

## Partner Bulletin

### StoreNext Grocery Hosting/Headquarters Strategy

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From simple store-to-store file transfer to a full-blown Central Information Exchange (CIX) headquarters, there is a wide range of hosting systems that independents and small chains have implemented over the years. StoreNext is committed to offering a full slate of options that provides everything from the most straightforward functions all the way up to as sophisticated a hosting suite as has ever been assembled. This product strategy specifically includes migration paths for current CIX users, and will open low-cost paths for grocers who previously thought that headquarters systems were beyond their economic or operational reach.

StoreNext's current and upcoming headquarters systems are far from tactical add-ons. Instead, these products are at the core of enabling independents to compete on a level playing field with the largest chains. In fact, StoreNext's new *PriceLogic*<sup>TM</sup> expert system – which will be available and easily affordable by even the single-store operator – puts more intelligence and automation to work for the independent grocer than many Tier I grocery companies routinely employ. Don't forget:

- **Relentless cost reduction** – StoreNext's headquarters/hosting applications are not only modular, but they don't require the prohibitive up-front investment previously needed. ROI becomes immediate, and the time required for payback vanishes altogether.
- **Differentiated business performance** – without question, use of the management tools in this bulletin can make enormous differences in competitive position and profitability. Users of the legacy versions of these applications directly link their incremental success to these capabilities – StoreNext will produce case studies that demonstrate this beyond question to new prospects.

#### HOSTING FUNCTIONS AND CAPABILITIES

Hosting means different things to different users. Almost all users would include the ability to download, update and manage items and prices from a central location, but for many the definition also includes the transportation of sales information. Further functions include the many elements of pricing strategy and category management, ideally linked to price management – this way the overall system would respond to internal practices and the competitive landscape with optimized pricing automatically and continuously provided to the stores on an individual or group basis.



A list of common hosting functions would include the following:

- **Transport Mechanism** – normally a data communications scheme to enable and manage transport. Examples include FRENDS<sup>®</sup> (commonly used with CIX systems), XcelleNet<sup>TM</sup> or the communications agent used by StoreNext Connected Services.
- **Communications Reporting** – various audits, summaries, schedules and status/error reports regarding system transmissions – these are an extended function of the transport mechanism above.

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- **Price Book** – this is the application designed to store and manage the item and promotional data for the chain’s inventory. Price Books may contain capability for multiple or “zone” pricing to enable chains to implement different pricing strategies for different stores or groups of stores.
- **Item Hosting** – the ability to manage in-store item and promotional files from an external site. Normally these capabilities are provided via a batch file mechanism that is executed in the store.
- **Sales Reporting** – also sometimes called “financials,” this function gathers sales and/or movement data from the store and forwards it up to the host site.
- **Competitive Pricing** – a module providing for the gathering and analysis of item and promotional pricing from competing grocers.
- **Pricing Rules** – these define the decision process for pricing an item. The simplest pricing rule might be to charge whatever comes down for the wholesaler as the standard list price. A full-blown pricing rule application would enable a host to designate different pricing strategies (based on cost, competition, required margins, seasonal factors etc.) across different departments, categories, families, groups, subgroups and even down to item level. A pricing rules application allows for the definition and parameterization of these decisions.
- **Category Management** – provides tools to maximize overall profit from a store category (e.g. breakfast cereal, yogurt) by controlling prices, stock quantities, facings, and item selection within the constraints of available space. Such tools might analyze and simulate the revenue and profit impact of additional shelf facings for one product while reducing another’s shelf space, or pricing differences between brands of the same product, promotional planning etc.
- **“Psychological Pricing”** – is a further extension of the pricing rules concept that provides for rounding and pricing standards. For example, a cost-based pricing rule might dictate that a particular item would be priced at \$1.57, and the psychological pricing could adjust that price to \$1.59 when implemented. These pricing policies can be variable across different areas of a store. For example, it is very common for grocery items to be priced at \$.59, \$.79 or \$1.19 whereas candy is \$.45, \$.50 and \$.55, floral items will be \$1.50 per stem, and bulk items would default to, say, \$12.95 for 25 pounds of dog food.
- **Automated Pricing** – applies the pricing rules to data from competitive, supplier, category management and other sources to determine optimal pricing and update the price book. Such a module can also incorporate change frequency rules and drive the batch creation process.
- **Invoice Management** – a special application available to host chains with DSD systems that consolidates DSD records from the stores and matches them to vendor invoices to ensure proper charges and payments.

## MIGRATION OPTIONS FOR CURRENT CIX USERS

StoreNext will continue to expand its headquarters/host offerings in the coming months to provide a modular and comprehensive system specifically designed to optimize merchandising and operations for ISS45 users. The first and most critical components of this system are already in place, and the ongoing offerings will provide a combination of power, sophistication and ease of use never before available to this market.

The modern requirements and future needs of hosting systems do not permit a simple feature-for-feature replacement for CIX. Just as ISS45 continues to handle expanding demands beyond the reach of the 2127, and RBO is expanding beyond the boundaries of RBX’ limitations, the



and trial cycle with a mid-late summer General Release. (An early trial version of Item Hosting is currently installed in a live customer site and the user is extremely satisfied.)

- **Invoice Management** – this special add-on module for CIX is currently employed by a small number of users. It is expected that current users will be able to continue use of this application indefinitely – this will require separate maintenance of the applicable CIX items. StoreNext is evaluating the market for a Connected Services version of this product and is considering its release as a part of a larger inventory management package, but there is no specific development commitment or timetable at this time.
- **Unison** – many of CIX’ most powerful capabilities were provided in the Unison option, providing an extensive category management and expert pricing application set. StoreNext will match and extend Unison’s capabilities with **PriceLogic**, a series of new Connected Services options to be released over the coming 12-18 months.
  - **Item Linking and Grouping** – this is a categorizing application with merchandising level setup item for subsequent performance analysis and category management. Development is scheduled to be complete in the next 30 days with release planned for September.
  - **Competitive Pricing** – allowing for collection and manual or file-based entry of competitive pricing information for analysis and action. Development is scheduled to be complete in the next 30 days and release is planned for September.

Development of the following PriceLogic modules is scheduled for release in the next 12-18 months, completing a CIX/UNISON replacement while providing expanded features and capabilities. Precise development dates are not yet available, but be aware that priorities will in part be determined user commitments. One logical order under consideration for development of these modules and applications would be as follows:

- **Costing Methods** – application to refine product cost accuracy based upon off-invoice and hidden costs, including handling and stocking time, ordering inefficiency, waste and loss, storage costs, etc.
- **Psychological Pricing** – development and application of psychological pricing rules (see [Page 2](#) above) to the pricing decision framework.
- **Auto Pricing (canned algorithms)** – for automatic pricing by contribution, dollar, percentage, movement or gross amount.
- **Pricing Simulations (build group)** – pulling data from production to the expert pricing system based on general item selection criteria, competitor data and the addition movement data for analysis.
- **Pricing Rules** – addition of pricing rules application to the system application pricing framework (see Pricing Rules [Page 2](#) above) using rule settings, competitors and psychological pricing.
- **Item Chaining** – additional sophistication for ripple-through rules.
- **Pricing Simulations (first phase)** – analysis of expected profit changes based upon what-if pricing modifications within the category management framework. Simulations analyze expected profit changes based upon what-if pricing

#### Release Strategy for PriceLogic and Headquarters Systems

StoreNext will continue to follow the “Lift-Off” process for Connected Services applications.

As such the release dates discussed here are for Limited Release — smaller numbers of users after the first customer testing is complete, but prior to a General Release to all comers.

Depending upon the complexity of the application, General Release will typically follow Limited Release by 30-90 days.

Release dates may change, as can the content of specific releases. It is important to check with StoreNext prior to any customer commitments based on this preliminary RoadMap.

modifications within the category management framework, including changes in pricing rules, allowance pass-throughs, cost methods, price sensitivity and target gross margin percentages. In this phase, users will be able to run pre-assigned pricing rules and run ad-hoc assignment of pricing rules.

- *Pricing Simulations (phase 2)* – this phase will enable ad-hoc selection of movement data and use OLAP reports for selected items. Ad-hoc cost methods will also be supported, as will attribute layouts and pricing event logs.
- *Auto Pricing* – addition application to manage and modify margin targets, profit contribution etc. for Pricing Rules above. Controls auto triggering of rules activation to automatically generate suggested retail prices.
- *Simulation Scheduling* – addition of ability to determine optimal schedules for price changes as determined by price management system. Automatically run simulations on new data as it appears for next-day analysis and action.
- *Automation Layer* – ultimate capability for automated management and transfer of optimal price decisions to store based upon application of pricing rules and results of pricing simulations.

## OVERLAP MIGRATION APPROACH

The migration roadmap for CIX users will normally use an “overlap” strategy to derive maximum benefit from both the legacy and the new systems. Because of the store-level interfaces available from both RBX and RBO to CIX, and the ISS45 native interface to Connected Services (as well as to CIX via RBO and RBX) there is no need to disconnect CIX during the early phases of the transition. Not only can users continue to run CIX in parallel as a safety net if desired, but they will also continue to use features that CIX offers before they are available on the new platforms.

Note that after the GTIN “sunrise” however, users are likely to see 14-digit items that cannot be supported through CIX. But these functions will exist from StoreNext long before January 2005, giving users ample time to have worked through the hosting transition to Item Hosting, Sales Analysis and PriceLogic as required.

A key point in headquarters migration: with StoreNext Connected Services, the user is able to delay *almost all transition costs* until the changeover is actually completed. Normally, users would have to invest in the new hardware and applications months in advance, test-operating it through the changeover. But with Connected Services, users can run through their entire trial period connecting to a single store paying only a single store subscription. Even better, the host hardware and application purchase is not just delayed – it’s entirely eliminated. This makes the decision to commence with Hosting virtually risk-free since they’ll be able to complete their entire evaluation and be totally ready to change over with minimum external costs – see the [Start-Up Cost Avoidance](#) box below.

## CONNECTED SERVICES VERSUS STAND-ALONE HOSTING

StoreNext believes that the lack of up-front investment, the ongoing cost savings and resulting ROI will cause most independents and small chains to implement the above capabilities within StoreNext’s Connected Services framework. Especially when moving through a transition period in a mission-critical driver such as hosting, Connected Services’ ability to lead the user through a risk-free path with almost no investment through the entire trial/changeover period is unprecedented – as described in the “Overlap” strategy above.

Various considerations, however, may drive some chains to desire implementing some or all hosting in a local (chain headquarters) environment. This involves the user having to fund hardware, maintenance, training, additional services and host management staff for their stand-alone host system. For such users:

- StoreNext will offer all these hosting/headquarters products for local stand-alone implementation as well as via the Connected Services mechanism. Your StoreNext Account Manager will take the lead in arranging installation, training, and ongoing services and support of these sites with Retalix' host services staff.
- Given the limited market for these products in the stand-alone environment, there are no current plans for Dealers to take on installation, training and services in such installations.
- Pricing and commercial terms have not been completed at this writing, but it is expected that the pricing for stand-alone implementation of StoreNext hosting/headquarters products will follow a subscription format – it is likely that perpetual licenses will not be sold for headquarters products. The additional maintenance and support requirements for stand-alone implementations will cause the subscription charges to be higher than for the identical applications provided in a Connected Services format. Dealers' share of the revenue stream will also be lower for stand-alone sites than for Connected Services implementations.
- For StoreNext hosting software applications, the architecture is designed to operate in both the Connected Services and local/stand-alone implementations. So there is really only one set of code – and while there are no functional differences in features or capabilities, it is likely that ongoing upgrade scheduling will result in Connected Services users receiving maintenance and new capabilities before stand-alone users.

#### Start-Up Cost Avoidance

Some – but not all – start-up service costs can be eliminated by using Connected Services instead of a stand-alone host.

- Data conversion — this effort will be required regardless of a stand-alone host or Connected Services installation
- Installation — this cost is eliminated with a Connected Services implementation of headquarters functions.
- Application training — naturally this will be required regardless of where the application is situated.
- Support training — is eliminated with a Connected Services implementation.

With its specific linking into the full merchandising and promotional capabilities of ISS45, StoreNext's hosting roadmap will enable sophisticated CIX users to migrate their technology forward while increasing their current capabilities. Smaller users will arguably receive even more benefits – for the first time, able to put these key competitive tools to work without the massive investments previously required.

To Your Success,

***Tony***  
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*Antony van Beverter*

HOSTING/HEADQUARTERS MIGRATION DIAGRAM

