Aberdeen Group

Best Practices in Customer Service and Store Performance Management

Case Studies on Business Benefits Achieved by Retailers

September 2005

Executive Summary

Retailers recognize that price alone is an ineffective driver of business results. Mediocre and inconsistent store conformance to corporate goals and directions and non-existent customer service has become a serious deterrent to improving, or even maintaining revenue and profitability. Faced with these pressures, most retailers have begun to talk the customer service talk – but only the best in class are actually walking the walk. Further, only the best in class drive cultural change and technology implementations to improve store performance. They do this by measuring store results more frequently and precisely, reducing the time store managers spend on administrative tasks, and understanding the keys to success of their most successful stores and departments.

Five best practice leaders were selected to illustrate these success strategies (Table 1). Each leader is profiled in a case study that discusses the company's business challenge, strategy, technology deployment, process and organizational enhancements, lessons learned, and results.

Table 1: Best Practices Winners and Their Solution Providers

Enterprise Winner	Featured Best Practice	Solution Provider
Goldspeed.com	Customer service and order management (meeting or exceeding customer expectations)	Commercialware
Liz Claiborne	Cross-channel customer management and unified brand identity	Fujitsu, NSBGroup
Pilot Travel Centers	Labor and expense management	Lawson
REI	Workforce optimization and management	Workbrain
Virgin Entertainment Group	Loss prevention (labor and expense management)	Microsoft/Xavor

Source: AberdeenGroup, September 2005

Key Findings and Recommendations

Over the past two years, getting the store manager out of the back room and out onto the selling floor emerged as a crucial best practice for brick-and-mortar retailers. The amount of time wasted on administrative tasks has been vastly underestimated to date, and has only increased with the ubiquity of e-mail and corporate intranets.

The multichannel phenomenon affects most retailers, and the need to create a consistent brand identity across all selling channels is critical. Of course, along with supporting technologies to reinforce a single brand identity, organizations must also align themselves by brand, rather than by channel. It takes intra-company collaboration to facilitate the sharing of inventory across channels, and corporate performance metrics must be aligned with stated strategic objectives. The most critical measurements: customer retention, transaction volumes, and average transaction value. Far too few retailers have moved beyond the classic metric of comparable store sales increases to measuring the annual or even lifetime value of a customer.

For companies seeking to improve their customer service management and move their focus to consistent store performance, recommendations for action include:

- Make customer-centricity part your business fabric, not just a technology investment or corporate buzzword.
- Utilize workforce planning and optimization. This is true even in smaller box retailers.
- Formalize in-store training programs, rather than disseminating oral histories of tribal knowledge.
- Control expenses through near-real-time analytics.
- Foster an environment of consistent execution that meets or exceeds customer service expectations.
- Keep sales management on the selling floor and out of the back room.
- Centralize customer information and buying data.

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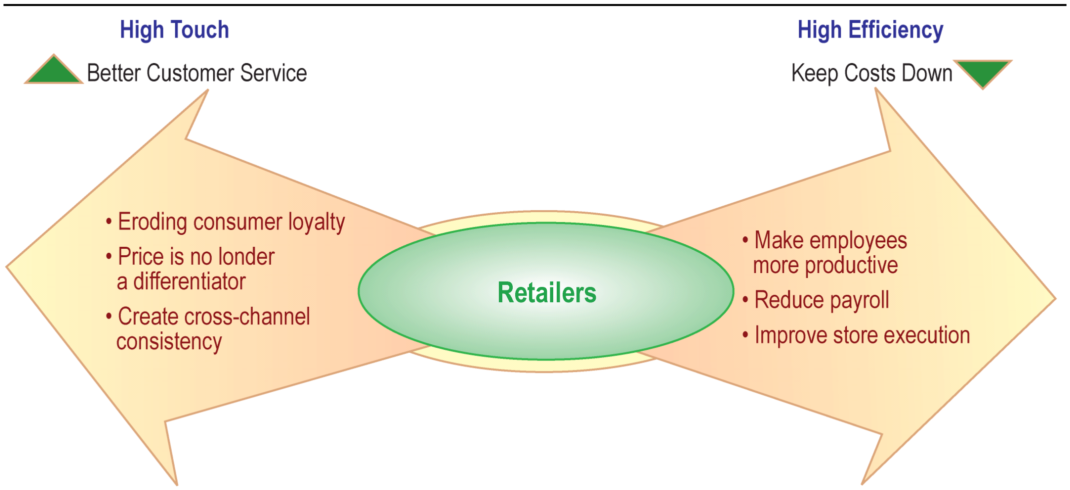
Chapter One:
Issue at Hand

Key Takeaways

- Retailers are caught between the apparently divergent needs of improving customer service and containing costs.
- Winning strategies drive cultural change and supporting technology adoption to bring store managers back on the selling floor, better organize store workflows, and simplify the on-boarding of store employees.
- The key to unlocking business benefits is creating consistency for customers, employees, and shareholders — in turn driving consistently better results.

Retailers around the world face a serious conundrum. They recognize that price alone is an ineffective driver of business results. They also know that mediocre and inconsistent store conformance to corporate goals and directions (hereafter called "store performance") and non-existent customer service have become a serious deterrent to improving, or even maintaining revenue and profitability. But facing continued downward profit margin pressures, these same retailers are challenged to make their existing employees more productive to bolster anemic bottom lines (Figure 1).

Figure 1: The 21st Century Retailer Conundrum



Source: AberdeenGroup, September 2005

Faced with these pressures, most retailers have begun to talk the customer service talk – but only the best in class are actually walking the walk. Winning retailers drive cultural change and use their technology implementations as supporting players to improve store performance. They measure store results more frequently and precisely, reduce the time store managers spend on administrative tasks, and gain an understanding of the keys to success of their most successful stores and departments.

Aberdeen*Group* conducted one benchmark study in 2004 (*The Empowered Store: Delighting Customers, Motivating Employees, and Pleasing Wall Street*) and another in 2005 (*The Empowered Point of Service: The Customer Reclaims Her Kingdom)* that helped identify the specific pressures and challenges retailers face in creating a better in-store customer experience. Expanding upon those studies, we focused our current research on retailers who found ways to win.

The top pressures defined by retail respondents in each study are listed in Table 2.

Table 2: Top Pressures Driving In-Store Improvements

The Empowered Store	The Empowered Point of Service
91% — Inconsistent store execution	92% — Must improve customer service without increasing labor costs
87% — Must differentiate on other factors besides low price	80% — Need more employee productivity
73% — Eroding consumer loyalty	77% — Price is no longer a valid means of differentiation

Source: **Aberdeen***Group*, September 2005

Solving the Riddle: Creating Consistency

Just as a tidy desk does not, in itself, indicate a productive, well-organized office worker, in the same way apparently tidy store management processes are insufficient to qualify a retailer as a best practitioner. To be effective, this process tidiness must lead to improved sales and bottom line results. While those retailers we identified as best practitioners focus on different aspects of the in-store or online experience, they have two consistent threads running through all of their initiatives. First and foremost, their initiatives must deliver *quantifiable business benefits* – driving sales improvements, or gross margins, shrink or cost reductions. Second, they must create *consistency*. Specifically, best practitioners create:

- *A consistent brand image* across channels and around the world.
- *Consistency on the selling floor and in order delivery times* — driving a consistent customer experience.
- *Consistency in workforce training and deployment* — driving a consistent employee experience.
- *Consistency in managing labor and supply expense* — human resources, and inventory, driving consistent store performance.

On the following pages, we quantify the means and methods used to create those consistently better results.

Chapter Two: Key Findings and Recommendations

Key Takeaways

- Getting the store manager out of the back room and out onto the selling floor has emerged as a crucial best practice for brick-and-mortar retailers.
- The need to create a single brand identity across all selling channels is critical.
- New best practices have emerged that help best-in-class retailers prioritize and optimize the use of their technology investments.

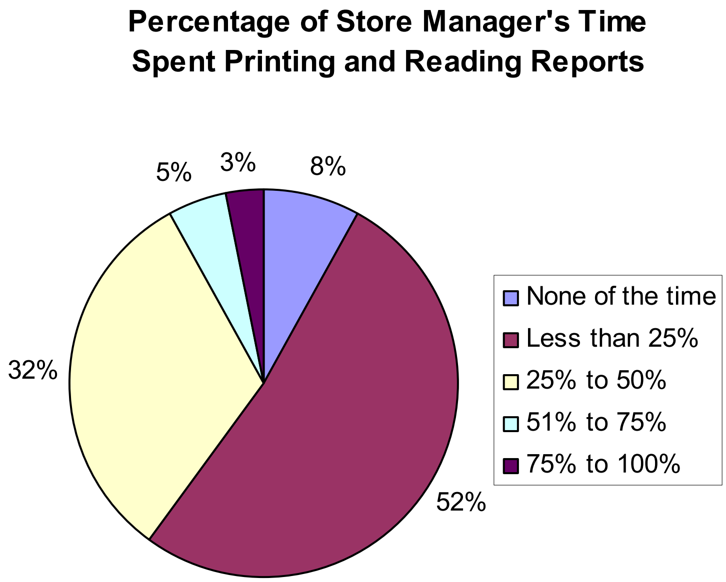
Aberdeen defines best-in-class retailers in a relatively straightforward manner. Given that the retail industry averages about 3% year-over-year comparable store sales improvements, we define the best in class as those whose results exceed this average. Further, given shareholder pressure to hold the line or improve on payroll-to-sales ratios (in other words, gaining better productivity from in-store employees), we also factor a chain's ability to achieve these improved sales while holding or improving payroll percents as part of our best-in-class calculations. Combined, *improved sales and consistent payroll-to-sales ratios are the essence of best-in-class performance*.

With this definition in mind, we then correlate results to particular procedures, behaviors, technologies, and practices used by the best in class. Those procedures, behaviors, technologies and practices are deemed "best practices."

As a primary example, getting the store manager out of the back room and out onto the selling floor has emerged as a crucial best practice for brick-and-mortar retailers. The amount of time wasted on administrative tasks is vastly underestimated, and has only increased with the ubiquity of e-mail and corporate intranets. In fact, *37% of our survey respondents indicated their store managers spend up to 50% of their time printing and reading reports* (Figure 2).

Our respondents indicated that a majority of store managers also spend up to 25% of their time browsing the corporate intranet and listening to voicemails. *Moreover, a mind-boggling 23% spend 25%-50% of their time reading and writing e-mails*.

Figure 2: Store Managers Drowning in a Sea of Paperwork



Source: AberdeenGroup, June 2005

Store performance is the responsibility of the store manager, and without his or her availability to both employees and customers, performance will, by definition, be sub-optimal. Removing the store manager's tether to the back-office computer and paperwork alone can drive improved store results.

Creating a Consistent Brand Identity Drives Results

The multichannel phenomenon affects most retailers, and the need to create a consistent brand identity across all selling channels is critical. Of course, along with supporting technologies to support a single brand identity, organizations must also align themselves by brand, rather than by channel. It takes intra-company collaboration to facilitate the sharing of inventory across channels, and corporate performance metrics must be aligned with stated strategic objectives. The most critical measurements in measuring customer satisfaction are:

- Retention;
- Number of transactions or store visits; and
- Average transaction value.

Far too few retailers have moved beyond the classic metric of comparable store sales increases to measuring the annual or even lifetime value of a customer.

The globalization of retailing has added an additional pressure driving the need for brand consistency. Disparate cultures and demographics demand localization, even as these diverse consumers have specific expectations for the brand overall. Winning retailers ensure that their brand is recognizable around the world — without creating a mind-numbing sense of sameness for their different customers.

New Best Practices Emerge

The business value results achieved by best-in-class retailers have created a new set of best practices to be adopted by retailers overall. Hyper-educated consumers have higher expectations for their retail experience, and hyper-sensitive shareholders have higher expectations for results.

For companies seeking to improve their customer service management and move their focus to gain more consistent store performance, we present an "action checklist" (Table 3).

Table 3: Steps to Success – Best Practices Checklist

Best Practices Checklist
Have we centralized customer and inventory data?
Have we made customer-centricity part of our business fabric?
Are we utilizing workforce planning and optimization?
Have we formalized our in-store training and retention programs?
Do we control store expenses through near-real-time analytics?
Do we strive to meet or exceed our customers' expectations?
Do we keep sales management on the selling floor?

Source: AberdeenGroup, September 2005

Have We Centralized Customer and Inventory Data?

- Today's multichannel world is both a blessing and a curse. Retailers have the opportunity to extend their brand and customer reach through more means than ever before.
- Centralize customer information so that a single enterprise system contains everything the retailer needs to know about customer buying patterns. In high-touch retail environments, this may involve specific, named customer information; in lower touch retail environments, this may require an aggregate analysis of customers' shopping missions, buying patterns, and market basket analysis.
- Centralize inventory and sales information to maintain the lowest possible inventory to satisfy consumer demand. The biggest challenge of today's multichannel environment is the consumer's expectation that merchandise advertised through one channel will also be available for purchase through another. To avoid risky excess inventory investments, technology can be used to distribute order processing from one channel to another. Retailers have achieved success through having stores fulfill internet order requests, rather than ensuring every SKU is on hand in the distribution center at all times.

Have We Made Customer-Centricity Part of Our Business Fabric?

The key differentiator between best-in-class retailers and their peers was not just in their use of technology, but in their corporate knowledge of technology initiatives. We asked survey respondents about their existing and planned usage of 15 different extended point of service (ePOS) technologies. In all cases, best-in-class retail executives, *regardless of their functional area of responsibility*, were aware of the company's technology plans for these POS initiatives. Up to 20% of respondents for companies at "norm" or "laggard" status answered "do not know" when asked the same questions.

This is a rather stunning and counter-intuitive result. It is equally important to store performance for procurement and supply executives to be aware of in-store and cross-channel technology initiatives as it is for field and store personnel. It has a direct relationship on business results.

Are We Utilizing Workforce Planning and Optimization?

Conventional wisdom is that small-box specialty retailers — those whose typical store footprint is 10,000 square feet or less — have little need for workforce optimization tools. The presumption is that one cannot go below a critical staffing level to open and close the store, and staffing up beyond a certain point creates a crowded, uncomfortable environment for customers. Technology is quite rudimentary in these environments; in a recent Aberdeen benchmark study, *Workforce Management in Retail: From Point of Hire to Point of Sale*, 39% of small-box specialty store respondents reported doing employee scheduling on whiteboards. These habits work to those retailers' detriment. Workforce optimization, including sophisticated labor forecasting and scheduling tools, is driving results even in the small-box specialty retail segment.

Advantages for larger footprint stores are more readily apparent. Advanced workforce planning and management tools can help store managers redeploy their workforce from departments where they are not needed to parts of the store where customers are gathered. Investments in labor must be optimized just like inventory investments are.

Have We Formalized Our In-Store Training and Retention Programs?

A flexible in-store workforce must, by definition, be a well-educated workforce. Given the intractable nature of store employee turnover, retailers often have taught new employees nothing more than the basics. This has deleterious effects on results across several dimensions:

- A new employee's ramp-up time to productivity is longer than it needs to be.
- Customers are often frustrated by employees who know less about a store's product offerings than they do.
- Retailers are challenged to create a "bench" of talent that will ultimately become store managers. Retailer growth plans are often stymied by a lack of an existing talent pool to become managers in new store locations.

In other words, a training program must be more than just learning the correct keystrokes to create a sales transaction. It must include product knowledge, an understanding of product locations within the store, and clarity around how to get questions answered.

It must also include recognition for a job well-done to induce some degree of company loyalty.

Do We Control Store Expenses Through Near-Real-Time Analytics?

- The next generation of back-office technology includes near-real-time analysis of discretionary and other expenses. Sophisticated technologies are available to anticipate in-store expenses, as well as report on aberrations in past performance. Controlling expenses throughout the lifecycle of the store — from construction through opening and day-to-day performance — has become a hallmark for sustainable best-in-class performance.

Do We Strive to Meet or Exceed Our Customers' Expectations?

The knee-jerk response here will likely be "of course." But a deeper look is required to get a picture of actual performance in the field. Marketing and advertising programs create an implicit brand promise. When a customer arrives at a store, or at an e-commerce site, the retailer must make those implicit promises explicit. In very specific terms, that means product is easy to find and priced correctly, in-store employees are visible and helpful; and the in-store atmosphere is welcoming to its target customers. The time-honored tactics of using mystery shoppers to gauge the quality of the in-store experience and focus groups to gauge the quality of the web shopping experience fall short here. Most retailers have a wealth of data available by asking for feedback from their own customers, who will quickly reveal if their expectations have been met.

Do We Keep Sales Management on the Selling Floor?

The value of keeping sales management in touch with both employees and customers cannot be overstated. Technology should never be a proxy for direct human-to-human contact. Ask your store managers what percentage of their time they spend on the following tasks:

- Printing and reading reports;
- Listening to voicemail;
- Reading and responding to e-mails;
- Using the company's intranet;
- Creating paperwork for on-boarding new employees; or
- Filling in paperwork and computer screens to provide other administrative information to the home office.

If the sum total of ALL the above is greater than 25% of the store manager's time, you are wasting your most valuable in-store resources (and likely frustrating them as well). Consider technologies, procedures, and policies that will get your store management back on the selling floor.

Best Practice Leaders

Chapter 3 profiles five best practice leaders. We've recognized each winner for unique excellence in a specific best practice (Table 4), though all employ multiple best practices in their selling organizations.

Table 4: Best Practice Case Studies

Featured Best Practice	Enterprise Winner	Solution Provider
Customer service and order management (meeting or exceeding customer expectations)	**Goldspeed.com**	CommercialWare
Cross-channel customer management and unified brand identity	**Liz Claiborne**	Fujitsu, NSBGroup
Labor and expense management	**Pilot Travel Centers**	Lawson
Workforce optimization and management	**REI**	Workbrain
Loss prevention (labor and expense management)	**Virgin Entertainment Group**	Microsoft/Xavor

Source: AberdeenGroup, September 2005

Chapter Three: Best Practice Case Studies

Goldspeed.com: Customer Service and Order Management

Meeting or Exceeding Customer Expectations

Business Challenge

Goldspeed.com is the Internet's largest discount jeweler, selling over 20,000 items online. This is more than double the volume of the next largest competitor. The company wanted to increase customer retention and improve customer loyalty in this highly fragmented retail space.

Goldspeed.com's business is subject to very large seasonal peaks. Fully one-third of the company's annual sales happen in the three weeks before Christmas. Despite this huge spike in order volume, *the company's goal is to provide the same high levels of service as it does during off-peak periods*.

Goldspeed.com also has a very large and varied vendor base, most of whom fulfill customer orders directly for Goldspeed.com. With such a diverse fulfillment network, Goldspeed.com was challenged to *provide consistent quality control on all customer orders*. The retailer has very precise specifications for its customers' orders, requiring consistent packing, both inside and outside — from the packing material used inside the box to the tape that covers the outer shipping carton.

Given the large volume of SKUs advertised for sale at any given time, out-of-stocks can be a relatively frequent occurrence for the retailer. Goldspeed.com sought to *reduce the number of back orders and increase its fulfillment rate*.

Overview

Goldspeed.com

Goldspeed.com is the largest internet discount jeweler in North America. The company processes ~50,000 orders per year.

Solution Provider: CommercialWare

Goldspeed deployed CommericalWare's *OrderMotion* hosted end-to-end system (www.commericalware.com; www.ordermotion.com)

Business Challenge

In a highly competitive, fragmented retail sector, Goldspeed.com wanted to increase customer retention by improving the customer experience.

Strategy

Extend its industry leadership through exceptional customer service and rapid order fulfillment.

Results Summary

Business from repeat customers has increased from 10% to 50% of total orders. Back orders have been reduced by 50%. Order shipment time has been reduced from 24 hours to 1-2 hours.

Strategy

Goldspeed.com's goal is to extend its leadership in the multichannel discount jewelry business. One clear way the company knew it could differentiate itself from its peers was by exceptional customer service and rapid order fulfillment. The company has two key business tenets, as expressed by CEO Neil Kugelman: (1) always put yourself in the customer's shoes and (2) every business process in place revolves around the customer.

To meet these objectives, Goldspeed.com chose to centralize all aspects of its business on an integrated, real-time order and fulfillment management system including order capture, fulfillment, inventory management, payment processing, database management, and report generation.

Technology Deployment

Goldspeed.com had three key criteria for a new technology backbone based on its current needs and expectations for future growth:

- A hosted solution: Goldspeed operates multiple offices and wanted to control up-front capital costs. In addition, management wanted a system requiring zero deployment efforts at remote facilities. The flexibility afforded by a hosted solution was therefore a critical piece of the decision process.
- Multiple warehouse support and vendor access: Goldspeed ships product from multiple warehouses. Most often, product is shipped directly from suppliers' facilities. The company wanted this to be completely transparent to the customer and wanted suppliers to be able to enter shipment information directly into the system.
- Scalability and flexibility: As it follows its course of rapid growth, the company needed a solution that would grow with it.

Very few software vendors were capable of fulfilling those three requirements.

Process and Organizational Enhancements

Every aspect of Goldspeed's business culture revolves around the customer. So, while the company knew it had to train vendors to bring them up to speed on using the new technology, Goldspeed's management started by re-training and empowering employees first.

The company gave its employees knowledge, data, and authority to make decisions on the spot. For example, to save the sale of a particular gold ring that might be out of stock, the employee knows there are certain substitutions that are more acceptable to the customer than others. The height of the ring is considered non-negotiable, the size is considered non-negotiable, but a slightly thicker (or heavier and more expensive) ring is considered a good deal for the customer. The employee is therefore empowered to substitute the heavier ring, and Goldspeed will accept a reduced gross margin in exchange for eliminating a back order.

In addition, daily exception reports give the retailer early warning signals on any order placed before 6 PM the prior day that was not shipped by vendors or a distribution center. Employees act immediately on problems to get the order back on track.

Lessons Learned

Goldspeed found that responsible personnel who could both embrace change and tolerate any problems that surfaced along the way were critical to their implementation success.

They found that people who thrive on the challenge of solving puzzles and troubleshooting were ideal departmental leaders in the implementation process. This team must be armed with documentation of existing processes; any changes necessitated by the new technology; and clear outlining of new roles, responsibilities, and functional changes. Team leaders emphasize the importance of being organized and deliberate when embarking upon a system replacement of this magnitude.

Results

Goldspeed's customer-centricity efforts have yielded a huge payoff.

The most stunning result achieved was to reduce the time required to process and ship an order from 24 hours to 1-2 hours. Backorders have been reduced by 50%. Most importantly, business from repeat customers has increased from 10% of total business to 50%.

Liz Claiborne: Cross-Channel Brand Management

Business Challenge

Liz Claiborne Inc. designs and markets an extensive portfolio of branded women's and men's apparel, accessories, and fragrances. The company operates more than 600 specialty and outlet stores worldwide, including 350 in the US, under brand names like Mexx, Ellen Tracy, Dana Buchman, Juicy Couture, Lucky Brand Jeans, Sigrid Olsen, Laundry by Shelley Segal, and others. All brands are high-end or mid-tier and are merchandised in their "own store" format.

The company's existing POS system was more than 12 years old and had reached the end of its useful life. Replacement parts were difficult to find, and deal pricing was inadequate for the chain's needs.

Strategy

Liz Claiborne's goal is to create a single identity across brands and around the world. In addition, the company wanted to improve the level of data captured about customers and their buying behaviors to enable personalized customer service both at the point of sale and through targeted marketing promotions, mostly via direct mail.

On the technology front, the company wanted to improve overall POS performance. Specifically, the company wanted to improve POS checkout efficiency as well as reduce time required to fix hardware problems, costs for credit-card processing, and repair depot inventory.

Technology Deployment

Liz Claiborne recognized that to consolidate information across its brands in near-real-time and to gain reductions in credit-card fees by centralizing processing, it needed to create a new infrastructure.

Overview

Liz Claiborne, Inc.

Liz Claiborne Inc. operates more than 600 specialty and outlet stores worldwide, under multiple brand names. Total company revenue: $4.6 billion (2004).

Solution Providers: Fujitsu, NSBGroup

Liz Claiborne deployed Fujitsu hardware, NSBGroup Connected Retailer Store, Centralized Returns, Loss Prevention, and CRM.

Business Challenge

Existing in-store systems were extremely old, incapable of capturing customer information and not extensible. Credit card processing was done at each store. Aging hardware resulted in excessive POS downtime and poor customer service.

Strategy

The company's goal is to have a single view of the customer across all brands across all parts of the world, and offer merchandising strategies tailored to customer buying patterns. It also wanted to reduce hardware maintenance costs and improve checkout efficiency.

Results Summary

- Average number of registers down reduced by more than 50%.
- Reduced depot inventory for spare parts. Time to repair reduced from 1 week to several hours.
- Substantially reduced credit-card fees.

Along with selecting Fujitsu's hardware, the company implemented a wide area network (WAN) in all of its stores. The deployment started with frame relay and moved to DSL for price and performance improvements.

The company also implemented NSBGroup's Connected Retailer Enterprise Returns and Loss Prevention modules as part of the rollout.

Storetech traffic counter software uniquely allows the company to tie traffic and labor hours with sales and customer volume. This gives the retailer the ability to deploy its workforce in the right place for optimal customer service.

Deployment of hardware and NSB software began with a pilot of 14 stores in the fall of 2003. In the spring and summer of 2004, a preliminary rollout involved 175 stores, followed by an additional 110 stores between January and April of 2005. Conversions were completed overnight. Equipment was staged at Fujitsu's Foothill Ranch facility in California and shipped to the stores. A Fujitsu technician met equipment at store and completed the conversion; these conversions averaged 3 to 10 terminals per store.

The first phase of implementation was foundational: its purpose was to capture customer transaction history for every sales transaction. Customers are identified in the system either through their phone number or customer number, and transaction data can thus be analyzed through this system. Follow-up sales promotions can therefore be personalized based on transaction history; cross- and up-selling can take place right at the point of purchase.

Future deployment plans will allow improved customer service: upgrading to the next version of software will support the use of wireless capabilities like line-busting and mobile customer service. The retailer will decide to roll out loyalty programs in stores wherever it makes sense.

Process and Organizational Enhancements

Prior to the technology implementation, credit-card processing and settlement was done at each store. The company opted to centralize this processing to save store administrative time, improve checkout speed, and reduce costs.

In addition, customer information is now entered as part of every sales transaction. The customer is identified either via a phone number or through a customer number. The information is aggregated at the home office for use by the marketing department (via NSBGroup's CRM system) and is available to all brands in the chain. Based on the information gathered, the company can now do more targeted direct-mail offerings to its client base.

Lessons Learned

The overarching lesson learned can be summed up in three words: training, training, and more training. Liz Claiborne discovered that the more training you do up-front, the fewer help desk and service calls you'll have. The first week of the rollout was much smoother than previous rollouts the IT department had experienced. But, based on the first phase, adjustments also were made in the second year to add computer-based training (CBT) to reduce service calls. CBT is also very valuable for cashiers. The company would have liked to also have CBT for manager functions, but found it hard to get ROI.

The key to computer-based training is to keep it current. The company will update its CBT next year.

Results

In many ways, Liz Claiborne's implementation serves as a foundation designed to create a framework for future improvements in customer service and branding opportunities. However, the project itself generated important business results:

- The average number of registers down chain-wide at any given time was reduced by 50%.
- The company was able to meaningfully reduce the total value of spare parts inventory.
- The time required to repair a failed cash register/POS device was reduced from one week to several hours.
- Centralization of credit-card processing resulted in a substantial reduction in credit-card fees, as well as improved checkout processing time.

Pilot Travel Centers: Labor and Expense Management

Business Challenge

Pilot Travel Centers is the largest interstate travel center in the nation. The company achieves $7 billion in annual sales and employs more than 14,000 people. It has grown quickly, having more than doubled in size since 2000 (primarily through acquisitions). This accelerating organizational growth made the need for improved workflow and increased productivity critical.

Fuel is the primary driver of Pilot's business; it sells more than 15% of all on-road diesel in the US. Though fuel prices change with staggering frequency, the gross margin on fuel for the retailer is generally low. Pilot is therefore acutely aware of the need to communicate updates to fuel prices across broad geographic areas, quickly and accurately.

The company also depends upon high margin sales within the travel center, known as "inside sales" (as opposed to sales at the gas pump). The company can convert these inside sales if merchandise and assistance are readily available, and prices are low. Pilot knew, however, that it was losing sales because the company was not meeting these requirements for customer convenience.

Along with recognizing the need to improve performance and achieve top line sales growth, Pilot also recognized its need to become more efficient and productive in managing employee time and costs. Human Resources and payroll functions were very inefficient, containing numerous paper-based processes, manual tasks, time-consuming administrative efforts, and inaccurate information. The supporting legacy systems were expensive to support.

Second only to Labor, "Supply and Expense" (S&E) is Pilot's largest expense category. With more than 50 accounts and no line-item budgeting, S&E was ripe for savings opportunities. Store managers didn't know how much they actually had left to spend in the

Overview

Pilot Travel Centers

Largest interstate travel center in the nation; $7 billion annual revenue; 14,000+ employees. Pilot sells over 15% of all over-the-road diesel fuel sold in the US.

Solution Provider: Lawson

Pilot deployed Lawson's Human Resource, payroll, custom fuel reporting, labor, and Supplies and Expense management models (www.lawson.com)

Business Challenge

Accelerating company growth makes the need for improved workflow and productivity more critical than ever before. In particular, fuel price changes must be communicated quickly and rapidly across broad geographic areas.

Strategy

Streamline the way the company gathers, analyzes, and acts on business data.

Results Summary

- Losses of inside sales down from 4% to 3%
- Deli sales doubled from $3 million to $6 million/month
- Deli sales margin improved by 8%
- Reduced time required to close the general ledger month from three weeks to five or six business days.

current month, and they did not have an easy way to see the transaction level detail of what had been spent so far.

Strategy

Pilot chose to tackle its issues by focusing on streamlining the way the company gathers, analyzes, and acts on business data. The company focused on automating processes and providing faster and more effective reporting, while empowering the store manager with tools to monitor compliance and manage costs.

Pilot recognized that it needed an automated system to compete because the more people it took to process the data, the higher the overhead expense it would incur. This overhead would have to be absorbed in the small fuel margin.

Pilot also recognized that to remain viable and competitive, it needed to more effectively manage all its resources — fuel, workforce, and finances — and be able to pull together information from every corner of the enterprise in a way that would lead to better decision-making and reduced operating costs.

Technology Deployment

In the mid-1990s, Pilot replaced a System 36 application with a custom-developed Lawson application for *retail fuel pricing and margin reporting*. The application went from design to implementation in four months. And this was an enterprise-wide solution, involving all travel centers and convenience stores. The system takes the inputs of competitor prices, current Pilot retail prices, and number of gallons sold, and then recommends a suggested retail price by fuel grade. In addition, it calculates daily fuel margin by grade, location, and company. This system is an integral part of Pilot's daily business, and this application is still being used today.

The *Labor Optimization Model* was developed using Lawson's Analytic Architect and Hyperion's Essbase. The system was implemented in 2002-2003 and continues to be tweaked as the knowledge base grows. The *Supply and Expense (S&E) Control Model* was developed during the latter part of 2004 and the beginning of 2005. The project to roll out the S&E Tracker on the company's portal began in May 2005 and was completed in August 2005.

Pilot went live on *Payroll, Human Resource Management, and Manager Self-Service* at all sites in September 2005. Core and ancillary applications will be available on-demand. The project took 19 months from inception to go-live date.

Process and Organizational Enhancements

Store managers have been freed up from many labor-intensive tasks as a result of implementing the new technology. This has enabled the company to free up resources for more productive tasks. For example, to improve the high margin food business inside the travel center, Pilot has added the position of "Deli Coordinator" to most of its stores.

The S&E Tracker allows store managers to see at a glance how they are faring against plan in the current month. They are quickly made aware when they are over-budget so that they can put the breaks on their spending in the current month.

The improved efficiencies in fuel pricing and the value it has brought to the organization cannot be overstated. Pilot believes that this model has saved countless labor hours and money recently, particularly in the weeks following Hurricane Katrina, when oil and gas wholesale prices rose daily.

Lessons Learned

Over the course of transforming its technology infrastructure, Pilot Travel Centers learned some basic rules in supporting organizational and technology change:

- You can never spend enough time creating and reviewing a project plan. Pilot recommends getting a third-party "reality plan" to map and manage all plan tasks and dates, especially if the technology being implemented is new.
- Select the right project team. Team members should be the best and most knowledgeable about the business. They must also be willing and able change agents.
- Don't use IT staff responsible to support 24/7 production systems for the project. Unforeseen problems can cause missed deadlines or emergency mid-stream team member replacement. Plan accordingly by "staffing-up" one to two months before the official project kick-off.
- Create and use functional (user) and technical (programmer) specifications. Get representatives from all aspects of the organization (operations, marketing, HR, payroll, etc.) involved in the initial functional specification phase.
- Keep your executive sponsor involved.
- Seriously evaluate your operations — both core business and support. This is a good time to look at all existing procedures. Don't fall into the old trap of "this is the way we've always done it." Now is the time to right some old wrongs.
- Put in place and enforce change management procedures. Changes to functional or technical specifications after development begins should be evaluated at the highest levels to determine necessity and cause.
- Perform a thorough solution evaluation. A proof of concept should include a diverse sample of network, hardware, software, data, and operational elements.

Results

Pilot is well positioned to continue its aggressive growth plans. Through implementation of new systems, the company has become more efficient, and improved both top and bottom line results. Specifically,

- Pilot reduced the time required to close the general ledger month from three weeks to five or six business days.
- Reduced lost inside sales are down from 4% to 3% ($700,000/year). The company has improved its in-stock position, and customers have responded by not walking out without making a purchase.
- Doubled deli sales from $3 million to $6 million per month.

- Improved deli sales gross margin by 8%.
- Reduced overtime by two-thirds and cut overall in-store labor by 15%.

Pilot is also poised for future improvements driven from its implementation of a new payroll and HR system. The company expects to accrue additional benefits, including:

- Reduction of expenses by up to $750,000 per year through tighter controls that eliminate paying benefits for non-qualified employees such as part-time workers.
- Reduction of mailing costs by $50,000 through deployment of self-service benefit enrollments and information changes distributed via the web.
- Reduction of clerical labor by $25,000 per year by automating wage change, and separation and leave-of-absence requests.

Other labor savings that arise from consolidating and modernizing systems could add additional bottom line improvements.

REI: Workforce Optimization and Management

Business Challenge

Recreational Equipment, Inc. (REI) is a multi-channel outdoor specialty retailer and the nation's largest consumer co-op with nearly 2.5 million active members. While anyone may join or shop at REI, members pay a one-time $15 membership fee, receive voting privileges to elect REI's board of directors, and share in the co-op's profits through an annual member refund based on their purchases. REI offers its products via Retail Outlets, REI.com, REI-OUTLET.com, and catalogues. Its 80 stores range in size from 13,000 square feet to more than 100,000 square feet.

REI prides itself on being a great place to work as well as shop. The company is one of only seven companies that made Fortune magazine's "100 Best Companies to Work for in America" every year since the list began in 1998, as well as in two previous book versions in 1984 and 1993.

The retailer was challenged, however, to create a consistent experience for its store managers, employees, and customers across its varied store formats. Specific pains included:

- Inconsistent store practices
- Lack of decision-support tools for managers
- Training of employees though tribal knowledge
- Field staffs unprepared to meet growth
- Onerous management administrative tasks
- Lack of store manager visibility into payroll, from conception to spend

Overview

Recreational Equipment, Inc. (REI)

REI is a multichannel outdoor specialty retailer and the nation's largest consumer co-op with nearly 2.5 million active members. Annual revenue is $890 million (2004). The company operates 80 stores, varying in size from a small box footprint (13,000 sq. ft.) to 100,000 square feet.

Solution Provider: Workbrain

REI deployed Workbrain's *Workbrain for Retail* solution (www.workbrain.com)

Business Challenge

Reduce administrative overhead in the store and maintain a consistent customer and employee experience across a variety of channels and store formats.

Strategy

Enhance labor management and improve customer service by automating staff scheduling of its most qualified workers based on the particular demands in each of its 80 stores.

Results Summary

- Sales improvement of 1-4%.
- 60% reduction in time spent by store managers on administrative tasks.

Strategy

REI created a corporately branded workforce initiative called "Right Team, Right Time." The goal was to enhance labor management and improve customer service by automating staff scheduling of its most qualified workers based on the particular demands in each of its 80 stores.

In addition, in order to gain a consolidated view of the business and to manage resources most effectively, REI wanted to implement a common forecasting method across its diverse store formats.

Technology Deployment

Beginning in the fall of 2002, REI developed a detailed understanding of its "as-is" situation, and from there worked with a broad team of stakeholders including IT, HR, an outside consultant, a dedicated internal project team, and a Retail Advisory Team made up of nine store managers providing representation from each retail district. This team spent several months developing and mapping the vision, which then allowed REI to create detailed requirements to be used in the vendor selection process. Once the vendor was selected, the project was put in pilot.

REI had two pilot stages:

- "Proof of Concept" involved piloting the raw version of the product in two stores whose managers were members of the Retail Advisory Team. This lasted five months, during which time configuration parameters were changed, and minor product modifications were integrated. Once REI felt the product was stable and employees were comfortable, the pilot was expanded to the remaining seven stores from the Retail Advisory Team. This pilot stage lasted for three months.
- Once the pilot was complete, REI deployed the Workbrain solution to an additional district (ranging from 9 to 13 stores) every two weeks.

The REI team conducted post-go-live surveys to capture any issues early before they interfered with the implementation schedule.

Process and Organizational Enhancements

As REI embarked on the implementation of a new workforce management software, it viewed the project as equal parts change management and IT. By investing in "Readiness Training" the company was able to get its "house in order" before the technology was implemented.

In order to ensure buy-in throughout the enterprise, the REI implementation team initiated readiness training and a best practices 32-point store checklist. These efforts ensured that, at the store level, the foundation was in place for a successful workforce management implementation. A rigorous employee training process followed, including the training of "super users" who would become Workbrain advocates for the user groups.

After implementation, REI established a hotline to provide immediate, quality service to respond to every store concern and question. Three months after implementation, REI surveyed all stores and employees to identify any shortfalls and correct any issues that surfaced. The team also created a schedule audit process that allowed the company to assess and validate the quality of the configuration by store.

Hoping to improve employee morale, REI is also using Workbrain's Employee Transaction Manager (ETM). The software makes it easier for employees to view their schedules, availability, and time off, as well as update their personal contact information. Early next year, the company will add the ability to view pay stubs and post shift trade requests. The ETM is available outside the company's firewall, making it more convenient for employees to use. For managers, Workbrain for Retail alerts them about service gaps and business trends.

Lessons Learned

REI believes that creating a cross-functional team with executive sponsorship was critical to its project's success. Internally "branding" the initiative gave it extra clout and a center point that all employees and stake holders could rally around. REI's reputation as a great place to work helped instill trust that customer service was not going to be achieved at employees' expense.

REI believes that the timeline for the project was initially too aggressive. The timeline required several adjustments, which detracted from a focus on actually getting the project done. In addition, rather than implement the new technology in separate modules, REI installed all applications at once. If the team leaders had it to do over, they would likely deploy the Employee Transaction Module in a second phase, smoothing the scheduling and cultural changes.

Finally, if they could do it over again, REI would make its pilot considerably shorter than five months, making modifications and enhancements earlier in the process.

Results

REI's results validate previous Aberdeen survey findings: getting the store manager out of the back room and on to the sales floor is a key determinant for improved retail results. By implementing a new workforce management solution, REI was able to reduce the time store managers spend on administrative tasks by 60%. This translated into a sales lift of 1%-4% in stores.

Home-office administrative time has been reduced as well. REI is also using Workbrain's Employee Transaction Manager. The software makes it easier for employees to view their schedules and pay stubs, send and receive messages, and post shift trade requests. For managers, Workbrain for Retail alerts them about service gaps and business trends. In July 2005, the REI ETM portal received 6,000 visits. Each visit represents reduced administrative time and a more effective, professional experience for employees.

REI can now also execute on its vision to rapidly identify, share, and implement best-practice labor management across the company. Store managers have real-time insight into key labor metrics that they can use to drive consistently high levels of customer service and optimal productivity.

In summary, conventional wisdom states that workforce optimization has little place in a small-box specialty retailer's portfolio. REI's experience debunks that idea and shows that it is, in fact, possible to create business improvements with scientific labor scheduling and forecasting, even in a store with a small footprint.

Virgin Entertainment Group: Loss Prevention

Labor and Expense Management

Business Challenge

The Virgin Entertainment Group operates 23 Virgin Megastores in North America. The stores sell a broad selection of merchandise (an average of 255,000 different items). Each Megastore stocks CDs, DVDs, books, video games, fashion items, electronics, and accessories. Across the chain, Virgin maintains a 400,000-product catalog and in 2003 recorded 7.5 million sales transactions.

Potential employees are attracted by the in-store atmosphere and opportunity for employee discounts on the latest music and entertainment releases. Unfortunately, employees have also been attracted to finding creative ways to take this merchandise home without paying for it, accounting for a significant portion of the company's shrink. The problem was exacerbated by delayed reporting cycles and short-term data retention, making it impossible to track longer term trends.

Overview

Virgin Entertainment Group

The North American division of Virgin Entertainment group operates 23 Virgin Mega-stores, entertainment media retail specialty stores. Annual revenue is $48 million.

Solution Providers: Microsoft, Xavor

Virgin created a Loss Prevention application using Microsoft's technology infrastructure, integrated by Xavor, a Microsoft business partner (www.microsoft.com), (www.xavor.com)

Business Challenge

Improve profitability by reducing employee-related theft.

Strategy

Monitor all transactions across the stores in real time, at the point of sale, and alert Loss Prevention managers by e-mail and pager when suspicious patterns occur in the data. Also analyze historical data to find longer term trends. Aggregate all information into managers' dashboards.

Results Summary

- Reduced time to detect fraud from days or weeks to minutes or hours.
- Fraud detection improved by 50%.

Strategy

Virgin's strategy was to get more immediate information on potential shrink in stores. As such, the company decided to move to real-time analysis of sales data. The goal was to alert Loss Prevention managers by email and pager when suspicious patterns occur in the data. These suspicious patterns include sales post-voids, price overrides, fraudulent credit-card transactions, and returns. Virgin also wanted to map relevant product and inventory information from Virgin's back-end AS/400 systems for effective analysis and trending.

Technology Deployment

Virgin Entertainment Group, in collaboration with Xavor, a Microsoft Certified Partner, implemented a custom loss-prevention solution based on the Microsoft Windows Server System integrated server software. Virgin Entertainment Group's solution used Microsoft

BizTalk Server 2004, SQL Server 2000 Analysis Services, and Windows SharePoint™ Services.

The company implemented business activity monitoring and a separate application with improved trend analysis. The two systems work together to generate reports that help managers identify patterns in the sales transaction data to provide fast answers to complex analytical queries on current sales activities. In addition, newly improved archiving capabilities allow users to track suspicious patterns over time. Business users also have an easy-to-use interface that helps them to modify business rules as business needs demand.

Business rules have been segregated to monitor transactions for discount percentages, stolen credit cards, high dollar amounts, and so on. Loss Prevention managers can define criteria in the transaction monitor, such as the range of transaction amounts deemed suspicious. They can also specify the personnel who receive alerts about suspicious transactions.

In trend analysis, OLAP (online analytical processing) capabilities are applied on the transaction data to provide an aggregated view to managers. For instance, a manager may specify a credit-card number to review its transaction history with the store, or view a particular cashier's activities over a specified time period.

The new solution gives Loss Prevention managers the ability to query, filter, view, and analyze information easily and quickly. The access to filtered data is simpler, making it easier for managers to perform analysis. The solution provides easy-to-use charting templates for long-term trend watching. The Loss Prevention team can also print reports in a user-friendly format.

A portal is used to make information readily available to Loss Prevention managers and helps the managers predict trends and define priorities for their investigations more easily. The site also uses spreadsheets and other web components to provide analytical abilities for users.

Process and Organizational Enhancements

The culture at Virgin Megastores has been dramatically altered because of its ability to catch problems early. Because Loss Prevention managers have faster, more meaningful access to information, the system has fostered a more proactive theft-prevention culture among the loss-prevention team.

Culturally, the company is working to be more real-time overall. The goal is to influence results, not just review results. This project was a big step toward realizing that goal.

Lessons Learned

Creating the tool isn't the real challenge; it's the roll-out and execution plan that are difficult. While it was successful, the company realizes it should have involved loss prevention officers earlier in deployment. As the project was planned and executed by a small group of people, the deployment came as a surprise to the rest of the organization.

The project was originally built as a stand-alone application but has since been absorbed into the larger data warehouse, reducing redundancy and cost of ownership. Additional reports are still being developed to meet future user needs.

Results

The Director of Loss Prevention for Virgin Entertainment Group anticipates that the new loss-prevention solution detected at least 50% more fraud cases starting from the first month, resulting in increased profits. The tool has also provided the ability for Loss Prevention specialists to analyze information much more effectively and in much less time. They are alerted almost immediately when a suspicious activity occurs, allowing identification of the source of the problem immediately. In the past, detecting such activities in real time was inconceivable, and getting to the root problem took days and weeks. Now it takes minutes and hours.

Because the solution gives users a single place through which they can drill down into and analyze information quickly and accurately, it has also laid the foundation for future business process integration. By tying together disparate Virgin Entertainment Group systems, the solution will eventually help sales, marketing, product, and operations teams work together to create efficiencies within the organization.

Author Profile

Paula Rosenblum,
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As director of Aberdeen Group's Retail Research practice, Paula Rosenblum focuses on the critical issues facing today's retail executives. The overarching themes of her research are “Thriving in the Post-Wal-Mart World” and “The Globalization of Retailing – Exploring Best Practices Around the World.”

Paula’s research demonstrates how best-in-class retailers satisfy their various constituencies. These retailers please their shareholders by promising sustainable growth; delight consumers by providing product selection, convenience, and reasonable pricing; and motivate employees by setting clear expectations and defining manageable tasks. Her studies give retailers insights into strategies to optimize their enterprises, empower the customer through the art of merchandise selection, and marry world-class technology with logistics management.

Prior to joining Aberdeen, Rosenblum was a retail research director for AMR Research, Previous to that, Rosenblum spent over 20 years as a retail technology executive.

Rosenblum holds an M.B.A. in Management of High Technology from Northeastern University and was nominated for the Beta Gamma Sigma Honor Society. She also holds a B.A. from the State University of New York. She is a member of the American Apparel and Footwear Association’s Supply Chain Leadership Council.

Appendix A: Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report includes:

- The Empowered Point of Service, June 2005
- The Empowered Store, September 2004
- Workforce Management in Retail: From Point of Hire to Point of Sale, June 2005
- The Integrated Multichannel Benchmark Study: Gaining Competitive Advantage by Fulfilling Multichannel Demand, June 20014

Information on these and other Aberdeen publications can be found at www.Aberdeen.com.

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AberdeenGroup

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To be the trusted advisor and business value research destination of choice for the Global Business Executive.

Our Approach

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

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- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

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