



## Opportunities for Supply Chain Optimization: Common Scenarios for Softlines/Fashion Retailers

There are two key components in analysis of Retail Planning Methodology. One is the type of Planning tools used. The second is whether or not the tool is used in the appropriate place in the supply chain, at the appropriate level and is interfaced correctly to other tools and functions.

Generally, the typical types of Planning tools are:

- Financial Planning
- Merchandise Planning
- Channel/Location/Store Planning
- Demand Planning
- Assortment Planning
- Space/Floor Planning
- Assorted Optimization Tools such as Store Clustering, Price Optimization, Markdown Optimization and Size/Color Scaling.

Demand is traditionally used in grocery, commodity or replenishment models or in softlines companies that have a strong design element and/or vertically integrate their manufacturing (forecasting inventory levels of component pieces such as buttons, zippers, etc.)

Optimization tools such as Store Clustering or Size Scaling can be effectively integrated with Assortment or Allocation and are usually put into place after the core Planning environment is working in the most efficient manner. A strong Assortment or Allocation tool can vastly improve Store Selection and Size/Color Distribution until such a time as the retailer decides to invest additional project dollars into a specific Optimization application or service.

Markdown and Price Optimization are still relatively new and appear mostly in grocery or CPG models.

Space Planning is also most commonly used by grocery or “Big Box” retailers - often with contracted end cap and display considerations or whose assortments tend to cannibalize each other depending on merchandising and pricing strategies.

### A Typical Scenario

For this article, the relationship between Financial, Merchandise, Channel and Assortment will be used as an example.

Most softlines retailers begin the process with a Financial Plan. Some will attempt to derive, or at least validate, the Financial Plan from the Merchandise Plan. More commonly, the Financial Goals are established and handed off to the Merchandise Planners. It then becomes the responsibility of the Merchandise Planners to determine the contribution of each hierarchical level toward the achievement of the Financial Goal. This is usually done based on percentages of contribution in history and with insight into how a market is moving or is pushed by the company. Examples of this might be the fashion industry moving back toward denim at the expense of khaki bottoms or a company that restructures a concept to position itself appropriately against competitors (including their own competing concepts). The function can be both scientific and intuitive. While philosophically common across companies there is a high degree of uniqueness.



## Organization

One of the key areas to address with regard to this relationship is the reporting structure of the Merchant and Merchandise Planner. Years ago, the Buyer would traditionally run the category with the Merchandise Planner and Channel Planner reporting directly to them. This has changed dramatically in the past decade as more and more top tier retailers have assumed structures making the Buyer and Merchandise Planner more equal. Many retailers set up separate reporting structures for Buyers, Planners and Allocations/Replenishment staff.

Even in more “old school” reporting structures, more and more retailers have given Merchandise Planners veto or sign off power on purchases and the responsibility of monitoring Open To Buy levels. Headcount, reporting structure, integration of data and applications and whether the functions are performed at optimal hierarchical levels (including whether the Merchandise Hierarchy is created appropriately) are all areas to map and assess.

## Other Planning Tools

The relationship and place on the supply chain timeline is less structured for the Store and Assortment Planning functions. In some models, the Buyers manage Assortment Planning - often on offline spreadsheets that may not interface to any other tools. Assortment Planning’s relationship to Size Scaling, Allocation (especially related to seasonal or regional assortments), and Pre-packing continues to be one of the industry’s “black holes.” Lack of or delays in this type of data results in sub-optimization of upstream supply chain opportunities such as increasing the speed to market and reducing distribution expenses, store labor expenses and truck-to-shelf time.

It is common to see this information tacked to the wall of an allocator’s cube rather than actually interfaced to an application that can optimize or, at least, validate the Plan. Assortment tools and their use and integration vary widely and there is always room for significant improvement in this function.

Channel or Store Planning is another commonly underutilized or offline element. In some top tier retailers it is still largely informational while others may generate an Open To Ship or use it for the purpose of projecting opening inventory levels for new locations. Too often Channel Planning is simply a “by location” explosion of the Merchandise Plan. Since it is often conducted in dollars rather than units and at levels in the hierarchy too high to meaningfully assist in Assortment or Distribution, it becomes more of an exercise than a tool. Assessing Channel or Location Planning and deriving results that can be effectively used to cluster stores regionally or seasonally for Assortment and/or project seasonality and expected turns at the Allocation level is almost always a strong opportunity for softlines retailers.

## Allocation, Distribution, Replenishment Optimization

These are only general examples of where retailers leave money on the table in optimizing their supply chains. Another area of opportunity lies in the Allocation and Distribution sector.

Allocation in the past was an entry level position for personnel looking to move into the Planning and Buying departments. With the old tools, allocators spent much more time key punching store numbers and size curves into a green screen than actually analyzing the optimal distributions of sizes, colors and quantities. Their position was functional and most commonly they served as liaison between Merchandising and the Distribution Center and Stores.



A number of strong business applications have changed this function dramatically. Allocation and Replenishment systems represent a large portion of retail purchases of optimization software today. Allocation is the last chance at the corporate office level to achieve three of retail's key tenants: right merchandise, right place and right time. A significant number of top tier retailers have optimized Distribution with tools such as Advanced Allocation by Arthur and Replenishment Optimization by E3.

Retailers seek to optimize Distribution for a number of common reasons. Reduced transfers and markdowns are obvious. Better control of seasonal and regional inventory levels relating to the desired assortment or store grading tiers is another. Reductions in store receiving labor and truck-to-shelf times can also be achieved. And DC flow through - whether it be the ability to pre-allocate preseason packages, minimize the need for backstock or safety stock, or more effectively build and flow pre-packs (or multiple scale pre-packs) - are common benefits derived by most companies which optimize distribution. Often significant financial and logistical gains are seen in a very short period of time.

As a bonus, many retailers find that aggressive and proactive management of their Allocation process often gives them a heads up on reorders and hot items where immediate reaction is necessary - especially if seasonality is a concern - thus optimizing sales and reorder OTB dollars.

## Conclusion

The flow of data and communication from the Buyers and Planners, through the Allocations Department and Distribution Center, to the Store Locations and Operations Staff is core to any analysis of the Supply Chain. Any retailer deciding if this flow needs to be optimized can easily look at how an item was conceived by the Designer or Buyer, where it fit in the various Plans, how it was received and distributed and how it now resides (and sells) in the Stores. Inevitably, they will see numerous opportunities (and occasionally areas of severe dysfunction) immediately present.

Mapping all facets of the Supply Chain and ensuring the communication, data flow and effective integration of tools and applications - both forward and backward - are key to supply chain optimization.

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## About RPE

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