Oracle Retail

How to Win Customers and Increase Profitability
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Retail has been permanently transformed. Beginning in 2000, the industry began to be redefined by macroeconomic, sociodemographic and consumer technology dynamics. These changes have been occurring in two waves over the last decade:

(1) The impact of value formats, Web 1.0, and market saturation (2000-2005); and
(2) Real-time availability and explosion of information (currently underway).

Wave 1: Value Formats, Web 1.0 and Market Saturation

Value Formats compressed prices across broad categories of goods with super efficient supply chains, and they also came to dominate numerous categories by closing the perceived gap in quality in the consumer's mind. The likes of Walmart and Target have blurred the lines of retail to the point that consumers expect to be able to complete a majority of their shopping at one location. To help fulfill shoppers' desires, retailers have turned to pop-up stores, vending machines and self-serve kiosks set up in malls, airports, supermarkets and department stores.

"Due to blurring, retail doesn't look much like it did when I started work in it 30 years ago," notes Lee Holman, lead retail analyst, IHL Group, "and retailers like Walmart and Target have had a lot to do with that. Retailers need to recognize that there is no going back. Consumers' expectations have been raised and they will indeed punish those who don't meet them."

Web 1.0 opened up a new channel of communication for consumers, giving them more information and creating higher expectations for a better shopping experience. This is the problem for retailers of multi-channel retailing. "The shopper is more well-prepared than ever before and quite often simply uses bricks-and-mortar locations for touch-and-feel confirmation before making the actual purchase online," says Holman. "Retailers who embrace this mode of shopping, who offer order-in-store-deliver-to-home service, as well as those who are willing to 'deal' on price with savvy shoppers will win here."

While value formats and Web 1.0 were coming on strong, Market Saturation occurred simultaneously. Particularly in the North America and Western Europe, many retailers realized that increasing the number of stores was no longer a realistic strategy for business growth.

The net effect of these three trends is a hypercompetitive environment where retailers have been getting into each other's businesses and markets, and where the customer experience is the last lever for differentiation.
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expectations have been raised and they will indeed punish those who don’t
meet them.”

Lee Holman, Lead Retail Analyst, IHL Group

Wave 2: Real-Time Availability and Explosion of Information

With the advent of new consumer technologies—particularly Web 2.0, social networking
and mobile—information asymmetries have been eliminated from the consumer’s
shopping experience. If shoppers know that they can scan a bar code and find that
product for a lower price somewhere else, they will likely leave the store and purchase it
where the lower price is available.

Consumers are now in control. They can easily find the best price, the best products and
the best services through multiple channels. The shopping experience is ubiquitous and
seamless, so to be successful retailers must respond with an anywhere, anytime strategy.

These two waves of change are epic, particularly when considering that they have
 occurred with two equally profound trends ongoing as a backdrop: 1) the radical
reshaping of the economy and its impact on consumer priorities and 2) the
demographic time bomb that is the aging baby-boomer population.

Retailers must stay on top of new economic conditions, particularly in a volatile economic
time such as the recession beginning in 2007. Retailers must continually be alert for
economic recovery, which could happen quickly or slowly over the next 10 years. But they
also must be aware that the buying population will likely never return to the post-
recession spending habits.

The recession and the number of unemployed citizens have affected shopping habits in
significant ways. And, it may likely take 10 years or more following the recession for a
return to full employment, according to Martin Feldstein, George F. Baker Professor of
Economics at Harvard University and President Emeritus of the National Bureau of
Economic Research (NBER). Full employment, Feldstein notes, means the current
unemployment rate will be reduced from 10% to 5%.

Other factors affecting economic recovery include the decline in the dollar and an
expected increase in exports and decrease in imports—resulting in reduced output
available for U.S. consumption, according to Feldstein. During this time and beyond,
retailers must be aware that consumers are permanently reshaping their spending and
saving habits.

While staying keenly aware of the state of the economy, retailers also must prepare for an
upcoming Demographic Time Bomb. The growth of the technology savvy younger
generation, the after-effects of the ballooning of the unemployed, increasing aging
population and changing percentages minority consumers all are influencing how retailers
must approach their customer base.
While Merchandising 1.0 was about creating business efficiencies and data accuracy, Merchandising 2.0 is about selling more product in a new way.

Redefining Retail in a Radically Changed Retail Landscape

In the wake of the two waves of change, combined with economic and demographic shifts, retailers need to radically refine and redefine their business strategies. This is not a new concept. Retailers started to rethink retail as a whole as early as 1995, when Amazon.com was born. “When I can order a 400-pound safe and have it delivered free of charge from 2,700 miles away, and still beat a local retailer’s price on the identical item, something big has happened,” says Holman. “Every retailer that wants to survive has to take stock of not just their customer service, but their supply chains, their cost controls, their HR, etc.”

By following the three imperatives set forth below—retailers will be poised for success in today’s complex and challenging retail environment.

Renew Focus the Customer Experience

While Merchandising 1.0 was about creating business efficiencies and data accuracy, Merchandising 2.0 is about selling more product in a new way. Retailers must merchandise to the customer, not the category. It’s a customer-centered environment, no longer a product-centered environment. Today’s category managers could become customer segment managers in the future.

Some solutions that help renew focus on the customer experience include those that address Customer Engagement, including CRM and in-store applications such as Point-of-Service and Returns Management; Customer Assortment, including Planning & Optimization (Size Profile Optimization, Assortment/Category Management, Markdown Optimization); and Customer Assortment, including Returns Management.

Shoppers in the redefined retail landscape are smarter, better-informed and more budget-conscious. With ever-increasing ways to share information with their peers and the retailers, they know what they want, when they want it and how they want to receive it…and they will settle for no less. Retailers must respond by identifying these demands and meeting them in efficient, effective and innovative ways.

The following four strategies highlight some of the most significant ways retailers can become a more meaningful part of their customers’ lives.
1. Make Yourself Relevant to the Customer

Price is no longer a mystery to consumers. Today they know what price they want to pay before they walk into a store. Once retailers realize that and meet shoppers at their price point, the next step is figuring out how to make their store or brand the consumers’ first choice. Oracle solutions are helping retailers meet this goal by addressing size profile optimization, demand-based planning and markdown optimization.

**Nordstrom** is using size profile optimization technology from Oracle to create unique store size profiles for its apparel merchandise; and **Tesco** has been able to better focus on consumer demand for a growing array of merchandise with Oracle’s Planning Solutions. **Wet Seal** implemented Oracle Retail Markdown Optimization in order to more efficiently control promotions running in the more than 400 mall-based stores. During difficult economic times, such as the recent economic downturn, retailers learn to manage their inventory more efficiently in order to cut back on costs. Offering less merchandise on the floor prevents retailers from having massive discounts at the end of season. The ultimate goal is to maintain fresh assortments and drive consistent and repeat traffic.

Retailers can focus on planned discount vs. a panic discounts with the right balance of inventory. Retailers have an opportunity to take more control with more deliberate and smarter pricing and promotions.

2. Embrace the Multi-Channel Customer Experience

It’s not enough to have a web site. The smartest retailers are working to ensure that all channels present a consistent brand and allow customers to purchase, receive and return merchandise using the format they choose. Technology solutions that assist in this process can include Inventory Management and Returns Management.

Retailers should carefully organize and plan cross-channel efforts for optimal execution, says Sucharita Mulpuru, vice president and principal analyst for Forrester Research. “Any multi-channel effort is a pretty big one that requires a lot of different players to come together and it requires a lot of organizational and technology synergies,” she says in the Retail TouchPoints 2010 Outlook Guide. “This isn’t about taking baby steps—it’s about committing to multi-channel and aligning your incentives and your organizational structure in such a way that you can set yourself up for success.”

**Perry Ellis**, both a wholesaler and retailer, implemented Oracle Retail Allocation to provide common information across channels in order to become more efficient and
meet customer demand. In addition to streamlining inventory operations, Oracle Retail Advanced Inventory Planning is creating a better situation for NEXCOM employees by providing store personnel with easier access to information that enables them to immediately respond to the needs of their customers.

Many retailers also are focusing on returns management solutions because it improves the customer experience by enabling quicker, easier and more accurate returns across all channels by providing associates with real-time access to return information. Additionally, returns management can reduce cross-channel fraud by organized criminals who commit same-day returns with merchandise stolen from one channel and returned to another.

3. Focus on In-Store Customer Service

Keeping current customers and acquiring new ones is a constant struggle for today’s retailers. The information explosion has given consumers unlimited access to pricing and peer reviews of products. With that in mind, retailers need to find new and innovative ways to keep customers inside their stores and motivate them to return.

Investing in a modern point of service technology solution is one significant way retailers can do a better job of keeping customers in the store and ensuring sales from those customers. A modernized point of service solution can provide a number of benefits including: line-busting for quicker checkout, cross-channel save-the-sale capabilities, cross-store inventory search, direct inventory updates, promotional pricing and access to detailed customer information.

Particularly in a recessionary economy, improving store associate productivity is vital for improving in-store service. Many retailers also are focusing on better managing their workforce to create efficiencies and cut costs, in addition to providing better customer service.

And there is no better time than the present to focus on the workforce. Sales per employee were down in 2009 over 2008, according to Retail Horizons. Approximately 49% of retailers surveyed said that employees’ top annual sales dropped dramatically, to $50,000 from $100,000 the previous year. In 2009 47% of survey respondents cite Leadership Development and Associate Training as key initiatives.

Mobile, digital signage and kiosk technologies also are playing a key role in improving in-store customer service. Kiosks provide product information and self-service purchasing; handhelds help store employees personalize service for individual customers; and digital signage can provide a distinctive way to market products as well as interactivity with shoppers.
“The key to leveraging mobile successfully is to see it as an integrated part of the retail story,” says Gary Schwartz, president and CEO of Impact Mobile, as quoted in the 2010 Outlook Guide. “Why? Because mobile is difficult for the consumer to discover: Apps (however cool) as lost on the phone and rarely used post-download.”

Based on Nielsen research, the consumer will only stay loyal to a limited number of applications. “The consumer will only actively use five applications on their Smartphone at a given time,” says Eric Puterbaugh, director of client services at Nielsen.

4. Leverage Social Networking

Social networking—the latest way consumers learn about products—has eliminated dependence on retailers to inform consumers through advertising. Now shoppers are getting information from peers and other consumers, whom they consider more reliable and trustworthy. Those companies that are choosing a wait-and-see attitude, hoping that social networking will fade away, should beware.

The craze is only beginning. Some statistics related to social networking from Eric Qualmann of Socialnomics.net shed light on the present and future:

- By 2010 Gen Y will outnumber Baby Boomers... 96% of them have joined a social network
- 25% of search results for the World’s Top 20 largest brands are links to user-generated content
- 34% of bloggers post opinions about products & brands
- 78% of consumers trust peer recommendations; only 14% trust advertisements
- 1 out of 8 couples married in the U.S. last year met via social media
- If Facebook were a country it would be the world’s 4th largest between the United States and Indonesia (note that Facebook is now creeping up—recently announced 400 million users)
- The fastest growing segment on Facebook is 55-65 year-old females and more than 1.5 million pieces of content (web links, news stories, blog posts, notes, photos, etc.) are shared on Facebook... daily.
- 80% of Twitter usage is outside of Twitter... people update anywhere, anytime... imagine what that means for bad customer experiences?
- The #2 largest search engine in the world is YouTube
- There are over 200,000,000 Blogs
Retailers can join in the social media revolution in several ways. They can advertise within relevant media, monitor communities to elicit trend information or participate actively by creating company blogs, posts, chats, surveys and groups. “Enterprise technologies such as Oracle Beehive and social media platforms such as Facebook and YouTube make it possible to easily devise ideas and test them or take input from key constituents on trends and act on them quickly to capture a hot market trend,” notes Van Houten.

Renew focus on the customer experience means identifying consumers’ demands and meeting them in efficient, effective and innovative ways. Along the way retailers will be moving from managing a category to managing a customer segment and better understanding how to leverage social networking as another way to reach your customers and offer closed-loop communication.

Invigorate Operational Excellence: Enabling New Ways of Working

With a keen eye on invigorating operational excellence, retailers will be able to leapfrog the competition. A few of the areas where technology solutions can jump start the process of invigorating operational excellence include technologies related to managing the supply chain, managing store operations and floor selling space, and the user interface layer of any software application employees interact with.

1. Delivering to Demand

Creating a smarter Supply Chain will help reduce costs while improving customer service, even in the most complex operations. Retailers who deliver merchandise strategies with systems that hone every aspect of the supply chain will prevail.

**Best Buy**, for example, is known for anticipating and enhancing the consumer experience through value added services and a dynamic merchandising strategy. Optimizing Demand and Replenishment is equally important. Demand must become more personalized for retailers to better understand their customers and better meet their customers’ individual desires. The challenge here is defining a standardized and systematic approach to predicting this ‘personalized demand’.

A number of retailers have made significant progress in creating a smarter supply chain. As part of a more than $75 million project to vastly upgrade its supply chain, **NEXCOM** has implemented Oracle Retail Store Inventory Management. 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.
“Merchants can’t keep buying against ‘infinite distribution capacity’ because there’s no such thing.”

Nikki Baird, Managing Partner, Retail Systems Research

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2. Managing Space an Asset

By better utilizing every inch of the store most effectively, retailers can provide optimum customer service. Space optimization technologies can help optimize product placement, the checkout experience and promotion/merchandising strategies. For some leaders the trend toward a keener focus on customer service has become the new marketing strategy. Leading retailers are anticipating consumer expectations and placing of key categories within the store to grow the market basket. Some retailers within the grocery industry, for example, have found a way to connect more effectively with their regional markets while harnessing the efficiencies of a larger corporation.

Through a partnership with Oracle Retail, Galleria and Nielsen, these retailers are able to offer a streamlined and centralized set of optimized store layouts configured to meet consumer demand and maintain a consistent and corporate compliant brand experience. Oracle Retail tracks sales and offers the history to make better recommendations. Galleria as optimizing and mass production of the visual planogram and Nielsen as the providing the Master planogram to support the process.

A fast growing electronics retailer in Turkey, Teknosa deployed Oracle Retail Macro Space Management and Oracle Retail In Store Space Collaboration to bring promotions and campaigns to life in the store. The Container Store has become a best-in-class case for implementing Oracle Retail Macro Space Management. Selling primarily storage and organization products, The Container Store discovered Oracle Retail Macro Space Management and In Store Space Collaboration and their capacity to serve both as an internal planning tool and an external tool for the stores.

3. Store Transaction and Operations Management

Better management of store functions and overall operations will bring retailers much needed financial relief. Retailers should focus on creating “closer ties between merchandising and the supply chain,” notes Nikki Baird, managing partner, Retail Systems Research, in the 2010 Outlook Guide. “Merchants can’t keep buying against ‘infinite distribution capacity’ because there’s no such thing. And the retailers that are paying attention to how mismatched metrics are driving some of these non-productive behaviors are starting to set their sights on tackling this age-old problem in a substantial way.”

Some retailers chose Oracle Retail Stores applications for the ability to integrate with the retailer’s existing solutions as well as for key functionality in the areas of centralized return, signature capture and PIN debit. Sunrider International, a leading herbal
products company with more than 3,000 corporate and franchise-owned locations worldwide in China, Taiwan, Korea, Malaysia and Singapore, selected Oracle Retail stores applications and Oracle E-Business Suite Financials Release 12 to enable the rapid expansion to new locations worldwide. Sunrider implemented Point-of-Service, Back Office and Central Office in 16 weeks. **Scheels Sporting Goods** implemented a customized, open Point-of-Service solution. The company realized a number of benefits including improved customer service, faster checkout, and enhanced capabilities to capture data and run meaningful reports, and improved employee satisfaction and productivity.

4. In the Future Look for a Better User Interface

A better user experience, on top of the tools people use to do their jobs, will simplify the daily activities of employees, and generate business value through better collaboration. The best user interface (UI) will orchestrate a unified layer at the top of the core enterprise technology footprint, providing the ability to bring together the inevitably heterogeneous retail IT footprint – effectively connecting applications from multiple sources in a way that capitalizes on existing IT investments and enables retail end users to work smarter and faster.

Through Oracle Retail Workspace, Oracle Retail delivers high value usability to the retail enterprise by leveraging its robust legacy retail functionality, infusing it with embedded science and business intelligence, and wrapping it with Web 2.0 UX technologies from the Oracle Fusion tech stack. Oracle Retail Workspace creates value for retailer retailers in 4 ways, including: 1) Improving the user interfaces of existing systems; 2) Connecting data and functionality from disparate systems into more holistic workflows; 3) Extending the existing retail technology footprint to enable new ways of working that accommodate multi-channel, mobile, social and customer-centricity workflows; and 4) Evolving the heterogeneous retail technology infrastructure as it inevitably changes over time with the business. Oracle Retail Workspace is an open layer of technology that facilitates interaction between enterprise systems and key user roles across the retail organization to enable business process innovation for the business.

By invigorating operational excellence, retailers are able to serve customers better by providing the right merchandise at the right time and make the in-store shopping experience more pleasing and productive. These customer benefits, combined with the financial relief provided by more efficient operations, create a win-win for retail companies and their shoppers.
Oracle has driven $4 Billion in incremental gross profits for retailers.

Building Foundations for Growth

In the new era of retailing, companies must rethink their growth strategies. Many U.S. retailers are facing a saturated marketplace and are now looking abroad for expansion. Others are focusing on finding new formats to sell their brands domestically.

Some solutions that address building foundations for growth include Merchandising and Point-of-Service; and when retailers are looking to expand beyond stores, social and mobile technology can help.

1. Focus on International Growth

Most U.S. retailers have slowed domestic expansion but are finding opportunities in expanding their brands internationally.

With a new focus on international expansion in place, Abercrombie & Fitch implemented Oracle Merchandising and Point-of-Service (POS) to replace outdated legacy and custom merchandising and store solutions. Abercrombie was experiencing flattening operating margins as prime new store opportunities in the U.S. were exhausted and as the costs and efficiency challenges of managing a larger retail organization began to surface.

Media-Saturn Holding is combining the power of customer relationship management with a solid merchandise foundation to launch the next generation store systems as the company expands and competes in new global markets. Headquartered in Ingolstadt, Germany, the company manages two retail brands, Media Markt and Saturn, with more than 800 stores in 16 European countries. One of the largest do-it-yourself home improvement retailers in the world, Lowes, which operates more than 1,600 stores throughout the U.S. and Canada, recently recognized that the company lacked a system that could support global growth plans of rapid market entry. Lowe’s has implemented a new solution from Oracle that creates a common process and IT platform that can be used to support future international expansion while taking a comprehensive business approach to ensure coverage of all business processes.

2. Expanding Brand Exposure Beyond New Stores

To keep the brand presence moving forward, retailers must find new ways to market their products, such as selling the brands in different store formats and offering value-added services. To achieve these goals, store systems should be up-to-date and able to accommodate different selling configurations. An integrated, end-to-end suite of
Fact: 10 of the top 10 grocers get better results with Oracle.

About Oracle
Oracle is the number one provider of innovative and comprehensive industry software solutions for retailers—enabling organizations to serve their customers better by applying insight into daily business decisions for more profitable results. With software that provides supply chain, operations, merchandising, store systems, optimization as well as enterprise applications and infrastructure software, Oracle partners with the world’s leading retail companies, including 20 of the 20 top retailers worldwide, to transform the economics of their businesses.

Enterprise software solutions will help to smooth the transition and offer a simplified user experience. For example, fast-fashion, technology-forward apparel retailer Wet Seal has created a virtual environment with an intersection of cross-channel, user-generated content, and mobility to essentially move their customers up the design chain in the iRunway application.

Growth continues to be an important aspect of retail success, but today’s retailers are rethinking it by expanding internationally as well as finding innovative ways to market products domestically.

Conclusion
A complex retail environment has become even more daunting as companies are facing a perfect storm of new challenges. First, two waves of change have been prompted by macro-economics, socio-demographics and advancements in consumer technology. In first wave, value formats, Web 1.0 and market saturation have completely transformed the retail landscape. The second wave is empowering consumer as never before, and threatens to disintermediate brand value.

Combined with the radical reshaping of the economy and changing demographics, retailers must rethink their overall business strategies.

Industry leaders are meeting those challenges by renew focus on the customer experience, invigorating operational excellence and building foundations for growth. The traditional formula of reaching consumers through print and TV advertising has been pushed aside to make way for a mobile and digital world where consumers have access to immediate information on product pricing and comparison. Coupled with a recessionary economy and cut-throat competition, retailers need to improve the efficiency of their operations to cut costs and to improve customer service. And, with many U.S. retail formats becoming saturated, retailers need to look abroad for growth as well as look to innovative new options for selling products domestically.

Technology solutions can help achieve the goals presented by the new strategic imperatives. Retailers will be wise to evaluate and prioritize their strategic plans as they mobilize for a new era of retailing.