SEVEN STEPS TO PERFORMANCE MANAGEMENT

better predictability, better results

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RETAIL INDUSTRY LEADERS ASSOCIATION
Retail's Future…Educate, Innovate, Advocate

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RILA MEMBERS MEASURE AND IMPROVE

The world's most innovative and successful retailers and suppliers enjoy unique corporate identities. But they have a number of key practices in common, and perhaps the most important is a commitment to studying how to improve. Retail's trendsetters examine the processes that contribute to sales; they try new things and measure carefully to see how they work; they find ways to respond to what they've learned; and they spread the word about findings through headquarters and stores. They think about who the customer is, what the customer wants, and put processes in place to exceed expectations.

The discipline of studying what works and acting upon what's been learned is a key theme that runs through Retail Industry Leaders Association (RILA) Leaders Council meetings. RILA's Councils provide a forum for like-minded leaders to get together and comment on issues of the day. Councils, including the Technology Leaders Council, meet throughout the year to discuss common issues and opportunities, and share approaches that work. A common theme in these meetings is the study of new retail techniques and the mechanisms that improve them. Whether participants call this process store performance metrics or continuous improvement or performance management, the themes are the same – a desire to track performance, learn from the past and use that knowledge to improve the store experience.

RILA Council members know that business as usual isn't enough to guarantee success in an increasingly competitive retail environment, so they examine what works and build their growth strategy on what they've learned from work they've already done. This short paper examines some of the key themes that RILA members are addressing and the seven steps many of them have identified for performance management:

1. Establish a clear vision of the corporate culture, and establish a key value proposition for the company. Establish goals and initiatives to help the company evolve.
2. Embrace measurement as part of the culture, and make the case for change if key goals aren't being met.
3. Decide to transform the planning process.
4. Examine what's happening in the store.
5. Communicate information across the chain with enterprise-scale reporting to illuminate high or low performing divisions, stores, channels, products, and staff.
6. Optimize staffing levels through headcount planning and workforce analytics.
7. Test results and refine approaches for consistent improvement.

A survey of IT executives in 2004 revealed the importance of business intelligence to growing companies. Massachusetts-based IDC asked what the most urgent improvements the IT organization needed to make to better support the business. The results demonstrate the clear correlation between analysis and business process for great results.

- 36%: How applications better fit our business processes
- 35%: Improve access to relevant information/data
- 32%: Better systems for communications / collaboration
- 23%: Lower costs of underlying IT infrastructure
- 15%: Near real-time monitoring of business processes

1. **Establish a clear vision of the corporate culture, and establish a key value proposition for the company.**

Do you really know what drives sales at your stores? RILA members do. They have a clear understanding of the company's identity, where it fits, who the customer is, and the kinds of customers the company should appeal to in the future.

Having a strong sense of identity is an important tool in a retail environment that provides customers with almost unlimited choices. That focus on brand is a key reason that customers come into the store. Retailers who succeed are committed to a culture of self-examination, of understanding what works, and staying true to the mission of the company. Without a clear understanding of what it has to offer, a retail company can hire the wrong people, stock the wrong merchandise, and attempt to attract the wrong customer.

Growing retailers keep true to their focus. There are all kinds of ways to get distracted and go "off-message." But great retailers understand exactly what they contribute to their customers, and provide a can't-miss experience every time. They employ a variety of mechanisms to reinforce that message throughout the company. The focus on message is core to the success of some companies.

Having a clear view of what the company is trying to do provides a clear view of what key elements need to be worked on and measured: real estate, team members, atmosphere, pricing, visibility, or assortment.

One of the world's most recognizable brands is Starbucks. The company's mission is prominently displayed on its Web site:

"Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow. The following six guiding principles will help us measure the appropriateness of our decisions: * Provide a great work environment and treat each other with respect and dignity; * Embrace diversity as an essential component in the way we do business; * Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee; * Develop enthusiastically satisfied customers all of the time; Contribute positively to our communities and our environment; * Recognize that profitability is essential to our future success."

The Power of the Brand – Target

Target's brand is instantly recognizable, and Target's brand identity is an important tool in the competitive environment in which it operates.

Target reinforces its "fast, fun, and friendly" theme with guests and store associates alike. On the careers portion of its Web site, Target points out that it's "one step ahead of the trends, offering exceptional design at an affordable price...which makes everyone's life better, in new and exciting ways....Our steady stream of cool ideas has elevated the Bullseye to become one of the most widely recognized brand-marks. At every turn, we challenge ourselves to delight our guests in new and fabulous ways.... We value collaboration. We embrace change. Our commitment to giving remains constant. Our team members are guided by these values: "Fast, Fun and Friendly," meaning every task and every interaction is as enjoyable and efficient as possible, and "The strength of many. The Power of One" exemplifies our commitment to diversity."

2. Embrace measurement as part of the culture, and make the case for change if key goals aren't being met.

As part of the evaluation process to determine a clear vision of what the company represents to customers, shareholders, and staff, growing retailers make a commitment to measuring how well they're doing. Creating clear performance goals enables all of the key steps in the management cycle—from planning and budgeting, to measuring and monitoring performance, to reporting and analysis.

Performance Management: getting started

- Establish requirements
- Choose or hire a leader
- Purchase software
- Run useful reports
- Assess progress
- Conduct what-if exercises
- Encourage a culture of self-examination

Implementing a measurement program requires very senior-level commitment both to the measurement effort and to a program of corrective action if the results prove to be inadequate. Measurement works through a series of scorecards that gather key performance indicators (KPIs), compare them to results, and use the analysis to suggest new opportunities.

Key performance indicators are high-level snapshots of the business that illustrate specific predefined measures. Shared online, they vastly improve upon the individual-using-a-spreadsheet approach that is still in place at some companies.

Retailers have long had huge amounts of data with which to work. But only recently have they had the tools to manage and mine it to glean valuable insights. Using historical information and comparing it to fresh data, retailers can predict new approaches that will increase sales. They use scorecards to deliver enterprise data in near-real time. Rather than sifting through many reports, scorecards let corporate leaders see immediately how the company is performing in critical areas. That visibility can be almost startling to companies that haven't had access before. Scorecards help growing retailers to communicate strategy and targets effectively. They help the growth strategy succeed by expressing important information, key drivers, performance expectations, and results. They also increase accountability by providing leaders with the information they need to take ownership of their performance. With better visibility into strategy, retail leaders in various business units understand the part they play in making the strategy succeed. They have the metrics to measure their success, and see how to get to the next step in their quest for excellence.

Scorecarding converts brag that establishment and use of common metrics connects departments—scorecard metrics are interdependent and show how

"Everything we do, everything we have ever done, has one purpose: to sell more merchandise, to make it easier and more pleasant for the customer to buy."

James Cash Penney

one department affects another, leading to proactive cooperation among different areas. This enables alignment between departments and more productive project work. And scorecarding enables companies to leverage their existing data investment. There's ample transaction data, and using it to benchmark and measure creates meaningful reports and analysis that everyone can use. It also provides insight into the "why" behind results. Companies see information across departments and drill down to see the underlying causes that contribute to performance.

Using measurement, retailers understand the why behind results. They align everyone with one, reliable version of business issues, using common data definitions and understanding of priorities. They spend less time debating the data and more time deciding what to do. They shorten the time to make the right decision because timely reports and self-service reporting enable staff to see changes when they happen and make the right decisions at the right time. And they meet the information needs of all users; using self-service reporting means that everyone can have the right information delivered in the right way.

Harrah's Entertainment

"Who are our customers and what do they enjoy? The answers to those questions are some of the most important information we get from our loyalty card holders," says Tim Stanley, Chief Information Officer of Harrah's.

No industry has better visibility into its customers than the gaming industry. Gamers are loyal to their casinos of choice because those casinos reward behavior, quickly, through identification cards that provide gamers with room perks, faster drinks, and dinner coupons. Harrah's Total Rewards loyalty card leverages IT and performance management for customer relationships and business results. Over 40 million Total Rewards loyalty card members are in the Harrah's data warehouse.

The casino industry is an impressively complex business, with the challenges of gaming floors, hotel management, restaurants, theater acts (some of the casino nightclub acts are more complex than the largest shows on Broadway), retail malls, golf courses and transportation by limousine and buses. Managing these systems requires between 80 and 100 systems that are associated with the front of the house alone. Remarkably, about 80% of Harrah's revenue is attached to the Harrah's Total Rewards card. Harrah's attributes some of its success to its use of decision science capabilities to optimize customer loyalty and profitability.

The Total Rewards card can be used at any Harrah's property. The information is portable; cash and comps can be earned, tracked and redeemed at any location, regardless of origin, because centralized databases can be accessed across the company. Tiered card status and service offerings are leveraged across all of Harrah's brands, locations, offerings and touchpoints; and run through Harrah's formidable analytics engines.

At a recent Retail Industry Leaders Association Annual Leaders Exchange (ALEx), Harrah's CIO Tim Stanley spoke about the impact that analytics has had on his company – to a standing room only audience. Harrah's carefully tracks the benefits of these practices – analyze, plan, execute, measure, and refine – to great advantage. One of the key measurements for Harrah's is the customer, and whether he or she returns, so gathering key behavioral information is of crucial importance to this customer-facing business.

3. Decide to transform the planning process.

Some large retailers still use spreadsheets as their primary vehicle for planning and budgeting. Spreadsheet-based systems work for individuals but create islands of financial and planning data, where everyone works independently. This disconnected approach does little to support corporate and management goals, cross-functional collaboration, or the dynamic planning cycles needed to address changing market and competitive conditions. What's required is a solution that replaces a fragmented process with continuous, collaborative planning that supports business drivers and delivers up-to-date insight into performance. To be blunt, a lot of retailers have concluded that it's time to stop using spreadsheets, and start using enterprise planning tools.

A comprehensive enterprise approach to planning helps retailers build a foundation for higher performance by connecting strategy to plans, targets, and operational objectives. Enterprise planning connects the insights that a single associate can get and leverages it through the company. "What should happen" analysis allows retailers to set strategic initiatives and turn them into plans and budgets for the entire enterprise. Plans can be built to maximize operational effectiveness, and they can be easily realigned as conditions change.

"Retailers recognize that information about products and customers is vital to sustainable success and that it is virtually impossible to create that information and insight without relevant technologies, such as enterprise planning and business intelligence software," said Patricia Vekich Waldron, director, retail industry, Cognos. "The really successful retailers, however, are those who understand how to match the capabilities of that technology to the real requirements of the business. We are delivering a solution that allows organizations to link individual execution with overall business strategy across the enterprise, fulfilling a critical element of effective corporate performance management."

4. Examine what's happening in the store.

What are customers buying? How quickly do items move? What sells with what? What would sell better if it were placed elsewhere in the store? Who's doing the buying? These tantalizing questions are being answered through business intelligence tools.

Retailers know that having great business intelligence is only part of the solution to customer-centricity. The payoff to having actionable data is the promise of combining that information with old-fashioned observation of

"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

Sam Walton

what's happening in the store. Retailers are focusing more attention on watching what goes on in stores, talking with store managers, conducting focus groups, sending senior IT leaders into the store for a day, and hiring experts to observe and brainstorm new ideas.

Combined with enterprise examination of the data, observations can result in a transformed corporate culture where senior executives make a conscious effort to effect transformation through dramatically better understanding of who the customer is and what the customer buys. Staples, for example, learned through observation that it had a significant customer segment that did not have credit cards. These customers wanted to be able to take advantage of the larger SKU assortment available online. Staples rolled out a kiosk strategy to enable customers to shop online while in the store, then present a coupon at the register in the store and pay in cash. Customers can then return to the store to pick up a completed order. *Internet Retailer* magazine quoted Staples vice president, Mike Ragunas, as noting, "Staples has made employee training a corporate policy focused on engaging customers in the store. Our CEO has been very focused on driving a customer interaction model, so every associate is taught to engage every customer that comes into the store," he says. Staples store employees, who do not work on commission, learned early on in their company's kiosk program that kiosks could help fulfill that initiative by improving the shopping experience. Store associates have seen kiosks as a great way to satisfy customer needs and make shopping with Staples easy.

5. Communicate information across the chain with enterprise-scale reporting to illuminate high or low performing divisions, stores, channels, products, and staff.

Knowledge is power. Retailers are using data as never before to examine where they perform well, and identify areas that need improvement.

Products. Retailers talk about the power of door-buster products to entice customers into the store, and the knowledge that some items generate such slow turns that they may not be worth carrying. Enterprise-wide access to that information is transforming the way retailers source merchandise and stock it.

One consumer-electronics chain studied sales and realized that batteries would sell whether they were on sale or not. The company had routinely run battery specials; but by analyzing actual sales data they realized that there was little corresponding uplift in sales, and the company was giving away margin.

Customer insight. Often, one insight leads to another. A department leader who discovers a nugget of information will pass it on and encourage colleagues to dig deeper. Teen surfwear chain Pacific Sunwear observed that smaller sizes flew out the doors of its stores, even as the average size of American teens grew bigger. When they realized that some of the small sizes were being purchased by teen girls, they introduced clothing lines for juniors. When they did that, luring more young women in to the store, they realized dramatically higher sales to young men.

Establishing profiles of different kinds of customers (older teens, working moms, middle-aged dads, retirees) helps retailers make sense of the patterns they see and determine customer segments they can act upon. To gather useful information, retailers have launched a series of initiatives to reward

customers who share personal information. They've started loyalty programs to learn more about the customers they have. They analyze the customers of their rivals to learn more about the customers they don't have. The results can drive sales and boost brand support. Target examined its sales and customers and realized that new moms spend very little on themselves. They purchase so many items for the baby, and have so little time, that they don't pay much attention to themselves. Target established "Mom and Baby" departments in stores to complement the usual baby items with pampering items for new moms.

Promotional effectiveness. An optimally timed, placed and priced promotion can have significant impact on product demand and, consequently, revenue. Retailers examine what contributes to promotional effectiveness, looking at whether the promotion of a product was both cost-effective and influential. There are a complex set of

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Anticipating demand: AutoZone

AutoZone is a great example of a retailer that has not only improved results but also created whole new lines of business that drive profits. The Memphis-based retailer created a new line of business in used auto parts.

The after-market auto parts business is extremely competitive, and can be frustrating to operate. While staples like motor oil and fan belts may move quickly, other inventory, like car doors or rear view mirrors, may be sold extremely slowly. Some items may even sell at a rate of one a year. Heavier items can cost more to ship, so transferring inventory from one store to another can be very expensive. AutoZone determined that it wanted better visibility not only into what sold, but what might sell, through enhanced understanding of what products the customers around its stores might want; they took a deep dive to learn more about which cars are being driven in different parts of the country.

Americans have wildly different habits when it comes to owning cars. Drivers in the Washington DC area favor imports, while in Iowa City the norm is more likely to be sturdy five-passenger Buicks and Fords. So the merchandise managers at an after-market auto parts company will want to know where to place a given auto part. If they have a door for a 1970 Dodge Dart Swinger, for example, where should they place it?

AutoZone responded to the challenge by hiring a number of statistically-savvy individuals, including Ph.D.'s, and invested in state of the art business intelligence tools. One provider representative noted that AutoZone has "perhaps the most advanced implementation we've ever seen. They've done everything right." AutoZone gathered publicly-available data on cars that had been registered with Departments of Motor Vehicles throughout the country to better determine which models were available where, and who'd need parts.

The results? Whole new business avenues are possible. Where the man of the house used to have to travel to junkyards to search for a used bumper or rear view mirror, now a trip to AutoZone can yield the same result. This is a significant improvement for busy two-wage-earner homes where neither party has the time or the inclination to travel to a junkyard. Hoover's reports that AutoZone is the U.S.'s number 1 auto parts chain.

interactions between retailer and manufacturer, and third parties, including ad agencies, point of sale promotion placement firms, media, and traffic agencies. But all these factors can have limited results if staff in the store don't correctly place in-store displays, or fail to refresh on-sale merchandise to minimize out of stocks. Implementing plans that work will require process and thought changes throughout the organization that may not be currently in place.

Assortments. Enterprise reporting is valuable for assortment planning too. Optimizing assortments is one of the most important goals of retailing. Making available the right assortment of merchandise, in the right sizes and colors, is demonstrably difficult, and when asked recently if they had assortment planning "nailed", most retailers answered no. Much of this challenge is the struggle to understand who the customer is. The increasingly diverse society of 21st century America requires that retailers and others closely examine their product offerings and spend more time thinking through who the customer might be to successfully cater to different clientele.

Most larger retailers say that they have a different stock mix in every store. They customize in recognition that diverse audiences wear different sizes, prefer different colors, expect various flavors, and like different products displayed together. This is beyond the familiar "you won't sell snow shovels in Florida" concept – micro-assortments in stores are going to be a necessity.

Stores. Growing retailers aren't overly committed to underperforming stores. By examining sales reports, real estate and staffing costs, retailers can determine where they're likely to have underperforming stores, and can close them or relocate them before they damage sales.

Markdowns. Historically, retailers kept "dead" product around, marking it down several times throughout the season and beyond. Analysis of markdown sales show, though, that steeper markdowns made earlier can get old product out of the store more quickly and can create new sales of full-priced product. Smarter markdowns help retailers to get underperforming product out of stores faster and lose less money doing it.

6. **Optimize staffing levels through headcount planning and workforce analytics.**

Retailers face myriad challenges when optimizing the workforce in the store. They want to ensure the right number of staff is on duty, with the right levels of expertise. If different kinds of customers shop at different times or days, it's important for retailers to recognize these needs and staff accordingly.

"Be a yardstick of quality. Some people aren't used to an environment where excellence is expected."

Steve Jobs

This means having information on customer segments, sales, and the talents of sales associates, and having the ability to act upon them. With the right information, retailers can save money on labor, boost productivity, and increase customer satisfaction. One retailer noted that there was a greater demand for Spanish-speaking sales associates on certain days of the week, and was able to make them available when needed.

7. Test results and refine approaches.

Retailers keep trying new approaches and re-test assumptions to achieve continuous improvement.

As success stories increase, the reach of performance management will grow. Right now the results are seen by few in each company. As the results are proven, more decision-makers in each company will want to see the results. Deployments will gain in scale. Results will increasingly be available through the corporate portal, convenient to staff throughout the company. Increased availability will help evolve the corporate mindset. Once great corporate information is available to corporate decision-makers company-wide, company chiefs will insist on having it.

Understanding change and adapting to it is a necessity. Perhaps no industry is more aware of this than the grocery industry; industry consulting firm McKinsey, for instance, in its 2005 white paper *Winning in A Value-Driven World* surmises that "based on Wal-Mart's current growth trajectory, we expect that by 2015 they alone will have captured more than 20 percent share of the grocery market in nearly every U.S. state." Change is a constant for retailers, and they'll need to continue to test their value propositions, weigh new approaches, and always measure actions against the company's identity.

BELIEVE THE NUMBERS OR BELIEVE THE HUNCH?

A commitment to performance management may cause retailers to question whether they should believe the insights the data provides. How easily can an organization transition from right-brain, intuitive decision-making to left-brain, data-based decision-making? Are the conclusions gained from analysis best used as advice, or as decisions? How can retailers convince the chief merchant that the real answer is "coming out of the machine"?

One factor is the age of company management. As younger, tech savvy CEOs gain traction they may be better-inclined to believe what the numbers tell them. Executive sponsorship is a must. To maintain blazing growth, companies must be able to adopt frameworks for decision-making that go beyond one executive's gut feel. The company must have clear goals.

It's RILA's experience that retail companies that know who they are, what they want to sell, and who are committed to continuous improvement lead the pack. Performance management is a clear advantage for those who use it. And as techniques improve, the art of retail gets more exciting. RILA salutes retailers who represent success, and innovation.