

Retail Notes for October 2008

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The AMR Research Retail Strategies Team

Does this make me look fat...virtually?

To enhance the online shopping experience, **Sears, IBM, and My Virtual Model** plan to pilot a 3D visual search and e-commerce capability that's a first of its kind for Sears.com in October. The updated Sears site, powered by IBM WebSphere Commerce and My Virtual Model, allows consumers to recreate their in-store shopping experiences online by enabling them to search for merchandise using images versus words. They can also try on—virtually—selected items using a personalized model. With their virtual model, shoppers can create countless personalized combinations to match their measurements (height, weight, and body shape), including a headshot to ensure the style, color, pattern, and fit are right. The 3D angle allows users to view garments from the front, side, and back. Shoppers can also e-mail images of their new looks to friends and family to help them make final purchasing decisions.

If a shopping experience like this intrigues you and your company, consider the following:

- Managing the images requires a mature understanding of master data management (MDM). Ensure your organization identifies the party responsible for managing the storage, maintenance, and updating of the merchandising information, ideally in a single instance.
- Coordinating the new and discontinued item process becomes a critical competency. In fact, it's the one with which most retailers struggle. Aligning product visibility via the web with availability at the store requires coordinated processes between merchandising and supply chain: two departments not known for their collaborative relationships

Sears, IBM, and My Virtual Model may be ushering shoppers into the 21st century. To pull it off, though, retailers must first improve their 20th-century business processes.

RockBlocks becomes Arigo

RockBlocks Group is revamping its image. It's starting with new corporate branding, and backing up its efforts with a refresh of its product packaging. The new company name, **Arigo**, means "source" or "beginning" in Latin, a reflection of the company's long heritage in the sourcing and trade management software market.

Management also hopes for a new beginning for its core assets; the roots of the company began as **RockPort Trade Systems**, which was founded in 1992. It has also repackaged its functionality under the umbrella of Arigo Sourcing and Trade Management (STM) and is moving ahead with plans to substantially expand its functional scope in the next 18 months.

Sourcing and product lifecycle management are areas of high interest among retailers, with 13% planning to adopt technology for these functions for the first time in 2008. Another 40% expect to add, improve, or replace existing functionality, according to "Retail IT Budget Benchmarking Study, 2007–2008."

While brand companies may have more experience with sourcing and trade management, the continuing rise of outsourced manufacturing and increased consumer demand for faster time to market will put a strain on the current infrastructure, according to "Top Technology Trends in the Apparel Market: The Second Annual Apparel Research Study and Analysis." Vigorous competition among software vendors, including **Eqos** and **TradeStone Software** in addition to Arigo, will only benefit retailers that are making sourcing and trade management technology selections.

Arigo has reinvigorated its existing customer base in the months since it struck out on its own. Next up is signing some completely new retail and brand companies and taking them live as satisfied reference accounts.

DemandTec and Universal Ad combine to deliver promotion optimization and ad execution

DemandTec and **Universal Ad** recently announced their intent to jointly deliver promotion optimization and ad execution through a software-as-a-service (SaaS) product. DemandTec reported to AMR Research that the two companies worked together with a handful of retailers prior to this announcement, with the successes leading to the realization of the full and highly collaborative product's value. While short of a formal acquisition, the two companies will engage in joint marketing, selling, and implementations.

Why is this important news? Knowing the best promotion price is only a part of the real challenge in promoting products: Promotional sales are as high as 60% for some retailers, and the complexity of orchestrating hundreds of promotions is major. DemandTec and Universal Ad combined functionality supports an end-to-end lifecycle pricing process.

Combined with its acquired trade fund management, DemandTec's addition of these features will provide a compelling and unique platform. Sprinkle in some supply chain capabilities, and retailers will have access to powerful demand-based promotion tools.

But still, there are many unanswered questions: Is this a precursor to another DemandTec acquisition? Will $1 + 1 + 1 = 5$? How much effort is required to integrate these products? There will be more to review and share as retailers begin to talk about their use of these tools.

Membership in the retail price optimization club continues to grow

The art of pricing continues to become increasingly sophisticated and more available to retailers everyday. Recent AMR Research reports on price optimization have provided excellent information for companies exploring this technology.

Texas-based **United Supermarkets'** recent announcement of its selection of **KSS Retail** to provide price modeling and optimization further demonstrates the membership of companies acquiring this technology is growing day by day. Some may believe that these products are financially out of reach. After all, United Supermarkets, with about 45 stores and \$1.1B in revenue, does not fit the profile of a typical company that uses price optimization. However, it does compete with **H-E-B** and **Brookshire's** (both are long-time price optimization users), **Kroger** (which successfully employs significant customer programs), and **Walmart Supercenters**. It's no wonder United Supermarkets would make such a key strategic decision. With proper implementation and execution, price optimization will deliver a new way of connecting with its customers, unlock untapped value, and highlight missed opportunities.