

Executive Summary

An established independent retail merchant needed to better control its operating expenses and reinvigorate the in-store experience to return to a growth mode. Birmingham BPM Practice digitized business processes, developed a suite of dashboards to give visibility into daily performance, and leveraged a combination of market basket analysis and retail heat mapping to track customer behavior in the store. The company grew Net Operating Margin by 6 percent in the first year while increasing sales by 12 percent.

Background

The company in question was an independent retail merchant located in a strip mall adjacent to several residential communities. It offered a portfolio that included dry goods, paper products, candy, snacks and gift items. The store experienced steady foot traffic even on slower days in the beginning of the week, which peaked at a healthy level on the weekends.

After seven years in business, revenue growth had slowed to near zero on a year-over-year basis and profitability had eroded to the point where Net Operating Margin was in the three to four percent range, severely elevating business risk and tightly restricting the flow of net proceeds to the owner. The owner reached out to Birmingham BPM Practice to help him increase his operating margin as the first priority and reignite revenue growth after profitability had been restored.

Problem Statement

The owner of the company was using Intuit's QuickBooks Desktop POS software to process sales and manage inventory. It was tightly integrated with the QuickBooks accounting software he was also using, which allowed him to produce financial reports efficiently but offered limited, cross-tab style operational reports.

Management at the company had no practical visibility into SKU level or product category level inventory performance trends and so was not able to identify, let alone track, the top and bottom performing products in terms of profitability, or how newly added items were performing against related existing ones. Nor did it have visibility into a typical customer's shopping basket and how it could be used to create cross-selling opportunities.

In addition, there was a lot of manual data entry related to receiving orders as well as applying sale prices and other discounts, as inventory orders were generated using MS

Excel and received item-by-item in QuickBooks Desktop POS. These time consuming, repetitive tasks absorbed a large portion of time the staff could have spent interacting with shoppers as they entered the store. Manual data entry also introduced inventory and pricing errors, which not only took more staff effort to correct, but also eroded profitability as outdated sale prices were allowed to remain active and discounts were applied incorrectly to items priced at list.

Solution Overview

Working within the existing technology environment, the consultant activated and configured the Promotional Pricing module in QuickBooks Desktop POS to automate management sale-related and seasonal pricing. The consultant also configured pricing rules in the software for on-going discounts like volume purchases to automate their application and reduce pricing errors.

The consultant eliminated manual data entry and reduced time spent receiving orders, by training staff on generating purchase orders for inventory and receiving shipment within QuickBooks Desktop POS.

To address sales performance, the consultant developed dashboards in Tableau that tracked, down to SKU level, revenue, unit sales and gross margin trends on a monthly, quarterly, and annual basis, giving visibility to the best and worst performing items as well as highlighting trends that provided much needed context to better inform decisions around product promotion and the on-going product portfolio mix.

To help drive in-store sales growth, the consultant conducted a market basket analysis that identified which products were routinely purchased together and should therefore be placed together in prominent areas of the store. The consultant also used the store's security cameras to create a retail heat map detailing how shoppers traversed the store once they entered and where in the store they lingered the longest. When combined with the market basket analysis and information gleaned from the new product performance dashboards, the consultant was able to recommend a refreshed store layout that positioned the best and most profitable items, along with products typically purchased with them, in the most active, most visited areas of the store.

Results and Metrics

After analyzing the product performance dashboards and implementing the store refresh recommended by the retail heat map and market basket analysis, the owner reported a 12 percent increase in sales and a 6 percent increase in Net Operating Margin in the first year. He achieved all of this while maintaining his existing level of headcount at the store.