

The Insider Interview: Lori Schafer

SAS's Lori Schafer is one of retail's most knowledgeable technology executives. She has taken on an important new role at SAS, and spent some time with the Insider to share the scoop. Lori also reveals why it's wise to avoid any airline passengers who might be holding a frozen pot roast.

Tell us about your new role now that you are no longer managing SAS' Global Retail Practice.

As Retail Executive Advisor to SAS, I'm assisting in planning the direction of SAS' future retail strategy and further developing customer and industry relationships. After spending more than four years shaping SAS into the world's leading provider of predictive analytics and demand intelligence solutions for retailers, and nearly a decade prior to that building Marketmax Inc. from its infancy to its successful SAS acquisition, I wanted to shift my energies – at least for now. I also am on the board of directors of two retail companies and two technology companies. I enjoy helping retail executives determine and execute upon their strategic initiatives. And the technology companies keep me energized on leading-edge applications such as the latest developments in e-Commerce, web analytics, mobile computing, GPS, location, and private branding and sourcing applications. Being on both sides of the table gives me a broad, diverse and unique perspective of the retail industry's issues and trends. As retailers embrace the financial benefits technology brings to their businesses, I hope to help positively shape both the companies with which I'm working and the future of the industry. It's a lot of fun and I'm always looking for the next new challenge!

What a strange year. You're talking with retailers all the time; what is their mood?

I would generalize retailers' mood as cautious in the near term. At the same time, as with any economic downturn, this is an opportunity for retailers to invest wisely. That's where predictive analytics can play a significant role in improving gross margin and net income in the near term and give retailers a competitive advantage in future years.

Retailers are keenly aware that the economic environment is very challenging and will remain that way for quite some time. Pervasive thinking is that current economic pressures facing the consumer, including housing and credit concerns, across-the-board inflation and a deteriorating employment picture will continue for at least the remainder of 2008 into 2009. As a result, consumers will continue to pare back discretionary purchases to meet rising food and fuel costs. Consequently, retailers must focus on providing customers with good values, driving sales and margin, maintaining strong cost controls and effectively managing inventory risk. Stores that are not going to be profitable in the near term – even some with new leases not yet even opened to the public – are being closed at unprecedented rates. With comp store sales running negative to minimally positive, retailers are intensely focused on improving net income as well as investments in becoming more efficient. They must balance being operationally conservative with wise investments.

2008 is a challenging year for retailers of all sizes and in all formats. Despite the downturn, retailers seem to be forging ahead with technology projects. Are you seeing the same thing?

From a U.S. retail perspective, most definitely, especially in areas that can improve margin and/or productivity and that can provide a tangible, measurable strong return on investment in a relatively short period of time. From a global perspective, retail technology investments are still robust with especially strong growth in developing countries.

2008 Capital Expense budgets are being slashed by nearly every U.S. retailer, so the decision-making process for technology project is more thorough. However, retailers continue to make investments in certain technologies because the financial and operational benefits are so compelling. IDC Global Retail Insights' "2008 Worldwide Retail IT Spending Guide" forecasts growth rates through 2011 for demand intelligence and customer analytics at 15 percent and 15.3 percent respectively, against an overall forecasted global industry growth rate of 7 percent (vs. 5 percent in the U.S.). Also, a number of retailers are recognizing the benefit of establishing in-house analytical organizations or competency centers. As retailers begin using predictive analytics and an enterprise-wide intelligence platform, these new competency centers help harness the benefits and introduce a new way of thinking across the organization.

In your conversations with analysts, are there themes that they keep revisiting? What's important to them?

The themes vary depending on whether it's a retail financial analyst or an industry analyst, but generally I'd categorize the Top 10 as follows:

- Retail Demand Intelligence Solutions
- Customer Centricity and Localization
- Customer Service Innovation
- Private Label and Sourcing Solutions
- Cycle Time Reduction
- The ever increasing role of the internet, social networking and web analytics in a multi-channel environment (it's not just about e-Commerce).
- Enterprise mobility
- Sustainability, becoming more "green" and reducing carbon footprints
- PCI Compliance and security concerns in the midst of some recent large breaches
- And of course, weathering the current economic storm. Retail executives are laser focused on store, personnel and merchandise productivity, incremental margin and cash conservation

SAS is famous for predictive analytics of all kinds. What seems to be the application that retailers are using analytics for, with the best results?

SAS infuses predictive analytics into the areas of customer, merchandise, in-store and operational intelligence and performance management. All of these areas focus on improving margin and/or productivity, so it's hard to pick any one application from SAS' demand intelligence platform.

The largest quantifiable, financial successes are in the area of merchandise intelligence because this aims at the heart of the business. Merchandise intelligence consists of a suite of integrated solutions tailored to revenue optimization, including regular price, promotion and clearance markdown, merchandise planning, assortment planning and localization, size optimization, intelligent store clustering, demand forecasting, allocation, inventory optimization and macro and micro space optimization. Retailers clearly see these solutions as helping them differentiate and drive significant improvements to their income and cash flow statements as well as their balance sheets. SAS frequently is mentioned as a key driver of profitability in retailers' quarterly earnings calls and investor reports.

The fastest-growing areas are customer intelligence solutions married into merchandising. Customer intelligence (CI) solutions focus on better understanding customer buying behavior through data mining and predictive analytics. CI solutions include market basket and behavior analysis, market segmentation, customer profiling, marketing mix analysis, and marketing automation and optimization to develop the most effective marketing campaigns tailored to individual consumers. Web analytics and multi-channel analytics also are growing rapidly as retailers leverage the internet more to better understand customers.

I also want to stress that, especially in this era of additional concern regarding security and the soft economy, operational intelligence and performance management are critical technologies to implement in areas such as in-store and credit card fraud detection, IT systems optimization and location intelligence, which helps profitability through improved real estate management.

Customers are really in the driver's seat now. What actions do you see retailers taking to build shopper loyalty?

First, I am seeing a lot more focus on how retailers are using customer data to manage customer relationships and to effectively improve customer loyalty. If a retailer consistently creates offerings that customers value, then customers will return more frequently and increase purchases. This concept seems simple, but it is amazing how many retailers still do not know if customers find value in their offers or if the offers they make are profitable. Retailers are deploying CI technology solutions that focus on better understanding customer buying behavior through data mining and predictive analytics and to develop effective marketing campaigns that are tailored to individual consumers. Getting the assortment tailored locally - even down to the individual consumer - is the ultimate driver of customer loyalty.

Social networks, web analytics and multi-channel analytics also are fast-growing initiatives as retailers continue to leverage the internet. They're using the internet not just for e-Commerce, but also to better understand customers and deepen customer loyalty. If you haven't already visited the site, check out the social network on www.wetseal.com. Here is an example of a retailer who is leveraging all of the concepts mentioned earlier to drive customer loyalty.

Finally, in the current economic environment, I'm seeing an increased focus on promotional activities - lowering prices to make up for where retailers are forced to raise prices.

If you were a retail CIO, what strategies might you pursue?

The CIO needs to be a critical voice at the executive table because technology has become so strategic. The CIO needs to make recommendations for solutions which help drive the goals for the overall business. As a CIO in this economic environment, I'd be keenly focused on supporting critical business initiatives. I'd be watching my budgets and going after projects with an immediate to short-term return on investment, but never lose sight of long-term goals. As a CIO, I'd also want access to the corporation's long-term business and investment plans so technology stays in sync with big-picture goals. If I focused too much on cutting costs, the company would pay a stiff price in the long term. It's a delicate balance.

Why are out-of-stocks still so prevalent? A Wharton School of Business Study two years ago found that customer perception of out-of-stocks was almost 25 percent.

Partially for the same reasons that overstocks are so prevalent: Getting the right amount of inventory for thousands of items to meet customer demand in every store isn't so easy. Until assortments truly are localized and until replenishment and allocation systems analyze data more effectively, out of stocks and overstocks will continue. Fashion and trendy items further complicate the issue.

Predictive analytics can help retailers reduce out of stocks and overstocks. Not only through more effective assortments and demand-driven forecasts in replenishment and allocation systems, but also through added tools such as size and pack optimization, which recommend size profiles and allocation quantities by store. Web and multi-channel analytics also have come a long way in better understanding consumers' desires and buying patterns.

What do you see retailers doing to drive disparate functional units to common goals?

The most fundamental thing is to have – and effectively communicate - an overall strategic plan laying out those common goals and the importance of each functional unit's contribution to those goals. Lay out a plan of how all functions must fit together to achieve corporate initiatives. I remember one new CEO who did this very effectively by creating a blueprint for success that he called "the company doctrine." He recruited a wide range of associates at the grassroots level to help him draft and champion the doctrine. Then he proceeded with "redundant inoculation," which meant communicating that strategic plan and progress against that plan to all associates at every possible opportunity: in team meetings, in fireside chats, over email, on the intranet, in posters on the walls, etc. As in this case, often technology serves as the catalyst in a corporate-wide initiative involving changing process, changing behavior and implementing technology. Having an internal change-management team who conducts frequent coaching sessions in addition to the more traditional training sessions also pays dividends in the long run.

Over time it's also important to align management and organizational structure in a way that allows effective cross-functional communication and provides the masses buried down in the hierarchy with an understanding of the bigger picture. I've seen matrix management - or creating "pods" of cross-functional teams - also work successfully. Finally, a retailer needs to align a portion of each employee's annual review and incentive compensation around their contribution to achieving common corporate goals. This last piece may sound obvious, but it seems to be where organizations often fall short.

What do you see as the future trends in retail technology?

The focal point in the next decade will be where mobile computing, social networking, e-Commerce and predictive analytics intersect. Technology is such an exciting space – especially now with the proliferation of the internet, social networking and mobility. Leveraging these technologies is particularly important in attracting "Netgeners," the primary customer to all retailers in the future.

Demand intelligence platforms with predictive analytics are clearly leading the wave. And, as data is multiplying at exponential rates, this will certainly need to continue to be the underpinning to make sense of all that data and drive decisions based on facts rather than hunches. E-Commerce and web analytics and their evolving role in the customer experience is another critical area. Some very exciting applications already are being built to take advantage of the emergence of these areas. For instance, I already mentioned Wet Seal which has used its web site to turn thousands of young women into

designers and allow them to rate and buy favorite outfits created by peer designers. In addition to the sales lift this provides, the customer insight produced by the analysis of this data is powerful!

One emerging trend is in the area of game theory and “wisdom of the crowd” forecasting and mobility devices that integrate online and store-based shopping environments and technologies to create a richer shopping experience for the consumer. Using this concept, retailers ask loyal customers to vote on merchandise they are most likely to purchase during the upcoming season. Retailers then use this information to make decisions about assortments, such as whether or not to move forward with a particular fashion trend and what the initial buy quantity should be.

You travel a lot. Tell us about your most memorable airport or airline experience?

People are always telling me to write a book about my crazy travel experiences as I've had so many. Some are downright hilarious, some are sad, and some are just too over the top to ever put in print. Recently, I was going through airport security, was tight on time and got in line behind a woman who was having enormous difficulties with the process. She didn't want to put her bag through the x-ray machine, refused to take off her shoes, etc. It really was slowing things down. When she got through being x-rayed, I had to wait again as they checked her carry-on shopping bag. In the bag she had a half gallon of milk, a frozen pot roast, a frozen leg of lamb and a jar of mint jelly. A TSA employee told her that she couldn't carry on liquids, and she argued that she needed the milk because she doesn't like Cremora and she wanted her own brand of milk in her Starbuck's! As they returned her slabs of frozen meat, I excused myself and tried to reach around her to retrieve my bags. At that point, she picked up the shopping bag, shouted at me for cutting in front of her, then whirled around with shopping bag in hand to slug me in the stomach with the frozen pot roast. The moral of this story: Don't ever act like you're in a hurry at an airport when the person in front of you has a frozen pot roast. It's a dangerous weapon. I was black and blue for a week!

You've been all over the world. What is your favorite country?

There are so many beautiful locations I've visited in Asia, Africa, Europe, North, Central and South America. Tough question for me to answer, but if you want to pin me down on a favorite country outside of the United States (which is still my favorite country as I'm a proud American), I'd have to say Italy. Italy has it all! It has truly spectacular scenery, ancient history, high fashion, plenty of culture and wonderful food and drink. And the people have such a zest for life, such passion!