

The Impact of Information Technology on Retail Trade

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In the retail distribution system the traditional supply line was powered by manufacturer "push" - retailers stocked and sold what the manufacturers produced and advertised direct to the public. This, of course, was not the case in co-operative retailing which channelled its purchases to the wholesale societies who either produced them in their own factories or bought them from other co-operative sources. This was done partly to control the quality of their products and the prices at which they could be sold and partly because on account of resale price maintenance they could not always obtain goods which their customers wanted. Now the supermarkets have created a demand chain driven by consumer "pull" created by what consumers obtain from their shelves.

One of the virtues of the small retail shop under private enterprise, which was often a family business, was that the shopkeeper knew his or her customers by name, together with their tastes and preferences which he did his best to meet. The same was true in the co-operative store because of a shared philosophy. The development of self service (pioneered by the co-operatives) broke this link; customers travel the store, make their own selections, take them to the checkout, have them priced and the account printed out and paid. In the co-operative shops members will be identified, elsewhere they remain anonymous. In the supermarket under private enterprise there is an information gap. Under co-operation in theory there is information available, but is it being used effectively?

The means to use information is now being provided by developments in information technology. Cheaper and more sophisticated database technologies are making it possible for supermarket operators to obtain more detailed knowledge of their customers akin to that formerly possessed by the small shopkeeper. The checkouts collect vast amounts of information most of which has been wasted because its value has not been exploited since the technology was not available to deal with it.

Yet although information technology is a precondition for success it is not a panacea. Failure to appreciate this fact has led many businesses to make heavy investments with very disappointing results. Competitive advantage is created from what is done with the system rather than the system itself.

Information technology has given business the ability to manipulate large volumes of data quickly. This "database mining" confers the ability to sieve out information about customers and indicate new marketing options. The type of question which it is now possible to answer is more sophisticated than the traditional "how many people buy baked beans on Fridays?" Cash register data can be used to discover what items customers tend to buy at the same time. This information can then be used to devise improved floor and shelf layout. An often quoted example is the discovery by Wal-Mart in the US that sales of diapers and beer rose on Friday evenings. Apparently this arose from the buying habits of men with young children. It may be difficult to explain the timing but the store can exploit the fact by moving the products closer together on the shelves. A British example concerns a bulky product which was no more than marginally profitable and which the store was proposing to discontinue. Data mining revealed that the people who bought it were also consistently the outlet's biggest spenders on other products so that the proposed action might be wrong.

A further benefit which can be obtained from database mining is the speedy identification of niche markets. In the fast moving retail market it is important to identify a sales trend and take action on it quickly, since some of these opportunities while short lived can also be very profitable while they last. Again account must be taken of the 80:20 per cent rule applied to retail business when 20 per cent of the customers provide 80 per cent of the turnover.

It is clearly important to identify the 20 per cent and discover what motivates them and what products they tend to buy during a single visit to the store.

Profits from customer relationships are the lifeblood of every business. They may be increased only in three ways. The first is to obtain more customers - to increase the number of people who wish to use the service provided by the business - but new customers cost money to acquire. The second is to increase the

profitability of existing customers - to induce them to buy more or to make purchases offering a higher margin of profit. The third is to extend the length of the relationship of customers with the business. The longer a customer stays with the company the more she is worth. Long term customers tend to buy more, take less of the time of the staff, are less sensitive to price and bring in new customers.

The relative stability of the level of prices has stimulated a search for alternatives to price cutting for securing customer loyalty - a role which was filled traditionally by the co-operative dividend. Tesco led the way when in February 1995 it became the first British food retailer to launch a loyalty card called Clubcard which now claims six million card holders. The holder is rewarded with £1 for every £100 spent but the minimum purchase required to score points is £10. Card holders receive their vouchers every three months. The retention of consumer loyalty may in the long run not be the major benefit of the scheme. The holder's name and address now form a database enabling the business to analyse the purchasing patterns of its card holders and target them with promotions. Money spent on sales promotion can be directed where it is most likely to be effective.

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