PERFORMANCE MANAGEMENT IN RETAIL

An Issue Paper by Martec International, Ltd
Sponsored by Cognos

Modern retail is a complicated business where international sourcing and overseas markets, the power of the Internet, and time-pressed consumers all contribute to the challenges of this sector. There is unyielding competition from new competitors and channels, less predictability, and the potential for declining year-on-year growth. This has given rise not only to greater pressures on pricing, costs and profit margins, but also to a greater focus on innovation. The relative simplicity of traditional retail has been replaced by complex issues that require well-designed processes and continual analysis across and beyond the enterprise.

Today's retailers are focused on developing strategies that set them apart and drive profitable growth. The marketplace demands a proactive approach where all operational areas act together to reach and exceed corporate objectives. To achieve success, a growing number of retailers are turning to performance management, driven by planning, reporting and business intelligence (BI) software.

THE VALUE OF PERFORMANCE MANAGEMENT

Companies put systems in place to measure and manage performance throughout their business cycle. This is *performance management*. Its merits are found in the seamless way decision-makers can move among three fundamental business questions: 'How are we doing?' 'Why?' and 'What should we be doing?'

Planning, reporting and BI technology support the principles of performance management by turning data into valuable information that businesses can use to make decisions. All retail staff can benefit: senior executives, merchandisers and buyers, those in finance, logistics, human resources and store operations.

Performance management is particularly relevant to businesses with more complex operations. For retailers with stores across multiple geographies and multi-channel operations, decision-makers have far less direct contact with their customers. Local managers run their stores while the responsibility for procurement and marketing lies with centralized buyers and merchandisers, with several layers of staff in between. This creates a distance between headquarters and consumers. A performance management solution can effectively reconnect decision-makers with both consumers and key data.

For retailers of any size, the four efficient ways to improve profitability have not changed: grow sales, lower the cost of goods sold, decrease expenses, and reduce interest and inventory finance costs. True performance management can have a significant impact on all four of these key metrics.

To that end, flexible planning and reforecasting processes, effective data collection, efficient transformation of data into key metrics, standard and ad hoc reporting, and trend analysis are crucial for success.

FROM DATA TO INFORMED DECISIONS

Over the past 20 years, retailers have become adept at gathering data: point-of-sale and credit card transactions, price history, customer payment history, vendor shipping performance, division, department and style sales, inventory, and more. As data storage costs have decreased, many retailers have expanded the amount of history they keep and are trying to find productive ways to extract insight from it.

An extensive database does not always translate into vital information. 'Analysis paralysis' is a common trap. Effective performance management cuts through the clutter and provides true insight.

The challenge is to filter the data so that users can focus on just the information they need at a given time. For example, Store A's sales are up 4% on the same week last year, tells you something. But the fact that Store A's sales increase is 3% lower than the chain average for last week tells you a lot more. Elements of the business that will be critical now and in the months to come include:

- Store and channel operations
- Consumer behavior
- Competitive knowledge
- Labor productivity
- Supply chain performance
- Sales and margin trends
- Inventory and cash flow
- Marketing promotions

Businesses need a well-defined structure holding the right types of data to support the key processes and analyses of the business.

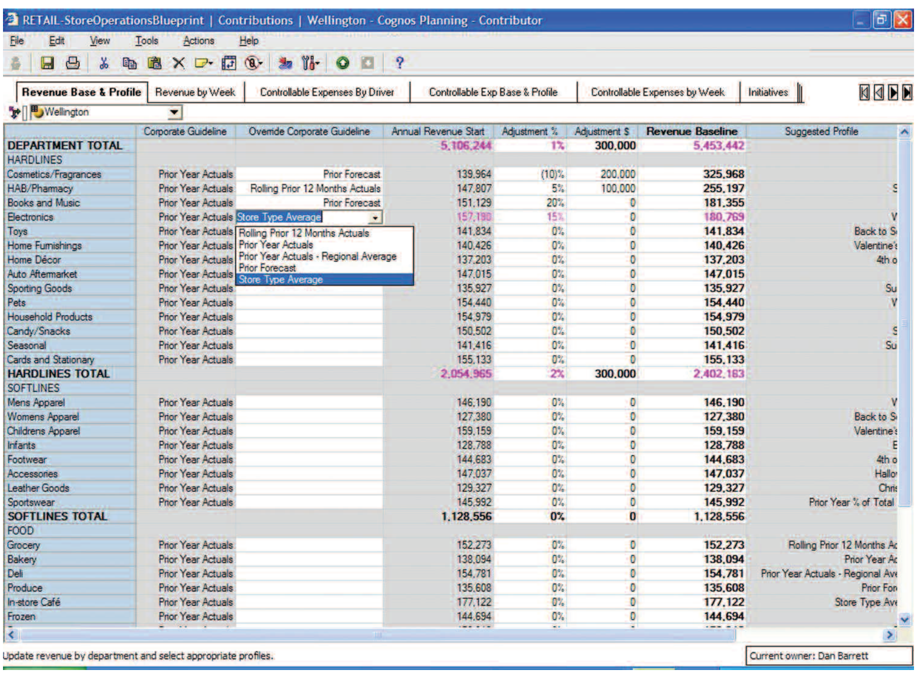
PLANNING

Integrated enterprise planning is the first step to managing all aspects of the business. Planning tools allow retailers to analyze past results and establish a baseline against which to measure performance. They help a business to set realistic, but stretching objectives.

Performance management in retail can encompass a series of related plans, for example:

- High-Level Financial Plan – long-range and detailed plans of the company's financial goals, with flexibility and rolling forecasts to support the dynamic nature of retail.
- Merchandise Plans – projected sales and required inventory to meet targets in monetary terms, with average prices, margin and markdown to ensure profit. Sometimes space planning is an important component of this.
- Marketing Plans – model scenarios, analyze, evaluate promotion success, and ensure vendor compliance to trade fund agreements to optimize promotional monies and drive profitable growth.
- Store-Level Financial Plans – with sales and inventory goals, labor and controllable expenses, reconciled to the High-Level Financial Plan for enterprise-wide consistency.

Each plan can support the specific information needs of various divisions and levels in a retail operation. For example, a buying executive would use the Merchandise Plan to convey strategies to the rest of the company; an employee in finance might use it for OTB and cash flow planning. The merchandiser would use it to set targets for their category.



Chains can plan store sales at the department-level, based on a variety of revenue profiles. Break-back gives capabilities to pro-rate revenue, margins or costs to meet goals.

Business intelligence software can also help with critical tasks such as planning average retail prices. Setting the right price points to hit sales targets is a delicate operation. Price goods too high and sales may suffer, too low and profits decline. The same is true for inventory. Tight inventory levels can help cash flow, but can negatively affect sales when items go out of stock. Finding the right balance is a key component of performance management.

REPORTING

One of the unique aspects of retail is the speed at which decisions must be made. Merchants need to monitor trends on a frequent basis to identify opportunities for growth and respond to potential problems. Reporting gives retailers access to current numbers through features such as dashboards and standardized reports.

Dashboards

Dashboards are easy to access reports in real-time. Like the dashboard in a car, they show how the business is doing against key metrics determined in the planning process. All the key performance indicators are there. Generally dashboards are role specific, showing a single screen with only data that pertains to an individual user for a quick and efficient perspective on daily trends. A store manager can see actual vs. planned daily sales, labor expense vs. budget, or individual vs. regional sales — all in one quick look at the desktop.

Standard and Actionable Reports

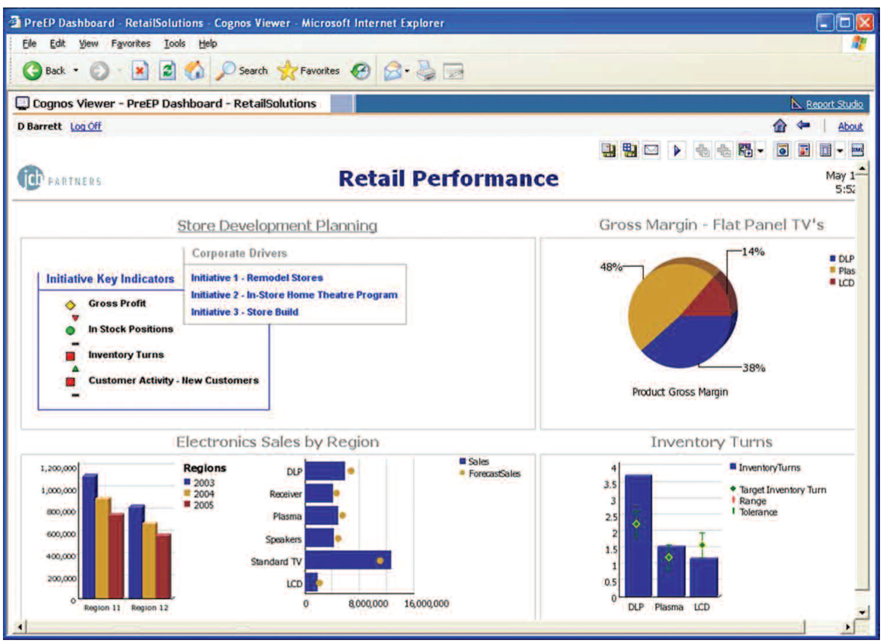
Retailers rely on a core of basic reports delivered in various timeframes. These are the traditional financial statements such as Profit and Loss, and trend reports such as Best Sellers. Whether daily, weekly, monthly or long-range, each type of standardized report will have its own strengths for comparing numbers.

In fact, many leading companies have redesigned their traditional reports into actionable analytics. What is the difference? An actionable report eliminates content that requires little or no response. Instead, it highlights issues that need attention. It might indicate the top ten selling items at the current time, with low on-hand inventory and few on order. Conversely, it could show overstocked styles that are not selling. Such reports can save hours of research and increase productivity. In retail, there's a competitive advantage to concise reporting.

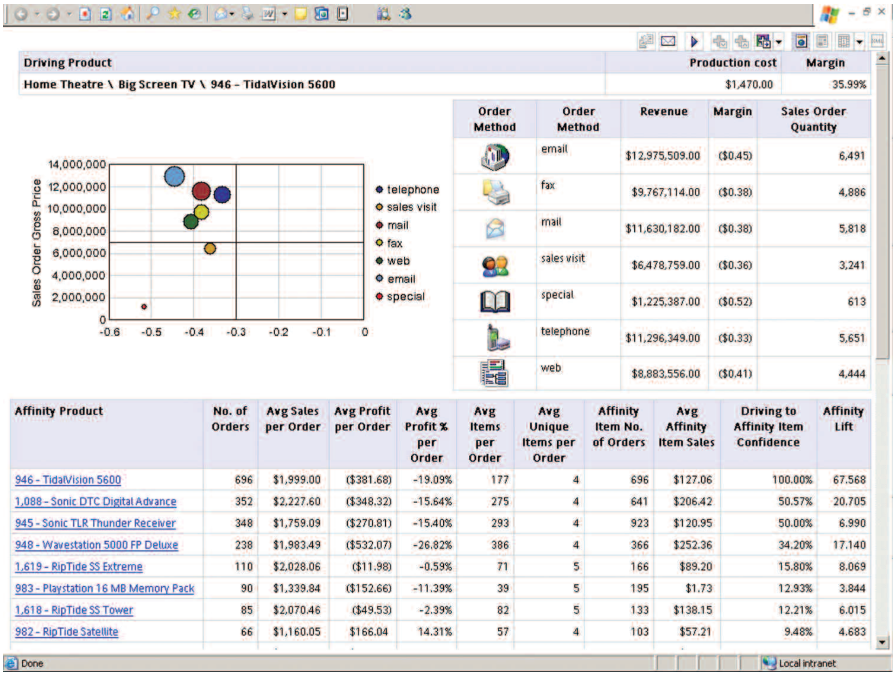
Analysis

Having timely and effective analytics is essential. By understanding trends before the competitor, a retailer can increase revenues and improve bottom line results.

Certainly a key component of modern analytics is the capacity for ad hoc queries. There are times when a standard report or dashboard might flag a problem but more detail is needed. In addition, managers might want to do more in-depth analysis of company data to identify trends



Role-based dashboards and scorecards provide a quick snapshot of performance against plans, key performance metrics and benchmarks.



Driving Product	Production cost	Margin
Home Theatre \ Big Screen TV \ 946 - TidalVision 5600	$1,470.00	35.99%

Order Method	Order Method	Revenue	Margin	Sales Order Quantity
	email	$12,975,509.00	($0.45)	6,491
	fax	$9,767,114.00	($0.38)	4,886
	mail	$11,630,182.00	($0.38)	5,818
	sales visit	$6,478,759.00	($0.36)	3,241
	special	$1,225,387.00	($0.52)	613
	telephone	$11,296,349.00	($0.33)	5,651
	web	$8,883,556.00	($0.41)	4,444

Affinity Product	No. of Orders	Avg Sales per Order	Avg Profit per Order	Avg Profit % per Order	Avg Items per Order	Avg Unique Items per Order	Affinity Item No. of Orders	Avg Affinity Item Sales	Driving to Affinity Item Confidence	Affinity Lift
946 - TidalVision 5600	696	$1,999.00	($381.68)	-19.09%	177	4	696	$127.06	100.00%	67.568
1,088 - Sonic DTC Digital Advance	352	$2,227.60	($348.32)	-15.64%	275	4	641	$206.42	50.57%	20.705
945 - Sonic TLR Thunder Receiver	348	$1,759.09	($270.81)	-15.40%	293	4	923	$120.95	50.00%	6.990
948 - Wavestation 5000 FP Deluxe	238	$1,983.49	($532.07)	-26.82%	386	4	366	$252.36	34.20%	17.140
1,619 - RipTide SS Extreme	110	$2,028.06	($11.98)	-0.59%	71	5	166	$89.20	15.80%	8.069
983 - Playstation 16 MB Memory Pack	90	$1,339.84	($152.66)	-11.39%	39	5	195	$1.73	12.93%	3.844
1,618 - RipTide SS Tower	85	$2,070.46	($49.53)	-2.39%	82	5	133	$138.15	12.21%	6.015
982 - RipTide Satellite	66	$1,160.05	$166.04	14.31%	57	4	103	$57.21	9.48%	4.683

Effective performance management includes scorecards, graphical presentation, and exception reporting to clearly highlight issues needing action as well as ad hoc analytics and traditional reports.

and model scenarios. With business intelligence software, they can 'drill down' through their data to investigate all the potential dimensions of a problem and find the best solution.

This flexibility is a key ingredient of analytics. Reforecasting and retooling are part of the iterative process of performance management. 'Plan, anticipate, measure, and react.'

It's a concept that supports a retailer's ability to stay on top of trends.

Business intelligence offers vast analytic functionality including practical ad hoc analysis, exception reporting, custom reports, and most importantly — speed.

The basic premise of retail remains the same: to provide merchandise and services to consumers at the right price. What has changed is the scale and growing complexity. The right performance management infrastructure can help a business excel in today's market, where speed and knowledge are fundamental.

ABOUT THE AUTHORS

Martec International is a leading consulting and training firm specializing in merchandise management, supply chain management and store operations business processes. With a professional staff comprised of former retail executives and managers, Martec works with leading retailers around the world to improve their business performance.

ABOUT THE SPONSOR

Cognos is known for delivering profit-enhancing business intelligence and performance management solutions to the retail industry. Thirty-five percent of the world's top 250 retailers, and over 325 retail chains worldwide, have invested their trust in Cognos. These organizations recognize Cognos for its innovation and technology leadership in corporate performance management. Founded in 1969, Cognos today serves more than 23,000 customers in over 135 countries.

To view the full white paper from Martec International, please visit www.cognos.com/retail.