'Better, faster, cheaper' was Family Dollar's Olympic-like mantra

Family Dollar is a chain of budget-priced stores specializing in food and household products that operates more than 6,700 locations in 44 states. "We're like a mini Walmart," senior vice president and CIO Joshua Jewett said, "except, of course, we have a much smaller selection."

Bad times have been good for Family Dollar: The recession, which crippled so many retailers, generated a steady stream of new business. Between 2008 and 2009, sales increased 7 percent (to $7.4 billion), even though the basic customer profile and business model didn't: The average basket is still $9.84, meaning the additional $500 million in sales was generated by 50 million more transactions — an average of a little more than 200 additional transactions per store each day. This, of course, placed increased demand on the chain's inventory management and replenishment capabilities.

Joshua Jewett

Meanwhile, management was expressing a desire to maximize the overall profitability of sales by adjusting the margin mix of the products in the assortment, while at the same time maintaining the ability to vary the mix as needed by region or, in some cases, individual store.

To accomplish all of this at the same time, Family Dollar was going to have to beef up its IT capabilities. "At the time we were the No. 1 performing stock on the S&P 500," Jewett said. "We were successful, but we realized that to stay successful, we were going to have to challenge ourselves to do better."

Better, faster, cheaper

The mandate from Family Dollar management was not only to do it better, but to figure out how to do it faster and cheaper as well. One problem: "To the people running the business," Jewett said, "IT is sort of like highway construction: It costs a fortune, it takes forever and every time you drive by, all you see is a bunch of people standing around doing nothing."

So whatever strategic decision Jewett and his team made, it was going to have to make a significant positive impact on the bottom line — and it needed to do so quickly.

"On the business side, we needed to increase speed to value, enable critical capabilities and reduce capital risk," he said. "On the IT side, we needed a technology refresh, we had to have supportability, we needed to develop some new competencies and we needed the ability to keep up with changes in the market."

Family Dollar evaluated the three options open to an organization wanting to make this kind of change: build, buy or rent. Adapting the existing tools and infrastructure – building — would have involved a low infrastructure cost, but it would have required additional staff and taken a good many iterations to achieve the results the company wanted. Buying a new system promised a better solution, but it also meant a long path to realization and represented a risk of capital.

That left Plan C. Family Dollar chose to work with a company called 4R Systems on a SaaS basis. Jewett defined software as a service as a delivery model that provides users with web-based applications accessible from a shared hosting facility. With SaaS, you don't own the software; you subscribe to it and access it through a web browser.

There were, said Jewett, three primary areas of consideration he and his business partners thought through on the way to adopting this model. One was integration: security of access, impact on the existing network, the ability to move data effectively and maintaining the company's intellectual property and the confidentiality of its data. Another was vendor management: contracts, viability, expertise, scalability, support and training. The third was access to value-added business services like analytics and best practices.

Early in the discussions, Jewett said, it became clear that the members of the 4R team were not only knowledgeable IT technicians but statisticians and business analysts who could dig deeply into Family Dollar's operating numbers and come up with across-the-board strategies for improvement.

Sharing the risk

4R was so confident in its ability to deliver for Family Dollar, Jewett said, that it was willing to bet its fee on it. Rather than asking Family Dollar to contract for a certain level of service, 4R based its pricing on providing ways to "profit optimize" inventory levels.

"Basically," Jewett said, "the system sets inventory levels using an economic framework that maximizes gross margin dollars. It's very granular — we can optimize inventory levels at a SKU/store level, which helped us with our localization initiatives. Essentially, it tells us how to replenish the stores."

The project began with 4R and Family Dollar working together to analyze the chain's replenishment infrastructure. This analysis provided projections on what the business results would be if the company was able to profit maximize replenishment.

"We ran the new system in 120 pilot stores," Jewett said, "and measured the results against 109 control stores and the entire chain. All replenishment inventory was set by the 4R model in the pilot stores."

The pilot ran for six months; during the last two months, Family Dollar augmented the pilot group with more stores for confirmation, "then we began rolling it out by category and store," he said. "This enabled us to minimize risk and look for the greatest opportunities."

From initial analysis to chain-wide rollout, the entire project took 14 months. The results, Jewett said, have "satisfied our faster, better, cheaper requirement. Time to implementation was significantly faster than the alternatives would have been. The system has streamlined our process, generated better customer service and driven better margins. And the solution ROI is extremely high."

Thinking differently

There were a number of key factors in creating a successful outcome, according to Jewett. One was a willingness to think differently; both IT and business operations embraced a new analytical model, organizational approach and a new partnership. Another key to success was speed: The process moved quickly while removing risk. Family Dollar set business impact goals and was able to measure them throughout the process.

And there was significant business impact. "After more than 15 months of full implementation, we have either met or exceeded the financial commitments we made to the business," he said.

Jewett's advice for retailers considering a similar undertaking: Collaborate with your business partners, as this is an opportunity for IT to become an informed and trusted advisor; and evaluate your situation. Does the application require heavy customization? Does it require heavy integration? Is there a competent provider available?

Finally, he said, "the company has to be ready to make a change and willing to think differently. This provider is essentially a virtual extension of our own logistics and supply chain. It's a different model, and a different way of thinking about a key aspect of the business."