenhaver.[11]

But the trick is to use information wisely. Instead of one-dimensional demographics and educated guesses, marketers need to mine their consumer data across categories and segments and analyze patterns. What they'll gain is a closer connection with the people who shop–which will drive more effective campaigns that resonate with customers.

"Today, whether it's traditional or new media, consumers have unprecedented choice about what they will or won't watch."

– David Lubars, BBDO

[10] Stephanie Acker-Moy. *Balancing the Art and Science of Marketing: Using Analytics for Maximum Marketing Effectiveness.* DM Review, August 2006.

[11] Jim Koppenhaver. *The Driving Force Behind Purchase Decisions MarketingProfs.com*, July 11, 2006.

Retail supply chains: "back end" or business value?

As retailers sell more and more goods through both their brick-and-mortar and online channels, supply chains become increasingly complex. For one thing, there are more suppliers and they're located all over the world.

Different products also move along the supply chain at different speeds. Supermarkets, for example, carry perishables such as bread, vegetables, and eggs as well as slower moving items like water filters and shoelaces. Added to that are seasonal or other variables that affect demand, such as barbecue items and gardening supplies.

Keeping it in-stock

Supply chains are getting harder to manage. But retailers have to stay on top of them to keep their shelves stocked and goods moving without too much excess inventory on hand. If they can't, consumers will simply go somewhere else.

From the IBM Institute for Business Value: "Underperforming merchandising and supply chain functions can not only reduce a retailer's effectiveness, they can also directly affect the shopping experience–and, ultimately, the satisfaction and loyalty of customers."[12]

"Being in-stock is one of the most important measures supermarkets look at," says Sam Israelit, a retail logistics expert. He adds that the idea is never to be out of stock of fast-moving items, which are often the most profitable. That requirement, along with seasonal and demographic logistics "adds enormous complexity to the planning process."[13]

Integrating supply and demand

Tighter integration between suppliers and retailers can help the process run more smoothly. Not just in terms of optimizing inventory, but also in terms of mitigating supply chain risks such as supplier disruptions.

The McKinsey Quarterly suggests that companies make selective IT investments to link their own ERP systems and their suppliers' systems to gain vital information and develop a cross-functional perspective. This can help them improve quality, supply, and sales.[14]

"In many retailers, consumer input must travel through seven or eight layers of staff before reaching the CEO. Each layer adds their own spin, reducing the impact and value of the consumer interaction."

– Martec International

[12] Gina Paglucia Morrison and Anca Van Assendelft. *Charting a New Course: The retail merchandising-supply network*. IBM Institute for Business Value. 2006

[13] *Manufacturing Complexity.* The Economist. June 15, 2006.

[14] Aditya Pande, Ramesh Raman, Vats Srivatsan. *Recapturing Your Supply Chain.* The McKinsey Quarterly. Spring 2006.

And "by sharing more sales information, a supermarket planning a special promotion, for instance, can be reasonably sure that a supplier will be able to deliver the necessary goods. At the same time the supplier will be better placed to increase production," argues The Economist.[15]

From "back end" to core value
The IBM Institute for Business Value argues that supply chains should be more than a "back end" part of the business. They can deliver more value to the business when integrated with core functions such as merchandising and customer marketing— helping to improve the shopping experience.

"The key to a fully integrated merchandising and supply organization is the creation of common processes, systems and information flows, together with a common planning mechanism, to connect the people sitting in the different parts of the business."

Such an integrated network can help retailers "successfully conceive, design, source, price, package, promote, deliver and replenish products for specific customer segments."[16]

More products, more channels
Supply chains are getting harder to manage as retailers offer more products through more channels. But by sharing information systems and gaining tighter integration with their supplier base, retailers can keep goods moving and shelves stocked—to keep the right amount of inventory that meets both demand and profitability goals.

" Information has always been the key for marketers to remain competitive and to pull ahead of the competition."
– James Koppenhaver, MarketingProfs

" The key to a fully integrated merchandising and supply organization is the creation of common processes, systems and information flows, together with a common planning mechanism, to connect the people sitting in the different parts of the business."

[15] *Manufacturing Complexity.* The Economist. June 15, 2006.

[16] Gina Paglucia Morrison and Anca Van Assendelft. *Charting a New Course: The retail merchandising-supply network.* IBM Institute for Business Value. 2006

A Blueprint for matching inventory with demand

It's a winning formula: provide a differentiated selection of goods that customers want and you increase sales. But getting the merchandise right is a complicated process, especially for big retailers and chains.

Consider the elements that come into play. Retailers must make significant investments in their supply chains, inventory, and retail space and layout. It's not just about having the right items in the right place at the right time. It's also about minimizing losses from out-of-stock situations or markdowns from too much stock.

As retail analyst Dana Telsey of Telsey Advisory Group says, markdowns may get customers in the store, but they cut into profits. So the more desirable full-price items a store has, the more profitable it can be.[17]

Retailers also have to engage all parts of their organization—merchandise, finance, marketing, and operations—to work together to share insights, set targets, model and forecast sales, and optimize investment in inventory. That's difficult to achieve if each department operates as an independent silo, or feeds into a manual, disconnected planning process.

Retailers benefit from enterprise-wide planning: Martec International

Indeed, more retailers are seeing the limitations of manual merchandise planning and operations. For better results, they're moving toward an enterprise-wide planning environment. According to Martec International, enterprise planning is the "first step in controlling and managing inventory."

"A Merchandise Plan encompasses projected sales and required stocks to achieve sales targets, margin and markdown to ensure target profitability," says Martec. "Ideally, these plans will be reconciled at each level to ensure that lower level plans match the high level plans."[18]

IBM Cognos Financial Merchandise Planning Blueprint

The *Blueprint* provides preconfigured policy and process models that help retailers jump-start their merchandise planning operations to drive profitable growth.

The integrated framework includes planning, metrics, and reporting. With it, chains can plan sales, margin, gross profit, and stock by division, channel, department, or category. It's a single enterprise platform for top-down and bottom-up planning—so all parts of the chain work with the same information and plan to a single set of financial goals and business objectives.

> " *Being in-stock is one of the most important measures supermarkets look at.*"
>
> – *Sam Israelit*

[17] Jayne O'Donnell. *Retailers try to train shoppers to buy now.* USA Today, September 25, 2006.

[18] *Retail Performance Management*, an IBM Cognos white paper, Martec International, 2006.

Year-over-year comparisons and exception-based planning

With top-down target setting, merchandise executives develop annual merchandise sales and gross profit plans for divisions or channels. Returns, promotions, markdowns, and supply chain costs can all be established using corporate standards.

Calendar adjustments let staff do meaningful year-over-year comparisons and projections to accommodate demand patterns for floating holidays.

Exception-based planning allows planners to adjust line items and model financial implications of changes to sales, costs, and gross profit. Staff can also access sales and inventory information to calculate stock levels and valuation.

And planners can forecast the impact of markdowns and promotions on inventory value and margin. Each may have a different percentage value and can be applied to a specific percentage of inventory, to protect profits.

Integrated analysis and planning capabilities

The *Blueprint* is built on IBM Cognos planning and BI software. IBM Cognos 8 Planning is a Web-based, high-participation solution for modeling, planning, budgeting, and forecasting.

It lets retail management define the process, models, and content required to meet financial targets, and then distribute pre-populated, Web-based templates to category merchandise planning contributors across the organization. It helps chains achieve consistent operating performance through highly collaborative, real-time planning.

Coupled with IBM Cognos 8 BI, the *Blueprint* lets retailers identify and measure key metrics, produce standard reports, and conduct analysis around critical information such as past and present sales, margins, shrinkage, supply chain costs, gross profit, and inventory evaluation. The result? Better-informed, more effective decision-making to optimize sales, margin, and stock.

Take the guesswork out of merchandising

Blueprints take the guesswork out of merchandise planning. Retailers gain the ability to plan accurately and make the most of strategic investments in inventory and store operations—so the right goods are in the store at the right time. And consumers will be more inclined to buy.

"A merchandise plan encompasses projected sales and required stocks to achieve sales targets, margin and markdown to ensure target profitability."

– Martec International

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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