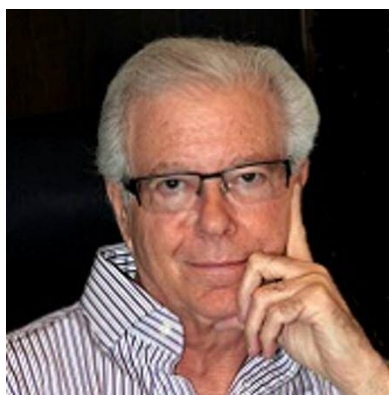


## Park City Group is Helping Retailers Reduce Out-of-Stocks, Manage Risk and Increase Sales with the ReposiTrak Technology Platform



Randy Fields  
Chairman & CEO

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[www.parkcitygroup.com](http://www.parkcitygroup.com)  
[www.ReposiTrak.com](http://www.ReposiTrak.com)

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**CEOCFO:** *Mr. Fields, what is the focus at Park City Group, today?*

**Mr. Fields:** Our primary mission is to help retailers and their suppliers do a better job for the consumers that they both have to deal with. We do that in three easy ways. First, we help retailers find vendors using our online supplier search, which is our Marketplace. Secondly, we help them vet their vendors to be sure that the vendors are achieving the standards of safety and compliance that should be required in today's world. Third, we perform supply chain activities to make sure that the vendor and the retailer have the product on the shelf when the customer is in the store to reduce out-of-stocks, and increase sales. That last point, has become incredibly important to retailers in the last 12 months, largely because of the Amazon threat, which is changing the retail landscape dramatically.

**CEOCFO:** *How do most retailers handle these three areas of business?*

**Mr. Fields:** Here we are in 2019, and for the most part two of the three processes are either ignored or manual. For example, let us deal with finding vendors. Most retailers do it very slowly and inefficiently. Category managers use Google to try to find new suppliers, but that does not give them the information they need to understand a vendor. They go to tradeshows to discover new suppliers which is expensive and time consuming, or they answer their phone or email, and screen prospective vendors that way.

The Park City Group way is an automated version where we have an extraordinary database, easily the largest in the world, which are suppliers vetted in our compliance management system. It's tens of thousands of vendors. We know what product categories they are in, and more importantly we know their level of compliance and safety so we can help a retailer select a vendor that at the end of the day, he could do business with from a compliance and safety perspective. Why waste your time vetting someone that in the end could not be a vendor to you?

We automate supplier discovery and vetting, taking weeks or months out of new vendor discovery and onboarding.

Next let's talk about compliance management. Prior to the enactment of the Food Safety Modernization Act seven or eight years ago, supplier compliance management was not done well, done manually, and frankly had major gaps in the safety of the food supply chain. We have an automated system by which we can help retailers evaluate the compliance and safety of their typically one to two thousand vendors, to meet not only regulatory requirements by also the expectation of consumers, who have frankly become much discriminating over the last decade. As consumer tastes and expectations have begun to become more segmented, meaning now you want mustard that is locally produced that is non-gmo, and so on, and the more social variables or health variables, organic, natural, etcetera, that consumers gravitate to, the more difficult the job of retailing has become.

One of our customers two years ago had forty varieties or SKUs of mustard and today they have well over two hundred. Let us think about what that means. The proliferation of SKUs driven by consumer changing preferences, is reducing the shelf space per SKU, that is called shelf holding power. In other words, if you go into the mustard section of a store, it is not ten times bigger than it was ten years ago; it is a little bit bigger, but that means each one of the products has fewer items on the shelf, less holding power. Instead of having a whole case on the shelf, they might only have three or four, so what has that done? It means the SKU you want is more likely to be out of stock than in the past. It is harder to stay in stock than it was. Furthermore, that is exploding the balance sheets of retailers because they have to carry more products at a one-case or more level so their balance sheets are exploding inventory, but at the same time out-of-stocks are going up. What is that doing? It is driving consumers out of stores. What's the result? One recent study shows that 24% of Amazon's first time shoppers were there because they could not buy the product in their retail store. Out-of-stocks are driving consumers to the Amazon platform. Consumers changing tastes are driving the out-of-stocks, so it is sort of a Catch 22 for retailers. The more they try to follow the consumer, the greater their out-of-stocks and the more consumers are leaving their stores and going to the Amazon platform.

**CEOCFO: *Do retailers understand that?***

**Mr. Fields:** No, it appears not many do, or if they do, they aren't doing enough to address it.

**CEOCFO: *Why not?***

**Mr. Fields:** I think it is one of those things where you have to step back from day-to-day to understand what has gotten you here. They understand their out-of-stocks are going up, but the root cause of it they do not understand. In other words, stores have not gotten bigger at the same rate that SKUs have proliferated. In a sense, retailers have not taken a step back to go, how the hell did we get here with empty shelves and an exploded balance sheet? The answer is because we have been following the consumer.

We have developed some interesting technology that enables us to see if something is in stock, out of stock or likely to be out of stock and we help our customers with that information, as well as management to

significantly reduce out-of-stocks. And we are getting incredible results. As a retailer, you have to give the customer what they want, but now you have to double down in terms of watching the level of out-of-stocks that all the product variation is creating for you. Another important element of this evolution is that retailers have reduced in-store labor to maintain their margins, and that has resulted in less attention to out-of-stocks in the store, at the same time out-of-stocks increasing. And that is how it got out of hand.

**CEOCFO: *How does this work with fresh merchandise?***

**Mr. Fields:** To us all products are the same, whether it is lettuce or chicken or pots and pans and light bulbs or frozen products. They are essentially all the same. Every single product in a store has a model of how it sells. What we do with our technology is to look at huge amounts of data. We have been amassing data like this for a decade. Our system is able to look at the sales pattern of any particular item in any particular store over time, and determine whether or not that item is behaving strangely from a sales perspective. If it is behaving strangely, the question is, is it out of stock or did something else happen. In a way it does not really matter whether the product is being examined or monitored, whether it is highly perishable or not. For example, a lot of our business is in dairy products. If you go to the dairy isle of your local grocery store, take a look at yogurt and milk and it is almost the worst area in the entire store for out of stock items, primarily due to promotion. All the items develop a pattern and some of those patterns are promotional, some of those patterns are just everyday patterns. Our system looks at the pattern and simply tries to identify anomalies.

**CEOCFO: *You mentioned vetting the vendors. How do you continually do that?***

**Mr. Fields:** Vendors are best managed in terms of two different types of criteria. One criteria we call 'static' and an example of that is do they have insurance or has it lapsed. Do they have food safety audit or has that lapsed. Have they made the corrections that may have been pointed out in the audit? We are going to call those relatively static, but then vendors also have what we call 'transactional' compliance, which means they have to provide a certificate of analysis to show that a product they just manufactured is within specs, or that it does not contain certain kinds of products. The reality is one size does not fit all. Some retailers and some suppliers are very specific and every single lot has to be checked against specification. We have increasingly seen that. There is this concept of static which means is the facility good, is the company good, and then transactional means is the product in this particular batch and lot achieving the standards that we as a buyer hold for that particular product.

**CEOCFO: *How are you reaching out to retailers, vendors and others?***

**Mr. Fields:** It is primarily word-of-mouth. What happens is that a retailer who is excited about what we do will tell another retailer and a supplier who had good experience with us where we have increased sales or reduced their out-of-stocks. This year we anticipate that 70% of the new retailers that we work with came to us from existing suppliers that we work with from other retailers. Think of it as referral word-of-mouth.

**CEOCFO: *How is business?***

**Mr. Fields:** Business is unbelievable!

**CEOCFO: *Are you strictly in the US?***

**Mr. Fields:** No, as a company what we say is the bedrock foundation of our business is that if our customers are successful and they feel in relationship with us, they will buy more. That dictates that the business be obsessed with delivering on its promise when we work with someone, and at the same time that we wrap our arms around the customer and service them extremely well. It is strange for a technology company to acknowledge the importance of personal service but I think they have an equal footing with the customer. For example, our loss rate of customers is well under 2% per year, and three quarters of the 2% is driven by either the companies ceasing to do business with one of our customers, or companies merge or go out of business. Only about a quarter of the 2% are unhappy with the service that we have performed. We are passionate about how we service our customers, and as a consequence, we simply have not had the band-width to focus outside the US until this past year. So we intentionally waited a long time for a geographic expansion. We are dipping our toe in it now. We are prepared to go to the UK, and we are working with a prominent UK trade association. Over the course of this year be more focused on developing our international business. We have gone painfully slow, but it's by design.

**CEOCFO: *Do your customers take advantage of all the areas you can help them with or do they sometimes pick and choose?***

**Mr. Fields:** For the most part they pick and choose; we have a principle in the business that we call crawl, walk and then run. If a customer wanted to start with all three of our activities, we actually say we will not do that. What we say to a customer is start somewhere with us, make us prove our success to you and if that works and we feel it a good relationship for both of us, we will do more. Interestingly, for about 80% of our business, our increase in business year-over-year comes from existing customers. We never sell a customer everything we do. It takes several years for them to absorb it. We are going to be here a long time so we go slowly with our customers to be sure that they are getting what they paid for.

**CEOCFO: *How do you implement your service?***

**Mr. Fields:** We operate in a very interesting market segment. Retail and grocery. These companies have an enormous amount to do, and fewer and fewer people to do it. So one of the most important things that we offer them is "no heavy lifting". In other words, what we really say to our customers is, you keep doing what you are doing, send us some data, and we literally do everything else. With our customers, not only are we not invasive for a technology firm, we require almost no resources on the part of the customer. They do not need project managers or anything. We literally wrap ourselves around the customer. All we say is give us copies of what you do today and we will figure it out from there. It is very low-touch, and frankly it is because these folks are just so busy. They simply cannot devote a lot of time and resources to solve the problems we help to solve, so we do it for them.

**CEOCFO: *How does ReposiTrak AI come into play?***

**Mr. Fields:** I have a couple degrees from Stamford, one is artificial intelligence and applied mathematics, so AI has finally reached the point where it can do some things. It cannot do nearly what people are talking about, I have no idea why they think AI will drive cars and things like that, it will not, and certainly not for a long time. AI can help with relatively mundane tasks. Let me give you an example; many of our customers

would require that a product have a Kosher certificate, which sounds pretty simple. Except there is no such thing as a standard Kosher certificate. In other words, every rabbi that provides Kosher certification has his own form and the signature is in one place and the date in another, and so on. There is no standard Kosher certificate or Halal certificate, or Organic certificate. So how do you machine read them, or know they are authentic when there are some many versions? It is a perfect application of artificial intelligence. We use AI to help reduce human work where possible, very simple. It is something because of my background; I think I am pretty knowledgeable about where AI can play a role, and where it would be dangerous to have it play a role.

**CEOCFO: *Why should the business and the investment community pay attention to Park City Group?***

**Mr. Fields:** I think it would be arrogant of me to say that people should pay attention to us. The business community should because in truth, what we do really works and you don't have to take my word for it. Here is a recent example. We are working with more than two hundred suppliers over more than twelve thousand retail stores for our out of stock reduction tool and in just the first four weeks of use, 70% of those vendors achieved out-of-stock reductions of 36% or more. Wow, that is a stunning success rate in what is arguably the single biggest challenge for retailers today, out of stock products. It's really a stunning result. So if I were a retailer and I had out-of-stocks, which is only everybody in retail, I would pay attention to this and I would at least try it.

Honestly, we are really good at what we do and the proof is in the pudding and we can demonstrate it pretty short-order. From an investor perspective, I think the kind of investor that should be interested in us is someone who goes, wait a minute, I am not here for the quarter. I think companies that deliver on their brand promise, that help their customers become more successful and that are themselves profitable, are the kinds of companies with compelling growth potential and therefore that kind of investor should be interested in us. But not all investors.

