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CASE STUDY: **AT TIMEX, SKU OPTIMIZATION YIELDS**

'FREE MONEY'

SUCCESS HAPPENS — OR NOT — AT THE MOST GRANULAR LEVEL: *store* and *SKU.* That's the lesson Timex Corporation is learning this year. Like many CPG brands, Timex is an iconic American brand facing heightened competition, the threat of diminished relevance and reduced space at retail — including at Wal-Mart, key to its growth. So, the company set about reinventing itself with new products, categories and, perhaps most effectively, with a new level of focus on what happens *to each SKU, in each store.* The results — "found money" — speak for themselves.

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"We were so focused on chasing a revenue line that we really didn't pay close enough attention to what the market was telling us — which was that **we needed to do a much better job of doing more with less — driving sales of specific models and styles *where they were selling.***"

— Don Turano, Vice President-US Sales
Timex Corporation

Two years ago, Timex Corporation was at a crossroads — and for Don Turano, who joined the company 18 months ago as vice president-US sales, it was a challenge he couldn't resist. "The company was going through a realignment, and it looked like a phenomenal opportunity," Don says. "Timex is an iconic brand, and a wonderful line of products popular with consumers and with broad distribution — mass merchandisers, drugstores, department stores, sporting goods retailers and beyond."

But once part of the Timex team, Don soon encountered a challenge he hadn't expected: He found that the company was "more of a '*push*' than a '*pull*'" organization.

As an example, Don cites Timex's *Ironman*™ line of sports watches. These, he states, perform extremely well in the sports channel — Dick's Sporting Goods, Sports Authority, running stores, etc. But the same styles do not perform as well in major department stores like Kohl's or Sears. Yet until recently, the company was essentially sending the same product mix out to retailers across the board. "For example, we'd launch *Product X*, and do very well with it in the sporting goods channel. And then we'd turn around and launch that same item across all of our customers, in all of their stores, often at the same inventory levels.

"That's not something you want to do in any retailer looking to drive inventory turns and profitability."

Accordingly, Don Turano and the Timex management team decided it was time to change — from the inside out:

"We weren't moving, as they say, at the 'speed of demand.' We were probably overly internally focused — on everything from product development all the way up to what we measured, in terms of success metrics."

For example, Don recalls, instead of talking about point of sale, the talk inside was of Timex shipments, Timex inventory, Timex product. "But we weren't talking about the *customer.* We needed to be talking about *the business* — the *retail* business — and about customer demand."

Above all, Don states, "We needed to do a much better job of doing more with less — driving the sales of specific models and styles *where they were selling*."

GOAL: A SHIFT IN FOCUS TO STORE LEVEL

But to shift the focus of the company to where the make-or-break action is — at point of sale in the store — Timex needed something it didn't have: *visibility at retail.* After all, the Timex team couldn't be expected to talk about — let alone make decisions regarding — things they had little or no information on.

"We all know it doesn't make any sense to be loading up the channels," Don observes. "But we didn't have enough visibility to maintain inventory at the *right* levels. The information on what was selling and, in terms of merchandising and promotion, what was working and what wasn't was not getting back into the Timex organization. We weren't using data, weren't using feedback from retail stores, weren't incorporating the information we were getting from the people performing our instore service."

NEEDED: FEEDBACK MECHANISM

The new Timex management team quickly realized that, internally focused as it had been, the company lacked the critical visibility because it had no efficient, effective way to collect all point of sale data, analyze it and interpret it in order to better tailor the mix by channel, retailer and store.

In short, there was no pipeline to carry information back into the company.

Says Don, "We didn't know what we didn't know. We couldn't see what was happening in the marketplace in terms of sell-through — what was working and what was-

Left, at the Timex museum in Middlebury, Connecticut, John Cameron Swayze still demonstrates how the watch "takes a licking and keeps on ticking."

n't; and what outlets reacted to what products — and yet we all know that different channels, retailers and stores all react differently to different things. The key is *how*."

GETTING KEY DATA ON ONE DASHBOARD

To get the necessary store-level visibility, Don recommended that Timex bring in RW3 *(San Francisco)*, a business solutions provider of strategic consulting, custom reporting, analytics and flexible technology for consumer goods companies whose clients are leading global brands including Sony PlayStation, Kellogg's, Nestle?, Pepsico QTG and Time Warner.

"I knew from past experience that one way to make the company more fact-based and data-driven, and to really drive SKU optimization, was to bring in RW3," Don says. "RW3 helped us institute a very nice executive dashboard system around key metrics in the marketplace. That was a good start — it let our CEO and CFO begin seeing into each of our customers and for each of our products what was working and what wasn't."

With store-level information beginning to flow into the company in a user-friendly format, the focus of management meetings began to change. "In sales reviews with the CEO," Don says, "we were able to talk not about our shipments or our profitability, but *'Here's what's going on at Wal-Mart. Here's one week, four-week, 13-week, and here's the trend on our point of sale, here's what inventory looks like, and here are the 'watch-out-fors.'*

It was a revelation. Until then, there had never been one central place within Timex to go for all the point-of-sale data for all of its customers. For example, Don says, "Our Wal-Mart team and our Target team — two of our larger account teams, obviously — would each send in their own POS information every week in their own templates, using their own dashboards. The information was not very easily digestible — not by the senior team, and not by the brand and product managers.

TIMEX, AN AMERICAN ICON

— owned by a Norwegian …

TIMEX GROUP B.V. IS A US WATCH COMPANY owned by Fred. Olsen & Co., a Norwegian company whose sole owner is Fred Olsen, a Norwegian shipping magnate. *(Reportedly, another Olsen claim to fame is that he allegedly served as one of the models for the Charles M. Burns character in the hit television series, The Simpsons.)* Timex's US headquarters is Middlebury, Connecticut. It has operations in China, the Philippines and India, and sales offices in Canada, the UK, France and Mexico.

Timex is being progressively transformed into a watch group whose ambitions are, in the words of its president and CEO, Joe Santana, *"to address the needs of all consumers, not only those with the most modest means but also the super rich."* To this end, Timex has moved into the luxury fashion watch sector with its acquisitions of Valentino and Versace; and, with its recent purchase of Vincent Bérard, into the rarified domain of very creative mechanical "haute horlogerie."

The company began in 1854 as Waterbury Clock in Connecticut's Naugatuck Valley, known during the 19th Century as the "*Switzerland of America.*" Sister company Waterbury Watch manufactured the first inexpensive mechanical pocket watch in 1880. During World War I, Waterbury began making wristwatches. In 1933 it made history by creating the first Mickey Mouse clock under license from Walt Disney, with Mickey's hands pointing the time.

During World War II, Waterbury renamed itself U.S. Time Company. Over the next three decades, Timex advertised its durability by putting the watch through "torture tests," such as falling over the Grand Coulee Dam or being strapped to the propeller of an outboard motor, with the slogan "*It takes a licking and keeps on ticking.*" Promoted by former Olympic broadcaster John Cameron Swayze, sales took off. The company later became Timex Corporation, then Timex Group and, to date, has reportedly sold over one billion watches. ■

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"Also, it was a bit ad hoc. The report wouldn't necessarily come out each week. One week, a Wal-Mart report might come out but not a Target report. By contrast, today about 95 percent of our customers provide the POS data through RW3, and we get the report regularly."

This regular, easy-to-interpret report began to get the Timex organization centered on what was happening in the marketplace — and soon came to be relied upon across the company: "People began asking for the 'RW3 POS report:' *'Where is it? I need it.'*"

Timex also decided to outsource the analysis of the data. "RW3 has become, in effect, an outside sales analyst company for us," Don says. "That's been great. It takes a lot of time simply to formulate the data into the buckets the way we want to look at it — probably half of one analyst's time just to do that. We didn't really want to bring that function inside Timex. We felt it was more efficient to let RW3 do it and send us the formatted data, and let us spend our time digesting it and then acting on it to improve SKU optimization across all of our channels.

"So, what we now have is a really nice data set that comes through, and we can look at it any number of ways — by SKU, by price point, at the brand level, new item performance, promotion performance, etc."

USING DATA, 80/20 RULE TO REDUCE OUT-OF-STOCKS WHERE IT MATTERS MOST

Using the data to reduce out-of-stocks on fast movers has proved particularly fruitful for Timex. "We get a separate dashboard from RW3 that gives us *very* useful information," Don says. "The 80/20 rule applies to us as well as everyone else, and we have some 1,100 SKUs. So we decided, *'Let's look at the 250 items that drive about 80 percent of our volume. If we're doing it right with those items, we'll win.'*

"So, we now have a dashboard for each of our customers that pulls out our top items for that customer every single week. I can see what's up, down or sideways in terms of sales; I can see the inventory and the inventory turns. This is all information about the situation at retail, so we're able to quickly say, *'Hmmmmm — this item's performance has been phenomenal; for the last eight weeks, it has been up 20 percent. But the inventory is only up two percent.'*

"That information constitutes an alert — it says, *'Okay, there's a red flag here. If we don't get more inventory into our retail customers, we'll start seeing the trend slow.'* The dashboard is telling me we're about to run out of stock in key markets."

The information can be sliced, diced, sorted and studied in any number of ways. A favorite, particularly revealing and fruitful, view:

"We can run at the item level and at the store level," Don says. "Using the data, we are better able to rank our items *A*, *B* and *C*, and our customers' stores *A*, *B* and *C*. The purpose: to see how our best items are performing in our best stores.

"Our goal, of course, is to *never be out of stock on those A items in those A stores.*"

What did the data reveal that surprised Timex management, that might not have been expected?

Says Don: "In-stock levels across the US for Timex were always pretty respectable — for our major customers, our instocks have been right around 93 percent. Which is pretty good. But when we started receiving the data, we realized we had not really been doing as good a job as we thought of segmenting our business into *A*, *B* and *C* SKUs and *A*, *B* and *C* stores.

"What we discovered is that, while we may be 93 percent instock *overall*, the instock levels on our *top* items were, in fact, much *lower* than 93 percent. Some, in fact, we found to be only in the 75-percent range.

"Clearly, we were losing sales just because we didn't have the inventory to support the turns! Conversely, our *C* styles were sitting at 100 percent instock— when the fact is, we really don't need them that high. *We need the inventory on the fastest sellers* — on our *A* items."

FACT-BASED CUSTOMER DISCUSSION ON ADJUSTING ORDERS, INVENTORY LEVELS

This information proved to be very useful in getting the whole Timex team focused on the problem, and in persuading customers to make adjustments to their orders.

When Don came aboard, he had instituted a weekly retail operations conference call, held each Wednesday. "We have the sales leader call in, we have our regional retail managers call in, and we have marketing and our supply chain team on the phone," he explains. "RW3 attends, as well.

"We go through each of our key customers and, using the dashboard, rate each of them *red, yellow* or *green* on key-item performance. We're able to double click and see where we're out of stock, and instantly send that information back through our supply chain team members, who will then go right to the retailer with the same information and say, *'You can see here that you are 15 percent lower in stock than you should be on these items. You need to either adjust your order points for these items, or we need to have a different inventory strategy to support much higher instock goals.'*

"We recently saw, for example, that our top 10 items at a major customer were 80 percent instock. *Not acceptable.* Conversely, our *C* -item levels were 100 percent. *Not necessary.* What we were able to do is be proactive — to go to the customer with the data, and ask that it adjust its order levels on those *C* styles; to take some inventory dollars from the *C* styles and reinvest them in the *A* items — those that turn three times as fast as the *C*'s."

This alone has increased the velocity on all *A* items across customers by about 30 percent, Don reports.

EXECUTION GAINS EFFICIENCY, EFFECTIVENESS

Execution is another key lever impacted by store-level visibility. "Today, our whole sales and marketing team has complete visibility at the executive dashboard level on what our percent execution is," Don notes. "For example, we have a new watch we're just putting into the marketplace right now — we call it the *iControl*™ watch; it transmits signals seamlessly to your iPod so you can control your music in a heartbeat and change songs and volume without breaking stride. Now, suppose we want to know that this new watch got set up at Sears, in all 800 doors, within the week that we budgeted to have our field team in those stores.

"With the dashboard, we can now see if it actually did. I can check it starting Monday morning. I'll say, *'Hmmmmmm — we should be 20, 25 percent set for the week'*. If I see we're at only 15 percent, then I'm able to double click and see why — e.g., that the 10-percent difference between 25 and 15 was because, in 80 stores, we didn't have the POP material there in time for the reps to be able to set it. Now, the reps will have to come back.

"Well, *that's* not good — it's another visit to those stores that we'll have to pay for! But on the plus side, at that point we're able to address the *rest* of the stores and say, *'Are we positive we have everything we need in these stores for our reps? If we don't, then don't send them in — we'll send them next Monday, when the material is there.'* That way, we're not paying for the rep to be in the store twice.

"The system has also been great from a speed-to-shelf standpoint. It has provided a lot of key learnings for our organization about retail execution — first and foremost, that *retail is where the money is*. There's a lot of money in execution, in doing the basics better.

"What we have realized as we have worked with RW3 to better manage top-item performance is that there is so much growth to be had just by increasing your instock levels on your best sellers. It's not the sexiest thing in the world, but boy, does it make the retail customer happy!

"So far, we have been able to drive our instock levels from 75 percent to 86 percent. Annually, that's worth several million dollars to us. And it's *free growth!* In fact, there's more growth to be had there than by launching many new products.

"But you need the visibility we now have in order to know where the opportunity is." ■