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Formidable Forecasts Of Customer Demand

How RaceTrac is Building Sales Models To Stock Its Shelves with Confidence

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In the southeastern United States, RaceTrac convenience stores and fuel stations dot the landscape like mushrooms after a spring rainstorm. The 80 year-old, Atlanta-based company operates more than 650 company-owned and third-party contract operated stores in a dozen states, each retailer's sales and customer demand predicated on its unique geographic, demographic, macroeconomic and microeconomic factors.

Brad Galland, RaceTrac's director of financial planning and analysis, sought a way to somehow capture these singular influences and analyze them holistically to improve the privately held company's business forecasts. "Our primary source of profits is not the gas we sell outside our stores, but the products we sell inside," Galland explained. "We wanted to be more mindful in our planning of what was likely to sell and not sell, given the impact on our margins."

RaceTrac had no problem understanding what was selling in each store. This information was clear in the monthly wrap-ups provided by each retail outlet. The problem was the company's inability to evaluate how external factors like changing demographics, rising or falling consumer disposable income and the weather might affect future sales and customer demand. "We weren't really sure if we were in control of our destiny or at the mercy of the market," Galland said.

Obviously, this was no way for RaceTrac to arrive at an accurate forecast for resource allocation purposes. The company risked buying too much of one product category, only to learn that for some curious reason these products ultimately collected dust on its shelves. "We needed more forward-looking information to put together more conservative forecasts," said Galland. "Otherwise, the forecast wasn't worth the paper it was written on."

Shelf Space at a Premium

All shelf space is finite, even at big box stores like Home Depot and Costco. For RaceTrac's smaller retail operations, allocating even a couple feet of space to a non-selling or slow-selling item can have profound margin consequences.

Most RaceTrac outlets occupy less than 5,000 square feet and stock on the order of about 4,000 items. In 2012, the company, which is owned by the Bolch family (Carl Bolch launched the first store in 1934), began experimenting with a larger-format convenience store. At 6,000 square feet, the outlets also featured indoor and outdoor dining areas and more food categories like fro-

zen yogurt. Pressure was on Galland's team in financial planning and analysis to improve demand forecasting—fast.

Previously, the company estimated customer demand leveraging its own internal sales metrics, vendor data and some very basic, subjective industry information. The latter was "not always tied to factual data," Galland acknowledged. "We had internal sales data from the vendors, but this did not help us accurately project sales going forward. As a result, we were operating the business with hindsight as the guide."

He added, "We needed to get our hands on external data—the right external data, though."

Needle in a Haystack

The Internet is a vast warehouse of such information, with more than 400,000 data sets on retail alone available for viewing. Digging through this massive mountain to unearth valuable information allowing more informed forecasts is a daunting challenge.

"There is just so much noise out there in terms of data," said Gartner Research Vice President Doug Laney. "Enterprises need to get their hands on the right exogenous data, but they need a way to filter out the noise. Algorithms are the answer and they're getting better all the time, but you need the right algorithms in the right forecasting tool."

RaceTrac's hunt for the "right forecasting tool" was well underway in late-2012. Galland wanted a software tool that could sort through the millions of data sets populating the Internet to produce leading business indicators. "We needed to determine which indices were true leading indicators for our store sales," he explained. "Ultimately, we wanted a simple model so we could know which product categories in different regions would be affected by different economic and other factors."

This is vital information for all organizations to apprehend and comprehend. Without it, companies are flying blind, basing their forecasts on purely internal metrics, said Laney. "To better understand the marketplace, it is incumbent for organizations to look beyond their own four walls for data sources," he commented. "Those that do outperform those that don't."

Today, RaceTrac's forecasting solution supports its needs to more accurately gauge future customer demand and sales. Leveraging Prevedere's forecasting platform, the company regularly combines its internal sales information with exogenous macroeconomic, demographic and other external data to produce real time, high-level economic indicators.

"We've built some pretty solid models," Galland said. "Now that we have a clearer sense of what is likely or not likely to sell in a particular region at a certain time of the year, we're able to make better product choices and can adjust our pricing to generate more volume."

RaceTrac's sales team is a big fan of the modeling technology. "They dubbed the tool 'demographics meets geographic,'" said Galland. "Best of all, we've now got a baseline for expected performance. We feel as though we now have a comprehensive view of our piece of the market."

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—Brad Galland, director of financial planning and analysis, RaceTrac

Prevedere is a Big Data Predictive Analytics software provider that empowers companies across all industries with new, better and faster information. Prevedere's patent pending technology quickly and efficiently collects and analyzes over 1.3 million global data series to uncover leading drivers of market performance.