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Mid-Market Retailers Take on Tier I in Precision Merchandising

According to Aberdeen Group research gathered in October 2008, 37% of retailers are feeling enough consumer pressure to create customized assortments; by store, by store cluster, or by selling channel. Customers now expect a certain de facto level of personalization in many aspects of their lives. In fact, "matching higher customer-centricity by the competition" was the third highest pressure cited by retailers (following the perennial standard-bearers of gross margin and inventory turns).

Anxious to keep and cater to their existing client base, forward-thinking retailers are gathering, aggregating, and analyzing customer data, merchandise data, and selling channel data, in order to construct multi-attribute, affinity-based precision assortments. These assortments are constructed and tailored specifically for each group. This merchandising methodology has only recently become technically feasible, so one might suspect that Tier I retailers, with their larger budgets and staff, would have staked out for themselves a clear advantage over their smaller competitors. But as Aberdeen data shows, such is not the case.

Mid-Marketers Aim Strategic Actions at Precision Merchandising

As the first data element in Figure 1 shows, 41% of mid-market retailers cite achieving an optimal mix of standard and customized merchandise as a top strategic action, compared to 27% of Tier I retailers. In the second data element on increasing the percentage of domestic suppliers, 9% of mid-market respondents cited this as a strategic action, compared to 0% of Tier I. This is noteworthy in that increasing one's reliance on domestic suppliers is more costly, at least in the short run; but, it dramatically reduces the lead time from order to delivery. This shows that mid-market retailers see increasing the percentage of domestic suppliers not as a cost increase, but rather as a strategic opportunity to make more money through a closer, more nimble, responsive supply chain. Conversely, none of the Tier I respondents selected this as a strategic action they would take.

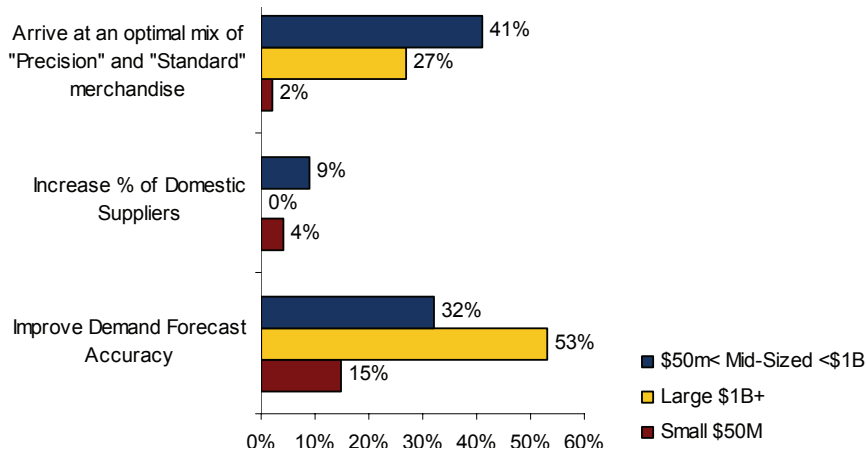
Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study, including key performance indicators, Best-in-Class insight, and vendor insight.

Mid-Sized Retailer Demographics

- ✓ Revenue size: \$50M < \$1B
- ✓ Geography: North America, South America, Asia Pacific
- ✓ Apparel, supermarket / grocery, footwear, consumer electronics, general merchandise

Figure 1: Strategic Actions Chosen



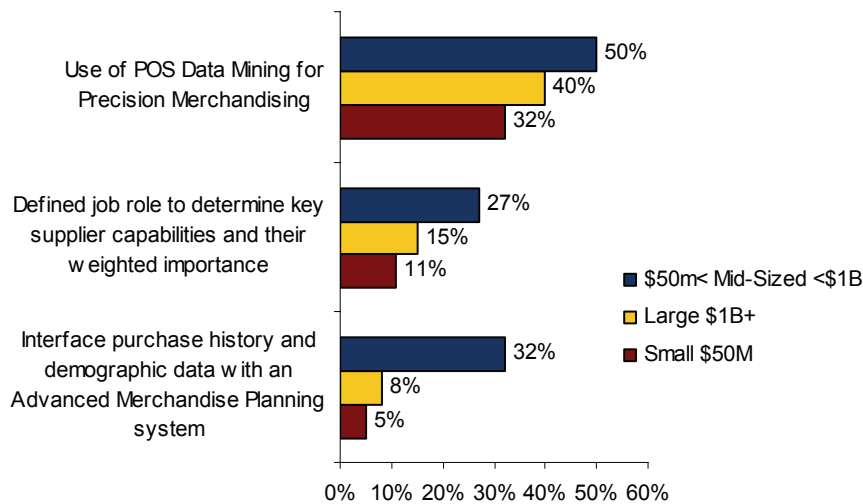
Source: Aberdeen Group, October, 2008

The final data element, "improving demand forecast accuracy", requires some reflection and deliberation. Why would 53% of Tier I retailers cite this as a strategic action they would take, while only 32% of mid-market and 15% of small retailers would choose this? One inference is that Tier I retailers feel less confident in their forecasting capabilities than mid-market and small retailers. Another reason could be the heightened importance of accurately managing merchandise for a \$1B+ enterprise. Whatever the reason, Tier I is feeling significantly more pressure here than mid-market retailers, which does not portend well for accurate precision merchandising.

Mid-Marketers' Capabilities Outpace Competitors

As Figure 2 indicates, mid-market retailers are already outpacing their competitors in some of the capabilities needed for precision merchandising.

Figure 2: Capabilities to Achieve Precision Merchandising



Source: Aberdeen Group, October, 2008

Of these capabilities listed, the most important one (and also the most difficult to achieve) is successfully integrating weighted, attribute data with an advanced merchandise planning system. Retailers can collect all the data they want: on customers, merchandise, suppliers, cost trade-offs, etc. But if at the end of the day you cannot assign weighted values to these data points, and have them become an important part of the calculus used to determine assortments, then you're on the outside looking in. You're just not in the precision merchandising game.

Case in Point

Guitar Center, one of the largest specialty retailers in the US, is a 200+ store national chain that carries a wide variety of musical instruments. One of the biggest challenges facing Guitar Center was the need for precision merchandising, with carefully crafted inventory selection and management for each store. This strategy is necessary because the cost and turn of the merchandise varies greatly from store to store depending on customer purchase patterns and socio-economic data. For example, they carry very fast-moving, "beginner" electric guitar sets starting at \$199. They also carry very slow-moving, very expensive models such as a vintage Eric Clapton Stratocaster for upwards of \$15,000.

So they looked for and found an application that provides a single, consistent view of inventory, enterprise-wide, in real-time. According to Irene Messier, Sr. VP of Planning and Allocation, "evidence of the success of the deployment" include:

- "The project was completed within the agreed-upon three-month time frame and on budget
- Customer satisfaction scores increased
- Less overall inventory, yet fewer stock-outs
- Visibility towards long-range inventory needs"

Recommendations for Mid-Sized Retailers

- **Verify capabilities.** Mid-size retailers must take honest stock of their technical and operational capabilities. They must perform gap analysis between where they are and where they need to be to accomplish precision merchandising goals.
- **Improve demand signal responsiveness.** Having clear views of both upstream and downstream demand is an essential tenet for any precision merchandising initiative. Mid-sized retailers should start using a Demand Signal Repository (DSR) within 12 months. The flip side to capricious, shifting demand is the ability to make it work for you in a profitable way. And the surest way to obtain this capability is to develop an agile, responsive chain of suppliers. Although offshore suppliers are less expensive, their extensive lead times severely curtail retailer's ability to react nimbly to demand shifts.

Domestic suppliers are quicker, but often more costly. Mid-sized retailers must perform vendor cost/ benefit analysis, vendor flexibility, and vendor substitutability.

- **Integrate and leverage disparate customer data.** Just as a business welcomes all revenue streams, so should mid-sized retailers embrace all customer data streams. Whether it be from POS, loyalty, store charge cards, CSAT surveys, what have you, the more the retailer knows about the customer (with the customer opting in, or at least being given the option to opt out), the better and more specific will be the merchandise assortments. And if the desired good is available to the correct customer through the desired channel, the greater the sell-through, the higher the margin, and the happier the customer.

Solution Snapshot

The following is a list of vendors that can help with precision merchandising capabilities.

Table I: Vendor Landscape

Solution Providers	Merchandising	Supply Chain	Customer Analytics	Professional Services
4R Systems	■			
7th Online	■		■	■
Accenture	■	■	■	■
Aldata Solution	■			
Alpha Bay Corporation	■		■	
Celerant	■		■	
Churchill Systems		■		
Cognizant		■		
DemandTec		■	■	
Demandware			■	
Epicor	■	■	■	■
Escalate	■		■	
Island Pacific	■		■	
JDA	■	■	■	■
KSS Retail	■		■	
Manhattan Associates		■	■	
Mercado	■			
Microstrategy			■	
Omniture			■	
PivotLink	■			
PTC Quantum Retail	■		■	

Solution Providers	Merchandising	Supply Chain	Customer Analytics	Professional Services
Quantisense	■			
Quantivo	■			
RedPrairie	■	■	■	■
Retailagent				
SAS	■		■	■
Sterling Commerce		■	■	■
Teradata			■	
The Nielsen Company	■		■	
Tomax	■		■	
Tradestone	■	■	■	■

Source: Aberdeen Group, November 2008

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