

Retail (Financial) Performance Improvement

Are you constantly striving to find ways to improve your company's financial performance? If so, you are not alone. In these competitive times, performance improvement is essential not only for winning, but for survival.

There are many ways to improve performance. New strategies, business models, and better execution can all play a role. These can be enabled by the right technology and business process to significantly increase revenues and reduce costs. In fact, technology has proven that lost sales can be captured, store labor costs can be reduced, and inventories can turn much faster.

However, technology and business process alone will not do the trick. Both hard box (score keeping) and soft bubble (organization, decision making and culture) need to work in tandem to truly effect performance improvement. The Retail Performance Improvement (RPI) approach integrates both for a coordinated performance improvement.

The CFO and CIO can lead the challenge. Using the profit model as the overall guide (see Figure 1), the financial opportunities are clear for everyone on the management team. The CEO, however, is crucial to the process. He or she must endorse the approach and commit the time and support of the entire functional management team.

Figure 1: Retail Performance Improvement (RPI) Model

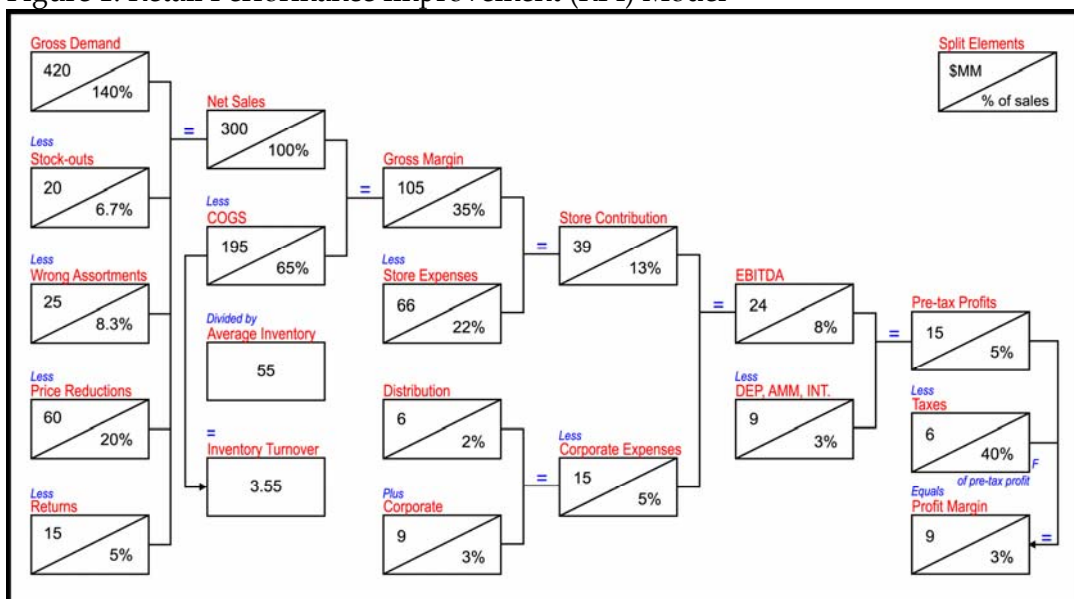


Figure 1 illustrates a sample of the current financial status in the company. At the far right, we see pre-tax profits and profit margin. Working to the left, we see the calculations for EBITDA, followed by store and corporate expenses, and net sales. The calculations are all linked, as shown in blue in the diagram.

The left-hand column is rarely addressed in financial analysis, but its power is incredible. If net sales are \$300 million, then how much represents true demand? What was lost, say, to wrong assortments and price reductions? How much higher could sales have been without those losses? Could the right technology stem these losses?

Using this model, performance in each box can be benchmarked against competitors, plans, and desired results. By assigning responsibilities to each box in the model, everyone on the management team becomes accountable for the performance improvement within that box.

Financial performance can then be improved by introducing the right technology and business process. The impact can be significant. For example, many retailers have realized gains of 5% in their profit margins by implementing price optimization solutions. Figure 2 shows the impact on inventory, sales, and profit. Sales increase by \$9M, to yield \$4M in additional profit.

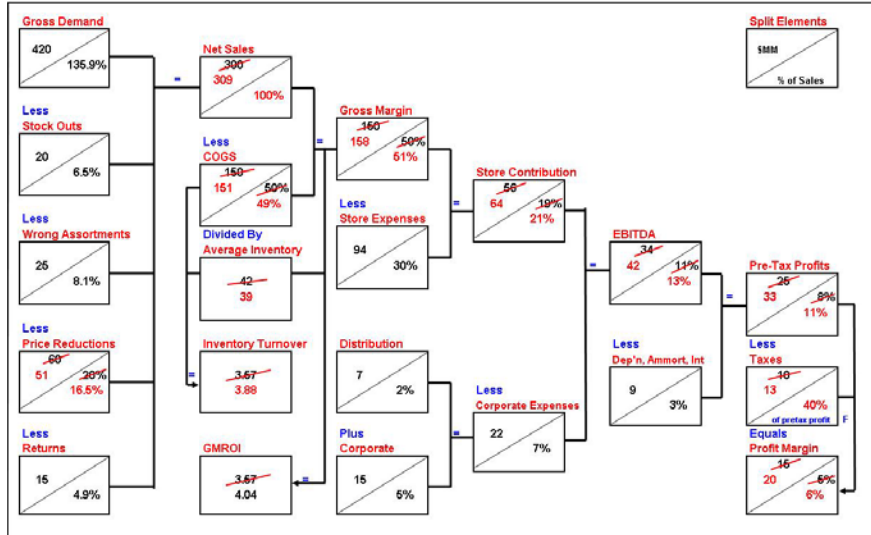


Figure 2: RPI model with profit optimization impact

Our unique RPI methodology establishes the base financial models, and helps retailers uncover opportunities to improve performance. Let us help you achieve your goals. For more information, contact:

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