SmartStore

Background

Over 15 years ago a consulting/enterprise software company that went by the trade name of Trax developed a visionary product to help reduce cashier-related shrink using Point of Sale data. This product was based around what the industry called Exception Based Reporting and became the standard in this new field of using data to detect fraud or other negative cashier-related behaviors.

In the late 90's Trax was sold to a Video Company, March Networks, and the old product was rebranded as Extreme Loss Prevention. This acquisition was based on the concept of providing a combined product suite of Exceptions and Video to provide a more powerful tool for the retailer to reduce fraud.

Acquisition

In 2011 the company and related technologies were acquired by Liquidity Works to form Actionable Data Solutions. ADS was to be focused on the reduction of shrink and the ability to provide our customers with a cloud-based solution that was easy to install, implement, and measure. At the time the company had been reduced from approximately $9 million in sales and over 60 associates to approximately $1 million and 8 associates. The core technology and customer support teams were both functioning but at a reduced level of resources and psychological pounding due to staff reductions and lack of resources needed to be managed to restore the future opportunity. In hindsight, the March team failed for two common reasons:

1. Their primary business was hardware. Selling and marketing the hardware made the software secondary or a “throw in.”
2. March was based in Canada and Trax was based in Phoenix. The common issue of “not invented HERE” created an adversarial situation.

What We Saw

ADS and its Technology and Consulting Teams saw where POS data could be used to not only reduce shrink but improve Store Operations, reduce Employee Turnover, increase Employee Retention, and provide for certain retail segments a tool to create upsell opportunities. Reduction of these negative sales activities enabled additional sales in items as diverse as drinks in QSR, desserts in Family Dining, Warranties in Big Box Retailers, Gift Cards in Specialty Stores, and many other opportunities for the retailer to drive sales and measurably increase the bottom line.

The only issue to doing this was that for this information to be effective, we had to have a method to deliver it to the field and make sure it was being used in a consistent and correct way.

Upon acquiring the company in January 2011, Liquidity Works developed a defined process to determine if this “Restart” could be turned into an Industry Leader in a segment that did not exist.

The first assessment was to determine where the product stood vis-à-vis other “loss prevention” enterprise software companies the market would call competitors. This analysis led to the conclusion that the ADS product was at a minimum best in class but in an industry where relationships are senior in the decision-making process to buy not enough of a differentiator until installed. This enabled a competitor to create enough “smoke” to sway a buying decision or make a buying decision based on price.

Secondarily, we were challenged with certain competitors who developed industry followings and relationships with product lines that would be included in the purchase of a POS (point of sale), thought leaders who considered loss prevention a commodity, consultants and representatives that included industry experts, installers, and others who were already being remunerated all constituted major barriers to entry and defenders of the status quo.

The Loss Prevention Challenge

Our first hurdle was that POS “exceptions” were predominantly used by Loss Prevention and a few “power users” who, for the most part, worked only in LP. This identified several challenges:

1. LP was generally measured and compensated by how many “Cases” they brought to prosecution and conviction. This means that a retailer doing one billion dollars in sales with 3% fraud generally looked at this $30 million problem in terms of $100,000 worth of cases. The metrics of the size of the issue had little to do with the measurement of cases.
2. LP Analysts used the “exceptions” to develop cases that took generally 60 and 120 days to prosecute. The focus was on “police” activity and apprehension, not data and systems to attack the larger issues. This meant that the Loss Prevention Team was always understaffed and chasing the next thief, that with the dual problem of high turnover, meant that they were always behind and reactive.
3. LP software decisions are rare, generally focused around price and prior relationships, and had little, if anything, to do with value or the size of the problem.
4. By defining a problem down the measures left little opportunity for investing in bigger ones. A $100,000 problem does not translate to a $500,000 purchase. A ten million dollar saving translates easily to a one to three million dollar purchase.

5. Fear of what you do not know, you do not know. In LP this can mean if a new product brings in 20 times the measurable result the old product did, there is a possibility that rather than being rewarded the LP executive could be terminated for not acting sooner or misstating actual shrink numbers even if he did not have the budget and tools to do so properly. Most LP executives move jobs horizontally, not vertically. Job security is a strong human process.

The CIO Challenge

All of the challenges around Loss Prevention were, also to a large degree, problems with the CIO, plus four additional major hurdles.

1. CIOs generally do not have a primary skill set in evaluating new products. The core of their job is executing enterprise projects designated by management and vetted by consultants in many cases.
2. The CIO and staff are, from a work prospective, the most overworked team in the company. In most retail organizations they are the least likely to be promoted to CEO of all the C-suite executives. This combination makes the department much more insular than other areas.
3. The CIO is generally limited to a few projects per year so prioritization does not come from outside opportunity no matter how compelling but inside consensus. Management generally frames opportunities they see or want to the CIO in terms of cost and time. SaaS changes this question to how do you save me or make me dollars today with little risk or resources?
4. Software as a Service is changing the entire business model of the CIO. This means the "old paradigm" of 2-4 year projects with lots of staff, consultants, entertainment, missed deadlines, and capital expenses changes to one of little capital expense, little risk, small amounts of IT resources, and quick installations. Getting the CIO to be comfortable with this change is a challenge.

How We Changed the Market

The Product

Our first major observation was that two of the current customers were using the enterprise product for operational efficiencies rather than just loss prevention. By using large amounts of labor combined with store level accountability, these companies were able to achieve 5x to 10x the results of those using the product solely for loss prevention.

This observation led to the “opportunity” of how we could develop a software solution inside the bigger opportunities of the POS in Operations, Marketing, Upsell, Employee Turnover reduction, Employee Retention improvement, and better Customer service aimed at achieving a better Customer experience.

Over the next 24 months, to enable this opportunity, our tech team developed the game-changing patent-pending product we call Advisor 360°.

This does what the existing products on the market do in identifying “out of compliance with company standard behaviors,” but has additional benefits that make the data actionable and accountable. Here’s how it works:

1. Advisor 360° automatically sends an email, text, or notification to the store manager or any designee management chooses, notifying them of the behavior in a much more timely fashion. This alone changed the “LP Case System” to being proactive versus reactive in loss prevention. The human action of fraudulent employees leaving immediately upon knowing they are being monitored makes stopping and/or leaving what they will do. Getting another job in a retailer is rather easy. This reduces most fraudulent employees to leave day 2, not 2-4 months later. In reality this makes every store manager an LP manager in 5 minutes a day.
2. We attached a coaching methodology approved by HQ that consistently trains employees in every location with the proper company-approved policy based on data specific to the situation. This coaching has been found to reduce turnover as much as 50%. Companies with employees who have proper instruction have been found to have 50% less turnover. This system enables management to evaluate the inept employee versus the poorly trained employee and take the appropriate action. This reduces the turnover, speeds up customer service, and enhances the customer experience while increasing the bottom line. Additionally, and perhaps most importantly, this allows management to identify, reward, and keep the high performers.
   The cost of the inept employee is potentially much higher than the fraudulent employee. An example is a void. It is well known in LP that “voids” can be a potential signal of fraud. In operations, a “void” takes at least 3x to 5x the amount of time for customer throughput in the checkout. Slow customer service manifests itself in less sales, less customer visits, and a lower top and bottom line while degrading the customer experience.
3. Advisor 360° further requires the store manager to confirm the actions taken and report back. This closed loop accountability allows management to operate more efficiently along with the tool to grade store, district, and regional management on an apples to apples basis.
   This tool allows management to achieve 10x the results in one-tenth the managers’ time. Our accountability function in Advisor 360° makes the system “SMART” as opposed to

all other systems which become “just another email” in a World with email overload.

THE “POWER OF 3”

How Advisor 360° Works

- **THE “3” MINUTE READ**: Our reports, desktops, and graphs take no more than 3 minutes to identify opportunity. We have already done the analysis for you. No need to manually mine your data for exceptions.
- **TRAIN “3” AREAS:** Corporate, Region/District Managers, Field Managers
- **THE “3” STEP PROCESS:**
  - **STORE LAUNCH** – Inform the associates you are implementing an operations and loss prevention awareness program monitoring all Point of Sale transactions
  - **PLAIN ENGLISH REPORTS** – Allows you to deliver EDGE Advisor to any field user for quick investigation. Easy to read, easy to understand, easy to execute
  - **ASSOCIATE INTERACTION/INVESTIGATION** – Coach underperforming associates for necessary retraining and follow your company's investigation process for intentional deceptive associates as defined by EDGE Advisor
- **MANAGER COACHES/INVESTIGATES:** “3” ASSOCIATES PER WEEK
- **DISTRICT MANAGER COACHES:** “3” MGRS PER WEEK
- **IT TAKES LESS THAN:** “30” MINUTES PER WEEK TO ACHIEVE ORGANIZATIONAL MEASURABLE IMPROVEMENT

WE ENABLE YOU TO IMPROVE OR REMOVE (WHEN NECESSARY) YOUR UNDERPERFORMING ASSOCIATES, MANAGERS, AND DISTRICT MANAGERS TO WHERE THEY MEET OR EXCEED YOUR STANDARDS WHILE CONSISTENTLY IMPROVING YOUR DEPARTMENTS' EFFICIENCY

SmartStore customers see:

Top Line Growth - sales increases ranging from 0.5% to 3%
Tighter Controls - shrink reduction from 5 to 25%
Customer Service Improvements - throughput improves up to 20%
Reduced Costs - associate retention improves from 10% to 30%

Utilizing our SmartStore applications becomes your success tool in addressing your company’s vision, opportunities and challenges, at all levels of the organization. Shining the light on challenges gets you down the path of success.

The Sales Process

Like with most companies that are "disruptive," the status quo is your biggest hurdle and it is manned by "gatekeepers" looking to preserve it. We found these traditional "gatekeepers" to be good, hardworking team players but by redefining the opportunity, their roles as gatekeepers were focused in a more positive way.

We developed our product suite to be SaaS (Software as a Service) and this delivery system was a solution to the following issues with the CIO and Loss Prevention.

1. We require no CIO staff type other than the POS administrator to give us the T-log and explain it to us. This takes less than 10 hours over 10 weeks.
2. This cuts the time from sales call to initial implementation from 2-4 years and hundreds of hours of IT time to 30-90 days and less than 10 hours of IT time.
3. It enabled us to do an industry first – giving a "money back" guarantee to clients based on their using the product with pre-guaranteed metrics we both agree to be able to achieve.
4. We focused on those in the organization whose compensation was directly attributable to the bottom line and improving the customer experience. This includes Store Operations, CFO, CEO, Marketing, and Human Resources. They have the budget. We fill their needs. By showing them measurable, minimal-risk ways to achieve better goals we make our offering both compelling and easy to digest.

Commercialization – The LW Strategy for Our Investments

This critical process in the LW model is to get a few large validating customers in several markets that, beyond validating the product, make the company operationally profitable.

This was done with Nike, Sally Beauty (over 3,000 locations with initial implementation in 4 days), Au Bon Pain in Food Service, and Topps in Grocery to name a few.

This strategy allows you to budget where you are not dependent for outside investment to stay in business but to decide based on growth. This is core to LW investments.

Unlike our experience with TurboChef, SmartStore achieved success in 3 years with less than 1% the investment that went into TurboChef in 10 years. Also unlike TurboChef we are at the very beginning of the "hockey stick" with a future that as an opportunity covers every POS in the World. TurboChef was consistently dependent on factors beyond what it could influence like service networks, installation networks, government regulations, constant money raising while unprofitable and the general difficulties of being a public company with all the shareholder and regulatory issues that go with it. At SmartStore we only need to focus on making our customers successful.

The future of SmartStore has just begun. We will harvest and merge new data feeds with customer problems and opportunities that will create more opportunity in the future, primarily delivered, measured, coached, and held accountable by Advisor 360°.