PART TWO

Planning for the Rebound

As we head into a promising New Year with a steadily improving economy we can afford one last look back at an unprecedented year in the retail industry. It was a time for retail winners to seize new opportunities and losers to fall behind. A time when a new consumer emerged who was more conservative and difficult to please. A time when borrowing was tight, costs constrained, and unexpected forces emerged in new media and new channels.

In the first part of this two-part series, RIS identified five imperatives in the following disciplines: cross-channel retailing, next-generation marketing and promotion, new pricing strategies, merchandising to a new consumer, and using BI and analytics to improve the shopping experience.

In part two of the series five additional imperatives are examined: locking up real estate bargains, making key acquisitions, leveraging customer data to increase sales, rationalizing the balance sheet, and re-invigorating the workforce. As retailers look ahead to a New Year and a new decade they face a new set of rules for successfully competing in the marketplace. To help provide a roadmap, here are the final five priorities retailers should focus on as they make their plans for the coming economic rebound.

To gain a complete picture of the takeaways in this comprehensive report be sure to read both parts of the series and find out how all 10 imperatives combine to create a roadmap for success in 2010.

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RIS Thought Leadership Series

RIS PART 2 TWO

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As retailers look ahead to a new year and a new decade they face a new set of rules for successfully competing in the marketplace.

IMPERATIVE NO. 6:

Optimizing Real Estate Opportunities for the Rebound

Retail saw more than 30 bankruptcies and 8,300 announced store closings in 2009, including at least 1,500 large anchor stores. The pace of closures is expected to slow only slightly in 2010.

At the same time, though, the freeze on retail real estate financing has begun to thaw, which means there is fresh money available to take advantage of an historic buyer's market. The vacancy rate for shopping centers was at a 17-year high of 10.3 percent at the end of the third quarter, 2009, according to Reis Inc., a New York City–based research firm. And, unfortunately, new centers are coming on line thanks to the long lead times it takes to develop them. As a result, retail landlords are facing balance sheet issues due to weak demand.

Exploiting the Buyer's Market Opportunity

Resourceful retailers that are responding to this opportunity by expanding store openings include Best Buy, Dollar Store, Walmart and Apple. Some, like Starbucks are cancelling planned store closings. RBC Capital Markets and real estate research firm Retail Lease Trac estimate retailers will open 64,926 new stores in the U.S. over the next two years. The volume of retail investment sales transactions increased 36% in the third quarter, 2009, to $2.1 billion, compared to the second quarter, according to Real Capital Analytics.

This is a prime opportunity for those with healthy balance sheets to re-examine their store portfolios, optimize the store base for highest bottom line impact, renegotiate and improve leasing deals, and rethink the spaces and locations they occupy.

TAKEAWAY

The Real Estate Imperative: This is a prime opportunity for those with healthy balance sheets to re-examine their store portfolios and optimize the store base for maximum bottom line impact.

Retailers need to act quickly to seize a prime opportunity, but they need to do it strategically to ensure steps taken now align with long-term business goals. Variables to consider include analysis of the competitive landscape, local demographics, proximities to key roadways, adjacencies to key businesses, distribution network, saturation, growth potential, cost and lease terms, nearby vacancies, cost of loans, and local employment pools.

New Metrics for the New Shopper

Retailers must apply as much science as possible to the art of real

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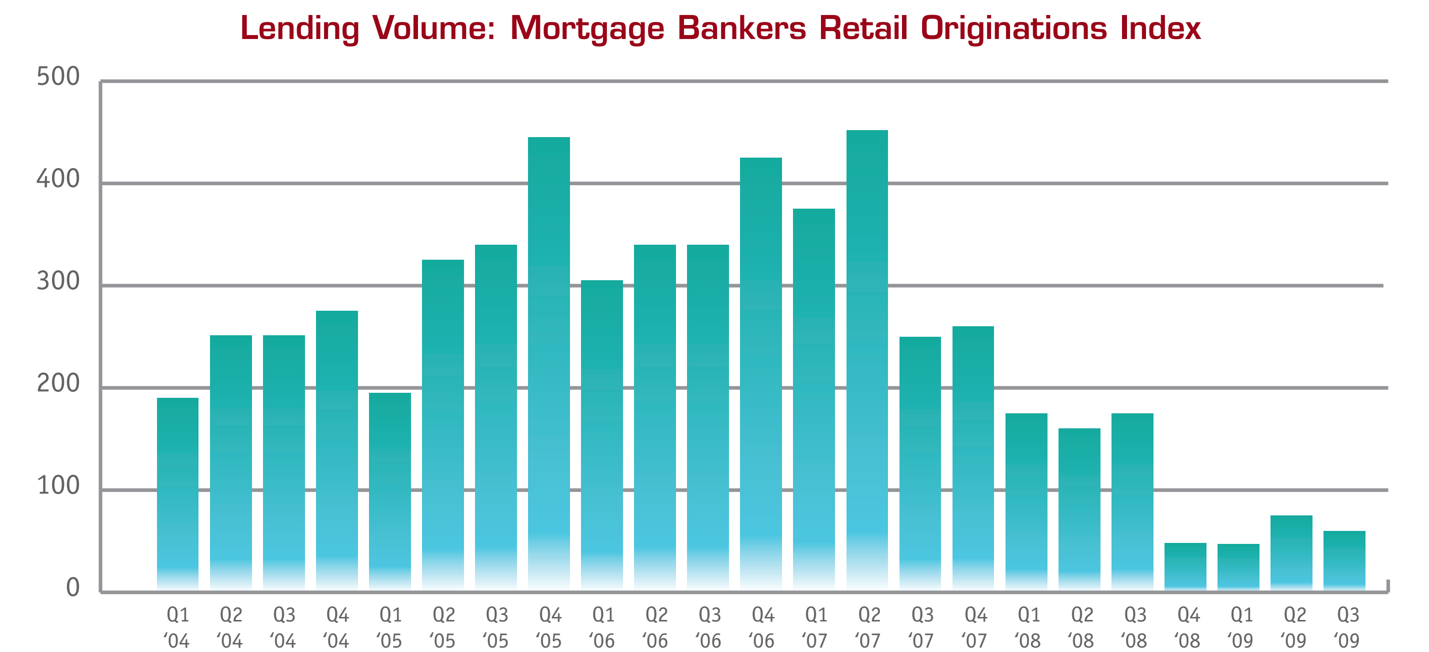
FIGURE 4:



Source: Real Capital Analytics

The MBA's Retail Originations index shows that lending volumes are up from the lows set last year, but still have a way to go to recover. A score of 100 equates to an average quarter in 2001.

How Retailers Can Go Beyond Survival and Thrive in the New Economy

ORACLE®

The silver lining of the economic downturn is the opportunity it presents for retailers to retrench and emerge even stronger than before. *RIS News* talked to Dave Boyce, VP strategy for Oracle Retail and Richard Michalec, Global VP, Retail, for Oracle, about some of the imperatives for retailers as they enter 2010.

Q: What steps should retailers be considering to ensure they're among the fittest who survive?

A: Retailers with a strong balance sheet and value proposition have been expanding across international borders, organically and through mergers and acquisitions. It's a safe bet there will be a retail operation with your same business model in a different geography that is floundering. If your business model is healthy enough to take advantage of this situation, the current economic climate is an opportune time to continue expansion.

What's important to note is that international expansion has not been successful for all retailers and there are important best practices to keep in mind. Those who fail attempt to export their exact value proposition, brand, or marketing message. Those that succeed acquire or partner with local players that understand the needs of local customers, and leverage the local knowledge of this partner to define the right value proposition and product mix. The retailer entering the market has the advantage of scaled operations in areas such as merchandising, inventory management, supply chain, human resources, and financial management. These are business processes that require a great deal of investment, and typically the smaller, developing player is not yet positioned to make these investments, so it's a huge competitive advantage.

Q: What do retailers need to do to improve their ability to understand the customer?

A: We firmly believe the customer is in charge, and that trend will only continue. Because of this new reality the retail industry needs to move from a product orientation to a customer orientation. Retailers have to figure out what the customer wants on her terms, therefore they have to be more on top of customer profiles and individual customer behavior.

That said, the industry has a lot of catching up to do in understanding customer preferences at increasingly granular levels. To accomplish this, there are key technology ingredients: a customer data hub, loyalty analytics, and a loyalty engine. Together, these technologies enable retailers to shape and influence demand as a function of the customer's behavior. This is an important area of investment for Oracle, and it's an area where we have broken new ground.

Q: Why is it important for retailers to be recruiting store-level talent right now?

A: As the new frugality becomes ingrained in consumers, they'll shift their spending to where they have the best experiences. Retailers must be ready, not just with any associate, but with those whose characteristics and qualities match those of the brand and the desired experience.

Retailers need to use talent management solutions to capture the attributes, qualities and skills of associates in their most successful stores, and then use that to guide recruiting efforts. And instead of just relying on HR or recruiting sites, they need to use social media and other Web 2.0 technologies to find other associates with traits similar to those of high achievers. They also need to re-evaluate associates on an ongoing basis, not just through a once-a-year performance appraisal. Management of associates needs to move from the industrial age to the modern age, and this means requiring continuous feedback, training and management engagement. In essence, retailers need to treat and value associates the way they do their customers.

Q: How can retailers make the most of the private label opportunity?

A: Retailers do get higher margins with private label, but they also get much higher inventory risk because they've got to commit much further up the supply chain. Managing this risk necessitates new business processes. Apparel retailers deal with this risk by engaging in what is referred to as fast fashion. Instead of placing an order nine months in advance, they place small orders two months in advance, with faster, more agile manufacturing and a nimble supply chain, and perhaps nearshore sourcing options. These retailers follow an eight-, six- or even four-week cycle and can re-buy or make slight alterations along the way. For the customer there is always something new with as many as 12 assortments a year. For the retailer it is a way to manage inventory risk.

To do this, retailers must have their fingers on the pulse of the business — even down to the store day. There are constant cycles of planning and replenishing the entire year, therefore they need command and control, and the ability to conduct forecasting planning all in one workspace, with execution happening as they're making decisions. •

Continued from page 3

estate acquisition and management through in-depth research that ensures return on invested capital even if future market conditions change. Start with such metrics as demographics, psychographics, population growth and housing construction, but also go deeper into employment figures, projected local growth, retail values, foreclosures, quality of the labor pool, and the number of bankruptcy filings in the area.

In a study of home furnishing retailers, Kurt Salmon Associates found that by digging deeper and applying multivariate analyses on such local factors as cannibalization, competitive impact, store costs and population demographics, the overall profit margin for the truly optimized store fleet was improved by 55%.

Given the number of variables to consider, retailers need to invest in real estate software that easily aggregates diverse data sources, improves visibility and enables cross-functional communication.

Solutions to handle these challenges include real estate life cycle management and enterprise location management (ELM) tools. In addition to visibility and process improvement, these tools are useful for retailers seeking to monitor energy usage and carbon efficiency, according to AMR Research's June 2009 report, *Amid Real Estate Market Struggles, Retailers Are Placing Emphasis on Real Estate Management Technology*: "Enterprise location management provides tools and technology integrations for conducting thorough site and market assessments for better site selection decisions."

In addition to applying technology to the management of the real estate portfolio and analysis of site selection decisions, retailers must reconsider the best use of the space they already have. Renegotiating lease terms to better reflect current property values is an obvious step, but retailers also need to use new local market data unearthed in real estate optimization projects to fine-tune their merchandise assortments. This will ensure they're reaping the best value available from each market. In addition, retailers whose square footage exceeds current needs in a particular market can consider sub-leasing space to complementary vendors, such as leasing Starbucks locations in a supermarket or big box store.

BOTTOM LINE NO.6: While it's still a buyer's market in real estate, retailers must seize the opportunity to trade up to better locations and more favorable leasing terms. However, they must use multiple sources of data to make smart decisions about new and existing sites to ensure they align with business goals.

IMPERATIVE #7:

Retail Darwinism – Survival of the Fittest Through M&A

It's not always the smartest, best and strongest retailers that survive punishing economic conditions. Instead it is those best able to adapt to changing conditions.

Retailers with excess debt lack the ability to be as adaptable as those with a healthy balance sheet; these organizations must alter their debt ratios as quickly as possible. Meanwhile, financially sound retailers must stomp on the gas to more quickly separate themselves from the pack, further weakening vulnerable competitors while they grow market share and profits.

A convergence of economic conditions is making this a ripe time for stronger retailers to acquire new markets, new channels, new lines of business and build dominant positions through strategic acquisition.

TAKEAWAY

The Darwinism Imperative: Financially sound retailers must stomp on the gas to more quickly separate themselves from the pack, further weakening the weak while the strong grow market share and profits.

Thinning Out the Herd

According to *Emerging Trends in Real Estate 2010*, by the Urban Land Institute and PricewaterhouseCoopers, every retail category in the U.S. features five to six national chains, making each field too crowded and presenting a prime opportunity for weeding out weaker players. Opportunities are also plentiful on a regional level as many mid-tier retailers have been hard hit by new recessionary shopping habits and currently lack sufficient resources to adapt.

Retailers seizing merger and acquisition opportunities in 2009 include Dress Barn and its purchase of Tween Brands, operator of 908 Justice stores, to expand into young girl's apparel. Another big acquisition was by discount retailer Syms and Vornado Realty Trust to take over bankrupt Filene's Basement. Toys 'R' Us acquired FAO Schwarz and the KB Toys brand, continuing an expansion spree that previously included eToys.com and babyuniverse.com. Amazon purchased Zappos. Weis Markets bought Giant Markets, and Walgreen snapped up more than 40 Drug Fair and Rite Aid stores.

Think Global

Retailers are cautioned not to limit their search for recession-induced opportunities to the United States. Weakened competitors and unsaturated markets may well lie outside the U.S. As noted in AMR Research's

2009 report, *A Readiness Checklist for International Retail Channel Expansion*, international expansion can be a means to avoid direct retail competition with large North American retail chain partners, and can represent a chance to build on brand awareness in relatively unsaturated retail markets.

International expansion also enables retailers to leverage offshore and near-shore operations and relationships built as a result of global sourcing, design and manufacturing activities. It could be a logical step to explore the potential for retail expansion in the same markets where you are now sourcing. In fact, the downturn is a good time to re-evaluate those relationships as well, revisiting sourcing locations as part of supply chain optimization projects and re-evaluating financial agreements and quality standards.

To formulate a winning plan, a retailer must form a cross-functional team to analyze opportunities, formulate an opportunistic strategy and quickly take action. Acquisition plans must make sense not just in terms of adding new markets, but also must be aligned with back-end processes and infrastructure or the project could encounter unexpected glitches and delays.

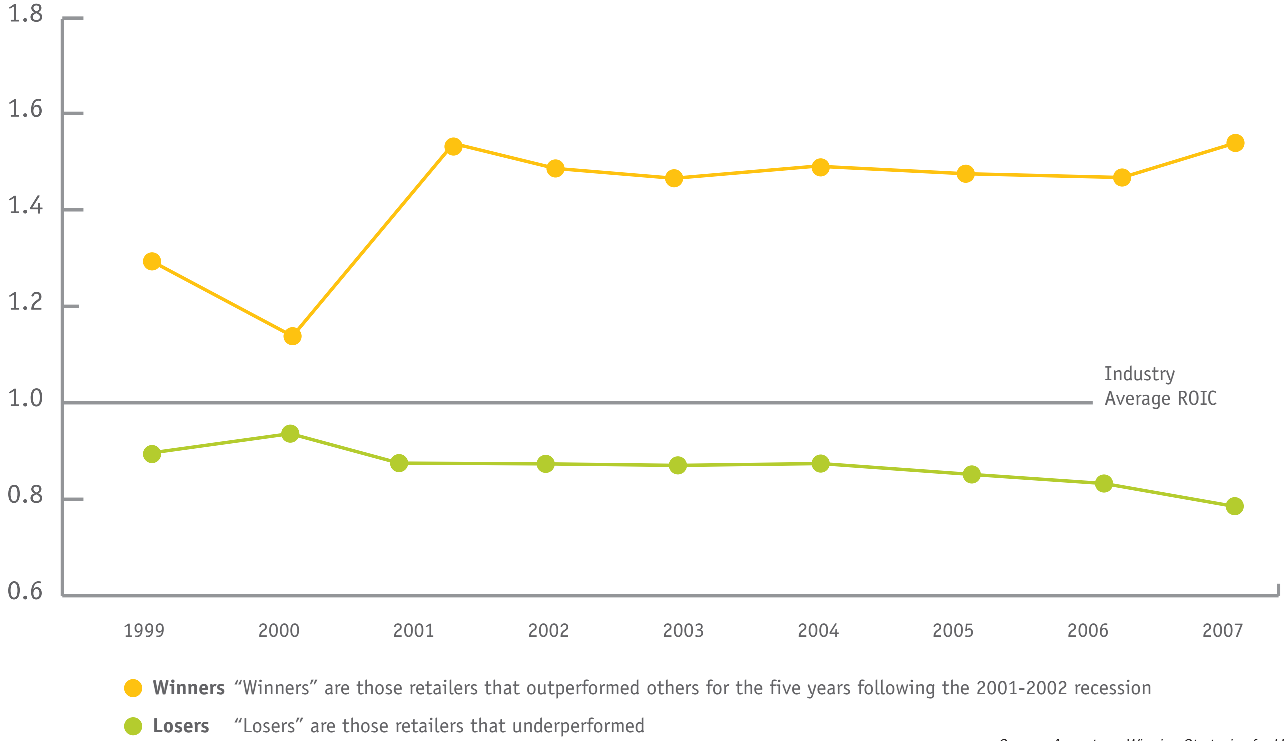
Agility is a core competency of the fittest retailers. They must have the capability to alter their culture and adjust their capabilities to better detect, take remedial action and successfully respond to rapidly changing market conditions. While the term agility in retail is most frequently heard in association with supply chains and IT, it also describes the mindset the entire enterprise must take when spotting trends, formulating a strategy and succeeding in the post-recession marketplace.

BOTTOM LINE NO. 7: Taking a bold, opportunistic course of action to make an acquisition is not a survival strategy. It's a growth strategy that thins out the herd, favors the fittest, and rewards smart retailers who successfully positioned their organizations to step on the gas when the economy improves.

FIGURE 5:

Retailer Performance Comparison Following the 2001-2002 Recession

ROIC (Return on Invested Capital) Relative to Industry Average



Source: Accenture, Winning Strategies for Uncertain Times

Taking New Retail Opportunities to the Next Level

KURT SALMON ASSOCIATES

New consumer shopping attitudes and behaviors, brought on by both the Internet and the recession, mean retailers must rethink virtually every aspect of their businesses. *RIS News* talked to Kathryn Cullen, senior partner at Kurt Salmon Associates, about how retailers can position themselves to thrive in this new shopping environment.

Q: Renegotiating leases is one response to the recession, but what other strategies do you see retailers taking to optimize real estate?

A: You're still seeing a lot of temporary, pop-up stores, which are a great venue for suppliers and retailers to get into new locations. Retailers are also re-purposing space to make it as productive as possible, leasing parts of their spaces to complementary vendors such as a coffee bar or hair salon. Macy's, for example, is expanding the number of Sunglass Hut stores within Macy's locations from its current 240 to about 670 from Spring 2009 to Spring 2010. Retailers are also taking advantage of retail bankruptcies to expand into new geographic areas, such as Kohl's moving into Mervyn's spaces on the West Coast.

Q: In what other ways do you see retailers capitalizing on the recession to improve their competitive positions?

A: In the M&A area, retailers are taking the opportunity to look at potential acquisitions to broaden their appeal to consumers – not just targeting closed stores, but by picking up additional brands or channels that expand their consumer base. For example, an e-tailer that's not strong in retail picking up a retail chain, or premium denim manufacturers opening stores to go direct to consumer in addition to selling through department stores, e.g., True Religion or 7 for All Mankind. They're being opportunistic because they're able to get real estate somewhat inexpensively. In addition to national strategies, retailers can also be looking at competitors on a local basis and figuring out how they can develop region-specific opportunities to compete.

Q: Retail analytics are hot. What do you see as the possibilities when retailers marry together POS, CRM, market research and other data?

A: The whole point of retail has alway been to get the right product in the right place at the right time, but retailers have never been able to master that. You've got POS data, and now you're getting CRM, demographic and psychographic data to help understand who the customer is and what they want to buy. The challenge is, there is a lot of data, but retailers don't always know what to do with it or what are the right questions to ask.

Retailers are recognizing the importance of making better use of this data by bringing it all together. Dollar General, for example, has stated that it's focusing on analyzing POS data to provide better replenishment and responsiveness to the assortment needs of each store. IBM's purchase of SPSS is another sign of the importance of retail analytics. Retailers are looking at how they can make better decisions about replenishment, demand, how they can compare what is needed in each store by category. They're seeing the possibilities in doing better forecasting, varying the replenishment process to be very specific to products, stores and regions, and tailoring allocation by store. For example, some stores should have 50% more size 0s and 2s, not 10% more. Then there is the ability to start defining and tailoring seasonal products based upon the prior season's demand – colors, sizes, and so on. That feeds back to product design and development.

Q: How can retailers fully exploit the opportunities in private label?

A: We're seeing tremendous opportunity for all types of retailers in private label, not just in soft goods, but in home goods, hard goods, cosmetics, even sporting goods. The percentage of retailers' businesses devoted to private label is creeping up, but they need to strike a balance between keeping the purity of brands and providing their own brands. The margins are always better, they build loyalty, they resonate with consumers and they're across multiple categories.

But then the next step is, how can we get our brand out of our own stores and into other stores, especially outside the U.S.? Some retailers have now even developed the ability to take their private label expertise and develop products for other brands that are then available only at their stores. That carries those brand names into other categories where they don't have a presence. •

IMPERATIVE #8:

Leveraging Comprehensive Customer Analytics to Stabilize and Grow the Top Line

Consumers have grown more demanding and less predictable. It's no longer enough to look to one or two data streams to make critical decisions in discrete categories, such as basing inventory decisions exclusively on POS data or creating promotions only through analysis of loyal customer shopping patterns. Retailers have got to leverage every data source they can access, and bring all of that data together in one place, to maximize their chances at making choices that resonate with of-the-moment consumer trends. A bigger, more detailed picture leads to better, more informed decisions.

Cutting-edge retailers are building massive databases of 500+ attributes, with as many as 20 tags per attribute, and then applying powerful data mining tools to look for patterns and insights that were impossible to achieve with siloed data stores. These databases bring together POS data, loyalty data, survey data, syndicated data and detailed market intelligence into one place, enabling retailers to understand and merchandise to customers in brand new ways. Market intelligence includes not just demographics and psychographics, but data such as dollars spent by specific consumer groups at grocery, drug and apparel.

For example, analysis of such a comprehensive set of data can reveal that in zip code 07940 there are X number of left-handed married females with gluten allergies that drink wine and celebrate Jewish holidays. That kind of knowledge can lead to extremely targeted, personalized promotions that drive sales and tell the customer that this retailer truly understands and meets individual shopper needs.

Factoring in Sentiment

Another rapidly evolving data stream is customer sentiment, gleaned from social media chatter. According to Retail Systems Research's *Using Business Intelligence to Help Control Outcomes in an Uncontrollable World*, 17% of retailers surveyed by the firm see aggregating sentiment data as one of their top three business intelligence challenges. Factoring this data in alongside other evidence such as sales and personal shopping habits adds further nuance and predicative abilities to the overall portrait of the target consumer.

Once amassed, this detailed, comprehensive data can be leveraged throughout the retail enterprise, from sourcing/product design through local assortments and customer relationship marketing. Kroger, Macy's and The Home Depot, for example, are all using analysis of powerful central data stores to enable transformation into customer-centric enterprises. At the RIS Cross-Channel Executive Summit held a few months ago, Charlotte Russe told attendees the company is increasing segmentation, making use of more third-party data, and integrating offline and online customer data to get a 360-degree view of the lifetime value of customers.

TAKEAWAY

Customer Analytics Imperative: Retailers have got to leverage every data source they can access, and bring all data together in one place, to maximize decisions based on insights that will resonate with consumers.

Tesco also uses this approach to segment customers into one of six groups to shape decisions for things like launching a line of new products at varied price points and tailoring promotions.

Real-Time Analysis

Right now, few retailers are drawing all of this data together into a single, central data store, and doing it in real-time. Most data is siloed or not effectively structured in the database, so retailers simply can't develop deep insight into who their customers are, what they want and what they will do. Those who can, like Kroger, Tesco and others in the examples above, can wield substantial competitive advantage.

As retailers' capabilities evolve and become more sophisticated, customer analysis will become increasingly important to success. Retailers will be equipped to, for example, instantly offer individual customers complementary merchandise and promotional offers on the fly based on what they buy and what is known about their past purchase patterns, including purchases made at other retailers.

BOTTOM LINE NO.8: The digital era is producing far more data about consumers than ever before. Combining it into a single database with powerful analysis and business intelligence capabilities, especially in real-time, will produce competitive advantage for retailers who can convert insight into action.

IMPERATIVE #9:

Optimizing the Talent Pool: Aligning the Best Workforce with the New Shopper

Workforce optimization, particularly execution management, has been an essential tool to help retailers make the most of their staffing strategies. But as shoppers are changing, the retail environment is changing in response, and this means retailers must rethink the skills and attributes of the people they employ, and set a policy to attract the best possible workforce. The recession opens up opportunities to recruit talent to fill the gaps from both the unemployed pool and from competitors.

Retailers have to recognize that shoppers have adopted new attitudes during the recession, becoming even more cautious and demanding than before. They expect a higher level of associate knowledge – at least matching what customers can get themselves at home on the Web. As a result, more than ever front-line sales associates have the potential to make or break individual store performance.

TAKEAWAY

The Talent Imperative: Shoppers are changing, the retail environment is changing in response, and that means retailers must rethink the characteristics and attributes of the people they employ and set out to attract the best possible workforce.

FIGURE 6:

The Top 2 Key Strategic Actions your Organization is Taking in Response to Economic Pressures

Source: RIS News - Talent as a Strategic Asset

Re-Engineering the Retail Workforce for the 2010 Recovery

When the shopper changes, so must a retailer's workforce strategy. *RIS News* talked to Bob Clements, Senior Principal at Axsium Group, who leads the company's global retail practice, about the steps retailers can take now to realign their use of labor with the requirements of the new shopping environment.

Q: Why is workforce an important part of a recovery strategy?

A: Labor is retail's largest controllable expense. During the recession, retailers consistently cut workforces and hours. In fact, they are using the fewest hours since 1997. As retailers turn their attention to recovery, they will begin adding staff and hours. This needs to be done intelligently to ensure that top line revenue outpaces labor growth, and intelligent growth starts with a retailer's labor model.

The labor model reflects the dynamics of the store workforce. It describes how a retailer's workforce is structured and deployed to meet the need for labor. For example, a labor model will describe the mix of part time and full time, the skill mix, tasks, and so forth that need to be deployed to meet a certain customer volume. Using the right labor model results in a highly productive and efficient workforce. Using the wrong labor model results in waste and missed opportunity.

The labor models retailers are using today reflect the pre-recession economy. Because the way retailers operate will be different after the recession, employees will need to work differently, and the labor model will need to reflect that. Most importantly, retailers will need to consciously include customer service as a discrete and measureable activity to ensure that they are delivering the customer experience they want.

Q: What should retailers' workforce priorities be as they prepare for the recovery?

A: Retailers have got to increase retention, right-size and realign to be as productive as possible. In 2007-2008 retail productivity slipped for the first time. Now we want to move in the right direction and match the labor model to new needs. To do this retailers need to:

1. Assess where they are today with metrics such as productivity, workforce utilization and absence rates.
2. Establish goals, such as decreasing labor costs, increasing sales per labor hour, reducing unplanned absences or increasing compliance.
3. Update the labor model to reflect goals and apply the new labor model to workforce management processes and systems.
4. Measure the results and fine tune the labor model as appropriate.

Technology helps to reexamine the labor mix, but it's not required. A lot has to do with number crunching, which retailers can do with a spreadsheet. Most workforce or talent management vendors offer workforce planning within their systems. Once a retailer has redefined the labor model, it must then recast it to work best with the systems in place. Each system works differently. As a workforce consulting company, one of the things we do is help retailers implement the changes they want to make according to the nuances of their software, to make the best use of their systems.

Q: With all the uncertainty about the timing of a recovery, how can retailers be sure their workforce planning tracks what's actually happening in the marketplace?

A: The biggest challenge with workforce management and forecasting is, how many workers do you need? The algorithms of the past no longer work. Retail sales looked different over the last 18 months than they did the last 10 years or will over the next 10, therefore techniques to forecast have to change. Because there is high uncertainty you need different scenarios. Rather than saying, "I think sales will go up," and planning for sales to go up, you need one plan for if sales go up, one for if they go way up, one for flat and one for down. Then make a game plan for all facets including labor models.

Q: How else does a retailer's approach to workforce management need to change?

A: In the last few years, more and more retailers have invested in aligning workforce to traffic versus sales. It's sexy, but in reality not all traffic is created equal. A customer coming in Tuesday during her lunch hour may spend differently than the one who comes on Saturday afternoon with her girlfriends. There needs to be more scrutiny of traffic. Retailers need to schedule to demand and opportunity. It's a hybrid model that bases scheduling on both sales and traffic. •

Lead with the Labor Model

According to a 2009 *RIS News* custom research report, *Talent as a Strategic Asset*, the alignment of the workforce with business objectives is the top strategic action (73%) of surveyed retail organizations in response to economic pressures, and rightfully so. As retailers embrace a customer-centric approach, the workforce is increasingly appreciated as a key enabler to successfully execute this strategy.

However, just 12% cite identifying gaps between current skills/attributes and anticipated future needs as a top strategic action in the survey. That's a problem, because retailers must decide first what the new, customer-centric sales floor looks like before they embark on a recruiting effort to attract the right talent. Who is the target shopper, and what are the attributes of associates customers will best respond to? What tasks must be accomplished there during the sales day, and what skill sets are required to complete them?

So the first step toward taking advantage of the opportunity to attract the best workforce is to assess current operations, re-imagine store environments and set new business goals. Then retailers must determine which associate attributes best fit this picture and create a new labor model that encompasses a profile of associate characteristics, skill sets, availability, mix of full time and part time, and so forth.

This is not a one-time exercise. Given retail's high-turnover rate, retailers must devise processes to identify, attract, retain and develop associates with best-fit qualities so they can offer the best service today and quickly fill openings that occur with the best possible candidates.

An Employer's Market

With a new labor model in hand, retailers are equipped to make the most of current recruitment opportunities. Record unemployment means the pool of available, skilled retail talent has never been larger. Now is the time to seize a unique opportunity to refresh the workforce and acquire the best available talent.

Good, skilled staffers are worthwhile investments in any economy. In the new shopping environment, they are critical. Differentiating your value proposition through improved service and setting the stage for further initiatives when the recovery arrives is a winning formula.

Recruiting a new workforce today means expanding beyond the usual channels. Retailers need to reach out to candidates with the right attributes and experience in the places where they're active, such as from within their own ranks and via social networks, non-traditional Web-based recruiters, and their own customer bases.

Technology is a key enabler to help retailers document and automate the talent recruitment process and then continually attract, assess and retain a high quality workforce. According to the Aberdeen Research report, *Retail Workforce Optimization: Establishing the Customer-Centric Store-Level Employee*: "Today's home-grown retail workforce management processes, manual procedures and legacy IT technologies are generally haphazard or poorly integrated, thus reducing the retailer's chance for success in optimizing its investment in the labor force."

To overcome these obstacles, retailers need solutions that integrate recruiting capabilities into broader, strategic human capital management offerings that support workforce assessment and development.

BOTTOM LINE NO.9: The time to set a new talent management strategy is now to take advantage of the favorable labor conditions. Retailers must devise a comprehensive strategy to assess, recruit and retain the best staff to wield a competitive service advantage.

IMPERATIVE #10:

Capitalizing on a Strong Private Label Strategy

Private label is a booming trend in retail thanks to its ability to offer differentiation, plus lower cost of goods sold, plus margins at least 15% better than for branded product, all in one package. Private label is also allowing retailers to compete head to head with national brands that are increasingly going direct to consumer. Aberdeen reports that retailers selling private label products are achieving 1.14 times higher year-over-year improvement in GMROII compared with retailers that sell only branded products. (*Why So Private? Cost Reductions and Sourcing Efficiencies Perk Up Private Label Retailing,* 2009)

One of the biggest developments of the recession is excess manufacturing capacity and an ever-changed consumer who shops more conservatively, seeks greater value and prioritizes needs over wants. All of these can be considered drivers for adding more private label goods to retail assortments. Retailers owe it to themselves – and their stockholders – to seriously explore the development and enhancement of their private label capabilities.

Compelling Case Studies

Success stories such as Macy's INC fashions and Safeway's O organic line are prompting retailers to boost the percentage of merchandise devoted to private label goods. Kohl's is a good example: private and exclusive brands accounted for nearly 42 percent of its total sales for the last completed year.

Kroger, now the second largest U.S. retailer, is among the biggest private label champions in food. The grocer credits stellar 2009 profits in part to the increasing popularity and drawing power of its private label goods. According to just-food, the U.S. private label market for food and drinks has expanded by almost 60% since 2003, compared with around 23% growth for the industry as a whole. Private brands now represent 20% of the household pantry, up from 7% to 10% a year ago, according to Information Resources, Inc. (IRI).

Customer acceptance of private label has never been higher as quality increases and retailers develop unique products. More than 78% of both lower-income and higher-income consumers believe that private label products are typically of excellent quality, according to IRI's *2009 Private Label Report*.

Mastering Private Label Development

However, succeeding in private label and exclusive merchandise isn't a given. According to *Competing on a Unique Offering and Distinctive Experience*, by Kurt Salmon Associates, to execute this strategy effectively retailers must learn to "act vertical," which means developing a brand strategy that differentiates — at least in part — a unique offering and engaging customer experience.

It also requires creating an execution plan for end-to-end integration of the value chain through cross-functional collaboration. Retailers "acting vertical" achieve, on average, a 20% greater increase in annual revenue, operating and gross margins and inventory return on assets. They also achieve a 40% greater increase in inventory turns, higher performance on customer retention rates, sales per customer, sales per customer transaction, and fewer price markdowns.

TAKEAWAY

The Private Label Imperative: To succeed in private label, retailers must develop new skill sets in market research, product innovation, consumer testing, collaboration/sourcing, nimble allocation and assortment, brand development, marketing and supply chain

To succeed in private label, retailers must develop new skill sets in market research, product innovation, consumer testing, collaboration/sourcing, nimble allocation and assortment, brand development, marketing and supply chain. When you're committing to non-cancellable production capacity the ability to sense and rapidly respond to demand signals becomes that much more critical.

Retailers are seeking ways to shorten product lifecycles so they can fine-tune private label products and reorder throughout the season. As with many aspects of their businesses, retailers also need to learn to measure customer sentiment via social media to guide their private label and brand-exclusive product development.

Fortunately, the activities required to engage in private label manufacturing deliver positive benefits to the entire enterprise. According to Aberdeen's *Why So Private*? report, retailers with more than 30% of their merchandise coming from private label also tend to invest in other technologies and initiatives including total product lifecycle cost reduction, improving end-to-end sourcing and supplier collaboration – skills that can enhance both branded and private label product strategies.

BOTTOM LINE NO.10: Broad consumer acceptance, increasing insights into customer needs, eroding margins on branded products and freed-up manufacturing capacity all mean the time is ripe for increasing the percentage of private label products.

CONCLUSIONS

Unprecedented times offer unprecedented opportunities for retailers prepared to seize them. Here are takeaways based on the five imperatives highlighted in this report that retailers can use to create a roadmap for success in 2010.

Real Estate

- Bankruptcies are high, real estate financing has begun to thaw, vacancy rates are at a 17-year high, landlords are facing balance sheet issues and they need to keep stores filled. All of this adds up to a buyers' market.
- This is a prime opportunity for those with healthy balance sheets to re-examine their store portfolios, optimize the store base for maximum bottom line impact, improve leasing deals, and align the spaces they occupy with a retooled corporate strategy.
- Given the number of variables to consider to produce an effective strategy in a non-core discipline, retailers need to invest in real estate management software to improve visibility, planning, modeling, ROI analysis and overall efficiencies.

Retail Darwinism

- Current economic conditions mean the time is ripe for stronger retailers to move into new markets, new channels, and new lines of business, and to establish themselves as dominant players in current markets through strategic acquisition.
- Retailers are cautioned not to limit their search for recession-induced opportunities to the United States. Weakened competitors and unsaturated markets may lie outside current service areas. And of course, global retailers are searching for opportunities in the U.S.
- Agility is a core competency for the fittest retailers. Retailers must have the capability to alter their culture and adjust to rapidly changing market conditions. Adaptability will be rewarded and inflexibility punished.

Retail Analytics

- Retailers must leverage constantly multiplying data sources, and structure them for instant access by line of business executives using easy-to-use business intelligence tools.
- Pulling together POS data, loyalty data, survey data, syndicated data and other sources of detailed market intelligence will enable retailers to better understand customers and their needs, and then devise plans to deliver an improved shopper experience.
- Once amassed, detailed, comprehensive data can be leveraged throughout the retail enterprise, from sourcing/product design through local assortments through customer relationship marketing.

Recruiting Talent

- Shoppers are changing and the retail environment is changing in response. This means retailers must rethink the skills and attributes of the people they employ and then create a new plan to improve the workforce.
- The first step is to assess current operations, store environments and business goals. Then retailers must determine which workforce attributes best fit the assessment and which do not, and then align the labor plan with the retooled corporate mission.
- Technology is a key enabler to help retailers document and automate the talent recruitment process and then continually attract, assess and retain high-quality workers.

Private Label

- Private label is booming in retail thanks to its ability to offer differentiation, plus lower cost of goods sold and margins at least 15% over branded products.
- Excess manufacturing capacity is a by-product of the recession. This combined with an ever-changed consumer who shops more conservatively, seeks value and prioritizes needs over wants all add up to a strong endorsement for adding more private label goods to assortments.
- To succeed in private label, retailers must develop new skill sets in market research, product innovation, consumer testing, collaboration/sourcing, nimble allocation and assortment, brand development, marketing and supply chain.

Oracle

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