

KURT SALMON ASSOCIATES



KSA & 7THONLINE JOINT SURVEY

7THONLINE ASSORTMENT PLANNING SOLUTIONS - CLIENT RESULTS

December 2005

SUMMARY OF FINDINGS

BACKGROUND. In 2005, Kurt Salmon Associates (KSA) and 7thOnline jointly conducted a survey of 7thOnline's retailer and vendor community in order to understand the results generated from implementing 7thOnline's assortment planning solutions. Over 50 responses were collected both through in-person and email surveys. Experience on the system ranged from 1 to 5 years. Responses have been aggregated to retain confidentiality.

VENDOR RESULTS

Prior to implementing 7thOnline, the vendor participants in this survey did not have a systematic way of executing their assortment planning process, and they were challenged to manage vast amounts of product and demand information with highly manual, Excel and paper-based systems. 7thOnline enabled them to evolve their business processes with its web-centric assortment planning tools, while maintaining the look and feel of their old systems. Highlights of the benefits cited by survey participants include:

- Additional sales opportunities realized given better access to retail demand data and real-time available-to-sell:
 - Up to 5% additional sales per market
 - Up to 25% additional sales per year
- Better inventory management given access to more timely and accurate information:
 - Increased order fill rates by up to 12% of the total buy
 - Up to 50% reduction in excess inventory
 - Ability to shift from cut-to-forecast to cut-to-order and vice versa given better toolset
- Increased management visibility into organization-wide account-level activity, production vs. demand, and product performance during market
- Shortened cycle times due to transition from Excel to web-based tools:
 - Reduced cycle time of up to 4 weeks per market
 - Order commitments from retailers 1 – 3 weeks earlier
- Dramatically reduced workloads and error rates:
 - Reduced error rates by 50-80%
 - Up to 95% reduction in time spent creating necessary summaries and analyses throughout market

Maximum benefits were achieved by those who evolved their business processes and input the necessary management controls to take advantage of the 7thOnline system.

Additionally, the system was most beneficial to those divisions that were fully implemented across all users, providing complete real-time reporting and a single version of the truth. Challenges arose when the appropriate business processes and management controls were not implemented or enforced to leverage the value of the system.

RETAILER RESULTS

Given the size of the multi-door retailer participants in the survey, they are challenged to find a system (beyond Excel models) that enables them to manage the vast amount of product, location, and vendor information involved in assortment planning. With 7thOnline, they are able to build and analyze door and size level assortments, and the vendor's product information is always up-to-date across all plans. Highlights of the benefits cited by retailer survey participants include:

- Higher sell-thru and reduced markdowns due to higher quality buys at the door and size level
 - *"This [system] leads to benefits in terms of overall sell-thru, margin improvement, reduction in markdown requirements, and better overall profitability, not only because of the improved shipping fulfillment but also because of the time spent and the thoughtfulness put into the assortment plan in the first place."*
- Reduced end-of-season excess inventory
- More efficient buyer/seller collaboration via the system
- Better management decision-making given increased visibility into corporate-wide visual and quantitative assortments (style/color/size by door)
- 50 – 75% reduction in error rates
- Significantly reduced travel and administration costs
 - Shortened cycle times by up to 4 weeks
 - 48% less time spent on aggregate of data, report creation and data re-entry

The challenges cited by survey participants were related to the fact that the system could only be used for ordering from vendors that were on 7thOnline; thus, some buyers had to use more than one system to manage orders, and the necessary management attention was not always available due to limited implementation. Retailers have begun to implement 7thOnline's new retail-centric assortment planning solutions, which can be used regardless of whether their vendors are on the system. However, at the time of this survey, it was too early to incorporate the results of the independent retailer usage. As such, the retailer results cited here relate to the vendor-directed collaborative usage of 7thOnline.

DETAILED FINDINGS - VENDORS

Prior to implementing 7thOnline, vendor survey participants executed their assortment planning processes with highly manual, Excel-based systems. Each spreadsheet resided on the Account Executive's computer, so that it was difficult to aggregate plan information to understand organization-wide demand and available-to-sell. Furthermore, as styles were added, dropped or modified, AEs had to manually update spreadsheets to ensure accuracy of assortments. Very little assortment information was shared between trading partners prior to market, so that vendors were forecasting product assortments with limited buyer input in order to determine production. These inefficient and error-prone processes lead to missed sales opportunities, unnecessary costs, and mismatched inventory.

7thOnline has enabled the vendors to address many of these challenges with its hosted assortment planning solutions. The plans on the system have a similar look and feel to Excel, but they are accessible via any Internet browser, have more robust analytical capabilities, and can incorporate product images. Additionally, the product data is hosted on the system and updated in real-time across all plans, and reports can be run for corporate-wide summaries down to individual door reports. The collaborative capabilities enable vendors to receive retailer financial and unit plans prior to market to compare to assortment plans, and they can share assortment plans with buyers in real-time via the web for earlier feedback on the buyer's preferences. Given these improvements, vendors have realized significant benefits from implementing 7thOnline. Detailed findings from the vendor community can be categorized into five areas – Sales Opportunities, Inventory Control, Visibility & Accuracy, Cycle Time, and Labor Productivity.

SALES OPPORTUNITIES

With retailer demand data resident on separate spreadsheets, sales opportunities were missed due to inaccurate/out-of-date information and inability to understand available-to-sell. With 7thOnline's web-based system, plan and demand information is aggregated in one place and updated in real-time. Users can understand what is and isn't selling and how much inventory is available in real-time, so that opportunities are easier to identify and act upon. As such, additional sales opportunities have been realized by vendors using 7thOnline. Specific results related to sales opportunities included:

- Up to **25% more sales opportunities realized** per year as a result of the ability to chase product earlier
- **Additional dollars of up to 5% per order** given the ability to understand what product is available faster
- **Additional dollars of up to 5% per market** realized from having real-time information on styles – i.e. not ordering dropped styles
- *"We have experienced an **increase in business** from knowing which styles have been dropped and steering accounts into other styles. The amount varies widely but could be **in excess of \$100K per market for one Account Executive.**"*

"We were able to shift from cut-to-forecast to cut-to-order because of the increased visibility provided by 7thOnline. We can drive our calendar much more effectively so that excess inventory is significantly reduced."

- VP Sales, 7thOnline Vendor Client

INVENTORY CONTROL

Better matching of inventory has been enabled by 7thOnline through access to more timely and accurate information. Because all plan and demand data and available-to-sell information is aggregated in one system, users are able to more effectively allocate inventory across accounts. As mentioned before, the improvements are more incremental when processes remain the same and more dramatic when processes have evolved to optimize usage of the system. Also, the reports are most valuable when all users are active on the system.

Specific results related to inventory control included:

- **Up to 50% reduction in excess inventory**
- **Increased order fill rates by up to 12%** of the total buy
- **Excess inventory reduced by up to 12%** of the total buy
- 50% improvement in ability to honor retailer requests
- *"7thOnline gives us demand visibility as early as we can use it, greatly reducing excess inventory. For example, certain fabrics with longer lead times may be bought before orders are committed. The earlier we know what is and isn't selling, the faster we can react and make necessary adjustments."*
- *"We were able to shift from cut-to-forecast to cut-to-order because of the increased visibility provided by 7thOnline."*

We can drive our calendar much more effectively so that excess inventory is significantly reduced."

- *"We are able to better allocate inventory during market with 7thOnline. For example, if our biggest customer is coming in next week, we can make sure we have our #1 and #2 styles available. Also, we can identify styles that are not selling earlier for better inventory management."*
- *"Better and more time for planning **has increased our recommended buy from 65% to 80%** of retailers' final purchase orders."*
- *"Retailers are pushing us to shorten the calendar, which makes 7thOnline even more critical. As the timeline shrinks and we are forced to do more cut-to-forecast, we will use 7thOnline to reconcile projections to demand for better inventory management."*

VISIBILITY & ACCURACY

Not only is visibility and accuracy improved on existing reports, but also users of 7thOnline are now able to have real-time access to information during market that was not even attempted previously (due to the extreme effort and time involved). Users are better equipped to share real-time information and collaborate on business decisions, both internally, among co-workers and operating divisions, and externally with trading partners. The majority of benefits in visibility and accuracy have accrued to divisions who have implemented 7thOnline across all users.

Specific results related to visibility and accuracy included:

- *"[With 7thOnline], we have **complete visibility into current and historical plan information**. We can compare this year to last year and investigate discrepancies, which allows us to proactively drive sales and make better decisions."*
- *"Prior to 7thOnline, we had no visibility into the aggregated planning activity of all Account Executives, the bookings by style, or the accounts by style by color because **it would have taken too much time and would never be accurate; now, we can get instantaneous aggregation and analysis**."*
- *"Based on initial showroom feedback, [the VP Sales] can tell the AEs how to drive their appointments in market."*
- *"Overall, the visibility provided by 7thOnline allows for better decision-making. For example, if certain styles are not hitting minimum quantities at the initial market appointments, we know to remove them from the line and stop selling them."*
- **Reduction in error rates of 1 – 5%.**

- *"**Class summaries allow you to see red flags in minutes**, e.g. sweater penetration isn't what you thought it would be, and you need to figure out why. It may be because there are more career doors in one account, more southern doors in another, etc. 7thOnline allows you to analyze this much more effectively than was previously possible."*
- *"We have **better communication internally** due to the **single version of the truth** that is accessible on the system. [The VP Sales] does not have to spend as much time communicating to AE's because they now have full visibility of demand and account details through the system...Plus, everyone **is alerted immediately which styles have changed and can act on that information** to make the necessary adjustments to their plans."*
- *"Before 7thOnline, we didn't run any summaries during market because it was too labor intensive. We used to run recaps every other day to aggregate AE plans and retailer demand, but now we can do it instantaneously."*

"Before 7thOnline, we had 35 different spreadsheets to aggregate to understand retailer demand and AE account planning. Now, we can get a real-time view in seconds."

- VP Merchandising, 7thOnline Vendor

CYCLE TIME

Information throughout the market cycle was universally available significantly earlier after implementing 7thOnline – from account planning and door level information prior to market to style availability and aggregation of demand during market to receiving bulk purchase orders after market. This is critical since retailers are pressuring suppliers to shorten cycle times, which is difficult to support using the myriad of Excel-based reporting tools common throughout the industry.

Specific results related to cycle time included:

- **Overall reduced cycle time of up to 4 weeks per market**
- **Order commitments from retailers 1 – 3 weeks earlier**
- *"**75% of orders were placed in market with 7thOnline**; previously, most buyers took their orders back to the office to finalize, and we would wait for weeks."*
- *"**We get orders 2 – 3 weeks earlier**, which allows for better decision making in terms of what styles to drop and what fabric to order."*

LABOR PRODUCTIVITY

Workloads have been dramatically reduced through the implementation of 7thOnline, allowing Account Executives to focus on product rather than administration. Most of the reduction has been in updating, summarizing and aggregating data across multiple spreadsheets.

Specific results related to labor productivity included:

- 50 – 95% reduction in time spent creating necessary summaries and analyses throughout market
 - “Before 7thOnline, we had 35 different spreadsheets to aggregate to understand retailer demand and AE account planning. Now, we can get a real-time view in seconds.”

- 80 – 95% less time spend during market updating product information changes
- 88% reduction in time spent for order entry
- Up to 8 working days each market saved in entering orders into order management system
- *“Recently, we lost 3 account executives. We would never have been able to manage through market without 7thOnline.”*

Overall, the benefits experienced by 7thOnline’s vendor community were significant, and the user satisfaction level was high. All of the executive-level participants indicated that they intend to continue to expand the usage of the system to additional divisions given the returns they have experienced.

APPAREL VENDOR CUTS EXCESS INVENTORY in HALF with 7THONLINE

Using Excel spreadsheets, faxes, and printed product images, one of 7thOnline’s apparel vendor divisions found supply-demand balancing to be extremely challenging. This division had limited visibility into what retailers wanted, what was available, and which products were strong or weak performers. But with the increased supply/demand visibility and shortened cycle times enabled by 7thOnline, they were able to dramatically improve their inventory matching and solidify their assortment planning approach. In fact, these benefits were so significant that the division was able to shift their business model from cut-to-forecast to cut-to-order. This transition has enabled them to control their calendar and their inventory purchases much more effectively, so that **cycle time has been tightened by 4 weeks and excess inventory has been reduced by approximately 50% of previous levels.** This was possible given the following system benefits:

Visibility & Accuracy

The VP of Sales of this division emphasized the importance of the single version of the truth provided by 7thOnline: “Our decision making and internal communication are much better given that all users’ up-to-date plan information is accessible on the system. For example, based on initial showroom feedback [which I can access immediately], I can tell the AEs how to drive their appointments in market...If certain styles are not hitting minimum quantities at the initial market appointments, we know to remove them from the line and stop selling them. I also don’t have to spend as much time communicating to the AE’s, because they now have full visibility of demand and account details through the system...Plus, everyone is alerted immediately which styles have changed and can act on that information to make the necessary adjustments to their plans.” She also indicated that error rates due to manual data entry and outdated product information have been substantially reduced.

Earlier Order Commitments

With 7thOnline, the division receives 75% of order commitments during market; Prior to 7thOnline, most of the buyers would bring their plans back to their offices and would place orders 2 – 3 weeks after market. The VP of Planning stated, “[The earlier order commitments] allow us to make better decisions in terms of which styles to drop, what fabric to order, etc. Also, though we try not to commit to greige goods prior to orders, 7thOnline gives us demand visibility as early as we can use it, greatly reducing excess inventory. For example, certain fabrics with longer lead times may be bought before orders are committed. The earlier we know what is and isn’t selling, the faster we can react and make necessary adjustments.”

Labor Productivity

The VP of Sales estimates that the time spent creating summaries and analyzing plans is cut in half, and the time spend updating plans for product changes is reduced by 80%. Though some of the other savings were difficult to quantify, she said: “Recently, we lost 3 Account Executives. We would never have been able to manage through market without 7thOnline.”

DETAILED FINDINGS - RETAILERS

Given the size of the multi-door retailer participants in this survey, they are challenged to find a system that enables them to manage the vast amount of product, location, and vendor information involved in assortment planning. Most of the retailers have financial planning systems or are in the process of implementing them, but they rely on highly manual, Excel-based systems to carry out the next stage of assortment planning. Excel can be very cumbersome to manage when dealing with high volumes of doors and SKUs. It is extremely time-consuming to analyze assortments by location and to aggregate plan information in order to get a corporate-wide view of assortments. Furthermore, as vendor styles are added, dropped or modified, spreadsheets have to be manually updated. No platform is available for real-time collaboration with vendors and very little plan information is shared prior to market. Thus, many buyers, planners and AEs build their own internal plans in a siloed environment. These inefficient and error-prone processes lead to suboptimal assortments on the selling floor, unnecessary costs, inaccurate inventories and missed sales opportunities.

With 7thOnline, these retailers are able to build and analyze door and style/color/size level assortments through a hosted solution. The plans on the system have a similar look and feel to Excel, but they are accessible via any Internet browser, have more robust analytical capabilities, and incorporate product images where applicable. All plan data is hosted in one place, and the vendor's product information is always up-to-date across all plans. Reports can be run for corporate-wide summaries down to individual door reports. The collaborative capabilities enable trading partners to work together on assortment plans and to share information more effectively. Given these improvements, retailers have realized significant benefits from implementing 7thOnline. (Note: As noted above, the retailer results cited here relate to the vendor-directed collaborative usage of 7thOnline.)

Findings from the retail community can be categorized into four areas – Sell-thru & Profitability, Visibility & Accuracy, Cycle Time, and Labor Productivity.

SELL THRU & PROFITABILITY

The improved visibility into door and style/color/size level assortments and the more effective collaboration with vendor partners allows for more accurate and thoughtful assortment planning. This results in higher quality assortments at the

store level, in turn leading to higher sales. The system also drives labor productivity and significantly reduces manual processes, resulting in greater profitability. Specific results related to sell-thru and profitability included:

- 7thOnline allows for *“improved planning, better product assortments on the selling floor, and ultimately higher sales”*
- *“This [system] leads to benefits in terms of overall sell-thru, margin improvement, reduction in markdown requirements, and better overall profitability, not only because of the improved shipping fulfillment but also because of the time spent and the thoughtfulness put into the assortment plan in the first place.”*
- *“The quality of the buy and shipping improvements result in reduced markdowns and less excess inventory from suboptimal buys.”*
- Reduced order management costs due to electronic order integration

“This [system] leads to benefits in terms of overall sell-thru, margin improvement, reduction in markdown requirements, and better overall profitability.”

- SVP Systems, 7thOnline Retailer Client

VISIBILITY & ACCURACY

Management is able to view accurate corporate-wide assortments in order to make better decisions on how to place product, which is extremely challenging in an Excel-based environment. Users are better equipped to share accurate, real-time information and collaborate on business decisions, both internally, among co-workers and operating divisions, and externally with trading partners. As mentioned above, greater benefit is achieved if 7thOnline is implemented across all users. Specific results related to visibility and accuracy included:

- *“More efficient buyer/seller collaboration.”*
- 50 – 75% reduction in error rates related to data entry
- Buyers instantaneously access real-time plans (style/color/size by door) with up-to-date product information and images
- *“In addition to the retailer and the vendor having visibility into each other's thinking and reaching a consensus, within our own organization we have a better understanding of what the buy is going to be so we can go to market with a unified approach [across the division].”*

- Improved management visibility:
 - *“DMMs & GMMs have a view into assortment plans and what the overall buy will be prior to market.”*
 - *“We can access a corporate-wide view of assortment plans, so [that we are able to] influence the direction of the buy...prior to market.*
- *“The quality of shipping fulfillment in terms of size & color integrity has improved, so there is not as much of need to try to switch out of things we did not want in the first place but got due to supply and demand imbalances.”*
- *“Knowing what you have in terms of product helps you plan promotional activities around the buy.”*
- *“Images [incorporated in the assortment] have had a significant impact in facilitating the pre-market and market processes [for the buyer].*

CYCLE TIME

Information throughout the market cycle was available significantly earlier after implementing 7thOnline, driving down cycle times and associated costs. Specific results included:

- Shortened cycle times by up to 4 weeks
- Accurate departmental and divisional summaries up to 7 days earlier
- Receive vendor plans at the door-level 1-2 weeks earlier
- Agree on quantities by group/class 7 –12 days earlier

LABOR PRODUCTIVITY

Workloads have been dramatically reduced through the implementation of 7thOnline, allowing buyers to focus on product rather than administration. Most of the reduction has been in updating, summarizing and aggregating data across multiple spreadsheets. Specific results included:

- Up to 48% less time per market to aggregate information, create reports and reenter data into order management system
- Up to 43% reduction in time spent entering data into order management system
- Reduced administrative activities “empower the buyer to focus on product and opportunities during market.”

Overall, the benefits experienced by 7thOnline’s retailer community were significant. The store-level planning capabilities, improved management visibility, enhanced internal and external collaboration, and the analytical tools enabled these retailers to execute more profitable assortments.

About KSA

www.kurtsalmon.com

Kurt Salmon Associates (KSA) is the premier global solutions provider focused exclusively on the retail, consumer products, and health care industries. Celebrating 70 years of excellence, KSA helps clients achieve significant gains through strategic growth initiatives, superior product performance, and comprehensive enabling technologies. From concept to consumer, KSA's portfolio of services helps clients in the Americas, Europe, and Asia-Pacific achieve lasting, meaningful improvements that create true distinction in the marketplace.

About 7thOnline

www.7thonline.com

7thOnline is the premier provider of top-down and bottom-up assortment planning solutions specifically targeted to the unique planning, buying and ordering processes of the global apparel, footwear, and accessories community. 7thOnline's web-centric solution suite encompasses visual and quantitative merchandising and assortment planning tools, powerful analytical and optimization engines, and automatic order transmission capabilities in multiple formats.

SELECTED RETAILERS & VENDORS

- **Belk, Inc.**
- **The Bon-Ton Stores, Inc.**
- **Boscov’s, Inc.**
- **Danskin, Inc.**
- **Dillard’s, Inc.**
- **Federated Department Stores, Inc.**
- **Gottschalks Inc.**
- **Jones Apparel Group, Inc.**
- **Kellwood Company**
- **Kohl’s Corporation**
- **Liz Claiborne, Inc.**
- **Peebles, Inc.**
- **Saks Incorporated**
- **Stage Stores, Inc.**