

# Ten Strategies for the Retail CIO in a Resetting Economy

## Where should the CIO of a major retail company focus these days?

The global economy is resetting. Shoppers are more informed and demanding, especially with the advent of social media. Mobility-based solutions and content are now an expected part of the shopping experience. The challenges of shelf space allocation, space productivity and margin lift continue -- with technology as the weapon of choice. The new shelf space battle between private label and branded product has become more urgent.

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## Responding to these challenges requires precision focus.

In this article, we identify ten recommendations for addressing critical trends in the retail industry at the intersection of business and IT -- which is right where the CIO should be focused.

### 1. Democratize information

The CIO is now the nerve center of the retail organization. The CIO's job is one of "information democratization" -- that is, making all relevant data available to business users in a manner that will facilitate their ability to make faster and more accurate decisions. Information

harmonization is the starting point for all the promise IT can deliver to retail businesses. No single strategy is more important.

Most large retailers are moving toward data centralization. But many are still not there. Data (both internal and external) still reside mostly in functional departments. Worse, they are often inaccurate and inaccessible at the "point of decision." How can customer service representatives adequately serve a customer if they are not aware of the customer's transaction history -- online and offline? How can buyers adequately build an assortment plan if they are only aware of purchase behavior through the store channel and not the catalog or online channel? Data centralization (or data integration) is, therefore, critical to business success.

An enterprise-wide data solution built by IT and "wired" for business decision-makers can improve data accuracy and predict consumer behavior. Vital margin-boosting strategies like store-level assortments and basket-size-per-customer can be optimized. Harmonized data provide managers and marketers with the dynamic information they need to keep up with Web- and mobile-savvy consumers as they interact across all channels.

### 2. Inform the decision-makers.

Giving decision-makers the data they need, when they need it can improve performance even in the most challenging times.



The recession and slow recovery have made it difficult to pass along price increases either from manufacturer to retailer or from retailer to shopper. Because of this, marketing and merchandising managers are turning to optimization and analytical systems to maximize margins and prices without risking sales.

Retail managers are using predictive analytics based on real-time POS and other data feeds, among other things, to do the following:

- Move product where imbalances exist between supply and demand across sales channels.
- Account for variables such as transportation costs and category turnover at the store level to sharpen buying and re-stocking strategies.
- Optimize distribution center placement.
- Help demand planners with forecasting.

Predictive analytics is behind successful merchandising strategies by Best Buy (Consumer-Centricity), Unilever (Dunhumby), and Wal-Mart (behavior-based shopper segmentation).

### 3. Flex across channels.

Multi-channel is now part of the retail fabric. Our research indicates shoppers are increasingly channel-agnostic. What's important to them is getting up-to-date information on product quality, price point and comparisons. What's critical is the consistency and accuracy of this data across channels. How they get it is no longer important.

That's why it's increasingly important for IT organizations to consider distribution and order-management capabilities that span multiple channels. Processes such as price management, returns, online orders/pick-up in store and deliver-to-home are now standard customer expectations.

There are many benefits to these multi-channel strategies. For the business, multiple channels increases growth, customer loyalty and revenue opportunities through added market touch points. Multi-channel retailers will have a competitive advantage over competitors that are still single-channel pure-plays.

For customers, this enhances their experience, improves convenience, and heightens their perception of the product's value. For these reasons, when multi-channel is done well, it has the potential to boost loyalty -- especially among younger customers.

A recent survey by mobile marketer HipCricket indicates that 37% of consumers would be interested in participating in a mobile customer loyalty program from a brand they trust. Eighty-three percent also say their favorite brand has yet to market to them via their favorite PDA/smart phone, representing a promotional opportunity for brand marketers in partnership with their IT organizations.

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There are challenges to forging a multi-channel strategy. The architecture must be scalable, secure and cost effective. The architecture and policies must clearly protect customer data privacy. Channels must be synchronized, ensuring the customer experience is the same (including prices, order visibility and customer service). All systems and customer data must be standardized.

The other challenge is harmonization. Success in multiple channels requires a master data solution -- one view, many channels.

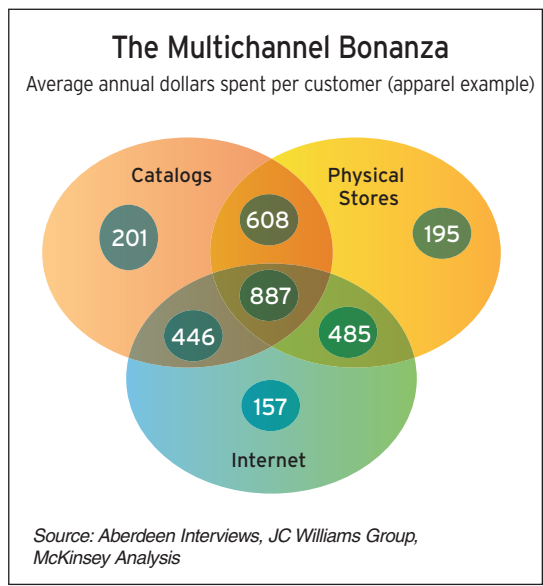
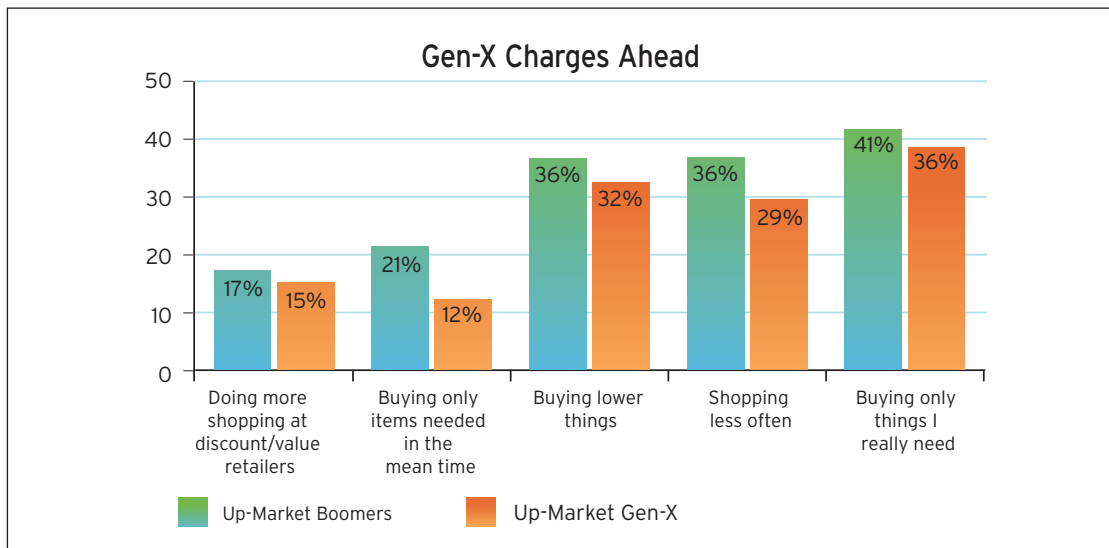
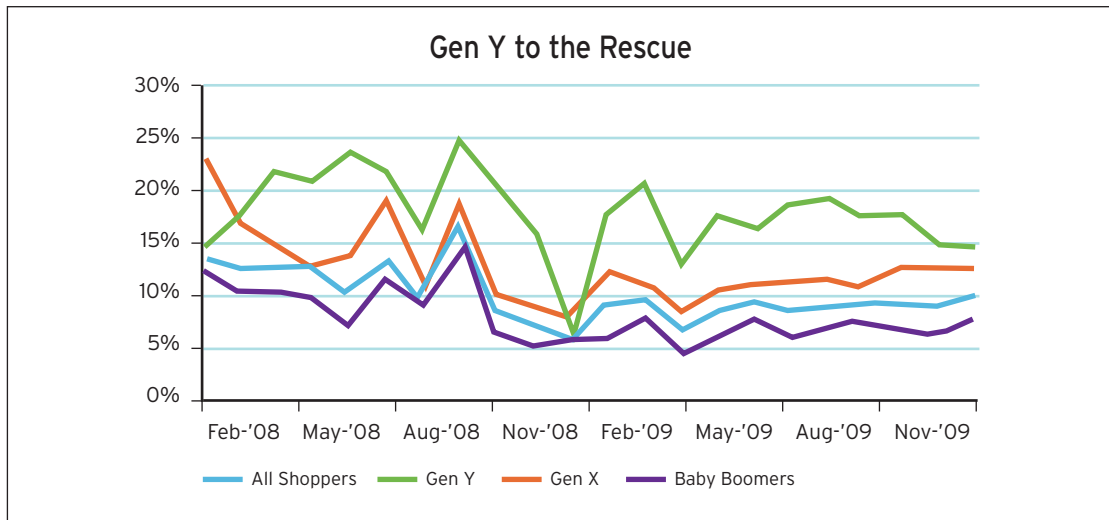


Figure 1



Source: Retail Forward ShopperScape,™ May 2009

Figure 2



Source: Retail Forward ShopperScape,™ January 2009, October 2009

Figure 3

#### 4. Aim lower.

It's becoming clear that Boomers will not lead the recovery. Their legendary appetite for consumption has been tempered by recession and personal debt. Their median household wealth, according to the Center for Economic and Policy Research, has shrunk considerably. And their age is predisposing many to spend less and save more.

The two generations that follow the Boomers are your new targets. While Gen X accounts for only 75% of the Boomer segment by population size, according to a recent study by retail consultant Retail Forward, this group is entering

peak-earning years and will have the strongest impact on post-recession spending.

Members of Gen Y, according to the same study, make less money but exhibit an even higher desire to spend, which has earned them the nickname, "The Instant Gratification Generation." They are the primary drivers of shopping behavior change and technology adoption that other age segments are now emulating. Retailers must get to know them intimately.

IT departments will find Gen Y (there are more than 60 million of them) and most of Gen X on the social media channel.

## 5. Get social.

While social media is hot, it can also be tricky. Blogs, wikis, podcasts, social networks and user communities are here to stay, and, most alarming for consumer goods marketers, customers are driving the conversation. Our research indicates that social media interaction among retailers is an increasingly important aspect of brand and marketing communication to shoppers. Interestingly, consumers tell us they do not want retailers to create their own social media sites. Instead, they want the retailers with whom they interact to use already established social media platforms such as Facebook, YouTube or MySpace.

To enter that conversation and link to Gen X and Y, IT and marketing will have to do the following:

- Ensure social media's two-way integration with mobile and e-commerce Web sites.
- Evolve from static and crowded e-commerce sites to interactive environments that are more personalized and social.
- Increase focus on mobile commerce-based applications (witness the growing success of the iPhone and iPad).
- Stay on top of strategies to leverage Gen Y's commitment to technology.
- Drive product ideation strategies through shopper and consumer interaction.

Staying current is essential. There will be a never-ending stream of digital connections to customers, many at the point-of-purchase, that will have the potential to drive awareness and create a differentiated consumer experience.

## 6. Reshape loyalty.

Loyalty is not dead. But it's hurting. According to market researcher Decision Analyst in its report "Anatomy of the Recession," there is a rapid rise in the number of consumers purchasing less expensive or private-label brands. Fewer consumers are willing to pay more for nationally advertised brands when the value proposition is not clear, opting instead for less expensive private labels. Research by Epsilon Targeting recently revealed that as shoppers discern less risk about brand switching, 59% will opt for private-label products for food and household goods. An additional 48% will switch to private-label for health and personal care products.

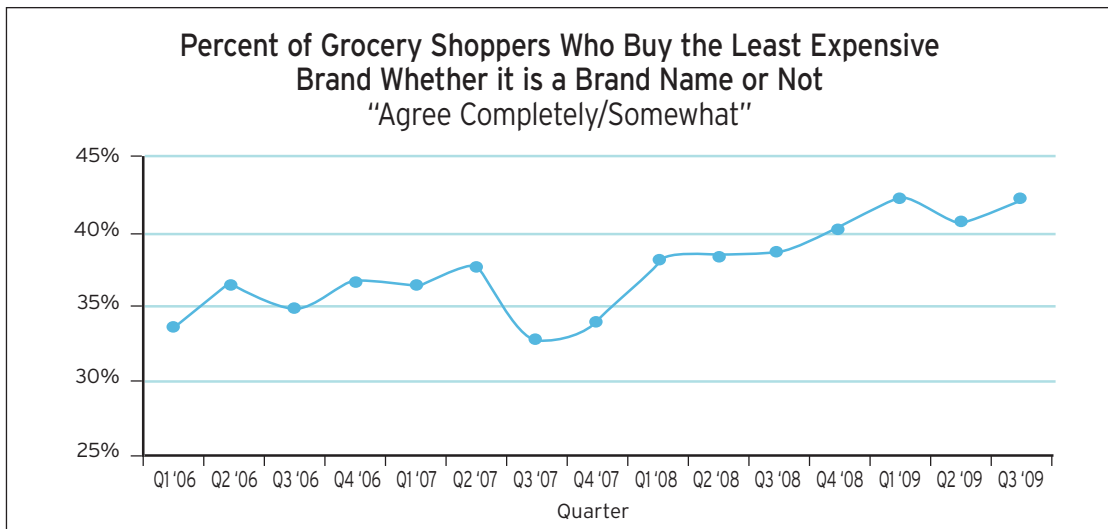
Assuming the IT organization moves toward a master data solution to keep everyone on the same page, loyalty initiatives can be reshaped to preserve and grow loyalty in a number of ways:

- Investment in product life-cycle management will make the idea-to-shelf processes as efficient as possible. Innovation is the key to delivering a differentiated product value proposition that will enable premium price.
- As marketing continues to shift from traditional demographic and geographic techniques toward customer behavior analysis, IT must leverage tools from vendors such as Dunhumby, Oracle, SAP and SAS that are changing the way CRM and predictive analysis is done. The ability to understand the true purchase drivers and the shopper path to purchase (starting with out-of-store information to final at-shelf product selection) is providing retailers with improved price positioning and marketing communication to target shopper segment knowledge.
- As incremental marketing spend gets more exacting, the IT organization must provide brand marketers with improved predictive analytics that are customer-segment-specific, category-specific and channel-specific -- and tied into operational systems -- to drive value recognition.
- As social media becomes more important, the IT organization will need to incorporate social media feedback into new product development processes. Example: Crowdsourcing is providing quicker insights into product innovation.

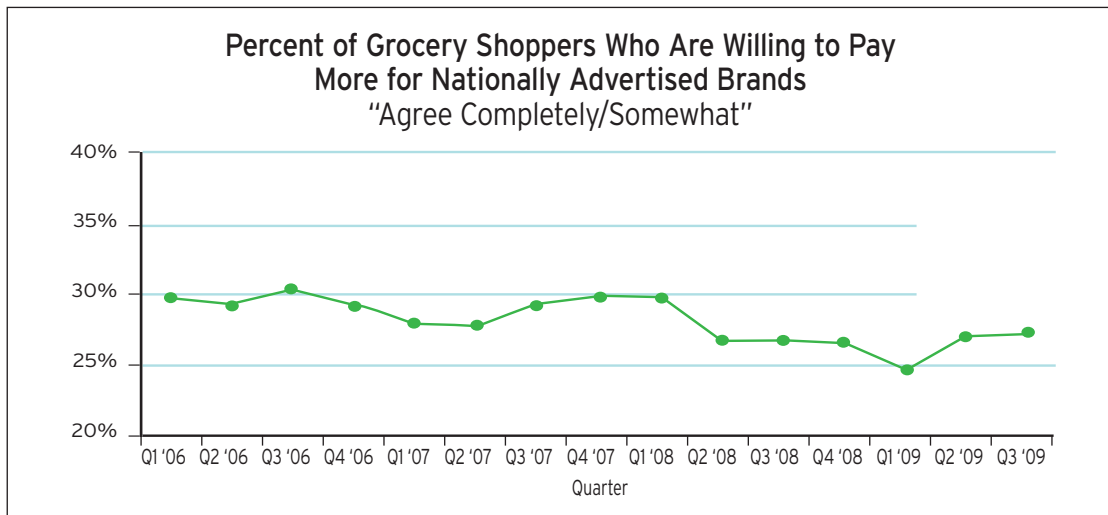
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## 7. Bring suppliers closer.

IT can also provide valuable two-way links between retailers and suppliers through collaborative Web-based business solutions. Using such a solution, retailers can quickly and consistently communicate with suppliers (alerting them, for example, to demand changes). Given this, it is surprising that so few retailers have invested in supplier communications applications and infrastructure. Walmart's RetailLink is one notable exception, and provides effective two-way communication between the giant retailer and its many suppliers.



Source: Decision Analyst  
Figure 4



Source: Decision Analyst  
Figure 5

### 8. Coupon digitally.

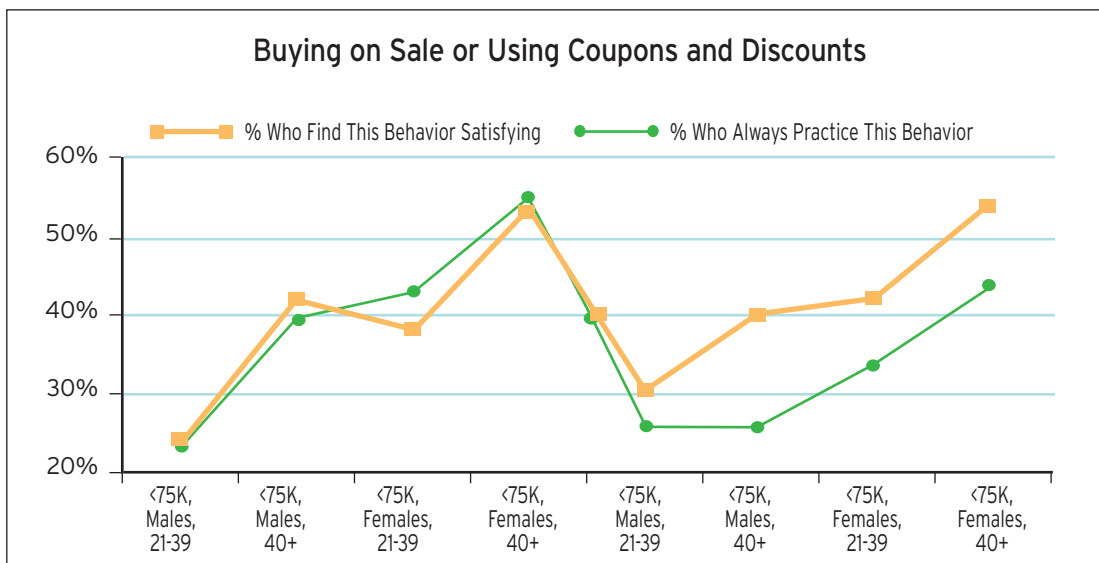
Coupons, the stock-in-trade of consumer goods marketers, are finding new life in the digital world. Thanks to the economic downturn, 60% of U.S. shoppers use coupons, according to research from Miller Zell, a strategic retail design and consulting firm.

And there are more coupons than ever in the marketplace. According to an article on the coupon Web site Coupon Sherpa, "Top 22 Coupon Trends of 2009," more than 158 billion coupons were distributed in the second half of 2009 alone, and the redemption rate increased in that period by 19%.

Coupons have always been a way to test or sample products. Miller Zell found that, for Generation Y, coupons are the preferred way to test a newly released product.

Two IT strategies retailers should consider to accommodate Gen Y shopping behavior include:

- Tap into the millions of mobile devices increasingly being used while shopping. Work with marketing to deliver mobile coupon solutions that incorporate second-generation bar code solutions, such as Microsoft Tag.
- Go where the new wave of customers hangs out. As Generation Y shoppers seek digital coupons, integrate operational systems with



Source: Dectica: Marketing to Post Recession Customers  
Figure 6

social networking buying sites such as Groupon or Living Social.

### 9. Optimize for position.

The “clean store” is catching on. A proliferation of SKUs in recent years has crowded retail channels and created dissonance among consumers. This proliferation has recently given way to SKU rationalization efforts by a number of retailers across multiple sub-segments -- mass, specialty, and grocery. For example, Walgreens eliminated the number of super-glues in its assortment from 25 to 11. Kroger plans to reduce its cereal assortment by 25%.

But such efforts have been met with mixed success. Doing SKU rationalization without specific boundaries or analytics -- such as market basket information -- can result in an assortment that reduces profitability or even alienates customers.

Optimizing assortments in light of the new competitive environment requires CIOs to take a fact-based, analytical approach to SKU rationalization

### 10. Make the chain flexible.

Optimization is needed almost everywhere in the retail industry. And the IT group is the prime optimizer.

Consider supply chains. There is relentless pressure to optimize product landed costs and

service levels and pursue global sourcing options that reduce cost and spread supply risk.

In China, for example, supply chain strategists are re-evaluating the location of incremental manufacturing plants based on cost trends. As Chinese manufacturing turns northward and inland, and away from the southeastern coast of China, transportation time, expense and dependability will degrade.

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The IT organization must ensure continued supply chain flexibility by accommodating multi-country sourcing analysis that factors the trade-offs of sourcing product or unfinished materials from alternative locations such as Vietnam or Mexico.

### Facilitating Flow

It comes down to flow -- in data and goods. Retailers can improve margins and profits, and offset the effects of the downturn, by sharpening flow. And the IT department is the prime sharpener.

As leader, the CIO should be focused on solutions that harmonize, optimize and flex. Accomplish these goals and you will be a hero among your business peers.

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## About the Author

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