

Enterprise Merchandising led Collaboration – The Next Generation Go-to-Market Retail Model

This paper aims to present the design of the next generation corporate-led collaborative retail model, (and its IT enabled implementation) that leverages scale while retaining local relevance, as adopted (post merger) by a strategic TCS customer – a large US Grocery Retailer and a Fortune 100 Company. TCS is an active partner in enabling the Business Intelligence (BI), Analytics and Master Data Management (MDM) component of this program. This model is being consistently adopted by many retailers to achieve maximum benefit, especially at a time when mergers and acquisitions are the norm of the day.

General Terms

Enterprise Merchandising (EM), Cost of Goods Sold (COGS), Selling, General and Administrative (SG&A) expenses, Data Warehousing (DW), Information Technology (IT), Enterprise Data Warehouse (EDW), Supplier Relationship Management (SRM), Customer Relationship Management (CRM), – Profits (Ps).

Keywords

Merchandising, Retail model, Go-to-Market approach.

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About the Domain

TCS has a dedicated Retail Practice that is equipped with extensive domain technology and delivery expertise and experience. We work with customers across the globe to provide those solutions and services that address their challenges, help them optimize business performance, facilitate alignment of business with technology, reduce cost, improve margin and provide competitive advantage.

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Introduction

Merchandising is the act of “planning involved in marketing the right merchandise or service at the right place, at the right time, in the right quantities, and at the right price”, as defined by the American Marketing Association. In other words, merchandising refers to the methods, practices and operations conducted to promote and sustain certain categories of commercial activity, most importantly, sales. Needless to say, merchandising is the heart of retail business.

As retailers continue to grow huge and diverse, through organic growth as well as through mergers and acquisitions, it is becoming increasingly important to pursue new approaches that enable them to go-to-market with a coordinated face. Enterprise merchandising (EM), one such approach, is the consolidation and execution of most merchandising processes and decisions at the corporate to leverage scale.

While EM leverages scale, it is very important to collaborate with local relevance especially in terms of deep customer understanding, knowledge of the products and/or services that win the customer’s heart and methods for excellence “at the shelf”. Collaboration is the key success factor for the new model.

In this paper, we will look at the various aspects of this technology enabled EM-led model, and ways of incorporating it and facing risks/ challenges when doing so.

Why Transform The Go-To-Market Approach?

As mentioned earlier, with the continuing diversification and growth due to mergers and acquisitions (M&As), retailers are following approaches that enable them to go-to-market with a coordinated face, leverage scale so as to reduce cost, increase sales and take share. The market continues to get more competitive and fragmented with new entrants into the market and the time consumed “away from home” on the rise.

As retailers look for a transformation to compete with their peers, most of the current retail models either risk under leveraging their scale (extremely localized merchandising) or losing local relevance (extremely centralized merchandising). To survive, sustain and win, even the traditional retailers are forced to transform their model to leverage scale as well as enhance local relevance.

Retail standardization is a vital aspect of the next generation model. Standardization is significant in case of handling M&As and aligning merging entities towards a common goal. Especially, when merging companies have their own retail systems with differing conceptual models and different levels of granularity, it becomes difficult for the business to measure the financial attributes. Standardization also helps reduce IT costs and complexity and increase customer insight.

This next generation go-to-market model aims at reducing Cost of Goods Sold (COGS) and cut Selling, General and Administrative (SG&A) expenses. Process consolidation ensures smooth definition of business metrics across the enterprise, and allows best practices to be executed across regional banner components of the enterprise. It facilitates the establishment of ‘centers of excellences’, at the same time, the collaboration with local relevance ensures retaining customer knowledge and driving excellence at shelf giving a definite edge over retailing peers following traditional models.

The Next Generation Go-To-Market Model



As shown above, the corporate-led collaborative model consolidates and integrates processes such as Category Planning, Sourcing, Assortment (some % by regional banners) and Presentation Methods.

To assure local relevance processes such as ads and promotions, pricing and pricing strategies are jointly owned by the regional banners and the corporate. EM led Center of excellence is responsible for pricing led analytics whereas the regional entities set prices.

As a whole, per the model, EM is responsible for national elements whereas regional entities are responsible for in-store operations or "excellence at shelf".

Consolidation of most Merchandising decisions at corporate to leverage scale is one of the critical enablers for success of this model. Most notably, processes such as vendor negotiations and funds that ensure a 'single voice to vendor'; including its wholesale wings, are key elements of effective supplier relationship management (SRM) through the model. The model gives an enterprise wide view of category planning, core assortments and national promotions.

Key Elements of the Model

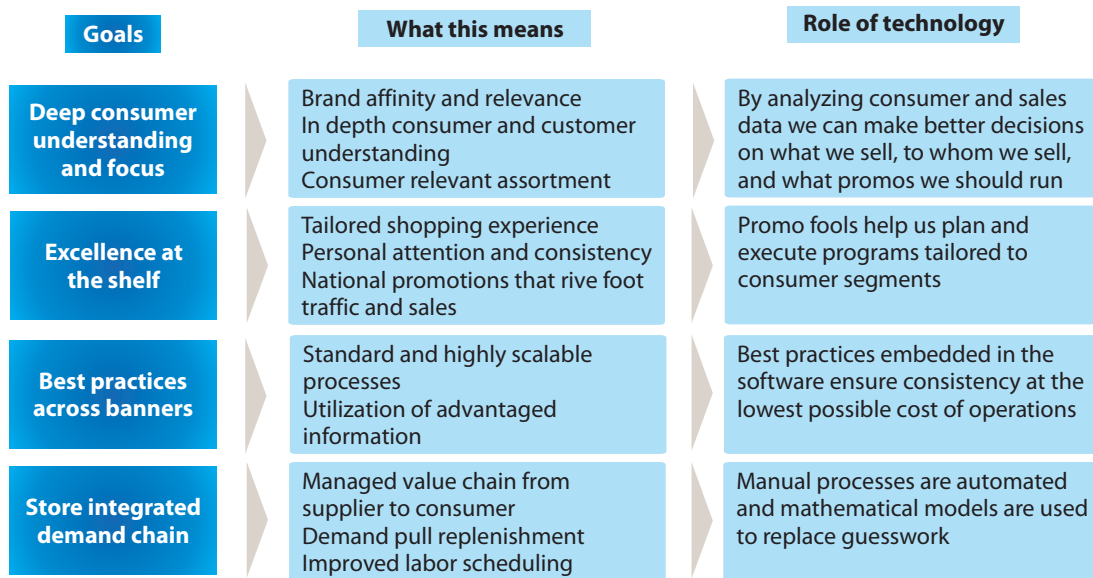
The key elements of the next generation EM-led collaborative model are:

- **Planning** - Annual merchandising planning is a collaborative, iterative process. It includes Enterprise Merchandising led category business planning to leverage scale with regional input throughout to ensure local relevance.
- **Vendor Management/ Sourcing** - This includes Enterprise Merchandising management of national vendors to leverage scale while regional units still manage local vendors approved by EM
- **Assortment** - The Enterprise Merchandising model defines majority of assortments to leverage scale with local units selecting around 20% localized items (depending on the retailer/category). As far as the retailer owned brands are concerned, enterprise merchandising manages the scale.

- **Advertising and Promotions** - National promotions are handled by EM to leverage scale. The front and back strategy, “week to week” item selection and space allocation, and display space allocation is led by the regional units to assure local relevance.
- **Presentation** - Plan-o-grams are to be EM developed for the most common versions/ formats and local/ store level versioning. Execution is enabled at the regional units, as required.
- **Pricing** - The collaborative model allows local pricing supported by central analytics and guidance through the suggested pricing provisions of the center of excellence.

Role of IT in Enabling Transformation

As IT evolves itself from “Running the Business” to “Changing the business”, it plays a critical role in enabling the end state Corporate-led business model. Especially in the age of M&As, many of the legacy application might not be able to fully support the extended enterprise.

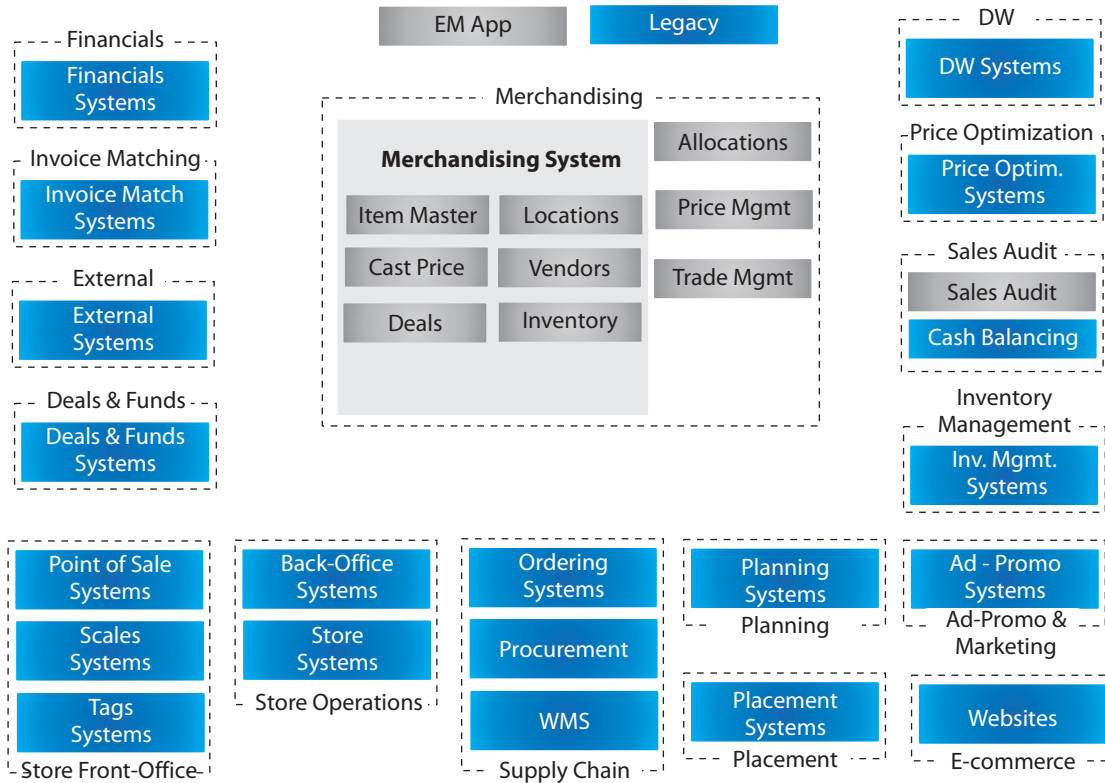


Lack of standardization leads to low visibility and poor enterprise level execution. Merchandise hierarchies such as Product and Locations need to be rationalized. Advanced analytics and optimization capabilities are needed to drive key business goals. The goal of IT investments in transformations is the integration of the core business processes as the legacy systems become obsolete. The implementation of enhanced technical capabilities thus acts as a key enabler for the transformation.

IT Architecture to Support Enterprise Merchandising-led Model

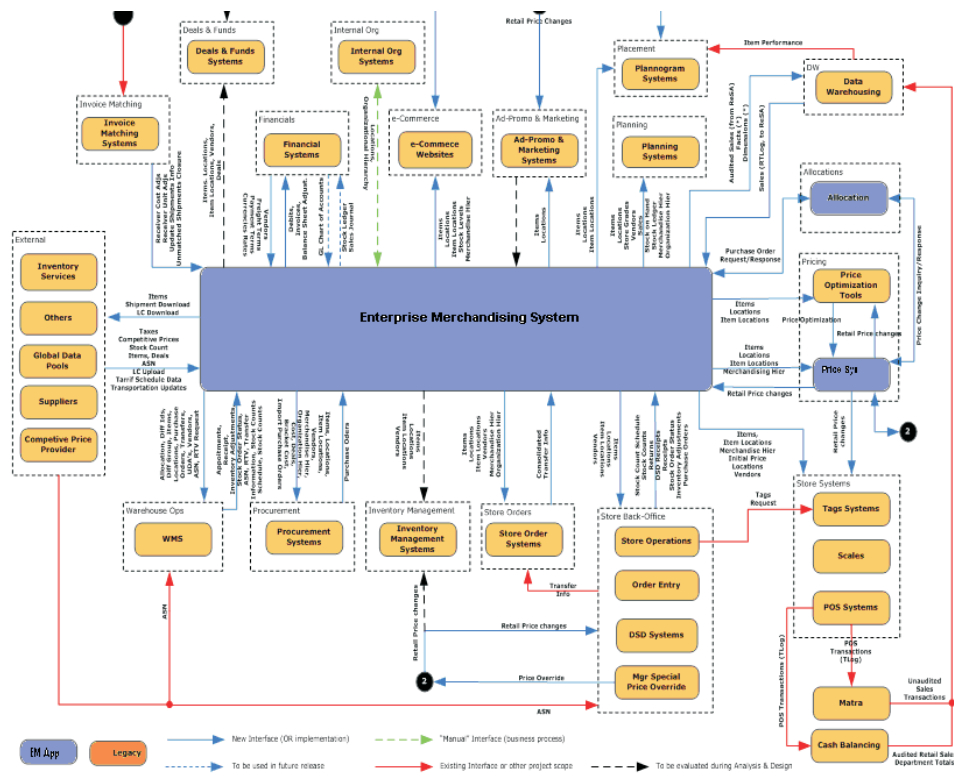
With the enterprise vision of leveraging unified retail processes without giving up local relevance to become more efficient, the IT problem statement can be formulated as the non-integration of the disparate systems and processes across the organization that are tied to the Merchandising operations with the agreed EM applications as a part of the complete ERP solution. The affected systems would be Enterprise merchandising systems (corporate and localized), financial systems, supply chain applications and Enterprise Data Warehouse.

A successful IT architected solution would comprise of the facilitation and integration of the various merchandising functions to support the transformation of the model to a centrally-led collaborative one. The solution should additionally provide quality control capability to the data being shared between systems.



The above diagram shows the integration of various major processes such as finance, deals and funds, pricing systems, audit systems, inventory management, supply chain, planning and placement (Plan-o-gram applications), e-commerce, ad-promotions and marketing applications, EDW as well as the in-Store operations and core merchandising operations.

Based on the study of the above interfaces with respect to the core merchandising application/ systems, we can base the IT architecture of the EM enabled system. The following diagram represents the integration footprint of the conceptual end state IT architecture.



The architecture comprises of parts integrating the company’s transactional, analytical and master systems. The various IT mechanisms that a company deploys to handle its various functions are linked through different interfaces to the EM applications (part of the complete ERP solution), which is the heart of this architecture.

The EM applications help hold a single version of truth for the enterprise’s merchandising data, which in turn would feed analytical facilitators such as the EDW. The EDW plays a critical role when it comes to business analytics and decision support systems; therefore, it is very important to improve the quality of data fed to it. The EM systems help centralize the merchandising operations giving an enterprise wide view for merchandising hierarchies such as Item and Location (Stores/ Warehouses), dimensions such as Supplier, Promotions, and business metrics such as sales, cost, margins and gross profit. Multiple hierarchies can be supported or cross-references can be maintained to obtain a localized view to access local relevance. Concepts such as suggested price and prevailing price can be used to utilize the scale leverage through pricing analytics as well as retaining local relevance by overriding wherever needed.

Being able to give an enterprise wide view for category planning, core assortments and national promotions among other things, the above proposed IT architecture is in line with the business model and designed to serve the core business purpose of the new go-to-market model.

In order that the business experiences certainty, apart from the functional requirements for the model, the architecture also needs to address and include regulatory, security and quality requirements such as:

- Usability - Error trapping mechanisms and duplicate row preventions.
- Reliability - The system should provide enhanced availability expectations during peak access hours to give a consistent improved time to market.
- Availability - The system should be available throughout, except during scheduled down times.
- Security - Access should be granted only to authorized users. Access and information violation directly impacts the business.
- Performance - System should be capable of handling transactional data for the pre-defined duration.
- Supportability - Support mechanisms should be defined and implemented.
- Regulatory - Online help documentation for the system modules is desirable.

Expected Business Benefits of the EM-LED Model

Sizeable business benefits can be expected out of the model with the help of next generation IT solutions.

The targeted business benefits would be:

- Increase in Sales
- Lower COGS
- SG&A improvements
- Better SRM and CRM
- Reduced Time-to-market
- Increased Customer loyalty
- Increased Ad/Promo effectiveness
- Better Category management and financial planning
- Lower IT costs, technology redundancy and complexity with maximum efficiency.

IT Solutions Enabled Business Benefits

Technology should support reduced shrink and stock-outs. With fully functional inventory management systems, business benefits such as lower inventory and carrying costs can be accomplished. Pricing analytics should result in reduced and optimized markdowns. To drive business to the next level, in-depth customer insight and segmentation, and competitor and market intelligence are critical capabilities. The advanced knowledge management and analysis systems provided by the IT solutions help in providing better insight for business initiatives such as customer segmentation, loyalty programs and customer experience

Some of the areas of focus for IT to drive business benefits can be:

- **Margin Improvements** - Margin is the profitability for an item being sold. Lowering the costs and increase in sales translate into a rise in margins. Data and analytics improve vendor negotiations and store-compliance. Supply chain analytics help lower the transportation and logistics costs in turn contributing to increase the margins.

- **Store-Level Inventory Reduction (Working Capital)** - The automation of manual processes and replacing guesswork techniques with mathematical models help better inventory management and forecasting. This also provides increased supply chain visibility.
- **Shrink Reduction** - IT enabled better inventory management helps reduce excess inventories that result in shrink, especially in the case of produce. IT also helps in the identification of slow moving items. The ability to optimize assortments and take corrective actions can be helpful in reducing shrink.
- **Improving Customer Focus** - By analyzing consumer and sales data, better decisions can be made on what to sell, to whom to sell, and what promos should be run.
- **SG&A Reduction** - IT embedded and enabled process improvements and scalability at the analytics center of excellences reduces the overall cost of operations.

Challenges in Transformation

Any transformation, resource, process or entire system transformation has got its own challenges. In a case as complex as this, wherein we look at transforming the entire go-to-market model to the next level, there are bound to be a few challenges which need to be overcome, such as:

- **Change Management** - The change management aspect of the program would be the most difficult. The transition in such a case would not only involve changing data, systems and processes, but also the way the entire organization works. Setting up of advanced change management infrastructure would be a key to overcome this challenge.
- **Percolating Scope and Aligning Goals** - Scope follows a top down approach, with the program objective defined at the top, in turn boiling down to the various functional units. Definition and ownership of the objectives by the functional units and effective communication within the various groups to align purposes towards the end-state is a key driving factor.
- **IT Challenges** - These include:
 - **End-to-End Solutioning** - From an IT perspective, the biggest challenge is to come up with an end-to-end solution ranging from master data maintenance to point of sales to analytics that can support the entire organization, especially in case of a post merger inflated organization.
 - **Shut down of the legacy systems** - The transition of IT processes from the legacy systems to the newly aligned technology needs to be a thoroughly planned and a multi-phased process to avoid any knee-jerk reaction.
 - **Timely and Seamless Implementation** - Given the scale and the complexity of the project, it is a challenging task to integrate the various IT functions seamlessly. Resource support and properly phased priority based implementation is important to ensure a smooth implementation. IT near-term workarounds, wherever applicable, will also be critical in the interim.

Conclusion

As the retail markets get extremely competitive, retailers all over the world are looking at strategies to retain and grow their market shares. The complexity of diverse markets for retail as well as aligning local strategies with the enterprise vision has caused even the generally traditional retail players to re-shape themselves for a better future. With retail mergers and acquisitions on the rise, the upcoming go-to-market retail model discussed above is increasingly gaining popularity in the retail community. The recent market volatility provides an excellent opportunity for TCS to create a structured 'Go-to-Market' retail offering based on learning from its engagement with a strategic customer.

Acknowledgements

I extend my sincere thanks to project supervisors and colleagues who provided valuable inputs, which helped me analyze, explore and come up with this paper focusing on the next go-to-market retail-model.

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