Out With The Old, In With The New

Retailing Holy Grails for the New Millennium

In the first minutes of the third millennium as the choruses of Auld Lang Syne die down, in millions of computer centers around the world CIO's will be breathing a first sigh of relief. That's the optimistic scenario - the less optimistic amongst us will be envisioning something between global chaos and a complete meltdown of the world's economies. Following the more positive track through this scenario, making it through the turn of the millennium unscathed with job still intact is a small hurdle in comparison with what is to come.

The turn of the millennium will be a new dawn, a starting gun for renewed competitive frenzy in the commercial sector and not least of all in the retail sector. The twilight years of the twentieth century having been spent jostling for position, building competitive foundations and extending a web of influences throughout the market, retailers are on the starting blocks with a raft of new competitive strategies.

Every industry has its management fads, retailing no less so than others. So what will be the new holy grails for the retailing industry and what old fads will be marked down as end of shelf life?

OUT

Supply Chain Efficiency Initiatives

Store Location

Category Management

Monetary ROI

IN

Global Sourcing

E-Retailing

Customer Relationship Management

Ethical Retailing

Out: Supply Chain Efficiency Initiatives, In: Global Sourcing

For the past 20 years, ever since the concept of a supply chain was devised, retailers have been trying to take cost out of it and to make it more efficient and responsive. The better retailers have been successful at this, and although a vast number of inefficiencies remain throughout the industry, supply chain cost cutting programs are now reaping less benefits for each dollar spent than in the past.

Why? Well, most of the high cost areas have been attacked either by re-engineering business processes or introducing technology based solutions to make optimal supply chain decisions. The spate of consolidation in the industry has also created organizations with huge buying power and the scale to create their own highly integrated supply chains incorporating both vendors and logistics trading partners. The increase in collaborative planning and forecasting has removed inventories burdening both vendors and retailers. As a result, the world's leading retailers are already operating lean and efficient supply chains.

The next obstacle that they have set their sights on is all the way back at the beginning of the supply chain - the source of products. There are two aspects to the sourcing problem - first, to consistently find the optimal sources of supply and second, to maximize the buying advantage available.

There is a vast disparity between labor costs across manufacturing localities around the world, however, this is offset by a number of other factors such as product development lead times, order to delivery lead time, responsiveness of the manufacturer and ability to customize products and make short runs, the quality of the manufacture and import and export restrictions to name but a few. The continuous search for not only new sources of manufacture, but also the most efficient and effective sourcing network to purchase and deliver the goods to be sold requires old buying paradigms to be broken.

The second area is an extension of the economies of scale theories, which, coupled to the heightened level of merger and acquisition activity, stand to bring retailers huge benefits by consolidating buying activities across departments, operating divisions or corporate boundaries. Not only can retailers benefit from increased leverage in the buying negotiations, but can remove costs by removing buffer stock from the supply chain by consolidating it at selected holding points.

Finally, the global sourcing paradigm expands further into consolidation of buying activities. Supply chain systems brought separate business functions within an organization together - the internet brings separate business organizations within the supply chain together. The virtual supply chain, where different parties make the best use of their own and each other's competencies, to achieve maximum effectiveness for all. The very nature of the retail supply chain is set to change and new rules for its management need to be defined.

For each dollar invested in stripping supply chain cost compare the return with a dollar invested in the product sourcing opportunity.

Out: Store Location, In: E-Retailing

A decade ago, store location was being developed into a science, as the expansion plans of many high street retailers coincided with the creation of shopping mall complexes, out of town retail parks and rejuvenation of inner city shopping centers.

A host of other analysis models were developed using the powerful new spreadsheets, databases and statistical analysis packages - this obsession with modeling, driven jointly by academia and retail head office analysts and powered by desktop computing was a costly fad - did it ever really deliver the promised benefits? Skeptical I may be, but with my feet firmly planted in pragmatism, I can observe that there was always comfort in a good old mathematical model for the desk-bound retailer.

What ever happened to store location models? - Well, these were supplanted by real information during the nineties. EPoS delivered store and item level trading information and when analyzed using the latest G.I.S. tools, sales actuals mapped onto customer geo-demographics became popular. But IKEA, one of Europe's most successful international retail brands, made a success of "pin-the tail-on-the-donkey" store location policy - build it and they will come, and they did, in their millions, crossing swathes of uncharted isobars that a store location modeler would give up with. Today, store location is more of a physical and political science - where is there a spare piece of land and how do we get permission to develop it?

So where is the science of store location heading in the future - perhaps, I would suggest, the same way as the steam engine, aesthetic and technical masterpieces, to be relegated to become nostalgic artifacts, museum pieces. Why? Well who cares where the store is, what you want is to be able to select your goods, pay for them and get them home - those surely are the key objectives of the shopper. As part of numerous re-engineering projects, we would hypothesize with the removal of stores, however, this was too radical an idea for established retailers and we were always forced to put them back into the equation.

But for new entrants who weren't constrained by a huge real estate holding, who didn't rely on footfall to generate sales, store location was not even a consideration - enter the e-retailer. These operations do not need a physical presence to trade with their customers - in fact, the nature of the medium and the fact that their customers were early technology adopters gave them a more lucrative target market anyway. With the need to tie up vast sums in inventory removed and the speed with which they can set up store and build a brand online, these retailers are enjoying unprecedented growth.

But the traditionalists were still dismissive - "How many of these internet retailers are making a profit." The answer is none, but in a newborn medium they are climbing up the learning curve, building brands and understanding the new rules of e-retailing - presentation, offering and fulfillment. And in doing so, they are attracting huge subscription, and with the subscription (the e-retailer's version of footfall) comes investment. This is evidenced by the valuation of some of the newest retailers on the financial markets - Amazon.com and Dixons Freeserve to name but two.

So where is the store? Well, all the world's the store and all the store's a concept - a hybrid of catalog, lifestyle magazine, information source and personal shopper. A trend also echoed by successful traditional format retailers, but far cheaper and quicker to build and change in an online environment. The physical location of the store is replaced by which mind-space your online brand is targeted at and what you are doing to win a share of that mind-space. Even catalogs have evolved into magazines - look for example at the Niemann Marcus catalog as a prime example of a style publication.

But people still like to go shopping, to smell perfume at a perfume counter, to pick up an apple, to try on a jacket and to pretend to use a new powertool, how does the virtual store service those needs? This commentary does not simply dismiss the old fad, but it replaces it with a new fad - there is still a place for the store, however, it's role in the supply chain needs to be re-examined.

But first, we must observe the multitude of channels available to the retailer to trade with the customer – the physical store, kiosks, mail order, telephone or fax shopping, TV shopping channels, interactive television and the internet. There are fewer ways that the retailer is able to manage fulfillment of those goods to the customer – customer takes them home, they are picked up by the customer from a pick up point or the retailer or third party delivers them to the customer and some goods can be delivered on-line. And there are even fewer ways that the retailer now manages the order taking and financial transaction.

Hence, it appears that although there is a proliferation of retailing channels, there is a convergence of methods of fulfillment and managing the order taking and payment process. I predict that very soon, all orders and financial transactions will be processed in the same way, whichever the purchasing and delivery channel combination. This has huge implications for the role of the store…it now becomes primarily a place where people can have a shopping experience and secondarily where the financial transaction and the actual exchange of goods takes place.

Look at how shopping malls have adopted the role of the town square and become places where kids "hang out". Observe how shopping malls have food courts, fairgrounds, fashion shows, cinemas and entertainment zones. The latest malls such as Bluewater in the UK or the Mall of America in Minneapolis have designated areas for relaxation and entertainment – a far cry from the shopping cart jammed aisles of the earliest supermarkets.

The retail store will become a place for consumers rather than customers. "Customers" will shop electronically using agents to locate correctly specified goods, the best prices, and the optimal service arrangements. "Consumers" will go to the mall – perhaps to go to the movies where they can order one of the outfits in the movie in a boutique close by and maybe the soundtrack from a kiosk (it will of course be delivered electronically to the sound system at home) and maybe pre-order the video for when it is released. If there is time afterwards, they can watch a cookery demo at the grocery store, then experience what they have seen prepared in the restaurant or if they wish have the ingredients and the recipe ready to pick up on their way out or maybe even delivered as ready prepared meals next Friday for a dinner party.

Returning to the beginning of the argument, store location is a dying art. The convenience and travel time vectors so highly regarded by store location experts are being replaced by the level of delivery service offered by the retailer. Instead the physical store as we know it is being supplanted by virtual stores for the chore of buying things and the mall based environment for pure shopping experience.

Stop worrying about where to build your stores and worry about which search engines rank you highest.

Out: Category management, In: Customer Relationship Management

The big fad of the eighties, is only really just coming to fruition as the retailers who have adopted Category Management are realizing that there is no magic behind it, just sound business sense. The long overdue move from the dated division of labor based silos in the retail organization to a more holistic structure has just about happened. Category Management is still a valuable technique, but no longer a holy grail - but first this commentary would not be complete without some possibilities discussed.

Question. Where was Category Management born, what sort of upbringing and education did it have and why did it become so important to retailing in the nineties? Category Management was born into a time when retailing had become complex to the point of being unmanageable.

Since earliest times the market stall holder epitomized the best aspects of retailing, retailers who have a complete understanding of the total business - from the objectives of making money, selecting what to sell, buying stock, pitching the stall, arranging the goods, having intimate knowledge of the customer, setting prices, negotiating special offers, marking down stock, minimizing inventory while maximizing freshness and publicizing what is on sale, albeit by shouting louder, all the way to delivering the bottom line.

Once the stall holder opened more stalls, moved into shops, then supermarkets, needed to staff them, operate warehouses, distribution operations and all the way up to the multinational head office management teams with huge supply chain organizations supporting vast networks of stores and franchises, the retailers labor force needed to become functionally specialized, regionalized, divisionalized, centralized and localized. And as a result they lost the original business objectives and became functional silo based. This was dangerous because in achieving functional aims, they managed the retailing business sub-optimally. Buying departments given gross margin targets would buy up huge quantities of stock to gain volume discounts, but would fail to take account of the warehouse overheads of managing this inventory and the stores would be hit with massive markdowns to dispose of excess stocks.

Around the same time, the introduction of EPoS had eroded the power base of the manufacturers - once keepers of market research information and powerful with the knowledge of what the customer bought, they dictated the retailer's business. EPoS now put the information firmly in the hands of the retailer. Perhaps Category Management was conceived by the manufacturers to allow them to become involved in the retailer's planning cycle and thereby gain access to some of the trading data captured at point of sale. Perhaps, now the hype around Category Management has died down, this need to gain access to this information is manifesting itself in the Collaborative Planning and Forecasting movement. From the retailers perspective, vendor managed inventory makes a lot of sense, especially if the retailer never takes title to the goods, but takes the margin as they pass through the checkout. However, the value of the ACME Category Captain where a vendor will control other vendors for that category has always escaped me, just another trick by the Wile-E-Manufacturer-Coyote perhaps.

Whatever the reasons behind category management, managing groups of products related by common customer needs, as a business unit accountable for profit, supply chain and it's own merchandise strategy has proved beneficial for the retail industry. Then why a new holy grail in this area you ask. It all has to do with the flow of information and the power that comes with it.

The internet and the easy flow of information means that instead of information stopping at the retailer, it now travels one step further on to the customer. A customer can now log on to the internet and get a price comparison for a new refrigerator from all the high street shops. A pair of Levi's jeans can be purchased from a store, a mail order catalog or directly from Levi's in the US via the internet. The cost of switching suppliers is now close to zero for many products, which puts the customer in the position of power and the retail must fight all the harder for their custom. And the ease of trading over the internet has meant that retailers are now in competition for the customer with the manufacturers themselves. Why go to a fashion store for Levi's jeans when you can buy them from Levi's directly. Who is to say that Kellogg's won't open an online breakfast store, that is in the same online mall as the online Nestle store for dinner solutions?

So the new holy grail will be competition for the customer's business, and as every good sales person knows, the most powerful piece of information is to know the customer intimately and the means to the sale is to have them trust you. Enter the science of Customer Relationship Management. This is the new buzzword term throughout the commercial world, fuelled by the growth in online marketing and the rich veins of data that it exposes - containing not only customer-basket-product level transactions, but also how the customer shopped, which items were passed over, which were selected and subsequently rejected. "Big Brother" is indeed with us. During the specification of a mammoth customer information system, we visualized the following scenario - wheeling the shopping cart around the supermarket, the cart suggests items to purchase based on previous buying habits - the cart would suggest lower fat foods and a medical based on the high cholesterol products previously purchased.

The science of One to One marketing is developing and as the tools to capture data and analyze it become more sophisticated this will be a major area of investment. If you don't kiss your customers hello, you can kiss your categories goodbye.

Out: Monetary ROI, In: Ethical Retailing

The retail enterprise has three scarce resources available to it: money, real estate and people. The traditionally held objective of any retail management team is to use these three resources to generate a return on the shareholders investment and long term growth of turnover. This was done using initiatives that focused on each of these scarce resources and within the constraints of the trading business, getting a maximum return on every dollar invested in stock, land and staff.

Stock has been a holy grail in itself over the past two decades - the whole ECR movement to reduce the levels of inventory (and therefore the investment in stock) and the collaborative work with vendors on buying and replenishment processes have both had heavy investment with some impressive results.

Real estate investment has long been cause for concern, especially in countries or urban areas where space is at a premium. Efforts to increase space productivity by careful shelf space management - display planning, assortment planning, space simulation and optimization. The return on space is still a concern, especially as the amount of investment required to build a new UK superstore is astronomical and payback periods would not be commercially viable were it not for the need to increase market share.

Finally the numerous initiatives that have been in place to increase staff productivity throughout the retailers operations are evidence to the need to control costs here. The traditional form of retailing is a labor intensive business - essentially the need to break bulk, present goods and provide customer service. The retail supply chain from warehouse to store incurs huge cost in labor and some of the tools to forecast, manage and increase labor productivity have helped reduce this figure, however, this will always be a major cost element for the traditional retail enterprise.

So that's where most retailers are today - caught in a turmoil of initiatives to control their costs and improve the return on investment - I'm not saying this activity should be halted, but is should be integrally planned into the business and not treated as a special project because a fourth new scarce resource has become apparent to the market-wise retailer - the customer.

It is not simply the customer, but how the customer perceives your organization - this will have a direct impact on retail sales as the whole issue of true customer loyalty requires a more mature solutions than loyalty card schemes and every-day low pricing policies. I am talking about a concept that is already happening in the minds of customers and many of the most forward thinking retailers - ethical retailing.

Ethical retailing is about taking a long term holistic look at the retail enterprise and its interactions with all its stakeholders - customers, suppliers, third-party service providers, the media, the competition, the government, the community and the environment. All of these stakeholders are either "direct customers" or are influential in your customers purchasing choice. The convergence of retailing channels and technologies and the increase in information available to the customer has a detrimental effect on customer loyalty (whatever that really is) and ethical retailing offers a way to counter this effect.

What are the prominent issues that ethical retailing addresses? The answer is in the media and in the radical customers who drive customer thought leadership. Some of the major issues are: Genetic modification of foods - and specifically deceiving the customer about their usage; food production techniques - namely the level of pesticides; hormones and additives used in foods; the use of child labor in product manufacturing; the use of non-sustainable resources for raw materials (e.g. hardwoods from tropical rainforests); the use low paid labor and minimum wage issues for retail staffing; packaging waste; the recycling movement; systematic removal of local competition by super format retailers.

Too many issues to discuss in detail - I will focus in on a couple of them to illustrate and show how addressing these issues head-on can result in benefits for the retailer (or a reduction in poor investment at least).

When Wal-Mart, financially, the world's most successful retailer, builds a Supercenter in a small town, they are so price competitive that they quickly wipe out the local retailing community - such is their ferociousness that the mere announcement that they are building is news enough to prompt the close down of local businesses. But if they were to closely examine the long term effects of their arrival they would be able to foresee their own demise in that community. Looking at a small town as a business, the profit and loss would show income to the town and outgoing expenses - this having achieved some sort of stability over the year's that has sustained the town. The arrival of Wal-Mart inevitably increases imports to the town and removes profit back to its corporate headquarters - leaving the town with a balance of payments deficit. As a result, the income available to be spent at the Wal-Mart declines until it is forced to seek new markets or actually close down - a modern day equivalent of "slash and burn" farming. A possible solution is for the company to put something back into the community by sourcing locally and encouraging support enterprise and local investment - a small hit on a store's bottom line, but a model that is undoubtedly sustainable in the longer term than the current one.

Perhaps another issue is the environmental integrity of the business - the positive nature of this is demonstrated by the growing Whole Foods Inc. company in the US. As increased media scares about the safety of our food and the regular features on the deterioration of our environment cause the buying public to express more and more concern. Whole Foods is a purveyor of organic foods and is leveraging the concerns of a worried population and their success in this field is evidenced by not only their own growth, but the increase in organic foods stocked by the major grocery chains.

All of the other issues mentioned have their own case studies - the backlash in Germany against excessive product packaging, the boycott of manufacturers that use child labor by activists, the demise of the UK beef industry by the "Mad Cow" scares and the list goes on. But the underlying trend is that the informed consumer will vote with their feet and in today's internet world, that informed consumer is only on the increase.

The counter argument to this is that the majority of consumers are price and value conscious, however, there is nothing to say that an ethical retailer is not as price competitive as a non-ethical one, but where value is now determined by other measures - classic marketing theory where the playing field is changed rather than the players. Do not ignore the radical retailers as they will exploit the areas that you have overlooked.

How does a retailer go about becoming an ethical retailer. I am loathed to suggest yet another methodology, because that implies a fad, however, I am also aware that methodologies are a means to an end, and if that is the most palatable way that a retailer can digest this, then here is your skeleton methodology.

Step 1: Make sure you understand your highest level corporate objectives and that all the existing strategies employed to achieve them are open to debate if a better way exists and is feasible.

Step 2: Identify global, industry and internal issues influencing your business.

Step 3: Take a holistic look at your business and its stakeholder community.

Step 4: For each stakeholder, identify the negative concerns that they have with your business.

Step 5: For each concern, referring back to the original objectives, identify ways that they could be addressed without long term negative impact to your business.

Step 6: Work with each stakeholder group to implement solutions that resolve the root issues (not merely the symptoms)

Step 7: Measure and communicate the success of these initiatives to all stakeholder groups.

Conclusions

This discussion was neither meant to be supportive or scathing of any particular retailer, supplier or consultancy, but merely to provide food for thought. The new millennium provides us with a good excuse to re-examine what we are trying to achieve and how we are going about trying to achieve those things. It may also give us an opportunity to backtrack on legacy decisions without losing face, although loss of face today may be a better option than loss of business tomorrow.

Regards, Gam