

Merchandise Localization

A Quiet Revolution in Consumer Markets



As communities have grown more diverse—in ethnicity, wealth, lifestyle and values. Many areas are saturated with big boxes, and consumers are rebelling against cookie-cutter stores that threaten the uniqueness of their neighborhoods. Attempts to build new chain stores often face fierce resistance.

More of the same has been tapped out as a strategy.

In response, smart retailers and consumer goods companies

are starting to customize their offerings to local markets, rolling out different types of stores, products, pricing, marketing and even customer service strategies.

Many retailers are replacing standardization with localization. But the shift requires companies to achieve the right balance. Too much customization drives up costs and complexity; too little leads to stagnation, dooming a company to dwindling market share and profits.

Scenario Systems identifies three factors critical to obtaining an optimal balance:

Understanding which elements of a business should be considered for localization

How costly they are to customize

How much impact they'll have from store to store

Combining sophisticated data analysis with innovative organizational structures, successful business leaders are preserving the efficiencies of centralization while increasing responsiveness to local needs.

Technological advances—from Internet stores to data mining software to electronic product tags—are providing retailers with deep insights on local buying habits.

Companies can now customize store content with unprecedented precision.

THINK IN CLUSTERS.

A company can't customize every element of its business; the sheer complexity would be overwhelming. Pioneering retailers have made a science of analyzing data to spot clusters, communities with similar buying habits and demographics.

For example, a national retailer of casual wear, found its customers in Eastern Florida share buying patterns with shoppers in areas of Texas and California. The retailer tailors assortments and promotions to such clusters rather than individual stores.

Clusters enable manageable, modular operations that capture the benefits of customization while simplifying decisions and preserving economies of scale.

Adoption of merchandise optimization solutions is increasing as more retailers realize the tangible financial benefits

Many major soft goods retailer applies a similar approach to store design by creating templates that can be combined in a way that meets local needs: Stores near office parks, for instance, feature

prominent islands with ready-made meals for workers.

Competition is forcing retailers to think outside the box -- especially the big box. Competing with large square footage stores with the same products throughout the chain has become less effective.

Creating smaller format stores, offering unique and local assortments and increasing fashion and short life-cycle products all help retailers differentiate themselves from the competition and serve the local customer.

However, most retailers' existing technologies are focused on efficiency and not well suited to execute these new strategies. Retailers are looking for a new generation of technologies that infuse insight into their merchandising processes in order to enable this new way of doing business.

Keeping fresh and appealing merchandise in the stores is a key goal for many retailers. Scenario Systems can help achieve this goal by enabling retailers and suppliers to share information during design and testing to reduce the time it takes to deliver a concept to market, improve service levels and reduce inventory and overstocks.



COLLABORATE ON DIVERSIFICATION.

As localization increases, consumer goods companies will need to introduce more variations into their lines and work closely with retailers to put the right products in the right places.

It's not unusual for localization to improve sales by 40% to 50%, while reducing store inventories and markdowns.

Localization does raise organizational challenges. Empowering local managers too much may backfire; most decisions still need to be coordinated centrally by managers with a broad view.

That generates a powerful competitive advantage—one that all companies serving a diverse consumer base need to be pursuing.



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