

Improving Customer Centricity and Operational Excellence through Collaboration across the Extended Retail Enterprise

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Executive Summary

In response to today's challenging economic climate, retailers have cut costs, reduced headcounts, and closed stores. While these measures boost immediate profitability, they make it difficult for retailers to meet their stated objective of becoming more customer focused. This reaction appears to be the exact opposite of what many analysts feel is the best course of action to becoming a best in class retailer during a period of uncertainty. Regardless of economic conditions, to reach this goal, retailers must continually develop new processes and implement new technologies that drive operational excellence and result in more targeted product assortments, fewer out-of-stocks, and better customer service.

This white paper proposes that retailers change the paradigm for managing supplier and customer relationships and embrace modern technologies to create a real-time, extended retail enterprise that can provide increased information access to both customers and suppliers. In enabling real-time customer and supplier collaboration across the extended enterprise, retailers can significantly boost their bottom line by improving store-level execution, merchandising and promotional effectiveness, customer satisfaction, productivity, and regulatory compliance.

Our proposition; in exchange for data and information analysis a retailer can expect an increase in supplier responsibility and accountability resulting in a WIN/WIN for both parties. Making information available to vendors about sales of their products in near real time will enable retailers to improve their business processes by leveraging vendors' experience to drive operational efficiencies, and improve merchandising techniques while creating a more customer centric environment. By embracing these changes retailers also have the opportunity to significantly enhance their relationships with the supplier community.

By leveraging a single technology infrastructure, retailers can also improve post-sales transaction management, audit, compliance and customer service processes which require fast efficient access to complete transaction data. Finally, to achieve the benefits of anywhere, anytime access to customer and suppliers will require new thinking and a willingness to break down many of the cultural and financial paradigms that exist in retail today.

A Challenging Retail Climate

Facing a challenging economic climate and a slowdown in consumer spending, many retailers have reacted by cutting costs and inventory, reducing headcount, and closing stores. For example, Macy's recently announced plans to slash 2,300 jobs; Home Depot is cutting 500 positions in its Atlanta headquarters; and as a group, Women's specialty retailers are eliminating more than 1,000 jobs. The International Council of Shopping Centers predicted that 5,770 retail locations will close this year—a 25% increase from 2007. Planned closings include 117 Ann Taylor stores and 100 Talbots' locations.ⁱ

While these measures improve profitability in the short term, they negatively impact retailers' ability to deliver customer service and operate effectively in the long run. As a result, retailers must leverage technology solutions to define, implement, and refine new business processes that will allow them to:

- Become more customer centric to increase customer satisfaction and loyalty; according to a survey of retailers by RSAG Research, 83% of respondents indicated that customer loyalty is a primary challenge they faceⁱⁱ
- Partner more effectively with suppliers to increase supply chain efficiency
- Comply with regulations, such as Sarbanes Oxley, to avoid fees and penalties

The Need for IT Solutions that Enhance Business Processes

While technology is meant to address issues of operational excellence, customer service, and compliance, current retailer IT infrastructures are often unable to adequately address today's requirement for fast efficient access to information. The RSAG study found that 80% of retailers surveyed believe that their existing IT infrastructure is preventing them from moving forward with new solutions. The reason: Today's IT systems are designed to address unique issues. These systems create islands of information and are accessible only to limited numbers of internal users, which prevents retailers from creatively addressing business challenges, including:

Out-of-Stocks

Out-of-Stocks are an age old problem, yet little progress has been made over the last 20 years. To survive in today's competitive marketplace a customer-centric retailer must have the right products in stock when the customer wants them. Yet, according to studies by the Aberdeen Group (2007) and AMR Research (Summer 2006) the average retailer is out-of-stock on items 7.2% to 8.0% of the time; on promoted items the percentage jumps to 17% to 18%. These numbers are no different than the initial Coca Cola Research Council findings released in the late 1980's. Similarly, one retailer's internal research found that of 100 people walking into a department store, 20 walk out and 20 have no plan; of the remaining 60 percent, 20 find the right style, but not the right color; 20 find the right color, but not the right size; and only 20 buy what they're looking for. Out-of-stocks thus not only detract from the customer experience, they also reduce sales.

Keeping stores properly stocked requires that retailers address their individual demographics. The RSAG study found that 60 % of respondents see a great deal of opportunity in localizing store assortment, pricing and promotions. Yet buyers are overwhelmed by the number of vendors,

products, and variations. One buyer might manage 1,000 items in 5 sizes and 4 colors for 200 stores. Buyers need assistance optimizing each store's product selection to better serve customers—and improve sales. While vendors are in a position to help due to their expertise selling products in many different types of stores, they need access to information about how their products are selling in individual stores to make appropriate suggestions to retailers.

When retailers run promotions, they can only maximize their profits if the promoted items are available to customers. Yet many problems can arise during the course of a promotion that result in products being unavailable. For example, a promoted item may have sold out due to unusual customer response; an item that the vendor thinks is in stock might not have made it from the store room to the floor or may have been damaged; or a store operations issue might result in a distribution void that removes a potentially strong item from the shelves. Because retailers currently provide data to the vendors responsible for restocking these items one to two weeks after the fact, vendors have no way of knowing when a problem occurs during the promotion. Suppliers responsible for stocking need to be able to track sales data in near real time so that they know immediately—and can fix—any stocking problems that may occur before they irreversibly impact the success of the promotion.

Ineffective Merchandising

Vendor's inability to access transaction data can also have a negative impact the effectiveness of merchandising and promotions. Since many vendors repeat promotions, vendors have the potential to significantly improve sales by analyzing historical data to see what has and hasn't worked in the past, then using their findings to improve performance. During a promotion, because vendors are currently unable to track how well promotional items are selling, they are unable to fix a problem or adjust pricing to improve sell through. Finally, in the past, retailers have not always complied with the terms of a vendor promotion (e.g. they may not properly display signage) and vendors had no way to find out about—let alone correct—the problem during the promotion. Having access to real-time sales information can help vendors catch and fix problems due to non-compliance.

Inefficient Post-Sales Customer Service

Customer service representatives are currently unable to quickly resolve customer questions and resolve disputes because they must go through multiple systems and screens to find the information about individual transactions. As a result the process can take up to a week. To improve customer service and satisfaction, retailers need a solution that provides instant access to complete transaction details while the customer is on the phone.

Non Compliance with Auditors and Regulators

With data scattered and incomplete, it is very costly for retailers' business staff to comply with auditors' requests and with regulatory requirements. For example, one controller for a large retailer on the West Coast recently complained that he had been unable to comply with State Tax auditor's requests for POS information to prove the tax exempt status of specified transactions. As a result, the retailer found itself paying unnecessary fines. The controller needed a solution that would allow his team to easily and instantly access comprehensive records of entire sales transactions by store by date by customer—including all relevant tax information—in a format that is easy to understand. Similarly, to comply with regulations such as Sarbanes Oxley, retailers need data about transactions to be available in an easily accessible and understandable format to prove to auditors that the business processes are being followed.

Enabling Operational Excellence and Improving Customer Service with New Business Processes and Technology Solutions

Improving operational excellence and customer service requires that retailers adopt new business processes in which they collaborate more closely with suppliers and customers across the extended enterprise. New technology that provides the extended enterprise with anytime, anywhere access to the post-sales transaction information is necessary to enable these processes.

A Collaborative and Proactive Business Approach

Retailers wishing to address today's challenges can't go it alone. They need to leverage the vendor community's knowledge of the overall marketplace to improve their selections and pricing models—and to become more customer centric. This collaborative approach will require that retailers be willing to change the traditional vendor relationship paradigm and use new tools to share real-time information about sales of vendors' products by store and by sku with vendors and their merchandising support infrastructure.

In exchange for this data and data analysis, retailers can demand increased responsibility and accountability from the supplier community. Vendors gain the tools and incentives to help retailers perform better up-front planning by using historical data to analyze previous promotional and merchandising efforts and make suggestions for improvements. Access to real-time information allows vendors to continually monitor which items are selling and which are not, so they can quickly investigate and make appropriate correction. This improves customer service and increases sales.

The same post sales transaction data can also be used to better serve customers and improve regulatory compliance. Customer service representatives can use this information to answer customer questions or address disputes instantly. Customers can even use the same Web-based system to access information about their own transactions. As a result, retailers can provide better service while transferring some of the research and resolution costs to the customer or another third party. The accounting department can also use the same complete POS transaction information to comply with auditor and regulator requests.

New Technology Provides Real-Time Data to the Extended Enterprise

In the past, employees of retail organizations were forced to go to separate applications to gather the data they needed to answer questions about their operations. The data was often incomplete, summary data, rather than full details about individual transactions. If the extended enterprise had access to transaction data at all, it was usually a week or more out of date. This made it time consuming, if not impossible, to answer questions necessary to run the business efficiently and effectively, such as: Did a new product being introduced actually make it onto the store shelves? Is the product I'm promoting selling at the rate expected? Which of the items that a hot dog stand customer purchased on July 27, 2007 were tax exempt?

Today, technology that furnishes the entire extended enterprise with anytime, anywhere access to the detailed post-sale transaction data needed to answer these questions is available in near real time, affordable and accepted by the consumer and vendor community.

This technology relies on the following capabilities:

A comprehensive post-sale transaction management repository of unique POS

transactions --The repository should provide the information necessary to answer retailer, vendor, and customer questions from a single location, without the need to search in multiple siloed systems. To achieve this goal, the repository should aggregate data from the different, siloed IT systems retailers currently use to run their business—including POS, CRM, and ERP systems, as well as vendor product databases. From this aggregated data, the repository should extract, normalize and store relevant transaction details that the extended retail enterprise needs to operate in a more customer centric manner —namely, who bought what, when, where, how much, and how paid, including signatures. The repository should present this information to end users in a format that is understandable to the entire extended enterprise. For example, repository should not only rely on retailers' product descriptions but also on those from the vendor product database so it can be used by retailers, customers, and suppliers. The repository should also include pictures of the product and related promotions to provide additional context.

A set of relevant applications that access the repository—The solution should include a set of sales reporting, customer service, tax auditing, and compliance applications that are all able to access the central repository. These applications should be specifically designed and optimized to enable users across the extended enterprise to obtain answers to their most pressing business questions quickly and easily.

Provides an interface that is easy for the extended enterprise to access and use—These applications should incorporate a Web-based presentation layer to make it easy for the extended retail enterprise to access and use the appropriate applications anytime, anywhere to analyze data from the repository.

Furnishes access control to provide data on a need-to-know basis--The system should incorporate role-based security that enables retailers to define policies for who can see what information; for example, if a retailer relies on 10 different distributors, each distributor should see only the sales information for the items they distribute.

Offers alerts to help prioritize actions --The use of alerts that tell retailers when some pre-defined condition occurs can help retailers and vendors prioritize actions. For example, if a vendor is introducing a new product, they can set an alert for, say, 1 p.m. on the day the new item is due in stores. If the item hasn't sold in a particular store by that time, the vendor can check to see if the item has been cut properly into the store planogram and appropriately merchandised.

The Benefits—Operational Excellence and Revenue Growth

A retailer that collaborates more effectively across the extended enterprise stands to benefit from better store-level execution, more effective merchandising and promotions, more efficient operations, greater customer satisfaction, and enhanced regulatory compliance. Together, these improvements can boost the bottom line by as much as 5%, according to a study by Kurt Salmon Associates (KSA), a global retail consultancy.

Better Supplier Collaboration Improves Store-Level Execution

Improved collaboration between retailers and suppliers improves store-level execution, reducing out-of-stocks and growing revenues. Retailers benefit from:

Assistance solving problems—When retailers and vendors collaborate, retailers benefit from having more eyes solving problems, such as out of stocks, lower than expected sales, or ineffective promotions. Vendors can also bring experience gained from other retailers to bear in addressing problems.

Greater vendor accountability—By making valuable real-time data available to vendors, retailers can demand accountability for reducing out of stocks and increasing sales.

Higher revenues—fewer problems with out-of-stocks mean revenues are higher overall.

Vendors benefit from higher revenues. Vendors can use real-time information to fix any problems that might arise more quickly, thereby reducing out-of-stocks and increasing sales. For example, alerts warn vendors when an unexpectedly large item movement that may lead to an out-of-stock occurs so that they can restock more rapidly. Similarly, vendors have the tools they need to proactively correct on hand inventory discrepancies.

Improve Merchandising and Promotional Effectiveness

With the ability to report on historical data and view real-time information, merchandisers and vendors can collaborate to improve effectiveness of merchandising and promotional efforts:

Allocate goods more effectively. Retailers can create reports using historical data to determine which products are selling and not selling, and then use this information to replace slow sellers with better selling products. For example, one retailer had 285 SKUs across different manufacturers and a certain percentage were 0 movers. By determining which items fell into these categories, the retailer was able to replace the 0 movers with best sellers. As a result, the retailer reduced the overall number of SKUs to a more manageable 50 items and increased sales by 30 percent.

Optimize displays. Retailers and vendors can report on sales performance for different types of displays to determine which work best for a particular product. For example, one vendor tested whether it would be better to invest in a pallet or an end cap display. By using the better performing choice, the vendor increased sales by 26%.

Better forecast new product performance—retailers and vendors are now tracking how merchandise is selling the first week it is on the floor to determine whether to accelerate or decelerate remaining orders for the season.

Enforce compliance with promotions—If promotions are not performing as expected, vendors can find out quickly and perform in promotion adjustments (for example, the retailer may not have displayed the signage properly), rather than finding out there's a problem after the promotion is over.

Improve advertising results—One store segments its ads and tracks all the items appearing on the front page to see how they're selling on a daily basis. Vendors are thus aware of their products performance and can react proactively.

Enhance management of seasonal promotions—Real-time data combined with access to historical data helps retailers and vendors fine tune orders by store for event-driven merchandising programs. For example, one grocer does a large number of seasonal promotions—for Christmas,

Easter, Valentine's Day, and so on. The store is able to track sales for all included items as they relate to inventory to determine, for example, whether early markdowns will be necessary.

Enhance Operational Efficiency

Vendors can deploy field personnel more strategically and cost effectively when they have access to real-time sales information. Instead of sending reps out to each store on a rotating schedule, vendors can identify stores with problems and send the reps where they're needed most, as shown in the following examples:

- One vendor was able to reduce the number of full-time employees it needed to cover stores.
- Previously, a food broker that represents 40 vendors used to send people out to all of the stores they sold to in order to check inventory. With this new technology, they can identify distribution voids without having to send people to physically scan items.
- A major U.S. candy manufacturer and their food broker provides representatives with hand-held devices. These reps now download reports that pinpoint problems—for example with a particular candy bar or snack pack--so they can fix them immediately without wasting time.

Boost Customer Satisfaction and Customer Service Productivity

Technology that enables retailers to furnish information to the extended enterprise helps improve customer service and satisfaction because:

Customers are more likely to find what they want—because retailers and vendors can proactively ensure that they stock the right items and that those items remain in stock.

Customers' questions and disputes are resolved more quickly—rather than hunting through multiple systems to answer a question or resolve a dispute, customer service reps can answer questions instantly. This improves customer satisfaction and customer service productivity.

Customers can access their own transaction information anytime, anywhere—Customers have access to a customer portal to answer their own questions about purchase history, proof of purchase or rebate information. For example, one larger grocer on the West Coast provides transaction information to its business customers as a way to improve service. This not only improves customer satisfaction, it contributes to operational efficiency by reducing work for customer service reps.

Enhance Regulatory Compliance

The same system that provides POS transaction information can also be used to demonstrate regulatory compliance. For example, one retailer does 4-5% of its business with small food services companies. Many of these sales are tax exempt. Because the system provides a complete record of transactions, the retailer is able to prove to auditors that the sales were made to a tax exempt entity—reducing exposure to the risk of penalties and fines. Retailers also have complete access to information they need to demonstrate compliance with Sarbanes Oxley, PCI, FSA, and other regulations.

afterBOT TransAccess: Improving Collaboration Across the Extended Retail Enterprise

afterBOT TransAccess is the only solution that provides comprehensive post-sales transaction information in real time across the extended enterprise. The TransAccess solution offers a set of applications that access a central repository of transaction information that is stored and retrievable in a form that can be understood by retailers, suppliers, and customers. Designed by experts with more than 90 years of experience in retailing, these applications are optimized to provide the answers to questions that users across the extended retail enterprise are likely to ask regarding sales, customer service, tax auditing, and regulatory compliance. Web based interfaces make these applications and data available anytime/anywhere, securely, and on a need to know basis. Users can perform data analysis using standard and ad hoc reporting capabilities as well as data mining tools.

Conclusion

With afterBOT TransAccess, retailers gain the unique ability to provide the entire extended enterprise with anytime, anywhere access to complete and easy-to-understand near real time data about transactions. The entire extended enterprise benefits:

Retailers benefit-- By providing real time and historical transaction information to vendors, retailers have the opportunity to leverage vendors' expertise to better plan store assortments and promotional and merchandising efforts. Because vendors are able to proactively address out-of-stocks before they impact customers or the results of special promotions, customer satisfaction and revenues improve.

Vendors benefit—Vendors can proactively work to improve sales and reduce costs—by using historical data to improve merchandising efforts; by using real time data to improve store-level execution; and by boosting the efficiency of their in-store reps while reducing out-of-stocks.

Customers benefit—Customers benefit because the products they want are in stock when they want them. If they do encounter a problem or have a question, customer service can address the issue for them more quickly—or they can even answer the question themselves.

Business office benefits—The controller has the opportunity to more efficiently and effectively comply with audits from tax authorities and regulators—minimizing the risk of penalties and fines.

Together, these benefits allow retailers to increase profitability—and more successfully address the economic and operational challenges they face today.

ⁱⁱ “Retail Squeeze Felt Far Beyond Malls,” By Amy Merrick and Kevin Kingsbury, The Wall Street Journal, February 8, 2008

ⁱⁱ “Customer Centric Research: 2007 Benchmark Report, RSAG Research