QUICKBORN CONSULTING

YOUR RETAIL PARTNER

Winning with Pre-Season Planning

Retail Whitepaper

Preface

This whitepaper entails a standard item-example benefit for using Retail POS information to derive accurate pre-season buy allocations to store. This could be used as a pro-active measure using a planning tool against reactive actions such as Markdowns and Clearances.

Winning with Pre-Season Planning

With the second swing of economic slowdown – retailers are the frontrunners for experiencing the recessionary effects. While many retailers were hit unguarded in 2008, retail leadership has seen similar waters not so long ago. Is there a way out? With very less capital available, how will retailers enhance their offerings and continue to grow in these times? Is it possible with the help of technology? These are the questions we're trying to answer with this whitepaper.

Many organized retailers, more so in emerging economies, expand rapidly. In the process of expansion – as the supply chain grows, it becomes more complex. Retailers lose track of the most important piece –'Store Allocation'. The opportunities lost at each individual store of a retail chain aggregate into huge losses at a chain level. Therefore, it becomes pivotal that the answer to retail supply chain issues lies in successfully meeting demand without erring into either over stocking or high stockout rate.

Matching supply with demand is a primary supply chain challenge for any retailers. While, excess supply leads to excessive markdowns or salvage, inadequate service levels dissatisfies customers. The retail industry demands accurate and efficient delivery of goods.

Technologically, store level allocation solutions tap into the demand indicators available at the point of sale and couple them with historical data to predict accurate store level allocations. Modern solutions not only compute initial store level allocation but also improve the accuracy of predictions with time through a built in machine learning error measurement and minimization mechanisms through sensitivity analysis.

The planning process is conducted at various levels in the following dimensions:

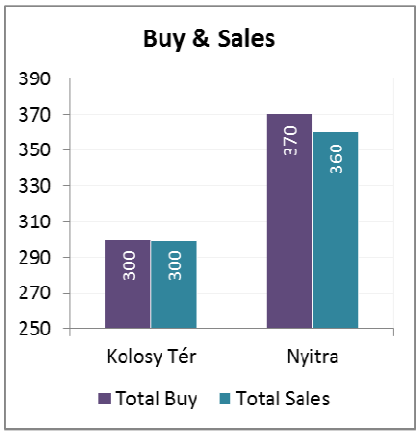
1. Product: item, style, sub-class, class, department, division, channel, company.
2. Location: store, district, region, division, chain, channel
3. Time: week, month, quarter, season, year

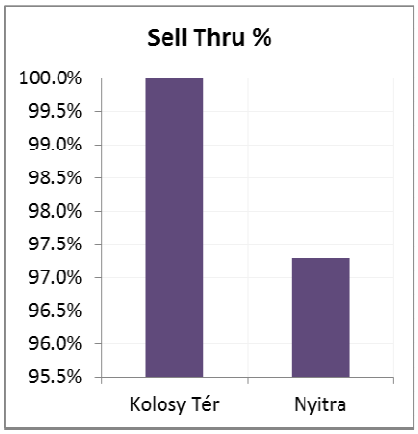
At these intersections of these dimensions variables such as sales, inventory on hand, receipts, markdowns, gross margin, turn, etc. In this whitepaper we'd be using Sell-Thru, Gross Margin, Avg. Price, and Buy Units as measures for seasonal planning.

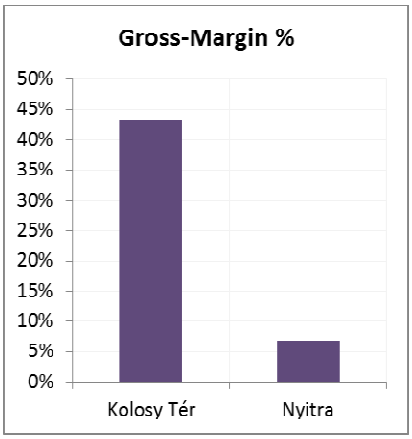
Most retailers take these high level plans down to lower levels of detail. Key item planning, store planning and the addition of unit planning for both inventory and demand is sometimes factored to support the buy(ordering) and allocation needs of a specific category of products. And hence in this attempt of how Merchandise Financial Planning could be used for a better pre-season planning substituting the use of in-season 'Band-Aid' solutions like Markdown Optimization is shown with this item example.

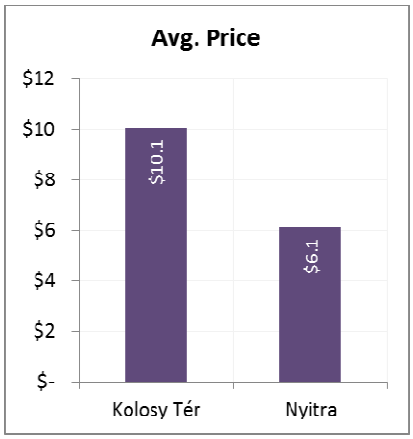
Scenario I (without Planning and Optimization):

For a particular Fashion Item the buy units across Kolosy Tér and Nyitra which belong to the same state, city and same format are 300 units and 370 units respectively. The gross margin, achieved by this item across both these stores is 43% and 7% respectively for Kolosy Tér and Nyitra. The sell thru the same Item achieved is 100% in Kolosy Tér and 98% in Nyitra. The high sell-thru and low gross margin in Nyitra is because the price difference between the stores is more than 30% between Nyitra and Kolosy Tér. By selling at 30% lower than the price at Kolosy Tér – the Item has achieved such high sell thru at Nyitra. Some other observations are that with lower buys allocated in Kolosy Tér the item achieved higher revenue than in Nyitra.









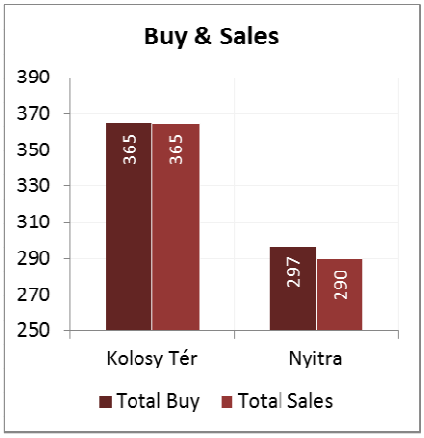
Store	City	Format	Total Buy	Total Sales	Revenue	Sell Thru	Avg.Price	GM%
Kolosy Tér	Budapest	Large	300	300	$ 3,018	100%	$ 10.1	43%
Nyitra	Budapest	Large	370	360	$ 2,203	97%	$ 6.1	7%

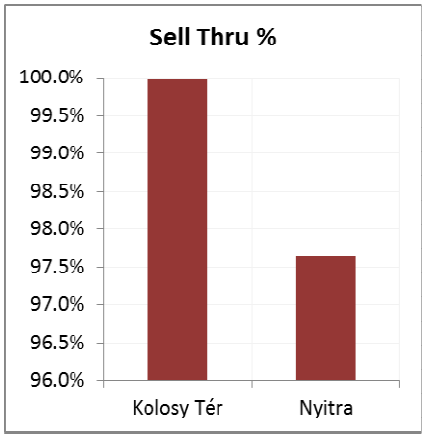
Scenario II (Fashion Optimized Scenario):

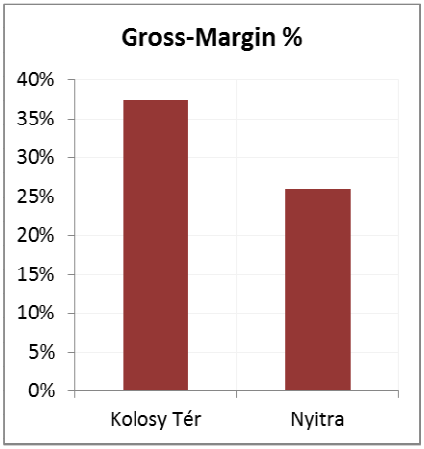
Using technology in analyzing historical sales and tools equipped with predictive capabilities the same buy amounts can be readjusted across stores in the following manner:

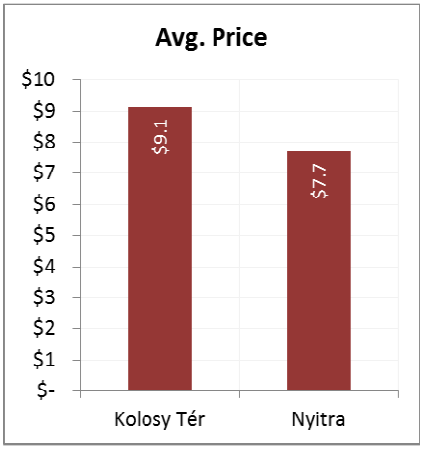
For a particular Item the buy suggested across Kolosy Tér and Nyitra which belong to the same state and same format are 365 units and 297 units respectively. This implies that the overall buy is reduced by 8 units. The gross margins yielded would be higher because of the proactive buy allocation leads to less dependency on Band-Aid solutions

like Clearance/Markdown Sales and the same or lesser numbers of units get sold at higher prices in stores where demand is higher. The items would achieve higher overall gross margins but the gross margin %(36%) in Kolosy Tér would dip because of the higher number of units being sold at relatively lower prices than earlier. The GM% in Nyitra would be higher because more number of units got sold at relatively higher prices. The sell thru the same Item achieved is 100% in Kolosy Tér and 98% in Nyitra, which is assumed to be same as earlier. The average price difference between the stores is close to 15% between Nyitra and Kolosy Tér and hence the overall price points are significantly higher.









Store	City	Format	Total Buy	Total Sales	Revenue	Sell Thru	Avg.Price	GM%
Kolosy Tér	Budapest	Large	365	365	$ 3,329	100%	$ 9.1	38%
Nyitra	Budapest	Large	297	290	$ 2,233	98%	$ 7.7	26%
Overall Gain			-8		$340.60			

Now is a time when it is not enough to have store managers make the decisions of which products to be occupying shelf space and the quantities to order. As retail chains and consumer choices grow, the service demanded has become vast and competition has narrowed advantages. It's not possible for buyers or store managers to keep track of all the variations and trends making each location unique and thus investments are needed to be made in technology that can predict and prevent failure.

About Quickborn Consulting:

Quickborn Consulting is a provider of business consulting, IT systems integration, solutions development and support services for the global retail industry. The company supports retailers on their business and IT transformation programs to improve their performance and increase their competitiveness. Quickborn Consulting has local presence in USA, France, Germany, Hungary, India and Ireland, and is present globally through its international network. Read more about Quickborn Consulting at: www.quickbornconsulting.com

About Oracle Retail

Oracle provides retailers with a complete, open and integrated suite of business applications, server and storage solutions that are engineered to work together to optimize every aspect of their business. 20 of the top 20 retailers worldwide - including fashion, hardlines, grocery and specialty retailers - use Oracle solutions to drive performance, deliver critical insights and fuel growth across traditional, mobile and commerce channels. For more information, visit our Web site at http://www.oracle.com/goto/retail

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