



Enterprise systems, long considered the domain of large grocers, are getting a look from independent and regional operators.

# Branching Out

**E**nterprise resource planning (ERP) software is no longer reserved for retailers with 1,000-plus stores and tens of thousands of employees. Many regional and independent grocers looking to strengthen their technology infrastructure to provide a more detailed view of their business performance and improve decision making are turning to enterprise systems. Their new ERP systems are replacing a variety of stand-alone software packages they have purchased, built or customized over the past decade or more.

BY KIM ANN ZIMMERMANN

The definition of enterprise systems and their role in the technology hierarchy is also evolving. While financial and human resources functions are still the backbone of enterprise systems, many of the technology providers are incorporating applications that span a wide range of functions,

including category management, customer loyalty programs and supply chain management.

Experts note that there is a move toward more modularity in enterprise systems, meaning that supermarkets can install them in stages and put in the parts that they need

rather than having to take a “big bang” approach involving a sweeping technology overhaul that eats up time and resources. The big bang approach has been the downfall of several high-profile ERP installations in grocery.

“One of the issues that retailers, and particularly grocers, have had with ERP systems is that they were developed for manufacturing processes, and retailers have a different set of needs,” says Greg Buzek, president of IHL Consulting Group, Franklin, Tenn. “Today’s ERP is no longer the ERP of old. These systems are offering much more in terms of functionality and trying to bridge the gaps of information. Take out-of-stocks for example. There has been a disconnect occurring between marketing, inventory and store execution. There are often multiple reasons for out-of-stocks.” Enterprise systems, he says, are looking to close that gap.

#### MORE ACCESSIBLE

ERP systems have been becoming less complex to install and more flexible in terms of integration, making them more accessible to regionals and independents like Unified Western Grocers and Brookshire Grocery Co. for financials, human resources, supply chain management and other enterprise functions. They join larger grocers such as Ahold USA in implementing enterprise systems.

“Scalability and affordability have been key issues in gaining some traction in supermarkets, especially regionals and independents,” says Thomas Compennolle, principal, retail practice for Deloitte Consulting in Chicago. “In terms of functionality, piece by piece they are becoming more aligned with the grocery industry itself, with modules for supply chain management and category management. But they’re also pricing systems more reasonably and structuring pricing by the user, rather than by the module.”

While grocers of all shapes and sizes are taking a closer look at ERP systems, some are still not convinced of their value, according to some experts.

“Supermarkets are very conservative when it comes to technology investment, and they remember some of the debacles,” says Mark Lilien, a consultant with Retail Technology Group, Bergenfield, N.J. He points to Sobeys, a large Canadian grocery chain that ended its enterprise system in 2001 after two years and an

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\$80 million-plus investment.

ERP vendors “don’t” necessarily clearly demonstrate to a justifiably skeptical audience that they will pay off,” Lilien says. Many of the previous attempts at enterprise systems arose out of a need to replace aging technology to avoid Y2K problems, he adds, “but we are obviously past that concern.”

Others say the tide is turning, if slowly. “There is certainly a shift going on from grocers building everything themselves to looking at point solutions,” says Mike Griswold, research director for Boston-based AMR Research. “The bigger players such as SAP and Oracle have made inroads in supermarkets with their financial and HR systems and have built out other offerings to address challenges of grocery. If I’m a supermarket IT guy and I’ve got Oracle or SAP in my back office, they’re a more viable candidate when it comes to other parts of the enterprise.”

While observers note that installing an enterprise system still requires a fair amount of integration work, “We’re getting closer,” Griswold says. The shift has been gradual, but it represents a momentous change in the supermarket industry’s approach to technology, according to observers.

“Traditionally, the supermarket industry’s strategy was that [technology] had to be home grown and it had to be developed specifically for my business,” says Carol McKenzie, industry principal, food retailing for SAP Americas, Inc., Newtown Square, Pa. “Doesn’t mean they want to shift everything overnight or that it even makes sense for them to shift everything overnight. What we’re seeing is that they want technology that will support them to implement enterprise systems in manageable bites or steps.”

According to observers, grocers need to weigh the options of integrating some of their legacy applications into an ERP system or

installing all of the modules being offered. In some cases, it may make sense to integrate the older technology, but in others it may be better to do a clean sweep and install all new systems. “If it means a more seamless integration, some grocers may be willing to trade off some of the uniqueness of their merchandising system, for example, for something that integrates well,” says IHL’s Buzek.

For grocers that want to hold on to some of their legacy applications, it is getting easier to integrate them with enterprise software. SAP and others have implemented what is known as a service-oriented architecture (SOA), which is the underlying structure supporting communications between services and software packages. For example, this enables the ERP and the supply chain management system to exchange data. SOA is what is referred to as loose coupling, so that the ERP system can exchange information with an older supply chain management system, for example, although the two systems are not fully integrated or built on the same technology platform.

SOA “enables users to keep key parts of their legacy systems that are still viable and necessary to operating their businesses,” McKenzie says. “These are systems they may eventually turn off and migrate to another program, but they’ll want to use for the foreseeable future. We have [grocery] customers that we’re worked with for years with financial or human resources applications and now they’re ready to add to that foundation with applications such as category management, fresh item management and store-assisted ordering. But they don’t want to be forced to change everything



all at once, and the ERP solution providers have come to realize that.”

While various systems within the enterprise need to communicate, they don't always need a tight level of integration, experts explain.

“There are really three intersecting circles of dollars, products and people,” says Bruce Bowen, vice president, retail solutions for Atlanta-based Aldata Solution, Inc. “We've seen both extremes. There have been systems that are so interconnected that they are hard to maintain and update, and the other extreme where there is a different solution for almost every function and nothing works together very well. Retailers are trying to get to the middle ground. They want to have related information and related transactions feeding data into a single system.”

Moving the scope of enterprise systems beyond financial and human resources applications will become increasingly important for grocers as they retool their business plans to better compete.

“Grocers used to just compete on price, but in today's environment they have to develop new strategies for winning customers, and they're asking more of their systems in terms of being able to make better decisions to achieve better margins,” says Gladys Lau, senior director of retail solutions for Oracle Corp., Redwood Shores, Calif. “Grocers are looking at things that make a difference on their shelves, such as inventory or pricing tools as part of an enterprise offering, especially among mid-tier retailers looking to differentiate themselves with strategic product offerings.”

### SMOOTHING THE SUPPLY CHAIN

One of the key areas where enterprise systems are taking root is supplier collaboration, according to Lau. “Supermarkets need to know where inventory is in the supply chain. What product is in the distribution center? Can we move product from one DC to another DC to satisfy store demand? These are some of the decisions supermarkets are faced with every day, but unless you have a complete look at the enterprise, you don't have all of the information to

make the right choice for your business.”

While managing the supply chain is crucial, enterprise systems are also playing an important role in collaboration with vendors. “One example from our perspective that is pretty neat is the collaborative work being done by Wegmans and Smucker's in a pilot program,” she says. The companies are working together on data synchronization of product specifications, transportation and introduction of new items, among other initiatives.

“We're seeing significant changes in how retailers are working with vendors today from how it was 10 years ago,” says Lau. “While the focus used to be price, now they're concerned about what it takes to get the right products on the shelves for the consumers at the right time. We see enterprise systems enabling a deeper level of collaboration.”

As grocers look to improve their out-of-stock conditions and introduce private label products as points of differentiation, they will increasingly rely on enterprise data, experts note.

“Retailers now want to look at trends by store and do a very detailed market basket analysis, and this requires integration,” says Michelle Schooff, retail marketing director for Lawson Software, a provider of financial and human resources software in St. Paul, Minn. “Merchandising used to be done by gut feel. If a supplier was running a special on cereal, the retailer bought a lot of cereal and hoped that it sold.”

As grocers expand their offerings of private label products and prepared meals, Schooff says, enterprise systems will become even more critical to running the business. “We've seen expansion in private label, and grocers really need to keep tight controls on costs and pricing. That all points back to the backbone of enterprise systems and the financial component. More fresh prepared meals also require tight financial controls and the staff to do the preparation, so there is also a need to have a clear view of personnel across the enterprise, and that brings in human resources,” she says.

Many supermarkets are looking to improve their loyalty programs, and as these programs expand they will need to exchange data with many areas of the enterprise. “It is not just a matter of connectivity to the point-of-sale system,” says Bob Smith, loyalty product special-

ist for Retailix USA, Inc., a software provider in Plano, Texas. “Loyalty systems need to have connectivity to a host of systems in the enterprise, including the price book. Grocers are starting to look beyond the me-too loyalty systems that provide the same discount for everyone who has a card. A tiered approach of offering varying discounts involves a more integrated enterprise approach,” he says.

### CHANNELS OF COMMUNICATION

Communication between headquarters and the stores has also become a focus of enterprise systems. As recent recalls have demonstrated, the lack of a centralized database of information can wreak havoc in the store as contaminated items remained on the shelves.

“Instead of a combination of e-mail, fax, voice mail and paper, retailers are looking to provide streamlined communication to the stores,” says Keshav Shivdasani, marketing manager for Reflexis Systems, Inc. in Dedham, Mass. The company's Retail Action Manager software, is a system for communication between headquarters and stores. The system can detail tasks that need attention such as new planograms that need to be set at the store.

The system also monitors performance of promotions and other measurements and provides alerts to store managers when their stores fall outside of the goals. The software was recently endorsed as a system that works with SAP's NetWeaver platform.

“The communication system extracts the most current data, so that managers know they are working with the most up-to-date information. Data is flowing back and forth between the communication tool and the merchandise planning system, for example.”

Even within the traditional ERP domain of human resources, supermarkets are looking for interconnectivity, vendors note.

“We're moving from a basic system for tracking people to a much more sophisticated talent management application,” says Lawson's Schooff. “Grocers need a system that will perform a comprehensive skills tracking system throughout the organization and manage a long-term work force. Superior talent is one way that grocers can stay ahead, and an enterprise system can help them keep the pulse of their work force.” □