



Precision Inventory Management in the Age of Localization

Benchmark Report 2009

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EXECUTIVE SUMMARY

RSR set out to understand how retailers and their trading partners are responding to the unique challenges posed them in 2009: the need to localize assortment to increase shopper relevancy and appeal, and the need to reduce inventory as much as possible. The responses are encouraging. In a time of merchant princes, "product" was once king: the right assortment could make or break a retailer. In today's reality, *inventory* is the lifeblood of retail.

BUSINESS CHALLENGES

The challenged – and challenging – consumer is top-of-mind for retailers, with four out five of their top business challenges pertaining to consumers and shifting consumer demand. But while shifting consumer behavior is a challenge, it is the retailer's own internal processes that are driving the biggest issues for retailers today, particularly around the edges of their assortment. While a majority of respondents report having a good handle on their inventory, they are also just as likely to report that they have too much slow-moving inventory and not enough fast-moving stock.

OPPORTUNITIES

The biggest opportunity for retailers comes from focusing on the customer: the more a retailer can simplify the shopping process for consumers, the more value they can deliver during these trying economic times. However, simplification for the consumer by default means complexity for the retailer: multi-channel planning processes, flexible inventory management processes, and most importantly, an accurate read of inventory, no matter where it may sit in the supply chain.

ORGANIZATIONAL INHIBITORS

While existing technology infrastructure is the primary internal obstacle, according to survey respondents, the most important tool for overcoming obstacles rests on the shoulders of the executive team. But key differences emerge between Winning retailers and their Laggard peers - Winners have rested inventory responsibility squarely on the executives with the most organizational pull, mainly the CEO, CFO, and lead merchandising executive. Laggards rely much more on the lead supply chain executive, without the all-important support from merchandising.

TECHNOLOGY ENABLERS

Three important trends have emerged around future technology investments. One, Winners seek a single demand forecast, but do so as an input to a unified planning process, while Laggards generally miss that all-important link between the two. Two, as more Winners pursue localization, they are revisiting more mature applications within the inventory management portfolio, like warehouse and transportation management. They are seeking to tweak these applications to better support the new processes required to support greater localization. And three, RFID is still firmly in the "emerging" technologies category, with only Winners having made serious commitments to the technology over the last two years.

BOOTSTRAP RECOMMENDATIONS

Retailers need to embrace the paradox that in order to make access to the right solution simpler for consumers, they must manage more complex assortments and perpetual inventory at the enterprise level. One view of demand and one view of inventory enable the ability to allocate inventory at a more granular level across all the selling channels. There is no "silver bullet" for managing extremely fast or slow moving items, however – better visibility and accuracy are key. Retailers should continue to investigate new technologies to achieve near real-time inventory visibility at the item level. Whether it's RFID or any new technology, adoption must be based on the right mix of use-cases and business-cases. Localized inventory practices could put new pressures on mature warehouse management and transportation processes; retailers need to be revisit the fundamental assumptions underlying those systems in consideration of localization. Finally, precision inventory management should be part of the strategic agenda from an organizational standpoint. The CEO, CFO, merchandising and supply chain executives, the CIO, and marketing executive, all have important roles to play.

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SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

On one side: the pressure to broaden the assortment in order to achieve greater localization of products in stores. On the other side: the need to keep tight control on inventory levels as consumer demand has declined. It is tempting to pose these challenges as "either/or" - in order to achieve one, you have to give up on the other. But the plain truth of retail is that retailers must live in a world of "and," and so find themselves caught between a rock and a hard place: more SKU's covered by less inventory is a recipe for stockouts if not managed very precisely.

Navigating the world of "and" is very tricky. Retailers are faced with numerous challenges that affect how they need to manage inventory in today's retail environment. Many supply chain processes and systems have been designed to manage a "push oriented" mass merchandizing model. They struggle to control the fast-moving and agile value chains that are needed in today's competitive environment to respond more quickly to changes in consumer demand. Consumers' adoption of cross-channel shopping necessitates visibility into "available to sell" inventory in near real time, regardless of the physical location of that inventory. Supply chain "shocks" and unpredictable fuel costs expose previously disregarded supply chain risks, and challenge retailers and their trading partners as they work together to improve order-to-delivery cycles.

If retailers can't guarantee that perpetual inventories are accurate to-the-moment, they are faced with a grim choice: either risk alienating consumers with out-of-stocks, or carry too much inventory.

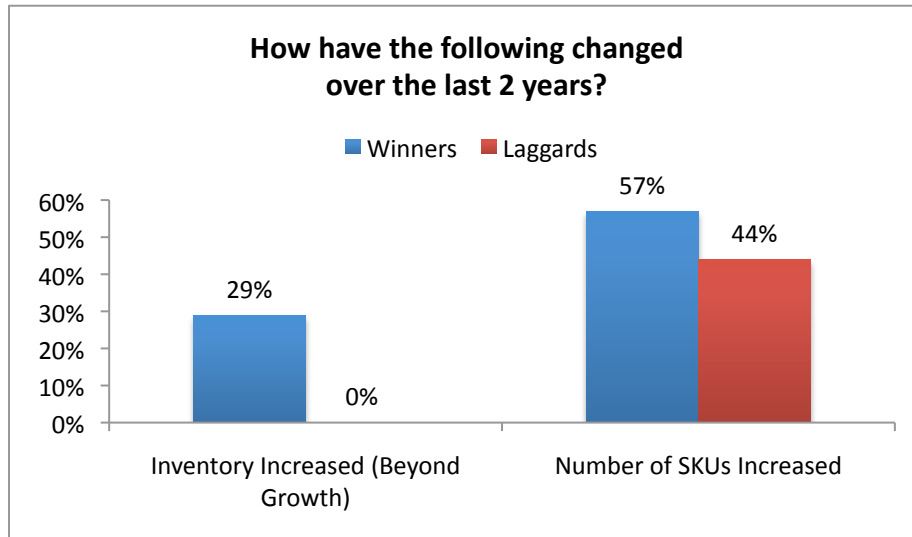
All of this paints a seemingly challenging future for the retail industry. However, it's not as tough as it looks. RSR set out to understand how retailers and their trading partners are responding to these challenges, and the responses are encouraging. In a time of merchant princes, "product" was once king: the right assortment could make or break a retailer. In today's reality, *inventory* is the lifeblood of retail, and as this report shows, retailers are taking the management of inventory very seriously.

LOCALIZATION'S TOLL

From RSR's research, localization of products, promotions, and prices has clearly become a high priority for winning retailers. However, localization does not happen in a vacuum. If retailers increase the number of SKU's that they carry, particularly if that is spread across a large base of stores, the net result is almost always going to be more inventory. Consistently across RSR's research, Winning retailers - those that outperform their peers in year-over-year sales growth - have been aggressively pursuing a localization strategy. The rationale is straightforward: pursuing a customer-centric strategy necessitates that the retailer must carry products that are relevant to its customers. And if a retailer looks at its customers in a more granular way, then it becomes apparent that the differences in the products they like and want can differ widely across customer groups. In order to provide relevant products, you need to localize.

But localization takes its toll, as Winners have found (Figure 1). In past examinations of inventory, RSR found that all retailers have been focused on reducing inventory levels. However, in this survey, we found that Winning retailers have seen their inventory grow - in part because they carry more kinds of inventory than they have before.

Figure 1: The Inventory Toll of Localization



Source: RSR Research, August 2009

In many ways, Winning retailers are making a bet: is the increase in inventory, along with the associated holding costs and reductions in supply chain efficiency, offset by the increase in sales and overall inventory turn that will come from increased shopper relevance? Winners are clearly betting that the answer is yes.

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: WHY THEY WIN, AND WHY LAGGARDS FAIL

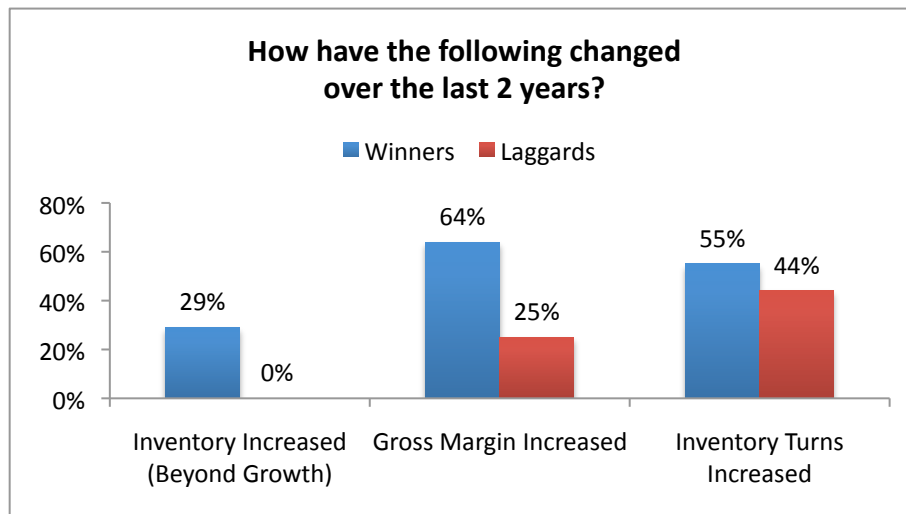
Our definition of Retail Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above 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.

Laggards also tend to think differently. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today’s consumer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don’t change their business processes in an effective manner, and so they either eschew technology enablers,

or don't gain expected Return on Investment on those they DO buy. In good times, they skate by; in tough times these weaknesses come back to haunt them.

The differences between Winners and other retailers come into focus when we examine key inventory metrics over the last two years (Figure 2). While it is true that winning retailers have been less successful in holding the line on overall inventory levels, they have made a bet that appears to have paid off: inventory may have increased, but they sold more of it faster, and at a better margin than their peers.

Figure 2: An Inventory Bet That Pays Off



Source: RSR Research, August 2009

So localization pays. But it also creates new challenges, as we will see throughout this report.

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from May – July 2009 and received answers from 80 retailers. Respondent demographics are as follows:

- **Job Title:**

Senior Business Management (e.g., CEO, CFO, COO)	13%
Vice President	21%
Director/Manager	37%
Internal Consultant	11%
Staff	10%
Other	7%

- **2008 Revenue (\$ Equivalent):**

Less than \$50 million	19%
\$51 million - \$249 million	13%
250 million - \$499 million	6%
500 million - \$999 million	10%
\$1Billion to \$5 Billion	23%
Over \$5 Billion	29%

- **Verticals:**

Fast-Moving Consumer Goods	28%
General Merchandise & Apparel	26%
Big Box Specialty	17%
Small Box Specialty	25%
Restaurant, Hospitality, Other	11%

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

Worse than Average	23%
Average	43%
Better than Average	34%

SECTION II: BUSINESS CHALLENGES

TIME, RELEVANCE, AND VALUE

In today's economy, forces are at work that make for an extraordinarily difficult competitive environment. First and foremost, consumer confidence is at historic lows as people worry about job security, healthcare, their retirement, and the quality of education for their children. But that hasn't translated into a "back to the future" return to pure push-oriented mass merchandizing. Consumers are not passive participants in the retail equation - they are more, not less, demanding of their retailers. *Time* and *Relevance* are important needs in consumers' lives today: not a moment of their time can be wasted plowing through products they don't want or need. *Value* is critical too. Price, quality, and availability are once again primary components of retailers' Brand propositions. Consumers today are using the e-channel and catalogs to research products, compare prices, and build shopping lists before setting foot in the store. Retailers must respond by ensuring that they can deliver the promised product at the promised price when, where, and how the consumer wants to complete the transaction.

Respondents to our survey show that the challenged – and challenging – consumer is top-of-mind for retailers (Figure 3). Four of the top five business challenges are related to consumer behavior, according to our survey respondents.

Figure 3: First And Foremost: The Consumer

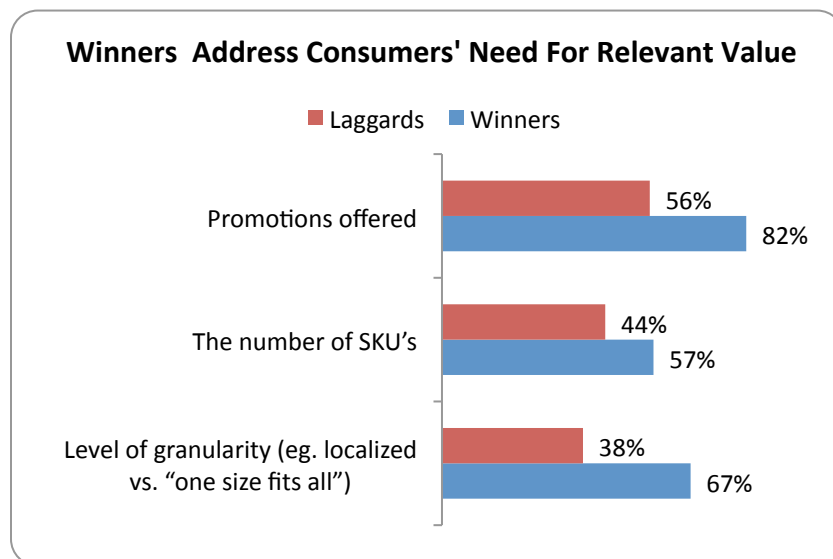


Source: RSR Research, August 2009

While Laggards fret most about the unpredictability of consumer demand (87% compared to 73% overall), Winners translate that concern into a challenge to create more localized assortments (59% compared to only 33% of Laggards). Winners also disagree with Laggards about whether or not consumer demand has deteriorated. While 53% of under-performing retailers complain that consumer demand has deteriorated significantly, only 32% of Winners make that claim.

As we already saw earlier in this report, retailers have responded to the needs of today's consumers by creating a more granular offering through localized assortments and promotions. Winners understand that consumers want *relevant solutions to their lifestyle needs*, and to meet that challenge, are working harder than Laggards to offer the right assortments and promotions (Figure 4).

Figure 4: Winners Go Local



Source: RSR Research, August 2009

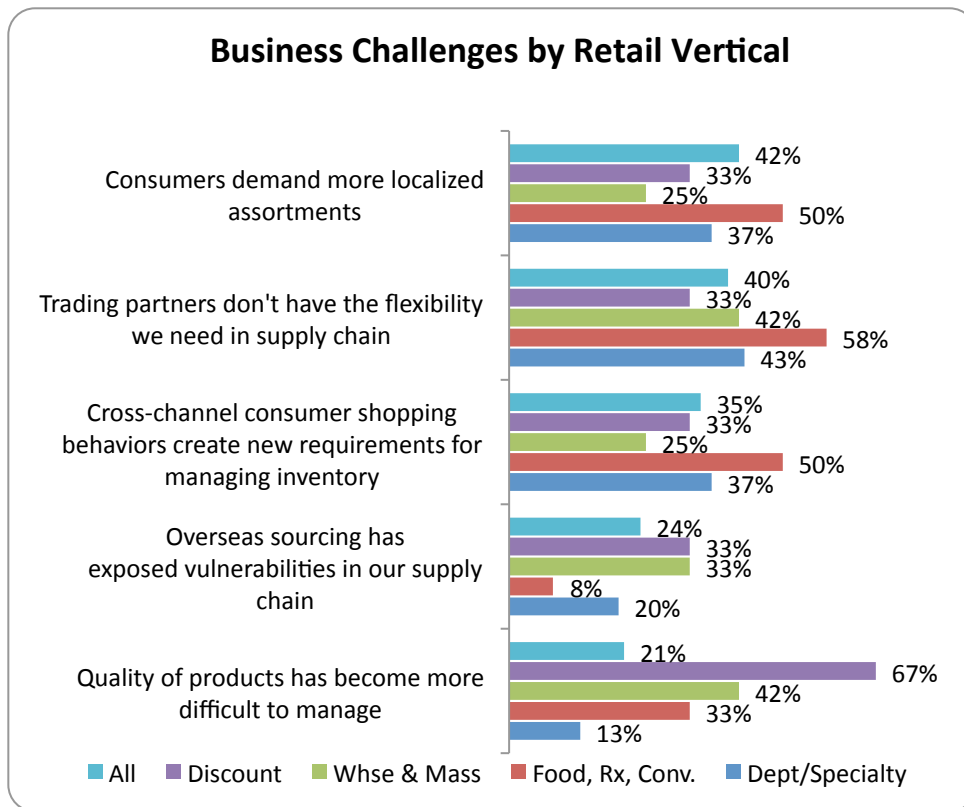
Winning retailers understand that the days of "one size fits all" retailing are gone and are taking steps to address 21st Century challenges. Laggards feel more out of control and are not sure how to respond: for these retailers, consumers want more and seem less predictable.

LOCALIZATION TRIGGERS OTHER CONCERNS

Consumer unpredictability and the resultant challenge for a more localized offering affects how different retail segments interact with their supply chain partners (Figure 5).

Food, Drug, & Convenience store operators feel consumer demands for localization most strongly, and worry that consumer cross-channel shopping places new demands on how they manage their inventories. These retailers, who typically have very fast turning inventories and demand direct store delivery from their suppliers, are more concerned than other retailers about their trading partners' flexibility to meet new consumer demands.

Figure 5: Business Challenges Vary



Source: RSR Research, August 2009

Discount merchants aren't as concerned about localization as the overall response group. But these retailers, who typically have almost no involvement with the product development cycle, are more concerned about their ability to maintain a "quality product" image than other retailers by a wide margin. On the other hand, department/specialty retailers are usually involved in the product development cycle, and have more influence over product quality. As a result, they are less concerned about product quality than any other segment or the overall response group.

ABILITY TO EXECUTE

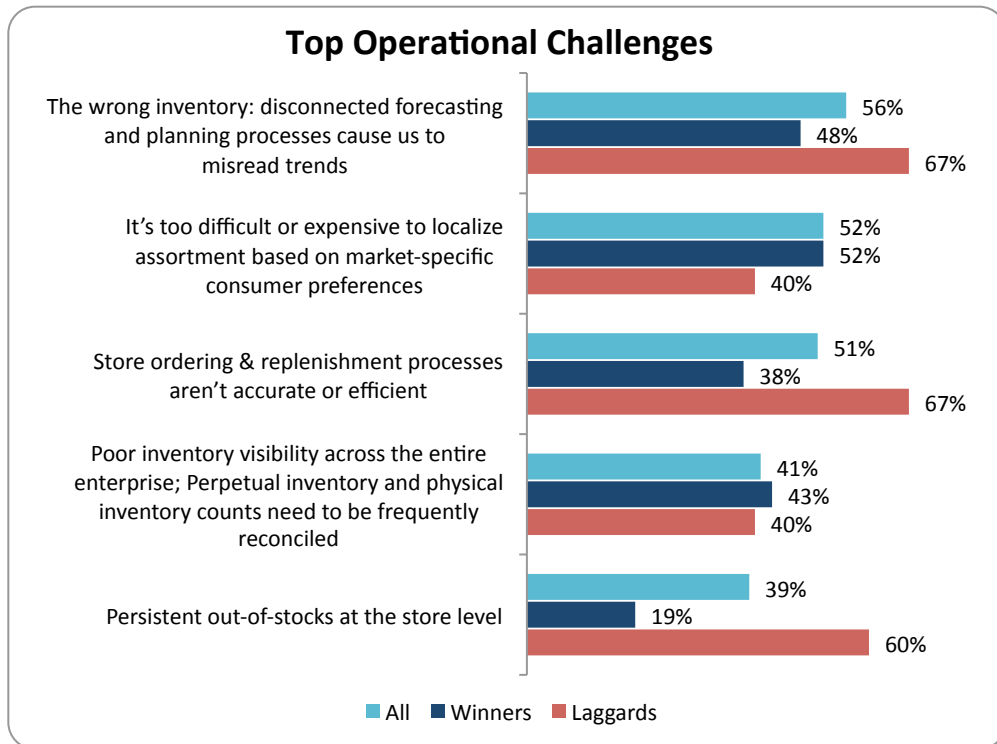
Consumer demands for localization and increased cross-channel shopping behaviors create the need for more visibility into perpetual inventories across the entire enterprise. Although the majority of retailers remain concerned that disconnected planning and forecasting processes can cause them to misread trends, the differences between Winners and Laggards to execute at the operational level in other ways are startling.

While Laggards complain about *external* issues such as consumer unpredictability, *internal* execution issues prevent them from even considering localization as a way to meet consumer demands for a more relevant offering (Figure 6). Laggards struggle with both the wrong inventory *and* too many out-of-stocks, much more than their competitors do. Out-of-stocks in particular are a red flag warning that a retailer doesn't have a handle on inventory management, and without knowing what's on hand, accurate replenishment ordering is virtually impossible. Laggards, even while having localized assortments to less

of a degree than Winners, have much worse problems with out-of-stocks. It's not surprising then that their store ordering and replenishment processes don't work.

Oddly, these concerns don't necessarily translate into more recognition of the need for greater visibility by many under-performing retailers. According to our survey responses, Winners express slightly more concern about inventory visibility than their lagging competitors do. Also interesting to note, Winners are more concerned than Laggards with the costs of localization - as they attempt more localized inventory, they are learning where they have to give on efficiency in order to achieve it.

Figure 6: Laggards Struggle With Operational Issues



Source: RSR Research, August 2009

Interesting differences also emerge by retail vertical as to the top internal operational challenges.

Department/Specialty retailers have begun to undertake more concerted steps around localization, as Macy's public efforts have demonstrated. They also rate the difficulty or expense of localizing assortment based on market-specific consumer preferences as their #1 operational challenge.

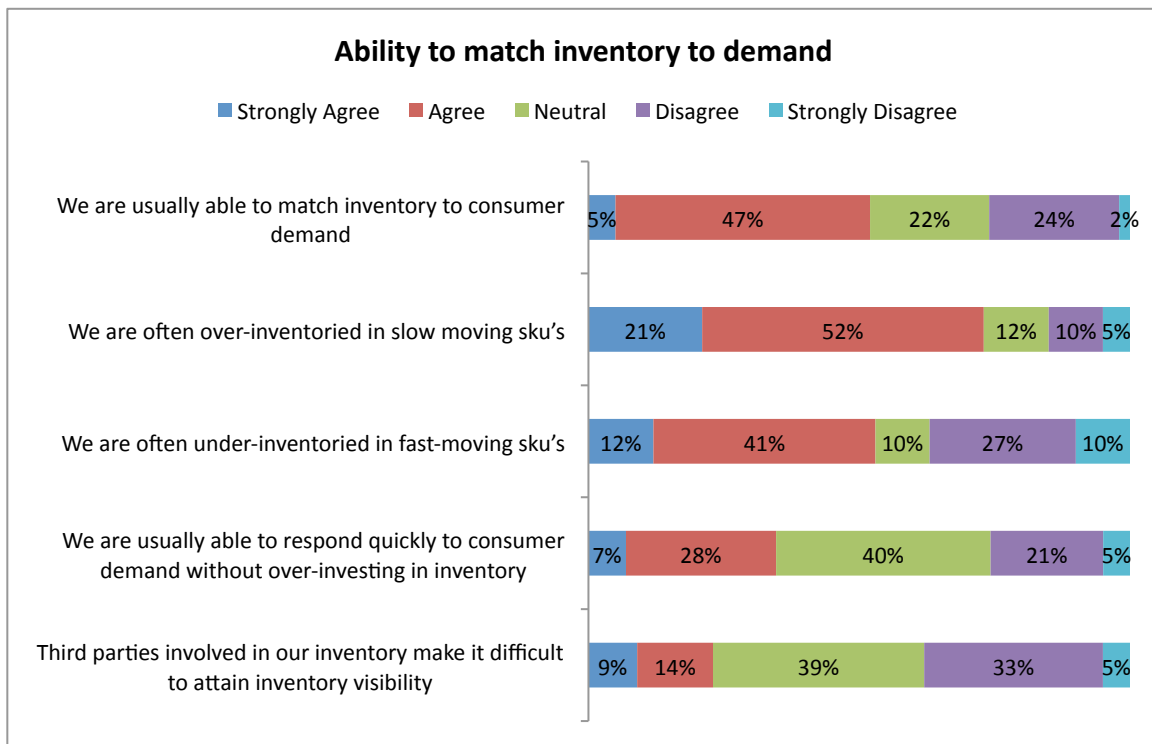
Seventy-five percent of Food/Drug/Convenience retailers indicate a concern that store ordering & replenishment processes aren't accurate or efficient. These retailers, with their fast moving inventories of everyday and seasonal items, rely heavily on effective replenishment processes. Fifty-eight percent of these retailers are concerned about inventory visibility (well above the aggregated response of 41%), and this apparently affects their replenishment processes. As a result, two out of three of these survey respondents worry that they have the wrong inventory.

MANAGING THE EXTREMITIES

Merchants know that profitability is built or destroyed by how well they manage extremely fast vs. extremely slow moving items. Fast movers are traffic builders that draw the consumer to a category; they are often aggressively priced and promoted. Slow movers (in the best case scenario) are more about presentation, for example, a full cosmetic wall that includes a rich variety of brands and colors of lipstick and nail polish. Not nearly as price sensitive as fast movers, this inventory needs to have a markup at least sufficient to compensate for the carrying costs associated with a slow turn and the opportunity cost from occupying valuable selling space.

The majority of retailers (52%) who responded to our survey feel that they usually have the ability to match inventory to consumer demand, despite the fact that they indicated that consumer unpredictability is their top business challenge. But looking more closely at responses to our survey, it is clear that many retailers are challenged to manage “the edges” of their assortments (Figure 7). Seventy-three percent admit that they are often over-inventoried on slow moving items. This may or may not be in sync with an objective to have well stocked shelves that say “we’re open for business”. Regardless, 53% also indicate that they are often under-inventoried on fast moving items.

Figure 7: Challenged To Manage The Edges



Source: RSR Research, August 2009

Digging inside those numbers, once again differences emerge between Winners and Laggards. In stark contrast to their earlier responses about operational challenges, 64% of Laggards make the claim that they are usually able to match inventory to consumer demand (compared to 53% of the overall response pool), even though 63% also admit that they are often under-inventoried on fast-moving goods (compared to 53% of the total group). Even worse, 71% percent of Laggards state that they often have

too much slow moving inventory. Laggards are falling down “at the edges,” even if they are managing everyday movers adequately.

Winners are much less sanguine about their ability to manage extremely fast or slow moving items. They acknowledge that they aren’t getting it right at the edges. But their issue has more to do with slow moving SKU’s than fast movers. Seventy-five percent of Winners agree that they are often over-inventoried on slow movers. But as we’ve seen, they have a better handle on replenishment. Still, 43% think they should do better, indicating that they are often under-inventoried on fast movers.

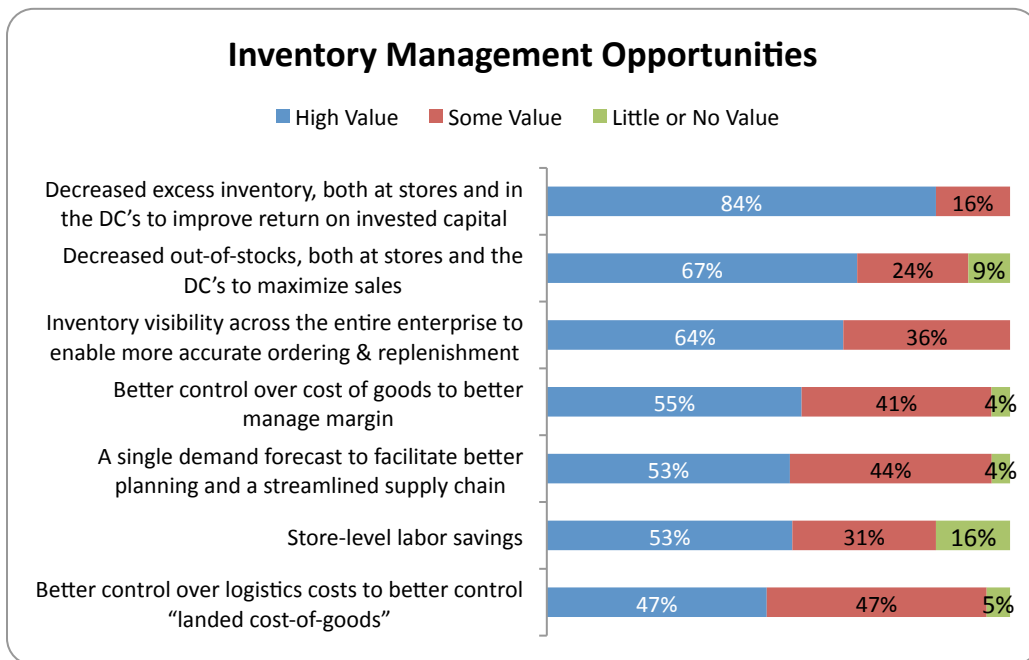
SECTION III: OPPORTUNITIES

CHANGE TRIGGERED BY NEW REALITIES

Some things never change. That’s certainly true when identifying the opportunities that retailers seek in addressing inventory management. As it has been from time immemorial, retailers want enough of the right product and not very much of anything else. As a result, the top inventory management opportunities that our survey respondents identified are as old as retail itself: *decreased excess inventory to improve return on invested capital*, and *decreased out-of-stocks to maximize sales* (Figure 8).

But business conditions and the competitive environment *do* change, and as is usually the case, Retail Winners show the way to take advantage of new realities. For the overall group, *inventory visibility across the entire enterprise* ranks as a top opportunity, but that score is driven by Winners. Sixty-five percent of those retailers give this opportunity a high value, compared to only 50% of under-performing retailers. While retailers across all performance groups also look for better control over cost of goods and store labor savings, 55% of Winners emphasize a single demand forecast as an opportunity compared to only 33% of Laggards.

Figure 8: Some Things Old, Some Things New



Source: RSR Research, August 2009

A PARADOX: SIMPLICITY FOR CONSUMERS/ COMPLEXITY FOR THE RETAILER

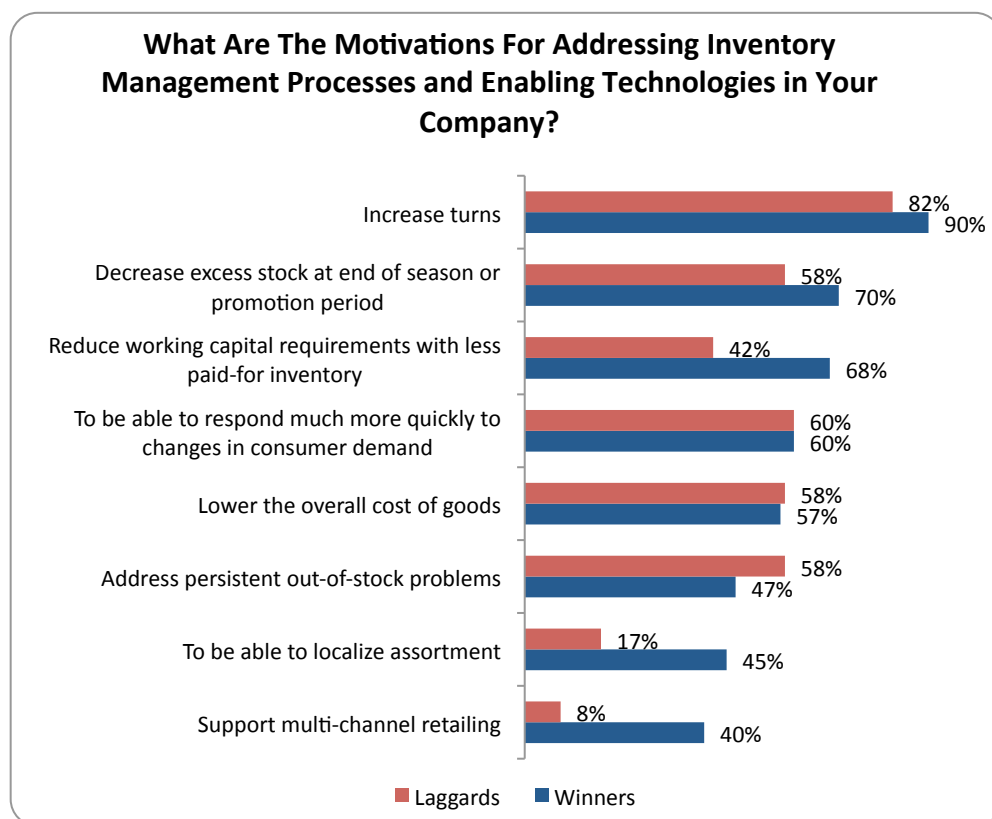
Today’s consumer may be more discerning about purchase decisions, but expectations for compelling value remain high. The value of the retailer’s **Brand** is defined by how well products are delivered at the right price with the right quality, wrapped up in the right information and service, when and where the consumer needs them.

This isn't only a store issue. Consumer demand for 100% trip assurance has become more challenging because of cross-channel shopping behaviors. Consumers now routinely begin to transact business *outside the four walls* of the store, even if they intend to complete their purchase at the store. Since the consumer wants to interact with the retailer seamlessly across all the selling channels, inventory visibility and management across the entire enterprise is crucial. This means that retailers are faced with a paradox, **to make access to the right solution simpler for consumers by creating a complex enterprise-wide inventory management challenge for themselves**. As we'll see later in this report, technology inevitably comes to bear on the complexity challenge.

We asked survey respondents to prioritize their motivations for addressing inventory management processes and enabling technologies within their companies (Figure 9). Although increasing turns is the top motivation for virtually all retailers who responded to the survey, other differences between Winners and Laggards quickly emerge.

Winners associate better inventory management with the ability to *localize the value offering* for consumers and to *support emerging cross-channel shopping*. These are customer-focused motivations that underline the premium that Winners place on a customer focus.

Figure 9: Right For the Consumer And The Company

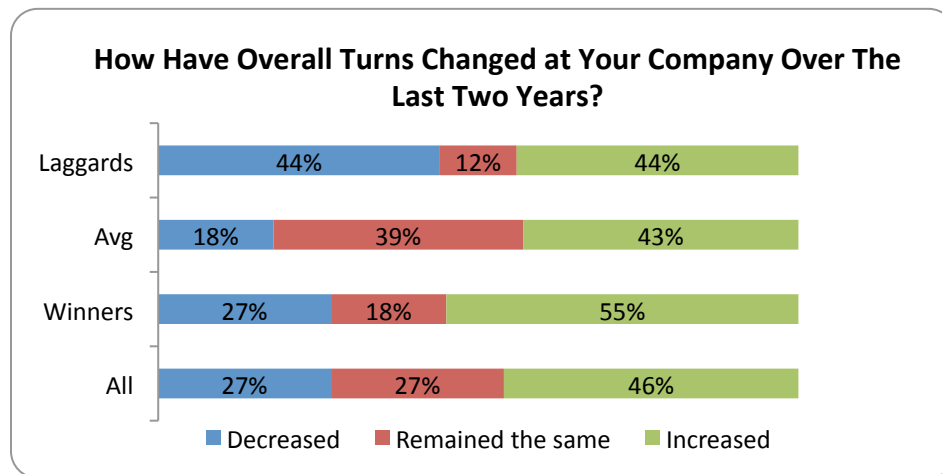


Source: RSR Research, August 2009

But Winners are also focused on maximizing the value of their investments, and make a much stronger association between tying up less working capital and faster inventory turns than Laggards do. Regardless of the increased complexity that more SKU's and more granular assortments create, these retailers have succeeded in improving overall inventory turns to a much greater extent than their competition (Figure

10). Simply put, **Winners are turning their ability to manage greater complexity more effectively into a strategic differentiator.**

Figure 10: Faster, Better



Source: RSR Research, August 2009

ENTERPRISE LEVEL PRACTICES: DIFFERENCES ON BOTH THE SELL AND BUY SIDES

To get an understanding of where retailers see the best opportunities for inventory management process improvements, we asked our survey respondents to identify processes that have been implemented and planned implementations. Such processes as *category management*, *promotion planning & optimization*, and *integrated merchandise & financial planning* have nearly universal appeal: retailers across all performance groups either have implemented them, plan to, or want to (Figure 11). But just as we have seen for business opportunities and the motivations to address those opportunities, there are telling differences between how Winners and Laggards view the efficacy of enterprise-level business processes. These processes are specific to both the selling (customer facing) side of the business and the buying (supply chain facing) sides.

On the selling side, 70% of Winners have established a **store clustering** scheme to address the desire for more localized assortments, compared to 45% of Laggards. Moreover, 45% of Laggards state that they have no plans to implement store clustering (compared to only 10% of Winners). Fifty-five percent of winning retailers have implemented **multi-channel planning** compared to only 20% of under-performers (and another 30% who say they have “no plans”). These results underscore the relative indifference that Laggards have to the business challenge of localized assortments (Figure 3).

On the buying side of the business, we see that more Winners have implemented **Transportation Management** (70% of Winners compared to 45% of Laggards), **Reverse Logistics Management** (60% Winners, 18% Laggards), and **Automated DC receiving** (48% for Winners compared to 20% for Laggards). In the case of Reverse Logistic Management and Automated DC Receiving, well over 50% of under-performing retailers say that they have no plans to implement new processes. These opportunities for greater efficiency are just being ignored by many under-performing retailers.

Figure 11: Room For Improvement



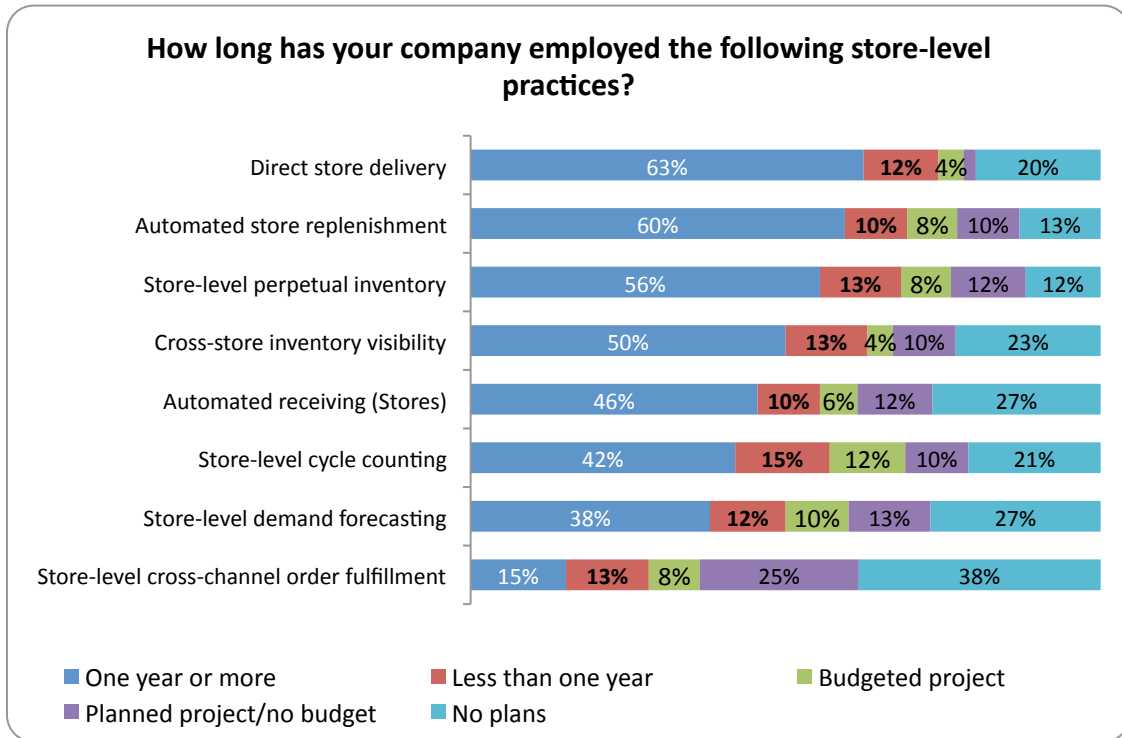
Source: RSR Research, August 2009

...AND IN THE STORES

When it comes to the stores, respondents indicate that there is a lot of work yet to be done to improve inventory management. The answers provided by our survey respondents uncover several anomalies. Laggards show much less interest in the fundamentals of store level inventory management – far fewer of them have store-level perpetual inventory controls or cycle counting compared to Winners (64% and 54% for Laggards respectively, compared to 85% and 70% for Winners). Without accurate perpetual inventory counts, automated receiving cannot be effective; only 45% of Laggards have implemented such processes, and another 45% have no plans to do so. In contrast, 55% of winning retailers have implemented automated receiving practices, and another 15% plan to.

Other differences exist. 64% of Laggards indicate that they have implemented store-level demand forecasting, compared to 40% of Winners. However, as you will see in the Technology Enablers section, this is more likely because Winners are more interested in a single demand forecast that gives them store-level granularity, vs. a store-level forecast that is disconnected from aggregate levels of demand.

Figure 12: Stores: Plenty To Do, But Few Efforts Are Budgeted



Source: RSR Research, July 2009

Without store-level inventory accuracy, forecasting will deliver flawed order recommendations, among other things making auto-replenishment of everyday movers virtually impossible. Yet 82% of Laggards are attempting to do just that. It is small wonder then that their inventory problems are so visible.

Under-performing retailers complain most about problem inventory – overstocks and out-of-stocks. These retailers have focused on “silver bullet” processes such as auto-replenishment and store level demand forecasting, but have missed the fundamentals. Winners demonstrate a better understanding of the inter-relationships between perpetual inventory accuracy and forecast accuracy, and how those affect order integrity and automation of receiving and replenishment processes. Furthermore, Winners understand that establishing one view of inventory across the enterprise enables one demand forecast, which in turn enables them to allocate inventory at a more granular level, to better respond to consumer demands for relevant solutions to their lifestyle needs.

SECTION IV: ORGANIZATIONAL INHIBITORS

THE USUAL SUSPECTS

While localization has opened up new frontiers in business challenges and opportunities, the internal obstacles have remained relatively unchanged. Survey respondents report that between technology issues and cultural/organizational ones, not much progress has been made (Figure 13).

Figure 13: Organizational Inhibitors - The Usual Suspects



Source: RSR Research, July 2009

What is surprising about these inhibitors are the ones that are *not* top challenges. For example, "We don't trust the data we have," something that has been a near constant complaint about supply chain data for years, came out resoundingly at the bottom of the list. More surprising, the few retailers who reported this as a top-3 challenge were winning or average performance retailers - 0% of Laggards indicated this was a challenge.

And while technology infrastructure inflexibility is the top concern (a common theme across almost every topic RSR covers), only 12% of respondents indicated that software didn't have what they needed, and 34% reported that they have too many other priorities - typically a reflection of the IT department's ability to take on new projects. However, there is a word of warning in there for software vendors: 40% of respondents said that they had a hard time justifying investment in new capabilities.

MANAGEMENT ON DECK

When it comes to ways to overcome internal obstacles, senior management involvement is clearly the most important to survey respondents (Figure 14). However, given that inventory lives at the intersection of merchandising, supply chain, and store operations - and sometimes marketing in verticals that use heavy promotions - two of the top four internal obstacles are related to inter-departmental friction. This result should come as no surprise.

Figure 14: Someone Needs to Lay Down the Law



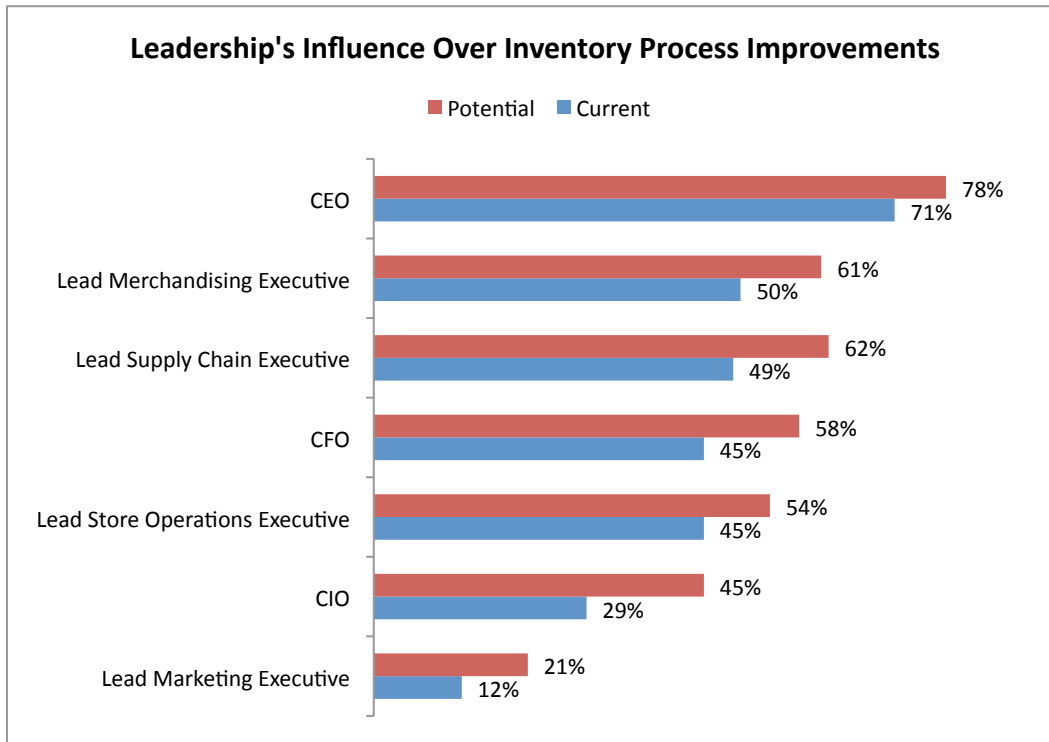
Source: RSR Research, August 2009

However, among Winners and Laggards, there are some differences in priority. While all respondents rated senior management at the top of their list, Laggards feel the need more than their peers: 90% rated this as a top-3 issue, vs. 79% of Winners. Alternatively, Winners place more weight on opportunities around business intelligence (58% of Winners vs. 40% of Laggards), and look to build bridges between departments, rather than call on executives as enforcers: 47% saw value in cross-functional teams vs. only 30% of Laggards. Curiously, despite the fact that no Laggards cited data quality as an obstacle, and as we saw earlier few Laggards were interested in store-level inventory accuracy, 50% nonetheless felt that they could benefit from improved data from POS vs. 33% overall and 32% of Winners.

EVERYONE HAS A ROLE TO PLAY

According to survey respondents, effective inventory management is very strategic to retailers today, with 71% reporting that the CEO plays a role in influencing inventory process improvements (Figure 15). Not surprisingly, both the lead merchandising executive and the lead supply chain executive also play important roles.

Figure 15: Big Roles Need to Get Bigger



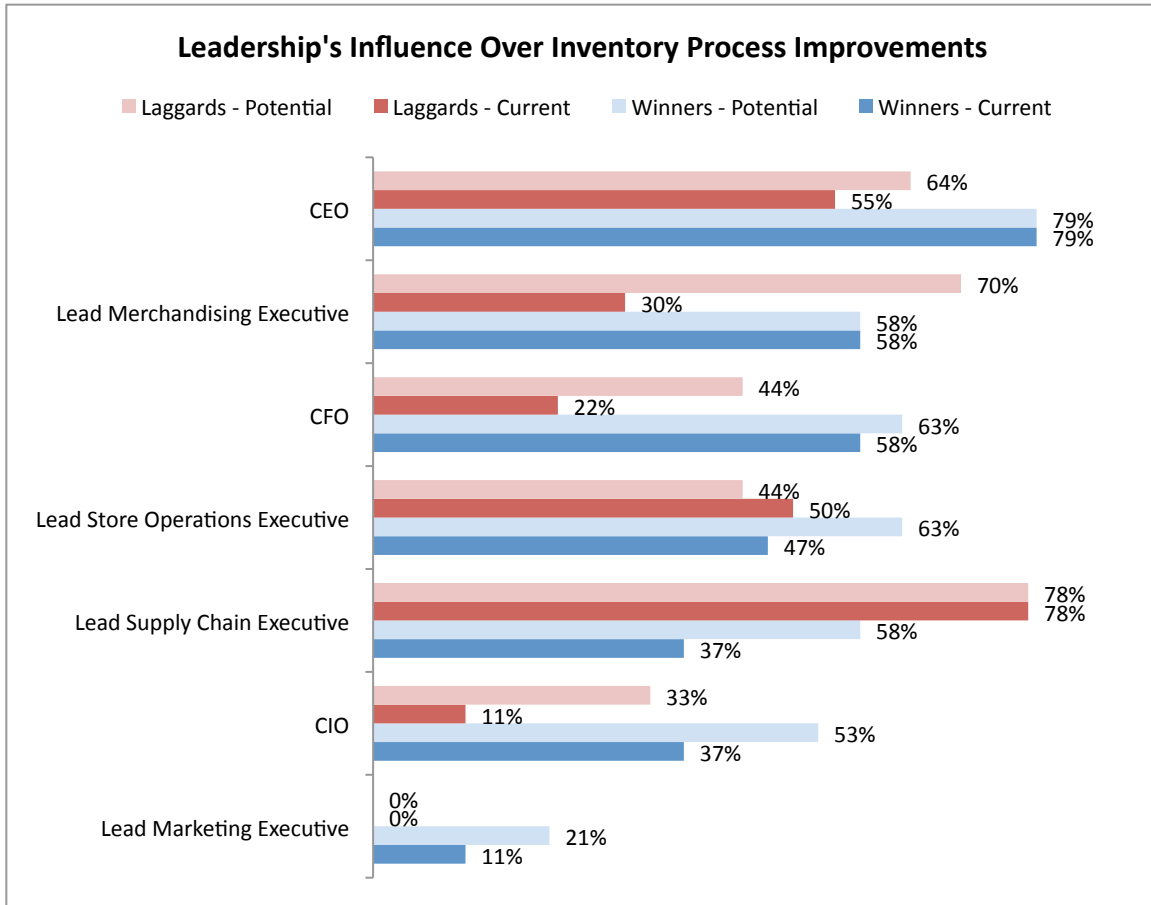
Source: RSR Research, August 2009

However, for as much as strategic executives are engaged today, respondents feel that nearly every executive has the potential to play a bigger role - most especially the CIO, who had the largest gap between current role and potential role.

In other RSR research, Winning retailers may suffer from organizational strife as much as the next retailer, but their awareness of these issues is typically much higher, and they are prepared to do more to address them than their peers. Such is also the case for inventory management. While the burden for driving process change within Winners falls to the executives that typically have the most organizational pull - the CEO, CFO, and merchandising executive - these retailers feel that the executives who actually own parts of the process need to step up, particularly the supply chain executive (Figure 16).

Laggards, on the other hand, do not necessarily have inventory management on the strategic agenda, at least in terms of organizational support. They tend to put the burden more heavily on the supply chain management executive's shoulders, without recognizing the importance of merchandising's impact on almost every inventory management process. Laggards also tend to under-estimate the value of input from the CFO and store operations relative to their peers.

Figure 16: Winners Seek More Balanced Executive Support



Source: RSR Research, August 2009

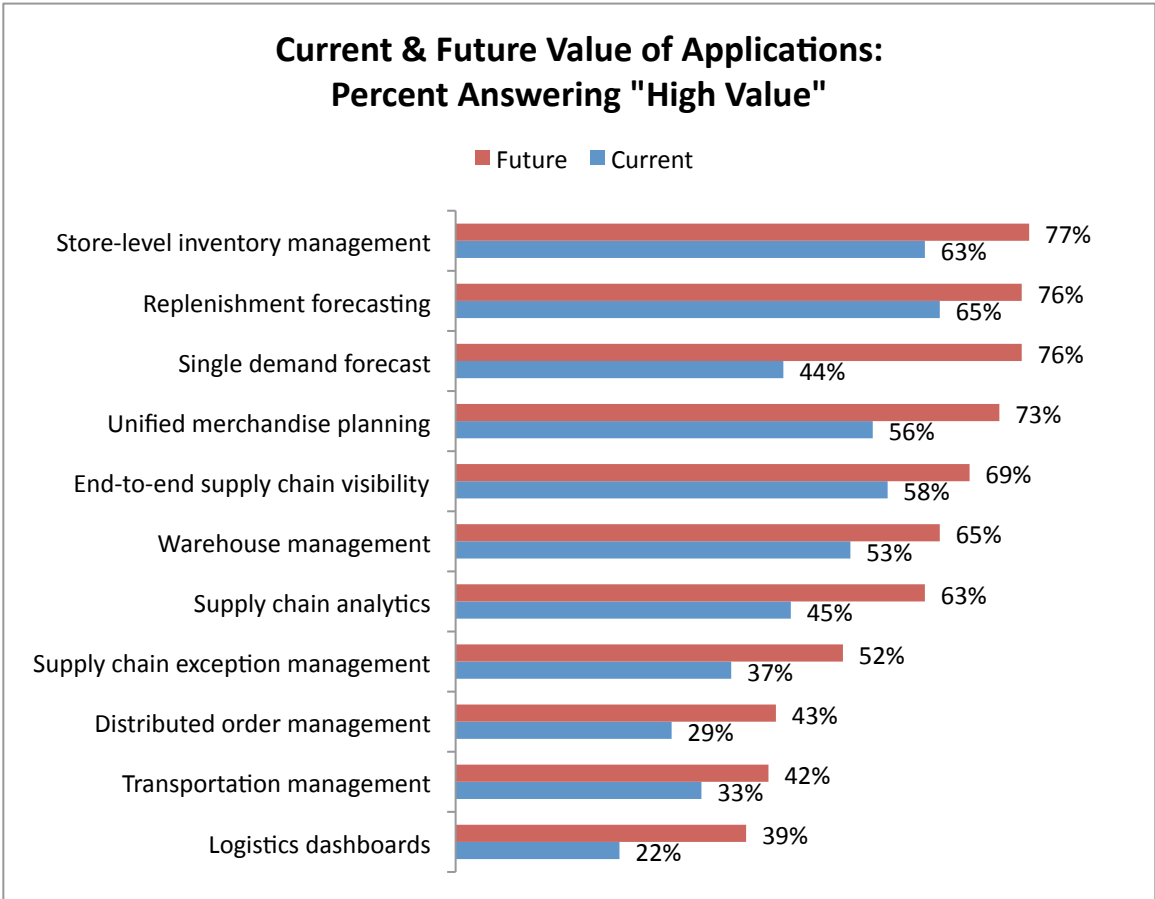
Laggards also have a blind spot when it comes to promotions. While 21% of Winners see potential for the lead marketing executive's involvement in inventory management process change, and 11% report a current role for that executive, no laggards see the potential or involve the marketing executive today, a big miss as more and more retailers lean heavily on promotions to stimulate consumer demand.

SECTION V: TECHNOLOGY ENABLERS

A NEED TO SEE WHAT'S COMING

Survey respondents rated almost every technology we asked them about as having at least some value, but in the realm of "high value" technologies, one gap stood out from the rest: a single demand forecast (Figure 17).

Figure 17: One Forecast to Rule Them All



Source: RSR Research, August 2009

On the other end of the spectrum, while respondents expressed high interest in supply chain analytics, ways to present those insights to end users did not rank as high: logistics dashboards had a fair share of skeptics.

A single demand forecast was a higher priority for Winners than for peers: 79% of Winners rated it high potential value vs. 73% of Laggards. However, to Winners the links and dependencies between a single forecast and a single plan are much more obvious - 84% of Winning retailers rated unified merchandising plans a high potential value vs. only 64% of Laggards.

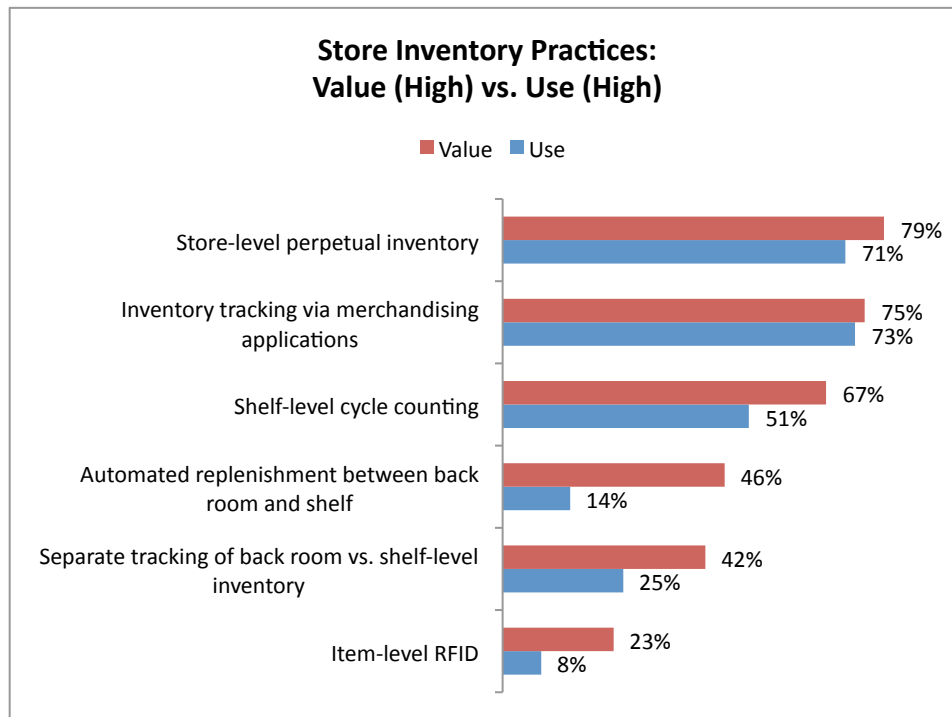
In a fascinating turn of events, Winning retailers, long-time adopters of warehouse and transportation management solutions compared to their peers, also put significantly greater stress on the future value of these more mature applications - 71% of Winning retailers reported that warehouse management solutions have high future value vs. only 55% of Laggards, and another 56% of Winners said the same

about transportation management solutions vs. 36% of Laggards. The most obvious conclusion is that these mature systems are feeling the strain of localization-based processes - without addressing some of the fundamental assumptions underlying the business rules captured in these systems, they will not be optimized to support the new demands of localized inventory practices.

GRANULARITY IN STORE

While traditional methods of inventory management - including relying on merchandising applications to hold store-level inventory data - continue to be quite valuable to survey respondents, emerging areas of value demonstrate that the applications that will support store inventory in the future may look less like merchandising or back office solutions, and more like warehouse management solutions (Figure 18).

Figure 18: Store As The New Warehouse



Source: RSR Research, August 2009

The largest gap exists around a highly aspirational process: automated replenishment between back room and shelf, with 46% reporting it having high value and only 14% admitting to the capability. However, issues rapidly arise around enabling such a capability that lead to something of a logic trap: in order to enable shelf-level automated replenishment, retailers have to track back room inventory separately from shelf-level inventory in the store. For many retailers the back room is also not-so-affectionately known as the "black hole," where inventory goes in and never comes out. And for retailers attempting in-store differentiation, there may be multiple stocking points for the same SKU in the store, so tracking whether a specific location at the shelf is out of stock is nearly impossible - without some way of reading inventory at the shelf. Currently, the most efficient way to do this without massive human intervention is through item-level RFID - something only 23% of respondents see as a high value opportunity.

From a performance perspective, Laggards exhibit interests that are difficult to comprehend. For a group of retailers that expressed much less interest in perpetual inventory as an opportunity, they see more value in perpetual inventory from a technology perspective, with 91% rating store-level perpetual

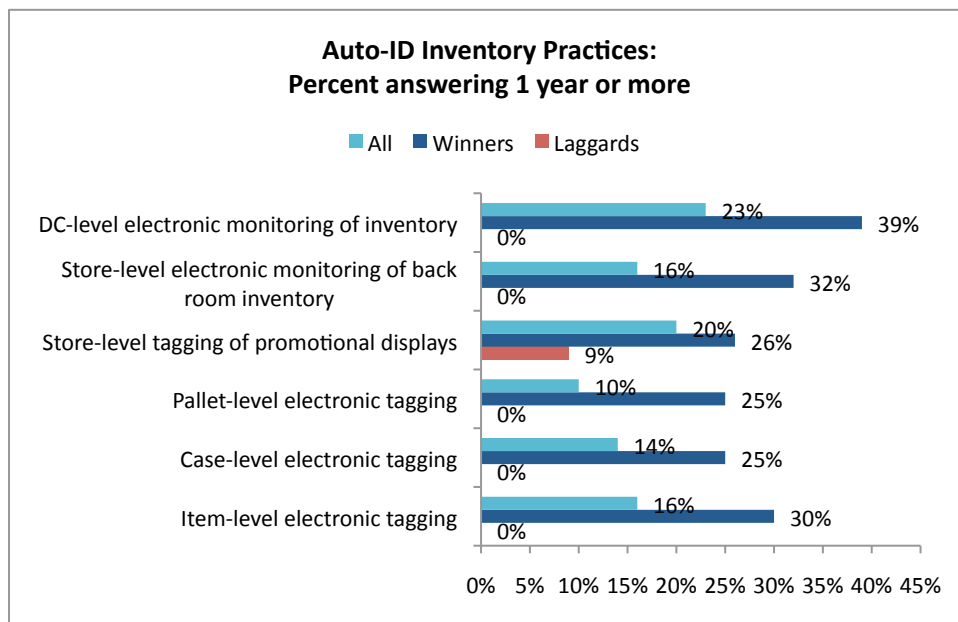
inventory as high value vs. 79% overall. However, while Winners are more interested in item-level RFID than Laggards, Laggards are more interested in separate tracking of back room inventory and automated replenishment to the shelf than their peers.

WHAT FUTURE FOR RFID?

One cannot have a discussion about inventory without addressing one of the more controversial aspects of the topic in recent memory: the role of RFID. While some have argued that Walmart's mandate for supply chain-oriented RFID solutions has set the capability back by years, others have relentlessly pursued benefits from RFID wherever they can be found. The question remains today: is RFID a hammer in search of a nail? Or is it the inevitable outcome for maintaining accurate inventory, once the right mix of use-cases and business-cases can be found?

Our survey respondents had decidedly split views on the topic (Figure 18), with Winning retailers clearly the driving force behind current RFID interest.

Figure 19: RFID: Winners Are Placing Bets



Source: RSR Research, August 2009

No matter who is driving, there is still a lot of ground to cover before RFID is a "standard" inventory technology in the retail arsenal.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

EMBRACE THE PARADOX

The value of the retailer's **Brand** is defined by how well products are delivered at the right price with the right quality, wrapped up in the right information and service, when and where the consumer needs them. Winners associate better inventory management with the ability to localize the value offering for consumers and to support emerging cross-channel shopping. Winners understand that ***to make access to the right solution simpler for consumers, they must manage more complex assortments and perpetual inventory at the enterprise level.***

Taking a lead from Winners, retailers should establish one view of inventory across the enterprise, to enable one demand forecast. The result would be an ability to allocate inventory at a more granular level to better respond to consumer demands for relevant solutions to their lifestyle needs across all selling channels.

MANAGE THE EXTREMITIES

Profitability is built or destroyed by how well retailers manage extremely fast vs. extremely slow moving items. Everyday movers are relatively easy to manage. But even Retail Winners acknowledge that they aren't getting it right with slow moving SKU's, even if they have a better handle on replenishment of fast movers. Winners know that without store-level inventory accuracy, forecasting will deliver flawed order recommendations, making auto-replenishment of everyday movers virtually impossible. To enforce perpetual inventory accuracy, Winners have implemented automated store receiving and cycle counting disciplines to a far greater degree than under-performers. They also have much higher expectations of technology to enable more effective inventory management than Laggards do.

There is no "silver bullet" for managing extremely fast or slow movers – better visibility and accuracy are key. Retailers should consider establishing one view of demand, a unified merchandise planning process for all selling channels, replenishment forecasting and improved store-level inventory management processes. For better management of fast moving items, retailers must examine how they will manage multiple SKU locations in the store (selling floor and warehouse).

KEEP LOOKING FOR A BETTER WAY

Technology enablers continue to emerge to help retailers achieve near real-time visibility of their inventory investments. Savvy retailers continue to experiment with, and occasionally adopt, new technologies to overcome challenges. For example, Winning Retailers are clearly the driving force behind current RFID interest. However, adoption of any new technology must be based on the right mix of use-cases and business cases.

DON'T FORGET THE "BUY SIDE" OF THE BUSINESS

Even though Winning retailers are long-time adopters of warehouse and transportation management solutions compared to their peers, they put significantly greater stress on the future value of these more mature applications, than do their peers. These mature systems are feeling the strain of localization-based processes.

Retailers need to be aware that without addressing some of the fundamental assumptions underlying the business rules captured in these systems, they will not be optimized to support the new demands of localized inventory practices.

IT TAKES LEADERSHIP

Winning retailers may suffer from organizational strife as much as the next retailer, but their awareness of these issues is typically much higher, and they are prepared to do more to address them than their peers. Respondents to our survey feel that nearly every executive has the potential to play a bigger role.

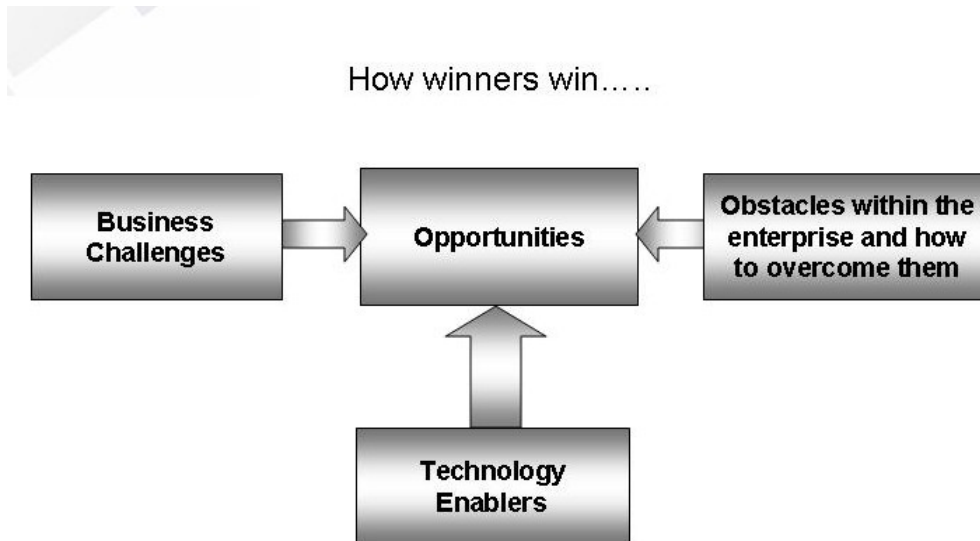
From winners, we learn that precision inventory management needs to be part of the strategic agenda, at least in terms of organizational support. In addition to the executives that typically have the most organizational pull - the CEO, CFO, and merchandising executive, the supply chain executive must be part of the executive team driving precision inventory management across the entire enterprise. Since so much of precision inventory management depends on technology enablement today, the CIO has a much bigger potential role than may be the case now. Finally, involving the marketing executive is also important since more and more retailers lean heavily on promotions to stimulate consumer demand today.

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



RedPrairie delivers productivity solutions to help companies around the world in three categories—inventory, transportation and workforce. RedPrairie provides these solutions to manufacturers, distributors and retailers looking to reduce cost, increase sales and create competitive advantage. With over 20 global offices providing services to over 40,000 sites in 50 countries, companies trust RedPrairie inventory, transportation and workforce solutions to deliver an immediate increase in productivity— with the flexibility to adapt as business needs change. At RedPrairie, we understand today’s operational demands and we’re committed to delivering solutions that work. We’re committed to delivering solutions for the real world™.

For additional information, call 1.877.733.7724, or visit RedPrairie.com



Manhattan Associates’ Retail Solutions help you get the right products to the right place at the right time—at the lowest cost to you. Manhattan's [SCOPE: Supply Chain Optimization—Planning through Execution](#) solutions combines the most productive and efficient supply chain processes with all the information you need to manage your business to competitive advantage. And, because our applications run on our powerful [Supply Chain Process Platform](#), they work together seamlessly to make installation and upgrades a breeze. SCOPE's Supply Chain Process Platform provides the foundation for five Supply Chain Solution Suites: Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management.

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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