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Are Retailers Rational Players Stuck in an Irrational Game?

Changing the high-stakes game of retail technology

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Executive Summary

In the last 12 months, the retail industry has seen shockwaves bigger than in the last fifty years. Their business has fundamentally changed. Retailers and brands who until recently had a clear sense of who their customers were and how, when, what, why and at what prices they bought, find themselves in a new world where all of these variables are in constant flux. This continuous change is limiting their ability to plan, forecast, price, and replenish effectively. Thus, retailers and brands are left facing a dilemma: They need new technology to adapt their processes and to respond more rapidly to their changing markets, but they can't afford the massive up-front capital expenditures or lengthy implementations associated with new technology. Between selecting and deploying technology, a retailer may not even start seeing value for one to two years, and that is no longer a viable option. Fortunately, standing still is not the only option. Recent advances in software-as-a-service (SaaS) retail technology are finally bringing enterprise-class solutions to retailers and brands so they can move quickly to improve their buying and selling decisions.

The Irrational Game of Traditional Software Investment

For as long as retailers and brands have invested in technology, it's been a high stakes, risky proposition. Imagine walking up to a poker table and putting your chips down all at once – it may sound foolish, but when it's the only game around, you sit down and do whatever is in your power to feel as confident as possible about your bet. So, the classic retail technology game goes like this: Retailer puts out a request for proposal (RFP), and a dozen technology vendors scramble to deliver their responses. Retailer reviews RFPs and creates a short list, then invites a handful of vendors to present their solutions to its executives and participate in the obligatory dog-and-pony shows and bake-offs. The vendors put their developers through excruciating crunch time to deliver a proof-of-concept and send the sales team back several times to follow up, with the hope of impressing the retailer with how perfectly suited their solution is for its business – all before any money changes hands.

For technology vendors, it's an extremely costly and elaborate process that, when lost to the competition, was all done in vain. From the retailer's perspective, imagine the frustration of a planner or merchant who realizes she could do her job much better and improve sell-through and margins if she just had better and more useable planning or pricing tools – only to propose the idea to her executive team and have to wait through a two-year selection and implementation process before she can begin putting the tools to use.

While this process may objectively seem ridiculous, retailers and vendors have been forced into this game since the dawn of enterprise software. Retailers have been wise to go through this rigorous selection process to ensure they are absolutely making the right decision when that decision requires them to sign over a multi-million dollar check. And of course software vendors will invest the time and money to participate in these bake-offs if they are their only shot at being the name written on the check. For years, this high-stakes

selection process has been the only game around for retail enterprise software investments – retailers and technology vendors have both acted rationally, though in an irrational process.

The Traditional Model is Blocking Needed Innovation

High up-front capital costs, hardware procurement, long-term contracts, lengthy implementations, and ongoing maintenance fees are all synonymous with traditional retail software investments. Thus, it's no surprise that many retailers over the last year have approached technology changes with much greater caution or put them on hold until the market turns around. But that doesn't solve the pressing needs of retailers and brands to respond to their customers' rapidly changing behavior. Now, software-as-a-service is proving that retailers and brands have other options that focus not on huge up-front investments, but on paying for value as value is delivered - options that make sense in this new, value-centric world.

By building the next generation of solutions to retailers' challenges from the ground up in the SaaS model, instead of repeating the flaws of the old systems, new possibilities have opened up for retailers and brands. Not only can they benefit from new technology that offers greater capabilities and performance; SaaS enables them to do so with minimal risk and with the ability to begin seeing results almost immediately.

SaaS Aligns the Interests of Retailers and Vendors

The economics of SaaS are compelling, because they align the previously mismatched incentives of retailers and technology vendors. With SaaS, the retailer typically pays a one-time set-up cost (a fraction of the many costs that are borne up-front in the traditional model) followed by a pay-as-you-go monthly subscription – so if the vendor wants the retailer to continue paying for its product, it must continue delivering value. This model benefits both parties: The customer can often move forward quickly without seeking approval for a large investment, and only incurs a small expense if the solution does not deliver the value to justify continuing the subscription. The technology vendor, as long as it is delivering value to clients, can count on a reliable revenue stream and therefore focuses most of its time and resources ensuring its solutions are valued.

Contrast this with the traditional software model, where most of the value is transferred to the vendor up-front, and where the customer has to invest in expensive hardware and operations infrastructure months or years before any value is achieved. Once a retailer completes its due diligence and places a huge bet on one software provider by writing a check, the vendor's sales team celebrates – the hard work is done, and they're off to hunt the next large client. For traditional software vendors, license revenues reset to zero every quarter. It's therefore not surprising that many retailers and brands find their software vendors much less responsive after the sale than before it. If the situation becomes dire, the most common recourse for a dissatisfied client is simply to stop throwing good money after bad, which accounts for the all too familiar "shelf-ware."

Traditional Software versus Software as a Service Investment Comparison

	Traditional Software	Software as a Service
Up-front License	$	
Server Hardware	$	
Database License	$	
Application Server License	$	
Operations Personnel	$	
Implementation	$	$
Subscription		$
Software Maintenance & Support	$	
3rd Party SW Maintenance & Support	$	
Hardware Maintenance & Support	$	
Software Upgrades	$	
3rd Party Software Upgrades	$	
Hardware Upgrades	$	

SaaS Applications Retailers and Brands can use Right Now

Now more than ever, the cost, time and resources required of traditional software investments are prohibitive and difficult to justify. The SaaS model, on the other hand, is ideal in a number of situations retailers and brands are facing right now, including:

Adding item, store, or assortment planning without re-implementing core merchandise planning systems
With a traditional software model, many retailers have to re-implement their existing systems if they want to deploy more complex planning processes. But re-implementing existing systems delivers no additional value at a very high cost. With consumer-focused SaaS planning solutions, retailers and brands can quickly deploy higher value item planning, store planning, and assortment planning processes without the pain and expense of re-implementation, instead integrating their new processes with their existing systems.

Pricing more responsively to make the most of uncertain and constantly shifting demand
One of the biggest challenges for retailers and brands during the past year has been the constantly changing behavior of consumers. Buying decisions are made one or two seasons in advance, and sales play out in a very different environment months later. At that point, the best way for a retailer to make the most of what they have

is to optimize their prices, whether they are regular prices, promotions or markdowns, to ensure that they can move product at prices that will maximize margins. SaaS solutions for regular price optimization, promotional pricing, and markdown optimization can be deployed quickly, so they can be leveraged during the impending holiday season and beyond.

Forecasting and replenishing more effectively to increase service levels and reduce inventory costs
Forecasting and replenishment are always important, and especially so in today's market, when balance sheet scrutiny is at an all-time high. This makes inventory minimization, balanced with maintaining a high level of customer service, more important than ever. SaaS solutions for forecasting and replenishment present a highly efficient and cost-effective way for retailers and brands to properly forecast and react to changes in demand, so they can deploy the right inventory in the right place at the right time. This will enable them to avoid stock-outs and maintain their desired service levels, while minimizing inventory carrying, handling, and transportation costs, and simultaneously taking advantage of forward buy opportunities.

Rolling out critical planning, pricing, forecasting, and replenishment software to international operations
Many retailers and brands with international operations look to new markets to deliver much of their future growth. Yet compared with their headquarter operations, new countries often lack many of the applications a retailer relies on to make the best merchandising decisions for their business. They have spent years slowly implementing various technologies in their core market, but cannot afford to spend the same time and effort in every market. SaaS technology changes this equation completely, empowering retailers to quickly deploy standardized global practices with minimum risk. Global retailers can get an enterprise-class system with a transparent price structure, much lower up-front investment, and rapid implementation, as opposed to attempting to recreate the maze of systems they implemented years ago in their domestic operations.

The Bottom Line about SaaS for Retail

In the past several years, SaaS has overcome doubts regarding scalability, performance and security – now, the largest remaining hurdle is breaking out of old habits. Once retailers see these applications in action, they realize that enterprise-level solutions really are possible in the SaaS model, and their old habits are exposed for what they really are: a rational response to an irrational game. A fundamental shift occurs - retailers put their ideas into action in months, not years; they respond to today's challenges, not yesterday's; they shift their focus from managing technology selections and operations to improving their business. Enterprise software doesn't have to be a high-stakes game for retailers and brands, and enterprise-class SaaS finally makes this possible.