

Getting your IT investment right

Significant clarity is now emerging on retail technology demands, after the hype in “me-too” investments of CRM, ERP and e-business infrastructure settling down slowly. Deciding on the right IT investments is more focused towards demands of increasing sales and productivity, reducing costs and enhancing customer satisfaction. However, increased competition and demands on justifying IT expenses have necessitated the need for making the 'right technology investments' more important than before.

No doubt, technology serves as a critical backbone for running of an established Retail Enterprise be it in-store operations, merchandise management, planning and forecasting, inventory control, or just the back office functions of Financials and HR. Yet, deciding on the right IT infrastructure for the organization is a challenge for IT managers, for neither an over-sized, under-utilized application nor a misfit system that does not meet basic requirements of business is welcome. So how does one go about getting the right IT fitment?

1. Understand Business Needs

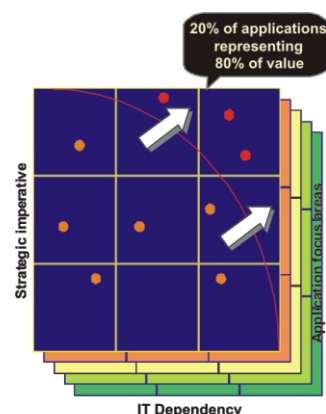
According to Gartner Research, 20% of IT projects fail to achieve corporate objectives, wasting \$500 billion worldwide. It is extremely critical for IT Managers to comprehend the business requirements of the organization both present and future,



and to understand the Business imperatives of the organization - be it products and services, corporate image or internal demands that emanate from the organization's business strategy. The Business Strategy determines the imperatives for the organization that drive the IT strategy, and in turn, the IT infrastructure. For instance, the Application Requirements for a single store supermarket could be very different from one that aspires to be a hypermarket.

2. Prioritize Requirements

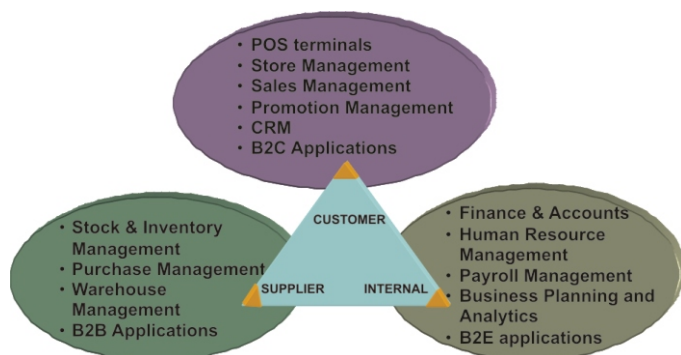
The need for demonstrating top and bottom line impact for every dollar spent has necessitated prioritizing IT requirements. At Cedar, we have observed across multiple engagements that typically, 20% of applications deliver more than 80% value.



A demand forecasting application may be extremely relevant for an apparel retailer but may not be so critical for say, food products.

Determining the criticality of focus areas customer, supplier & internal (see illustration) and prioritizing the requirements across each of these would be very critical to sequence the investments appropriately.

The organisation's level of preparedness is paramount to effectively use technological sophistication. Wal-Mart for example, had implemented applications for distribution and



logistics first before it went on to data warehousing and complex merchandise forecasting tools. It is important to limit investments that does not significantly enhance top/bottom line, or differentiate companies from competition.

3. Determine sourcing model

While there are 3 popular sourcing models that exist, it is normally beneficial to adopt a combination of all, depending on short long-term imperatives and cost benefit structure:

- **Custom build in-house:** Has been the traditional model, but brings with it the need to maintain and enhance the product for changing business needs. Yet, it is quite likely that small applications, tailor made for specific one off purposes are best developed and maintained by an in-house team. Indeed, it may not be always cost effective to have small solutions maintained through a third party vendor. A good Indian example for the in-house model is Pantaloon, which has most of its core IT solutions developed and deployed in-house.
- **Buy off-the shelf package:** According to a survey by Retail Tech, about two-thirds of the applications globally conform to this model. Interestingly, 91% of

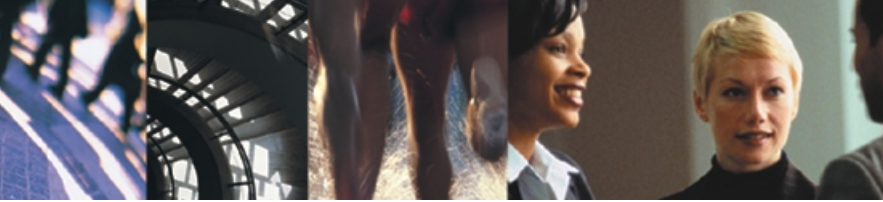
the financial systems for retailers are off the shelf applications and applications for HR & Payroll are also following suit. We have observed across several engagements, that with increased proliferation of in-store and merchandising applications, organized retail industry is increasingly moving towards automating the core business applications with 3rd party software. Examples for this model in India includes Shopper's stop who has implemented US based retail ERP system JDA, after evaluating multiple vendors. Other examples include Planet M, the flagship retail store of Times Entertainment, crystal art retailer Swarovski and departmental stores like Ebony who have identified Retail Pro, a leading retail off-the-shelf solution for their core operations.

- **Outsource technology:** IT outsourcing in Retail Industry is in a nascent stage. Yet this model is more appropriate for specialized IT functions such as Disaster Recovery and Network management. Globally, about 22% of organizations spend more than 10% of their budgets on outsourcing. For specialized applications that need not be built, managed and hosted in-house, this is a more popular model. For instance, Tanishq the jewellery retailing division of Titan Industries outsourced its web based supply chain solution development to Wipro Infotech. Interestingly, a lot of software development activities for large retail stores globally are being outsourced to India.

4. Make the right choice

Sometimes, this becomes the most vulnerable point in the entire IT function. Making one wrong choice of vendor or solution can cost organizations dearly, and in some cases, even jobs! The following are things that one should look for in the selection process:

- Developing clear focus and consensus on the need and kind of solution looked out for



- Ensuring maximum business participation and ownership
- Building objectivity and transparency to the selection process and
- Adopting the right selection framework are all critical for making the right choice.

Typically, the selection process is weighed by functional, technical and vendor support parameters in the ratio of 60:25:15 respectively. Defining clear terms of reference, a well detailed service level agreement and a thorough implementation process are significant steps in building long-term stability of relationship with vendors and their respective applications.

5. Feed in the feedback

According to a survey by Scandish Group, at least 23% of IT projects do not meet their stated objective. Where most organizations fail, is to see the value of the feedback received in from their users, and improving their application framework to support business needs. “Go-live” of any application implemented is only a means to the process of empowering business users, not the end. No business demands are static. Therefore no application architecture can also be static. Building a mechanism to consistently review the organizations need and improving the application architecture will be an important performance measure for any robust IT function.

Recognizing the strategic role that IT could play in reducing costs or in enhancing growth would be the first step to determining how to build the application architecture. When IT decisions are taken without business justification, it ends up in a “cart before the horse” situation. Striking the Business needs vs. IT infrastructure alignment holds the key in getting your IT investment right.

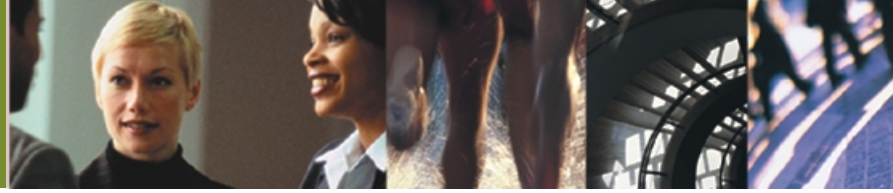
Case Study: Leading Retail Co-operative society

Cedar had earlier assisted a leading Retail Cooperative society to develop its IT Strategy, followed by evaluation, selection and project management of implementation. The legacy IT infrastructure had limited functional features & reporting capability, bottlenecks in operations due to manual intervention and stand-alone systems. While it was amply evident that the IT infrastructure had to be replaced, the issue was in determining “what” would replace the current system. There was no point in investing in a new system, which continued with current problems or worse still, brought in new problems!

So how did the client go about solving the above?

1. IT Strategy aligned to Business Strategy: As a first step to ensuring alignment with Business needs, the IT Strategy was developed dovetailing the Business Strategy and BPR exercises that were conducted earlier. Ensuring that all the above complimented each other was extremely critical, and we ensured that business needs and their prioritization were amply represented. For instance, the strategic direction to implement 'category management' got well reflected in the IT requirements. Another example was Point of Sale solutions: the existing POS system was good enough to support on-going business, but it was decided to replace them to support additional services that business would demand in future (e.g. Loyalty programs)

2. Requirements were prioritized: About 793 requirements were identified after 3 week long iterative discussions cross all functional areas (excluding technical and vendor related criteria). These were prioritized as Vital (absolutely mandatory), Essential (normally required) and Desirable (nice to have), in the ratio of 47:39:14 respectively. This prioritization reflected IT features critical to achieve business strategy.



3. Application requirements classified: It was evident that not all requirements can be met by a single solution. For example, being a co-operative society, there was a unique need to build a “Shareholder Management System” to track the purchases made by shareholders and calculating dividends and bonus at end of year. Decision was made to go “off-the-shelf” way for all relevant modules, and outsource development for specialized applications as above. Front-end requirements (Point of Sale) and Back-end requirements (ERP) were also well demarcated.

4. “Prime Vendor” selected: The RFP was issued to 10 vendors, of which 3 were short-listed. Important elimination criteria included “integrated approach” to Front & Back end solutions, and qualitative aspects of vendors experience and financials. 2 short-listed vendors topped with a 2% variance to each other based on a weighted scoring model, and final decision to go with JDE One-source solution was made based on contractual and financial negotiations.

5. Business Empowered: To ensure business users “own” the system, and to avoid legacy issues, a core team constituting business users was fully engaged in the implementation. This also ensured that the IT investment was fully leveraged by the business team.

More than the methodology as explained above, we strongly believe it was the management's commitment and appreciation of the project's significance that helped in deriving the value of the investment made. And that's too important to ignore.



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