PROCESS IMPROVEMENT

PUTTING TESTING TO THE TEST

Wal-Mart has a well-earned reputation for testing new merchandising initiatives, and it's not unusual for these experiments to show up at stores in Northwest Arkansas or nearby markets such as Fort Smith and Tulsa.

Conducting experiments close to home or in markets a short plane ride away may be convenient for decision-makers at Wal-Mart's home office and suppliers based in Northwest Arkansas. However, such an approach is hardly scientific and seldom yields the type of insight that can be effectively applied more broadly.

That's according to Art Hammer, vp of QualPro, a consulting firm focused on process improvement. He suggests that retailers who operate test stores near their headquarters get a false sense of reality and a flawed set of insights on which to base decisions about whether to expand a merchandising or operations initiative.

"It is like watching someone on Sunday at church and thinking that their behavior and manner of dress is what they look like and how they behave the rest of the week," Hammer said.

Hammer is a proponent of a testing methodology his firm developed called "multivariable testing," or MVT. According to Hammer, multivariable testing optimizes business results because it allows retailers or suppliers to examine numerous ideas and changes simultaneously in a real-world setting to more accurately determine the bottom-line impact of individual and combined ideas.

In essence, the MVT approach brings a higher degree of scientific rigor to the process of retail experimentation, which has long been ruled by gut-level instinct and an intuitive sense of what will work.

"One of the things we have learned over the years from working with clients is [that] about 50% of what people absolutely know is going to work accomplishes nothing," Hammer said. "About one-fourth of the ideas actually make the situation worse and about one-fourth will result in some improvement, but we have found that no one has a track record of knowing in advance what will work."

Art Hammer, vp of QualPro.

That's why the structure of the test is more important than ever, according to Hammer, and why the only ideas worth testing are those that are practical, fast and cost-free to execute.

"If an idea doesn't approach cost-free, no retailer will be interested in it and if the local workforce says they can't execute it then it is a waste of time to test it," Hammer said. "The majority of ideas fail because they are not practical, fast or cost-free."

To determine which set of ideas should be tested, the MVT process requires all stakeholders to participate in discussions about a wide range of ideas with the potential to impact same-store sales, margins or store traffic that are then tested simultaneously.

"There is a lot of testing going on, but people are doing so very inefficiently and ineffectively by testing one variable at a time and assuming all other conditions are constant," Hammer said.

QUALPRO
Performance Without Risk

That is never the case in retail, where every store, even those with similar demographics and competitive considerations, faces a unique set of circumstances that influence the outcome of a test. "The MVT approach is designed from scratch to be a test when all other things are changing," said Hammer.

The other important consideration of any test is an audit component to report results and make sure stores are engaged with the test. "It is critical that you know the test is being executed," Hammer said. ■

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