
Best Practices in Merchandise Planning

Is there a quantifiable merchandising strategy in place to support your organizations financial plan?

What are some elements of the ideal solution...

The On-going Challenge



The 5 rights; product, time, place, depth, price

The Realities of Retailing Today

Driving Forces

- Intense competition
- Multi-channel operations
- Empowered customer
- Complex supply chain

Daily Challenges

- Increase sales and profit
- Reduce unneeded inventory
- Shorten lead times
- Be responsive to your customer!

The Retail Challenge

- Thousands of active products
- Many retail locations
- Local demographics impact sales at the store level
- Different items sell at different rates
- Different items contribute more/less to the organization

The Solution

- **Improve Inventory Management**
 - purchase according to selling patterns
 - purchase according to contribution to the organization

- **Increase Customer Service**
 - provide product mix to match demographics
 - avoid out of stock/over stock situations

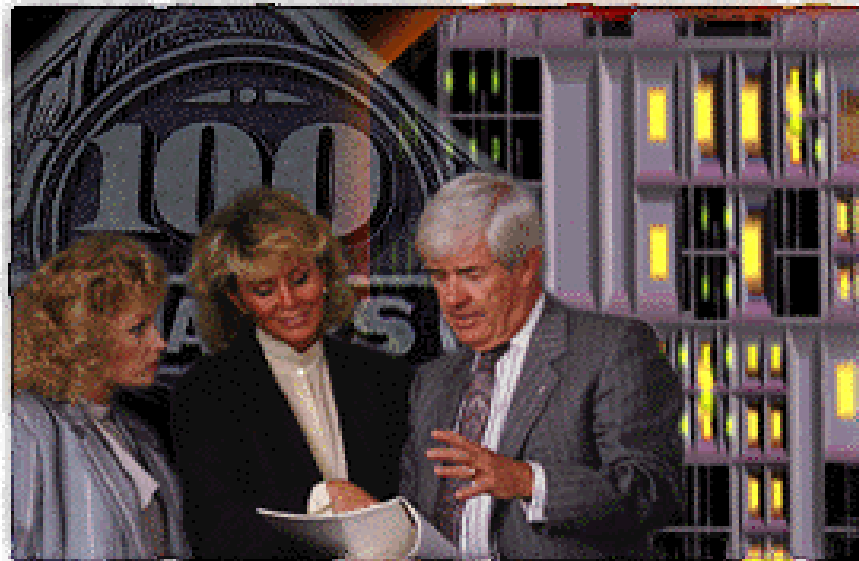
The Solution

- Disciplined processes, develop a roadmap
- Accurate planning at lower levels of detail
- Internal and external collaboration
- Proactive in-season management
- Technology that enables

The Benefit

Increase Profitability

- Increase inventory turnover
- Decrease overstock situations
- Satisfy customer demand



The Main Issue: Inventory Productivity!

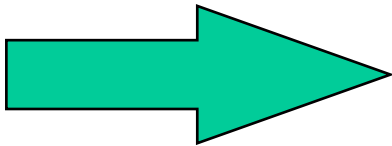
OVER 50% of a typical Retailer's inventory is invested in slow-moving items contributing

Less than **5%** of Sales

Category Management & Contribution Code Replenishment Addresses this Major Issue

Putting the Retailer in Control

OUR GOAL IS TO ACHIEVE



40%

IMPROVEMENT IN INVENTORY PRODUCTIVITY

Forecasting, Planning, & Replenishment

Integrated Forecasting, Planning, & Replenishment Systems provide basic functionality to determine what merchandise to buy & when

High Performance functionality creates an Active Warehouse - which provides:



- ◆ Forecasting/Profiling by SKU by Store
- ◆ Promotional Planning
- ◆ Seasonal Planning
- ◆ Replenishment according to the contribution to profits and sales
- ◆ Long range forecasting drives the Long Range Plan in units and dollars
- ◆ Multiple allocation methods based on customer demand
- ◆ Daily exception reporting

Helping retailers move from a “selling what we buy” to a “buying what we sell” mindset

What does this Mean ?

- *Improved forecast accuracy*
 - through the use of detailed data at store and item (SKU) level
- *Improved planning decisions*
 - More effective and profitable store-level merchandising
 - Single Version of the Truth
 - common view of business at all levels



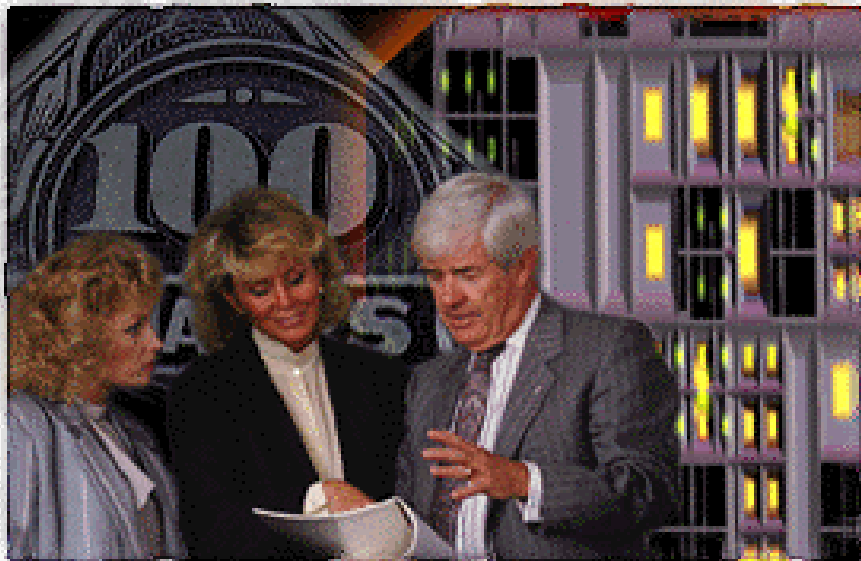
- **Improved replenishment/allocation process**

- common sales and inventory history tables to conduct both ad hoc analysis and daily replenishment cycles

Planning within a Data Warehouse

- **Investment protection for growing retailers**

- **One common view of the truth**
- **Lower cost of ownership for total solution**



- **The power and performance of an Active Warehouse**

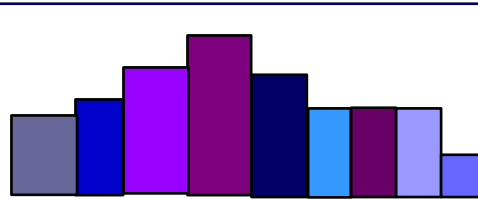
- **Integrated, scalable, available**
- **Improved merchandising**
- **Improved profitability**

Planning Processes

FORECASTING

De-seasonalized
(ARS) Trend
Forecasting

MODELING



Profile
(Seasonal Sales
Modeling)

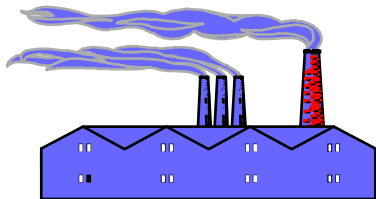
SALES BIASING

Dynamic
Stratification
Measurement
(%)

A	B	C	D	E
60	20	15	4	1

Product Estimator

System Generated
Plan



INFORMATION FACTORY

Actual/forecast
Planning

Merchandise &
Financial Planning
Workbench

Collaborative Planning Process

Strategic
Targets

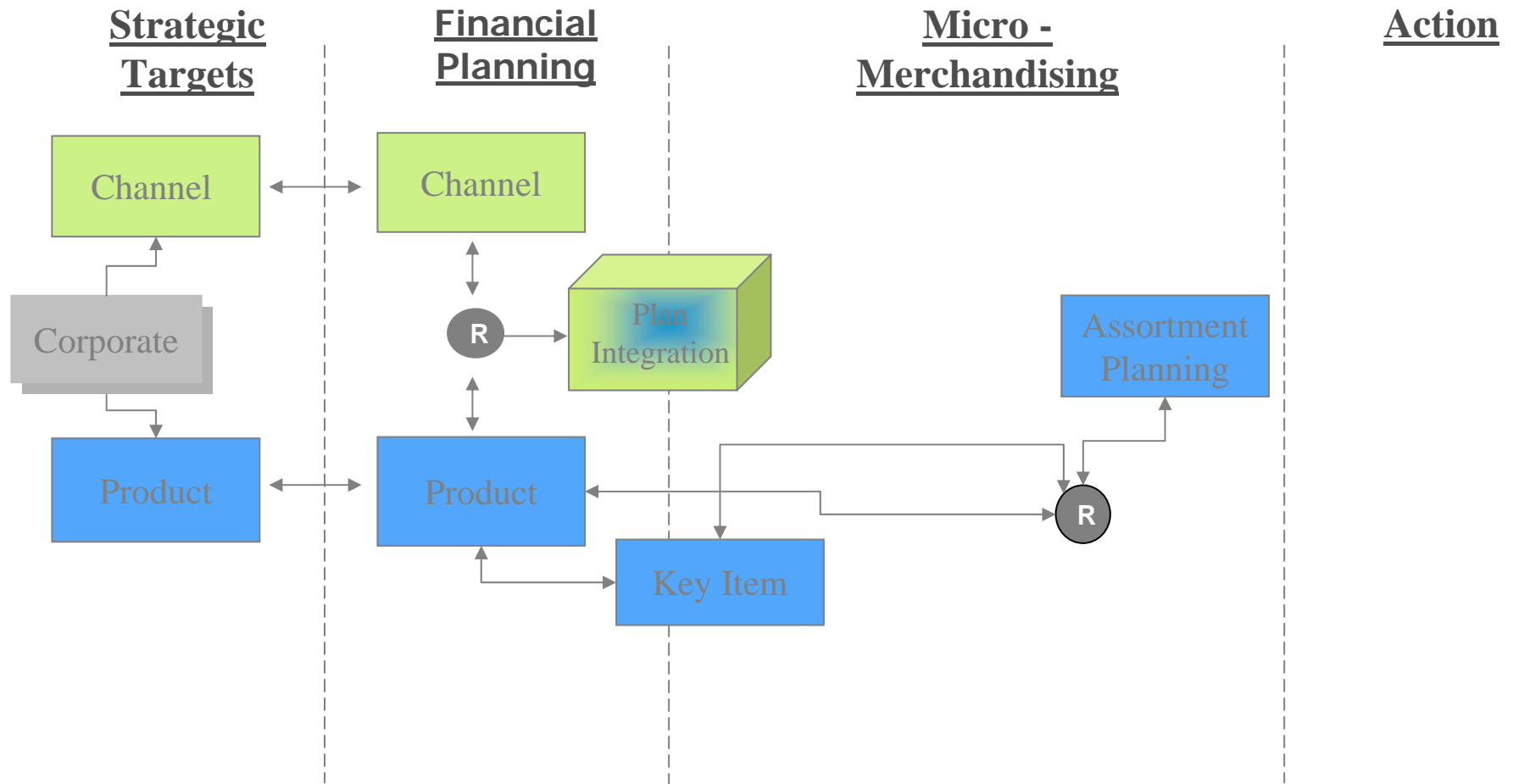
Financial
Planning

Micro -
Merchandising

Action

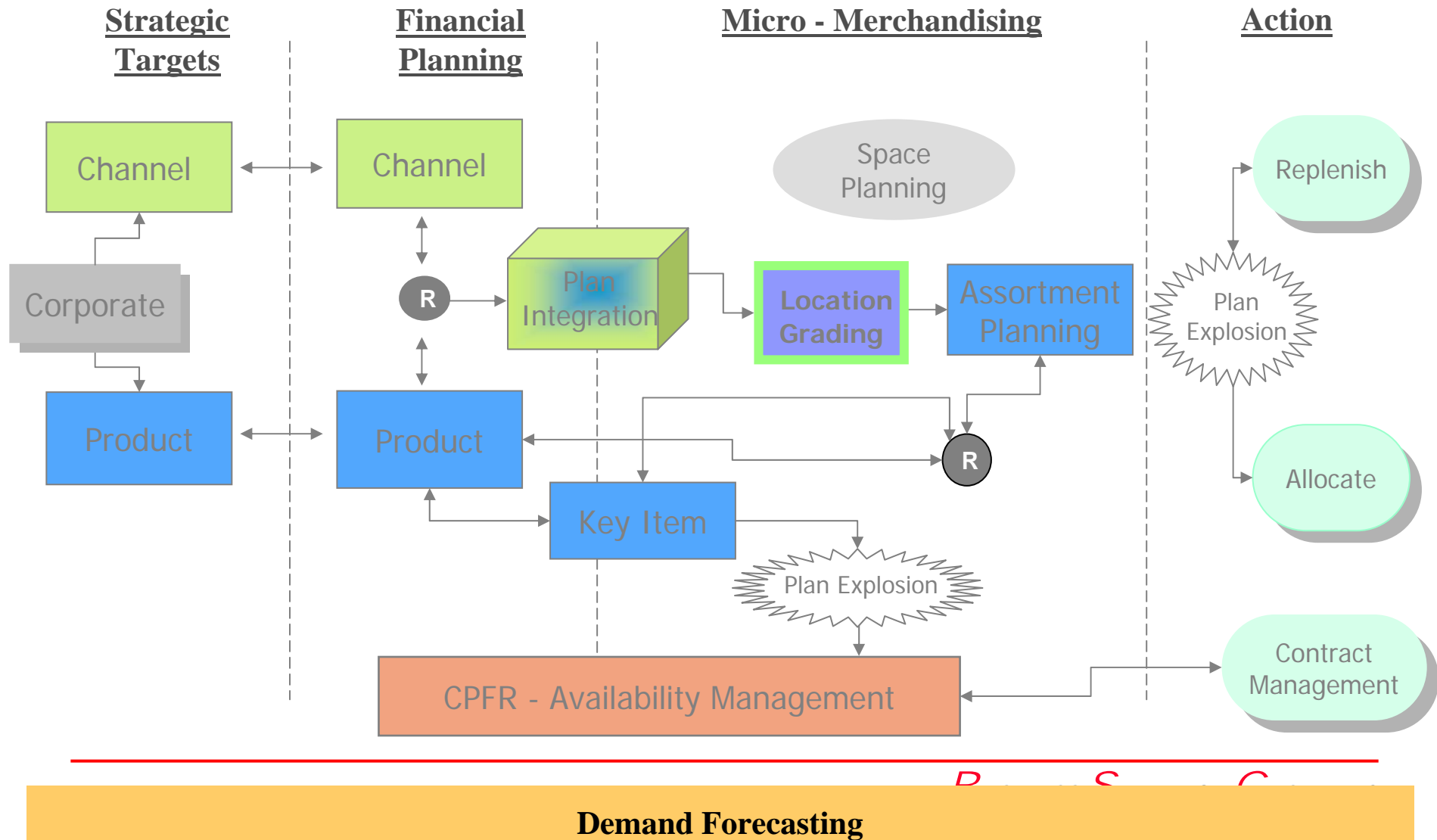
D S C
Demand Forecasting

Collaborative Planning Process



Demand Forecasting

Collaborative Planning Process



Why is Inventory Service Level Important?

Benefit - In Stock Vs. Service Level Measurement

<u>SKUs</u>	<u>Selling Rate/ Per Week</u>	<u>Inventory Level</u>	<u>In Stock %</u>
1	6	0	
2	2	2	
3	2	10	80%
4	1	6	
5	1	8	

Total SKUs = 5

Total SKUs in Stock = 4

Total Demand = 12

Satisfied Demand = 6



Service Level = 50%

Item Stratification

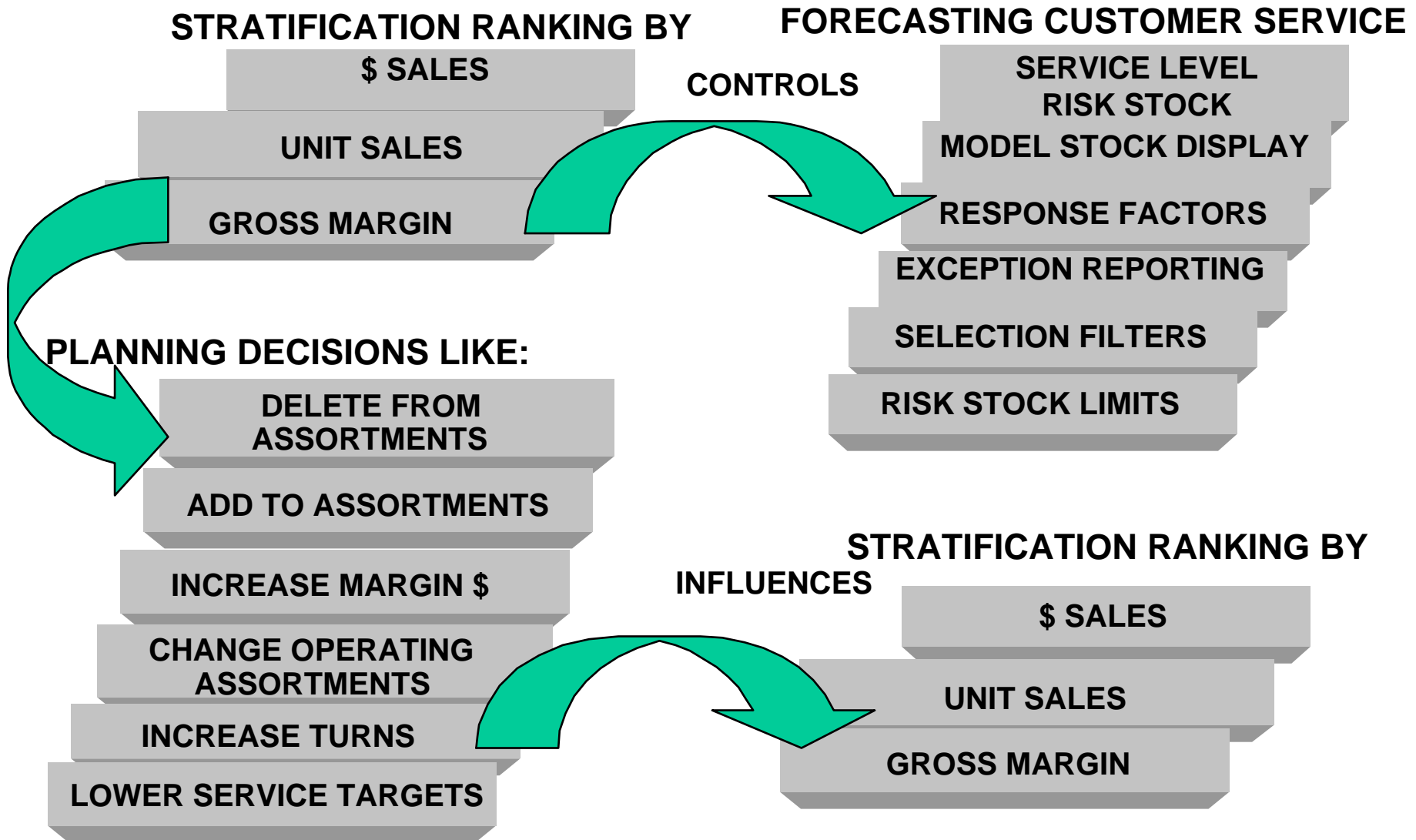
Stratification Code	% of Sales	Service Level
A	TOP 60 %	98 %
B	NEXT 20 %	96 %
C	NEXT 15 %	92 %
D	NEXT 4 %	85 %
E	BOTTOM 1 %	75 %

Stratification

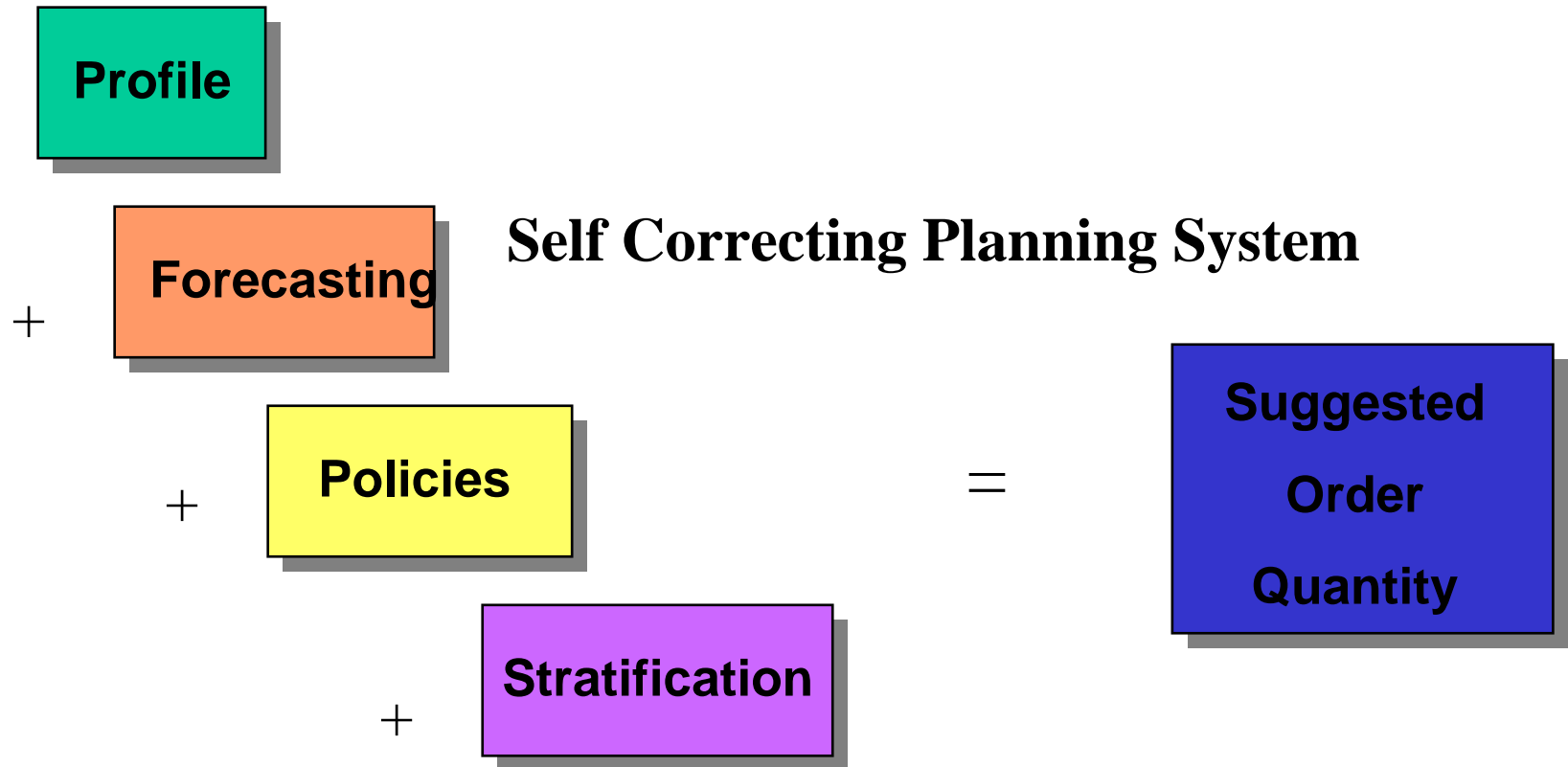
- ❖ 80% of sales result from 20% of items
- ❖ The key is to easily identify and manage items make up that 20%
- ❖ Contribution drives replenishment
 - ⇒ Contribution Ranking

Manage the Mix

How Does Stratification Work?



Maximize ROI



Strategic Questions:

How much to buy? When to buy? Where to sell?

Stratification Ranking

Stratification

Automatically assign a Stratification code based on:

Unit Sales

Sales Revenue

Gross Margin Revenue

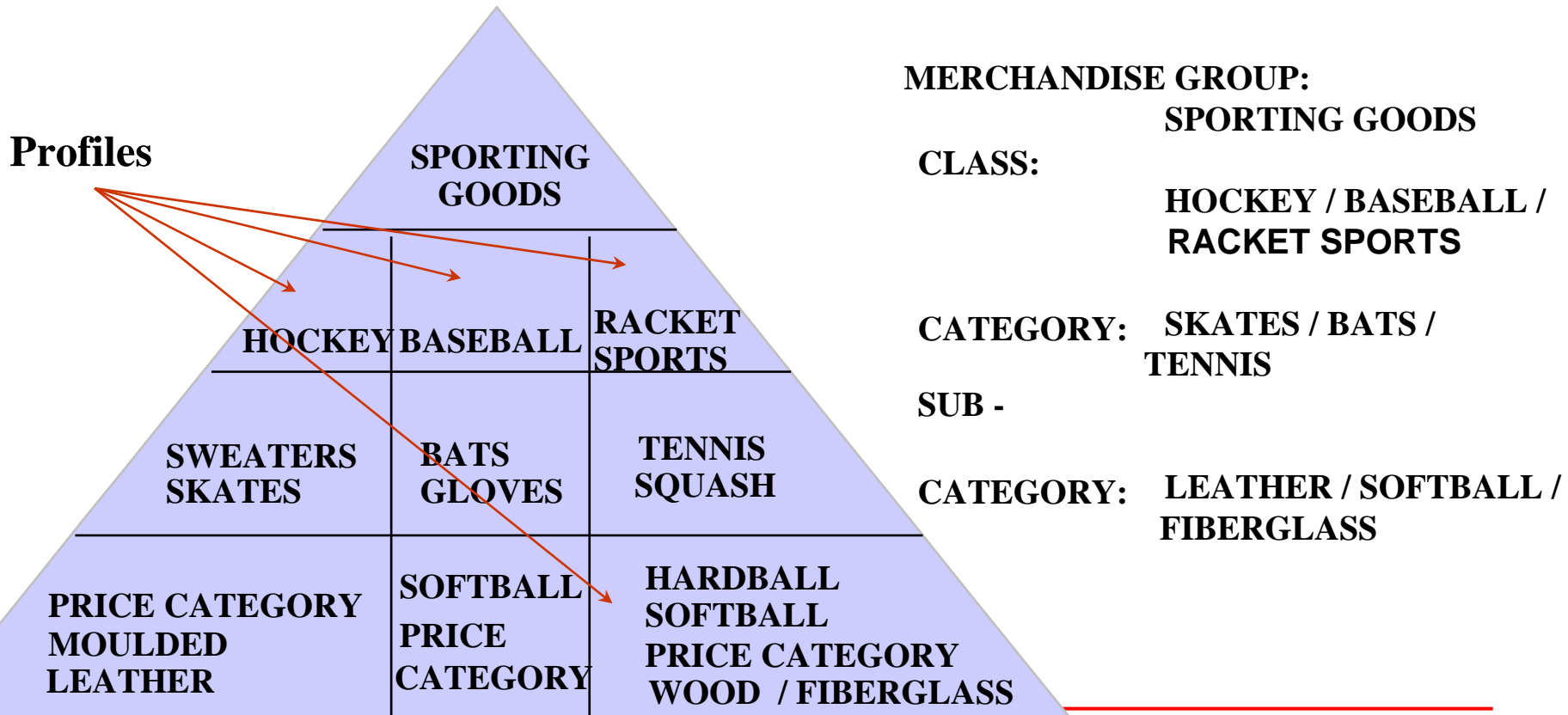
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Item Profile

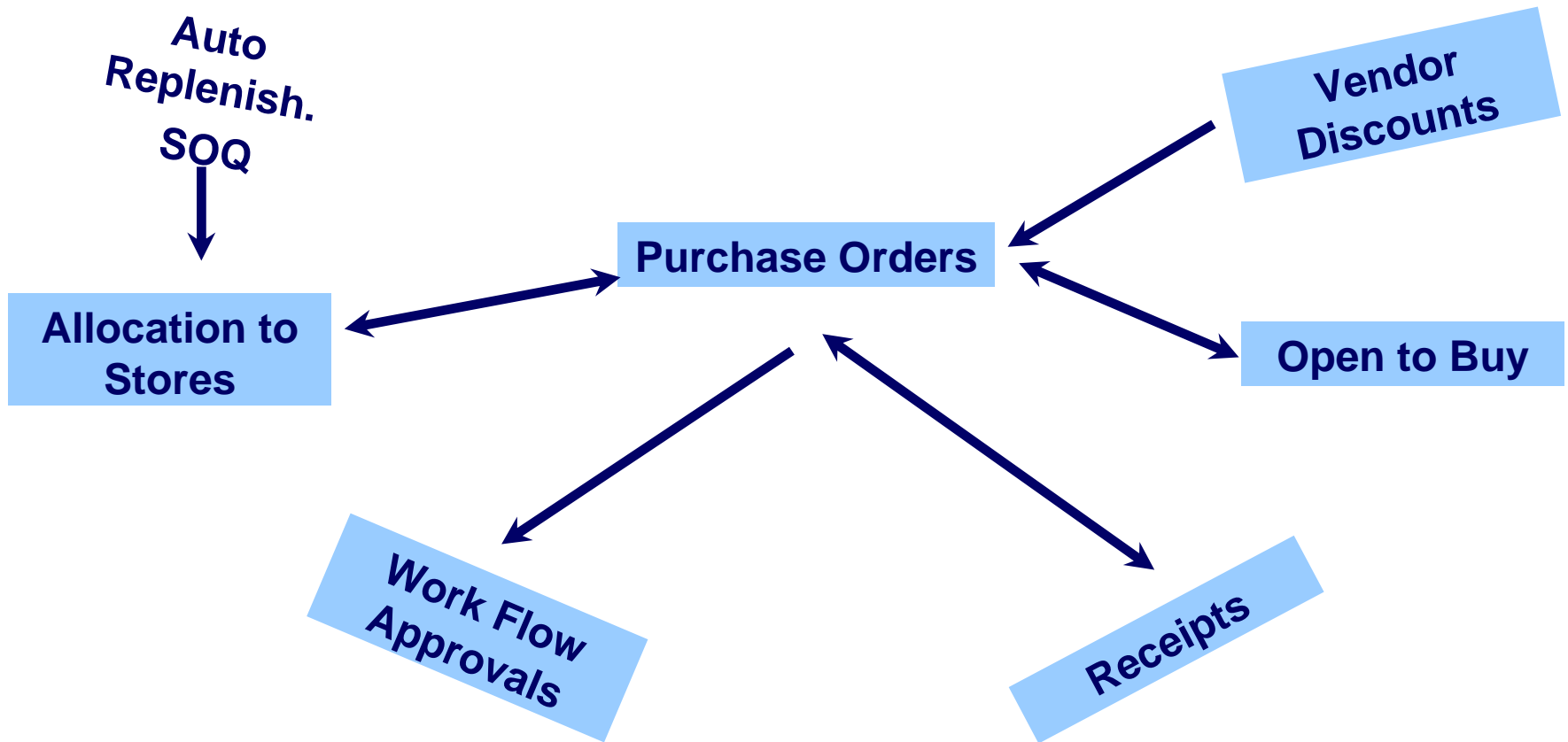
A Graphical Representation of the Mathematical Calculation of Demand Peaks and Valleys of a Specific Week as Compared to the Demand of all the Other Weeks in the Selling Season.

Profile

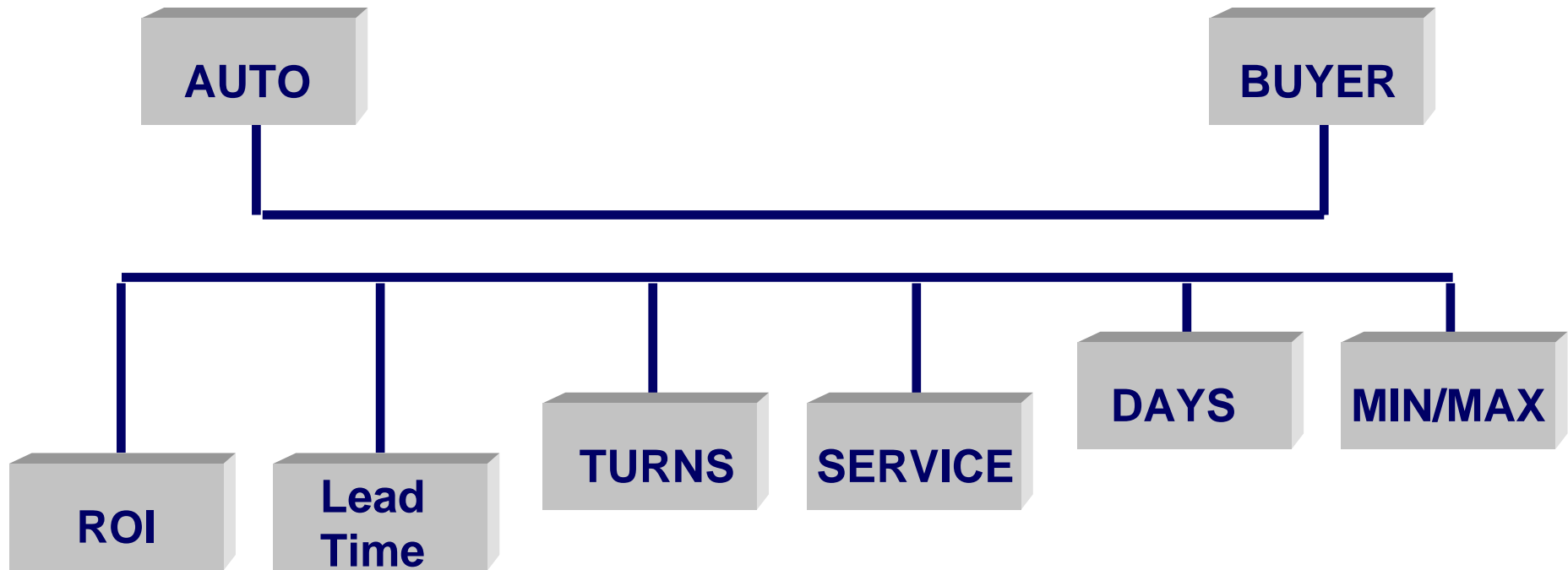
Profiles can be developed at a variety of classification levels utilizing historical sales demand at the region, distribution center and store levels.



Integrate Planning with Base Applications

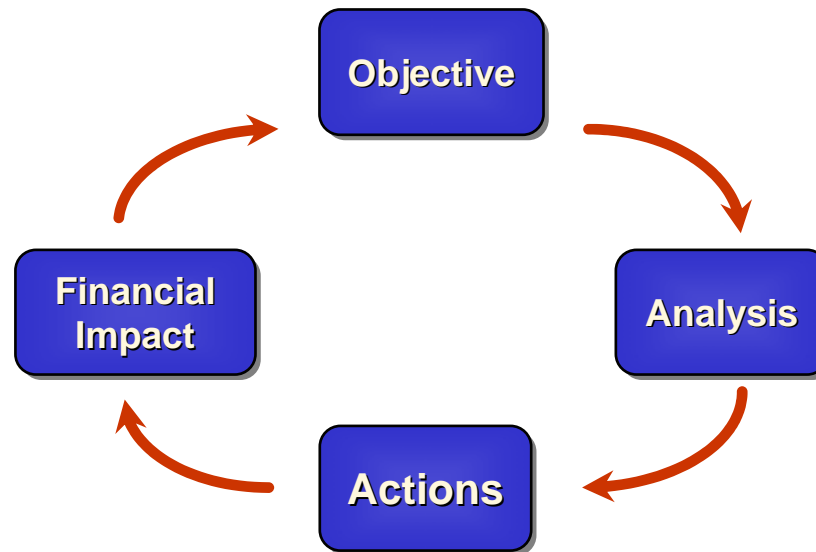


Forecasting your Planning Strategy



Business Improvement Opportunities

- **Improve Product Assortment Mix**
 - Item Contribution for profitability
- **Improve Customer Service**
 - Optimize Customer Sales Growth



Improve Product Assortment Mix

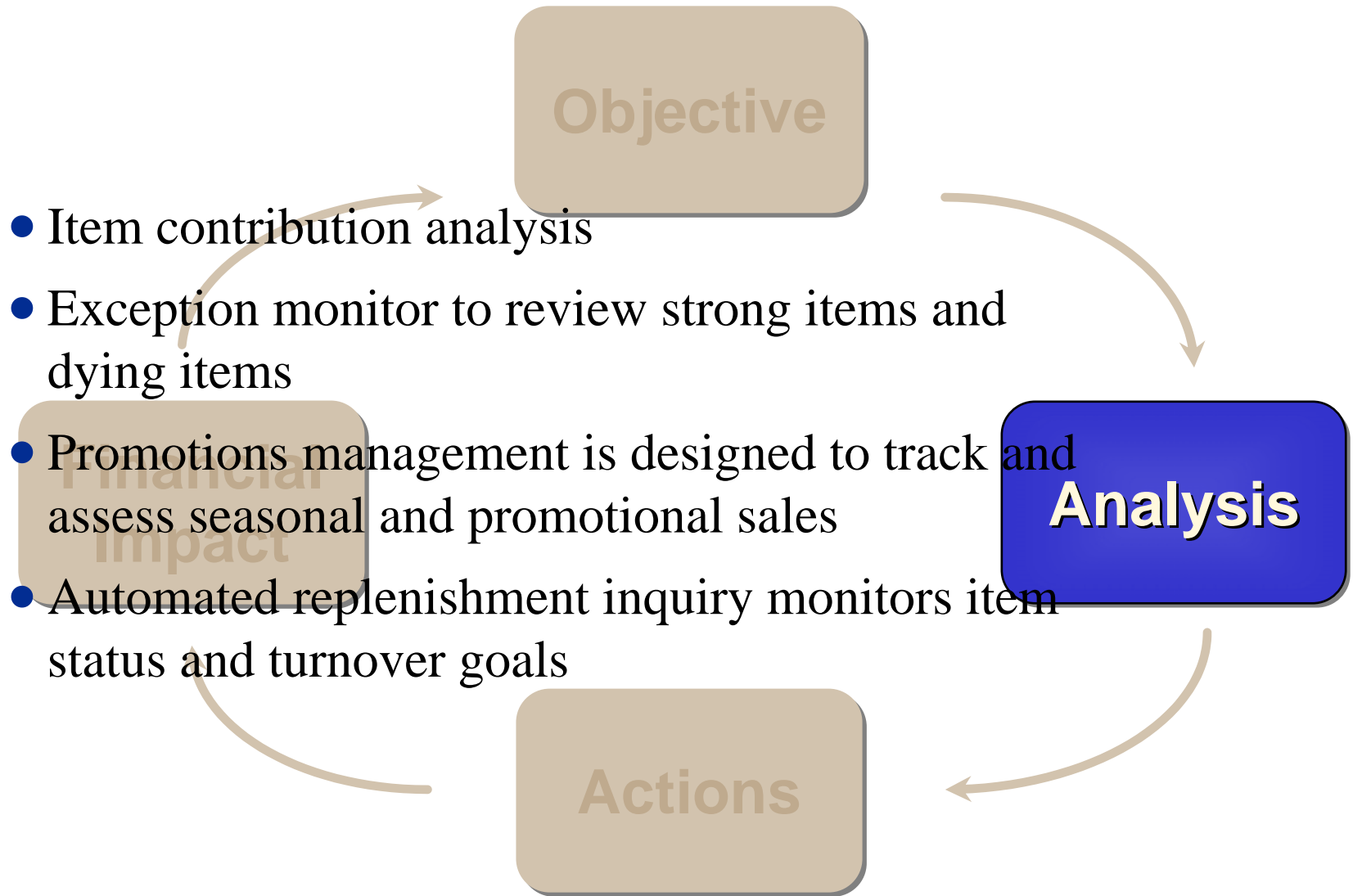
Objective

- Increase inventory turns
- Reduce inventory levels and carrying costs
- Eliminate non-productive SKU's
- Increase sales and profits per square foot
- Accurate forecasting of seasonal and promotional product requirements

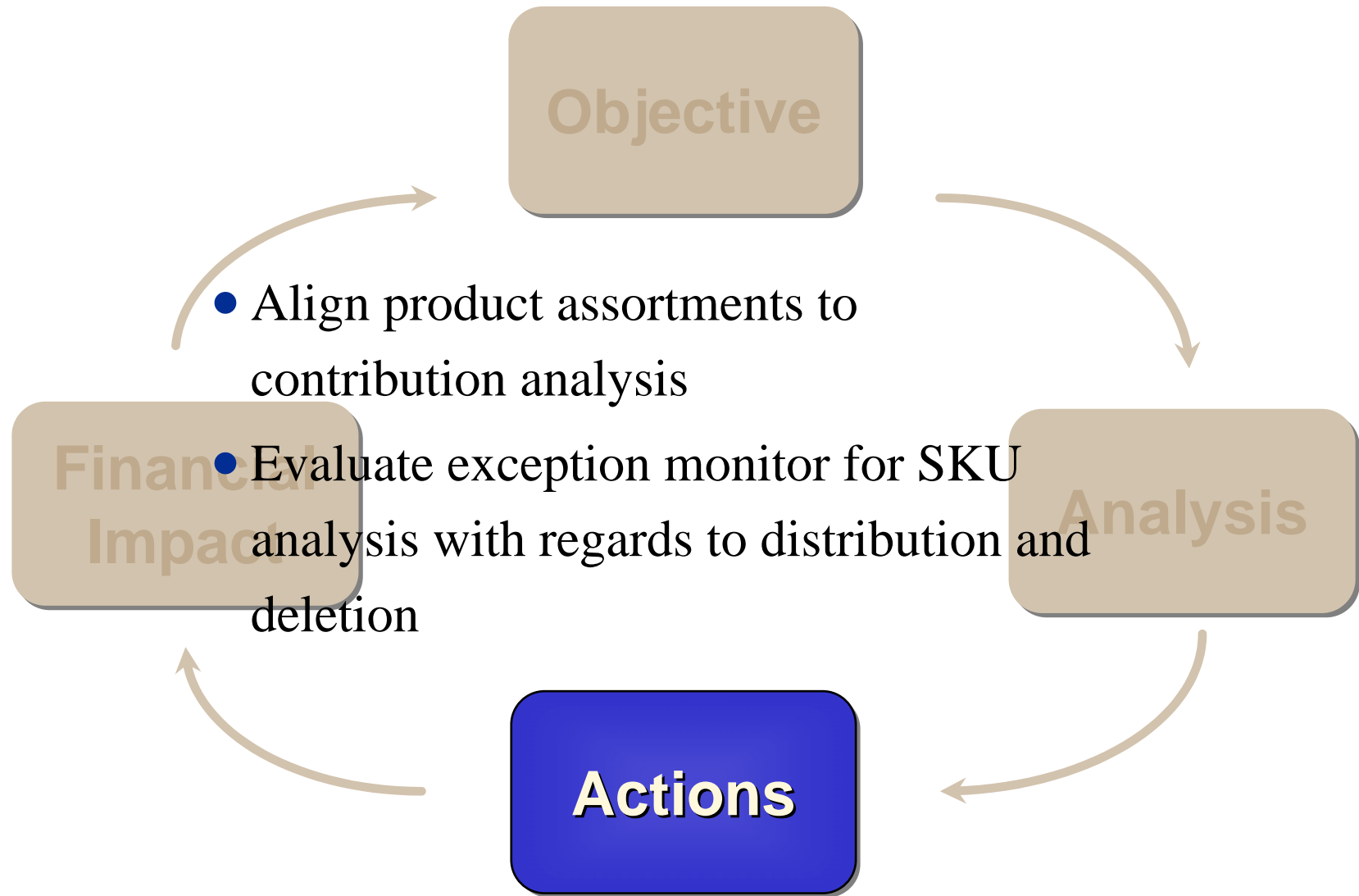
Analysis

Actions

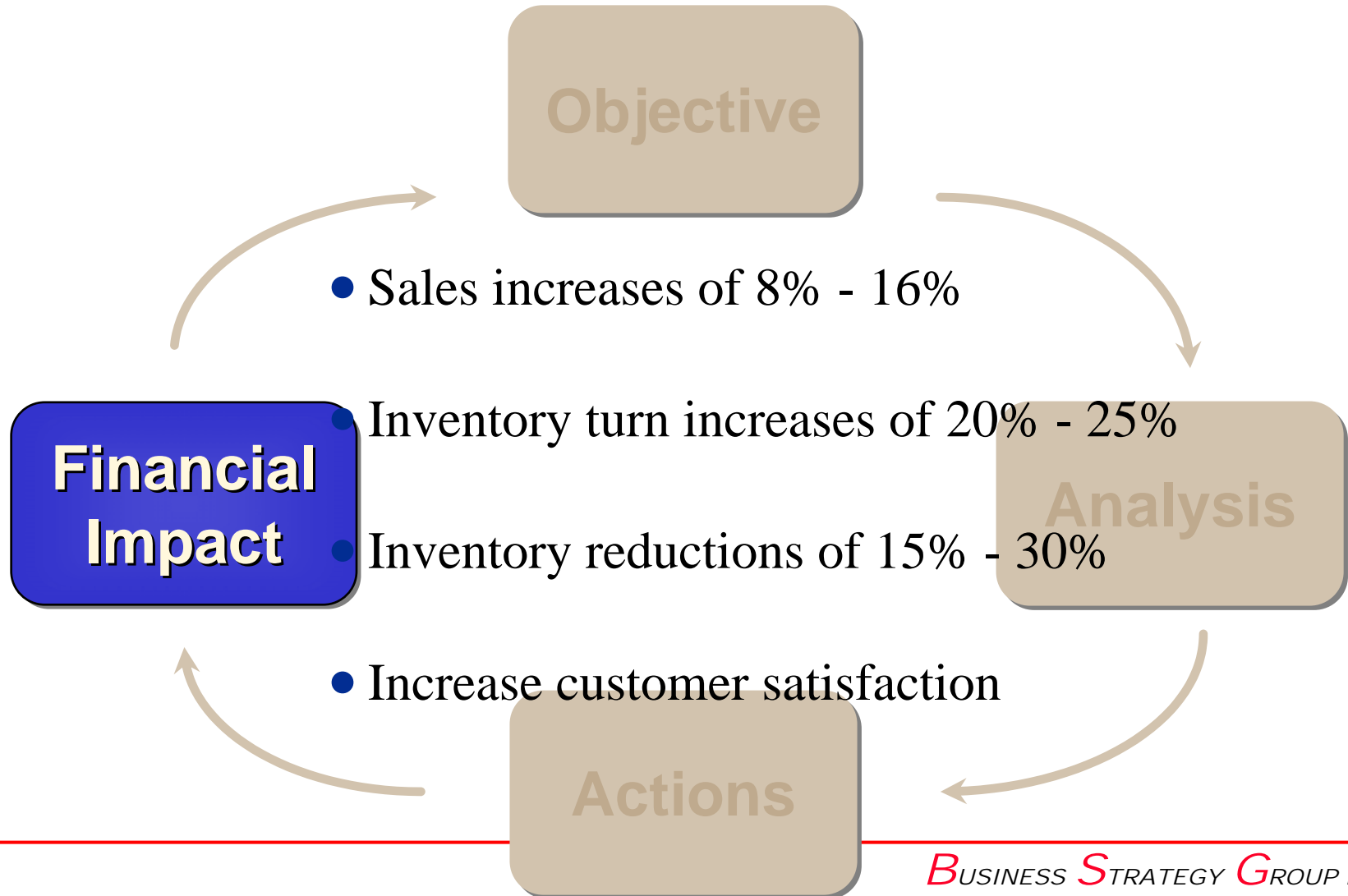
Improve Product Assortment Mix



Improve Product Assortment Mix



Improve Product Assortment Mix



Improve Customer Service

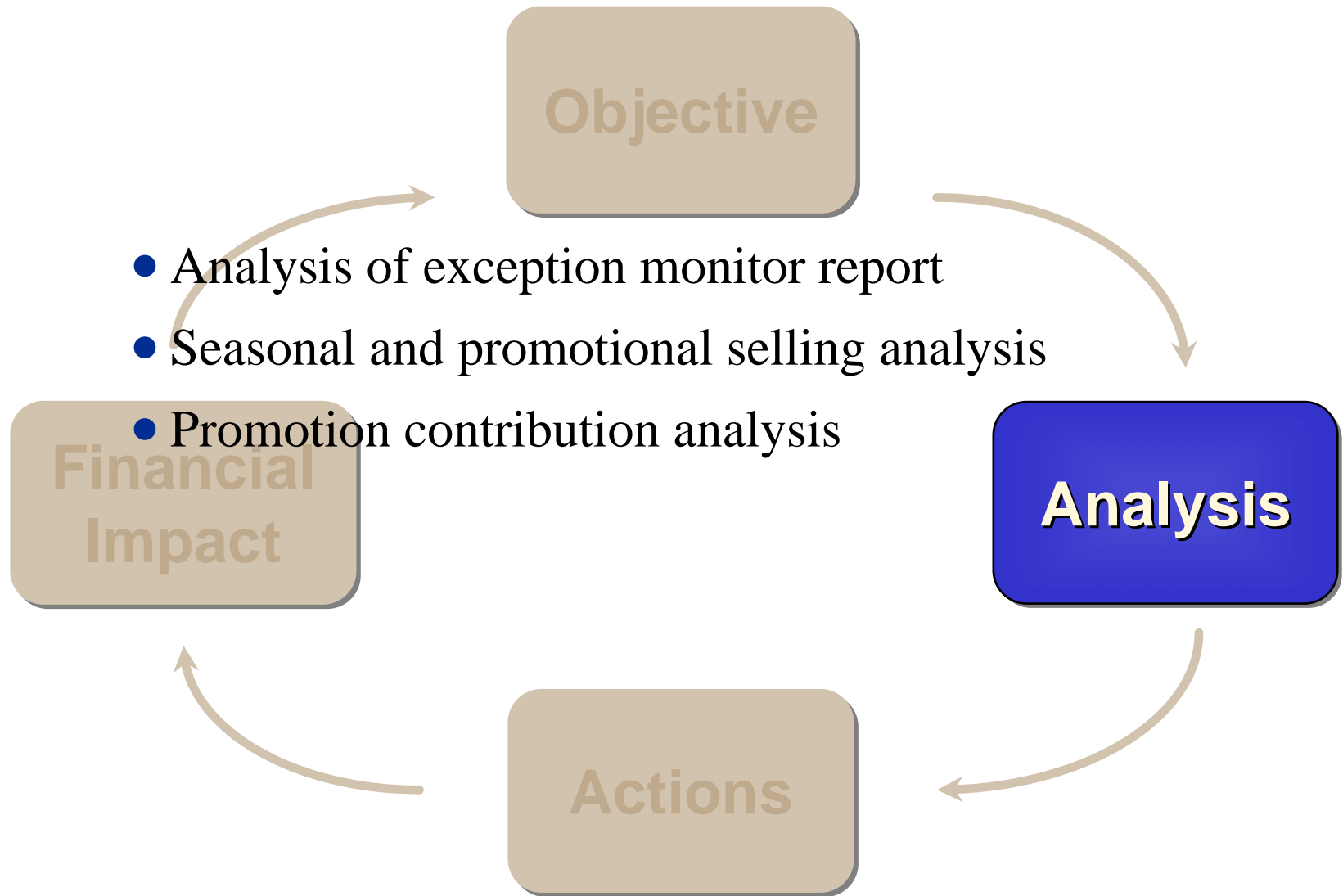
Objective

- Forecasting methodology to reduce out-of-stock situations
- Seasonal Profiling of item selling patterns to meet demand
- Maximize total system efficiency of trade and consumer promotions
- Maximize effectiveness of new product development and introductions

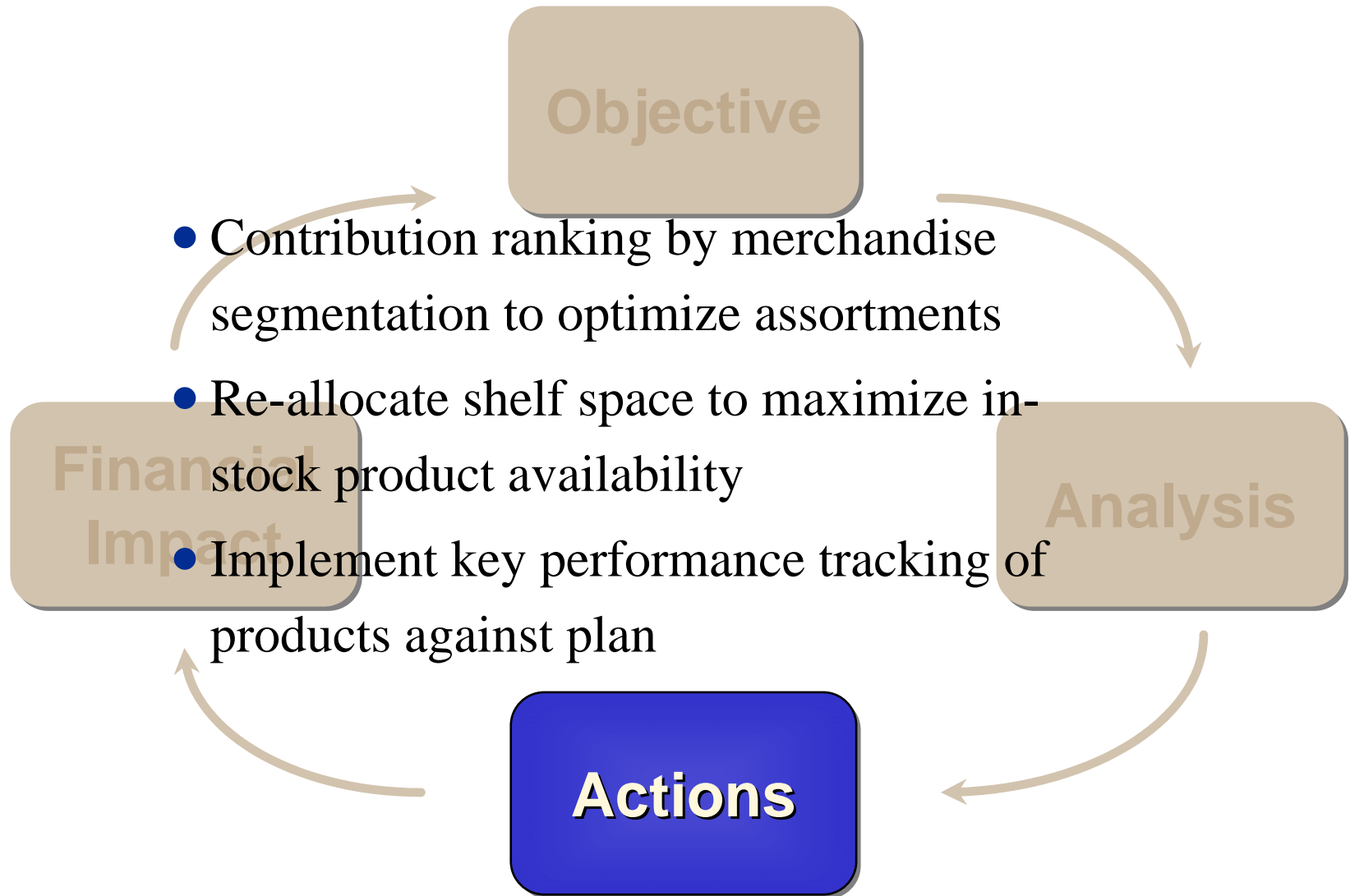
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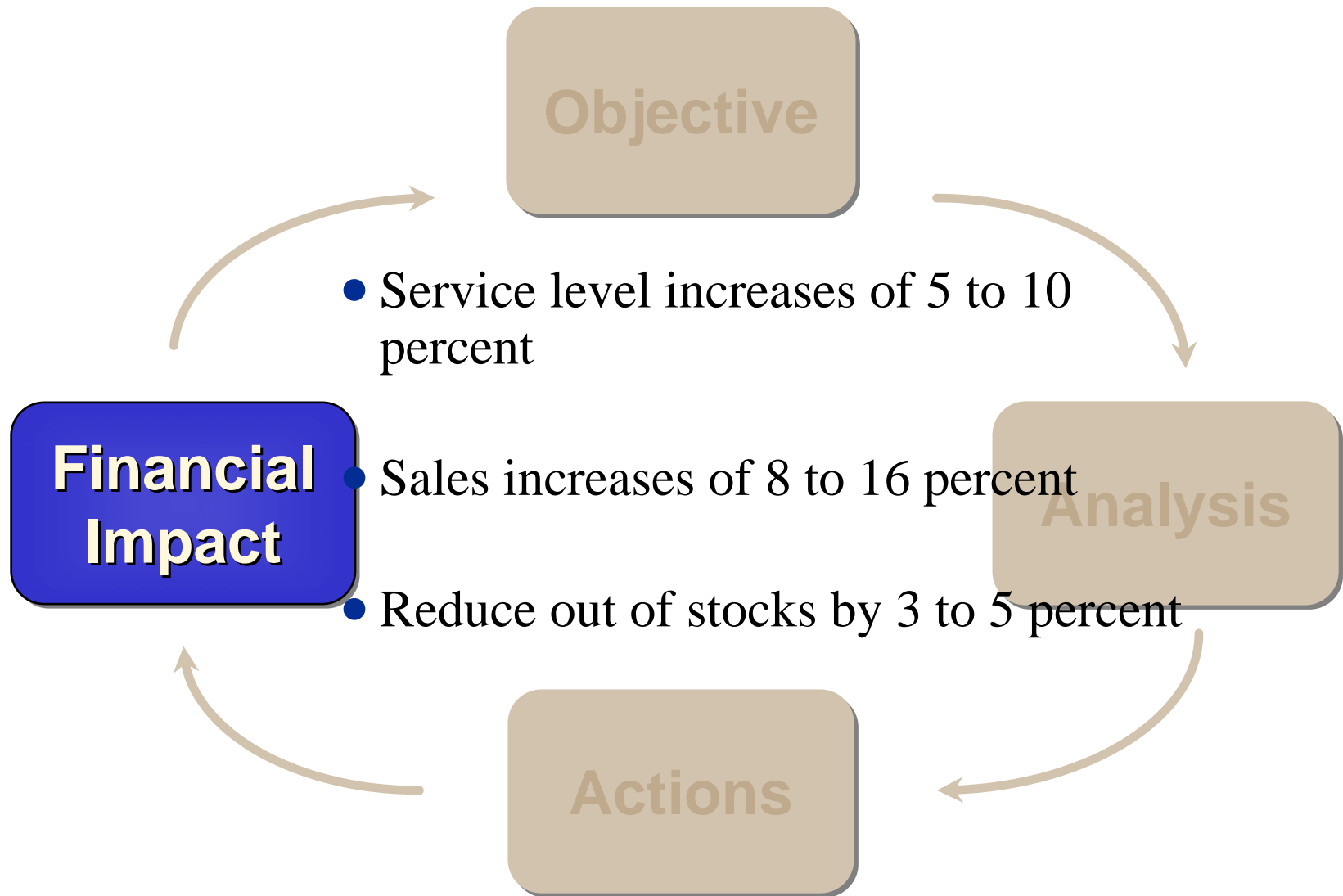
Improve Customer Service



Improve Customer Service

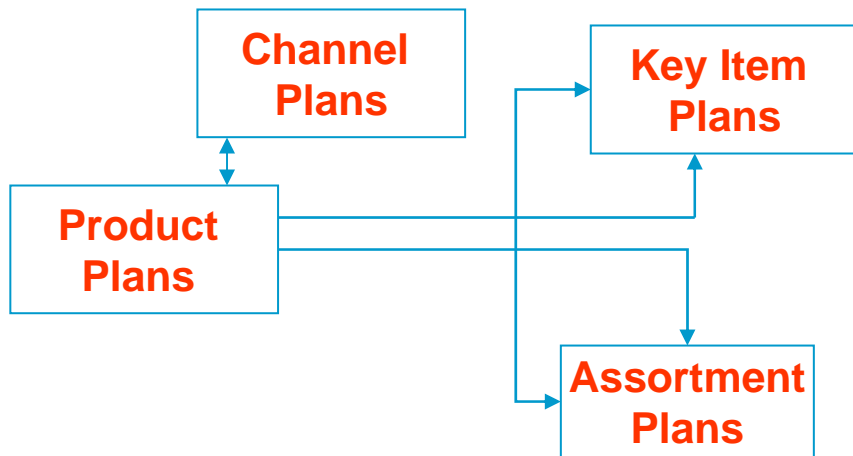


Improve Customer Service



Affects on Planning

organizational changes
many levels of planning
many people that contribute



An intelligent solution

■ Features

- Integrated forecasting
- Process driven
- Built in reconciliation and plan approval
- Integrated suite of products
- Rule based alerts and exceptions
- Intuitive and flexible

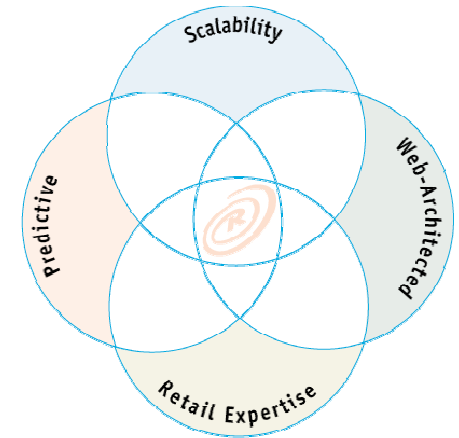
■ Benefits

- Customer driven demand as a basis for the plan
- Efficient management of work effort
- Encourages disciplines in business process
- Supports one version of the plan
- Easily adaptable

TopPlan

Traditional merchandise planning the science of planning

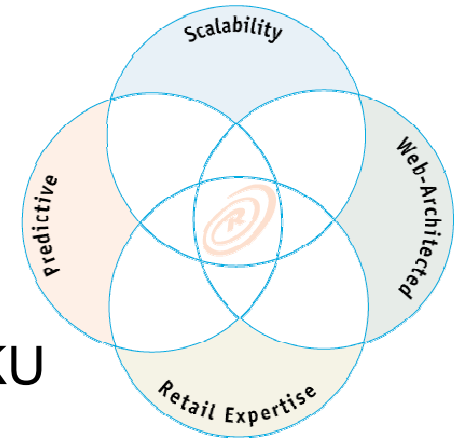
- **Product Planning**
 - Company to Sub-Class
 - Value and Units
 - Year to Week
 - Pre-Season and In-Season
- **Process Support**
 - 2 Levels of Reconciliation - Product
 - Formal Plan Approval
- **Integrated Forecasting**
 - Sales forecasts
 - Sub-class/ Store aggregated to Sub-class then up the consolidated levels of the product hierarchy



Assort

Breadth and depth of product assortment **art** and science of planning

- Product Planning
 - Unit driven by store grade
 - Plan at Style, Style/ Color and/ or SKU
 - Determine breadth and depth
- Process Support
 - Pre-season planning
 - Point-in-time (phase of business)
 - Understand boundaries of capacity
 - Soft reconciliation with planned data



Assortment Planning: A unique solution

■ Features

- Collaborative
- Integrated capacity planning
- Visibility to plan data
- Integrated suite of products
- Intuitive

■ Benefits

- Maximize store capacities
- Optimize OTB
- Plan with product and location focus, without the overhead of achieving location specific plans
- Improve communication

The ideal solution would ...

- Attach a marketing strategy to key items
- Consider fixture capacity
- Convert a unit plan to values
- Facilitate the planning of realistic sales demand
- Accommodate by channel planning
- Manage large amounts of data.
- Be process driven to support a company wide point of view
- Reconcile to the financial plan
- Permit internal and external collaborative views

Item Plan

- **Product Planning**
 - Key Item to Class
 - Units to Values
 - Year to Week

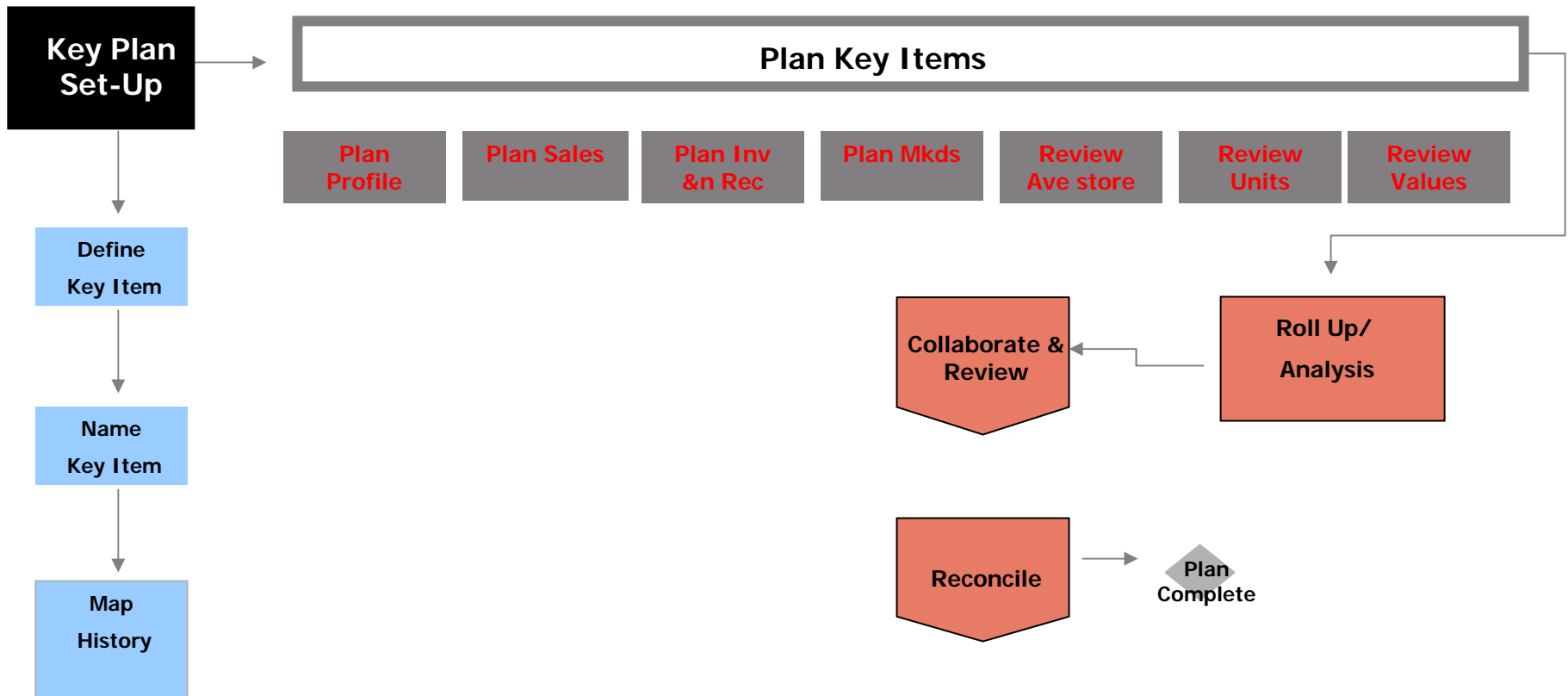
- **Process Support**
 - Ability to Reconciliation with Class Plans
 - Pre-Season and In-Season

- **Integrated Forecasting**
 - Unit Sales forecasts
 - SKU/ Store aggregated to Key Item

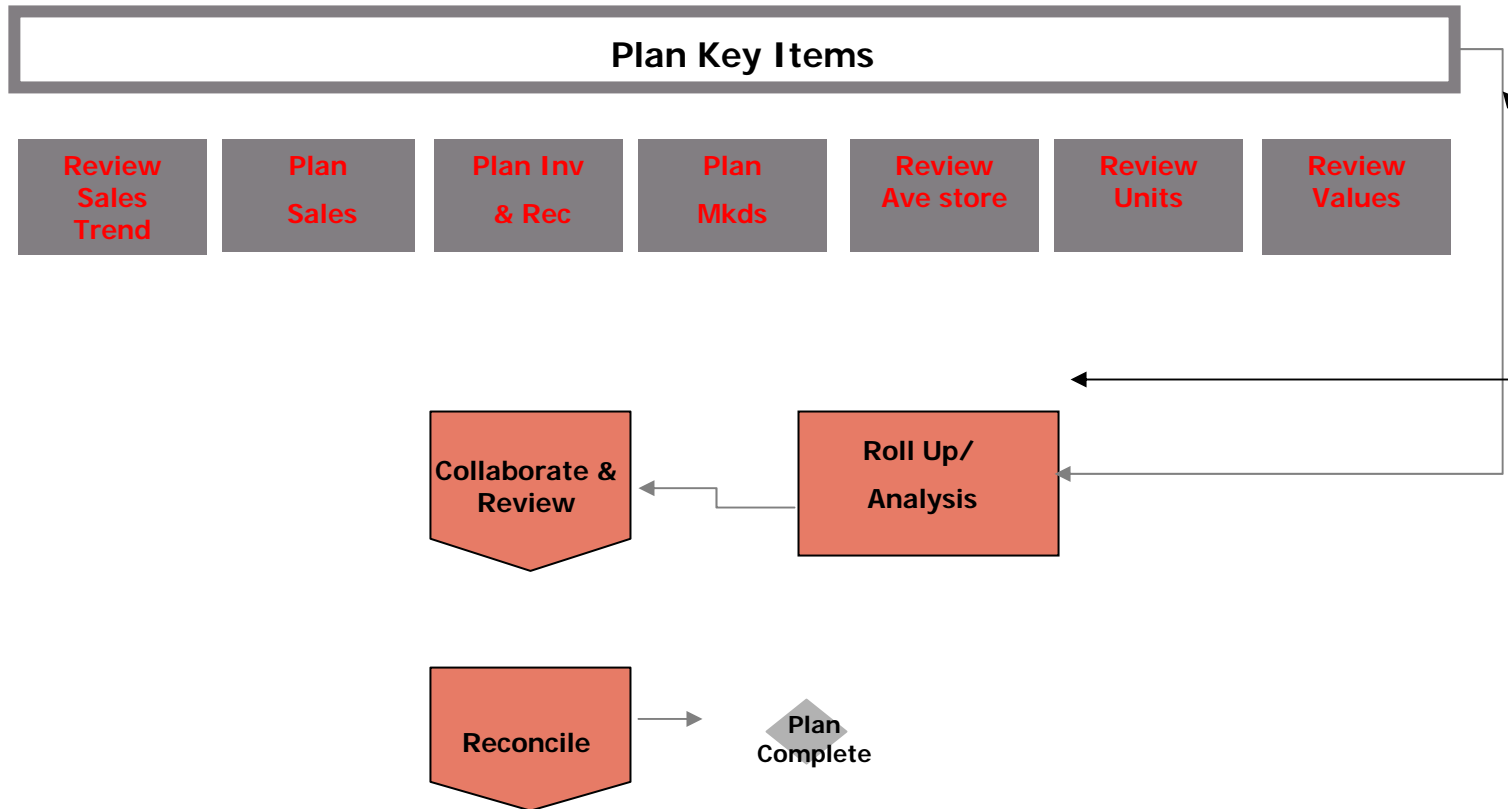
Item Plan Features

- Process driven
- Web enabled
- Collaborative
- Reconciliation with financial plan data
- Scalable
- View to marketing strategy and fixture fill
- Predictive “smart” sales demand forecasts
- In season “what if” scenarios

Item Plan Pre-Season Process

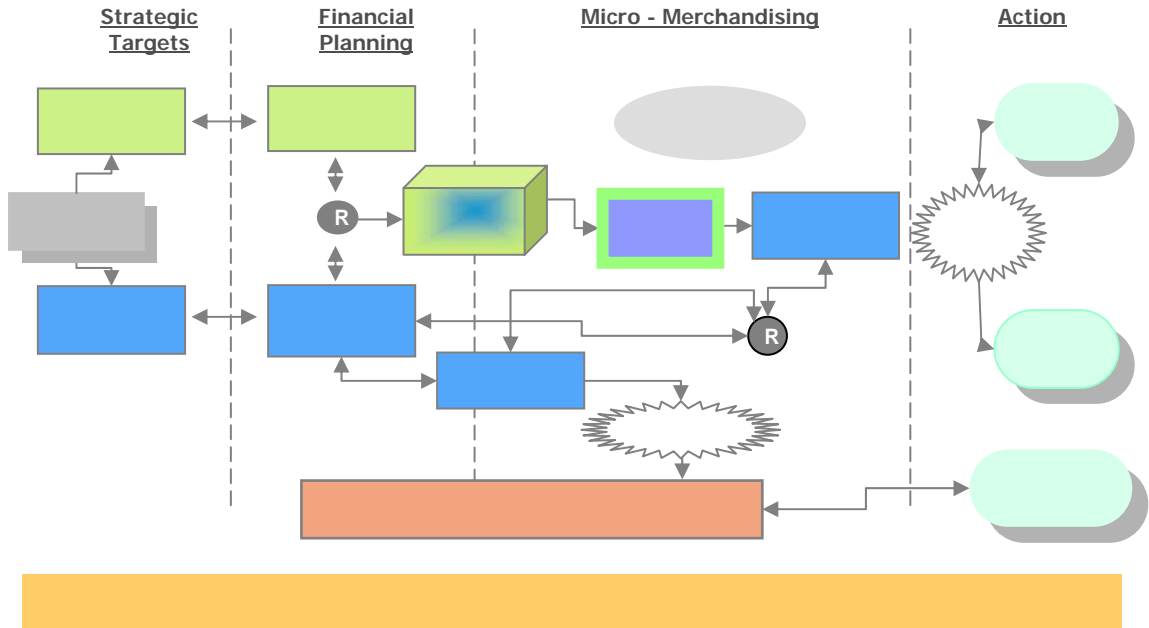


Item Plan In-Season Process



Planning Services Key Features

Predictive
Collaborative
Process Oriented
OTB Focused
Exception Based
Web Enabled
Scalable



Forecasting, Planning, and Replenishment

*Even the highest
level of
customer service
will not
overcome poor
merchandise
selection.*

Management Horizons

