

## **‘Delivering maximum returns from retail IT systems in today’s challenging economic conditions’**

Many retailers are taking pro-active cost savings action. However, many do not plan effectively and fail to develop action plans to identify projects to drive value in the current environment. They allow decisions that take Capex allocation out of their hands and let someone else do the planning; often without detailed retail understanding. This gives short-term returns but may limit their ability to respond when the economy improves.

Retailers must maximise returns from their IT systems investments and look for creative ways of driving operating savings. However, the responsibility does not simply lie with retailers. Technology suppliers and service providers must do more to help their customers leverage the best return from their initial investments and find creative ways to maximise Capex returns and drive down Opex costs.

***On 12 May 2009, PMC and Retail Technology joined forces at the Cost Optimisation Summit in London to discuss the cost optimisation challenges facing retailers in today’s economic environment. Huw Thomas COO, PMC hosted the summit, and Ian Edwards, former Deputy MD of Comet Group plc provided the keynote address. The summit enabled a select group to discuss their needs and opinions, and share approaches for getting the most out of existing systems and delivering maximum return on investments.***

**Delegates included:** Paul Forester, IT Director, Monsoon Accessorize; Adrian Fryman, Head of IT Integration at World Duty Free; Tim Howse, Head of IT World Duty Free; Andrew Lyne, IT Director, A.S. Watson Group; David Stead, Finance Director, Dunelm Group and Helen Slaven, VP Retail, Torex.

### **The strategic challenges facing retailers**

Ian Edwards first reviewed the current economic environment including the impact on IT. “In business terms, strategic challenges face us all,” he said. “Nobody knows how deep this recession will go or how long it will take. Many people are playing the game of judging when it’s going to end, but there will be no winners there – the maxim is plan for tough times, and expect the rest of 2009 and early 2010 to remain hard.” For many retailers tough times began in spring 2008; most were jogging along, perhaps not strongly but they were moving forward. However, during May 2008 business took a downturn, and from September became really tough.

Edwards questioned the strategic beliefs of the ‘NICE’ decade (No Inflation Continuous Expansion - when business was good and profits high). “Challenge the strategic beliefs and business models of that decade,” he said. “Are those beliefs still robust during a recession? Do you know what your customers want now? No doubt they valued what you delivered a year ago but today they want value for money above all else.”

Tough times create a need to re-examine strategies. According to Edwards, the best strategy for retailers over the next 12/18 months is to be tactically excellent. “You must deliver to the best of your ability and come out of the recession in the best possible state for the business and IT.” To achieve that, Edwards stated that retailers must extract maximum customer and cost benefits from current business and IT investments. “Many retailers start new projects before they extract the maximum value from their existing investments. I suspect most could draw more value from current projects over the next 18 months.”

## Earnings are important but cash is king

In tough times protecting earnings is important but cash flow is critical. Businesses fail through lack of cash. Profits may be down but cash targets cannot change. The tactical cost reduction approaches used in 2008 should become strategic cost reduction plans in 2009 and 2010. "Cost optimisation is key to success," Edwards confirmed. "It's all about The Three Rs. First you reduce, then you renegotiate, then you re-engineer. 2008 was all about reduction, now retailers face the renegotiate and re-engineer phases."

## The challenges for IT

Today IT has a critical role in the business, because it can have a material impact with projects that improve cash flow. Edwards set a challenge for IT - to **be flexible and pragmatic** – deliver the same for less money and by judicious reinvestment of savings deliver more for less; recognise that markets are increasingly unpredictable; and adopt a leadership role in the business.

According to Edwards, if IT management take a leadership role they will retain control of their destiny. "Present the opportunities that IT can offer and show you can manage costs rather than wait for the finance director to come along and demand a 10 or 15% cut. That's why retailers need to **identify important IT pillars** - those projects that will save money and create cash for the business - projects you must not give up."

Lastly, retailers must use IT to **reduce fixed cost in the business**. Edwards stated: "Focus IT on projects that deliver rapid cost savings and cash payback. That may mean projects, such as supply chain coming to the fore, whereas 2 years ago customer-led projects were top of the priorities."

## Planning your IT response

Edwards was emphatic about planning the IT response. He stated: "Plan for the worst. Hope for the best but plan for the worst. Also learn to think the unthinkable. Today, nothing is sacrosanct, challenge everything. Set clear objectives and act quickly. Think about what to protect at all costs and agree early what to defer or cancel. Above all, reassess risk, be bold and decisive."

Most retailers have invested significant effort and cost into building up resilience within their systems and environments. In seeking cost savings retailers must be prepared to challenge assumptions about how much resilience they've built in. Edwards said: "Challenge your operating costs. Are they as affordable as you once thought?"

**Following the keynote address, Huw Thomas of PMC kicked off the round table discussion by asking: "What's the best use of investment to start delivering returns and how do you know if you're getting the most out of existing systems?"**

In a view echoed by all attendees, Tim Howse of World Duty Free said: "The process is much the same for building a business case but the hurdles are now tighter and intervals shorter. You have to show return in a much shorter time-frame than you might have done 2 years ago." He agreed with the view that 'cash is king'. "Cash payback is the measure. We once considered timescales with a 2/3 year payback - now if the payback is less than 18 months it's not considered."

Adrian Fryman stated that maximising delivered projects is vital. He also believed that most retailers could set up valuable cost optimisation programmes. "There's always more opportunity. Look back at what you've created and see what more you can gain, that way you help the business improve returns on every project." David Stead of Dunelm also agreed: "Retailers need to look at techniques for cost optimisation that squeeze each project, then go back and see what else they can get out of it."

Andrew Lyne from A.S.Watson reinforced the view: “The business has to know what’s achievable and the expected returns. Don’t be timid. Tell people what the implications are and what they can expect from IT. It’s important that you consider the years of experience you have and use it. Educate the business on where IT can add value. Avoid nasty surprises and set expectations accordingly.”

This was a point Paul Forester of Monsoon Accessorize picked up: “Everyone wants well-engineered systems but you must consider the 80/20 rule. Does the system create a serviceable solution for the business? Does it give them benefits they can use? If it does, move on. Getting everything they want may be Nirvana but that’s unobtainable.”

### **Is spend to save the solution?**

Should retailers invest to attract cost benefits? Howse considered the question: “It’s difficult to convince the board that you’re spending to save money. The spend goes out of the business straightaway but the saving takes time to be realised. How do I see retailers getting more out of their systems? Build a dynamic relationship with key suppliers and trading partners to look at what else they could do to optimise costs. Ask them - we think we’re doing it right but are there other actions we should take?”

Forester advocated the need for forging supplier relationships. “I ask my suppliers to help us drive our systems to the maximum. That is the only way forward in these times. Having an open supplier relationship is vital. Once the floodgates open there’s a rush of support. Once you’re invited on to customer panels you create greater synergy between IT, your suppliers and the business, helping you maximise your investment.”

### **Forging supplier relationships**

Lyne re-emphasised the point: “Ask, are we using the system to its full degree? Perhaps through lack of quality training, the way we induct our staff or our working practices, we are not using certain parts of a solution effectively. There may be efficiencies to drive. It might take effort or challenge practices but say to suppliers: we went through the risk and trauma together, so let’s see if we can optimise the system to gain more.”

On behalf of suppliers, Helen Slaven from Torex pointed out the recession is also driving supplier behaviour. “Managing cash is not just the reserve of the retailer. Suppliers must think carefully and clearly about where they want to invest; not just in product but also in projects. We too have to think about managing risk.”

“Suppliers must work on relationships with their clients. More collaboration works for everyone because we are all looking for rapid payback and good return on investment. If I could make one request it would be for more honesty and openness from retailers about budgets and what they’re trying to achieve. That approach makes suppliers more effective as they put more reasonable solutions on the table.”

“For example, suppliers can take feature rich applications and make them more modular. They can also create proper customer advisory boards to share thinking on what they are doing. This ensures that smart suppliers spend their R&D dollars in the best way to give retailers what they want.”

Forester agreed that customer advisory boards were important, however to be useful they need to include everyone’s view. “With only the IT input you get one view of the world. It’s important to include retail directors, store managers and operations managers. Involving those roles means you gain a view direct from the coalface.” Fryman agreed, saying that IT people should include their business colleagues to make the most of a meeting; however, he argued that the content should be pitched in the right way to meet both requirements.

**Huw Thomas asked the meeting to consider Opex as well as Capex costs. “Are you getting the best from your service providers to maximise Opex cost savings? Check if you need the same level of service today as you did 2 years ago.”**

Howse agreed that in the current climate retailers should look at their service agreements and what they get for their money. He asked: “Should there be a ‘lite’ version on offer in these conditions? Do you need the same service for systems that run perfectly? The right approach is to question what you have. Challenge everything and work with suppliers to see what cost optimisation you can make.”

Edwards remarked that often an incoming IT director is the best source of challenge to create savings. Many functions build up over years and by default, become ‘the way it’s always been’. In today’s cost pressured environment that’s no longer acceptable. He continued by saying the influence of a new IT director is not the only way to do this although it is often an easier way. “Service levels need to be reviewed,” agreed Slaven. “However, it’s not just about cutting costs. The best suppliers will consider how they can work with the retailer to change the scope of the service to reflect changing demands.”

### **Cost control includes taking time to stop and think**

There was broad agreement on this point; however, Forester felt that in addition to challenging suppliers you should challenge internally. “Cost control includes taking time to stop and think. Apply some basic rules on the cost involved in service especially with a ‘no-fault found’ response. Encourage people to go through their own checklist before they pick up the phone. Make people aware of the cost involved in an engineer turning out to find that a mouse isn’t properly connected,” he said. “Do that and you focus on cost. I suspect that many retailers have a litany of unnecessary service requests. Also as systems stabilise and issues reduce call levels drop dramatically, that allows you to renegotiate service levels. It’s a small move but they add up and these are the times to look hard at everything.”

The need to work closely with suppliers was a recurring theme as the best way to reduce cost. All agreed that neither retailer nor supplier want to be involved in a regular tender process. Forester stated: “Another beauty parade or an ITT takes time and you can’t go through a continual spiral. That’s where collaboration and trust comes in.” Slaven agreed: “Talk to suppliers to help them understand what you’re trying to achieve. If there is more honesty you end up with a better relationship.”

### **Collaboration is crucial**

Discussing working with suppliers, Lyne outlined his experience of looking at contracts and service agreements. “Some suppliers will actively work with you to renegotiate contracts, while others refuse to move and say you must stick to the contract. When they do that I don’t want to work with them again, and when the contract comes up for review a lack of flexibility will be taken into consideration. There must be a flexible approach. Some suppliers get that and work with you, unfortunately some do not.”

Everyone accepted that long-term relationships with suppliers can become ingrained into the fabric of a business. The business intelligence and IPR they hold can make it hard to break the relationship. However in Forester’s opinion: “If you’re faced with intransigence then cut them adrift, it’s a risk but business will continue.” Stead agreed: “Certain suppliers and indeed some retailers have it in their DNA that they cannot change and that’s not good in any economic climate.” However, there was general agreement that a good response means that when the pendulum swings back the retailer will return to the supplier. Doing right by your customers means they will come back to you and pay you back in the long-term.

Today, retailers have significant influence with suppliers. According to Thomas: “Those that take the view: ‘this is what the contract says’, will never understand your needs. However, most suppliers will see the long-term especially if you deal high enough within the company and go beyond the sales role.”

### **Be proactive and take a leadership position**

Edwards remained positive, repeating the advice to be proactive and take a leadership position. “If you don’t, you will find the FD taking decisions and they may be decisions you won’t like. Always see the downside but be bold enough to make a decision - when times change you can always reverse it.” Forester endorsed that point: “Procrastination only ends up costing you more. If you defer a decision for three months and then make the decision anyway all you’ve done is waste time and money. Fryman agreed but sounded a note of caution: “Whatever you decide to do ensure you get your business colleagues behind you and agreeing to the decisions – don’t decide in secret because that’s a hiding to nothing.”

After an interesting exchange of view, Thomas closed the meeting. There had been unanimous agreement for the need to optimise costs, get the most out of existing systems and work dynamically with suppliers. Above all, everyone accepted Edward’s statements about being bold and decisive – waiting and doing nothing is not an option for effective cost optimisation.