Fact or Feeling?

A Discussion Topic for the SLA
18th June 2008
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Intuition -noun

1. direct perception of truth, fact, etc., independent of any reasoning process; immediate apprehension.
2. a fact, truth, etc., perceived in this way.
3. a keen and quick insight.
4. the quality or ability of having such direct perception or quick insight.

"There is no substitute for an operator's local knowledge."

A previous MD once told me there is no substitute for an operators local knowledge
That uncanny ability to go straight from Problem to Solution.

He was voted Retailers Retailer of the year in 2006, he should know a thing or two.

Ever since his words have been ringing in my ears.

Intro

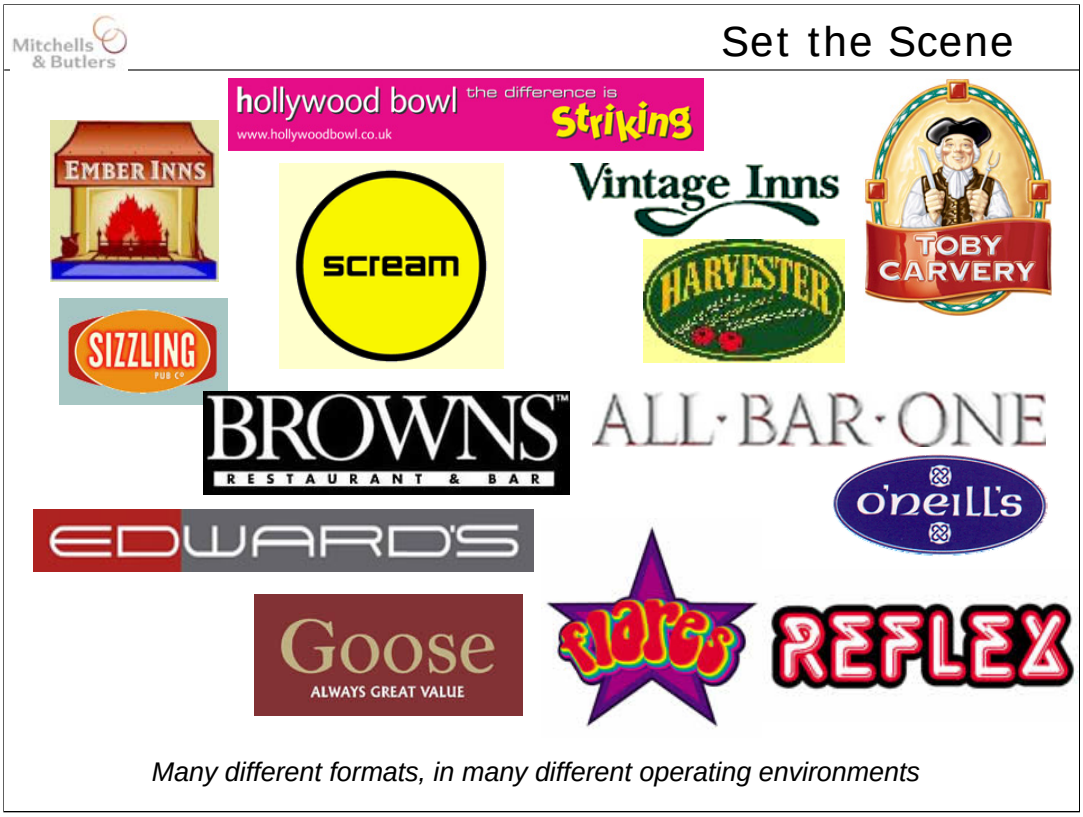
Fact or Feeling

Working title "Soft or Hard?''

The mix of measurements from…

- Commercially available databases
- The head (or heart) of a local operator

What we really investigating here is the viability of mixing the hard measures we can take from our databases (at a cost), with soft measures that we can ask of our brand experts, for free!



But first, a little scene setting for those of you who may not be familiar with Mitchells and Butlers

We operate approximately 2000 Managed Pubs, Bars, and Restaurants throughout the UK.

We have over 20 different concepts, formats, or brands.

There is a selection shown on this slide from a wide range of sectors,

Local pubs

Pub restautants.

Bistros

Wine Bars

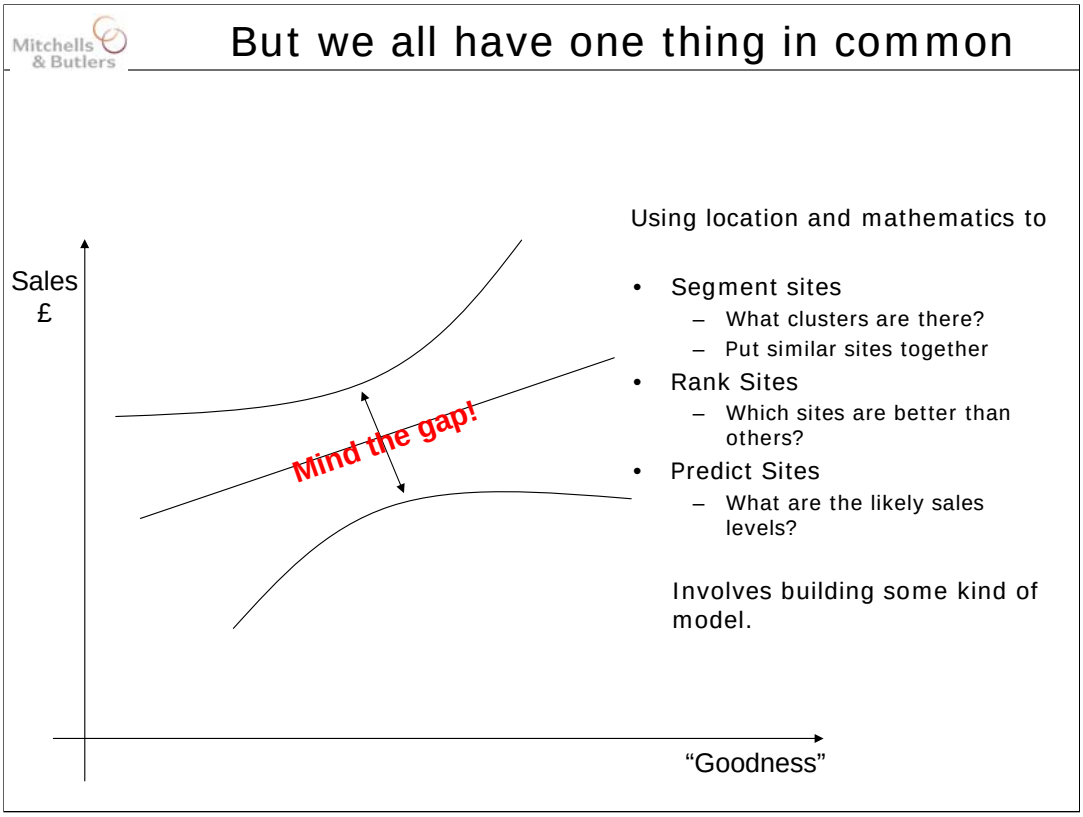
Formal restaurants

Late night music venues, almost nightclubs

10 pin bowling centres

Something for everyone.

And we have a capital expenditure programme of over £300m pa



For my fellow retailers, I think we have a common goal, a synergy

Our channel is the "unit", the "shop", so location is king

We look for the relationship between site attributes and performance.

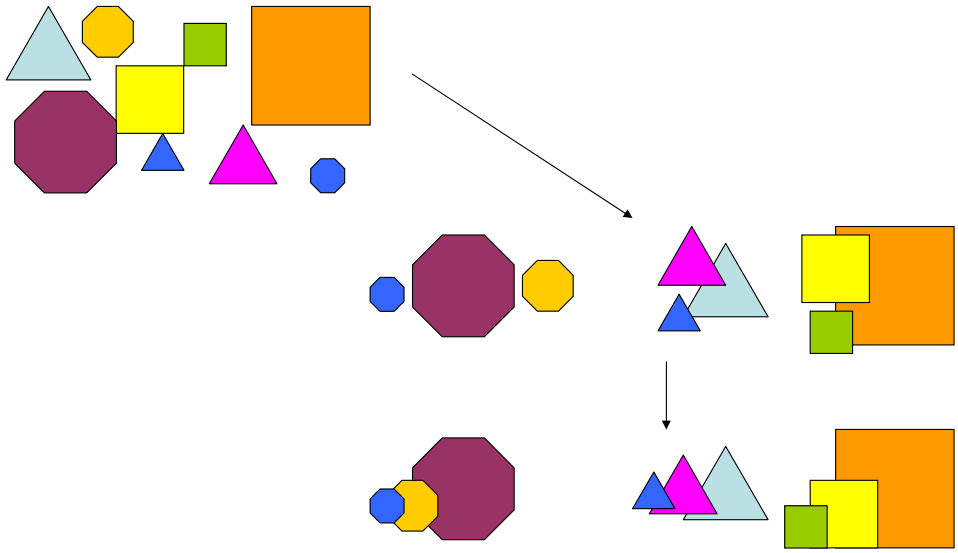
We define these attributes, measure them, scale them, and use them to tell us something about our sites

And we use this knowledge to drive investment or divestment decision making usually by building a suite of "models"

Mitchells & Butlers

What is a Model?

A simplification of reality.



It mathematically describes the current situation with an agreed accuracy.
It can be applied to a future scenario with the same assumed accuracy.

The term “Model” is used for quite a few meanings, but for me it really means the simplification of reality.

Take a real life situation, a brand, and distil it down into the factors that really matter. The factors that describe why a site makes money.

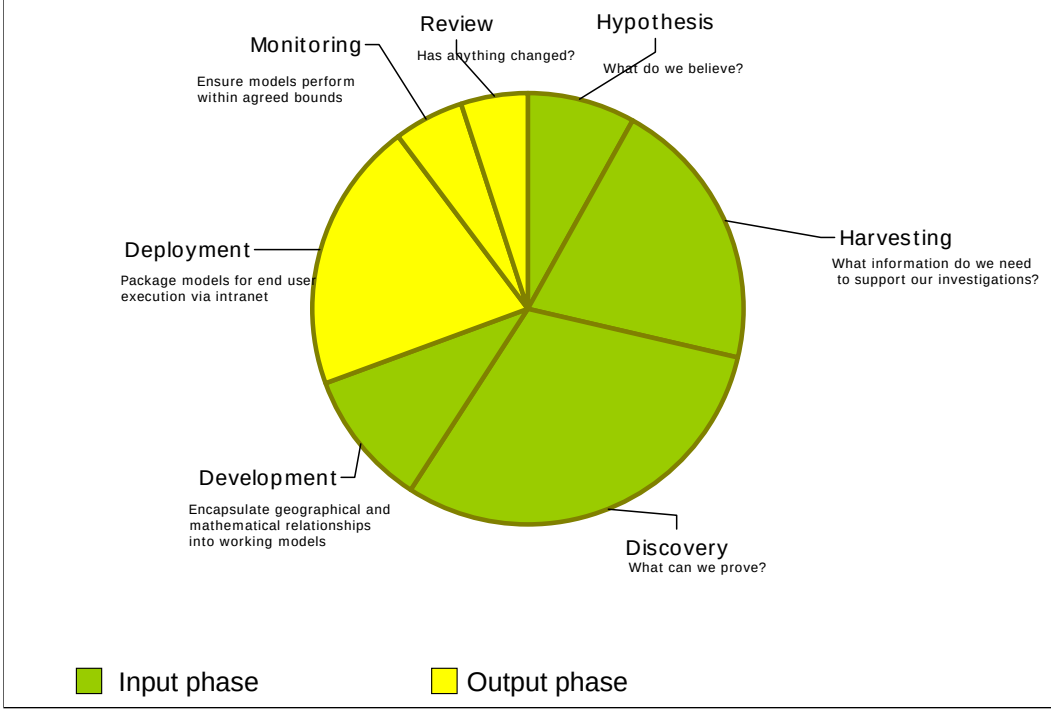
Why Model?

There is no substitute for an operator's local knowledge.

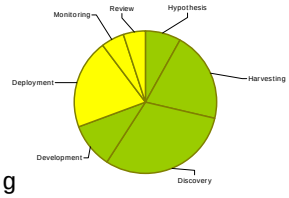
Or is there?

- What if we …
  - Encapsulate that local knowledge as a set of rules or formulae in a model using universally available data.
  - Refine that model in a known environment to evaluate how accurately it reflects the operators own intuition, and gain his confidence/buy in.
  - Apply that model in an environment unknown to any of our Operators, but covered by our data. We would expect the model to perform with the same degree of accuracy, and therefore inform us as if we had a local operator on the ground.
- Advantages of this approach include…
  - Transparent – Built from Operators own intuition/hypothesis (Real Life)
  - Scientific - No emotions attached (come rain come shine)
  - Consistent approach – Same rules applied everywhere
  - Universal – Run it anywhere that the data is available
  - Fast – computers are measured in mips

Model Development Process



Why have a process?



- Establishes a best practice approach to model building
  - Folds in latest thinking and techniques from Academia and Commercial Consultants
- Consistently applied across all brands
  - Builds on previous experience and capability
  - Enables a rapid delivery as not reinventing the wheel each time
- Shared learning across many brands
  - Process is continually refined and improved
  - A library of background materials and references readily available
  - Improves understanding across the organisation – dispel the myths of Black Magic
- Planning
  - Improves ability to set timescales and deadlines as tasks are familiar
  - Optimises time of the Asset Planning team
- Parallel processing
  - Identifies where other stakeholders have responsibility
- Establishes a Fact Repository for the brand
  - A database of attributes and anecdotes is constructed
  - Enables diagnostic and predictive analytics to be performed

But the real reason, is we get all the answers up front in the hypothesis phase!

When something goes well, people like to talk about it.

When something goes wrong, people like to point the finger.

Hypothesis

- What is driving sales?
  - Has a positive effect on sales performance
- What is inhibiting sales?
  - Has a negative or limiting effect on sales performance
- Are there location variants?
  - Brand “Software” may be consistent
  - Brand “Hardware” can be so different
- This is the most important phase of our process
  - Local Operators really know their businesses and will be able to provide answers
  - But their knowledge is anecdotal & needs to be scaled & expressed in empirical terms
  - Challenge is to measure the key variables that influence sales levels
  - Ensure that any variables purposely omitted (for whatever reason) account for only small variation in performance.

There is no substitute for an operator’s local knowledge.

This stage should not be underestimated.

It often involves interview style sessions with senior operators, “picking their brains”.

The image of the Location Planner can often be viewed with a little indifference, “practitioners of the black art”

I like to pitch it slightly differently.

I sell it that I will support the intuition of the operator with science.

I will bring some numbers to support their gut feel.

We try to keep our solutions as transparent as possible, and in fact some of the better models we build are “rules based” or “decision trees” which almost follow the brains natural processing.

After all, if you are going to ask the board for half a million quid to invest, then saying “it feels right” probably won’t work.

But bringing some science along to support the intuition can often produce a compelling argument.

How do we Measure an Asset?

- Right Town (Is there sufficient Demand?)
  - Population
  - Workforce
  - Trade Centre
  - Tourism
  - Culture
  - Education
- Right Part of Town (Are we where the Demand will be?)
  - "Quarter"
    - Retail
    - Office/Commercial
    - Circuit
    - Residential
  - Hub/Park
  - Gateway
  - White Collar/Blue Collar Residential
  - Countryside
- Right Site (Can we service the Demand from here?)
  - Strength of the site
    - Appearance
    - Visibility
    - Accessibility
    - Traffic Flow/Footfall
    - Ease of Discovery
    - Safety
    - Complimentary attractions
    - Size
      - Trading Area (internal/external)
      - Car Parking (own/shared/public)

We employ a hierarchical approach… Right Town, Right Part of Town, then Right Site

At each stage there are different measures, and different ways to take those measures.

But what we are really trying to do here is to match the operators hypothesis with something tangible.

Databases can be very good at "Right Town", and "Right Part of Town".

But information on the "Site" can be harder to source, especially the important physiology of a site (how easy is access/egress, does the site have good visibility or would you drive past it and not even see it, how many car parking spaces are there; own, shared and public/on-road etc…)

Measurements

- By converting the hypothesis or “gut feel” of the Brand experts into factors that can be
  - enumerated
  - defined
  - scaled
  - measured
  - recorded
- Then mapping these “factors” onto our location databases to take our measurements.
  - Reliable
  - Global
  - Fast
  - Accurate
- If there is no direct variable
  - take a proxy reading (eg holiday makers=caravan/camp sites+guest houses, high footfall=near to McDonalds)
  - develop one (affluence of the area)

For Example

"This brand must be in the most affluent part of town?"

- How do we measure *most affluent*?
- We build a complex model within our overall model to take a measurement on a particular "variable".

But sometimes the hypothesis, gut-feel of the operator, can be somewhat ambiguous, or harder to measure.

What then?

Affluence Gradient

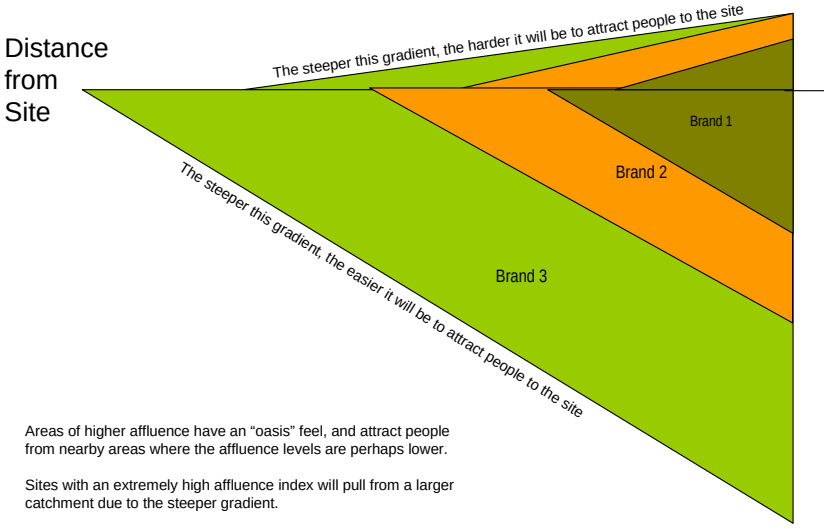
Hypothesis:
Areas of higher affluence have a greater appeal or “pull”.
Or “people like to trade up when they go out”

People will still visit a more down-market area, however the site will require other strong factors to compensate for he relatively poor attraction from an affluence perspective.

Work harder to attract

Less Affluent Area

Gradient is a function of distance and relative affluence.



Areas of higher affluence have an “oasis” feel, and attract people from nearby areas where the affluence levels are perhaps lower.

Sites with an extremely high affluence index will pull from a larger catchment due to the steeper gradient.

More Affluent Area

Work less to attract

We build a really complex model using population databases that allows us to take a measurement of “affluence” and “gradient” anywhere we like.

Keep it Simple

- Why over complicate things?
- Why not just ask an operator directly?
- Or do both.
  - and see which gives the best results/relationship

"Football is simple, but the hardest thing is to play football in a simple way."
Johan Cruyff

But is all that effort really worth it, could we get a more reliable measure, in a quicker more efficient manner by just canvassing operator opinion?

Getting to the Intuition

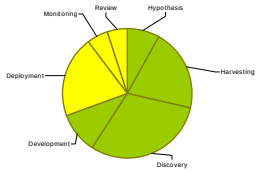
Score or Order

- People are much better at putting things in order, than giving things a score.
- So, wherever possible, start in the middle of the range, and put up an image to act as an exemplar. Then ask
  - it is worse than this (reduce the score, and try again)
  - about the same (parity)
  - better than this (increase the score, and try again)
- Keep moving in the indicated direction until parity is selected, you have your score.

Experience of collecting “soft” measure over several years has allowed us to continually improve our collection techniques.

The intranet is a multi-media world, and building our models on this platform has enabled us to structure the “survey” in such a way that it harnesses operators preferred response style. Rather than give a score, compare and contrast, and rank in order.

Harvesting



Collecting the attributes previously identified as driving or inhibiting sales.

Why Harvesting? Because it suggests that the data are ingredients, that they should be used while “fresh” and that they have a sensible “use by date”.

- Harvested Data is a fresh product
  - Good at the time it is picked
  - Has a “best before” date
  - And quite often has health warnings about what’s in it
- Therefore…
  - Pick when you need
  - Use as quickly as possible
  - Be aware of the inherent dangers if not used properly

Health Warnings – some operators are more objective than others, beware the hidden agenda or emotional attachment to a site which may prejudice the scoring from certain individuals.

Beware of slow changing variables

- These are often considered as constants as they change so slowly, or infrequently.
  - Brand churn
    - Acquisitions, conversions, closures
    - Brand evolution
    - New or Hybrid locations, Stronger sites (ensure model still describes “good”)
  - Brand Maturity
    - » Sales build up, or Sales decline
    - » Saturation of Demand
  - Cultural Change
    - Migrant Workers, Immigration, More Eating Out
  - Business Change
    - Pricing Policy, Admission Policy
  - Legislative Change
    - Smoking Ban, Minimum age, Congestion zones
  - Economic Change
    - Interest Rates, Inflation, Recession, Utility costs, Cost of Goods esp Meat
- Sudden unexpected shifts can have a big impact on model predictions or outputs.

Ensure that all models have a review cycle built in.

All measures, soft or hard, can change over time.

Justification

Sales Prediction for Brand X (41 cases)

- Original model, all hard, no soft
  - On the bench 46% within 10% of actual
- New model; 5 Hard Measures, 5 Soft Measures
  - On the bench 75% within 10% of actual
  - On the street 88% within 20% of actual

Pros and Cons

- Advantages
  - Models built using “soft” measures often tend to be more accurate.
  - Operator buy-in can be easier
    - as the gratuitous use of “databases” can be avoided
  - Very close match to the original hypothesis
    - All of the key factors can be engaged, even if they are hard to define

- Drawbacks
  - Development takes longer as “surveys” need to be completed
  - Adds another onerous task into a busy executives diary
  - Open to corruption in the form of post-rationalisation.
    - The higher performing sites are given higher scores, not because they are better, but because they take more money.
  - Not possible to do an entirely “desktop” appraisal as expert input is required.
  - Experts in the execution phase may not be the same as the experts in the harvesting phase. Appreciation levels may vary.
    - Ops Directors provide the initial scores
    - Acquisition managers, and Portfolio managers execute the finished models
  - Soft measures are often more highly weighted in the model.
    - Subjectivity hits hard, and leaves the sales prediction open to fudging.

Discussion

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