



Strategic Solutions Emerge in Supermarket Retailing

Technology can be a Strategic Asset, not just Plumbing and Infrastructure

By Eric Olafson, CEO - Tomax Corporation

Perpetual inventory is attainable - and essential to realize significant gains when using tools like demand forecasting, advanced replenishment, merchandise financial planning and assortment management.

Optimization should be perceived as part of the bigger picture that dictates price alone is an insufficient lever.

One of the benefits of spending time across the various segments of retailing, from specialty, mass merchandise, to service and CPG/supermarket, is the appreciation of each segment's view of solutions and technology.

Supermarket is especially interesting: the competition from Wal-Mart and hybrid operators is relentless, not only in center store but in the perimeter sections as well. Increasingly, the successful players find ways to differentiate, aided by new technology solutions embraced by other segments of retail long ago.

Inventory Management

The prevailing view of years past in supermarket was perpetual inventory was either unattainable, not worth the effort in terms of store disciplines or a project pledged to the drawing board a few years out. With good reason, imagine the masses of merchandise rolling in and out of the stores on a daily basis – but it can surprise many from other retail verticals, where inventory control is a central prerequisite to achieving high levels of merchandise sophistication.

However, in a number of recent conferences and discussions, we see an inflection point. More and more, supermarket operators, even those participating in large wholesaler groups, are taking control of their space in the store and on the shelf. This includes actively managing their assortments and pricing strategies and fundamentally moving away from the vendor-driven approach. While the major chains are further down this road with established and successful strategies for private labeling and improved merchandising success, we're now seeing the industry moving as a whole.

As fresh perspectives are transferred from other areas of retail (and in particular, mass merchandise), these new players are looking for tools to manage forecasting, top-down/bottom-up merchandise planning and sophisticated inventory replenishment. We also are observing these operators viewing optimization in a different light and seeking methodologies to drive optimization not just across regular price, but across promotional and markdowns together with an integrated view of merchandise assortment.

Optimization?

Optimization is one of the more confusing terms in the industry today. It has largely been compartmentalized across solutions for regular, promotional and markdown. Unfortunately, this partitioning sometimes requires retailers to work with different solutions at each point in the pricing lifecycle.

The real issue is that price alone is an insufficient lever. Pricing modulation that only takes place within narrowly defined parameters can yield important gains that should be exploited by retailers, but may ultimately result in the risk of overlooking other opportunities.

For instance, if I have a gross margin problem in a category, is it price, promotion, inventory, space or assortment? Or a combination of these variables? Or perhaps, ultimately, my strategy really needs to be modified in the "grow-maintain-reduce" sense? In this case, reducing the category to devote space and assortment to a destination category is how I can obtain my margin objectives. Now, that's optimization.

Merchandise Financial Planning, Clustering & Assortment Management

These tools are new to the supermarket industry – because in the past, software providers have ignored (shame on us) the specialized requirements resulting from the high transactional volume and intensely promotional environment that is fast-moving CPG retail.

Merchandise Financial Planning (MFP), for example, is a solution that fairly swept through the general merchandise and apparel segment a decade ago. Finally, solutions are available to address the complex nature of vendor funding and promotions so intrinsic to the supermarket industry. The leading players are embracing this movement as a means to overcome the apparent complexity of merchandising, in particular, to manage the incredible promotional nature of their business. To explain, the supermarket industry can appear to be highly chaotic from standpoint pricing and promotional changes (potentially 4,000 prices changes per week!). Yet, from another perspective, this chaos can be seen as a pattern of promotional rotation among products on a weekly, key event or holiday period basis that possesses a fair degree of predictability. This perspective enables management of this promotional environment from a demand forecast methodology and therefore, can be potentially improved or optimized.

So far, the leading tool for this industry's merchandise planning solutions is Excel, as traditional solutions are more geared towards softlines and general merchandise retailers and not equipped to manage the intensive promotional and vendor money management.

Clustering is another example of solution emerging from other areas of retail. This discipline is the determination of what products sell well in what stores by virtue of a variety of categorization/characterization classifications that allow the merchandiser to more sharply profile their strategies by store and by category.

Clustering fits with assortment management as the "first strike" effort by the merchandiser to bias the success of the store towards the best possible sales and gross margin performance before considering price strategy. To this point, the modulation of pricing strategy is insufficient by itself and certainly cannot compensate for the placement of poorly performing products within a category.

Finally, forecast-driven inventory starts to replace the more mechanical approaches prevalent in the industry. I'm referring to both manual purchase order creation and computer aided ordering (CAO). Considering the significant impact around inventory optimization, retailers are massing their efforts to gain first on the disciplines associated with perpetual inventory and then implementing more sophisticated demand forecasting as a basis for centrally driving store ordering.

Change is Happening Now

All in all, these are big steps forward. These strategic solutions go beyond the plumbing and infrastructure required to support transactions. They 'move the needle' on sales, gross margin, inventory turnover – not to mention labor and space productivity. It marks also major changes in both culture and leadership in the supermarket industry, including a change of perspective towards the adoption of technology as a basis for driving strategy through execution. If you are in this space, I hope you're observing these same changes now.

Clustering fits with assortment management as the "first strike" effort by the merchandiser to bias the success of the store towards the best possible sales and gross margin performance before considering price strategy.



224 South 200 West
Salt Lake City, UT 84101
801.990.0909
801.924.3400 fax
info@tomax.com
www.tomax.com