



VICS CPFR® for Apparel & Footwear Sub-Committee

*A Proposal for Defining a Collaborative Assortment
Planning Process*



ver 1.0
July 2007

Don't wait to be great... Collaborate!™

www.vics.org

Table of Contents

Contributors	3
I. Mission Statement	4
II. Purpose of this Document	4
III. Objectives	4
IV. Collaborative Assortment Planning Process	5
i. Overview	5
ii. Best Practices Guide	7
V. Next Steps	18
Appendix A – Sample Front-End Arrangement Outline	19
Appendix B – Sample Collaboration Calendar	20
Appendix C – Terminology	23
Appendix D – CPFRR® Rollout Readiness Assessment	24

Contributors

Dillard's Inc.
Hanesbrands Inc. (formerly Sara Lee Branded Apparel)
Jones Apparel Group Inc.
Kellwood Company
Levi Strauss & Co.
Liz Claiborne Inc.
Macy's, Inc.
Nike Inc.
Nygard International Ltd.
VF Corporation
Wolverine World Wide Inc.
(TC)²
7thOnline Inc.
JDA Software Inc.
Retail Systems Alert Group Japan

I. Mission Statement

The CPFR for Apparel and Footwear Subcommittee's mission statement is to identify, develop, and document standardized collaborative processes for the Apparel and Footwear industries leveraging proven VICS CPFR concepts.

II. Purpose of this Document

The purpose of this document is to provide a best practices business model for Collaborative Assortment Planning in the Apparel and Footwear industries. For fashion retailers and manufacturers, the process of determining and executing store assortments is complicated by rapidly changing consumer demand, short life-cycle inventory, size intensiveness, and generally greater data complexity in comparison to consumer goods and replenishment merchandise. The committee has enhanced the preexisting VICS CPFR model to incorporate these unique business requirements of the Apparel and Footwear planning process. The ultimate goal is to define a flexible, replicable model that will drive substantial ROI for all participating trading partners.

III. Objectives

The CPFR for Apparel and Footwear Sub-Committee's objectives in defining Collaborative Assortment Planning best practices are listed below:

- Form a team of VICS members with industry expertise responsible for establishing and encouraging Apparel and Footwear collaborative assortment planning best practices.
- Incorporate business processes and requirements from a variety of retailers and manufacturers.
- Identify how the current VICS CPFR model can be enhanced to meet the needs of the Apparel and Footwear industries.
- Develop and Document for the Apparel & Footwear industries:
 - Collaborative assortment planning business processes, best practices, and standards
 - A Scorecard with standard metrics to measure the success of the collaborative arrangement
 - An ROI model based upon knowledge acquired during the development of the standards
 - A Capability Assessment to evaluate readiness to adopt the recommended practices
- Provide ongoing implementation education and promotional support to drive adoption of best practices in the industry.

IV. Collaborative Assortment Planning Process

i. Overview

The assortment planning process for apparel and footwear retailers and vendors is the activity of determining SKU-level product placement by location and by delivery. This process involves vast amounts of product information and input from multiple parties. Retailers and vendors must work together to build and modify assortment plans based on financial plans, historical sell-thru data, market trends, and production schedules. The coordination and sharing of this information both internally and among trading partners is critical to delivering the right products to the right place at the right time. Both retailers' and vendors' financial and assortment planning processes affect inventory management, yet the business processes and underlying systems are often not integrated or synchronized between parties. This lack of integration and synchronization creates inefficiencies in the supply and demand chains leading to:

- Missed sales
- Inaccurate inventory
 - Buying without retail input
 - Lower fill rates
- Excessive markdowns – (average of 33% of revenue lost to markdowns according to the Harvard Business Review)
- Unnecessary operating costs
 - Unnecessary time spent during market on pre-planning decisions rather than product selection
 - Expedited freight charges due to inaccurate planning
- Inaccurate factory capacity planning
- Longer than necessary market calendar
- Lack of product availability / out of stock – (stock-outs can contribute to lost sales exceeding 10% of revenue, according to the Harvard Business Review)
- Excessive response times

Specific causes of these inefficiencies in the assortment planning process that shall be addressed in this document include:

- Lack of disciplined internal business processes, controlled timelines, and management visibility
- Lack of coordinated business processes, timelines, and business discipline between retailers and manufacturers
- Insufficient and inaccurate pre-planning
- Lack of adequate communication of objectives and planning information
- Mismatched timing of deliveries

The purpose of this best practices document is to offer guidelines on how to effectively address these challenges by improving assortment planning execution and collaboration (both internal and external) between all involved parties.

Merchandise Category

The assortment planning process varies for different categories of merchandise. In Apparel and Footwear, the three major merchandise categories are: 1) Basics (core replenishment) 2) Fashion Basics (seasonal color and silhouette variations on existing SKUs), and (3) Fashion (Newly designed seasonal product with limited demand window). Both Fashion Basics and Fashion product are characterized by short life cycle demand, whereas replenishment product has an extended life cycle from one year to the next. Fashion Basics also involve some level of replenishment, though the product life cycle is shorter than core replenishment. The short life cycle planning process revolves around “market” appointments, where retail buyers view vendor samples in the showroom. Our process guidelines will cover the entire fashion buying cycle, from pre-market objective setting and planning through order placement through post-market analysis.

Timelines

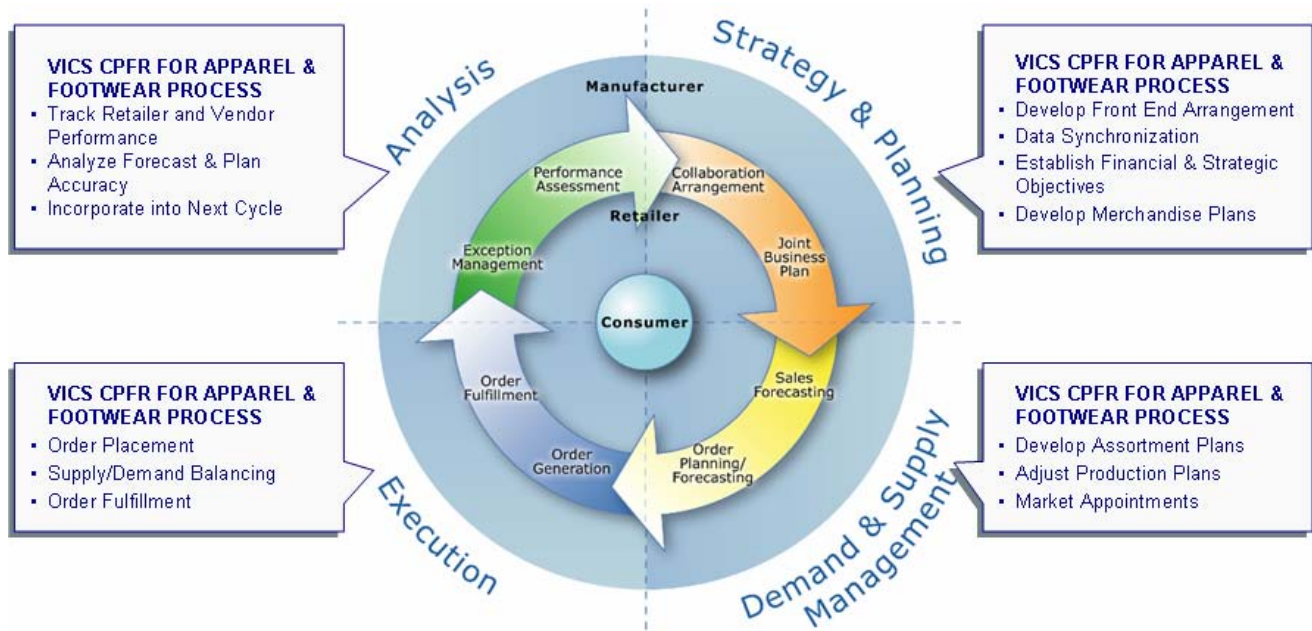
Buying cycles and delivery frequency vary depending on the nature of the product – seasonal fashion lines may have 4 – 6 markets per year and monthly deliveries, or ongoing markets and weekly deliveries. In the fashion industry, there has been a trend toward shortening the market calendar, so that decisions can be made closer to when the product will be available on the selling floor. The shortening of the buying cycle leads to shorter time to delivery, more frequent buys, higher inventory turns, and increased ability to respond to trends. As the market calendar condenses, the guidelines provided herein become even more critical. Optimal communication between trading partners, visibility into historical performance and objectives, and streamlined planning, production, and delivery operations are a necessity.

Vendor and Retailer Types

Assortment planning timelines and processes will differ depending on the type of merchandise (e.g. apparel, footwear, accessories) and the type of retail channel (e.g. department stores, specialty retailers, etc.). The goal of this document is to cover all areas relevant to the apparel and footwear industries.

ii. Best Practices Guide

In this document, we will provide business practice guidelines for Collaborative Assortment Planning Process (CAPP). We have outlined the CAPP model as it relates to the overall CPFR model with the necessary modifications to suit the unique business requirements of apparel and footwear assortment planning:



It is important to note that segments of the process may be implemented individually in order to reduce resource requirements. We have divided the planning process into three distinct segments in the Sample Collaboration Calendar in Appendix B – Pre-Market (Strategy & Planning), In-Market (Demand and Supply Management and Execution), and Post-Market (Analysis). These process segments can be integrated as implemented. The Sample Collaboration Calendar also includes an outline of the typical business roles that are involved with each segment.

a. STRATEGY & PLANNING

Overview

The collaborative assortment planning process begins with the establishment of front-end arrangements, strategic objective setting, and the creation of top-down merchandise plans.

Timing

The front end arrangement should be established for each trading partner before executing the CAPP. Strategic objective setting typically begins 1 – 3 months prior to the market appointment, or 4 – 9 months prior to the product arriving on the selling floor.

Best Practices Outline

Develop Front End Arrangement

The optimal collaborative assortment planning process begins with the creation of internal and external collaboration arrangements. Each organization specifies and documents the processes, timelines and systems that will be implemented to execute the CAPP. In addition to internal arrangements, retailers and vendors determine and document the methods and timing of the collaboration for each of their trading partner relationships. Partners agree upon the critical path to successful assortment execution, and collaboration calendars are formed. The agreed upon frameworks are documented and communicated throughout the organizations to all involved parties. The optimal collaboration arrangements include:

- Terms Definition – define all terms, processes, systems. Include cross-referencing tables where necessary. For example, the arrangement should include a methodology for cross-referencing differing classifications to standardize classification naming.
- Collaboration Calendar – specify timelines.
- Process Roles – designate roles and responsibilities.
- Commitment Guidelines – specify how much to commit at what time, as well as level of commitment.
- Rules & Legal Implications – if agreed, include any rules for conducting business, minimum requirements, penalties, and any legal implications.
- Metrics for Success – define measures to determine whether the chosen CAPP is optimal; modify CAPP as needed according to performance. For example, vendors may track sales, order fill rates, mark-down money, operating costs, error rates, end-of-season excess inventory, cycle times. Retailers may track sell-thru, gross margin, operating costs, fill rates, error rates, inventory turns, end-of-season excess inventory. See Section IV – Analysis – for specific metrics guidelines.

Please see Appendix A for a sample Front-End Arrangement outline.
See Appendix B for a sample CAPP timeline.

Data Synchronization

Trading partners must ensure that all planning and product data attributes (e.g. styles, colors, sizes, classifications, categories, groups, clusters, etc.) are aligned throughout the process.

Establish Financial and Strategic Objectives

Retailers and vendors individually analyze historical performance, current trends and corporate financial and strategic objectives in order to determine the optimal assortment strategy. Forecasts are built internally, and subsequently shared with trading partners. Specific information that should be communicated 1 – 3 months prior to the market appointment includes the following (items may differ for each trading partner relationship):

1. Performance data (Even if trading partners do not share raw performance data, they can share summarized results and business plans based on performance)
 - a. Units & average price
 - b. Actual selling price
 - c. Total \$ by category
 - d. Delivery to the floor
 - e. Fill rates
2. Metrics used to drive plans / relevant success criteria
3. Store space allocation to vendor
4. Floor sets
5. Floor mix
6. Demographic analyses by stores
7. Sizing information (before markdown)
8. Clustering information
9. Financial targets / category plans:
 - a. Budgets / total \$ planned spend by category / class
 - b. Planned product mix (e.g. between boots, sandals, shoes)
10. Strategic objectives in terms of look & feel: Trading partners may also engage in face-to-face meetings to share their vision and ideas, and may facilitate the discussion with storyboards and other visuals to demonstrate product look-and-feel.
11. Replenishment timelines
12. Product delivery to selling floor timelines

Even if objectives are aligned across trading partners, differing assumptions and inputs can lead to dramatically different results. The goal of this segment is for the retailer and the vendor to evolve into a joint business plan based on mutually agreed upon timelines (e.g. 6 weeks prior to market), down to the category and classification level (e.g. knit tops or essential twill pants). The strategic objectives resulting from this collaboration and analyses govern the translation of financial plans into merchandise plans.

Develop Merchandise Plans

Once the strategic objectives are agreed upon by management and by trading partners, retailers and vendors can create merchandise plans:

- Merchandise plans are created with placeholder styles (dollars, units, SKU counts, price points, sizes, by location); users reconcile these plans to financial targets throughout the process (1 – 2 months prior to market).
- Merchandise plans are viewed by management and shared with trading partners (1 – 2 months prior to market); plans are modified as necessary.

System Capabilities

The optimal system to support the above activities includes the following capabilities:

- Effective sharing of large quantities of up-to-date product information.
- Real-time updates to data across plans / one version of the truth.
- Ability to synchronize trading partner plan and product data in real-time.
- Incorporation of replenishment units and dollars.
- Role-based security: Users must be able to access and modify plan information based on read/write privileges.
- Analytical capabilities (from the widest corporate roll-up down to SKU by location detail).
- Management visibility throughout the process.

Process Objective

The objectives of the Strategy & Planning segment are to:

1. Ensure that financial and strategic objectives are aligned internally and between trading partners earlier in the process.
2. Ensure that assumptions on performance data are aligned.
3. Agree upon preliminary merchandise plans, internally and with trading partners.
4. Enable vendors to more accurately plan production facilities, fabric/piece goods commitments, line plans.

The process culminates in initial assortment plans that are approved by management and agreed upon by trading partners. This collaboration ensures that financial and strategic objectives are aligned prior to the market appointment.

b. DEMAND & SUPPLY MANAGEMENT

Overview

The assortment planning process continues with assortment planning, where retailers and vendors transform unit plans into SKU-level plans. After retailers and vendors have built and shared their assortment plans, they proceed to their market appointments. Vendors may share product visuals prior to market with their buyers for visual assortment planning in addition to quantitative plans. During market, retail buyers visit their vendors' showrooms to view product samples and determine how the styles fit into their merchandise plans and flow plans/delivery groups.

Timing

Retailers and vendors typically drill down to the SKU-level assortments 1 – 2 months prior to market. The market appointment or viewing of product takes place 1 – 8 months prior to the assortments on the selling floor, depending on the life cycle of the product.

Best Practices Outline

Develop Assortment Plans

Assortment plans (incorporating actual product/SKUs by location) are recommended by vendors or created by buyers based on merchandise plans. Assortment plan information and analyses are shared between partners 1 – 4 weeks prior to market to ensure that both parties are on the same page. Buyers and Account Executives modify assortments iteratively based on preferences, product availability, financial targets, strategic priorities, and production schedules.

Adjust Production Plans

For make-to-stock product, production cycles begin well in advance of receiving demand data from retailers. Additionally, production facilities and piece goods are committed in advance for made-to-order goods. Vendors are forced to make these decisions based on their own internal forecasts, and any demand information must be incorporated as it is received. During and post-market, the production plans become increasingly difficult to modify. In the optimal collaborative planning scenario, vendors receive demand data as early in the process as possible; the specific timeline is agreed upon in the collaboration arrangement. With the earlier and more complete visibility into demand, vendors can make smarter and timelier decisions regarding production and inventory allocation. Both retailers and vendors can identify opportunities, challenges, and risks earlier in the process. The results are more effective supply/demand balancing, higher fill rates, on-time deliveries, and better customer service.

Market Appointments

- Retailers and vendors have agreed upon initial assortment plans prior to market, and thus come to market prepared to discuss product rather than spending time on administrative activities.
- During market, Buyers and Account Executives modify previously agreed upon assortment plans based upon buyer response to product and any changes in corporate/management financial or strategic directives.
- As product information or availability changes, plans are updated in real-time via system.
- Management reviews visual and quantitative assortment plans and summaries.
- As noted above, vendors analyze production planning and inventory allocation versus demand throughout this process and modify as needed.

System Capabilities

The optimal system to support the above activities includes the following capabilities:

- Effective sharing of large quantities of up-to-date product data and images.
- Portability for easy access to plans prior to, during and post market.
- Enables real-time sharing of product data, images, and plans for all involved parties.
- Quantitative and visual assortment planning capabilities.
- Real-time updates to data across plans to ensure order accuracy and one version of the truth.
- Incorporation of replenishment units and dollars and open-to-buy.
- Role-based security: Users must be able to access and modify plan information based on read/write privileges.
- Analytical capabilities (from the widest roll-up down to SKU by location detail).
- Management visibility throughout the process:
 - Ability to reconcile demand to production in real-time.
 - Enable vendors to evaluate product performance in market (i.e. identify which product is in high demand, which product needs to be sold more aggressively, and which product should be cut from the line.)
 - Enable vendors to determine optimal allocation of inventory among accounts based on demand information.
 - Enable retailers and vendors to determine optimal allocation of inventory among stores based on historical performance, and product availability
 - Enable retail management to aggregate and analyze assortment activity across divisions.
 - Ability to measure how assortments are shaping up against financial plans and strategic objectives in real-time.

Process Objective

The objectives of the Demand and Supply Management segment are to:

1. Remove from market the activities that could be accomplished beforehand so that retailers and vendors can focus on product.
2. Finalize assortment plans for order placement during the market appointment or shortly after.
3. Enable vendors to make better production decisions by more effective communication of forecast and demand data.

Retailers ensure that the assortments meet their financial and strategic objectives, and vendors focus on balancing supply to demand.

c. EXECUTION

Overview

Assortment plans are finalized and electronic purchase orders are submitted.

Timing

Orders are placed during market or up to 4 weeks after market. With collaborative best practices in place, orders are placed during or shortly after market due to more effective communication prior to and during market.

Best Practices Outline

Order Placement

Once the buy is finalized, orders are placed electronically. The purchase orders are sent via EDI to retailers and vendors. Integration can ensure seamless transfer of order data into trading partner ERP and order management systems. Integration arrangements are agreed upon by trading partners up front.

Supply/Demand Balancing

As orders are placed, vendors can analyze aggregated demand vs. supply to manage inventory allocation and production. Both vendors and retailers can understand risks, opportunities, and challenges in real-time to drive better, faster decision making, higher fill rates, on-time deliveries, and improved customer service.

Order Fulfillment

Vendors deliver orders to retailers based on agreed upon delivery periods. The shortened timelines and increased supply and demand visibility substantially increase the manufacturer's ability to fulfill retail orders in a timely manner.

System Capabilities

The optimal system to support the above activities includes the following capabilities:

- Vendor/retailer attribute synchronization capabilities.
- Ability to place orders during market once the buy is finalized on the system.
- Ability to instantaneously aggregate planned and actual orders vs. the inventory file.
- Electronic order integration.
- Integration into ERP and order management systems of retailers and vendors to avoid data re-entry and associated errors.
- Automatic order notifications.

Process Objective

The objective is to receive orders during market or shortly thereafter for more timely deliveries, better inventory matching and more complete order fill rates. The order placement should be seamlessly integrated into the assortment planning and order management systems.

d. ANALYSIS

Overview

Many variables are measured after order placement to track retailer, vendor, and assortment performance and forecast and plan accuracy. The results are utilized to improve in season assortment management as well as Strategy & Planning for the following cycle.

Timing

The performance assessment occurs from the period after order placement through the end of the selling season.

Best Practices Outline

Track Performance & Analyze Forecast/Plan Accuracy for Next Cycle

In order to measure the performance of assortments and of the trading partner relationship, both parties need systems and agreed upon practices in place.

- Retailers track the following metrics:
 - Sales
 - Margin
 - Markdown Volume Changes
 - Sell-thru for the assortment
 - Order fill rate
 - Operating costs
 - Error rates
 - Inventory turns
 - End-of-season excess inventory
 - Vendor order fulfillment
 - On-time deliveries
 - Forecast accuracy
 - In-stock

- Vendors track the following metrics:
 - Sales
 - Margin
 - Order fill rates
 - Mark-down money
 - Internal operating costs
 - Selling costs
 - Advertising costs
 - Sales participation / commission structures
 - Traveling merchandisers
 - Training sessions
 - Error rates
 - End-of-season excess inventory

- On-time deliveries
- Forecast accuracy
- Retailers and vendors use the results to formulate financial and strategic objectives and to optimize merchandise and assortment plans going forward.
- Scorecards are used to analyze results and share feedback with trading partners.
- Internal meetings are held to review performance.
- External meetings are held with trading partners to share feedback and discuss opportunities for improvement.
- The Analysis session leads into the next period of Strategy and Planning, and the process begins again.

System Capabilities

The optimal system to support the above activities includes the following capabilities:

- Tracking and scoring mechanisms.
- Ability to view and incorporate historical results for next period planning and optimization.
- Ability to share performance data.

Process Objective

The goal of the Analysis period is to determine how to improve store-level assortments and vendor and retailer process execution for greater profitability.

V. Next Steps

Now that the best practices guidelines for the CAPP have been agreed upon by the participating retailers and vendors, the Committee's goal is to implement this model within a retailer and vendor and to document the results. The Committee shall amend this document as necessary based upon the outcome of the implementation. The ultimate deliverables will be the finalized CAPP guidelines, Case Studies, and an ROI calculator.

The initial Case Study participants will include Dillard's, Inc., Liz Claiborne, Inc. and Nygard International, Inc.

Appendix A: Sample Front-End Arrangement Outline

- I. Assortment Planning Business Process Review
 - a. Retailer
 - i. Process
 - ii. Timelines
 - iii. Responsibilities
 - iv. Systems
 - b. Vendor
 - i. Process
 - ii. Timelines
 - iii. Responsibilities
 - iv. Systems

- II. Collaboration Arrangement
 - a. Process
 - i. Description
 - ii. Terminology
 - iii. Timelines / Collaboration Calendar
 - iv. Roles & Responsibilities
 - v. Success Criteria
 - vi. Commitment Guidelines
 - b. Required Systems/Integration
 - i. Capability assessment
 - ii. Timelines & responsibilities for any necessary modifications
 - c. Rules & Legal Implications

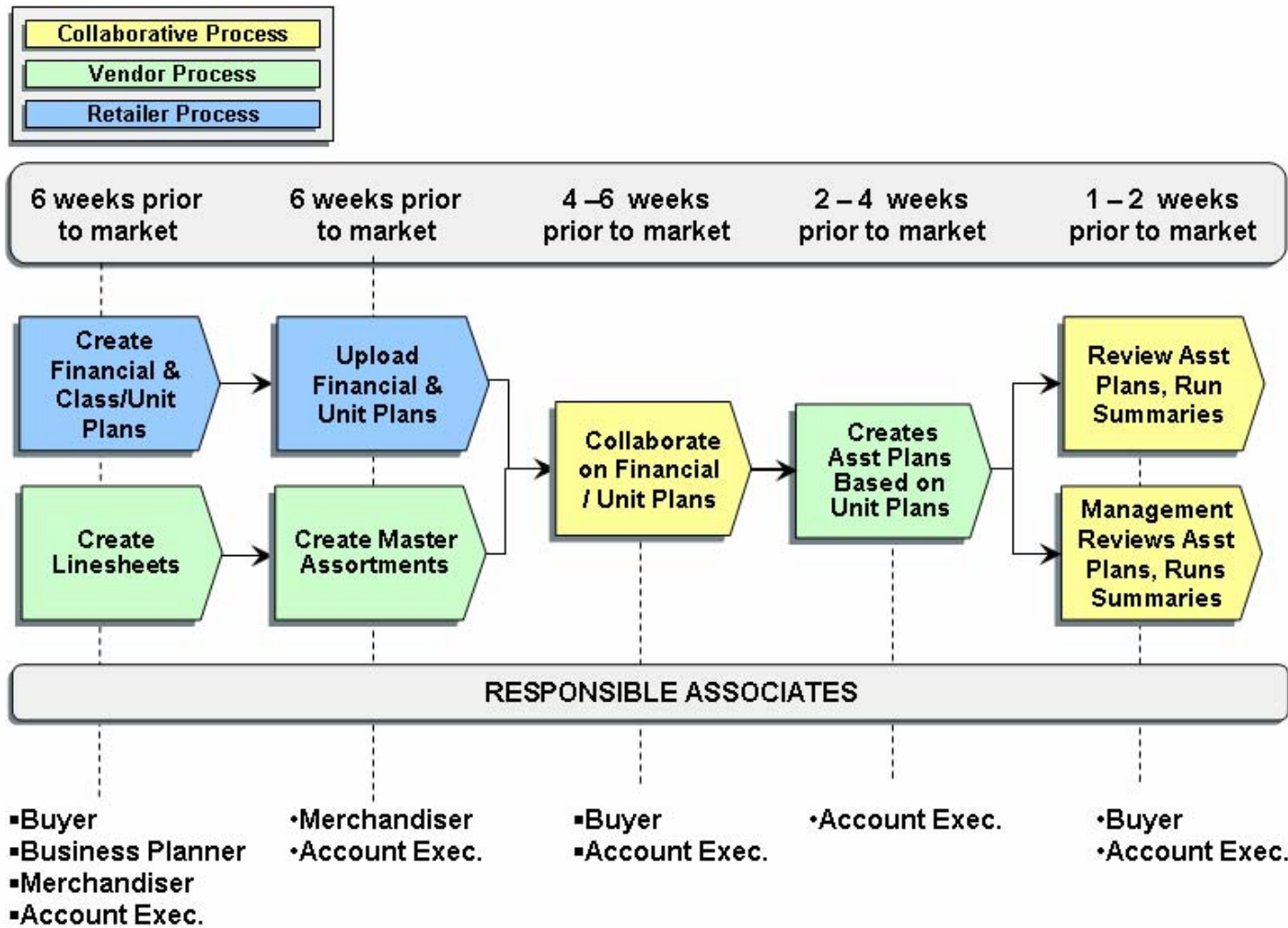
- III. Scorecard
 - a. Description and frequency
 - b. Performance Metrics & Targets
 - c. Penalties

Appendices

Definition of Terms
Cross Reference File for Classifications

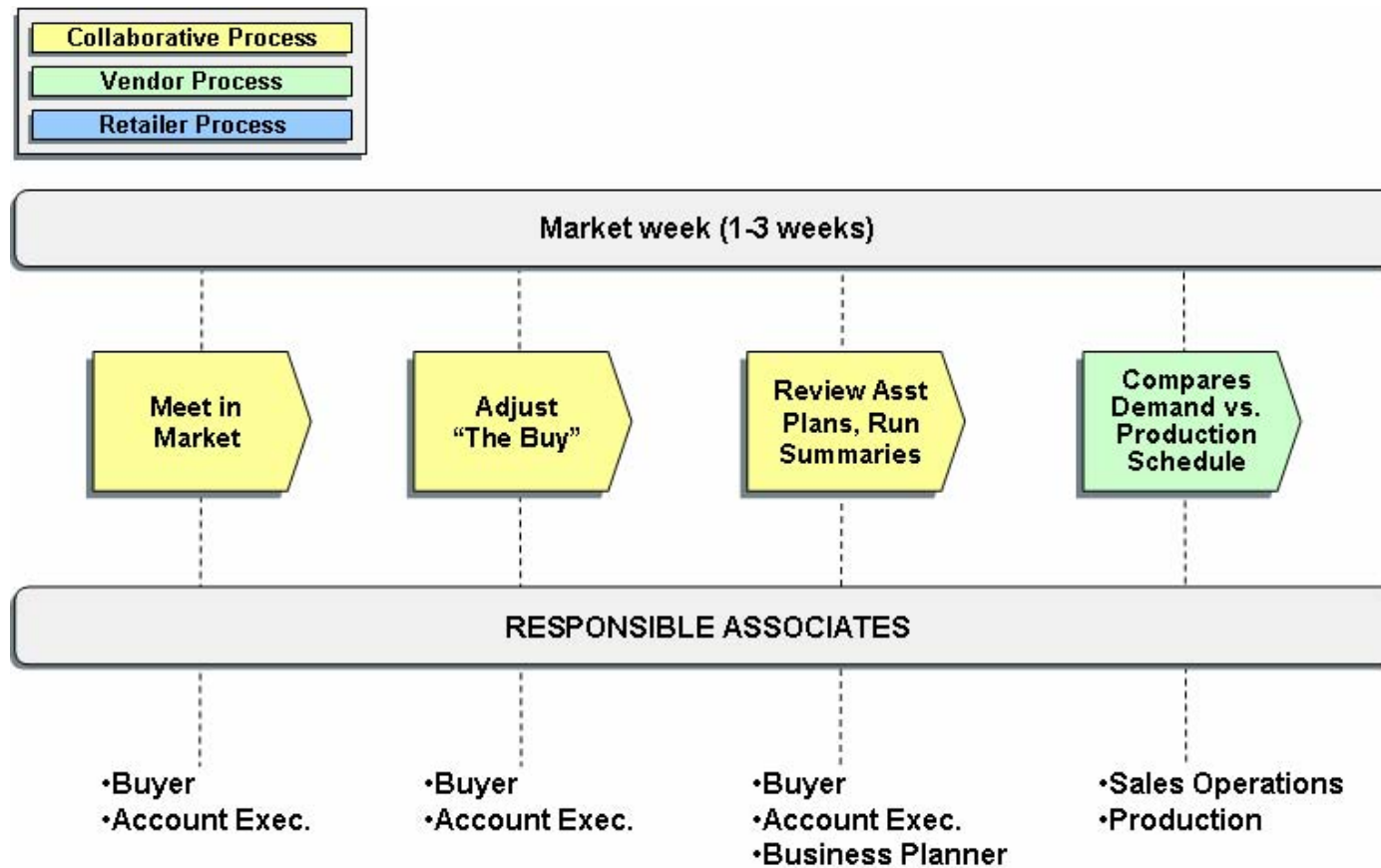
Appendix B: Sample Collaboration Calendar

PRE-MARKET PROCESS



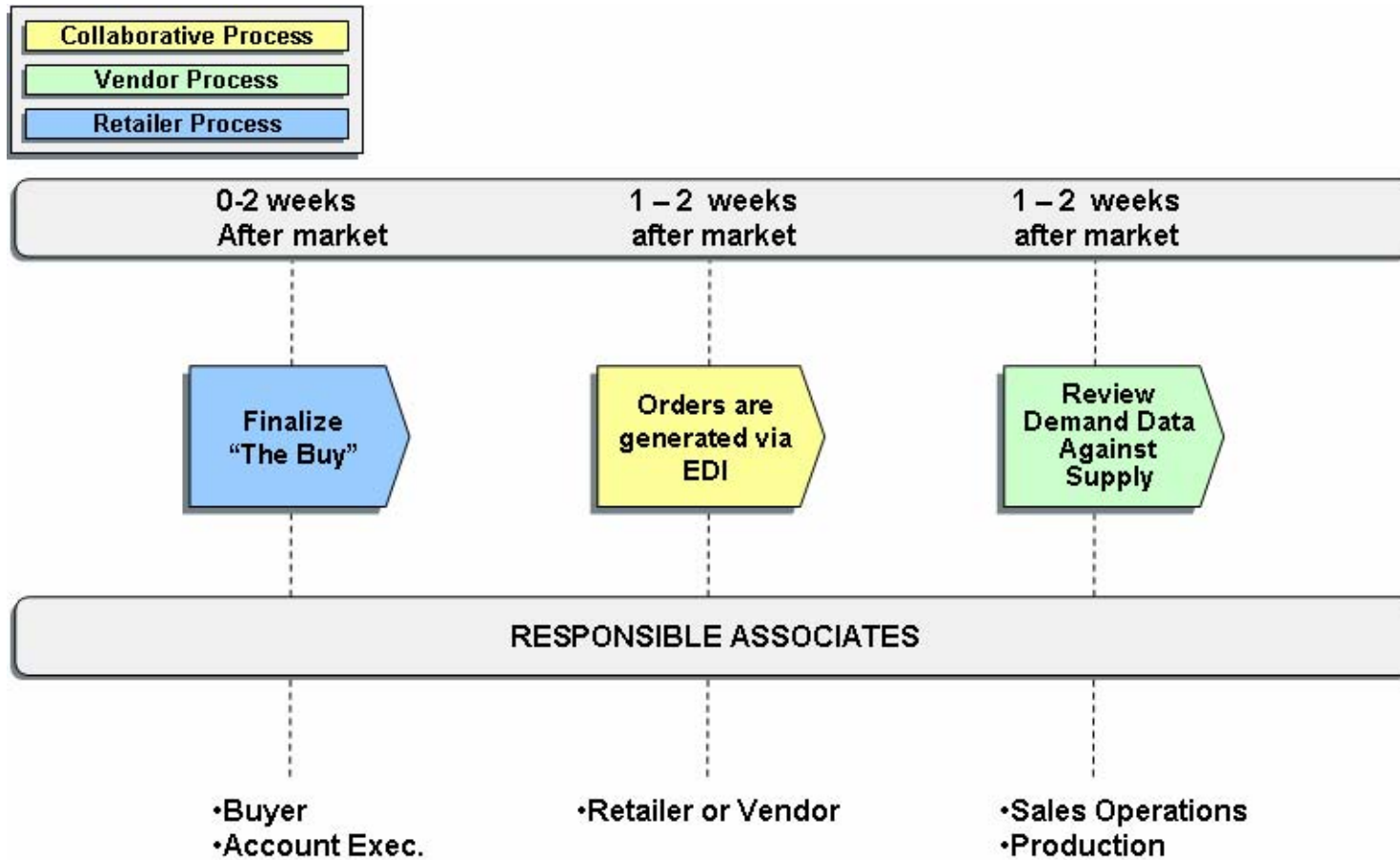
Appendix B: Sample Collaboration Calendar (cont.)

IN-MARKET PROCESS



Appendix B: Sample Collaboration Calendar (cont.)

POST-MARKET PROCESS



Appendix C: Terminology

Assortment Planning: The activity of determining SKU-level product placement by location and by delivery.

Bottom Up Planning: The activity of building merchandise and assortment plans beginning with the product/SKU level and rolling up to match financial plan numbers.

Category: Type of merchandise: 1) Basics (core replenishment) 2) Fashion Basics (seasonal color and silhouette variations on existing SKUs), and (3) Fashion (Newly designed seasonal product with limited demand window).

Market: Sales meetings during which retail buyers view vendor product samples to determine which products to purchase. Vendor account executives and retail buyers work together to determine which products best fulfill assortment objectives. The market appointments may occur monthly or seasonally, depending on the nature of the business.

Merchandise Planning: Build unit/\$ plans by location incorporating corporate financial plans.

Order Fill Rate: Percentage of SKUS in retailer purchase order ultimately delivered by vendor.

OOS – Out of Stock

OTB – Open to Buy

OTD – Out the Door Retail

PPU – Price per Unit

Top-Down Planning: The activity of building merchandise and assortment plans from financial plans, starting with the financial plan numbers and drilling down to the unit/\$/SKU level.

Appendix D: CPFR Rollout Readiness Assessment

Place a check mark next to each statement that is true for your business, and then sum up the marks to determine your total score.

A Organizational Readiness

- 1. The value proposition for collaboration is well understood in the company.
- 2. There is an agreed company strategy and an adequate budget for collaboration initiatives.
- 3. Collaboration process owners have been assigned and empowered.
- 4. Affected organizations have performance goals and incentives aligned with collaboration objectives.

B Retailer Process Readiness

(Retailers rate themselves and suppliers rate their customers' readiness in this section.)

- 1. Details of promotions and other retail events are captured and kept up to date so that consumer demand impact can be correlated with them.
- 2. Consumer demand is forecasted based on historical sales and planned promotional activities.
- 3. Ordering processes are driven from forecasted consumer demand.
- 4. Feedback from collaboration can be incorporated in future plans and forecasts.

C Supplier Readiness

(Suppliers rate themselves and retailers rate their suppliers' readiness in this section.)

- 1. Supplier sales and service/logistics personnel coordinate their response to customer issues and opportunities.
- 2. Collaboration (consumer POS) data can be effectively used in the supplier's sales and operations planning (S&OP) process.
- 3. A unified approach to collaboration allows the supplier's insights to reflect the demands of multiple customers.

D Technology Readiness

- 1. Internet data transport (EDI/INT AS2) capabilities are production-ready.
- 2. XML translation capabilities for B2B initiatives are production-ready.
- 3. Enterprise planning applications have supported interfaces for collaboration data (import and export).
- 4. A scalable CPFR solution is available.

_____ Total Score

Evaluating Your Score

If you scored 11-15

- Your strategic trading partners should all be live in collaboration.
- You should be driving CPFR best practices in the industry.

If you scored 6-10

- You are ready to begin rollouts, starting with demand/supply visibility.
- Address key gaps to enhance ROI of collaboration.

If you scored 0-5

- You should act quickly to close gaps, starting with organizational ones.
- Work to sustain momentum in existing collaboration relationships, to gain experience that can be applied to future efforts.

Suggestions for Improving Your Score

Enhancing Organizational Readiness

- Conduct a collaboration ROI assessment
- Engage in strategy and program development

Enhancing Retailer Process Readiness

- Invest in event visibility and demand forecasting technology/processes
- Enable continuous replenishment processes

Enhancing Supplier Readiness

- Enhance S&OP practices to leverage customer-specific POS forecast data
- Implement supplier scorecards

Enhancing Technology Readiness

- Implement Internet data transport, translation and mapping technologies
- Establish interoperability among installed enterprise solutions and CPFR programs