

## Bridging the Merchandising and Store Operations Divide

*by Rob Garf and Fenella Sirkisoon*

In this Report, we identify the root causes and determine potential remedies for translating merchandising and promotional strategies into flawless execution. With 85% of buying decisions made at the shelf, retailers need perfect execution to claim their piece of the \$4T in annual retail industry revenue projections.

# Acronyms and Initialisms

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FMCG Fast-moving consumer goods

S&OP Sales and operations planning

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# Bridging the Merchandising and Store Operations Divide

by Rob Garf and Fenella Sirkisoon

Retailers put about \$1.65T worth of merchandise at risk annually by only executing 59% of merchandising and promotional initiatives in the intended fashion.

The  
Bottom  
Line

## Executive Summary

Store personnel often blame the home office for inconsistent or subpar operations, citing poor direction, conflicting priorities, and lack of capacity. AMR Research surveyed 100 merchandisers on this topic to quantify the problem, identify the root causes, and determine potential remedies for translating merchandising and promotional strategies into flawless execution. To accomplish this, we designed the survey to better understand the merchandiser's point of view regarding the execution of merchandising plans. Survey results provided insight into the divide between merchandising and store operations.

Merchandise operations is inherently complex:

- Organizations have an average of 171 merchandising initiatives annually. Each initiative often includes multiple discrete tasks and hundreds of interdependent steps.
- An average of 28 home-office personnel are involved in a single merchandise and promotional initiative, which typically occurs over several months.
- While many groups have ownership of the merchandise planning and execution processes, only 26% feel that cross-functional collaboration among merchandising, marketing, store operations, and transportation is excellent.
- 49% state that better utilization of technology will facilitate collaboration on strategies to use sales data and get everyone on the same page.

Poor visibility into merchandising performance:

- Less than half of retailers have complete visibility into merchandising performance compared to the financial plan on an ongoing basis.
- Only 31% of merchandisers have complete visibility into labor requirements for executing markdowns, price changes, or promotions.
- 23% of retailers claim to have complete visibility into planogram compliance by automatically enabling home-office access to pictures of the display.
- 46% of retailers say they would embrace technology to provide ongoing visibility into merchandise performance.

Merchandisers not confident in store operations:

- Only 37% of merchandisers are completely confident in the ability of store operations to execute merchandise and promotional strategies.
- Only 59% of merchandisers feel that merchandise and promotional instructions and initiatives are executed by store operations in the intended fashion.

Communication methods will consolidate over time:

- Communication of key directives and priorities from home-office personnel to each store is broad and frequent.
- The primary methods retailers currently use to communicate merchandise and promotional strategies to each store are phone, fax, and conference call. By 2010, they plan to consolidate on intranet, e-mail, and task management.

Technology will positively affect corporate performance:

- 91% of respondents stated that software to manage workflow and monitor compliance throughout the enterprise would have a considerable or moderate effect on merchandise and promotional planning and execution.
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## Brand execution affects future earning

A retailer's brand value is best represented when the consumer is actually in the store making a purchase decision. Why is consistently fulfilling brand execution so important? How about this: 85% of purchase decisions are made at the shelf, and the average consumer looks elsewhere after 2.3 negative experiences. Retailer missteps include out-of-stock products or difficulty with a store associate—both controllable circumstances given the proper execution processes. With disappointed consumers taking potentially hundreds of thousands of spending with them to a competitor, the effect on future earnings is obvious.

While it is easy to place blame on store associates for a poor experience, the execution process starts well before the point of consumer interaction. There are several months, multiple handoffs, and numerous owners from the time a merchandise or promotional plan is conceived until that moment of purchasing truth.

Merchandise operations is inherently complex, but retailers that standardize and streamline processes, establish accountability, create visibility, and continuously measure performance will ensure merchandise plans are executed in the intended fashion.

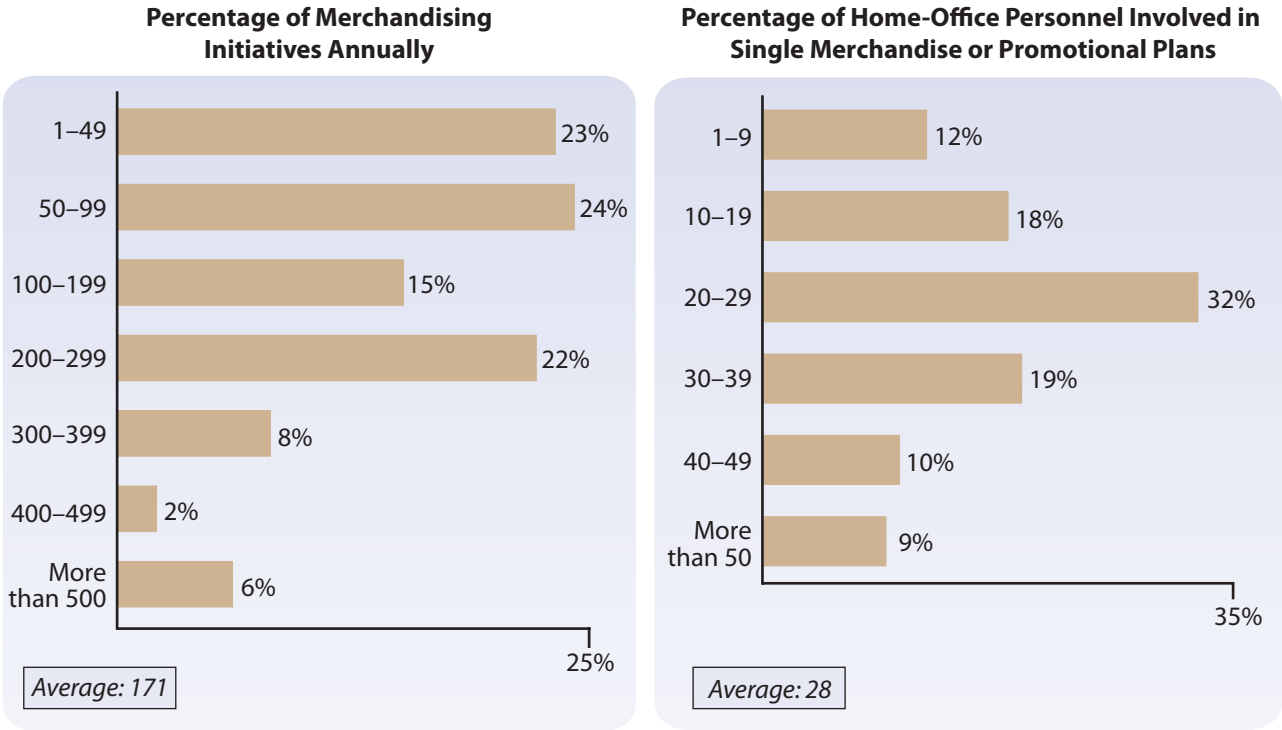
## Merchandise operations is inherently complex

Consumer expectations are changing at a torrid pace, forcing retailers to continually innovate, differentiate, build sustainability, expand globally, and better serve customers. While store associates are important brand ambassadors, they are instantly at a disadvantage if products aren't available when customers want them. Retailers must implement processes and systems to create merchandising approaches that are based on the consumer, harness the power of this demand intelligence, and seamlessly execute to consistently fulfill brand expectations.

This becomes a lofty goal because of the inherent complexity in managing the process between an idea conceived at the MAGIC show in Las Vegas and a product displayed on the sales floor. According to respondents, organizations have an average of 171 merchandising initiatives annually. Each initiative often includes multiple discrete tasks and hundreds of interdependent steps. To complicate the matter further, 28 home-office personnel are involved in a single merchandise and promotional initiative, which typically occurs over the course of several months.

The lack of a standard procedure or workflow to manage this complex process frequently leads to poor visibility, measurement, accountability, and confidence. This ultimately dilutes the value of the merchandise vision and puts a strain on consumer loyalty.

**Figure 1:** Complexity involved in a single merchandise or promotional plan



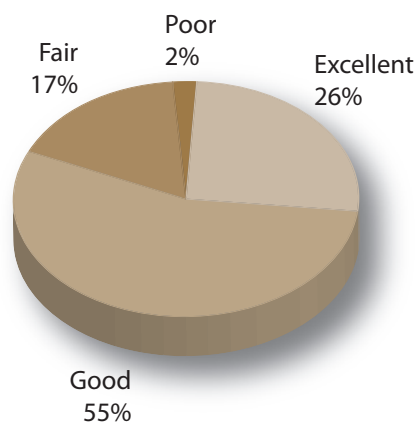
Source: AMR Research, 2007

While many groups have ownership of the merchandise planning and execution processes, only 26% of respondents feel that cross-functional collaboration among merchandising, marketing, store operations, and transportation is excellent. 33% of specialty hardlines and 27% of specialty softlines rate collaboration as fair. These segments have significant opportunity to improve the relationship among individuals in disparate functional roles.

With suboptimal collaboration among the various owners of merchandising operations, useful information is generally not shared throughout the enterprise. For example, supply chain organizations typically have detailed data about fill rates, delivery times, and quantity or inventory. If this insight was shared with store managers in a standard way, it could help to align labor resources with demand.

**Figure 2:** Cross-functional collaboration for planning and executing merchandise strategies

*Among merchandising, marketing, store operations, and transportation*

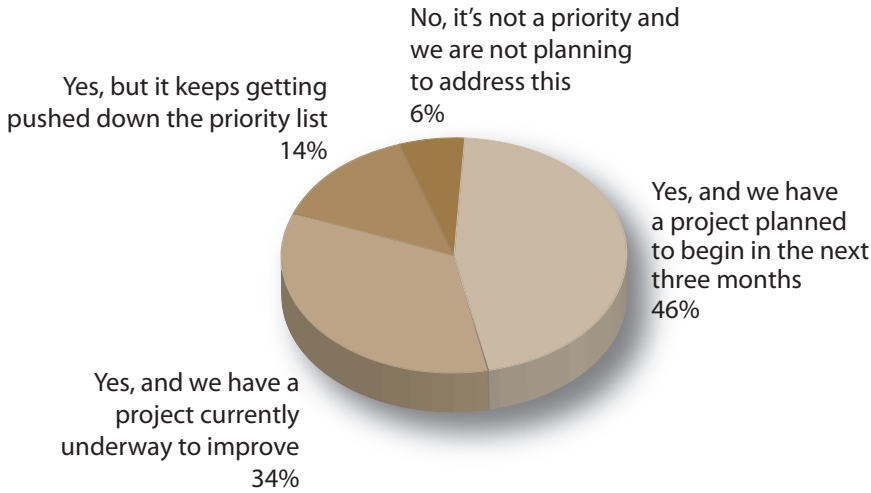


*Source: AMR Research, 2007*

Recognizing that breakdowns in the process lead to poor store execution, retailers want to improve cross-functional collaboration. A vast majority have a project planned or underway to improve visibility and handoffs among constituents that affect merchandising operations. Only 6% of survey respondents stated that it's not a priority and they will not address it.

Although ad-hoc coordination happens in many organizations today, sustainable collaboration across the enterprise can only be achieved when there is a clear understanding of requirements and duration, documentation of steps, visibility into the entire process, and measurement of compliance. When this occurs, a repeatable and standardized collaboration process can be developed. Compare this with the sales and operations planning (S&OP) process in manufacturing.

**Figure 3:** Cross-functional collaboration project plans for merchandise and promotional planning and execution

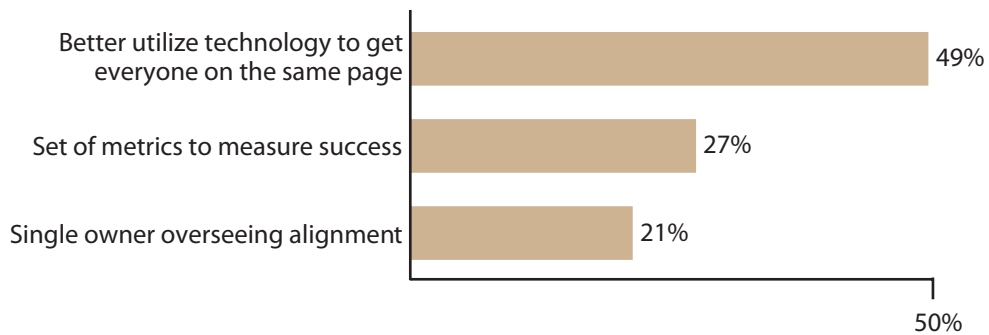


Source: AMR Research, 2007

Merchandisers that participated in the survey believe that assigning an individual owner to oversee merchandise operations is not the answer. Only 21% feel that a single owner will solve the disconnection in the planning and execution process.

Multiple individuals, scattered throughout the retail organization, will touch every merchandising and promotional initiative. 49% of survey participants state that better utilization of technology will facilitate collaboration on strategies to use sales data and get everyone on the same page. Software applications can act as a workflow and data management bus, weave together once independently functioning staff for streamlined operations, and facilitate better reactions to market conditions.

**Figure 4:** Organizational changes needed to facilitate collaboration across the business



Source: AMR Research, 2007

## Poor visibility into merchandising performance

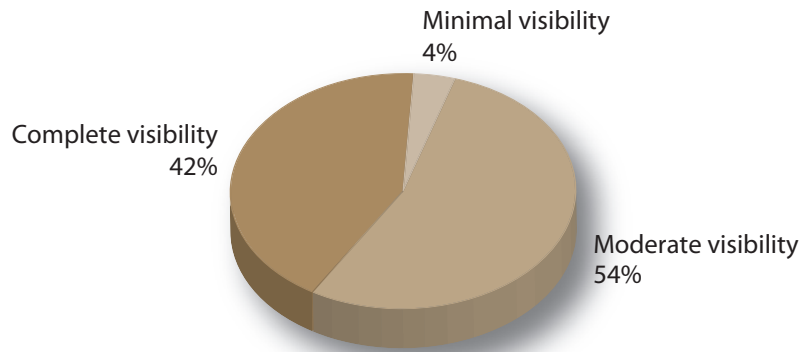
Less than half of retailers have complete visibility into merchandising performance compared to the financial plan on an ongoing basis. Lack of visibility manifests itself in two profound ways:

- **Priorities aren't clear**—There are too many initiatives spearheaded by too many different people. As a result, there is a lack of communication, process control, and accountability.
- **Metrics are unobtainable**—Without organizational alignment and closed-loop measurement, it is impossible to accurately monitor compliance.

Specialty softline and fast-moving consumer goods (FMCG) segments have less visibility into merchandise performance than their peers. Softline retailers live in a world of constant promotions and markdowns, making precise measurement of merchandising and marketing plans difficult. The sheer transaction speed and volume make staying on top of performance hard for FMCG retailers. Thus, perpetual inventory has been elusive in this segment. Ongoing visibility into merchandise performance must improve for informed tradeoffs among priorities and reaction to business demands in a timely and efficient manner.

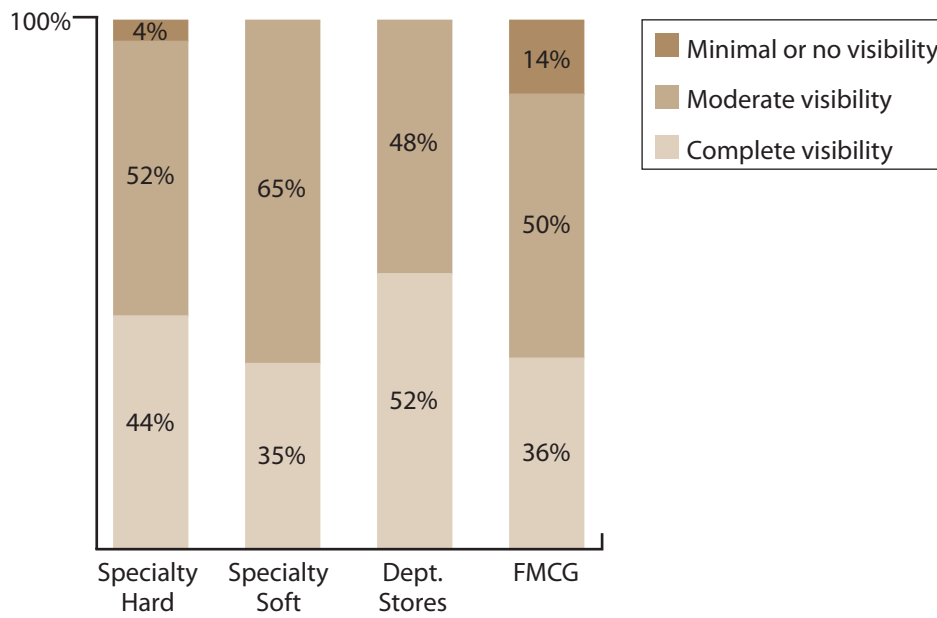
Exacerbating the problem, only 31% of merchandisers have complete visibility into the labor requirements for executing markdowns, price changes, or promotions. This means that merchandisers often make decisions with minimal understanding or accountability regarding how they will affect store labor. Unforeseen labor demand can wreak havoc on store associates, which feel the downstream pain of balancing service levels with higher-than-expected directives from the home office.

**Figure 5a:** Ongoing visibility into merchandising performance as compared to financial plan



Source: AMR Research, 2007

**Figure 5b:** Performance visibility by segment

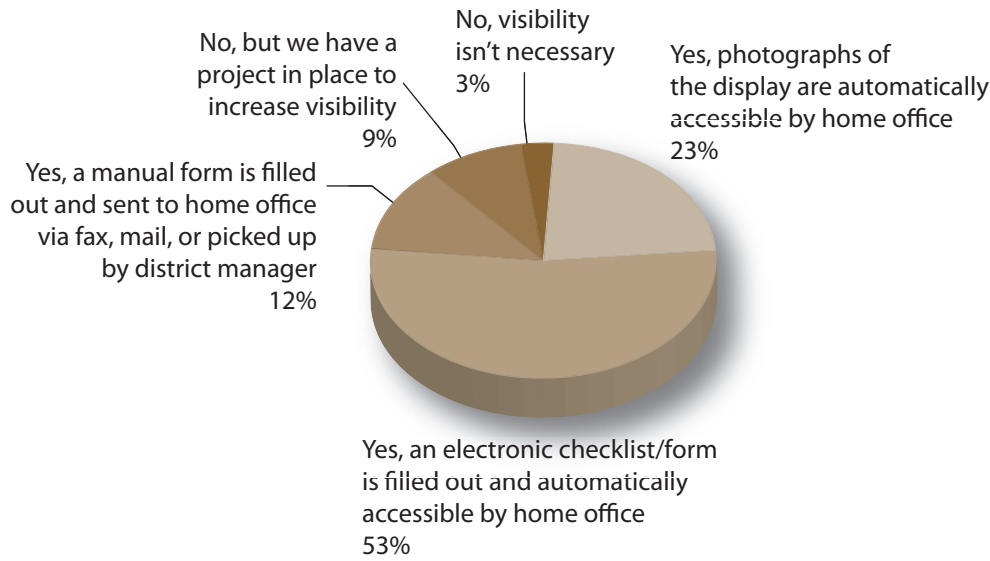


Source: AMR Research, 2007

Retailers also have poor visibility into planogram compliance (that is, how well the display and product presentation match the visual plan). Only 23% of retailers claim to have complete visibility into planogram compliance by automatically enabling home-office access to pictures of the display. While this is higher than expected, the reality is that most home-office personnel don't do anything with the information, further proliferating the idea that data is ubiquitous, but insights are rare.

Another 53% of respondents gain visibility by providing an electronic checklist that is filled out in the store and automatically accessible by home office. However, just like with visual compliance, even if the checklist is used, data is seldom integrated into a mechanism that generates a process to fix it. Adoption and utilization of planogram compliance must improve to identify the root causes of successful or unsuccessful merchandising plans. The need will only increase as more third parties, such as direct store delivery suppliers, do field merchandising on behalf of the retailer.

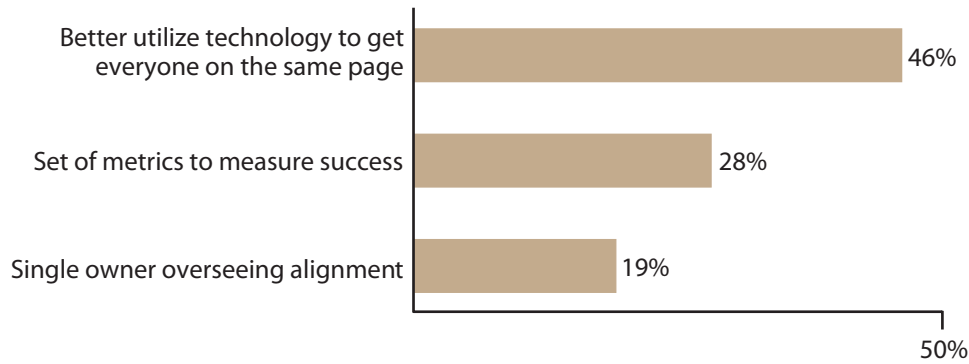
**Figure 6:** Visibility into planogram compliance



Source: AMR Research, 2007

As with cross-functional collaboration, a majority of respondents see better utilization of technology as the primary change that must occur to increase visibility into merchandising performance compared to the financial plan. 46% of retailers say they would embrace technology to provide ongoing visibility into merchandise performance. While technology is never the panacea, retailers desire a software application to unlock critical information that today is either latent or nonexistent.

**Figure 7:** Primary organizational changes needed to improve ongoing visibility into merchandise performance



Source: AMR Research, 2007

# Merchandisers not confident in store operations

Lack of visibility has significantly eroded merchandiser confidence in store operations. The survey shows that only 37% of merchandisers are completely confident in the ability of store operations to execute merchandise and promotional strategies. Furthermore, only 59% of them feel that merchandise and promotional instructions and initiatives are executed by store operations in the intended fashion. If merchandisers are right, with annual retail revenue in the United States estimated to surpass \$4T in 2007, retailers put approximately \$1.65T worth of merchandise at risk by not executing plans in the intended fashion.

A domino effect has occurred in the merchandise operations process. Low visibility leads to poor measurement, which leads to no accountability, which results in no confidence. This has created a constant discourse and tension between merchandising and store operations. The customer suffers and so does the bottom line.

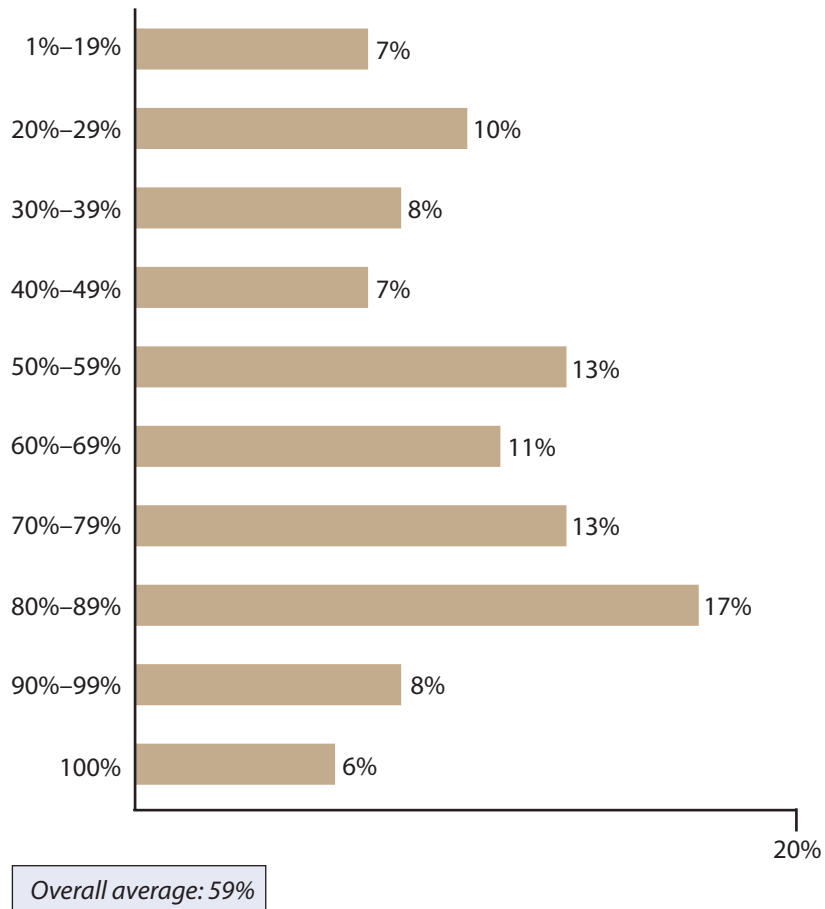
Merchandisers cite poor organizational alignment and lack of technology as the two major factors preventing proper execution.

**Figure 8:** Merchandiser confidence in store operation abilities to execute merchandise and promotional strategies



Source: AMR Research, 2007

**Figure 9:** Percentage of merchandise and promotional initiatives executed by store operations in the intended fashion



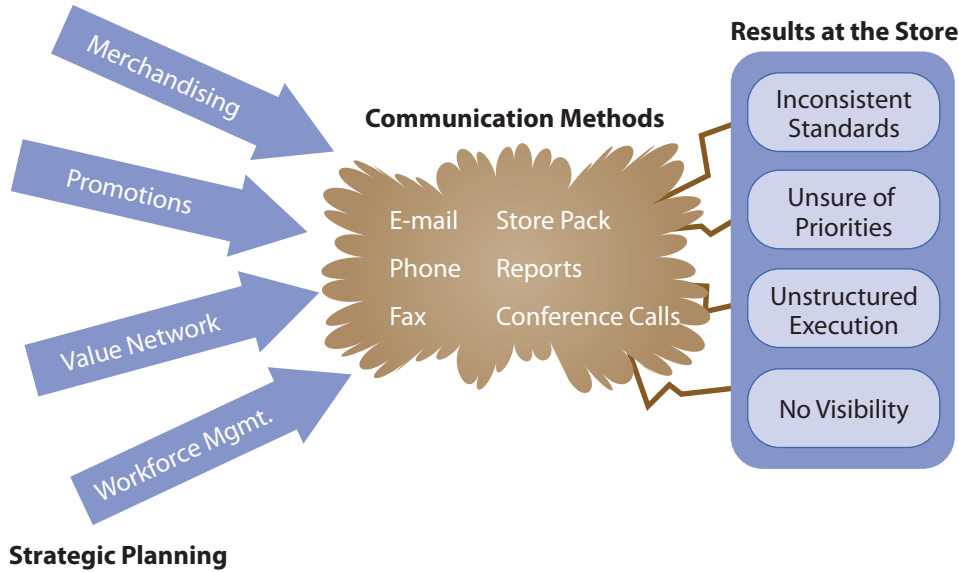
Source: AMR Research, 2007

# Communication methods will consolidate over time

Communication of key directives and priorities from home-office personnel to each store is broad and frequent. Inconsistent communication causes the following negative effects on the store:

- **Inconsistent standards**—Lack of organization-wide thresholds, measurements, and consequences
- **Unclear priorities**—Confusion and inefficiency among store associates from lack of direction
- **Unstructured execution**—Inconsistency on how and when common tasks are carried out across the enterprise
- **No visibility**—Limited view of demand and compliance

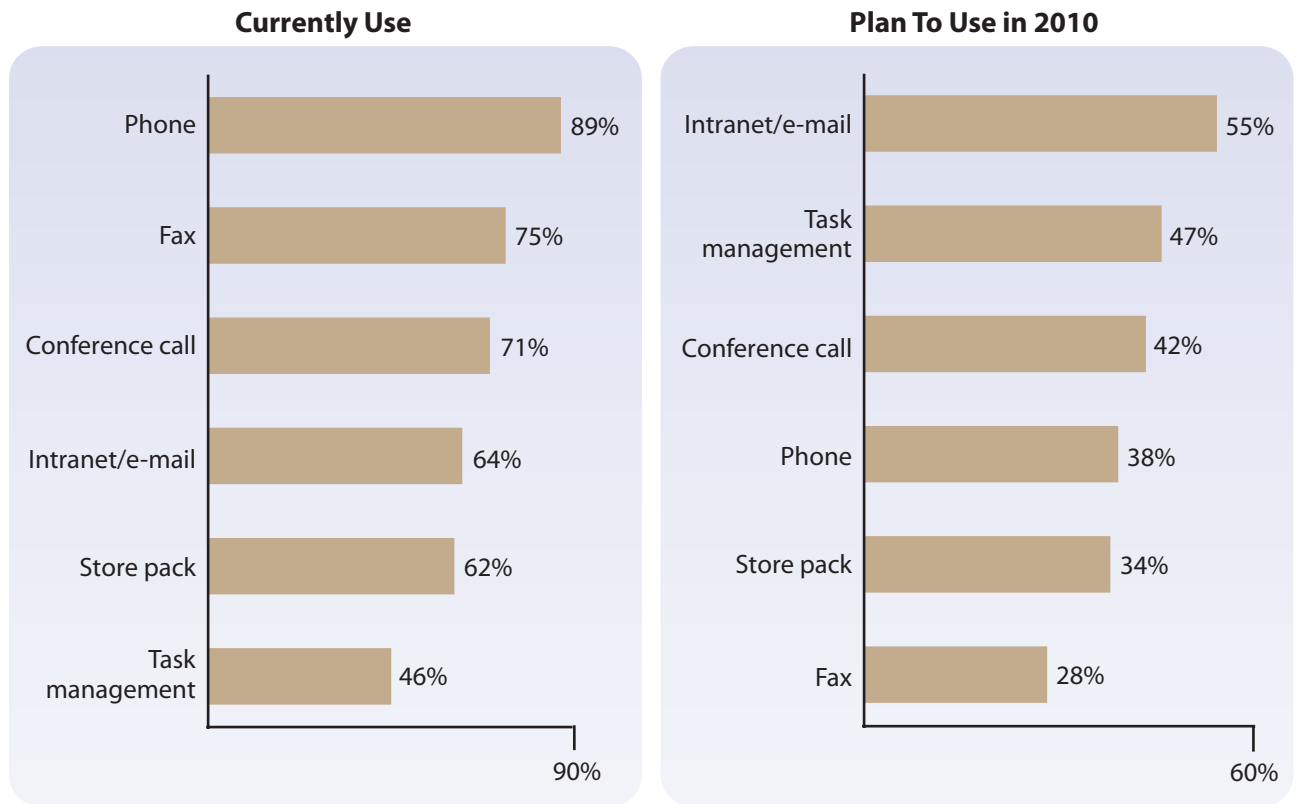
**Figure 10:** Communication breakdown between home office and stores



Source: AMR Research, 2007

The primary methods retailers use to communicate merchandise and promotional strategies to each store are phone, fax, and conference call. By 2010, they plan to consolidate on intranet, e-mail, and task management. This is an encouraging trend that will certainly enable retailers to enhance cross-functional collaboration, increase visibility into performance, and create a platform for informed tradeoffs.

**Figure 11:** Primary communication methods to stores—2007 and 2010



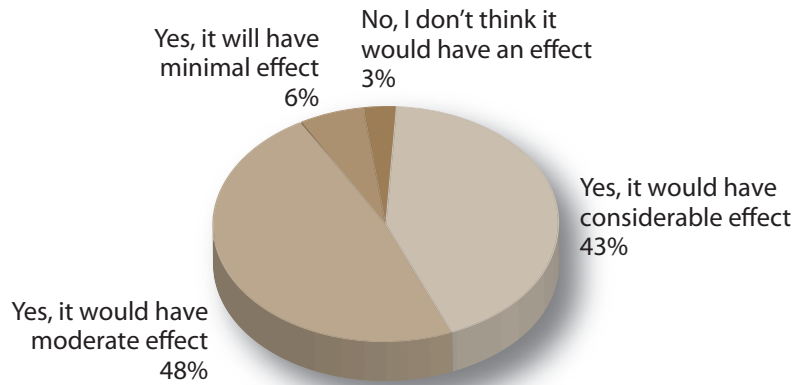
Source: AMR Research, 2007

## Software will positively affect corporate performance

91% of respondents said that software to manage workflow and monitor compliance throughout the enterprise would have considerable or moderate effect on merchandise and promotional planning and execution. The application scope includes the following vital components to ensure enterprise execution management and productivity:

- **Labor management model**—The model should be the same one that is used to provide parameters for the workforce management application, containing definitions about what a task is and who is available to perform it. It maintains associate credentials, preferences, and performances along with job task requirements and labor standards.
- **Defined business processes and templates**—These contain prebuilt retail process templates for common execution activities and provides a library for future programs. The workflow must be configurable by actual users and enable sequencing for interdependent tasks. Management by exception is important when orchestrating tasks dispersed throughout the enterprise. Alerting, reporting, and escalation must be baked into the system. While most retailers initiate business processes manually, the system should be able to trigger workflows directly from machine-generated tasks.
- **Integration into labor forecasting**—Merchandise and marketing initiatives have a significant effect on store labor. Therefore, this demand must be captured and quantified alongside customer demand data to determine the appropriate labor allocation between the two. Feeding granular task information into forecasting and scheduling systems will accurately determine how much labor is needed at the appropriate day and time along with the most qualified associate, for those particular tasks.
- **Enterprise capability**—The application must bridge the gap among home-office, warehouse, supply chain, and store processes. Managing the handoffs among individuals and creating a common technology platform establishes visibility and shared performance targets. The web-based nature of this application allows for a network of third-party partners, such as suppliers and transportation providers, to gain access to information and directives.
- **Usability and personalization**—Training new employees on internal systems becomes increasingly difficult and expensive. The software must shield its deep functionality in an associate-friendly user interface. Personalization is also important, and the labor management model will guide the assignment and applicability of tasks. A major value proposition is that task communication can be localized to affected resources, not shouted to everybody throughout the chain. For example, the home office can direct specific regions, roles, or individuals to prioritize and execute tasks.

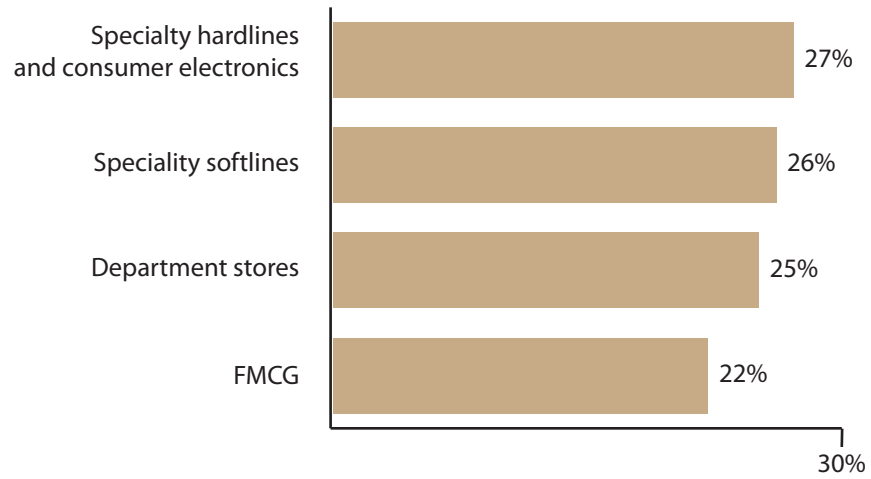
**Figure 12:** Effect of workflow and compliance software on efficiency in the merchandise and promotional planning process



Source: AMR Research, 2007

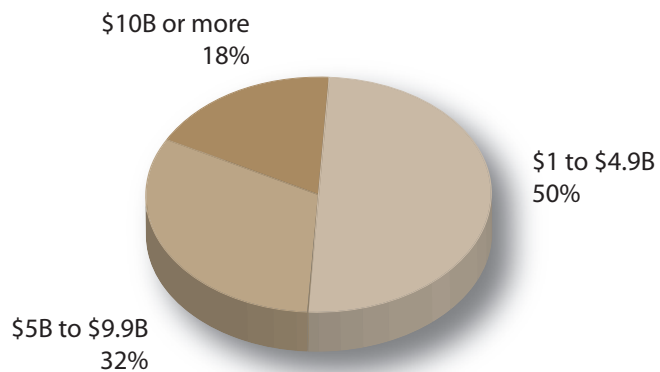
## Survey demographics

**Figure 13:** Primary retail segment



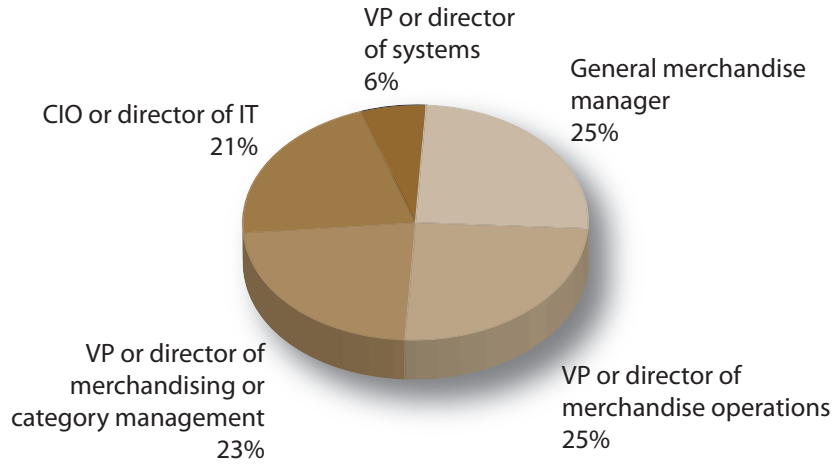
Source: AMR Research, 2007

**Figure 14:** Annual worldwide retail revenue



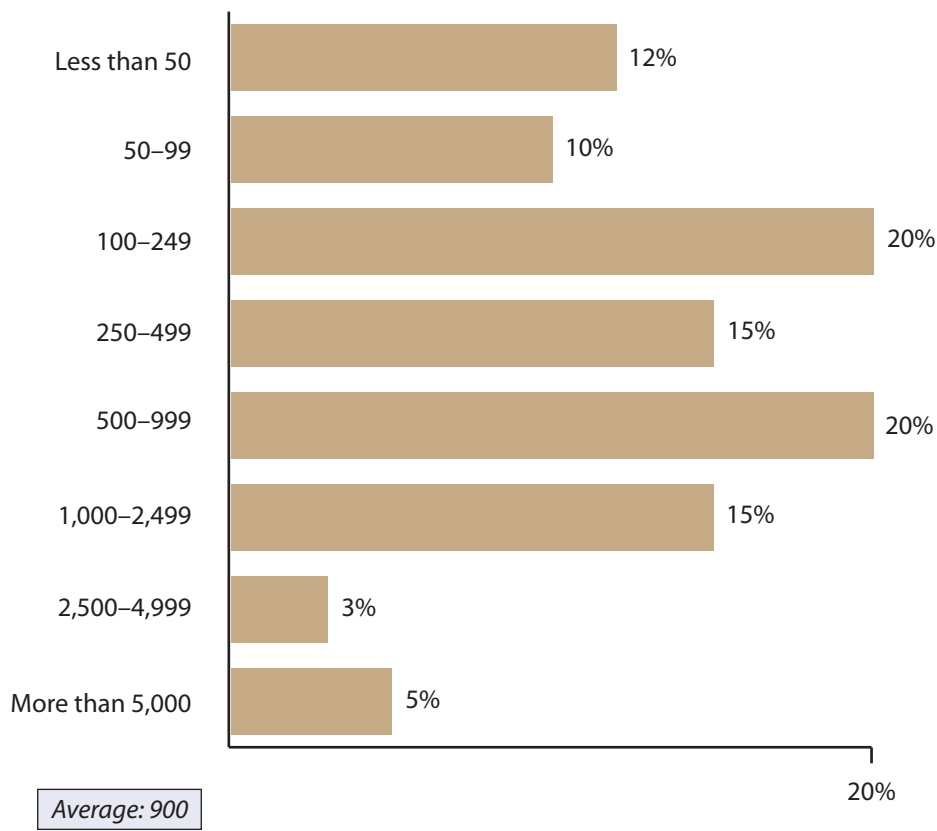
Source: AMR Research, 2007

**Figure 15:** Job title



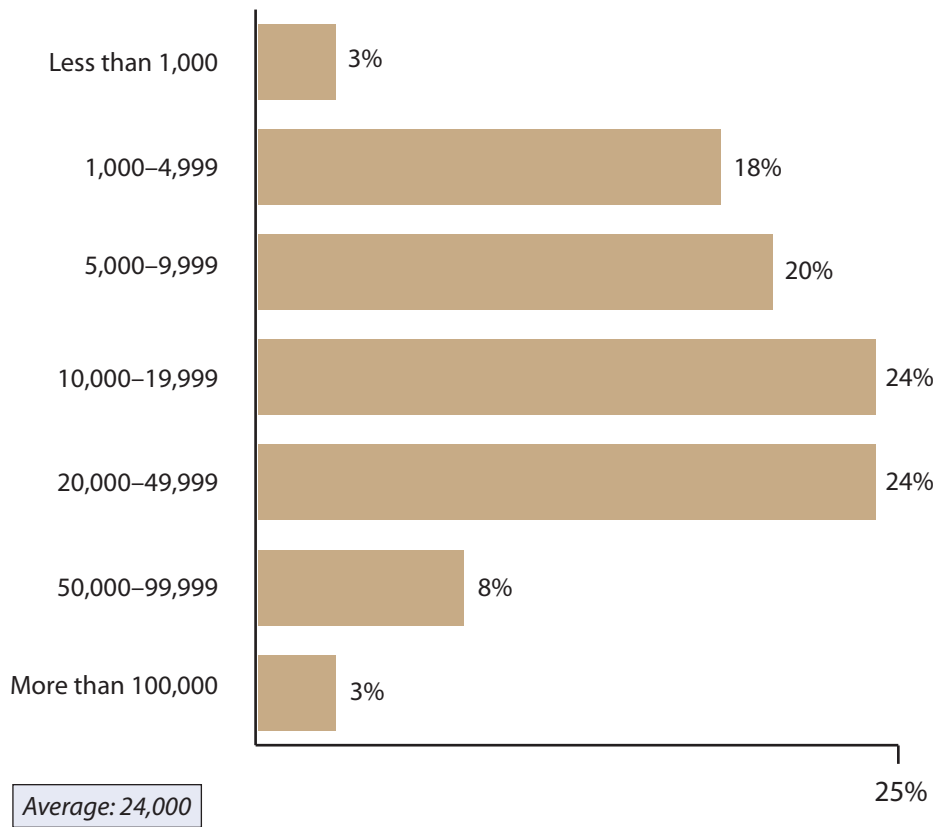
Source: AMR Research, 2007

**Figure 16:** Number of store locations



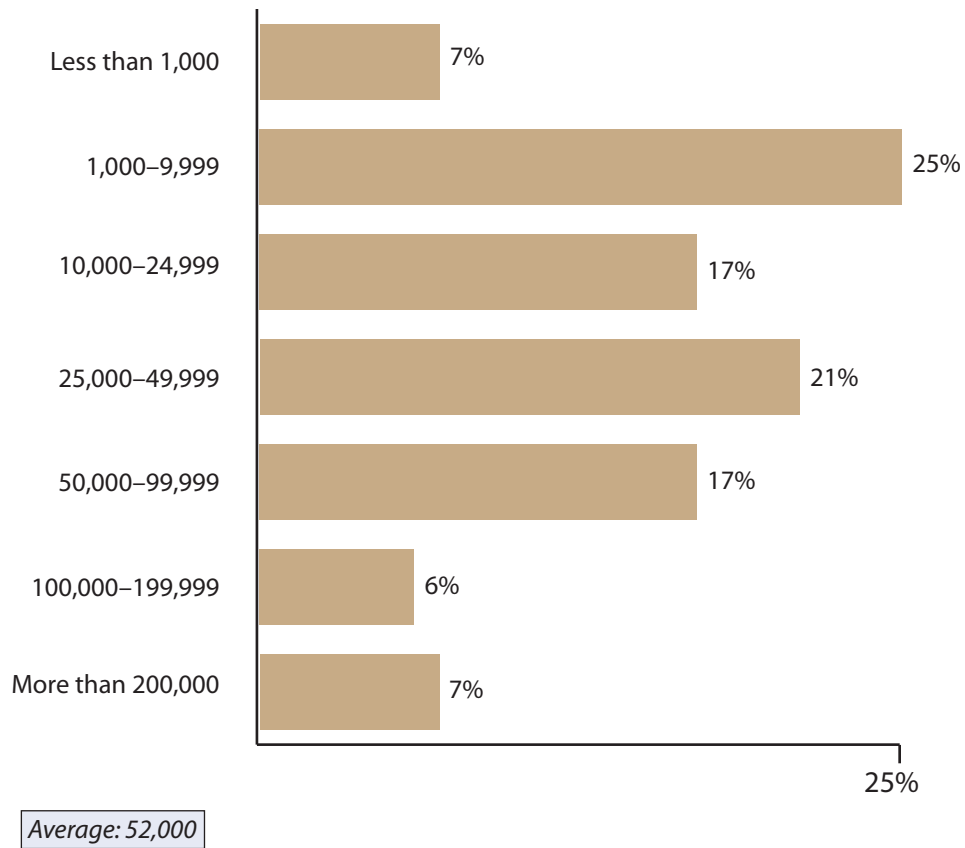
Source: AMR Research, 2007

**Figure 17:** Average square footage of stores



Source: AMR Research, 2007

**Figure 18:** Total number of employees



Source: AMR Research, 2007

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