

NRF: Opportunities and challenges in retail today

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.

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Brian, you were recently at the NRF – National Retail Federation Conference. What were some of the trends that retailers were looking for and thinking of?

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People are looking for ways that they can squeeze every ounce out of performance out of the stores they've got the inventory they own, the staff they employ, and that kind of thing. So I think that's one area.

There's a focus on how can we tune performance and make performance better in a tough market. There were some notable successes in the run-up to Christmas. One obviously being the significant growth in online retailing, and especially multi-channel retailing in the sense that those retailers that have a web-site and have stores, those people saw very significant growth in their online segment.

And that's causing a lot of people to think about what do we actually need to do this year because if we get those kinds of growth rates next year then we may have significant performance issues in just supporting the customer load, and that kind of thing. So a lot of people are going to be analyzing how they think multi-channels are going to go this year based on the right kind of problem, if you like, the problem of success last year.

The continuing very successful trend in recent years was the whole gift card thing. A significant amount of Christmas gift shopping was actually done by buying relatives and friends gift cards rather than actually buying merchandise. So one of the emerging challenges for people, and it's quite a tough challenge, is the gift giver buys the gift card in November and December gives it to a friend, family member, relative, whatever and that customer mostly comes in the store in January or February to redeem the gift card. I can't actually count the sale until the consumer redeems the gift card.

But the other problem is that when they come in the store in January because it was a gift they don't really want to spend that money buying last seasons clearance merchandise. They really want to spend it buying fresh merchandise. But a lot of my fresh merchandise traditionally doesn't come in until February. So one of the areas that we've all got to get smarter about is as this gift card business continues to grow, and it certainly looks like it will, how will that change the actual inventory flow that we need in the business? How will it change our notions of what seasons are in the future as opposed to what seasons used to be? It was pretty clear that January was about clearance and February was about bringing in new season merchandise. How will that model change for the future?

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What role do you see technology playing in helping retailers compete, not just on customer centricity but other areas of their business particularly given the economic conditions and the results of this past Christmas season?

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One of the first things is, if you look at why consumers select the store they shop in, in every survey that's ever done one of the top reasons is the particular assortment or merchandise selection that that store carries.

So one of the first things is analyzing your product sales, using that knowledge to tune the assortments that you carry. And you do that in one of two ways: One is you look at poor performing products and you say, can I eliminate this product because it doesn't make sense to carry it therefore why confuse the customer with choice that doesn't add value to the customer. That's one area. Then the other area is to look at the products that do well and sell strongly and then say, are there other products that I should add to the assortment that this customer likes?

So for example, if you come in the store and buy seven cans of dog food every week, obviously, you have a dog. Should I carry a selection of things like dog collars, flea powder? Are there other products that I should carry that appeal to dog lovers? And one thing to do is to look at how many customers you've got that buy dog food, either what percentage of that is your customer base, or what percentage is it of your sales transactions. And if it's a tenth of one percent, forget it. It's not worth the investment. But if 14% of your customers clearly have animals, and buy pet food products in your store, start thinking about what that significant percentage might actually buy that you don't carry in the assortment today and then start running tests.

And of course one of the great techniques in retail is before you actually plunge in and say, I should carry a range of dog collars in 500 stores, you do a test in five stores or ten stores and then use your performance management system to tell you how well that test is performing. You put the product in 5 or 10 stores and then you identify an equivalent sample of 5 or 10 stores where you don't make the change. But they've got the same characteristics as the test stores. And then you monitor group A versus group B and you see how well that test works. And based on that test you can either say, scale that to 50 stores and see if it still looks good, or scale it to the chain and get on with it.

The second thing which is allied with that is pricing. And there is a belief amongst retail executives that the consumer always picks their store on price. And actually, when you interview the consumers what the consumer research says is *price issues are number 3 or 4 in the list*. It's important, but it's not the be all and end all.

But one thing, again, when you've got your performance management system is you can analyze where your customer base spends their money by price point. So if you carry ladies blouses and you've got good, better, best at different price points you can analyze where you take your money by price point and then you can say how much of my business is in the good price point; how much of it is at the better, and how much of it is at the best price point? Do I really have the right width of selection in each of those price points? Do I offer the right value equation in each of those price points?

And you can take another look at your assortments and your pricing strategy. Then you can look at how do your sales change when the product goes on promotion? Or, how does it change when the product gets marked down to clearance, and then I can use that insight to drive my overall pricing strategy, and so on, and decide at what level of promotion do I need to drive my business.

Some retailers do 60% of their entire sales on promotion, which is very high. Some retailers do 20% of their entire sales on promotion. Well, that's a strategy decision. And part of that is the need to look at your performance over time; understand how your customers react to different pricing strategies, do some more tests if you need to understand that reaction, and then fine-tune things like your pricing strategy.

The most critical thing, of course, is to be in stock. There was some surveys that use to be done back in the days when K-Mart was a more thriving business than it is today. And 60% of the people that shopped in Wal-Mart drove straight past the K-Mart to get there without stopping. And why? Because they knew that Wal-Mart would be in stock, and probably K-Mart wouldn't. They just literally drove right past K-Mart and drove 2 or 3 miles further on to go to Wall-Mart because they believed the store would be in stock. So, maintaining those in stock levels in all the product categories that matter, that's another critical area.