



# *Retail Execution Management Drives the Customer Centric Store*

A Prospective Look at Collaboration:

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**Sponsored by:**



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## OVERVIEW

### THE GOLDEN ERA OF RETAIL MORPHS TO TARNISHED TIMES

Until the late 1980's, retailing was a very holistic business. Corporate goals and objectives were well-known across the enterprise, and each department would marshal its resources to help meet those goals. The multi-billion dollar retailer was a rarity managed through one of two models: local de-centralized control of merchandising, promotions and store operations management, or centralized control of the same functions.

Regardless of operational model, support organizations from logistics to store operations understood the essentially reactive nature of the business. The merchants, masters of product selection, were cognizant (more or less) of limitations in both manpower and budget constraints across those other departments. "Fire drills" did occur, with all departments scrambling to catch a product craze or wave. The bottom line though, was that a core and broad understanding of retail was necessary to work in the industry.

All this changed in the late 1980's and early 1990's, with the rise of the Channel Master. Ever-more massive retailers began to dominate the landscape. Wall Street rewarded both square footage and comparable store sales growth. The "master of channel masters," Wal-Mart, methodically crashed across the retail landscape in unprecedented fashion. The company was considered "very large" in 1986 when it enjoyed revenues of \$8.5 billion. By 1989, sales had grown to \$25.8 billion<sup>1</sup>, and **for its last reported full year, (2007) Wal-Mart reported a somewhat stunning \$351.14 billion in sales.** Carrefour, the world's second largest retailer, reported sales of 82,148 EU or approximately \$126.88 billion. These retailers far outstrip any conventional notions of revenue "tiers."

This new generation of mass created some unintended consequences. Internal departments within these Goliath-like entities became more and more isolated. **While store personnel have always felt a separation from the home office, home office departments are now also distant from each other.** Individual and departmental goals and metrics are siloed, and the core of holistic business knowledge is generally lost. Today's retailers have awakened to the realization that the left hand quite frequently does not know what the right hand is doing.

Even mid-sized retailers find themselves trapped in similar kinds of silos. Inter-departmental communication has not been helped by the explosion of communication methods now available. It's hard to identify core and critical messages within the morass of e-mails, mail and disparate directions received by each department.

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<sup>1</sup> New York Times, February 28, 1990

## THE CUSTOMER DRIVES A RETURN TO HOLISM

Customers may not understand the internal dynamics of retailing, but they do know several things: the state of customer service is abysmal, out of stocks remain a common irritant, and probably most importantly, they know they have many other choices if they are dissatisfied with their retailers. The internet has empowered these consumers with simpler, easier transactions where they experience fluidity in interactions that is noticeably absent in their interactions with traditional brick and mortar service providers. Yet the store remains at the epicenter of most retailers' business. Consistent store execution is consistently cited by retailers as one of the major challenges they face in improving the customer experience.

Economic realities dictate the need for cost containment, even as the customer demands better service offerings. **The simple reality is, retailers must find a way to service their customers more efficiently.** They can only attain this when left and right hands are aware of what each other are doing. A new generation software technology, variously termed Store Execution Management (SEM), closed-loop task management and Retail Execution Management (REM) emerged in the early 21<sup>st</sup> century to help bridge the divide between home offices and their far-flung store locations. The goal was to create a better and more consistent in-store experience. Results have been compelling and well documented, but the **use of these applications has uncovered the need to drive similar consistency and knowledge across the rest of the retail enterprise and to vendors and other suppliers** as well.

The intra-departmental workflows made popular in the 1990's are not up to the task. Instead, **we believe the expansion of execution management across departments and the whole value chain is the key to improved customer service at a reasonable price.**

## METHODOLOGY

In prospective reports like this one, RSR pulls together data points from a variety of different sources and bring them together into a new whole. A list of RSR reference documents is in Appendix A. We identify other sources in footnotes within the report itself. We supplement these data points with interviews to add color and substance to our conclusions.

## INTERVIEWEES

RSR interviewed six different retailers and one merchandise supplier from a variety of segments and different sizes between February and March of 2008 for this report. Their input was invaluable in helping coalesce our vision for the future...each have gained benefits from improving execution across one or two departments in their companies.

Interviewees include:

- **AutoZone** –Director of Planogram Processing and Customer Satisfaction, Process Improvement Project Managers, Customer Satisfaction
- **24 Hour Fitness** –SVP Club Operations

- **Hannaford Bros** –Director of Retail Technology
- **StoreLink Retail Group** –Executive Vice President

Where appropriate, we have quoted interviewees directly, but we have interspersed their thoughts across the entire document. As always, RSR is grateful for their input.

## THE CHALLENGE EXTENDS ACROSS ENTERPRISES

The retail ecosystem finds itself caught between a rock and a hard place in virtually every aspect of its business. Anything that touches the customer must be controlled, and yet appear effortless. While cross-departmental and cross-enterprise activities may seem invisible to the customer, a deeper look shows just how much the customer is impacted by those activities.

### MERCHANDISE PLANNING – THE INTRACTABLE PROBLEM

One would think more than twenty years after the first implementation of merchandise planning systems, the industry would have the business processes that depend on these systems down pat. Unfortunately, partly due to the physical and intellectual separation between departments, the challenge of creating a single version of merchandise planning truth remains elusive. In a 2007 survey on merchandise management issues, **100% of respondents reported “fractured planning processes” as their greatest challenge.** Practically speaking, **NO overarching set of procedures or technologies drive collaboration on this basic financial and merchandising function.** Logistics has its plan, Store Operations has its plan, Finance has its plan, and the Merchants have their own plan. Each department has its own success metrics, even though their success remains interdependent.

### MERCHANDISE OPERATIONS – PLANNING AND EXECUTING PRODUCT ROLL-OUTS AND PROMOTIONS

Day to day merchandise operations often fall prey to the same type of problems as merchandise planning processes. For example, one doesn't typically think of aftermarket auto parts as a dynamic, seasonal business, yet AutoZone executes *over four hundred category refresh projects each year.* The company recognized that home office departments as varied as human resources, IT, merchandising, marketing and loss prevention needed to know about the timing and extent of these refreshes (driven from the bottom up by category managers) just as field management had to communicate requirements down to store managers and personnel. This is a complicated dance typically executed with a mix of complex and inconsistent communication. More consistency in methods and operations are necessary to execute this dance more efficiently.

### STORE OPERATIONS MANAGEMENT: CONSISTENT STORE EXECUTION

With a mélange of tools used to communicate with far-flung stores – from e-mails to faxes to intranets and portals, Hannaford Bros. described their store operations management as “spray and pray.” They are not alone. Year after year, RSR survey respondents have identified inconsistent store execution as their single biggest obstacle to customer satisfaction with the in-store experience. This year was no exception. **Even as we expected to see a re-emphasis on sharp pricing and the difficult economy to emerge as critical issues, the number one obstacle to a better in-store experience remained inconsistent store execution, identified as a top-three business challenge by over 55% of respondents.**

## VENDOR MANAGED INVENTORY

Vendor Managed Inventory (VMI) can take several forms in a retail environment. In its most classic application, vendors stock shelves based on pre-agreed assortments and retailers take possession of merchandise upon shelf placement. When seasons change or planograms reset, the vendor representative removes the merchandise, returns it to the vendor, and retailers receive a credit for any unsold merchandise.

However, Merchandise Services Organizations (MSOs) are another form of VMI. Storelink Retail Group is an MSO charged with keeping planograms up to date in the hardware and paint and décor departments of over 400 Home Depot stores. These MSOs have similar problems as the retailers' personnel. Communication from the vendors to Home Depot to MSO personnel can be inconsistent and each Home Depot store's configuration is slightly different. The effect can be inefficiencies, confusion, and a poor presentation for the customer. Certainly Home Depot's customer service issues have been well-documented, and its new initiatives to become more appealing, most especially to women, have also been well-documented. The décor and paint departments are likely female destinations in store. Poor presentation will undo millions of dollars worth of advertising and public relations efforts.

## LOGISTICS AND FULFILLMENT OPERATIONS

Along with managing merchandise receipt, distribution and delivery, logistics and fulfillment operations also must manage the on-boarding and cultural assimilation of numerous new employees. Hannaford Bros. identified **challenges in standardizing procedures in 24/7 operational environments**. The company also documented **thirty-six different touch points required in the first three months of employment to on-board a new DC associate**. Hannaford employees spent sixty-eighty man hours per week to ensure those touch points were all hit. The company also noticed that if they could hit 75% of those touch points, retention of new hires would improve to 60% vs. 40% if they missed those touch points. Worse, when an employee left, Hannaford could not quantify how many of those touch points had actually been hit.

## WORKFORCE MANAGEMENT, TRAINING AND REWARDS

Store employee turnover, most especially in the United States remains legend. Yet over 65% of retailers report their employees play a critical part in their customer service strategies. Further, the volume of work sent to stores continues to rise at a far faster pace than payroll to support the extra work. In 2006, 56% of respondents to RSR's Workforce Management benchmark survey reported the volume of work sent to stores had risen over the prior two years, while 82% reported constant or shrinking payroll to sales ratios. By 2007, 59% reported the volume of work continued to increase. While 48% reported an increased payroll to sales ratio to support this work, effort required still far outstrips resources allocated to perform the tasks.

## WORKING WITH PRIVATE LABEL SUPPLIERS

Retailers have increased the percentage and value proposition of private label merchandise in their assortments. Fifty-seven percent of RSR survey respondents reported increased collaboration with merchandise vendors on these self-labeled product. Positive outcomes include improved gross margins (in particular, 80% of retail winners report gross margin increases over the past 3 years) and decreased time to volume (47% reported 6-12 months to achieve full volume vs. only 28% last year) . But this combination of speed and efficiency has come at a cost – these same retailers report their single biggest business challenges are finding and keeping dependable business partners and consistent compliance to specifications.

In fact, **inconsistent product quality from both national brand managers** (who also tend to outsource their own production) **and private label merchandise factories has created ripples across the entire retailing landscape:** in a worst case, the challenge becomes removing product off the selling shelves and out of stores as quickly and inexpensively as possible. While the most pragmatic and expedient response is to execute efficient recalls, the best solution would be to stop recalls before they happen.

## THE BOTTOM LINE: THE DIVIDE IS BIGGER THAN JUST THE HOME OFFICE AND STORES

The above examples serve to place an exclamation point on retail's greatest 21<sup>st</sup> century challenge. Far-flung multi-national enterprises must communicate with each other to bridge communication and execution divides. Just as the mélange of e-mails, intranets, mailings and voice mails are inadequate to insure stores execute on corporate vision, they are equally inadequate to insure that the entire value chain executes on the CUSTOMER's vision...which remains finding the right product, at the right place, at the right time, and at the right price.

## THE OPPORTUNITY: CROSS COMPANY AND DEPARTMENT WORKFLOWS

A wise man once said that defining problems is easy, but identifying solutions is not always so simple. In fact, we have seen progress in identifying and implementing solutions to retail's execution management problem. A complete end-to-end solution is not a reality, but significant parts are in place, and have demonstrated added value to those retailers and their partners who have implemented them.

*Figure 1: Driving Customer-Centric Retail Execution Management*



*Source: RSR Research, February 2008*

### PLANNING OPERATIONS MANAGEMENT

While it's often said that retailing is all about execution, it is also clear that retailers need a single version of merchandise, sales and receipt plans for all departments to execute against. You could in fact argue that this single version of planning truth must extend beyond the retailer's four walls out to merchandise and logistics providers. This is a part of the retailer's business that the customer doesn't see, but nonetheless has a dramatic impact on meeting her expectations in a cost-effective way. New product introductions (NPI), promotions and floor resets are planned months in advance, but don't always tie to payroll and staffing plans in stores, distribution centers, or even in suppliers' factories.

AutoZone is one company that recognized the importance of tracking cross-functional activities from start to finish in support of customer service. AutoZone is so passionate about customer service that every executive title ends with “Customer Satisfaction.” In other words, one title is “Director of Planogram Processes and Customer Satisfaction.” Another is “Process Improvement Project Manager, Customer Satisfaction.” These titles serve to highlight AutoZone’s core value – Customer Satisfaction. So while actually performing category resets is an operational execution issue, without proper planning execution can be expensive and ineffective. Customer satisfaction will suffer.

Other retailers agree. **Fifty-six percent of respondents to a recent merchandising benchmark study felt there was “a lot of opportunity” for improving execution through integrated planning with cross-functional teams.** History has shown us that just creating these cross-functional teams, or documenting procedures through which they might work together is ineffective in driving results. Instead, technology support (along with executive mandate) is required to insure these teams operate in concert.

## MERCHANDISE OPERATIONS MANAGEMENT

The customer provides rather rapid feedback on seasonal or fashion merchandise. JC Penney Chairman Mike Ullman has famously said, “You have to be trend-right....if it’s ugly, it’s still ugly.” **We believe inter-departmental and inter-corporate workflows and execution management are critical to getting closer to the customer target.** We have long since moved past the notion of the merchant prince, who could “bat 1000” and dictate market trends. In fact, the customer is deciding what he or she likes. Does the information get communicated to sourcing partners in a timely fashion? Can these partners execute the dance of collaboration to improve merchandise look in time to save a season? And will the product be consistent in quality? Without inter-company task and workflow management, the answer is “maybe.” The opportunity is huge. Rapid response means reduced cycle time, and reduced cycle time can translate into better return on invested capital.

Similarly, Customer-centric Execution management is necessary to insure marketing and merchandising are collaborating on upcoming promotions and flyers. All information and product must come together in the store at the right time so that they can execute on a promotion.

## STORE OPERATIONS MANAGEMENT

Along with the more typical and well-documented opportunity to improve consistency in store execution through the use of task management systems, a new opportunity has emerged – that of mitigating risk by executing efficient product recalls. Fewer customers will be affected if store personnel can complete a recall efficiently.

Hannaford Bros. reports using task management software to orchestrate complete execution of “class 1” product recalls across 150 stores in less than three hours.

Another retailer, this one in consumer electronics, learned of an electrical problem with a certain refrigerator that caused it to catch on fire. This was a unit that they happened to actually display *plugged in* at stores – so not only did they have to worry about making sure that the stores stopped selling them, they had to make sure that they pulled the plug on the units on display in stores. This particular recall happened in the middle of rolling out an execution management system. About half the stores in the chain had it and half did not. The half that had the application got their work request through task management, and through compliance tracking, management was able to verify that stores had read about the recall, and had executed both removing it from shelves and removing it from displays. The task was confirmed complete in three days total time. The retailer had to wait THREE MONTHS to confirm the stores that didn't have execution management had pulled the unit – that's 3 months of risk exposure that they had few means available to mitigate.

The impact can be huge. Especially in the area of food and pharmaceuticals, responding to recalls quickly can quite literally be the difference between life and death of people and pets.

## VENDOR MANAGED INVENTORY OPERATIONS MANAGEMENT

StoreLink Retail Group believes task management is an invaluable tool for its field personnel. It has enabled the company to be more efficient at fulfilling both manufacturer and retailer requests. It has created a process that's made to be leveraged across new stores and different departments. Uncertainty on the part of StoreLink Retail Group personnel has been eliminated. Most importantly, the customer is assured of a better, more consistent experience when the customer arrives in the department, and StoreLink Retail Group management can identify best performers and practices along with those who might need some assistance.

RSR believes this is just the "tip of the iceberg" with regard to opportunities associated with VMI operations management. Retailers recognize the opportunity associated with off-loading responsibility of inventory management to their vendors, but give up a lot in the way of control. Cross-corporate reporting tools can help retailers and vendors alike confirm that cooperative promotions are executed with precision, and insure dollars spent on those promotions are well-spent.

## LOGISTICS OPERATIONS MANAGEMENT

Logistics operations are a part of the business that customers don't typically see, but they play a critical role in customer satisfaction. If the merchandise is in a distribution center instead of a store, a customer will be dissatisfied. If an eCommerce delivery is late, the customer will go elsewhere. Thus, a critical aspect of customer-centric retail execution involves making logistics part of the entire merchandise life cycle. From merchandise planning to merchandise operations logistics must be aware of receipt plans, new product introductions, special promotions, recalls and finally end-of-life merchandise disposal.

At Hannaford Bros, the transportation department uses task management applications daily to notify them the time the trucks are going to arrive. In the future, they plan to send a message

from the appointment system to the task management system when an outside vendor truck is to arrive. Again, this is not an activity that the customer sees, but without it, the customer could well see an out-of-stock, even as the retailers' costs escalate.

## WORKFORCE OPERATIONS MANAGEMENT

The value of advanced workforce operations management has been well-documented but a quick review is useful.

- 43% of retail respondents acknowledge the value of task management as part of workforce management in improving the in-store customer experience.
- 61% recognize the direct relationship between improving workforce management and increased customer satisfaction.
- 50% of retailers with over \$5 billion in annual revenue rate task management systems as one of the top three tools they use to measure store compliance. These tools are finally replacing the idiosyncratic and expensive tool of "mystery shoppers" in evaluating store performance.

Integration with labor scheduling and time and attendance systems certainly improves the efficiency of store operations.

## SUPPLIER RELATIONSHIP MANAGEMENT

When the United States FDA initiated a massive recall of heparin in 2007, the FDA spokesperson famously stated, "While we had technology to remind us to audit the factory on the finished heparin product, we did not get reminded to check the factories where components of the heparin recipe were produced." Supplier Relationship Management entails more than just post-production confirmation of completion. It also includes operational controls that insure appropriate tasks are completed all along the way. These tasks can be as simple or non-threatening as insuring all components have been delivered to final assembly plants, or as life-critical as insuring a recipe ingredient is up to standard. In either case, management and control is critical to both a satisfactory customer experience and often, a healthy one.

## BOOTSTRAP RECOMMENDATIONS: WHERE TO BEGIN AND STEPS TO SUCCESS

### CUSTOMER-CENTRIC RETAILING REQUIRES REWARDING GOOD BEHAVIOR

There's a classic catch-phrase to describe corporate organizational dysfunction: "Asking for A but rewarding B." This is the core of retailers' dilemma. They expect department workers to be good corporate citizens, but individual incentives typically neither encourage nor discourage collaborative behaviors.

Merchants will only include other departments in their plans when their collective fortunes are tied together. Logistics personnel will always want predictability, often to the detriment of responsiveness. Store operations managers will always cut corners when measured on payroll to sales ratios. Vendors will react when squeezed on costs by cutting service levels.

Our belief is an entire new set of Key Performance Indicators must be driven from cross-departmental and cross-company operational execution systems. Retail cannot return to holism until these measurements are in place.

### BEGIN GATHERING RELEVANT DATA INTO ONE VERSION OF TRUTH

Just as the retail enterprise has become siloed, the data to drive decision-making and execution is siloed as well. Spreadsheets are the tool of choice for planning scheduling for many departments. It's imperative that however that data is stored, it be made available across the enterprise for planning purposes.

Similarly, many retailers do not gather the requisite amount of detail about job functions to drive execution management systems. An RSR survey found only 26% of retailers created detailed job titles and functions within their stores. Without these detailed functions, it is almost impossible to schedule the right person for the right task the first time. Store manager time is lost in reallocating personnel to match tasks to be performed.

Headquarters, distribution center and outside vendors are subject to the same challenges. While union work rules often drive ultra-specific job functions in distribution centers, non-union shops have the opposite problem – lack of systemic knowledge to drive efficient task management. The time to begin preparing for interdepartmental and inter-enterprise execution management systems is now, not when the implementation starts.

### RETAILERS AND SUPPLIERS MUST WORK TOGETHER TO SUPPORT CUSTOMER CENTRICITY

The subject of the Extended Retail Industry or ERI has been floating around retail for some time. Some vendors call it the retail ecosystem...others call it the ERI. Whatever the name, the core premise is it take a global village to satisfy today's consumer. Customer-centric execution management is one step in a line of many required to keep the customer happy at a reasonable cost. We expect to see this class of application becoming more ubiquitous as time goes by.

## APPENDIX A: RELEVANT REFERENCE MATERIAL

We have used data (directly or indirectly) from the following benchmark reports as background for this document. All these reports are available for download from RSR's web site.

***PLM Squared: Product Lifecycle Management Powers Private Label Merchandise:***  
**February 2008**

***Winning Trends in Loss Prevention: Benchmark Study 2008:*** January 2008

***The State of Retail Workforce Management: Benchmark 2007:*** November 2007

***The Next Generation of Business Intelligence: Driving Customer Insights Across the Enterprise:***  
**August 2007**

***Technology-enabled Customer Centricity In the Store:*** March 2007

***Searching for the True Multi-channel Retailer: Benchmark Report 2006-2007:*** January 2007

***Driving Rapid Response and Gross Margin with Private Label Merchandise 2006:*** August 2006

## APPENDIX B: ABOUT OUR SPONSOR



Reflexis helps retailers turn strategy into action and increase sales. Reflexis customers include The Home Depot, Tesco plc, SuperValu, Sears Holdings, Staples, B&Q, Circuit City, Toys "R" Us, Barnes & Noble, AutoZone, and many other Top 250 Global Retailers. Reflexis customers have reported dramatic improvements in store-level compliance with corporate strategies; higher productivity of merchandising, field, and store management; and increased sales and profitability.

Reflexis solutions enable retailers to drive flawless execution in their merchandising, store, and vendor operations by employees, suppliers, and third party service providers. Reflexis Systems, Inc. is privately held and headquartered in Dedham, Massachusetts, with the Customer Operations Group in Kennesaw, Georgia and international offices in the UK, Germany, and India. For more information, visit [www.reflexisinc.com](http://www.reflexisinc.com)

## APPENDIX C: ABOUT RSR



Retail Systems Research (“RSR”) is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, and thought leadership and advice on navigating these challenges for specific companies and the industry at large. RSR’s services include benchmark reports covering the state of retailer technology adoption for topics ranging from merchandising and supply chain, store operations and workforce management, to customer-facing and multi-channel technologies. Custom research reports provide more in-depth views into topics of industry interest, and advisory services help retailers and technology vendors make the most of the insights RSR provides. To learn more about RSR, visit [www.rsrresearch.com](http://www.rsrresearch.com).

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