



What's the Big Idea?

Insight Driven Merchandising:

Art Meets Science

by Charles Haseman

In business, too often "art" and "science" are viewed as polar opposites. In reality, the best performers value, embrace and harness the best of both. While the following examples are derived from retail, the principles are equally valid in any business in an industry which deals with customers and a less than transparent future - basically, any business at all. Science cannot be ignored, but must be used to enhance the art of judgment.

Today's retail customers shop locally for their basic needs; they shop the rest of the market for everything else. Loyalty is solely in the mind of the retailer. Unless the retailer continuously adapts, there will be no relationship with his customers. Only when retailers strive to identify, understand and effectively predict their most valuable customers will they begin to capitalize on their target customers' behavior.

The precision of accurate merchandising has helped to refine what is known as *insight-driven merchandising*. Insight-driven merchandising leverages good information that leads to good decisions—and good decisions lead to profitable business choices and loyal customers.

Loyalty is based on a positive perception of service—a perception that depends heavily on whether customers find what they're looking for when they go to the retailer's shelves. The merchandise assortment choices are critical to improving customer loyalty and driving growth. Retailers must deliver the products that customers want, wherever and whenever they shop.

The art of merchandising was once all intuitive. Retail buyers knew their products and understood the market they were selling to through limited data and experience. Stocking a store with snow shovels in Minnesota made sense in the fall for the winter season—sales would be brisk at the first fall of snow. The art of guesswork was determining how long the snow would fall and how many shovels would be needed. If the buyer relied only on "data" of how many shovels were sold in a period of time, the store would have ended the season over stocked with no snow to shovel.

An insight-driven retailer combines the art of merchandising with analytics to successfully predict customer demand—by geography, by demographic and by other segmentations. These winning companies arm intuitive buyers with new, near-real-time information to get the best of both art and science. Data analysis capabilities help find patterns in customers' behavior, even in complex markets. From the supply chain to the cash register, the customer demand signals must be instantly detected and relayed to the retailer and supplier so the demand can be acted upon *immediately*. This new approach is almost the polar opposite of a traditional retail operation, wherein the suppliers announce product availability, the retailers take delivery and the customers select among prescribed choices.

From the beginning of the sales transaction, the retailer's drive for operational excellence sets the stage for changes in business practices and retail profits. The retailers that prevail in a global marketplace will do so by responding to increasing customer diversity and demand, finding growth within saturated market segments and reinventing assortment with the local customer in mind. The victors will win by making strategic choices based on knowledge built on detailed customer data.

Retailers need systems that help them blend the art of merchandising with the science of accurate customer-demand forecasting to gain insights. Insightful information lets retailers:

- Improve their merchandising decision accuracy
- Implement next-generation, customer-centric strategies for maximum return on inventory investment
- Tailor the store merchandising assortments for increased sales margins, growth, market share and customer loyalty

The visibility of where, when and how merchandise will be available combined with shared customer data (all of the past interactions and experiences with each customer, integrated across the business), allows a retailer and supplier to anticipate the customers' wants and needs. Just like a friend who can sense what you are thinking, insight-driven merchandising allows a retailer to rapidly respond—creating a perception that demand was correctly anticipated. In *The Visibility Roadmap Report*, the Aberdeen Group states, "Companies that are Best in Class in inventory management are 2.4 times as likely to use a supply chain visibility system. These top performers have customer service levels of at least 96 percent and have reduced inventory levels since 2004, often by 20 percent to 30 percent." The key measures will be how deep the insight is and how quickly it is acted upon across the business.

Art may have finally met Science ... and we and our customers will all be better serviced for it!

Footnote:

"The Supply Chain Visibility Roadmap," Beth Enslow, Aberdeen Group.

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