Analytics and the smarter consumer

Three ways to win

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Overview

For retailers and consumer products companies, the customer has always been critical to the business. Now, if anything, the balance of power has shifted even more. Consumers are getting smarter. They're incorporating new technologies and more information into their daily lives.

People are more connected, empowered and demanding. And they can choose where, how and when they want to shop. More than ever, it's a buyer's market.

This presents challenges for retailers, who have to provide a seamless shopping experience – providing the right products in the right place. CP manufacturers too have to offer an appealing product range and operate through their channels to bring the right offering to consumers.

These organizations have to understand what consumers want, and work the dynamics of supply and demand to fulfill that requirement. They need the best tools available to win customer and brand loyalty.

Understanding and winning customers isn't easy. The problem isn't lack of data. Data pours in from multiple systems, channels and regions. The challenge is how to extract meaning from it to inform decision-making and enable productivity and agility in the face of market demands.

IBM Cognos® software is just one example of how organizations are leveraging new intelligence to create sustainable and competitive advantage. Cognos analytics and performance management solutions provide an enterprise planning, consolidation and business intelligence platform that helps companies plan, understand and manage financial and operational performance.

With core capabilities including reporting, analytics, dashboards, planning, scorecards and more, companies can understand performance and make better decisions. With trusted, accurate and timely information to the right decision-makers at the right time, they can optimize business performance.

And with critical insight across the business, they can improve the customer experience, improve marketing effectiveness, gain visibility into revenue and profitability performance, and better manage their extended and complex supply chains.

This white paper will explore the practical applications of performance management and business analytics. It will highlight how analytics can help you meet demand, increase customer profitability and be more operationally efficient.

It will also examine three focus areas where using Cognos software can help you gain rapid insight, real ROI and the drive up profits.

"Retailing is emerging as a real-world incubator for testing how computer firepower and smart software can be applied to social science – in this case, how variables like household economics and human behavior affect shopping." New York Times[1]

What are retail analytics and performance management?

To stay ahead in a competitive marketplace, you need to spot trends, understand your customers and make informed decisions quickly. With business analytics, retailers and CP organizations gain access to the reliable, timely information that drives better decisions. While there are any number of decisions to make, they depend on answers to three fundamental questions:

- How are we doing? – Staying on-track to meet targets with visibility into any aspect of your business performance.
- Why? – Putting results and decisions into context by analyzing trends and patterns.
- What should we be doing? – Allocating staffing, inventory, marketing, and resources as well as capital investments more effectively using driver-based plans and rolling forecasts.

Cognos software provides a single, enterprise platform for analytics and performance management. It integrates and leverages your financial and operational data and allows your organization to employ the following capabilities to answer your critical business questions:

Dashboards and scorecards
Cognos software communicates your strategy and objectives through metrics-based scorecards and dashboards.

It answers "How are we doing?" by providing people with the information they need to take ownership of their performance—visibility into strategy, understanding the part they play in making the strategy succeed and the metrics to measure their success.

Use Cognos scorecarding and dashboards to:

- Monitor sales and margin performance by channel, division, region, store, production line, category or vendor.
- Manage merchandise sales, margins and stock levels across channels and locations.
- Track financial goals in terms of growth, profitability, key controllable expenses and return on net assets.
- Measure marketing effectiveness.
- Evaluate supply chain activities, vendor or customer performance and logistics operations across a range of metrics.

"With the real-time insights enabled by Cognos, we're better able to translate our fashion market savvy into smart practices at every level of our business." Nihad Aytaman, director of Business Applications, Elie Tahari."

Reporting and analysis

Consolidating the large data volumes your organization amasses is a huge challenge. It is especially difficult given that there are also many tools used to analyze and report on the data, creating more islands of information.

Cognos reporting and analysis consolidates your critical data, and turns it into meaningful information and reports that everyone can use. You can quickly spot trends and drill down to discover underlying causes and issues.

The flexible, user-friendly reporting means everyone has the right information delivered in the right way—across all departments, locations, functions and roles.

With a single, standardized BI platform for reporting and analysis, you can accurately assess the "Why?" behind operational activity and performance. This provides the necessary context for making decisions.

Use Cognos reporting and analysis to:

- Report on performance by channel, division, region, store or account, category or product to maximize profits.
- Analyze sales transaction data to understand demand, optimize staffing levels and improve in-stock position.
- Understand consumer and market trends, and react quickly to initiate targeted promotions and provide a more positive shopping experience.
- Consolidate, analyze and report on market basket information.

Predictive analytics: Anticipate and respond with more precision

Companies can shift to a fact-driven enterprise by applying advanced analytics to an integrated set of information. Analytics can help your organization foresee the likely impact of actions to improve decision-making and see what you previously couldn't – in areas such as predicting demand, loss prevention and optimizing assortment.

Unique insights derived from predictive analytics, for example, can help answer key business questions:

- How can I understand product sales patterns and buying preferences to increase sales and margins?
- Which products are most likely to drive customers to buy?

A key area is market basket analysis and customer analytics. Retail operations generate huge amounts of transactional information, which provide details on product purchase patterns and individual customers or customer profiles. Most CP companies acquire this data either from their retail customers or from market agencies.

The volume of data, however, makes those patterns difficult to detect by manual means, and companies fail to optimize the benefits from all this data.

IBM SPSS Market Basket Analysis uses algorithms to analyze this transaction and customer data, relate it to previous purchases and build predictive models that can be applied to:

- Decide what categories or products to display or promote together.
- Decide whether an offer is valid for a particular customer.
- Predict the probability that the customer will respond to the offer.
- Calculate the value of the customer accepting the offer.

Applying these models across offers allows you to select the best for each customer or customer segment. These are then delivered to shoppers in the most appropriate way. For example, loyalty card holders might receive targeted coupons enclosed with their monthly statement.

The value: you can ensure your product offers and promotions match shopper preferences and behavior – so you can maximize return on marketing spend. By linking purchases to individual purchasers, you can take this even further, tailoring offers to specific customer segments and driving higher returns from more precisely targeted campaigns.

Planning, budgeting and forecasting

Many organizations still use spreadsheets as their primary vehicle for planning and budgeting. Spreadsheet-based systems are error-prone and create islands of financial and planning data, where everyone works independently.

What's required instead is a solution that replaces a fragmented process with continuous, collaborative planning that supports your business drivers and delivers up-to-date insight into performance.

IBM Cognos 8 Planning helps you build a foundation for higher performance by connecting strategy to plans, targets and operational objectives.

The solution addresses "What should we be doing?" by allowing you to set strategic initiatives and turn them into discrete plans and budgets for the entire enterprise—from central office to plants, and marketing to distribution centers.

Use Cognos Planning to:

- Develop long-range, financial, cost center, and headcount plans, forecasts and budgets across the enterprise.
- Create operational plans for stores or key accounts, channels, marketing, categories and supply chain.
- Gain consensus and consolidate top-down and bottom-up operational plans with financial plans.
- Increase accountability across the organization through a high-participation planning process.
- Support timely updates of forecasts to address changing market influences, new initiatives and competitive factors.
- Manage and consolidate plans via integrated workflow.

With integrated plans, BI reporting and analysis, and performance metrics, you can dramatically improve your understanding of the organization. And this improves your ability to make timely and informed decisions that improve operations, increase sales and drive profitable growth.

IBM Cognos Performance Blueprints to jump-start your planning

In most organizations, budgeting and planning is often done in silos, where each department completes its own bottom-up initiative. This makes it difficult for the business to keep pace with changing consumer needs, trends and shifts in the marketplace as well channel and product performance.

In a customer-focused industry, these bottlenecks can mean the difference between high profits and bankruptcy.

Blueprints connect operations with finance and drive continuous collaboration. The Blueprints are pre-built data models that provide streamlined planning, forecasting, analysis, and reporting functionality. They extend the planning process beyond corporate finance to store operations, store development, marketing and merchandising.

For manufacturing, the process is extended to production management and account planning — to manage to a single set of financial objectives and business goals.

Blueprints give finance more time for analysis and rolling forecasts. What emerges is a dynamic business that adapts quickly to trends, new consumer demands, competitive challenges and changing markets—from corporate to the customer.

For more information, visit: ibm.com/retail/performance-blueprints and ibm.com/consumer-products/performance-blueprints.

Result one:
The smarter shopping experience

For retailers, success depends on building customer loyalty and trust by getting the right product into the hands of the consumer. It's a big challenge, especially for global organizations that can experience lead times as long as 6 to 10 months – they have to make substantial bets on inventory and customer trends.

CP manufacturers face the same challenges, but they need to influence and work through their retail customers to achieve these objectives.

To get it right, you have to understand the ever-changing shopping patterns and needs of target customers and deliver a smarter shopping experience. That requires intelligence. Using analytics to spot trends early and proactively structure planning and inventory efforts allow you to shape demand, rather than react to it.

The IBM Cognos retail performance analytics solution is designed to help you collect and act on merchandise, customer, supply chain and multi-channel analysis. The solution enables in-depth insight into customer purchasing patterns over time to help:

- Provide consistent service across all your channels.
- Gain a more complete picture of your customers and their preferences.
- Stock the right products, in the right store, in the right quantity, at the right time.
- Streamline business processes for a substantial competitive advantage.

Advanced data integration capabilities allow you to gather information from point-of-sale, procurement, sales channels and inventory systems. An enterprise data model enables an end-to-end view of the customer, product, sales and supply chain information in real-time using dynamic warehousing capabilities.

As well, management dashboards offer a single, interconnected view into customer buying patterns, multi-channel performance, merchandising metrics, supply chain operations and financial performance management.

Finally, advanced analytics and performance management reports provide insight into channel performance, customer segmentation, campaign management and market basket analysis.

From here, your organization can approach meeting customer demand with informed intelligence about their buying habits and preferences.

Assortment planning Blueprint: Address customer preferences and market factors

With an increased number of product choices and channels, and changing market conditions, consumers are altering their spending habits. More than ever, companies have to work hard to win over customers while staying on top of sales and merchandise requirements. They must also be able to spot trends to optimize operations and maximize profits.

The IBM Cognos Assortment Management Performance Blueprint provides pre-season and in-season merchandise planning and performance management. It includes target-setting, top-down and bottom-up planning, consensus, scenario modeling and visualization of data to help retailers and manufacturers manage performance against plans.

Chains gain the visibility to make smarter buying decisions and meet profitability objectives—while offering a differentiated assortment to customers.

To learn more, visit: *ibm.com/solutions/retail/assortment-management*

Result two: Merchandising and supply chain

Global supplier chains hold out big potential for production, cost management and efficiencies. Orchestrating the chain, however, requires more than just mastering logistics.

A recent study by the IBM Institute for Business Value points to a new and critical imperative: supply chain intelligence.

"As they reevaluate current supply chain strategies and initiatives, executives should ask: Which investments are simply making processes faster or more efficient? And which go a step further – making the supply chain decidedly more intelligent and resilient in times of unprecedented instability and risk?"[2]

To keep all the elements in the chain running smoothly, your organization has to see what's going on, what's most critical, what decisions you need to make and the impact these decisions will have up and down the extended supply chain.

Performance management with IBM Cognos encompasses the complete range of BI and planning software. It enables the key capabilities to help you overcome the barriers to a high-performance supply chain.

"For us, the main goal is to reduce cost per case. So you've got to find every feature, everything that goes into what it costs to make your product, and then start being able to nail down where you're losing money, because waste just doesn't work." Craig Sindorf, BI manager of supply chain, Dr Pepper Snapple Group

Visibility
Performance management and business analytics provide organizations with complete visibility into and across their supply chain. It brings together data residing in different systems and at multiple levels of granularity.

Managers can monitor performance at the global level, analyze performance across processes, products or suppliers and dive down to transaction-level detail. They can identify key metrics, measure performance and receive alerts when performance is off-track and make immediate corrections.

Predictability
With performance management, future results become more predictable. Through regular reporting and analysis, managers can identify events, trends or other conditions that lead to problems. This helps them become proactive and eliminate problems before they occur.

Managers can analyze trends in operations, and build financial models and sales forecasts that help them make better decisions about resources and suppliers as well as new products. Retailers can also take pre-emptive action to prevent inventory shortfalls, delays and other events that hurt performance.

Complete information
Cognos software provides managers, partners and suppliers with the complete and consistent information they need to produce meaningful and actionable analysis. Reports, analysis and other information can be distributed through a centralized portal or extranet.

Effects of decisions can be evaluated so people understand the cost-to-serve and make better decisions. Complete information enables better collaboration. If a delay is identified, managers, suppliers and partners can be alerted and work out a collaborative solution.

For more information, download the white paper *Orchestrating the chain: Supply chain performance management.*

Benchmarks and your supply chain

Benchmarking allows you to compare the metrics of a process or method against an industry standard or another company best practice

Cognos scorecards support the Supply-Chain Operations Reference-model (SCOR) developed by the Supply Chain Council. The SCOR model provides a framework that links processes, metrics, best practices and technology to improve supply chain management.

The IBM Cognos SCOR Blueprint is a scorecarding application that includes more than 550 predefined metrics and linkages to the SCOR Performance Attributes. The SCOR Blueprint provides:

- A comprehensive metrics approach that includes a predefined metrics database and impact diagrams.
- Standard performance reports and analytics, as well as alerts.
- Insight into underperforming metrics.
- Defined metrics ownership and responsibility.

"Measuring performance and periodically benchmarking it are critical components to the ability to excel over time. The best companies do this right. However, while doing all of this is important, good processes and governance will only get you halfway there.

"Most important in this effort is the clarity that you are benchmarking to improve end-to-end supply chain performance in the context of company goals and making it an ongoing process to drive continuous improvement."[3]

Read the full AMR Research report: *Benchmark Your Supply Chain: Seven Factors for Success.*

Result three:
Reliable financial planning

Becoming a leaner organization means swapping out inefficient processes in favor of new systems capable of driving ongoing performance.

For instance, rather than setting targets at specific numbers, your decision-makers may want to begin tying performance targets to events, trends and risk factors. Rather than engaging in planning on an annual basis, they might consider adopting shorter planning cycles focused on achieving specific tactics and initiatives.

It is becoming increasingly important to align financial forecasting with the business cycles that prevail in your key markets. By replacing rigid annual budgeting with continuous planning – on a monthly, weekly or even daily basis – you can position your organization to achieve higher performance in both good times and bad.

With real-time visibility into up-to-date data, your decision-makers can create rolling forecasts that take a broad range of potential future scenarios into account. Using predictive analysis, business leaders can also develop action plans for variable future outcomes, increasing business agility and responsiveness.

Complete planning, budgeting and analytics
Cognos TM1 software provides a complete planning, budgeting and analytics environment to help you deliver timely, reliable forecasts and plans. You can rapidly analyze and model planning requirements for your entire organization and use them to anticipate the correct course of action for better business outcomes.

The solution supports a full range of business requirements from high-performance, real-time financial analytics, such as for customer and product profitability, and flexible modeling, to enterprise-wide contribution from all business units.

Cognos TMI:

- Reduces planning cycles by 75 percent and reporting from days to minutes.
- Is owned and managed by Finance and lines of business.
- Provides exceptionally fast performance for large, sophisticated models and large data sets.
- Features personalized planning and analytics—within a managed planning process—to explore performance gaps and validate corporate drivers.
- Provides a flexible modeling environment that requires no programming or traditional IT skills.

"Our IBM Cognos implementation gives us the ability to change behavior quickly in our restaurants, measure the impact of these changes relative to our strategy and refine as needed to drive results."
Stephen Pruden, Director of Information Technology Strategy and Integration, Steak n Shake

Cognos and the Information Agenda

IBM's Information Agenda is an industry-specific approach for defining and implementing an information-led transformation. With a proven track record of helping companies respond and adapt quickly to unpredictable, up-to-the-minute changes in their business, the information agenda approach will help your business develop a customized roadmap in a matter of weeks.

Vital to this approach is Cognos analytics and performance management capabilities, which include software and services that enable you to make better decisions by providing planning, budgeting, forecasting, measuring, monitoring, reporting and analysis capabilities.

Summary

For retailers and consumer product companies, shifting to a more consumer-centric focus can help increase customer loyalty and retention as well as revenue streams. This kind of success depends on deep insight into customer preferences and product needs, and successfully working the dynamics of supply and demand.

This paper summarizes three ways organizations can win with business analytics and performance management. Cognos software is enabling these organizations to understand their business and react quickly to changing markets, stay on top of consumer demand and increase profitability.

These benefits are the promise of analytics and performance management. The solution allows users to leverage existing investments from multiple sources, and it delivers the full range of integrated capabilities business users need to monitor the business, make better decisions and plan for better outcomes.

When the going gets tough, the tough need insight. That's why leading retail and CP organizations turn to IBM.

For more information on Cognos solutions for retail please visit www.ibm.com/cognos/retail. For CP solutions visit: www.ibm.com/cognos/solutions/consumer-products/.

About IBM Cognos BI and Performance Management:

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For more information

For further information or to reach a representative:
www.ibm.com/cognos

Request a call

To request a call or to ask a question, go to www.ibm.com/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

Endnotes

[1] Steve Lohr, A Data Explosion Remakes Retailing, The New York Times, January 3, 2010.

[2] IBM Global Chief Supply Chain Officer Study: The Smarter Supply Chain of the Future, IBM Institute for Business Value, January 2009.

[3] Debra Hofman, Jan Barrett, and Lora Cecere, Benchmark Your Supply Chain: Seven Factors for Success, Industry Value Chain Strategies Report, AMR Research, May 2008.

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