

Retail Assortment Management Performance Blueprint



Introduction

Today's consumer has a number of options when making a purchasing decision. This increased number of product choices and channels, along with changing market conditions, are altering their spending habits. More than ever, retailers have to work hard to win over customers while staying on top of sales and merchandise performance and spotting trends to optimize operations and maximize profits.

So, how are successful retailers able to prosper while others falter? The answer is they can easily model scenarios to develop optimal plans, view their merchandise performance against plans and use this visibility to make smarter decisions. They can have the tools to gauge changing customer tastes and priorities and make the necessary adjustments to plans and operations to address customer preferences and market factors.

The *IBM Cognos® Retail Assortment Management Performance Blueprint* provides you with the visibility you need to make smarter buying decisions and meet profitability objectives—while offering a differentiated assortment to your customers.

Visibility, insight and action—today's retailing challenges

The basic concept of retail has remained the same for many years: to provide unique merchandise and services to consumers at a desired price. What has changed is the scale and complexity of the modern retail business. Customer demand, greater competition, more channels, the challenges of time and scale, faster product life cycles, the growing importance of supply chains, global trends and a slowing economy are driving the need for better performance. In addition, as retailers try to react to these factors, they face these challenges:

- Fractured planning processes.
- Optimization of inventory investment—avoiding stock-outs, over-stocking.
- Under-buying because of poor demand forecasting.
- Segment blurring.
- Differentiation from other retailers.
- Stagnant product selection.

To address these challenges, retailers need better information, operational efficiency and inventory control. Speed, flexibility and up-to-the-minute information about merchandise performance are critical for retailers to meet customer demands while meeting sales, margin and return on inventory investments. Just as important, all parts of the company have to work together to manage corporate strategy and achieve goals and objectives.

What retailers need is a merchandise planning solution that helps them:

- Develop better plans to make smart inventory investments.
- Manage stock levels to drive sales and margins.
- See trends as they emerge to align supply and demand.

The *Retail Assortment Management Blueprint* is that solution.

Introducing the Retail Assortment Management Blueprint.

The *Retail Assortment Management Blueprint* provides pre-season and in-season merchandise planning and performance management. It includes target-setting, top-down and bottom-up planning, consensus, scenario modeling and visualization of data to help retailers manage performance against plans (Figure 1).

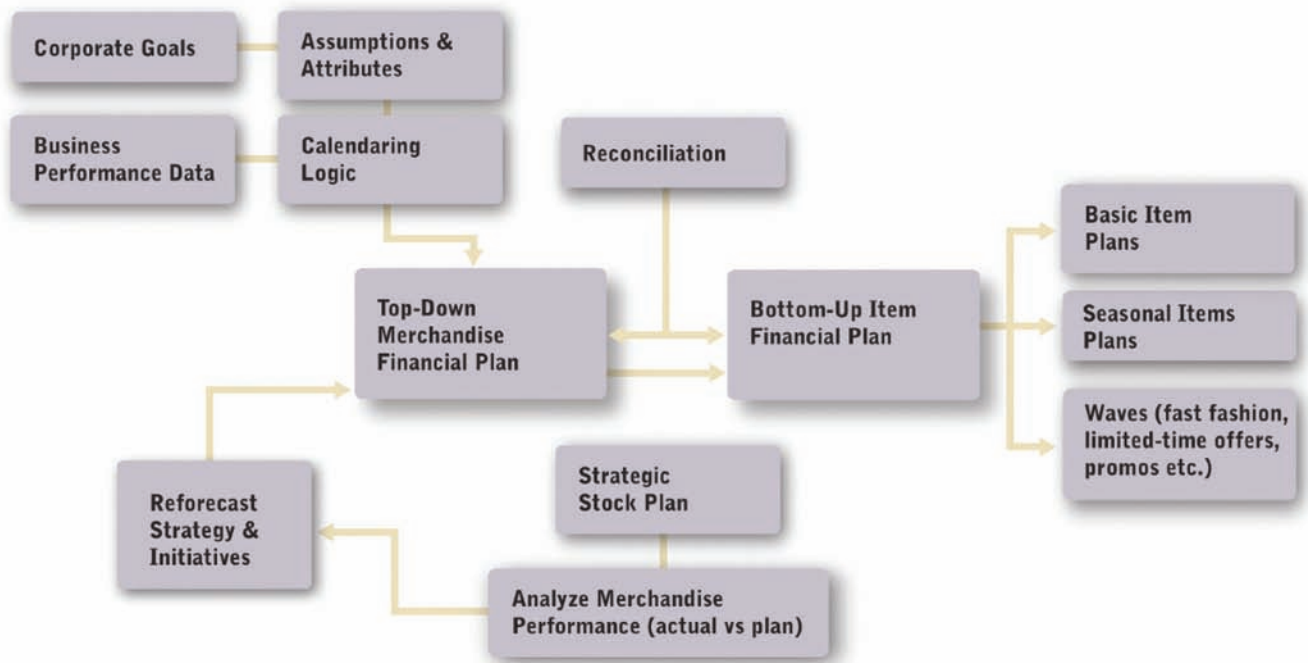


Figure 1. Retail Assortment Management Blueprint integrated solution flow

IBM Cognos Performance Blueprints are predefined data, process and policy models that provide best-practice approaches to performance management. Provided at no additional cost to IBM customers, Performance Blueprints feature pre-configured data models and more to facilitate rapid time-to-value.

Designed in collaboration with industry leaders and some of IBM's most successful customers, each *Blueprint* is a Web-based process that uses solutions from the IBM Cognos performance management platform. The developers of Performance Blueprints design these models and processes so that most companies can use them with little or no additional coding or IT intervention. Companies can also configure Performance Blueprints to support alternative model requirements and to accommodate planning in any environment.

Capitalizing on the capabilities of IBM Cognos TM1 software, which provides high-volume item-level planning, multi-dimensional modeling and data visualization, the *Retail Assortment Management Blueprint* helps retailers:

- Set assumptions and corporate guidelines for financial metrics.
- Define, view and adjust attributes (for example, color, style, vendor, material).
- Use calendaring logic to smooth demand for floating holidays for multiple years.
- Model scenarios based on historical sales, comparables, profiles and budgets.
- Perform top-down target-setting.
- Develop financial merchandise plans at the division, channel, department or category level.
- Create flexible seasons for basics, seasons and "waves".
- Perform bottom-up item-level planning.
- Understand variances and achieve consensus on top-down and bottom-up plans.

- Generate strategic stock plan, manage inventory levels and key metrics.
- Develop multiple versions and what-if scenarios with the “sandbox” capability.
- Use reporting and analysis to manage performance against plans.

	Gross Sales	Returns	Returns %	Promotions	Promotions %	Promotion A	Promotion A %	Promotion B	Promotion B %
Total Products	20,534,734	1,232,084	6.0%	3,285,557	16.0%	1,232,084	6.0%	2,053,473	10%
Hardlines	11,393,263	692,053	6.1%	1,822,922	16.0%	683,596	6.0%	1,139,326	10%
Softlines	9,141,471	540,031	5.9%	1,462,635	16.0%	548,488	6.0%	914,147	10%
MENS OUTERWEAR	5,704,840	337,300	5.9%	912,774	16.0%	342,290	6.0%	570,484	10%
Mens	5,704,840	337,300	5.9%	912,774	16.0%	342,290	6.0%	570,484	10%
Womens	3,436,631	202,732	5.9%	549,861	16.0%	206,198	6.0%	343,663	10%
WOMENS OUTERWEAR	3,436,631	202,732	5.9%	549,861	16.0%	206,198	6.0%	343,663	10%

Figure 2. View financial plan by week by category

How the Blueprint works

Selecting and managing merchandise is always a balancing act—and it all starts with a good plan. Planning might be needed months in advance to procure stock. At the same time, supplier capacity and customer preferences are constantly changing. Retailers need the insight to understand performance, predict and accurately plan for demand, identify emerging trends and take action to address these market trends in an instant. Chains also need the flexibility to introduce new products into their assortment quickly and adjust plans to ensure or develop promotional offers to move inventory when needed.

Using this *Blueprint*, retailers can complete financial merchandise planning and item set planning and develop top-down targets at the chain, division or channel level to use for top-down financial plans and bottom-up merchant plans.

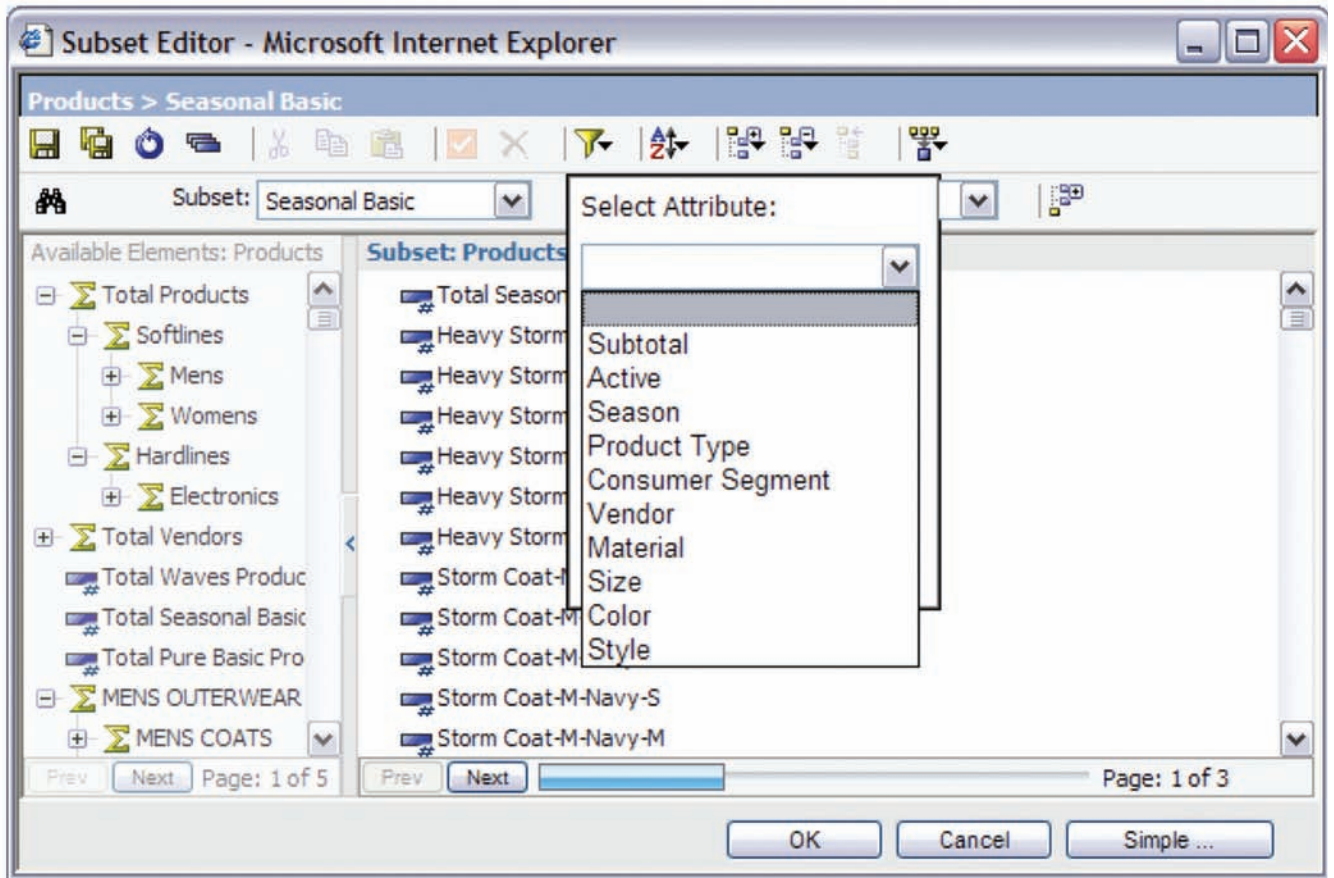


Figure 3. Filter by attribute for a different view of the plan

Merchandisers can use the *Blueprint* to set and view assumptions (Figure 3) to ensure they meet corporate objectives for key metrics, including sales, inventory, markdowns, receipts, turns and GMROI. They can view, define or adjust attributes, such as color, size, vendor, material, and plan, filter and analyze merchandise by these dimensions. They can view past performance and model scenarios to understand in real time the impact of business decisions. Based on targets, they can develop top-down merchandise financial plans by department or category. They can create bottom-up item-level plans using preset or custom profiles for basic and season merchandise. They can do the same for customer seasons or 'waves' for promotional items or mini-seasons. Pre-defined seasonality profiles are provided for merchants, as well as the ability to easily create custom profiles (Figure 4) to plan sell-through patterns for goods.

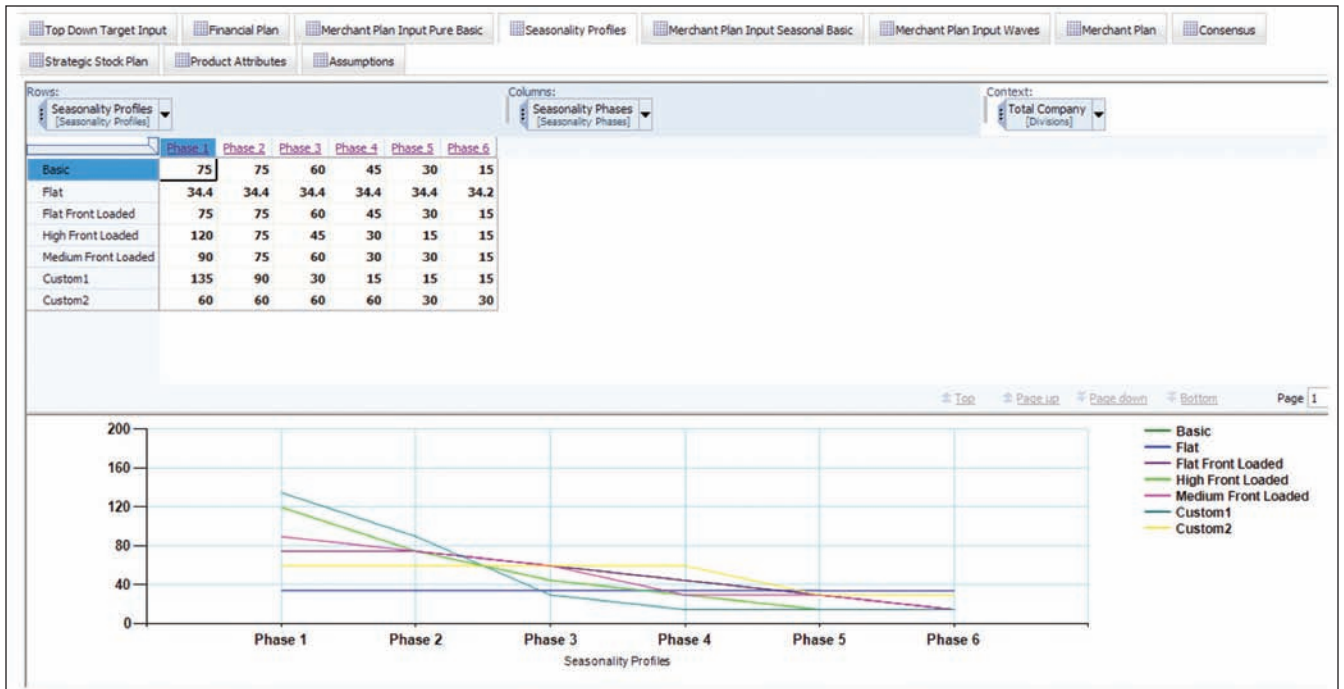


Figure 4. View seasonality profile and manipulate custom profiles

Reconciling these top-down and bottom-up plans is a challenge for many retailers, and the *Blueprint* provides them with a means of establishing consensus (Figure 5) so they can ensure that plans are in synch. After the plans are reconciled, the strategic stock plan manages inventory levels and key metrics. Chains can then analyze sales information, compare results to plans and reforecast as needed to meet customer demand and market conditions.

	Top Down Target	Merchant Forecast	Variance	% of Plan
Gross Sales	1408606.25	1361345.56	-47260.69	96.6%
Returns	83604.44	68053.18	-15551.27	81.4%
Promotions	225377.00	192954.23	-32422.77	85.6%
Promotion A	84516.38	66192.68	-18323.70	78.3%
Promotion B	140860.63	126761.56	-14099.07	90.0%
Markdowns	197204.88	122521.10	-74683.77	62.1%
Markdown A	140860.63	68067.28	-72793.35	48.3%
Markdown B	56344.25	54453.82	-1890.43	96.6%
Net Sales	902419.93	977817.05	75397.12	108.4%
COGS	591614.63	612605.50	20990.88	103.5%
Gross Margin	310805.31	365211.54	54406.24	117.5%
Shrinkage	27125.86	26858.29	-267.57	99.0%
Supply Chain Costs	168976.02	68067.28	-100908.74	40.3%
Distribution	140966.93	40840.37	-100126.57	29.0%
Delivery	28009.09	27226.91	-782.17	97.2%
Gross Profit	114703.42	270285.98	155582.55	235.6%

Figure 5. Consensus reconciles targets and bottom-up plan

In addition, the *Blueprint* offers these easy-to-use and flexible capabilities that help merchants develop more accurate plans:

- Planning and viewing of merchandise by hierarchies, attributes, dimensions, subsets (for example, top and bottom performers, colors and so on) for multiple views of the plan (Figure 5).
- Immediate visibility of the financial and operational impact of plan changes for better decision making.
- Support for multiple versions and what-if analysis scenarios (sandbox) so chains have contingency plans for best and worse case scenarios.
- Overall workflow and status visibility.
- Multiple user interfaces: Web, Microsoft® Excel, PDF.
- Data visualization and analysis.

Blueprint benefits

The *Retail Assortment Management Blueprint* can take you beyond the limitations of spreadsheets, cookie-cutter ERP systems or custom applications that require significant technical support, providing the visibility you need to:

- Develop a differentiated assortment.
- Make smart buys and protect profits.
- Understand trends and respond to changing market factors quickly.
- Model scenarios and understand financial impact of business decisions.
- Control stock levels and maximize inventory investment.

Conclusion

Accelerating consumer trends, changing market conditions and greater consumer buying choices have increased the challenges for retailers as they try to address new marketplace realities and optimize performance. Chains have invested millions in store, merchandising, supply chain and supporting software applications to help them improve customer services and provide a differentiated merchandise assortment. This approach has improved efficiencies, centralized data storage and collection and streamlined key processes. Yet for the volumes of data they generate, these systems have not delivered the visibility retailers need to meet the changing needs of their customers.

The *Retail Assortment Management Blueprint* provides you with the visibility to develop better merchandise plans, to know how you are doing in real time and to make adjustments quickly—all while protecting profits, growing sales and satisfying customers with unique merchandise.

About the IBM Cognos Innovation Center For Performance Management

The IBM Cognos Innovation Center was established in North America and Europe to advance the understanding of proven planning and performance management techniques, technologies, and practices. The Innovation Center is dedicated to transforming routine performance management practices into “next practices” that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance and strategy management, the Innovation Center partners with more than 600 IBM Cognos solutions customers, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

To request a call or to ask a question, go to www.ibm.com/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.



© Copyright IBM Corporation 2010

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
January 2010
All Rights Reserved.

IBM, and the IBM logo are trademarks of International Business Machines Corporation in the United States, other countries or both. For a complete list of IBM trademarks, see www.ibm.com/legal/copytrade.shtml.

Microsoft, Windows, Windows NT, and the Windows logo are trademarks of Microsoft Corporation in the United States, other countries, or both.

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.

Any reference in this information to non-IBM Web sites are provided for convenience only and do not in any manner serve as an endorsement of those Web sites. The materials at those Web sites are not part of the materials for this IBM product and use of those Web sites is at your own risk.

IBM Cognos
Innovation Center
for Performance Management