IBM

Retail Merchandising and Supply Chain ISV Update Stockholm

Stefan Gunnarsson
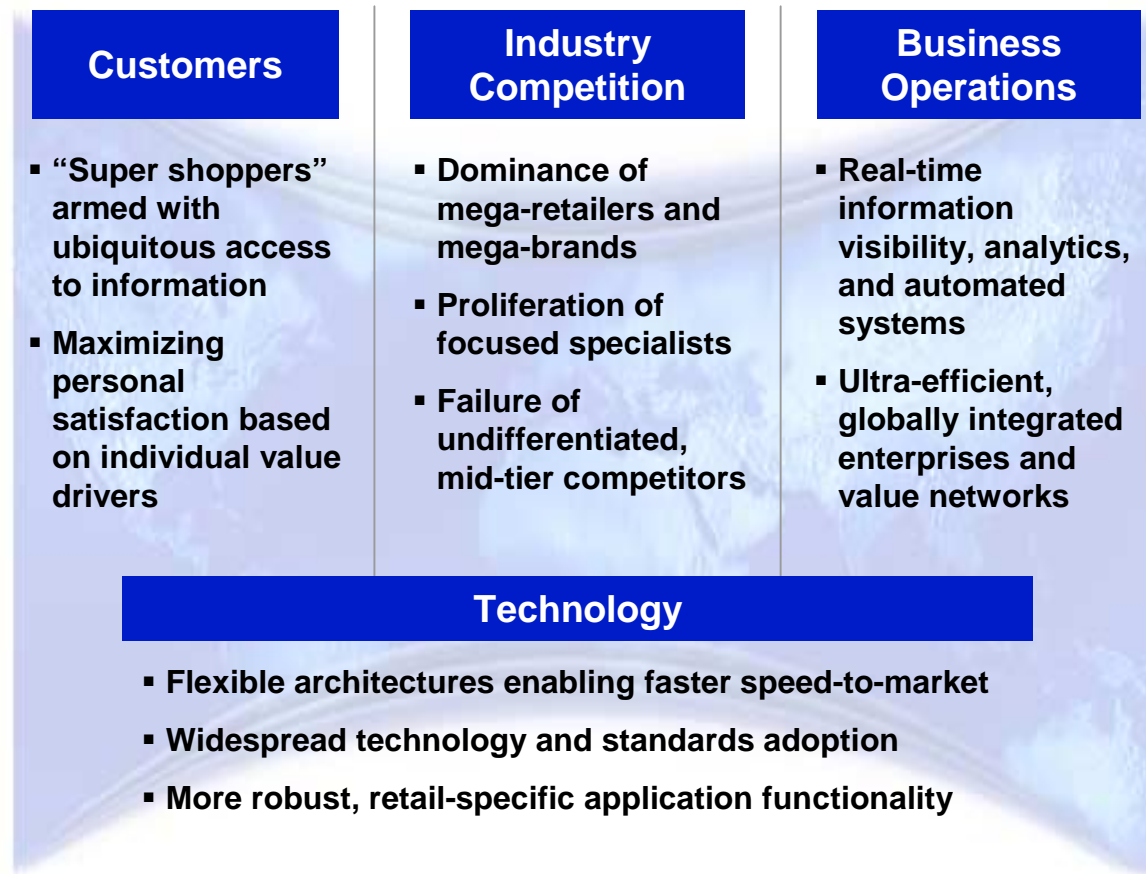Global Merchandising and Supply Chain Solutions
23 March 2006

2010 mega-trends: envisioning the future

In the coming years, five key factors will drive us to a highly consolidated market with tremendous demand complexity
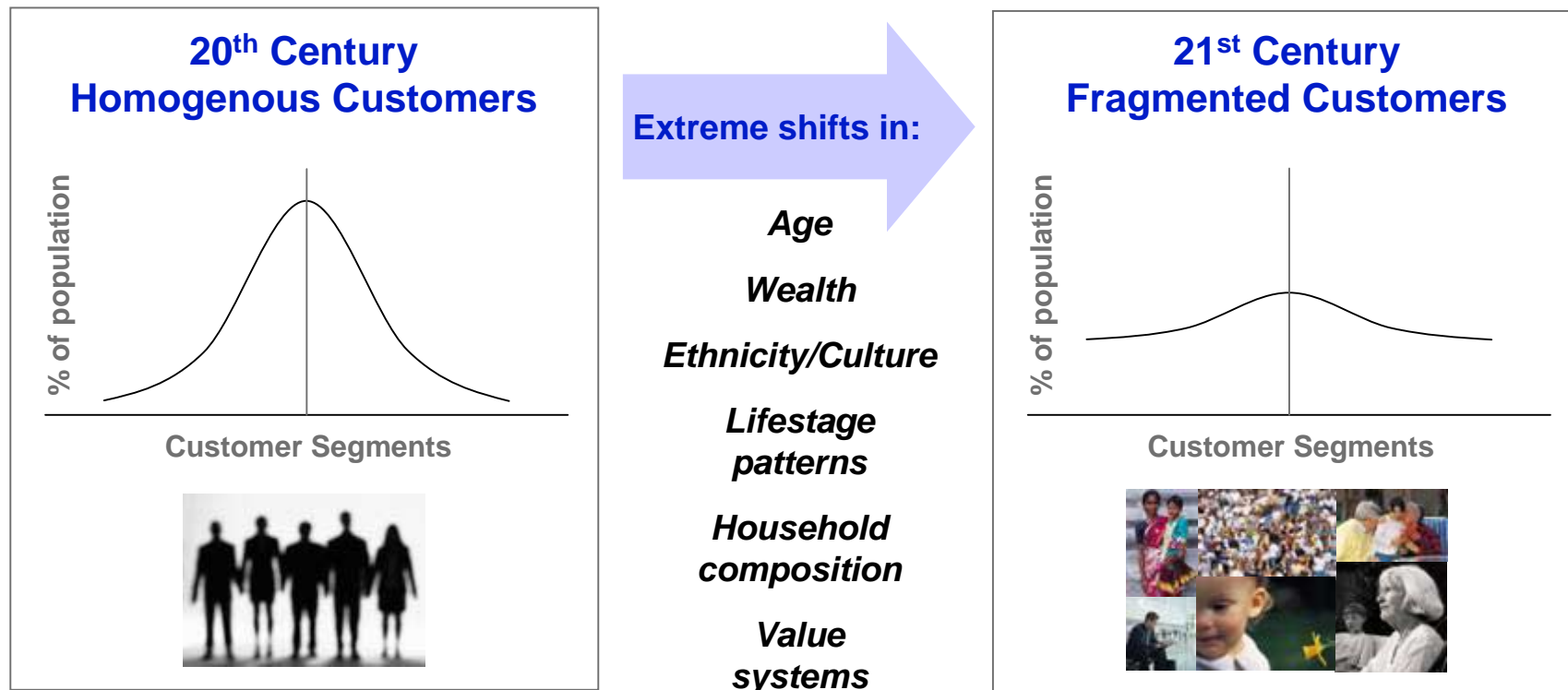
2010 Mega-Trends

(1) **Customer value drivers fragment**

(2) **Gatekeepers become more guarded**

(3) **Information exposes all**

(4) **Mega-retailers break the boundaries**

(5) **Partnering becomes pervasive**

IBM's Vision – A World of Extremes

Customers

- "Super shoppers" armed with ubiquitous access to information
- Maximizing personal satisfaction based on individual value drivers

Industry Competition

- Dominance of mega-retailers and mega-brands
- Proliferation of focused specialists
- Failure of undifferentiated, mid-tier competitors

Business Operations

- Real-time information visibility, analytics, and automated systems
- Ultra-efficient, globally integrated enterprises and value networks

Technology

- Flexible architectures enabling faster speed-to-market
- Widespread technology and standards adoption
- More robust, retail-specific application functionality

2010 mega-trends: envisioning the future

Customer value drivers are continuing to fragment as a result of changing demographics and value systems

1

1. Customer Value Drivers Fragment

20th Century Homogenous Customers

% of population

Customer Segments

Extreme shifts in:

Age

Wealth

Ethnicity/Culture

Lifestage patterns

Household composition

Value systems

21st Century Fragmented Customers

% of population

Customer Segments

"Norms" become increasingly rare; retailers must delve deeper to understand the needs and purchasing drivers of customer micro-segments.

Source: IBM Institute for Business Value analysis

2010 mega-trends: envisioning the future

Customers are trading both up and down within categories, favoring brands that provide them with differentiated value

(1)

Customers Selectively Trade Up and Down

Seeking **"good enough" quality at rock-bottom prices** when they perceive no differentiated value
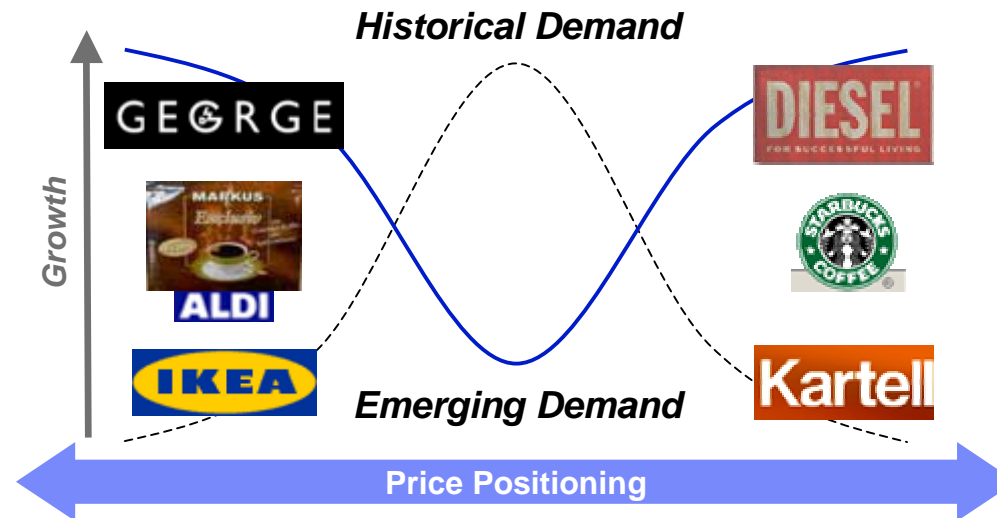
Willing to pay large premiums for **"new luxury" brands** when they deliver differentiated value

Historical Demand

Emerging Demand

Growth

Price Positioning

3-Year Sales CAGR 00/03			
Autos	Suzuki 5.3%	Chrysler -5.6%	Porsche 12.7%
Apparel	H&M 16.4%	Benetton -2.7%	French Connection 15.6%
Grocery	Costco 9.6%	Albertson's -1.2%	Whole Foods 19.6%

Source: Company Annual Reports; OneSource; Silverstein, Michael J. and Fiske, Neil, "Trading Up: The New American Luxury," 2003; PR Newswire, 12 Apr 04, http://sev.prnewswire.com/food-beverages/20040413/SFM02412042004-1.html

Customers will seek greater control over their interactions with businesses

2

2. Gatekeepers Become More Guarded

Blocking Out, Shutting Down

- Overexposed to and confused by marketing

- Ignoring irrelevant, low-value messages

- Actively blocking unsolicited communications

Taking Charge

- Emphasizing privacy and asserting control over use of personal data

- Setting a high bar on trust

- Leveraging technology and regulation

Retailers will be continually challenged to devise ever-more innovative ways of gaining customers' attention and forging lasting relationships with them.

Source: IBM Institute for Business Value analysis

2010 mega-trends: envisioning the future

Customers will become "super-shoppers", accessing information whenever and wherever they want it

3

3. Information Exposes All

Key Enablers

- **Ubiquitous networking**
- **Next-generation mobile devices**
- **Advanced infomediaries**

Perfect Information

- **Product knowledge** (price, features)

- **Third-party commentary** (quality reports, peer ratings, social/ethical issues)
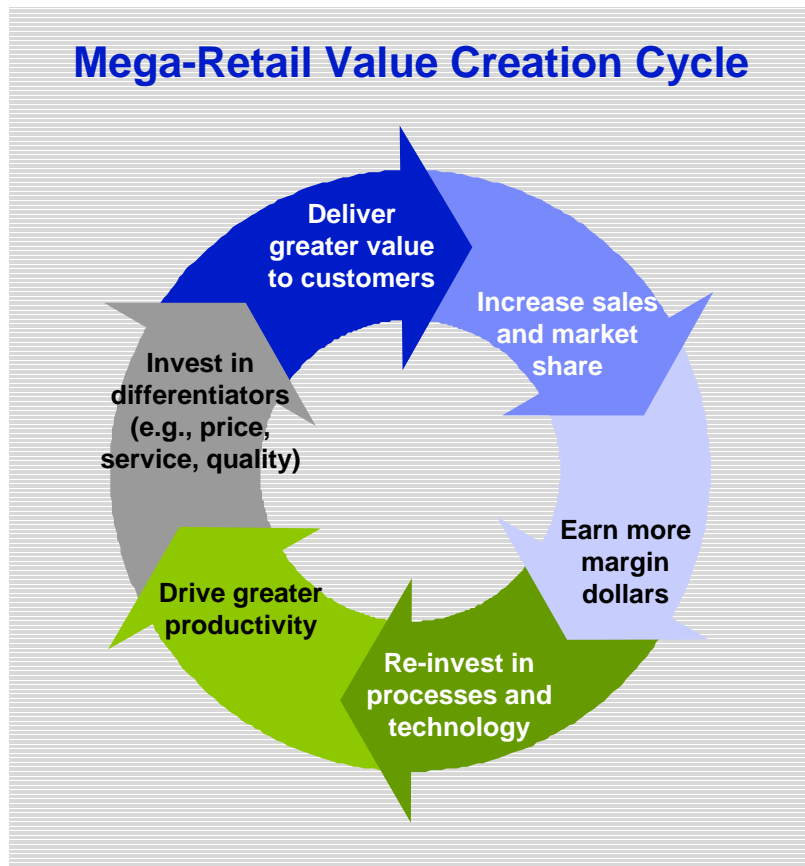
- **How to maximize personal value equation**

Retailers must proactively address weaknesses (e.g. service, employees), satisfy customer demand for information and harness new points of interaction to their best advantage.

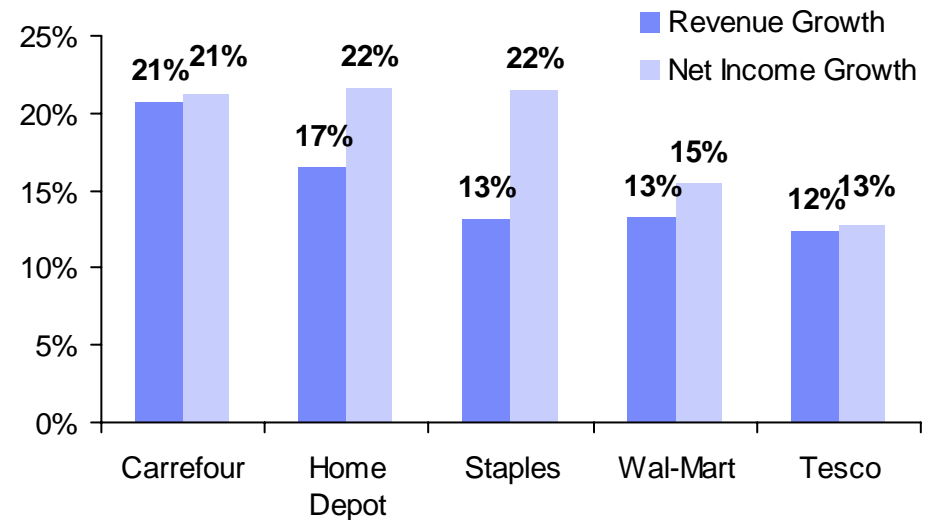Source: IBM Institute for Business Value analysis

2010 mega-trends: envisioning the future

"Mega-retailers" are exploiting a virtuous value cycle to attract customers and drive rapid growth

4

4. Mega-Retailers Break the Boundaries

Mega-Retail Value Creation Cycle

Deliver greater value to customers

Increase sales and market share

Invest in differentiators (e.g., price, service, quality)

Earn more margin dollars

Drive greater productivity

Re-invest in processes and technology

Mega-retailer: A retail enterprise that achieves dominant market share far above that of rivals and is able to dictate industry terms of competition.

Revenue and Profit Growth of Leading Retailers
CAGR 1998-2003

■ Revenue Growth
□ Net Income Growth

	Carrefour	Home Depot	Staples	Wal-Mart	Tesco
Revenue Growth	21%	17%	13%	13%	12%
Net Income Growth	21%	22%	22%	15%	13%

Source: S&P Compustat; IBM Business Consulting Services analysis

2010 mega-trends: envisioning the future

As mega-retailers continue to expand, both they and their competitors will face daunting challenges

4

New geographies

New formats

Aspiring mega-retailers must maintain growth and manage risk at ever-increasing levels of scale and complexity

Mega-Retailers: Expanding in multiple dimensions

Competing retailers must find differentiated niches, prepare to be acquired, or go out of business

New categories

New price positioning

Source: IBM Institute for Business Value analysis

In addition, companies are re-thinking their business models and building agile networks of partners
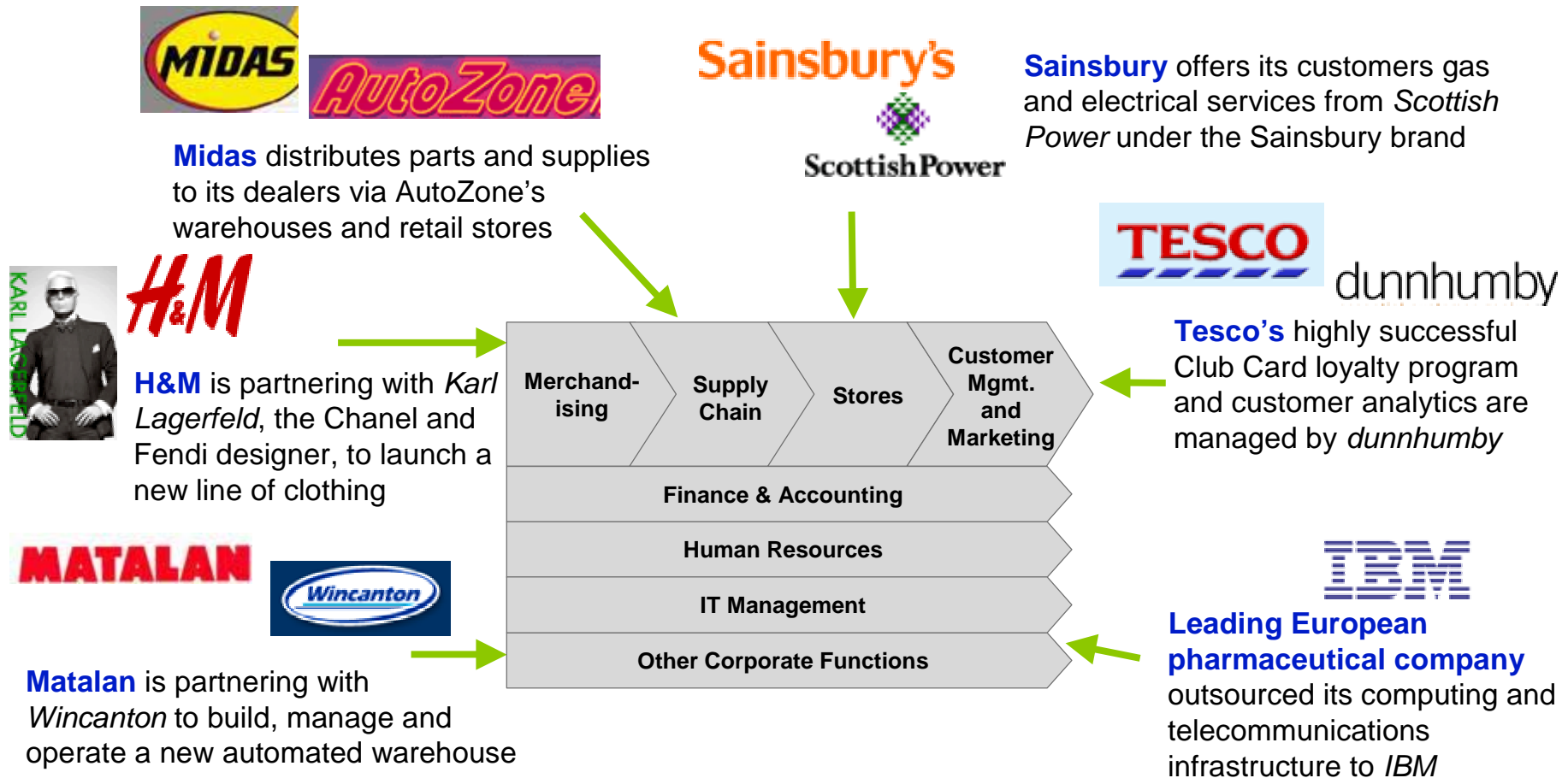
5

5. Partnering Becomes Pervasive
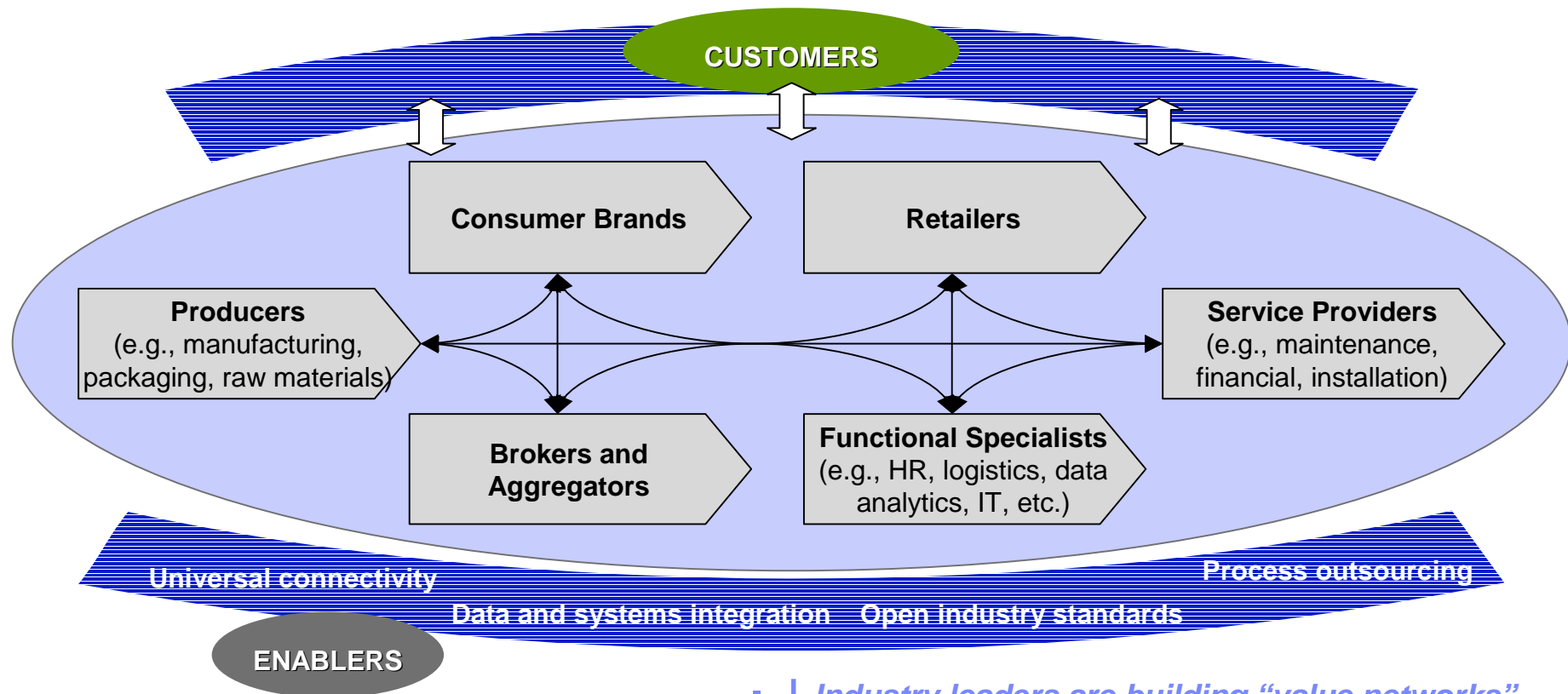
Industry leaders are building "value networks" that respond quickly and efficiently to shifting customer demand.

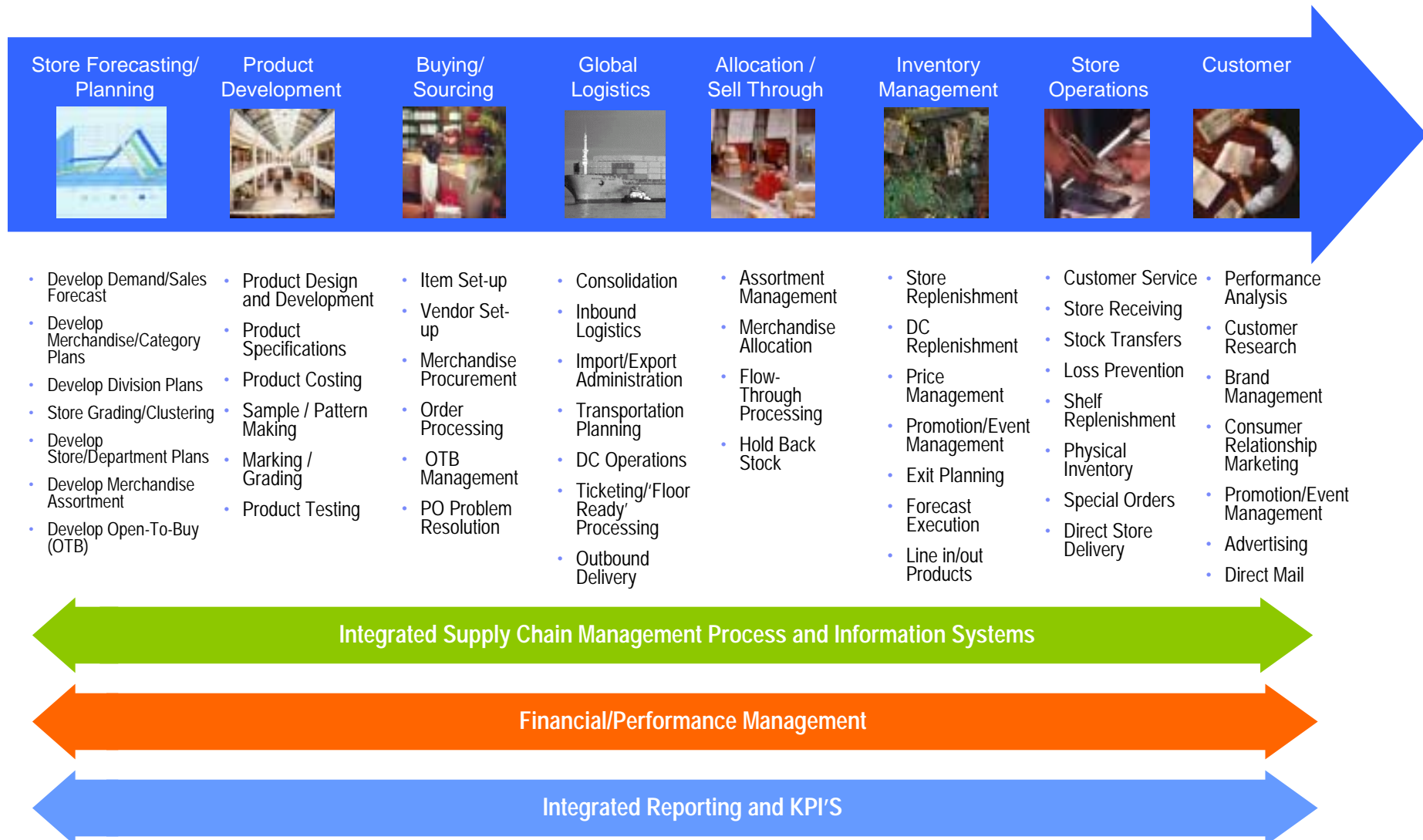Source: IBM Institute for Business Value analysis

2010 mega-trends: envisioning the future

Retailers are partnering across their value chains to offer greater value to customers and increase competitiveness

5

Midas distributes parts and supplies to its dealers via AutoZone's warehouses and retail stores

Sainsbury offers its customers gas and electrical services from *Scottish Power* under the Sainsbury brand

H&M is partnering with *Karl Lagerfeld*, the Chanel and Fendi designer, to launch a new line of clothing

Tesco's highly successful Club Card loyalty program and customer analytics are managed by *dunnhumby*

Merchand-ising	Supply Chain	Stores	Customer Mgmt. and Marketing

Finance & Accounting

Human Resources

IT Management

Other Corporate Functions

Matalan is partnering with *Wincanton* to build, manage and operate a new automated warehouse

Leading European pharmaceutical company outsourced its computing and telecommunications infrastructure to *IBM*

Source: "Sainsbury: power to the people-Food Retailing- introduces gas and electricity to customers", Eurofood, Nov 2001; "Chanel, Fendi Designer to Start New Line for H&M Stores", Knight-Ridder Tribune Business News, 19 June 2004; "Wincanton wins contract with Matalan for automated warehouse", AFX UK Focus, 24 May 2004; "Boots announces major IT outsourcing contract", Boots press release 10 Jan 2002; "Angel Customers and Demon Customers", Selden and Colvin, 2003; "Midas, Autozone announce agreement for parts distribution to Midas shops, Midas to exit distribution business", Midas press release, 03 Apr 2003

The scope of Merchandise and Supply Chain Solutions was recognized as being integrated & customer centric and should not be split into two

Store Forecasting/ Planning	Product Development	Buying/ Sourcing	Global Logistics	Allocation / Sell Through	Inventory Management	Store Operations	Customer

- Develop Demand/Sales Forecast
- Develop Merchandise/Category Plans
- Develop Division Plans
- Store Grading/Clustering
- Develop Store/Department Plans
- Develop Merchandise Assortment
- Develop Open-To-Buy (OTB)

- Product Design and Development
- Product Specifications
- Product Costing
- Sample / Pattern Making
- Marking / Grading
- Product Testing

- Item Set-up
- Vendor Set-up
- Merchandise Procurement
- Order Processing
- OTB Management
- PO Problem Resolution

- Consolidation
- Inbound Logistics
- Import/Export Administration
- Transportation Planning
- DC Operations
- Ticketing/'Floor Ready' Processing
- Outbound Delivery

- Assortment Management
- Merchandise Allocation
- Flow-Through Processing
- Hold Back Stock

- Store Replenishment
- DC Replenishment
- Price Management
- Promotion/Event Management
- Exit Planning
- Forecast Execution
- Line in/out Products

- Customer Service
- Store Receiving
- Stock Transfers
- Loss Prevention
- Shelf Replenishment
- Physical Inventory
- Special Orders
- Direct Store Delivery

- Performance Analysis
- Customer Research
- Brand Management
- Consumer Relationship Marketing
- Promotion/Event Management
- Advertising
- Direct Mail

Integrated Supply Chain Management Process and Information Systems

Financial/Performance Management

Integrated Reporting and KPI'S

DS10 - Retail Merchandising and Supply Chain Solution Detailed Level Process Overview and Solution Scope

Legend:
- Directly Addressed (green)
- Related business process (orange)
- Not Addressed (grey)

	Customer Relationship	Merchandising	Store & Channel Operations	Inventory & Distribution	Business Administration
Direct	Customer Relationship Strategy	Brand Strategy	Store & Channel Strategy	Supply Chain Strategy (DC & Distribution)	Corporate LOB Strategy
	Customer Segmentation	Merchandise Strategy	Store & Channel Design	Transportation Planning	Financial Mgmt. & Planning
	Marketing Strategy & Planning	Price/Promotion & Margin Strategy	Macro Space Planning	Sourcing Strategy (Logistics)	Real Estate Planning
		Supplier Strategy			Alliance Strategy
Control	Customer Behavior Modeling	Product Development / Design (PLM)	Store Ops Mgmt	Transportation/Fleet Management	Business Performance Reporting
	Market & Competitor Research	Merchandise Planning (Product, Location, Assortment)	Markdown Mgmt	Supplier Terms Administration	Legal & Regulatory Compliance
	Segmentation Management	Supplier, Product and Location Hierarchy	Plannograms	In & Out-Bound Logistics	Real Estate Mgmt
	Customer Service Management & Assessment	Price & Promotions Mgmt.	Workforce Management	Inventory Management	Stock Ledger
	Campaign Management	Sourcing and Category Management	Allocation	Warehouse Management	HR Management/Career
		Technology and Quality Assurance			
Execute	Customer Service (Pre & Post Sale, Clienteling)	Buying and PO Management	Stocking & Replenishment	Transportation/Fleet/DC Ops	HR Admin /Payroll
	Call Center (multi-channel)	Rebates and Trade Funds Management	Price Changes	Loss Prevention	Corporate Audit & Accounting
	Marketing Execution (Loyalty, Mass & Targeted)	Demand Forecasting & Replenishment	Services Delivery	Returns & Reclamation	IT Systems & Ops
	Customer Repository	Master Data Management (Product/Item/Attribute/Cluster)	POS Execution/Cash Management	Physical Inventory (Product Track & Trace)	Credit Ops
	Customer Communications	Promotion and Price Optimization	Labor Scheduling, T&A, Resource Optimization	Supplier Performance	PR & Investor Relations

IBM

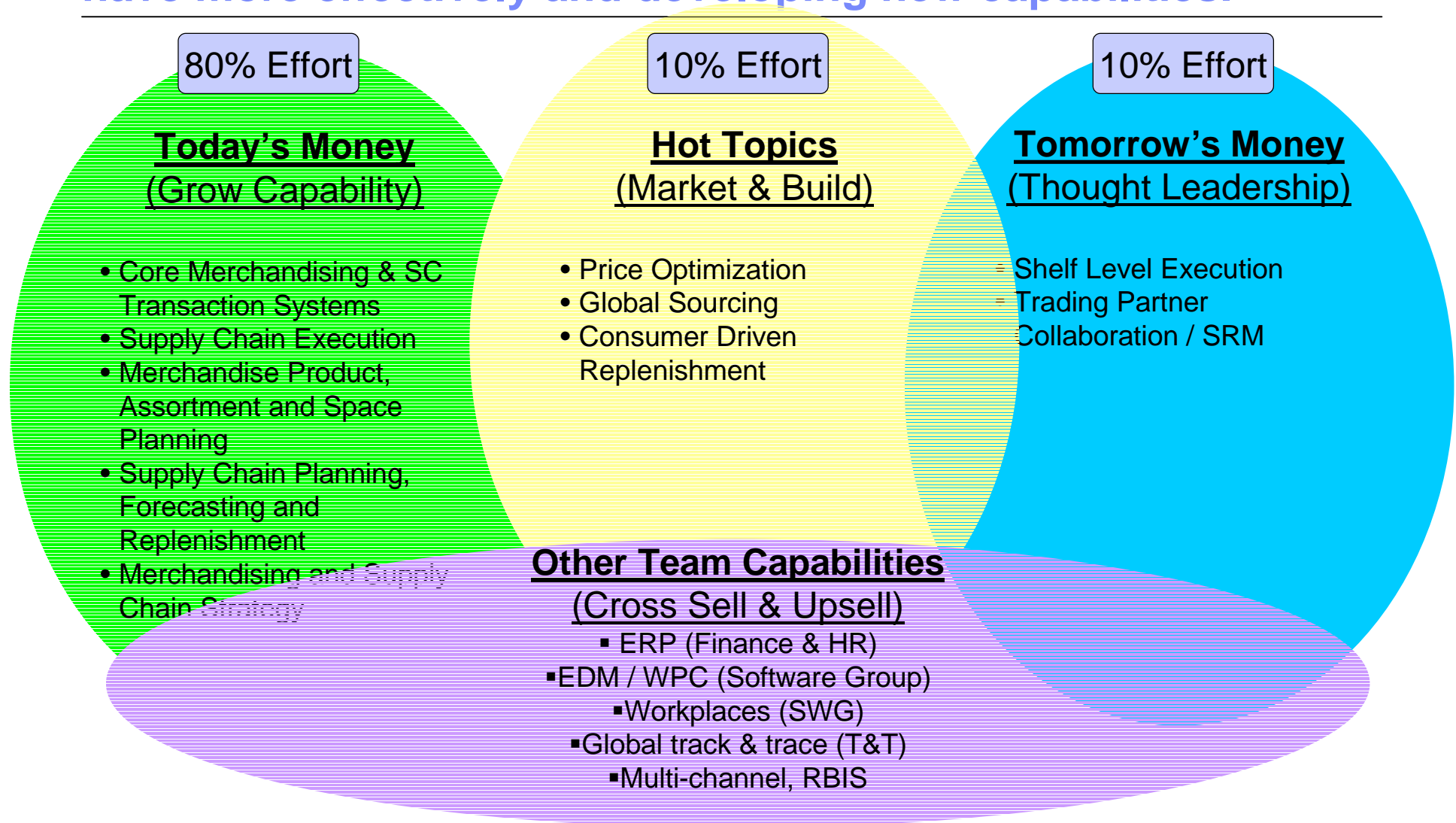# Summary Solution Definitions - "Today's Money"

Solution	Simple Definition	Market Opportunity	IBM Delivery Capability	IBM Solution Maturity
Merchandising & Supply Chain Transaction Systems	**Business Problem:** Managing foundational data and core processes to decide on what to sell, who to buy it from, what price to sell it at and in what store. **Solution**: Accelerators for Oracle Retail and SAP implementations. Includes Sales tools, project plans, design phase docs and functionality maps including leading practice implications. Also Includes application and technical architecture templates and data models as well as application hosting and technical implementation.	H	L	L
Supply Chain Execution	**Business Problem:** Shipping the Right product, right place, right time at minimum cost and with minimum inventory. **Solution:** Sales and delivery assets for Warehouse and Transport Management System implementations – including cross boarder / international logistics. Key ISV's - Manhattan, SSA, Oracle (G-Log), hosting and Hardware sales.	H	H	M
Merchandise assortment and space planning.	**Business Problem:** Optimising and aligning Product Planning, Assortment and Space management to predict and meet consumer demand. **Solution**: Integrated process linking financial, product and item plans with assortment, store and space plans. Implementation implications and project structure. ISV independent but relevant to Oracle, SAP, i2, JDA, Market Max	M	L	L
Supply Chain Planning, Forecasting & Replenishment	**Business Problem:** Optimising product availability to meet consumer demand with minimum inventory and waste in supplier, DC and Store. **Solution**: Integrated Inventory, planning, forecasting, store and DC replenishment processes driven by real-time consumer demand and inventory signals and advanced analytics. (Manugistics, Manhattan (Evant), Oracle, SAP, i2)	M	H	M

We need to maintain a balanced portfolio – selling what we have more effectively and developing new capabilities.

80% Effort

Today's Money
(Grow Capability)

- Core Merchandising & SC Transaction Systems
- Supply Chain Execution
- Merchandise Product, Assortment and Space Planning
- Supply Chain Planning, Forecasting and Replenishment
- Merchandising and Supply Chain Strategy

10% Effort

Hot Topics
(Market & Build)

- Price Optimization
- Global Sourcing
- Consumer Driven Replenishment

10% Effort

Tomorrow's Money
(Thought Leadership)

▪ Shelf Level Execution
▪ Trading Partner Collaboration / SRM

Other Team Capabilities
(Cross Sell & Upsell)
▪ ERP (Finance & HR)
▪ EDM / WPC (Software Group)
▪ Workplaces (SWG)
▪ Global track & trace (T&T)
▪ Multi-channel, RBIS

DS10- Retail Merchandising and Supply Chain Solution Footprint
What offerings are we bringing to Market?
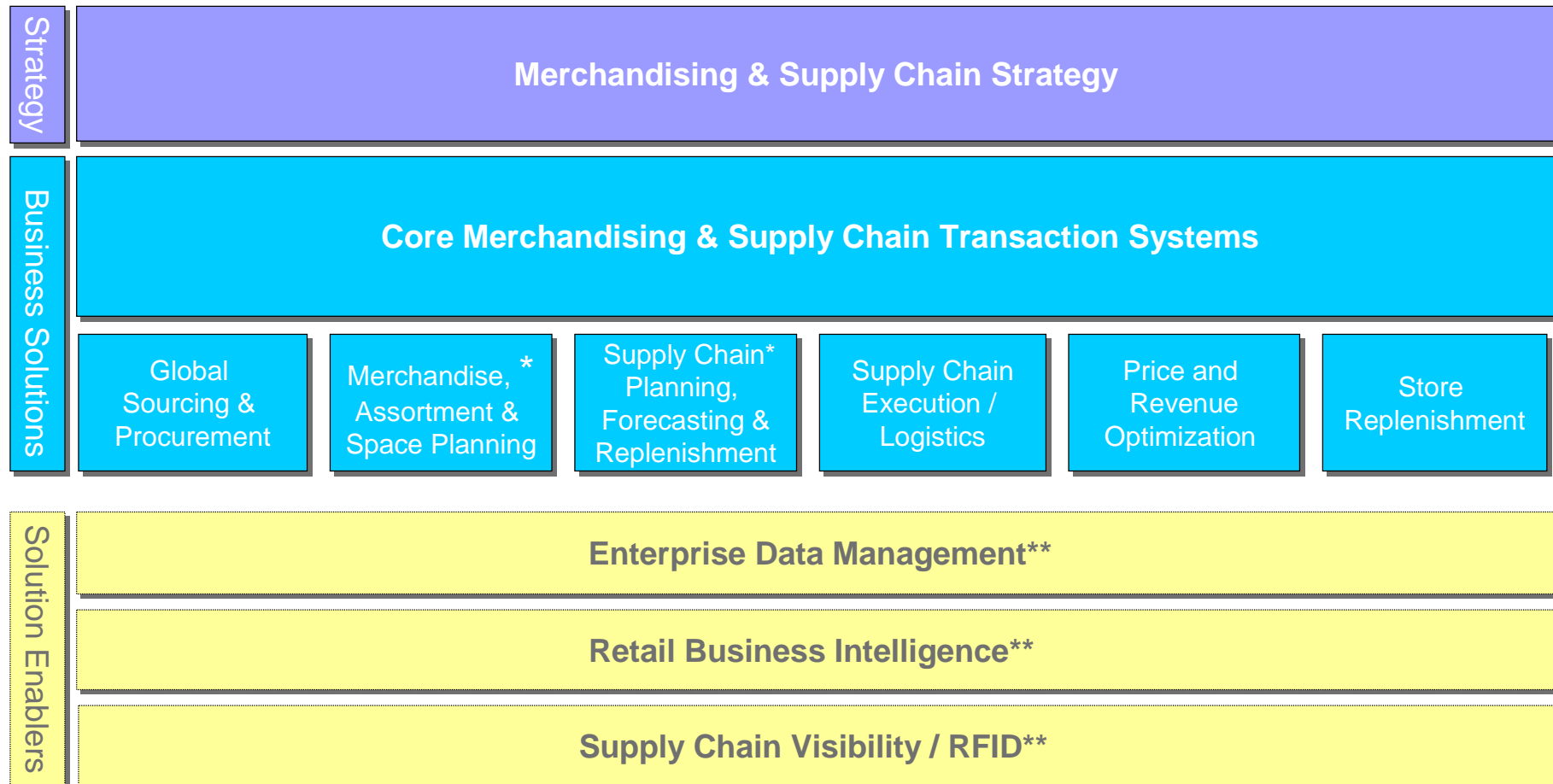
Strategy

Merchandising & Supply Chain Strategy

Business Solutions

Core Merchandising & Supply Chain Transaction Systems

Global Sourcing & Procurement	Merchandise, Assortment & Space Planning *	Supply Chain* Planning, Forecasting & Replenishment	Supply Chain Execution / Logistics	Price and Revenue Optimization	Store Replenishment

Solution Enablers

Enterprise Data Management**

Retail Business Intelligence**

Supply Chain Visibility / RFID**

* The scope of Merchandising ,Assortment and Space planning, And Supply Chain Planning, Forecasting and Replenishment vary according to the Industry segment and the type of supply chain involved.
** Solution Enablers are infrastructure solutions that are underpinnings of the Merchandising and Supply Chain solution area. They are not driven by this area.

IBM

So Where's the Money? (AMR's*** view 2005 – US Only $1.22B)
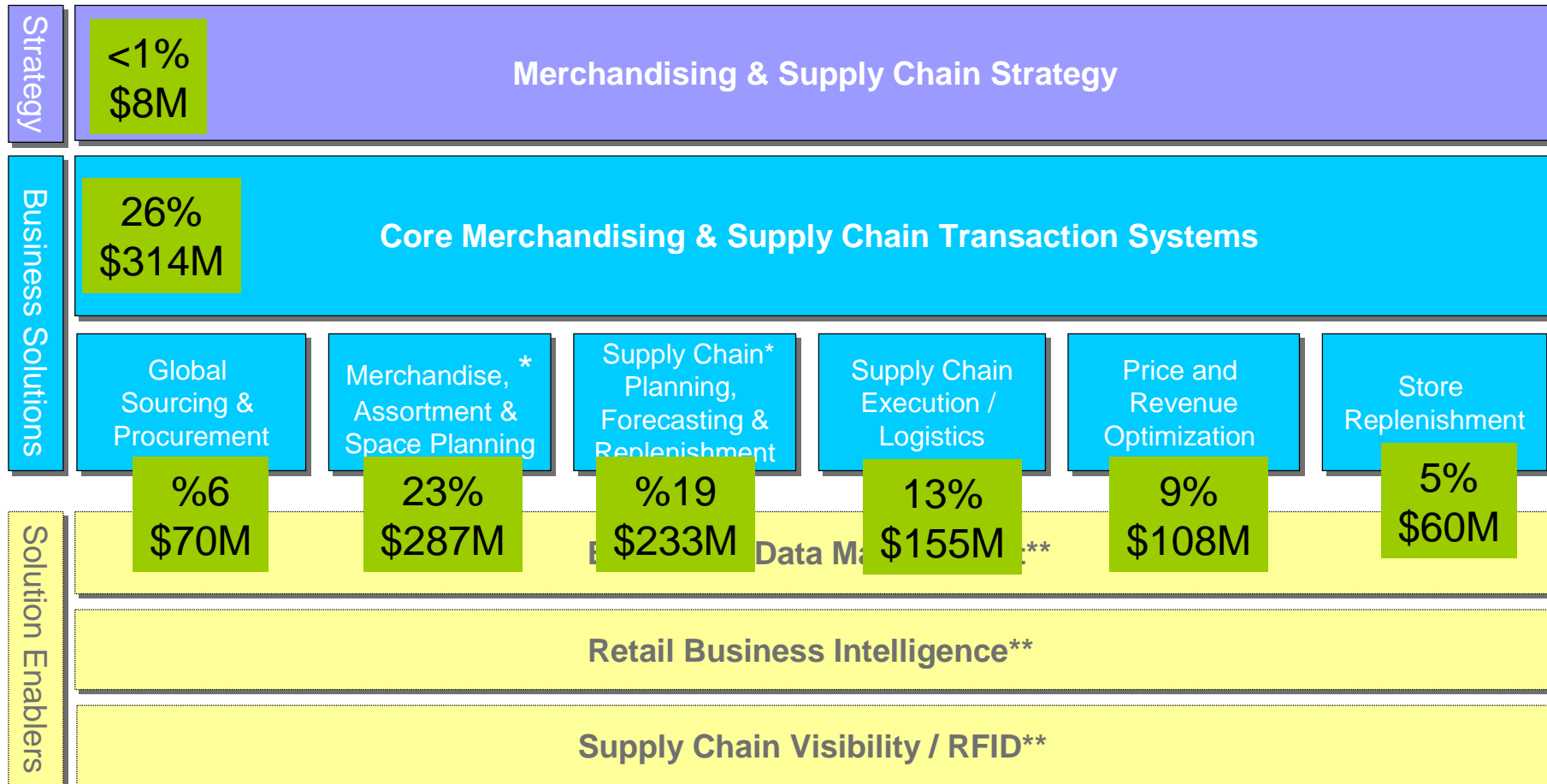
Strategy

<1%
$8M

Merchandising & Supply Chain Strategy

Business Solutions

26%
$314M

Core Merchandising & Supply Chain Transaction Systems

| Global Sourcing & Procurement | Merchandise, Assortment & Space Planning * | Supply Chain* Planning, Forecasting & Replenishment | Supply Chain Execution / Logistics | Price and Revenue Optimization | Store Replenishment |

%6
$70M

23%
$287M

%19
$233M

13%
$155M

9%
$108M

5%
$60M

Solution Enablers

Data Management***

Retail Business Intelligence**
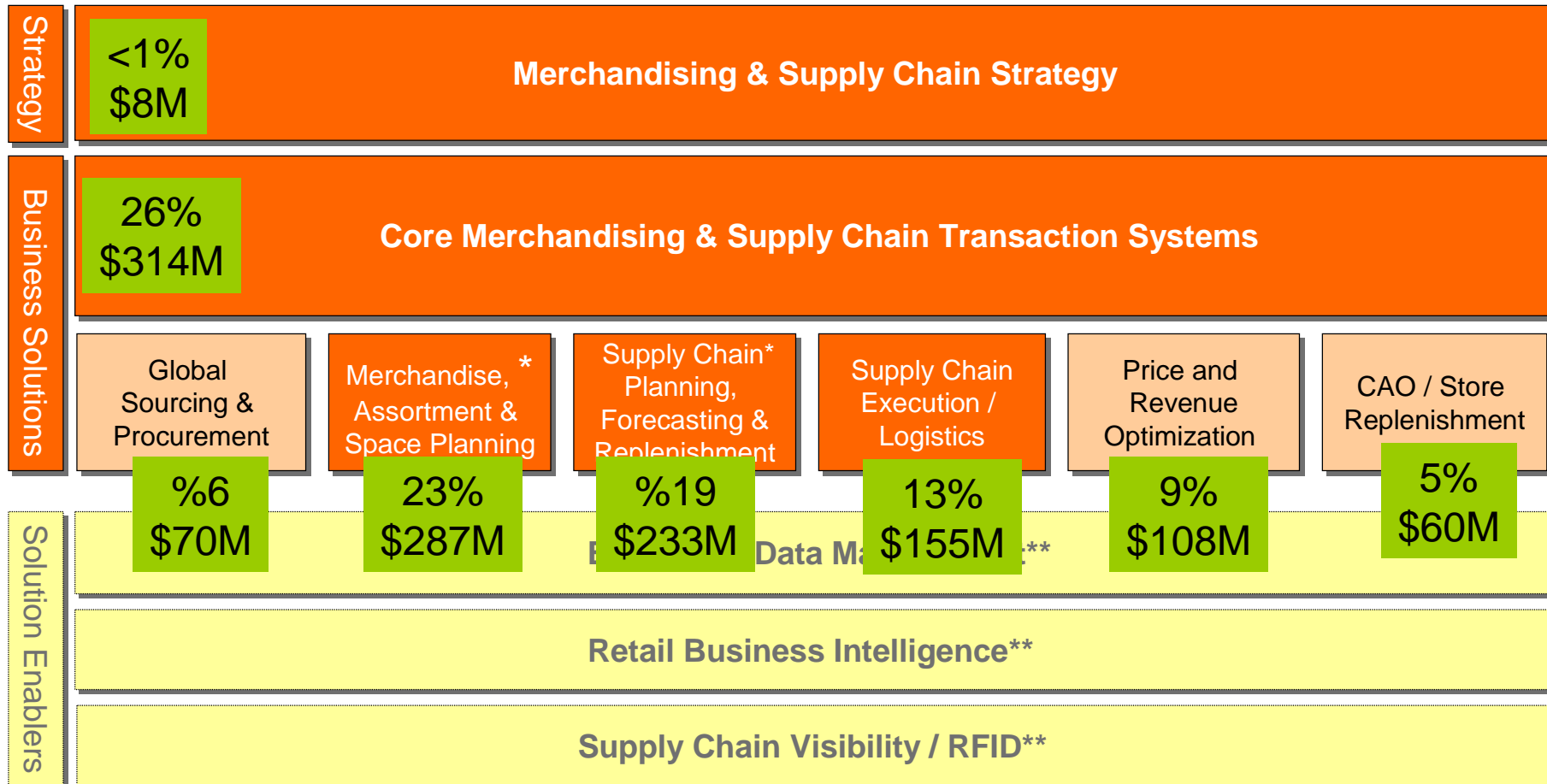
Supply Chain Visibility / RFID**

* The scope of Merchandising ,Assortment and Space planning, And Supply Chain Planning, Forecasting and Replenishment vary according to the Industry segment and the type of supply chain involved.

** Solution Enablers are infrastructure solutions that are underpinnings of the Merchandising and Supply Chain solution area. They are not driven by this area.

*** Based on 2005 Sample – US only – Retailers from 10-25B+ Turnover. Assumes 20% Single vendor vs Best of Breed

So Where's the Money? – IBM Solutions Fit

■ Major Solution Sales and Capability Focus　■ Thought Leadership / Market Building　□ Supporting other teams efforts.

Strategy

<1% $8M — **Merchandising & Supply Chain Strategy**

Business Solutions

26% $314M — **Core Merchandising & Supply Chain Transaction Systems**

Global Sourcing & Procurement	Merchandise, Assortment & Space Planning *	Supply Chain * Planning, Forecasting & Replenishment	Supply Chain Execution / Logistics	Price and Revenue Optimization	CAO / Store Replenishment
%6 $70M	23% $287M	%19 $233M	13% $155M	9% $108M	5% $60M

Solution Enablers

Data Management**

Retail Business Intelligence**

Supply Chain Visibility / RFID**

* The scope of Merchandising ,Assortment and Space planning, And Supply Chain Planning, Forecasting and Replenishment vary according to the Industry segment and the type of supply chain involved.
** Solution Enablers are infrastructure solutions that are underpinnings of the Merchandising and Supply Chain solution area. They are not driven by this area.

We are developing a comprehensive set of plans to address all aspects of the Solutions Business
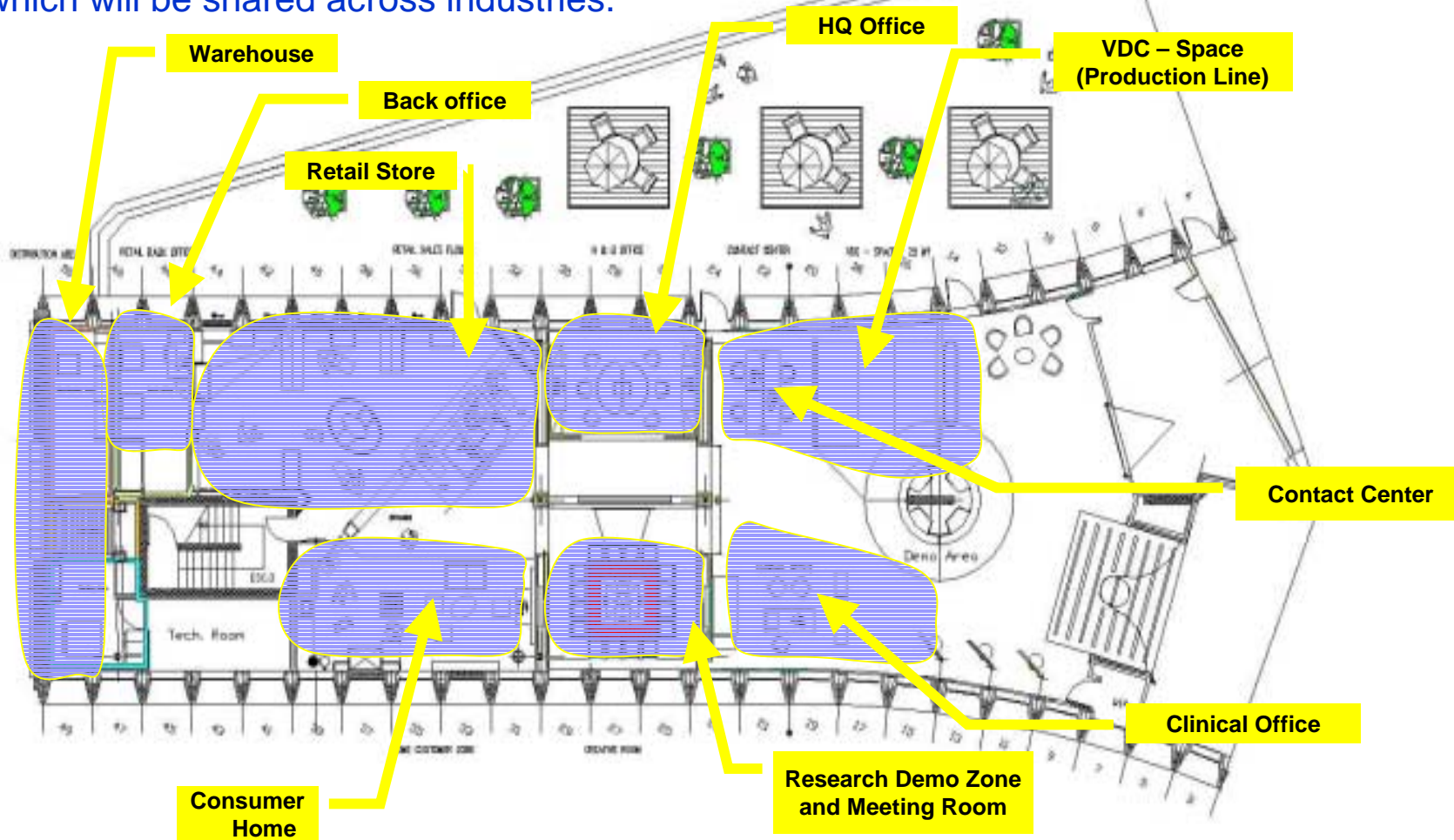
Activity	-1	1	2	3	4	5	6	7	8	9	10	11	12	1
Solution Development														
Core Merch/SC Harvest P1	■													
Core Merch/SC Build P1		■	■	*										
S/C & Merch Strat Harvest		■	■											
S/C & Merch Strat Build				■	■	*								
Core Merch/SC Harvest P2					■	■								
Core Merch/SC Build P2							■	■	*					
S/C Planning Forecast & Replen Harvest						■	■							
S/C Planning Forecast & Replen Build									■	■	*			
S/C Execution Harvest												■	■	
S/C Execution Build														■
Merch Assort & Space Planning Harvest										■	■			
Merch Assort & Space Planning Build												■	■	*
Deployment														
Total Offering Masterclass (BSP's)			*											
Core Merch/SC Sales Training (PT1)				*										
S/C Merch Strategy Training						*								
Core Merch/SC Delivery Training (PT2)									*					
S/C Planning Forecasting & Replen											*			
Merch Assort & Space Planning Sales														*
S/C Execution Sales & Delivery Training														
Collateral / Knowledge Café Updates														
Internal Marketing / Sales Awarenes														
Internal Webinars		*	*											
Sectornet updates						*								
Regional Planning Meetings									*					
Community Calls											*			
External Marketing														
Events														
- NRF2006		*												
- CIES											*			
- ECR					*									
- RSS			*											
- CXC									*					
- IGD London					*									
- Local Events (e.g UK Supply Chain)														
La Gaude / Dallas Solution Centres														
Content POC development														
Client Marketing Events														
- Roundtables														
Thought Leadership														
IBV - S/C Merchandising POV				*										

IBM Solution Centre – La Gaude

Industry Zones – La Gaude

The centre covers the entire value
chain and is organised into "Zones"
which will be shared across industries.

Warehouse

Back office

Retail Store

HQ Office

VDC – Space
(Production Line)

Contact Center

Clinical Office

Consumer
Home

Research Demo Zone
and Meeting Room

The Solution Centre focus – Audience

- The solution centres are designed to support visits from different types of audiences. This varies from a high-level walkthrough for executives to an in-depth session with technical staff.

Audience

Experience

C-Level

Team leads

Business/IT Teams In Depth review

Innovation Experience
Walkthrough the whole journey to generate new ideas and get vision for the next strategy session

Process Sandpit
Working through a specific and detailed process focusing on key issues and reviewing potential solutions

Business Collaboration
Multi-Company Workshop designed to generate collaborative process improvements

Indepth session
In depth scenario drive reviews