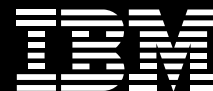


Finding the Retail Sweet Spot
January 2009



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Finding the Retail Sweet Spot





At first blush, finding the sweet spot in retail may seem like an impossible feat given the state of our economy. With over 80 percent of retailers feeling the economic pinch of low consumer confidence (Aberdeen, November 2008), retailers are engaging in “any strategy” that seems to drive sales, ranging from heavy promotional activities, to shifting sales between channels to mixing up promotional timing to inventory management. Ironically, tough economic times are exactly the type of conditions that require organizations to become more focused and informed. Second chances in deploying strategy are becoming a luxury that most organizations can ill afford. Operating in a reactive mode – based on half truths and incomplete stories—is just not the way to drive successful financial performance.

Retailers often focus on sales and margin growth, while keeping an eye on inventory levels. However, in today’s environment, there are broader questions about decision making that need to be addressed:

- Can your organization quickly assess a change in your customer behavior and adjust product orders and allocation proactively?
- Can you focus your workforce to maintain optimum productivity, driving sales and executing on store procedures without increasing total expense?
- How much time is spent by your organization researching information to make key decisions versus driving new innovation?

Often companies end up making decisions based on information that is available instead of the information that is needed. They may have the highlights, but rarely the entire story, and even those highlights may be miscalculated or the wrong type of metrics for the situation altogether. Reports are frequently based on lagging indicators and organizations are not aware of bottlenecks in the supply chain or changes in the market place until it is too late to react. Corrective actions are often initiated after the situation has become critical and those actions are often undertaken without a full understanding of all the chief factors involved.

How do you emerge from chaotic fire fighting to the calm of operating in the sweet spots for customer profitability, merchandising management, operational efficiency and workforce optimization?



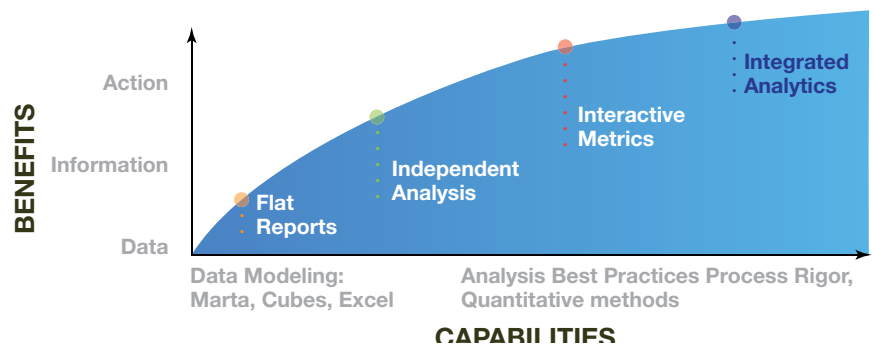
Business Intelligence and Performance Management systems enable retailers to focus on analysis, interpretation and predictability based on the mounds of data that are collected via a multitude of systems that run day-to-day operations. It is about merging business process with technology in a thoughtful manner to provide every individual in every retail division the ability to access the right information at the right time at the lowest possible cost.

The sweet spot of success in today's challenging retail business environment lies with business intelligence that is readily available, accurate and actionable for each decision maker.

Performance Management Evolution

Over the years, retailers have maintained the same executive focus: increasing sales, improving margins, and maximizing inventory turns. However, as consumer behaviors evolve and economic conditions drive market volatility, the challenge of achieving these goals has become more difficult. Retailers who still operate their business with operational silos, or who narrowly focus IT initiatives on maintaining data that is isolated within each transactional system, have effectively cut off the possibilities of quick market innovation and rapid response to dynamic shopping patterns. Retail Performance Management is a progressing path where retailers can access evolving data across business processes, while transcending across silos to ensure every decision maker can make rapid decisions based on comprehensive information.

There are four stages in the evolution of Retail Performance Management:



Evolution Stages	Description	Risk and Cost of Unrealized Efficiencies
Flat Reports	<p>Information is captured, administrated and published from a single source system</p> <p>Transaction reports are in paper form or screen view</p> <p>Any compilation of data occurs within an end-user desktop environment, such as Microsoft (MS) Access and Excel</p> <p><i>Examples:</i></p> <ul style="list-style-type: none"> • Excel Based Financial Statements • POS hard copy sales reports • Purchase Order Reports Needing to be Sent by Vendor 	<ul style="list-style-type: none"> • Lack of control over document review, approval and data publishing • Lack of control over version access • Limited sharing of information about non-compliance events outside of division, or even within disparate groups • Inability to track or manage compliance events and employee process recommendations • Decisions are made based on siloed data • Manual data manipulation and/or edits can change results • Audits take longer, require more manpower and are apt to uncover compliance issues • Increase of expenses due to the frequent printing of new versions of the paper documents and forms or manual manipulation of desktop reporting • Inability to monitor/manage test strategies or complete value-added ad hoc analysis in a proactive manner • Inefficiencies prevent the company from making educated decisions, and acting in a timely manner
Independent Analysis	<p>Solutions developed for systems serving a single process are connected to create an end-user view to data by function</p> <p>Data marts or business intelligence tools are used to enable basic research at minimal cost</p> <p><i>Examples:</i></p> <ul style="list-style-type: none"> • Merchandise Planning and Allocation system • Warehouse Management system • Basic financial planning tool • Stand-alone Customer Loyalty database 	<ul style="list-style-type: none"> • Data is aggregated by the retail division, but still lacks holistic meaning as a result of being disconnected from other key systems/data • Reporting exists, but ad hoc analysis is sometimes difficult, requiring significant manual intervention • Decision making is improved, but data integrity issues still tend to keep the process slow and inaccurate • Customer data and inventory data tend to remain too robust to be integrated in with other data metrics
Interactive Metrics	<p>Using complex intelligence tools to connect disparate systems, a cross division look of performance can be analyzed</p> <p>Planning is more collaborative in nature and reporting becomes more focused on individuals by catering to business processes</p> <p><i>Examples:</i></p> <ul style="list-style-type: none"> • Merchandising forecasts drive supply chain allocation and labor planning • Distribution Center shipments drive store labor • Customers aggregated for marketing initiatives 	<ul style="list-style-type: none"> • Scorecards are created showing more holistic view of the company • Reporting can be generated across departments, although not always automated • Analytics are user focused and technology supports business process • Collaboration occurs based on multifunctional data • Store performance is measured against financial and operational targets • Management can start looking at exception-based reporting to deal with 'plan-to-performance' anomalies
Integrated Analytics	<p>Implementation of a portal-based solution that provides a process that highlights past, present and future performance-to-plan initiatives, with a particular focus on "what-if" scenarios, complex data and process relationships and ad hoc data access</p> <p>Analysis and reporting is delivered via dashboards and scorecards at a high-level with the ability to "drill into detail" to explore trends within the data</p> <p><i>Examples:</i></p> <p>Inventory Integrity Analytics reviews relationships across all divisions, with focus on highlighting –out-of-tolerance activities</p> <ul style="list-style-type: none"> • Fraud analysis • Marketing campaign effectiveness • Market Basket analysis • 'What-if' pricing scenario development 	<ul style="list-style-type: none"> • Ability to gather and cleanse data across the enterprise from multiple systems in real-time • Integration with all systems including merchandising, supply chain, stores, finance, marketing, and call centers • Ability to test key assumptions and identify business drivers • Standardized dashboards, scorecards and reports • Scalability that allows smooth performance with the addition of more users • Variance/alert focused to drive attention to decision areas without use of interventions



What it Takes to Achieve Performance Management/Business Intelligence Results

Basing decisions on accurate information requires users to not only have access to the information, but to have confidence in the data. Using reliable business intelligence to drive retail performance management requires:

- Standard, consistent data collection capabilities
- Ability to review and analyze data frequently
- Metrics that provide true visibility and insight into targeted business area
- Customized dashboards and scorecards that focus on both innovation and execution
- Exception reporting capabilities to identify areas of the business that are not performing to plan
- Ability to distribute timely information to all stakeholders in meaningful views
- Flexible analytical tools that can manage ever-changing product and store hierarchies
- A holistic view that considers the dependencies and connections throughout the organization
- A “Culture of Analytics” of trained users who interact with data
- Standard tools and practices that reduce Total Cost of Ownership and prevent reporting silos

Where to Begin

Step 1:

Define a roadmap of processes today, calling attention to key deficiencies in the process, both business and technology oriented. Identify and prioritize areas of the business most likely to yield significant performance increases through baseline improvement. Prioritization should tie back to corporate strategic initiatives. For example, Retailer A might focus on planning labor based on transactional sales data, where Retailer B wants to manage payroll based on soft and hard metrics, such as customer service scores, planogram out-of-stocks, etc.



Step 2:

Start small with a quick-start, short duration project that allows you to quickly realize return on existing investments. The success criteria should be clearly defined, along with a clear differentiation of in-scope vs. out-of-scope development that can occur in a later phase. Tangible deliverables should be planned for a 90 to 120 day implementation cycle.

Example starter projects include:

Customer Profitability

- Customer Profiling
- Campaign Planning
- Ad Traffic Analysis
- Customer Migration Evaluation
- Ad Lift/Uplift Planning
- Cannibalization Assessment
- Loyalty Effectiveness
- Market Basket Clustering Analysis
- Response Rate
- Cross-Sell Potential
- Lost Sales Analysis

Merchandising Management

- Category Management (Phased Approach)
- Out-of-stock Analysis / Presentation Minimum Evaluation
- Assortment Allocation
- Price Optimization / Elasticity
- Markdown Effectiveness
- Financial Open-to-buy
- Aged Inventory Management
- Inventory Integrity
- Returns Analysis
- Vendor Chargeback / Co-op Management
- Direct Product Profitability (DPP)
- Planogram Productivity
- Market Basket / Customer Traffic Analysis
- Channel Erosion Analysis



Operational Efficiency

- Daily/Weekly Sales Flash Reporting
- Plan-to-Target Analysis
- Loss/Theft Prevention
- Cash-over-Short/Comps/Discount/Analysis
- Store Workbenches / Scorecards
- Private Label Optimization
- Breakpack Allocation Quantities
- Pre-Distribution vs. Post Distribution
- Inbound Freight Management
- Distribution Center Scheduling
- Transportation/Shipping
- Vendor Scorecard

Workforce Optimization

- Labor Optimization
 - Overtime Analysis
 - Turnover Analysis
 - Shift Optimization
- Training Skills Analysis
- Incentive Compensation
- Payroll Planning
- HR Analytics
- Benefits Management

Step 3:

Cater the process to an individual decision maker. Define metrics that provide true visibility into the targeted business areas and insights that directly relate back to the work process being completed. Utilize process maps to pair the right grouping of technology for each user, integrating dashboards for executives, scorecards for operations and ad hoc analysis for analysts.



Step 4:

Clearly map results of the project to pre-defined benchmarks. Use the implementation to challenge current thinking regarding existing processes. Ensure that the implementation involves a broad representation of people so there are multiple check points for technology and business process. One of the biggest mistakes made within a retail technology project is a breakdown in communication.

Step 5:

Promote a “Culture of Analytics” by training users to interact with the data and think multi-dimensionally. Empower users to use the new tools and act based on goals clearly defined to drive the intended behavior.

In short, the goal is to visualize, analyze, and execute strategies designed to triangulate business process, technology, and human capital. Using a third party to help map the business process and prioritize opportunities can often effectively mediate the cross-silo challenges, as well create insight into the highest ROI opportunities.

What’s the Right Performance Management/Business Intelligence Solution for You?

The best business intelligence solution will be one that can connect your entire organization, making scalability paramount. Your ideal solution should drive customer-pull strategies, lean retail initiatives, more precise assortments and reduce expenditures related to cost of goods sold overall.

JCB Partners has developed Retail Pathways™, based on the IBM Cognos Adaptive Analytics Framework (AAF), to uniquely assist retail companies in gaining insight into the data that drives their businesses. Retail Pathways is ideally suited for a myriad of retail types, including: specialty, hardlines, apparel, big box and chain restaurants. This pre-packaged reporting and analytics solution helps retailers with sales and budget “performance-to-plan” reporting, POS, ERP and merchandising data consolidation, product sales mix and market basket analysis, as well as budgeting, forecasting and consolidations.



Designed with an open architecture in mind, Retail Pathways accepts data from virtually any data source, ensuring that data is conformed, structured and summarized for efficient reporting. Other features include:

- Nightly data archiving in Retail Pathways' industry-specific warehouse
- Pre-defined data model, dashboards, scorecards and reports mapped to retail business roles.
- Flash reporting that integrates key corporate priorities
- The ability to conform data from multiple operational systems (e.g. POS, BOH, ERP, GL, STL, CRM)
- Add-on modules for Sales and Marketing, Budgeting/Forecasting/Consolidations, Merchandising, Supply Chain and additional Point of Sale (POS) Connectors
- Ad hoc analytics environment that enables quick analysis supporting retail innovation and decision making

JCB Partners specialized in delivering performance management solutions within retail company budget and personnel constraints within 3-4 months, empowering retailers to make intelligent, actionable decisions with a full understanding of underlying data points. Sweet!

By gathering and cleansing source data, testing key assumptions and identifying business drivers, the Retail Pathways solution enables retail companies to implement change throughout their organizations by providing a process that highlights past, present and future performance-to-plan initiatives.

Addressing the unique challenges of several industries –including apparel, specialty and general merchandise, grocery and restaurant/hospitality – several of JCB Partners clients are successfully using Retail Pathways to close their books faster and to easily report consistent numbers from one trusted data source. Contact JCB Partners for client references and further details.

The following chart highlights how our enterprise-wide solution provides analytical tools to address specific retail pain points.

JCB Partners Retail Pathways based on the IBM Cognos Adaptive Analytics Framework

Retail Pain Point Customer Profitability	Enhanced Analytics Delivered	Result
Customer Profiling/Loyalty	<ul style="list-style-type: none"> • Customer Segmentation • Market Segmentation • Customer Profitability • Market Basket Analysis • Loyalty Program Purchase Patterns • Product Cost Analysis 	<p>Allows identification and trending of customer shopping patterns to improve forecasting</p> <p>Allows clustering of customer types based on shopping behavior to drive marketing decisions</p> <p>Empowers retailers to adjust product allocation and purchases to improve sales and profitability</p> <p>Maximizes store prototypes and product grouping decisions</p>
Ad Campaign Effectiveness	<ul style="list-style-type: none"> • Traffic & Response Rate Assessment • Ad Campaign Profitability • Sales Pull-Through Analysis • Cross-sell and Up-sell Analytics • Sales Channel Analysis 	<p>Provides quantifiable metrics for ad and marketing campaigns by type</p> <p>Evaluates campaigns based on trends, seasonality, history, and plan</p> <p>Maximizes profitability of marketing vehicles through optimal assortment and target audience</p> <p>Allows marketing investments to be prioritized and changed on the fly resulting in greater return</p>
Channel Management/Planning	<ul style="list-style-type: none"> • Cross-channel Sales Analytics • Pricing Optimization by Channel • Customer Call Center Analysis • Root Cause Supplier Analysis • Market Cannibalization Analysis • Returns Authorization Analysis 	<p>Reveals relationships between sales channel, customer demographics, and return behavior</p> <p>Maximizes profitability of every customer interaction</p> <p>Focuses operational workload and structure based on channel drivers</p>
Sales Analytics	<ul style="list-style-type: none"> • Category Management Reporting • Location / Channel Sales Analysis • Sales Performance-to-Plan/Forecast • Seasonal Trend Analysis • Lost Sales / Out-of-stocks Impact 	<p>Provides Performance-to-Target behavior by Region / Product Line / Management Structure / Time</p> <p>Weights results based on seasonality, events, and other factors that impact historical analysis</p>

Retail Pain Point Merchandising Management	Enhanced Analytics Delivered	Result
Category Management	<ul style="list-style-type: none"> • Category Profitability Analysis (GM/Profit ROI, ROS, Turn) • Direct Product Profitability (DPP) • Vendor Performance Analysis 	<p>Evaluates item and assortment profits in relation to benchmarks to maximize profitability</p> <p>Enables planogram changes based on changing trends</p> <p>Focuses vendors on both performance and profitability</p>
Inventory Management	<ul style="list-style-type: none"> • Assortment Allocation by Vendor • Assortment Allocation from Distribution Center • Distribution Method Assessment • Assortment Sizing Analytics • Returns Analysis 	<p>Maximizes product to location based on sales patterns</p> <p>Provides better in-stocks and reduced lost sales through fill rate improvement</p> <p>Decreases markdown risk through better tailored assortments</p>
Pricing Optimization	<ul style="list-style-type: none"> • Initial Price Optimization • Competitive Price Adjustments • Promotional Effectiveness 	<p>Provides ability to evaluate all aspects of pricing management from initial markup to ongoing promotional and clearance markdowns</p> <p>Evaluates pricing based on assortment, sales performance, and inventory positioning</p>
Aged Inventory Analysis	<ul style="list-style-type: none"> • RTV Execution • Markdown Capture Rate Analysis • Basic vs. Promotional Lifecycle Analysis 	<p>Proactively identifies aged inventory risk to manage earlier in the lifecycle.</p> <p>Improves profitability of markdowns based on sell-through</p> <p>Enables execution of Return-to-Vendors (RTVs) through monitoring, lowering shortage and missed chargebacks</p>
Retail Pain Point Operational Efficiency	Enhanced Analytics Delivered	Result
Loss/fraud Prevention	<ul style="list-style-type: none"> • Fraud Patterns • Discount / Comp Analysis • Cash-over-Short Tracking • Inventory Exception Reporting • Inventory Integrity Assessment 	<p>Provides ability to monitor the relationship between transactional systems, inventory and cash</p> <p>Monitors changes to related systems (item updates, allocations, price changes, etc) for financial impact</p> <p>Reduces loss/fraud and improves bottom line</p>
Store Performance Monitoring	<ul style="list-style-type: none"> • Store Workbench • Operational Metric Benchmarking • Time Management Guidelines • Workforce Optimization 	<p>Integrates time prioritization, financial performance and operational metrics in order to address key corporate strategies</p> <p>Enables system users to spend more time analyzing and executing versus compiling</p> <p>Improves operational and financial “performance-to-plan” reporting, point of sale (POS) data consolidation, and in-store execution evaluation</p>
Supply Chain Optimization	<ul style="list-style-type: none"> • Distribution Center/Wholesale Workbench • Operational Metric Benchmarking • Time Management Guidelines • Workforce Optimization 	<p>Provides ability to drive effective execution of freight, product allocations and workforce allocations</p> <p>Provides ability to correlate inventory levels with purchase order status and the location of goods</p> <p>Enables real-time management of inventory and supplies based on actionable key metrics.</p> <p>Provides visibility far down the supply chain in order to anticipate and avoid disruptions</p>

Retail Pain Point Workforce Optimization	Enhanced Analytics Delivered	Result
Labor Optimization	<ul style="list-style-type: none"> • Allocate Labor based on workload drivers in the stores and Distribution Center • Manage scheduling based on labor types, employee attributes, and company need • Cluster stores based on demographics, prototype, style, etc. to develop productivity benchmarks • Incorporate turnover, Paid-Time-Off (PTO), Overtime, and leave of absence in forecasts 	<p>Maximizes payroll dollars though tying labor to workload based on timing</p> <p>Drives customer service and store execution by matching labor type to required needs</p> <p>Creates actionable Sales Per Labor Hour (SPH) and coverage benchmarks based on clustering to evaluate labor productivity</p>
Incentive Compensation	<ul style="list-style-type: none"> • Expand compensation packages to tie back to actionable targets for merchandising, operations, stores, and marketing. • Track adoption of key corporate strategies by division and job type 	<p>Motivates personnel to focus on key deliverables</p> <p>Creates pay for performance vs base payscale, driving labor dollars to match company performance</p>
HR Analytics	<ul style="list-style-type: none"> • Analyze benefit costs by type, cost per individual, and vendor • Evaluate pay structure/benefits across geography, job type, and performance • Mange individual payroll performance for future succession planning 	<p>Minimizes payroll and benefit dollars based on actionable benchmarks</p> <p>Improves employee morale through clear expectations and consistent execution</p>
Payroll Planning	<ul style="list-style-type: none"> • Manage headcount utilization by individual or employment grouping. • Forecast turnover and training costs 	<p>Proper Planning drives employee satisfaction resulting in reduced turnover costs</p> <p>Accurately forecast payroll dollars by division and job type</p>

The next chart offers a comparison between what solution features we offer beyond typical business intelligence point solutions and your in-house legacy systems.

RETAIL PERFORMANCE MANAGEMENT FEATURE COMPARISON

Retail Performance Management Feature	JCB Retail Pathways based on IBM Cognos' Adaptive Analytics Framework	Typical Retail Business Intelligence Point Solution	Typical Reporting Utilizing Transactional Reports with Desktop Database Reporting
Updates transaction data on a real-time or near-real time basis	YES	MAYBE	NO
Data cleansing tool	YES	NO	NO
Single front-end portal	YES	YES	NO
Nightly data archiving in retail industry-specific warehouse	YES	MAYBE	NO
Pre-defined data model and drill paths	YES	NO	NO
Standardized dashboards, Scorecards, and Reports Customized By User	YES	MAYBE	NO
Flash reporting that integrates key corporate priorities	YES	NO	NO
Ability to conform, structure and summarize data from multiple operational systems and hierarchies (POS, BOH, ERP, CRM)	YES	NO	NO
Integrated Add-on Modules: Sales and Marketing, FP&A, Supply Chain	YES*	NO	NO
Operational Planning and Ad hoc analysis environment (Merchandising, Labor, etc)	YES*	NO	NO
Point of Sale (POS) Connectors module	YES*	NO	NO
Allocation Engines	YES**	MAYBE**	NO
Version Management for Planning	YES**	MAYBE**	NO
Flexible Time Series Management	YES	MAYBE	NO
Ability to Adjust Calculation Engine	YES	MAYBE	NO

* add-on to base offering ** custom designed ***manual

To find the sweet spot for customer profitability, merchandising management, operational efficiency and workforce optimization, please contact:

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About JCB Partners

JCB Partners is a national Business Intelligence and Performance Management Consulting company specializing in Retail Business Intelligence, Data Warehouse and Budgeting /Planning/ Forecasting design and implementation. Founded by industry professionals who wanted to provide consulting services that offered the skill, knowledge, and methodologies of the best well-recognized consulting firms, JCB has added the elements of flexibility and dedicated customer service provided only by a boutique consulting firm. In short, we deliver technology and business solutions based on the principle that technology exists to enable business process efficiency and decision making for each individual in the retail organization.

Our key to unmatched customer satisfaction is applying our knowledge and experience to overcome the single largest failure point in technology oriented projects – the disconnect between the needs of the business and the implementation of technology. This methodology focuses our team on continuous prototyping and consistently delivering results to each user in the retail organization. This effectively lowers the risk of implementation and provides a high return of investment for our clients.

JCB Partners has four regional offices to support a North American client base covering the apparel, specialty (hardlines and softlines), general merchandise, grocery and restaurant/hospitality industries. To learn more, please visit www.jcbpartners.com or contact retail@jcbpartners.com.

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About Cognos, an IBM company

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

For more information, visit <http://www.ibm.com/software/data/> and www.cognos.com/retail.

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