RESEARCH

Analytics offer solutions to merchandising and marketing problems: BRP

February 26, 2016

Technology is transforming the way consumers shop

By FORREST CARDAMENIS

Outdated software and applications are hindering retailers' abilities to properly analyze data and predict demand or create effective plans, according to a new report by Boston Retail Partners.

Fifty-eight percent of retailers say improving analytics is a top goal for 2016, more than any other priority, and consequently around half have plans to upgrade or replace planning applications. More detailed analytics will help retailers move to a unified commerce experience and allow for more targeted, cost-effective marketing.

"Advanced analytics is an enabler for optimizing virtually every aspect of merchandise planning," said Gene Bornac, vice president of Boston Retail Partners. "With real-time analytics integrated with customer and product information across all channels, retailers have the ability to use science and algorithms to optimize pricing strategies to reduce markdowns, improve demand forecasts to optimize inventory, localize assortments and optimize space planning.

"Based on the massive benefits retailers can achieve from advanced analytics, it makes sense that analytics is their top priority."

For "Top 10 Merchandise Planning Priorities for 2016," BRP surveyed retailers on their top priorities for the 2016 year. The report examines the 10 most common responses, allowing retailers to measure current capabilities against obstacles to a unified commerce platform and more productive marketing.

Analyze that
Many retailers upgraded software in the late 1990s but have not moved forward since. Although the cost of constantly ensuring the most up-to-date technology may look large and lead some retailers to update incrementally cloud-based solutions suggest that the staying up-to-date is optimal.

"Retailers are always trying to balance budget realities with the needs of the business," Mr. Bornac said. "Advances in software and the advent of cloud-based solutions are enabling retailers to think about accelerating their upgrade/replacement cycles.

"As retailers begin to embrace the cloud, they will find that staying up to date will be less of a burden on IT budgets and staffing, " he said. "For retailers that make the move to newer software this year and next, the reward will be faster update cycles, which will result in quicker access to higher levels of functionality."

Fendi Madison Avenue store interior

BRP notes that the Merchandise Planning Survey shows that retailers are focused on the consumer. Preferences indicate a desire to offer the proper assortment in sufficient quantities, with analytics being the vehicle to achieve those goals.

Something as simple and obvious as carrying the right products in the right amounts has an extensive impact on a business. Insufficient stock or the wrong products drives consumers to competitors, while an overage necessitates discounting, which not only stifles profit but also dilutes the brand in the long run.

Discounting has become a widespread practice, and many department stores are extending off-price branches to new markets. While this may attract less affluent and therefore younger consumers, it also breeds expectations that could lead to considerable repercussions, both financially and in terms of image.

Indeed, the top priority after analytics is reducing markdowns, which 36 percent of retailers highlighted. Analytics allow retailers to closely oversee sales performance by channel and by item, tools that will help limit overstocking and, by extension, discounting.

This data is complicated by today's multichannel purchasing environment. Performance in-store, online and on mobile may all differ from one another, complicating questions of stock and sales performance.
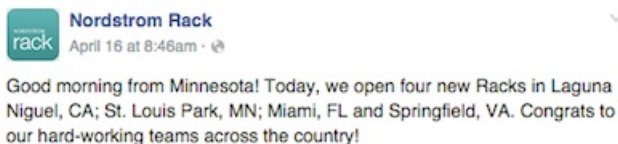
Nordstrom Rack Facebook post

Besides merchandise planning, analytics also allow retailers to improve store planning. While margins and merchandising decisions are easy to see on paper, accounting for limited space and how product placement affects performance is considerably more difficult.

As with merchandising, product placement and store planning overlaps considerably with ecommerce, and retailers are localizing assortments in a way that makes it difficult for the visual merchandising team to oversee. Consequently, retailers must look for effective barometers of performance as it relates to placement both in-store and online to maximize revenue.

These possibilities are also hindered by an outdated planning cycle, in which merchandisers make decisions for the week, month, quarter or year rather than real-time reactive decisions. For this reason, 33 percent of retailers consider enhancing merchandise planning strategies as a top priority, 22 percent want to decrease merchandising decision lead time and 63 percent plan to upgrade or replace their system within two years.

Decreasing lead-time and improving execution response time each a priority of 22 percent of respondents will help fashion brands and department stores compete with fast fashion, which often is able to offer similar designs at lower price points. The Internet has created a consumer mentality focused on getting any product at any time.

Luxury shoppers

As a result, retailers who offer what consumers want first will win a chunk of the market. A shorter lead-time will allow high-end brands and retailers to narrow or eliminate the window fast fashion thrives on, in which they have a comparable product but something shown off on the runway has not made it into stores.

Into the future
Although improved analytics will help to varying degrees with all other priorities, other external factors may also be giving an advantage to fast fashion. Chief among these is the fashion calendar itself.

The debate surrounding the role of the fashion show today is escalating, as more designers opt to shake up the runway format.

A rise in digital integration at fashion shows means that the audience at home and within the venue consumes and creates media instantaneously, but typically that feeling of instant gratification ends there, as consumers then wait months for the collection to become available for purchase. In a world where shopping is often just a click away, this delayed path from runway to retail can feel dated, prompting a number of brands to attempt to fix the format (see story).

Analytics and new software will also help pave the way for an optimized omnichannel purchase platform, another goal common among retailers.

A unified commerce experience hosting a single cart across all channels is the future of retail, but retailers are struggling to deliver, according to a January Boston Retail Partners report.

Eighty-five percent of retailers list unified commerce as a top priority, meaning that soon customers will be able to shop, ship and pick-up products from wherever they wish. Getting there will involve improvements in point-of-sale hardware and software as well as increased support of mobile technology both for purchasing and recognition

purposes (see story).

Neiman Marcus beacon message

A more dynamic and analytics-based approach to merchandising and store layout could extend to targeted marketing, aided by WiFi, beacons and other mobile technologies. In addition, such technologies that let retailers look at consumers as individuals rather than as market segments and demographics will help sales.

"With real-time analytics, retailers can market to consumers on a 1:1 basis based on customer context," Mr. Bornac said. "Customer context is the interrelated factors of customer insights and environmental conditions that make the shopping experience relevant.

"With advances in technology, such as analytics, networks, WiFi, mobile, NFC, beacons, etc., retailers have the ability to access more customer information than ever before and in real-time," he said. "Retailers have the ability to know what a customer has in her closet, what she previously purchased, what she browsed on the Web site and abandoned in her online cart, when she is near your store and even exactly what she is browsing and where within the store.

"In addition to customer insights, customer context considers environmental conditions such as current and forecasted weather, time of day, time of year, media (news), social media, traffic, holidays, events and other conditions that impact a consumer's purchase decision. Eventually marketing to consumers by demographic segments will become an outdated approach, except for smaller retailer that can't justify the time and expense to market based on customer context."