Finding Upside in the Downturn: Merchandising Best Practices podcast series
Segment: Two of five

Hi, I'm Kelly Allen. What are some of the issues and trends impacting retailers and consumer product groups today? And what strategies can help them stay ahead? Today you're going to listen in as IBM World Wide Distribution Executive, Patricia Waldron, talks to Brian Hume. Brian is president and founder of Martec International, a leading retail consulting and training practice. Here, Brian discusses how companies can prosper in a tough economy, and some of the strategies they can use to stay agile and in tune with the customer.

Patricia Waldron: We are discussing how some retailers are succeeding and some are not and we are discussing making the difference. Generally speaking, Brian can you share with us some characteristics of companies that are prospering?

Brian Hume: Well, it's interesting Patricia because in this market especially there are companies that are struggling and there are some that are doing very well and in general, if you look at the companies that are doing very well, you can find a number of common factors. The first is they have got a very clear value proposition for the customer. Their offer to the consumer and in this context their offer is a combination of product, price, and their marketing or promotional strategy is targeted to where the consumer is today and this means that many of them recognize that their consumers have actually changed their position to deal with the economic realities they face as individuals. So, in some cases, consumers have gone more into what we might call the value segment of retail and they have changed their standards on what price they are prepared to pay for things and what quality they want associated with that price and so on. So, the smarter retailers, those that are doing well have recognized that move and they are moving their price and product offer in that direction. As a generalization, you can say that the consumer is much more focused on value than they were previously. Price was always important to people, but generally not number one in the mix; now price has become much more important. Another characteristic you see in companies that are doing well is they generally react faster to changes in the market than their competitors do, and then from a different standpoint, the big costs in retail are the inventory that you carry to support the business, the cost of the people that you need to support the operation in the store and provide the customer service and the inventory fulfillment and all those kinds of things, and the selling space that you occupy and in some cases, especially for retailers that are very promotion driven, fourth in their list of cost is their marketing expense. And especially in this market, companies are focused on squeezing the most off asset base already owned, in other words they are driving the highest inventory productivity that they can get, they are minimizing their labor cost for a given level of sales or put it another way, they are really trying to maximize their sales per labor hour and they are really focused on maximizing their sales per square foot. So, you generally say that the most successful companies are very focused on asset productivity for one or another thing.

Patricia Waldron: Retailers are being very, I agree, very focused on making smart investments in assets and then protecting those that they have already and it is really important don't you think that the speed of reaction to turns in this economy. I know that you study and work with retailers around the world. What are some of the larger retailers doing in relation to reacting to the economy?

Brian Hume: Well, as you rightly said Patricia speed of reaction is very important and knowing how to react is critical. So, for example, consumers have to think their incomes might get more restricted, the economy might be harder, but actually everybody needs to eat. So, eating is not discretionary; however, they don't have to go to restaurants as often, they don't have to eat the more expensive food, and therefore, within that overall compulsion that they must eat, they can change what they eat and where they eat and how much they pay for it. Hence, the grocers, as an example, spotting that this is happening and having the right offer in prepared food for people that are giving up restaurant meals, but actually want something that is very tasty and attractive and quick to prepare at home and having the right prepared foods offer, that is a key development and being able to do that quickly enough as trends start to change is a key development. Generally speaking, consumers are becoming much more conscious of things like health issues or assisting the third world countries and that kind of thing. So, you see that the ingredients in food are changing. People are selecting much healthier choices. They are voting with their conscience and they are buying more fair trade products and they are dealing less with companies that use manufacturers in the Far East that exploit child labor and that kind of thing. So, the customers are actually changing their priorities based on a lot of other things than just cost. So, for example, the largest supermarket chain in England is a company called Tesco, a huge retailer operating now in something like 14 different countries. They very quickly detected that in this economy they were losing market share to some of the discount grocers like Aldi and Lidl for example and they have had a very significant own brand or private label business for some time, but what they did was they introduced a new own brand which is their discount brand or their value label if you like to call it that and so rather than lose customers to Lidl or Aldi or Netto, now they are losing customers from their premium brand into their lower price point brands. So, in a sense, they are losing customers you know from their left pocket to their right pocket, so they are keeping the business, they are keeping the customer, they are keeping the market share, but their ability to react was critical to all of this. So, having detected those trends, the company was organized and structured with the right kind of systems, the right kind of processes, the right kind of supply chain that they could actually react to those trends very, very quickly. In a different context, you see consumers getting more price conscious and for example in America, Wal-Mart as an organization is doing very well, because they have been… their whole business is based on the right kind of value proposition and more and more consumers are buying into that value proposition given the current economy. Target, which is a very successful company, built it's reputation and built it's brand on selling a good value, but somewhat up-market fashion product and in the short term, they are facing a bit of a hit, because their success in creating an up-market product that people would pay more for was very evident a couple of years back, but now the customer is moving and Target has got a challenge in how to move with that. And it kind of touches on our point in a previous conversation, which is do you necessarily want to move, in one sense you do because you have got a short term challenge, but in another sense you don't want to do anything that undermines the long term success of your brand that you built up over many years. So, you could say they were a little caught between a rock and a hard place in how best to respond to that in the short term, but the most important thing to take out of this few comments is the critical things are first of all to be able to recognize that the market is changing and in particular the consumer is changing, so you need the right kind of information systems to help you do that and then have a business that structures so that although you can't predict the future in these kind of things, but actually you can create the ability for the business to react, however the future shapes up.

For more information on how IBM Cognos Software is helping retailers, please visit ibm.com/cognos/retail. I'm Kelly Allen, thanks for listening.