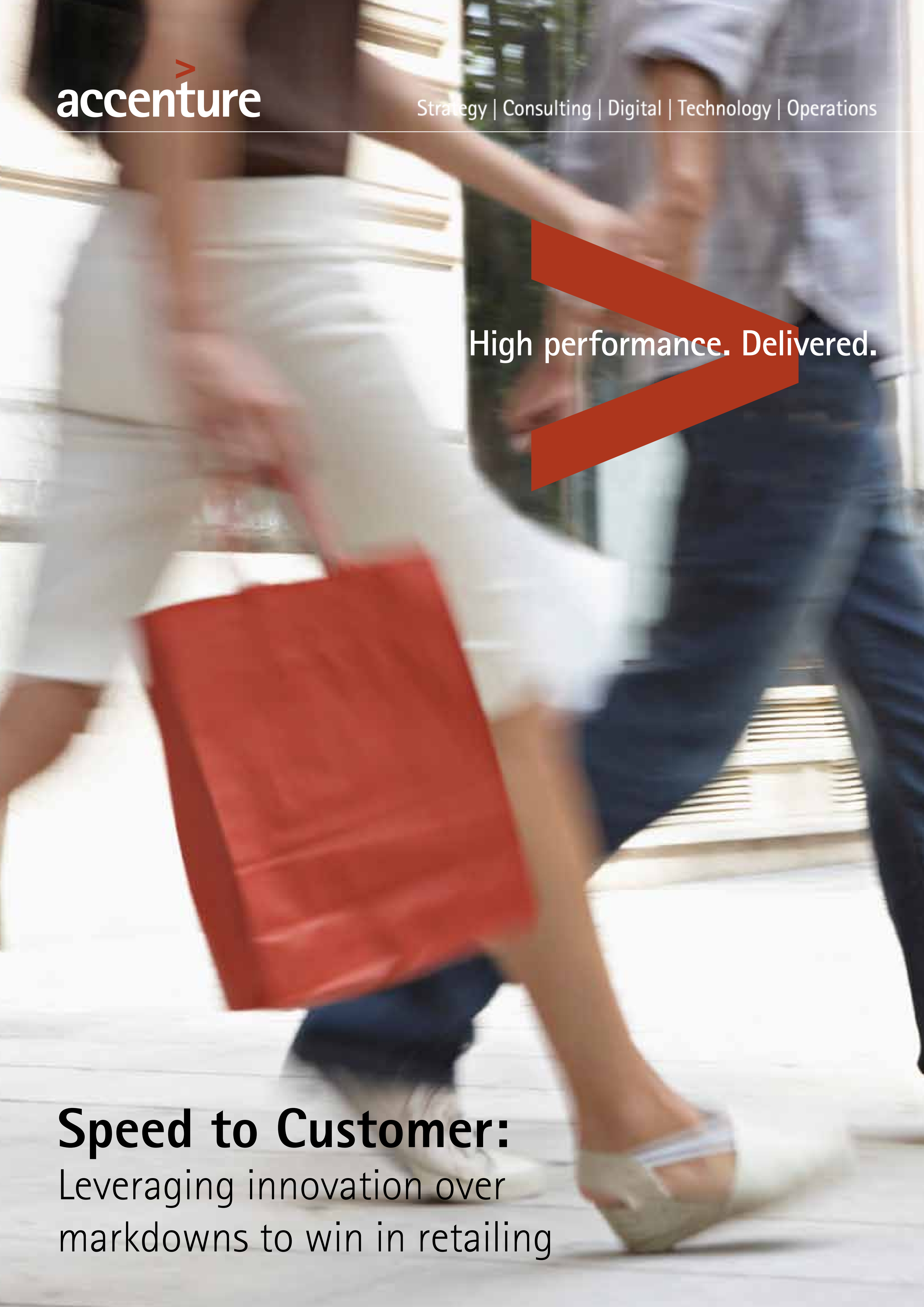
accenture

Strategy | Consulting | Digital | Technology | Operations

High performance. Delivered.



Speed to Customer:

Leveraging innovation over markdowns to win in retailing

Introduction

As consumer purse strings tighten and the field of rivals from multiple buying channels expands, retailers need to sharpen their competitive game or risk disappearing forever. Today, too many are overstored and under-differentiated. That leaves most leaning too heavily on the "sale!" sign to drive traffic. Markdowns are coming earlier and earlier. In some regions of the world, Christmas discounting begins in autumn. Bathing suits are marked down by spring. Instead of addressing the more fundamental issue—how to get the right product for the right customer before competitors do—retailers have entered a frenzied race to discount merchandise before their competitors in hopes of making their numbers.

Racing toward markdowns is a losing game. Customers become inured to incessant reductions and promotions lose their impact, or customers become addicted to them so that they won't purchase until price points fall. Retailers lose out on margin as merchandise is discounted before high-demand periods. In the bargain, they diminish their brand value in the eyes of their most prized customers as they unwittingly position themselves as "second rate" or "bargain basement."

To win in what is arguably the toughest environment the industry has ever faced, retailers need to sharpen their ability to innovate, offering products and assortments that stand out from the crowd—and doing so much faster and more efficiently than competitors.

The right products

As more and more retailers create their own private label products, or partner with other brands for exclusive lines, developing the right ones that delight customers is more critical than ever. Some retailers are fairly good at pulling the strings of customer insight and weaving them together to create desirable products. Others have shortened the decision cycles that lead to faster innovation. And there are a number of examples of companies that leverage a network of partner manufacturers and designers to offer innovative product assortments. But few retailers are good across all of these levers—the foundation for consistently generating winning products. A closer look in each area reveals what it takes to create the right products for the right customer at the right time.

Customer-led insight

Retailers talk to their customers every day. Those insights are invaluable when it comes to developing a winning product portfolio. Yet insights—even simple ones—are too often overlooked or completely ignored. Harnessing them can enable retailers to create superior products, which in turn leads to higher margins. Consider Best Buy's Insignia Portable DVD Players[1]. From insights gathered at the store level, the electronics retailer discovered that the biggest consumer of portable players were kids (and, of course, their frazzled parents looking for peace during car rides). Based on that knowledge they developed a product that featured a rubbery, non-slip, water-resistant surface which communicated to consumers a more durable product. Thanks to the store-level insight, Best Buy was able to establish Insignia as the number one in market share for DVD Players in the US market. Alternatively, Best Buy could have stuck with their existing product line and focused on pricing and promotion to drive traffic. Instead, truly understanding customer wants allowed them to re-draw the playing field to create a differentiated product that doesn't need discounting to move off of store shelves.

Fast-fashion leader Zara[2] is another example of a retailer finely tuned to customer desires. The company's central teams from different divisions maintain close relations with stores. Every day, managers not only send obligatory sales reports, they also detail what hasn't sold and why. If a customer eschews a given product choice, in-store reps ask, "What's the problem?" Stripes are too wide? Zara narrows them. Autumnal colors are all the rage? Zara changes the color palette. Few other retailers have created the loop Zara maintains between on-the-floor feedback to design and manufacturing.

A culture of fast innovation

In today's retail environment where information is real-time and delivery is next-day, product development timelines move, in comparison, at glacial speed. Typical product development calendars span 48 to 64 weeks. By the time new merchandise is ready for market, trends and consumers have moved on. The end result: accelerated time-to-markdown. Retailers need to accelerate concept-to-shelf time. Doing so requires a fundamental shift in the way they approach product innovation.

Retailers can borrow from the pages of the software industry in embracing a culture of fast innovation—one predicated on iterative product development. This requires a "do, learn, do" mindset where products are developed rapidly, put into the marketplace, and then tweaked based on consumer response. Reckitt Benckiser, a leading consumer goods manufacturer, is one case in point[3]. After much internal debate, the company took on a product that represented a complete departure from its existing portfolio: Air Wick Freshmatic, an air freshening product. Introduced in 2004, today it is sold in 85 countries generating £200 million annually for the company. Although its initial release was the single most successful product launch in the company's history, Reckitt Benckiser continued to tweak the product, introducing new scents and a variety of delivery options (aerosol, automated, motion-sensing) through perpetual iteration.

Network of partners

Whether you're developing your own private label, or working with manufacturers to gain an exclusive branded line, the key is to leverage a network. Why? When a retail brand serves as an umbrella for hundreds or thousands of SKUs, it is simply not economically viable to own every aspect of product development and delivery. That's why savvy retailers leverage a network of partners to spur product innovation. Target joined forces with Missoni to create a product launch so powerful, the company's online website crashed because of demand overload. Shelves were empty in some stores "in minutes."[4] It's a practice that began in the realms of fast fashion with stores like H&M and Debenhams. With the success of Target / Missoni, it's a strategy that shows no sign of slowing.

Walmart partners with Li & Fung[5], a global consumer products trading company (as do Target, Inditex, Marks & Spencer and Liz Claiborne), to source clothes and other goods. Partnerships like these help to bolster speed to customer—although as fast as Li & Fung is, they are under continued pressure to accelerate their delivery. Companies that can forge such innovative arrangements with network partners can offer more—and more differentiated—products than they could going it alone.

Being Right

Customer-Led Insight +	Culture of Fast Innovation +	Partner Network Enabled
Harnessing customer insights can enable retailers to create superior products which leads to higher margins.	Retailers need to accelerate concept-to-shelf time–doing so requires a fundamental shift in the way they approach product innovation.	Companies that can forge innovative arrangements with network partners can offer more–and more differentiated–products than they could going it alone.

The right products–right now

Winning in retail requires not only being right—it requires being right now. Creating differentiated, high-demand products won't add to profit margins if they're introduced a season too late. Speeding the right products to market requires strong capabilities in three key areas: repeatable platforms, integrated planning and agile, multi-channel supply chains.

Repeatable platforms

Even the most specialized of products contain development aspects that can be replicated to avoid the need to "start from scratch" every time a line needs modification. Take clothing for instance: Through product lifecycle management (PLM) tools, the maker of men's shirts can start with a common product platform that can be tweaked according to the season's trends. So collars, buttons/button holes and stitching can be approached uniformly while specific fit, fabric and other style considerations can be tweaked accordingly.

Finding the synergies from product to product, season to season means faster, more flexible production. It's what makes it possible for a fast-fashion retailer to meet demand blitzes like the one that happened a month before Britain's royal wedding. Before marrying Prince William, Catherine Middleton bought a dress from one of Zara's London locations.[6] Later on she was photographed wearing the garment and the dress quickly sold out. Thanks to their repeatable platform capabilities, stores had restocks of the same dress two weeks later.

Integrated planning

To gain the agility needed to speed products to customers, retailers need integrated plans that connect to each part of the product value chain from merchandising to assortment to replenishment and so on. One break in the planning chain results in excessive inventory or not enough and lost margins through discounting or lost sales entirely. Connecting the dots has proven daunting for many retailers—leading them to multiple, stand-alone plans for each area. This in turn leads to errors and labor-intensive planning that is sequential and not iterative or dynamic.

Through integrated planning, retailers operate from one plan against which the entire company executes. Because processes are linked, changes can be reflected quickly—in-season, not next season. Consider a clothing store that realizes mid-way through the season that one model of skirt is being consistently paired by customers with a top that's on the other side of the store. Companies with the insight driven by integrated planning can identify trends, re-align layouts, and boost sales. Likewise, slow-moving products can be transferred to other stores, regions or channels, staving off markdowns and protecting sales margin.

Achieving seamless planning is difficult and requires significant systems investments, new processes, and substantial focus on change management and training. Daunted by cost and complexity, some companies have bought piecemeal solutions that achieved little integration in their planning. The net result: multiple plans drive disparate parts of the organization into potentially conflicting directions.

With the increasing importance of speeding product innovation to customers, integrated planning will make the difference between success and failure. Meijer[7], a US pioneer of the supercenter concept, is one retailer that's making strides toward achieving the integrated planning vision. The company has been connecting its merchandise, financial, assortment, space, demand and fulfillment plans, all with a single version of the truth forecast centrally. Moving forward, Meijer will also incorporate different channels into a unified planning approach to achieve its long-term vision. The end result: a much more responsive merchandising capability.

Being Fast

Repeatable Platforms +	Integrated Planning +	Multi-Channel Supply Chain
Finding the synergies from product to product, season to season means faster, more flexible production.	Companies need integrated plans that connect to each part of the product value chain from merchandising to assortment to replenishment.	A merged approach to multi-channel supply chain can be backed by a dynamic order management system that allows a retailer to fulfill across any channel by choosing the most cost effective model.

Multi-channel supply chain

In the early days of dot.com, many retailers chose to create stand-alone structure for order management and distribution to serve their online customers. Now more and more of them are merging online with traditional supply chains to create new levels of cross-enterprise inventory visibility. This allows merchandise to flow freely regardless of the original point of demand. This merged approach to multi-channel supply chain can be backed by a dynamic order management system that allows a retailer to service demand across any channel by choosing the most cost-effective model to supply a given product to a given customer at a given time. So, your customer purchased an item online? Dynamic ordering shows if it's more efficient to ship the product from a store over a far-flung distribution center.

Nordstrom, the US retailer, is a trailblazer when it comes to agile, multi-channel supply chain. And, according to Jamie Nordstrom,[8] president of Nordstrom Direct, it is one reason sales at the high-end department store are going strong despite a flagging economy. Erasing the seams between online and bricks-and-mortar outlets makes sense because multi-channel shoppers spend four times more than single-source shoppers. Continue to make shopping easier online and you'll get more in-store purchases and vice versa.

Predictive analytics in the retail supply chain

In a volatile and competitive business environment, companies must speed products to market more cost-effectively than ever before. This requires a dynamic supply chain capability that allows companies to be nimble, responsive, and adaptive. Predictive analytic capabilities are at the heart of such a dynamic supply chain providing real-time, data-driven insight that speeds decision making and improves business outcomes. But for most retailers, analytics are not a core competency. That's why more and more of them are outsourcing analytics in the areas of inventory optimization, network optimization (determining total cost of ownership of a company's supply chain network), and demand forecasting. Retailers that succeed in embedding this particular analytic capability into their supply chain operations will see improved business outcomes and competitive advantage.

The right products right now–delivered efficiently

Retailers that can develop the right products—right now—still have to do so efficiently to deliver the value proposition that consumers demand and the profitability investors require. That requires end-to-end awareness throughout the value chain and a results-oriented culture backed by lean execution.

End-to-end value chain awareness

In order to obtain speed to customer, retailers need to drive awareness and understanding of end-to-end implications of key decisions which may lead to inefficiencies across the value chain. Gaining insight into value chain patterns can help retailers avoid negative factors like jagged orders, where demand is high one week and low the next. Jagged orders, changing product specifications, rush or cancelled orders all lead to supply chain inefficiency and unnecessary cost. Gaining this level of visibility requires collaboration tools between retailer to manufacture and analytics capabilities that can predict how past events will shape future demand.

Results-oriented culture

Minimizing approval layers, accelerating decision making, avoiding too many meetings, ensuring true decision making power is not aggregated at too few and too high of levels. All of these lay the foundation for a results-oriented company and ultimately, enhanced operational efficiency.

One example of a retailer that possesses a results-oriented culture is Mercadona, a Spanish-owned distribution company in the supermarket segment. The company's productivity figures are impressive: They have the best productivity per employee in the retail industry, outperforming 18 percent of other supermarkets in Spain and the US. Mercadona's sales per square foot are 60 percent higher than that of other large retail chains and twice that of the average US supermarket.[9]

Lean execution

Retailers worldwide struggle to manage complexity: There are simply too many products, services, suppliers, customer segments and processes steering them all. Through approaches like Lean Six Sigma, retailers can connect disjointed processes and information gaps and improve business performance. Consider the large global retailer that could not account for sluggish sales in its office chair product line.[10]

Lean Six Sigma techniques uncovered the problem. The retailer's assembly and display replacement process was flawed—resulting in the failure of 75 percent of stores to replace chairs that had been sold from the display. Without product display, customers were, naturally, unaware of the assortment. And sales plunged. Correcting the process helped the retailer get the right product to the right customers quickly and efficiently.

Being Efficient

End-to-End Awareness +	Results-Oriented Culture +	Lean Execution
Drive awareness and understanding of end-to-end implications of key decisions which may lead to inefficiencies across the value chain.	Minimize approval layers, accelerating decision-making, avoiding too many meetings, ensuring true decision making power is not aggregated at too few and too high of levels.	Avoid poorly connected processes, information gaps, and operational silos which create waste and re-work and contribute to sub-optimal cost structures.

End of sale

Accenture's experience, coupled with a depth of industry research involving retailers across categories and countries, reveals a formula for creating innovative products—rapidly and efficiently—to win in an environment that has crushed even the strongest brands. It's a combination of being right, using customer-led insight, adopting a culture of fast innovation and leveraging a network of partners; and being fast with a super-agile value chain based on repeatable platforms, integrated planning and multi-channel supply chains. Those who manage will outmaneuver competitors—arriving first at innovation and last to the "sale!" sign.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 246,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

For more information on gaining a competitive edge through speed to customer capabilities, please contact:

Global

Renato Scaff
Senior Executive
Atlanta, GA - USA
Phone: +1 678-657-4611
E-mail: renato.scaff@accenture.com

APAC

Michael Yee
Senior Executive
Shanghai, China
Phone: +86 21-2305-3667
E-mail: michael.yee@accenture.com

EALA

Miriam Molino
Senior Executive
Madrid, Spain
Phone: +34 91-546-9412
E-mail: miriam.molino@accenture.com

North America

Courtney Spitz
Senior Executive
Boston, MA - USA
Phone: +1 617-488-7496
E-mail: courtney.e.spitz@accenture.com

Footnotes:

1 From www.bestbuy.com and Accenture client experience

2 From www.zara.com

3 From www.airwick.us/ retrieved February, 2012

4 From "Missoni Launch: Success or Missed Opportunity for Target?" September 15, 2011 http://www.cnbc.com/id/44535313/Missoni_Launch_Success_or_Missed_Opportunity_for_Target retrieved February, 2012

5 From "Li & Fung Signs Walmart Deal That May Generate $2 Billion Sales" January 28, 2010 http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aSDzLcEyoNas retrieved February, 2012

6 From "Kate Middleton Wears $90 Zara Dress Day After Wedding" May 2, 2011 http://fashionetc.com/news/news/1693-kate-middleton-zara-dress retrieved February, 2012

7 From JDA website video: http://www.jda.com/company/display-collateral/pID/686 retrieved February, 2012

8 From "Nordstrom Profits from Improved Multichannel Capabilities" February 7, 2011 http://logisticsviewpoints.com/2011/02/07/nordstrom-profits-from-improved-multichannel-capabilities/ retrieved February, 2012

9 From Mercadona annual report: http://www.mercadona.es/corp/ing-html/noticias.html retrieved February, 2012

10 From "Applying Lean Six Sigma Principles in Retail Stores," by Accenture