2014 Annual Merchandise Planning & Allocation Survey

Gold Sponsor:

7thonline®
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Current State of Planning</td>
<td>5</td>
</tr>
<tr>
<td>Unified Commerce</td>
<td>7</td>
</tr>
<tr>
<td>Social Media</td>
<td>9</td>
</tr>
<tr>
<td>The Right Tools</td>
<td>11</td>
</tr>
<tr>
<td>Conclusion</td>
<td>13</td>
</tr>
<tr>
<td>Survey Methodology</td>
<td>14</td>
</tr>
<tr>
<td>About Boston Retail Partners</td>
<td>15</td>
</tr>
<tr>
<td>Gold Sponsor – 7ThOnline</td>
<td>16</td>
</tr>
</tbody>
</table>
Introduction

“More merchants are tapping customer insights from innovative sources to optimize their assortments. According to our survey, there was a 550% increase in the utilization of social media to facilitate planning for product development.”

- Ken Morris, Boston Retail Partners

Merchandise planning and allocation is the retail supply chain discipline to initially predict, and subsequently react to, changing consumer tastes and buying patterns. Merchandise planners and allocation specialists are responsible for both inventory budgets and determining the movement of merchandise to the stores. When done correctly, inventory moves, sales grow and profit margins reward. Get it wrong and the retailer sees markdowns, out of stock situations, poor performance and an inventory bubble that needs to be digested through the selling cycle, consuming space, inventory dollars and profits. Even worse, while this is happening, retailers don’t have room or the budget to fill the racks with better-performing merchandise. Many selling seasons have been won or lost through planning and allocation decisions. The fact that many retailers now operate across multiple selling channels (online, in-store, mobile, etc.) further complicates these processes.

merchandising: [mur-chuh n-dahy-zing]
noun
1. the planning and promotion of sales by presenting a product to the right market at the proper time, by carrying out organized, skillful advertising, using attractive displays, etc.
2. the selection and display of goods in a retail outlet

As the challenges have grown, so have the technologies supporting retail merchandise specialists. Consumers expect a fast and efficient selling and delivery process, where the physical and digital selling channels converge to provide a cohesive shopping experience. These unified commerce shopping concepts have grown significantly, requiring retailers to put more functional capabilities in place than ever before. With dozens of emerging tools and techniques to support and expand business, it is an exciting time to be a retailer.

Despite a significant growth in technological capabilities, adoption of a transparent cross-channel inventory has yet to become a reality at most retailers. While the desire is strong, replacing legacy systems, realigning processes, expanding associate visions and the incentives to do so have made the process challenging. Developing a strategy and roadmap for offering a real-time view of retail is now essential for success.

We believe business analytics will play a key role in this retail transformation. Evaluating and incorporating all available insights when inventory planning and allocation decisions are made greatly enhances the outcomes. For instance, merchants should be considering every data point available in the planning process, including: business intelligence, inventory movement, shopping behavior, customer relationship management (CRM), social media, clienteling data and customer demographics/segmentation.

Boston Retail Partners’ 2014 Merchandise Planning and Allocation Survey explores the current state of the industry and how technology is shaping retail capabilities, highlighting the priorities, processes, tools and strategies of today’s retailers. Further, it uncovers considerable windows of opportunity for retailers as they evolve into enhanced business models to support the growing need for unified commerce.
Some of the best practices identified in this year’s survey include:

- 31% of retailers utilize a single inventory across channels
- 26% of retailers have real-time visibility of in-store/online inventory
- Nearly 50% of retailers have integrated business processes and systems across channels
- 33% of retailers utilize CRM data to feed their business intelligence tools
- Nearly 40% of retailers use social media to facilitate planning within product development

**Definition of unified commerce:**
The elimination of individual channel silos to offer a holistic customer experience across all customer touch points by leveraging a single commerce platform

How does your organization compare to these merchandise planning and allocation best practices?
Current State of Planning

The value added by employing formal planning processes is not going unnoticed in today’s retail market. Of the retailers surveyed, 89% undertake a formal merchandise and financial planning process, which is up slightly from 85% in last year’s survey (Exhibit 1).

In addition, over half have formalized store planning, allocation and assortment planning processes. Advances in planning tools have certainly supported a wide range of merchandising and planning capabilities, and will increasingly continue to do so with the expansion of technological network developments in the retail environment.

Retailers continue to make strides to provide customers with a complete unified commerce experience. Nearly half of the retailers surveyed have integrated business processes and systems across channels, although some indicate a need for improvement. Encouragingly, many additional retailers have plans to integrate their business processes, organization, and systems within the next three years. There are still opportunities for many retailers to align their internal processes to support a truly unified strategy (Exhibit 2).

Despite this, more than 60% of retailers still maintain separate assortments and separate inventories for different channels. Brick-and-mortar locations are still operating largely independently from e-commerce and vice versa. Further, collaboration with marketing initiatives is minimal, with only 32% of retailers managing marketing concurrently with planning.

The significant business opportunity to leverage business intelligence came to light through the survey results. Respondents claimed they most commonly use basic reporting and analytics capabilities to obtain performance data. Only 25% are using business intelligence for cross channel planning, indicating the existence of a large improvement opportunity for retailers when analyzing their financial performance (Exhibit 3).
While the use of social media tools has expanded dramatically among most consumers, only 8% of retailers referenced using that information in their planning process. Conversely, one-third of respondents use CRM data in that process. Getting the assortment right will increasingly be dependent on collecting and leveraging multiple sources of performance data in real-time and across all channels.

The balance in staffing plans and right-sizing the ratio of buyers to planners seems to have been struck. Organizationally, only a low percentage of respondents are planning to increase staffing of buyers and/or planners. That being said, assortment accuracy remains a concern for retailers. When asked to identify their business priorities, 67% of respondents identified enhancing assortments as one of their top 3 priorities (Exhibit 4).

Not surprisingly because enhancing assortments is a top priority, 65% also plan to upgrade or replace their assortment planning application within three years. These figures evidence a desire on the part of retailers to get their product offerings right. Taken together, the strong focus on micro-merchandising paired with the desire for enhanced systems reveals a growing appetite to rely upon technological efficiencies instead of increasing headcount.
Unified Commerce

To keep up with best-of-breed competitors, most organizations are working towards offering a seamless customer experience across all sales channels. However, the survey results further confirm BRP’s industry observations that because this is such a large undertaking, most retailers are still in the process of implementing a complete unified commerce solution. According to the survey, 69% of retailers are planning on expanding their unified commerce capabilities within the next three years (Refer to Exhibit 8).

One area of progress in offering the customer a single brand experience is the decrease in separate channel assortments offered by retailers. 28% of retailers have made the step to offering the same assortment across all channels within the organization (Exhibit 5).

There are several components necessary to create a strong foundation for implementation of a unified commerce strategy. The survey touched on six of the most vital elements, including:

- Unified planning
- Flexible allocations
- Real-time inventory visibility
- Inventory accuracy
- Expanded coordination with vendors
- Modified internal incentives

A retailer’s success is dependent upon their ability to implement robust capabilities in these arenas.

Creating a unified plan is paramount to executing on a unified commerce strategy, and many retailers still have a long way to go. Surprisingly, only 8% of respondents have a working cross-channel forecasting method, 24% implemented but still need improvement and the remaining 49% plan to implement in the next 3 years (Refer to Exhibit 2). Once fully operational, retailers can leverage inventory across channels to decrease overall investment and improve inventory turn, margin and gross margin return on investment (GMROI).

Flexible allocations grant a retailer the ability to use real-time inventory information to determine the locational need for goods. Today’s best-of-breed solutions promote the transfer of inventory where it is needed when it is needed, serving as an important foundation to the unified commerce process. Despite the existence of technology to support flexible allocations, the retailers surveyed are still fairly siloed with 42% allocating to a single channel.

Real-time inventory visibility across the enterprise is another key piece to implementing a unified commerce strategy. Though most retailers can presently account for goods in the distribution center (DC), precise tracking of in-store inventory presents a bigger challenge. Unified commerce requires retail stores to know exactly where an item is located in order to meet customer demands for real-time fulfillment across all channels.
The majority of respondents indicated having some cross-channel inventory visibility, but only 26% have reached real-time visibility (Exhibit 6). We expect to see these numbers grow drastically as more retailers begin to fully adopt unified commerce best practices. Like real-time inventory visibility, increased inventory accuracy is fundamental to a unified commerce strategy. Today, retailers have a difficult time maintaining accurate inventory figures due to the infrequency of full cycle counts. The emergence of radio-frequency identification (RFID) technology is changing the retail landscape, bringing precision to inventory counts and eliminating the business disruptions caused by full cycle counts. In the coming years, we anticipate many retailers will join the likes of Inditex, Saks 5th Avenue, Chico’s and Neiman Marcus in deploying RFID technology.

Sharing the burden of inventory ownership with suppliers decreases inventory risk, frees up capital and allows retailers to offer customers extended choices via an “endless aisle.” Retailers are finding value in this practice, with 37% offering an order online/ship from vendor option and 41% a buy in store/ship from vendor (Exhibit 7). This practice will continue to grow, particularly as retailers actualize on the financial benefits derived from reduced inventory costs.

The last critical piece in the puzzle is the ability to compensate and effectively incentivize in-store retail employees. This is a challenge for even the most basic, single channel retailer. Throw in multiple channels of acquisition and fulfillment and the process becomes significantly more complex. In order for the unified commerce strategy to gain full support, employees must be incentivized to act in alignment with business strategy. With 49% of retailers giving credit where the sale originated and 31% where the sale was fulfilled, approaches need to be reevaluated to ensure full employee buy-in. This piece will be a challenge to solve, with retailers expected to go through many iterations before getting it right.
Social Media

Social media has drastically altered our mode of communication in the last ten years. In its most basic form, social media provides a venue in which retailers can directly communicate with their universal customer base. Extending beyond initiating dialogue, it can also be an extremely powerful tool for collecting and using customer feedback to affect merchandise planning and allocation decisions. While this approach is still in its infancy for many retailers, the survey indicates a significant growth in the use of social media for merchandise planning purposes.

For the most part, the retailers surveyed are focusing their social media efforts on the mainstream digital outlets of Facebook, Twitter and Pinterest. The importance of escalating digital media pursuits is being recognized though, with more than half of retailers planning to expand their social media and e-commerce groups within the next year. Conversely, using social media for analytics will take a little longer with only 25% of retailers targeting this area within the next year and 33% planning to expand their social media analytical abilities within 1-3 years (Exhibit 8). Retailers are clearly placing emphasis on content output and brand development rather than on the gathering, analysis and utilization of social media input.

As the survey results indicate, retailers are just scratching the surface when it comes to leveraging social media content. The current use of social media data is limited, with only 39% using it for product development only 35% using for promotional planning (Exhibit 9). However, this is up significantly from last year’s survey with a 550% increased use of social media for product development and a 190% increased use for promotional planning.

![Exhibit 9](image)

Only 8% of retailers incorporate social media data (including preferences, affinities, and trends) into business intelligence (BI) tools to utilize within the planning process.

![Exhibit 8](image)
Though motives behind the decision to utilize social media data vary by retailer, it is important to note the growing availability of tools that facilitate data mining of social media in the retail marketplace. With the integration of social login and e-commerce sites, retailers have been granted access to large quantities of customer information. For instance, upon logging on to a Website using social media credentials, customers consent to instantly provide retailers with demographics, preferences, product/brand likes and many other details about themselves. This customer insight results in large quantities of relevant data ripe for retailer reference. This data can help align demand, sell-through merchandise, localize assortments, and establish pricing and promotions.

While the number of retailers using social media data for planning rose significantly from last year to this year’s survey, we see few retailers planning to invest in this area within the next three years (Exhibit 10). In our discussions with retailers within the industry, we have found that there is still education needed on the benefits of mining social media data and the solutions available to enable this.

Retailers can gain significant insight into the minds of the consumer by fully making use of the tools and reporting functionalities that are accessible today. Using reporting capabilities, much like market basket analysis, retailers can start identifying new trends and opportunities, as well as further support or reinforce current ones. As data connections and correlations are developed, the process can be further refined to help support predictive analytics based on a socially engaged customer base.

**Exhibit 10**

**Social Media Utilization for Planning**

<table>
<thead>
<tr>
<th></th>
<th>Currently use</th>
<th>Plan to use within 12 months</th>
<th>Plan to use within 1-3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td>39%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Promotional planning</td>
<td>35%</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>Sales planning</td>
<td>19%</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>Strategic planning decisions</td>
<td>19%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>Allocation assistance</td>
<td>14%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Assortment planning</td>
<td>9%</td>
<td>6%</td>
<td>14%</td>
</tr>
</tbody>
</table>
The Right Tools

A combination of appropriate tools and systems are necessary to fully support the unified commerce model. Absent the right technology, unified commerce strategies lack teeth and fail to achieve maximum efficiency and benefit for retailers. Best practices dictate employment of a full suite of merchandise planning, assortment planning, and store allocation systems working in conjunction with each other. This year’s survey results reveal that while there is movement in the right direction, there is still significant opportunity for retailers to evolve from a technological perspective.

Fully integrated solutions have not gained vast acceptance into the systems landscape at most retail organizations. Surprisingly, 38% of participating retailers reported currently using a spreadsheet for planning and allocation (Exhibit 11). This illustrates that despite rapid technological developments of best-in-breed capabilities and similar to the findings of our 2nd Annual Merchandise Planning & Allocation Survey, a large number of retailers have been slow to adopt integrated solutions. Leveraging robust tools that allow for management of transactions across all channels will become increasingly vital for retailers who seek to remain viable in a unified commerce environment.

The satisfaction level of retailers with their current systems environment also reveals further room for technological improvement. Although the satisfaction that retailers feel for planning applications is up from last year’s survey, the results are still neutral to negative. When asked to rate the effectiveness of their tools, 45% stated satisfaction with their merchandise planning tool, 21% with their assortment planning tool and only 15% with their space planning tool (Exhibit 12).

### Exhibit 11

Prevalent Planning Products

<table>
<thead>
<tr>
<th>Planning Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spreadsheet</td>
<td>38%</td>
</tr>
<tr>
<td>Homegrown</td>
<td>30%</td>
</tr>
<tr>
<td>JDA Solutions</td>
<td>27%</td>
</tr>
<tr>
<td>SAS</td>
<td>27%</td>
</tr>
<tr>
<td>Epicor</td>
<td>22%</td>
</tr>
<tr>
<td>Oracle (includes MICROS-Retail)</td>
<td>22%</td>
</tr>
<tr>
<td>SAP</td>
<td>16%</td>
</tr>
<tr>
<td>JustEnough</td>
<td>8%</td>
</tr>
<tr>
<td>Island Pacific</td>
<td>3%</td>
</tr>
<tr>
<td>Logility (MIDRetail)</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>14%</td>
</tr>
</tbody>
</table>

### Exhibit 12

Planning Application Effectiveness

- **Merchandise planning**: 21% Very efficient, 24% Somewhat effective, 18% Adequate, 28% Difficult to manage, 9% Ineffective
- **Store allocation**: 13% Very efficient, 31% Somewhat effective, 28% Adequate, 22% Difficult to manage, 6% Ineffective
- **Store planning**: 12% Very efficient, 15% Somewhat effective, 31% Adequate, 27% Difficult to manage, 15% Ineffective
- **Channel planning**: 8% Very efficient, 23% Somewhat effective, 42% Adequate, 19% Difficult to manage, 8% Ineffective
- **Assortment planning**: 7% Very efficient, 14% Somewhat effective, 32% Adequate, 25% Difficult to manage, 22% Ineffective
- **Space planning**: 15% Very efficient, 45% Somewhat effective, 20% Adequate, 20% Difficult to manage, 20% Ineffective
This dissatisfaction is not going unnoticed. Retailers are cognizant of the need for enhanced systems, with a majority planning to either upgrade or replace their assortment planning (65%) and merchandise planning (60%) systems within the next 1-3 years. Space planning enhancements will not be as strong of a focus for organizations (Exhibit 13).

A fully integrated unified commerce environment requires a solid technological foundation. As the survey shows, retailers are starting to appreciate the urgency behind systems improvements. Nonetheless, transitioning from legacy systems and spreadsheets continues to be a challenge. Inability to fully embrace integrated systems will inhibit efforts to provide a truly unified commerce retail model. Those keeping pace with technological developments will find themselves at a definite competitive advantage until the rest of the industry is able to catch up.

**Exhibit 13**

*Planning Application Plans*

<table>
<thead>
<tr>
<th>Planning Application</th>
<th>Upgrade/ replace within 12 months</th>
<th>Upgrade/ replace in 1-3 years</th>
<th>No plans to upgrade/ replace</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assortment planning</td>
<td>22%</td>
<td>43%</td>
<td>32%</td>
<td>3%</td>
</tr>
<tr>
<td>Merchandise planning</td>
<td>22%</td>
<td>38%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Store allocation</td>
<td>19%</td>
<td>27%</td>
<td>51%</td>
<td>3%</td>
</tr>
<tr>
<td>Channel planning</td>
<td>8%</td>
<td>32%</td>
<td>49%</td>
<td>11%</td>
</tr>
<tr>
<td>Store planning</td>
<td>5%</td>
<td>41%</td>
<td>51%</td>
<td>3%</td>
</tr>
<tr>
<td>Space planning</td>
<td>5%</td>
<td>30%</td>
<td>46%</td>
<td>19%</td>
</tr>
</tbody>
</table>
Conclusion

The 2014 Merchandise Planning & Allocation Benchmark Survey confirms that retailers understand the necessity of a unified commerce model, and are working to improve planning processes to support this retail environment. The data also reveals that a majority of retailers recognize the importance of standardized planning, and thus have introduced formal processes within their organizations.

Progress towards unified processes

- 69% are planning to expand their unified commerce capabilities within three years
- More than 45% have integrated business processes and systems across channels
- 26% offer real-time visibility across channels with another 65% offering “some” visibility of in-store/online inventory

However, many have yet to implement the measures necessary to support the demands of a unified approach across all channels. Key best practices are showing a lack of process alignment to support unified commerce initiatives, which present several opportunities for improvement.

Unified process opportunities

- 69% of retailers still maintain separate inventory across channels
- Only 8% have a working cross-channel forecasting method
- 46% have no plans to offer the ability for a store transfer where the customer orders an item in store A and store B ships the order to store A where the customer picks up the order

One of the most encouraging developments within the last 12 months is the increased focus on incorporating social media data, including customer preferences, affinities and trends, within the merchandise planning processes.

Social media analytics progress

- 33% use social media to facilitate planning within product development, up from 6% last year
- More than 50% plan to expand their social media analytics capabilities within three years

In addition, while assortment accuracy is cited as a top priority, there are opportunities within business intelligence that are currently being overlooked when planning and allocating inventory.

Opportunities within data analysis

- Only 33% currently utilize CRM data to feed business intelligence tools
- 41% do not capture customer feedback from social media
- 73% have only basic analytical and reporting capabilities

Consumers expect a fast and efficient selling and delivery process, where the physical and digital selling channels converge to provide a cohesive shopping experience. These unified commerce shopping concepts continue to grow significantly, requiring retailers to put more functional capabilities in place than ever before. With a multitude of emerging tools and techniques available to support and expand business, it is an exciting time to be a retailer.
Survey Methodology

Boston Retail Partners conducted the 2014 Merchandise Planning & Allocation Benchmark Survey in August and September of 2014 by contacting the top North American retailers. Through an online survey system, we gained insight into retailers’ planned initiatives, priorities and future trends.

Our respondents represented a wide range and broad perspective organizationally. Apparel, footwear and accessories retailers represented the largest segment of survey responses with 42% falling into the category. The next largest group was comprised of general merchandise retailers with 21% of the total (Exhibit 14).

Of the retailers surveyed, the breakdown in size based on gross annual revenue included a broad selection of Tier 1, 2 and 3 retailers. Nearly three-quarters of the retailers surveyed had gross annual revenue of $100 million to $5 billion (Exhibit 15).

This paper summarizes the survey’s results and key findings, offers insight into BRP’s client engagement and retail experience, and identifies current and future trends in the industry to offer retailers opportunities to continue to evolve and prosper. We asked our participants about their strategies and tactics to create a unified commerce environment to meet customer demands.

The respondents’ titles ranged from CIO to Director-level within merchandising, planning and IT.

Nearly all the respondents operate within the brick-and-mortar world and most have an ecommerce presence (Exhibit 16).
About Boston Retail Partners

Boston Retail Partners (BRP) is an innovative and independent retail management consulting firm dedicated to providing superior service and enduring value to our clients. BRP combines its consultants’ deep retail business knowledge and cross-functional capabilities to deliver superior design and implementation of strategy, technology, and process solutions. The firm’s unique combination of industry focus, knowledge-based approach, and rapid, end-to-end solution deployment helps clients to achieve their business potential.

BRP’s consulting services include:

- **Strategy**
- **Point of Sale (POS)**
- **CRM**
- **Order Management**
- **Supply Chain**
- **Business Intelligence**
- **Mobile POS**
- **Unified Commerce**
- **eCommerce**
- **Information Technology**
- **Business Process Optimization**
- **Store Systems and Operations**
- **Customer Experience & Engagement**
- **Merchandise Management**
- **Private Equity**

For more information or assistance on any of the topics covered in this white paper, please contact:

**Brian Brunk, Principal**  
(405) 590-0542  
bbrunk@bostonretailpartners.com

**Ken Morris, Principal**  
(617) 880-9355  
kmorris@bostonretailpartners.com

**Walter Deacon, Principal**  
(781) 337-2060  
wdeacon@bostonretailpartners.com

**David Naumann, Director of Marketing**  
(916) 673-7757  
dnaumann@bostonretailpartners.com

Boston Retail Partners Headquarters  
Independence Wharf, 470 Atlantic Ave., 4th Floor, Boston, MA 02210  
www.bostonretailpartners.com

©2014 Boston Retail Partners. All rights reserved

No part of this publication may be reproduced or transmitted in any form or for any purpose without the expressed permission of Boston Retail Partners. The information contained herein may be changed without prior notice.
Gold Sponsor – 7thonline

7thonline is a leading provider of cross-channel merchandise and assortment management solutions to the Apparel, Footwear, and Accessories industries. Deployed in the cloud or as enterprise software, 7thonline solutions enable more effective planning, demand forecasting, and inventory optimization for fast-growing, omni-channel, leading brands. Customers include Calvin Klein, G-III Apparel Group, GRI Retail Group (Hong Kong), Michael Kors, Nautica, Oakley, Patagonia, PVH, Under Armour and VF, among others.

Retail, e-commerce or wholesale—customers don’t shop channels anymore, yet most retailers and brands still plan in silos. This lack of a systematic approach to capturing total global demand across channels leads to lost sales, excess inventory and a suboptimal customer experience.

7thonline offers an industry-specific merchandise and assortment management platform for addressing retailers’ omni-channel planning needs. It provides a single platform for capturing, analyzing and planning for total demand across wholesale, retail, and eCommerce channels. Gaining this complete demand visibility serves as a critical foundation for driving production, buying, and selling decisions to best fulfill local consumer needs and lower inventory risks. The ability to better match supply with demand ultimately allows retailers to bring back satisfied customers and greater bottom line increases.

The platform consists of modular applications for merchandise and assortment planning, in-season merchandise management, proprietary demand forecasting algorithms, and embedded Business Intelligence (BI) reporting. Customers gain complete demand visibility and robust planning capabilities for all channels and regions, driving greater sales, lower markdowns, higher margins, and enhanced profitability.

7thonline is headquartered in New York, NY and has offices in China.