My Turn

How retailers can find ways to 'out Amazon' Amazon

By Randy Fields

At the turn of the millennium, the retail industry was aglow with technological and operational possibilities.

The internet was seen as a platform for both selling things and making merchandising and fulfillment processes more efficient. Data processing power and storage capacity was growing dramatically, an improvement that cut analysis time from weeks down to hours. Additionally, data communication speeds were accelerating so quickly that frontline associates now had access to nearly real-time insights.

These were heady times for retailers and suppliers — two segments that had previously been considered well behind the technology curve across most operations, with the possible exceptions of point-of-sale and ordering. Out of this maelstrom, Transora, GlobalNetXchange, World Wide Retail Exchange and dozens of smaller consortium trading exchanges (CTEs) emerged — and each one promised to revolutionize every facet of the way retailers and suppliers worked together.

Within months of the launches pation and integration issues were also taking their toll, most importantly, these marketplaces were riddled with significant political infighting among participating companies (i.e., who should control the project?), and trading partners (i.e., who should get the biggest slice of any savings?).

Sidetracked by these challenges, not one company even considered what would become retail's greatest disruptor since Walmart's entry nearly half a century ago: an emerging company called Amazon.com.

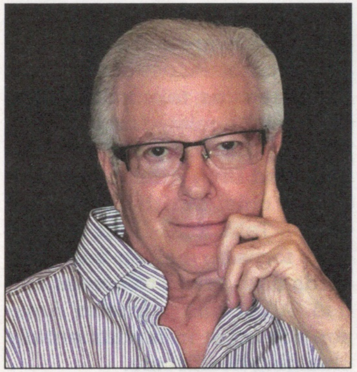
At the turn of the century, Amazon still hadn't posted a quarterly profit. Its impressive debut as a books and music retailer gained the attention of both business and investment analysts, both of which considered the company a bellwether for e-commerce. However, the online retailer's stock price had a case of the doldrums, and wouldn't really start to take off until after the Great Recession. Prime was still a decade away, and its first foray into food was six years off.

While 17 years is more than a lifetime in the tech world, as well as for the systems that support retailers, wholesalers and brands, companies' systems and similar trends, issues that are prompting companies to adopt faster, better and smarter solutions if they want to compete with Amazon going forward. This also requires more attention on the extended retail supply chain, an operation that needs to be more efficient, get products on the shelf faster and keep those products in stock so shoppers can buy them.

Yet, there is plenty of work to be done.

Even with all the new technology deployed by retailers, they still lag behind Amazon in terms of shopper engagement and inventory optimization. Too often, retailers lose customers to Amazon not because of the online retailer's lower prices, but because they can't coordinate inventory with shopper demand. Rarely do Amazon shoppers compare or check prices.

The Amazon advantage, which is often characterized as price or convenience, is likely just "predictability." How often,



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Brands need to constantly develop new tools, especially those that give them better insight into customer demand and inventory management, to keep up with Amazon. This is not an easy task when competing with a company that spends billions of dollars on research and development annually. In fact, the company spent $17.4 billion on R&D over the 12 months ended in March 2017, according to Bloomberg View.

Retailers lose customers to Amazon because they can't coordinate inventory.

protection and local ordering functionality is really the best of both worlds, and can help create a dramatic competitive advantage — one that helps them better compete with Amazon.

A good example of the individuation that trading platforms provide can be seen with merchandise marketed by specific sports teams. Retailers want to ensure that individual stores can order shirts, banners and caps of local, professional, college and even high school sports teams. Yet, they also want to have control over ordering, so they aren't stuck with unsellable inventory. The same goes for hot new craft products. Retailers need this merchandise because they want to offer shoppers something that isn't available at Amazon, but brands also need to limit their product inventory risk.

Meanwhile, these new trading platforms help retailers keep required compliance standards. This capability is increasingly important as retailers offer more "local," new or smaller brands. While lucrative, these companies have the potential of exponentially increasing risk for retailers, as undercapitalized suppliers are less likely to apply

Within months of the launches of the three large exchanges, analysts at Gartner predicted that only 20% of the CTEs would survive industry consolidation by 2004. They were off by 20%, as Transora, GlobalNetXchange and World Wide Retail Exchange all failed. Only a few of the smaller, commodity-based exchanges lasted more than five years.

What happened in paradise? According to analysts, most exchange operators were too optimistic about delivery dates for functionality; they lacked consensus about where the functionality should reside; there was poor budgeting; and none offered marketplace-to-marketplace integration. While supplier recruitment, partici-

and brands, companies' systems have come a long way. And oftentimes these efforts are driven by the fast pace dictated by Amazon.

To keep up with their online competitor, trading partners are working harder to understand what data is imperative to engage their shoppers, their optimal products assortment, and what technology solutions can boost the efficiency of their operations. Similarly, technology providers have also matured their thinking, and built out solutions that serve the goals of the trading partners.

Other variables are in play too, like retailers' generational shift to more tech-savvy workers and changing corporate cultures resulting from mobile computing

you might ask yourself, does Amazon tell you it can't provide the item you want because it is out of stock? Compare that to the 10% to 15% out-of-stock items in most retail stores. This out-of-stock issue is now bubbling up in home delivery, as well. Ask Millennial children, likely users of Instacart and similar services, how often after placing an order they have to approve a substitution? The answer will be *far* too often. What if the truth of the matter is that price shoppers are a smaller minority of customers and since satisfying them is impossible, the better strategy is to focus on being in stock to satisfy your core customers?

So how can retailers ever leapfrog Amazon?

Retailers need to adopt the next generation of trading platforms — complex, yet flexible computing technology that is found in the cloud. This agile technology combines product discovery, comprehensive supplier relationships and shopper demand realization, yet still connects the plumbing of the retail supply chain.

These new trading platforms enable companies to search for suppliers that meet select criteria, like regulatory compliance and certifications, in an effort to bring new products to market in just a fraction of the time. Unlike their electronic supplier catalog predecessors, these new systems also automate and guide the sourcing process from end to end, across supplier qualification, order negotiation and on-boarding of new suppliers.

This next generation of platforms also help trading partners reduce pricing errors, enhance invoice reconciliation and dramatically cut out-of-stocks and overstocks. The technology also will reduce the time category managers spend on discovery, compliance and supply chain management issues, enabling users to focus more on customer service activities, like digital outreach, shopper loyalty programs and in-store promotions.

Perhaps most importantly, new trading platforms feature centralized curation of products and guardrails for order quantities. This national-level

suppliers are less likely to apply and maintain good — and safe — manufacturing practices. Besides saving companies weeks of research, standardization also helps retailers replace noncompliant suppliers, a practice that is expected to increase as validation demands across categories, including organics and non-GMOs, are raised.

The exchanges of the early 2000s are long gone because of their systemic disconnect between the old way of doing business and the proposed new way. They won't be back.

New trading platform technologies hold much more promise and have considerably less risk for retailers and brands. These systems take into account, and try to capitalize on, capabilities like cloud computing and big data that weren't around 17 years ago. In doing so, these emerging solutions deliver on the original promises of the exchanges. The key point is that only a comprehensive trading platform can offset the advantage Amazon now has over traditional retailers.

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The plague of data dysfunction

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promotions are entirely incremental to the promoting brand, the category and the retailer.

- Companies can actually make money by spending more on trade promotion, but only if the retailer is willing to work with them on the discount subsidy.
- With many O-T-C categories being an exception, fewer, deeper promotions are better than more frequent, less-deep promotions.
- The sales generated from a larger size of a top-selling item will be about 70% incremental to the brand and about 50% incremental to the category.
- Reducing everyday pricing never works. It usually generates little increase in sales, and much less money is made, due to lower margins. Conversely, everyday price increases almost always pay out.
- Organic products sell way below (50% or more) comparable nonorganic products. Their sales, however, are usually highly incremental to the category.
- Package changes will produce, on average, a 10% reduction in baseline sales; often it's no effect or a major effect. Sales never grow from this change, however.
- Bonus packs and digital coupons rarely work.
- Displays are the "dirty little secret" of sales guys. Unless you have a high-velocity product, they don't work, but they jam inventory to help make quota.
- "Buy one, get 50% off" promotions don't work that well, and they underperform 25%-off sales.

So that's how you fix a broken and dysfunctional industry: Start providing analytics that actually make money for the people using the information. That takes a vendor bold enough to break the mold and not just parrot all of the ineffective paradigms that have failed to deliver meaningful results so far.

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