

Point of View Retail Portfolio Management

Portfolio Management is an important tool for retailers when making strategic decisions about product development and the allocation of company resources such as merchandising, assortment planning, advertising, and store labor.

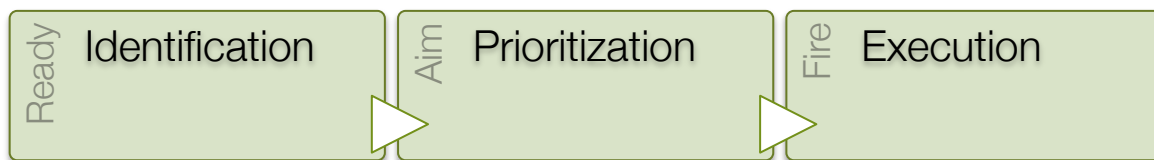


Portfolio Management is typically used to achieve the following goals:

- Maximizing the profitability or value of the portfolio
- Providing merchandise category balance throughout the enterprise
- Supporting the overarching strategy of the enterprise

Opportunity Prioritization

Portfolio Management typically moves through three phases of implementation:



- Identification (Ready) – Opportunities/projects are identified/gathered for validation during the Prioritization Phase
- Prioritization (Aim) – Opportunities/projects are validated and prioritized
- Execution (Fire) – Project implementation

The successful retailer will implement the appropriate portfolio management approach in the correct sequence, i.e. Ready (Identification), Aim (Prioritization), and Fire (Execution) on a consistent basis, and with intense rigor placed around the prioritization phase. Unfortunately for some retailers, implementation tends to be more along the lines of Ready, Fire, Aim or Ready, Fire, Fire or some other ill suited combination.

Approach

The various types of approaches used to support a portfolio management process along with the potential applications depending on the type of initiative, may be summarized into the following:

Portfolio Approach	Initiative Candidates	Qualification Criteria
Quantitative Analysis	<ul style="list-style-type: none"> Optimize Space Allocation Work Force Management Enhance Supply Chain Efficiency 	<ul style="list-style-type: none"> Projects requiring heavy emphasis on mathematical modeling Validation of Opportunity(s) Prioritization of Opportunity(s)
Strategic Alignment	<ul style="list-style-type: none"> Bolster Consumer Insights Develop Brand Equity Enhance Vendor Collaboration 	<ul style="list-style-type: none"> Projects requiring limited emphasis on mathematical modeling Projects involving a heavy emphasis on brand/corporate identity
Combination	<ul style="list-style-type: none"> Execute Merchandising Transformation (Enterprise-Wide) Implement Initiatives Spanning Multiple Business Units 	<ul style="list-style-type: none"> Projects implemented across multiple business units through out an enterprise, e.g. Assortment, Space, Price, Supply Chain, Field Merchandising, and Store Operations

Approach Detail

Quantitative Analysis

Typically used when there is significant emphasis placed on profitability or financial return.

Various scoring techniques may be used to rank the products or categories in the portfolio. Some of the more popular scoring techniques weight and score criteria such as risk vs. reward, market vs. product line, investment requirements, profitability, or “best fit” to name a few. Scoring techniques are often combined with mapping techniques, to offer a graphical representation of the portfolio’s balance between two factors such as risks vs. profitability, marketplace fit vs. product line coverage, or financial return vs. probability of success, etc.

Real World RETAILING

A clothing retailer utilized the mathematical approach when determining appropriate levels of expansion into other countries, specifically understanding market feasibility, in addition the appropriate number of stores to deploy. The retailer has since then opened its first stores in Canada, with many having better margin rates than their U.S. store counterparts.

Strategic Alignment

Typically used when there is minimal emphasis placed on mathematical modeling.

The alignment to the existing overarching strategy approach, usually starts with an overall business plan that defines the enterprise-wide planned level of investment, resources (e.g., headcount, etc.), and related sales expected from the categories or projects being evaluated. With multiple business units, product lines or types of development, we recommend a strategic allocation process based on the business plan. This strategic allocation should apportion the planned investment into business units, product lines, markets, geographic areas, etc. The strategy may also break down the investment into types of development, e.g., technology development, platform development, and new products.

Real World RETAILING

An urban clothing retailer utilized the approach of aligning solely to the enterprise's strategy while selecting a representative brand management firm to represent the company during its expansion into a segment of the urban clothing market; kids apparel. The challenge was ensuring that the company's appeal to existing customers not be diminished while foraying into a new market segment. Aligning to the key principles of the company's strategy resulted in a successful expansion into the new market segment, with the added bonus of strengthening the existing brand.

Combination

Typically used when balancing initiatives across multiple business units within an enterprise.

In instances where enterprise wide initiatives permeate across all or a significant percentage of business units (Finance, Merchandising, Supply Chain, etc.), then it is advisable to combine both of the above mentioned approaches in a manner that strikes the appropriate balance of the enterprise's short, intermediate and long term initiatives.

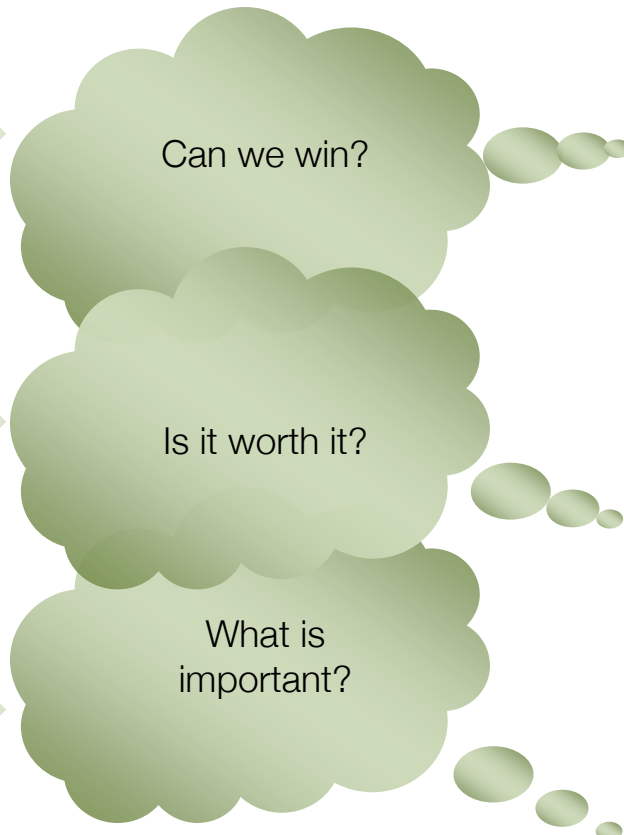
Real World RETAILING

A leading hardware chain in the U.S., applied the combined approach in 2005 to make decisions as to whether I.T. projects spanning multiple business units in the company, should be subsidized, scrapped or simply placed on standby based on set criteria including a project's potential ROI, its alignment with corporate objectives, impact on internal processes and potential risks. The effort led to the unintended benefit of enabling the company to run various scenarios through its model to determine resource limitation, and appropriate resource allocation by project. A few short years earlier, project timelines and costs were tracked in spreadsheets, and funding decisions came down to how well a presenter pitched an idea for a project, often with minimal rigor placed on ROI and corporate objectives.

EXHIBIT 1

INPUTS KEY QUESTIONS OUTPUTS

Quantitative Analysis



- Competitive Landscape
- Market Overview



- Category Projections
- Pricing Strategy

Class	Priority	Sales (\$)	GM (%)	Sales Units	Inv Turns	GMROI (\$)	ASP (\$)	Transaction Penetration %
Men	High	5	3	1	4	4	3	3
Women	High	3	2	1	3	3	2	3
Children	High	4	3	1	5	5	3	2
Sporting Equip	Med	2	2	2	3	3	3	2
Outdoor	Med	4	4	3	5	5	3	2
Kitchen	Low	3	1	1	5	5	1	1
Bath	Low	3	2	2	4	4	2	2

- "Best Fit" Ranking

Combination

Strategic Alignment



- Category Tactics
- Three-Year View

Conclusion

With the significant investments required to develop new products, manage existing products and aligning various initiatives to the enterprise's strategy, Portfolio Management is an important tool in a retailer's toolbox. When used correctly, portfolio management decisions have the potential to be the basis of a company's profitability and even its continued existence over the next several years.

The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm. We are a leading provider of strategy and business consulting services to retail and consumer goods companies. We work with our clients to help them research and develop strategies, design improved processes and execute change. We specialize in integrating customer insights and multi-channel business models. If you would like to learn more about our vision or understand how you might take advantage of this strategy, contact us at:

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