

Building the Business Case for Retailer-Vendor Collaboration

Why retailers are investing in retail data sharing solutions

Introduction

Walmart has been an innovator with technology for over 30 years. Sharing data with its vendors through its proprietary Retail Link vendor portal has transformed the way Walmart and its vendors do business. With Retail Link, Walmart empowers vendors to manage performance at the store and stock-keeping-unit (SKU) level which contributes significantly to Walmart's market success. In an attempt to replicate this success, other large retailers have followed Walmart's lead in building their own vendor/supplier portals.

Yet, even with Wal-Mart's quantifiable success with Retail Link (highlighted by increased sales, faster inventory turns, and reduced out-of-stocks) the fact remains that most retailers don't have the multi-million dollar budget required to build an equivalent data-sharing solution. So how can your business follow in Walmart's footsteps without re-inventing the wheel?

New Opportunities

Fortunately, the recent emergence of cloud computing and Big Data technologies have created options for retailers that previously didn't exist. Where even a few years ago, the only way to capture the benefits of Retail Link was to custom-build a Retail Link-like portal, today there are cloud-based platforms



See What's in Store.



*With Retail Link, **Walmart empowers vendors to manage performance at the store and stock-keeping-unit (SKU) level** which contributes significantly to Walmart's market success.*

that are deployed quickly and easily without the need for custom software, expensive implementation services or a data center.

The key to getting your team onboard with the idea of deploying a cloud-based retail intelligence solution rests in making the business case that demonstrates the return. By presenting the proper framework regarding the value of sharing inventory and sales information with your vendors, everyone can get on the same page regarding the initiative, bringing the company closer to achieving the benefits that Walmart has been enjoying for almost 30 years.

There are three key areas to examine and quantify when building your business case:

- Cost savings
- Cost avoidance
- Revenue

Cost Savings

Every business wants to save money, and with the right retail intelligence platform, the business will be able to do just that. Cost savings can be broken down into two main areas: infrastructure cost reduction and operational improvements.

Infrastructure Costs

For those retailers currently running 'old-school' BI reporting solutions for internal and vendor use, there is an annual software and hardware maintenance cost as well as a personnel cost to run the reports and maintain the platform. If the retailer were to partner with a retail intelligence platform company, these costs would be eliminated.

Annual software maintenance can run between 15-20% of up-front software licensing, while conservatively estimated labor costs can run from 1 to 5 full-time employees for a mid-sized retailer.



Operating Improvements

There are two key ways a retailer can improve their bottom line through inventory optimization: (i) reducing out of stocks and (ii) increasing inventory turns (or improving capital efficiency).

*Industry studies estimate the **cost of out-of-stocks is 4% of retail revenue.***

Reducing out-of-stocks. Industry studies have put the cost of out-of-stocks at 4% of retail revenue. While sharing store-level inventory data with vendors won't eliminate out-of-stocks entirely, the ability for vendors with increased visibility to pre-empt potential problems at store-level will help bring the incidence of out-of-stocks down. A conservative estimate of a 10% improvement on the lost sales revenue for a retailer with annual revenue of \$500 million amounts to \$2 million. Multiplying that by retailer gross margin % gives a net incremental improvement that flows directly from better supply chain visibility.

Increased inventory turns. When less money is tied up in slow-moving inventory, money is freed up to generate returns elsewhere. Effective use of store-level, SKU-level data enables the identification of average inventory levels represented by slow moving goods. Reducing that number through optimized on-hand levels to a level that doesn't impact sales but does meaningfully limit idle stock can free up significant dollars. Those dollars multiplied by the retailer's cost of capital will give you a target for improved capital efficiency.



Cost Avoidance

For retailers currently without a vendor reporting platform who are looking to build their own reporting infrastructure, there is a one-time cost to either custom build a solution or buy and configure commercial software. All-in costs for this type of initiative can range from \$250,000 to over \$10 million once software licensing, implementation services, internal resources and hardware are considered. Consider too the on-going annual maintenance costs (15-20% of the license fees), the internal resource requirements to support the function and all other ancillary costs to manage the reporting infrastructure. By moving to a cloud-based, Software-as-a-Service platform from the get-go, these expensive start-up and maintenance costs are entirely avoided.

Point-of-sale data is the lifeblood of any product vendor's business and making effective use of this information is a key success factor for winning at retail.

Revenue

Vendor Fees. A retailer's data is very valuable to its vendor partners and these vendors are in most cases very happy to pay for it. Smart vendors know how to use this data to drive sales, limit out-of-stocks, optimize their marketing and promotional spend, and manage their inventories. Point-of-sale data is the lifeblood of any product vendor's business and making effective use of this information is a key success factor for winning at retail.

Accordingly, retailers have an opportunity to monetize the information that they are providing to their vendors. Moreover, when the information that retailers are providing goes beyond raw data but includes the use of an advanced analytics platform from which to derive insights faster, there is even more value to monetize. After all, a tool that helps surface actionable insights quickly and easily vs. expecting vendors to sift and sort their way through spreadsheets of data is going to produce better business outcomes at the store execution level. In addition, if the tool to analyze the data is being provided, this eliminates the need for the vendor to spend money on their own third-party tools and resources. In other words, the greater the value provided, the greater the opportunity for monetization.



Vendors are prioritizing their promotional dollars with retailers who can provide them with the information they need to measure effectiveness.

Whereas some industry data services are cost-prohibitive for all but the largest CPG companies, we believe that you capture the most value from the data sharing initiative if it's accessible to all vendors. A nominal fee applied across the entire vendor base will democratize the initiative and ensure that the business benefits that accrue from supply chain collaboration – where the real monetization opportunity is – are realized by all vendors and by implication all retailer departments and volume. Care must be taken to not price the program out of the reach of your mid-sized and smaller vendors who might represent a good portion of a retailer's revenue and margin or who might be strategic in the sense of offering a source of differentiation to the retailer. It's easy to have the allure of the short term dollars from a handful of larger vendors distract a retailer from the primary objective of the initiative: to improve key operating metrics across the entire business.

Incremental Promotional Dollars leading to Sales. Other benefits that would fall into this revenue bucket would be the ability of the retailer to attract more vendor marketing dollars that in turn drive more sales. With the increasing shift of vendor marketing programs to retailer-based, 'shopper marketing' programs, vendors are prioritizing their dollars with retailers who can provide them with the information they require to properly manage and measure those programs.

Understanding the Value Drivers

Supply chain collaboration enabled by store-level vendor visibility has proven to be a key enabler of Walmart's growth and success. The more information shared with vendors, the more partnership-like the relationship between retailers and vendors, which in turn leads to better joint planning, execution and performance.

There are several routes retailers can take to get to this point of collaboration, some more effective than others. In all cases, however, it takes a good understanding of the value drivers that underlie the business case for such an initiative; the above



summary framework is a good start to help retailers think through these. A more extensive business case model is also available to help you in your journey – please contact Askuity at www.askuity.com for a copy.

About Askuity®

Askuity is a cross-retailer Big Data analytics platform that connects retailers and product vendors with insight and information, enabling better collaboration, decision-making and retail execution. Accessible in the cloud from any device, at any time, Askuity combines secure product- and store-level data sharing with a full suite of analytic tools to help reduce out-of-stocks, increase inventory turns and optimize promotional spend.

Askuity – See What's in Store®.

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