



QUICKBORN
CONSULTING

YOUR RETAIL PARTNER



Improved Retail Performance through Merchandise Planning Solutions



EXECUTIVE SUMMARY

The Demand to meet changing business needs is greater than ever; retailers are continually required to adapt, innovate and react. Increased competition, commodity price volatility, evolving consumer preferences and a multitude of channels to interact with customers are forcing retailers to think and execute new business strategies for growth and profitability. Putting in place the right business processes and deploying the right technology solutions can help retailers to improve their bottom-line.

Retail is a data-intensive industry, and to take advantage of the abundant data, to operate and to manage the business better requires analytics. In order to satisfy the needs of the customers and to be profitable, having the right product at the right place at the right time and in the right amount is crucial. The capacity to measure consumer needs and the ability to understand the buying process, along with the awareness of products sales across channels and stores is necessary.

Merchandise planning is an incessant struggle to balance the trends of the merchandise and stores while meeting the financial objectives of the company in efforts to maximize profits and drive improvements. The process of merchandise planning enhances the possibility of increased stock turns, thus capacitating higher sales with lower capital investments. By creating an effective merchandise plan retail companies can find the optimal balance between sales and inventory; maximizing sales opportunities and minimizing losses from excessive mark downs and out of stocks.

In most cases, poor merchandise decisions lead to lower revenue and gross-margins, lower sell-thru and high levels of inventory at low service levels. Merchandising software reduces – or in the best case eliminates – guesswork, helping retailers to plan and execute merchandise operations, including deciding which items to stock, where to stock them, when to promote them, and how to price them by utilizing sophisticated mathematical models and optimization routines to create intelligent estimates of future business opportunities. Analytical tools help retailers see the impact of their decisions to better plan future merchandising strategies.

This white paper aims at illustrating:

- ***How merchandise planning solutions can help retail organizations to make better decisions faster delivering major financial benefits***
- ***What types of retail merchandise planning solutions are available and how to choose the optimal solution***
- ***What are the business, functional and technical prerequisites of implementing retail merchandise planning software***
- ***How to guarantee the merchandise planning software implementation success and how to select the optimal integrator partner***



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1. Introduction to Merchandise Planning

Retail is a data-intensive industry, and to develop or transform retail supply chains so that they realize their full potential requires analytics. Analytics has become one of the most powerful tools available to retailers, and is being used for a broad variety of purposes. One of these is the merchandising planning operations, on which this whitepaper focuses on.

Merchandising is one of the most integral and challenging functions within the retail company. Retail merchandising consists of the planning, buying and selling of merchandise. In order to satisfy the needs of the customers, having the right product mix at the right place at the right time and in the right amount is crucial for the retailer in order to maximize profitability. To enable this retailers need to optimize each of these aspects. The merchandise assortment that the retailer has on offer in the store plays a crucial role in determining whether the purchase will or will not be made by the customer. Planning is required since the merchandise to be sold in the future must be bought in advance.

Merchandise planning can be defined as the process of setting and maintaining future performance objectives for sales, inventory and other financial metrics and tracking actual results and variances in the achievement of these objectives. Planning decisions are based on historical trends and management insight into expected future demand changes.

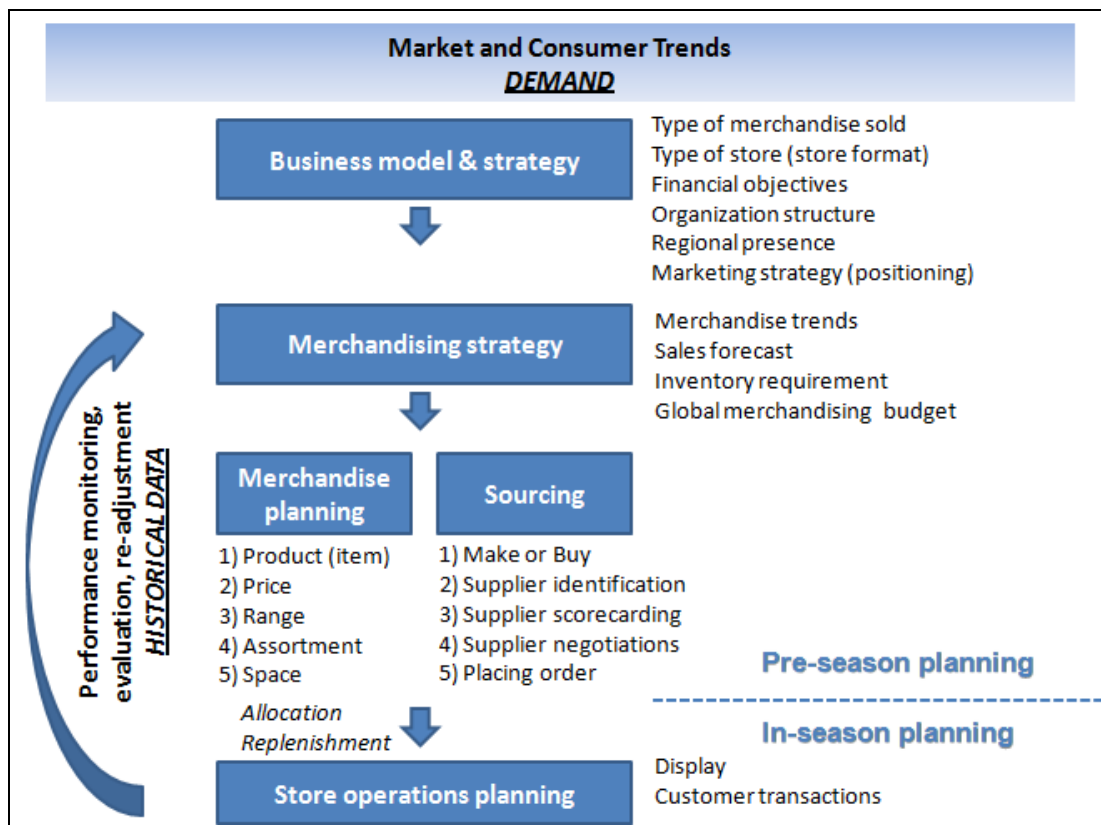
Analysis is the starting point of merchandise planning; the retailer's business model naturally being the strategic starting point of the analysis. An understanding of the consumer needs, behavioural patterns across seasons/regions and buying process is necessary as well as which products are actually selling and where. This requires analysis of past sales and changes in the market environment and consumer trends. Merchandise planning is a struggle to balance the trends of the merchandise and stores while meeting the financial objectives of the company in efforts to maximize profits and drive improvements.

Merchandise planning benefits the retailer as it enhances the possibility of having the right assortment of goods with the adequate amount of depth available at the stores where it is needed. The process of merchandise planning enhances the possibility of increased inventory turnover, thus releasing important working capital. By creating an effective merchandise plan retail companies can find the optimal balance between sales and inventory; maximizing sales opportunities and minimizing losses from excessive mark downs and out of stocks.



Two main steps enable a retailer to optimize its merchandise planning process:

- **Step 1:** Developing a sales forecast and thus determining the inventory needs of the product or category. Forecasting will answer questions such as which products should be purchased and what price should be charged. Forecasting components include past demand, lead time involved in the product supply, merchandise trends and market environment impact (consumers, competitors, suppliers, ...)
- **Step 2:** Determining the merchandise requirement, including the creation of the merchandise budget and the assortment plan, either top down or bottom up. The merchandise budget is a financial plan indicating how much to invest in product inventories.



The overall merchandising strategy involves:

- Establishing performance goals and budget
- Deciding on the basis of demand trends which merchandise should be given emphasis
- Analyzing historical performance of each product category. Establishing sales forecast and inventory requirements
- Allocating assortments for the coming season merchandise categories



There are many factors that affect the merchandise planning function, such as the size and structure of the organization, the type of stores, the type of merchandise sold and the demography of the region in which the retailer operates.

The type of merchandise sold completely changes the way of how the merchandise planning is executed. For the purpose of planning the merchandise is split into categories. The categories are managed by purchasers and merchandise planners, as well as vendors. When forecasting sales, retailers should identify the stage of the lifecycle of the specific category, and should also determine whether the merchandise category offered is a basic item (staple), a fashion item (fad fashion, classic fashion) or a seasonal item, and to plan merchandising accordingly.

Staple merchandise, also called basic merchandise, is in continuous demand over an extended period. This includes most merchandise in grocery stores, such as milk, bread or canned soup, or basic merchandise in apparel stores such as white T-shirts. Basic stock lists for staple merchandise specify inventory level, color, brand, style, category, size, package etc.

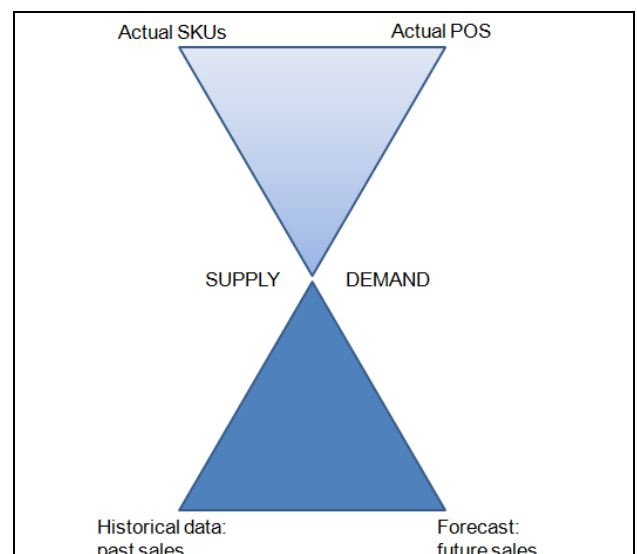
Seasonal merchandise: Products that sell well over nonconsecutive time periods, such as ice cream, barbecue products or Easter eggs in grocery stores.

Fashion merchandise refers to products that may have cyclical sales due to changing tastes and life-styles. Product lines, styles, designs, and colors are projected.

Fashion merchandise can be split in two sub-categories: Classic fashion items and fad fashion items.

- **Classic fashion** refer to items that have been around for a long time or come back in style over and over again (polo shirts, flower prints, navy blue blazers etc.).
- **Fad fashion** items refer to an intense but short-lived fashion, usually on one-time only basis (acid washed denim, skinny ties, huge shoulder pads etc.)

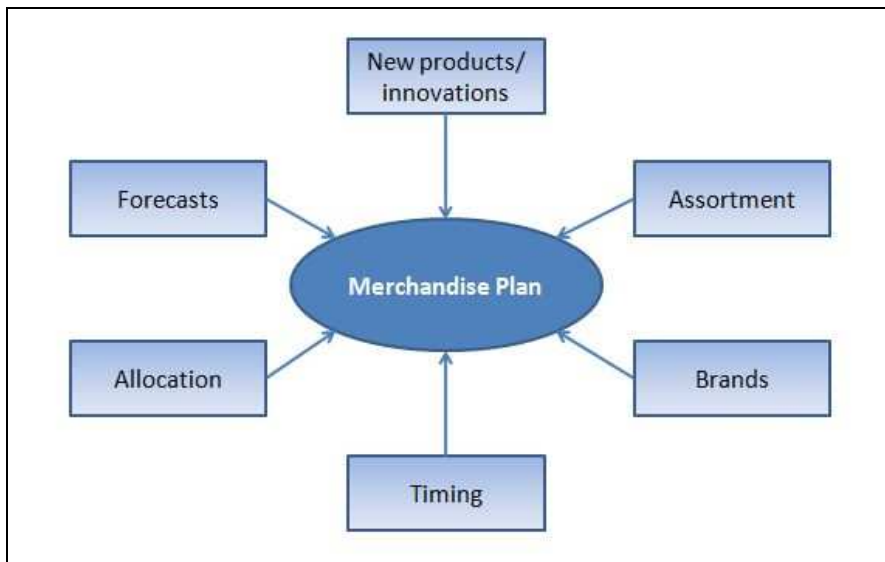
Staple merchandise have a predictable demand, a history of past sales and can be forecasted with relatively high accuracy whereas short lifecycle fashion merchandise have an unpredictable demand, limited sales history, and hence forecasting sales and estimating Stock Keeping Units (SKU) accurately needs sophisticated technology and business insights.





Generally, fashion retailers need to predict fashion trends several seasons in advance based upon lead times and range mix. Seasonality and planned life cycle play an important role in ensuring that fashion products are sold on time, with appropriate regular price sell-thru and properly managed markdowns and promotional activity.

Since the arrival of fast fashion, fashion retailers have an increasing pressure to get collections to market faster while making sure that the products fit to the consumer needs. Designs now move from catwalk to stores in the fastest time to capture current trends in the market. Collections are designed and manufactured quickly and cheaply to allow the mainstream consumer to take advantage of current clothing styles and most recent fashion trends at a lower price. For the best-of-breed fashion retailers, this lead time might be as short as few weeks from design to store.



Merchandise Financial plan tells the buyer how much to spend on each category every month / season. Once the merchandise plan is set, the buyer/planner can set the assortment plan. In parallel the buyer engages in vendor negotiations. The financial plan will be broken down into how many of each item needs to be purchased and how to allocate them to stores.

At the store level it is critical to manage SKU proliferation and high inventory levels against stock outs and poor shopper experiences as a result of empty shelves. Shelf space must be optimized to maximize sales potential, ensuring an adequate stock turn across all stores and individual departments. Merchandise and assortment planning are two closely linked processes that can help to overcome these challenges, resulting in improved sell-through of products, by having optimal days of supply, higher margins and ultimately higher bottom line.

The products sold at the stores have an impact on all other functions and therefore the merchandising planning function can never work in isolation. In order to succeed the



merchandising planning process must provide clear structure and collaboration across multiple functions, coordinate different departments (financial/product/channel) so that all functions are streamlined and work towards the same company objectives.

2. Merchandise Planning Software Solutions

Why to implement Merchandise Planning Software?

Merchandise planning can and should be a precise science. In most cases, poor merchandise decisions lead to lost profits. Merchandising software reduces – or in the best case eliminates – guesswork, helping retailers to plan and execute merchandise operations, including deciding which items to stock, where to stock them, how to price them and when to promote them. They also help retailers recognize where and under what conditions given items sell best. Analytical tools help retailers see the impact of their decisions to better plan future merchandising strategies.

Retail margins have become ever tighter, forcing retailers to optimize every aspect of their business. Overstocks and back orders are sources of margin erosion that retailers are aiming to eliminate with merchandising software.

As retailers generate more and more sales outside of the traditional brick and mortar stores, inventory control and merchandising management have become even more complex. Multi-channel retailing has radically changed consumer profiles and demand preferences, making it even more important to understand consumer demand and being able to localize assortments. More effective analytical tools have become necessary enabling retailers to plan merchandise offerings and prices effectively across multiple channels.

Retail merchandise planning software makes the merchandising process easier. These software solutions support the retailers' need to create merchandise financial, item, assortment, category, space, replenishment and allocation plans, providing retail sector - specific, science-based decision support and profit optimization by utilizing sophisticated mathematical models and optimization routines to create intelligent estimates of future business opportunities.

Depending on the needs of the company and the sophistication of the software solution supporting the process, merchandise planning occurs at various levels along three dimensions:

- Product: item, style, sub-class, class, category, department, division, channel, company
- Location: store, district, region, country, division, banner, chain, channel
- Time: week, month, quarter, season, year



At each intersection of these dimensions there exist a number of variables such as sales, inventory on hand, receipts, markdowns, gross margin, stock turn and so forth. Not all of the variables are appropriate in all intersections. Moreover, multiple versions of plans, such as original plan, current approved plan, what-if plan, this year's plan, last year's plan etc. exist to support the measurement of actual figures compared to set performance objectives.

What are the benefits?

A properly implemented merchandising planning and optimization system should yield a number of benefits such as:

- **Increased revenue.** The primary objective of every retailer is increased revenue. Analytical merchandise planning tools provide insight on which items should be stocked, in what sizes and colors, at what quantities, in which stores? How, where and when should products be displayed, priced, promoted? Better understanding of consumer demand help to maximize sales opportunities by increasing sales of the best-selling products, preventing overstocks of products that move slowly, and minimizing losses from excessive mark downs and out-of-stocks.
- **Optimized inventory.** Analytical tools offer important insights to consumer demand enabling more accurate merchandise decisions. Insights to, for example, which products are selling the best and in which locations, how do the product sales vary in different seasons, what sizes/packs of a product must be stocked at a location and which product mixes work the best in maximizing cross-sales help retailers in optimizing their merchandise decisions and having the right assortment of products on sale with the adequate amount of depth available at the stores where and when it is needed.
- **Improved Service Levels.** Reduced out of stock situations shows as more satisfied customers. Having the ideal product assortments to match customer needs also ensure a more consistent shopping experience and happier customers.
- **Improved efficiency and productivity.** Formal merchandise planning software saves time in data preparation and from performing redundant tasks in spreadsheets and other programs, allowing merchandising planners and buyers to focus their activities on more productive tasks. Properly implemented merchandise planning system provides centralized decision making support, facilitates collaboration across departments and provides category managers, planners and buyers with access to a common view of information and performance measures across the retail organization enabling also better visibility of plans and tracking of business processes.



How to chose the optimal solution?

When deciding upon which kind of retail merchandise management and planning software to acquire, the following points should be considered:

1. **Business needs and objectives:** Does the solution support our business model and business processes? Does it fit our channel strategy? Does it provide reliable planning support for the products that we sell, taking into account their specific demand patterns? *(see also point 5)*
2. **Organization structure:** Does the solution fit to our organization structure and size? Can the solution be extended to new geographical locations?
3. **Budget available:** What is the budget we are able to allocate to acquiring and maintaining the solution?
4. **Existing applications:** How does the solution fit to with the footprint of our existing applications? How complex is it to integrate the solution with our existing applications?
5. **Functionality:** Does the solution functionality fit to our business requirements? Does it incorporate the best practices in our industry? A fashion retailer could for example ask: is the system capable of handling the complexities of non-foods, such as color, size, and style as well as lead-times of many months? Is the solution modular, does it allow customizations, configuring a business process based on our unique business needs, for example for pre-and in-season planning processes, inventory execution etc.? How complex is the solution to operate (ease of use) and would it be adopted by the end users? What is the roadmap for future enhancements and features?
6. **Maintenance:** What kind of maintenance does the solution require? What is the estimated cost of maintenance? Who will be in charge of maintaining the system?

Buyers of merchandise management software will essentially have two options: implement a best-of-breed package or a complete retail suite. Best-of-breed merchandising software solutions might better match the particular needs of the retailer, but the integration with the retailer's existing applications is challenging. Integrated solution suites reduce this challenge, but might be more costly and potentially more complex to implement. The decision also comes to best practices incorporated in the application.

Moreover, many forward-thinking businesses want their different applications to be able to "play together" so that new applications and businesses processes can be quickly assembled to increase market competitiveness. Service-oriented architecture (SOA) and the ability to integrate applications together based upon web services is one important element to consider with the objective of improving a business's ability to respond to changing business conditions. When evaluating merchandise planning and optimization software, retailer should look for flexible enterprise architectures and think carefully about how the application can interoperate with other systems.



3. Prerequisites of implementing merchandise planning software

Merchandise planning and optimization solutions – regardless of the particular application used – operate on the basis of analytics. Therefore the first key prerequisite is of course **DATA**. Analytics cannot be done without somewhat clean, high quality, integrated, and accessible data. When there is no historical data available qualitative methods are used. These are highly subjective in nature involving expert judgment.

Retailers have a huge amount of data available from point-of-sale (POS) transactions, customer loyalty programs, enterprise resource planning (ERP) and other business applications, websites and platforms. In order to implement merchandise planning and optimization software, this data must be accessible to the analytical tools in a form of a data warehouse for the key analytical applications to draw from.

Large and varied data sources provide new opportunities for improving customer relationships through analytics. Having multiple data sources is highly beneficial providing a diverse dataset for analytics enabling more accurate analytics and more actionable and powerful decision insights. However, a massive amount of data and data sources becomes an issue in case of a lack of proper data warehousing system. Data silos created by the data warehouse structure can restrict the applicability of analytics. Data identification and cleansing become difficult when several data sources with different formats exist. Therefore, implementation of a proper data warehousing system allowing the extraction, transformation and interaction of data across modules is highly recommended.

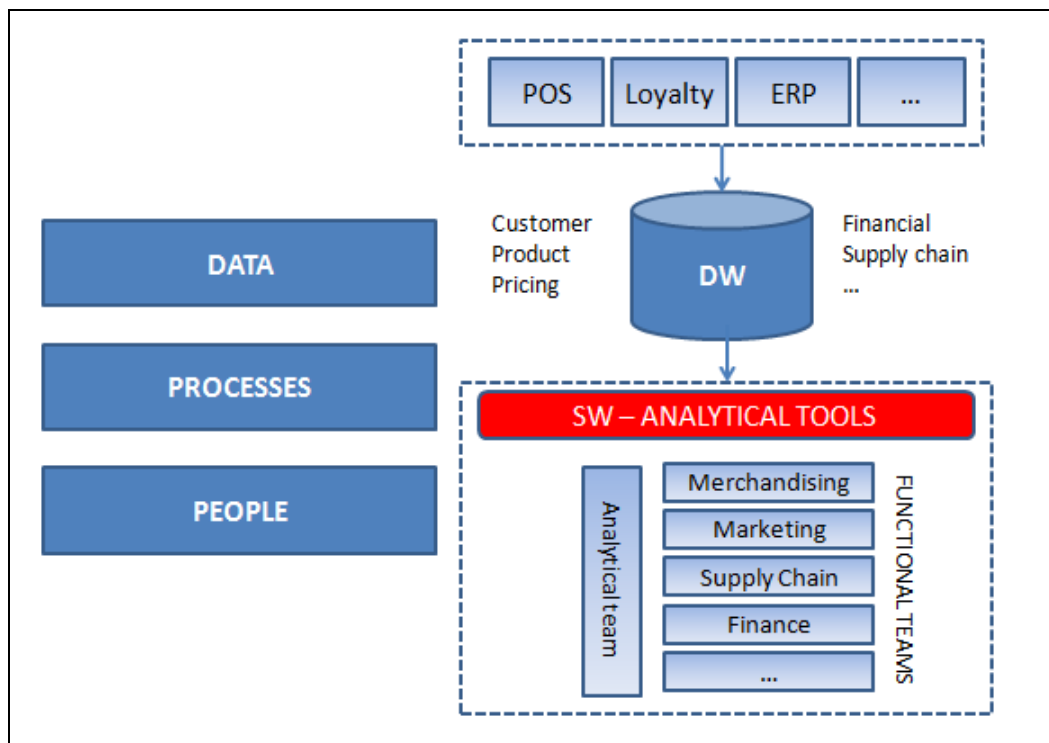
In the best case the data warehouse can be enterprise wide including customer, product, pricing, supply chain, and financial data, enabling to inter-relate key data across functions.

In traditional retail businesses plans are often created in isolation, resulting in several versions of the same data existing at one time. Plan data should be integrated, so that, for example, the sales and margin forecasts in the financial budgets would be sourced from the merchandise plan.

Another key prerequisite is **PEOPLE**. Retailers are increasingly managing their own product categories, optimizing their own assortment and shelf space, and monitoring the lift of their own promotions. The effective use of analytics in retail depends not only upon the availability of data and analytical tools, but also upon the ability of retail managers and employees to use them effectively. Retailers are employing a variety of methods to improve the number and capabilities of analytically-oriented personnel in their organizations as well as using external partners to support the process. In order to succeed the management of the retail organization needs to have an interest in building up their analytical capabilities.



A related prerequisite is related to organization structure and **PROCESSES**. Most analytical initiatives have grown up in particular functions or departments, such as merchandising, marketing, or supply chain. They have their own data, analytical people, and software tools. In order to forecast consumer demand more accurately, there is an increasing need for analytical initiatives and applications to be integrated or at least coordinated. Price optimization, for instance, affects assortments, supply chain, marketing, and financial processes. In order to facilitate this integration, retailers are forming centralized groups and functions to manage analytical projects and to coordinate the management of enterprise data warehouses and analytical software. When there exists a centralized activity and bottom-up empowerment of stores and regions in parallel, a considerable coordination is needed regarding who is taking on what responsibilities.



When the necessary data foundations, people and processes are in place, the analytical tools to support merchandise planning and optimization can be properly implemented.

4. Choosing the right implementation partner

Retailers often lack the capabilities to do all the analytical and technical work necessary in merchandise system implementations. They might lack the necessary expertise in the application to be implemented, how it will affect the existing business processes and IT



foundations, for example, relating to the data integrity and transaction flows with the existing business applications and legacy systems. Making sure that the technical foundations are in place is crucial before starting the implementation project. If the retailer would, for example, need any new functionality for the software, the platform should be easy to build upon.

Not much different from a "standard evaluation process", there are factors to consider when choosing the integrator partner for merchandise planning and optimisation solutions, such as:

- **Business expertise in the sector of activity** (retail business process knowhow and best practices, retail industry/sub-sector adapted methodology ...)
- **Technical expertise in the specific application area** (specialty and capabilities in applying specific products and integration techniques)
- **Proven integration experience** (relevant customer references and successes)
- **Proximity of the service provider in terms of geographic location** (in case distance is a factor influencing the services the integrator provides)
- **Project management and other relevant skills** and experience levels of the integrator's representatives
- **Future potential** (building long-term strategic partnership)

In addition to the immediate needs, the retailer should also consider the future potential and trajectory of capabilities needed over time. Some partners might suit better for building short-term and others long-term capabilities.

5. Why to partner with Quickborn Consulting

Quickborn Consulting LLC implements, integrates and supports retail merchandising, planning and optimization solutions. Since 2003, our deep retail industry business process knowhow, best practices, adapted methodology, proven delivery methods and unparalleled technical expertise have enabled us to deliver our customers the most adapted solutions and support in the deployment of global retail projects.

We have developed a unique Retail expertise by supporting global organizations in all retail sectors (fashion, department store, electronics, DIY, food, fuel and convenience ...) in a wide geographical area: Europe, USA, Africa, Middle-East... We support our customers in their IT transformation programs to improve their performance and increase their competitiveness.

Quickborn Consulting has local presence in USA, France, Germany, Hungary, Ireland and India, and is present globally through its international network. Our teams across multiple locations in the Globe enable us to provide our customers with system monitoring and support 24x7 and service in multiple languages.



SEVEN OFFICES IN SIX COUNTRIES:



OUR AREA OF ACTIVITIES IS GROWING ON A GLOBAL SCALE:

HUNGARY
FRANCE

IRELAND
NETHERLAND

ITALY
UK

CROATIA
USA

DUBAI
GERMANY

QATAR
INDIA

IMPORTANT FACTS:

8+ YEARS SINCE
ITS CREATION

A TEAM OF EXPERTS SPECIALIZED
IN THE RETAIL SECTOR
AND SOFTWARE TECHNOLOGIES

MORE THAN 50% OF
GROWTH SINCE 3 YEARS

Our mission is to provide the highest quality expert consulting, system implementation integration and technical support services.

Our commitments:

- **High-quality:** Great care and attention is given to all deliverables that Quickborn professionals present to clients and customers, all having to pass a rigorous quality assurance process built into the delivery engine Quickborn uses day-to-day.
- **Flexibility:** Utilizing multi-national reach and diverse resource centers, Quickborn is able to provide both high quality and expert in-depth knowledge at short notice and in a wide range of content.
- **Expert service and support:** Our professionals are well trained with in-depth knowledge of their respective areas of expertise and are deeply motivated to provide services to their utmost ability and knowledge.

Our Planning and Optimization Solutions consulting and service practice provides the following services:

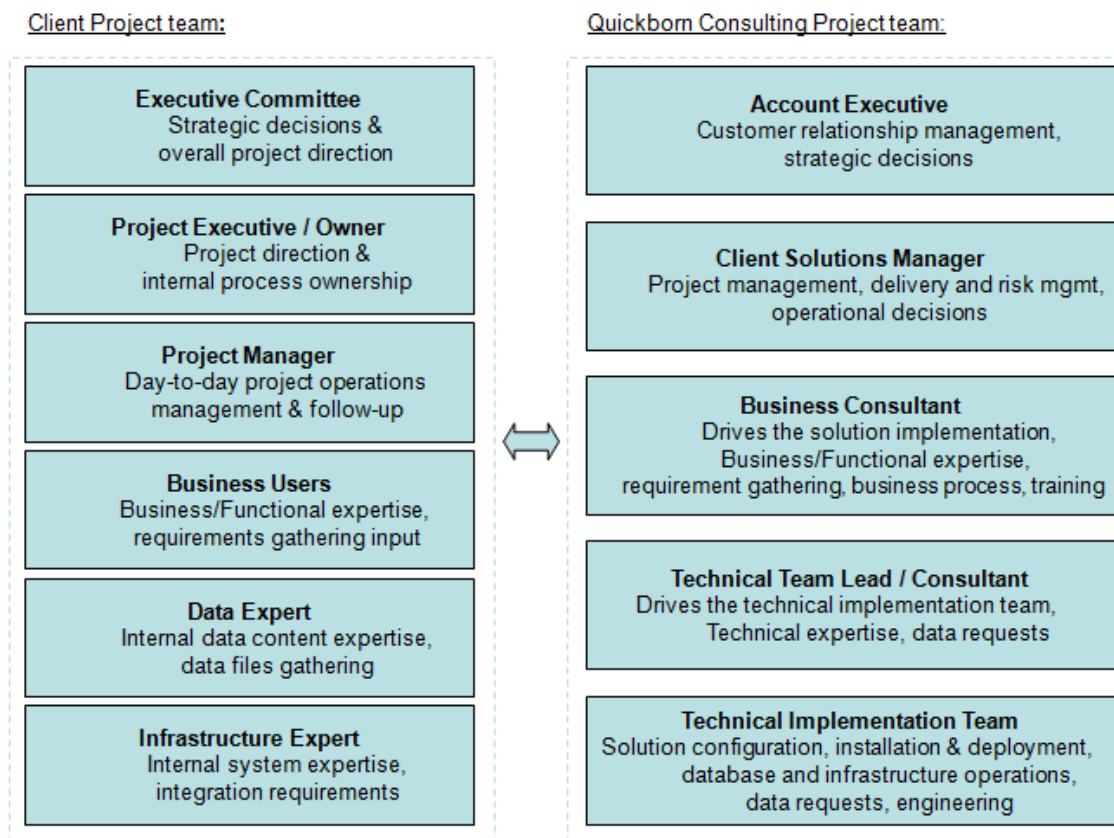
- **BUSINESS AND APPLICATION CONSULTING** – we make sure that the solution is aligned with your strategy and objectives, business rules and requirements
- **IMPLEMENTATION AND INTEGRATION** – we design, configure and deliver you the optimal solution in line with your functional and technical requirements
- **SUPPORT** – we develop, maintain and manage your solutions ensuring your systems remain stable and applications are running smoothly on continuous basis.



Quickborn's dedicated team of experts follow customer projects from A to Z, from implementation and transition to project go-live and production support. Quickborn service teams of expert business, configuration and technical consultants, dedicated project director/ project manager and onsite consulting and near shore development teams guarantee your Planning and Optimization implementation project success.

Our experienced team has end-to-end retail project life cycle knowhow (process design, change management, performance optimization), wide range of retail domain expertise (merchandising, store operations, supply chain, planning and forecasting, ...), strong product development background (Oracle solution development, custom solutions) and exposure in retail software quality initiatives (CMM, Six Sigma, ...). Quickborn also supports its retail customers by developing tools which can be used to evaluate customer data quality and monitor the customer value add post implementation.

Example of a typical Planning and Optimization solution implementation project organization:



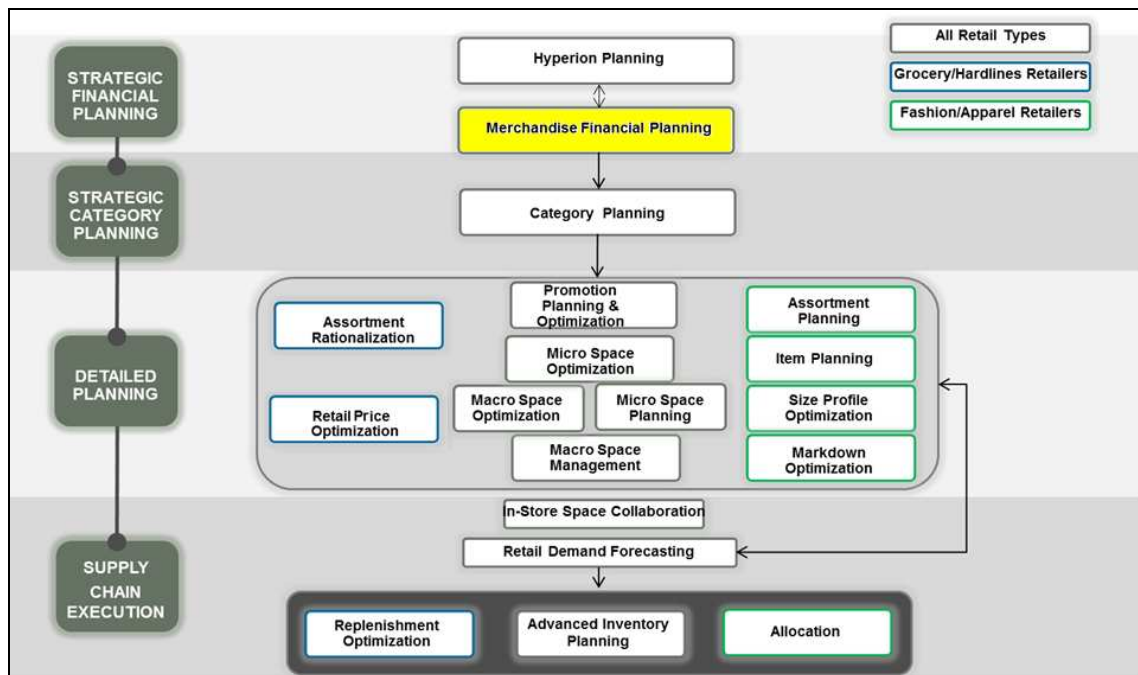
In our continuing mission to deliver compelling solutions that meet real-world needs for retail organizations, Quickborn has created a specialized Competence Centre for Oracle Planning and Optimization Solutions. Our specialized competence centre provides world class consulting, implementation and support services for Oracle Planning and Optimization Solutions; including Merchandise Financial Planning, Assortment Planning,



Category Management, Markdown Optimization, Regular Price Optimization, and Replenishment Optimization to name a few.

These solutions deliver everything our customers need to streamline budgeting processes, drive accurate forecasts, optimize pricing and assortment decisions and adjust business plans proactively. In addition to the unique capabilities that these solutions deliver, planning and optimization solution implementation projects are usually significantly shorter than merchandising projects, delivering high return on investment and world-class value to our retail customers in a very short amount of time (typical project timeline between 4-6 months).

Quickborn Consulting has been working with Oracle Retail technologies for nine years and has extensive technical and functional expertise in house for the Oracle Retail family of solutions.



We think about consulting services differently, committing to the best interests of our clients. Our ambition is to deliver highest quality solutions to our customers by efficiently anticipating, meeting and exceeding their expectations.

For more information please visit our website at www.quickbornconsulting.com

Quickborn - Your Retail Partner