Finding Upside in the Downturn: Merchandising Best Practices podcast series
Segment: Five of five

Hi, I'm Kelly Allen. What are some of the issues and trends impacting retailers and consumer product groups today? And what strategies can help them stay ahead? Today you're going to listen in as IBM World Wide Distribution Executive, Patricia Waldron, talks to Brian Hume. Brian is president and founder of Martec International, a leading retail consulting and training practice. Here, Brian explains why the right technology can help companies survive and thrive today. He discusses the important of planning, reporting, metrics, and other key performance management tools.

Patricia Waldron: What types of technologies are retailers… are important for retailers?

Brian Hume: Well, if we step back one level from the technology, the first thing that people have to get right is the process, whichever area of the business you are actually looking at and then obviously the second part then is to make sure that you have got the systems in order to support those processes and in our context, the most important areas are things like effective planning, whether it's merchandise planning, assortment planning, stock planning, and so on. Forecasting and forecasting demand rather than sales, the allocation and replenishment processes, you need an effective inventory review process so you monitor how your inventory investment is supporting the big days and where it needs adjusting in the effective promotion planning and evaluation tools and to do this well, you not only need good processes, but you need good quality data and you need the right kind of analysis tools.

Patricia Waldron: So, you advise a lot of retailers on business processes, best practices, technologies; where would you start if you were new to all of them?

Brian Hume: Well, the first place I would start is with the data warehouse. If you don't have one, you need one. If you have one, you have got to make sure that you are capturing the right data elements and in the context of this conversation for example you have to have daily sales and daily inventory balances, at least for an initial period of time. If you have that initial data at the daily level, you can start to get much more accurate assessments of things like your lost sales and if you are worried about the database getting too big, after you have got that lost sales analysis done, you could run a process say at the end of every month that does that for you, then you can mould the data up, and keep it say at a weekly level instead of a daily level. However, more and more retailers are moving into using tools like price optimization tools and they really do work best if you have got daily data although it's not essential. A lot of them will work pretty well with weekly data, but somewhere there is a kind of compromise between having enough data that it supports the processes you want to do, but not having so much that you can't really afford to process it, but…. So, the first thing is get the data warehouse right and then once you have got that right, you can then sort out or support all of the pre-analysis steps that people need to go through before they start building things like their plans.

Patricia Waldron: So, you have got your data warehouse reporting to your queries you have mentioned planning; retailers do a variety of different planning processes using a variety of different planning tools. What advice would you give retailers on completing the performance management cycle?

Brian Hume: Okay. Well, the first thing I try is the whole planning of performance management process is critical for any size of business, but when you are small and for the sake of argument let's say that small means you have got less than 20 stores, you can do most of your planning and your analysis using products like Microsoft Excel. As you grow, the potential challenges that you face get more significant and you need to build in more inherent security, more lock down so that individual user departments can't change the modules without people realizing they have been changed and so on. And so having started like using tools like Microsoft Excel, a natural migration for people is to move into tools such as those provided by Cognos in terms of their retail planning process blueprints. So, these address areas like merchandise planning, store planning, marketing planning, real estate planning, and alike and because they are built in the Cognos infrastructure, they automatically provide the kind of security that you need so that individual departments can't mistakenly change key formulae and key parts of the module and on so that you add apples to apples and you have really got oranges. So, that kind of security becomes very important. Longer term, when you get really big, you can then progress into the more sophisticated planning tools, but that's really something that only the very top end guys really need to do. So, just the first thing is start, as you get bigger, put more discipline, more security, more process into what you are doing and then you can adjust from there.

Patricia Waldron: So, talking about performance management and technologies, specifically what are the steps that people should follow in a performance management journey?

Brian Hume: Okay. Well, the very first thing is you need to know what you need to measure or track. There is an old adage what gets measured gets managed and in your context, in your business, you need to know, what are the metrics that are most important to you; they need to be role specific. So, there will be different metrics for store operations people than they will be for buying people than they will be for supply chain management and so on. So, the first thing you need to do is understand what metrics are important to your business, understand what metrics are important to each role and then define or gather some performance standard. So, for example, if one of your metrics is gross margin percent, then when you measure your gross margin percent, what are you are comparing it against? Well, one thing is you are comparing it against your own plan, one thing is you are comparing it against last year to see whether you are doing better or worse than last year, but the other comparison is how am I doing against other retailers in my peer group, so that I know I might be doing better than planned or I might be doing better than last year, but I might still not be doing as well as my peer group. So, the first thing is to define what it is you need to measure. The second thing you need to define some benchmarks to say what am I measuring against, and then you need the measurement tools that say actually, we have got a variance, here is the variance measured against plans or against last year or against a peer group or something like that and the curse of retail is the sheer volume of the data that retailer is looking. When you carry thousands of products in hundreds of stores and you measure it over time, you end up with a vast amount of data and many retailers can't see the wood for the trees, and the ability for your performance management system to present the information in ways that are very easy to assimilate and in particular they are very easy to assimilate quickly is quite critical and equally important is once you assimilate the metrics and how you are doing against your benchmark is the ability to drill down into potential problem areas and say now, let me get to the root cause of that problem and let me figure out what to fix and not just problem areas, because the other side of the coin is when I am doing really well at something, I would like to drill down and understand why I am doing well and see if there are lessons I can learn from that that I can deploy against other stores or other product groups or whatever. So, it's really define what you need to measure, define the benchmarks you are measuring against, and then have the tools that are able to do measurements and will let you see the wood for the trees.

Patricia Waldron: Those are great points. I know that you work with retailers and I know you have done some survey work with retailers. What are some of the interesting things that you have discovered recently and what's going on in the industry relative to IT projects and investments?

Brian Hume: Well, one of the biggest surprises out of the research project that we have just finished is that in the UK and this was a survey done across a 100 top UK retailers that IT budgets for 2009 have been cut by an average of 20% of sales. So, the first thing that means is that IT departments are under a lot more pressure to do more with less and although the budget has been cut, you can bet your life that nobody cut their list of requirements. So, IT departments are sitting there with the same list of requirements, but in theory at least, less money to do it with. So, one of the first things is you look at tools like those provided by Cognos to say how can we help people do more with less. The second conclusion that was very clear from the survey is that right now retailers are focused on products or projects rather that drive productivity and enjoy benefits of assets they already own and we mentioned in the previous conversation the core assets are inventory, staff, and space. So, retailers are focused on how do I drive inventory productivity, how do I drive sales per employee, how do I drive sales per square foot or sales per linear foot of selling space and a number of retailers are looking at things like implementing time and attendance applications, labor scheduling applications as part of that drive to drive productivity from their people cost. Now, once you capture that data, you feed that data into the various data warehouse, you couple it with sales information so that you can provide for example a sales per labor hour analysis, you can compare the chain against these planning benchmarks, you compare individual stores against the chain average, you can highlight stores that perform well, stores that are performing badly, and you can identify opportunities to improve the productivity of your labor investment. You can do exactly the same kind of things with inventory, you can do exactly the same kind of things with your selling space, and those are really most retailers' three… three biggest assets. So, it's really focus on, in this economy at least, it's focus on things that squeeze the most out of assets you are already own and make sure that you have got the tools that enable you to do that.

For more information on how IBM Cognos Software is helping retailers, please visit ibm.com/cognos/retail. I’m Kelly Allen, thanks for listening.