# STORES AND CHANNELS

## Your Business Accelerator

*"Things may come to those who wait, but only things left by those who hustle."*
Abraham Lincoln

### Not Enough Time, Not Fast Enough

Customers are increasingly educated, diverse and demanding. Today's time-starved consumers have many choices for buying goods, so retailers need to provide a differentiated shopping experience to maximize their share of the wallet. Stores, call centers, on-line, wholesale and catalogue operations offer a unique assortment, excellent service and convenience to customers. Point of sale and service staff must understand customer needs and be able to react, adjust and satisfy customer demands on the spot.

New customer demands mean retailers are faced with a far more complex selling process, demanding that associates have a wider range of product knowledge, assortments are localized and updated more frequently, and cross-channel integration offers an outstanding shopping experience.

Even at higher levels of the organization, the ability to quickly identify trends and modify store and channel operations is key to maintaining satisfactory sales and profit performance. *If certain stores are showing signs of weak sales in certain product categories, what does this mean? Are these early signs of a market trend change, wrongly positioned merchandise, competitor activity or staffing issues at these stores?* Accurate and speedy information is critical in quickly identifying what does or does not work on the customer-facing retail store operation.

Information flowing from stores and channels affects every other department in the retail operation: from inventory and supply chain logistics to supplier management and merchandising. The slower the two-way flow of information, the less responsive the retail business model. This viewpoint brings together the three core insights in this book (see Introduction). Various job roles up and down the organization are accountable for operations, requiring information sweet spots to support their specific decision-making capabilities responsibilities. Stores and channels teams armed with the right information, at the right time, driven by the right incentives, are formidable. Unfortunately, many retail businesses do not optimize time and speed of execution due to three barriers.

**Barrier 1:** ***You don't set store and channel targets and allocate effort based on maximizing overall contribution***

How you measure performance and set incentives drives how operational managers allocate their time and company resources. If you set targets that are more than sales-related, but also include controllable costs and customer satisfaction standards, store-level execution will be more aligned with strategic corporate goals.

Frequently, operations focus on short-term revenue means less attention to managing costs and ensuring customer satisfaction, which have less immediate visibility but a long-term impact. As a result, managers can neglect to focus on the long-term implications of store upkeep and lifetime value of a customer or segment. Systematically analyzing, identifying and communicating store-level performance and linking it to long-term contribution helps chains maximize future value opportunities. A good retail professional can positively affect the change by understanding:

- The relative value of different customer types
- The arguments that will influence buying behavior
- The cross-sell and up-sell opportunities
- The service level needed to generate loyalty

Without these sweet spots, your time may be poorly invested. Or worse, you won't know if it is or isn't.

**Barrier 2:** ***There is no two-way clearinghouse for the right information at the right time***

Field-level execution is becoming more and more about information and how to execute on new ideas and refine the existing customer proposition. Operational excellence requires an efficient clearinghouse of the right information at the right time, up and down the organization—corporate, stores, channels, merchandise, supply chain and marketing. What's missing in many retail operations is such a fast and effective two-way flow of "smart facts" between the stores, channel operations, central office, distribution centers and suppliers. Smart facts are focused information packages that help optimize the value proposition for all stakeholders and therefore ensure the right solution focus is maintained.

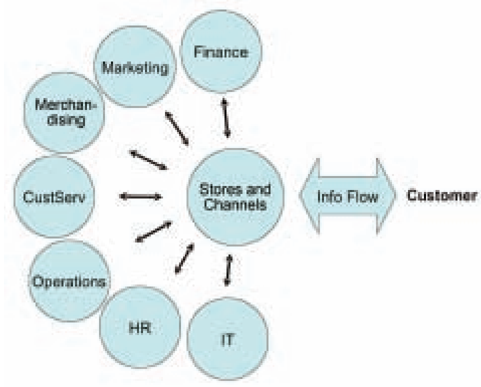
The two-way nature of this information is critical. The entire organization (Marketing, Finance, Merchandising, Supply Chain and so on) needs insights into what works, what doesn't, and what is of greatest importance. Without this, your response to important concerns is impeded, and you won't understand the drivers of change, which is necessary for sustainable store performance. Smart facts let the business:

- Build on store success stories and share best practices
- Link the retail value proposition with what the customer requires across channels
- Proactively deal with issues between the customer and operations (such as out of stock, payment terms, late deliveries, etc.) and stay on top of store performance measures

Organizational execution suffers unless changes at the point of execution are quickly identified and such smart facts are acted upon in a timely fashion.

**Barrier 3:** ***You don't measure the underlying drivers of store and channel effectiveness***

What type of input drives directly on store and channel performance success? To what extent do various drivers such as geography, store size, store format, advertising and promotions, demographic area, staff quality, training, incentives and management impact results? For example, assuming a shortage of qualified staff, how quickly and by how much will store performance and customer satisfaction suffer? Understanding the magnitude and timing of these drivers will determine the financial consequences and urgency needed in rectifying the problem.




*Stores and Channels: two-way clearinghouse of smart, fast facts*

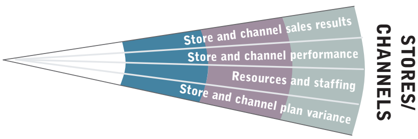
Similarly, what drives a missed sales opportunity, and are lessons being learned? Store feedback on merchandising, promotions, store layout, service and other issues helps the centralized functions to better link key drivers with sales effectiveness. The missed opportunity comes from not tracking what expectations were set around these tactics and not monitoring what actually happens. Retail operations miss this opportunity when they see setting and monitoring targets as a complicated planning exercise or when it conflicts with an internal bias to rely more on intuition.

The choice doesn't have to be either/or. Experience and intuition can guide the initial tactical choices and outcome expectations—but monitoring these outcomes lets you make informed decisions to improve your results. Your goal is to improve store effectiveness and adjust tactics when something doesn't work. Without set expectations and a means to monitor the underlying store performance drivers, you will likely suffer both higher operating costs and missed sales opportunities.

**Continuous Accelerated Realignment**

The five decision areas described below can improve the speed of sales execution and enable a more effective use of time. They rely on the two-way flow of vital information between customers and company. This sharing of information can accelerate the speed of adjustments and realignments of product, market, message, service and other elements of the business. Decision areas in stores and channels:

- **Store and channel sales results** ➔ What is driving sales?
- **Store and channel performance** ➔ What is driving store performance and profitability?
- **Resources and staffing** ➔ How to manage store staff and resources effectively?
- **Store and channel plan variance** ➔ Where and why does performance differ from plan


The order of these decision areas reflects a logical flow of analysis and action. They start with understanding of where store and channel sales results are achieved, first in terms of overall sales performance and then in terms of P&L performance. This is followed by drilling deeper into how staff and store resources are managed. Finally, the insights gained are applied to revising the planning and forecasting process. In this way, a continuous and accelerated re-examination and realignment of store initiatives is possible. This cycle is anchored by the organization's strategic objectives (profitability and controllable expense management) and incorporates fast access to store realities for an accurate view of multi-channel performance.

## Store and Channel Sales Results

Store and channel sales results are one of the most basic and important information sweet spots. They represent the foundation from which the retail organization can evaluate and plan for the future. They provide a consistent overview of actual revenue across the five basic components of the business—product, store, channel, territory and time. Accurate understanding of these components suggests where and why results diverge from expectations. Are store sales trending down in certain regions? Is this consistent across all products and channels?

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Sales ($/%) | Visit (#) / Frequency | Fiscal Month | Product Hierachy |
| Transaction Value ($) | Transactions per Visit | Year | Product Category |
| Sales per Outlet ($/%) | Sales ($) / (#) of Personnel | Quarter | Product Group |
| | Volume/Price/Mix Variance ($/%) | Month | Product Line |
| | POS Locations (#) | Week | Shipping/Delivery |
| | POS Store Closings (#) | Day | Region |
| | POS Store Openings (#) | Organization | State/Province |
| | Sales per sq feet/meter ($) | Division | County |
| | Selling Space (sq. feet/meter) | Channel | City |
| | Shrinkage ($/%) | Store | Postal Code/Zip Code |
| | Sales from New Products/ Services ($/%) | Department | |
| | | Org. Code | |
| | | Region | |
| | | Region | |
| | | Territory | |
| | | Locality | |

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| Store/Channel | | | | |
| | Executives | • | | |
| | Professionals | • | | |
| Audit | | | | |
| | Executives | | | • |
| | Professionals | • | | |
| Marketing | | | | |
| | Executives | | | • |
| | Analysts | | • | |
| | Professionals | | • | |
| Customer Service | | | | |
| | Executives | | | • |
| | Professionals | | • | |
| Finance | | | | |
| | Executives | | | • |
| | Analysts | | • | |
| Merchandising | | | | |
| | Executives | | | • |
| | Professionals | • | | |
| Supply Chain | | | | |
| | Executives | | | • |
| | Professionals | • | | |

Communicating sales results should not be confined to managerial levels, but should be shared throughout the organization. You can empower staff with appropriately packaged analytic information and communications, adapted to various levels of responsibility. Feedback on why certain stores have done well and what can be learned can, to some degree, be shared with staff. Company-wide ranking reports are especially popular among retailers, e.g., highest sales, best labor costs and so on.

Beyond immediate operational store analysis, sales results let you recognize broader performance patterns to see if strategies and management objectives are on track and still making sense. With a consistent flow of information over time, you can make more strategic comparisons, interpretations and adjustments. For example, if sales are flat in a given store, region or channel, you need to know: *Is this a tactical problem or a strategic one—i.e., should this lead to a full re-evaluation of the company's strategies, or is it a localized execution problem? Are significant resource investments or training necessary? Has the shopping experience, assortment or service levels been outflanked by the competition?* These questions are part of an accurate assessment of sales results.

Sales results also connect time spent, level of responsibility, strategic decision-making and operational activities. If you identify a weakness in sales of a particular product line within a region, the business has a number of time-related options to deal with it. The short-term solution might be a series of sales incentives, such as more promotions and discounts. Given the impact of this on margin, however, management may choose to look at overall sales performance to determine if a store profiling exercise should be undertaken to localize assortments. This may require long-term strategic decisions at the highest level of the organization involving Marketing, Merchandising, Customer Analysis, Purchasing and Finance. Sales results are one of the main contributors of information for this decision. The speed and accuracy with which this information is available to the business is critical. More of this dynamic will be covered in the Executive Management chapter.

### Store and Channel Performance

The key to this decision area is recognizing the what, where and why of store and channel P&L performance. By benchmarking the various controllable costs across stores, divisions, regions and/or store types, you can identify and question performance patterns. Perhaps staffing costs are disproportionately high in a number of stores, leading to concerns regarding overtime or staff scheduling. Alternatively, understanding the impact from a store refurbishment program, not only on sales but, more importantly, on operating profits, helps assess the ROI opportunity. *Are certain store formats more profitable for certain geographies and demographics? How long does it take for a new store to become profitable?*

Senior management must set cost targets and profit expectations that are meaningful as goals across the various store types and channels. Without understanding the detailed performance, these targets and goals will become largely a top-down academic exercise with little chance of being executed at the store level. Store management is motivated by appropriate goals that are designed as "stretch" goals for its particular store.

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Profit ($/%)<br>Profit per Transaction ($)<br>GMROI | Gross Profit ($/%)<br>GMROI<br>Returns ($/%)<br>Markdowns ($/%)<br>Profit from New Products/ Services ($/%)<br>Operating Costs($/%)<br>Overhead Costs ($/%)<br>Shrinkage ($/%)<br>Profit per sq feet/meter ($)<br>Selling Space (sq. feet/meter) | Fiscal Month<br>Year<br>Quarter<br>Month<br>Week<br>Day<br>Organization<br>Division<br>Channel<br>Store<br>Department<br>Org. Code | Region<br>Region<br>Territory<br>Locality<br>Product Hierarchy<br>Product Category<br>Product Group<br>Product Line<br>Ship-To Location<br>Region<br>State/Province<br>County<br>City<br>Postal Code/Zip Cod |

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| Store/Channel | Executives | • | | |
| | Professionals | • | | |
| Audit | Executives | | | • |
| | Professionals | • | | |
| Marketing | Executives | | | • |
| | Analysts | | • | |
| | Professionals | | • | |
| Customer Service | Executives | | | • |
| | Professionals | | • | |
| Finance | Executives | | | • |
| | Analysts | | • | |
| Merchandising | Executives | | | • |
| | Professionals | • | | |
| Supply Chain | Executives | | | • |
| | Professionals | • | | |

### Resources and Staffing

The resources and staffing decision area deals primarily with striking the right balance between serving customers and keeping costs in line. *What is the ideal staffing mix, ranging from check-out, customer service, stocking and so on? How does this relate to customer service performance? Are customers satisfied, or are there areas for improvement? What are the cost implications of such improvements, and how do these compare with other stores?*

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Sales per Employee | Operating Costs $/% | Fiscal Month | Region |
| Profit per Employee | Headcount (#) | Year | Region |
| Labor Costs ($/%) | Part-time Staff (#) | Quarter | Territory |
| | Staff Turnover per Annum (#) | Month | Locality |
| | New Hires (#) | Week | Product Hierachy |
| | Sick Leave Days (#) | Organization | Product Category |
| | Terminations (#) | Division | Product Group |
| | Work Time Actual Hrs. (#) | Channel | Product Line |
| | Avg. Compensation Increase ($) | Store | Ship-To Location |
| | | Department | Region |
| | | Org. Code | State/Province |
| | | | County |
| | | | City |
| | | | Postal Code/Zip Code |

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| Store/Channel | Executives | • | | |
| | Professionals | • | | |
| Audit | Executives | | | • |
| | Professionals | • | | |
| Marketing | Executives | | | • |
| | Professionals | | • | |
| Human Resources | Executives | | | • |
| | Professionals | | • | |
| Finance | Executives | | | • |
| | Analysts | | • | |
| Merchandising | Executives | | | • |
| | Professionals | | • | |
| Customer Service | Executives | | | • |
| | Professionals | | • | |
| Supply Chain | Executives | | | • |
| | Professionals | | • | |

Practical realities also need to be considered. *What is the available recruitment pool? What are the competitive employment opportunities, and how do wages and benefits compare? Is there a great need for training? If staff turnover is high, what incentives beyond simply compensation can be offered to reduce this trend and cost to the operation?*

Resource and staffing is also concerned with the management of controllable costs, including those from local suppliers, repairs, utilities and projects such as upgrade and remodeling initiatives. All of these costs need to be identified, assessed and monitored to ensure the right balance is maintained.

Benchmarking different stores' resource and staffing performance can greatly assist in identifying problems before they impact store results. A proactive approach to elevate the standards of such weaker stores will prevent these situations from getting worse. High-performing stores can also be evaluated to determine what lessons can be learned and shared across the retail business, including promoting staff and managers that demonstrate leadership qualities.

### Store and Channel Plan Variance

Store-level planning is a control mechanism, tightly linked to the budgeting and the overall retail planning process. But it is also a way to manage change and understand the ebb and flow of your business. Unfortunately, the control side tends to dominate.

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Store/Channel Sales Plan $/%<br>Store/Channel Profit Plan $/%<br>Operating Costs Plan $/% | Sales Growth Rate (%)<br>Profit Margin $/%<br>Gross Profit ($/%)<br>GMROI<br>Rebates $/%<br>Markdown $/%<br>Overhead Costs $/%<br>CMROI | Fiscal Month<br>Year<br>Quarter<br>Month<br>Week<br>Organization<br>Division<br>Channel<br>Store<br>Department<br>Org. Code | Region<br>Region<br>Territory<br>Locality<br>Product Hierarchy<br>Product Category<br>Product Group<br>Product Line<br>Forecast Scenario (Plan/Actual/Forecast)<br>Scenario<br>Market Segment<br>Market Segment<br>Micro-Segment |

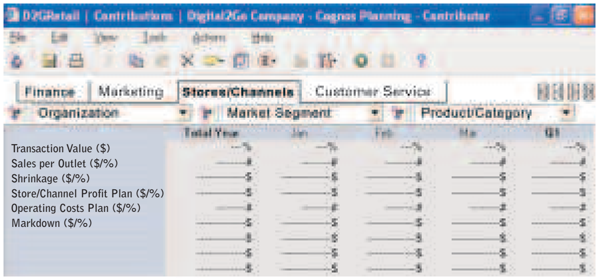
| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| Store/Channel | Executives | • | | |
| | Professionals | • | | |
| Finance | Executives | • | | |
| | Professionals | • | | |
| | Analysts | | • | |
| Audit | Executives | | | • |
| | Professionals | • | | |
| Marketing | Executives | | | • |
| | Professionals | | • | |
| | Analysts | | • | |
| Customer Service | Executives | | | • |
| | Professionals | | • | |
| Merchandising | Executives | | | • |
| | Professionals | | • | |
| Supply Chain | Executives | | | • |
| | Professionals | | • | |

A top-down budgeting process, where corporate objectives must be achieved, emphasizes planning over the actual situation. This leads the business to identify and plug revenue gaps with short-term revenue solutions, such as heavy discounting, usually at the expense of long-term strategy—milking the future to get results today.

More useful planning processes integrate top-down plans with bottom-up plans. Every function provides useful feedback on store-level performance objectives, but the store operations management team must be an integral part of this objective setting. Iterations of this process may be needed to fit with top-down corporate objectives, but it allows individuals across the organization to own their numbers and be fully accountable. Alignment and accountability must be organizational values. When the entire business is engaged in monitoring under- or overperformance, the store managers can answer questions regarding the *where* and *why* of existing targets. Store management responsible for a missed sales and profit target can explain the *why* and suggest ways to correct the gap.

**Store/Channel Sales**
Sales ($/%)
Transaction Value ($)
Sales per Outlet ($/%)
Shrinkage ($/%)

**Store/Channel Plan Variance**
Store/Channel Sales Plan ($/%)
Store/Channel Profit Plan ($/%)
Operating Costs Plan ($/%)
Markdown ($/%)
CMROI ($/%) (contribution margin return on inventory investment)




**Dimensions**
Fiscal Year/Month/Week
Organization
Market Segment
Product/Category
Region/Territory

*The Store/Channel Sales and Store/Channel Plan Variance decision areas illustrate how Stores and Channels can monitor performance, allocate resources and set plans for future financial and operational targets.*