

UP CLOSE AND PERSONAL

◆ This month, *Retail Technology* editor **Branko Miletic** talks to Mark Jeffery from SAS about its work with OPSM and how, quite literally, his company has allowed the eyewear retailer to see the Australian retail landscape in a new light.



(RT): IN YOUR OPINION, IS CONTROLLING THE INVENTORY ONE OF THE MOST IMPORTANT WAYS OF ADDING TO THE BOTTOM LINE?

MARK JEFFERY (MJ): In retail there are a number of significant costs that impact the bottom line, though not many of these costs are able to be dynamically managed (like rent) to provide a short-term bottom line impact.

There are a number of significant costs, however, that can be managed with increased accuracy to drive bottom line improvement including labour, inventory and price.

a) Labour — to date, not many Australian retailers have taken advantage of the emergence of advanced tools such as analytical forecasting to support labour scheduling. Traditional forecasting approaches have provided minimal improvements with store and operations staff often not trusting the forecast and reverting back to rule of

thumb or gut-feel decisions on rostering. Analytical forecasting techniques, however, are far more accurate and able to incorporate more complex factors such as seasonality, product associations and effects of promotions, to name a few, that ensure that forecast accuracy is greatly enhanced. Retailers should expect to gain a number of percentage points improvement in their wages to sales ratios through the adoption of analytical forecasting.

b) Inventory — Similarly, inventory decisions are also often based on poor on no forecasts. In a replenishment environment this may manifest itself with overstocking and stock-outs and in an allocation environment the problem gets even worse, leading to significant markdowns. In addition to analytical forecasting, the incorporation of more accuracy in merchandise financial planning and assortment/category planning tends also to have a significant

impact on inventory. Poor planning and/or applying the one-size-fits-all approach to assortment/category planning is often the instigator of poor inventory positions. Not too dissimilar to the concept of customer loyalty, retailers must analyse and understand differences in customer behaviour via analytical segmentation in order to vary assortments or category plans to reflect customer preferences. This has an obvious impact on the degree of relevance the retailer will have to local customer demands thereby driving loyalty, increased volume, higher stock turns and reduced inventory.

c) Price — By applying across-the-board decisions on pricing, retailers are missing out on margin opportunities. Some retailers are already applying varying product prices via grouping stores into price zones, which is a great step forward, but these retailers have not progressed towards a more sophisticated approach to promotions and markdowns. Often retailers devise promotions not really

understanding or accurately predicting what the volume and therefore margin impact of these promotions will be and not incorporating the price elasticity of demand. Similarly, many retailers apply across-the-board markdown decisions that fail to incorporate the fact that one store might be low on stock of a certain item (meaning there was no need to discount) and another may have far too much stock of that same item (meaning a markdown should have been taken earlier to avoid an end-of-season clearance at below cost or worse a write-off). Often retailers hesitate to investigate smarter and more analytical ways of improving pricing decisions for fear of requiring an increase in headcount to do the analysis, however there have been significant advancements in technology, like data mining and analytics, whereby the technology performs the analysis in an automated manner meaning significant improvements can be gained without the need to invest in additional headcount.

(RT): WHAT ABOUT IDENTIFYING BUYING TRENDS – IF A RETAILER HAS TIGHTER NEW STOCK TURNAROUND TIMES, WILL THIS BE AN INDICATION OF A LEANER RETAILER?

(MJ): Absolutely, the simplicity of gut-feel retailing is fading as competition increases, as supply chains commoditise and as technology advances. As we have seen across many industries, early adopters of analytical technology that deliver confined, incremental business benefits (as opposed to large-scale whole of business transaction systems which often take years to implement) will drive significant competitive advantage.

Through the use of data mining and analytics, which by definition means “the ability to identify previously unknown trends”, retailers can identify

customer and buying trends that will significantly affect how the retailer makes decisions. Understanding these trends can manifest themselves across a number of steps in the retail process including:

1. More accurate merchandise financial planning;
2. More relevant assortment or category plans;
3. More accurate analytical forecast driven replenishment, factoring in store specific trends;
4. More accurate allocations, factoring in store specific variances in style/size/colour sales volumes;
5. More accurate promotions strategies, taking into account forecasted profitability and the impact on associated products (that is, if I know that two products are often purchased together, by promoting one I can expect

increased sales in the other — impacting stock decisions and promotion profitability);

6. More accurate markdown strategies, taking into account store-specific variances in stock positions and sell through rates.

(RT): IN TERMS OF OPSM, WHAT IS THE MAIN FOCUS OF ITS DRIVE TO BECOME A LEAN RETAILER AND HOW DOES SAS SOFTWARE HELP ACHIEVE THIS?

(MJ): The main focus for the OPSM business has been to improve the accuracy of the merchandise and assortment planning process to improve stock-turns, reduce inventory and improve comp store sales by ensuring stores have relevant products that reflect variances in local sales trends/customer needs.

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