

Growing Market Share in Specialty Retail:

*Five Timely Investments to Accelerate
Your Business*



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Compliments of:



Microsoft Dynamics

Martec's core competency is in retailing and supply chain management. We apply best practice business processes, information technology, and learning methods to improve the retail performance of our clients.

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1. Executive Summary

The recession that swept across the globe in 2008–2009 hit just about every retailers' bottom line to some degree, but did not affect all retailers in the same way. Many grocers and value retailers, for example, weathered the storm relatively well, as more consumers ate at home and spent more conservatively. Specialty retailers, on the other hand, were among the hardest hit; and today, those that are still in business are emerging from the worst downturn many of them have ever experienced.

During this period, the consumer has also changed. More careful about their shopping habits, these buyers—many of whom are more technologically savvy and well-equipped than retailers' sales associates—are much more likely than before to check which stores have exactly what they want, and that prices are competitive.

Facing this type of consumer in this economy, many specialty retailers have been running their businesses more cautiously, and will continue doing so, even as market conditions start to improve and profits begin to creep upward. To date, recovery is more a theoretical term than a reality, even as governments declare, at least statistically, that the recession is over. Savvy retailers know that job growth and increased consumer spending in their sector will take time.

However, for specialty retailers emerging in good shape, the current business climate clearly presents exciting opportunities. By taking action while opportunities are still fresh and other competitors are still reeling, businesses can gain the edge on market share growth, improved profitability, and optimal positioning for a rapidly changing future.

This white paper outlines the challenges and opportunities that specialty retailers are facing today. We identify the critical market forces that have created a trio of fundamental business challenges that specialty retailers must deal with immediately:

- How to be more customer-centric in every aspect of your operation.
- How to boost the productivity of your assets across the business.
- How to harness the power of multichannel retailing to increase sales and market share.

Next, we propose how specialty retailers can act now to meet these challenges, citing the potential benefits of taking swift action. We'll close by offering solutions—the five strategic investments that specialty retailers can make now to accelerate their market share growth and boost their profitability.

The five investments are:

- Unified core systems
- Retail optimization
- Online and multichannel retailing
- Rapid format deployment (overseas or domestic, via direct investment, joint venture, or franchise)
- Customer relationship management

By making timely, cost-effective investments, specialty retailers can take advantage of new opportunities to build a customer-centric business, manage assets more effectively, and extend online and in-store reach through multichannel engagement.

2. Key Market Forces

The specialty retail market is highly fragmented, with widely varied players contending in a large number of segments. In most cases, specialty retail businesses carry a limited or relatively narrow product range in segments such as toys, office supplies, home improvement products, or clothing. They might operate small-format stores, ranging from 2,000 to 10,000 square feet (200–1,000 square meters), the type typically found in malls or along major commercial streets; or they might run big boxes, such as do-it-yourself home improvement or office supply stores normally found in free-standing locations or anchoring strip malls. Average sales per square foot for specialty retailers located in U.S. malls peaked at \$454 in 2007, according to research by Green Street Advisors, Inc reviewed in the Wall Street Journal, March 19th 2010. By the end of 2009, the average had dropped to \$401, wiping out five years of progress.

Changing Consumer Attitudes Toward Shopping

Research by the Integer Group reveals that today's consumers are more cost-conscious than before; they are buying less overall, and choosing less expensive alternatives when they do buy. Many are taking advantage of discount brands and private label offerings. (www.shopperculture.com/shopper_culture/the-checkout.html - issue 5.09). While the Integer survey is U.S.-based, it correlates very well with Martec's findings in other countries. This is not just a U.S. phenomenon: value retailers such as Primark in the United Kingdom, and Aldi and Lidl in Europe, have continued to do well through the recession.

- Integer also found that consumers are taking advantage of special offers and coupons more so today than prior to the recession.
- Consumers also are becoming greener. They say they care more about issues such as carbon emissions, fair trade, ethical sourcing, and products made with materials from renewable sources. These trends are evidenced in the changing nature of leading retailers' product assortments (referred to as "ranges" in Europe). Home Depot in the United States, for example, has a dedicated green range of more than 3,000 household products. B&Q in the United Kingdom promotes timber from sustainable forests. U.K.-based Marks & Spencer promotes its fair trade products heavily, as does the worldwide Starbucks coffee chain.
- In addition, retailers know from their own experience that more consumers are paying with cash or debit cards, paying down credit card debt, and reducing overall spending on goods they don't need.

Increasing Focus on Customer-Centric Retailing

In response to these changes in consumer attitudes and buying behaviors, retailers are exploring more customer-centric approaches to selling. For example, more hard goods retailers, such as Home Depot (U.S.), Boots, and B&Q (both U.K.), and IKEA (global) are providing self-service checkouts to streamline the shopping experience for certain customer segments.

In other cases, specialty retailers are paying closer attention to offering assortments that are more sharply customer-focused. Their goal is to optimize the balance between choice, product availability on the shelf, and inventory costs.

Availability is the single most important measure of customer service, and it is much harder to achieve in segments such as specialty fashion, where retailers have to cope with variations in size, color, and fit. Fashion specialty retailers will often benchmark at 70 percent service level at store-SKU, compared with 95 percent or more in grocery.

Growing Use of Technology

Some retailers are deploying their own social networking sites to take advantage of their technology-savvy clientele. Mothercare in the United Kingdom, for example, operates a site called www.gurgle.com as a hub for mothers. In addition, a growing number of retailers are feeling the need to maintain a Facebook page.

The use of technology is not limited to shoppers: Retailers such as Saks Fifth Avenue, Polo Ralph Lauren, and Hugo Boss are using “clientelling” solutions with mobile devices in-store to help store associates engage more effectively with customers. Other chains are using wireless terminals in-store to help associates keep the shelves stocked and deliver the availability consumers need.

Business Credit Pressures and Financial Constraints

Given their own troubles, banks have taken a much tougher view of lending to small and midsize retailers. At the same time, Martec has also observed among its own client base that retailers have cut capital expenditure budgets by 50 percent or more. With significantly reduced external capital available, specialty retailers must maximize their cash flow to release funds to help finance inventory and other projects, such as refurbishments and IT investments. Other financial restrictions include the following:

- Expense budgets have been squeezed almost universally. The 2009 edition of Martec's annual IT in Retail survey of the leading 100 U.K. retailers found that IT expense budgets had been cut by slightly more than 20 percent, on average.
- Other budget lines have suffered as well. For example, Martec has seen retail training slashed, and in many cases, staff numbers have been cut.
- Unprofitable stores are subject to closure.
- Specialty retailers are being forced to purchase more cautiously. But without reliable demand forecasts, this can lead to insufficient stock and lost sales—which impacts customer service and retention—or to excess inventory, requiring heavy markdowns that clear stock but reduce margins even more.

Slow Market Growth

At the same time, the online portion of retail sales, while small overall, is growing at a much faster rate than the total retail market. The numbers in Table I on page six include all retail; food depresses the percentages significantly. For example, online retail is 3.7 percent of all sales in the United States, but online retail accounts for 9.8 percent of nonfood sales. In the United Kingdom, online sales are 7.3 percent of total nonfood retail sales. (Source: Multichannel Retail Study – Being a Winner published by Martec International in January 2010, based on research conducted in the second half of 2009 involving interviews with 51 retailers in the United States and United Kingdom.)

Table I: Retail Sales and Online Share

Country/Region	United States	United Kingdom	Europe, Middle East, South Africa	China	India
Year	2009	2009	2008	2009	2009
Retail Sales	\$2,988 billion	£239 billion	\$3,429 billion	\$1,835 billion	\$400 billion
Online Share of Retail Sales	3.7%	4.8%	4.6%	2.1%	0.7%
Retail Sales Growth on Year Before (Inflation included)	-7%	3.9%	-3%	15.5%	10%
Online Sales Growth on Year Before	2%	14%	N/A (-0.5% based on 60 large European retailers)	90%	49%

Sources: Mixture of government statistics; Martec research for online sales in United States, United Kingdom, and Europe; Martec estimates

To counter slow or negative growth, retailers with sales of more than \$500 million a year are turning to geographic expansion to gain market share. Some are choosing to do this through direct investment, others through joint ventures with local companies, and still others by franchising. Companies are leaning toward direct investment in countries they know well and perceive to be a low risk. At the same time, in some national markets such as India, investments mostly have to be made with a local joint venture partner.

Multichannel Retailing as Key to Overall Growth

Retailers of all sizes increasingly understand that multichannel retailing is the optimum strategy for surviving and growing in a market driven by changing customer needs, financial constraints on operations, and slow overall growth. Simply put, retailers need to be open for business whenever and wherever customers want to shop—and they are shopping across the spectrum of brick-and-mortar stores, websites, and online and print catalogs.

Despite this widely acknowledged perception, 55 percent of retailers still do not have an integrated multichannel operation. (Source: Multichannel Retail Study – Being a Winner published by Martec International in January 2010.) Any retailer without an integrated multichannel strategy is putting its business at risk, because those engaged with multichannel operations are taking market share from those without. Late entrants to the multichannel game may never regain that share, and Martec believes that as a result, some will go out of business.

3. Business Challenges

The forces discussed to this point combine to create three significant business challenges that all specialty retailers must address going forward:

- Building customer-centric focus into every aspect of operations
- Boosting the productivity of assets across the business
- Harnessing the power of multichannel retailing to increase sales and market share

The following sections explore each business challenge in greater depth, identifying issues specific to each, proposing strategies for meeting the challenges, and highlighting the potential benefits.

Driving Customer Centricity

Customer centricity literally places the customer at the center of the specialty retailer's business—from initial planning, assortments, and buying, to merchandising and customer service.

For example, the business must target optimal levels of in-stock service for specific products or categories, based on an understanding of demand. From the customer's perspective this means "as high a service level as possible." From a business perspective, the objective is to keep levels as low as the customer will accept, without compromising loyalty and sales. Business success depends on striking the right balance. Table II below, and continued on page 8, offers examples of business issues, strategies, system support, and benefits.

Table II: Recommended Approaches To Address Customer Centricity Issues

Business Issue	Proposed Strategy	Main Systems Support Needed	Benefits
Shoppers trading down or holding back	<ul style="list-style-type: none"> - Adapt assortments: include value ranges and products that target changing customer preferences - Reduce pricing if consistent with brand image - If you are a multi-brand (multi-format) retailer, adapt focus of brands/formats - Change supplier base and product specifications 	<ul style="list-style-type: none"> - Analysis of sales by price point or good/better/best architecture - Analysis of past promotions to predict future responses - Customer segment analysis if you have the base data - Analysis of sales by channel to assess changes in different channels 	<ul style="list-style-type: none"> - Increased sales - Improved customer retention
Consumers becoming greener	<ul style="list-style-type: none"> - Ensure in-store and external marketing speaks to "green" 	<ul style="list-style-type: none"> - Analysis of sales by product trait over time and geography; also by customer segment, if possible 	<ul style="list-style-type: none"> - Increased sales - Improved customer retention
Customer dissatisfaction driven by poor availability	<ul style="list-style-type: none"> - Set service-level targets by product or product type - Focus inventory investment on most important products - Clear excess inventory to release funds for new, 	<ul style="list-style-type: none"> - ABC analysis of sales and inventory to identify the products and inventory generating the sales (One fashion retailer of accessories found that two-thirds of his stock was more than 	<ul style="list-style-type: none"> - Every 2 percent improvement in availability delivers 1 percent same-store sales increase - Average clearance cost in specialty retail is 7 percent sales. Could

Business Issue	Proposed Strategy	Main Systems Support Needed	Benefits
(continued) Customer dissatisfaction driven by poor availability	<p>faster selling merchandise</p> <ul style="list-style-type: none"> - Ensure store-SKU sales data is accurate and complete - Address shrinkage issues 	<ul style="list-style-type: none"> - three years old; nearly all his sales were being generated by a third of the inventory) - Slow-seller analysis to identify products to clear or delist; sell-through analysis to determine when to mark down - Store system and process improvements for items that do not scan first time - Physical inventory analysis to identify high shrink stores and possible or selective investment in loss prevention systems 	<ul style="list-style-type: none"> - reduce to 5 percent sales, improving margin and pre-tax profit - Average shrinkage is 2 percent sales at retail prices and up to 6 percent at high shrink stores. Can bring high shrink stores more in line with the average
Inadequate customer service	<ul style="list-style-type: none"> - Align staff coverage with high-traffic shopping hours - Ensure fast, efficient checkout processes for land stores and online sites - Provide information resources to customers in land stores (including well-trained associates) and via online channels 	<ul style="list-style-type: none"> - Analysis of total sales by time of day and day of week - Manually adjusted labor schedules - High-performance store systems - Use of wireless devices for queue busting - Installation of customer help desk in appropriate segments or customer-accessible website terminals (see Table IV for website improvements) 	<ul style="list-style-type: none"> - Increased sales (potentially 2–5 percent in Martec’s experience) - Reduction in abandoned carts and lost sales in physical stores - Improved word-of-mouth marketing, customer confidence, and satisfaction levels

Improving Asset Productivity

Lack of growth and the changing consumer presents major barriers to the productive use of the specialty retailer’s core assets. These barriers are made even more daunting by consumers’ growing use of tools such as Internet search technology, social networking sites, and smart phones that offer access to information on the go and guide their shopping experiences. With shopping no longer as much of a social experience as it was a few years ago, consumers are using technology to find exactly the items and value they seek, and thus are likely to patronize the retailers that make this search easiest for them.

Specialty retailers instinctively try to respond to this challenge by minimizing stock-outs, maximizing store hours and locations, and so forth. But financial realities such as tight credit, capital limitations, and margin erosion make this course of action difficult, and potentially dangerous.

Simply put, specialty retailers need better solutions for improving asset productivity within their operations. The following table provides examples of business issues, strategies, and benefits specific to this challenge.

Table III: Recommended Approaches To Improving Asset Productivity

Business Issue	Proposed Strategy	Main Systems Support Needed	Potential Benefit
Reduced capital expenditure	<ul style="list-style-type: none"> - Prioritize investments for projects that squeeze existing assets harder 	<ul style="list-style-type: none"> - Inventory management applications, staff and selling space management applications, Payment Card Industry Data Security Standard (PCI DSS) 	<ul style="list-style-type: none"> - Improved return on capital employed
Restricted credit availability	<ul style="list-style-type: none"> - Improve inventory turn to generate cash faster - Map merchandise flow with sales to align with available cash flow - Ensure faster settlement of credit card transactions and faster banking of cash 	<ul style="list-style-type: none"> - Inventory management applications, staff and selling space management applications, PCI DSS - Use of good third parties for credit/debit card processing; POS back-office system for takings analysis and banking 	<ul style="list-style-type: none"> - Savings on inventory carrying costs and improved cash position - Reduced bank charges
Sales growth	<ul style="list-style-type: none"> - Develop overseas operations by opening stores - Develop new formats that leverage brand strength 	<ul style="list-style-type: none"> - A complete “system” in the wider sense of the term that can be rolled out in multiple countries or formats to provide all needed support 	<ul style="list-style-type: none"> - Reduced expansion risks in new countries or non-viability of new formats by implementing trial stores at lower costs
Expense management	<ul style="list-style-type: none"> - Maintain tight control of all expenses 	<ul style="list-style-type: none"> - Comprehensive accounting system - Analysis of expense by expense driver and as a percent to sales 	<ul style="list-style-type: none"> - Decision-making based on accurate view of costs, especially for multichannel retailing
Margin erosion	<ul style="list-style-type: none"> - Set initial prices based on market understanding and competitive shopping analysis - Plan smarter promotions - Take clearance action early if the rate of sale is lower than predicted (it always costs less) 	<ul style="list-style-type: none"> - Margin warnings if initial prices set too high or low - Competitor price data - Reports on promotion effectiveness and sell-through 	<ul style="list-style-type: none"> - Reduction of markdowns and lost sales due to out-of-stocks shortly after promotion starts - Increased promotion sales (by up to 8 percent) - Reduced clearance costs
Insufficient inventory based on conservative buying or excess inventory that’s not backed by adequate controls	<ul style="list-style-type: none"> - Tightly couple inventory planning with demand estimation and sales planning - Develop improved in-season inventory management - Maintain accurate inventory records 	<ul style="list-style-type: none"> - Good inventory management functionality and focused reporting - Use of store systems and wireless devices to ensure accuracy of inventory data 	<ul style="list-style-type: none"> - Reduction of lost sales by up to 50 percent, based on Martec’s experience (Lost sales range from 8–20 percent of sales, depending on whether they are hard goods or fashion (size/color/fit).)

Achieving Multichannel Engagement

Multichannel retailing, a top priority for many retailers right now, differs from the pure online channel approach because it lets the customer start the transaction in one channel and finish it in another. As customers perceive it, multichannel retailing gives them flexibility; from the retailers' view, it can foster increased sales and loyalty. They can mix and match online and brick-and-mortar channels for research, buying, fulfillment, and returns. How well retailers can execute their multichannel strategies has a direct impact on consumer buying decisions.

Success ultimately depends on giving all channels, stores, divisions, and subsidiaries a consistent and comprehensive view of customers, products, inventory, financials, and more. But while multichannel retailing can simplify and streamline growth within stores and across geographies, decision-making and action must be backed by integrated information and systems. Table IV below outlines issues, strategies, and benefits for multichannel engagement.

Table IV: Recommended Approaches To Achieving Multichannel Engagement

Business Issue	Proposed Strategy	Main Systems Support Needed	Benefits
Online sales growing faster than the retail market, cannibalizing store sales	<ul style="list-style-type: none"> - Improve search functionality (both through engines and within online storefronts) to make it easier to find products - Use social networks (such as Facebook) to drive consumers to website - Include customer feedback on products/experience - Automatically receive content from vendors - Analyze online sales by postal code 	<ul style="list-style-type: none"> - Website software 	<ul style="list-style-type: none"> - Savings of 1–9 percent of store sales from reduced store cannibalization, and increases from new online customers also shopping in the store - Online-leader growth of up to 25 percent a year
The need to use the online channel to make initial inroads into overseas markets at lower cost/risk	<ul style="list-style-type: none"> - Provide local product assortment, local market prices, in country-specific delivery options 	<ul style="list-style-type: none"> - Localized website software 	<ul style="list-style-type: none"> - Ability to test product and concept acceptance in other countries at lower cost
Lack of multichannel operations	<ul style="list-style-type: none"> - Provide multichannel buying options: order online, collect in-store, order online but return to store, quote in-store, order online, order in-store and deliver to home - Implement a single view of the customer across channels 	<ul style="list-style-type: none"> - True multichannel software - Information capture: customer name, address, and order history for online orders; card use when collecting or returning in-store - Link to store transactions for single view for customer - Full CRM for greatest benefit 	<ul style="list-style-type: none"> - Capture of market share before competitors catch up
Not using the Internet and mobile phones to improve customer service	<ul style="list-style-type: none"> - Electronics retailers, for example, send delivery confirmation text messages to customers' mobile phones - Allow smart phone users to surf your website, for example - Send targeted coupons to smart phones 	<ul style="list-style-type: none"> - SMS capability for direct communication to individuals - Link to CRM database to distribute marketing messages, etc. 	<ul style="list-style-type: none"> - Additional ways to improve customer service without more staff

4. Five Timely Investments to Accelerate Growth

Tight credit and capital constraints have already been noted as major barriers to meeting the business challenges facing specialty retailers today. However, a set of strategic investments, carefully planned and executed as the specialty retail marketplace regains its footing, hold the potential to help drive customer centricity, improve asset productivity, and achieve multichannel engagement.

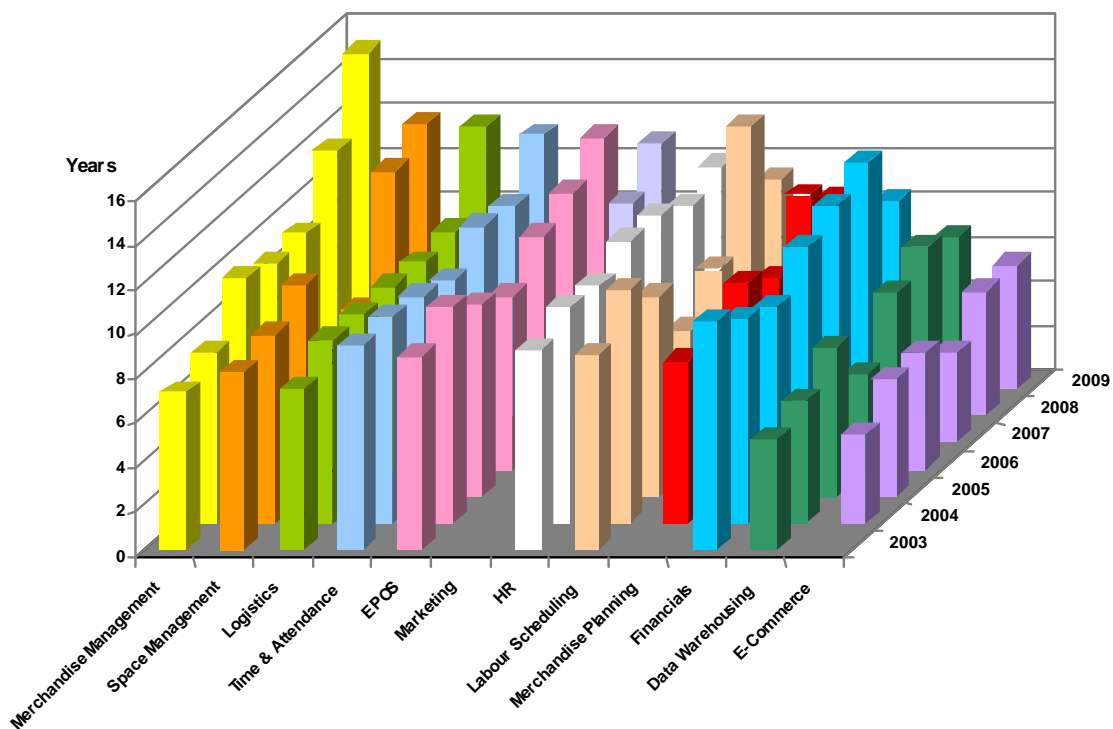
Martec recommends five priority investment areas to help specialty retailers accelerate growth in market share and profitability during the next five years.

Unified Core Systems

Martec research shows that on average, retailers replace their core systems, also known as transaction processing systems, about every 10 years. The primary core system is the merchandise management or category management system, which addresses the life cycle from purchasing through distribution and sales.

Financial systems follow the same general replacement timeline. E-commerce, or online retailing, systems currently are replaced every four to five years, primarily because this is a new, quickly developing field. In between replacements, retailers always have an existing systems infrastructure that can constrain their ability to make new investments.

Figure 1: Age of Various Systems When Retailers Replace Them



Source: IT in Retail Survey by Martec International, 2009

Many retailers will use workarounds to bridge the gap between their needs and the systems replacement cycle. They will download data into office systems or other bolt-on applications to serve their own local purposes. Often this will result in different and inconsistent versions of the information, errors introduced by additional manual steps, and concern about the integrity of the data. It will also consume significant staff time reconciling the different sources and removing errors. Indeed, many CEOs are frustrated at the time they spend reviewing numbers that turn out to be wrong.

Periodically, vendors release upgrades for their products that can mitigate the need for some of the bolt-on applications or tools. In some cases, customers find that implementing the upgrades incurs significant expense, because their chosen vendors do not have a viable upgrade strategy and architecture.

Establishing the right merchandise management system is the most important first step to resolving these issues, closely followed by establishing the right accounting and store systems. Everything else will interface with or touch these systems in some way. This initial investment can enable retailers to become more customer-centric and drive inventory productivity—their biggest asset.

Small retailers with modest growth plans will buy systems they need today and that can cope with modest growth. However, small retailers that expect to be big retailers one day will buy with significant growth in mind, because they know the lifespan of a core system.

When choosing a new system, or upgrading a current system, retailers should consider the following selection criteria:

- Buy a solution that is integrated with or built on a common platform, and that uses a common database across stores, headquarters, and supply chain, so that it can easily support all necessary analyses. Achieving a single view of sales and inventory and being able to analyze that view against space and labor requirements/costs help drive productivity and profitability.
- Ensure that your systems replacement project is multichannel-ready and addresses the integration needs of multichannel operations.
- Beware of “suites” created by a mass of acquisitions; they may not offer the degree of integration you require.
- Select a solution that has the core functionality you need and an established portfolio of complementary partners who can supply specific solutions, such as demand planning tools or transport scheduling.
- Choose a solution that has a well-developed future roadmap so you know it will grow with you as your business grows. Ensure that it recognizes the empowered consumer by providing current or future functionality that supports changing shopping methods and patterns—both for channels and access to information.
- Buy from a vendor that has a well-designed strategy for new releases and upgrades. You may keep a new system for 10 years as others do, but you will upgrade it regularly as new functionality becomes available. You need to be able to access this functionality without paying to re-implement previous customizations.
- If international development is part of your growth strategy, buy from a vendor that supports all the countries you may operate in.
- Look for a vendor that will remain intact during the anticipated life of your system. Recent years have seen significant consolidation activity, causing some well-known names to disappear.

- Look for a vendor that can be a full-service provider, either directly or in conjunction with their partners. Many potentially successful implementations don't succeed because of a lack of project or change management.
- Factor the potential return on investment and the total cost of ownership during the life of the investment into your selection criteria.

Retail Optimization

You've heard it before: Retailers need a single view of the customer. This means different things to different people, but essentially the aim is to have all the knowledge about an individual customer connected and visible on inquiry. For example: how much a customer buys in each channel, how often they returns things, how often purchases are made on promotion, whether a customer buys good, better, or best product. Detail at this level provides insight critical to planning and decision-making.

Retail optimization—also known as business insight, business intelligence, or decision support applications—delivers the analysis and planning tools that management uses to make key decisions. Whether the tools cover merchandise and assortment planning, price management and optimization, forecasting, or allocation and replenishment, they depend on the ready availability of data. This data needs to be conveniently accessible while providing a complete view of relevant information. For example, a customer ordering online for in-store pickup needs to know that the item can be collected soon because the store has it in stock, while employees must be notified to retrieve it from the shelf and hold it until collected.

The net goal is to have an integrated database designed for fast access and ease of use, and the reporting and query tools to help management and analysts get to the facts that help shape strategy and run the operation successfully.

Investing in retail optimization will help drive asset productivity, reinforce customer centricity, and support analytics used to improve online and store channel performance.

Online and Multichannel Retailing

Because it is growing at a faster rate than the retail sector as a whole, the online channel is taking up market share. Retailers who establish an effective multichannel strategy will be better positioned to ensure that they benefit from the shift to online selling more than their competitors. Timing is critical; retailers who start too late risk losing their business.

Key components of multichannel retail include:

- Cross-channel customer order management, such as the ability to order online and collect in-store, order online and have it delivered, order in-store for home delivery, and return it either to the store or online.
- Price management to avoid channel conflicts, especially if the stores operate zone pricing (different prices in different stores or areas).
- The ability to start a transaction in one channel and complete it in another.
- A single, consistent view of the customer and their history across all channels.
- Management of a common inventory across channels to provide maximum customer service.
- Cross-channel knowledge transfer. For example, use online customers' postal codes to pinpoint potential locations for new stores, or test new designs online before putting them into production or rolling them out to the store channel.
- Search technology that enables both consumers and employees to research easily, whether online, offsite, or at an in-store kiosk.

- Use of social networks such as Facebook to get product ideas and advice from friends or other consumers, and retailers' pages to help create demand and assist in product selection.
- Ability to fold mobile applications into the customer service loop. Examples include sending text messages to confirm delivery times, and providing store-brand credit card balances and coupon offers via smart phones.
- Ability to do business in another country without the start-up investment risk of putting stores there.

Systems Support for Geographic Expansion

Specialty retail growth is often about opening additional stores, either domestically or overseas. Growing the store base allows headquarters costs to be amortized over a larger sales base, thereby working corporate assets harder and increasing profitability.

Some retailers have plenty of room for growth in their domestic market, perhaps with new formats such as factory outlet stores. Increasingly, however, both midsize and large retailers are expanding overseas. They may do this by direct investment, through a joint venture (JV) partner, or through franchising. JVs and franchises are good ways of using other companies' capital to expand.

However retailers address overseas growth strategically, a prepackaged, preconfigured specialty retail solution will be extremely valuable in moving from country to country. It will reduce costs, and will also make it easier to transfer key personnel between countries to help launch new operations. Many retailers choose to work with global vendors to simplify the process.

When thinking about the selection of a system in these circumstances, retailers should consider:

- How quickly will I be able to deploy it in a new country?
- What localization will be necessary for spellings, date formats, taxes, etc.?
- How will I address debit and credit card processing locally?
- What will it cost?
- What support is available locally to provide timely response to support calls and avoid time zone issues?
- How will I consolidate financial information and key performance indicators across countries?
- How will I do trend analysis across countries? How easy will the learning curve be for staff in each country? How much training will they need?

Customer Relationship Management

Businesses must understand their clientele in order to sell to them effectively. There are many ways to get this information, especially in a multichannel business.

Online customers must provide at least name and address data to get delivery or collect goods from stores that were ordered online. This information will populate an initial customer database, and it may be possible to identify their store transactions if they use the same plastic card when they pay. If customers collect or return in-store, this adds to their profile. Keeping the customer's purchase history across all channels presents the opportunity to run a "clientelling" program, where a salesperson can call up a customer's past purchases on a register or handheld device and use this knowledge to propose additional items. (Clientelling

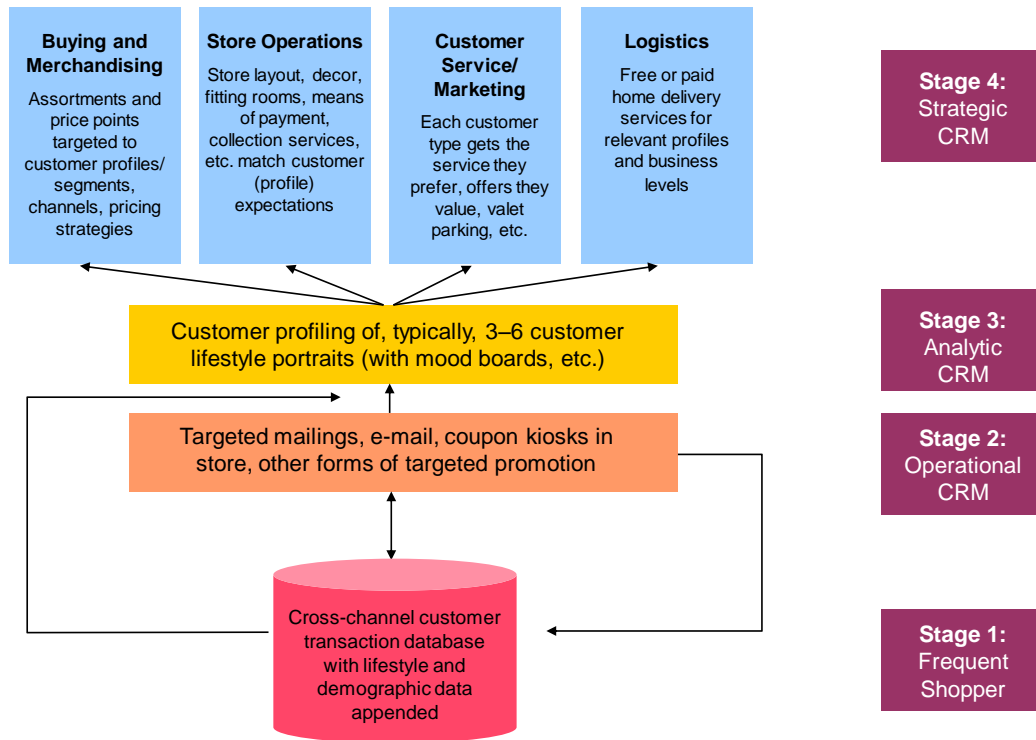
is normally associated with the more up-market brands, such as Polo Ralph Lauren, Giorgio Armani, Hugo Boss, and Saks Fifth Avenue.)

By their nature, multichannel operations provide the ability to learn about customers that shop more than one channel, even without the additional cost of a CRM program. However, a CRM program greatly extends a retailer's reach in a multichannel business, and is nearly indispensable in an online operation.

As Figure 2 on page 16 shows, there are four stages to the development of CRM programs:

- **Stage 1**—During this conventional frequent shopper program, mostly seen outside the specialty retail sector, the retailer gives the customer a reward in order to capture data. (This stage is unnecessary in a pure-play online retailer.)
- **Stage 2**—The data is analyzed and coupons sent to customers to stimulate more visits to the store and additional purchasing. Many retailers have stopped at stage 2, and thus are busy educating their customers only to buy when there is a special offer.
- **Stage 3**—Customers are segmented into three to eight groups, depending on shopping behavior, and profiles developed for the average customer in each segment. Promotions can now be targeted much more precisely to reflect each segment's lifestyle interests.
- **Stage 4**—The big payoff. The retailer uses the customer segmentation and customer profiles to change the way they do business. They plan assortments and tailor customer service and delivery to suit each type of customer.

Figure 2: The Key Stages in the Evolution of Retail CRM



Most retailers are at stage 2, some moving to stage 3, very few at stage 4

CRM, as described in Figure 2, supports all three of the business challenges that have been the theme of this paper. First, the insight gained allows many decisions to be taken at stage 4 in ways that maximize the customer-centric appeal of the business. Even in a “CRM lite” implementation, customer centricity can be improved for customers that shop multiple channels.

More focused investment and customer-centric tools such as search, other customer comments, and liberal return policies can improve online and multichannel retail performance.

5. Summary and Recommendations

Specialty retailers are starting to emerge from the darkest months of the recession. Many are exercising caution, waiting to see how their local economies behave before taking any major strategic moves. However, for specialty retailers in decent financial shape, this actually is an excellent time to make investments and pursue promising opportunities to drive customer centricity, boost asset productivity, and achieve multichannel engagement. Leveraging these opportunities in the near term offers the chance to win market share in a relatively inexpensive and timely fashion—while the competition is still getting organized.

As the specialty retail world continues to evolve, being nimble and fleet of foot will be vital to anticipating and responding to these changing conditions. With this in mind, Martec recommends five timely investments that will help you exploit today's opportunities and be ready when circumstances change again. They are:

1. Invest in **unified core systems** (such as financial, merchandise management, and store systems) that feature a common platform and architecture, to provide the key application support that your business needs. This architecture should support all the core transaction processing needs of your business and those elements of retail optimization that are important to you. To meet this requirement, the architecture will need to be affordable, compatible with installed systems, extensible to support future growth, flexible, and easy to use.
2. Build a database that supports **retail optimization**. The first stage will be to make sure that you have all the reports that support your strategy and key business processes. Some users will need sales and store labor data on the same report. Some will need sales, inventory, and selling space. An integrated database will avoid many hours of staff time creating specific analyses by cutting and pasting. For many midsize retailers this will fulfill their needs. Those with more demanding requirements can implement those elements of retail optimization that support key parts of your strategy.
3. Invest to enable comprehensive **online/multichannel engagement** if you haven't already done so. This includes an e-commerce site that enables prepurchase research and posting of shopper reviews as well as online purchasing, but goes further to include online collaboration with suppliers and in-store support for sales associates as well as shoppers. Look at solutions that support integration of e-commerce with your core systems and supply chain processes, so you can exploit the benefits of multichannel engagement without excessive customization.
4. Invest to support **rapid format deployment**, whether you choose direct investment, joint venture, or franchise operations to grow geographically. Look at prepackaged, preconfigured solutions that you can deploy quickly and easily in new countries or formats at much less cost, and that will interoperate with headquarters and other installed systems.
5. Develop an approach to **CRM**. This could be a full-scale system encompassing all potential customers, or you could begin with a "CRM lite" approach targeting customers who shop online and are or can become multichannel shoppers.

Before embarking on any of these initiatives, consider updating your company business plan—including an inventory of your current systems—to determine how the various trends and challenges described in this paper will affect your strategy. Then you can prioritize more accurately and plan your future investments with confidence.

Appendix

About Microsoft Dynamics

Microsoft Dynamics is a line of integrated, adaptable business management solutions that enables you and your people to make business decisions with greater confidence. Microsoft Dynamics works like familiar Microsoft software, such as Microsoft Office, which means less of a learning curve for your people, so they can get up and running quickly and focus on what's most important. Built to work with Microsoft technologies, it works easily with the systems your company already has implemented. By automating and streamlining financial, customer relationship, and supply chain processes, Microsoft Dynamics brings together people, processes, and technologies, helping increase the productivity and effectiveness of your business and helping you drive business success.

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About Martec International

Martec International is a leading consulting and training firm, specializing in merchandise management, supply chain management, and store operations business processes. With a professional staff composed of former retail executives and managers, Martec works with leading retailers and suppliers around the world to improve their business performance.