

Conquering The Omnichannel Inventory Challenge

Effective Allocation And Replenishment
Deliver Five Key Business Benefits



Introduction

Consumer demand to interact with retail channels interchangeably is forcing retailers to change the way they think about and manage inventory. With the path to purchase becoming increasingly convoluted, positioning inventory according to anticipated demand has become a significant challenge — one of many facing retailers as they re-engineer their business models to support omnichannel. These changes are driving an urgent need to optimize inventory use across the supply chain.

In a survey of senior supply chain executives, 81% said they believe their current supply chain does not meet omnichannel requirements, according to the February 2015 Ernst & Young report, titled: *Re-engineering*

the Supply Chain for the Omnichannel of Tomorrow. Looking forward, 76% also said, “Significant supply chain transformation, rather than incremental change, is required to succeed in an omnichannel world.”

At the core of an omnichannel supply chain is the need to be more flexible when managing inventory. For example, monthly cycle-to-merchandise planning — which does not address individual store needs — is no longer adequate to keep up with rapid, short-term shifts in demand. Instead, retailers should be making these decisions at least weekly, while addressing the specific variables unique to each business segment — including individual stores, e-Commerce sites and wholesale partners.

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The answer for many forward-thinking retailers is to implement a **single broad solution** suite that can support an omnichannel business while removing technology hurdles. This type of system examines one aggregated pool of inventory, then allocates and replenishes stores based on established business rules, such as greatest service need. This enables retailers to visualize how their entire supply chain fits together, so they can respond quickly to trends and ensure the best performance from their merchandise assortment.

For example, at **The Finish Line**, a footwear athletic specialty retailer operating online and in more than 600 stores in 47 states, “Having one system to write our orders, allocate our orders and replenish our inventory definitely makes us more efficient,” said Katie Morrison, Senior Director of Planning and Allocation. “The way the data connects to our

other enterprise systems is also very important. On top of systemic efficiencies, it’s people efficiencies. To be able to access information faster to make better decisions is fantastic.”

The retailers that can best leverage their inventory investments stand to win more satisfied customers and higher margins. This eBook explores **five important areas** where retailers can leverage the benefits of a single view of their inventory to gain more nuanced, granular control of their businesses:

1. Automatic Inventory Replenishment
2. Ability To Create Pre-Packs
3. Implementation Of A Virtual Channel Warehouse
4. Multichannel Planning Throughout The Business
5. Assortment Customization For Specific Markets Or Channels





Automatic Inventory Replenishment

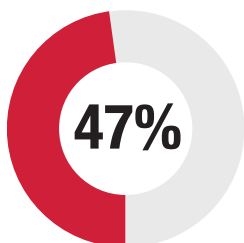
Managing an omnichannel retail business with a single, broad solution suite enables retailers to maximize efficiency and customer service by sharing inventory across the organization, but it also introduces new challenges in ensuring each channel and store is supported according to its individual needs.

As a result, retailers are feeling increased pressure to enhance their inventory management capabilities. According to Aberdeen, 47% of Best-in-Class companies have established inventory optimization initiatives as strategic actions, as reported in *S&OP: Beyond the Demand/Supply Match - A Journey, Not a Destination* (June 2015).

Managing inventory in an omnichannel world demands a more sophisticated, granular automatic store replenishment system, one that considers all factors affecting demand to provide a store and channel with the right inventory at precisely the right time. This requires

well-honed forecasting algorithms that recognize patterns such as lumpy demand, and allow the retailer to ship accurately against a sales projection that has been updated weekly, by store, instead of going by the overall business or cluster.

Retailers that incorporate automatic store replenishment into their supply chain planning can **reduce out-of-stocks** and create opportunities for **more sales and fewer markdowns**.



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— Aberdeen Group



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Groupe Dynamite Employs A More Localized Approach To Go Global

An antiquated automated inventory system at growing, Montreal-based fast-fashion retailer **Groupe Dynamite** was imposing uniform auto replenishment rules across all stores. This meant, for example, replenishing the same back-to-school assortment at the same time, whether a store's market went back to school in July or September. It was difficult to build the inventory for each store around the different dates; the retailer had to do multiple work-arounds, and was not always successful. In addition, after big events such as Black Friday, the retailer was replenishing too much inventory because it didn't see that sales trends were going down.

For size curves, Groupe Dynamite had been looking at sales history by size at a 25% sell-through rate across the entire chain. This meant that the retailer was understating the sales history of newer stores that had just started to sell in all sizes.

Now, the retailer can take advantage of an in-stock sales feature that allows it to look at sales by size over a longer time period. Its size curves are better because Groupe Dynamite is taking the history of all stores at the times when they were in-stock in all sizes.



In fact, as Groupe Dynamite expanded its global footprint to more than 380 locations for its two brands — Dynamite and Garage — and moved toward omnichannel, it needed a more precise approach overall. “We want the inventory to be in the right stores; transfers are costly,” said Isabelle Rousseau, Allocations Director, Groupe Dynamite, which deployed retail optimization solutions from Logility. “Before, we were reactive. Now we have the ability to be proactive — Logility helped us increase our allocation precision, and we have different rules for many situations.”

Today 80% of Group Dynamite's fashion replenishments are automated, and while e-Commerce gets a 100% initial allocation, stores now receive around 50% of inventory on initial allocation instead of 70%, helping the company respond better to trends and the specific demand-pull signals. “We trust the Logility algorithms to make better decisions faster than the human brain,” said Rousseau.



Ability To Create Pre-Packs

For stores with high volume but minimal backroom storage, pre-packs make it fast and efficient to replenish sizes each night.



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Ordering and moving inventory in pre-packs containing an array of sizes brings significant operational efficiencies, but a surprising percentage of retailers still order in 'eaches.' In the distribution center, pre-packs replace the labor-intensive process of putaway, picking and packing store assortments from whole cases of a single size with the ability to receive, cross-dock and immediately ship pre-sorted cases containing an array of sizes. This significantly impacts cost per unit shipped.

In addition to minimizing supply chain touches, pre-packs help ensure that individual stores are stocked according to the needs of their own clientele. A pre-pack of 12, for example, may have a larger proportion of smaller sizes for one market, while another market may need a preponderance of extra-large items.

For stores with high volume but minimal backroom storage, pre-packs make it fast and efficient to replenish sizes each night. They also support e-Commerce by making it easy to put away and then locate specific sizes to fill digital orders.

It takes a more robust level of functionality to establish pre-packs down to the individual store and channel level by SKU, then roll that up to a single vendor order, something spreadsheets or legacy systems often can't handle.



Pre-Pack Options Open The Door To Strategic Allocation At The Finish Line

Ensuring the right size assortment for each store is an important part of the value proposition at footwear athletic specialty retailer **The Finish Line**. “Pre-packs enable us to be efficient as well as specific with our sizing,” said Katie Morrison, Senior Director of Planning and Allocation. In the past, a home-grown system had generated size curves, also known as proportional profiles, by store, creating pre-packs in multiple size runs (e.g., one style, one size and one color per case). However, this process was cumbersome, partially manual and prone to error.



After partnering with Logility, The Finish Line takes a more fine-tuned approach: The retailer can now consider pre-pack options from the vendor to create perfect orders by store, choosing to build in about 30% in open stock inventory as well, so it can be more strategic and analytical about upfront buys while also significantly enhancing DC speed and labor efficiency.

Then, the retailer can allocate and replenish stores according to desired strategies in an automated way. “To me, it’s excellent,” said Morrison. “Before, we had a lot of smart people pushing buttons, and now we can let the smart people do smart things and the system push the buttons for us.”

Throughout the supply chain, “pre-packs exponentially increase efficiency,” said Morrison. “We decrease our touches in the DC and increase our output to stores.” It’s also more efficient for stores to put away a pre-pack in their back room than piece together individual boxes to get the desired size run, which ultimately serves the customer faster, whether for an in-store sale or to support a digital order.



Implementation Of A Virtual Channel Warehouse

Almost all (91%) retailers believe cross-channel inventory sharing is a best-in-class capability of the supply chain, according to *The State of the Retail Supply Chain: Essential Findings of the Fifth Annual Report* (RILA, March 2015), but just 59% say their internal capability to accomplish this is “strong.”

One of the side effects of sharing a single pool of inventory for use across

channels is that unpredictable demand can interfere: Inventory pulled to meet a demand surge in one area can leave another understocked. One solution is to go in and manually reserve that stock, but it's easy to forget to free up reserved inventory later, so it often sits unused and ultimately must be marked down.

Using a virtual channel warehouse concept, retailers can protect a portion of inventory, allowing it to remain in a single location such as a warehouse while ensuring it's on hand when needed, e.g. for a store with limited stockroom space. If it's not needed for that store by a pre-set date, it is automatically freed for use by any channel, so merchandisers don't have to remember to do this manually.

This solution also facilitates staggered shipments to stores, automatically releasing inventory for shipment according to plan. This greatly improves efficiency and allows planners to cost-effectively plan inventory across the retail network, to give each store the best opportunity to achieve its financial plan.

Virtual Warehouse Significantly Cuts Closeout Percentage

One retailer wanted to reduce logistics costs by shipping bi-weekly to some stores instead of weekly. The Virtual Channel Warehouse approach enabled the retailer to realize substantial logistics savings while

ensuring stores received the inventory they needed. The percentage of closeout merchandise dropped from 75% to 25%, so three-quarters of merchandise is now always in stock to support customer satisfaction.



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Can You Afford To Run Your Business On Spreadsheets?

Here's the good news about spreadsheets. They are:

- **Highly customizable;**
- **Useful for everything from scheduling to expense reports; and**
- **Widely available throughout most organizations.**

But those benefits are overpowered by many significant drawbacks:

- **Easy customization leads to discrepancies across departments or planning teams, which must be resolved before real planning can begin;**
- **About 94% of spreadsheets deployed in the field contain errors, according to researchers Powell, Baker and Lawson;**
- **Spreadsheets foster creativity on a small scale but don't scale, according to ChainLink Research's *Is the Crisis in Demand Management Being Exacerbated by Spreadsheet Dependency?* (January 2014)**
- **57% of spreadsheet users have never received formal training on the spreadsheet package they use, according to ClusterSeven.**



In short, spreadsheets don't know the rules of retail. But the right retail management platform offers **consistency in the application of business rules**, with the right kind of flexibility. This means meetings are about collaboration — not whose numbers are “better.” Spreadsheets may be great for ad hoc analysis, but the most efficient retailers don't bet their margins on them.

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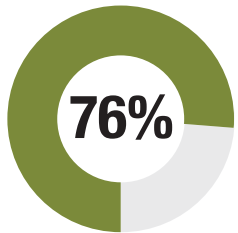
Multichannel Planning Throughout The Business

Every retail touch point is inherently different: Customers of one store are different from another; those who shop online are different from those who use the mobile app or the call center; some customers cross channels and some don't. Retailers also operate under different brand names and formats. Each of these channels must be planned in a logically different way, because there are different variables and parameters driving each one.

But effective planning and efficiency in operations and use of inventory come from a global perspective: All those separate activities must be rolled up to get a corporate-level view of the entire business'

requirements. Retailers want to drive the highest margins and highest levels of customer satisfaction, but they cannot be certain where that demand will come from. They need more flexibility in how they manage inventory.

As many as 76% of retailers lack visibility across their multiple channels of operation, including online, mobile, in-store and catalog, according to the Boston Retail Partners (BRP) 2014 *Merchandise Planning and Allocation Benchmark Survey*. BRP noted that many retailers have been slow to adopt advanced retail planning solutions, with more than 60% of respondents relying on spreadsheets or home-grown solutions to meet today's complex planning and supply chain challenges.

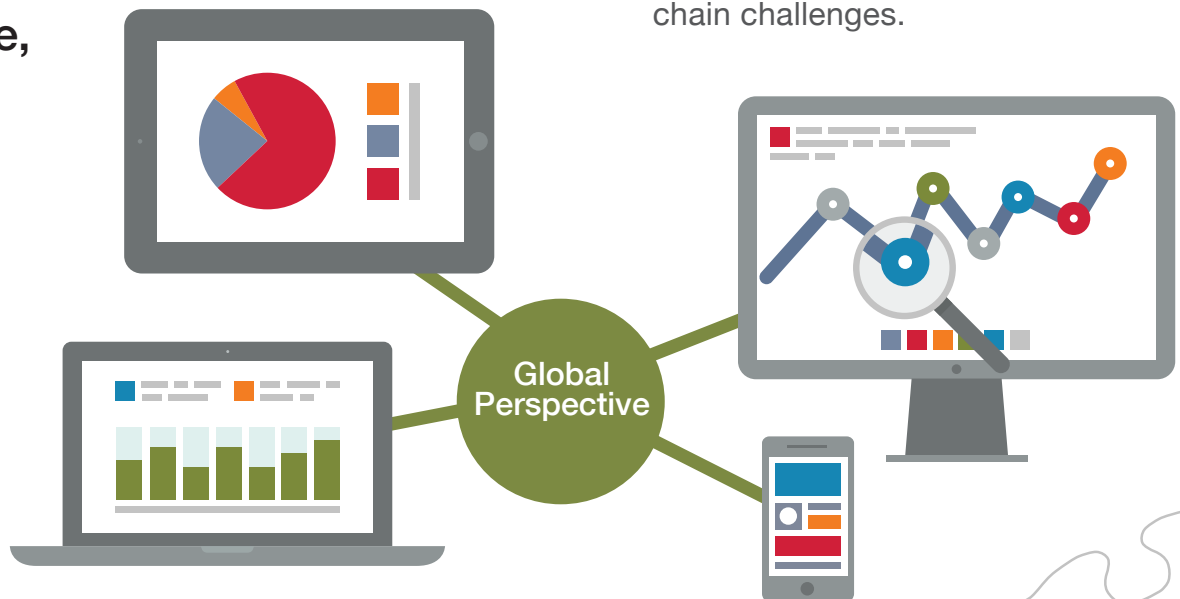


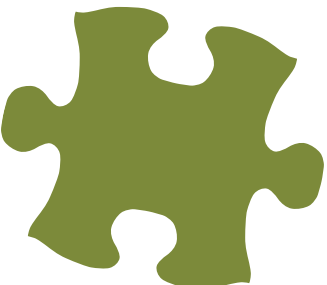
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— Boston Retail Partners



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Retailers need advanced software that supports omnichannel operations, with one aggregated pool of inventory that can be allocated and replenished across channels based on established business rules. At the same time, they must break down the organizational barriers that encourage hoarding of inventory within each functional area, incentivizing instead around holistic

goals such as highest margin or service levels.

According to BRP's 2015 *Merchandise Planning Benchmark Survey*, just 11% of retailers believe their current planning team integration is effective; another 39% say they have implemented an integrated planning team across channels but it needs improvement; and 25% plan to implement one.

Effective planning and efficiency in operations and use of inventory come from a global perspective.



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Achieve Granular Planning When Merging Retail Businesses

Mergers and acquisitions can present significant challenges, especially when it comes to merging disparate systems. But if the combined company merges to a single unified solution for planning and inventory management, then the transition can become seamless. In one example, a specialty retailer was able to quickly implement its existing merchandise sizing and workflow configurations into the acquired chain, as well as convert the business from traditional retail accounting to cost method accounting, because these functionalities were already built into its Logility suite. Both would otherwise have taken months to convert. As a result, the newly expanded chain can now optimize use of its expanded inventory and buying power while planning with greater efficiency at a granular level, according to brand and channel.





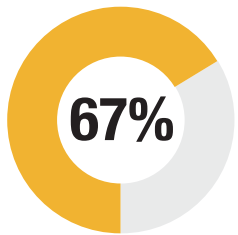
Assortment Customization For Specific Markets Or Channels

For retailers operating on an international scale, the supply chain knows no boundaries. However, each country and region presents unique demands that influence product assortment. Mini lengths may be playing well in one region while maxi is the rage in another. Products may need slight variations to appeal to local tastes.

The challenge of seeking to optimize use of inventory across channels gets magnified when looking across borders or oceans, particularly if those operations are managed by separate organizations with their own balance sheets. According to BRP, 67% of respondents identified enhancing assortments as one of their top three priorities, and 65% are planning to upgrade or replace their assortment planning application within three years.

With all of this variation, sorting stores by cluster, and directing the broadest assortments to the largest stores and smaller assortments to smaller stores, is not enough.

Instead, retailers need to dynamically assort stores into multiple volume ranges within a store attribute type, then leverage attributes such as vendor, color, fabric and silhouette for consideration and analysis in the assortment planning process. The allocation process can be directly linked to the assortment plan, or modified as needed to reflect product receipts and current store needs, while remaining visible across the organization.



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— *Boston Retail Partners*



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Customized Assortments Cut Markdowns And Boost Customer Satisfaction

An advanced retail planning solution increases visibility across the business, to help allocate the right assortment of products to the right place at the right time to drive omnichannel performance. At one specialty retailer with a global footprint, the ability to personalize its business rules for the unique demands of each market and channel enabled it to customize assortments to reduce markdowns and increase customer satisfaction. Because the process was automated, merchandisers could spend time watching and adjusting for changes in the market, rather than manually managing allocation and replenishment activities.



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Conclusion: Optimizing The Supply Chain For Omnichannel

Few retailers could survive if they simply added more inventory, technology and staff to support each of their business models, channels and geographic locations. Transitioning to an omnichannel model is a challenging but essential part of both delivering a seamless shopping experience and managing inventory effectively.

Retail leaders are realizing that managing their business using a **single broad solution suite** enables them to visualize their entire supply chain, so they can leverage their inventory intelligently to respond to trends and ensure the best

performance from their merchandise assortment. Some of the biggest benefits can be seen in more nuanced auto-replenishment, smart use of pre-packs, use of virtual channel warehouses, all-channel rather than siloed planning, and the ability to customize assortments by market without losing the global view.

Customers view retailers as one big brand with lots of touch points, but all offering the same core value. Adopting advanced retail management solutions enables retailers to visualize and operate their business with the same perspective.



About



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With more than 1,250 customers worldwide, Logility is a leading provider of advanced retail planning and collaborative supply chain optimization solutions that help medium, large, and Fortune 100 companies realize substantial bottom-line results in record time. Logility Voyager Solutions™ is a complete supply chain management and retail optimization solution that features a performance monitoring architecture and provides supply chain visibility; demand, inventory and replenishment planning; Sales and Operations Planning (S&OP); supply and inventory optimization; manufacturing planning and scheduling; retail merchandise and assortment planning, and allocation and replenishment; and transportation planning and management.

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