The Agile Retailer

Leveraging Allocations in an Omni World

ChainLink Research

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Introduction: The Need for Agile

Retailers today have multiple brands and multiple channels serving multiple demographics with multiple fulfillment models. That's a lot of *multi's*! Additionally, customers are not static. Customers' lifestyles change—they move, they age, they take up new interests. Retailers can't count on lifetime loyalty or even that their store locations will continue to be a hub of commerce. Thus, their need for agility.

Retailers need to respond to ever-changing markets and customer tastes with more agile business models. Agile retailers are moving away from the fixed locations, fixed seasonal models with fixed notions of style and size to more *ever-fresh* offerings and new brands that are responsive to specific locations and unique customer lifestyles.

The highly competitive fast fashion sector often has short product lifecycles and trends that quickly appear in stores to capture the transient tastes of teens. Conversely, the venerable upscale brands evolve their designs over time, but take bigger risks with each collection. Yet their constraints are similar: They need to manage a *responsive merchandising cycle* without amassing excess inventories, markdowns or lost sales due to stock-outs.

Rather than being all things to all people, agile retailers have learned not to diffuse their brands into less profitable segments. This means focus! They may have identified new, profitable segments, so that means developing or acquiring a new brand to focus on that different customer. They open new channels to capture channel preferences. All these efforts—new chains, channels, and brands—introduce more complexity.

So what does it mean to be an Agile Retailer? If you think about it, at its heart is the recognition that the retailer understands the *business of retail.* Yes, it might have been a driving love of fashion that created the first collection or store. Successful retailing, though, is a tough business driven by the *numbers.* For sustained success, businesses must master the math and remaining agile to stay ahead of market trends.

We talked to several retailers about their business practices and some extraordinary investments they have been making as they grow and also address Omni-channel. In this article we will define some principles of the agile retailer's business model and show how they *stay* agile as the sector embraces Omni-channel. In particular, we will look at the mastering and rethinking of allocation practices. We will use as examples two types of retailers—a traditionalist model and a fast fashion retailer. We will see how their more agile models produce greater results.

Omni Is Not Just a Channel

Omni-channel is not just about web vs. store, but a response to the type of customer—their merchandise and shopping preferences and their need, potentially, for additional retail services. Retailers, in response to customer variety and budgets, have developed more channels—more choice.

Agile retailers have understood that their existing core customer is not static, so they have developed multiple channels and brands to serve these changing needs. For example, as tweens become teens, young professionals, and set up households, their choice in merchandise changes. Or their lifestyle has both work and play. Fast fashion is growing up with their customer. Conversely, traditional brands know that their core customer is aging. They work to capture the new generation with their pallet of offerings.

Customers differ, as well, by region and country—not just due to weather—but size, values, economics and lifestyles. Wherever they are, agile retailers want to capture them as customers.

Omni-channel often introduces the opportunity to have larger collections, since in the apparel sector many store formats are smaller with less backroom to stock all the merchandise. Store associates are expected to serve customers and find merchandise. The web allows for a broader presentation of products, but requires precision in inventory accuracy since sales are self-service, instant, and based on availability.

What Is Fast Fashion?

Focused on the trend-conscious lifestyle of the young shopper.

Products are considered disposable.

Rather than being a purely seasonal model, fast fashion has a more continual model or fast cycle—design through markdown—merchandise strategy.

Fast fashion sourcing is a core capability where brands seek the lowest-cost producers to keep retail prices low enough to allow shoppers to purchase often.

Omni Means Merchandise Forecasting

These investments cost money, a lot of money. So the old model of *stack it high* and *watch it fly* is out. The agile retailer is not about glutting the market with inventory and seeing what sells. Agile retailers are creating more focused collections based on fine-grain analytics.

Groupe Dynamite is one young retailer that is meeting the challenge by leveraging technology to become one of the most innovative and fast growing of the fast fashion retailers. According to Isabelle Rousseau, Allocation Director at Groupe Dynamite,[1] "Our goal is to sell the merchandise in six to eight weeks. So we need the most accurate forecast possible." For them, she says, "Less is more," with an operating model with "the leanest stock levels possible." They work towards leaner merchandise levels without sacrificing sales. Leaner quantities but more collections is the byword of fast fashion. "For us," Rousseau says, "the margin of error is quite narrow."

[1] Groupe Dynamite also has the Garage brand retail chain. Allocations and sourcing are managed in one group.

With traditionalists, on the other hand, styles change more slowly, but investment per garment is greater. Thus, many practices limit the quantity produced in these collections. In fact, scarcity enhances the brand and high fashion retailers, of course, get to charge for that scarcity. However, that does not mean that the customer should not be satisfied, and we have seen high fashion retailers expand the number of their locations. Where once they were only on Worth Avenue and Rue St.-Honoré, they now are in many of the malls around the world. That means a very big financial investment in a collection and this sector does not count on markdowns to clear out unsuccessful items. Here, consumers may return to a store again and again to evaluate a product before they purchase, whereas in fast fashion it's buy now—it will be gone later.

Who Are Traditionalists?

They have long-term core customers and lifestyles. Customers expect new seasonal merchandise items to support and enhance the value of previous purchases.

They develop long-term customer relationship models that include service. They have long-term employee and hiring practices.

Manufacturing supports a more collaborative relationship with suppliers. Many own their own factories, e.g., private label.

Forecasts today, for any retailer, have to deal with a larger array of color, size, and style with the preference for a variety of cuts—European vs. American; or sizing—Asian vs. African. In addition, consumers have voiced their preference for heritage or skinny, low rise or high rise. Each and every garment per market for a channel has to have an accurate forecast to ensure timely introduction to achieve desired sales.

All this can't be done without some pretty intense analytics. As one major retailer said, "There are too many combinations—it's hugely complex. There is no way that a *human can do that without mistakes*—it will always be wrong." So automation across the business is a must.

For fast fashion, forecasting is not a quarterly exercise, but finer tuned and more frequent, constantly assessing current sales. After all, in fast fashion you're already shipping the next collection and designing the one after that. Speed is required to amend designs and quantities, or redirect shipments as soon as possible according to the most current sales data.

Those fast-fashion short selling cycles—4 to 8 weeks before markdowns—drive very different supply chain requirements. The whole chain has to respond differently with dynamic back-end sourcing, and rapid, more frequent inbound.

Traditionalists may stay with the same textile and garment manufacturers for years. Style evolves from year to year rather than by grasping the fleeting fashion trend. But traditionalists are not that slow today, either. Often they are the dictators of style, copied by others. Some also are truly "faster than fast," one retailer told us, with their made-to-measure/bespoke clients. Based on seasonal fabrics or online ordering of *configurables* such as choice of fabric, collar, cuffs, and so on, garments have to be made and sent to customers in a matter of days.[2] "We do respond to market data, and also need to respond to what buyers and store personnel tell us in our showrooms and be able to provide the quantities required within a short window."

[2] Sport shoes can also be designed to order, as can custom fit jeans.

Women's Blue Jeans

1,104 choices per store!

Quantity by demand, by channel, by store

Sizes	23	Petite, Regular, Extra
Cuts	4	Low rise, Curvy, Skinny, Heritage
Lengths	3	Short, Medium, Tall
Fabrics	4	Black rinse, Indigo, Stone wash/ Seasonally adjusted

Figure 1: Allocations and Replenishment Complexity

Allocations: The Hot Topic for Agile Retailers

Agility in retailing means automation—moving beyond manual and spreadsheet methods typically used in tasks such as assortment and allocation to highly analytical and integrated systems. In fact, for agile retailers, the unique roles of the past: Merchandise Planners, Buyers, and Allocation and Replenishment Managers are giving way to more integrated planning processes. That is, when planning collections design and sourcing *teams* work together from inception through to store operations and Omni-channel. Designers need to know what is happening in the stores: Are collections successful, for example? And Omni-channel requires knowing what might be coming in a few weeks and prepare for that. Though some positions may still have those titles, their roles are much greater. They need integrated systems to provide a broader view of the business in order to collaborate across the chain.

For Groupe Dynamite,[3] moving from a semi-manual allocation process to one that is more analytical has allowed them to move with the pace of the business. A fast-fashion business model puts extreme pressure on the retailer to be more agile, not only spotting trends but being able to execute from design through to the channels, markdowns and on again to the next cycle. Agility means not only that product lifecycle management has to be exceptionally executed, but also that inventory has to be managed, and sales and pricing analyzed to maintain profitability.

The old model of fully deploying collections and pushing all inventories into preset channels is giving way to more nuanced approaches.[4] The traditionalist with whom we spoke told us, "We introduced our line for the younger customer and provided that in our stores. The line has proved successful, so we are beginning to open our first stores exclusively for that line. But, we will still stock *some* merchandise in our traditional stores. Understanding the impact of that change may take some time. The data on how to allocate merchandise will be scrutinized very carefully."

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[3] They implemented Logility's Voyager Retail Optimization (Allocation and Forecasting) Suite.
[4] Read: Making Allocations Smarter

For Groupe Dynamite, automating allocations has allowed them to be quite *dynamic* in how they deploy merchandise. They can “seed” the stores with a starting quantity, re-forecast future item sales based on early sales (one or two weeks) and then automatically replenish the stores with the appropriate inventory level based on their future projections. That agility keeps merchandise fresh, keeps customers returning often to check out new merchandise and reduces markdowns later on.

As retailers learn more about their stores and customers, they can allocate with the ability to rotate or replenish stock in sync with store concepts, space availability and local demand. In spite of analytical adeptness, seeing is believing, and showing glimpses of collections in certain markets to test customer taste is a common practice. The agile retailer, though, knows how to respond to the actual results by each location.

Omni-channel services for retailers means stocking and making all brands and collections available *somewhere*,[5] since online customers will want to order across brands. Accomplishing all these approaches requires automated allocations and accurate item-level inventory practices. No spreadsheet method can accomplish this deft, rapid, and highly accurate effort.

It All Hinges on Allocation

With all the retail investments being made in Omni-channel right now, why is allocation one of the core areas being implemented? Merchandise and Assortment planning sets up fixed buy and production decisions. Then it is up to the rest of the business to derive results from their plan. Thus retailers today are putting focus on the methods like allocations[6] to execute the plan.

Omni-channel in particular is a huge investment. Retailers are often putting hundreds of millions of dollars into significant changes in their fulfillment models, changing the inventory strategy to reach new customers. Sales are lost if inventory is not in sync with demand at specific stocking/fulfillment locations. Automating allocation supports this requirement for Omni-inventory.

Updating allocation technology allows retailers a more dynamic scientific approach so they can:

- Develop unique strategies for individual brands. Past allocation approaches implemented a merchandise plan with little thought about demand or sell-through. Nor did they provide feedback to merchandise plans. Today, allocation data can inform design and merchandise strategies.
- Fine tuning analytics can help mitigate poor mechanizing choices, potentially reducing the investment in a product, collection or category that just isn’t selling. So rather than putting all the cash up front into merchandise and allocating out to the stores, more fine-tuned allocation can ‘feed’ merchandise out when and where sales consume it.

[5] ‘Somewhere’ may be in a DC or in a store as agile retailers are using click and collect and pick up from store as well as drop ship methods to support fulfillment.
[6] and replenishment and logistics

- Smarter analytics can also reduce logistics costs by not shipping the entire collection; rather, merchandise can be held back at the DC. Retailers can then gauge the right locations and reduce transshipping costs or use drop ship strategies direct to customers.
- Automating and integrating allocation allows planners to be very productive and allows the data to be part of an information cycle to infuse other processes such as design and logistics.

Strategic View

The retailers we are discussing in this article are really retailers *and* brand manufacturers.[7] They have to think about their business in a highly integrated way across their brands and channels. Figure 2 provides a model that many retailers have been implementing to become agile retailers. Design and store operations are no longer detached operations, but part of a highly integrated fabric by which to manage the overall business.

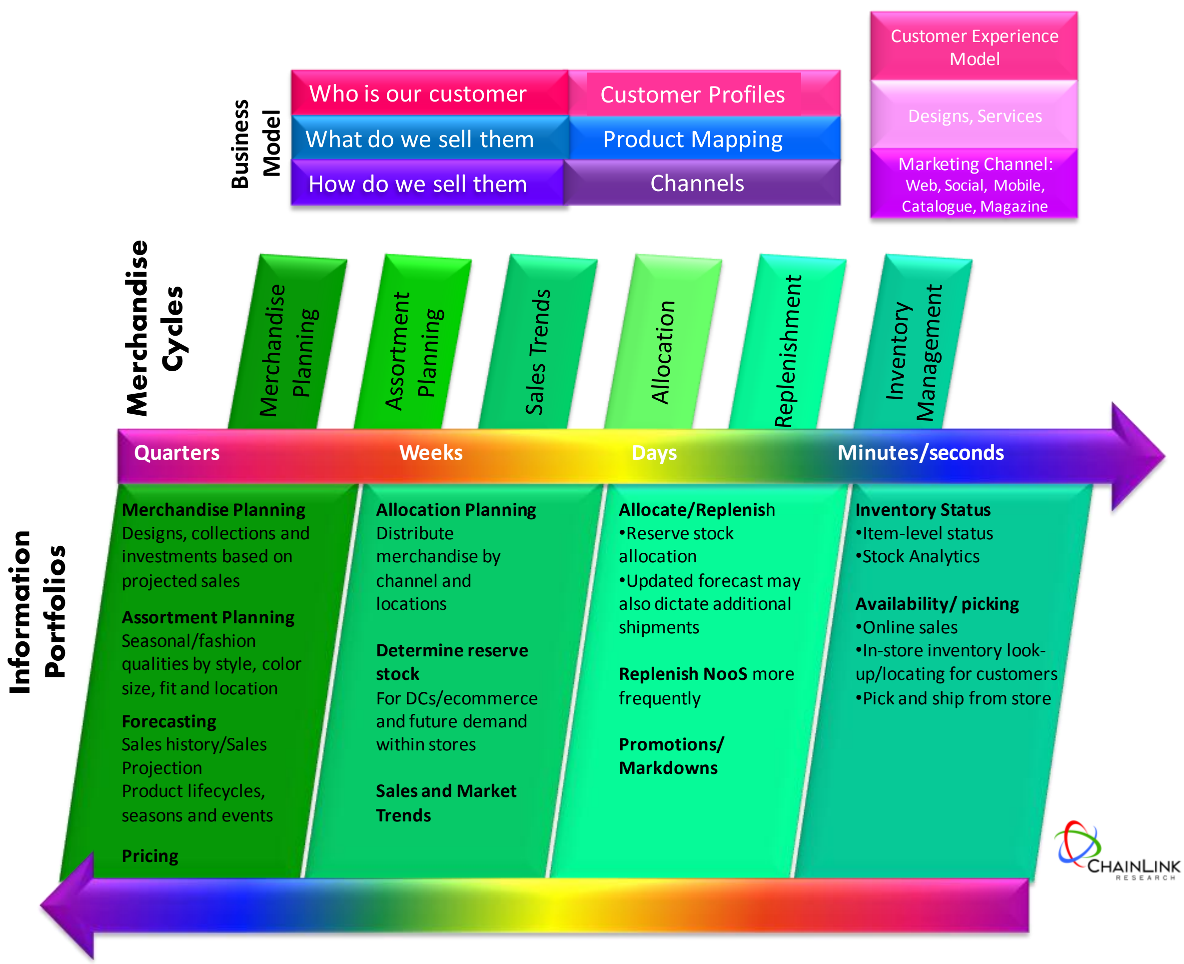

Figure 2: Integrated Agile Model

[7] Even if the retailer does not own a manufacturing facility, they can still develop and control sources and create production plans.

Though the collections drive the pace of the business, agile retailers look beyond one season to know how and where to grow across the globe.

Conclusions and Lessons Learned

Retailers are rapidly adopting demand management technologies to gear up for Omni-channel as well as for the expansion of their lines and brands. These initiatives require much more granular, timely and sharable data. Thus spreadsheets are out and systems are in.

An agile retailer, leveraging a more scientific forecasting approach, can be more responsive to dynamic trends in the marketplace, which is especially important in the highly competitive apparel retail sector. Fast fashion*ers* need to turn over merchandise quickly and have faster/shorter product cycles. They have to keep shoppers coming into stores frequently to check out new products and fashion trends.

That pace needs automation to succeed. Traditionalists need to understand each and every customer and how their tastes and buying habits are changing.

For both models, the market is dynamic. Locations are dynamic due to changing customers and competitors. To keep up, retailers need to automate what is automatable and have intelligent software to provide visual information to support the decision-making that people still need to do.

In spite of ecommerce growth, the store is still important. So important, in fact, that retailers are investing in new store layouts and in-store experiences, new social, and other branding events to bring customers into the stores. Equally important are the technologies that will allow the retailers to understand the impact these efforts are having in achieving exceptional success.

You just can’t achieve this kind of agility that is becoming the hallmark of leading retailers without automation and integration. Solutions need to be flexible and adaptable to each unique channel, since retailers today have distinct channels that they may manage in very different ways.

The agile retailer is the one who is thriving in this more volatile and competitive retail climate. They embrace technology, a core competency that they excel at. Agile retailers, though may be in different segments of retail, they share that common trait—ultimately, the business is about the numbers. Those numbers have to be precise, all encompassing, and fast to respond to achieve and sustain market leadership.

321 Walnut Street, Suite 442
Newton, MA 02460-1927
617-762-4040

Email: info@CLResearch.com
Web: www.ChainLinkResearch.com