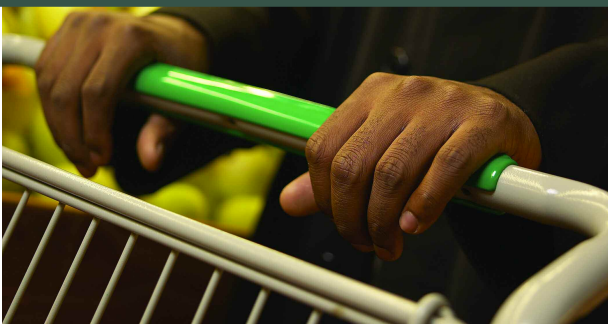


ARVATO SERVICES: CLOSING THE GAP IN RETAIL SUPPLY CHAINS



EXECUTIVE SUMMARY

As retailers sell more and more goods, supply chains become increasingly complex. Yet stores have to stay on top of them to keep their shelves stocked and goods moving. Otherwise, if consumers don't find what they want, they will simply go somewhere else or a sale is lost.

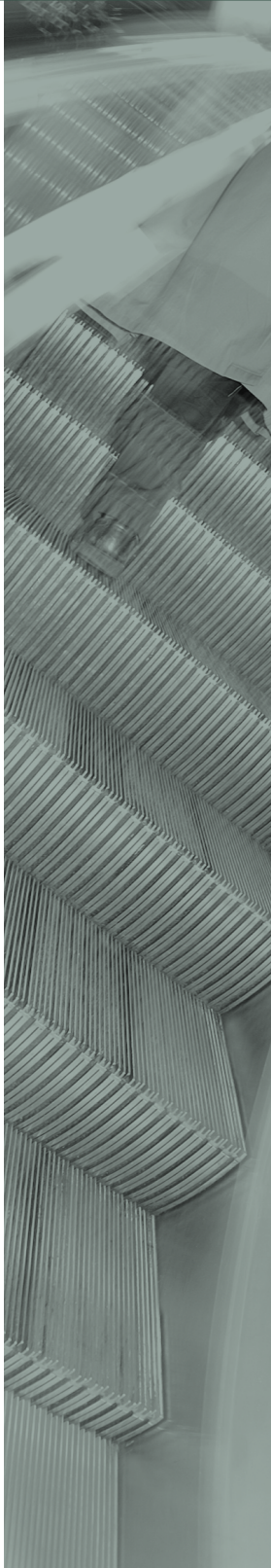
Nowhere is this more critical than in the home entertainment sector – where new DVD or CD releases are highly marketed and surge onto the market. At the same time, significant back catalogs have to be kept in stock. In this case, tighter integration between suppliers and retailers can help the process run more smoothly.

With this in mind, arvato services has developed a vendor managed inventory (VMI) system – with support from Cognos reporting and analysis – to close the gap in retail supply chains and optimize inventory levels.

arvato services is a subsidiary of Bertelsmann AG, one of the world's biggest media products and services providers. The arvato services division provides global supply chain management services. Not just the delivery of products to customers, but also consulting, content management, procurement, production, order management, warehousing and fulfillment, customer service, transport and returns management, and repair services.

This case study will focus on how arvato services leveraged Cognos to help retailers:

- Optimize inventory management at their stores.
- Analyze sales and return quantities, top selling lists, available stock, and customer trends.
- Access and analyze timely sales performance data to respond to market changes.
- Provide the right products in the right amount at the right time at point of sale.
- Optimize limited merchandising space in stores.





BUSINESS BACKGROUND AND THE CASE FOR CHANGE

The home entertainment market is fast paced. DVDs, CDs, and games have to be on the shelves when customers want them, especially when they're anticipating the latest releases. To stay ahead, retailers have to recognize peaks in demand early. Replenishment orders need to be activated in good time to ensure titles are in stock.

At the same time, back catalog titles compete for available store space. Consumers may look for them at any time, and their availability is an important success factor.

Retail-supplier collaboration and advanced inventory management processes like VMI are concepts that have been around for awhile. They allow vendors to optimize production and availability of products by monitoring and evaluating current sales and inventory data along with historical demand patterns.

Following requests from retailers, arvato services developed its own VMI solution – called retail inventory management (r.i.m.) – initially to manage its media product inventory. In 2002, the organization expanded the solution to help clients optimize their inventories. From there, the application was rewritten in 2005 to integrate Cognos reporting and analysis.

Why Cognos? The two organizations have been working together since the 1990s, and arvato has used Cognos products in its data warehouse since 2001. So the BI platform was a logical fit.

“We chose Cognos for all of the reporting and analysis components of r.i.m.,” says Jochen Bremshey, IT Consultancy and Development Manager Europe. “arvato services has enjoyed a ten-year relationship with Cognos. And based on the strength of that relationship, no selection process was pursued.”

THE IMPLEMENTATION

The r.i.m. solution helps retailers optimize both inventory management and replenishment processes. It ensures that the right merchandise is always available at the point of sale (PoS), so stores can maintain lower stock levels as well as minimize returns.

r.i.m. replenishes out-of-stock items at the PoS within 48 hours. How does it work? PoS data from retailer stores or ERP systems are sent to r.i.m. every day via electronic data interchange. This process records sales of each individual title and other stock movements at the connected outlet. (About 2.5 million data records are called up and processed every day.)

As soon as inventory of an item falls below a specified minimum level, the r.i.m. system triggers a replenishment process based on current sales volumes. Products are then shipped out immediately.

“The VMI system dynamically calculates the optimal inventory level for each store and product based on historical sales and in accordance with the expected lifecycle of the product,” says Bremshey.

REPORTING AND ANALYSIS

A major component of r.i.m. is the retail information system (r.i.s.). It incorporates Cognos PowerPlay and ReportNet for analysis and reporting of sales and inventory information.

A multidimensional cube is made available to each arvato customer. Retailers can use the analysis capabilities to determine sales and returns, the best-selling products at each store ('tops and flops'), and inventory trends.

"Analysis can be viewed in clearly arranged graphs and diagrams. This provides for swift and concise evaluation even of extensive volumes of data," notes Bremshey.

Retailers can also access a range of statistical and ad hoc reports online, with the option of entering key words and criteria to generate customized reports. Escalation lists make it easy to identify variations in volumes or requirements. There is also increasing demand for reports that map inventory at different stores to help users plan brand actions.

For those who prefer a spreadsheet environment, reports containing information about current sales figures and inventory volumes for each assortment can be downloaded to Excel, revised, and then reloaded in the r.i.m. system as a new assortment.

RESULTS

"r.i.m. provides easy and convenient planning and monitoring of product assortments of several warehouse chains in one single application," Bremshey explains.

"Additionally, the clustering function enables the user to pool stores with similar patterns of sales figures in order to simultaneously edit several data records. Only a few mouse clicks are needed to allocate a product in any number of stores. This method saves both time and money."

r.i.m. is used across Europe to manage over 125,000 SKUs and products from major suppliers including Microsoft, Paramount, Exxon Mobil, and SONYBMG. On the retail side, more than 6,000 outlets are connected to the system through chains such as Karstadt, Media Markt, Woolworth (Germany), Comet, and Saturn.

The results speak for themselves. Using r.i.m., arvato's retail clients have seen a 90 percent improvement in stock availability, a 95 percent improvement in on-time delivery, a ~20 percent increase in sales, and a ~15 percent decrease in returns.





BETTER INSIGHT IMPROVES THE BUSINESS

One of the key benefits of Cognos reporting and analysis is that they provide product managers with a clear view of which products are selling well and which are struggling.

The reports allow them to take timely action in response to market changes, and replace products as required. By tapping into PoS data, retailers also gain insight into pricing and sales impacts. For example: What price was a particular product sold at in a particular store? This provides far more insightful information in comparison with checking scheduling lists.

“Users have at their disposal a powerful and easy-to-use tool for analysis, which constantly informs them about the sales and inventory figures in each store,” says Bremshey. “Every day, they can monitor all control factors and therefore know which products are bestsellers and which are dead products.

“They are thus able to quickly react to changes in the market by exchanging or replacing products. Exact revenue figures can be deducted from voluminous POS data.”

MARKET OPPORTUNITY

For arvato services, inventory management is a significant market opportunity. The retail industry is dealing with a growing supplier base. Helping retailers optimize the procurement and replenishment process becomes ever more critical. The objective: to ensure optimal sales for each square meter of sales area.

“We have realized that using Cognos tools to manage and analyze PoS data analysis is very useful from a sales point of view. Processing of PoS data, especially preparation and display, is not very common in the industry at the moment, particularly in the entertainment sector, but it is becoming increasingly important,” Bremshey explains.

He further adds: “We see a huge opportunity to promote our system in the market, even if we do not sell the distribution service, but simply offer the system and information through the Cognos platform.

“For example, we managed to win Warner Music Group Germany as a system customer. With new clients like Microsoft and rough trade, as well as SONYBMG this year, we have enhanced the number of clients that are using our system. Now we have other branches like sporting goods, pharmacy articles, and groceries on our target list.”

MOVING FORWARD

In terms of future development, the company sees opportunities to further optimize the data warehouse. The company says users are constantly looking for new applications that will allow them to generate even more information.

“Of course, the limit is always what information is available in the database,” notes Bremshey.

ABOUT COGNOS

Cognos is a recognized leader in delivering business intelligence and performance management solutions for the retail industry. Hundreds of chains worldwide use Cognos solutions to grow sales, maximize margins, and better serve their customers.

Cognos brings together technology, analytical applications, best practices, and a broad network of partners to give customers a complete performance system. The Cognos performance system is an open and adaptive solution that leverages an organization's ERP, packaged applications, and database investments. It enables customers to understand and monitor current performance while planning future business strategies.

Cognos serves more than 23,000 customers in more than 135 countries, and its top 100 enterprise customers consistently outperform market indexes. Cognos performance management solutions and services are also available from more than 3,000 worldwide partners and resellers.