



Top Retailers Turn to Next- Generation Enterprise Technology to Stay Ahead of Competition, Protect Margins and Boost Service

FEBRUARY 2009

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Executive Summary

Long regarded as a tough, low-margin industry, retailing has been characterized by waves of innovation and turf battles as companies race to capitalize on the latest shifts in consumer taste and revamp business models to lower overhead and tap new markets.

Tasked with staying on top of these trends but also protecting the bottom line, retail executives routinely grapple with a range of critical decisions—like where to locate stores and which products to stock, how to streamline supply chains, when to open up new sales channels, and how to find new avenues to build customer loyalty. The decisions are complicated by a business environment noted for its low margins, high capital requirements, and cyclical—and often fickle—consumer demand.

Retailers in recent years have turned to new information technologies to deal with these challenges. Indeed, observers say the latest generation of retail applications is rapidly becoming a game changer in the industry. Research by Mainstay Partners, a leader in assessing the business value of IT solutions, found that those retailers deploying leading technology solutions realize significantly greater shareholder returns on average, with the result of technology-driven improvements ranging from enhanced customer loyalty, more efficient sales channels, and more agile merchandising and supply chain operations.

Mainstay specifically evaluated publicly available financial information for the retail industry, comparing business results at these companies against retail industry benchmarks. Its study found that retailers deploying Oracle applications realized higher returns on capital and higher profit rates than their industry peers. This research was supported by additional testimonials and studies conducted at nine top Oracle retail customers, which documented improvements such as leaner supply chains and cost structures, better customer service, and faster response to changes in consumer demand.

Business Benefits Series Highlights

Retailers using Oracle Retail realize 52% higher returns on capital and are 48% more profitable than their industry peers (based on supporting evidence collected from nine top retail companies).

Researched Companies

- Argos
- Arnotts
- Anchor Blue
- DressBarn
- Kamal Osman Jamjoom Est.
- Maurices
- Shoe Carnival
- Tesco
- Waldo

Products Deployed

- Oracle E-Business Suite
- Oracle Retail Merchandising System
- Oracle Retail Price Management
- Oracle Retail Warehouse Management System
- Oracle Retail Trade Management
- Oracle Retail Merchandise Financial Planning
- Oracle Retail Invoice Matching
- Oracle Retail Sales Audit
- Oracle Retail Store Inventory Management
- Oracle Retail Data Warehouse
- Oracle Retail Allocation
- Oracle Retail Demand Forecasting
- Oracle Retail Integration Bus

Industry Challenges

For years retailers fended off competition by relying on the industry's traditional barriers to entry, such as the high capital costs needed to build brick-and-mortar retail outlets. Some of these tried-and-true competitive differentiators remain. Most retailers are still focused on putting stores in the right location, stocking enough of the right product at the right price, and staffing the stores with knowledgeable people who can help move products off the shelf and keep customers satisfied.

Increasingly, though, traditional tactics are only a start. Long-term business success, meanwhile, has become far more complex. New technologies, for example, make it possible for companies to compete for customers in multiple venues and channels—including on the Web, on the phone and in stores—allowing a new breed of retailers to gain market share. According to recent research performed by RSAG Research, the top tier of global retailers employ at least two channels to sell their merchandise, and usually more.¹

To succeed in the new environment, retailers are finding it necessary to adjust their perspectives and command new skills. Increasingly managers need access to a global view of supply and demand; they need the capacity to serve customers anywhere and anytime; and they need to move into new markets—with new products—quickly and seamlessly. Four areas in particular have emerged as the keys to success in today's retail environment:

- **Efficient Supply Chain Management.** Retailers across the board are embracing supply chain innovations to take advantage of strategic-sourcing opportunities overseas, reduce the amount of capital tied up in inventories and limit the company's exposure to supply and demand imbalances.
- **Multichannel Sales Environment.** Consumers today want the freedom to buy products in a variety of ways—whether in stores, through catalogs or over

the internet. The best retailers maintain integrated, multichannel sales environments, offering products and services to customers anywhere, anytime.

- **Agile Merchandising.** To keep up with shifting consumer tastes, leading retailers have developed systems to rapidly adjust prices, promotions, and product mix in response to real-time demand variables like fashion trends, new product releases, and seasonality.
- **Scalable Business Infrastructure.** To capture market share in the booming economies of Asia, Eastern Europe, and Latin America, top retailers are expanding rapidly and seamlessly into these regions with the help of integrated supply chains, accurate demand forecasting, and new merchandising systems.

Among the retailers studied by Mainstay, the most successful were those that had deployed advanced enterprise applications to optimize performance in these four business areas. In particular, these retailers—nine altogether—had deployed applications from Oracle designed specifically for the retail industry. Our analysis of publicly available financial information for global retailers found that companies using Oracle Retail applications realized a 52% greater return on capital than their peers in the industry and a 48% higher profit rate.²

One of the most significant factors behind the financial edge enjoyed by these companies was better inventory management. In fact, Oracle users typically held about half as many days worth of inventory on hand compared to their non-Oracle peers—87 days versus 179 days. In the highly competitive, asset-intensive business of retail, operational efficiencies like this can make or break a business. Beyond this, Mainstay found that these top retailers consistently met short- and long-term strategic goals related to profitability and customer service.

¹ "Retail Trends and Forecasts: Winning Customers in the Age of Choice", RSAG Research, March 2007.

² Mainstay research was conducted in Q1 2008 using financial data for NYSE & NASDAQ listed companies provided by Stratascope Inc., from publicly available financial reports and compiled by Mainstay Partners.

Industry Challenges (CONTINUED)

PROFILE: Argos

Situation:

Argos sells general merchandise and products for the home at over 700 stores throughout the U.K. and Ireland, as well as online and over the phone.

Solution:

- Oracle Retail Merchandising System
- Oracle Retail Advanced Inventory Planning
- Oracle Retail Integration Bus

Results:

- Increased “goods-in” productivity by more than 50% as suppliers adhered to strict delivery guidelines
- Streamlined management of store-level inventory, allowing Argos to manage stock levels daily instead of weekly

To complement its analysis of publicly available financial data, Mainstay also conducted deep-dive studies of global retailers, interviewing key business and IT executives that had deployed Oracle Retail applications. The research included face-to-face workshops, teleconferences, testimonials, and review of internal management and financial documents. In the following sections, benefits captured from this research across each of the key business areas are summarized.

Achieving Supply Chain Excellence

As emerging economies like China and India continue to grow their manufacturing base and offer a widening selection of low-cost merchandise, more retailers are looking to Asia to fulfill their sourcing needs. Global sourcing models, however, can put an enormous strain on supply chains, forcing retailers to wait months before receiving overseas shipments. As a result, retailers often need to procure goods months in advance.

To optimize margins under these conditions, retailers need accurate forecasting models that can predict seasonal demand fluctuations; and they need detailed visibility into inventory levels to place accurate replenishment orders. In an effort to cut overhead costs, some retailers are moving to a direct-shipment model, bypassing costly distribution centers and accelerating “time-to-shelf”.

Among the companies studied, Argos, a leading multichannel retailer in the UK, saw a 50% rise in “goods-in” productivity after it deployed Oracle Retail Merchandising System and Oracle Retail Advanced Inventory Planning, helping suppliers adhere to delivery guidelines such as accurate pallet loading and labeling.

Another retailer improved its inventory accuracy dramatically after it modernized its cycle-counting process using an Oracle Retail application. The retailer also significantly tightened its inventory tracking process, allowing managers to account for every piece of merchandise at its stores. Using the new-found

visibility, the company re-tooled its order fulfillment process and now distributes merchandise based on individual store-level demand.

Creating Seamless Multichannel Retailing Systems

Most large-scale retailers maintain multiple sales channels that offer customers several ways to buy merchandise—from storefronts and catalogs to the phone and the Web. But how do retailers effectively manage the mix of channels? Mainstay’s research uncovered several best practices that leading retailers have adopted to optimize multichannel retailing and avoid customer confusion.

In general, successful multichannel retailers make it a priority to fully integrate their various sales channels, providing “one face” to the customer regardless of the channel. As customers research products in a catalog or online, for example, they should see consistent branding, product selections and pricing.

To achieve full sales-channel integration, retailers need an underlying information system that is similarly integrated, providing consistent and accurate business information—a “single source of truth”—to executives and managers across the organization. Integration can create new purchasing options for customers. For example, it can enable a customer to buy an item over the Web and pick it up at a nearby brick-and-mortar store.

To make the cross-channel sale work, a retailer’s Web-based e-commerce solution must be able to talk to its supply chain system, and then alert the store so the item is ready for pickup. Argos, the U.K. merchandiser, is a good example of a retailer that successfully integrated multiple sales channels and gave customers a convenient new purchasing option. Argos customers can shop online or call in an order, then drop by a local store to pick it up. Fulfillment accuracy is virtually 100%.

Another example is Kamal Osman Jamjoom (KOJ), a multichannel retail group that operates the Body Shop

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GROUP IT MANAGER,
KAMAL OSMAN JAMJOOM EST.

and Early Learning Centers as well as regional brands such as Nayomi and Mikyajy with more than 400 stores in the Middle East. KOJ was hoping to grow the business by better integrating its international markets with a multichannel brand strategy embracing e-commerce, catalogs, kiosks and store-in-store retailing concepts.

Because of the complexity of its business model and poor access to supply and demand data, the company initially struggled to implement the strategy. The difficulties led management to implement an integrated set of Oracle Retail applications. “Integration was key to our decision,” said Thameem Rizvon, group IT manager for KOJ. “We needed a consistent set of data across our brands. Through the integration and rollout of a common set of retail practices, we were able to simplify and standardize processes across the brands.”

Building a Platform for Next-Generation Merchandising

The most successful retailers today are increasingly the most agile ones—those who can react to shifts in consumer tastes and market dynamics almost immediately. Mainstay found that many of these retailers have invested in systems that draw on real-time transaction data to support fast decisions on everything from product procurement and selection to pricing and promotions.

Mainstay found that companies using Oracle Retail applications were well positioned to react with timely, intelligent decisions, in large part because the software suite offered tight integration and data-sharing across core business functions, ranging from global demand and supply chain planning to core merchandising operations and corporate finance. Managers and planners said they depend on the system to provide a “single source of truth” for daily decision making based on up-to-the-minute data.

A leading U.S. apparel retailer deployed Oracle Retail applications and gained faster and more detailed access

to sales and product data. Today it analyzes real-time store inventory and sales data sorted by attributes, such as color, size and style, to rapidly implement strategic price markdowns for selected merchandise.

The same solution helps that retailer automate and speed delivery of operating and financial data to management. At one of the company’s subsidiary units, merchandisers drill down into the Oracle system to review individual store activity, then use the knowledge to set up micromerchandising capabilities that tailor the store experience to local customer tastes.

A family shoe store with 300 stores in the U.S. is boosting operating efficiencies and margins by using Oracle Retail to define regional price zones and better analyze the impact of seasonality and consumer behavior. The company also automated its store-level inventory allocation process, improving turnover of seasonal and fashion items and cutting aged inventory to record low levels.

Ensuring Frictionless Scalability

To grow profitably in today’s environment, retailers can no longer rely only on the old adage, “location, location, location.” Today’s retailers must ensure that their product assortments are tailored to the tastes of regional and local consumers, that their store formats can be quickly adjusted to respond to competitive threats, and that their core retailing operations can scale rapidly and cost-effectively to capture new market opportunities.

A few years ago, a fast-growing beverage retailer and distributor in Latin America began pushing the limits of its business infrastructure, jeopardizing further growth. It turned to Oracle Retail to increase the scalability of the merchandising systems to handle more than four million transactions per day. Moreover, with easier access to operating data, the company successfully implemented a “segmented” strategy that provides stores with a choice of three layouts and product mixes, thereby more effectively targeting local community tastes.

Industry Challenges (CONTINUED)

“We needed a technology provider that understood best practice in retail and could deliver a proven integrated retail footprint with the potential for a quick ROI. Oracle provided the best partnership opportunity and proven track record in department store retailing.”

PETER MADDEN
GROUP CFO & IT DIRECTOR,
ARNOTTS

At Tesco, the giant U.K.-based grocery chain and the world’s fourth largest retailer, Oracle Retail applications are helping drive the company’s expansion plan, which depends on stocking more non-food items such as books, clothing, electronics, and entertainment products. But the move into non-food merchandising came with a host of new management demands, from decisions about fashions, sizes and markdowns to careful management of seasonal fluctuations and product lifecycles.

“We realized we needed a different set of planning systems,” said Marcel Borlin, Tesco’s program manager for range space and merchandising. “The systems needed to be flexible enough to grow with the business and conform to our standards for reliability and delivering to customer demand.” After implementing Oracle, Tesco grew non-food items to approximately 20% of total sales in 2007, an increase of 13% in that year alone.

Oracle Retail applications are helping streamline inventory and boost margins at Arnotts, Ireland’s oldest and largest independent department store. With its new Oracle platform, the company managed to shrink inventory storage areas at its anchor store and use the space savings to expand the sales floor by more than a third. And despite tighter storage arrangements, in-stock performance actually improved. According to Ger Ryan, head of homebuying at Arnotts, the company has since “grown sales on an absolute basis and doubled gross margins because we are delivering better on the space. We are doing everything better with less product.”

Peter Madden, Group CFO and IT Director at Arnotts, said the company “needed a technology provider that understood best practices in retail and could deliver a proven integrated retail footprint with the potential for a quick ROI. Oracle provided the best partnership opportunity and a proven track record in department store retailing.”

Summary

In its study of leading global retailers, Mainstay identified four critical factors that lead to success in this highly competitive industry: Supply chain excellence, seamless multichannel retailing capabilities, market agility, and scalable business infrastructures. The study found that among the top tier of retailers, those that have adopted Oracle Retail applications are 48% more profitable and earn 52% higher returns on capital than their peers.

The competitive edge these companies wield can be attributed to better performance across key business areas. Companies running Oracle Retail, for example, are better equipped to take advantage of low-cost, high-quality global suppliers, improving product selection and availability. At the same time, Oracle applications help these retailers manage their global supply chains with less overhead and inventory.

Top-performing retailers are more likely to deploy multiple sales channels. Oracle offers the most effective technology platform for integrating channels, giving customers a consistent purchasing experience and opening up new cross-channel buying opportunities.

Outstanding operating efficiency is another hallmark of the successful retailers studied. Again, companies that deploy Oracle Retail applications consistently

outperform the competition in areas such as inventory and supply chain management, forecasting accuracy and strategic pricing. What is more, these retailers are leveraging data from integrated systems to support innovative strategies such as micromerchandising programs.

Finally, retailers are looking for solutions that help them attack new markets and tap new sources of revenue today to poise them for long-term competitive advantage. Oracle applications provide a solid, scalable platform that supports a retailer's growth trajectory well into the future. Retailers running Oracle benefit from an infrastructure that can absorb a boom in business without slowing down.

As the retail industry continues to evolve, information technology will undoubtedly play a pivotal role in helping companies address the latest business challenges, from keeping up with consumer buying habits to optimizing global supply chains. Like today, retailers will continue to seek ways to drive revenue and profits, and will turn to enterprise technology to help them "do more with less."