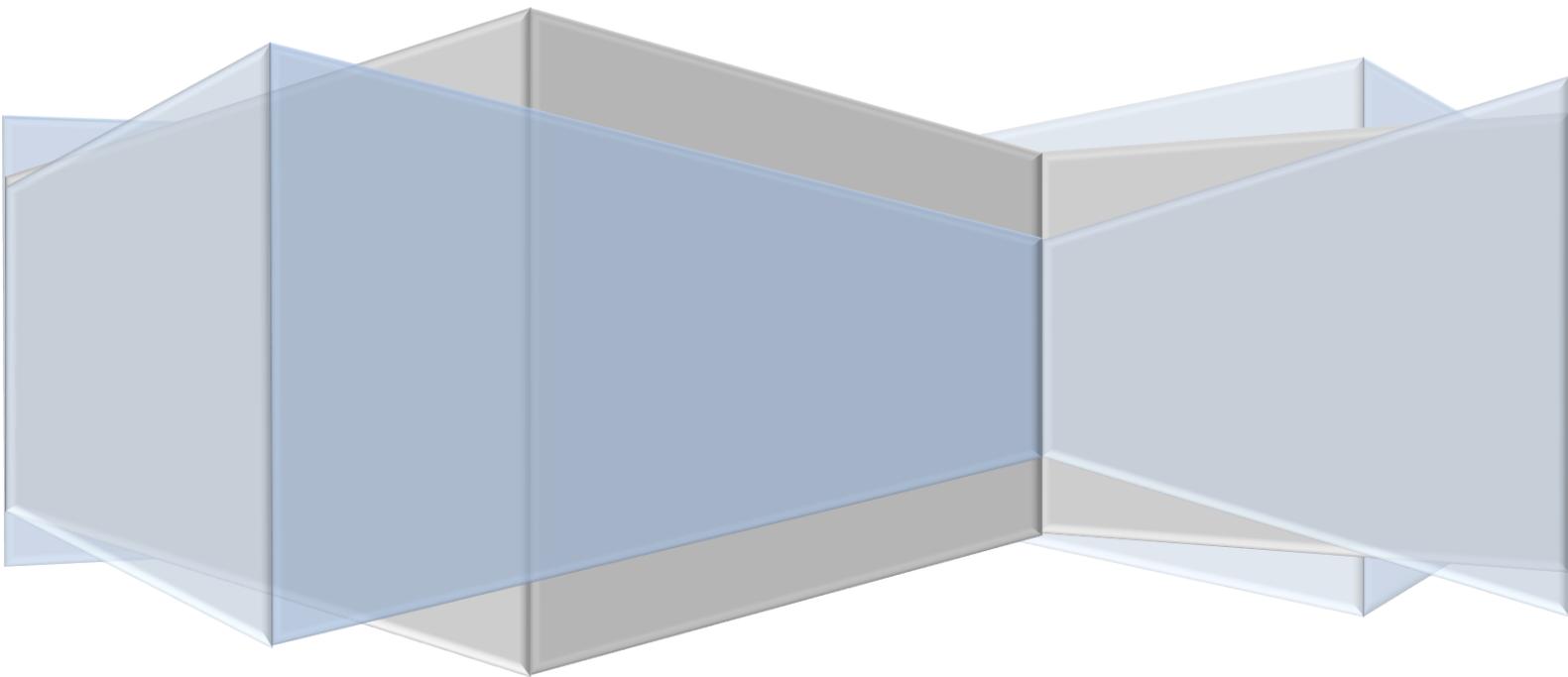




Creative Computing
Retail Business Solutions

The Seven 'Rights' of Multi-Store Retailing

A Blueprint for Retail Success and Longevity



Introduction

There is a right way to run multi-store operations and a wrong way. This is why the traditional mantra of *“the right products, at the right place, at the right time and for the right price”*, has always packed a punch because it reveals the formula to retail success.

In retailing, just like in life, some things change while some things stay the same. While this White Paper covers the original four ‘rights’ of multi-store retailing, it includes three new ‘rights’ that assist today’s retailer face uniquely modern challenges and pressures such as: the frenetic pace of doing business; ferocious competition on a global scale; dealing with discerning and savvy shoppers, and keeping up with fast-changing consumer preferences.

The seven ‘rights’ you should follow are:

- > The right Products
- > The right Place
- > The right Time
- > The right Price
- > The right Promotion
- > The right Staff
- > The right Service

Below the White Paper delves into key features of each of the seven ‘rights’.

The Right Products

If you’re an existing multi-store retailer then your stores are already full of products. But are they the right products?

For most multi-store retailers the biggest working capital investment is in inventory. One important method in determining if you have the right products is to analyse their return on investment.

Gross Margin Return On Investment (GMROI)

GMROI is a fairly complex formula that combines the stock turn rate and gross profit percentage of products to give a figure

representing the return on your investment in those products. It is especially useful for comparing the relative return on investment of high turnover, low margin items and low turnover, high margin items.

As mentioned above, the calculation of GMROI is fairly complex and to try to calculate it by hand for even a small number of items is out of the question. However, with modern retail Enterprise Retail Planning (ERP) systems like CONTROL, GMROI for every item stocked can be reported “with the press of a button”.

By running GMROI analysis on all items in all stores, you can quickly identify items that provide the best and worst return on your investment in them. Obviously, you need to focus on fixing the problems with the items providing the lowest ROI, or to replace them with products similar to one providing much better ROI.

Open-to-Buy (OTB)

Good retailers are continually looking for new products to replace products that are not performing well or are no longer available. If you’re a fashion retailer, then almost every style in your stores will be replaced every season, or even more frequently.

How do you choose the right new products?

One way to do this is Open-to-Buy (OTB), a technique that has been in use for many years by large multi-store retailers.

The essence of OTB is to determine the amount of money that is to be spent on purchases of new (and existing) products based on budgeted sales and budgeted stock on-hand levels.

OTB figures are usually maintained per department, but it may also be important to maintain open-to-buy figures by sub-department, brand, store, etc.

So how does it work?

As mentioned above, firstly you need to determine values for budgeted sales and

budgeted stock levels for each period for each department, brand, etc. that you want to maintain Open-to-buy figures. Assuming the values for budgeted stock levels are at cost (and not sell prices), you then also need the budgeted gross margin percentage so you can relate the budgeted sales and stock on-hand figures.

Once the figures are determined, the calculation of the Open-to-buy figure for a period for a department is:

OTB =

$$\frac{\text{Budgeted Closing Stock} + \text{Budgeted Sales} (100 - \text{Gross Margin \%})}{100 - \text{Budgeted Opening Stock}}$$

This is the amount of money that has been allocated to purchases of the particular department (or brand, etc.) for delivery in the designated period.

If your retail business has long lead times then you need to update your open-to-buy figures as supplier orders are placed in order to determine available OTB. And you need to update the available OTB figures for the current period as stock arrives.

Hence the formula for Available Open to Buy, for a department, brand, etc. for a period is:

Available OTB =

$$\frac{\text{Budgeted Closing Stock} + \text{Budgeted Sales} (100 - \text{Gross Margin \%})}{100 - \text{Budgeted Opening Stock}} - \text{Supplier Orders due this period} - \text{stock received (for current period OTB only)}$$

OTB is a very powerful tool in helping to determine the right products for your stores. However it can be very labour-intensive to maintain. Fortunately more powerful retail ERP systems like CONTROL have integrated OTB. All you need to do is maintain the budgets by the OTB classifications you want, e.g. department or brand, and the system maintains the OTB figures for you.

The Right Place

Being a multi-store specialty retailer, you will know that there are substantial differences in your stores including:

- > Store size
- > Gross profit generated
- > Customer demographic served

Part of the solution to having your products in the right place is to determine the product requirements for each store individually, or for each group of like stores.

Model Stock Levels

Not all stores can hold the same amount of stock, and even if they could, the difference in the local demographics mean that adjustments need to be made to quantities of an item held in the various stores.

If you only have a small number of items and/or a small number of stores, then it may be possible to determine the optimum quantity per item, per store.

However, if you're a typical multi-store retailer, then you will understand that trying to determine the optimum stock level per item, per store is not easily achieved. This is especially true for multi-store fashion retailers, who need to determine the right quantity per size of a style so that all the stock is sold by the end of the season.

Included in any modern multi-store retailer's systems is the ability to set model stock levels per store, i.e. the optimum stock level per store.

Modern retail ERP systems will calculate the model stock levels per store based on previous sales of like items. If an item can come in multiple sizes, then the model stock levels would be specified per size. Once the model stock levels are set they can then be used for determining the correct stock levels per product, (per size), per store. The same model stock levels can be used by multiple similar items, including new items that have never been sold in store before, thus enormously simplifying the effort of allocating new stock to your stores.

Product Range

Stores that are different in size, or service substantially different demographics, should not stock the same products. But what products or product ranges should be left out of your smaller stores?

You need sophisticated analysis of previous sales to determine which products or product groups should or should not be in a store.

Modern retail systems should enable you to determine which stores are the right places for a product.

Store Layout

Not only is it important to have the product in the right stores in the right quantities, allocating the right place **in a store** for a product is equally important.

As you have multiple stores you have the capability of experimenting with store layout across your stores. But if your analysis simply finds that items nearer to the front of the store achieve better sales, then you haven't achieved very much.

You need to determine the layout that will achieve maximum sales across the whole store. A great KPI that will help you achieve this is "revenue per allocated store space". For most specialty retailers the "store space" is expressed in square meters. Some modern retail ERP systems like CONTROL will report sales value per department or product group per M2. CONTROL will even report sales per product, per space allocated.

Using the reported figures of revenue per allocated space, per store layout, a multi-store retailer can frequently refine store layouts in order to continually improve sales per square metre for each store.

The Right Place in an Online Store

Many multi-store retailers also have an online store. Having your products in the right place in an online store is really all about having products appear on all relevant pages, whether the customer is searching by department, price range, size, etc. Hence it is

important that the online store package you use allows a product to be classified by all the various ways the online shopper wants to search for items.

The Right Time

There are multiple ways of thinking about the right time for products.

The most obvious is the time of the year that you have a certain product available. For example, if you're a clothing retailer it's important to have winter coats available as winter approaches and not during the summer months.

Getting product on display in your stores at the right time is all about managing supplier and store-distribution lead times, and even though lead times are reducing in some retail market segments, there are a large number of retail market segments that still have to deal with long lead times.

Knowing exactly how long it will take to get product from a supplier to your distribution centre and then from there to the stores will enable you to determine the last possible moment you can order stock and have it in store, in time.

Why is this important?

If you order too early, you may have to pay for the stock earlier, and you have to allocate precious storage space for the stock before you're ready to display it in your stores.

You are also "locked in" to your product selections when you place your order. The longer you can delay placing orders, the more likely you are to take advantage of new products, latest buying trends, etc.

Of course if you order too late, you won't have the product on display in store when you want to. This can mean you miss the start of a season or worse still, have stores that look empty of stock.

Modern retail ERP systems can calculate supplier and store-distribution lead times based on previous replenishment events.

The Right Price

If you're a well-established multi-store retailer then you already know the factors to consider when setting selling prices, including:

- > Purchase price and all other costs associated with a product
- > How many competitors sell the same or similar products
- > Your positioning in the market – premium products at premium prices, discount value store, etc.

Moreover, armed with a modern retail system you will also know how similar items performed previously and you will be able to answer some of these questions:

- > Is there an opportunity for a price increase while still maintaining strong sales?
- > Does the product need to be a bit cheaper to achieve the required sell through rate?
- > When should the item be marked down and to what price in order to clear the product before its "right time" runs out?

You may also want to adjust the price of an item per store or per region based on local factors such as economic demographics or the strength of the local competition.

The Right Promotion

A very important aspect of modern retailing is promotions. A key aspect of any promotion is that it is for a limited time and therefore is an additional reason to "buy now".

Unfortunately, many retailers have virtually continuous store-wide sales, which over time, diminish or even eliminate the additional reason to "buy now". The other problem with store-wide sales is that during the promotion the margin being made on sales is reduced store-wide.

A key element of a promotion is that the customer feels it is a rare event. Hence your promotions should be, at the very least,

restricted to only part of the merchandise in a store so that each subsequent promotion can be on a different part of the merchandise.

This has the additional advantage over store-wide sales in that customers are attracted to your store based on the promotion, while any additional purchases they make that are not covered by the promotion, are at full margin.

Additionally, the more varied your promotions the better. Here is a non-exhaustive list of promotions you can try. Many have been in use for some time, while some are less established:

- > Discount Percentage of a department or category
- > Buy one, get one free, or at a discount, or receive a discount voucher.
- > Buy a nominated combination of items to receive a discount
- > Buy one and receive a free item
- > Buy one and receive a free gift (of an item not sold in store)
- > Buy one and receive a lucky dip chance at a range of free gifts, with at least one free gift being of outstanding value
- > Purchase products for more than a threshold amount and receive a discount or discount voucher
- > Lunchtime or "happy hour" specials
- > "Lucky" customer discounts, etc. e.g. Every 100th customer receives a 50 percent discount off their purchases.

Customer Loyalty Promotions

All of the above promotions are designed to attract customers that a retailer assumes to have no particular knowledge of. However, a far more powerful form of promotion is to customers a retailer already has some knowledge of.

A good customer loyalty program, once established, provides an easy way to have targeted promotions with very little effort.

Almost all of the promotions mentioned above could also be used as "VIP customer

exclusive promotions". But there are many promotions that can only be targeted to your known customers. These include:

- > Double bonus points store wide or on selected ranges of products
- > Member only events, e.g. start of season preview evenings

A key aspect of a good customer loyalty program is its ability to segment customers by their purchasing preferences. Some of this information is contained in their purchasing history but this profile will take time to establish. Therefore it's important to ensure your customer loyalty application/enrolment form includes questions that are important in profiling your customers, and which can be used for targeted promotions.

Once these preferences are known, it is possible to have very targeted promotions, for example:

- > Invitations to a preview of the latest version of products that the invitees have already purchased or expressed an interest in.
- > Promotions for accessories or service of items customers have already purchased.
- > Birthday specials

Regardless of the types of promotion used, it is important to analyse their effectiveness so that you can determine which promotions are worth repeating at some time in the future, and conversely which have minimal effect on sales, or which are too costly to run.

The Right staff

One of the biggest cost pressures of modern multi-store retailing is staff costs. However, adequate staffing is essential to ensure you provide excellent service levels for the vast majority of time your stores are open.

So how do you obtain maximum return on your investment in staff?

Staff Training

The first step is to provide adequate initial staff training in all aspects of store operations including:

- > How to greet and engage with customers
- > The sales process
- > Product training for all departments a salesperson will operate in
- > Basic and more advanced POS operations

It is essential to test the effectiveness of your training. One easy way to do this is to analyse sales per salesperson.

One obvious measure to review is total sales per salesperson, per reporting period. While this is useful for analysing overall performance, it doesn't really analysis the effectiveness of product training.

You need to analyse sales per salesperson, per department or sub-department that the employee operates in and compare that to the average. If a salesperson has poor sales in a particular product group, that may indicate the need for further targeted product training.

Incentivise Staff

After ensuring that your salespeople are sufficiently trained, you then want them to be as motivated as possible. There are numerous ways to motivate staff to maximise sales, with most schemes involving financial incentives. Schemes can involve paying commission based on sales made, or bonuses paid if individual or group sales targets are meet. Whatever the scheme, it's important that your sales reporting system can easily provide the sales figures the incentive payments are based on.

Monitor Performance

After you have provided the appropriate training and your incentive schemes are proven, it should be a simple matter to monitor the performance of each salesperson

to ensure they continue to be “right” for your business. You may set sales budgets per salesperson and monitor their performance against the set budgets. But this requires some effort to set up and maintain, and adjustments may need to be made if a salesperson’s roster changes.

A more straightforward metric, and one that really determines if a salesperson is right for your business, is value of sales, per hour worked. If a salesperson is earning enough per hour worked, then the person is valuable to the business. On the other hand, if a salesperson is not earning enough to cover their costs, that situation is obviously not sustainable.

The Right Service

A big part of the modern retail mantra is service. Providing the right service can include having enough well trained salespeople in your stores, but good service can be given in many other ways. For example, if a customer enquires about a particular size or colour variation of an item but it’s not available in that store, good service is the ability to advise the customer of the nearest store in your chain that has the item. Even better, service is organising to take the customer’s details, have the item transferred to the store the customer is in, and then advise the customer by SMS, email or phone, that the item is in store awaiting pick-up. Great service is to offer for the customer to pay for the item and then have it delivered directly to the customer.

If you’re a furniture or homewares retailer, great service is the ability to not only show your customers the items you have in your showroom, but all other items you can supply. And once customers choose their items, you can provide great service by keeping them informed, by email or SMS, of any change in their order status, e.g. from waiting on delivery from supplier to in store awaiting delivery scheduling.

Another way you can give your customers great service to provide them with information they will find interesting and relevant. Newsletters that include articles that are topical and likely to be of interest to the majority of your customers are great. These days almost all newsletters are delivered by email.

But you can do even better. By recording some demographics and personal preferences for each customer in your database, you can tailor your communications with each customer. For example, you can ensure you send special offers only to those customers you think it might be of interest to.

And while your customers will appreciate receiving communications from you that are relevant, it’s important you don’t overdo it. So having systems in place to ensure any one customer is not contacted more than a certain frequency is very useful. However, being able to send targeted messages to selected groups of your customers, means the overall frequency of communication can increase, without offending any individual customer.

Conclusion

Retailing today is a tougher game than it has ever been and thus it requires a rigorous application of the seven ‘rights’. These are *“the right products, at the right place, at the right time, for the right price, with the right promotion, the right staff, and the right service”*. And while the components of successful retailing have increased in scope and complexity, they needn’t be if armed with an innovative ERP Retail Management system that automates and thus simplifies multi-store retailing for you. To that end, look for a retail system that can enable you to seamlessly execute ‘the seven rights of multi-store retailing’.

About Creative Computing

Creative Computing designs, develops, implements and supports CONTROL, our fully integrated business system for multi-store retailers and wholesalers, across a number of specialised retail sectors. CONTROL includes POS, Order Management, Inventory Management, Replenishment, Merchandising, e-commerce, Customer Relationship Management (CRM), Business Intelligence, and Financials.

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