IBM

Retail: the way forward

e-inventing retail

e-business

Today's customers are smarter. They are more demanding. And they live in a digital world. They know if one retailer does not meet their needs, another one will. The strategic challenge retailers face is how best to harness information technology to thrive in the consumer-driven age.

In the age of the Internet, everything in retail is changing. How and where consumers shop. What they buy and who is selling. Consumers want to buy exactly the right product, anytime, from anywhere. And they refuse to remain loyal to any retailer who falls short.

For retailers, coping with high-velocity change is a business imperative. Competition is fierce, as new players with unconventional business models rise from obscurity, as formats converge, and as mergers and acquisitions increase consolidation at the top.

But there are strategies that work. Leading retailers are growing sales by taking proven concepts into new global markets, diversifying, and launching new sales channels. They are collaborating with business partners to remove costs from the supply chain. And they are focusing on the customer, exploiting the powerful combination of customer and sales information to drive innovations in marketing, merchandising, product development and service.

Regardless of the strategy, information technology (IT) plays an essential role. To grow your business among sophisticated consumers in a chaotic marketplace, you need a long-term IT partner. One with decades of retail experience. One with solutions that deliver under the rigors of 24x7 operation. One with the resources and expertise to bring it all together.

IBM is that partner.

Selling at the speed of light: the retail e-business

The Internet is not just increasing the speed and complexity of retailing – it is transforming the business model. This shift creates opportunities for tremendous gain or loss. To win, retailers need an IT framework that collects intimate customer knowledge across multiple channels and enables flexible, high-velocity supply.

At IBM, we call this framework the retail e-business. And we have a proven roadmap for helping retailers achieve it. It involves four steps for continuous improvement:

• TRANSFORM core business processes

• BUILD new applications

• RUN a scalable, available, safe environment

• LEVERAGE knowledge and information

By following this strategic vision, retailers can deliver Any[3] retailing: anytime, anywhere, anyhow. You can grow customer loyalty at every contact point. And you can integrate operations with retail data on an enterprisewide scale, in realtime and with 24x7 availability.

Remote shopping with Safeway UK

Safeway – one of the UK's big five supermarket chains – launched its Easi-Order program in February 1999 at its Basingstoke store southwest of London. The store equipped 200 of its best customers with PalmPilots, each with its own scanner. Shoppers use the scanner to order specific products. They can also download a shopping list based on previous purchases made with their Safeway loyalty cards. Once selected, the final list is transmitted to the store, where the items are assembled for customers to collect at a scheduled time. Developed at the IBM Thomas J. Watson Research Center in Hawthorne, New York, Easi-Order employs Java applications, Web browser technology and IBM's Intelligent Data Miner to create personalized, targeted promotions.

In a multichannel world, retailers must satisfy customers quickly and consistently anytime, anywhere, anyhow. Customers who receive superior service no matter where they shop are more eager to share their wants and needs. Armed with this knowledge, retailers can make more profitable marketing, merchandising and service decisions and strengthen relationships with their best customers.

Where do customers buy your products? In the physical store. And on the Internet. And through catalogs and kiosks. And by phone, fax and e-mail. As technology gets smarter, the list continues to grow.

Yet retailers must provide a seamless shopping experience across every channel – or risk losing sales. Plus, channels overlap. Physical stores contain self-service kiosks, or offer access to e-commerce. Web sites provide direct sales or access to catalogs. To create an optimal channel mix, retailers must meet a number of key challenges.

Information from every part of the business must be accessible and up-to-date so retailers can make profitable decisions quickly. A store manager equipped with a wireless, handheld computer can stand in the store and interrogate the same database as a buyer at corporate headquarters. Together, they can review stock or promotional problems and use the Internet to exchange ideas in realtime. Also, merchandise need no longer be viewed in closed, compartmentalized segments. Analysis has become fluid, segmentation more flexible, and old barriers are breaking down. A cosmetics buyer can launch a linked promotion with hosiery, while the baby products buyer links with the photography department. Products can be easily grouped into new themes, and personalized to individual shoppers or target segments and lifestyles.

Multiple channels require fresh strategies

In addition to integrating systems on an enterprisewide scale, retailers must contend with several other important objectives.

Web retailing with REI

To deliver on the "any product, anytime, any place and answer any question" promise, Recreational Equipment, Inc. (REI) adopted IBM's Net.Commerce and DB2 Universal Database solutions to power REI.com (the Internet's largest store for outdoor gear), as well as REI-Outlet.com and JapanREI.com. These solutions have dramatically increased REI's capability for creative merchandising and the business results have been phenomenal. Increased revenue and profit have been directly attributed to new Web channels.

Kiosk sales with Lawson

In Japan, IBM has developed interactive kiosks for Lawson, a large chain of convenience stores. The kiosks broaden the merchandise offered in the store, allowing customers to download new versions of computer games directly to reusable cartridges, and helping shoppers order tickets and other items that they can pick up later or have home-delivered. Since adopting the kiosks, Lawson stores have increased both sales and customer satisfaction.

Protect and strengthen your brand. Distributed across so many channels, retail brands can easily become diluted. To prevent this, each sales channel must be aligned with core business strategies. Consumers should associate your brand with a consistent mix of products, services, values and innovations, whether they have been a customer for 10 years or 10 minutes.

Maintain realtime access to customer information. To keep service levels high, your service team must be able to find accurate customer information quickly and efficiently – and update it easily if it changes. With up-to-date information, service team members can maximize up-sell opportunities and eliminate the risk of gaps in service between channels.

Enhance the store shopping experience and increase the productivity of sales associates. IBM Retail Store Solutions remains the premier worldwide supplier of point-of-sales (POS) terminals, with nearly 1.5 million terminals shipped to more than 100,000 stores in 100 countries. IBM's patented innovations include the latest touch technology screens for flexible customer and salesperson interaction, industry-leading printers that speed checkout and enable targeted messaging on customer receipts, and the widest range of store equipment from scanners to scales.

Enable Any³ retailing. IBM designs retail solutions to link stores, Web sites, the customer data warehouse and back-office operations. Many major retailers – such as Safeway, Wal-Mart, Sears, Pep Boys, Meijer and Sainsbury – have selected the IBM MQSeries family of message-oriented middleware to improve information flow and enable continuous interactions among applications and operating systems that were previously incompatible.

Mining your most profitable resource – customer relationships

Meeting customer needs across multiple channels is challenging, but the ultimate reward is customer loyalty – a scarce commodity in today's market. Loyal customers are not only more profitable, they are less expensive to retain than new customers. And they are much more likely to provide information about themselves and their preferences. It is this information that fuels customer relationship management (CRM) – the new paradigm for decision-making in retail.

True CRM involves identifying individual shoppers, not just sending them personalized letters and offers. The goal is to differentiate profitable long-term customers from "bargain hunters" who capitalize on cut-price offers but add little to bottom-line profitability. Successful CRM means understanding each individual's specific requirements and constantly communicating directly with them to maximize selling opportunities.

This knowledge should not reside solely in marketing to improve direct mail and other strategies. It needs to permeate the organization to improve merchandise planning and allocation, so that shoppers have immediate access to the goods they want at the time that suits them, through the buying channel they prefer.

IBM's e-business solution for retail CRM combines powerful deep computing with customer loyalty, relationship management and business intelligence. We integrate multichannel retailing with a customized IBM solution called the retail CRM Foundation, and we provide the skills and methodology to pull it all together.

Customer loyalty with Boots the Chemists

Boots the Chemists, a UK pharmacy, beauty and gift chain, launched a loyalty program in 1997, issuing more than 10 million smart cards. The company attributed a 4% sales increase to the program, but wanted to get even more business value out of the information. So, Boots turned to IBM to establish an enterprise data warehouse. IBM built a customer analysis system and campaign management application running on an IBM RS/6000 SP and a DB2 Universal Database system. After 18 months of operation, the company has accumulated more than 1.2 terabytes of customer and transaction data.

Store planning with Sears

Sears and Roebuck needed a way to plan the merchandise needs for individual stores with unique customer profiles and very different product requirements. Put another way – this is a plan for each of 9,000 classes of merchandise from knits to batteries for each of 845 full-line stores. IBM's Makoro for Merchandise Planning System offered the ideal solution. Sears will roll out this solution to their store planners over the next year, enabling them to forecast merchandise mixes more effectively at the store level, catering to local preferences and demographics. Sears expects the IBM solution to increase sales and profits, and result in fewer markdowns since inventory will match local needs more closely.

Integrating enterprisewide business processes – in an architecture that guarantees 24x7 operation – builds speed and flexibility into the retail operation. This is the prerequisite for fully exploiting the power of e-business.

Innovations in IT are helping retailers improve speed, efficiency and time-to-market from the supply side as well. For many retailers, enterprise resource planning (ERP) systems are the answer. These systems route critical operational performance and profitability data to management planning, human resources and financial applications within an ever-shortening timeframe, so decision-makers have access to up-to-the-second business data. Although ERP systems have their roots in manufacturing planning systems, they are rapidly being adapted to retail needs with an emphasis on demand forecasting planning and customer relationship management.

But not all retailers use the same operational model. Effectively implementing ERP requires a deep understanding of the specific needs of the business – and then selecting the right solutions to address those needs on a global scale. To this end, IBM works directly with ERP players such as SAP and Retek to ease the transition and integrate established IBM retail solutions, like the IBM Makoro suite, into the new ERP model.

IBM gained a wealth of experience working with retailers from around the world and across multiple industries, as well as our own internal ERP implementation. We have developed a unique integrated roadmap, "method blue," covering the entire ERP project from the business case to full development. With "method blue" and new partnerships with top ERP vendors, IBM can help tomorrow's retail e-businesses implement this comprehensive model and stay on target for new sources of growth.

Transform it, build it, make it work: Creating a stable foundation for next-generation technology
For all the benefits e-business can provide, it will not deliver the right results unless it is supported with a superior IT infrastructure.

Consider information transfer – the core of every advanced system in retail. Old models based on overnight polling are no longer appropriate for a 24x7 world. Information must be integrated continuously. Plus, customers expect instant response to their changing demands. And continuous replenishment depends on up-to-the-minute data.

IBM provides the broadest range of retail-hardened technology, from high-availability servers to industry-leading networking software tools to help retailers manage the demands of the new retail e-business.

We also bring people who know technology and live in the retail world. IBM Global Services builds on IBM's core strengths: a global presence to support you wherever you need to operate; a long tradition of exploiting IT to solve customers' business problems; and an in-depth knowledge of the customers we serve. These factors have combined to make our global service offering the most versatile and comprehensive source of IT service in the world.

On the intranet with ASDA

"We're always up against the problem of getting the right information to the right people," says Paul Baxter, head of communications for ASDA, the third largest supermarket chain in the UK. "So we looked at a pilot intranet project as a more reliable means of distributing information widely to desktops and laptops around the organization." One of the first developments was an online publishing system for merchandising briefs, allowing stores access from the corporate Web site. Since then a series of "Green Pages" has been added, providing corporate directories, in-house telephone books, site information, maps and store details on the same intranet.

Driving internal growth with help from outside
With more than 120,000 people in 164 countries, IBM has the right people with the right skills for whatever you need – from Web site development to state-of-the-art data warehousing to supply chain consultancy to business process reengineering to full-scope outsourcing. And our outsourcing function goes far beyond the old concept of maintaining a corporate data center or offering bureau-style service. Today, outsourcing can be linked to process reengineering, enabling earlier benefits from ERP implementations, new Web sites, or store systems replacement. A growing list of companies such as Dayton Hudson in North America and Galleries Lafayette in France are improving efficiencies by outsourcing through IBM.

You want to get there faster.
Get there first with IBM.
New competition may come from the new breed of global mega-retailers, companies such as Wal-Mart and Carrefour that exploit their size and global reach to reduce costs in procurement and implement world-class global IT systems that bring further cost savings and communicate new ideas across the entire organization. New competition may also come from retailers who have been created by new technology, including Web-based retailers following the example set by Amazon.Com in books and music.

Retailing has always been a dynamic industry, but today that change – driven by consumer demand and technological developments – is moving faster than ever. To become a successful retail e-business, companies need a new business model that helps them navigate the demands of a changing marketplace.

IBM can provide the roadmap, the proven retail solutions, and the unmatched experience of working with leading retailers to leverage the power of technology for more than 25 years. We have an exciting vision for what the future holds and how retailers will continue to thrive in the face of massive, unprecedented change. To share our vision, contact your local IBM representative today.

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