

# Information Management in the Retail Sector

## Practical strategies to drive business decision making

Martin Atherton, Freeform Dynamics Ltd, February 2009

*A more holistic and cohesive approach to information management can help improve performance. What's in this for retailers and how can they move forwards from where they are now?*

### **EXECUTIVE SUMMARY**

#### **Retail is *the* market where real-time decision making is catalysed by knowledge**

If there is one industry which relies heavily on analysing and using information to drive its day-to-day activities, it's the retail industry. Numerous areas depend on the ability to act on information, and the pressures on retailers today bring the need for a range of new capabilities to the fore. Drivers such as globalisation, downwards price pressures and lower barriers to entry further catalyse the need for faster and better decision-making across the entire business.

#### **Leaders in the Retail space differentiate themselves by how they deliver information**

What really matters today is cohesion, consistency and delivery of the right information to the right people. There are a range of roles within the business which have specific requirements. One size does not fit all. A good strategy helps drive accurate information to the right people throughout the business by embedding it in processes and ensuring that everybody has timely access to the information they need.

#### **Current IT capabilities are often constrained by historical decisions and approaches**

With the relatively slow pace at which systems evolve, and the faster pace at which requirements often change, it is not uncommon for information capability today to be geared towards the needs of the past rather than the present. Furthermore, as businesses have historically addressed requirements in isolation, many are living with more fragmentation and disjoints than they would ideally want. The upshot is, when it comes to exploiting information, things are not necessarily broken, but neither are they optimised for the future.

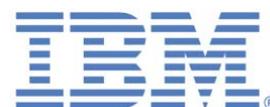
#### **The first step is to review the existing information management strategy**

Formal or not, a strategy for information will help the business address rapidly changing market conditions. Is your information strategy founded on clear ownership and accountability, and loaded with a 'just enough' governance structure to allow action and progress without stifling it? Furthermore, does it offer a consistent framework to deliver what really matters to the business?

#### **Take stock to find out where you *really* are today**

Retail organisations can assess where they are today using some simple tools to uncover gaps in their abilities to exploit the information in their business. A valuable part of this process is to consult senior management, line of business owners, business analysts, operational staff and customers as they all have different requirements and views.

*This paper has been sponsored by IBM. The research and insight upon which it is based has been derived from various studies carried out over the last 2 years, all of which have been designed and interpreted by Freeform Dynamics on an independent basis.*



## What is this paper about and who is it aimed at?

This paper provides practical advice to retailers seeking to improve their performance through better exploitation of information. We explore some practical ways of addressing the following questions:

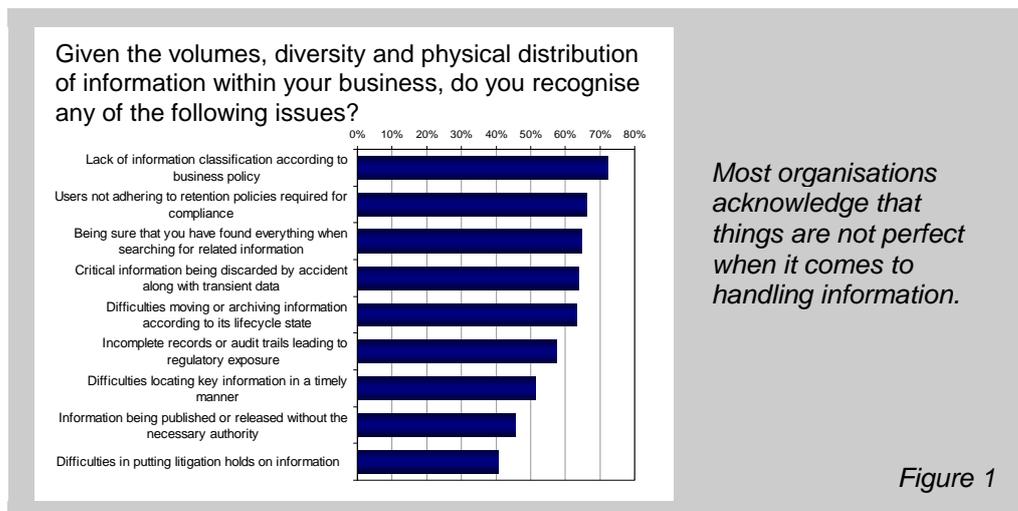
- Why are we even talking about information and its management?
- What's the connection to the retail sector?
- How could I go about improving what we're already doing?

Given the multifaceted nature of the topic it is important to outline who would benefit from reading this report. The intended audience is people tasked with the understanding, management, change and improvement of the processes and systems which make their companies work.

This report has been written especially for decision makers at the IT-business interface and line of business people with technical influence. Some organisations call these roles 'IT liaison'. They could be people sitting on steering groups who influence decisions around the use of IT, such as senior IT managers, programme managers, heads of functions in operational departments, IT architects and information specialists.

## Why are we talking about information?

Freeform Dynamics' research has shown consistently that information management is a global business challenge. In principle this much is obvious, but in practice we know that the way many organisations deal with the volume, diversity and distribution of information within their businesses is not optimal<sup>[1]</sup> (Figure 1). It is not necessarily that things aren't working, more a case of there being opportunities to exploit information more effectively.



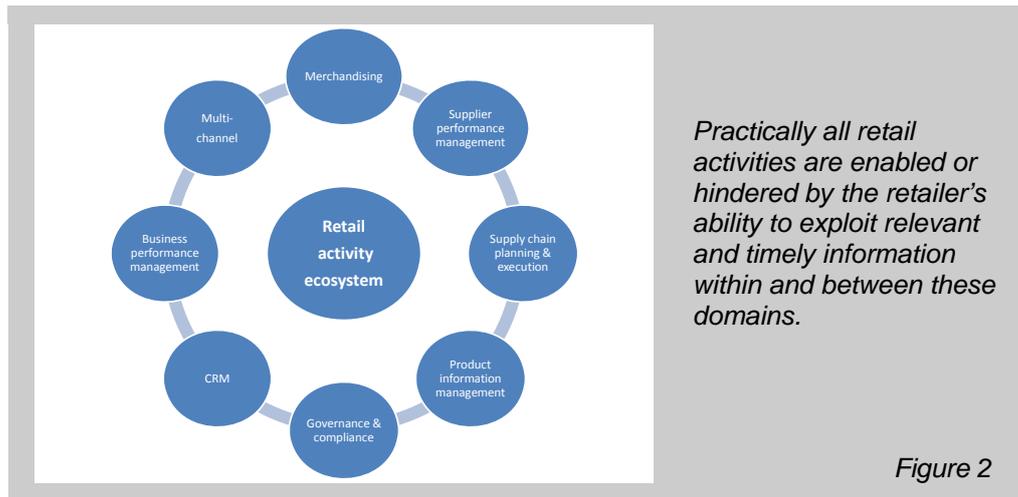
So how does this apply to retail? If there is one industry which spends a lot of time and effort analysing and using information it's the retail industry. Indeed, it could be argued that success in the retail industry is largely a factor of how quickly knowledge can be gathered and acted upon. For example, the information required to decide where and when to place specific products; when to substitute a product or change a supplier, or how to attract and keep a customer: all these decisions require the capture, interpretation and delivery of significant amounts of data to a decision-maker.

However, organisations in the retail sector are no different to other sectors when it comes to challenges such as those above. All retailers have areas where information management capabilities are strong and others where weaknesses or gaps exist. Some will have really obvious pain points, while others may be strong all-rounders and be looking to optimise further. Whatever the situation, there are opportunities to make improvements to the way in which information is exploited in your business.

Over the years, retailers have addressed numerous areas which rely heavily on the ability to act on information: online shopping, customer loyalty programmes, the supply chain, master data management and RFID to name a few. It is one thing to recognise the challenges, but to resolve them an organisation firstly needs to know what it is trying to achieve with respect to information. We look at this in the next section.

## What *really* matters when it comes to information?

Pretty much all retail activities (Figure 2) rely on the ability to process information. Headline drivers such as regulation, the economy, the need for operational efficiency and increasingly demanding customer expectations manifest themselves through day to day activities in different ways.



The table below shows some examples of how retail activities rely on the capture, analysis, interpretation and delivery of information as dictated by different types of industry driver:

Activity	Driver	Requirement
Merchandising	Economy	Where do we place stock to best effect in the prevailing conditions?
Multi-channel	Customer expectations	Can we deliver a consistent experience across all our different activities?
Supply chain planning & execution	Operational efficiency	Can our logistics cope with this promotion?
Product information management	Regulation	Can we update our systems with new product specifications so they are handled appropriately?
Business performance management	Economy	Can we deliver information to the right people in a timely fashion to make the best decisions?
CRM	Customer expectations	How easily can I launch a targeted email marketing campaign to drive customer loyalty?
Supplier performance management	Operational efficiency	Can we predict and control the impact of supply disruptions on our day to day activities?
Governance and compliance	Regulation	Can we comply to emerging waste disposal legislation?

Retailers address these scenarios by various means, from manual information gathering to the use of complex analytical tools. Often though, (like any other industry) problems are solved in isolation due to the number of lines of business, stakeholder groups or 'political' issues, which over the years has created functional silos whose scope for helping the business at a higher or 'strategic' level is limited.

The industry drivers highlighted in the table above, along with others such as globalisation, downwards price pressures and lower barriers to entry catalyse the need for faster and better decision-making across the entire business. To achieve this, the main challenge to overcome is to drive information to the right places throughout the business by embedding it in processes and ensuring that everybody has access to the information they need in a format that can be easily digested.

In essence, we could consider this latest phase in the evolution of the retail industry as a movement from 'batch', or periodic information processing and management to one involving more detailed, real time, or continuous monitoring and measurement of the business.

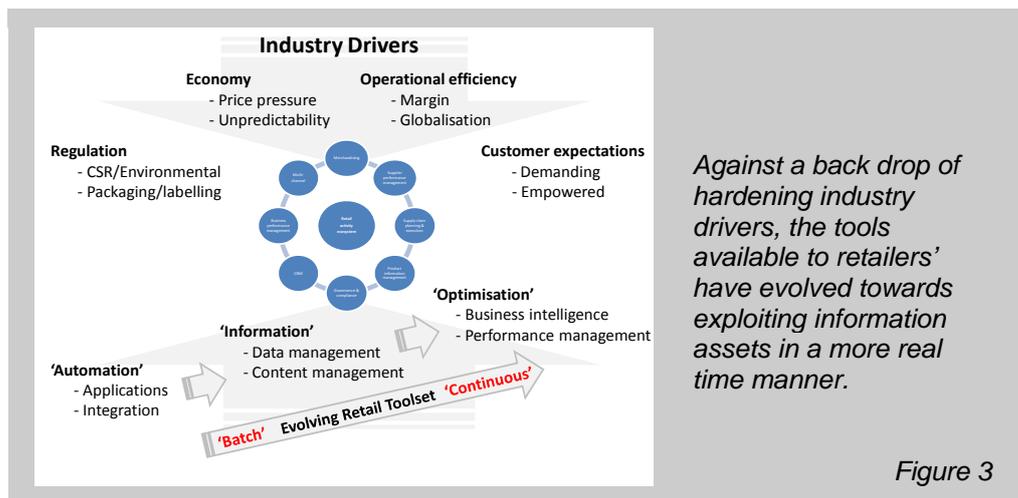
## Addressing the needs of key information stakeholders

To enable this transition, a good place to start is to understand the different constituents in the business and how their information needs vary. For example, consider the table below which will likely map at least in part onto your own organisation.

Group	Information requirement
Senior management	More insight from the information they use to steer the business
Operational management	More timely delivery of alerts and insight as they carry out day to day management of the business
Business analysts	Improved functions to bring multiple information sources together to service multiple stakeholders
Operational staff	Detailed information close to hand as they don't have the time to go looking for it
Customers	To be continually updated with offers they want, and empowered with rich product information
Suppliers	To know how their products are selling, not each week, but each day, hour or minute
Regulators	To know if the business is operating within the law at an ever increasingly granular level

While some requirements may be self-evident, that is not to say that any of these areas are a *fait accompli*. Like any other industry, the retail sector has its leaders, its mainstream majority and its laggards with respect to delivering on such requirements.

On the other side of the coin to the drivers and the requirements they generate, are the solutions available to address them. The last 12 months has seen an unprecedented focus by the IT vendor community on the 'last mile' of information exploitation, focusing on helping businesses deliver information 'to the right people in the right format in the right places'. We could call this latest focus 'optimisation' (Figure 3). It was preceded by periods of investment in more 'traditional' data management tools ('information') and application software ('automation').



New-and-improved solutions are all very well, but few organisations if any will be operating in a green field when it comes to IT. To respond to changing and emerging requirements, organisations will likely as not need to build on top of existing capabilities. We shall return to this later; but first, let us consider what the key elements of an IT strategy that enables this should look like.

## How should an information strategy respond to today's imperatives?

All retailers have some kind of 'approach' to the way they manage information. For some it will be a formal affair, for others less so. We are talking, for all intents and purposes about a 'strategy'. It may be referred to as a framework, a set of best practices, a steering group or something else. Irrespective of nomenclature, what elements should an information strategy contain? From our research we have distilled five key elements, as follows:

- Founded on clear ownership and accountability;
- Contains 'just enough' governance;
- Delivers the right information to the right people;
- Drives both logical and technical consistency;
- Delivers sustainably over time.

We are not attempting to dictate the specifics which fit inside each of these areas. Rather, to highlight the scope that retailers should account for as they decide whether or not there are opportunities to make some improvements, or fill some gaps. You can consider the list below against the key attributes and capabilities of your own current strategy. If you find some gaps, then you have the basis for prioritising what needs to be treated first. And of course if you have all the bases covered, then you could start assessing where opportunities exist to make incremental improvements.

### Clear ownership and accountability

Ownership and accountability are effective generic traits especially when there is 'a project' to kick off. In most domains clear ownership and effective management tend to go hand in hand. Furthermore a simple 'buck stops' approach makes things easier to manage. Achieving this simplicity in your organisation may only require some streamlining, such as changing a reporting structure so that it leads into a single person.

However, and it's a big however, without such a role, it is unlikely that the information strategy will get very far. To actually make this a reality it is necessary for the person with whom the buck stops to have appropriate gravitas across the business: upwards for senior leadership buy-in and downwards for workforce advocacy - the general support and enthusiasm vital to help people to embrace change.

The strategy owner will need to use their diplomatic and communication skills to establish these features and push things forwards.

### **‘Just enough’ governance**

First, it is worth defining what governance actually means in relation to information management. A definition we have used previously<sup>[1]</sup> is ‘an approach to the management of the ‘creation to destruction’ lifecycle of information involved in a business and the running of the business based on applicable internal or external rules and regulations’.

In practice, this translates to a series of checks and balances designed to help an organisation introduce and maintain some consistency around the way information assets are managed. Specifically it means policies, procedures, measurement and a reporting structure. If not already present, it is desirable to introduce a ‘thin layer’ of governance via these routes. The goal should be to keep things as simple as possible, but to have enough guidance in place to make things repeatable and manageable.

### **Right information to the right people**

But what data really matters? Traditionally, KPIs - key performance indicators – have been used to track financial performance and generally concern analysis of periodic data. Often though, the underlying causes of problems are not readily visible and require additional work to understand the events or changes responsible. If the problem relates to an underperforming product line, supplier or the loss of customers then clearly, periodic reviews of the underlying data may be inadequate.

In fact, Freeform Dynamics’ research<sup>[2]</sup> has shown there is an emerging appetite for more real-time steering of the business through a ‘hierarchy’ of related KPIs. Indeed, today, while monitoring and managing a business at the level of overall financial performance is important, there is much to be gained from an emphasis on tracking more granular performance indicators at a customer and product level. Simply put, firms must get smarter about dealing with the lower level drivers that impact higher level outcomes.

### **Drive both logical and technical consistency**

The desire to deliver and manipulate information leads us to think about usage scenarios. For example, providing new capabilities to non information specialists who need information to enrich their work and decision-making should raise questions about the most appropriate tools to consider. Could analytical capabilities be embedded into common desktop applications instead of investing in new, stand-alone software? Could a portal serve multiple groups with different information requirements? Is there likely to be a need for new devices for sales or buyer teams, or shop floor personnel?

However, all the physical infrastructure in the world is not going to help the business much if it delivers inconsistent, compromised or out of date information. This area has been a bugbear of the retail industry for many years; MDM (master data management) being the ‘poster child’ on the product-related side of this. This consistency should also be a goal for other areas such as, for example, the business process and analytical models used to integrate and transform data from point of sale (POS) terminals into reports for senior management finance and product managers.

### **Deliver sustainably over time**

The way businesses and solutions are evolving to meet the challenges of the modern retail environment means moving away from silos of information and fragmented technology solutions. The risk of falling back into the ‘traditional way’ of addressing problems as they occur in an ad hoc manner is high if there are no checks and balances to drive things in a consistent manner. Hence, process and policy to drive this consistency – backed with the aforementioned accountability - is an important prerequisite so that issues are dealt with in a manner that builds information management capabilities in the same direction over time.

## Taking stock: Where are you *really* today?

Understanding information management in principle provides a starting point for assessing how information is used in individual areas of activity in your own business. The goal of the assessment is to uncover opportunities to make improvements in specific or multiple areas.

Against what criteria could a retailer examine their current information usage and capabilities then? The changes in the retail industry we discussed previously, and the notion of addressing the information needs of key stakeholder groups should provide the steer we need.

Indeed, if we consider a set of fundamental capabilities which are needed to deliver against the imperatives we have acknowledged, we have the starting point for a set of 'benchmarks'. We do not present these in detail here because what constitutes acceptable, or 'enough' in one retailer can be very different to another. But suffice to say that the following criteria can be gauged:

- Which areas of the business are information-centric?
- Who needs access to what information?
- What level of information is required?

On this basis we can benchmark each major area of activity against criteria such as the following:

**Granularity:** can we derive enough detail from our data to answer the questions we need to answer?

**Access:** do the right people have access to information? Is it the board or line of business leaders or should we be looking at empowering more of our staff?

**Delivery:** how does information reach our people? Are there more appropriate ways to deliver it?

**Timeliness:** can we deliver information at the right time to help drive the business?

By using a 'traffic light' system such as the one presented in the table below, organisations can establish where major information-related challenges lie, and therefore what should be treated first.

'Current Information Capability'				
	Granularity	Access	Delivery	Timeliness
Merchandising				
Supplier performance management				
Supply chain planning and execution				
Product information management				
Governance and compliance				
CRM				
Business performance management				
Multi-channel				

Weak     
 OK     
 Strong

There are no generic answers to these questions and it is important to examine your own capabilities as opposed to reading about other retailers'. A way of making this exercise potentially very useful would be to get the IT department, senior management and each line of business to fill it out and then compare them. Assumptions of what is working and what is not could be challenged when a picture is built up from different constituent groups. It may serve to quickly and easily highlight areas which need attention, even though from some angles they look fine.

The resulting table provides an uncomplicated view of information delivery capabilities across key areas of the business. Its impact could be profound as it provides a simple 'hymn sheet' around which the organisation can construct a coherent information management strategy. In addition, it puts the horse before the cart. Third party advice, ranging from the use of simple 'maturity models' to more in-depth assessments could also be sought. However it is important that an organisation understands its own priorities before reaching out to advisory firms or indeed IT solution vendors.

## **Discussion and conclusion**

Retailers have been working with information 'forever'; it's a fundamental part of the business. Over the years such organisations have solved information related problems in many different ways and have built up a portfolio of information management capabilities involving different groups of people, process and solutions. Some parts will be working really well, some not.

The chances are that for many organisations, the overall information strategy will be fragmented or incomplete. The opportunity is thus for pulling the threads together rather than starting something completely new. It is important to identify the business problems that are associated with the gaps you uncover so as to create a solid business case to gain commitment and support from the organisation as a whole. Along the way, by 'thinking strategically and acting tactically', activity can be used as an opportunity to put some basic infrastructure, policies and processes in place where appropriate.

Every retailer will find different requirements emerging and hence when they decide to take action, will set off from a different starting point. It is likely that a range of different sized projects will end up on the priority list, whether it's the number of people or processes impacted or geographical reach.

Many businesses (not just retail) will have an eye on cost control in the current climate, which is only to be expected. Many will also see the economic climate as an opportunity to outmanoeuvre the competition or grab pieces of the market that are vacated by struggling incumbents. There are also more fundamental imperatives such as ensuring the operation of your sales and marketing operation is as finely tuned as possible to make sure you win more than your fair share of business in a challenged market with fewer opportunities.

These are all objectives that your business is probably considering at the moment in some form or other. One of the key opportunities open to retailers is to take these 'tactical' objectives and measure them up against the information exploitation capabilities that all retailers, regardless of their sophistication have to some degree or other. In other words, play to your strengths and build on them.

The place to start is to find out where you stand today. Creating this benchmark doesn't have to involve major upheaval. Take something simple yet practical such as the assessment table on the previous page. Work it through with different constituent groups and/or your trusted IT advisors and examine the different perceptions you gain from them. The picture that emerges could be very different from the one you assumed was real.

## Appendix A: Referenced work

The following reports are freely available to download from [www.freeformdynamics.com](http://www.freeformdynamics.com)

[1] Information Governance	(Feb 2008)
[2] Business Performance Management	(Nov 2007)

## Appendix B: Other related work

Managing Information Risk	(Feb 2007)
Data Governance in the Software Lifecycle	(May 2008)
The BI Inflexion Point	(Jun 2007)
BPM: lessons from the real world	(Oct 2008)

## About Freeform Dynamics



Freeform Dynamics is a research and analysis firm. We track and report on the business impact of developments in the IT and communications sectors.

As part of this, we use an innovative research methodology to gather feedback directly from those involved in IT strategy, planning, procurement and implementation. Our output is therefore grounded in real-world practicality for use by mainstream business and IT professionals.

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