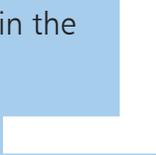


EXECUTIVE BRIEF



WINNING ON THE RETAIL BATTLEGROUND

Releasing Capital while Preparing for Growth in the
Retail Sector



Business Transformation in the Retail Sector

Recent years have been tough across all industries but the retail industry suffered more than most with consumer spending significantly reduced and some of the worst business results that have ever been seen in the industry. A number of very well-known and established retailers were forced to declare bankruptcy, including UK high street retailer, Woolworths, which had been founded in 1879 and had already successfully seen off many recessions. The US electronics retailer Circuit City was also declared bankrupt, with the loss of 30,000 jobs, along with a host of other well-known and trusted retailers across the globe. Of those that have pulled through the majority have had to close stores and cut jobs.

However, it is perhaps too easy to simply blame the economic climate alone, as many retailers have thrived throughout recent years. Some outlet stores saw revenue growth of up to 10% in 2009 compared to 2008. Many supermarkets are thriving, with one of the UK's largest supermarkets, Tesco, continuing its global expansion under the Fresh & Easy brand, now with 135 stores across the US alone.

One of the common traits amongst these successful retail organizations is the ability to disrupt the market, to change the game, no matter what the economic circumstances are. Amazon continues to thrive, as do Wal-Mart, eBay and Best Buy to name just a few. In various ways, these retailers have transformed the way they operate. This may sound daunting but is in fact very much a reality today, one that isn't as hard to achieve as it sounds. This paper explores how retailers can achieve this in practice, through application modernization.

Retail Transformation Initiatives

Retailers are transforming many different areas of businesses in order to achieve greater competitive positioning and customer service - ultimately to increase revenue and market share. Typical initiatives include improving demand forecasting capabilities, optimizing the Point-of-Sale system, and streamlining data access and management through a single source of truth:

Demand Forecasting - For many retailers, inventory is both a blessing and a curse. Inventory on the shelves means variety for customers and therefore a wider available market. On the other hand, keeping inventory on the shelves is costly. The idea of demand forecasting is not new, but the fact is that more advanced systems and tools are now available, providing retailers with easy access to near real-time analytics on buying trends and inventory status. Demand forecasting also allows retailers to, at an item-location level, optimize planning and supply chain activities, taking

into account all factors, including seasonality, price sensitivity, and promotional events. In a perfect world, the store would know that 5 people will buy 7 cans of soup and only stock 7 cans for that day.

Tesco, one of the three largest retailers in the world, moved its demand forecasting system (an in-house developed Continuous Replenishment application) onto a cost-effective platform to support international expansion plans. This application modernization strategy was a direct enabler of the company's significant business transformation initiative, that led to the rapid opening of stores in Turkey and North America.

Point-of-Sale - In the early days, Point-of-Sale terminals were coined "dumb terminals." These systems only knew how to process orders and billing. Analytics, inventory checks, and back end processes took place at the host (typically an IBM mainframe). As SAP started to take market share in the retail space, the Point-of-Sale terminals became more sophisticated to take advantage of the real-time systems in place. With new technology has come the opportunity to utilize Point-of-Sale to drive competitive advantage.

The Brick, one of Canada's leading furniture retailers, was able to significantly improve the customer experience by fully integrating the financing options available to customers with the Point-of-Sale system. This business transformation initiative accelerated the customer purchase process and resulted in greater revenues and customer retention.

Single Truth - More often than not, retailers operate multiple systems; one for traditional brick and mortar stores, one for Web/online business, and one for mail order/call centers. Much effort has often gone into unifying the view of the customer across these systems but it is still one of the most common inhibitors for retailers. Typically, business analysts constantly sift through data extracts to manually feed management dashboards. Simplifying and consolidating data access through application modernization is helping retailers to streamline processes that improve customer experiences and drives up competitive advantage.

For instance, Best Buy was able to provide a single inventory view by bringing together data from disparate systems. Providing a single source of truth helped Best Buy improve customer satisfaction and the ability to respond rapidly to business needs, driving significant competitive advantage.

Four Practical Retail Modernization Strategies

To ensure success tomorrow, many retailers are focussing on releasing capital to allow them to disrupt competition and change the game. There are many ways in which this can be achieved but there is often a constant thread through disruptive strategies – that of business and IT transformation.

Application modernization is a proven strategy that is helping retailers across the globe achieve their business transformation goals, while at the same time significantly reducing the cost of IT operations. Table 1 outlines four practical application modernization strategies that release capital to enable business transformation and preparation for growth.

Application Migration

Application migration allows retailers to move applications off the mainframe onto more cost-effective environments with little or no change to underlying code, preserving the intellectual property and competitive differentiation which has typically been built up for decades. Application migration generates dramatic cost

savings in the first instance and this release of capital help retailers fund business transformation initiatives.

For example, the savings achieved could be used to put in place a platform for international growth as in the case of Tesco. Application migration enabled the company to extend its extremely sophisticated demand forecasting and management system to form the cornerstone of international expansion plans. Other examples include organizations saving millions in operating costs to be able to focus on improving the quality of customer service, thus improving competitive market position, as in the case of American healthcare distributor Owens & Minor. Alternatively, savings generated through application migration can be re-invested in product innovation, enabling a more concerted effort to retain and enhance competitive differentiation.

By migrating mainframe applications to modern platforms, retailers can:

- Dramatically reduce operating costs
- Optimize essential processes such as demand forecasting
- Accelerate service delivery and improve customer satisfaction

Primary drivers	Application modernization strategy	Key benefits
Rapid cost reduction to drive innovation	Application migration: Moving one or more applications off the mainframe, with little or no change to underlying code	<ul style="list-style-type: none"> ➤ Dramatically reduce operating costs ➤ Optimize essential processes such as demand forecasting ➤ Accelerate service delivery and improve customer satisfaction
Efficiency improvement	Moving application development off the mainframe: Enabling the development process to occur on PC environments before the code is moved back to the mainframe production environment	<ul style="list-style-type: none"> ➤ Reduce costs through improved developer productivity ➤ Increase focus on innovation ➤ Faster service delivery
Faster service delivery	Moving testing off the mainframe: Enabling testing processes to occur on PC environments before the code is moved back to the mainframe production environment	<ul style="list-style-type: none"> ➤ Reduce costs through greater testing efficiency and lower demand for mainframe resources ➤ Improve product quality ➤ Faster test cycles
Streamline business operations	Process Modernization: Streamline business processes and system design to significantly improve efficiency	<ul style="list-style-type: none"> ➤ Extend business opportunities through UI modernization ➤ Encapsulate business transaction into reusable components ➤ Improve productivity

Table 1: Application modernization strategies enabling retail transformation

Moving the Development Process off the Mainframe

As opposed to application migration, where entire applications are permanently moved off mainframe environments, alternative options exist for retailers that want to maintain production environments on the mainframe. One such alternative is to move the development of enterprise applications away from the mainframe and onto PC environments. There are typically three main application development and management processes that run on a mainframe environment:

- Development and unit testing
- Pre-production testing
- Production

Of the above, testing and production typically take up to 90% of mainframe processing power, which often result in development processes taking a prolonged time to complete, resulting in inefficient development and slow delivery of new features and updates. The scenario can be a common one for a mainframe developer – taking a break to make tea while waiting for a program to compile.

By moving the development process off the mainframe, retailers can:

- Reduce costs through improved developer productivity
- Achieve faster service delivery and time-to-market of new products or technology
- Increase focus on innovation

Moving the Testing Process off the Mainframe

A high percentage of mainframe processing power is typically allocated to the testing process, often around 45-50% of MIPS. Testing is obviously critical to an application's stability and the amount of testing required can often result in a bottleneck in any product release lifecycle. This can impact service delivery severely, often significantly delaying the time-to-market of new functionality, and new stock control or customer management systems. Unfortunately, the investment required in mainframe capacity to complete testing phases in optimum timeframes is significant, to the extent that reduced test case execution or extended timeframes are more typically adopted.

By moving testing processes off the mainframe, retailers can:

- Reduce the costs of key functional testing activities
- Accelerate testing phases, resulting in faster service delivery
- Improve quality through more extensive testing, completed in a shorter timeframe

The costs saved within the testing process can be re-allocated to other areas of the business, such as increasing focus on customer service or product innovation, while faster time-to-market and improved product quality can lead to improved competitive position.

Process Modernization

Retailers can enable business transformation through process modernization and Web services enablement. Utilizing these capabilities can significantly enhance customer-focused systems such as kiosk and self service ordering systems, mail order systems, and for Point-of-Sale system upgrades and modernization.

Modernizing processes and creating applications that can present users with data accessed from multiple data stores across different technology and infrastructures can significantly increase staff productivity and customer satisfaction. It allows retailers to transform aging systems into dynamic Web applications that re-use and streamline existing processes. This further allows retailers to adapt existing systems to business needs rather than be hampered by system capabilities.

By modernizing business operation processes, retailers can:

- Extend business opportunities through UI modernization
- Encapsulate business transaction into reusable components
- Improve operational productivity

Summary

In an increasingly competitive and demanding environment, retailers should be considering business transformation initiatives to enable new business opportunities and enhance competitive differentiation. In today's day and age, business transformation is ultimately made possible through technology transformation. The application modernization strategies outlined in this paper provide proven technology transformation methods to release capital while preparing for growth.

"...2010 could well be the turnaround year as businesses take heart in an improving economic climate and seek to come out of the gate fast and recover faster. From an IT perspective, that means that the IT-to-BT (business technology) transformation is on."

"Get Onboard With The IT-To-BT Transformation In 2010,"
Forrester Research, Inc., February 2010.

Retailers that are not considering modernizing critical applications risk falling behind competitors who see these strategies as key to continued success. It is clear that the time for business transformation is now.

Appendix – Retail Business Transformation Success

Tesco Case Study

Business Challenges

International growth was a high business priority, with the goal of launching the Tesco Express store concept in the US and Turkey. Tesco's success in the UK has been built upon its Continuous Replenishment (CR) system, which was housed on a mainframe. With a global AIX system, replicating a mainframe environment in North America was not an option.

Solution

The CR system was migrated to AIX and integrated with the Oracle retail system.

Business Benefits

- Successful expansion into new international markets
- Significant cost reduction
- Ability to maintain a single code base across the entire group
- Lower risk and faster than re-write or replace

"Elements of our common operating model are already in place and benefiting some of our businesses. Micro Focus' modernization expertise is not only helping us maintain the momentum behind this strategic IT project, but is also playing a key role in the development of our United States presence."

Colin Cobain, Group IT Director, Tesco

The BRICK Case Study

Business Challenges

The Brick, Canada's largest independent furniture retailer, was faced with a credit process as part of a customer purchase that was slowing down approvals and frustrating customers. This was creating a critical issue – The Brick was losing business.

Solution

The Brick looked to Micro Focus to significantly speed up the credit process by creating an application through which sales representatives could administer the entire purchase process from one central system over the Web.

The new lending application was live and running smoothly within three weeks, in time for the Christmas shopping season.

Business Benefits

- Increased revenue by three to five percent per month in each of its store locations
- Significantly improved customer service
- Realized a payback on investment in only two days
- Improved business relationships with lenders

Best Buy Case Study

Business Challenges

Best Buy needed to smoothly integrate technology from completed acquisitions and increase customer satisfaction.

Solution

Best Buy implemented Micro Focus OnWeb to simplify .NET development and transform mainframe green screens into a modern, efficient user interface.

Business Benefits

- Accurate, real-time product availability information
- Improved customer satisfaction
- Ability to rapidly respond to new business initiatives

About Micro Focus

Micro Focus, a member of the FTSE 250, provides innovative software that allows companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk.

For additional information please visit: www.microfocus.com