

## Can John Lewis-style profit sharing work in retailer-vendor deals?

*US-based supply chain solutions firm 4R Systems is looking to the European retail market for new partners, and believes a collaborative approach to profit optimisation can be a key ingredient to success.*

UK department store chain John Lewis regularly attributes its partnership model, which sees staff across the business share the organisation's annual profit, as an essential part of its growth in recent years.

in recent years, mean now is a prime time for more collaborative retailer-vendor deals, where bottom-line gains from such partnerships are shared between both parties.

are looking at the bottom line in exactly the same way. Contractually I think it's something we're considering moving to in the future because it makes logical sense for both organisations to be driving for profit improvement."

*"A couple of years ago people were willing to say they wanted to see ROTI (Return on Technology Investment) in a year, two years or even three years, but what companies in retail are saying now is they need to see it in less than a year. ... it forces them down the line of working with a vendor that is more of a SaaS operation."*

– Kevin Stadler, CEO, 4R Systems

Stadler, whose career in retail technology to date has seen him hold senior roles at the likes of Pricer, JDA Software and SAP-owned SAF-USA, says that when retailers work with a licensed software provider the payment is up front and it is often "hard to measure" results.

And as US-based solutions provider 4R Systems eyes the European market, officially for the first time in 2015, the business's CEO and president Kevin Stadler has acknowledged that aspects of the John Lewis approach should work well in the wider retail industry.

"I'm sure one of the reasons John Lewis is so successful is that everyone is motivated towards the same key performance indicators and they are all driving together," he explained, before adding that 4R has started communicating with retailers on a similar basis.

His thoughts on vendor-retailer relationships have been reinforced by conversations with retailers at the recent National Retail Federation Big Show and Expo in New York, and he expects European businesses to see the benefits of such a working relationship, too.

In an interview with Essential Retail, Stadler suggested current retail market dynamics, brought on by serious economic constraints in many parts of Europe

"The best way to remove risk is a gain-share environment, which provides a measurable objective where both retailer and supplier



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4R Systems was founded in 1999 by Wharton School professor Dr Marshall Fisher and Dr Ananth Raman of Harvard Business School, who created a specific algorithm to forecast the most profitable way of managing inventory, simply by analysing early sales data. By assessing stock levels and managing forecasting and replenishment planning data, 4R says it can help retailers identify “true north” in terms of profitability potential – and it marketed itself to the UK for the first time at a special launch event, last autumn.

Companies it works with include health food and supplements retailer The Vitamin Shoppe, high-end kitchenware retailer Sur La Table and it recently signed a deal with a large home improvement retailer in the US, which as yet cannot be revealed. Its usual process when working with a retailer is separated into three stages: qualification and benchmarking; pilot phase; and then roll-out.

It’s a model that Stadler and his team are confident will work well in the UK and the wider European market, which is one of the reasons the business is set to showcase its wares are this year’s RBTE at London’s Olympia in March.

“We have noticed, due to the various things going on with economies around the world, that there has been an increased focus on profitability – a lot of the companies in European markets are looking at optimising profit,” he explained.

“In certain sectors there’s a lot of price competition coming in. As we look at that trend, we’re seeing a lot of the European markets have not been software-as-a-service (SaaS)- oriented. We think there was an opportunity to explore and discuss getting companies to a quick profit optimisation solution.”

The retail technology boss added that retailers around the world are increasingly becoming bottom-line-oriented, but “they want an exceptionally fast return on technology investment (ROTI)”, while at the same time removing risk.

“A couple of years ago people were willing to say they wanted to see ROI in a year, two years or even three years, but what companies in retail are saying now is they need to see it in less than a year. By that priority, it forces them down the line of working with a vendor that is more of a SaaS operation.”

At RBTE, 4R will be talking about innovative methods of working and how retailers and solution providers can combine to drive results. There will also be a focus on how science can be integrated into a retailer’s technology strategy.

“I don’t see us working with hundreds of organisations in Europe but I think the few we initially deal with will see a key level differentiation versus what they were doing before,” Stadler argued.

“I would say we target retailers that are willing to think differently about what they do. If you want results and are willing to entertain change, we’d get on well.”

4R Systems will be exhibiting at RBTE for the first time in 2015. Visitors to the event, which will take place at London’s Olympia between 10-11 March, can meet with 4R at stand 510.

4R is also the official partner for RBTE’s Eye on Innovation trail, which aims to shine a spotlight on the new solutions on display at the exhibition that are set to transform retail over the coming years. ■

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4R’s solutions are used by multichannel retail clients to manage over 330,000 SKUs, 8 billion reorder points, and \$45 billion in multichannel revenue.

► Read how the company enables retailers to profit optimise their inventory, accurately matching supply with demand: [www.4rsystems.com/clients/](http://www.4rsystems.com/clients/).

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