

**THIS
RET
AIL
LIFE**
FROM MULBERRY
MARKETING, SFCA

**HOW ONE LITTLE
TECH COMPANY
IS CHANGING
THE GAME IN
RETAIL //**

Dan Brown of Mulberry Marketing in San Francisco talks with the CEO of Quantum Retail and others, about the current retail landscape, the future of retail technology, and what retailers need to do to manage inventory in today's complex market.

QUANTUM RETAIL TECHNOLOGY



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A Watson For Retail

A Watson for retail may not be as far away as you think. Intelligent, automated retail technology is actually here, and some of the smartest retailers are already using it.

When you are a supply chain behemoth and you reduce your overstocks by say 20 or 30%, that can pay for itself almost immediately.

LISTEN TO THE AUDIO:

speaking with Ashley Goetz, Director of Marketing and Social Media



<http://quantumretail.com/2011/04/06/this-retail-life-part-1-a-watson-for-retail>

Audio Transcript

I'm Dan Brown, from Mulberry Marketing, San Francisco, and I'm here with Ashley Goetz, Quantum Retail's Director of Marketing and Social Media.

Thanks Dan.

To get a little more of an idea of the advancements some retailers are taking advantage of, can you give us the inside scoop – who's ahead of the game?

Some of the biggest names in retail actually. Kohl's and Guitar Center in the US, and Marks & Spencer in the UK just to name a few.

Why aren't more retailers taking advantage of the most advanced technology on the market?

That's a good question. But mostly it's a fear of a something new – a different approach, but in reality – it pays for itself in just a few months...

Months?

Mmm hmm. See – when you are a supply chain behemoth and you reduce your overstocks by say 20 or 30%, that can pay for itself almost immediately. And then the long-term benefits are just plain no brainers.

Because it's predictive?

Mmm hmm. And those predictive analytics are actionable and automated. In fact automated technology like this is so efficient that it can take in real-time data from every SKU in a chain, perform predictive analytics on it, and automatically execute optimal decisions in –every– location.

Every item – in real-time?

Yes.

Most of the technology foundations retailers use today were created

In the 80s or 90s and they continue to slap Band Aid fixes on them.

That completely streamlines merchandising doesn't it?

Absolutely.

What your saying is twenty years beyond what most retailers are doing today.

Well once retailers take the time to understand what our solution really does, we usually jump out as their vendor of choice.

So what are they using instead?

Well typically – it's old school technology that they spent lots of money on. These systems have become their foundations – and many retailers feel more comfortable sticking with the same old thing, or they feel like they can do it themselves.

But much of those foundations were created in the 80s or 90s – right?

Right – and they continue to slap Band Aid fixes on them.

I remember technology of the 80s, computers with the blue and white screens...

Like on Dougie Houser.

Yes – and Atari.

Yea –you could ping-pong across the screen and even that was slow.

And then Al Gore invented the internet.

Ha ha.

And pagers were a huge advancement.

Oh yea – and brick cell phones.

And that is the type of technology that was around that laid the foundation of the big systems out there?

Yes – well when retailers paid so much money to buy or build a system – they continued to just add on updates to user interfaces in the nineties – but it doesn't change the premise of the system. You basically have a big spread sheet of data – and the system lets you enter parameter or rules and algorithms in it – and it runs those algorithms on the timeframes of data that you tell it to. But you're still trying to deal with every item and every store. Manually...and that's impossible when you have thousands of stores and hundreds of thousands of SKUs.

Yikes.

And so today – you hear a lot of people talking about this concept called localization. Basically meaning that every store would have its own assortment.

Right.

Gas is going up and less dollars are going into stores – but what dollars do go into stores are constantly changing.

Because you still have your marketing team putting out promotions but you then you also have people socializing products. It makes consumer behavior really unpredictable for traditional systems.

People don't have the same tastes, cultures, trends, sizes, or habits in every area. Even just one example – think about high schools – Let's say you've got a high school whose colors are purple and blue – and you've got your high school girls going out and buying out all the XS tank tops and pants and shoelaces, and eye shadow and glitter – you name it – in those colors – well that's just a high school, and that's probably just a few stores of your chain that would have high demand on those colors.

Right.

Well you think about it on a larger scale and every region has its own trends and neighborhoods and cultural pockets with their own preferences –they're all unique. Every store is unique. But the closest to "localized" that these types of systems can get is generalized clusters, unless you can afford to manually manage every store or every department. And the average large retailer has near a thousand stores and hundreds of thousands of SKUs. Even if you assigned one person to every store – they'd have hundreds of thousands of SKUs – or if you assigned someone just to one department – they'd still have thousands of SKUs behaving differently at thousands of stores. And they can't even afford that many merchandisers.

So typically what do they do?

They generalize. They put those stores into clusters, usually based on size or location, and they treat them like one store. They may find a few things within each of those stores that they do localize on – like sporting teams, or gifts right. And some retailers are good about that – like at Kowalski's Super Market you'll see trendy local magnets with Uptown and Lake Calhoun, and other Minneapolis locales.

Right.

But it's that general merchandise and those normal products that are so difficult to predict. You look at the recession – and you'd expect people would downgrade to lesser brands right?

Right.

But they're not, they are choosing what they feel is the most value – for the lesser price – which is typically the trendy item that's on sale. But they won't stick with it, they'll follow the sale. In most cases they're just buying less. They're being smarter. Organics are increasing in sales – even though budgets are tight. Gas is going up and less dollars are going into stores – but what dollars do go into stores are constantly changing. Because you still have your marketing team putting out promotions but you then you also have people socializing products – like on Twitter – and Foursquare and Facebook – you have the potential to get what seem like random surges. Or you have some celebrity like Charlie Sheen wearing Nike on Sheen's Korner – and who knows what that does to demand – and you've got Groupons skyrocketing business – but how long do those effects last? It makes consumer behavior really unpredictable for traditional systems.

Are retailers starting to get it?

Our Founders said let's throw out the box and build something new, and smart. And they got together and built a new school solution, called Q that wraps up BI, continuous learning, and automation, what some would actually call AI. Artificial Intelligence.

I think so – it's beginning to hit home more and more. But they don't know what to do. It's overwhelming. There are so many channels to monitor. But to put it really basically, you have your stores-and-you have your e-commerce.

Right.

And your e-commerce maybe is a little more complex for distribution, but really it's a lot easier – it's like one store to manage the demand. So if you can forecast that correctly – you shouldn't need to worry – but most retailers haven't been able to.

And you still have online products out of stock – that doesn't make sense – but it's because you pushed all your inventory out to the stores – and didn't think your online demand would be so huge – and now you're waiting for your vendors to come through. Or vice versa – you launched a product online first to assess how it would do and now you have none of that product to push out to stores! So you have all these channels, and all this data, and how the heck can you analyze and predict it and execute it when you have thousands of stores with hundreds of thousands of SKUs?

Right. And lately I've seen publications calling for a Watson in the retail landscape – and that's essentially what is necessary in this new environment isn't it?

It is, and that's what Quantum has created.

That's amazing.

It is. You see — all that old technology that was built in the eighties and nineties or even just after the turn of the century– that's old school.

Old School.

Right. And we're different. And everyone says that. But we are. We're New School.

I like that.

But really we know what works. And the old stuff doesn't kick it anymore.

Not in the least. And your founders got that.

They did. They said let's throw out the box and build something new. And smart. And they are some smart cookies. Retail scientists. Doctors. Seriously. And they got together and built a new school solution, called Q that wraps up BI, continuous learning, and automation, what some would actually call AI.

Artificial intelligence.

But that scares some people.

But it won't for long – it's necessary today. That's where technology is headed.

Exactly, it's not like Google or Amazon have people back there recommending their favorite books to you when you buy something – the system analyzes patterns.

Right – and those patterns are continuously evolving.

Exactly – and that's the sort of thing you can do when you build a new solution from the ground up on technology of this era – I mean they were building the first iPhone when Q was being developed – that's what New School is.

But it's really more than that too – because Quantum looks at the business from a whole and asks your customers to re-evaluate how and why they merchandise.

You're exactly right. When you meet with Quantum, we don't shove our name and our list of clients down your throat. We ask you what your problems and opportunities are – and we help you build and define a strategy for your merchandise. Every item needs to have a role and a goal. That's what makes Q so unique. Our Watson doesn't just keep up with demand – it keeps up with each item's strategy.

Right – go into that further.

So every product is given a role and an objective, like being a traffic driver or profit generator – they are also given constraints – like minimum presentation requirements, etc. And the system monitors products and their strategies to make sure that they are –always- upheld. That's why we say our system is profit-driven. It's not just about keeping items in stock – it's about keeping up the strategy. And sometimes those strategies change. But Q monitors that and it will show you –based on how products are behaving in each location – what the most profitable strategy is – you may only be keeping a certain amount of stock of one product – because it's seasonal – but it's performing like a basic – or you may be stocking on a typical size ratio, but this store has it's own size ratio. Or maybe there are economic changes, or weather changes that you didn't forecast for.

You have a truly unique story about that.

Yes – there are always signals –

-like when all the animals run from the forests before earthquakes...

– ha ha – sure – see Q can track the animals. Just kidding. But there are spending habits that are widespread – and when the recession hit – for example, Q told Guitar Center that it needed to cut 90 million dollars of inventory out, 2 months before the stock market collapsed. And they were really confused – they thought there was a glitch in the system – but no – Q recognized that something was happening and they had to get on the phone with their vendors and let them know, because these are high ticket items that are typically made when they send their order quantities. So luckily they had enough warning. And while other retailers suffered heavily from the effects of the recession – Guitar Center was able to minimize it.

That's amazing.

When you meet with Quantum, we don't shove our name and our list of clients down your throat.

We ask you what your problems and opportunities are – and we help you build and define a strategy for your merchandise. Every item needs to have a role and a goal. That's what makes Q so unique. Our Watson doesn't just keep up with demand – it keeps up with each item's strategy.

But unexpected events bring unexpected demand. And Q responds immediately. Q also calculates out of stocks and even lost sales. So when you run out of an item, Q looks at where you are in the demand curve, how many days you are out of stock, and then knows how much money that out of stock cost you. It also keeps that learning so it can be used when other, similar situations happen with similar products in similar locations. But that becomes much less of an issue when the system ensures you always have the right amount of inventory in every store.

So what makes people afraid of a solution like this?

Well, one qualm that people tend to have with the term automated – is that they have to trust it. And when a system tells you one thing, it's hard not to feel that you as a merchandiser know better than the system. And you go can go in and tinker with it however you want. But New Look, one of our UK fast fashion clients, has said that once they started just leaving Q alone – it worked even better. So there's a trust issue there. But in reality – I don't think most merchandisers want to be mathematicians and detectives for thousands of products. Especially in food stores – where the type of demand per product really changes from location to location. So if the system can find the patterns and show them to you – or even better – just respond to them every day – which gives store owners and vendors a sigh of relief, and lets merchants focus on the true art of merchandising – understanding what products people like – what products sell well – finding the new trends – promoting new products – and staying fresh – and that's what Q is really good at.

So when you have a new Omega 3 fortified organic tomato sauce, or you've just added tablets to your electronic assortment, or you find a really great willow grey silk tank – you know, one with a twisted neckline and a few ruffle folds – but not ruffle sleeves...

Oh no, just a little detailing.

(laughs)

Right – Well Q will tell you where items similar to that product sold well in the past - and where they didn't – it will assign a profile as near to the attributes of the product as possible – it will look at the life cycle of the product, the demand curve, the markdowns, and over 30 other characteristics – so you can make the best decisions on new items, and the most exact decisions on basics and general merchandise – but Q won't stick with the past, it will learn from every new pattern of every SKU in every store, and every channel. Which you think would make it slower – but once it learns from the data – it doesn't need to hold it any longer. It tracks demand in real-time because it knows how products behaved in the past – and when those circumstances arise in the future – it has already learned how to respond. Does that seem scary to you?

No, it seems incredibly efficient.

Right, I think that it lets the merchants be better merchants. And it actually increases the art or merchandising. Because the art is in the merchandise strategies, and goals, in the quality of the products, the brands, the colors, style, fabrics, fit, flavor, and everything else that makes up the art of retail. And Q works well for all categories from fashion to food to general, and specialty merchandise. Because customers tastes simply change from store to store. And

Q will tell you where items similar to a certain product sold well in the past - and where they didn't – it will assign a profile as near to the attributes of the product as possible – it will look at the life cycle of the product, the demand curve, the markdowns, and over 30 other characteristics – so you can make the best decisions on new items, and the most exact decisions on basics and general merchandise – but Q won't stick with the past, it will learn from every new pattern of every SKU in every store, and every channel.

Q helps retailers do more with less to scale their people, processes and systems,

translating data into actionable knowledge and automatically aligning execution to strategic goals.

they change daily. Keeping up with that – is a constant feat – but that is what Q is made for.

So in a nutshell, Q helps retailers do more with less to scale their people, processes and systems, translating data into actionable knowledge and automatically aligning execution to strategic goals.

But that’s just marketing speak –

It is –

- that doesn’t mean anything.

Ha ha...

The truth is in the results. Why don’t you go over some of the typical results.

Typical results:

- A 2 percent full-price sales increase (in fast fashion)
- A 6 percent sales increase (in general merchandise)
- A 4 percent increase in gross margin
- An 11 percent inventory reduction
- A 40 percent reduction in overstocks

And that’s just in a few months. Unlike other systems that degrade over time – Q just gets better. It evolves – and learns – and as Quantum continues to develop the system – you benefit from it.

Those are amazing results. Thanks for sharing. Well there you have it – the Watson for retail – is already here – and it’s called Q!

Thanks Ashley.

Cheers!

Insider Stories Building Confidence for Guitar Center

“The advice I would give to executives who are looking to help their company evolve, and to reach their goals, is to really vet out what partner you want to help you do that, and what types of solutions are really required. And if you can find a solution that is holistic to many of your needs – it really can help the company operate far more efficiently than putting in several different pieces.”

What was unique at Guitar Center, was the fact that it was \$1,000, and \$2,000, guitars, and our vendors were using our forecasts to actually plan their production lines

and at Guitar Center, they were certainly significantly the largest player in their industry and the vendors were very reliant on good forecasting.

LISTEN TO THE AUDIO:

Speaking with Irene Messier, former SVP of Planning and Allocation at Guitar Center, now Head of the Product Execution Team at Quantum Retail



<http://quantumretail.com/2011/04/20/this-retail-life-part-2-insider-stories-building-confidence-for-guitar-center>

Audio Transcript

Thanks to our audience for joining us again this week. I am Dan Brown from Mulberry Marketing, San Francisco, and I am joined with Irene Messier, former SVP of Planning and Allocation at Guitar Center, now Heading up the Product Execution Team at Quantum Retail.

Thanks for having me Dan. I'm glad to be here.

So let's dive right in to what everyone wants to know. How did Quantum win you over? I understand the words "stroke of genius" mean something you...

Um yes – the phrase has somewhat grown to be very near and dear to my heart. First off – I had known some of the founders of Quantum before they formed Quantum and so when they approached me, I had already started understanding how truly talented some of the individuals were behind the creation of this tool. I was at Guitar Center and I was looking for a very different tool. I have been associated with several different traditional replenishment applications. And what was unique at Guitar Center, was the fact that it was \$1,000, and \$2,000, guitars, and our vendors were using our forecasts to actually plan their production lines and at Guitar Center, they were certainly significantly the largest player in their industry and the vendors were very reliant on good forecasting.

When I got there, there was significantly room for improvement. So I needed something that would give me “the next good order,” if you will. As most traditional replenishment systems do, they look down at the SKU Loc, they

figure out what demand might be, and they look over a certain time horizon and cut it or suggest a purchase order. What I needed in addition to that, was a vehicle that had some real strength behind order forecasting and demand forecasting across long time horizons. And that was one of the things that was very special about Quantum. I couldn't find it anywhere I looked. So that was probably the biggest reason I engaged in conversations with Quantum early on.

Actually, one of the partners, Mike Hrabe, bought a guitar from Guitar Center, and once I became aware of the fact that, A. He was trying to speak with me, and B. He had purchased a guitar from Guitar Center, now I was dealing with a customer relation issue! It's a funny story, it's a joke between us. But yes, he did bribe me, in some respects, to speak with him, and I shouldn't say that – he purchased a wonderful guitar, and I think his son loved it.

What Quantum was able to offer and what Quantum was able to deliver was going to take probably at least two if not three capital requests and roll it all into one.

So that's where the term "stroke of genius" came from. And actually, the correct acronym is F.S.G, meaning... "fantastic stroke of genius."

So they actually found me and when I was speaking with them, and the more conversations we had, what was really truly the stroke of genius, was that, I had, as we peeled the onion back, what I was really beginning to understand was that didn't have to go buy a replenishment system and a assortment planning system and a long-range forecasting system – what Quantum was able to offer and what Quantum was able to deliver was going to take probably at least two if not three capital requests and roll it all into one. So that's where the term "stroke of genius" came from. And actually, the correct acronym is F.S.G, meaning "fantastic stroke of genius."

The F stood for "fantastic," ha!

(Laughs) Um, the F was really used for something else, but if anyone asks it's "fantastic stroke of genius." Which was really, very, very, special, and it was one of the main reasons and selling points back at G.C. to management, to say, hey we've got a chance to knock it out of the park. And it was a staged approach – that's how we implemented it – but it was always with the forethought of having a very comprehensive solution.

You touched on this briefly – but what were they using before? Do you have any retail horror stories prior to using Q?

Um, I can say this because I was responsible for the team, but, we had a few hiccups there. Before I joined Guitar Center, they went from all the vendors sending product direct to stores, to putting in a distribution center, and when they did that they put in an allocation system which was very good. And they had already arranged their merchandising team with the roles of a planner and a forecaster to complement the buying staff – so a lot of the change, if you will, had already started. Going from a singular buyer doing it all, to a more holistic merchandising team, with skillsets that balance each other out, but what was evident when I got there, is that when we were looking at procuring product, and it was in a monthly cycle, so the vendors got a bunch of orders once a month, well what was driving that, and the methodology behind that was based in Excel and Access, and I was, you know, wow I wasn't in Kansas anymore that's for sure.

You know, you've got a multi-billion dollar company there, someone pulling things out of Access and working it in Excel, you know there were times when instead of cutting and pasting the receipt quantity that we wanted the vendor to ship, we'd paste our beginning of period inventories! *Luckily* – the vendors would call and say, "Are you sure you want this much?" Which of course, we didn't, and

they knew it. And that was one of the opportunities that was very visible when I got to Guitar Center.

There were many, many, vendors that were very, very, unsatisfied with the quality of the forecasting of the products demand. And back then – it required a lot of hand-holding and the buyer got involved and the vendors were involved, in fact, the first week I was there, one of our major vendors, actually our largest vendor at the time, spent a week in our executive board room going over SKU by SKU, each SKU's forecast for the fourth quarter, and that isn't what the buying team should be doing and it certainly isn't what the vendor should be doing either. So there was definitely an opportunity to help the existing staff and the developing staff to provide a better tool that gave them a far better answer, a more sustainable answer, an answer that everyone could have a higher degree of confidence in.

If all we sold were sticks and strings, that had a very high rate of sale, a very stable demand, and the vendor had a really strong supply chain, traditional systems would have been outstanding, and our search would have been over very quickly.

But that was not the bulk of our revenue, and it would not address the instability in the long range forecasting because those systems today wouldn't be able to provide that.

So were you already looking for a new school solution? Or did you feel like you became a “change leader” for the company?

Um, yes they had been looking for a solution like Q, in fact there was some money saved aside in their budget to address that. The expectation was – you know, let's go out and get the basic type of replenishment system, and I was able to communicate – that if all we sold was sticks and strings, that had a very high rate of sale, a very stable demand, and the vendor had a really strong supply chain – that those systems would be outstanding and our search would be over very quickly. But that was not the bulk of our revenue, and it would not address the instability in the long range forecasting because those systems today wouldn't be able to provide that.

So there was a change agent needed in that respect, that while the teams were somewhat organized we needed to provide a tool, and to create a process such that the output was one that again, people were confident in, and then people could go back and people could do the jobs that they were really employed to do. A buyer could go out and negotiate with the vendor great costs, a financial planner could do the open to buy and manage the quote unquote checkbook, if you will. And the forecaster really could focus in on doing the forecasting and ordering of the product.

And once we were able to deliver that and people understood, Oh, not everyone has to look at this? We actually got a good team and the team has individual roles and when there was confidence that we could all do our individual role very well, there was a lot of change that came out of that. There was a lot of ability to really leverage the existing staff in ways that we didn't before, because everybody was so focused on – do we have the right forecasts out there so the vendor can go build the product?

Once you chose Quantum – being their first customer – you must have built a strong relationship from the start – could you talk a little bit about that?

Certainly. Again, I'd known some of the principles before they started up Quantum and I knew how talented they were and still obviously are. What is incredibly unique about Quantum is that everybody just kind of roles up their sleeves a pitches in, and even today, you can have an idea or want to bounce something out and have a shower thought, if you will, and you can approach Mike Hrabe or Vicki or Linda or Chris or Morgan and say – hey I was thinking

And from way back on when we were the first customer, they were obviously fully engaged with doing things right.

Really challenging Guitar Center to think things all the way through – and re-question themselves, and go the extra mile to make sure that when we put pieces in – they were fully vetted, not only from Quantum – but from Guitar Center – and they really work – I think that is one of the key differences with Quantum as a solution provider.

about this – what do you think? And they really do want to hear and be engaged in how we're maintaining, supporting, and developing their "baby" and it is very, very, refreshing in today's environment to work with a company that you can feel that vibe, it's being a part of something really special and dynamic.

And from way back on when we were the first customer, they were obviously fully engaged with doing things right down to asking us – hey, what's the process flow going to be? You know – we'll provide this tool – we'll have alerts and work flows etc., but how are we really going to use it? Really challenging Guitar Center to think things all the way through – and re-question themselves, and go the extra mile to make sure that when we put pieces in – they were fully vetted, not only from Quantum – but from Guitar Center – and they really work – I think that is one of the key differences with Quantum as a solution provider.

When you provide a solution, if it's not easily integrated and accepted into either the existing process or the processes as they evolve, then your solution is not optimized. And being one of the first customers of Quantum, I was able to witness first hand the principles themselves – living that attitude – that we are definitely in it together – we are here to provide a solution with you and for you – and we are both going to figure it out as we go. And I can honestly say that approach and that feeling is still evident at Quantum today – which is neat.

When you sat down with Quantum early on – how did you decide on the strategies that you would be using?

You know it's funny, at a former retailer, I won't use any names, one of the approaches that they took was to do portfolio management during their business planning cycle. And not every category was a stake in the ground, and not every category was a loss leader, or a traffic builder, so I was very much already accustomed to the approach that when you are planning or doing something in business that you don't treat everything you are affecting the same way.

So for instance at this past retailer if you were a stake in the ground, you probably got more advertising, you were probably not challenged as much to increase your gross margin return on investment (GMROI), because you were a stake in the ground relative to that company, to that product offering the company had in the industry.

So dial ahead – many, many, years later, I'm working with Quantum Retailer, and one of the very unique aspects of Quantum Retail is that they don't try and have you treat every item the same way, but you don't have to turn a thousand dials and dial in everything in uniquely for that SKU. Whether you have 10,000 SKUs or 80,000 SKUs you can't do it that way, or at least it's not very effective that way.

So what the strategies allow people to do is to say, okay – I don't bring items in to my assortment for the same reason, every item has its own reason for being part of the assortment. So because I was accustomed to that thought process already, it was a very natural and easy step to take it down to the item level. With Q, we would assign a strategy to an item, and the system would take that strategy and affect the order processing and the management of the inventory level accordingly. So I didn't have to tweak a thousand dials to get it right. There were items that we wanted to maximize profit, there were items where we wanted to be more aggressive with sales, there were items that just rounded out the

Q allowed us to A. Be very surgical at a very high level, at an item level, and B. Allowed an opportunity for the merchandising teams' executive team to be fully engaged,
which was really very powerful.

assortment that would maybe not be in every door, so I was more than happy with a little bit of a lower service level to achieve other objectives.

So in trying to get Guitar Center to understand the strategy approach we, at Guitar Center, got the merchandising management team together and we spoke. I said, well why do we bring different items in? And it seems like a silly question to be asking, but it was actually a very, very, good conversation. And the head merchandising, and the vice presidents of each of their areas felt very engaged, and felt as though they were defining how we were going to be managing the inventory flow and managing our business going forward.

So it allowed us to A. Be very surgical at a very high level, at an item level, and B. Allowed an opportunity for the merchandising teams' executive team to be fully engaged, which was really very powerful.

So the strategies that you chose for each product are automatically kept up by the system – did the automation factor make you nervous, or what is it about that word that scares some retailers?

Well you know, there can be an expression – everybody has a little black box – all these software companies have a little black box. And you put information in, you don't understand what happens, and then it outputs something and you're supposed to execute your business on the output. And so for automation, particularly, in the role that I had, SVP of Planning, there and in another company, you're looked at and you're responsible for providing solutions that are obviously credible. It seems like a stupid thing to say, but the fear is, well if I can't explain every single thing the system does and the automation just happens, how am I going to be sure it's going to do everything I want in every single situation.

And you know what – there isn't a solution that does everything absolutely perfect in every situation because for example – you could have an item that sells once every 26 weeks and all of a sudden in a month it sells two. And go figure. No system is ever going to forecast that, because it's an aberration, if you will.

So one of the things that you need to get comfortable with – is you have to make sure that you are putting enough due diligence in, to test enough scenarios and conditions that your people operate under – scarcity of product, abundance of product, variability of forecasting, stores going into remodels, and you know, just everything that you could imagine that might impact the stores ability to sell product or the natural demand of the product. If you've done that and you've fully vetted that out, then you can say, ok you know what, the, well it isn't a black box, but you can say that if you have 10,000 SKUs across 200 stores, no human being can do that calculation every single day when they're doing allocation. Or you know, twice a month, when they're re-looking at the ordering processes.

You need to have a system that can understand and do the math and the automation at the SKU Loc level, because that's where it's really happening. And you need to have faith that the system that's doing that gives you the ability to – at a higher level – to go in and understand what's truly driving the applications that are truly running your businesses.

And Quantum allows you to do that. They give you alerts, they give you work flows – you can go in at an item level and understand what's going on. You know one of the things with Guitar Center very early on – if we were at an X number of

The buying team really starts getting very engaged because they have a growing comfort level in that, wow, I have somebody and some thing and some process that's empowering me –

and I do not need to invest thousands of man hours doing it – but I have a vehicle and a process and a team that's going to be able to give me this critical information and they go back and work with the vendors and its just a great cycle that you get into.

weeks worth of supply and it looked like we had enough product out there – we could have been understocked in half our stores and overstocked in the other half of our stores. Well no human being is going to go through or could they, with hundreds and hundreds of SKUs, go through and say ok I'm going to order this product – well let me go through, by store, and see what they need and aggregate that up. It would have taken way too long.

So that automation of understanding what's going on at a very low level and raising it up and providing someone with what is going on in a digestible format in a format that gives them alerts and work flows to understand so they don't have to look at every single product. Because the product is operating dead on to the forecast, and the service levels are more than acceptable, there's no reason to go in and spend a half an hour looking at that SKU. You might have to spend half an hour looking at another SKU where there could have been cannibalization or where there could have been a product entering the end of its life cycle, etc.

So that's what the automation piece does. People at times want to be able to say that they know every single algorithm driving everything, and you'll get bogged down in doing that. And once you have the comfort level that the application is going to execute its math, if you will, in a way in which you would expect it to, in a way in which you affirm, and then just take it from there, and then you free up your team to really start doing analysis – you've got forecasters going back to buyers saying, hey you know what – this SKU looks like it might be entering its end of lifecycle. Or you know what, this SKU is really taking off – and this is what I'm seeing, it's tripped an alert three weeks running, lets go in and see what's happening. And the buying team really starts getting very engaged because they have a growing comfort level in that, wow, I have somebody and some thing and some process that's empowering me – and I do not need to invest thousands of man hours doing it – but I have a vehicle and a process and a team that's going to be able to give me this critical information and they go back and work with the vendors and its just a great cycle that you get into.

And you have a story about a big alert you received, right before the recession, don't you? Can we hear that story?

It was the "Mother of Alerts," what happened was – it was August and at Guitar Center in August, every SKU's fourth quarter analysis is executed and because by that time you need to make sure that everything's I's are dotted and T's are crossed. Well what happened was, from the beginning of August to the end of August, we could see the demand softening across the majority of our SKUs. We were beginning to get alerts across the board that said, downtrending, downtrending, downtrending... And what happened was the forecasted orders, and those orders result from a combination of what the current demand looks like, what your existing inventory already is, plus your future orders that you already have coming in.

And within a very short period of time, Q was saying hey – you need to cut back your orders – and it wasn't a small amount it was a *very large* amount. And each week we could go in and we could see it happening and – when I answered one of the first questions – about being a change agent, you try and put a process in place and develop skillsets and put a tool in place that allows people to do their job, right? Well – what Q was witnessing and attesting to and serving up to us was so significant that at certain points in time, when you're in a company such as Guitar Center you need to say, ok – stop, I brought the the head of

I walked into the CFO's and the President's offices and said, guys, I believe this is rock solid. I can show you this, vet it, forwards, backwards, sideways, every which way you look at it, it is telling us to take this much inventory out

and we had already started seeing softening comps, certainly nothing like what was going to happen in the next couple months, but we were seeing it starting to happen. So we sat down with the executives and the merchant community, with the President and CFO, and we all held hands and said, we think this is right. And it was a significant impact.

merchandising in, the executive vice president of merchandising in, the vice president of merchandising in, and I said guys, look at this – this is substantially different than the forecast we gave the vendors a month ago. And you guys own the vendor relationship, I need you to understand this, and I need you to be a partner in this.

I walked into the CFO's and the President's offices and said guys, I believe this is rock solid. I can show you this, vet it, forwards, backwards, sideways, every which way you look at it, it is telling us to take this much inventory out and we had already started seeing softening comps, certainly nothing like what was going to happen in the next couple months, but we were seeing it starting to happen. So we sat down with the executives and the merchant community, with the President and CFO, and we all held hands and said, we think this is right. And it was a significant impact.

The buyers grew to understand and have confidence in those forecasts and went and had some tough conversations with the vendors, but I can tell you this – they were some tough conversations, but they were 1000% better than it would have been, had we not have been so proactive about it. One of the things I said to the CFO who was, as he should be during the whole acceptance process and the selling of Quantum at GC, he was very, very, challenging.

And after we put it in, the first engagement, if you will, we happened to deliver everything that was promised, in fact, the inventory reduction that we said would take two years, it happened it in a year, and he called me a sandbagger! But I went in and I said, you know, I want you to understand, if Q wasn't in place, and I had a staff of people doing this manually, there is no way I would have suggested the amount of reductions that Q suggested, there is just no way I would have had enough confidence in what people were able to do manually, not going down to the SKU Loc level, looking at it at an item level, nor would the buyers have accepted that. Because, if we were wrong, we were leaving some serious sales on the table. And he kind of looked at me and smiled and I smiled back and thanked him for his time and left his office.

But the point was and the point still is, it was never envisioned, when we were trying to sell this solution to senior management, we made claims for service level, for sales, for inventory efficiencies, but we never, ever, even had the inkling to suggest that if a major recession is going to hit, this is going to see it and it's going to save our skin. Because had we not done that, we would have ordered more than we needed, and we would have had the stores filled to the brim and the vendors would have gotten very, very few orders first quarter, and in that vendor community it would have been significant. It would have been extremely hard to have lived through.

So while the buyers went out and had some tough conversations with the vendors, it at least allowed them to be proactive about it, and to have the vendors feel that they were privy to it as well, that they understood and knew what was happening. And I bet the vendors took that information and probably used it in other client sites as well. So I don't want to call it a happy ending, because no recession has a happy ending, but it was a very gratifying process to actually be able to manage through some very difficult times.

That's amazing – so after that experience – after you saw that Q really was dead on – did that instill a lot of confidence in the system?

Basically, we were able to hit all the metrics that were promised in the analysis that was required to approve the project.

The president was new at the time and he was in with the CFO as they were grilling me – and he looked over at the CFO and said okay, okay, she’s proved it okay, it works, it’s done it’s job...It was icing on the cake.

Yes it did. Well that and confidence is, you know what’s the expression, you make money the old fashion way, we earn it every single day. Well, we, Quantum, and it’s application, really had earned the confidence every single day. Even from the pilot. From the initial pilot, within twelve weeks we were up and running and Quantum was affecting forecasts. And within 4-5 weeks – in a test and control environment – we were able to show that the forecasts that Quantum was just spitting out from the beginning, pure vanilla, were 20-25% better than what a human being was producing. And then time went on, and we trained the allocators to use it, and then we trained some of the key members from forecasting to use it, and then guess what? A trained professional with a better tool gets an even better forecast, so then it jumped as high as 29% forecast improvement.

So even from the very beginnings we were able to show very factual improvements, if you will. Another aspect of it – when we launched the Quantum initiative, we formed an executive committee, which had members from the head of the supply chain, the head of stores, so we got the people involved that would be impacted by this solution, and we had steering committee meetings. And every 4-6 weeks you were out there showing them what’s happening, showing them the differences in the processes, showing them the results, and so – you could really see as time progressed, the confidence level building and building and building.

Then once we were able to assess after the implementation of the phase one, which was delivering the order planning, forecasting, and the changes to allocation and replenishment. Basically, we were able to hit all the metrics that were promised in the analysis that was required to approve the project. The president was new at the time and he was in with the CFO as they were grilling me – and he looked over at the CFO and said okay, okay, she’s proved it okay, it works, it’s done it’s job.

(laughs)

So you know, it was icing on the cake. Again it’s hard to be happy about that recession, but it was another way that people at all levels of the company could understand the positive impact that the solution provided the company. And confidence is a great word. It really continued to solidify the confidence.

Awesome. So I understand that you now work with Quantum, can you talk to us about what that’s like?

Sure. You know I mentioned it, I think a little bit earlier. That it is being part of something special. Because it is not just a software application. It is a solution. It is applicable in grocery, it’s applicable in hard lines, it is applicable in soft lines, there is so much power behind what it can do that you really feel good going to work every single day. But really truly, it’s the people. You know, it’s the founders that are still fully engaged, and still very much care about the output. It’s working with a new person coming in and understanding, wow, this really is different, this really does help provide a different way of doing business. It is being a part of that. You know, I feel as though I’ve been part of it from the beginning, but being on this side of it – it’s a lot of fun. I am very grateful. It’s different for me, you know, I was a retailer basically all of my adult life, and so it’s a different set of

shoes, but it is lots of fun and I couldn't think of a company that I would be doing it with other than Quantum.

And we're running out of time – but lastly, do you have any advice for retailers evaluating new technology like Q?

The advice I would give to executives who are looking to help their company evolve, and to reach their goals, is to really vet out what partner you want to help you do that, and what types of solutions are really required.

And if you can find a solution that is holistic to many of your needs – it really can help the company operate far more efficiently than putting in several different pieces.

You know- often times in fact, I was told this – to go out and find the “Best of Breed” – and “Best of Breed” does not necessarily mean that which has been employed over and over and over again. In today's changing retail environment, it is absolutely critical that when you implement a solution, it should be a holistic approach. There's definitely some process changes, some system changes, maybe some people re-alignment changes, and you want to choose a solution that is truly going to be part of the solution and is going to be able to work with you as a partner to find the path that is right for that company, at that company's point in time of its history.

I've worked with companies that were at early stages and really wanted to try and grow market share, I've worked with companies that were the largest in its industry and were really sure companies and were trying to focus on the bottom line. And at different parts in a companies life cycle they are going to be focusing on different things, you know, driving sales and growing market share – you need great processes and great people and great tools to do that. Optimizing profit and understanding, you're mature, and you need to be extremely efficient in everything you do – you need some great people and tools and processes to do that too. And Quantum can help you in both scenarios. Which is terrific. The system is very, very, flexible.

I don't want to sound like I'm trying to sell Quantum here, but the advice I would give to executives who are looking to help their company evolve, and to reach their goals, is to really vet out what partner you want to help you do that, and what types of solutions are really required.

And if you can find a solution that is holistic to many of your needs – it really can help the company operate far more efficiently than putting in several different pieces. If they're looking to make a lot of changes, that's probably something you might want to keep in mind.

Wonderful – thanks so much for joining us Irene!

Thanks for having me.

Battling the Big Vendors Simply takes a new approach

There are really a few reasons that retailers are a bit resistant to change. One of them is a fear of a something new – a concern of the learning curve of a different approach.

They've gotten comfortable with processes they've created and nurtured over many years, and there's a level of re-education that's a part of taking on any new approach. Unfortunately, many of the pitfalls of traditional approaches come directly from dated technology, its constraints, and the old thinking that surrounds it.

“Some vendors have been working on and gathering more and more solutions that cater to retailers in an end-to-end manner. Examples are solutions coming from folks like Oracle, SAP, SAS, JDA, IBM, Epicor, RedPrairie, Island Pacific, Jesta, and others. But these solutions are mainly just minor variations to the same traditional processes that have been in retail for decades now. They have yet to really achieve the ability to learn from what they “see” and promptly adapt to that with recommendations that will meet the evolving needs of today without the need for user intervention all along the way.”

LISTEN TO THE AUDIO:

Speaking with Greg Wilson, Director of Field Strategy at Quantum Retail



<http://quantumretail.com/2011/04/27/this-retail-life-part-3-battling-the-big-vendors-simply-takes-a-new-approach>

Audio Transcript

Thanks to our audience for joining us again this week. I am Dan Brown from Mulberry Marketing, in San Francisco, and I am joined with Greg Wilson, Director of Field Strategies at Quantum Retail.

Thanks for having me Dan.

It sounds like Quantum is continuing its pattern of rapid growth, but I understand there is still some push-back in the market. Why are retailers stubborn when it comes to change?

Well there are really a few reasons that retailers are a bit resistant to change. One of them is a fear of a something new – a concern of the learning curve of a different approach. They've gotten comfortable with processes they've created and nurtured over many years, and there's a level of re-education that's a part of taking on any new approach. Unfortunately, many of the pitfalls of traditional approaches come directly from dated technology, its constraints, and the old thinking that surrounds it.

Traditional systems are generally like a large spreadsheet of data – and the system enables you to enter parameters or rules and calculations on data that you select – they require a significant amount of user input and manipulation, and the only way to enable that, is to set and manage this stuff at higher levels of aggregate. The problem is that this pushes you further and further from the ultimate goal, which is localization, or understanding and reacting to what’s happening at each location with each product.

Another reason is that some retailers are a bit scared of the term “automated” – they see it as taking the decision making process out of their hands. There really needs to be a certain level of trust established before they’ll consider any form of automation.

And finally, a lot of retailers have made significant investments in technology over recent years and that’s what’s driving their current process. Sometimes they are hesitant to put more money into something new, or something that they could build themselves. We do actually occasionally run into retailers that try to pry information out of us and get details about how we’re solving these problems so they can build it themselves. But ultimately it’s a waste of their time though. To build something with enough capability and sophistication to solve the more challenging problems, it’s incredibly complex. It takes experts in various disciplines of business technology and the science of econometrics and other statistics related to solving the problem. So by the time they just get started in building something, assuming they could even do it, they could already be achieving value from Q.

But the old retail foundations that most retailers are still using make it impossible to change their way of thinking, right?

Well to a large degree that’s true. Traditional systems are generally like a large spreadsheet of data – and the system enables you to enter parameters or rules and calculations on data that you select – they require a significant amount of user input and manipulation, and the only way to enable that, is to set and manage this stuff at higher levels of aggregate. The problem is that this pushes you further and further from the ultimate goal, which is localization, or understanding and reacting to what’s happening at each location with each product.

Some vendors have been working on and gathering more and more solutions that cater to retailers in an end-to-end manner. Examples are solutions coming from folks like Oracle, SAP, SAS, JDA, IBM, Epicor, RedPrairie, Island Pacific, Jesta, and others. But these solutions are mainly just minor variations to the same traditional processes that have been in retail for decades now. They have yet to really achieve the ability to learn from what they “see” and promptly adapt to that with recommendations that will meet the evolving needs of today without the need for user intervention all along the way.

The traditional approach is also pretty limited into the scope of what it can address to deal with the really difficult products like big ticket slow-movers, sized merchandise, highly volatile merchandise, seasonal products, short-life products, perishables, pack-constrained products, and heavily promoted items, things that are scarce or vendor-allocated, or have long lead-times.

All of these things require new models and new ways of thinking to address them really well.

So how does Quantum’s “new school” way of thinking differ from that of traditional solutions?

Well, the Q Platform that we’ve built actually enables us to solve the problems that these other vendors mainly talk about solving. It delivers on the business case every time, with proven, measurable results. Quantum has developed the

concept of managing by *merchandising strategy*—determining the role of the product within the customer offering, such as being an image item, a traffic driver, a profit generator or a fringe assortment item, or things like that.

Users aren't asked to select and ultimately guess at an overwhelming number of forecasting or replenishment algorithms, and to set a slew of difficult parameters around each item. Q takes the strategy and understands the objectives of the product from both a financial and a merchandising perspective and it ensures that every inventory decision that it makes is aligned with achieving those objectives.

The way that customers buy product changes over time and Q adjusts automatically to react to those changes by constantly working to ensure that alignment is maintained throughout the products' lifecycle. This is much different from having to actively maintain ordering, allocation, and replenishment configurations for every item in every store and manually ensure that the system is set up correctly to do this like other solutions do.

In the process of understanding items, Q considers over 30 dimensions of product behavior. Things like: maximum sales, true historical demand, forecast demand, days between sales, lost sales, days between out of stocks, current inventory position, last stock-out, weeks of supply, percent in stock, etc. But beyond these typical sales and inventory metrics, Q also understands things like:

- When an out of stock happens, an out-of-stock on Monday has different gravity than out-of-stock that happens on Saturday, when you're looking at things in a weekly level.
- Variations in contributing factors like: lead times, lifecycle, and service levels, which have a significant influence on making the right decision.
- Variability in sales, such as volatility, lumpiness, lost sales, are very important to understand. And finally, and probably most importantly, are profitability metrics such as gross margin return on inventory investment.

So these capabilities have led to retailers being able to have a high degree of automation with Q using exception management to highlight only those areas where users should be spending their time efficiently and effectively in the system.

Rather than just setting a target service level which is a guess, usually at some group of stores of what amount of inventory hits a service level that will meet an objective, they really need to define that objective.

Can you talk more in detail about product strategies? Do they change from retailer to retailer?

Yes, absolutely strategies change from retailer to retailer. Often we find people using ineffective strategies such as simple min/max replenishments, or things like that.

What they really need is a true strategy for their products.

So, rather than just setting a target service level which is a guess, usually at some group of stores of what amount of inventory hits a service level that will meet an objective, they really need to define that objective.

For example, "What am I doing in the realm of profitability for a profit generator?" I need to understand how much service allows me to capture sales,

but I need to make that subject to some constraints around waste, or potential losses from carrying merchandise. I also need to be considering the volume of sales that I am generating. So profitability might not capture every sale, but it will allow me to avoid waste as a result of not capturing every single sale. So balancing all of these things has been traditionally very difficult because you have to pick a handful of parameters and manually set them at some level that is manageable. But really this evaluation should be happening all the time.

So by enabling Q to operate to this strategy, you know what the goal is, and Q can dynamically set all of the parameters as it understands about the behavior of merchandise to achieve that objective consistently.

We also see a lot of retailers falling into the trap of thinking that it's all about forecast accuracy. But for a majority of items the value of the forecast is really diminished, if not irrelevant. You've got values that are significantly less than one unit, at that point the decision isn't really about, "is the forecast .04 or .05," it's about what is the right inventory decision to achieve that goal given that forecast and the volatility around it.

Typical systems aggregate some of the criteria that is managing their processes up to higher levels to make it easier for the user to manage.

But that gets you further and further away from the unique characteristics of the individual products in individual locations, which is really what's necessary for localization.

And other vendors talk about localizing, but they're all just talk – aren't they?

Well yeah, they really are. And the reason for that is—because of the complexity of the problem. They are aggregating some of the criteria that is managing their processes up to higher levels to make it easier for the user to manage. But that gets you further and further away from the unique characteristics of the individual products in individual locations, which is really what's necessary for localization.

What Q does is it enables you to set a high level parameter, but it's a dynamic parameter that says what your objective is, and by doing that, Q can understand the behavior of each individual store and each individual product, and put that together with your objective so it is constantly achieving that objective at that SKU/store level. And only when you do that are you really achieving localization.

You mentioned that Quantum always performs on the business case, every single time. Can you tell us how that process works. How do you sit down and decide on a proper business case with new clients?

Well first of all, when you meet with Quantum, we don't shove a big list of clients down your throat. We ask you what your problems and opportunities are – and we help you build and define a strategy for your merchandise. Every item needs to have a role and each role needs to have a goal. And that's what makes Q so unique, it doesn't just keep up with demand – it keeps up with each item's strategy and the objectives of that strategy.

Let's talk competition. You are often among the final two or three vendors of choice. How do the big vendors compare to you? Are they intimidated by you guys?

I don't know that the big vendors are intimidated by us, as such, but they are certainly aware of us. And they are aware that there is a new approach available. And more and more retailers are coming around to understand the value of that new approach.

I think probably the most important thing for people to understand is that new technology, even though the process and the underlying mechanics are more complex, new technology is actually easier to use, it pays for itself in months, and it improves over time. You have nothing to lose!

In addition to our system's adaptive nature, simple and intuitive navigation, ease-of-setup, and the fact that it's exception-driven, we are able to get in place very quickly.

Implementations happen in fewer than 20 weeks, and the system's light footprint means a smaller investment. We can actually employ on top of some existing structures and optimize them in some cases whether that be a short term objective or part of a longer term objective.

Our customers have reported fewer than 12 months to reaching a 100 percent ROI in every single case. And this is measured through test and control groups, where we take two groups of stores that are behaving similarly. One of them becomes the test group, which we manage with Q, and one is the control group, which continues being managed with existing systems. Taking this approach ensures that the returns we talk about are only possibly a result of utilizing Q.

Being a small company, how does your relationship with the client change the solution's effectiveness?

Well from the beginning of an engagement with a retailer, we establish a relationship, we become a key component of reviewing and improving their business strategies as they affect the whole of their company. We're looking at the larger picture – and create a business case that is specific to them – and how much profit they can expect to achieve.

Being a smaller company also allows us to build out our product to the needs of our customers. We have three core products, assortment and range planning, allocation and replenishment, and order planning. And we are always in the process of making these products better, which our current clients get to enjoy – and when they have specific needs of their own, these updates sometimes become a part of the core product.

But we also have the fun of building a strong partnership with our clients, becoming team players – their success ultimately is our success – and we are always looking out for how we can make their business better.

And can you give us a last few words of comfort for retailers looking to make the leap away from their old tech into a "new school" solution?

Yeah, I think probably the most important thing for people to understand is that new technology, even though the process and the underlying mechanics are more complex, new technology is actually easier to use, it pays for itself in months, and it improves over time. You have nothing to lose!

Thanks so much for joining us Greg!

It was good to be here.

Transformational success for retail merchandise optimization

“There are a lot of retailers out there who are aggressively moving into the market, to try and figure out how they can be more consumer-driven, how they can optimize their assortments, how they can be hyper-responsive, how they can be more productive, and how they can design into their business everything that they do to be profit-seeking. So if you aren’t thinking about your business that way, one of your competitors is. So I encourage retailers to stop being confined by the way their technology behaves today, and to start thinking about what they need from their technology in the future.”

LISTEN TO THE AUDIO:

Speaking with Vicki Raport, CEO Quantum Retail



<http://quantumretail.com/2011/05/04/this-retail-life-part-4-quantum-ceo-vicki-raport-talks-about-transformational-success-for-retail-merchandise-optimization>

Audio Transcript

Thanks to our audience for joining us again this week. I am Dan Brown from Mulberry Marketing, in San Francisco, and I am joined with Vicki Raport, CEO of Quantum Retail.

Thanks for having me Dan.

For the last few weeks in these interviews we’ve been talking about the concept of “new school” vs. “old school” retail. Most of the founders and current employees have come from other retail technology vendors. Would you say people are relieved to get away from the constraints of those other companies?

Well absolutely, I mean, you don’t come to work for a small high-growth company because you want to stay with the constraints of a larger beast. You know, really, when people come to work for Quantum they come for probably three key things:

One is – they want to be part of something that is innovative. You know, both engineers and business people alike have a desire to be creative and to have their work shine as something innovative in the market place, and we think we give everyone the opportunity to do that.

The second thing is that when you come to work at Quantum vs. probably some of our bigger and older rivals, everyone matters. We are still a small enough company that the contributions of everyone in our company makes a difference to our company. And as many of us know, when you are working in ten billion dollar company, it's hard to feel like, as a single person, what you're doing makes a difference, and in Quantum, everyone makes a difference.

The technology that most existing ERP solutions and most technologies that have been implemented in the last twenty years at retailers, are probably based on technology and thinking that was at least thirty or forty years old.

And last, but certainly not least, is that people who work with Quantum want to be close to the creation of value for the customers, they want to be able to identify the things that they are doing with the ways that they are delivering value in the market place, and we allow people to see those results. We celebrate the wins of our customers as if they are the wins of our individual company. And everybody who contributes to that value is acknowledged. And those things together are things that I don't think you find very easily in larger companies and certainly people who are doing things the old way.

That's great, I imagine that some of our listeners are going to want to send you their resumes.

(laughs) Well they can go out on our website and we have a nice little place that they can let us know. We are definitely in growth mode and we are still hiring.

That's great. But let's go back to the beginning. Why did the founders of Quantum break off and start their own company – were they fed up?

Well I think that, why people found their own companies really has a lot to do with entrepreneurial spirit, and people wanting to be able to start with their own ideas and bring something unique and innovative into a market place that they have confidence that they can add value in. So from the beginning, the founders of Quantum Retail really understood that in the market today, and certainly when we started the company, retailers were and are facing significant challenges in addressing the complexity of their business and achieving their desired productivity and profitability from their inventory and certainly on their ability to deliver on the customer brand promise in a volatile market.

And to do that they really needed something new. They needed a solution that was easy, intuitive, was not disruptive to their people and processes, and really thought about things in a new way. So when we formed Quantum Retail, we really were thinking about, "how do you add new value into an old market place?" And that was the foundation of why we started the company.

Why was a new school solution necessary?

Well first of all, the technology that most existing ERP solutions and most technologies that have been implemented in the last twenty years at retailers, are probably based on technology and thinking that was at least thirty or forty years old.

Let's face it, the world has changed. I mean five years ago, who would have thought that Apple would invent this little tablet PC called an iPad and generate a \$5 Billion dollar business overnight. The world is completely different than it was thirty or forty years ago, it's different than it was twenty years ago, and it's different than it was ten years ago. So New School is something that doesn't happen just once. It happens on an ongoing basis. And what we really have to be looking at is, how do you take the new thinking and new technologies, and go after the hardest problems that are out there in the marketplace.

And, let's face it, the world has changed. Right, I mean five years ago, who would have thought that Apple would invent this little tablet PC called an iPad and generate a \$5 Billion dollar business overnight. I mean, the world is completely different than it was thirty or forty years ago, it's different than it was twenty years ago, and it's different than it was ten years ago.

So New School is something that doesn't happen just once. It happens on an ongoing basis. And what we really have to be looking at is, how do you take the new thinking and new technologies, and go after the hardest problems that are out there in the marketplace. Our expertise is in retail. And we go after those components of retail that represent high value for our customers, and can fundamentally change their ability to be profitable and successful. And existing technology and old ways of thinking, they just don't offer those capabilities anymore.

And we really felt that we had to create a new future for retail, and you couldn't start from where you were in the past. You just couldn't get from there to where we are today.

So how did the founders create the concept for Q, and was it hard starting from the ground up or was that an essential component?

Well the answer is both. It is very hard to start from the ground up, but it is something that we did. We literally, you know, what we came to the party with was our understanding of the retail industry and the pain that retailers faced in utilizing technology and leveraging technology to deliver profitability and value, and we started with no technology.

We had our assets of knowledge in the marketplace, but we really started from the ground up. And that's very hard, you have to start with a blank sheet of paper, you have to go out and do your own research, you have to have a lot of creativity, and a lot of ability to think outside of the ways that you have historically thought about solving problems, but as I said before, and to use your words, it really was essential. We could not develop our solution to be able to look at data at an atomic level, such a granular level to solve really complex problems like, localizing assortment and seeking profit, and driving to consumer demand.

We couldn't do that with the existing technology. If we started from that, we wouldn't have been able to get where we are, so it was absolutely essential that we do that, and it's really foundational to why retailers are drawn to our technology solutions. We look different, we behave different, and we offer a different set of results, which are much better than any of our competitors.

So you mentioned a few, what I would say are great selling points right there. But what has been the biggest selling point of Q for your customers?

Probably the biggest selling point for Q with our customers, is our ability to deliver value quickly in a highly complex business environment, and when I say highly complex business environment, now we're talking about, all of the formats, and all of the assortments, and all of the geographies, and all of the different verticals, and all of the ways your products behave, and the different markets, and the different channels and the different customer segments, I mean, this is a tremendous amount of complexity.

Quantum and Q come from a holistic perspective and look at the business as a complex operating system and use a single system to solve these overarching complexities.

And to solve that problem using old technology requires multiple solutions, being strung and cobbled together to solve many, many problems, whereas Quantum and Q come from a holistic perspective and look at the business as a complex operating system and use a single system to solve these overarching complexities.

And really that's why people choose Quantum. It's why our first customer went with us. It's why Guitar Center picked us, because they knew that to solve the different types of problems that they had in their business, they would likely have had to implement three different inventory management and forecasting solutions if they went with some of the old school technology.

That's great. So it seems like your prospective market is growing pretty quickly – how do you keep pace with the challenge of growth?

Well, it's not easy, but it's a good problem to have.

(laughs)

So keeping pace with the challenge of growth starts fundamentally with hiring and retaining good people. Quantum is still very much a family, though we are now over 100 people. We vet our folks very thoroughly. We try to hire people who are experts in their field, whether it's engineering, or whether it's retail, or whether it's technology. And it's really, really important that you have great people who are really motivated.

The second thing is that you have to have good customers. And so, one of the things that we've done as we've built the company, is we find retailers as clients who are looking for us, and want to stay and be very, very, engaged with us. You know, we don't hand our solutions off to some third party systems integrator and wish our clients good luck. We are extremely engaged with them. We continue to work with all of our customers actively, even years after they've implemented. So probably the biggest thing for us is, having great people, and having great clients. And that's what's allowing us to keep our growth and being successful and profitable, rather than being a constraint to the business.

So where is Quantum headed next, what is your vision for the next few years?

Well certainly, we want to build on the success that we've had. So in our view, we have been very successful over the last several years, in landing what I would like to call our anchor clients. What we've done is we've managed to land some key marquis customers in each of the verticals in retail. We have customers in fashion, we have customers in hard lines, we have a customer in departments and mass, and we have a customer in food retailing.

And these represent the major verticals in retail, and for us, we are now being invited to all the parties, we are being asked to participate in many many of the tier 1 selections, and I believe that having these anchors in all of these verticals will allow us to now aggressively go into these markets and continue to convert retailers to the Quantum way of thinking and to get our solutions and applications up and running and delivering value in more and more retailers. So, the first is to leverage the success that we've had.

You don't start businesses just to make money, you don't start businesses because you are mad at your last employer, you start businesses because you really believe that you have something fundamentally different to bring into the marketplace and that difference has value. And that's what sits behind Quantum, and that's why all of the people who founded Quantum are still actively engaged in the company and are very excited about it.

The second is that Quantum is always innovating, so our vision is, we really want to become the foundation for twenty-first century transformation, as the leader in merchandise optimization for retail. And what that means is three main things:

First, we need to make sure that we are helping retailers align their capabilities to buy, move, and sell merchandise when and where their customers want to shop and in the most profitable ways. And we're going to do that by addressing not only how we respond to demand but how we shape demand as well, so we really want to be a holistic solution for merchandise optimization and we are well on our way with our platform and with our solution applications.

The second is that we want to provide this transformation through technology that enhances business decision-making and execution in a way that people want to work. Probably one of the biggest things between old school and new school is that new school technologies are designed around the way that people want to work, whether it's sitting at a work station, or on a mobile device or an iPad, whether it's an on-premise deployment, or on-demand SAS solution, we're always figuring out how do people want to be working with technology and the most productive ways, and that is paramount to our vision.

And then lastly, we want to do this in a way that creates what I would call an enduring platform, and enduring means, that the platform itself and the way that we work with our technology to deliver value has to adapt to the ever-changing needs of our customer, and our customer's customers. And so, all of that means that Quantum is going to continue to innovate, continue to leverage the assets that we have in the market place, but to continue to bring more and more value to not only our existing customers, but our future customers.

Fantastic. So how has it been leading a startup? It seems like there is a lot of energy there. Is that what makes startups so great?

Um, yep. The things that make startups so great are that you have an opportunity to really make a difference. And you know, the founders of Quantum Retail, and really all of our employees are focused on being entrepreneurs. We are constantly looking at how do we bring something new and address a component of the market that isn't being addressed.

And that's why you start businesses, you don't start businesses just to make money, you don't start businesses because you are mad at your last employer, you start businesses because you really believe that you have something fundamentally different to bring into the marketplace and that difference has value. And that's what sits behind Quantum, and that's why all of the people who founded Quantum are still actively engaged in the company and are very excited about it.

Awesome. So Vicki, are there any other winningest woman awards you can get, or have you won them all now?

(laughs)

Well I might have won them all now, because I think there was actually only one, but we got a lot of airplay out of it for a couple of years. But you know Dan, one of the interesting thing about some of those awards was that those awards weren't about me. The awards were a recognition of Quantum Retail and

You better start thinking about your business differently, and you better start thinking about how you're going to optimize your business, and an ERP system isn't going to do it for you. And there are a lot of retailers out there who are aggressively moving into the market, to try and figure out how they can be more consumer-driven, how they can optimize their assortments, how they can be hyper-responsive, how they can be more productive, and how they can design into their business everything that they do to be profit-seeking.

Quantum Retail's success is in its early stages of growth and its continued growth. I mean, when you get awarded a fastest company award, whether it's a fastest woman-owned company or the fastest company in Minneapolis, or an Inc. 500 company, those are really the success story of our business, that we have been able to build a successful well-run business. My hope is that the future stories aren't about me as the "winningest woman", but they're a lot more about our clients and their successes and the value that we've created.

Fantastic. Any last words of advice for retailers?

Yes. You better start thinking about your business differently, and you better start thinking about how you're going to optimize your business, and an ERP system isn't going to do it for you. And there are a lot of retailers out there who are aggressively moving into the market, to try and figure out how they can be more consumer-driven, how they can optimize their assortments, how they can be hyper-responsive, how they can be more productive, and how they can design into their business everything that they do to be profit-seeking.

So if you aren't thinking about your business that way, one of your competitors is. So I encourage retailers to stop being confined by the way their technology behaves today, and to start thinking about what they need from their technology in the future.

Thanks so much for joining us Vicki!

You're welcome!



It's time to embrace the next era of retail

New school solutions like Quantum Retail's next generation inventory management system, Q, are here to help retailers easily catch up and learn the immense competitive advantage of new school technology. It doesn't take years to implement change anymore. You can now achieve ROI in just months...

You may be wondering...

- How can retailers make profitable decisions across their chain?
- What can they do to keep up with the complexity of new channels?
- And how should they use today's intelligence to predict customer behaviors and buying patterns at the local level?

They need next generation technology

Quantum retail has created a dynamic engine, called Q, that is built from the ground up on profit-driven innovation and customer-centric intelligence.

Q addresses the rapidly shifting patterns of today's sophisticated consumer by translating demand insight into increased market share.

It provides a competitive advantage by understanding the evolving nuances of localization, channels, and retail formats, as well as giving transparency to inventory and profit across channels.

Q also enables retailers to continuously maintain pace with market shifts, competitive pressure and emerging threats to strategic goals.

It is proven to unlock unprecedented value for retailers, contributing at least a 2% sales lift, 5% reduction in inventory and 2% margin contribution in only a few months.

Q helps retailers do more with less to scale their people, processes and systems, translating data into actionable knowledge and automatically aligning execution to strategic goals.

Q is the answer.