

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

For this issue we are fortunate to have two contributing editors. Barbara Anderson of strategic partner BVAC Inc. and specialist in CAO and replenishment, has written a two-part article on Retail Optimization. Claude Johnson, of strategic partner Applied Retail Technologies and known CRM authority, is writing a series of articles on real applications of Customer Relationship Management. We thank both of them for their insightful articles.

Bob Amster



Principal

Retail Optimization (or When to Pick Up Your Dry Cleaning)

BY BARBARA ANDERSON, BVAC, INC.

On the information systems front, there has been a fundamental change to data and data accessibility. We now have real-time, synchronized and detailed data in data warehouses. And there are new data – much more than sales. We have information on the factors that contribute to those sales including competitive data, market data, and collaborative data. All of this was made possible with technologies such as data warehouses and higher-bandwidth communications. But data have no value of their own – data must be converted to information. Some of you who have tried, surely have been wondering whether we have gotten our money's worth out of the investment.

Furthermore, there is now affordable computing power to run the most complex computations. We have survived Y2K and the Euro conversion (and we are trying to survive an uncooperative stock market). So from the system side we have the data, the computing power, and the focus to tackle exciting new initiatives.

On the business front, it is certainly not shocking news that today's retailers are faced with extraordinary competition. We are over-stored in

America and the EU is creating new competitive markets in Europe. The economy is not recovering so quickly as hoped and predicted. Consumers are looking for value for their time and their pocket books. There are new channels, such as the Internet, for advertising and purchasing. Retailers are extending traditional formats into new categories and creating competitive new fronts. Through mergers and acquisitions it is no longer unusual to speak in terms of managing over one thousand stores! Our chains are massive. At precisely this moment, we are asked by management to “target the consumer” and “micro-merchandise each store to its unique customer base”. The problematic dichotomy between the sheer volume of the task and volume of data, and the need to drill down and know our individual customers has not escaped any of us. The challenge is clear. How can we create competitive advantage in today's new environment? One answer, and what may seem like the newest buzzword, is optimization.

What is Optimization? Optimizing is maximizing or minimizing an objective function within a given set of constraints and a given set of resources. We optimize in our own lives all the time. When we plan to pick up the laundry on the way home from the grocery store, our objective function is to optimize our time. If the dry cleaner isn't on the way home from the grocery but on the way to the gym, we'll stop on the way to the gym instead. But then we may have some limitations, such as when the cleaners is open and when we really need those clean shirts!

What is the Optimization Process? The Optimization Process identifies those constraints that can be changed, most easily and profitably, in order to get the best results. Over time, the optimization process continues to identify restrictions that need changing. As each constraint is lifted or changed, the optimization process continues refining and reacting to new limitations. This is the optimization feedback loop where the optimizing process itself is optimized. Again we do this every day. Let's keep trying to get that laundry picked up. If the dry cleaner is on the way to the gym but closes at 2 PM on Saturday and our squash game is scheduled for 4 PM, then we may try to change the parameters. We'll have little luck convincing the dry cleaner to stay open later just

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for our squash game. In the future we may schedule our Saturday squash game for 2:00 PM so that we can get our laundry on the way to the squash game – again maximizing our objective function, our time. And we change the parameters that we can easily change.

What is Retail Optimization? Retail Optimizing is often confused with Retail Automating. Automating a process is extremely important and makes possible the completion of a manual task via a machine and/or mathematical calculations. Optimizing, however, means not only completing the task, but also completing the task with the maximum target benefit. Automating may be a pre requisite to optimization, but it is not equivalent. Optimizing allows us to not only eliminate the manual processes but also to improve the process. Optimization uses advanced statistical models for forecasting and advanced mathematical optimization techniques for maximizing the overall profit. Integrated Supply and Demand Chain Optimization centers on *maximizing profit* within very real internal and external limitations.

What is the Retail Optimization Process? Optimization is most valuable when viewed as a process. It is within the process of optimizing, that constraints are challenged and changed. *The optimization process enables us to re-think goals and rules that drive our businesses, redefine business processes, and integrate various optimizing systems.* A good optimization system continually optimizes not only the end result but also the value of the factors that contribute to that result. As our businesses continually change and evolve, so does the optimization process.

Retail has always been a numbers-driven business. But running calculations is not and should not be confused with optimizing. The optimal shelf set is not merely a shelf set that represents a forecast and pack size fit into the available space. An optimal shelf set represents the most profitable use of space for each and every store/SKU. An optimal price is not a penny less than the competition. An optimal price uses competitive prices and desired margins in conjunction with price elasticity, cannibalization, and many other factors to set prices to achieve the maximum profit on each store SKU. A store order system doesn't just create forecasts and orders. An optimized store order system projects the optimal inventory

quantity to achieve the least cost inventory considering store labor, delivery, cost of out of stocks and maximum profit for each store/SKU. Optimization is the key for today's chain retailers to focus on the end-consumer at each location where that consumer shops. *The competitive advantage for today's retailers is the ability to make cost-optimal decisions at every point of the demand and supply chain. Optimization is not a tool that some retailers will be using tomorrow. It is already one strategic advantage of a number of successful retailers today.*

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The second part of this article will focus on the companies that develop applications, the retailers likely to implement and the future direction of the concept.

NCOA (National Change of Address) BY CLAUDE JOHNSON, ART LTD.

NCOA statistics are some of the most misunderstood and most underutilized in the marketing industry.

Why is that: because marketers are not mathematicians; because it is less creative than designing a "drop-dead" poster; it's not as much fun as working on a TV campaign; it doesn't seem to be a big deal in comparison to other things happening in the marketing world? Probably, it is some of all that. However, "there's gold in them thar hills."

To understand the NCOA post-move statistics, one must understand what NCOA is. If you are heavy into NCOA, skip down to the explanation below the chart. If not, continue and you will learn how to create a cleaner/more accurate database and save money at the same time.

In laymen's terms, NCOA is a big file of all the people who filled out those mover cards at the post office when they moved. Since about 40 million Americans change their address each year and the post office has been doing this for several years, you can imagine the file is very large.

Since the post office does not want to do NCOA processing itself, NCOA was licensed to several companies to process. You send your customer records to the company and they search to see if the customer has moved. All the licensees do essentially the same thing. If they find that the

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person has moved, they return the new address to you. (They use very exacting rules set up by the post office to make sure they are finding the correct person. They don't want to tell you someone moved who did not.)

Now, there is a charge for this process, but it is miniscule compared to the cost of continuing to mail to a person's old address. Another cost that is difficult to calculate is the lost sales due to the piece never arriving at the new location. The combination of the cost of continuing to mail to the old address and the opportunity sales lost justifies regularly sending your customer file out for NCOA processing.

[War Story - I have discovered retailers who have watched their responses to direct mail events deteriorate significantly over time simply because they had not paid the relatively small price for NCOA. Once the economics of the processing is understood, they gladly send their customer file out regularly.]

Once you get the NCOA file back and your customer database is updated with new, corrected addresses, you can now "mine the gold" that you will find in the database ("hills".) Knowing the post-move status gives you the alternative to market to your customers before the competition in their new neighborhood does. However, you need to act quickly. The retailer represented by the post-move statistics below identified via NCOA processing that 38,874 customers had moved.

Claude will discuss the post-move status in detail, in the second part of this article in a special issue of the RTG Newsletter in September.

If you wish to learn more about these two most important topics; Optimization and CRM, please contact us at: info@retailtechgroup.com
Or call 203-329-2621.

	Cust. Count	% of Total	Classification of Post-Move Status
(1)	17,153	44.1%	Same store trade area
(2)	8,635	22.2%	One Store Trade area to another
(3)	4,747	12.2%	Store Trade area to Non-Trade area
(4)	2,513	6.5%	Non-Trade area to Store Trade area
(5)	5,826	15.0%	Non-trade area to Non-trade area
	38,874		Total address changes

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What should be done with this information?

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WHAT'S NEW

New Alliance – Roland Faubert

RTG is pleased to announce that it has reached an alliance in principle with Roland Faubert to provide CPFR® expertise to RTG's retail and CPG clients.

Roland has had an extensive 25-year career in retail inventory management and merchandising, holding senior positions from buyer to president, in department store, specialty store, and category killer formats. He has in-depth experience in integrating retail merchandise planning and allocation for apparel, footwear, sporting goods, and toys on an enterprise basis with store operations, finance, and distribution services. For the past five years, he has worked with

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You can read about us at www.RetailTechnologyGroup.com.

MoonWatch Media as Research Editor for Supply Chain Alert and Content Developer for the VICS Supply Chain Conference. During this period, he has been involved in the development of the VICS CPFR® initiative. Faubert is a graduate of Harvard College, Cambridge, MA, with a Bachelor of Arts degree in Government.

In association with EdgeUsource LLP, Roland has developed CollaborativeEdge.NET, a web-enabled collaborative solution that enables Retailers and their trading partners to scale the development of CPFR® trading partnerships using their existing knowledge resources and skill sets.

If you are interested in learning more about CPFR® and our related services, please contact us at info@retailtechgroup.com.

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