



Where to Start:
Creating a road map
to customer centricity



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The mandate is clear: Retailers need to stay several steps ahead of their customers' demands in order to compete in this century's consumer-centric world. Hunches and instinct are giving way to data driven, predictive analytic business solutions to enable confident, rapid-fire decisions. But where should you start? Now more than ever, a focus on the right priorities is critical to delivering both immediate and ongoing value for your customers, your employees and your shareholders. Although metrics such as same-store sales will always be critical, Wall Street is paying more attention to technology investments, recognizing that these investments are a leading indicator of a retailer's ability to continue delivering strong revenue and profit growth.

A sound technology investment strategy goes beyond providing a few disjointed analytic tools to solve individual issues. A comprehensive approach automates key business processes, anticipates future needs to improve decision making across the product and customer relationship life cycle, and automates processes to free merchants and marketers to focus on the creative aspects of the business. But before diving into any technology solution, retailers need to:

- Discover what is most important to the business. What are the value drivers to fuel the top and bottom lines? How is the competition differentiating itself through investment?

- Assess current processes and technologies to identify gaps. What processes and technologies need to be transformed to first compete in and then lead in the marketplace?
- Evaluate the options for getting started. Is the organization ready for change? What implementation options can reduce risk and also deliver value?
- Determine how to measure the technology's success. What does success look like from a practical measurement perspective? How are results sustained day to day at all levels of the organization?

Defining value and setting priorities

Every retailer is different, with unique challenges, needs and business opportunities. An assessment of key performance indicators – such as return on invested capital, sales growth, inventory turns per year or frequency of stock-outs – will identify business opportunities and gaps for profitability, process improvements and competitiveness. Once a gap analysis and value assessment are complete, define the one implementation likely to get the highest and quickest ROI, implement it, and use the savings to fund the rest of the solutions. For example, a large national department store chain decided to implement a price optimization solution first. Price optimization, in its case, drove enough incremental profit and increased cash flow that it could

use the value dollars accrued to fund a number of future projects important to its overall strategic marketplace position.

While price optimization was the right high-impact target for that particular retailer, a solution such as core planning may be the appropriate starting point for many other organizations. Market leaders often consider a different approach because they can afford a more measured continuous improvement process. For example, they may lead with effective forecasting and category or merchandise planning to lay the groundwork that will tie together a comprehensive improvement program. Using core planning as a foundation, these retailers can then look to increase planning and forecasting sophistication, size optimization and later price optimization to deliver the long-term value necessary to survive and thrive in the market.

Stepwise or big-bang approach?

In addition to assessing the value landscape and organizational gaps, determining implementation phasing is critical. The national department store chain mentioned above lays out a phased implementation approach, focusing on the sequenced introduction of new technology to help pay for future implementations. The alternative to this is to take a big-bang approach to technology implementation and core process change. With the big-bang method, com-

panies introduce a series of technology and process changes at the same time.

Taking this path involves significant risks. Although the underlying technologies have become more proven over time, the largest risk is the retail organization's ability to absorb all the change at once. There may not be enough gas in the organizational tank. As a result, most mature retailers with significant existing infrastructure pursue a phased implementation strategy.

The big-bang approach can be a more practical option for companies that have little IT infrastructure to begin with, that have obsolete infrastructure or that are in emerging markets. A retailer being spun off from a parent company may have no choice but to pursue a big-bang approach if the systems it has depended on are lost in the spinoff.

One option to consider to dampen the inherent risks with a big-bang implementation is to phase specific capabilities over time, spreading out the more complicated new technology additions and alternating those additions with enhancements to existing technologies. For instance, a retailer might add a markdown optimization solution, something never adopted before. Instead of immediately segueing into another novel technology addition, the retailer can enhance the customer intelligence analytics. By articulating a clear

and accepted vision at the start – and aligning all introductions of technology and process changes to the vision – the puzzle pieces begin to fit together. By phasing capabilities, value can be realized early but will continue to deliver incrementally over time.

With novel technology, retailers can also use a phase-in approach. For example, say a retailer wants to implement intelligent store clustering to improve assortments. The implementation approach would cluster stores based on basic volume grading data currently available. The next release could introduce several pieces of demographic data, followed by several point releases that increase sophistication and culminate with the eventual full-scale introduction of intelligent clustering using a complex geodemographic data set. The addition of clustering sophistication over time enables the creation of more intelligent clusters as a base for relevant assortments. From a customer perspective, each visit seems to get progressively more pleasing as the assortment fits the customer's needs. As long as all iterative releases align with and get closer to the overall vision, this is a wonderful way to evolve the organization and deliver shareholder value along the way. One specialty fashion retailer achieved stellar results with this type of approach.

One-size-fits-all assortment planning will have been the strategy of the next decade's bankrupt retailers.

Measuring results

There is no one recipe for ensuring a successful implementation and solid return on investment. However, retailers can dramatically increase the chances of success in several ways.

First, define what success looks like up front, develop a way to measure success and identify a champion. Measurement is absolutely critical. Measuring overall success and value realization to the bottom line and on Wall Street is an obvious measure of success. However, retailers should consider tying critical project metrics to the performance metrics for the teams that execute each process. Careful measurement is also important to make sure that gains from new technology don't get offset by losses in an unproductive area that hasn't benefited from enhanced technology. One way to do this is to introduce a performance scorecard. By defining critical measures and tying those measures to the overall business case, employees can get an accurate and transparent view of performance. Not only will a scorecard provide a view into the key business measures, but it will also help create a culture driven by results and continuous improvement.

Taking the next step

Whether your company is considering an incremental approach or a major overhaul, the one message we hope you've received from this publication is that you need a technology strategy. One-size-fits-all assortment planning will have been the strategy of the next decade's bankrupt retailers. Relying on hiring the savviest merchants will fail the moment those merchants take their savvy to your competitor or fail to anticipate market trends. A national ad campaign? Consumers no longer read or watch the same media. You need to know how to target consumers individually.

Technology can't solve your problems – and technology without automation can drain your resources. Instead, predictive analytics can help your staff solve issues by providing lightning-fast forecasts, analytical capabilities and ideas. It will help you impress your customer, free your staff to focus on the creative aspects of the business and please your shareholders with outstanding returns. That, in turn, will fuel your success well into the 21st century. ☉

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