Winning in Retail

PERFORMANCE MANAGEMENT DELIVERS RESULTS

A WHITE PAPER BY
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Executive Summary

The basic concept of retail has remained the same for many years – provide merchandise and services to consumers at a desired price. What has changed is the scale and complexity of the modern retail business.

Customer demand, greater competition, more channels, the challenges of time and scale, faster product lifecycles, the growing importance of supply chains, global trends, and a slowing economy are also driving the need for better performance.

In this day and age, speed and knowledge are key to succeeding in the retail marketplace. This requires agility, faster response based on better information, operational efficiency, and supply chain control. Just as important, all parts of the company have to work together to manage corporate strategy and achieve goals and objectives.

The right performance management solution can provide these capabilities. It is critical to succeeding in a changing and competitive environment:

- A well defined infrastructure provides the right data at the right speed to support the key processes of the business.
- Planning tools allow retailers to analyze history, set future objectives and metrics, and build execution plans.
- Scorecards and dashboards give the retailer the "pulse" of the organization.
- Reports and analysis take users to the issues to be addressed or resolved quickly. These tools provide drill-down capabilities to allow them to investigate the many dimensions of a problem and pick the best solution.

Performance management, in essence, is about being able to plan, anticipate, measure, and react.

In this paper, Martec International explores the best practices and fundamentals of performance management. The authors also examine the planning processes that help set objectives, and discuss the information needed to gain critical insight into the business, and monitor and improve performance.

Introduction

Retail is at first glance a fairly simple prospect—product is bought in bulk, presented to the public in small quantities, and then purchased by consumers.

However, for a retailer to succeed over time they must continue to acquire desirable merchandise and offer it at a price and location, with a degree of service agreeable to the consumer. This must be done in a competitive environment with an increasingly demanding consumer. Multi-national competition, time-pressed customers, the emerging power of the Internet, and pricing pressures all increase the challenges faced by retailers. This is giving rise to increased competition for market share, pressure on costs, profit margins, and innovation.

Retailers are facing the issues of declining year over year same store results due to several factors including a tough economy, decreased predictability of the marketplace, competition from international retail formats, the acceleration of seasons and private label, and new distribution channels such as the Internet. Now the presumed simplicity of retail vanishes and is compounded by many complex issues that often require well-designed processes and ongoing effective analysis of the entire business to succeed.

For retail companies to be successful in this climate requires corporate strategies that set and deliver performance objectives. To achieve this requires an awareness of, and proactive approach to, the marketplace, faster response based on greater information management, store/channel operational efficiency and supply chain control. All company functions have to act together to deliver the corporate strategy and achieve company goals and objectives.

In fact, a 2008 survey carried out by research firm Gartner indicates that spending on business intelligence software is seen rising by 11% for the year. Gartner surveyed 1,500 CIOs worldwide who saw business intelligence as a significant priority for them. Improving analytics and performance management is viewed as a significant enabler for improving performance and raising profits.

There are really only four efficient ways for retailers to improve profitability:

- Grow Sales
- Lower the Cost of Goods Sold (COGS)
- Reduce Expenses
- Reduce interest charges—typically, inventory finance costs.

True performance management impacts all four areas.

Fundamentals of performance management

The larger the retailer, the more complex the business becomes to manage. Marketing, buying and merchandising decisions are no longer made by store personnel. Distance grows between the decision makers and the consumer clouding judgment and slowing reaction time. Modern performance management solutions can effectively reconnect the decision makers with the relevant level of data they require.

Core functions in performance management are:

- Planning (objective setting and how to achieve them)
- Well designed standard metrics and reports (quickly accessed, consistent information and measurements)
- Effective ad hoc analysis (to identify trends).

Without plans retailers cannot effectively control spending, inventory levels, or plan purchases. Purchasing should be controlled - based on sound financial plans to ensure desired profitability and satisfactory cash flow. Combined with sound planning, productive reporting utilizes both history and plan to provide perspective to current numbers.

Having timely and effective analytics provides competitive advantage to retailers. Knowing before your competitor what consumers want and don't want, can grow revenues and improve bottom line results.

In fashion retailing, early recognition of a negative trend can allow you to cancel on-order and reduce pricing to minimize future markdowns. In grocery, recognizing price sensitivity and quickly reacting to slowing sales can preserve basket size and impact customer retention.

Plan, anticipate, measure, and react to it.

This paper will discuss current best practice in the fundamentals of performance management.

What About the Data?

Over the past twenty years retailers have become very adept at gathering data. In fact, an abundance of data often exists: transactional POS data, price history, customer credit card transactions and payment history, vendor shipping performance, division, department and style level sales and inventory data, and more, are all commonly held. The problem is gaining knowledge from this data in a timely manner.

Most large retailers maintain 12 to 36 months of weekly sales and inventory data by store. Some even maintain five or more years of this data. Daily sales and inventory records are held for much shorter times by most—three to six months is common. As the cost of data storage has fallen, many retailers have expanded their historical data holdings, and are now trying to find productive ways to extract wisdom from it.

Many retailers have discovered that these extensive databases can provide for an excess of analysis leading to little actual results. "Analysis paralysis" is a common trap. Merchants and executives invest more energy and time gathering and discussing analysis, than the results justify. Effective performance management cuts through the clutter and provides actual insight.

As our ability to store, manipulate, and communicate data has evolved, for many, analytics have remained as they were in the 70's. Traditional reviews such as Sales and Stock, Best Sellers, Daily Flash Sales, End of Month Position Sheets, and On-Order reports are no longer sufficient. More data is not necessarily a good thing—effective, actionable data is the ultimate goal of performance management.

An important example is the recognition that sales history is valuable, but that demand history is even more so. In this context, sales and demand are the same thing as long as the store never runs out of stock. As soon as stock levels go to zero for any length of times the retailer knows the sales, but no longer can truly know demand. Some retailers use historic demand and then apply daily sales and stock information to calculate lost sales estimates. Populating this information in the database allows future forecasts and plans to be built on demand history, reducing future lost sales. Lost sales average 6% to 8% of sales in most countries, thus reducing lost sales can provide a valuable performance boost.

Modern IT solutions offer vast analytic functionality including exception reporting, custom reports, practical ad-hoc analysis capabilities, and most importantly—speed. As Sir Francis Bacon recognized in the 16th century, "knowledge is power". Four hundred years later we might amend that to read, "*First t*o knowledge is power".

For example, if supply of a best seller is limited from the vendor, being the first in the market to re-buy that hot style may hinder your competitor's ability to acquire the right goods. Conversely, for slow selling styles you may be able to cancel additional on-order if the supplier thinks they can sell your goods to another retailer—that opportunity will be gone once they receive multiple requests to cancel from other retailers.

Other uses of this historical data include financial, operational, marketing and merchandise planning, but raw data alone yields little insight and will confuse planners. Trends need to be identified and understood before effective plans can be built.

Common Problems

Distance from the Customer

A store owner with one or two locations intuitively understands their business and customer—the owner is frequently on the sales floor, talking with consumers and learning by personal experience what the customer wants and what price they will pay. However, for larger retailers with multiple stores (often spread over a wide geographic area) it is no longer possible for the owner to be as hands-on as a single store merchant.

Layers of staff now stand between the consumer and the senior management of the company. Levels of managers and merchants now help procure merchandise, manage the money, and run the stores. In many retailers, consumer input must travel through seven or eight layers of staff before reaching the CEO. Each layer adds their own spin, reducing the impact and value of the consumer interaction.

For most tier one retailers, store management focuses on running the stores and over the past two decades has become less involved in merchandise procurement. This results in a potential loss of knowledge of local consumer needs and underlying local trends that is not often shared with the centralized buyers and merchandisers. To that end, effective gathering of data, building of plans and efficient analysis of a variety of Key Performance Indicators (KPIs) is crucial for the retailer's success.

Too Much Data – Not Enough Insight

Nowadays, every retailer complains about not having enough data. Where in fact, most have too much data and can't see the wood for the trees. Today's challenge is to filter and present the data so the users can focus on just the bits they need at a point in time. This presents a major design challenge for retail systems, because what is needed today may bear little resemblance to what is needed tomorrow, and what we did yesterday no longer works today.

Ensuring success in retail involves a keen understanding of:

- Store and channel operations
- Sales and margin trends
- Channel performance
- Marketing effectiveness
- Consumer behaviour and targeted marketing
- Competitive pressures
- Labour productivity
- Supply chain efficiencies
- Inventory productivity
- Cash flow

Retail is a business made up of a vast number of small transactions. Retailers have many thousands and in some cases millions of customers. Major North American supermarket chains may have 2 billion sales transactions a year. Stores number hundreds or thousands. There may be 5000 to 150,000 products, 300 to 3000 suppliers with complex sourcing from many countries. Clearly, the issue is not one of too little data, but of finding the right data in a vast sea of information.

Performance Management Components

Three Components

Performance management is the discipline that turns data into information. It is the process or processes that let a user see just what they need at a point in time. Effective performance management first depends on production of good plans and then setting realistic, but stretching objectives. Producing good plans requires the ability to analyze history to identify and explain past successes and failures, so that plan assumptions can be well founded.

As we mentioned above, there are three components to effective management of performance. They are:

- Integrated planning and re-forecasting processes, based on business drivers and organized by user profiles, to establish a baseline against which to measure performance.
- Scorecards (or dashboards), rather like the dashboard in a car, which instantly show at a glance how the organization is doing against key metrics determined in the planning process.
- Well-designed reports and tools that highlight where actions and decisions are necessary. The ability to drill down in key areas and generate ad hoc reports, so that trends can be identified, potential problems can be fully researched and then dealt with.

Later, we expand on these comments in more details. For now, we will turn to planning and examine the role of planning in creating a performance management environment.

Planning

As stated earlier, the foundation of successful performance management is a sound plan or series of plans. The paragraphs that follow highlight some of the key considerations.

Enterprise Planning

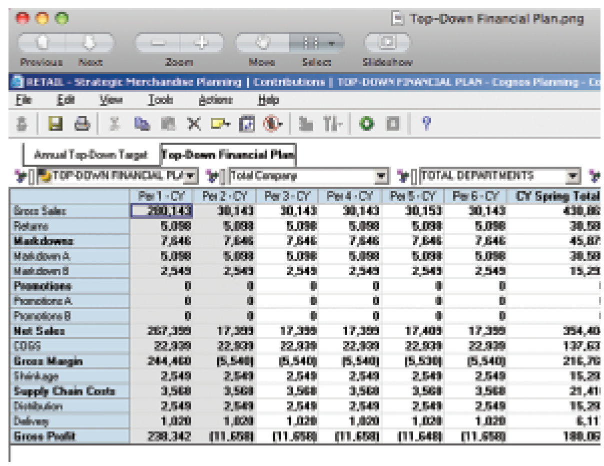
Enterprise planning is the essential first step in controlling and managing inventory. Building a number of plans allows retailers to better control their business. These plans typically include:

- Financial plans
- Merchandise plans
- Range (Assortment) plans
- Key item plans
- Store plans
- Marketing and promotional plans

High-level financial plans precede a more detailed planning process. These are financial goals for the corporation and are typically established by utilizing historical data and trend analysis. Larger retailers have long-range plans with a view of three to five years forward, as well as more detailed plans of a rolling 12-18 months. These are often updated throughout the year as new trends and influences are realized. Built-in workflow speeds the plan update and consolidation processes, allowing chains to move to rolling forecasts that better support the dynamic nature of the retail industry.

These rolling financial plans normally represent the company's views on sales, receipts, and gross margins. These plans are used as the strategic guidance for the merchandise and assortment plans that follow.

A Merchandise Plan encompasses projected sales and required stocks to achieve sales targets, margin and markdown to ensure target profitability. In a few environments, they may include space planning. These plans are built for multiple levels in the merchandise hierarchy. Ideally, these plans will be reconciled at each level to ensure that lower level plans match the high level plans—e.g. class plans should add to the department plan, the department plans should total the division plan, etc. The assortment planning process extends the goals of merchandise plans to lower levels, such as department, classification and even key styles.



Exception-based planning allows planners to adjust line items and model financial implications of changes to sales, costs and gross profit

Average retail pricing must be planned to ensure that you have product priced for customer value and expectations. Equally important is ensuring that these price points can achieve your sales targets—priced too high and sales may suffer, too low and profits decline.

If poorly planned, markdowns are deadly to fashion retailers. When used correctly, markdowns expedite the sales of older or slow selling lines—without impacting profit plans. Unplanned markdowns can destroy your margins and erode your cash flow.

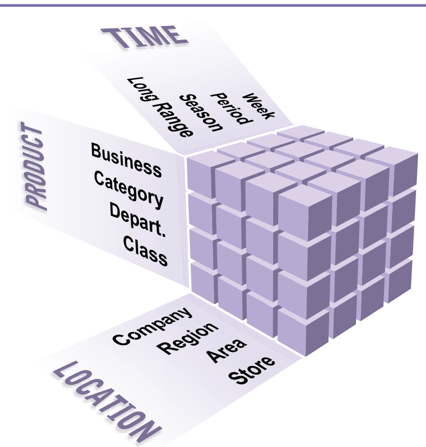
Planning inventory at lower levels will ensure you have the correct amount of merchandise where and when you need it. Tight inventory levels and low weeks of supply can help cash flows, but can negatively impact sales by increasing out of stocks. Finding the right balance is a key component of performance management. Part of the assortment planning process involves determining these expected key styles and classes and building detailed plans for them. Planning key styles and classifications should insure that you have product to drive sales.

Store level financial plans are also created to establish sales and inventory goals, as well as labour and controllable expense budgets. These plans should also be reconciled to topside financial plans to ensure continuity throughout the company.

The graphic below illustrates the many levels which retailers create plans. The most common plans built are along the front top of the cube, and the front left edge. Most retailers have long range plans for their total company, but few have weekly plans by store at the class level—detailed plans at low levels are not always required.

There are three dimensions of the planning model: product, location (channel) and time. Within this framework, Assortment or Range Planning deals with the further refinement of the product dimension. While merchandise planning is done in monetary terms, the Buyer must go to market to buy units. Assortment planning addresses this. The stores, catalogues and/or website have to display items, which are the 'face' of the retailer to the consumer. These items 'show' the customer who you are, what you represent in terms of quality level, vendor or source, price range, style consciousness, breadth or focus of offering, sizes where appropriate, etc.

Building sound plans takes time and effort—time is in short supply for most merchants. For that reason, plans should not be built merely for the sake of creating plans. The key is to create actionable plans—put effort into only building ones that provide focus on key business benefits. Understanding its anticipated usage best identifies the need for a plan.



DATA ENTITIES IN A CELL

- $ Sales
- Unit Sales
- Average PRices
- $ Markdowns
- % Margins
- $ Inventory
- Space
- Weeks of supply

Multi-dimensional modeling used for plans of inventory, sales, etc. in either values or units.

Differing divisions and positions in a retail operation have varying needs and uses for Merchandise, Assortment (Range), and Store Plans. The effort to create and manage plans is validated by their practical impact throughout the entire retail organization. The tables found below illustrate some of these usage requirements.

Merchandise Plans	
USER	**NEED**
Senior Executives	• To ensure the strategic plans have been understood and translated successfully at lower levels • To determine success and failure • To focus on key areas of the business
Buyers	• To develop monthly and weekly plans • As a basis for their Open to Buy management • To set standards of performance
Finance	• To set seasonal budgets • Understand probable credit and cash flow requirements
Logistics	• To understand the flow of probable warehouse and DC receivables and dispatches
Human Resources	• To understand any shifts in need of employees with specific skills (e.g. more sales staff in electrics vs. menswear, etc.) • To see the anticipated sales curve to ensure adequate staffing when needed
Merchandisers	• Need early plans to set targets for Range and Assortment Plans • Will collaborate with Merchandise Planning and Store Operations to coordinate plans throughout the cycle
Store Operations	• Need early plans to set targets for their store plans • Will collaborate with merchandise planning group and merchandisers/ planners to coordinate plans throughout the cycle

Range Plans	
USER	**NEED**
Senior Executives	• To validate merchandise plans • To execute merchandise plans • To set performance measurements
Buyers	• To validate merchandise plans • To execute merchandise plans • To set performance measurements
Finance	• To validate Store Plans • To enable the execution of store plans (how will we achieve our plan)
Human Resources	• Understand what skills are needed where • Set performance review standards
Merchandisers	• To run their business • Create Open to Buy • Measure success

Store Plans	
USER	**NEED**
Senior Executives	• To ensure the strategic plans have been understood and translated at lower levels • To determine success and failure at the store level—profitability a key focus • To focus on key stores and regions for the retailer
Buyers	• To understand key regional or demographic focuses for the retailer
Finance	• To develop expense plans for the stores
Logistics	• To ensure adequate shipping and transportation arrangements from the DCs to the stores
Human Resources	• To ensure store staffing needs are understood and planned
Merchandisers	• To ensure sales targets are coordinated with merchandising plans
Store Operations	• To ensure corporate standards and goals are met • To meet top and bottom-line objectives for areas under local management, including comparable sales (same store sales), labour and other expenses

Planning is the essential first step in controlling and managing the inventory in the business. The methodology used to create plans can be top-down, bottom-up, or a customized combination of the two. Top down planning is quick and somewhat effective way to spread higher level plans to lower levels. The bottom-up approach typically develops plans from the most detailed historical information available that can most easily be analyzed for trends.

Top down planning method involves setting targets at the top line level and filtering it down through the merchandise hierarchy. High-level targets are repeatedly broken down into specific objectives for each of the lower levels. The low level plans will always agree with the topside plan—but it may not reflect the actual low-level trends and could have significant variances once the season begins.

Whereas bottom-up planning starts at the low levels of the merchandise hierarchy, generally from the department level and build up the plan department at a time, each with their own specific objectives. The final top-line plan is the aggregation of all department plans. Again, the plans will match in total—but there are issues with bottom-up plans as well. These types of plans often miss out on high-level trends, or may not incorporate company objectives without extensive guidance. Bottom-up planning also tends to be overly optimistic or overly pessimistic depending on if the planner's bonus is tied to performance vs. plan.

An ideal solution will be to blend bottom-up input into a top-down driven process. This requires a system that can consolidate vast amounts of low-level data and present it in a coherent manner so that trends can be identified and opportunities exploited. Integrated data is key to facilitating this process.

Effective plans enable a retailer to execute strategies and achieve revenue and profit goals. Performance management tools aid merchants in developing plans and managing to them.

Standard Reporting and In-season Management

Earlier, we stated that once a planning baseline exists to measure against, there are three components to effective management of performance. We will now examine the area of standard reporting in more detail.

Scorecards

One of the unique things about retail is the speed at which decisions must be made on a repetitive basis. Each week, buyers and merchants look back at the previous week to identify trends, both good and bad. They need to quickly identify opportunities for growth as well as potential trouble.

As illustrated here, a single screen showing only relevant data to an individual user provides quick and efficient insight into daily business trends. Store managers can glimpse daily sales vs. plan, labour expense vs. budget, and store sales trend vs. district—all in one quick look. Scorecards provide quick overviews of key data, and trending of key performance indicators. If more detail is needed, drill down and exception-based reports should be readily available.

Buyers need different information than merchandisers; a VP of Store Operations has distinct reporting needs verses a CFO; a store manager may see a different set of KPIs verses the Area Manager. Well designed scorecards are role specific, showing just the high level indicators that particular role requires. To use a medical analogy, the doctor's scorecard might show a patient's temperature, blood pressure, pulse and weight, and the related trends showing how these indicators have changed over the last several visits.

Scorecarding communicates goals and monitors performance against targets

Report Design

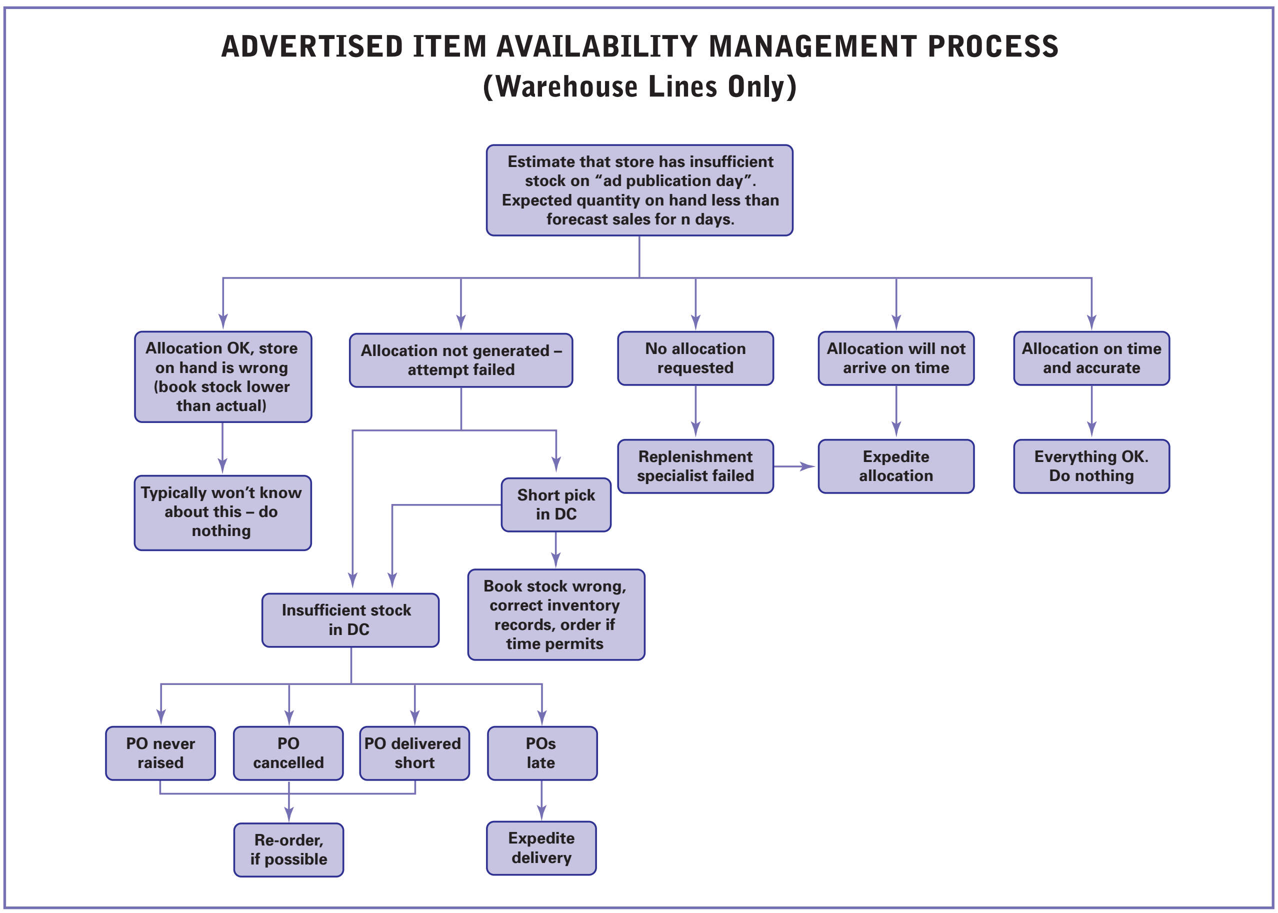
Report design is a sorely neglected skill in many companies. The effective design of reports contributes enormously to the management of performance in a business. Our recommended approach is to start by identifying the potential decisions that a report might be required to support and then design the report to focus on the things that matter. The example that follows relates to a situation where Ads would appear in the Sunday papers and sales would suffer if some of the stores would not have the advertised product in stock. The goal is to improve positioning of inventory to improve advertising effectiveness, sales performance and customer service.

The first step is to map the process that a replenishment specialist would go through to insure that the stores all have the necessary inventory. This includes considering all the ways that performance could be less than desired. A report can then be designed which draws the replenishment specialist's attention to situations where problems may arise. The chart below summarizes the business process. The report is then designed to show all the required data elements on one page or screen and to rank data so that it automatically draws the replenishment specialist's attention to each area that needs to be addressed.

For example, the report only needs to show stores where there is predicted to be insufficient inventory on hand when the Ad breaks. This can be done by adding receipts expected to arrive before Ad day to stock on hand minus projected sales before Ad day and listing all stores where the result is expected to be less than their projected need. This focuses attention down to the problem stores.

The problem areas are the three boxes labelled:

- Allocation not generated
- No allocation requested
- Allocation will not arrive on time.



The most likely reasons that an allocation was not generated are stock shortages or picking issues in the DC. Stock shortages may arise due to challenges in raising purchase orders or because book stock figures are incorrect (too high). Allocations may not have been requested because the replenishment specialist dropped the ball or some similar challenge arose or the allocation may be late due to DC or supplier problems.

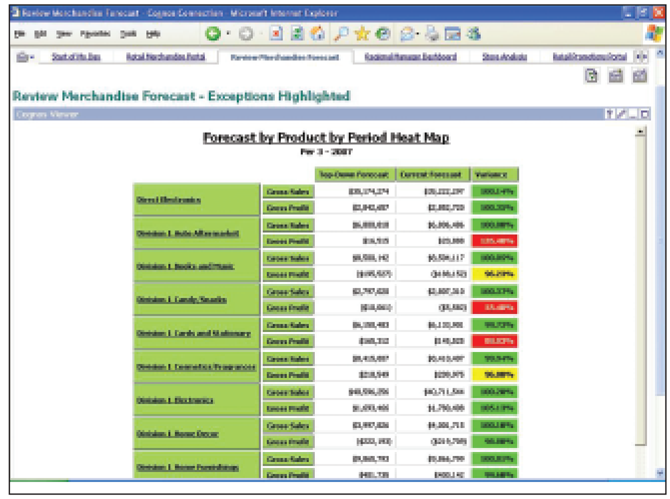
With a good definition of the process to manage Ad product availability in store, it becomes a relatively simple matter to design a report that identifies which stores will be affected, identify what the causes might be and position the replenishment specialist to take the appropriate corrective action.

Actionable Reports

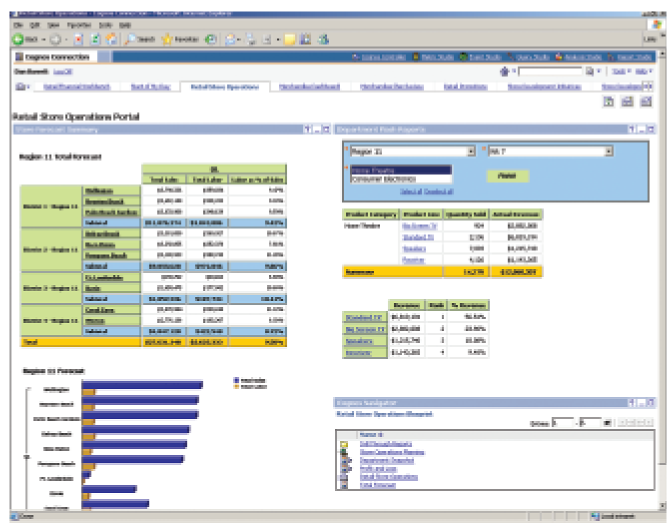
Leading companies have redesigned their standard informational reports into actionable analytics. The difference? Actionable reports eliminate content that requires little or no action on the part of the reviewer. For instance, weekly Best Seller reports are common for most retailers. But, what can a merchant do with this information? A best seller report shows a line that is selling well—okay, now what? With most traditional reports retailers are still left with important questions like these:

- Should more stock be purchased?
- Can we sell more than planned?
- Is this a trend or an aberration?
- Is it profitable?

Further research is required to answer these queries. Time and focus is lost. Modern exception based reporting allows the user to focus on things they need to know verses nice to know.



Metrics, reports, and analysis measure performance against targets, providing a closed-loop process for managing merchandise performance



Role-based dashboards help managers improve operations and manage store-level performance

At many retailers, buyers must review a report showing every active SKU to identify potential lost sales, re-orders, overstocks, excessive markdowns, etc. For many buyers and merchants this can take hours to review and even more time to identify and act on the true priorities. Often this data is not found on a single report, but must be gathered from many sources.

Thousands of buyers spend hours each week producing Microsoft Excel spreadsheets to understand their business. They develop spreadsheet skills instead of driving sales and profits. The lost productivity alone is a startling discovery for many a Managing Director. (One retailer we audited had 10,000 unique spreadsheets in their Buying Office alone and another European retailer confessed to 60,000!).

In contrast to these traditional reports, effective performance management alternatives could include analytics and exception reporting such as:

- Top 10 selling items with low on-hand inventory and little to no on-order
- Slow selling styles with excessive on-hands and more units on-order
- Best / worst stores vs. company trend
- Poorly trending lines at regular price
- Performance by Channel

These types of reports clearly highlight issues needing action. With the flood of data now available, and the very long distance between consumer and decision maker, concise reporting is now considered strategic advantage vs. the competition.

Through the years, retailers became blasé about reviewing reams of data to isolate issues. As the data increased, focus was lost. Reports became a treasure hunt, where the reviewer frequently found interesting things, but not necessarily identifying priorities to improve performance.

An actionable report for a senior merchant could show weekly performance by department vs. plan—but only show those areas under-performing by a defined percentage. Another example would be to track vendor sales across departments and show only those vendors whose maintained margin is falling below agreed levels.

While virtually all merchandising and financial solutions provide reporting, competitive advantage comes from having actionable reports. Newer solutions offer the ability to create or customize your own reports, a vital tool if used wisely. Surprising productivity and improved results can be found by simply having needed information presented in an effective manner.

Daily reporting can provide insight into fast and slow selling items, weekly reporting provides better comparatives vs. last year. Daily fluctuations in sales occur due to a variety of influences such as promotions, weather, local events, etc. Analyzing data in weekly glimpses lessens these daily spikes and shows a more reliable barometer verses last year (LY) results. Monthly reporting further enhances the clarity, but often is too long a timeframe for timely decisions.

Most retailers need a core of basic reports delivered in various timeframes. Many are similar in design with the only difference being the report timeframe. For example, a standard weekly report may show Last Week (LW) Sales, Inventory, and Gross Margin for This Year (TY), Last Year (LY), and Plan (PL)—the monthly report of the same data would indicate Last Month (LM) data instead of LW.

The store operations group faces similar issues with regards to effective and timely analytics. Stores today are confronted with shrinking budgets and demands for higher productivity. Managers have little time to spare for reviewing reports and completing paperwork. As actionable analytics have been introduced to the merchants and corporate staff, store line reporting must also evolve in the same way. A related key point is the ability to view reports, dashboards and needed information on mobile devices for store management.

Give managers and executives anywhere, anytime access to performance information to increase productivity and optimize decision-making

Each store should be looked at as a complete business, each with its own Profit and Loss (Trading) statement. However, not all items on a store P&L can be impacted by store management (depreciation, for example). Store Management reports should focus on those variables they can manage, such as labour, maintenance, and sales. As in corporate reporting - these reports need to include this week, this week last year and plan, to have a true comparison. Many retailers will show how one store compares to the average store as yet another comparative such as others in the region, stores with similar attributes, etc.

Having the ability to see stores in isolation or aggregated to District and Regional totals is a great advantage to the Store Operations team.

Modern performance management solutions enhance these traditional reports by highlighting top performing stores verses the company trend, or showing styles needing re-order. Conventional reports may lead a store manager to believe that a sales trend of 5% above Plan to indicate success—but, if the company was 15% above plan, the store is 10% worse than chain average, a poor performance for that store.

Some examples of enhanced analytics are found in the chart below. These types of reports help a merchant quickly impact profitability by focusing on sales, cost of goods sold, expenses, and inventory costs.

New Report	Core Data	Description
Weekly Sales	TY, LY, and plan (PL) volume by Store / Merch Hierarchy	Compares district and/or company trends to the user's store/category. Provides quick guidance on success and problems.
Stock Need	Unit sales over time, OnHand, OnOrder, Forecast out of stock date	Shows those items with high rates of sell -thru with little or no OnHand (OH) and OnOrder (OO).
Markdown Candidates	Unit sales by Wk over time, OnHand, OnOrder, Age, compared to plan	Shows items with poor sell-thru and high OH and/or OO. Can set minimum age filter to exclude new styles.
Vendor Performance	TY, LY, and PL Sales, Inv, Markdowns, Gross Margin	Compares vendors to category trends—Provides quick guidance on success and problems. Good tool in vendor discussions.
Labour to Budget	TY, LY, PL Sales, Labour expense by store/district	Illustrates Sales and Labour Expense vs. LY and Plan. Utilises percents to highlight expense control as it relates to sales and plan.
Stock to Sales	TY, LY, and PL volume by Store / Merch Hierarchy	Compares Sales and Stock levels to Plan to highlight Over/Under stocked categories/stores.
Fashion Age Report	Sales, Age (wks since last receipt), Sell-Thru, OnHand	Item level report identifying performance by item/class. Helps identify "freshness" of assortment. Secondary usage in aiding to identify markdown candidates.
Broken Style (fashion)	Sales, Average Weekly Sales, OnHand, Number stores with little OnHand, OnOrder	Item level report for fashion merchants. Lists styles by group to help show when groups are "broken" and have little chance of selling as an ensemble. Re-buy, or markdown.

Actionable reports enable quick response and provide immediate focus on the key business issues. Speed of response is vital - it's a competitive advantage that many retailers currently exploit.

Open to Buy

Open to Buy is one of the primary tools of performance and inventory management in fashion retail. It is an ongoing process that is used to provide flexible guidelines to the buying team; capitalizes on sales trends; and allows the merchant to cut down and consolidate purchases based on in-season trends. It is also a mechanism to control overspending.

Used effectively, it is a simple, focused, working document - produced in-season on a weekly basis. It can be produced at any level of the merchandise hierarchy, depending on the type of retailer and the number of products being handled. It is unlikely that a department store would operate OTB below the department or sub-department (class) levels while a niche retailer may operate at assortment level (sub-class). Summaries are produced at the higher levels.

Sales, inventory and receipt plans are usually shown by period (although some companies operate on a weekly basis) purchase orders and commitments for each period are entered and updated weekly. Actual sales and inventory figures (entered weekly) for the current period trigger projections across all remaining periods to present revised inventory figures. These estimated figures are compared to the planned inventory; the difference is Open to Buy.

The buyer must allocate these funds over the assortments within the department. It is the buyer's judgment that will establish what is to be purchased; it is the merchandiser's responsibility to manage the Open to Buy and ensure it is not exceeded.

The VPs of Merchandising and Buying will need to look at the OTB situation by department, for future and current months. In larger companies facilities are also needed at a more detailed level to support the individual merchandisers and buyers when working out what should be bought and when. This should be at category level.

Ad Hoc Reporting

Drill Down and Ad Hoc Analysis

Pre-planned reporting will never satisfy every need. Situations will arise where scorecards or standard reports show a problem, but further research will be needed to find the cause and identify possible solutions. Management often then needs complex analysis to identify trends and model scenarios. This type of iterative analysis is ad hoc in nature and the answers are usually required very quickly.

For example, suppose sales of a category of merchandise are below plan. The standard reports would indicate that something needs to be done to address the problem, but what is the cause?

The first enquiry might be to check whether the sales shortfall is common to all stores or just to certain regions. If it is a regional problem, it might be regional weather or regional competition. A check of the weather reports would answer the first possibility. An enquiry on whether the shortfall is correlated with stores that have a key competitor close by would answer the second.

If that draws a blank, an enquiry on the sales to stock ratios of stores that had a sales problem, verses stores that didn't, would show whether it was a stock allocation problem. An analysis of sales by week for recent weeks would show whether the problem had been building for a while, but hadn't made it onto the radar until now.

The point is that researching the problem and developing the performance improvement response requires the ability to research all the likely factors and isolate them down to the ones that need to be addressed. In the nature of retailing, the analysis needs to be done very fast so that actions can be implemented in time to improve the coming week's sales.

New KPIs

There are many factors at work in retail causing management to re-think their measurement needs. For example the private equity industry has been buying retail firms like crazy, often because of the strong cash flow potential. In another example, there has been a big move to sourcing in Asia and other distant shores whilst at the same time there is more pressure to make supply chains shorter or faster, to reduce packaging and to be more environmentally friendly.

These and others are examples of some of the trends taking place. What they are leading to is new KPIs that need to be measured and tracked. For private equity owned retailers the focus is on KPIs that measure their cash generation - they often use the cash to reduce borrowings.

In another example, as vendor collaboration and private label development becomes more common, product designers often measure the average number of samples a vendor submits before achieving the right quality on a new product. Supply chain executives also measure the average elapsed time from a new product concept to being available on the store floor ready to sell.

Other issues such as global warming raises even more questions for the industry in figuring out what should be measured and how. Food miles is one possibility, though it can be misleading. How would you measure carbon emissions for each supplier?

The rapid growth of multi-channel retailing is causing retailers to ask what replaces comp, or same store, sales. An important factor to recognise is that the industry is still trying to figure out what to measure in many cases, for a retailer it means that performance management solutions need a lot of flexibility.

Conclusion

The basic concepts of retail have not changed for many years—provide merchandise and services to consumers at a desired price. What has changed is the scale and growing complexity of a modern retail business. Retailers typically have too much data and too little insight.

Speed and knowledge are fundamental to success in today's marketplace. Increasing competition, a slowing economy, combined with the complexities of time and scale are driving needs for improvements in performance management capabilities. Having the right performance management infrastructure is critical to succeeding in a tough environment. There are several key elements to this:

- A well defined infrastructure holding the right types of data to support the key processes and analyses of the business.
- Planning tools that allow retailers to analyze history, set future objectives and metrics, and build implementation or execution plans.
- Scorecards and Dashboards that give the retailer the "pulse" of the organization.
- Well designed reports that take the user to the issues to be addressed or resolved quickly. Optimally these tools incorporate drill down capabilities and facilitate ad hoc reporting that lets a retailer investigate all the potential dimensions of a problem and pick the best solution.

Building the infrastructure on the right set of tools—tools that can support all elements of the performance management process, is a critical success factor for the future.

About the Authors

Martec's core competence is in retailing and supply chain management. We apply best practice business processes, information technology and learning methods to improve retail performance for our clients.

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.

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