

Why retailers can't blame the weather

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For many retailers, the summer quarter for 2004 was disappointing. And nowhere was this truer than in the fashion and lifestyle sector. Although a few - most notably Next - bucked the trend with outstanding results for the period, most reported lower sales and margins than for the previous year on a like-for-like basis. When asked for a culprit, most point their finger at the weather.

Of course, this being the UK, they might have a point. After all, our weather is famously unpredictable, and this summer was particularly inclement even for us. But this raises the question: should the unpredictability of external factors - whatever they may be - ever be the cause of lower-than-expected results? Today more than ever, there is a powerful argument in favour of "no" as the answer to this question. Here, we examine why.

There can be many reasons for poor retail performance, a small number of which may be genuinely avoidable. Arguably, though, most problems which beset retailers are avoidable and generally stem, in the final analysis, from one of two failings: a failure to plan well; or poor information support. Anyone guilty of both will almost certainly have serious problems, but either one can have significant, and possibly catastrophic, effects on trading figures.

Planning is fundamental to almost any business. And for most retailers - and especially those in the fashion sector - planning can be a complex exercise. Decisions over stock lines and volumes need to be made, which requires the prediction of variables such as fashion trends and demand levels, often across several countries and several retailing channels. Although demand is generally forecast on the basis of current and historical data, it is nonetheless a process which can't be totally automated, though technology can help. This is because, whereas some basic product lines are relatively easy to forecast as they tend to follow identifiable patterns, new lines pose a completely different set of problems. In practice, therefore, good planning is a mixture of art and science, requiring a blend of accurate market data and analysis along with human experience and intuition.

But market conditions can - and often do - change. And when they do, even the most meticulous planning can be rendered obsolete almost overnight. This is where information systems become critical. Because, when things change, retailers need to be able to react quickly and adapt to the new conditions. This is only possible if they have constant access to accurate information, in near real-time, about all aspects of the business - from sales performance to supply pipelines. And, crucially, this information must be available in the right form. After all, there is little point in having access to data if it cannot be used as the basis for instant analysis and fast, effective management decisions. While this sounds obvious - especially with today's advanced IT systems - it is surprising how few retailers have access to this level of data. Usually, this is because they run disparate systems - merchandising, POS, financial, warehousing etc. - and the raw data from each cannot easily be combined for management reporting purposes. Indeed, research* has shown that over 80% of the time taken on most reporting projects is given to specifying, collecting and verifying the data required, before it can even be presented in a useful way.

However, this situation is changing. Retailers are beginning to recognise the power and potential of IT systems based on truly integrated architectures, as opposed to the more traditional best-of-breed or 'point-solution' approach. As the name implies, BoB systems combine the best elements of different systems to provide overall functionality, and they can be powerful. The downside is that data is generated by several different databases, and the software used to "glue" the elements together can present real performance issues. Integrated systems, by contrast, have no such problems: a single database allows immediate and easy access to every level of information, from operational detail to strategic reporting, across an entire business. An integrated system such as SAP or Prologic potentially allows managers to make fast and rational strategic decisions based on a complete, accurate and up-to-the-minute analysis of the operation.

Integrated systems that provide a single view of a business, from manufacturing to store inventories, provide retailers with full visibility of their supply chains and the ability to adapt them to market conditions by adjusting the tap of supply to the flow-rate required. For example, importation transport modes can be changed to reflect the urgency for the product in the UK between air, sea/air, or fast and slow sea services. If warehouses are full in the UK, slowing the transit from overseas will help retailers to avoid additional demurrage and storage costs. Similarly, if a product is selling well, meeting the differential between air and sea freighting costs may be preferable to losing the revenue which would otherwise result from lost sales due to being out of stock.

Today, relatively few retailers have this level of control. And those which don't would do well to consider the benefits of implementing an integrated system. Such systems are not a magic bullet - but they are enablers. When used properly, they can provide the basis for decision-making and implementation which can eliminate the effects of external factors.

* Martec 2001

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