PLM Squared: Product Lifecycle Management Powers Private Label Merchandise

Benchmark Study: 2008

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Executive Summary

Private label merchandise continues to have top of mind awareness in the retail ecosystem. Any potential recessionary trend only exacerbates the need to grow this portion of the merchandise mix. On the flip side, 2007 brought a sharp rise in the number of product recalls, and dramatic loss of life and productivity caused by inadequate controls on product development. We conducted a survey similar to another done in 2006 to understand how these circumstances have changed their point of view of Product Lifecycle Management and supporting technologies.

Business Challenges

As retailers and other brand managers move from a model of bidding events, cost compression and adversarial relationships to more collaborative design processes with long term partners, their risks rise. Finding and keeping dependable partners, inconsistent product quality, and erratic conformance to specifications top the list of business challenges in a collaborative world. Further, there is a huge gap between idealized transit times from factory to point of demand and actual times.

Opportunities

Retailers have already improved their time to market significantly, but seek even more speed. To get faster, they are working in concert with suppliers on product design. However, this collaborative framework requires post-production audits to insure product quality is acceptable. While these post-production audits are important tactically, they must be supplemented by regular supplier scorecarding to insure consistency over time. As of this writing, retailers do not evaluate their suppliers frequently enough.

Organizational Inhibitors and How to Overcome Them

As with many initiatives in the retail enterprise, cultural resistance and complicated legacy systems infrastructures tend to stymie new technology implementations in support of new business opportunities. To overcome these obstacles, retailers expect merchandise suppliers to share the costs of implementations with them, even as they expect technology suppliers to improve and simplify integration tools.

Technology Enablers

PLM technology has greatly improved time to volume. Thirty-seven percent of respondents report a 10-25% improvement through the use of technology. However, the most frequently used technology enablers are not necessarily the ones most highly valued by retailers. This gap continues to be bridged by the spreadsheet. For example, while supply chain visibility, supplier management and supplier scorecards are most valuable, the most commonly used technologies are product specifications and requirements, sample management and sourcing applications.

Bootstrap Recommendations

While cutting corners to drive speed may not cause any immediate problems, *all issues that result in compromise of life, limb or more minor inconveniences can be traced back to cutting corners and ignoring various explicit and implicit product safety and quality laws*. Therefore our first and most important advice to retailers and their suppliers is “follow the rules”. Our second most important advice to retailers is to verify UP FRONT that those standards have been followed. To do so, we recommend: Inspect merchandise before it leaves the factory. Whenever possible, use your own employees as inspectors, rather than outside agents. If you must use outside agents, score their results, much as you would scorecard any other vendor. Scorecard frequently to avoid any temptation to cut corners and review scorecard results regularly. Use technology that will trigger alerts when expected results aren’t achieved.

Table of Contents

Figures

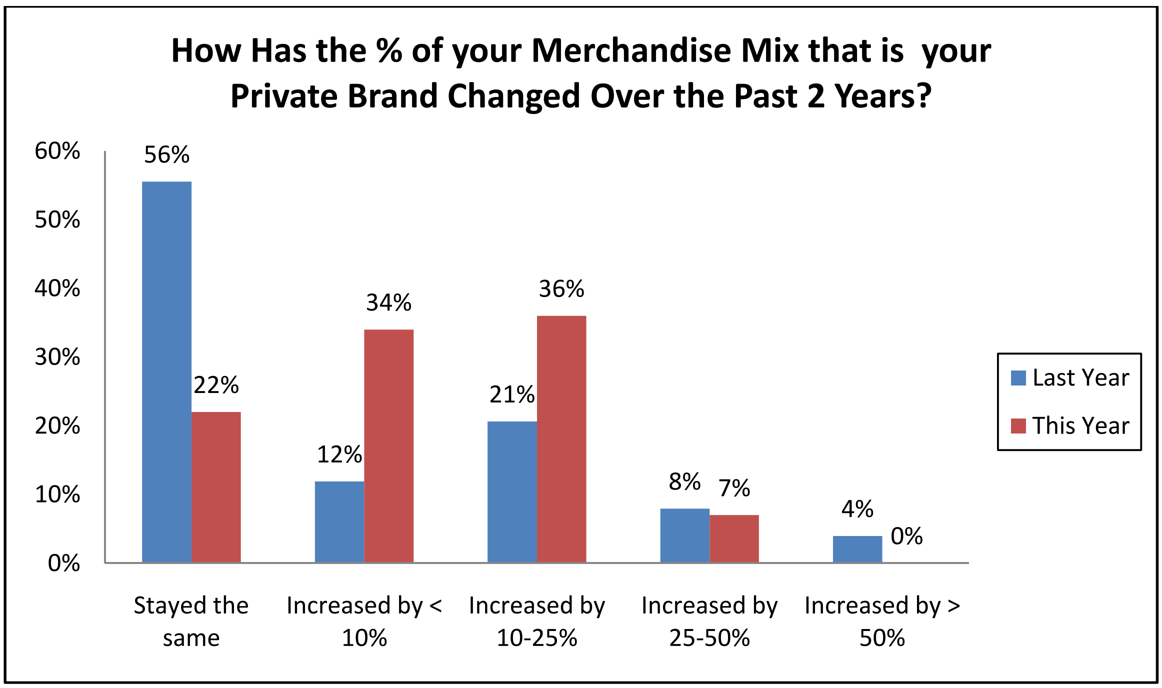
SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

PART I: PRIVATE LABEL STILL GROWING

Private label merchandise certainly has top of mind awareness across the retail ecosystem. Any potential recessionary trends only exacerbate the need to grow this portion of the merchandise mix. RSR surveyed retailers and other brand managers to understand if their issues, responses and future intentions around Private Label Merchandise and supporting technologies have changed. Our baseline was a similar survey conducted in 2006[1]. Figure 1 shows comparative merchandise mix between RSR's survey respondents and that original survey. Not surprisingly, respondents report private label continues to grow as a percentage of their business.

Figure 1:
Percentage of Private Label in Merchandise Mix Continues to Rise



Source: RSR Research, February 2008

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[1] *Driving Rapid Response and Gross Margin with Private Label Merchandise, originally published by RSAG, Oct 2006*

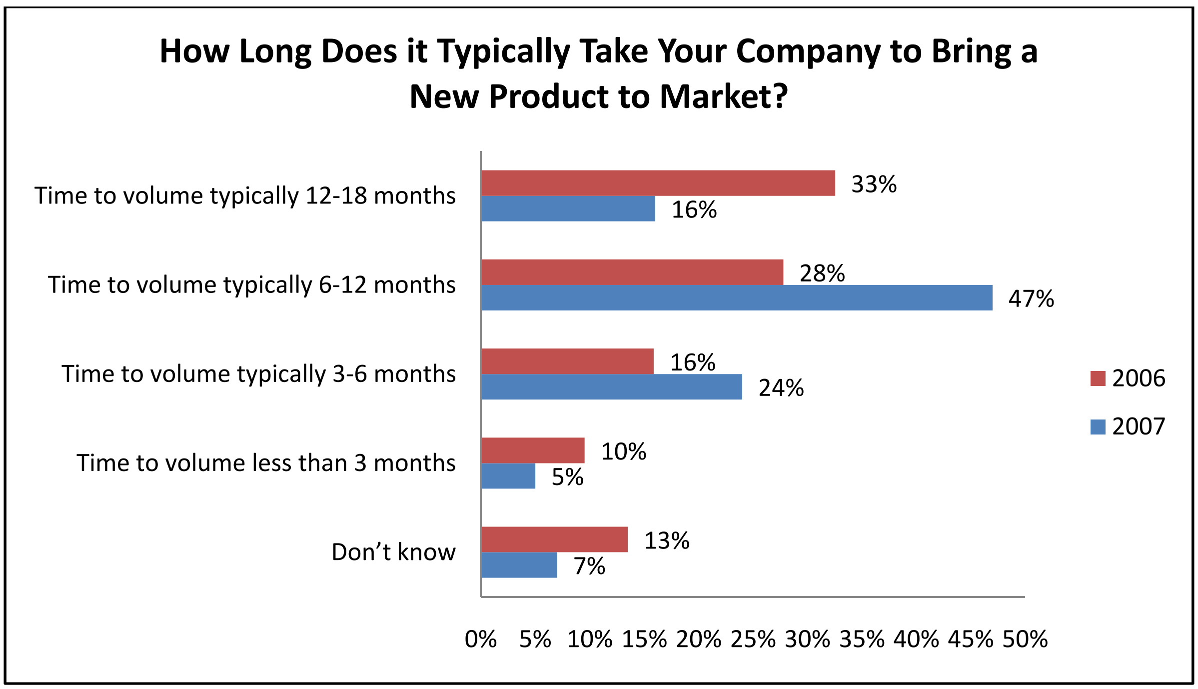
PART II: RETAILERS ARE GETTING TO NEW PRODUCTS TO MARKET FASTER

The profitable life cycle of merchandise continues to shrink. Some of this compression is self-induced as retailers and their partners have driven up the rate of new product introductions, switching out merchandise every 4-8 weeks in an effort to improve merchandise turn rates. Compression is also a byproduct of the digital "I want it now" era dominated by "I want it now" consumers, who expect new sexy fashions and new sexy digital appliances every three to four weeks. Pressure to be relevant to this new breed of consumer drives the need for more speed.

Whatever the cause, it is no longer acceptable to take two years to bring a new product to market. Brand managers must get faster, even as their supply chains get longer. RSR's most recent survey on producing private label merchandise shows that indeed, retail brand managers *have* improved. As illustrated in Figure 2, average time to market has decreased sharply[2] with a strong plurality of respondents able to ramp up to full volume in 6-12 months.

Figure 2:

Average Time to Volume Decreases Sharply



Source: RSR Research, February 2008

This type of speed increase doesn't happen just by wishing and hoping. It happens through conscious strategic and tactical decisions within the retail enterprise. And, as we will see in the following pages, retailers want to get faster still.

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[2] Ibid

Part III: Quality Issues Take Center Stage

Speed to market comes at a price. 2007 will be remembered as a time of well publicized and scandalous product defects, recalls, and injuries to people and pets. **In the US alone, in 2007, there was an average of 28 products recalled weekly, or about four each day**[3]. The cause of these defects was sometimes unclear. In one of the more high profile cases, Mattel's recall of children's toys from its Fisher-Price division, blame was first placed on Chinese manufacturers for using lead paint and for poor product design (small, easy to swallow magnets in toddler toys). Ultimately, in a somewhat stunning and staged announcement, Mattel's CEO apologized to the Chinese government and people and put the majority of blame on his own company's shoulders. This matter caused us to sit up and take notice. We wondered how these recalls and bad publicity affect brand managers across all product segments.

Notwithstanding Mattel's mea culpa, **this year's survey respondents report a more critical need to confirm compliance to merchandise specifications**. Concern over quality extends beyond toys and food to apparel fit and finish.

Methodology

RSR uses its own model, called the "BOOT," to analyze Retail industry issues. We examine the approaches retail winners take to solving specific business challenges and how technology supports those winning ways. The model is built from retailer answers to our surveys. An explanation of the methodology can be found in Appendix A.

Winning is not an accident in the world of retail. Customers vote with their wallets. **Sustainable sales improvement and successful execution of brand vision are direct results of an enterprise's recognition of external and internal business issues, its ability to take advantage of opportunities for improvement, and its use of technology enablers to simplify and rationalize business processes**. Data that emerges from the BOOT model helps us understand the behavioral and technological differences between winners and their peers.

Defining Retail Winners and Why They Win

While our definition of retail winners is straightforward, its implications are far-reaching. Simply put, we choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming an industry average year-over-year comparable store sales growth of three percent, we define retailers with sales growth above this hurdle as "winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans."

Interestingly, we find that over time, **most other KPIs fall into line behind the leading indicator of comparable sales.** Retail winners tend to have richer gross margins and slimmer payroll to

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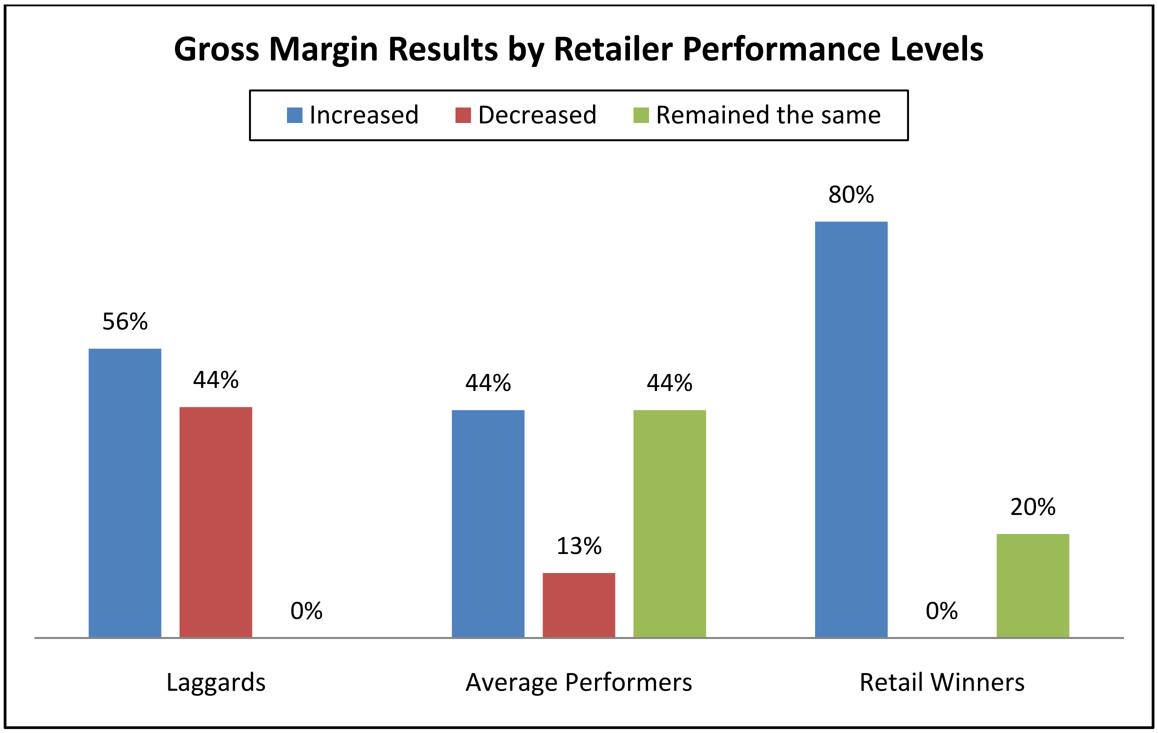
[3] Baseline Magazine, Halting the Import of Hazardous Goods, January 9, 2008

sales ratios. Equally as important, **retailer winners do more than just sell more goods and services – they tend to think differently**. They have very distinct ways of running their business. Those methods lead to better results.

Our current benchmark shows consistency in the regard. Respondents were asked how their gross margins have changed over the past two years. Results are dramatically better for Retail Winners (Figure 3).

Figure 3: Retail Winners Driving Gross Margin Improvements



Source: RSR Research, February 2008

Retail winners not only outperform their competitors in comparable store sales, but they do so without compromising gross margin (a lesson some retailers seem unable to learn). While 80% of retail winners are enjoying improved gross margins, 44% of self-reporting laggards have experienced gross margin declines, with just over half showing an increase.

As always, **individual responses were screened to ensure that respondents were all retailers**, and not just “ringers” telling us what we wanted to hear.

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey between September and December 2007 and received responses from 59 retail respondents. Respondent demographics are as follows:

- **Functional Area**: 38% of respondents identified themselves as part of merchandising, product development or marketing, 24% from IT, 29% of respondents identified themselves as part of store operations and other departments, 3% from logistics/supply chain, with the remaining 6% from finance organizations.

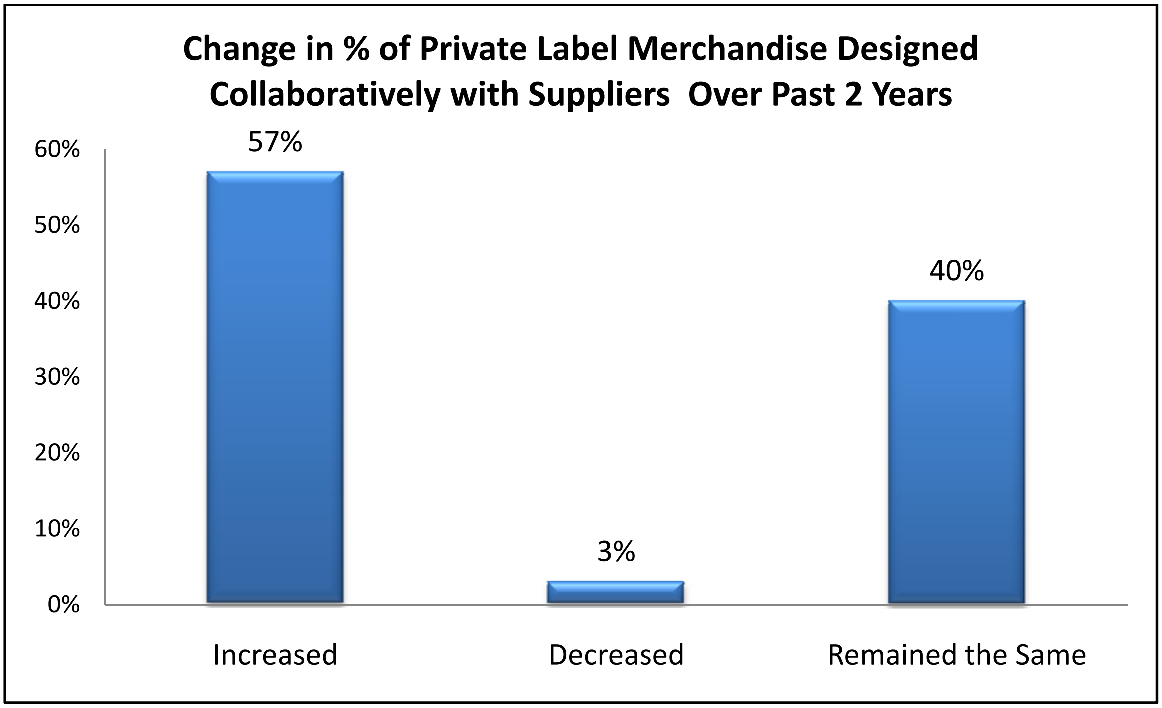
- **Job Title**: 17% self-identified as a C-level executive, 20% as Vice Presidents, 34% as directors, with the remaining 29% in internal consulting and staff positions.
- **Revenue**: 45% have annual revenues of $1 billion or more, 18% from $250 million to $999 million, 18% from $51 million to $249 million, and 21% of respondents have annual revenues of $50 million or less,.
- **Segments**: 72.5% of respondents were retailers, while 27.5% were other brand managers. Of the total respondent pool, 60% of respondents represent general merchandise and apparel (GMA) retailers, 30 percent are from purveyors of fast moving consumer goods like grocery and convenience stores (FMCG), and 10 percent come from DIY, furniture, food and miscellaneous other retail segments.
- **Year-Over-Year Comparable Sales Growth Rates**: Assuming average comparable revenue growth of 3 percent, 29% reported better than average results, 46% reported average results, and 26% self-identified as worse than average.

SECTION II: BUSINESS CHALLENGES

MORE COLLABORATIVE DESIGNS BRING NEW CHALLENGES TO THE FOREFRONT

Retailers continue to increase their percentage of Private Label Merchandise. In their quest to reduce time to market and decrease costs they have also increased the percentage of merchandise they design in collaboration with their suppliers (Figure 4).

Figure 4: More than Half of Respondents Increasing Collaborative Design



Source: RSR Research, February 2008

On the surface, this has proven to be a boon. As illustrated above in Figure 2, retailers are bringing new products to market faster. Close to 50% can move from product ideation to volume in 6-12 months. But this collaboration with far-flung partners has come at a cost. Swimming in public relations nightmares – massive recalls of merchandise caused by lead paint and poor product designs, pet deaths and consumer fears over tainted food and eColi bacteria, and unplanned increases in payroll costs and lost sales resulting from removing tainted product from shelves and disposing of it safely has cost retailers (and their partners) dearly. Whether the retailer had its own label on the product, or if it had to dispose of products branded by others, the cost was significant.

Thus, it's not surprising that the single greatest business challenge shifted this year. While last year's respondents reported their biggest challenge to be *finding and keeping dependable partners*, this year's respondents add *inconsistent product quality* as a virtually equal business challenge with *compliance to our specifications* following closely behind (Figure 5).

Figure 5: Top Business Challenges

Source: RSR Research, February 2008

The Challenge to Grow Green

While political pressure to "go green" was near the bottom of the list as a business challenge, its presence as an issue at all is new news. It is a challenge of consequence to over 50% of survey respondents. The price of oil has clearly taken its toll. Sustainability initiatives by companies like Wal-Mart, Staples and others have brought a new economics into the minds of retailers.

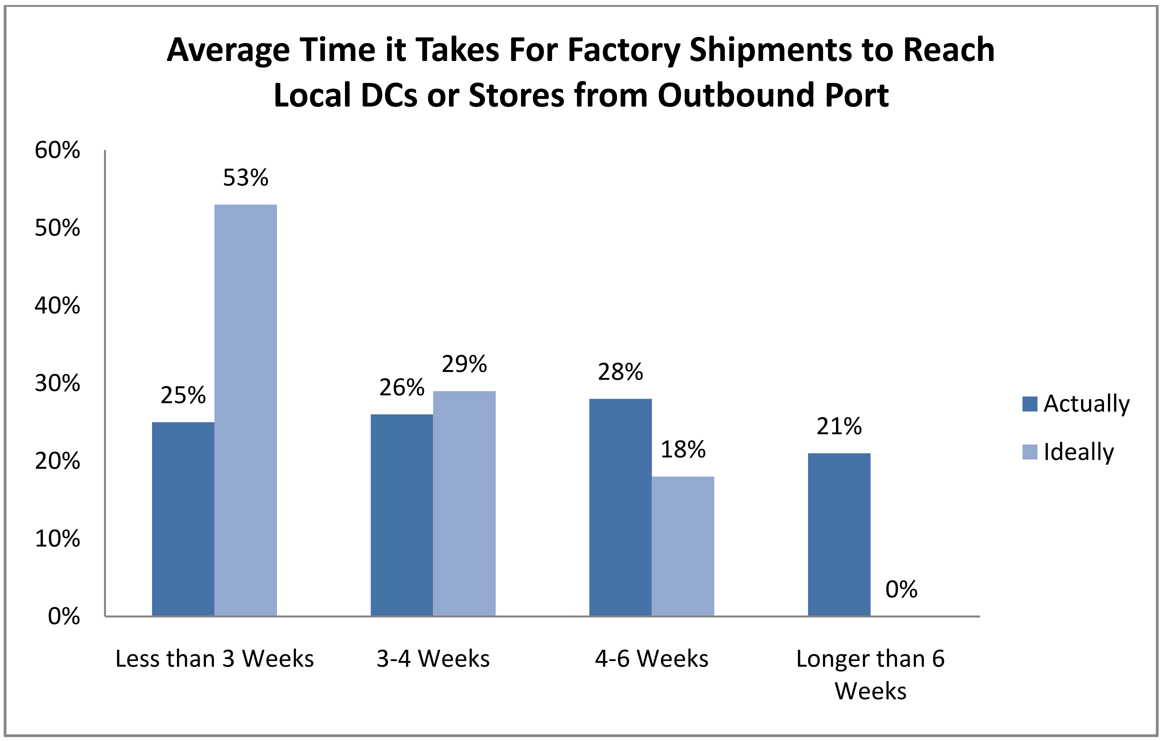
Interestingly, *green initiatives are of greatest concern to retail laggards*. Seventeen percent of these respondents cite these pressures as "very influential". While their peers find these pressures "somewhat influential", none state the same highly compelling impact. Clearly laggards are hoping to cut costs and gain some positive attention from their efforts in this area.

TRANSIT TIME – A VAST DIFFERENCE BETWEEN WHAT IS AND WHAT SHOULD BE

Speed to market is also a function of transportation from sheep to shelf or farm to fork. As a result, *Retail Winners are particularly concerned about port capacity issues*. Fifty percent of winners report this challenge as having a lot of influence, while only 13% of average performers and 17% of laggards share their concerns.

Overall we see a huge disparity between what retailers believe they can achieve in terms of transit time and what they actually DO achieve. Figure 6 illustrates this clearly.

Figure 6: Transit Time for Factory Shipments Leaves a Lot to Be Desired



Source: RSR Research, February 2008

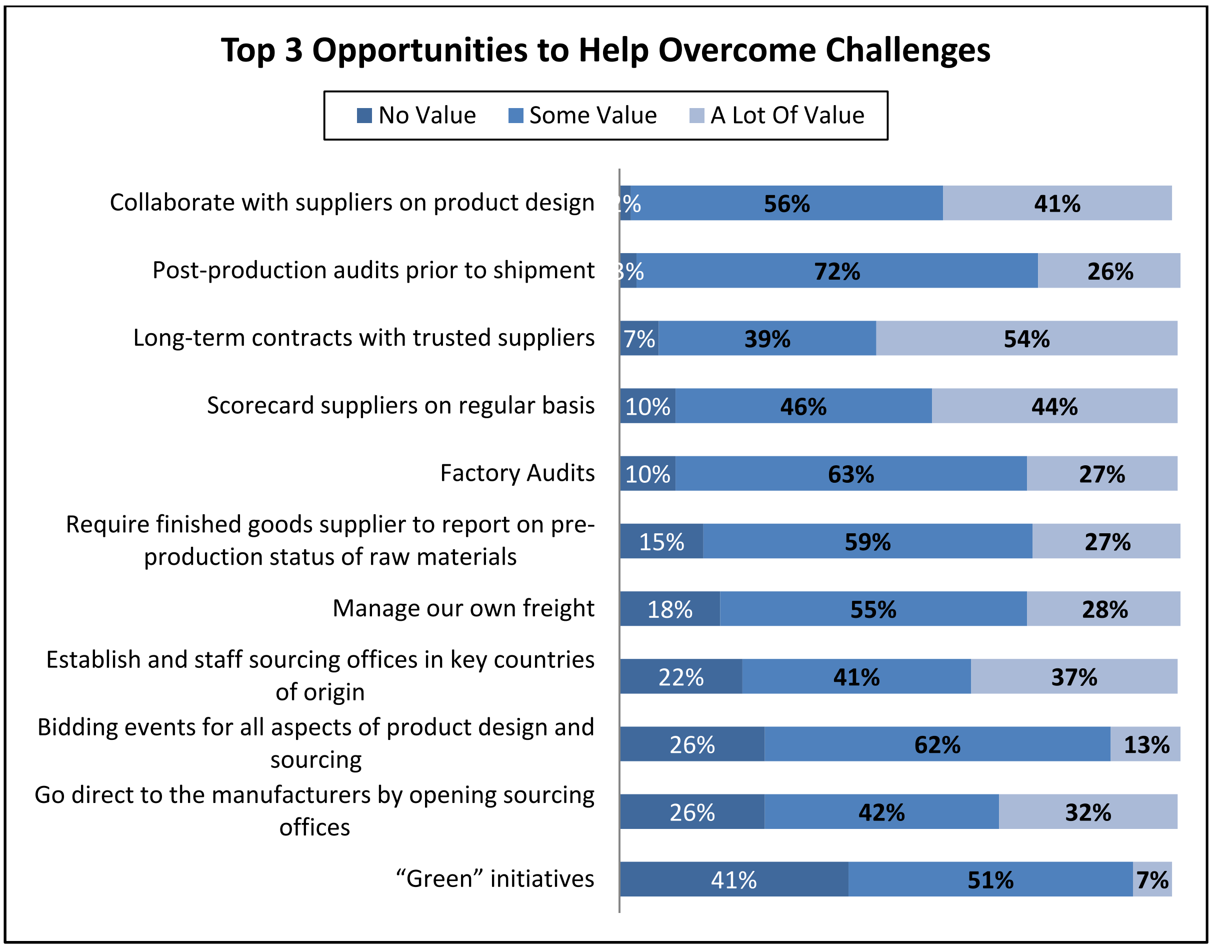
Is it unrealistic to expect merchandise shipped from other countries to arrive in less than three weeks? Perhaps so, but it is equally hard to accept a transit time longer than six weeks from port to local distribution center or store, although 21% of our respondents do. Not surprisingly, 43% of small retail respondents (less than $50 million / year in sales), and 60% of mid-sized retailers with revenue up to $250 million per year make up the bulk of the retailers with the longest lead times, and furniture is the worst category of merchandise. But **14% of tier 1 retailers with over $5 billion in revenue also tolerate this mind-bogglingly long lead time**.

SECTION III: OPPORTUNITIES

THE MOST IMPORTANT OPPORTUNITIES –PARTNERSHIP AND QUALITY VERIFICATION

In many regards, the opportunities cited by this year's survey respondents don't vary significantly from last year's results, but two critical exceptions have floated to the top of our respondents' radar screens: the value of collaborating with suppliers on product design and the need for post-production audits *prior* to shipment (Figure 7).

Figure 7: The Most Important Opportunities in Private Label Merchandise



Source: RSR Research, February 2008

In last year's survey, respondents reported their number one opportunity was long-term contracts with trusted suppliers. The percentage of respondents citing this as an important opportunity has remained essentially the same. But in the prior survey, the importance of post-production audits didn't even make the top 5 opportunities. **Fully one quarter of those respondents found no value in post-production audits, while this year, 98% of respondents cite at least some value**. Similarly, **last year, 82% of respondents found an opportunity in collaborating with suppliers on product design, while this year's number rose to 97%**.

Best Practices in Merchandise Supplier Relationship Management

From the business challenges and opportunities identified by our respondents, RSR has crafted what we believe to be a wheel of Best Practices in Merchandise Supplier Relationship management. Certainly this is strictly an overview, but we believe these baseline steps will insure suppliers and retailers are in synch, and that products are of the highest possible quality.

These three elements: long term contracts with trusted suppliers, collaborative product design and post-production audits, along with our fourth most important opportunity, overall supplier scorecarding form the critical steps in best practices in working with private label merchandise suppliers (Figure 8).

Figure 8: RSR's Best Practices in Supplier Relationship Management

Source: RSR Research, February 2008

Step 1: **Create long term contracts with trusted suppliers**: Spot deals and bidding events are just not as valuable as they used to be. Certainly from time to time it is worth a brand manager's effort to put a product out to bid, just to make sure he's not being overcharged, but overall, retail is moving back into the relationship business.

Step 2: Work collaboratively with those suppliers to develop new products: Trusted suppliers should be part of the product design process. Only in this way will new product introductions and existing product iterations come to market fast enough to satisfy today's consumer and at a cost that works for all parties.

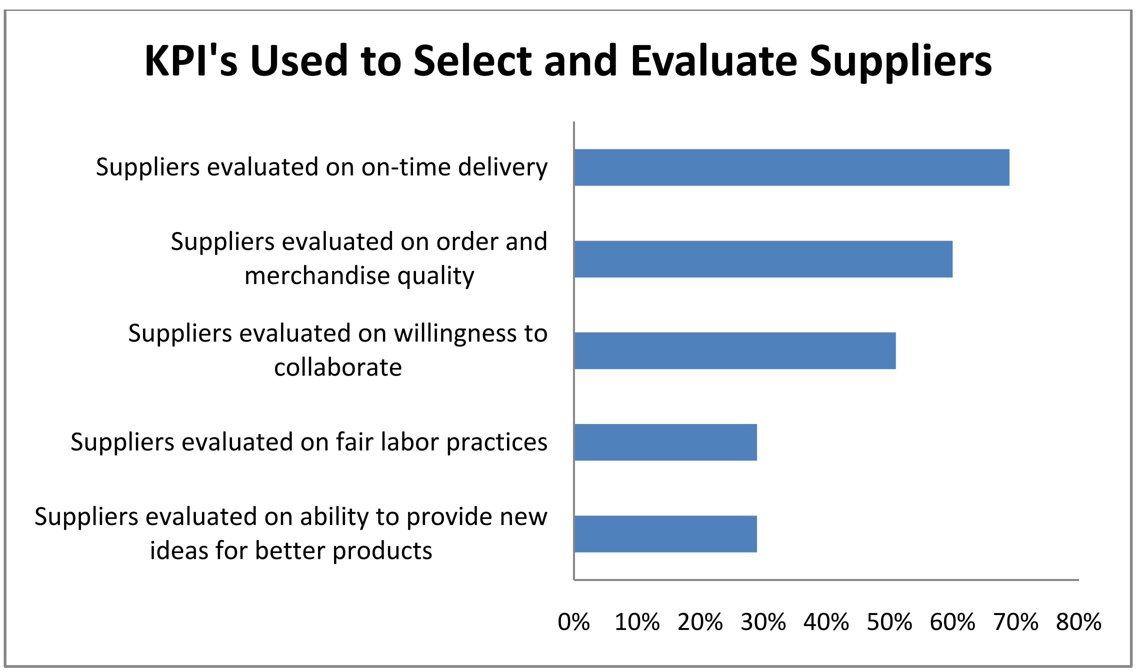
Step 3: Insure in-house agents perform merchandise audits prior to release from the factory: A dear friend used to say, "The good news is, we're making good time. The bad news is we're lost". This is the risk in continually pushing the envelope on time to volume. Corners are cut, precision is lost, and overall quality suffers. The time to discover problems is not when merchandise arrives at distribution centers, and most definitely not when a customer reports a problem on the web or in the news media. Time, money and pain can be reduced by auditing orders before merchandise is put into a container or onto a truck. In the past, the "perfect order" was one that arrived on time, with correct quantities. Times have changed. In the world of private label merchandise management the perfect order is one that conforms precisely to specifications.

Step 4: Scorecard suppliers on all elements of production and delivery: While Step 3 is a tactical step to insure each individual order meets specifications; this step is the strategic step that helps insure that suppliers are meeting all critical KPI's, to insure they can maintain their "trusted supplier" status.

KPI's on Point, But Frequency is Erratic

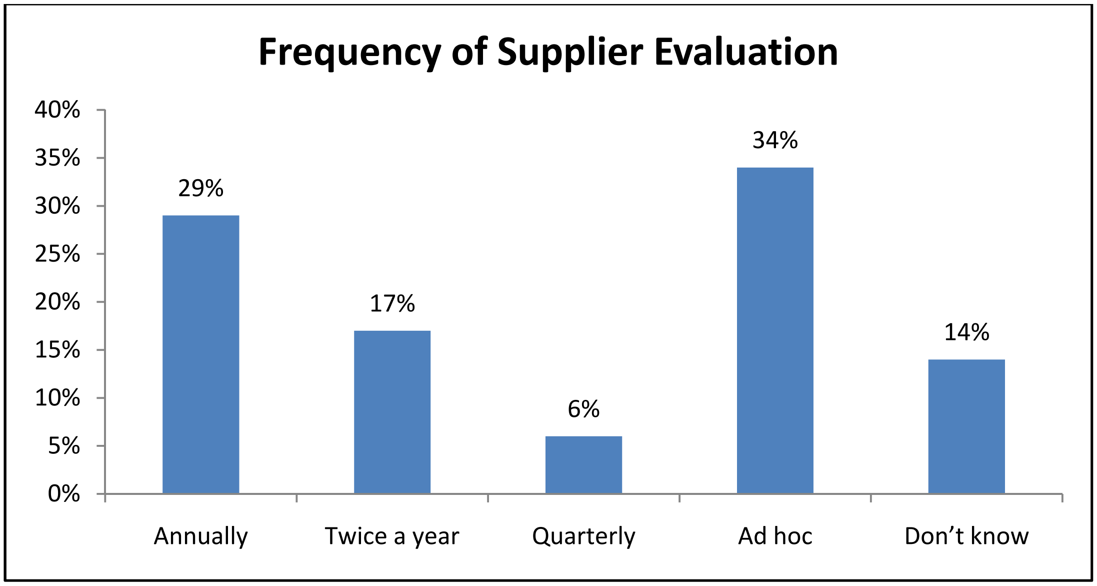
It's worthwhile at this point, to list the KPI's our respondents use to measure suppliers and also the frequency upon which they measure them. On the one hand, we see a rising importance in merchandise quality, even though on-time delivery remains the most important strategic metric (Figure 9). On the other hand, the inconsistency in frequency of supplier measurement is troubling (Figure 10). It's facile to say that "ad hoc" measurements come when they are least expected, and are therefore most effective, but in fact, more frequent evaluations will reduce the exposure to late deliveries, poor product design and labor practices.

Figure 9: On-Time Delivery Still Trumping Quality Concerns



Source: RSR Research, February 2008

Figure 10: Erratic Timing of Supplier Measurements

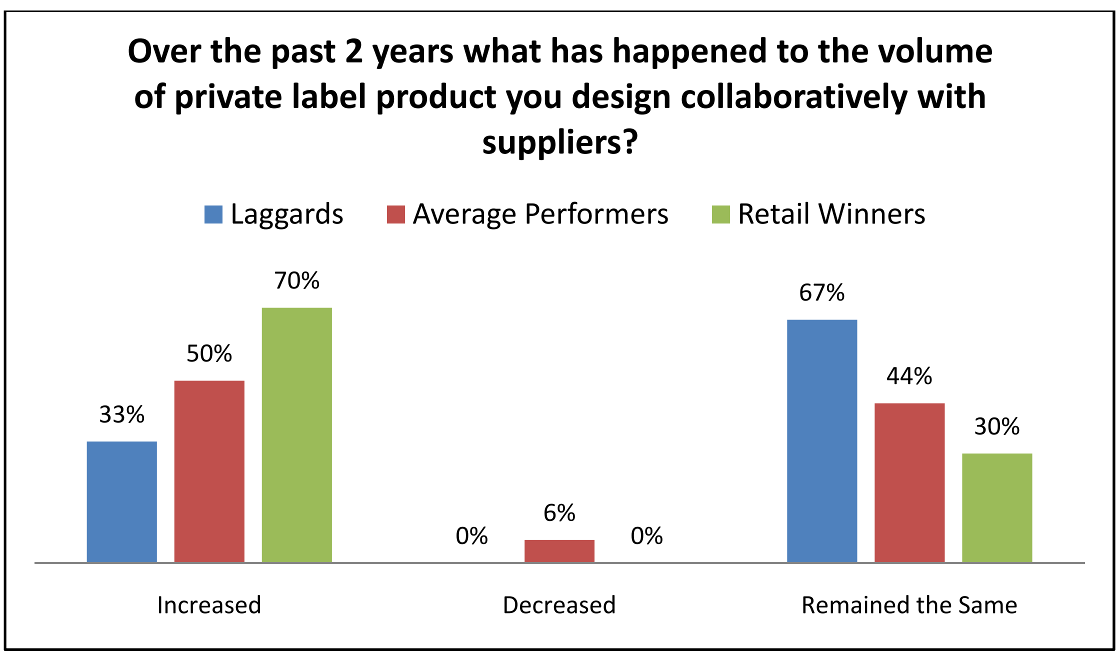


Source: RSR Research, February 2008

A Final Word on Quantifying the Opportunity – How Winners Win

Collaborative product design is catching on across the retailing landscape, but nowhere is it more prevalent than among retail winners. Figure 11 shows the dramatic differences in adoption rate of collaborative design across our entire respondent base.

Figure 11:
Collaborative Design A Key Strategy of Retail Winners



Source: RSR Research, February 2008

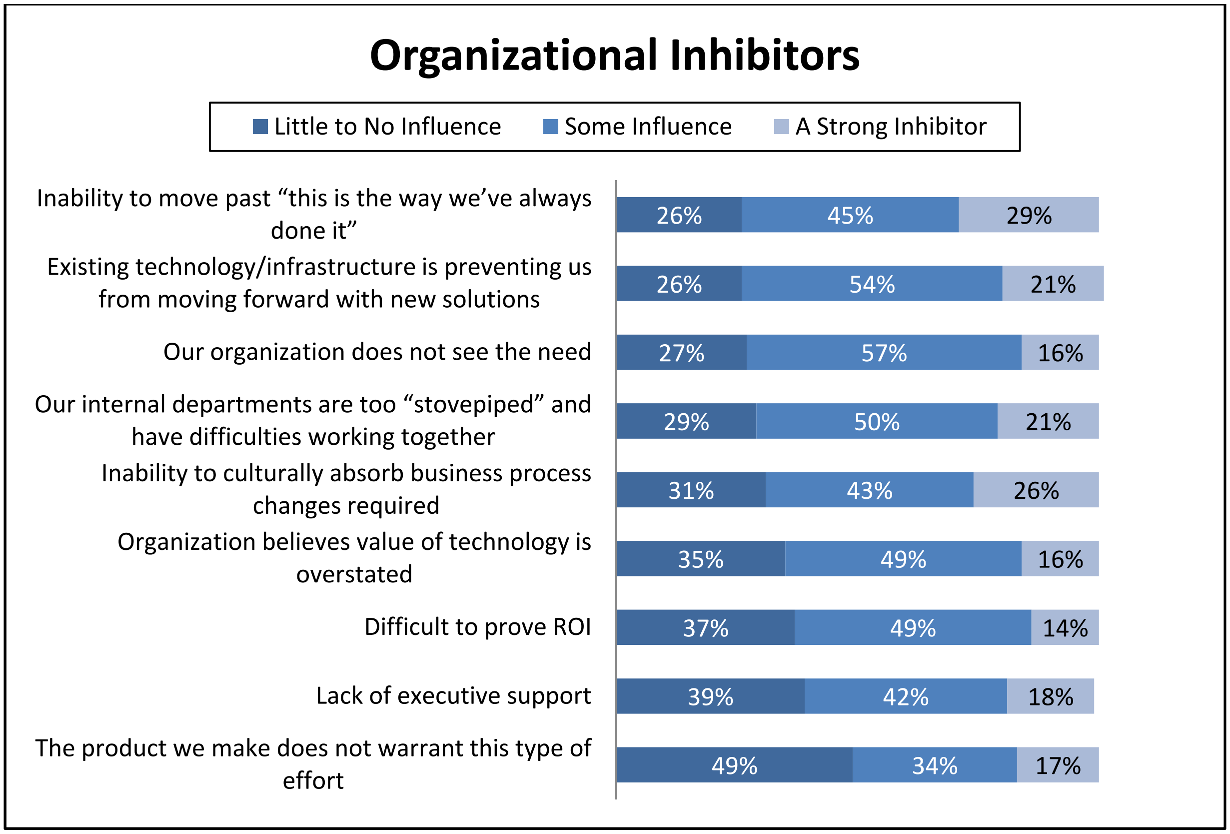
Clearly Retailer winners are leading the way in the move to collaborative design.

In the next section, we'll examine organizational inhibitors, or internal barriers that keep retailers from moving ahead with PLM initiatives.

SECTION IV: ORGANIZATIONAL INHIBITORS

Internal company cultural issues have consistently proven to be inhibitors to most business process and technology infrastructure changes, and PLM is no exception. Similarly the stacks of incompatible legacy systems found in many retail IT shops remain a gating factor to new initiatives and taking advantages of opportunities available (Figure 12).

Figure 12: Cultural Inertia and Systems Infrastructures Inhibit Opportunities



Source: RSR Research, February 2008

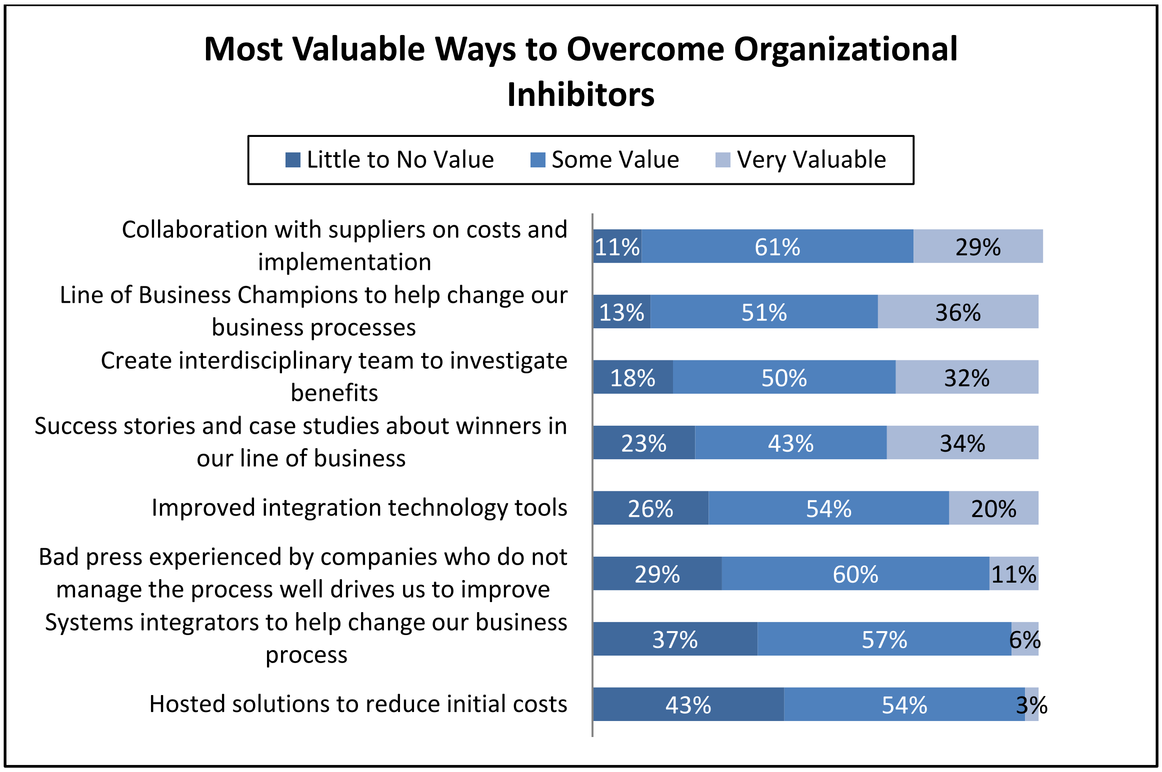
STOVE-PIPED ORGANIZATIONS PARALYZING SOME RETAILERS

There was a time when every department in the retail enterprise was fully aware of what other departments were doing. The saying was, "Even the janitor in retail has to have a full picture of the whole". Those days are long gone. Seventy-one percent of our respondents report various departments have difficulty working together because they have become "stovepiped". This challenge is directly attributed to mass. The larger the retailer, the less opportunity different departments have to work together, or even understand what each other's responsibilities are. *RSR believes that the days of a united retail enterprise are probably behind us, to be replaced by ad hoc groups working together on specific issues*. As we will see below, the drivers creating these interdisciplinary teams may be both positive and negative, but in any case, the "glue" pulling them together will last as long as the retailer feels very specific pains.

OVERCOMING INHIBITORS – TURNING LEMONS INTO LEMONADE

Not surprisingly, retailers look to their partners, those producing their private label merchandise, to help defray costs of any new PLM initiative. This is cited by 89% of respondents (Figure 13) as at least somewhat influential in overcoming internal issues – even though cost was not high on the list of organizational inhibitors. This is also consistent with last year's study. There's a bit of a discontinuity here on cause vs. effect, but it is in line with retailers' overarching desire to push costs up the supply chain.

Figure 13: Cost Collaboration and Internal Teams Overcome Internal Issues



Source: RSR Research, February 2008

Perhaps most fascinating is the number of respondents who believe that the bad press experienced by companies like Mattel is as almost as powerful as success stories about winners in bringing the company together around new PLM initiatives. The old axiom remains true – squeaky wheels get the grease.

IMPROVED INTEGRATION TOOLS WILL BRING QUICK PAYOFF

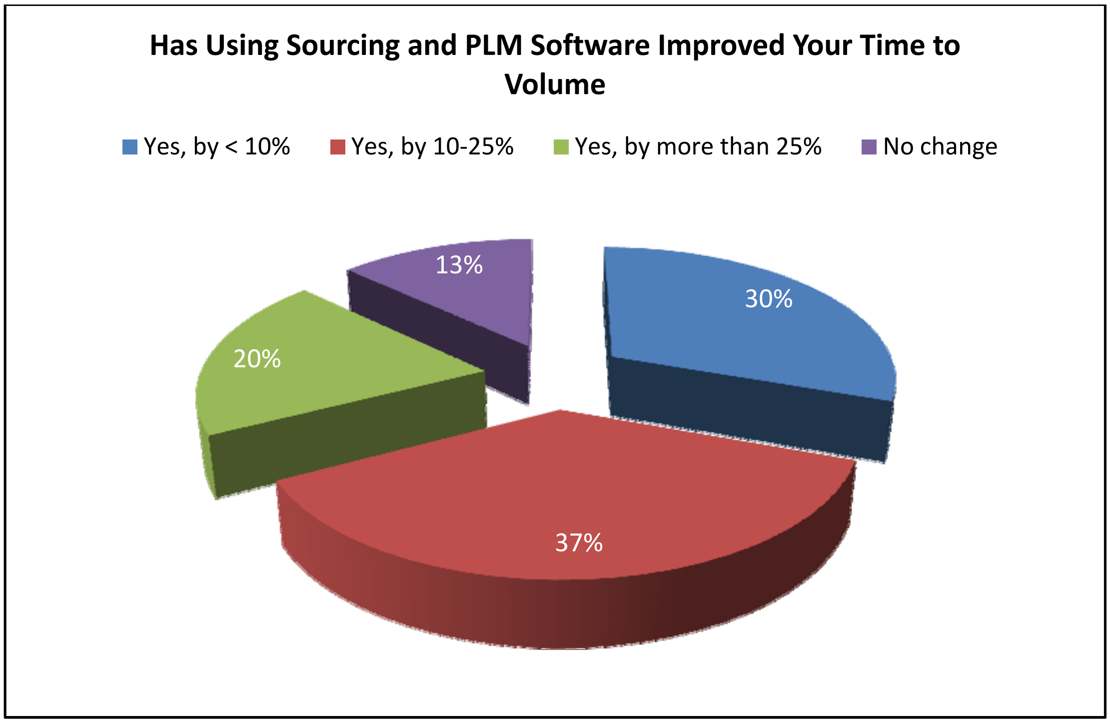
To get past "spaghetti code" and defray costs, retailers look to improved integration technology tools. Vendors have responded, by using a variety of SOA (Service Oriented Architecture) tools and techniques to simplify integration. We have just begun to see the emergence of "bus-to-bus" integration tools, to insure that a retailer buying into one platform can still add other architectures without fear of catastrophic results and costs, but this is become a must for new technology adoption.

SECTION VI: TECHNOLOGY ENABLERS

Product Lifecycle Management Driving Speed to Market

Clearly, Sourcing and Product Lifecycle Management technologies have helped bring products to market faster. *Thirty-seven percent of our respondents report a 10-25% increase in speed as a result of using these tools* (Figure 14). Fully one-fifth report improvements of over 25%.

Figure 14: Sourcing and PLM Technologies Make a Dramatic Difference



Source: RSR Research, February 2008

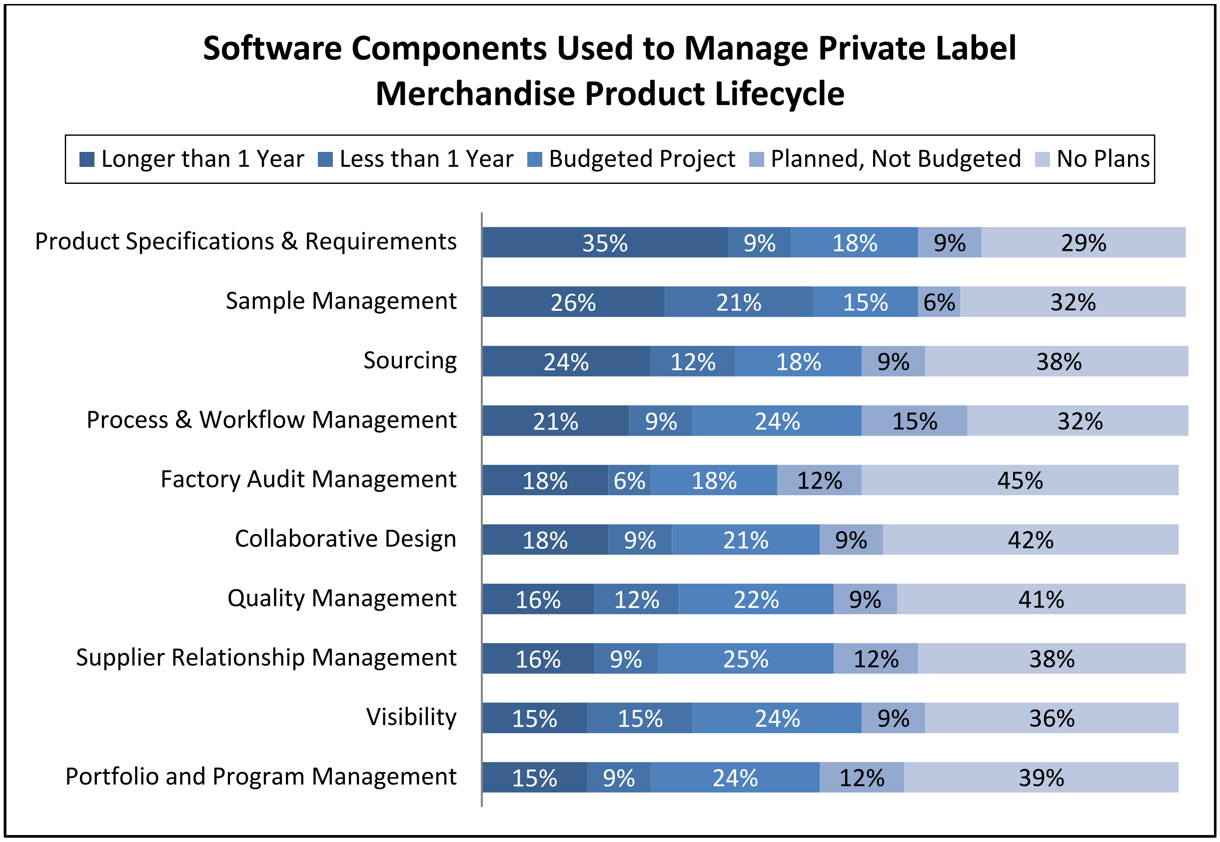
But what are the specifics? What are the most widely used components of Product Lifecycle Management and what do retailers see coming in the future? Our data tells us that the number of software applications used to manage private label merchandise has remained relatively consistent over the past year, with 52% reporting they use between two and five different applications to manage the process from "sheep to shelf" or "farm to fork". Only 21% of respondents report using a single application for the full Product Lifecycle Management process.

Software Components Used to Manage Private Label Merchandise

Not surprisingly, Product Specifications and Requirements topped the list of software components in use the longest, but we were also interested to find buying intentions around less heavily used components like Process and Workflow management, Collaborative Design

Management, Quality Management and Supplier Relationship Management. A fifth or more of respondents have budgeted projects to implement these software technologies (Figure 15).

Figure 15: The Mix of Software Components is Changing



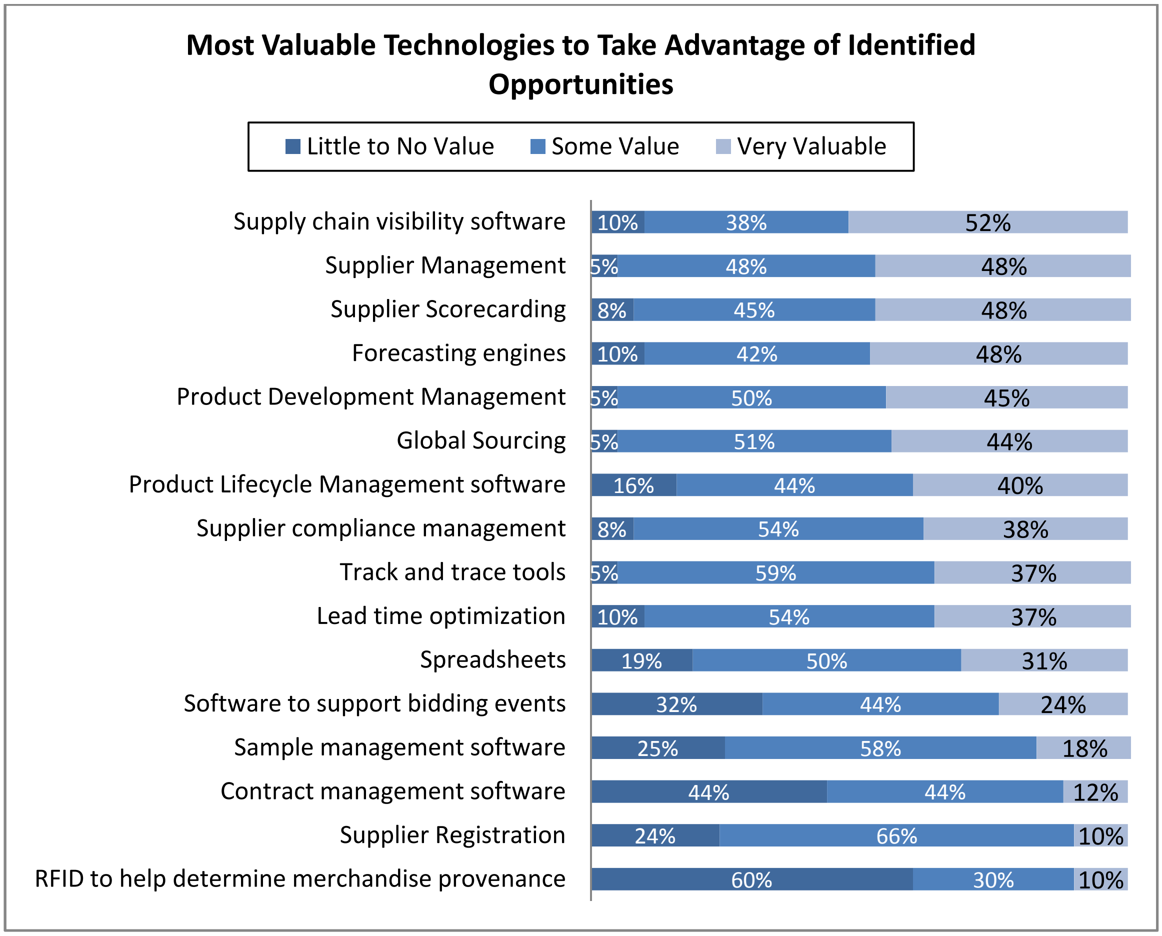
Source: RSR Research, February 2008

While "visibility" has long been cited as the most important capability needed for sourcing control, specific buying intentions are now reflecting that importance. RSR believes these to-be-purchased technology tools will be more sophisticated and alert-oriented than their predecessors.

Discontinuity Between "Most Widely Used" and "Most Important" Tools

Having asked our respondents which tools are most widely in use, along with their buying intentions in the coming year, we asked them which technology tools are most important to take advantage of the opportunities they identified. Their priorities differed somewhat significantly (Figure 16).

Figure 16: Difference in Perceived Value vs. Usage



Source: RSR Research, February 2008

It's more than a little disconcerting to see the differences in perceived value vs. usage. *While buying intentions around Supply Chain visibility software and Supplier Resource Management are strong, their usage still is far usurped by their perceived importance*. We suspect spreadsheets – still deemed valuable by 81% of respondents, fill in the gap.

Retail Winners Moving into New Territory

In examining relative importance of technologies, we found two significant differences between Retail Winners and their peers:

- While 44% of laggards and 25% of average performers find **software to support bidding events** as "extremely important technology enablers", literally NO retail winners believe this technology is extremely importance. Fifty percent of winners still believe it has some importance, but fully half have moved beyond it completely.

- Even as the **spreadsheet** remains a ubiquitous technology, Retail winners are finding it less valuable than they have in the past. Forty-four percent of laggards and 38% of average performers still find the spreadsheet to be very valuable, while only 11% of Retail Winners identify it as such. Of course, it has not disappeared from winners' radar screens. Eighty-eight percent of retail winners still believe it has "some value" in their organizations. We expect a continued move to more intelligent, centralized applications to support PLM in the coming year.

Bottom Line – What *IS* PLM Software, Anyway?

This may seem to be a straight-forward enough question, but ask five different people, and you will get five different answers. RSR believes that Product Lifecycle Management technologies begin with product ideation and end when the merchandise hits the store shelf or distribution center. While we believe it would be in retailers' best interest to incorporate their forecast engines into determining the quantities and timing of production, we recognize not all organizations or technologies are mature enough to use a single forecast engine across both the supply and demand chains.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

Follow the Rules - Speed Without Safety Can Lead to Disaster

A plumbing contractor said once that "not all code violations lead to problems, but all problems can be traced back to code violations". This seemingly simple statement is actually quite profound, and is directly applicable to private label merchandise and product lifecycle management. While cutting corners to drive speed may not cause any immediate problems, *all issues that result in compromise of life, limb or more minor inconveniences can be traced back to cutting corners and ignoring various explicit and implicit product safety and quality laws*. Therefore our first and most important advice to brand managers, including retailers and their suppliers is "follow the rules". Our second most important advice to retailers is verify UP FRONT that those standards have been followed.

- **Inspect merchandise before it leaves the factory**.
- Whenever possible, **use your own employees as inspectors**, rather than outside agents.
- **If you must use outside agents, scorecard their accuracy**, much as you would scorecard any other vendor.
- **Scorecard frequently** to avoid any temptation to cut corners and review scorecard results regularly.
- **Use technology that will trigger alerts when expected results aren't achieved.** Product managers must be made aware when an inspection has been missed, or appears to have occurred after the merchandise is on the road or on the water. Business intelligence can help drive better results and more proactive responsiveness.

Try Before You Buy

Retail winner Tesco makes a practice of performing a factory audit prior to placing ANY orders with a new factory. This is a practice we wholeheartedly support. As we saw in Figure 7, 90% of our respondents find at least some value in audits, but a review of working conditions and practices is an important way to initiate a new relationship. It sets the tone for what the retail will both expect and inspect.

Once a first inspection has taken place, a gradual ramp up of orders and collaboration will determine whether or not the factory is a fit for the retailer. Of course, it's important to have a "system of record" where factory audits, dates and results are kept. This data should be made available across all divisions and departments.

A Few Words About Technology

As retailers grow, it becomes less feasible to manage their assortments and private label merchandise processes solely through spreadsheets and whiteboards. Along with the physical look of the product or the desired recipe, it's critical to manage EVENTS, especially those on the critical path to a successful product release.

Those events include:

- **Confirm the status of raw materials** – if the leather isn't tanned or the fabric isn't dyed, it is likely merchandise is not going to arrive on time.
- **Take a careful look at samples** – Sample management isn't spoken about often, but as we saw in previous sections, it's a critical step in the new product introduction process. If the sample isn't right or at least close to specifications, the final product in mass production will likely be sub-standard.
- **Re-validate sales forecasts frequently** – In times where demand is erratic, or otherwise subject to rapid shifts, make best efforts to identify comparable items and track their sales. Don't stick with an initial forecast, hoping things will get better.

Don't be Deterred – Collaboration is Critical to Your Success

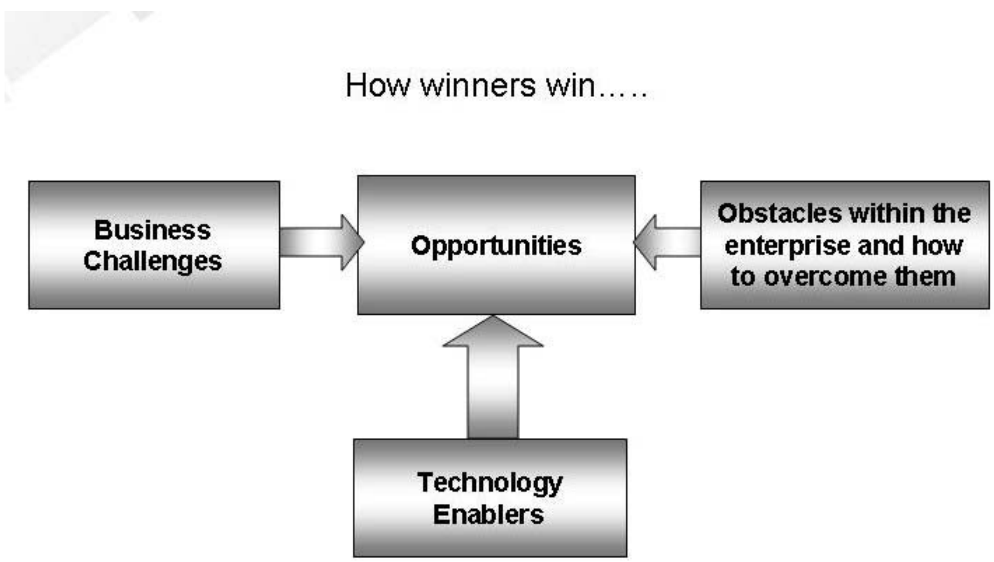
It would be easy, especially for smaller retailers, to avoid collaborative designs and create shared responsibility for product problems. In some ways, buying landed merchandise is a safer bet. But as this report has demonstrated, Retail Winners don't hesitate. Regardless of size or segment, they are moving to private label merchandise, and use Product Lifecycle Management technology to control the process.

APPENDIX A: THE BOOT METHODOLOGY

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: About Our Sponsors

Eqos is a leading provider of PLM, global sourcing, and supplier management solutions for the retail supply chain. Eqos on-demand software enables retailers to work collaboratively with trading partners to enhance product innovation, improve supplier performance, accelerate time-to-market, and ensure product quality and factory compliance. By layering over existing applications, Eqos facilitates cross-enterprise, streamlined collaborative processes between retailers, sourcing offices, agents, factories, suppliers, and third party service providers. The definitive solution for multi-category retail segments, including apparel, grocery and general merchandise segments, Eqos supports millions of transactions daily for 15,000 users, managing more than $50 billion in inventory for the world's largest, most recognized global retailers. Customers include Best Buy, Edcon, H-E-B, Sainsbury's and Tesco. Founded in 1997, the company has offices in Boston, London and Hong Kong. More information can be found at www.eqos.com.

Microsoft's Retail Industry Group provides software that helps empower retail's biggest assets — its people — to make better decisions at every stage of the value chain. Microsoft software helps enable retail employees to strengthen customer relationships, build high-value business connections and improve operations by addressing key areas such as store systems, real-time analytics and supply chain management. Through a combination of Microsoft- and partner-provided solutions, retail customers enable their employees to deliver an outstanding customer experience across various channels by turning data into insight, transforming ideas into action and turning change into opportunity. More information about Microsoft's work in the Retail industry can be found at http://www.microsoft.com/industry/retail.

APPENDIX C: ABOUT RSR

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, and thought leadership and advice on navigating these challenges for specific companies and the industry at large. RSR's services include benchmark reports covering the state of retailer technology adoption for topics ranging from merchandising and supply chain, store operations and workforce management, to customer-facing and multi-channel technologies. Custom research reports provide more in-depth views into topics of industry interest, and advisory services help retailers and technology vendors make the most of the insights RSR provides. To learn more about RSR, visit www.rsrresearch.com.