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BACK TO THE FUTURE:

*The Return of
Fundamental Retailing*



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INTRODUCTION: GOOD BLOCKING & TACKLING LEADS TO SUCCESS

AT A MAJOR BOSTON DEPARTMENT STORE, AN EAGER CUSTOMER TROTS UP THE ESCALATOR TO THE second floor men’s department to have his special “mystery coupon” scanned. A long-time customer, he has been carefully chosen by a corporate loyalty system to receive the coupon. The reward for his loyalty comes in the form of participation in a random computer-based lottery for a \$10 to \$1,000 discount off a select assortment of merchandise.

At a well-respected two-store clothing chain in Connecticut, a customer can walk in, receive a pat on the shoulder from a friendly sales associate, and moments later try on new suits appropriate for his build and personal preferences. The sales associate looks on confidently because he has reviewed details of his customer’s previous purchases, which are stored in the retailers’ customer relationship management (CRM) system.

At one of the world’s biggest luxury-goods retailers, store managers will soon know when one of the chain’s top customers is walking through the door, thanks to an RFID-embedded customer loyalty card that triggers a radio wave reader linked to in-store systems. Instantly, the store manager will know the person’s name, their personal preferences and buying history, which will aid associates in showing the customer new and exciting merchandise.

With support of new customer-oriented sales systems and practices, retailers are pro-actively engaging their best customers early in the sales process— or, at the very least, helping them more knowledgeably. Some are using CRM and existing legacy in-store and corporate systems. But the vast majority are simply using information more wisely to understand their customers — and matching their lifestyles, personal aspirations, and self-concepts with information from relevantly intelligent systems. Others are exploring how new exotic technologies such as RFID can supplement their retail experience.

This renewed focus on best retail practice makes sense. It is part of a growing movement among retailers to more clearly define their core competencies in response to seeing their gross margins decline as they compete more and more with Wal-Mart Stores Inc., Target Corp., Costco Wholesale Corp., and other large national and international chains. These large chains are now challenging retailers across all price point and merchandise categories, because they are capable of targeting many of the same high-value, aspirationally-motivated customers and assorting their stores accordingly. In its recent Christmas catalog, for example, Sam’s Club, the discount-warehouse division of Wal-mart, displayed jewelry valued at more than \$300,000 in an effort to attract a wealthier clientele.

The purpose of this paper is to focus on fundamental retailing — essentially a return to the basics of good customer service, store-level execution, and supply chain collaboration. It will argue that retailers — from high-end boutiques to regional supermarkets — who collect information about their customers and their purchases have a competitive advantage against larger competitors. The key is discovering how to manage, sift through, and unlock the power of data generated from every customer transaction.

WHAT’S WRONG NOW (OR WHY DOESN’T ALL THIS TECHNOLOGY MAKE A DIFFERENCE)?

The press is full of stories about retailers of all types and sizes who assembled impressive data-collection infrastructures that stretch from checkout lanes to the loading dock and distribution center. These infrastructures, according to many industry observers, have resulted in overstuffed data servers and data warehouses with little or no strategic value and very high operating costs.

Although this paper is primarily intended for executives and managers of small and midsize retail companies who are determined to survive and prosper in the growing gaps (‘canyons of opportunity’) created by the industry’s giants, larger retailers who are seeing their margins squeezed can also benefit from a return to fundamental retailing.

Fundamental retailing, which combines knowing how to utilize critical data from merchandising, marketing, operations, and finance systems with an effective supplier-collaboration model, is the key to prospering in today’s highly consolidated retail environment. It allows retailers of any size to exploit the canyons of opportunities that giant companies have inadvertently created with their size, lack of customer service, and top-down vendor-managed inventory practices. In the end, fundamental retailing is all about success at the *store* – the core asset that defines a consumer’s view of the retail brand.

This paper will offer guidance on how any retailer can bring together store-level execution and customer service by using data-driven practices as a strategic differentiator. It will also discuss how to apply basic technology to drive operational and business-process change.

In developing this concept, we will broadly:

- Describe the current retail data process and infrastructure.
- Define fundamental retailing.
- Present a new model for leveraging fundamental retailing.
- Identify the requirements for an effective fundamental retailing data infrastructure.

In addition, we will briefly introduce this paper’s sponsor, afterBOT, a company dedicated to enabling retailers and their supplier communities to fully leverage the mountains of transactional data routinely captured in stores. afterBOT not only helps retailers make sense of all that data, but also provides an infrastructure that extends the retail enterprise into consumers’ homes and suppliers’ offices.

AS DEAN TARPLEY, A RETAIL INDUSTRY ANALYST WITH THINKFAST CONSULTING INC., POINTS OUT:

“Unfortunately, while retailers have excelled at capturing vast amounts of data, they have often overlooked the fundamental need to make sense of it all... In the increasingly competitive retail environment, successful retailers will be those that employ truly integrated, enterprise-wide business intelligence solutions based on collaboration, unified information and common analytical applications...”

LIMITATIONS OF TODAY’S RETAIL PROCESS

The retail business process offers many opportunities for using data to streamline practices and optimize results. The intelligent use of data can produce an attractive return at these key points in the retail business process:

- Marketing and merchandising.
- Pricing and promotion.
- Buying and assortment planning.
- Inventory and shelf management.
- Customer service.
- Warranty and rebate management.
- Returns and complaint resolution.

Although retailing is rich with data, many retailers find it difficult to effectively use the information they already have. The retail data process remains fragmented, unable to effectively deliver the right data for the right use at the right time. Among the very largest retailers, such fragmentation has resulted in a global initiative to synchronize data between manufacturers and retailers to ensure that the data presented reflects how users expect to see it. Moreover, even the most technologically sophisticated retailers collect and store data separately for customers and products with the gap growing. As a result, data is not applied effectively in many of the areas identified above to enhance retail operations and decisions.

Clearly, the retail business process is hindered by current data practices. Specifically:

- Flood of POS data—Because retailers are unable to put POS data into a meaningful context or apply appropriate analytics, the data remains underutilized.
- Islands of data—Information remains isolated at various points in the retail process, quickly resulting in inconsistent, outdated, and inaccurate data of greatly reduced value.
- Lack of data integration—Insufficient integration prevents the efficient sharing of data internally and externally, substantially reducing its usefulness and value.
- Lack of access to data—People and processes are unable to easily access critical data at key points in the retail process, thus losing any advantage that could have been gained.

The problem does not stem from a dearth of data. The data exists in abundance. Instead, the problem results from the inability to effectively aggregate and access relevant data to drive retail performance through effective use of transaction data. Fundamental retailing, on the other hand, encourages the capture and widespread use of data to optimize basic retail business processes and enhance the consumer experience.

HOW TO RETURN TO FUNDAMENTALS

Fundamental retailing focuses on enabling retailers to succeed by thinking and acting like merchants across their organizations. Retailers who practice fundamental retailing integrate and optimize marketing, merchandising, and store operations to deliver the optimal customer shopping experience within their cost structures. The approach combines the art of merchandising with the science of technology to drive essential change in how retailers connect with customers and suppliers. Specifically, it expedites the capture and dissemination of key information at various points in the retail business process with particular focus on demonstrated consumer buying behaviors.

As part of that process, fundamental retailing calls on retailers to extend the use of the sales, item activity, and consumer data to their best suppliers and, when appropriate, to their customers. In this way, suppliers become pro-active participants in the sales process, while consumers contribute to improving the shopping environment and experience.

PERSONAL BUYER APPROACH

Mitchells, a famous establishment that sells fine clothing in two stores in Connecticut, stands out from its large department-store competitors. The company, which has developed a loyal clientele of senior executives who have the access and means to shop anywhere, has succeeded by delivering high levels of customer service. Its advantage initially came from sound one-on-one marketing practices honed decades ago. Subsequently, it developed one of the earliest CRM-driven inventory-management systems, allowing its professional sales staff to stay abreast of consumer trends and the specific desires of its customer base. The system keeps detailed data on every SKU transaction since 1989. As a result, when a customer walks in the door, the salesperson can make the shopping experience smoother by focusing entirely on what the customer is likely to buy. The system thus enables access to detailed personal information including the customer's special dates, preferences, and dislikes.

Fundamental retailing helps retailers to act on and optimize their existing business processes through support in five areas:

- 1 **CUSTOMER BEHAVIOR**—Fundamental retailing lets customers tell retailers what they want through their actions in stores. Their desires are directly reflected in POS data showing purchase activity, response to promotion and merchandising initiatives, exchanges, warranty complaints, and so on.
- 2 **KEY PERFORMANCE INDICATORS (KPIs)**—The approach also uses basic metrics that tell retailers all they need to know to optimize their business processes, including margin, sales, turns, stock outages, overstock, and a few more.
- 3 **BASIC ANALYTICS**—Simple analysis of KPIs will enable retailers to quickly identify and resolve basic problems and inefficiencies in their strategy and execution.
- 4 **OPERATIONAL STAFF SUPPORT**—Fundamental retailing enables easy access to the best and most appropriate information for all members of the retail team, enhancing the actions they take day in and day out.
- 5 **INFORMATION SHARING**—The approach also turns suppliers and customers into partners in retailers' success by sharing information that will increase their confidence in the business and encourage their active participation in its improvement.

The issue of integration is essential. The best examples of fundamental retailing entail tightly woven processes of marketing, merchandising, and store operations that are closely aligned with the supplier community. These core processes ensure a unique and highly satisfactory customer shopping experience.

The following table aligns the mission of fundamental retailing with the mission of the retail IT group:

Fundamental Retailing Mission	Retail IT Mission
Seamlessly integrate retailer-supplier process to increase customer loyalty and retention.	Establish an enabling IT infrastructure built upon an atomic-level database to support retail business processes.
<ul style="list-style-type: none"> • Increase usage of real-time sales data to: • Streamline business processes. • Drive operational excellence. • Increase customer loyalty/retention. • Deliver an easy, satisfying customer experience. 	<ul style="list-style-type: none"> • Leverage data and infrastructure to: • Simplify business and IT processes. • Control costs, improve efficiency. • Maximize flexibility, adaptability. • Increase speed to market.

THE NEW FUNDAMENTAL RETAILING MODEL

The mission of fundamental retailing is to return retail businesses to their core purpose—selling goods and services for a profit to satisfied and loyal customers. In the process, fundamental retailing moves retailers away from such activities as basic technology development. Its mantra is straightforward: Make it simple; leave it simple.

At its core, fundamental retailing calls for retailers to follow proven best practices—the basic “blocking and tackling” that brought their organizations its initial success. This includes paying close attention to customers and making decisions based on actual customer behavior. It calls for tracking and measuring a few essential performance metrics rather than letting the organization drown in a flood of data it cannot possibly absorb and use.

Such basic blocking and tackling pays dividends. Smart & Final Inc., for example, turned to an afterBOT solution to support its fundamental retailing practices. “We look at trends in sales and in spoils. We have real time access at the impact of pricing on key items [such as oranges] and see if they are still moving well, even after a price increase. The system gives us the flexibility to closely monitor and make any necessary adjustments,” according to a Smart & Final manager. This is not costly rocket science, just solid fundamental retailing.

In addition, fundamental retailing strives for a seamless retail business process where key retail functions—marketing, merchandising, and store operation—work together throughout the entire operation. Finally, as noted above, fundamental retailing closely aligns suppliers and customers in the retail process.

INTELLIGENT SALES APPROACH

A more state-of-the-art approach is used by one of the world’s biggest luxury goods retailers, Louis Vuitton. Reportedly, customers will soon receive a new loyalty card embedded with an RFID chip. As card carrying customers enter any one of the chain’s outlets in dozens of countries worldwide, store managers will receive an instant update on who they are, their preferences, and their buying histories. Associates will greet them by name, remind them of the last time they patronized the store — even in a different branch — and point them at what is new in the area they normally visit.

The fundamental retail model organizes the retail business process into three broad focus areas: basic retailing, network, and full cycle. It lays out the integration challenges and information flows required to achieve a seamless, fully integrated retail business process.

- **BASIC RETAILING** is the core function of the retail organization and includes such activities as merchandising, promotion, and pricing.
- **NETWORK** refers to the operational support required to execute the retail business process.
- **FULL CYCLE** encompasses the collaborative aspects of the retail business process.

The following table further details these three focus areas.

Focus Area	Scope	Integration Challenges	Information Flow
Basic Retailing	<ul style="list-style-type: none"> • Marketing • Merchandising • Promotion • Pricing • Assortment 	<ul style="list-style-type: none"> • Timely knowledge of customer behavior • Impact of promotional activity • Price adjustments • Overstock, stock outs • Need for rapid analytics 	<ul style="list-style-type: none"> • Bi-directional flow of data between functions • Rapid dissemination of data from checkout line to functions • KPI and analytics Exchange of information with Network and Full Cycle
Network	<ul style="list-style-type: none"> • Store operations • Warehouse • Receiving/distribution • Logistics 	<ul style="list-style-type: none"> • Lack of awareness of basic retailing initiatives • Lack of connection to customer activity • Lack of forward visibility 	<ul style="list-style-type: none"> • Timely access to KPIs • Advance alerts to changes and decisions taken on the fly • Exchange of information with vendors
Full Cycle	<ul style="list-style-type: none"> • Collaboration • Continuous improvement • Loyalty • Customer service 	<ul style="list-style-type: none"> • Distrust among parties • Resistance to change • Loss of customer focus • Lack of information 	<ul style="list-style-type: none"> • Timely exchange of information between retailer and suppliers • Easy customer access to information • Access to appropriate KPIs and analytics

REQUIREMENTS FOR EFFECTIVE FUNDAMENTAL RETAIL DATA INFRASTRUCTURE

Successful fundamental retailing requires the smooth flow of relevant information among all parties in the retail business process. This will necessitate, in many cases, both cultural and attitudinal change that encourages the sharing of data with external parties. These initiatives will drive a significant change in the business process, which will require a comprehensive training program to ensure that all participants are willing and able to effectively use the information now available.

Finally, the approach requires a simple infrastructure to support the flow of data across the retail business process. This infrastructure performs the following basic functions:

- Captures and aggregates data in a timely manner.
- Allows easy data access and flexible browser-based viewing.
- Integrates data from across the enterprise.
- Provides KPIs and basic analytics.
- Supports supplier collaboration.
- Supports customer self service.

CONCLUSION: FUNDAMENTAL RETAILING PAYS OFF

Fundamental retailing will become a core industry strategy for small and midsize retailers. The approach will enable these retailers to focus on activities they should pursue in order to thrive in the gaps created by the largest national and global retailers. It calls for retailers to focus on actual customer behavior by leveraging POS transaction data across the retail business process and extending data access and/or analysis to customers and suppliers.

Accelerating the movement to trade data access and analysis with key suppliers for increased accountability and responsibility will enable retailers to better execute at the store level, increasing performance for both while ensuring a positive consumer experience. Further, by using new ways to connect with consumers and enabling customers to directly engage in the process, retailers will be able to deliver a unique, satisfying shopping experience

In the end, however, the payback of fundamental retailing goes well beyond improved retail performance and bottom-line gains. The approach enables an extended enterprise that connects the retailer, its suppliers and customers as a strategic differentiator in their effort to compete and ultimately thrive in a challenging competitive environment.

AFTERBOT ENABLES FUNDAMENTAL RETAILING

Central to successful fundamental retailing is the presence of a simple, enabling infrastructure to capture, analyze, and disseminate information and KPIs. afterBOT, a pioneer of store data capture and analysis, delivers exactly the kind of simplified information infrastructure that small and midsize retailers require. In the process, afterBOT enables stores to transform their suppliers into proactive partners, making them valuable, accountable resources, and lets them maximize customer opportunities by delivering the information necessary for effective customer self-service.

INDUSTRY LEADERS AND ANALYSTS HAVE EMBRACED THE AFTERBOT APPROACH TO FUNDAMENTAL RETAILING.

Services from afterBOT to create, deliver, and archive digital receipts using in-store Point-of-Sale (POS) transaction data... should also save the retailer money by streamlining business processes and helping to prevent loss.

PETER ABELL, FORMERLY RETAIL DIRECTOR, AMR RESEARCH

With afterBOT I can save real, honest-to-God, countable, touchable head count, and I can redeploy the assets into more efficient use...it will create brand loyalty for us.

ZEKE DUKE, CIO, SMART & FINAL STORES, INC

afterBOT's digital receipt infrastructure, through its Customer Services platform reduces operational costs by improving efficiencies ... \$500K in savings per \$1B in sales.

MATT KATZ, PRINCIPAL, KURT SALMON & ASSOCIATES

afterBOT's ReceiptsPLUS™ has provided tremendous benefit to our operational efficiency ... we can deliver added benefits to both our suppliers and customers by providing real-time access to the transaction data via a secure Web site.

WAYNE GEFFEN, VICE PRESIDENT AND CONTROLLER, SMART & FINAL STORES, INC.

For more information on afterBOT and how they can help,
visit them at: www.afterBOT.com



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