Beyond Spreadsheets:
The value of integrated planning

*The following is a transcript of an interview with **Brian Hume, president and founder of Martec International** as he discusses the issues and trends impacting retailers and the strategies and technologies that can help them stay ahead.*

Q **It seems that retailers have a hard time analyzing performance and then taking action on how to rectify the situations once they've identified them? What do you think they need?**

A First of all, you need a robust planning process. Secondly, you need the right tools to do it. And I'll tell you an example. One of my clients a few years ago was mixture of fashion and general merchandise. And we were engaged with them in a project.

And one thing that happened was a key executive in their buying office left the company, and our project manager became an interim manager for a period of about 4 months while they were recruiting a replacement. One of the things that happened was she was working through some issues with their open-to-buy. And their open-to-buy was all done in spreadsheets and she found a $6 million error.

What happened was one of the department managers had changed the formula because she didn't like the way the open-to-buy worked for her department. So she took the company spreadsheet and she changed the formula. Unfortunately, what happened was all the departments got consolidated and the people who did the consolidation didn't realize that they were now adding apples and pears because someone had changed the formula. And the net consequence of that was, every month the company was buying $6 million more stock than the business would warrant. And they couldn't figure out why their stock figures looked relatively poor compared to their performance level.

When people build their whole planning process based on Excel spreadsheets and every department has got their own Excel spreadsheet, and everybody tweaks their individual planning process, then you create an awful lot of work in reconciliation. And then you have to say if I have a planning solution where I could focus most of my time on the quality of the plan instead of punching in the numbers, doing the arithmetic, checking the punching accuracy, doing the reconciliation between departments, if I could actually spend less of my time doing that and spend more time thinking about the quality of what I put into the plan I'd build a much better plan. I would find it much easier to track performance, my variances would be much more meaningful, and it would help me drill down to analyze why those variances are what they are. I would have to do less drill downs to get down to the root cause of the problem.

Q **One of the things I'm interested in are your thoughts on how retailers struggle with cross company planning. Not just for merchandise. Not just for stores. Not just for marketing. Each of those departments does their own plan. But the collaboration across the chain sometimes is an issue. How does this impact retailers profitability and ability to service their customers?**

A I'll give you a couple of examples. At one level the finance department effectively builds the financial plan or the budget. You then go to the buying office and they build the merchandise plan. Lets say their financial budget is to do a billion dollars in sales this year. A lot of them will create a merchandise plan that says, we're going to do $1.1 billion. So their merchandise plan is bigger than their financial budget and they will then cascade that plan down to the various different departments that they manage. And the reason they do that is so the merchandise plan can fail but they can still meet the financial budget.

But now what you've got is the department managers, category managers all being measured on a merchandise plan which is actually slightly different to the budget. Now, the buying office goes through its planning process and says, in ladies blouses I'm going to do $10 million worth of merchandise. And then at some point they've got to break that out by store and say there's 400 stores in a chain; they're different sizes, so lets kind of allocate that plan down and say, how much money do we take on blouses in each store? Quite separately store operations sits down and does the plan for their stores.

So they know for example that there's about to be roadwork's at a particular freeway exit, and therefore, traffic coming off that freeway exit is going to be much more restricted, and therefore that store is going to loose traffic flow for 3 months of that year. So they'll take the plan for that store down to reflect that. In the meantime, the buyer that's allocating out the blouse sales doesn't realize the traffic in that particular store so they allocate a plan that's too high.

Now in theory there's a reconciliation process, store operations sits down with the buying office, and they go through and they reconcile the plans. But when you have hundreds or thousands of stores you can't go through that reconciliation process for every store individually. So you end up with the store operations plan at the detail looks a bit different to the buying office plan and they all look a bit different to the financial plan. And, you know, consequently, along the way there's the opportunity for people to get confused about what they're really measuring and what the variance really is.

Now as you implement planning systems you can make that process easier. It doesn't eliminate all the problems but it does simplify the problems. And in particular, it helps make the reconciliation process that much easier because the thing the machine can do much faster than people is they can go down the store plan for a thousand stores, go down the buying plan for a thousand stores, and immediately pull up the glaring discrepancies. And then you can get people focused on the discrepancies that are of a scale that matters.

Q

Cognos recently released a Retail Financial Workbench and Scorecard Blueprint and it allows executives to really standardize the planning process and ensure departments are working towards the same goals. How do you think that this functionality can help retailers better manage their cross company planning?

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I think there's a significant time saving for the people involved in the planning process. The planning process touches dozens and in a lot of cases hundreds of individuals because for example, in the buying office there's potentially, depending on the nature of the business, there could be 20 and 100 department managers. You know, in the stores I've got 100's and often thousands of stores managers. If I've got thousands of stores managers I've got hundreds of district managers.

So as you go around the management structure that financial planning process can literally touch hundreds of people. And the more you can automate some of the functions, the better. So for example, if we're going to do sales of a billion dollars, I need to allocate that billion dollars out across 800 stores. At one level, if I can just build a model and say at the first pass let us allocate that billion based on a profile or model, letting the planning tool do the work as opposed to having a manager calculating allocations for areas. This lets them focus on other more important analysis.

So for example, most retailers, if they're doing reasonably okay, refurbish 15 to 20% of their stores every year. So when you look at your store planning you pay more attention to the refurbished stores, or the ones that will be refurbished this year because you know that's likely to put something like a 25% step function in their sales increase once that refurbishment is complete.

So the thing these planning tools do is let you use the models to spread sales, expenses, and things like that for a lot of the routine, and thereby release time for people to go look at the exceptions that are really important and make sure that you've really factored those things in.