



## Retailers Should Start RRM ASAP

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We noted a landmark development in the Retail Revenue Management (RRM) space, last week--the first reference by a retailer to RRM to explain financial and operating improvement in a Wall Street analyst earnings call. I'd like to explore the implications this and other recent RRM developments have for retail Information Technology (IT) and business priorities.

We're fielding many RRM inquiries. Senior IT and Line-of-Business (LOB) management engaged in these projects are approaching their decisions with urgency and prudence. The scope of RRM is changing. Dominant trends distinguish Fast-Moving Consumer Goods (FMCG) Retail from General Merchandise and Apparel Retail.

In FMCG, RRM is expanding from just optimizing prices to optimizing prices and promotions. **DemandTec**, **KSS Group**, and **KhiMetrics** are headed this way. The evolution will turn RRM sideways, from a product- or assortment-centric approach to a customer- or consumer-segment-centric approach. But there's still a lot of value to be had through product-centric price optimization. Adoption will be constrained by the rate item master files are populated with structured product attributes. Today, most attribution projects--efforts that can cost hundreds of dollars per item--are led by sell-side e-commerce initiatives.

The switch to customer-centric promotion optimization is coming from retailers' desire to increase RRM values of attractive consumer segments. Full realization of benefits from promotion optimization won't be had without a customer-centric approach. **AdPilot**, a startup using customer-centric analytics to push promotions, has proved that the approach produces higher lifts than other methods, and its message is sparking the interest of retailers just embarking on product-centric pricing. **Sagarmatha**, an Israeli vendor with a U.S. sales presence, supports personal coupons to optimize incremental sales and customer loyalty. It is implemented at Israel's largest drug chain and Visa Israel, and it is being piloted by the country's largest grocery chain. Many retailers will turn to RRM-based store clustering, a twist that KhiMetrics is bringing to the market, as an important interim step.

Price optimization in FMCG retailing is being abetted by new promotion messaging channels to replace in-lane messaging, a strategy adopted by brands in the 1990s, through services such as **Catalina Marketing Services**, but avoided by most retailers. New channels include e-mail and personalized printing technologies before the shop and Electronic Shelf Labels (ESLs) during the shop. Next, retailers will add wireless, in-cart, scan-capable kiosks that serve up promotions based on the customer profile--if the consumer opts in--and what's in the basket. Rich visual media will be visible on displays in the aisles and triggered by Radio Frequency Identification (RFID) from the in-cart kiosk. Eventually, promotions will be synchronized with the shopper's location in the store and his or her predicted path, a capability **Brickstream** should deliver first, and messaging will use the shopper's own information appliances.

Consumer Packaged Goods (CPG) brands aren't far behind retailers in adopting RRM, but their product-centric point of view is a natural barrier retailers can and should exploit. Brand interest in RRM is a natural extension of services provided by category captains that haven't had a new effective tool since Collaborative Planning, Forecasting, and Replenishment (CPFR). With **UCCnet** and exchanges providing product data synchronization, manufacturers' account and brand managers' and retailers' merchants and marketers can now concentrate on bigger issues. But captains can't focus on what matters to a retailer: growing sales in key customer segments. They don't have the information and they're organized around brands and products, not customers. Manufacturers' adoption of RRM won't supplant retailers' independent use of this functionality as each party pursues its own objectives.

For merchandise and apparel lines requiring pre-season planning, RRM is moving from markdown optimization into allocation and buying. **ProfitLogic** is leading the move. Success by other vendors with less scalable markdown products, such as **Spotlight Solutions** and **i2 Technologies**, will spur the market more. While optimizing markdowns protects margins and clears the sales floor, buying closer to what you'll sell at your planned margin and allocating merchandise based on a more accurate forecast of consumer demand by store cluster is much more valuable. ProfitLogic just signed its second *Pricing4Profit* software license deal with a large mid-Western mass merchant, adding to Casual Male, another licensee, and J.C. Penney, a services client. ProfitLogic is engaged in two joint development projects to deliver *Allocating4Profit* and *Buying4Profit* later this year. Successful implementation of these applications, which will require cultural shifts larger than any retailer has navigated, will revolutionize

financial and assortment planning.

Retail IT and LOB executives should mark RRM price optimization and markdown optimization as must-have projects in their 2003 budget plans. Anyone with discretionary funding available in 2002 shouldn't wait. Most projects started now will start delivering bottom-line results this year. Urgency is required, and so is prudence. RRM project plans must include internal readiness assessments aimed at data requirements, process changes, and culture.

As always, I welcome your comments at [ggirard@amresearch.com](mailto:ggirard@amresearch.com).

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