



Customer-Centric Merchandising: Driving Differentiation through Localization

Benchmark Report: 2008

Sponsored by:



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EXECUTIVE SUMMARY

RSR initiated its 2008 Merchandising Benchmark Survey with the assumption that localizing merchandise assortments is a key to 21st century retailing success. Our survey respondents validated that assumption. Ninety-three percent of respondents find it at least somewhat important. We were surprised to discover finding the right price for customers is as important as finding the right product mix. Even though low prices are “table-stakes” for successful retailing, finding optimal gross margin for basics and sell-through rates for seasonal and other life cycle products remain critical success factors.

BUSINESS CHALLENGES

Some internal issues in retail have been around so long, and have had so much impact on the enterprise they become overarching business challenges. So it is with fractured planning processes – which continue to drive retailers to distraction. However, beyond this overarching concern, different business issues emerge around merchandise with varying sell cycles. Sellers of seasonal merchandise are most concerned with pricing their merchandise right, sellers of fashion product worry about being out-styled on the high end, and out-priced on the low-end, and those selling basic merchandise recognize their stores have become a “sea of sameness,” and their market positions ultimately become indefensible. Each retailer looks to different forms of localization to improve their relative position in the global marketplace.

OPPORTUNITIES

Retailers look across three dimensions to improve their merchandising. They look to *science* to help improve local assortments through customer segmentation, sales forecasting, price and promotion optimization, and more tailored marketing programs. They look to *process improvements* to optimize internal and external planning, and they *pragmatically work with their merchandise vendors* to improve understanding of demand signals and learn the best match between the products they sell and the customers that buy them. Winners place a higher focus on price optimization and vendor collaboration than their peers.

ORGANIZATIONAL INHIBITORS

Merchants may be getting a bad rap within their organizations. While it appears as though a majority of Retail Winners believe that merchandising is more of an art than a science, in fact, only 16% of all merchants identified this as a gating factor. Merchants focus on proving ROI, which makes sense, given that it’s their budgets on the line. Certainly fractured technology infrastructures are as big an issue as fractured planning processes. Hosted, non-intrusive optimization engines are highly prized as a means to driving to rapid ROI.

TECHNOLOGY ENABLERS

Integrated planning, space, allocation and replenishment applications are most highly prized, but excluding Retail Winners, have surprisingly light penetration among our respondents. Buying intentions focus around store and merchandising execution management, pricing and other optimization engines, and “bread and butter” applications to support planning, allocation and replenishment, and merchandise management.

BOOTSTRAP RECOMMENDATIONS

Retailer KPIs for merchandising success are as fractured as their planning processes. A more holistic view is required that encompasses the impact on other parts of the organization. Our other core recommendations include knocking down cultural barriers, driving process change supported by technology changes (rather than hoping technology will bring the final change), and understanding the different localization requirements for different types of merchandise. Retailers that systematically work to localize both assortments and prices will achieve dramatic improvements.

Table of Contents

EXECUTIVE SUMMARY.....	ii
Business Challenges.....	ii
Opportunities.....	ii
Organizational Inhibitors.....	ii
Technology Enablers.....	ii
Bootstrap Recommendations.....	ii
SECTION I: OVERVIEW.....	1
Why the Study Was Conducted.....	1
Tailoring Prices as Important as Tailoring the Assortment.....	1
Methodology.....	2
Defining Retail Winners and Why They Win.....	2
Survey Respondent Characteristics.....	3
Performance: Struggles Among the Smallest and Largest.....	3
SECTION II: BUSINESS CHALLENGES.....	5
In Aggregate, Traditional Challenges Remain.....	5
Different Challenges Depending on What You Sell.....	6
Pricing Seasonal Merchandise for Optimal Sell-through.....	6
Basic Merchandise: A Sea of Sameness and an Indefensible Position.....	7
Fashion – It’s Not What It Used to Be.....	7
Retail Winners Living in a Very Different World.....	7
SECTION III: OPPORTUNITIES.....	9
Science, Improved Process and Pragmatic Collaboration.....	9
Winners Have a Different Focus.....	10
Customer Segmentation Based on Affinity Matters.....	11
SECTION IV: ORGANIZATIONAL INHIBITORS.....	12
Will It Complicate What I Already Have?.....	12
Getting Past the Obstacles.....	13
Common Ground Discovered.....	14
Leadership is All Around.....	14
SECTION V: TECHNOLOGY ENABLERS.....	16
Solving a Process Problem with Technology? Or Hoping for a Solution?.....	16
Explanations for Lack of Integration Emerge.....	17
What’s Coming and What’s Next? What are Buying Intentions?.....	18
Execution Management – Hope for Both Store and Merchandising.....	19
Pricing and Other “Rocket Science Optimization” Systems.....	19
Bread and Butter: Planning, Allocation, Replenishment, and Merchandise Management.....	19
SECTION VI: BOOTSTRAP RECOMMENDATIONS.....	20
The First Question – Are We Winning or Losing?.....	20
Take a Housekeeping Tip from the Pros.....	20
Don’t Just Talk the Talk – Walk the Walk.....	20
Focus on Price when the Time is Right.....	20
Rethink Localization: What You’re Selling Matters, Not Just Where You’re Selling It.....	21
APPENDIX A: The BOOT Methodology.....	22

APPENDIX B: About Our Sponsors	23
APPENDIX C: About RSR.....	25

Figures

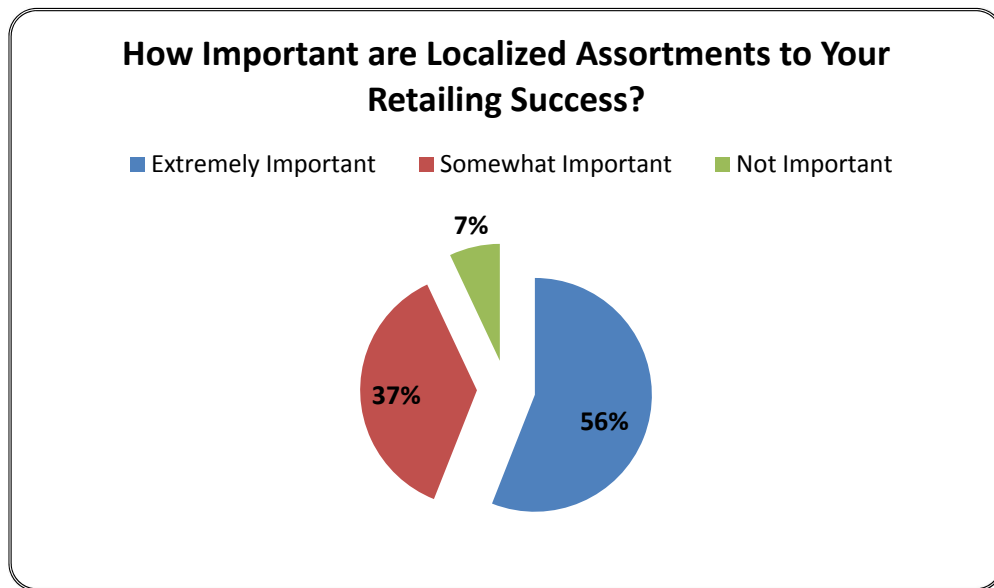
Figure 1: A Majority of Retailers Believe Localizing Assortments is Extremely Important.....	1
Figure 2: Price Optimization Emerges as a Key Differentiator	2
Figure 3: The Top and Bottom Squeezed on the Top Line.....	4
Figure 4: ...But Mom and Pops Also Squeezed on Gross Margins	4
Figure 5: In Aggregate, Few Surprises Emerge in Business Challenges	5
Figure 6: Divergent Challenges Depending on Product Mix.....	6
Figure 7: Retail Winners Most Concerned About Right Pricing and Store Execution.....	8
Figure 8: A Combination of Science and Process Improvements are Key	9
Figure 9: Winners Optimize and Collaborate	10
Figure 10: Retail Winners Notable for Focus on Customer Segmentation.....	11
Figure 11: Organizational Inhibitors Differ Across Performance Tiers	12
Figure 12: Aggregate Opinions on Overcoming Obstacles	13
Figure 13: Appetite for Optimization Engines is Universal	14
Figure 14: Winners Spreading Knowledge Around.....	15
Figure 15: Retail Winners Are, and Have Been Serious about Integrated Planning for Longer	17
Figure 16: An Assortment of Products to Manage Assortments.....	17
Figure 17: Retailer Technology Buying Intentions.....	18

SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

RSR initiated its 2008 Merchandising Benchmark Survey with the assumption that localizing merchandise assortments is a key to 21st century retailing success. Our survey respondents validated that assumption (Figure 1). Ninety-three percent of respondents find it at least somewhat important.

*Figure 1:
A Majority of Retailers Believe Localizing Assortments is Extremely Important*



Source: RSR Research, July 2008

While it's not surprising to find retailers with fashion or seasonal assortments keen to tailor their merchandise to local demographic and psychographic profiles, it's more counter-intuitive to find retailers selling basic merchandise interested in tailoring their assortments. Yet, in fact, this is true. The proportions shown in Figure 1 are consistent across retailers selling all types of merchandise.

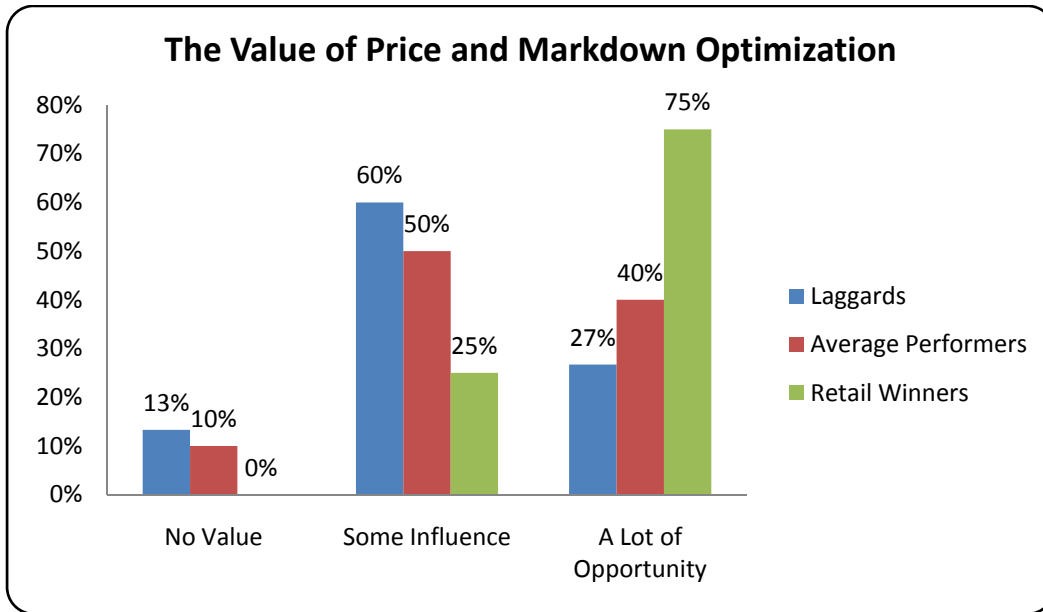
Similarly, although their rationales may differ, retailers at all levels of year-over-year comparable store sales performance recognize the importance of tailoring assortments. Sales laggards actually rate localizing their assortments as slightly more important than the overall population (62% vs. 59% respectively).

Demographics (ethnicity and income) are more important determiners of merchandise mix than psychographic (urban, empty nesters, etc.) or geographic differences.

TAILORING PRICES AS IMPORTANT AS TAILORING THE ASSORTMENT

As previously noted, our going-in hypothesis on localization focused on product: merchandise assortments. *We were surprised to find that finding the right price for customers was as important as finding the right product mix.* In fact, Retail Winners (those whose year-over-year comparable store sales outperform their peers) believe this is extremely important to their retail success (Figure 2).

Figure 2:
Price Optimization Emerges as a Key Differentiator



Source: RSR Research, July 2008

We know from this and other benchmark studies that price per se is not a differentiator in attracting customers, but finding the price that drives optimal gross margin and fastest sell-through for seasonal and other short lifecycle product is key to driving bottom line success.

METHODOLOGY

RSR uses its own model, called the “BOOT,” to analyze Retail Industry issues. We build this model with our survey instruments. [Appendix A](#) contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

DEFINING RETAIL WINNERS AND WHY THEY WIN

We’ve already introduced the concept of Retail Winners in this report. Our definition of these Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as “Winners,” those at this sales growth rate as “average,” and those below this sales growth rate as “laggards” or “also-rans.” It is consistent throughout much of RSR’s research findings that **Winners don’t merely do the same things better, they tend to do different things**. They think differently. They plan differently. They respond differently. Their merchandising practices are no exception.

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from April-June 2008 and received answers from 79 respondents. Respondent demographics are as follows:

- **Job Title:**

Senior Management (CEO, CFO, COO)	19%
Vice President	12%
Director/Manager	50%
Internal Consultant & Other Staff	19%

- **2007 Revenue (\$ Equivalent):**

\$50 Million or less	18%
\$51 - \$499 Million	20%
\$500 Million - \$999 Million	16%
\$1 Billion - \$5 Billion	26%
Over \$5 Billion	20%

- **Corporate Headquarters Locations:**

United States	71%
Europe & UK	15%
Asia Pacific	10%
Middle East	2%
Latin America	2%

- **Geographies Where They have Retail Presence:**

United States	80%
Europe	35%
Asia Pacific	25%
Latin America	22%
Canada	22%
United Kingdom	15%
Middle East	10%
Africa	2%

- **Segments:**

Fast Moving Consumer Goods (FMCG)	24%
General Merchandise and Apparel (GMA)	68%
Hardware/Do-it-Yourself/Other	8%

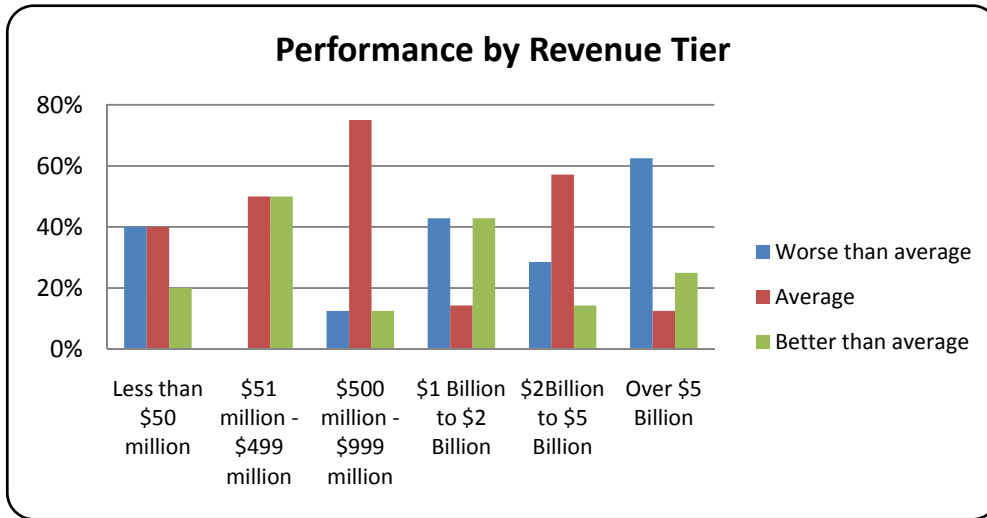
- **Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3%):**

Worse than Average	27%
Average	44%
Better than Average (Retail Winners)	29%

PERFORMANCE: STRUGGLES AMONG THE SMALLEST AND LARGEST

Given the state of the economy, it's not surprising to find fewer over-performers than in prior surveys (Figure 3). The smallest retailers feel the pain most acutely, with 40% underperforming and another 40% at average performance. The largest retailers suffer pain as well, with a whopping 63% underperforming on the top line.

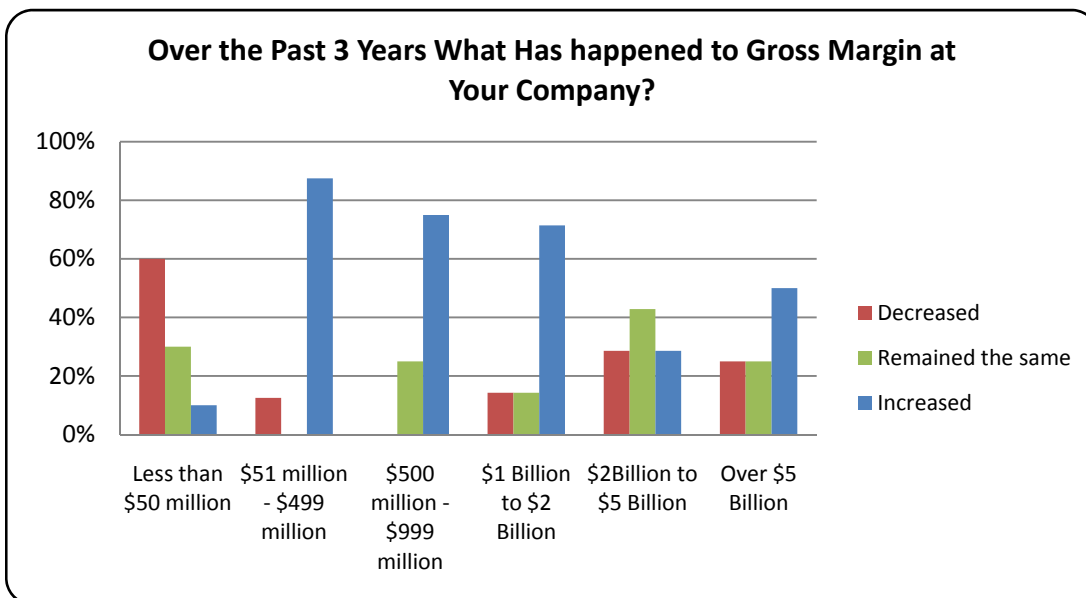
Figure 3:
The Top and Bottom Squeezed on the Top Line



Source: RSR Research, July 2008

While top lines may falter, on the other hand, most retailers are keeping their bottom lines strong with continued increases in gross margin. These retailers anticipated the surge in fuel prices and reduction in consumer spending. The smallest retailers don't have the luxury of size, and have been hit doubly hard, as their gross margins deteriorate along with sales (Figure 4). The financial viability of these "mom and pop" retailers is certainly in question if current economic conditions continue.

Figure 4:
...But Mom and Pops Also Squeezed on Gross Margins



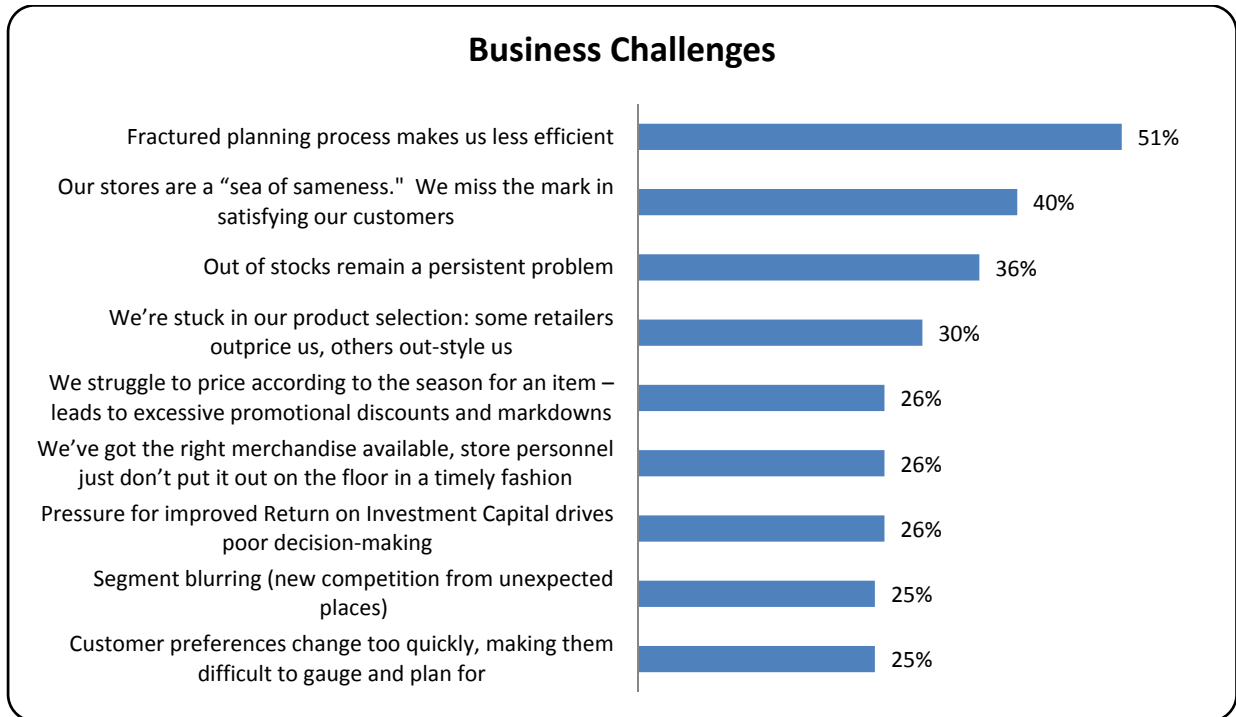
Source: RSR Research, July 2008

SECTION II: BUSINESS CHALLENGES

IN AGGREGATE, TRADITIONAL CHALLENGES REMAIN

Ask any seasoned retailer to name his or her company's biggest merchandising operations challenge and he will likely respond "Fractured Planning Processes" This issue looms so large, retailers consider it more than just an internal issue – it is an overarching business concern. Our survey respondents are no exception. Once again, as in years past, a majority of respondents cite fractured planning processes as the biggest business challenge they face in localizing their merchandise offerings (Figure 5). Our only source of solace is the "improvement" over 100% of respondents reporting this as a top-three concern in a previous benchmark report.¹

*Figure 5:
In Aggregate, Few Surprises Emerge in Business Challenges*



Source: RSR Research, July 2008

Following closely behind, we see retailers recognizing the law of unintended consequences. Economies of scale give them the ability to buy vast quantities of merchandise at low prices, and their legacy technologies allow them to replicate the "model store" across cities and nations. Planograms, floor sets and merchandise can be sent around the world electronically, but the customer remains unimpressed. Malls, strip centers and even high-end street locations all look alike. Forty percent of respondents acknowledge the pain of their "seas of sameness." Customers are bored.

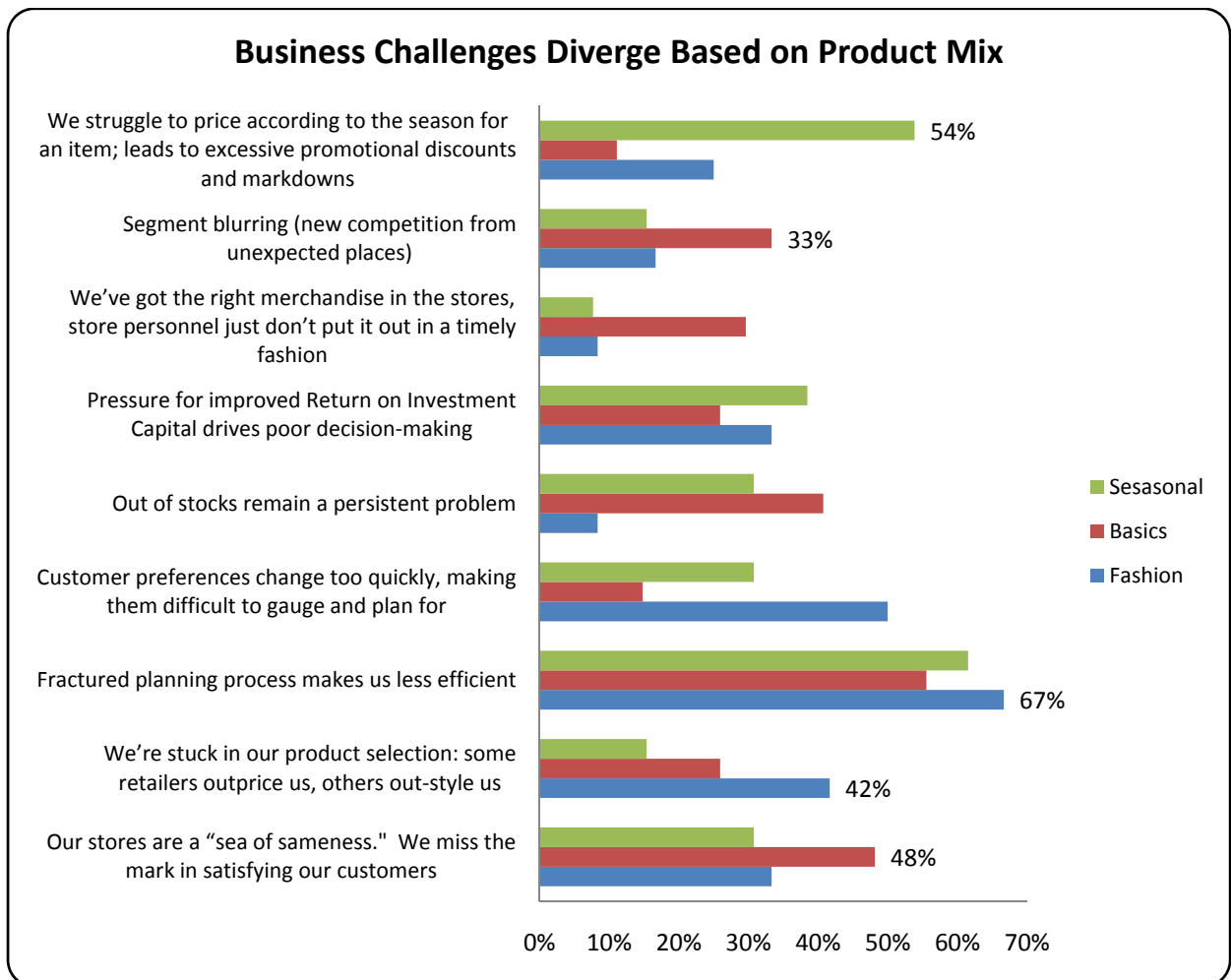
These are common overarching retail issues, but drilling into details by merchandise type and retailer performance, we start to see significant differences.

¹ *Customer-centric Merchandising: Benchmark Report 2007 – RSAG*

DIFFERENT CHALLENGES DEPENDING ON WHAT YOU SELL

We asked retail respondents what percentage of merchandise they sell is seasonal, fashion or basic product. Cross-tabulating business challenges with respondents whose merchandise mix consists of more than 50% of each type of product, we find very different challenges emerging (Figure 6). The exception is fractured planning processes, which are a consistent issue across retailers selling all product types.

*Figure 6:
Divergent Challenges Depending on Product Mix*



Source: RSR Research, July 2008

PRICING SEASONAL MERCHANDISE FOR OPTIMAL SELL-THROUGH

The magic in managing seasonal merchandise is finding optimal sell-through percents to drive optimal gross margin dollars and minimal re-pack or clearance. Our retail respondents believe their biggest challenge (beyond their planning process) is finding the sharpest price for seasonal merchandise. The Christmas season is a classic for long-time retail watchers (including customers!). A bad Black Friday can drive retailers into a panic, and all pricing rules are lost in a flurry of promotions. Retailers recognize this challenge – they know they're many years into a vicious cycle of customers buying later and later. We call this phenomenon "markdown chicken," and it's a game retailers almost always lose.

Retailers selling mostly seasonal merchandise are as concerned about pricing their products right (54%) as they are about tailoring their assortment to demographic, psychographic and geographic differences (54%, 53% and 47% respectively).

BASIC MERCHANDISE: A SEA OF SAMENESS AND AN INDEFENSIBLE POSITION

Basic merchandise is just that – commodities easily obtained by any retailer willing to devote shelf space to them. Therefore it's not surprising to find the biggest challenge facing retailers selling basic merchandise, beyond their planning process, revolves around "blah assortments" and indefensible positions – or encroachment from other retailers.

By now, everyone is familiar with the share of wallet moving from the Supermarket segment to almost all other types of retailers. Wal-Mart is now the United States' largest grocer and all other mass merchants have followed the behemoth's lead. Every type of retailer, from gas stations to auto parts suppliers to video and DVD stores has added at least an aisle or two of food, candy and household products into their assortments. Thirty-three percent of retailers selling basic merchandise remain concerned over this encroachment.

And, also by definition, basic merchandise is not exciting. So it's not surprising that 48% of retailers selling basic goods also view their stores as a sea of sameness. Typically these retailers will stretch beyond the products they sell to a customer-centric focus, offering special occasions and services in their stores to make themselves look different and unusual. Costco's "moveable feast" of taste-testing on weekends comes to mind as a differentiator. Yes, the customer is buying commodities in tonnage, but she can taste a few unusual and special new products at stations all around the store. Publix's localized assortments, wine-tastings and manned recipe kiosks are also well-received attempts to push past the blandness one expects in a Supermarket. Sixty-two percent of retailers selling mostly basic merchandise see a lot of value in localizing their assortments based on demographics (which we specified as ethnicity and income).

FASHION – IT'S NOT WHAT IT USED TO BE

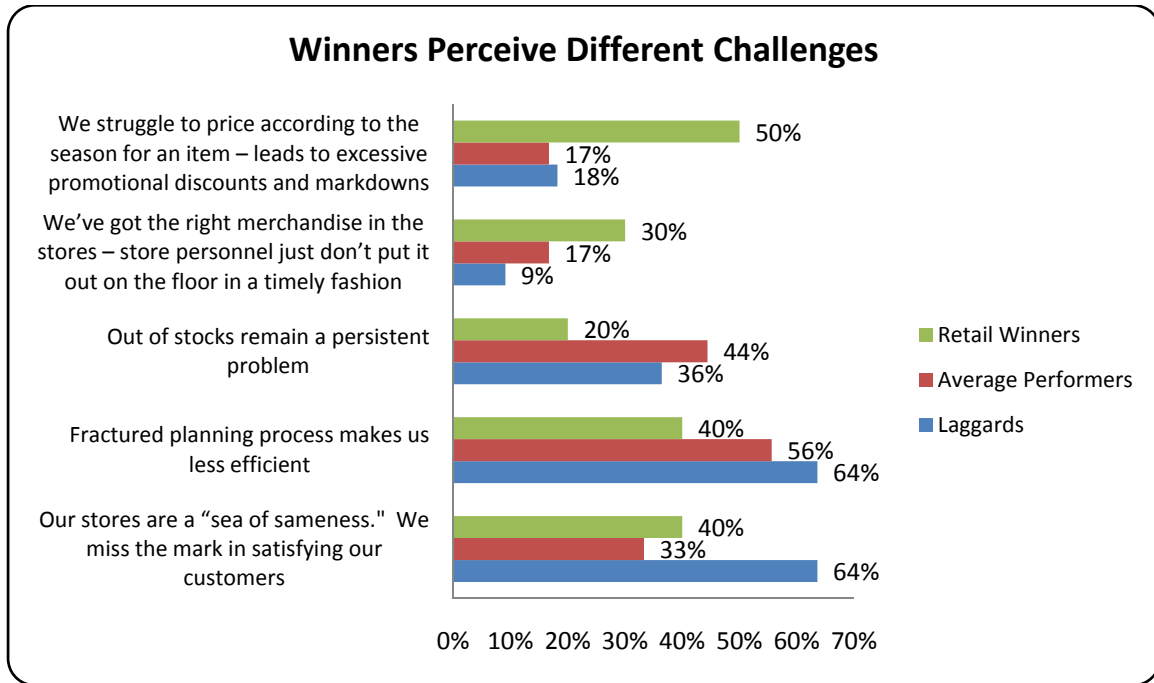
It's not surprising to find fractured planning processes as by far the biggest challenge for fashion retailers, with 67% of these respondents reporting it as a top-three concern. This has long been the domain of the merchant prince, who could either dictate the next fashion trend or more recently, divine it based on a keen understanding of the taste of the day. Mid-sized retailers in particular are known for catching a fashion wave and riding it until it crashes on the shore, when they have to re-invent themselves again. Companies like Chico's, American Eagle, Hot Topic and French Connection UK come to mind when thinking of this type of responsive retailing.

But, as they famously say on Project Runway, "One day you're in... the next day, you're out" and retailers riding this type of wave in days gone-by find themselves growing larger and larger, and then washing up on the shore, bloated and out of favor. Our retail respondents recognize this dilemma. **Forty-two percent recognize that they are stuck betwixt and between: "Some retailers out-price us, others out-style us." When upstarts like Steve and Barry's successfully sell hot new fashions under the brand of famous personalities at an \$8.98 price point, it's a little hard to compete, especially if your mature business model dictates stores in high rent malls and streets that demand a certain volume in dollar sales per square foot to make money.**

RETAIL WINNERS LIVING IN A VERY DIFFERENT WORLD

Most frequently in our benchmark studies, we find Retail Winners begin to diverge from their competitors when they look at opportunities. Here though, even their business challenges differ (Figure 7).

Figure 7:
Retail Winners Most Concerned About Right Pricing and Store Execution



Source: RSR Research, July 2008

Even though 77% of Retail Winners have enjoyed steady or increased gross margins over the past three years, **they still worry about moving beyond what RSR calls "emotional pricing."** They know they are leaving money on the table and seek to get more scientific in their item pricing. Interestingly, **Winners seem to have made the most progress in moving beyond fractured planning processes.** Forty percent of Winners still cite this as a top-three concern, vs. 64% of laggards.

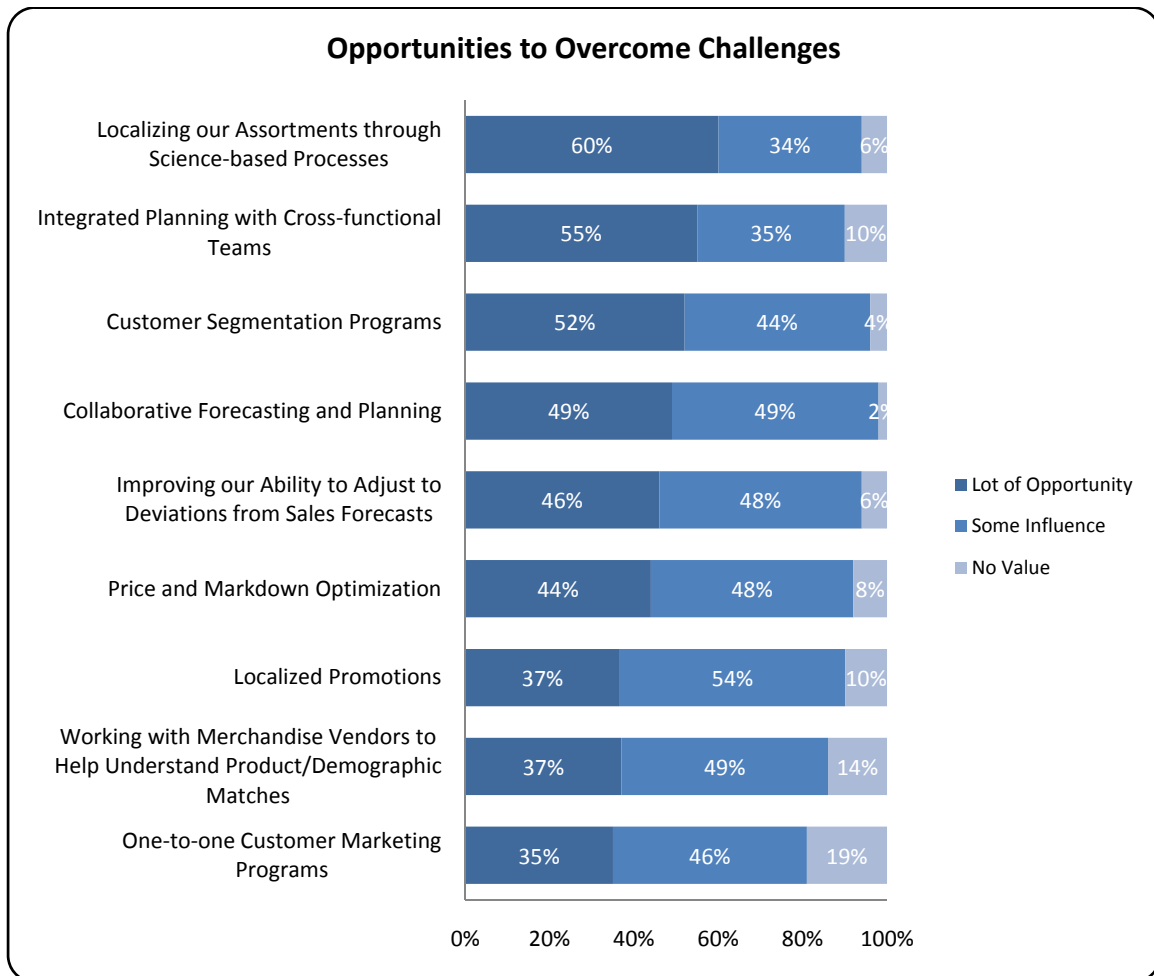
Laggards are most concerned about lack of differentiation. **Fully 64% believe the reason sales results lag is a lack of interesting product in their stores.** Over the past several months our benchmark reports indicate a deep frustration on the part of laggards. In an uncertain economy, funding for new capital projects is unlikely, and organizational dysfunction has taken center stage. This only adds fodder to mass media reports of wide-spread retail failures.

SECTION III: OPPORTUNITIES

SCIENCE, IMPROVED PROCESS AND PRAGMATIC COLLABORATION

Given the challenges they face, how can retailers find ways to improve internal dysfunction and perk up the look and feel of their offerings? Our overall respondent pool cites a combination of process and science as key opportunities to overcoming these business challenges (Figure 8).

*Figure 8:
A Combination of Science and Process Improvements are Key*



Source: RSR Research, July 2008

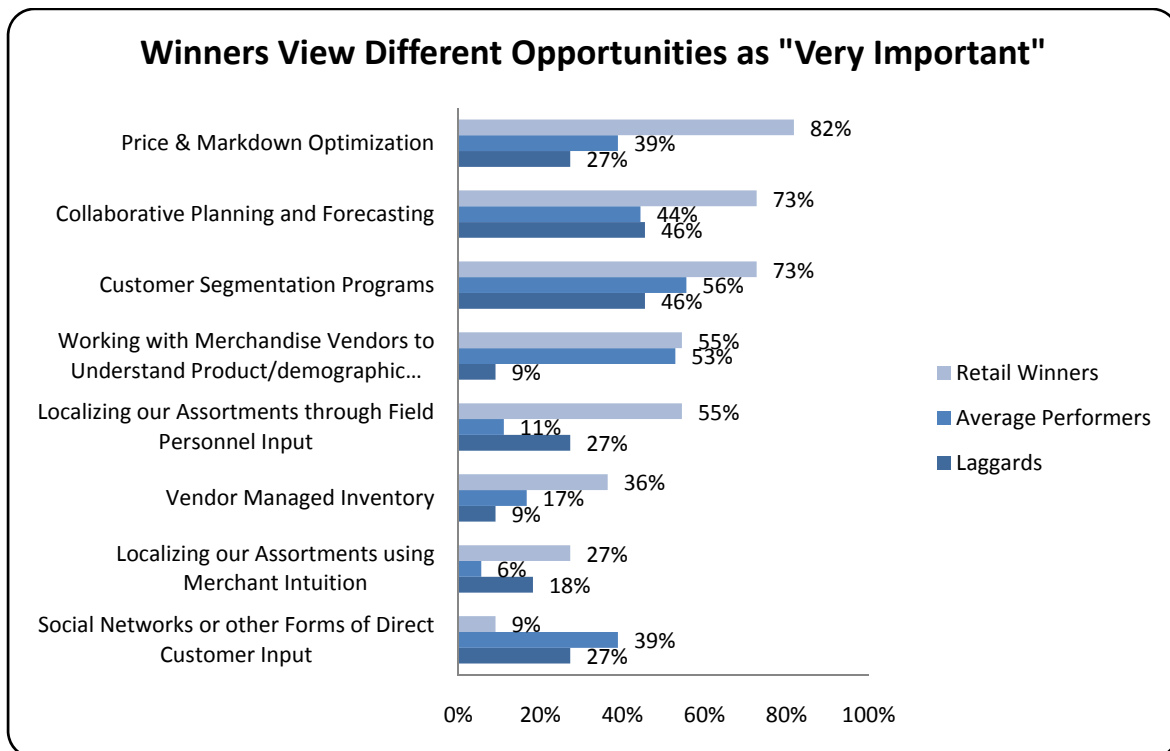
They look to *science* to help improve local assortments through customer segmentation, sales forecasting, price and promotion optimization, and more tailored marketing programs. They look to *process improvements* to optimize internal and external planning, and they *pragmatically work with their merchandise vendors* to improve understanding of demand signals and learn the best match between the products they sell and the customers that buy them.

While we find continual reference to the importance of collaborative forecasting and planning, the specifics of Collaborative Planning, Forecasting and Replenishment (“CPFR,” the classic and “official” methodology for retailer / supplier collaboration) are less important than pragmatic data sharing. Fifty-four percent of retail respondents cite “a mixture of high and low tech” as their primary means of sharing information with their trading partners.

WINNERS HAVE A DIFFERENT FOCUS

Given Retail Winners’ apparent movements toward integrating their planning processes, their focus has changed. While 50% rate improving planning processes as extremely important, for the most part they have turned their focus elsewhere. **Eighty-two percent of Retail Winners rate price and markdown optimization as providing a lot of opportunity in overcoming the challenges they face. Further, 73% believe collaborating with their trading partners on planning and forecasting and segmenting their customer base are critical ways to differentiate themselves from competitors.**

*Figure 9:
Winners Optimize and Collaborate*



Source: RSR Research, July 2008

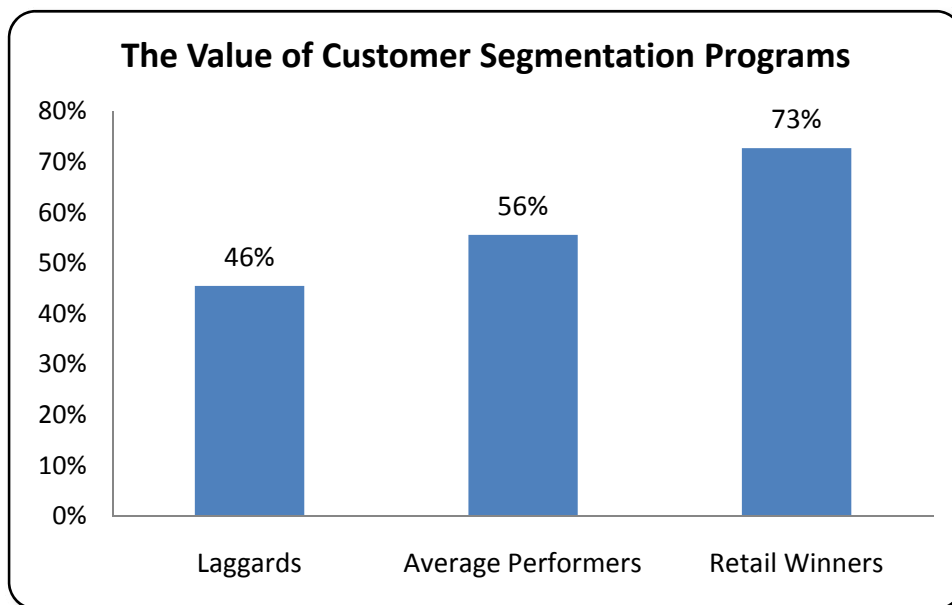
It’s ironic that more average and underperforming retailers believe their hope can be found in social networking and direct customer input. In fact, **laggards are less likely to rely on their vendors in any way than they are to work with either merchant intuition or even the intuition of a select group of customers.** In many ways, social networking programs are another twist on merchandising as an art form – just validated by a subset of direct customer response. On the surface, this seems logical and powerful, but quantifiable results have yet to be achieved. Only time will tell if this belief is just naiveté on their parts, or, if in fact they can use these tools and techniques to leapfrog over-performing competitors.

CUSTOMER SEGMENTATION BASED ON AFFINITY MATTERS

We asked our survey respondents to rate the value of demographic, geographic and even psychographic localization. We saw no clear differences between the opinions of Retail Winners and their peers. Similarly when asked about the value of localization in different regions of the world, in general retailers think it is important wherever they happen to be doing business. For example, 80% of retailers we surveyed do business in the US, and 81% of respondents believe localization is important there.

However, as always, we wondered about the difference between Retail Winners and their peers. We found the biggest differentiator to be in the perceived value of customer segmentation programs. Figure 10 zeroes in on just one slice of Figure 9, and it's worth a deeper look.

*Figure 10:
Retail Winners Notable for Focus on Customer Segmentation*



Source: RSR Research, July 2008

In many ways, geographic, demographic and psychographic assortment localization is table stakes in today's world. Product affinities based on other attributes of customers entering a retailer's domain are trickier to discern. This analysis can be counter-intuitive and requires sophisticated math. The fabled analogy of "panty hose and beer" as counter-intuitive but mathematically verifiable product affinities explodes exponentially when added into geographic and psychographic attributes. Retail Winners put their focus here.

Having understood the challenges and opportunities, it's time to turn our attention to the internal challenges, or organizational inhibitors that prevent retailers from taking advantages of the opportunities they find in localizing their offerings.

SECTION IV: ORGANIZATIONAL INHIBITORS

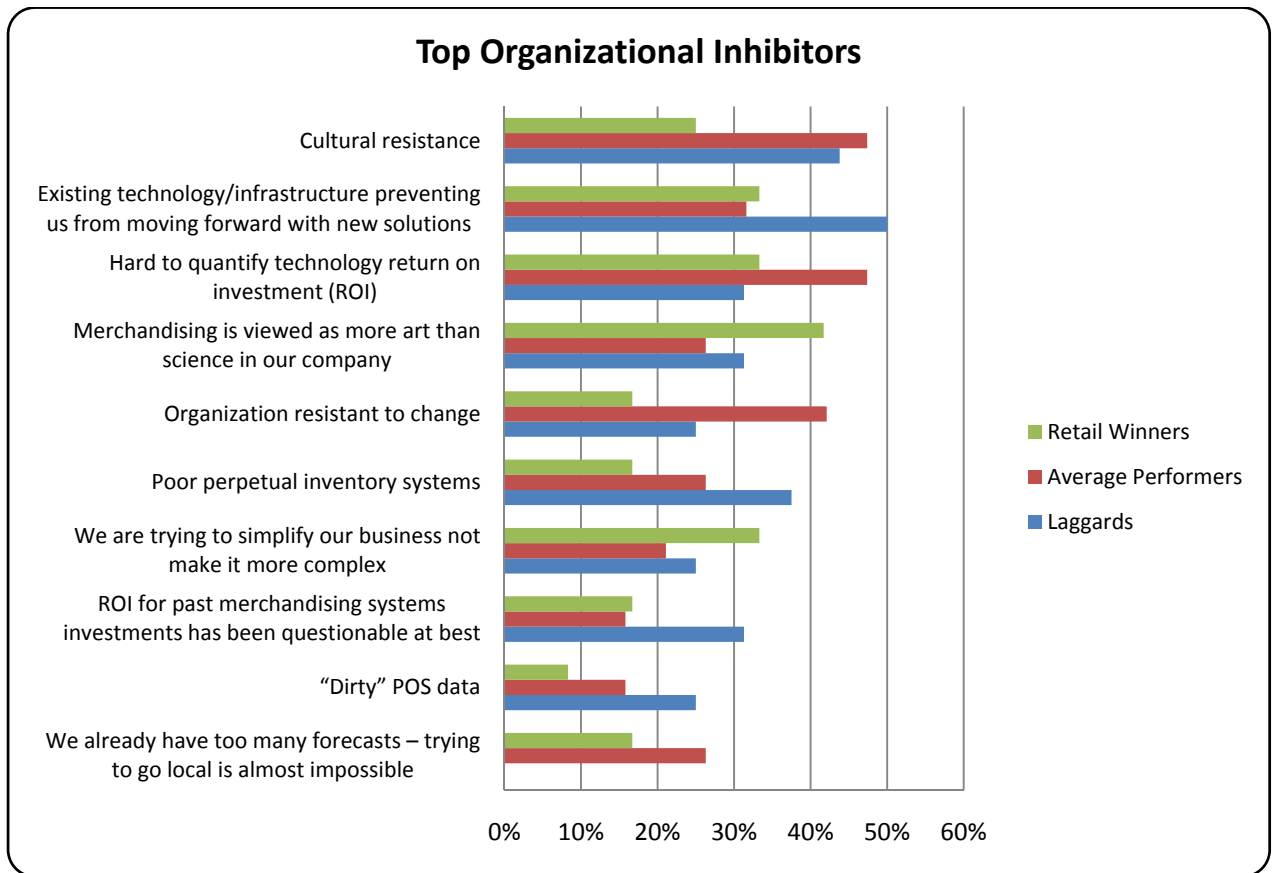
WILL IT COMPLICATE WHAT I ALREADY HAVE?

We’ve established that retailers see the value, have identified the challenges, and can glimpse the opportunities of enhanced merchandising practices. What is standing in their way?

Merchants may be getting a bad rap within their organizations. While it appears as though a majority of Retail Winners believe that merchandising is more of an art than a science, in fact, only 16% of all merchants identified this as a gating factor. Perhaps as a holdover from years gone by, other members of the organization felt more strongly about the merchants as gatekeepers than the merchants themselves! Merchants focus on proving ROI, which makes sense, given that it’s their budgets on the line.

Looking at other areas in Figure 11, we find 33% of Winning Retailers split believe the “existing technology infrastructure” is the number one obstacle to moving forward. This number is even higher (67%) among very large retailers (those whose with >\$5 billion in sales).

*Figure 11:
Organizational Inhibitors Differ Across Performance Tiers*



Source: RSR Research, July 2008

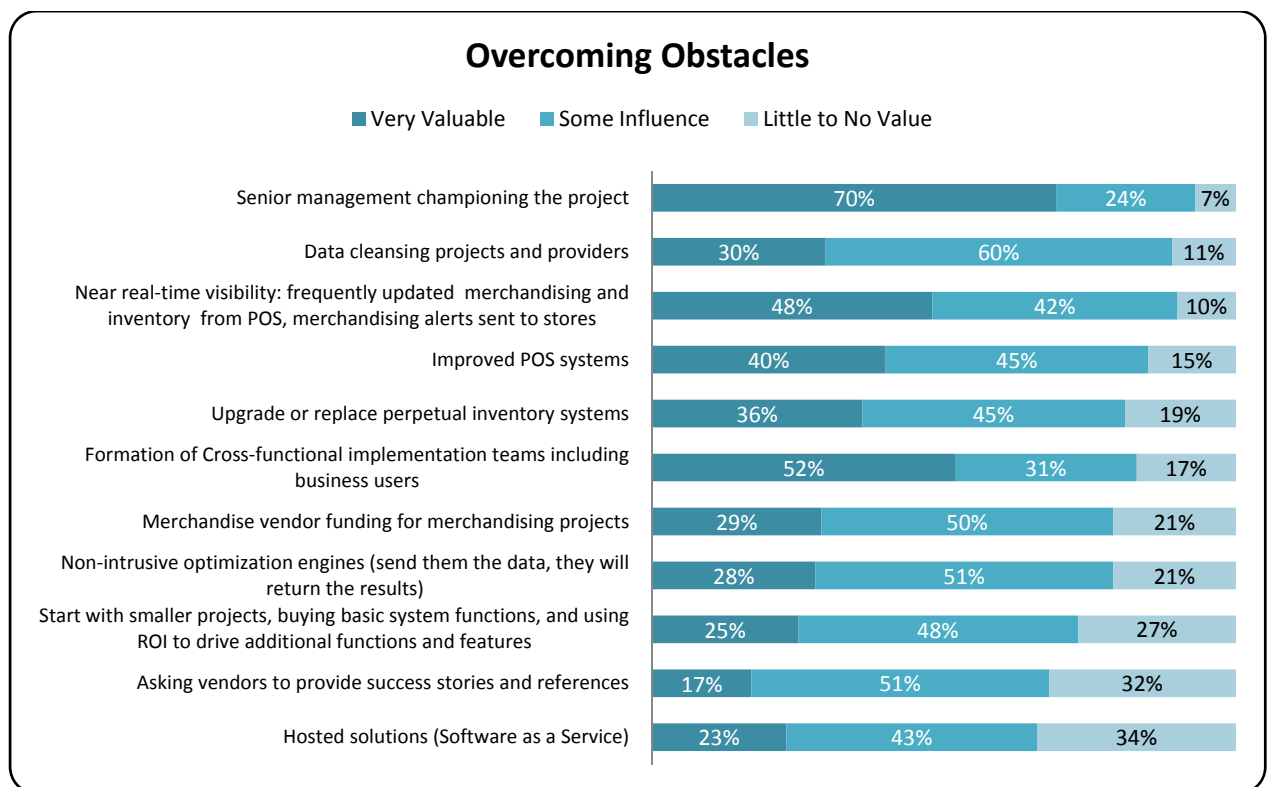
Perhaps even more interesting, the exact same number, 33% of Winners, report they are hesitant because “we are trying to simplify our business, not make it more complex.” This number is even higher among

large retailers (\$1-\$5 billion in annual sales), weighing in at a whopping 55%. This presents a clear-cut need - and opportunity – for technology vendors to better prove (and educate) that the new generation of merchandising systems do not require rocket scientists to run them, nor are they so hard to integrate that they add to the plate of “spaghetti” already in IT portfolios.

GETTING PAST THE OBSTACLES

With such hesitance in mind, where do Winners see the best chances to overcome their internal roadblocks? In aggregate, they look to traditional methods, with the hopes that senior management can move projects past latent states into full usage.

*Figure 12:
Aggregate Opinions on Overcoming Obstacles*



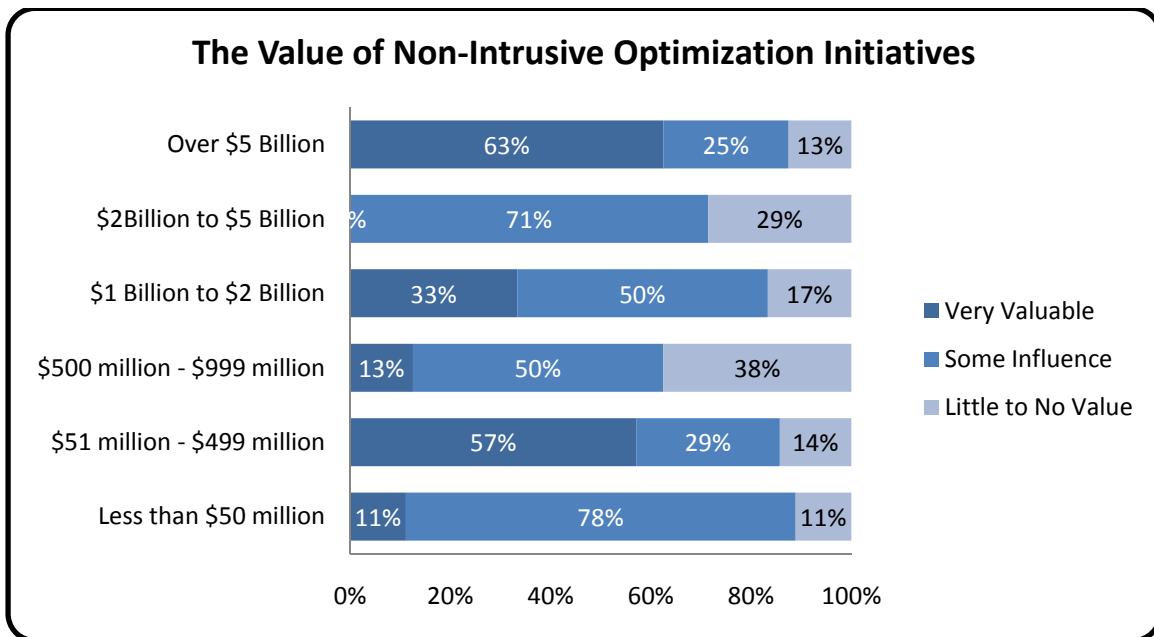
Only 55% of Winning Retailers (compared to 76% of all others), see great value in having “senior management” champion new merchandising efforts. This trend is also evident when looking at retailers of different sizes: 63% of very large retailers see great value, compared to 81% of retailers in the \$51 million - \$5 billion dollar range. Clearly, the notion of top-down leadership to overcome internal roadblocks varies by a retailer’s performance and size.

Digging a little deeper we find that many retailers, particularly those in the mid market believe there is opportunity in hosted (Software as a Service) models. **Fifty-five percent of Retail Winners rated SaaS merchandising solutions as being “very valuable” to overcoming organizational inhibitors (compared to 15% of all others).**

COMMON GROUND DISCOVERED

One thing retailers of all performance levels can agree upon is the value of non-intrusive optimization engines, whereby a retailer sends off raw data and the technology vendor delivers aggregated results. This trend continues across retailers of all revenue bands as well, shown here in Figure 13.

*Figure 13:
Appetite for Optimization Engines is Universal*



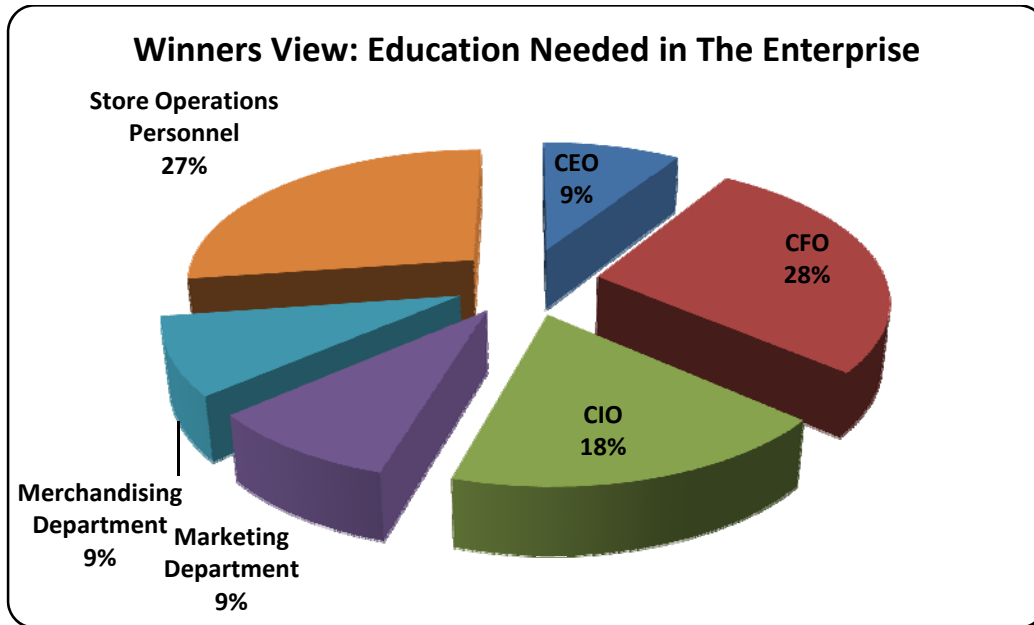
Source: RSR Research, July 2008

This type of outsourced optimization engine, most typically used for price and markdown management allows a retailer to improve their gross margins and sell-through without disturbing the house of cards many of their in-house systems appear to be. It has proven to be a boon to many retailers over the past five years.

LEADERSHIP IS ALL AROUND

When we asked who requires the most education about the value of merchandise planning, assortment, and pricing technologies, Retail Winners exhibited a much different “culture of inclusion” than their underperforming peers. Winners share the responsibility, and ensure that the CFO, CIO, CEO (54% combined), are as involved as store operations, marketing and merchandising personnel (a total of 45%). As illustrated in Figure 14, Store Operations personnel and the CFO were considered equally important to educate on the value of these initiatives, one because she needs to actually execute on the plan, and the other because he holds the final fiduciary responsibility for the asset we are discussing – inventory.

Figure 14:
Winners Spreading Knowledge Around



Source: RSR Research, July 2008

By comparison, average performing and lagging retailers do not “spread the love around” nearly as much. **Instead, lagging retailers put an inordinately large portion of the charge squarely on store operations personnel (44%), and none feel *any need* to include the CFO – a proven and vital component to any successful IT implementation – in the discussion.** While this does not serve as a magic insight into understanding why retailers on the bubble continue to struggle, it is certainly not aiding their cause.

It is also interesting to compare these statistics with our earlier observations that lagging retailers stress the importance of top-down leadership. This further proves the difference between “talking the talk,” and truly tackling the difficult tasks of working within to overcome real internal roadblocks.

SECTION V: TECHNOLOGY ENABLERS

SOLVING A PROCESS PROBLEM WITH TECHNOLOGY? OR HOPING FOR A SOLUTION?

Our retail respondents were very emphatic. They believe the most valuable enabling technology to support their merchandising initiatives is integrated planning, space, allocation, and replenishment systems. This is consistent across all tiers, segments, and performance levels. Following are some examples:

- 82% of total respondents rate this technology as very valuable;
- 84% of Retail Winners rate it very valuable;
- 100% of retailers selling predominantly seasonal merchandise rate it very valuable; and,
- Only 10% of the smallest retailers believe there is no value in this technology. Every other retailer of any size believes there is at least some value in the technology.

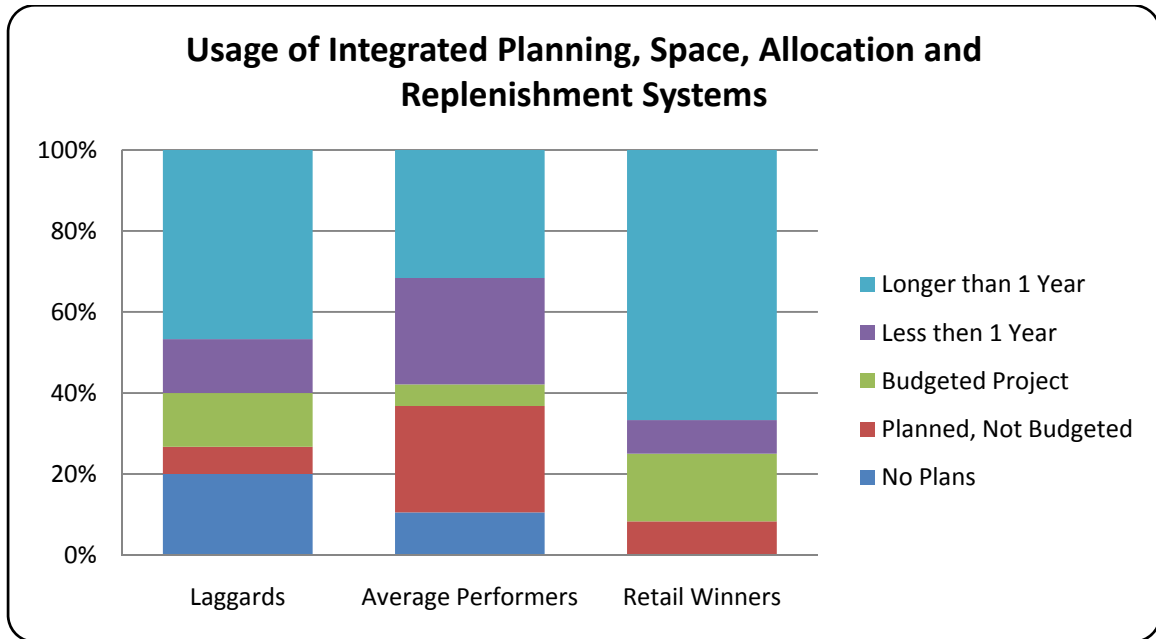
On the surface, the message is clear. Integrated planning, allocation and replenishment systems are table stakes to merchandising performance in the 21st century. However, when we look at what's actually installed, or planned to be installed, we find a very different story.

- 44% of total respondents have actually had this type of technology installed for longer than 1 year;
- 67% of Retail Winners have had this technology for longer than 1 year;
- A somewhat stunning 25% of retailers selling predominantly seasonal merchandise have had it installed for longer than 1 year. Fully 17% have no installation plans at all; and,
- A greater proportion of retailers with less than \$50 million in annual revenue have installed these systems than those with more than \$5 billion in revenue (44% vs. 29% respectively). Twenty-nine percent of these super-sized retailers have no plans to install them.

Does this mean that the value of the technology is over-stated? We believe that these retailers are living on a decades-old hope: that if somehow they could get the right technology, their process problems would go away. There is a message behind this message however. Figure 15 shows the difference in performance with some clarity.

While average performers and laggards are starting to make some headway, Retail Winners have already taken advantage of the opportunities these systems afford. Perhaps this is one reason why they are moving on to looking at the opportunities associated with price, promotion and markdown optimization: they've got their planning houses more in order.

Figure 15:
Retail Winners Are, and Have Been Serious about Integrated Planning for Longer

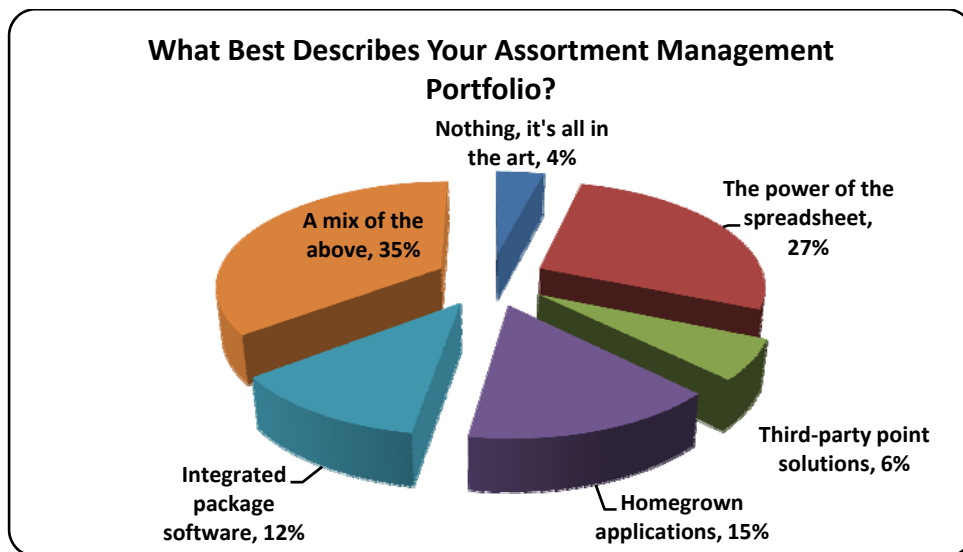


Source: RSR Research, July 2008

EXPLANATIONS FOR LACK OF INTEGRATION EMERGE

Our retail respondents are nothing if not honest. We asked them to provide the most accurate description of their assortment management portfolio. Figure 16 shows their response.

Figure 16:
An Assortment of Products to Manage Assortments



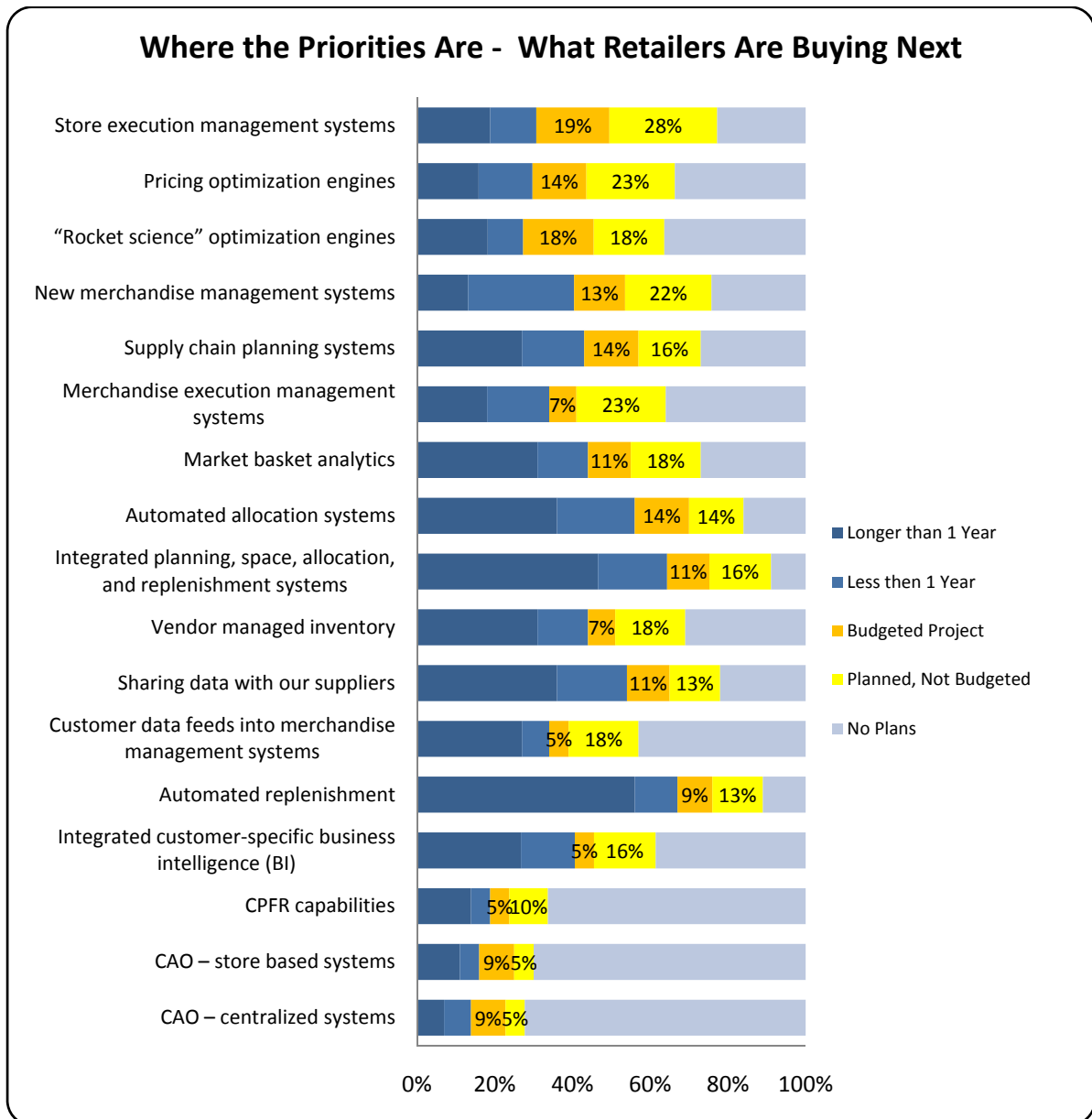
Source: RSR Research, July 2008

Perhaps most surprisingly, 25% of retailers with revenue over \$5 billion a year, and yes, 25% of Retail Winners too acknowledge their primary tool is the ubiquitous spreadsheet.

WHAT'S COMING AND WHAT'S NEXT? WHAT ARE BUYING INTENTIONS?

The uncertain economy has only added to already existing ROI pressures on any new technology investment. So irrespective of current install base, it's instructive to look at budgeted and planned purchases when thinking about where merchandising in general, and localization in particular, is going (Figure 17).

*Figure 17:
Retailer Technology Buying Intentions*



Source: RSR Research, July 2008

EXECUTION MANAGEMENT – HOPE FOR BOTH STORE AND MERCHANDISING

Consistently in this report, we've found the store surprisingly central to merchandise management. Along with the common theme of execution management ("the merchandise is in the stores, employees just don't get it out on the floor in time"), we've seen a desire to get more field input into local needs. And we've seen the somewhat tired story of fractured planning processes, and merchants putting themselves outside the organizational mainstream rear its head as well. It's therefore not all that surprising to find 47% of respondents either budgeted or planning to buy store execution management systems, partly to support their merchandising success. In fact, by the time they're done, 100% of Retail Winners expect to have store execution management systems installed.

Thirty percent of retailers surveyed expect to implement some form of Merchandising Execution Management system. The hope of course, is to eliminate fractured planning processes once and for all.

PRICING AND OTHER "ROCKET SCIENCE OPTIMIZATION" SYSTEMS

This report has also reinforced the value of optimization engines – both to support price management and to support the extra dimensions of data needed to localize merchandise assortments. Thirty-seven percent of respondents plan to implement price optimization engines, while 36% are looking to "rocket science" assortment optimization to facilitate going both global and local at the same time.

Retail Winners have been bringing the customer dimension of data into their merchandising systems longer than their counterparts have. Forty-six percent of Winners have been using this data for longer than one year, vs. only 12% of average performers. Clearly using this dimension of data is a big part of winning.

BREAD AND BUTTER: PLANNING, ALLOCATION, REPLENISHMENT, AND MERCHANDISE MANAGEMENT

Whether they buy them integrated or in pieces, retailers clearly have plans to continue improving and enhancing the core merchandising, planning, allocation and replenishment systems they need to grow their businesses. Thirty-five percent of respondents are looking to replace their merchandise management systems and 27% plan to put in those integrated planning systems that hold so much promise in their minds' eyes.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

THE FIRST QUESTION – ARE WE WINNING OR LOSING?

We asked our retail respondents the Key Performance Indicators (KPIs) they use to evaluate success of any assortment planning initiative. Not surprisingly, they overwhelmingly chose year-over-year comparable store sales and gross margin increases (78% and 70% respectively) as their most important measures. On the one hand, as we repeatedly state, comparable store sales are the best and most important measurement of retailing success. On the other hand, in the same spirit of holism we advocate throughout this piece, and the need to overcome fractured planning processes, we would like to propose additional measures. They include:

- **Logistics costs** – An effective assortment planning strategy also includes a smooth inbound merchandise flow. Excluding fuel cost increases, logistics (storage, DC to store distribution, store-to-store transfer, and payroll) costs should begin to fall as the flow of merchandise improves; and,
- **Store Payroll to sales ratio** – In our survey, payroll-to-sales ratio barely nudges the meter of important KPI's, with only 5% of respondents calling it out as a top-three metric. This highlights the fundamental discontinuity between home office and stores. Our respondents believe stores don't always put merchandise out on the selling floor in a timely fashion. They also believe store operations needs to be educated on the value of localization and believe that store management offers valuable input for the localization process. Given the important part the stores play in localization's success, we believe constant or declining payroll to sales ratios are a key compliment to comparable store sales increases as measurements for success.

TAKE A HOUSEKEEPING TIP FROM THE PROS

As we've pointed out frequently, Winning Retailers don't just do things differently: they actually do different things. The cultural differences Winners cultivate to improve the conversation about their merchandising efforts from the methods of their underperforming peers is significant: a corporate "culture of inclusion," whereby store operations personnel and the CFO are considered equally important to educate the value of these initiatives are hallmarks of these leaders. It is our recommendation that others emulate this cultural shift.

DON'T JUST TALK THE TALK – WALK THE WALK

Our respondents showed true solidarity in their belief that the most valuable enabling technology to support merchandising operations is integrated planning, space, allocation, and replenishment systems. However, with so few average, lagging, and even supersized retailers actually using the technology, the dangerous trend to wish "technology would take my process problems away" emerges. Retailers have to commit to process changes, and then find the right technology to support those changes. The reverse will only be prelude to disaster.

FOCUS ON PRICE WHEN THE TIME IS RIGHT

Pricing, promotion and markdown optimization technologies are red-hot among Retail Winners. Yet it is important to remember that these Winners have been able to rely on a better, more finely tuned product mix longer. The right price will only matter to shoppers who find the products they desire in the first place.

RETHINK LOCALIZATION: WHAT YOU'RE SELLING MATTERS, NOT JUST WHERE YOU'RE SELLING IT

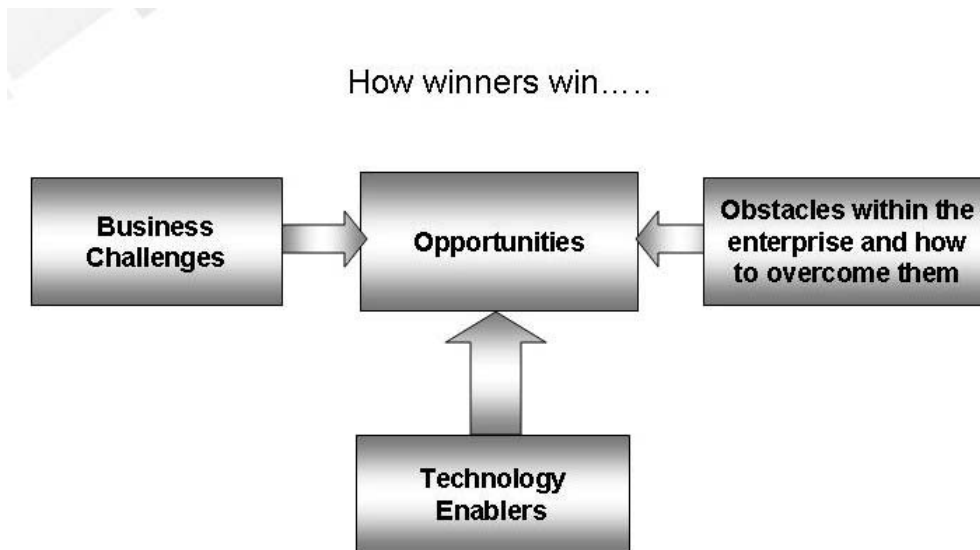
Finally, for many retailers, the term “localization” automatically conjures thoughts of varying product mix by geographic and demographic differences. However, our findings suggest that each enterprise re-evaluate what type of localization is best for its customers. For seasonal merchandise sellers, this may mean paying greater attention to pricing options. For fashion sellers, it means something entirely different. By understanding which trends have brought Winning Retailers in your segment the most success, today's retailer can decide which localization effort will most effectively increase performance.

APPENDIX A: THE BOOT METHODOLOGY

The “BOOT” methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and “also-rans.”** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT OUR SPONSORS



DemandTec (NASDAQ: DMAN) enables retailers and consumer products companies to optimize merchandising and marketing decisions, individually or collaboratively, to achieve their sales volume, revenue, and profitability objectives. DemandTec software services utilize DemandTec's science-based software platform to model and understand consumer behavior. DemandTec customers include more than 140 leading retail and consumer products manufacturers such as Advance Auto Parts, Best Buy, Circle K Stores, ConAgra Foods, Delhaize America, Dr Pepper Snapple Group, Giant-Carlisle, H-E-B Grocery Co., Hormel Foods, Monoprix, Safeway, Sara Lee and Tyson Foods. Connected via the DemandTec TradePoint Network™, DemandTec customers have collaborated online on more than one million trade deals. For more information, please visit www.demandtec.com.



Precima is an advanced analytics firm that translates retail customer data into critical insights to better align marketing, merchandising and operations strategies with shopper needs. Precima helps retailers and manufacturers grow sales, improve profitability and build customer loyalty. Precima was launched by Alliance Data Loyalty Services in 2008. As the in-house analytics arm of Alliance Data Loyalty Services prior to 2008, Precima worked with many of the leading retail partners of the AIR MILES Reward Program over 16 years to help make the program North America's coalition loyalty marketing leader. Additionally, Precima has worked with numerous customer-focused retailers and manufacturers across North America. Precima is recognized for delivering measurable results tailored to each retailer's unique needs. For more information, visit www.precima.com.



Revionics is a leading provider of lifecycle price optimization, including base price, promotion, TPR, and markdown optimization technology for Fast Moving Consumer Goods Retailers. The Revionics Advanced Pricing System (RAPS) generates increased sales and profits through sophisticated consumer demand intelligence and proprietary retail pricing science. The Revionics service includes weekly price remodeling, as well as scenario planning, forecasting, and category analytics. Price strategy consultation services are also included, providing retailers a true partner for their pricing needs. The Revionics offering is available to retailers as a Software-as-a-Service (SaaS) subscription offering over the Internet. For more information please visit www.revionics.com.



SAP is the leading provider of application solutions for the retail industry. SAP helps retailers of all sizes to understand the shopper, anticipate the need and inspire the experience. The SAP® for Retail solution portfolio provides specific solutions for retail companies in the food, fashion and hardlines businesses. The solution portfolio consists of building blocks that cover the areas of merchandise lifecycle (including lifecycle pricing and optimization); shopper experience (including a portfolio of POS and multi-channel solutions); supply chain (including inventory and replenishment), corporate operations (including finance and human resources) and a business process platform. SAP allows companies to implement solutions in a step-by-step approach, and provides an easy, cost-effective means to connect information across the business. (Additional information at <http://www.sap.com/retail/>).



Teradata is the acknowledged global leader in data warehouse innovation and analytical solution development. Every day we raise our customers' intelligence to higher levels, making them more focused and competitive by gathering enterprise information and extracting actionable insight. Teradata elevates enterprise intelligence by giving every decision maker the insight required for smarter, faster decisions. We add value and reveal opportunity across more dimensions than any competing solution.

Our family of platforms addresses many customer needs, from entry-level to active enterprise-level, all with the proven power of the Teradata 12.0 Database engine. In every industry and geography, our technologies and expertise make the difference. Simply put, Teradata solutions make companies smarter and give them the competitive advantage to win. To learn more, go to teradata.com.

APPENDIX C: ABOUT RSR



Retail Systems Research (“RSR”) is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.



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