

# AN Apparel THOUGHT LEADERSHIP REPORT

New retail technologies can help planning and allocation teams stay in synch, giving fashion brands the tools to help transform their performance and deliver truly compelling collections.

There is an urgent need for greater seamlessness and integration between what are still two separate camps within many apparel retail organizations: planning and allocation. It's no longer a one-way street — plan and then execute. Successful retailers see planning and allocation as a two-way street. Bi-directional processes are essential to keep information flowing and plans evolving, from planning to execution and then execution back to planning.

Amid omnichannel complexities, retailers have worked to tear down silos between channels. Many now approach planning with a single pot of inventory in mind to service demand across all their channels. Yet there can be disconnects between planning and allocation when it's time to execute plans and adjust to the unexpected.

"Assortments and allocations miss customer and demand trends quite often," says Sahir Anand, vice president of research and principal analyst, EKN Research. "If changes in assortments and allocations can happen in a coordinated and unified way, sales and revenue will not suffer nor will gross margin due to excessive markdowns."

The latest retail IT solutions can help planners and allocators "read" and react to what is happening in the business, retrending and revising their plans along the way. But to really excel, retailers also have to undertake organizational change.

"We can't lose focus on the same issues we've always had," says Lindsey Mazza, senior manager, North American supply chain technologies practice, Capgemini. "We have to invest in the new technologies and new organizational structures that will be better for the future."



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# Time for a Fresh Take on Assortment Planning & Allocation

“An updated platform-based strategy is needed for fashion retailers to succeed in a dynamic, customer insights-driven environment,” says Anand.

## The Great Divide in Traditional Merchandising

Traditionally planners would build assortments and order products (inventory). When the stock started to arrive, a separate team would then decide what to do with it. That approach doesn't work well in today's fast-paced omnichannel environment. Execution needs to be done in lockstep with the plan to ensure success.

At the same time, planners must understand selling trends and dynamics down to the store/SKU level and online. Allocators are often intimately familiar with these variables, but they may not have good insight into the assortment plan strategy. There must be strong visibility into the strategy on both sides of the house. Without this common view, it's almost impossible to forge strategies that cater to local and cross-channel demand trends.

Retailers need iterative reconciliation up and down the planning and allocation process. In other words, planners and allocators must have a systematic means of checking in with each other —analyzing business conditions and revisiting their game plans based on the latest financial targets, sales activity and forecasts. Sometimes this connectivity is missing because of disparate systems. Conflicting departmental goals and lack of clear direction can further frustrate the situation.

“Low inventory turns, lack of sell-through and high markdowns are all signs of disparate and legacy strategies that impair merchandise and assortment lifecycle management,” says Anand.

Without a cohesive plan and agreement on how best to roll it out, it is extremely difficult to determine how



Photos courtesy of Kathmandu.

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assortments from a shared inventory pot should flow into different channels. Moreover, reacting to sales trends outside of the spirit of the plan can result in brand inconsistencies, which confuse consumers and potentially damage the brand. For example, the plan may call for a larger assortment of higher-priced items online, based on analytics that show online shoppers are willing to spend more. Or there may be a plan to stock a broader assortment of an edgy new collection in store clusters



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**Why are many fashion brands revisiting their traditional approaches to assortment planning and allocation?** Many fashion retailers are finding that they have too many barriers between planning and allocation. Lack of integration between teams and systems limits their ability to execute well on their plans and keep up with today's consumers. Omnichannel complexities have only heightened the sense of urgency to break down these barriers. Planning and execution cannot operate as separate distinct processes anymore. In omnichannel retail, you're dealing with one pot of inventory. It's critical to plan for where you are going to sell, which channels you plan to sell stock in and how much you're buying for those channels. You also have to plan for how you're going to execute the plan and where you are putting the stock, down to the store level. And depending on your business model, you also may need to plan to hold back stock for online sales. If you truly tie together your assortment planning and allocation processes in a very seamless, integrated fashion, you can achieve strong results and react quickly to how demand is shifting and to emerging trends.

**How are the lines blurring between the two?** When we see assortment planning and allocation working seamlessly as they should, sometimes we call it "planication." There is a continual

reconciliation between each step in the planning and allocation process. With the right retail IT solutions, teams have clear visibility to data about where demand is coming from and where it's being fulfilled from. They have a shared understanding of the spirit of the plan and how to execute it. In a traditional scenario, you might have planners and allocators making decisions based on completely different strategies and targets. That often occurred because they were working in very different systems. Because they couldn't integrate their information seamlessly, it was difficult to transfer the ideas and direction of the plan into the next step of the process. Today's retail IT solutions help by providing a seamless transition between high-level planning to detail-level planning and then execution down to the channel, store and SKU level, taking into account trends in actual consumer demand.

**Could you describe how the latest technologies are helping retailers practice their art and "apply science" to assortment planning and allocation, making it more customer centric?**

Retailers know their products, their customers and the trends in the market. Today's technologies can help them to make well-informed decisions on what direction the assortment should go, where it should be allocated and what quantity should go out. IT solutions provide system-based calculations and

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recommendations based on analysis of huge amounts of data. The systems provide the best insights they can make, and then retailers rationalize the system's recommendations with their own insights. They can accept the system's recommendations or augment them based on their unique knowledge of the business and customers. For example, the software can analyze hundreds of different attributes that are driving demand and help you decide how to best cluster your stores based on shared attribute patterns. Then the system can tell you how many options and how many products you might want to offer in one cluster of stores vs. on the web, for instance. The science is the system making recommendations based on all of the information it can gather and analyze. The art is then taking those recommendations, validating them against what the retailer knows and making sure the two are in balance.



JustEnough's industry leading Merchandise Financial Planning, Assortment & Space Planning, Markdown Planning, Promotion Management, Allocation & Replenishment and Customer Insights solutions help retailers create effective assortment plans and markdown strategies, assign the right amount of space to each product or category, allocate products to optimal channels, plan and execute effective promotions and replenish inventory with accuracy. Available OnSite and OnCloud, JustEnough for Retail is a complete, end-to-end solution that helps retailers achieve results that impact the bottom line. JustEnough is trusted by many of the world's leading brands including Abercrombie & Fitch, Billabong, Hema and Grupo Cortifiel. Learn more at [www.justenough.com](http://www.justenough.com).



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- ✓ Customer Insights



# THOUGHT LEADERSHIP REPORT

## ASSORTMENT PLANNING AND ALLOCATION

avored by fashionistas. If allocators are not aware of the overarching strategy, they may end up overstocking a store with styles that miss their targets.

“Because of a lack of integrated systems, retailers can push the same quantity of product to all stores, and they end up with a store sold out of a style in California and a store in the Midwest that hasn’t sold a single unit,” Mazza says. “Then they have to do store-to-store transfers to address something that could have been avoided during an in-season planning process.”

New Zealand-based outdoor retailer Kathmandu hit some limitations in assortment planning back when it relied on spreadsheets for much of its planning processes. For example, the company needed flexibility to plan at an aggregate level and then execute by store grade level at a later point. This planning needed to include inventory for stores yet to be opened. Kathmandu has four grades of stores ranging from 200 square meters (about 660 square feet) to 1,200 square meters (about 4,000 square feet). Each grade requires different presentation stock based on the available retail display space.

Kathmandu, which has approximately 160 stores across Australia, New Zealand and the U.K., was hampered by a decoupled process from planning to allocation to replenishment. Two key hurdles were:

- Planning merchandise for the next season nine months out without an integrated view of forecasted demand and presentation stock requirements. Kathmandu needed for this holistic view to include information on trends from the current season and for the season being planned.
- Depending on manual system manipulations to arrive at stock projections to support future seasons. This approach resulted in too much buffer (risk) stock.

“We knew we needed to find a platform that could take us on a journey toward an integrated solution across merchandise planning into allocations and replenishment, and one that could address our multichannel business,” says Caleb Nicolson, general manager, supply chain.

### A Seamless Solution

The modern merchandising process begins with financial planning (setting targets) and moves through assortment planning (planning and buying stock) and then to allocation. It is an iterative process from end to end, from planning to execution.

When planners and allocators have access to shared IT solutions, they can reconcile plans at each step of the merchandising process. How is the assortment plan measuring up against initial financial targets? How can the

plan be revised based on anticipated demand closer to market? How should it be adjusted in response to actual in-season sales trends?

Retail team members from across disciplines and departments should be able to see the same information and react to changes, Mazza says. “We look at this information, reconcile any differences, and then move forward with one forecast that guides the assortment plan and downstream allocation and replenishment strategies,” she says.

“Allocation and assortment management teams need to be encouraged to share unit-level insights in real time with each other, and allocation managers must be able to see and use multiple, attribute-based consumer insights driven from the planning process,” Anand says.

Kathmandu implemented a solution from JustEnough to help it manage assortment and item planning, demand forecasting, inventory planning and replenishment. The software integrates seamlessly with the retailer’s Microsoft Dynamics AX ERP solution because JustEnough is a global Microsoft Dynamics partner. The solution gave Kathmandu the desired ability to plan presentation stock by store grade as part of the inventory planning process. “We could then purchase stock knowing we would open a specific number of new stores by store grade during the coming season. We didn’t have to specifically associate inventory requirements to the point of purchase,” Nicolson says. “This ability to decouple planning at a macro level from a specific store level was very useful.”

The retailer also has been an early adopter of both the pre-season and in-season planning capabilities from JustEnough which enable Kathmandu’s teams to execute to their original assortment plan and then remain very flexible about how they replenish the style range once in season. For example, the plan may call for a target style count by product group for C-grade stores. However, there could be underperformance or overperformance in the season between when the planned merchandise is ordered and when it arrives. Kathmandu can adjust its store assortments right up until the season begins and it’s time to execute. “That’s giving us higher availability and an opportunity to perform better on some of those lines,” Nicolson says.

The company is also starting each season with better plans based on more accurate forecasts, resulting in less excess inventory, he says. The efforts are paying off. Kathmandu is holding about 10 percent less stock, and more of the stock it does carry is selling at full planned margin. The company sold 20 percent fewer clearance



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items in the first half of 2016 and had 35 percent less clearance units on hand, while sales went up 9.3 percent and profits increased 15.8 percent.

The latest generation of retail planning technology helps businesses embrace customer-centric merchandising. They can utilize built-in analytics to tailor assortments to store clusters. Retailers can cater to very specific tastes of local markets and online consumers. They can plan and allocate targeted assortments according to geographic location, demographics and many other attributes. “The important part is making sure you have an allocation strategy to distribute a product based on how that product performs in certain places, whether in a store or online,” Mazza says. “Today’s retailers can create a location strategy in the assortment plan that they feed to allocation which results in allocation strategies directed from the planning process, with the common link of having one reconciled forecast supporting each process.”

A massive leap from what was possible 20 years ago, this forecasting, planning and allocation process can also weave in highly localized and personalized information. “They can create a forecast that is optimized for every consumer,” she says.

Leveraging its new system, Kathmandu has gained greater insights into trends among omnichannel consumers. For example, the brand is focused on travel and adventure. Its customers often travel to find adventure around the world. The company has identified opportunities where customers are shopping for snow products during the Southern Hemisphere’s summertime because they are planning ski trips in the Northern Hemisphere, where it is winter. Some of these shoppers would see Kathmandu jackets online and then come into stores looking for the merchandise and find it not available. Now the company carries a good range of ski jackets year-round in its stores. Now consumers can purchase these products online and have them shipped to their homes or arrange to pick up at their nearest store. “We are using that data from customer orders to know what we need to stock,” Nicolson says.

While the complexities of the omnichannel supply chain keep Nicolson and his team continuously challenged to sharpen the ax, he finds it exciting. “It’s a really difficult challenge to solve, and the customer is becoming more demanding, but now we have the tools to respond to that,” he says. “This is a very exciting time for our business.” ■