

ADAPTING TO RETAIL'S NEW REALITY: CRITICAL STEPS FOR 2009

As the business outlook has darkened during the past few months, so have the restless sleeping patterns of top-level retail executives. Coping with the new realities of today's economic climate requires retailers to sharpen their focus on what matters most, and to commit their organizations to a short but highly strategic priority list. The first step is deciding which priorities to focus on: labor, inventory, financial management, and IT management. The next step—and it's a crucial one—is managing all of these priorities with impeccable execution and flawless efficiency. As growth and innovation are supplanted by security and survival, retailers must avoid becoming losers in 2009 while simultaneously positioning themselves to hit the ground running when the economy eventually bounces back.

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WHAT'S AT STAKE FOR RETAILERS

Like other businesses and consumers, retailers are reeling from the effects of the current recession. With bad economic news piling up like unsold inventory, many retailers are scrambling simply to put out fires and stay afloat. In an environment where the ground seems to be constantly shifting beneath one's feet, it can be tough to make plans—or more accurately, to re-adjust and adapt plans to deal with changing conditions. But this flexible realignment of priorities is exactly what is needed today.

“Coping with today's new realities means retail executives must focus on what matters most, and committing their organizations to a short but highly strategic priority list,” says Joe Skorupa, group editor-in-chief, *RIS News*. The challenge will be in choosing which priorities to focus on—labor, inventory, financial management and IT management—and then managing the appropriate priority areas with flawless execution. The remaining months of 2009 will produce some winners and a large number of survivors—but also a growing list of losers. “Retailers' top priority is to weather the storm today while simultaneously positioning their organizations to hit the ground running when the economy takes off again,” notes Skorupa.

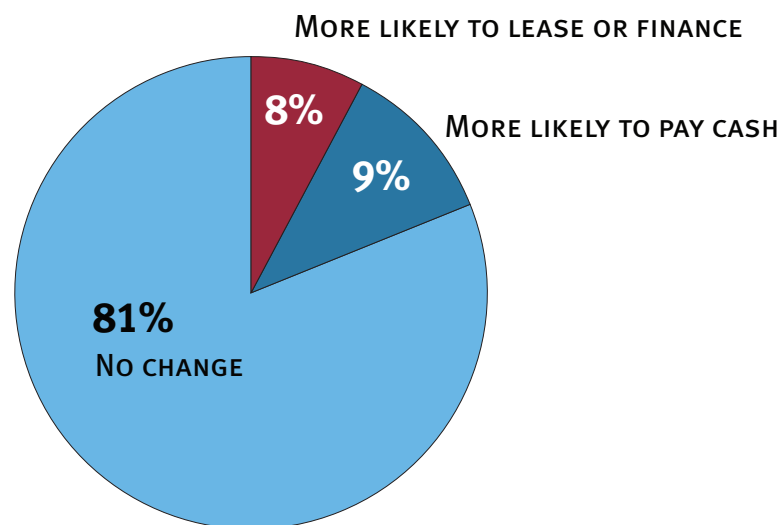
[TAKEAWAY]

➤ **PUT ALL YOUR CARDS ON THE TABLE: CONDUCT A CLEAR-EYED ASSESSMENT OF SPENDING PRIORITIES THROUGHOUT THE ENTERPRISE IN ORDER TO GET A REAL-WORLD LIST OF MUST-HAVES, SHOULD-HAVES AND NICE-TO-HAVES.**

REALIGNING RETAIL PRIORITIES DURING AN ECONOMIC STORM

Retailers' first step must be a clear-eyed assessment of current strategic plans and spending priorities. This must be combined with close analysis of the impact of all major investments as well as their short-term and long-term paybacks. Many retail organizations have already undertaken such reviews, but it's important that they are conducted in a comprehensive, enterprise-wide manner.

HAS FINANCIAL CRISIS AFFECTED HOW YOU WILL PAY FOR PROJECTS?



SOURCE: RIS/IHL 2009 STORE SYSTEMS STUDY

This will help ensure that mission-critical functions continue to be funded appropriately, and it will also provide top executives with a real-world list of must-haves, should-haves and nice-to-haves.

Decisions made in isolation, or those focused only on a single department or region, can easily negate the effectiveness of other initiatives. For example, if a distribution center reduces inventory to cut costs, while at the same time a store runs a promotion to boost traffic, the result will be high levels of out-of-stocks and low levels of customer satisfaction. That's a mistake at any time, but it can be a disaster during an economic downturn.

Once retailers decide which of their major priorities—labor, inventory, financial management and IT management—are most important for them to focus on, they will need to master careful “balancing acts” to ensure that the changes they make are effective, and also that they don't go too far. There may be powerful temptations to make dramatic cuts in one or more areas, and while these are sometimes necessary, they carry consequences for both short-term survival and long-term success.

LABOR

Getting labor right-sized for a retailer's demand is critical for a number of reasons. Labor has consistently been shown to be retail's largest store-level expense, and it generally runs second only to inventory in total operating costs. While labor's large price tag makes it a tempting target for cost-cutters, smart retailers know that it's crucial to retain the best talent, especially when times are tough. In addition, labor, particularly at the store level, can have an enormous impact—both positive and negative—on the customer experience.

Unfortunately, retailing's labor picture continues to darken. The industry lost 45,000 jobs in January 2009 alone, according to the U.S. Department of Labor. The 522,000 retail jobs lost in calendar 2008 were the most since the government began tracking this data in 1939, and retail job losses accounted for 20 percent of the 2.6 million total jobs lost in 2008.

Retailers who are being forced to reduce head counts face a dual task: keeping as many good employees as possible on the payroll, and getting the most from those remaining on staff. Experience from previous economic downturns has taught retailers that their single best tool for connecting with consumers is their associates, so cutting spending on associate development should be a last resort. Smart retailers continue to invest in technology that enhances associate productivity by automating tasks that ensure store-level execution compliance, which will have a direct impact on consumer relationships.

Advanced, integrated workforce management solutions can help retailers align labor more closely with their actual demand; monitor worker productivity more accurately; and even discover talent among those already on the payroll.

CRITICAL STEP 1: Combine store-level input with headquarters data to create a centralized plan with enforceable, performance-based variances and real-time alerts. Labor is such a large, controllable cost that it must be managed with a level of efficiency and control that can only come from detailed, reliable performance data embedded into advanced workforce management technology.

[TAKEAWAY]

› **RIGHT-SIZE VS. DOWNSIZE: TO AVOID CUTTING YOUR LABOR FORCE TOO DEEPLY, USE WORKFORCE MANAGEMENT SOLUTIONS TO ALIGN LABOR WITH DEMAND, AND CONTINUE TO INVEST IN ASSOCIATE DEVELOPMENT IN ORDER TO RETAIN THE BEST PEOPLE.**

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[INDUSTRY INSIGHT]**FAST PAYBACKS, LOWER INVENTORIES AND EXECUTION EFFICIENCY ARE TOP OF MIND IN 2009**

Patrick Sweeney, Vice President of Product Management, SonicWALL

Q: THE CURRENT RECESSION HAS FORCED ALL BUSINESSES TO LOOK AT THEIR BUDGETING AND SPENDING PRIORITIES FOR 2009. WHAT SPECIFIC IMPACTS ARE YOU SEEING IN THE RETAIL INDUSTRY?

SWEENEY: The number-one thing we hear is that everyone is re-examining their IT budget. They're much more discriminating about exactly what they purchase, and they're more rigorous about viewing alternatives—they're looking very strongly at every single vendor, and being much more open-minded about who they deploy into the network infrastructure.

Also, and this isn't an earth-shattering revelation, everyone is constraining inventories as much as they can. They're looking to free up cash, get days of inventory on hand down as much as possible, and being very efficient with what they stock. They're avoiding 'SLOBS'—'Slow-Moving and Obsolete Inventory'—at all costs.

Labor is also a huge issue. With layoffs everywhere, businesses are fearful that if everyone else is laying people off and they don't, they'll be wildly uncompetitive. For retailers, the labor focus is not just on reducing total numbers of workers but on the re-allocation of labor. Retailers may want to extract a person out of the IT group, in order to free up that head-count dollar and hire someone on the sales or marketing side—putting people into a profit center rather than a cost center.

Q: WHAT KINDS OF SHIFTS ARE YOU SEEING IN RETAILERS' IT INVESTMENT STRATEGIES?

SWEENEY: In 2007 and 2008, there was much more discussion about larger-scale, long-range investments in IT infrastructure. In 2009, people are talking about very rapid, tactical investments. For a dollar to be spent today, the question isn't about whether it will return a strategic advantage in two years or a financial advantage in three years. People are asking if they'll make the money back in 12 months—and a lot of people are asking for it in six months. They're deferring any long-term project, even if its total return over a three-year period would be a better investment. They're saying 'Cash is king, short-term investments are better than long-term, and returns have to be immediate.' And on the execution side, everything is about conserving cash, reducing cost, and showing a benefit fast. The message is that long-range spending is not as important as short-term efficiencies.

“IN 2009, PEOPLE ARE TALKING ABOUT VERY RAPID, TACTICAL INVESTMENTS. FOR A DOLLAR TO BE SPENT TODAY, THE QUESTION ISN'T ABOUT WHETHER IT WILL RETURN A STRATEGIC ADVANTAGE IN TWO YEARS OR A FINANCIAL ADVANTAGE IN THREE YEARS. PEOPLE ARE ASKING IF THEY'LL MAKE THE MONEY BACK IN 12 MONTHS—AND A LOT OF PEOPLE ARE ASKING FOR IT IN SIX MONTHS.”

— PATRICK SWEENEY, VP OF PRODUCT MANAGEMENT, SONICWALL

Q: ARE THERE DANGERS IN MOVING TOO FAR IN THIS SHORT-TERM, HIGHLY TACTICAL DIRECTION?

SWEENEY: As in all things, there's a time to put on the brakes and a time to put your foot on the gas, and I can't really predict whether people will get it right or wrong. But I can say that for the last 10 years, IT spending and investment has had an absolutely phenomenal effect in terms of productivity, in almost every business throughout the world. Every dollar invested in IT—whether done efficiently or inefficiently—has generally returned more than a dollar in productivity. So this emphasis on the short term is fine as a correction. But in IT spending, if people don't start re-investing in the productivity that IT can return to them, at some point they will find themselves to be inefficient.

Q: WHAT TYPES OF IT-GENERATED EFFICIENCIES ARE RETAILERS LOOKING FOR NOW?

SWEENEY: One trend that's always been important, but is much more so in 2009, is the reduction of in-the-field IT with remote or distributed management of multiple devices. This might be an automated or global management system to manage 20 stores' IT infrastructure, rather than relying on an individual IT person who needs to log in to each store to check on it. In terms of the areas where SonicWALL operates—networking infrastructure, gateways, firewalls—retailers want one centralized console that allows them to push policy to all their store locations, all at one time. They want to define a policy once, push that policy, and then get the benefit of it without needing 20 individual log-ons.

We're also seeing a trend of retailers asking us about controlling the true application utilization on their network. What they mean is that today you'll often see a lot of retail employees Facebooking and Twittering. These aren't really security breaches—they're simply productivity killers. In 2009, IT managers are looking for automatically generated and distributed reports that tell them about network activity, so they can find out if their employees are being active or are wasting time doing other stuff.

Q: WHILE IT'S NOT GREAT THAT EMPLOYEES ARE SPENDING WORK HOURS NON-PRODUCTIVELY, IS THAT REALLY A HUGE ISSUE IN TERMS OF RETAILERS' OVERALL EFFICIENCY?

SWEENEY: Some companies may not be as worried about time utilization, but we often are asked about limitations on a network—for example if it gets 'clogged up', retailers want to know if there's a way to guarantee that credit card transaction data or other mission-critical applications always get through. A few years ago that may not have been a paramount concern, but now efficiency, efficiency, efficiency is driving purchase decisions. People want to make sure that any kind of network activity is subjugated to the company's most important activities.

Another very big trend is the desire to consolidate multiple pieces of hardware, appliances or solutions. The thing that drives people crazy about their IT infrastructures, especially at more complex retailers, is 'YAC' syndrome. That's 'Yet Another Console.' If you have five or 10 different interfaces and two or three systems for things like intrusion prevention and network firewalls, each has its own subscription and support contract, and you need more IT staff to manage them all. Retailers are looking to consolidate the number of disparate systems they use. They want smart, integrated devices, fewer consoles, and increased visualization—automatically generated reports that show them, with pretty pictures, graphs and tables, what's happening in their network environment in a very clear way.

Q: WHAT'S YOUR BEST SURVIVAL TIP FOR TOUGH ECONOMIC TIMES?

SWEENEY: You need to really evaluate what your exact needs are against what's available, because this industry changes so fast. We're getting to an environment where everyone has to be ruthless about getting advantages—meaning the exact solution that will work in your environment and will give you the greatest benefits. It's not about going 'cheap' or going 'expensive', but about what's valuable to you—so it's very important to seek alternatives.

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INVENTORY

As with labor, the high cost of inventory makes it an attractive target for belt-tightening—and also as with labor, cutting too deeply can have disastrous consequences for the customer experience. Retailers need to ensure that their inventory management decisions are in line with consumer demand signals, and that their supply chain and merchandising systems are set up to deliver products that shoppers want, through the channels where they want to shop, at prices they are willing to pay. Ideally, a centralized database storing large volumes of demand data—which can include POS data, inventory levels, promotional plans and customer loyalty data—can be the basis for demand-driven inventory networks. Such a repository can help retailers move from a position of reacting to events, such as out-of-stocks, to building capabilities to sense such events proactively. AMR Research's Mike Griswold, in the January 2009 report "Retailer Survival Requires Copying the Homework of Other Industries," recommends learning from consumer product industry leaders, who utilize the following four-step process to better align demand and supply:

- Define the critical events (e.g. out-of-stocks) that you need to track to meet your business objectives.

[TAKEAWAY]

>BASE INVENTORY DECISIONS ON CONSUMER DEMAND: TIE CUSTOMER DEMAND DATA TO STREAMLINED SUPPLY CHAIN AND MERCHANDISING SYSTEMS, SO YOU CAN CUT INVENTORY COSTS WITHOUT NEGATIVELY AFFECTING THE CUSTOMER EXPERIENCE.

PLANNED RECESSIONARY TECHNOLOGY ADOPTION BY RETAILERS

	CURRENTLY EXISTS	PLAN TO IMPLEMENT WITHIN 12 MONTHS	PLAN TO IMPLEMENT WITHIN 13-24 MONTHS
ENTERPRISE-WIDE INVENTORY VISIBILITY	45%	24%	15%
DATA REPOSITORY FOR MERCHANDISE DATA MANAGEMENT	40%	20%	21%
PERFORMANCE DASHBOARDS	38%	30%	16%
DEMAND-DRIVEN FORECASTING APPLICATION	34%	25%	20%
INTEGRATED WORKFORCE MANAGEMENT SUITE	31%	19%	23%
INTEGRATED BUSINESS INTELLIGENCE SUITE	29%	31%	13%
CONSUMER-DRIVEN REPLENISHMENT	24%	22%	22%
CUSTOMER LOYALTY APPLICATION	22%	24%	19%

SOURCE: ABERDEEN GROUP SURVEY, DECEMBER 2008

- Build a team to capture downstream signals and ensure the right data is available to support business processes.
- Identify the processes that affect these critical elements and focus on building the mechanisms and instituting the discipline to react to market needs and signals.
- Execute the business strategy via processes, such as sales and operations planning for demand-shaping and agility level tradeoffs.

CRITICAL STEP 2. Inventory must be right sized and right priced for demand. This not only means trimming back purchasing and moving out excessive stock swiftly, it also means addressing a long list of supply chain, purchasing and warehouse efficiencies, which are best handled through real-time monitoring and control. Is your enterprise operating in real-time? If not, it needs to be moved up to the top of your priority list

FINANCIAL MANAGEMENT

“Financial management takes on new urgency during a credit crunch,” notes Skorupa. “Retailers need laser-like precision to monitor payables and receivables, and gaps in accuracy between departments are no longer tolerable.”

Financing of any kind is more difficult to come by in today’s contracting economy, and not surprisingly this is having an impact on retailers’ spending plans. According to the 2009 *RIS News/IHL Group Store Systems Study*, 11 percent of respondents indicated they would be more likely to use cash to pay for or finance their technology initiatives, while eight percent said they would be more likely to use a bank loan or lease. The remaining 81 percent indicated no change in how they would pay for projects.

The move to cash may signal lower investment in IT projects. While the study indicates IT spending overall is projected to increase 1.6 percent from 2008 to 2009, spending is projected to decrease by 0.9 percent among those likely to pay cash.

“Cash is king in retailing today,” says Skorupa. “It’s not just about cost cutting, it’s about managing, monitoring and controlling cash flow in the balance sheet. Without fully automated financial systems to streamline this function and close gaps between different spreadsheets, retailers are forced to devote excessive resources to handle the job and, possibly, face unpleasant surprises when the numbers are reconciled.”

CRITICAL STEP 3. With cash management so vital during an economic downturn, retailers need to manage receivables and payables precisely. However, in many retail organizations the cash-on-hand gap is as high as 30 to 40 percent due to use of numerous spreadsheet reports. We are now in the no-spreadsheet zone. Accuracy needs to be 99 percent. Time for retailers to retire multiple spreadsheet reports.

IT MANAGEMENT

Information technology is often a likely target for a budget-cutter’s ax. But IT has become so crucial to every aspect of retailing that companies must be careful not to starve, or kill outright, solutions that increase productivity, enhance customer experiences and improve execution.

If they are not doing so already, IT executives need to proactively address their budget priorities. “In an economic recession, IT management shifts from nice-to-have projects to must-haves,” says Skorupa. “Quick wins are keys to survival, so IT executives should de-couple large projects into smaller parts with phased rollouts, and wherever possible speed up timelines for delivery, benefits, and ROI.”

[TAKEAWAY]

➤ **ACCELERATE ROI: ACHIEVING QUICK WINS IS KEY TO SURVIVAL, SO IT EXECUTIVES SHOULD BREAK UP LARGE PROJECTS INTO SMALLER PARTS WITH PHASED ROLLOUTS, AND SPEED UP TIMELINES FOR DELIVERY, BENEFITS AND PAYBACK.**

IT solutions that require lower up-front investment, such as outsourcing and Software as a Service (SaaS), are also potential recession-beaters.

CRITICAL STEP 4. Get the IT budget right-sized quickly to comply with mandated cost savings, but retain ROI-producing projects, and use a scalpel instead of an axe to ensure you are not cutting to the bone. Yes, innovation takes something of a back seat today, but it can't be abandoned. Sacrificing tomorrow for today only creates a future of low horizons. Innovation and year-over-year capital investment, although reduced, are still necessary in good times and bad.

SHARPEN FOCUS ON EXECUTION

Underlying all of these retail priorities must be a strong emphasis on efficiency and execution. The most perfectly crafted labor schedule and the most demand-sensitive inventory assortment won't provide benefits until, and unless, they are executed well. IT solutions that monitor crucial events in the retailer's business, and provide fast, accurate reporting on key performance indicators, will be critical to ensuring that any dollar spent is spent wisely.

Such solutions, along with a high degree of agility to deal with rapidly changing conditions, are important both for a retailer's immediate survival and its long-term prospects. "Retailers that are likely to overcome the current downward spiral are the ones that continuously adjust their positions on key customer, sales, and operations-related programs based on insightful customer and business data," writes Sahir Anand in the December 2008 Aberdeen Group report "State of the Market: Retail Survival Strategies for 2009." "A dynamic retail brand that can adjust to the evolving market and competitive conditions is almost certain to turn the tide in its favor in due course."

CRITICAL STEP 5. Outstanding execution is the name of the game and, in fact, becomes a key strategy in itself. Execution equals efficiency equals cost savings. Improving execution at store level will boost margins, sales and customer satisfaction, but the effort should not be limited to stores. De-coupling big IT projects into smaller parts, for example, will ensure faster deployments that achieve faster ROI. Outstanding execution, like customer-centricity, can be a strategic goal that impacts all departments throughout the enterprise. ■

[TAKEAWAY]

› **EXECUTION AND EFFICIENCY ARE THE NEW WATCHWORDS: FOCUS ON EXECUTION, NOT ONLY FOR IT PROJECTS BUT FOR ALL AREAS OF THE RETAIL ENTERPRISE, TO MAXIMIZE EFFICIENCIES AND CREATE COST SAVINGS.**

