

# the 4caster

The 4R Systems Company Update



2

*NRF & Polo Ralph Lauren Roundtable Event*

*4R Articles in Chain Store Age and Retail Technology Quarterly*

3

*Sales Corner*

*4R Hosts Session at NRF 2007*

*Networking in Dallas*

*NRFtech Sponsor*

4

*Behind the Scenes at 4R*

*4R Welcomes New Hires*

5

*Spillover Articles from Pep Boys, NRF 2007 & Behind the Scenes*

In this Issue

**RETAIL TRENDS:**

*4R Systems provides retailers breakthrough technologies that profit optimize inventory decisions throughout an item's life including the initial buy, replenishment and allocation for stores and DCs, and end-of-life strategies including markdowns.*

## The Evolution of Merchandising Analytics

This fall, I've spoken at a number of conferences that focus on different aspects of the relationship between vendors and retailers.

At the TPMA (Trade Promotion Management Association) conference, 4R described how a retailer can optimize store inventory to make them more profitable. Given the uncertainty of demand and the economics of the product (margin and the cost to hold), retailers can set inventory to balance the trade-off between the cost of excess goods and those of lost sales. One interesting point that arose out of the discussion was how a



predominant amount of the effort put into a promotion centered on driving demand and that, comparatively, less emphasis is placed on setting the right level of inventory. If we think about the "chemistry" of a sale—that is, in addition to driving demand a retailer needs to have the product available to be bought—it's clear that setting proper inventory is a key driver of generating a successful and profitable promotion.

At the Vendor Compliance Foundation (VCF) conference, the theme was how to get vendors and retailers more aligned. In prior *4caster* newsletters, we talked about how we can find the

*(Continued on pg. 2)*

**CLIENT UPDATE:**

## Pep Boys Auto Pilots 4R's IP<sup>Max</sup> Service to Profit Optimize Inventory

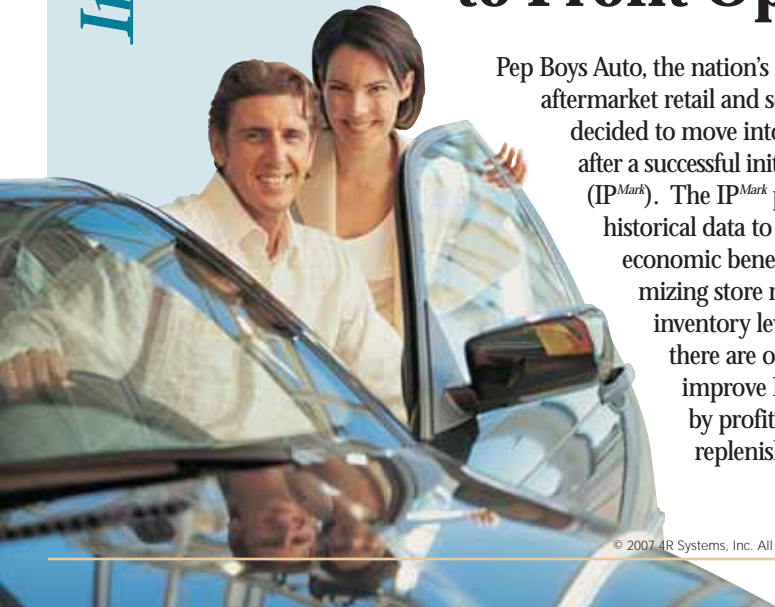
Pep Boys Auto, the nation's leading automotive aftermarket retail and service chain, has decided to move into a live pilot with 4R after a successful initial benchmark project (IP<sup>Mark</sup>). The IP<sup>Mark</sup> project, which uses historical data to estimate the expected economic benefit from profit optimizing store replenishment and inventory levels, concluded that there are opportunities to improve Pep Boys' profitability by profit optimizing in-store replenishment inventory.

"We found the IP<sup>Mark</sup> analysis that we did with 4R gave us great insights into how we can better shape



our inventory to meet customer demand and drive profitability," said James Kessler, Vice President, Merchandise Supply Chain for Pep Boys. "We're excited to pilot this via an in-market test and have great expectations that what we see in the IP<sup>Max</sup> pilot

*(Continued on pg. 5)*



## 4R IN THE NEWS

**Chain Store Age —  
Retail Technology Forum**

In this July 2006 article entitled “*Retailers as ‘Stock’ Investors*” author Jiri Nechleba discusses the concept that retailers can more profitably invest in their ‘stock’ by practicing approaches first used by Wall Street, and that finding the right balance between the cost of inventory and lost sales is key. You can read the article in full at <http://www.4rsystems.com/news/articles.html>.

**CHAIN STORE AGE®**  
THE NEWSMAGAZINE FOR RETAIL EXECUTIVES

**Retail Technology Quarterly  
—The Art of Analytics**

This monthly supplement article discusses how Crate and Barrel balances store-level SKUs with company profits with the help of 4R. You can read the article now at <http://www.4rsystems.com/news/articles.html>.

**4R Pairs up with NRF & Polo Ralph Lauren for Merchandising Executive Roundtable Event**

In late September, leading retailers joined retail host Maryann McGeorge, SVP of Merchandise Operations & Business Integration, Polo Ralph Lauren Retail Group, at a half-day roundtable event at Arcola Country Club in Paramus, NJ. The Merchandising Executive Roundtable event program, sponsored by NRF and 4R Systems, was designed as *roundtables* to give merchandising retail executives the opportunity to participate in relevant discussions with industry analysts, and retail peers.

After a keynote presentation by Maryann McGeorge on the topic of “*Polo Retail: Introducing Science to Art*,” leading analysts and academics lead the roundtable participants in discussions on topics of Replenishment, New Product Introduction, Lost Sales, and Pricing and Promotion. We would like to thank Rob Garf, AMR Research; Stephen Smith, Gartner; Ken Morris, LakeWest Group and Walter Salmon, Harvard Business School for their participation and leadership.

Following the event, participants enjoyed a round of golf at the prestigious club. A great time was definitely had by all.

**The Evolution of Merchandising Analytics**

(Continued from pg. 1)

most profitable inventory level for a retailer. We noted that it is dependent on a number of factors such as variability of demand, profit margin, case pack size and coverage period to name a few. At the VCF conference, we talked about how the “optimal” inventory at retail differed between retailers and their suppliers. We discussed how different models for sharing the cost of excess goods between retailers and vendors drive different incentives. Finally, we discussed how aligning these different incentives can drive real cooperation between retailers and their suppliers.

The common thread in these two conferences, and much of what we see happening in retail, is that there is a *need for the analytics of merchandising to be more connected to business analytics*. There is increasing pressure to be able to analyze merchandising activity and directly project their impact on the top and bottom-line of a retailer. Our clients are seeing a substantial impact on their profitability, efficiency and customer service by linking key merchandising decisions to their impact on revenues and profits. I invite you to hear additional details on this subject and others in my upcoming presentations at both NRF Annual and the AG. Edwards Retailing Conference in January.

~ Jiri Nechleba, President & CEO



## the \$ALES CORNER

~ John Nives, SVP Sales & Services

One of the trends that gained momentum in 2006 was the emergence of Software as a Service (SaaS) as an acceptable business model. In essence, SaaS is the concept of solution-as-a-service, instead of the traditional software license model.

At 4R, we see the market continuing to reaffirm our strategy and business model in this area. Clients benefit from speed to market, low risk and low organizational disruption. Retailers typically have an inventory problem that requires immediate attention. The old approach of buying and implementing software simply takes too long, is too expensive, too disruptive and is fraught with risk.

In today's business climate, speed to results is the critical success factor. 4R does an initial client benchmark to determine if the juice-is-worth-the-squeeze. If so, then implementation is accomplished in weeks not years. This approach is timely and eliminates much of the financial risk. This solution is adaptable and leverages existing technology investments in infrastructure. Through the use of this approach, 4R has developed long-term, mutually beneficial client relationships.

SaaS is the software model of the future—with good reason.

## 4R Hosts Session on Driving Service and Profitability at NRF 2007

*After a highly successful co-presentation with client Crate and Barrel at NRF 2006, 4R hosts Big Ideas educational session at 2007 show*



Jiri Nechleba, President and CEO of 4R Systems, Inc., leads in profit optimized inventory solutions that help retailers drive superior customer service, hosted a session titled, "Drive Service and Profitability with an Investment Approach to Inventory" at the National Retail Federation's 96th Annual Convention and Expo.

Attendees learned how leading retailers are finding they can increase profitability and customer service by looking at inventory decisions as investments and by carefully analyzing the risk and return of those decisions.

The session was part of NRF's Big Ideas program which provides educational content to attendees. The session was held Monday, January 15, 2007, 11:45 a.m.-12:15 p.m. ET and was open to all attendees.

(Continued on pg. 5)

### NRF EVENT HIGHLIGHTS

#### It's a Networking Night in Dallas!

Senior representatives from some of the most prestigious retailers in Dallas, Texas will be enjoying an evening of fun and networking in February thanks to the National Retail Federation and 4R.

For the second year in a row, 4R will be joined by NRF and a retail host for a "Networking Nights" dinner. The Networking Nights event gives retailers an opportunity to network, share experiences and discuss what's keeping them busy these days!

Continue to check our website for further details: [www.4rsystems.com](http://www.4rsystems.com)

#### 4R Sponsors NRFtech 2006: IT Leadership Summit

Over 100 Retail CIO's learned and networked at NRFtech leadership event, held in early August at the LaCosta Resort and Spa in Carlsbad, CA. NRFtech is the retail industry's most influential event for senior level IT executives. Peers gather to discuss strategic issues, network, and learn the latest in technology developments and industry trends. 4R was a proud sponsor of Tuesday night's dinner as well as the dine-around in the Gaslamp District on Wednesday night. The event is a great way to foster relationships and meet new people as well.

## Meet our latest hires ...



### **Sebastien Desfriches-Doria**

has joined 4R as an Operations Research Analyst. He recently completed his Master of Engineering in

Operations Research and Industrial Engineering at Cornell University, and also holds a Master of Engineering degree from the Ecole Centrale de Lyon in France. He enjoys traveling, and has been to countries such as Egypt, Morocco, Spain and Italy. He plans to travel more within the U.S. soon, and to visit the friends he has from all around the world. Most of his family lives in France, and he has a nephew who was born at the beginning of May and is growing up waaaay too fast!



**Jason Hyatt** has joined 4R as a Software Engineer. He is a recent graduate of the University of Delaware where he earned a BS in Computer

Science and a minor in Philosophy. Luckily for Jason, he already knew quite a bit about 4R before joining us full time ... several members of his family can be found here (he follows his dad and uncle into the professional world of software engineers!) In addition, he worked here at 4R part-time for the last couple years leading up to his college graduation. In his spare time, he enjoys playing (soccer, snowboarding, tennis) and watching sports; traveling (Brazil, Scotland); listening to almost all kinds of music; and watching a lot of movies.

## Behind the Scenes at 4R Systems

*“Never doubt that a small group of thoughtful, committed citizens can change the world.”*  
~ Margaret Mead

While the holiday season is behind us, it's important to realize the effect giving has on our community. Although sometimes it's difficult to find the time, a few of the folks at 4R have been giving of their time all throughout the year:

- **Ellen Guinan, 4R's Office Manager, is dedicated to helping homeless women and children at West Chester, PA's, Home of the Sparrow.**

Home of the Sparrow was founded in 1994 by a group of concerned citizens dedicated to improving the lives of homeless women and children, which is accomplished by providing these families safe housing along with a broad range of social services. The families are homeless for many different reasons from domestic abuse to drug and alcohol abuse or poverty. Home of the Sparrow provides a safe haven, but also a supportive program including vocational programs and counseling which foster self-esteem, build self-reliance, instill financial understanding, provide education, and ensure the welfare of the children at the home. Ellen has been a volunteer at Home of the Sparrow for 6 years. Initially she helped in the office with administrative tasks. Her involvement became more "hands on" as now she is asked to drive the women residents to job interviews, doctor's appointments, and the grocery store. The most recent requests of her time have been as a babysitter in the evening, so the women can attend group training classes and meetings. She finds it is always interesting to interact with the children, and it is personally rewarding as well.

Home of the Sparrow continues to function through the generosity of donations. If you would like to make a donation, or become a volunteer, please visit [www.homeofthesparrow.org](http://www.homeofthesparrow.org).

- **Heather Zoumas-Lubeski, 4R's Director of Marketing Communications, was recently recognized for her years of volunteer service and leadership in the community.**

She was an honoree for the *2006 Main Line Life Volunteer of the Year Award*. Executives at Main Line Health System nominated Heather for her work leading the Bryn Mawr Rehab Hospital Volunteer Board where she has served as Chairman for the past two years. She has been a board member for twelve years. As a result of her efforts, the group recently donated \$50,000 to the new Brain Injury Unit Expansion project at Bryn Mawr Rehab Hospital. Heather's talented leadership and organizational skills are greatly appreciated, and extend even beyond the Main Line Health System, as she is active in many other community boards and events.



If you would like more information about donating or volunteering for the Main Line Health System or Bryn Mawr Rehab Hospital, please visit [http://www.mainlinehealth.org/br/article\\_13019.asp](http://www.mainlinehealth.org/br/article_13019.asp).

(Continued on pg. 5)

## 4R Hosts Session on Driving Service and Profitability at NRF 2007

(Continued from pg. 3)

**Session Summary:** In an increasingly competitive world, retailers are caught between reigning in inventory to lower costs and increase turn and holding more inventory to drive in-stock and customer service. In order to meet these challenges, leading retailers are finding that they can increase profitability **and** customer service by looking at inventory decisions as investments and by carefully analyzing the risk and return of those decisions. Attendees learned how leading retailers are building their businesses by applying models like those used by Wall Street to move beyond traditional metrics of in-stock and turn to directly measure and manage the profitability of their supply chain and inventory decisions.



**PEPBOYS**  
**AUTO**  
Parts, Service and So Much More

## Behind the Scenes at 4R Systems

(Continued from pg. 4)

- **Hugh Hyatt, 4R's Senior Software Engineer, is an original board member and active volunteer for the Loving Arms Mission, an orphanage in Kathmandu, Nepal.**

Kent Rogers, a personal friend of Hugh's, is the founder of the mission and he and his wife, Shovha, have filled the first house with 12 children, all of whom they adopted. A second house was completed during 2006 which provided a home for an additional 10 adopted children. This is not a typical orphanage: the founders feel these are their own children; the children can sense the love these new parents have for them and this heals them. Several of the children have had severe medical problems that without treatment would have been terminal. Hugh was one of the founding Board members, and the first Treasurer of Loving Arms Mission. The first task of the original Board was to organize and incorporate as a 401(c) non-profit corporation in order to receive tax-deductible contributions. Hugh has been actively involved since September 30, 1996, when Kent sat with him and explained his vision of an orphanage for homeless children in Nepal. Hugh served as Treasurer until shortly before the first house in Kathmandu was established and has been an active contributor ever since.

Fund-raising and administration for Loving Arms Mission is all done by volunteers, so 90% of the money the Mission receives goes directly to helping the children in Nepal. The official registration and financial information for Loving Arms Mission may be obtained from the Pennsylvania Department of State. Further information can be obtained via e-mail from Loving Arms Mission's chairperson, Amanda Rogers-Petro ([amanda.rogers@brynathyn.edu](mailto:amanda.rogers@brynathyn.edu)). Donations are gratefully accepted at Loving Arms Mission, P.O. Box 213, Bryn Athyn, PA 19009.

## Pep Boys Auto Pilots 4R's IP<sup>Max</sup> Service to Profit Optimize Inventory

(Continued from pg. 1)

will verify the opportunity and lay the groundwork for a chain-wide implementation."

The pilot will use 4R's profit optimizing inventory service (IP<sup>Max</sup>) to set inventory for a set of SKUs in a subset of stores for a limited period of time. IP<sup>Max</sup> provides scientifically generated inventory levels that are calculated to find the most profitable level of inventory for each item in each store. By leveraging Pep Boys' existing infrastructure, IP<sup>Max</sup> is both cost effectively and quickly piloted—as well as implemented chain-wide—with minimal change to infrastructure and training.

4R Systems, Inc., 1400 Liberty Ridge Drive, Suite 102, Wayne, PA 19087

4R Systems

• 610-644-1234  
• fax: 610-644-2152  
• 1-866-4RSYSTEMS

• [info@4rsystems.com](mailto:info@4rsystems.com)  
• [www.4rsystems.com](http://www.4rsystems.com)