

MERCHANDISING OPTIMIZATION: A NEW PARADIGM THAT CREATES GREATER VISIBILITY AND PROFITABILITY IN ALL CHANNELS

KEYS TO ENTERPRISE-WIDE PRODUCTIVITY, PROFITABILITY AND CUSTOMER SATISFACTION FOR SMALL TO MID-SIZE CHAINS AND SPECIALTY RETAILERS

Many mid-size chains,' specialty and smaller retailers' major struggle has been, and continues to be, their ability to see their inventory clearly.¹ This lack of visibility becomes especially problematic in organizations with cross-channel retail operations. Mid-size companies operating in a number of countries in multi-channels have an even greater need for crystalline accuracy and global end-to-end transparency as far as their supply chain and merchandising capabilities are concerned.

No matter what kind or size of operation, all companies must have uncompromised visibility levels if they are to optimize their inventory investment via their merchandising, staff, activities and business processes.

What all retailers want is a way to successfully and most profitably complete the circle of the supply chain – procure; transact; replace. Mid-size retailers can no longer afford to get caught in this circle in January based on December's activities. They need to be able to successfully adjust that circle, based on seasonality, time of year, and actual store-by-store results rather than simply supply chain conditions. Retailers can no longer afford to rely on prior history just to make sure the norms are being covered. In fact, most retailers didn't know exactly what their customers buying patterns were, so they'd overstock their stores in the hopes that customers would buy from them.

Retailers noted¹ they require a solution that will provide them with the right balance between meeting their customers' demands and the capability to not only overcome their supply chain and

merchandising challenges, but that enables them to become masterful, efficient and more profitable merchandisers. They need a solution so they will no longer struggle, make errors, or waste their or their customers' time. And, they need to be able to see their inventory in any and every corner of their enterprise down to the SKU. They must have the ability to instantly make informed decisions based on real-time information and could work with data they can trust to identify trends that they know are true – and would no longer need to second guess their decision-making or manually perform certain tasks that could have been automated.

This report, the first one in a series, will explore how real-time merchandising excellence can be most realistically attained. It helps retailers determine the best ways to ask and be able to quickly and correctly answer the following questions before purchasing decisions are made:

- What stock will our stores and various channels require and when?
- What personality-specific selling patterns does each store have?
- What is the optimum stock level, not just for fast moving stock, but also for slower movers?
- How can we easily identify and compare our position with other stores within the chain and against our competitors?

To answer these questions, the particular features and capabilities available in fully-integrated, synchronized, SMB retail-specific solutions will be covered here. This report also explores how retailers can best leverage technology and their human resources to improve not only their visibility and accuracy levels, but to also improve retail store and warehouse productivity, customer satisfaction, and – most importantly in today's economic climate – profitability.

REMOVE OUTDATED RETAIL PARADIGMS

TOO MUCH MERCHANDISE. The old paradigm was that retailers – at every level from buyers, to store managers, to senior management and owners – have been conditioned to present their customers with full racks and shelves. The perception was that customers expected this type of presentation of merchandise from them. This seemingly esthetic approach to retailing, includes the underlying consideration by retailers that they have try to appeal to as many customers as they can, and that having a wide selection is one of the best ways to draw them into the store and so customers will make their purchases there too.

The fact was (and is) that most retailers didn't have the knowledge of what their customers' buying patterns were, and thus they overstocked their stores, stock rooms, and warehouses/DC's in the hopes that customers would buy from them. Retailers that currently operate from this paradigm have probably learned by now that this can be a very expensive, inefficient and not always a customer-pleasing proposition. Staff time is also used inefficiently and tends to be wasted in many of the merchandising and supply chain activities.

In the ‘Too Much Merchandise’ paradigm, retailers relied either on information they would receive from spread sheets or on data available from their Point of Sales solutions. Most of this data lacked sophistication, and kept information in silos rather than making it accessible or available enterprise-wide. Most often, this information was also not accurate, and most merchandising activities were far from being automated. Retail decision-makers had to – for the most part – hope that they would have made the right decision many months in advance. Overstocks and sell offs became so common so that consumers expected and even anticipated deep discount sales at the end of any season.

NOT ENOUGH MERCHANDISE. Certain retailers responded to the ‘Too Much Merchandise’ paradigm by under ordering. Most knew they could not respond well or accurately to their customers’ buying patterns in a timely way, but were impelled by financial necessity to pare back their stores’ and channels’ offerings. These retailers felt that by stocking less merchandise, they would save on their inventory costs. Relatively speaking, they left it to chance that their customers would still frequent their stores and not shop elsewhere. They did not have a solid grasp of how to optimally plan and merchandise their stock. Merchandising activities were also not automated and they were still far from being or becoming merchandising masters.

For many mid-size retailers, the current generation of this paradigm has been to buy merchandise based on the last few seasons’ performance and customer buying trends. Their merchandising solution likely doesn’t provide them with the needed granularity of information, sophisticated and time-saving automation, ease of use, or real-time responsiveness required to help them differentiate and correctly respond to many types of variables and real customer demands in the current marketplace. This ‘Not Enough Merchandise’ approach has had, and will continue to have, significant negative financial and customer service drawbacks. Customers will simply look for another retailer who will stock what they want to buy.

INAPPROPRIATE OR INEFFECTIVE SOLUTIONS. These days, many mid-size retailers’ merchandising solutions and resulting plans still create and reinforce information silos, duplicate data, and require multi-data inventory information input points. Errors can take place and be reinforced. Management and staff waste all too valuable time and energy trying to reconcile or prove that information is correct. Not only are store-to-store data silos created, but usually channel-to-channel silos as well.

Without a cleanly integrated enterprise approach to data management, the front office and customers, and the information they generate, becomes decidedly separated from the back office and its functions. The demarcation between front and back office is all too apparent and all too problematic. Visibility is questionable and information inaccuracies place extra work on staff and make all staff far more inefficient thus overloading and frustrating staff and management alike. The retailer and their staff spends too much time fixing, searching for or checking on inventory and it’s status; whereas an integrated and thus effective retail solution would have provided them with basic - and even highly refined - information available to all via the simple push of a button.

Operating from the ‘Ineffective Solution’ paradigm is also not a viable alternative during a recession, as customer loyalties may be diminished or have vanished altogether. Retailers practicing the ‘too much’ or ‘too little’ merchandise and the ‘ineffective solutions’ paradigms will continue to miss opportunities, and allow sales to go to their more merchandising-savvy and thus customer-centric competitors. But retailers who continue with ‘Ineffective Solutions’ will constantly compromise their operations, and these compromises will ultimately be visible to their customers and make unfavourable impacts to their bottom line.

Retailers that are incapable of optimizing their merchandising enterprise-wide still won’t be able to be as responsive: CRM won’t communicate with Purchasing; Purchasing will be separated from the Warehouse/D.C.; and Buyers will always wonder when - or if - their merchandise will arrive in time to meet promotions.

Retailers that still lack a completely integrated set of robust, visibility-enhancing merchandising tools can not ever optimize their organizations using spread sheets. The variables are too complicated. What they need is to be able to make accurate, timely and cost-effective customer promotion decisions, despite having a stand-alone CRM system. They need to be able to know where any item is in their supply chain, down to the SKU in real time. They also must have access to real-time financial reports, inventory management reports and any other reports available on demand via a dashboard. Retailers need to know that there will no longer be a disconnect between knowing what the customer wants and has bought vs. what the head office would like them to buy.

NEW PARADIGMS IN MERCHANDISING OPTIMIZATION SOLUTIONS FOR SMB RETAILERS

Once an SMB retailer can trust that their merchandising optimization solution has the features and algorithms they need, they’ll soon learn to trust the solution and allow it to do most of the ‘work’ for them. These solutions are easy for all to use, and take into account specific store-by-store demographics and customer nuances. Smaller specialty to mid-sized chains can finally make strides to notably improve their customer service levels, make more effective use of their staff, move inventory more efficiently and optimize their financial and human resources. They will tighten up their operations and achieve merchandising effectiveness – because they put in place the right solution with exactly the kind of tools they needed.

By notably shoring up their merchandising management, retailers gain the advantage of having many more ways to do business well and efficiently, and thus greatly reduce potential store, channel or firm losses or closure. Yet SMB retailers must still find the right solution that will allow them to function ideally for their particular size and type of business and be able to compete successfully with much larger stores and chains.



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Big box, national chains and large retailers often use equally large, cumbersome and expensive solutions with ten thousand data fields or more of information. They use, slice, dice or view this data in ways that help them overcome and fine-tune their merchandising challenges. These same solutions, even in their scaled down, or LE versions, will still require a massive allocation of internal resources to implement. Large vendors will often request additional internal resources not to mention desk space. Head office will probably want to engage external consulting expertise and project resources to represent their interests.

Even, after going live, the result may be that many large-ERP-for-SMB implementations may still not improve or address key issues or optimize business processes to the degree expected or needed. Visibility may still not be clear; and there's a good likelihood the data captured won't be granular enough. These 'large-seemingly-morphed-into-SMB-sized solutions' often have many areas of functional overlap, as well as too much dead end or useless code that must still be populated.

As modified versions of their very large original solutions, these modified-for-SMB's types of solutions may still not run as lean or as effective as SMB's truly need them to be to run their businesses well. These solutions usually pose administrative challenges, both internally and with the vendor. Large vendors usually have too many management layers and revolving players. These types of solutions-providers have a large functional gap between the person who wrote the code, and the person handling the retailer's account. Receiving 'instant' and possibly perhaps even effective ongoing responses from these large vendors to a SMB retailers' issues or business process modifications may not be possible, or could be time consuming of itself. The merchandising and operating benefits the retailer had hoped for may happen, but the results may be delayed. These solutions have not been built – or tested – from the ground up to run especially for SMB retailers.

Implementing a “we'll cut down the code a few notches,” one-size-fits-all solution, can also be too disruptive to SMB's in other ways. The business' efficiencies hoped for may take much longer than planned to be realized. The retailers ongoing results may suffer as their existing staff resources are overextended; new staff or consultants may even have to be hired. In this case, 'big' may not necessarily be beautiful.

Thus, the right solution for SMB's must be complex enough to handle even the most sophisticated merchandising and enterprise functions but must be easy to use and train. It must also be architecturally lean and well-designed to ensure that existing staff resources can successfully complete an implementation within reasonable and planned timeframes.

For retailers who've avoided undergoing an enterprise implementation in favor of adding a point solution(s), or continue to customize an existing solution that has had less than ideal results thus far, seldom will the data flow impeded through their organization as clearly as it should. In addition to not having the visibility needed, the firm will still have to go through a time

consuming implementation while tying up their human and financial resources on a project that may still not give them the merchandising enhancements or payback needed. Thus, not only will the merchandising edge the retailer needed not be attained, but time and money will be wasted, and thus lost.

Perhaps the retailer has retained legacy systems that don't include leading-edge productivity systems and automation. In this case, they have likely discovered that the visibility that they thought they might have has not been possible, due to their solutions' technical and structural (and even staff) limitations. These retailers risk being not only left behind, from a technology standpoint, but these gaps may create customer alienation as staff continues to divert their attention to manually doing tasks that could be automated instead of directly or indirectly devoting time to serving their customers. As customer service levels drop, or become inconsistent, the retailer will be strategically and executionally unable to keep up with their retail peers and much larger competitors.

MERCHANDISING PARADIGMS WORTH PRACTICING

To achieve multi-channel retail visibility, a solution that has been especially designed for, and already proven effective by SMB's will:

- install much more quickly and efficiently,
- require less internal and external staff resources; and
- have been designed for the unique merchandising algorithms and ordering patterns for their specific company size, vertical and marketplace.

With a retail-specific SMB ERP solution, the licensing and ongoing administrative and other costs will often be considerably less than those of larger brand name vendors. Since the code is streamlined and specific to SMBs' business processes and visibility requirements, productivity will improve merchandising, and the improved merchandising will improve sales and thus profitability. Profitability will mean that retailers will achieve ROI more quickly and with far less fuss.

FULLY-OPTIMIZED, FULLY-INTEGRATED MERCHANDISING FOR SMB'S

The new, optimized and automated merchandising paradigm can be attained when solutions are in place with tools such as dashboards, and custom and ad hoc reporting. These tools will provide even greater visibility and opportunities to create efficiencies that they have thus far been lacking. SMB ERP Retail solutions include robust functionality that has been proven beneficial to retailers in similar settings. The merchandising-specific tools and visibility provided will ensure that ordering will be both customized and yet highly automated. The months and years of having too much or too little inventory on hand will become a thing of the past.

SMB-specific retail ERP solutions include merchandising optimization features such as:

- automated alerts – provided for simple tasks to the very complex;
- proven auto-replenishment algorithms that are built in or can be easily customized; and
- other merchandising tools that are extremely flexible and ensure responsiveness is possible to current customer demands.

Many retailers want to use solutions out-of-the-box. Even then, some customization to match business processes and channel nuances will always be required. Since solutions designed specifically for retail SMB's have a leaner footprint to start with, the solution can be more easily and quickly programmed to meet an organization's actual business processes. This is much better than having to modify an organization's business processes to suit the vendor's application's requirements.

Most mid-size retailers want to create an unimpeded global supply chain circle with clear visibility into any area of their merchandising circle at any given moment. These solutions maximize warehouse inventory and are able to replenish based on warehouse and virtual warehouse demand, not based on store demand. Managers do not need to re-buy for that store, but are able to first check warehouse inventory. If the warehouse has the item(s) in stock, they can move out that stock, and the buyer is not asked to buy more stock until inventory levels are reduced. Alerts and auto-replenishment ensures that buyers get involved at the optimum points, based on lead times. Once they are fully optimized, your warehouse, stock rooms and store floor will never need to have too much or too little inventory again.

With the correct retail solution, everyone in the organization can identify and respond to whatever stock position is currently taking place. Stock outs will trigger alerts so that inventory will automatically be ordered for out-of-stocks. Overstocks can be far more easily identified and brought to attention so they can be:

- quickly moved within the store for better visibility;
- used as a feature or as part of a promotion;
- moved from one store to another store;
- moved from the store to a clearance center; and/or
- returned to the distribution center or warehouse.

Specialty and mid-size ERP retail solutions have many capabilities. Most notable is that retailers can trust that information and data are correct. This is key in helping retailers reduce excess inventory enterprise-wide.² Many retailers noted¹ that they want to reduce the amount (and cost) of merchandise they hold in their stock room in their physical stores.

Retailers should be able to develop a plan chain-wide, but must also be able to adjust that plan relative to the personality of any store in any particular market that they operate in. Every store

and/or channel has to be recognized and accommodated as having its own personality. In any given chain, no two stores will have the same personality. And a different type of consumer will shop at each location. Stores must be able to be optimized by various demographics: income, age, gender, nationality, or many other different reasons why shoppers will shop differently from one store's outlet or channel to another. Stores will perform differently in different locations, sometimes even when located only a few blocks or miles from each other.

An effective merchandising optimization solution must honor each store for its own personality. Successful segmentation and the effective and swift responsiveness needed to appeal to specific market segments is king – or queen – in the current retail environment.

With a mid-size ERP solution that has accurate visibility in all channels, 'door-to-door-in-24' (hours, or often, even within a few hours) is made possible. Stock can be identified and moved quickly and easily from one store and/or warehouse/distribution area. Thus, the warehouse can always function at peak efficiency levels. Inventory turns can increase. Store managers will have confidence that the warehouse/distribution center will respond to their store's specific needs and that it will be ready and able to react before their floor merchandise will run out.

With the correct SMB ERP retail solution, data employees need to do their jobs well is already available throughout the system. Algorithms have been pre-programmed for various situations. The solution analyzes consumer trends, and determines what is taking place, in real time, and ensures that buyers and/or the warehouse will have the information needed to react and bring in specific merchandise as and when needed. This reduces the square footage a store uses to stock inventory. As the trend is to move to smaller square footage stores, this becomes particularly beneficial to containing costs. This way, bricks and mortar retailers can still be effective even though they've moved into a smaller retail footplate.

If a retailer is to achieve door-to-door-in-24, they will need to have their warehouse or D.C. running at peak efficiency. Buyers will need to know what merchandise is going to be needed, based on projections and replenishment, then based on actual activity. The warehouse will be ready to react to place merchandise into the store, as and when the store needs it. This becomes particularly useful in creating successful, pre-planned or optimally competitive promotional responses.

A solution capable of automated replenishment will feature and have the ability to:

- maximize and change the min/max levels – based on actual sales activity – on an ongoing real-time basis,
- plan purchase orders by a store's unique demographic requirements, as well as
- have a distribution plan that is already built into every purchase order.



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This way, as soon the merchandise arrives at the warehouse dock, the warehouse doesn't have to handle the inventory three times: they don't have to put it on the shelf, or pull it from the shelf – it already comes with a distribution plan. Staff know exactly where it needs to go and when, and can have it ready to place into the stores' holding location or a distribution center. They can also build the pallets that go to the store as soon as the product comes in – so they can shrink wrap the pallet – and dispatch that product to the store more quickly.

AUTOMATION, AUTOMATION, AUTOMATION

As part of the merchandising optimization process, one key element has to be that not only does the store have to know precisely what inventory is coming in, but that the confirmation of the receipt of merchandise – the ownership of merchandise – has to also take place. A store manager and his staff have to know what was shipped to their location; head/office and the warehouse must also know that that shipment was received by the store. This type of automation is a time-saving, and ultimately a money-saving, solution feature.

Once the inventory has been received, then the quantity on hand should automatically be updated, with proper stock controls in effect. If there is a plan to automatically reduce the inventory - based on an integrated point of sale - then the solution will bring the 'on hand' inventory down. At the same time as the solution is helping managers use the available tools to bring their inventory down, the solution is already 'talking' to the replenishment application, or built-in perpetual inventory module of the application, and is ensuring that, 'it is now time to re-buy this item for this store.'

TOTAL RETAIL IS A SOLUTION IDEALLY SUITED FOR SMB RETAILERS

A retailer is only as good as the customers who buy and take the retailer's products off their shelves. Retailers must have the right technology tools in place to overcome the weaknesses of their current operations so they, too, can have the right product, at the right place, at the right price, available in the right channel, at precisely the right time. This is effectively done when their software solution has the capabilities and features that help them become master merchandisers – no matter what size of organization they have. This also happens when the software solution they choose can be easily implemented, is reasonably priced, will cost them less to license and run than most other solutions, and can create an ROI within a reasonable and highly realistic timeframe.

To not have the optimum merchandising solution in place and the associated merchandising capability already built into it, will only continue to frustrate C-level management, store managers, and employees in all areas of the organization and in their extended supply chain.



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This will also negatively impact, and, ultimately, frustrate consumers. Help your customers find as many reasons as they can to want to shop at your locations and channels. Every sale you make is one more sale that your competitors didn't make.

If you are a retailer and would like to find out how Magstar Total Retail can ensure that your company achieves optimum visibility levels, transparency company-wide and many more ways to become a master merchandiser, please contact us directly.

Magstar will have future white papers availability on topics such as mobility, leveraging store resources more effectively and CRM as part of this merchandising optimization series. If you'd like to receive future white papers in the merchandising optimization series in advance of their release, please contact us at www.magstarinc.com/

- 1 Meetings held between Magstar and the top retailers in the Wine & Beverages vertical in California, April 2009.
- 2 Tilley Endurables Video Case Study: http://www.magstarinc.com/case_tilleyvideo.shtml

Magstar Total Retail® is a leading enterprise retail solution especially for SMB retail companies. With fully-integrated merchandising, analytics and financial management systems as well as end-to-end analytical, visibility and management tools, Total Retail creates complete transparency in multiple locations and multiple channels: stores, online, warehouse/distribution centers, and catalog call centers.

Total Retail's database provides accurate, consistent and dynamic information that's updated in real-time. Centralized information with on demand dashboards ensures Magstar's clients can effectively manage and make fully-informed decisions while reacting quickly to their customers and competitors.

Magstar Total Retail includes: merchandising optimization, inventory management, CRM, financials (AR/AP/GL), BI, purchasing/receiving, warehouse/distribution, call center order entry, sales analysis/reporting, stock ledger, POS and mobile POS integrated with high-speed payment systems. Magstar also offers consulting, custom solution development, system's hardware, and end-to-end project planning, including integration to and from legacy systems.

The average time to implement Total Retail is six months. Since Magstar is highly intuitive, faster training and easier adoption is possible. With an average ROI after implementation of two years, clients reduce on-hand inventory, increase customer sales and retention, increase inventory turns, reduce stockouts, and improve sales margins and profits.

Magstar Total Retail grows with your operation by readily adapting to changing requirements and includes the latest analysis, management processes and techniques. Magstar is a Microsoft Gold Certified Partner, and an IBM, NCR and HP business partner. For the ninth year, clients have cited Magstar as one of the top retail solution vendors in North America.



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