

Outside Partners

Retailers successfully outsource mission-critical operations

By Deena M. Amato-McCoy

Much to Ultimate Electronics' delight, shoppers spent \$20.1 billion on consumer electronics and appliances during the 2006 holiday season, according to the Washington D.C.-based National Retail Federation. By outsourcing support for its point-of-sale system, the Thornton, Colo.-based electronics company was able to service these shoppers without any hiccups.

"I need my team to focus on driving business and enhancing the customer experience," explained Carey Lowrey, VP of IT, Ultimate Acquisitions Partners, parent company of Ultimate Electronics. "If IT is worrying about server patches or other upgrades, they are not focusing on how to optimize POS or other customer-facing technologies."

These sentiments, coupled with potential cost savings, are pushing more retailers to tap the expertise of third-party sources to manage IT-based operations.

Whether they are motivated by cost savings, more efficient operations, improved service, or freeing up internal labor resources, more retailers are putting their trust in third-party IT partners. In fact, 97% of the 318 retail and consumer-goods executives surveyed for "Driving High Performance Through Outsourcing: Achieving Process Excellence in Consumer Goods and Retail Services Companies," a report from Accenture, cited one or more of these improvements;

nearly one in five cited every single one of these gains.

Meanwhile, 58% of participants saw results within six months of beginning their outsourcing arrangement, and 84% reported gains within one year.

Charlotte Russe Holding, Inc., San Diego, is one outsourcing advocate.



Pet-wellness retailer Mud Bay outsources its inventory, ordering, receiving and back-office operations.



Retail Federation. "We are early adopters of outsourcing. By opting for a managed infrastructure, we have gained savings regarding systems and maintenance pricing."

Pricing is only one piece of the outsourcing puzzle. Lately the spotlight shines brighter on outsourcing because "software development is more centrally managed," said Steve Klingler, VP outsourcing division, Tomax, Salt Lake City.

"However, this requires a higher level of sophistication to manage inventory and business value, especially among

When the company embarked on its management-system overhaul last year, the 365-store chain also opted to outsource various operations.

"While discussing how to replace different applications, we started pursuing different IT relationships," Ed Wong, Charlotte Russe's executive VP, supply chain, said during the CIO Insight Summit, held at the recent NRF Convention and Expo in New York City. The show was sponsored by the National

mission-critical systems that must always remain available," he added. "Yet many retailers do not have a staff with the depth of expertise to keep all of their systems running well."

Privately held Ultimate Electronics knew this challenge all too well. The company was operating under Chapter 11 bankruptcy protection before CEO Mark Wattle, leader of buyout firm Ultimate Acquisition Partners, L.P., bought approximately 30 of the chain's

70 stores in 2005. As Wattles spearheaded a cultural change to turn the company around, he also strived to update antiquated IT. The first step was to revamp an aging POS system.

"The only way we make money is through the customer," Lowrey said. "If my POS is not working, other systems don't really matter."

Besides operating outdated, non-graphical "green screen" terminals, "Ultimate didn't have the redundant infrastructure, data facility or staff needed to properly provide significant back-office support," for its POS fleet, he said.

Typically, servers were located in the back room of each store, and a local area network enabled the retailer to poll stores via dial-up and send batches of sales data to headquarters nightly.

"As networking became more reliable and affordable over the years, however, thin-client environments became pervasive," and an appealing option for the electronics retailer, he said.

The retailer chose servers from Sun Microsystems, Santa Clara, Calif., a database from Oracle, Redwood City, Calif., and thin-client terminals from Compaq and HP to round out its thin-client environment. It also chose Tomax to manage its front-end operations.

"The only way to make an outsourcing arrangement work is to become partners with a managed-service provider," Lowrey explained. "We need reliability and redundancy to support our retail operations, and our partner needs to understand the ramifications if there is a problem."

Ultimate uses a third-party data center in Denver, provided by USI, a division of AT&T. T1 lines connect stores to the servers in the data center. Tomax monitors all actions between the stores and data center.

"Our costs would be significantly higher if we had to secure full-time talent in-house to maintain our databases, scale the infrastructure and manage the network," Lowrey said. "With Tomax, we have online service 24 hours a day, seven days a week."

A New Beginning

Over the last two years, Duckwall-ALCO Stores, an Abilene, Kan.-based retailer with \$435.01 million in sales, has revamped its senior management. The team's major focus has been on business growth. When Tony Corradi joined ALCO Stores as VP and CTO, his first task was to improve the company's networking infrastructure.

Eager to replace the dial-up-based polling technique that linked stores and the distribution center, Corradi opted to outsource a wide area network with New Edge Networks, Vancouver, Wash.

Pleased with the results, Corradi began exploring other outsourcing opportunities, including adding Tomax's



Charlotte Russe says outsourcing has contributed to systems-maintenance savings.

Retail.net infrastructure to manage the servers and database that manage all 190 ALCO locations. "Rather than house a server in the back room of each store, all servers and data are centralized in one location," he said.

Retail.net also supports ALCO's thin-client POS, which is comprised of a Linux operating system, and Dell workstations. When cashiers scan a product's UPC during checkout, the server in Tomax's Salt Lake City data center presents the price to POS and posts the sale in real time. This process also keeps buyers and district managers in tune with real-time data that helps them improve replenishment and loss-prevention efforts.

The POS and WAN projects both went live in January.

Unlike Ultimate and ALCO, Mud Bay, Olympia, Wash., had no intention

of pursuing outsourcing. (The retailer, which operates 14 stores dedicated to the wellness of cats and dogs, generates less than \$20 million in sales.)

"When evaluating our growth strategy, it became clear our existing retail information systems could not support our future plans," said Bianca Wulff, director of business systems, Mud Bay.

A corner of a conference room at headquarters was home to a group of servers that supported data and operations for Mud Bay's stores. One IT staff member supported the configuration, maintained databases and created reports.

Mud Bay chose to partner with Tomax almost two years ago, however it was the vendor that pushed the concept of outsourcing.

"They told us to consider outsourcing Retail.net, but initially we were not convinced," she said. "That is, not until we began adding up the costs involved in creating the infrastructure ourselves, and having a dedicated data administrator and expertise available on a 24/7 basis."

Today, Retail.net manages Mud Bay's inventory, ordering, receiving and back-office operations. It also manages inventory within the company's distribution center.

"Since adding the solution, we have increased our uptime by 5%, and the real-time view into data has helped us to improve our in-stock levels and reduce excess stock," she added.

By the end of the year, Mud Bay's stores will gain access to Retail.net, which will manage POS. Mud Bay will add Tomax's workforce-management and demand-forecasting solutions to the mix.

Mud Bay's early outsourcing successes prompted the company to explore outsourcing a business intelligence (BI) solution from SeaTab Software, Bellevue, Wash. By copying data to Retail.net, associates can drill down on data and do reports directly through the Web-based portal that Mud Bay uses to access data housed at Tomax's data center in Salt Lake City. Mud Bay hopes to add the BI solution by the spring. ■

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