When Good Merchants Go Bad: Six Old Habits That Refuse To Die

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Merchandise planning and allocation technologies are generally considered mature. Most especially in apparel and footwear, they have been in use for well over thirty years.

In the early days, planners and allocators developed various tools, techniques and habits that allowed them to overcome technology deficiencies and generally move the process along faster.

Some of those tools and techniques have fallen into disuse, but others persist.

The purpose of this eBook is to highlight six habits in particular that refuse to die, and illustrate why they must be finally put to rest.

Six Habits That Refuse To Die

1. Reliance on spreadsheets
2. Over-allocation
3. Ignoring or misusing Omnichannel
4. Using last year's sales as a starting point for merchandise plans
5. Trusting in technology without understanding what it can really do
6. Not updating technologies to reflect changing processes

1 Spreadsheets: It's Time To Say Goodbye

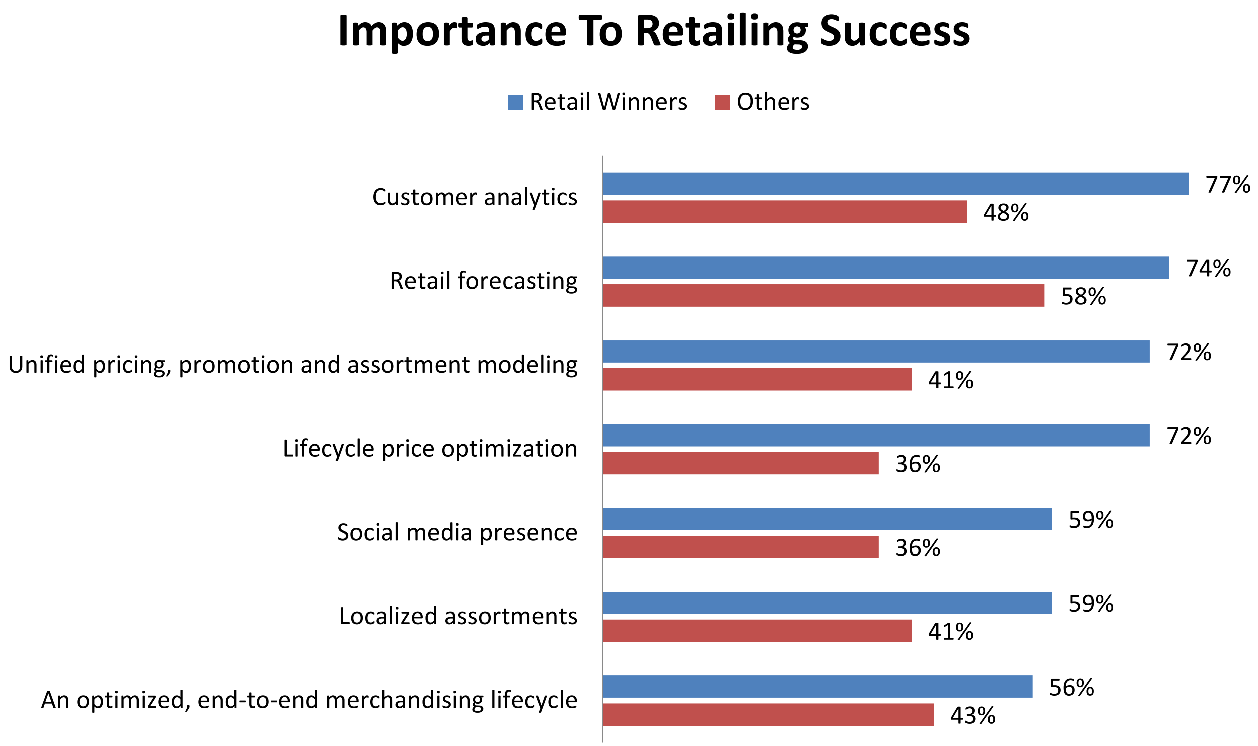
The spreadsheet is commonly used, but running a retail planning operation on it is risky. We are all familiar with "dueling forecasts" based on different calculations used by different users. "Spreadsheet jockeys" may create macros and other calculations that are not replicable. The business risk when these associates leave is real and problematic.

IT groups end up caught in the middle. They chase down numbers that have been changed or adjusted in the spreadsheet world. This only contributes to the real development backlog retailers face in trying to move their operations into more efficient and customer-friendly operations.

Luckily, most retailers have recognized spreadsheets are not part of their future: In research conducted by RSR in early 2015, 11% of hard / durable goods retailers were still trying to eradicate their use, vs. 8% of fashion / seasonal retailers. Are you part of that minority?

Research source: *Modern Merchandising: Managing Complexity With New Tools And Techniques*, RSR, February 2015

1 Spreadsheets: Better Choices Abound!



RSR identifies "Retail Winners" as those whose comparable year-over-year sales exceed the average. Our research has shown us that better sales are an outcome of different thought processes, practices and uses of technology. An example can be seen above!

2 Over-allocation

The world has changed, demand patterns are uncertain.

Traditionally, retailers distributed over 80% on their initial allocation. Department stores would allocate 100%. This seemed okay, but not all stores are created equal. Presuming a 75% total sell-thru, some stores *start out* over-inventoried, while others are starved.

Omnichannel has complicated the issue and retailers are moving from too many transfers to too many store-based shipments to customers.

"Getting more" isn't so easy when sourcing far from the point of demand, so holding back more until demand patterns come clear is a better decision.

Transfers and over-reliance on cross-channel fulfillment are drains on retailer profits!

3

Ignoring Or Mis-using Omnichannel

It's critical not to forget the sources of demand!

Omnichannel, at its root, is about meeting the customer's need wherever and however he or she chooses to interact with a retailer.

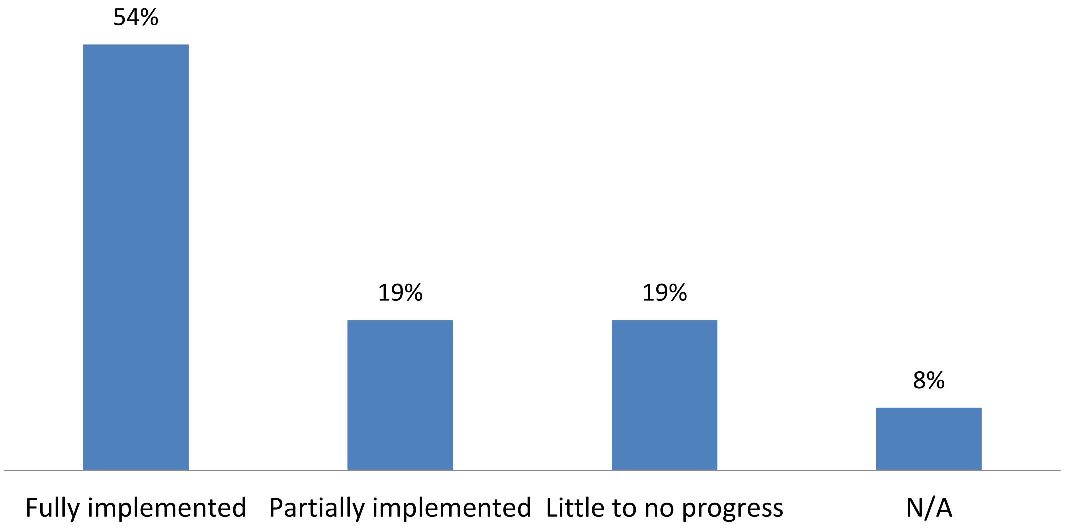
Omnichannel (or cross-channel) fulfillment is a tool to accomplish that, but reliance on it leaks profit out of the enterprise. It's a sub-optimal solution.

It is far better to capture the sources of demand in planning systems than to drive from where the demand was fulfilled. This ensures better tuned allocation in following seasons/years. The numbers to date are not pretty.

Winners are more likely to recognize there's a lot of opportunity to improve profitability of Omnichannel operations: 71% cite: "A lot of opportunity" to do so!

3 Omnichannel: Half Are Missing The Boat!

Tracking When Fulfillment Happens In Different Location Than Demand For Planning Purposes



Research source: *Profitable Customer Engagement: The Unmet Promise*, RSR, May 2016

4 Using LY As The Starting Point For Merch Plans

"That's the way we've always done it…"
"You can't possibly compute a bottoms-up forecast!"
"Can I really trust the numbers???"

Retail Winners are far more likely to embrace the importance of demand forecasting to their retailing success than their peers (74% cite forecasting as "very important to their retail success" vs. 58% of all others), but…

Implementation of using an initial demand forecast as a basis for next year's plan, while rising, continues to be used by just over a third of all retailers surveyed.

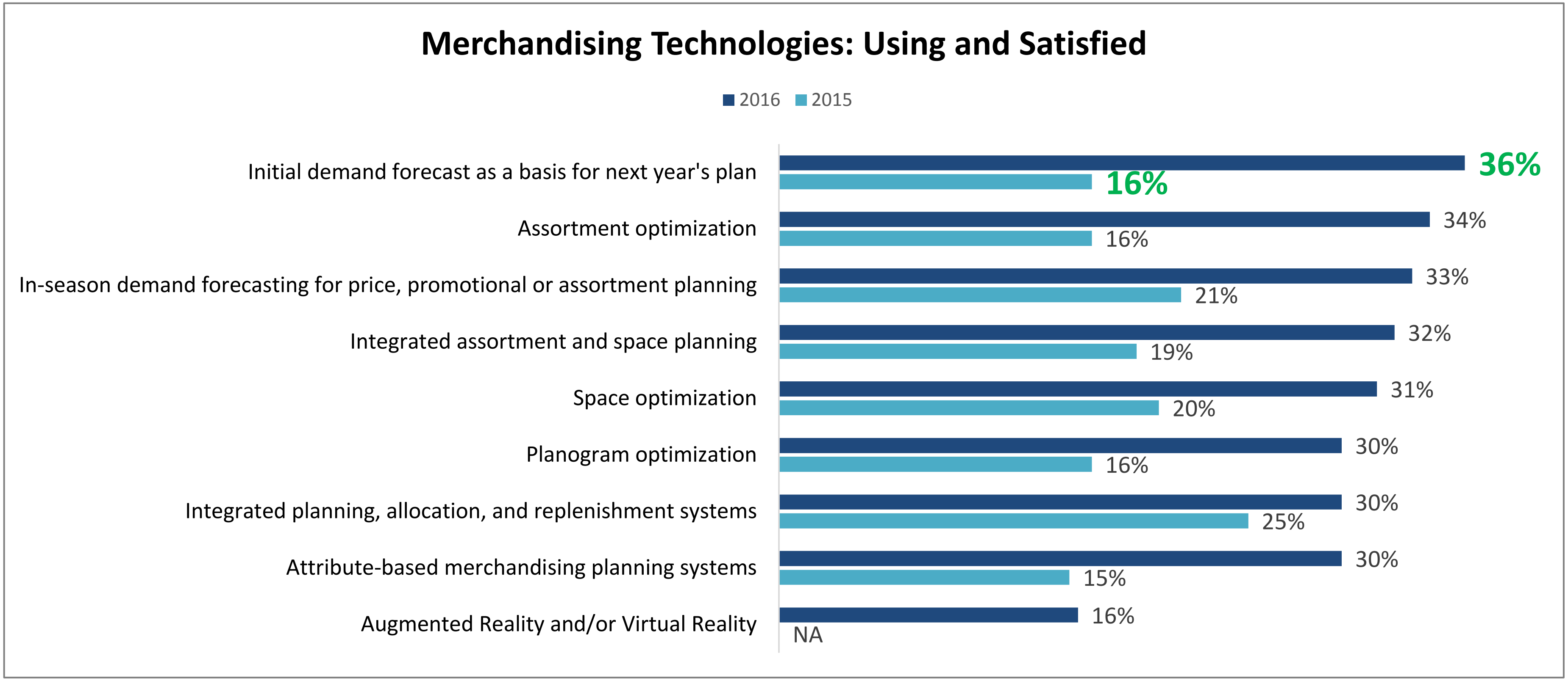
Let's take a look at the data…

Research source: *Merchandising 2017: The Real And The Unreal*, RSR, February 2017

4 Using LY: The Data Speaks!

While **74%** of Retail Winner cite “forecasting” as critical to their retailing success, only **36%** of those surveyed use an initial demand forecast for next year’s plan.

While this has improved from last year, the industry has a very long way to go.



5 Trusting In Technology Without Understanding

Lack of knowledge leads to many problems…

System implementation failures often come from misunderstanding of capabilities. We call this "Magic Bullet Syndrome."

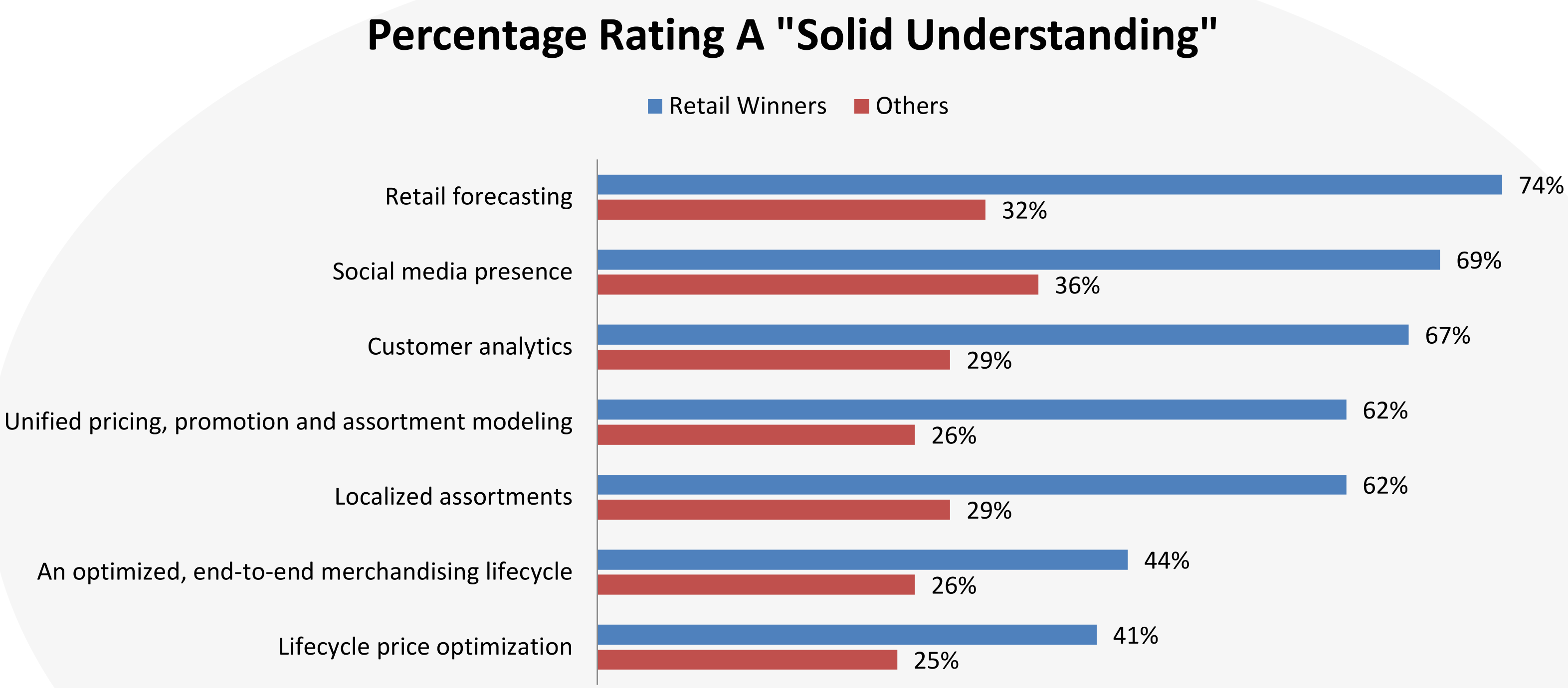
Symptoms:

- Inflated expectations of what the technology can actually do
- Frustration when those expectations are not met
- Confused users because they haven't been adequately trained
- Mistaken beliefs that no user input is required

Ultimately, disappointed users will revert to spreadsheets or older technology and just "stuff the data" into advanced systems.

As we'll see on the next page, Retail Winners are more likely to understand what they're getting. This contributes to their success.

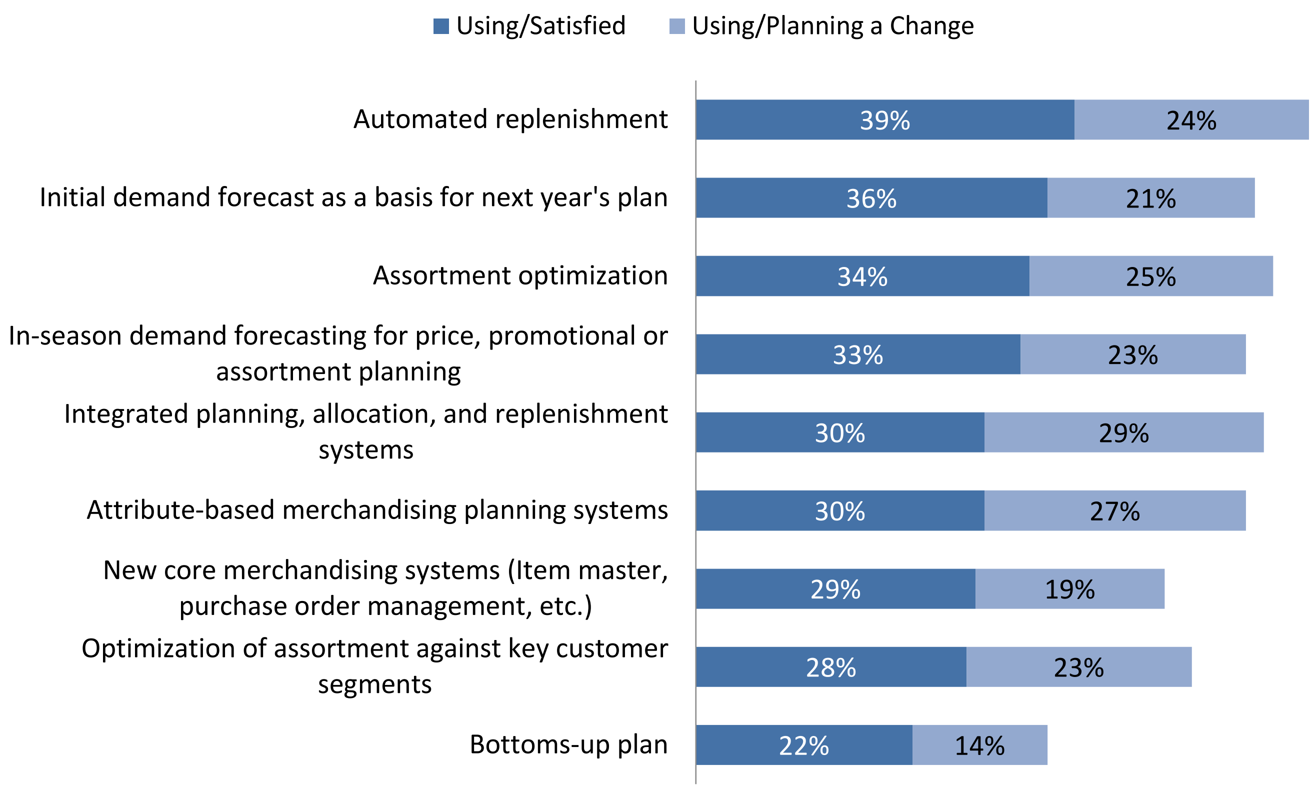
5 Retail Winners Take The Time To Understand!



Research source: *Merchandising 2017: The Real And The Unreal*, RSR, February 2017

6 Not Updating Techs When Processes Change

Using Old Technologies In A New World Results In Profit Leakage And Almost Half Of Existing Users Recognize It's Time To Change!



Research source: *Merchandising 2017: The Real And The Unreal*, RSR, February 2017

6 What Has Changed? Why Should We Update?

Moore’s Law: An observation made by Intel co-founder Gordon **Moore** in 1965. He noticed that the number of transistors per square inch on integrated circuits had doubled every year since their invention. **Moore's law** predicts that this trend will continue into the foreseeable future.

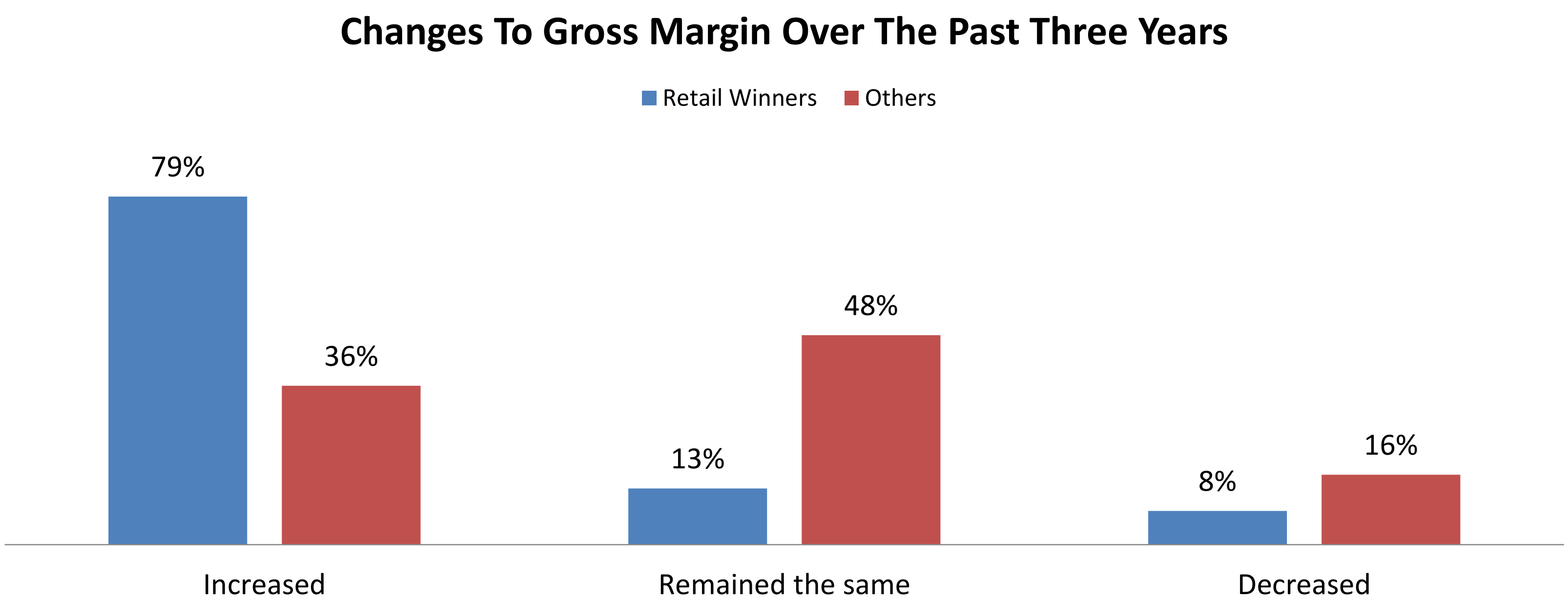
What this means in English: What used to take hours now takes less than a second. This is a good thing, since we now have processes like Omnichannel, and bottoms-up forecasting and planning that can be enabled and simplified by technology.

***Fun fact: A single Apple iPhone 5 has 2.7 times the processing power than the 1985 Cray-2 supercomputer*.**

(source: pages.experts-exchange.com/processing-power-compared/)

6 Updating Technologies: What's The Payoff?

Retail Winners Enjoy Gross Margin Improvements From Their Investments!



Research source: *Merchandising 2017: The Real And The Unreal*, RSR, February 2017

In Summary……

Using habits rooted in the past may be the path of least resistance, but it's not the path to optimum profitability:

1. *Reliance on spreadsheets: Inconsistent numbers and formulas. Hard to replicate*
2. *Over-allocation: Missed opportunities for better merchandise sell-thru, risk for higher costs to move product and potential markdowns*
3. *Ignoring or misusing Omnichannel: Lost sales, dissatisfied customers, sub-optimizes profits*
4. *Using LY as the starting point for merchandise plans: Perpetuates incorrect allocations, sub-optimizes profits*
5. *Trust in technologies without understanding: Inflated expectations and dashed hopes. Technology is not a magic bullet*
6. *Not updating technologies when processes change: Missed opportunities for people and merchandise productivity.*

It's time to change!

Thanks for reading!

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