AMR Research

Retail Strategies Service

Five Food-Retailing Technologies That Will Drive Value in 2008
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Mike Griswold

Economists define a recession as "a period of economic decline; specifically, a decline in GDP for two or more consecutive quarters." Regardless of the textbook characterization, retailers are managing their IT spending as if the definition has been satisfied, telling AMR Research they plan to spend money in 2008 on projects vetted against three criteria:

- **Well-defined benefits and deliverable ROI**—Scoping projects clearly and baking the projected benefits into company budgets
- **Benefit realization within six to nine months**—Creating focused project plans that identify milestones, risks, and dependencies, as well as how the project delivers benefits within nine months
- **Business adoptability**—Projecting acceptance by line of business to determine its success or failure; identifying the change management aspects of the project and building sufficient time into plans for associate socialization, training, and adoption

The following provides a list of five initiatives that fit these criteria. Are they on your priority list for 2008?

Realize space management benefits by aligning business processes

Retailers must merge the assortment and space planning business processes to balance growing assortment alternatives with the competition for selling space at the store level. Effective management of store space improves in-stock positions, reduces shrink, makes better use of staff time, and optimizes inventory levels. Retailers tell us they have seen the following benefits:

- Revenue boosts of 10% to 20% through reallocation of space to quicker selling items, assortments tailored to local demographics, and refined assortments that streamline store-stocking practices and improve on-shelf availability
- Margin improvements of 5% to 15% by identifying higher margin items, ensuring their inclusion in the range, and providing the appropriate space allocation
- Inventory slashed 5% to 10% from the removal of inefficient inventory

Where to start: Begin by creating a store-specific inventory of your space allocations. This includes, at a minimum, identifying space allocation at the department level, a fixture inventory, and storing this information in a central database.

Store-specific planograms will be a hot topic in 2008, as it will drive the benefits listed above. A large regional grocer told us it specifically selected **Galleria** because of its store-specific planogram functionality.

Lifecycle pricing and promotion: appreciate the art and embrace the science of price optimization

A major component of a food retailer's brand is its pricing strategy. To get the most out of pricing strategies, retailers need an overarching approach to pricing that utilizes advanced technology and supports converging business processes. As retail sales channels blur and assortments grow, pricing applications must mature and provide capabilities across an item's lifecycle.

Technology applications are plentiful, available in traditional software license formats or as software as a service (SaaS). Regardless of deployment methodology, retailers must see the larger category picture or risk executing suboptimal applications that will leave profit dollars on the table.

For instance, we recently advised a Tier 1 chain drug retailer not only to include item-level pricing decisions, but also to evaluate pricing implications further up its merchandising hierarchy. We discussed the opportunity to evaluate and predict how pricing strategies influence halo and cannibalization by category, and what impact that has on consumer behavior (For an overview of lifecycle pricing and the key components, see "Retail Lifecycle Price Management: Blending Optimization and Execution Modernizes Retail Pricing.") Once deployed, retailers have seen benefits as a result of price optimization exercises (see Table 1).

Table 1: Price optimization exercise—example

Focus	Sales	Units	Gross Margin
Base price (non-promoted)	+ 1% to 3%	+ 0% to 1%	+ 2% to 5%
Promtional prices	+ 1% to 12%	+ 1% to 9%	+ 5% to 20%
Markdowns	+ 0% to 5%	+ 5% to 10%	+ 6% to 10%

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Where to start: Think about combining the critical elements of promotion management—calendaring, event definition, item selection, vendor deal management, lift modeling, and advertising execution—with lifecycle pricing. This combined workflow and process model will drive powerful improvements in financial performance and plan execution, as well as reduce the cycle time between the start and finish of a promotional event.

This space is hot, and retailers are making decisions, as evidenced by **Raley's Supermarkets'** selection of **KSS Retail**, **Revionics** win at **Nash Finch**, and **Best Buy's** recent selection of **DemandTec's** markdown application.

Align and automate your promotional planning processes to resonate with customers
Promotion management applications, which ensure the execution of advertising, marketing, and promotion (AMP) campaigns, help retailers shape consumer demand by utilizing advanced analytics, goal-seeking optimization algorithms, segmented communication, and post-campaign measurement. When coordinated properly, marketing, category management, pricing, promotions, and space management are organized for a calendar of consumer demand creation programs.

While campaigns (e.g., circulars, end displays, and direct mail) should take their cues from business strategy (especially brand image), customer loyalty and segmentation, and competitor strengths and weaknesses, most retailers don't support this connection with a defined set of processes to manage annual goals and constraints, tactical operations, and campaign execution. As a result, they fail to deliver the promised ROI. Before jumping into a technology solution, answer these planning, operational, and execution questions:

- **Planning**—Are AMP activities coordinated, reporting to the same senior executive? Is there a formal process supported by rigorous statistical analysis that runs from designing and testing promotion tactics to deployment and assessment?
- **Operations**—Are AMP tactical decisions made holistically, taking into account product, promotion, communications channel, and targeted customer segment simultaneously? Do you confidentially share your AMP tactics with trading partners to synchronize sales, replenishment, and order plans?
- **Execution**—Do you electronically capture supplier promotional offers? Are downstream processes, such as analysis, execution, and settlement, automated? Is store compliance with promotional tactics measured, with store managers rewarded accordingly?

Retailers that align promotional planning and execution can see the following benefits:

- Production cost savings of 5% to 10%
- Improved version control and campaign targeting leading to a 6% to 8% improvement in ad response rate
- Greener production processes by utilizing fewer pages to drive equal or greater performance, and a more focused delivery method to consumers

Where to start: Map the process and manage the dependencies on merchandising, buying, and store operations together, not as isolated advertising initiatives.

Fresh item management helps retailers manage differentiation

Food retailers looking for differentiation typically start in their perishable departments. Consumers are placing a premium on quality meat, produce, and prepared meals, which presents a tremendous opportunity for food retailers. Fresh item management (FIM) is as a set of integrated business processes supported by an application infrastructure that effectively manages the production, presentation, and financial targets for items in perishable departments. For a comprehensive look at this space and the detailed list of components, see "The Butcher, the Baker, the Profit Maker: Fresh Item Management's Time Has Come."

Most failed projects are steeped in the inability to overcome change management issues, not software functionality limitations. Retailers that can overcome the change management challenges find that value realized from FIM in one perishables department can often fund adoption for remaining departments. Successful FIM implementations can yield impressive results:

- Shrink reduction of 10% to 15%
- Sales increase of up to 3%
- Inventory reductions of 2% to 5%

Where to start: Define your perishables strategy. Typically driven by the merchandising organization, your perishables strategy should be crisp, focused, and easily defined. For example, more sophisticated grocers develop strategies by department: locally grown strategies for produce, full-service strategies for meat, or hot-food strategies to expand their deli footprints. Whatever the strategy, it must be effectively communicated to all levels of the organization and enabled with inventory management and production planning capabilities.

Align people, place, and time with workforce management

Workforce management (WFM) applications strive to align store associate resources with the demands of the business by utilizing technology to match worker preferences and availability, business constraints, forecasted needs, and execution priorities. WFM functionality typically includes time and attendance, absence management, labor budgeting, forecasting, scheduling, and, increasingly, task management. Deployed successfully, retailers see elevated associate productivity, increased sales, and improved associate and customer satisfaction.

One driver of this value is the integration of task management in the WFM footprint. Vendors such as **RedPrairie**, **Reflexis**, and **Tomax** have coupled WFM with task management applications to ensure retailers are incorporating all demand, including home office mandates, into the forecasting equation. This results in more accurate forecasting of labor demand, consistent scheduling processes, streamlined store execution, and effective labor management across the chain.

As we predicted, the industry is adopting an expanded use of task management in areas such as inventory management, merchandising, and pricing to provide central visibility, prioritization, and alignment of activities throughout the extended enterprise. Retailers that deployed WFM applications have seen labor cost savings of 3% to 7%, with a 15% to 20% reduction in schedule creation and maintenance time.

Where to start: Employee acceptance is vital to WFM adoption. Ensure that system usability and workflow operate properly for your retail environment by including frontline associates in the project from the beginning.

Intelligent IT spending will see your company through lean economic times
Create and stick to your litmus test for evaluating IT projects. Understanding which ones to work on is critical as you ride out the financial storm. If you have questions on how to launch these initiatives or others you're thinking about, please drop me a note at mgriswold@amrresearch.com.