Oracle Retail

Building Foundations for Growth
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Although the economic downturn has put some companies in a wait-and-see mode regarding expansion and commitment to new projects, others are looking toward the other side of the recession and are planning for the longer term.

A number of retailers are committing to the future. As many as 18% of retailers surveyed in the National Retail Federation 2010 Retail Horizons report say they are planning for domestic store expansion with their existing store format; 16% will redesign or relocate stores; 6% are planning international expansion; 5% say they will expand stores with a new brick-and-mortar format; and 3% are looking to acquire similar formats.

In recent years much of the U.S. market has become saturated, leaving little opportunity for many retailers to open new stores. On the other hand, the recession has opened up some real estate opportunities for strong companies, unfortunately at the downfall of the weakest retailers.

Certain retail segments have been faring better than others domestically, including discount, big box and home improvement. Consumers are looking for the best value for their dollar and instead of selling and moving into larger homes, they are renovating their existing houses. More consumers are maintaining their current vehicles instead of buying new cars.

Retailers that are not in the lucky group of recession-proof segments must rethink their growth strategies and find more innovative strategies to create an expansion scenario for their businesses. Some of those retailers are introducing new store formats, renovating stores, or improving technology to provide better customer service. Others are looking abroad for expansion opportunities.

This white paper will discuss two key strategies designed to help retailers build foundations for growth in this redefined retail landscape:

- Focus on International Expansion
- Scaling Customer-Centric Business Processes

Focus on International Expansion

Many U.S. retailers have halted domestic expansion but some are finding opportunities in expanding their brands internationally. According to Deloitte in its 2009 report titled Emerging from the Downturn/Global Powers of Retailing 2010: “Challenging conditions in
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Emerging from the Downturn/Global Powers of Retailing 2010, Deloitte

markets like the United States and U.K. may compel retailers to invest in newer markets. Thus, the value orientation of rich country consumers could have the effect of accelerating retail globalization.”

When considering international opportunities, domestic retailers should formulate a methodical strategy that covers all the potential roadblocks and hurdles they may face in new countries. Technology requirements, payment processing, tax policies, legal issues and localized preferences are just a few of the areas U.S. retailers need to review carefully before jumping into the international arena for the first time or expanding their international presence.

Choosing the right technology partner and integrator with global experience and products that are designed to operate in a geographically diverse retailing model will help smooth the transition. Specifically, Oracle Retail Point-of-Service and Oracle Retail Merchandise Operations suite have been designed to accommodate the needs of retailers that are looking to rapidly scale a global operating model. Oracle Retail Store Inventory Management also helps retailers who are focused on international expansion.

Sunrider International, a health products retailer with 3,000 stores in 30 countries, was looking to improve overall international operations with a centralized business and point-of-service (POS) solution. Sunrider began the process with three goals in mind:

1. Develop a common solution that can be transferred from one market to another, taking into account localization requirements
2. Attain inventory visibility at the corporate level
3. Create the ability to ship merchandise from corporate to stores

Sunrider International, a leading herbal products company with retail stores in China, Japan, Korea, Malaysia, Singapore, Taiwan, and Australia, has the application up and running in China, with plans to roll-out to Taiwan in 2011 using Oracle Retail Stores applications and the Oracle E-Business Suite Release 12. With the help of Oracle and system integrator InfoGain, the international retailer implemented a pilot Oracle Retail Point-of-Service program in China in 12 weeks. In another 8 weeks, the retailer went live with Oracle Retail Store Inventory Management 13.1, then Oracle Inventory, Order Management, Orders for Franchisee, Advanced Pricing, Oracle BI Publisher, Oracle Internet Directory (LDAP). Sunrider then deployed the system in Taiwan to 400 stores with plans to rollout to 150 stores in Korea in late 2010, in addition to a mass rollout in China.
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The new system has provided a number of benefits for the global company:

1. Deployed new stores faster
2. Gained control over franchise operations
3. Created economies of scale
4. Inspired better customer service and improved loyalty
5. Drve consistency in pricing, discounting and inventory availability

With a new focus on international expansion in place, Abercrombie & Fitch implemented Oracle Merchandising Operations Management suite, Oracle Business Intelligence and Oracle Retail Point-of-Service to replace outdated legacy and custom merchandising and store solutions with point to point integration through Service Oriented Architecture. 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.

The company responded by launching an aggressive international expansion effort with six store openings in Canada in 2006, followed in 2007 with store openings in the UK. In 2007, the company also announced plans for major expansions in Europe and Asia starting in 2009.

The new solutions helped Abercrombie reach its five key goals: (1) Greater speed to market; (2) Maintain and grow industry leading margins; (3) Retire legacy applications to support growth; (4) Reduce labor and maintenance of existing systems; and (5) Provide one version of the truth for all data.

For Lowe’s international expansion presented some new challenges. “Our first international market was Canada in 2007,” noted Sarah Miller, Director of IT International for Lowe’s Companies, Inc. “It was a learning process for us. We extended our U.S. systems into Canada and that was very disruptive for our U.S. operations. We didn’t think expanding the U.S. systems would be a big deal and we were significantly over budget because of that.”

Once the Canada project was complete, for all intents and purposes, the Lowe’s team took a step back to rethink the international approach. “We wanted to try to be more nimble, flexible and expand more quickly,” Miller said. “The U.S. operations were highly customized and complex, designed to meet every need of our business in the U.S. We didn’t want to operate quite that way internationally.”
“We took base merchandising, supply chain and store operations and decided what we would use to enable the international expansion. We designed a small footprint, a start-up, and wanted a system that would work as a start-up but have the flexibility to expand.”

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The company’s next international move was to Mexico, because “it is a border country to the U.S. and we could leverage our U.S. supply chain,” noted Miller. But for this project, Lowe’s took a future-looking approach and decided to create “a repeatable model for different countries,” Miller explained. “We wanted to maintain the competitive culture we have at Lowe’s. We also knew we didn’t need all the processes we use in the U.S. So we took base merchandising, supply chain and store operations and decided what we would use to enable the international expansion. We designed a small footprint, a start-up, and wanted a system that would work as a start-up but have the flexibility to expand.”

Utilizing the global-ready capabilities of Oracle’s Retail Merchandise Operations Management Suite, Lowe’s created a “Lowe’s In a Box” system for international expansion, reusable from country to country. The other key element of international expansion for Lowe’s was the partnership with the new country. For the Mexico operation, Lowe’s opened a Spanish-speaking service desk. “We also needed to build skill sets for the new applications in Mexico,” said Miller. “We partnered with a firm that could provide those services locally.”

Strategies for International Expansion

Industry experts offer several tips for retailers to consider when planning international expansion:

- **Start with clean data.** This is the first step in avoiding unnecessary complications in a new country.

- **Close the gaps.** Try to limit customizations as much as possible. In Lowe’s case, 5 or 6 customizations were necessary, primarily related to local legal requirements and specific market factors. “As we went through gap analysis, Oracle helped develop gap customizations into the base product,” explained Miller. “We went onsite and beta tested with Oracle. That was invaluable for us.”

- **Test new processes.** “Initially we didn’t do enough performance testing,” noted Echenique. “The closer you replicate the final store systems the better.”

- **Determine the corporate support model.** First determine if the corporate support organization will be an extension of the U.S. group or serve as a separate entity. Then, be sure to engage the support team prior to implementation, suggests Echenique, because you don’t want to find yourself with a knowledge gap during the go-live phase.

- **Find local experts for taxes/receipts/printing.** Each country has different language, currency, tax laws and hardware requirements, noted Ken Low CIO at Sunrider.
Fact: 20 of the top 20 global retailers get better results with Oracle.

✓ Do your payment processing homework. Payment processing varies by country. “We are talking with three different payment processors trying to develop standard ways to communicate with the software, through a single interface,” said Jennifer McDaniel, Vice President, Product Strategy, Oracle Retail.

Scaling Customer-Centric Business Processes

Market saturation and economic instability combine to create a scenario in which retailers must drive growth from their current store base and capture a greater share of wallet from their customers. In the next decade, “Retail spending growth will not only be slower, it will be focused on the needs of a value-oriented consumer, and the recent shift in market share toward discount formats may very well be sustained during the recovery,” according to the Deloitte report.

To compete in this environment, retailers must be sure their store systems are up-to-date and able to power customer-centric strategies designed to increased share of wallet. Some of the solutions that Oracle offers to help enable customer-centric business strategies include: Oracle Retail Price Management, Oracle Retail Store Inventory Management, Oracle Retail Allocation and Oracle Retail Merchandising Operations Management suite.

Advance Auto Parts saw an opportunity to improve its business in order to grab more market share. The automotive aftermarket retailer has a very diverse group of customers, from do-it-yourself consumers to large national accounts. With 3,300 stores, Parts Deliver Quickly warehouses and larger warehouses, Advance Auto Parts is dealing with a very complicated supply chain.

To meet its current and future needs, the Advance Auto Parts team realized it needed to completely revamp its merchandising systems. “We hadn’t invested in IT for a lot of years and we had no merchandising functionality,” said Geraldine Ryan, VP of Enterprise Solutions. “When business partners asked us for something it took a long time to react. Everything was done manually and we had multiple versions of the truth.” The new system would encompass a complete solution from Oracle including Oracle Retail Merchandising System, Oracle Retail Price Management, and Oracle Retail Allocation for inventory management and purchase order management.

Once the Advance Auto Parts team put together a capabilities roadmap for merchandising, then the company was ready for a phased-in implementation. Phase 1 focused on the foundation data within the Oracle Retail Merchandise System to set
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Geraldine Ryan, Vice President of Enterprise Solutions, Advance Auto Parts

up items and maintenance, organizational hierarchy, supplier relationships and cost. The second part of Phase 1 was Oracle Retail Price Management. Phase 2 was comprised of Purchase Order Management within the Oracle Retail Merchandise System and Oracle Retail Allocation. Phase 3 completed the project with Oracle Retail Store Inventory Management.

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Strategies to Achieve Business Transformation and a Quick ROI

Advance Auto Parts achieved a quick ROI—approximately one year—for Phase 1 of its transformation project. “We are now a transformation story,” JT Thompson, Director of Merchandising Development said. “We needed to lay a foundation to support quick growth.”

To achieve that success the company treated the project as a critical business initiative. “We have four company strategies and our IT projects have to contribute to one of those strategies, otherwise why are we doing it?” Ryan stated.

The Advance Auto Parts executives suggest a number of other key strategic initiatives retailers may want to consider when putting together a business transformation project:

✔ Establish a framework for timely decisions. The team must be enabled to make decisions. “We had daily issues meetings and were able to clarify the timeline to resolve those issues,” Thompson highlighted.

✔ Put an experienced team in place. Choose the “best” not just the “best available,” noted Ryan. “Sometimes you need to hire (from the outside) for key positions.”

✔ Focus on program management. “We found the best program manager in retail and spent a fair amount of time recruiting the person, although we do recommend choosing this person internally if possible,” Thompson recommended.

✔ Conduct impact analysis. The entire company needs to know what will be changing and who will be affected.

✔ Develop checkpoints to monitor project progress. “Don’t fall into the trap of inertia of success…what worked during Phase 1 doesn’t necessarily work for Phase 2,” warned Thompson.
Fact: 20 of the top 20 global retailers 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.

✓ **Keep modifications to a minimum.** “When people come in with a request for a modification I want to see the benefits and costs,” said Ryan.

✓ **Use technology as an enabler.** “We were able to implement RMS and RPM in 9 months” because of the systems in place, noted Thompson. “We planned for upgrades in the architecture from the very beginning. Oracle shared development with us and we were able to leverage that.”

✓ **Build in flexibility to the project.** “We are on a transformational journey,” Thompson said. “Over 5 years we are planning to change pretty much every system. It is important to build flexibility into the project up front” in order to be nimble and make adjustments along the way as necessary.

Finally, when a company’s success is at stake and a business transformation project is in place, communication is an essential element in obtaining buy-in from top to bottom. Communicate early and often and in different ways to every person in the company, whether they are directly or indirectly affected by the project.

Conclusion

Faced with intense competition in a sensitive economic environment, retailers are looking for the strategies that will bring them to the forefront for the long term. Striving to outlast a recessionary economy and be poised for future success, retailers are re-evaluating and revamping their technology strategies. In these instances, retailers should be sure to have the best solution partners and a clearly communicated process in place.

Many retailers also are looking outside the U.S. for future success, particularly since retail has become more globalized, in large part due to the Internet and mobile technology. In many cases U.S. retailers also are faced with saturated domestic markets.

But before domestic retailers venture abroad, they should do their homework regarding local requirements, laws and technology differences. With the assistance of the right solution integrator and local experts, U.S. retailers can forge ahead confidently into new countries.