BY JIM MALONE

Right Product, Right Price, Right Place

Achieve sales optimization with space planning and allocation tools

Smart retailers have always known that using "one-size-fits-all" averages to create assortment plans yields only average results. Ideally, retailers should treat every store in their chain as if it is the ONLY store in their chain, creating product assortments designed specifically to appeal to that store's customers, and making the best use of each store's physical layout to present those products in the most appealing manner.

The need to "localize" assortments and store layouts has never been more important than it is today. Consumers are entering stores well informed about products, prices and competitive offerings, and increasingly sophisticated mobile applications give them access to this information while they are walking the store aisles.

Yet retailers also now have access to more detailed information about their customers, which they can use to create customer-centric assortments in their stores. Space and assortment planning solutions help retailers create a compelling, competitive, customer-driven store.

ALLOCATION OPTIMIZATION

Localized consumer demand drives competition for retailers to optimize allocated assortments. An optimized assortment gives retail managers the power to visualize their products the way that consumers shop for them. Through the integration of product clusters into the merchandising and assortment planning processes, localized preferences become clear. Merchants can ensure that every assortment allocation corresponds to the specific sizes, colors, styles or brands that local customers demand.

The convergence of space and assortment planning can help to strengthen sales across a variety of retailers, helping them overcome traditionally weak sections of store plans.

An ideal assortment plan for any fashion retailer stocks the right size at the right store. The proper planning tools can generate accurate size profiles specific to each product and location. Smart retailers are taking advantage of size history to develop local seasonal size profiles preferences. They also can benefit from the ability to identify store groups with similar size demands, which leads to improved margins and increased sales.

Why not smarter assortments?

Taming complexity by adding intelligence to assortment & space planning

For retailers trying to achieve a localized, customer-centric assortment, what broad business/solution areas should be considered?

Retailers should not stop at understanding consumer behavior or space considerations in order to deliver localized assortments. They must also consider other areas such as forecasting and replenishment, with all merchandising systems fully integrated. On the front end, an accurate forecast must inform the assortment process. On the execution end, the assortments must be available to consumers when they walk into the store; allocation and replenishment systems must distribute the assortments intelligently to prevent stockouts and reduce excess inventory.

With many of the space and assortment planning solutions available today, which of these areas most often present challenges within a retail enterprise?

Many traditional solutions take a simplistic approach to consumer behavior, building assortments, and matching those assortments to space constraints. They often rely only on sales history as their starting point and don't adjust to what actually happens in-season. In the forecasting area, many solutions have proven unreliable in accurately predicting sales, particularly promotional sales, in today's constantly changing retail climate. On the replenishment end of the process, even the best assortment plan can be executed poorly, resulting in missed objectives, bloated inventories, and stockouts.

Many solutions provide levels of granularity all the way down to the SKU level and offer a multitude of possible attributes for each. Is this a case of too much information?

This is a major source of frustration for retailers. Their assortment, space, and replenishment solutions theoretically give them a very fine level of control, yet making decisions each week for tens of thousands of SKUs and hundred or thousands of locations is impossible. Ironically, this complexity is often addressed with crude, broad measures, such as A, B, C and D service levels based on sales. Fortunately, newer solutions, including those from Predictix, help business users manage this complexity. At the end of the day, business users want to set objectives, run "what-if" scenarios based on them, and let the system decide exactly how to set the millions of levers automatically.

With the ongoing economic uncertainty, retailers are trying to get the most out of their inventory investment. How can space and assortment planning solutions help?

By helping retailers ensure that the right products are stocked in the right quantities at the right stores. Without them, retailers can over- or underestimate demand, forcing them to carry more inventory than they need in some areas while suffering stockouts in others; this leads to higher supply chain costs with lower service levels, sales and margins. Space and assortment planning solutions, when coupled with the right intelligence around forecasting and replenishment, can directly address these problems. The right systems can also help retailers quickly and easily react to changes in demand.

How important is it for space and assortment planning solutions to take into account customer preferences and actions, and how do your solutions help retailers create more customer-centric assortments?

How customers buy, not simply what they buy, is crucial to creating effective assortments. For example, take two products that sell very well. Many solutions would suggest carrying both. The Predictix solution understands how the consumer buys – if one product were taken away, would sales suffer? Or would other products simply pick those sales up? Similarly, slow-moving products that might be dropped by a traditional solution are key because they may drive the retailer's image, traffic, loyalty and high margins. What impact would a price change have? Pricing changes the consumer's perception of the assortment; our solution takes all of this into account.

locally, based on numerous tailored sales history reports and analysis.

Effective assortment management also requires a comprehensive profile of each store's physical environment—its selling and stocking space. Efficient space planning enables the maintenance of exact dimensions, types and product capacity of store fixtures. These extensive analysis capabilities will eliminate inaccurate assortments, optimize inventory levels and maximize selling-space effectiveness.

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CONVERGENCE OF ASSORTMENT AND SPACE PLANNING

Many types of retailers can benefit from the convergence of effective assortment and space planning. Key tools can facilitate the creation of product assortments by brand to fit into predetermined space plans. Besides improving merchandising aesthetics, these solutions help match merchandise strategy with the way that consumers shop—by brand, flavor, product complement or any other key product attribute.

CASE STUDY: Localization to Match Customer Demand Solves Business Challenges

A $1 BILLION RETAILER found that inventory and sales data resided in multiple systems, and merchants had to export the data into spreadsheets to filter it into meaningful reports. The time-consuming process delayed critical management meetings as well as store-level executive merchandising decisions.

The merchants only had visibility to unit sales and inventory; they had no visibility to sales, markdowns, receipts, on-order and inventory at the retail or cost levels. Because of the time-consuming aspect of gathering data for the weekly reports, they were only able to create Open-To-Buy (OTB) reports once a month and it was at the Department/Class/Chain level. Their assortment plans were created in spreadsheets at the chain level, with no visibility down to the cluster or store level.

Every store received every style, with differing quantities based on volume clusters. Quantities to purchase were determined by a standard sell-through percentage applied to all styles. The reporting was only at a high level. Each merchant created their own reports in individual spreadsheets, resulting in no consistency in reporting style or metrics. The general merchandise manager manually linked each Excel assortment plan in order to get chain level totals.

SOLUTIONS

The company installed a new retail planning suite from 7th Online, Inc., that included In-Season Merchandise /Assortment Planning and a financial planning element.

With these tools, they were able to:

- Leverage multiple sources of data into one system
- Have complete visibility of each merchant's plan
- Create visual assortments down to the store level systemically
- Create localized assortments down to the door level
- Build a bridge between cost, retail and units at all levels of the planning hierarchy
- Drill assortments and OTB opportunities down to store category level
- Begin the weekly OTB analysis earlier
- Have visibility to OTB at store category level
- Use an internal forecasting algorithm to help project future store demand in advance up to 24 months
- Have the ability to create standardized reports (through the internal BI reporting tool) for all merchants to analyze their business

MAJOR BENEFITS

- The company was able to move from a reactive to a proactive buying model, with stronger transparencies between ownership of inventory and store demand.
- The system allowed them to fine-tune product margins and profits using system-generated, demand-driven store assortments.
- The company continues to see benefits in improving inventory turnover, higher dollar per square foot sales and higher gross margins on products sold.

As examples like this show, every retailer must effectively plan and execute unique store-level assortments that match local consumer demand. Improved sales by the aforementioned company show that localization of assortment to match customer demand solves several key business challenges. The building of intelligently seeded assortments with business drivers (e.g. Target Stores, Lifecycle, Sales Potential, Distribution Constraints, etc.) can automatically generate store plans that aid management in determining and incorporating promotional/markdown strategies within their assortments.

Space Planning: The Final Frontier

The need to complete the Advanced Planning Execution Cycle with Merchandise, Store, Space, Assortment, and Demand Planning.

Q Which analytical/business intelligence capabilities are most important for a space and assortment planning solution to offer retailers?

A BI tool that easily integrates the space planning results and creates accurate capacity plans to be used for assortment planning is most important. If a store has small square footage but does high volume, this information must be translated and used so that a planner can determine a tighter assortment based on the smaller space and still purchase enough inventories to support the higher volume. Depending on which type of space planning tool used, it can drill down to the fixture type level and use the product physical dimensions in calculating units needed. The assortment plan then needs to be built around the quantities that fit the space but also produces the company sales and margin targets.

Retailers are seeking to integrate their space and assortment planning systems with other systems and departments within their enterprises. How important is it to integrate with the merchandise planning system?

The results from space and assortment planning should be tied directly into the Order to Buy and used to plan accurate ending inventories. If not, there is the potential of having too much or too little inventory that is only based on product planning. If implemented correctly, the company will be executing both as a product-driven and customer-driven retailer. This has been the missing ingredient to the merchandise planning process that is now being supported by new systems that will integrate all these processes. Merchandise planning should use the results gained from merchandise, location, space, assortment and demand planning.

How important is it to integrate with the supply chain systems?

Assortment planning revolves around the start of each floor set or the beginning of each new presentation that the customer experiences such as back to school, holiday, summer, etc. The on-orders must be planned across the merchandise divisions in conjunction with the supply chain system for a coordinated execution. The supply chain needs to use all this information to be able to properly coordinate delivery schedules and Product Life Management. The execution of an assortment is orchestrated not just with merchandise, location and assortment planning, but with supply chain, marketing and advertising efforts.

How important is it to integrate with the logistics/store replenishment systems?

With the results from merchandise, assortment and space planning, quantities are bought to support the sales plan. Reserve quantities are also bought and a timely flow of merchandise is planned and executed. This information is used in the store replenishment system. Initial quantities, maintained inventory levels and model stock targets are all used. The life cycle portion of the assortment plan will be used by the store replenishment system to accurately flow merchandise into the stores maximizing their sales and margins. Warehouse quantities, flow timing and planned store receipts are all outputs from space and assortment planning that many areas of the business will need to know in order to properly execute.

Can space and assortment planning solutions help retailers perform clustering at the level of departments?

When space planning is executed correctly, the output will be categories of clustering that will be used in allocation up and down the product hierarchy. The clustering categories are based on the sales potential quantities needed to be purchased, another based on space or store capacities used for the merchandise assortment setup, and other clusterings for the replenishment quantities to keep the shelves filled to the planned levels. The quantity purchased will be to support the sales plan, but the quantity sent to the stores will support not only sales potential but also each of the stores' capacity space plan.

The convergence of space and assortment planning can help to strengthen sales across a variety of retailers, helping them overcome traditionally weak sections of store plans. For example, the grocery retailer tends to utilize space planning and management more than assortment planning. Through the combination of these tools, grocery stores can build more effective space assortments, like placing multiple sizes of both brand name and private label cereals together on the shelf to enhance the sales of each.

Conversely, fashion retailers traditionally favor allocation planning over space management. Their assortment plans utilize brand, style and size, while also finding the ideal physical location within the store to enhance the sale of the product, based on traffic flow.

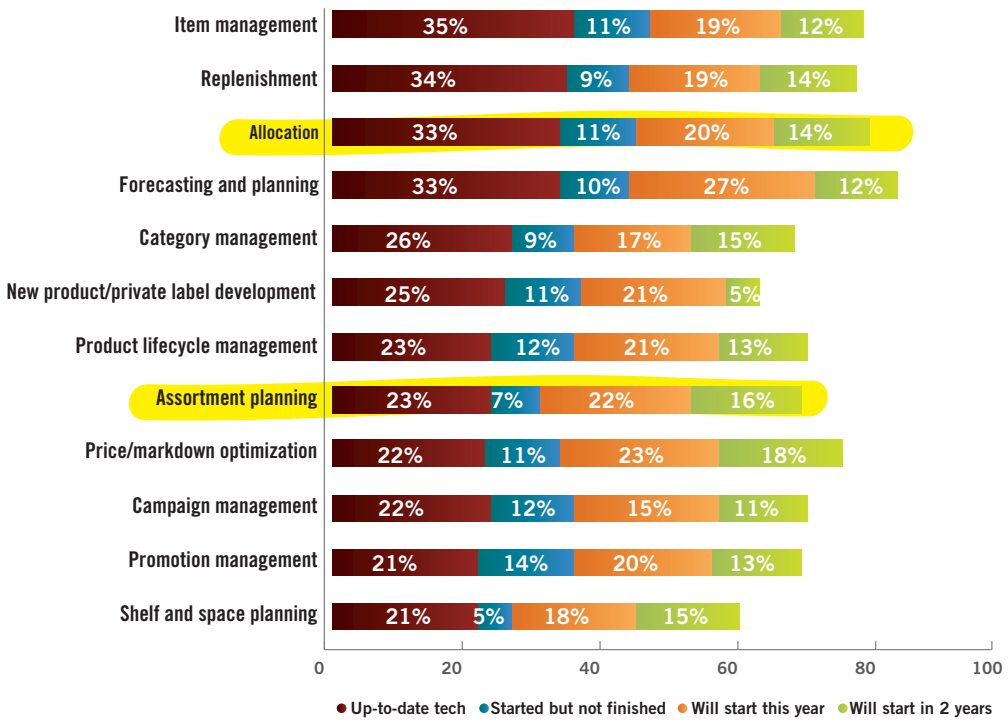
In order to determine the profit-maximizing merchandise mix for each location, retailers must consider vast amounts of dynamic demand and supply information, product/location attributes, historical performance, current trends, and strategic and financial objectives. The necessary information often resides on disparate systems or spreadsheets, and decisions involve input from multiple parties across various business functions.

Intelligent assortment planning applications provide a platform to coordinate, analyze, and share this dynamic information in real time, and translate it into optimal merchandise plans and localized assortments—style/color/size by store by week.

The forecast-driven system helps the merchant intelligently seed assortments based on defined demand drivers, promotional/markdown strategies, historical performance and product/location attributes. Management has complete visibility into all planning activity to ensure that plans align with corporate objectives and take advantage of opportunities as they arise.

A solid planning and allocation solution integrates both the art and science of merchandising in a user-friendly environment that facilitates merchant usability and adoption. **RIS**

MERCHANDISE MANAGEMENT TECHNOLOGIES



Source: RIS/Gartner 2010 Retail Technology Study

More than one-third of retailer respondents to the 2010 RIS Tech Trends Study intend to start Allocation or Assortment Planning initiatives within the next two years.

Jim Malone is a Project Director with Tech Global Partners. He has over 35 combined years of experience working in the retail management and retail technologies industries. During this time, he held several merchandise management positions with large regional department stores and also with a major technology solution provider. To find out more go to ***www.techglobalpartners.com****.*

Each Customer Counts - Localizing Assortments

How Planning Systems Blend the Creative with the Scientific

Q Retailers are seeking to use multiple data sources to "feed" their space and assortment planning systems. What kinds of external data are most important for a retailer to create a localized, relevant assortment?

Optimizing an assortment requires connecting all types of data, internal and external. It's imperative to understand data factors such as local performance and demographics, climate patterns, the proximity of key competitors and more. A sophisticated assortment planning system uses these data to help retailers pinpoint specific types of merchandise with targeted store groups that cut across the typical performance groups. An assortment planning solution that allows quantifiable data--and informal/anecdotal data--delivers crucial insight into local trends and opportunities not revealed by statistical data.

What kinds of internal data are most important for a retailer to create a localized, relevant assortment?

Any quantification of the assortment should be grounded in performance metrics and the Average Sales per Store (APS) for an item. It's the acid test of sales capabilities. APS operates at the lowest common denominator, allowing users to "what-if" the assortment plan from several directions simultaneously. Users can change store distribution, duration of peak selling and sales velocity, and still retain the same base data. APS also factors in square and linear space, GM, item display density, location attributes, product attributes and more. This combination generates a balanced assortment.

Which analytical/business intelligence capabilities are most important for a space and assortment planning solution to offer retailers?

The assortment planning process is a highly creative activity that doesn't respond well to fixed boundaries so any solution must be flexible enough to handle all levels of plans and dimensions for different types and sizes of retailers. Solutions must also include strong store clustering capabilities, i.e., incorporating location attributes into a multi-leveled, multi-dimensional matrix. This allows localizing assortments without needing store-specific assortments, which is impractical for chains with 100+ stores. Every retailer needs a solution that gives them adaptable, easy-to-use metrics and calculations that don't require a call to the solution provider.

Can retailers use a space and assortment planning solution to create/modify store clusters based on a variety of criteria (geographic location, urban vs. rural, customer demographics, etc.)?

Yes, and they must do this or they are just perpetuating performance-based grading. Effective store clustering is essential within a solution, and it should accommodate multiple and different criteria but also remain easy to execute for users. Ultimately, a solution must manage matrix and multi-tiered clustering and balance that with sophisticated number-crunching and ease of use. These days, traditional methods of sales rankings based on historic performance are not enough.

How can space and assortment planning solutions best be used to create more localized, relevant product assortments?

A solution must advance a retailer's visibility and profitability by delivering more localized, relevant assortments. For example, in apparel, assortments must be fresh each month and the retailer needs to continually assess the strength of the presentation, per location and from the customer perspective. The core value of an assortment system is its ability to continually correlate creative planning approach with chainwide financial performance. It gives retailers a clear-cut path to customer-centric retailing and does so profitably.

Stuart Aldridge is chief marketing officer at Maple Lake Ltd., a privately held company that develops assortment management and allocation planning software for retailers worldwide. The company's customers represent 10,000-plus retail locations, including adidas Group, Aeropostale, Arcadia Group, Barneys New York, Columbia, Levi Strauss & Co. and Steve Madden, among others. The company is based in Markham, Ontario, Canada. For more information, visit www.maplelake.com, or call (905) 513-7480.

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