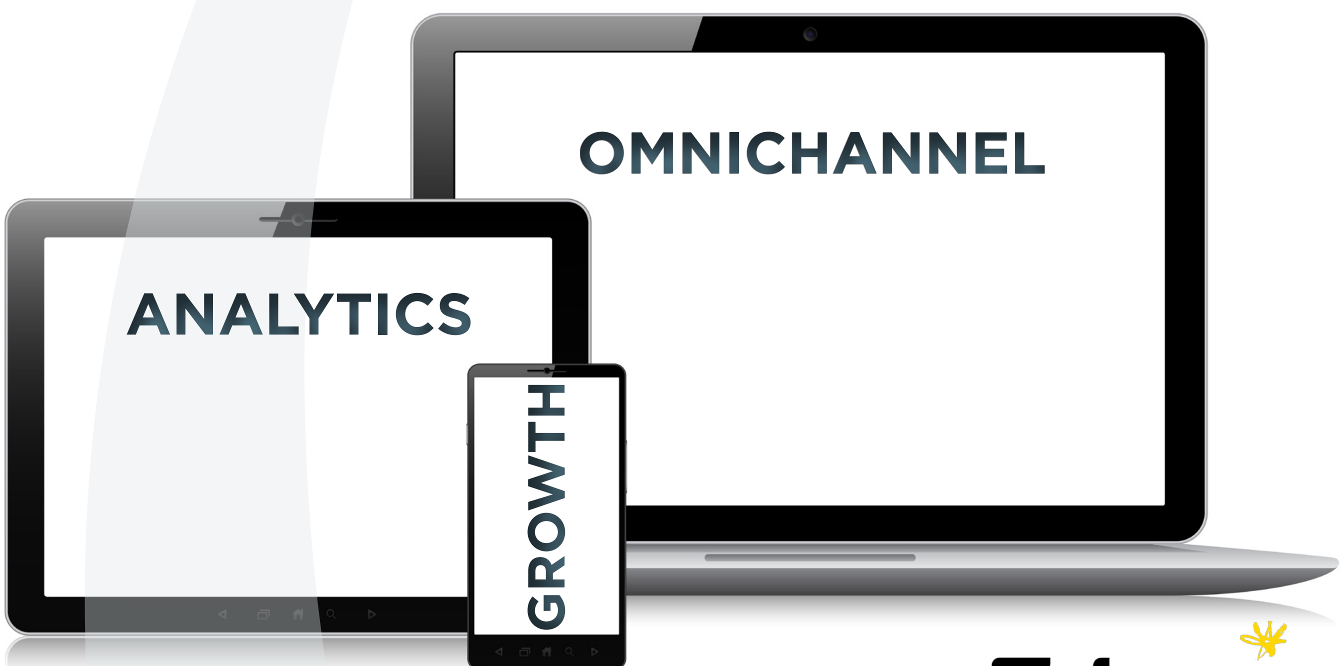
Kurt Salmon

Laying the Groundwork for Future Growth

Top Retail IT Trends of 2013 and Beyond

2012 represented a year of significant change for the retail industry. Demands to deliver compelling, personalized, cross-channel experiences to customers—one-to-one retailing—are driving the most rapid evolution in organization, processes and tools that the industry has ever seen. And this change should continue to accelerate throughout 2013.

As CIOs look forward to the rest of 2013 and beyond, they are focused on supporting an ever-growing list of competitive mandates and taking on an increasingly strategic role within their organizations.



Toluna
In touch with people

Eighty-two percent of CIOs surveyed said they were about average when it came to their capabilities and sophistication at adopting new technologies.

These growing demands were evident in a survey of CIOs recently conducted by Kurt Salmon in collaboration with market research firm Toluna. In the survey, more than 50 senior IT executives listed their top four priorities for 2013:

1. Supporting growth
2. Developing and implementing technology to support omnichannel operations
3. Incorporating IT into merchandising, planning and demand forecasting
4. Harnessing analytics and big data

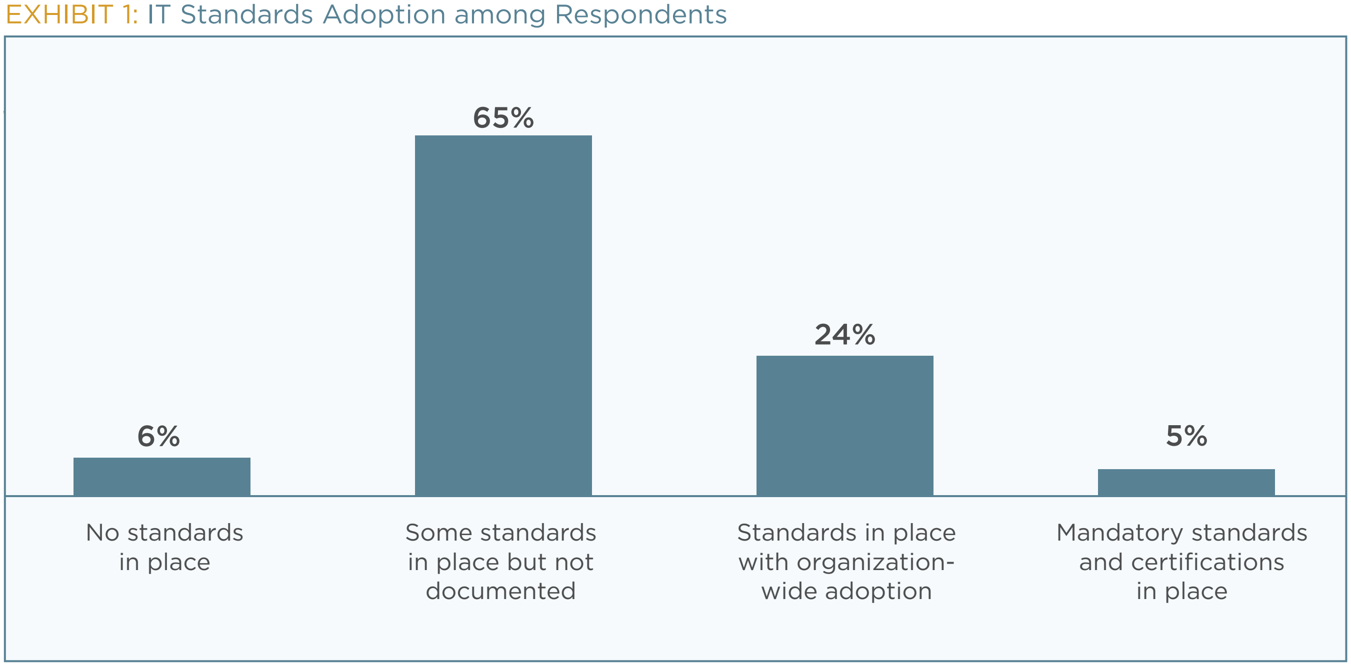
These responses represent the biggest challenges for CIOs today—meeting emerging trends and business needs while also continually evolving their organizations to better respond to whatever the future holds. Our survey results show that many organizations still have a long way to go before fully realizing these strategic goals.

1. Supporting growth

The IT organization's role within the larger business is evolving as technological change and a host of new demands put more pressure on IT to grow and support new strategic goals. CIOs increasingly need to be able to respond to both tactical, long-term projects and short-term projects that harness new technologies to meet rapidly emerging trends.

However, the survey reveals that CIOs are not yet ready to take on these new challenges—or are not even aware that they exist. For example, 82% of CIOs surveyed said they were about average when it came to their capabilities and sophistication at adopting new technologies. But clearly, 82% of retailers cannot all be average; some are likely far behind their competitors. This also indicates CIOs or their management doesn't consider IT a competitive advantage in spite of all the technological advances and value being driven by technology today.

EXHIBIT 1: IT Standards Adoption among Respondents



Increased infrastructure stability frees up CIOs to provide more innovation and strategic value to the business.

We found that IT organizations are out of touch with business needs, which can force the business to circumvent IT to find solutions to the technological roadblocks that are preventing it from achieving broader strategic goals.

For example, 76% of CIO respondents are ready only to support organic growth and have no plans to support mergers/acquisitions, and only 8% of CIO respondents said they are planning for international expansion, but a recent cross-functional NRF survey found that by the end of 2013, 53% of respondents expect that international spending will account for at least 60% of their total supply chain spend. This is further evidence that many retail CIOs are reactive to rapid business changes and may not be ready for a strategic expansion into new markets.

Cloud computing is another example. While many companies intend to rely on cloud computing to enhance their business capabilities, only 6% of respondents listed cloud as part of their top five priorities. Cloud computing is seen by many as an IT solution rather than a strategic priority.

Now is the ideal time for CIOs to right the ship. Why? First, infrastructure is no longer a hurdle. Just 11% of respondents felt their infrastructure has an adverse impact on their business. This increase in infrastructure stability is explained by an increase in outsourcing spending—60% of respondents said they were spending more—and by increasingly accessible virtualization and cloud-based platforms as budgets shift from fixed capital expense to variable expense based on usage-based payments. This increased infrastructure stability frees up CIOs to provide more innovation and strategic value to the business.

Second, CIOs are also finding themselves elevated to a new place at the table: Eighty-two percent of respondents said they were reporting directly to the CEO or COO. But many CIOs have yet to embrace this new role and use it as a way to proactively engage the business to improve responsiveness and new technology adoption. Some of these CIOs have also not been fully accepted by the organization as a strategic partner. CIOs also feel this elevated reporting structure has placed IT under a microscope, as 76% of respondents feel more pressure for transparency and accountability.

But creating a truly leading-edge IT organization will take significant change. First, CIOs should strive to implement industry standards. The retail industry lags behind many others when it comes to standards adoption, so any early movers here will be well positioned to respond to future technological changes.

As a comparison, financial services firms have extensively implemented ITIL standards. These standards have enabled them to reduce downtime by 30% and shrink execution time by 25%, according to Gartner. This has a considerable impact on operational costs that most retailers have not yet realized.

Second, to support the growth with which they are tasked, CIOs will need to retire legacy systems. When retiring a legacy system, leading IT organizations are looking to implement a new system that will meet future needs and requirements—one that goes above and beyond the current system. Still, most respondents feel the need to implement best-of-breed solutions from many vendors to meet business requirements. The ERP concept is still not fully embraced by retailers but could provide significant competitive advantage.

Finally, retailers should adopt a master data management (MDM) standard architecture, which can dramatically reduce errors in both single- and omnichannel environments. For example, a large manufacturer implemented MDM architecture and, *CIOs need to be proactive in developing smart sourcing, cloud-based infrastructure and IT standards and adapting their skills to support a more agile IT environment. Without a plan, CIOs risk maintaining the status quo.*

as a result, reduced cycle times by 90%, improved productivity by 50% and decreased content errors on its website by 68%.

To reach these goals, CIOs must aggressively plan for and pursue a more effective and strategic organization. Eighty-eight percent of respondents believe their IT organizations are trending toward efficiency, transparency and accountability. Fifty percent of them have recently gone or are going through reorganization. While these figures are positive, they are not supported by specific initiatives to reach these goals. Effectiveness will not happen by itself. Instead, CIOs need to be proactive in developing smart sourcing, cloud-based infrastructure and IT standards and adapting their skills and staffing model to support a more agile IT environment. Without a plan, CIOs risk maintaining the status quo.

2. Developing and implementing technology to support omnichannel operations

Technology is at the heart of being able to deliver compelling, consistent experiences and products across channels.

For example, cross-channel inventory visibility and availability bring new complexity to technology optimization—which products to fulfill from where—and ownership—who owns the inventory within the organization and what metrics are used to measure success.

Most retailers are still struggling to meet the “shop anywhere, buy anywhere” promise. Only 35% of respondents said their systems support saving the sale in-store by allowing out-of-stock products to be ordered from another store or DC and shipped to the customer’s home. And only 6% of respondents said their systems support shopping, purchasing and pickup across channels.

There’s also significant room for improvement when it comes to mobile strategy. Although we feel it should be one of the top strategic priorities for CIOs, it ranked near the middle among our survey respondents. This represents an opportunity for strategic CIOs to grab mobile market share while their competitors are focusing on other priorities.

These new omnichannel demands have driven a huge amount of technological change in the past year alone and have raised the bar on what other systems across the organization—both customer facing and back office—have to do to keep up. IT should naturally have a role in building out these capabilities. For example, one specialty retailer’s IT department led the development of its ship-from-store technology, enabling up to 50,000 orders a day to be fulfilled from its stores with a 99% fill rate. This program helped the retailer become more competitive on delivery speeds and offer a wider assortment.

But more than just new systems requirements, omnichannel will require significant organizational change. For example, recent Kurt Salmon interviews with 25 senior executives revealed that 56% of retailers don’t have a common definition of customer experience across channels, and 68% don’t have a single owner of that customer experience across channels and functions. Figuring out the best possible systems and processes for delivering against omnichannel will be difficult in this fractured environment. CIOs should take a leadership role in proactively engaging the business and helping to facilitate the conversation around what the omnichannel organization will truly look like.

3. Incorporating IT into merchandising, planning and demand forecasting

Merchandising and planning have always been described as a mix of science and art. In the past, *Merchandising and planning have always been described as a mix of science and art. But **the balance will increasingly tilt toward science as new technologies drive significant value for merchants and planners.***

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retailers have been slow to accept change in merchandising and planning tools and many new technologies have gone unused. But the balance will increasingly tilt toward science as new technologies drive significant value for merchants and planners.

Still, the industry has a long way to go until the scales have tipped. The top technologies retailers say they are currently in the process of upgrading are item management (25%), replenishment (25%), and forecasting and planning for stores (24%), while omnichannel forecasting and planning remain low priorities.

And despite gains made by retail software vendors, Excel is often still the tool of record. Merchandise planning tools have been around for decades and have been widely adopted across the industry. Yet 37% of retailers still rely heavily upon Excel. It's also worth noting that only 18% of CIOs indicated their merchandise planning tools were integrated with other planning functions and merchant systems. We feel that integrated planning tools represent a significant opportunity for retailers to enable and automate the execution of corporate strategy down to the operational division level.

Excel is equally prevalent in assortment planning, with 47% of CIOs responding that spreadsheets are the primary tool used, while just 29% indicated they use a dedicated application. We feel this is a symptom of the maturity level of the commercial software assortment planning tools available in the market. This process is at the heart of what merchandisers do and no two retailers perform this process the same way. This creates a challenge for software companies, as they need to develop packaged software that is flexible and sophisticated enough to support the varied ways in which retailers develop their assortments. No one has cracked the code yet, but many are trying and some are getting close.

1:1 RETAILING
The Omnichannel Experience

Leading retailers are increasingly seeking to provide customers with the personalized level of interaction they've come to expect in other areas of their lives, developing pervasive, personalized relationships and experiences which extend across all of a customer's visits, channels and locations—one-to-one retailing.

These personalized experiences predominantly exist online. Although providing a seamless, individualized experience across channels is one of the industry's biggest opportunities, that promise often stops at the store's entrance. Until now.

New technology now allows retailers to bring economically viable one-to-one retailing experiences to the brick-and-mortar world. What will this look like from the customer's perspective?

- » Stores will know who they are—their preferences and purchase history—while they are physically in the store and link that to personalized marketing across channels.
- » Stores will know what product(s) they are handling while in the store.
- » Stores will provide the same rich brand storytelling and social media integration now found online.
- » Stores will let customers interact directly with in-store technology to receive personalized recommendations based on their historic preferences, the product they are holding, store location and inventory.

Providing these types of personalized interactions will create a tremendous competitive advantage. We all know that the U.S. is currently overstored and competition between retailers is only getting fiercer for a limited consumer dollar. Winning retailers will be those who make their existing doors more productive.

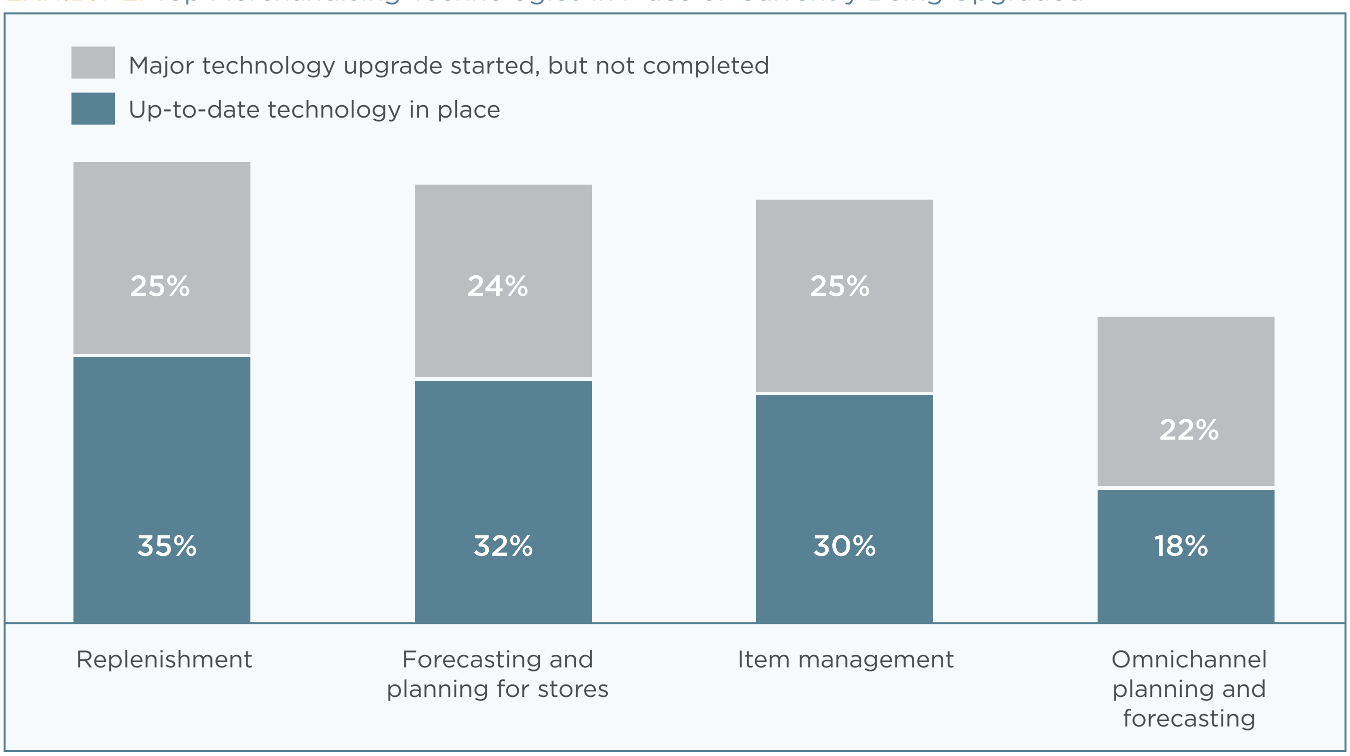
Many retailers are rushing to implement technology that only their sales associates can use, such as mobile POS, working under the assumption that freeing up associates will allow them to cross-sell and better assist customers. But mobile POS technology has limited ability to influence conversion rate and basket size. Instead, Kurt Salmon recommends retailers prioritize customer interaction with technology to enable one-to-one retailing engagement with the customer.

Low adoption of integrated systems (only 12% of respondents had them) means that the value retailers get from these systems, especially with a best-of-breed approach, is limited. Even though several vendors offer broad systems, the majority of retailers have yet to take advantage of them.

When it comes to allocation, 82% of respondents are leveraging commercial software packages to manage this function. Forty-seven percent of respondents said their applications are integrated with line planning, but only 6% indicated a high level of integration and sophistication. Allocation tools have been on the market for many years and are relatively mature technologies. Retailers have long benefitted from and have been comfortable managing these functions through increasingly sophisticated tools.

Finally, 42% of respondents indicated a high level of replenishment sophistication and 24% of retailers leverage demand history, automated replenishment capabilities, and markdowns and promotions to impact and enhance their forecasts. An additional 18% responded that their replenishment capabilities included a high level of integration with down- and upstream systems; sophisticated capabilities like what-if scenarios; and the impact of clustering, assortment parameters and localization. These replenishment tools are increasingly accepted by retailers and are driving significant value. For example, in pilots, one $20 billion multiline retailer saw sales increases of 1% to 3% thanks to clustering, with only 10% to 15% of each cluster's assortment differentiated from the core assortment.

EXHIBIT 2: Top Merchandising Technologies in Place or Currently Being Upgraded



The keys to successfully unlocking value from analytics come from embedding them within day-to-day business operations and using them to drive decisions that are directly linked to business outcomes.

Leveraging inventory across channels to meet omnichannel needs adds additional complexity. The "devil is in the details" here, as inventory optimization (ship from store vs. ship from DC), product ownership (who owns the inventory within the organization, store vs. online buyers) and technology challenges (such as supporting a common SKU across all channels) must be overcome to realize the omnichannel promise. Our survey results indicated that only 12% of respondents are able to support buying online and picking up in the store. We expect this percentage to increase over the next few years as technology improves and retailers are increasingly pressured to succeed in this omnichannel world.

4. Harnessing analytics and big data

Like omnichannel, analytics are another business imperative with which CIOs should be intimately involved. It seems many CIOs are heeding the call. Eighty-six percent of CIOs surveyed mentioned analytics as a high priority and said they were planning on increasing their budgets to meet growing business needs. We feel this should be a top priority for CIOs. Considering all the hype about big data, retailers are looking for analytics investments to pay big dividends.

And for good reason. Retailers who have aggressively pursued an analytics-driven business model have seen a significant lift in performance.

For example, one Kurt Salmon client, a specialty retailer, is seeing a 10% to 15% reduction in total inventory and a 60 to 90 basis point increase in sales after strengthening their inventory allocation analytics and processes.

But analytics are not an issue that CIOs should tackle alone. Eighty-six percent of CIOs also indicated that analytics are a joint effort between IT and the business, and rightly so. The keys to successfully unlocking value from analytics come from embedding them within day-to-day business operations and using them to drive decisions that are directly linked to business outcomes.

This requires the appropriate technology above and beyond Excel. The good news is that the technology is now more mature, computing and data storage costs are declining, and new delivery models like software as a service enable companies to access the technology they need much more easily. To ensure technology investments generate sufficient returns, companies should establish a collaborative partnership between the analytics team, end business users and the IT organization.

Working together, this partnership should first clearly identify the end business opportunity, the current hurdles to realizing the opportunity and the functionality necessary to clear those hurdles. Only then should they lay out the roadmap and business case for any technology investment required. In this way, the organization and, more importantly, the CEO and CFO will have confidence that the investment is justified.

Clearly, many CIOs still have significant ground to cover before they can truly enable the kinds of IT organizations that will succeed in the future. But by laying the foundation now, IT organizations can help ensure they will not fall behind in the years to come. This starts with taking a more proactive, leadership approach to working with senior leadership and helping to achieve the business's goals. A host of new strategic imperatives—omnichannel, merchandising and planning, and analytics—will require IT's input and support. And these new initiatives will come with their own systems needs. In this environment, CIOs who have one eye on the present and one on the future will be best positioned for success. ❖

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ABOUT KURT SALMON

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