WHITE PAPER

5 strategies for retail planning success



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Merchandising is the link among sales, marketing, and supply chain. For retailers, merchandising is about the all-important four Ws: **what** to sell, **when** to sell, **where** to sell, and **who** to sell to.

The four Ws are critical for sales, marketing, and supply chain because retailers need to know them to balance a positive customer experience, available inventory, and customers' future needs in a timely way. Though the concept is widely known and established, most retailers struggle to successfully execute the four W's.

To accurately identify the four Ws, retailers need to define a product strategy, a cross-channel strategy, and a customer strategy. Combining these three strategies enables a retailer to plan for demand with an emphasis on customer focus—what the industry calls Merchandising 3.0 (more on this term later).

It's not enough to only have product planning or cross-channel planning. If a retailer has a merchandising approach based only on products, it often ends up succeeding in either online sales or brick-and-mortar sales—but not both.

On the other hand, if a retailer is only good at cross-channel selling (combining online, in-store, and other channels), it risks delivering products that fail to resonate with shoppers. This puts its brand identity at risk, leading to lost market share. So a well-implemented product and cross-channel merchandising strategy helps retailers stay ahead of the competition. And in an industry that's changing as fast as customers seem to change their minds, staying ahead is key.

To achieve Merchandising 3.0, retailers should add a customer strategy into the mix. This strategy is most obvious when it's missing—for example, when department stores and their big-brand suppliers are at odds over promotions like discount pricing. The retailer wants to offer discounts while the supplier doesn't, or vice versa.

These clashes might be avoided if pricing were optimized based on a combination of product inventory (Merchandising 1.0), selling channel (Merchandising 2.0), and customer data (Merchandising 3.0).

Here are five retail planning strategies that can help retailers succeed at Merchandising 3.0.

Five strategies for retail planning success



Balance store inventory:
Keep it light and fast-moving.



Balance merchandising volatility:
Adjust to the influence of external factors.



Balance fulfillment channels:
Keep it customer-centric.



Align with supply chain:
Collaborate with manufacturers on pricing.



Apply integrated technology to retail planning:
Strive for digital transformation.

1. Balance store inventory:

Keep it light and fast-moving.

Inventory restraint is a constant theme at big department stores like Nordstrom, Macy's, and Kohl's. Retailers use this strategy to avoid late-season discounting that cuts into gross margins, but a lean stocking strategy raises the risk of lost sales revenue if goods aren't in stock or if buyers misread fashion trends.

Striking a balance between marketing needs and logistics costs has become tougher as online competitors eat into brick-and-mortar store sales. Online retailers' sales[1] are increasing at three times the rate of the entire retail industry. Keeping inventories lean means retailers may not be able to maximize sales revenue to pay for their physical stores, but lean inventory can pay off: Shoe retailer DSW Inc., for example, raised its outlook after reporting that tighter inventory helped improve quarterly net profits.[2]

Companies that are both suppliers and retailers, such as British luxury house Burberry Group, can get squeezed between their conflicting roles. The company is now working on tailoring its inventory to a sales strategy that relies on its own branded stores and other department stores. Burberry is trying to maintain, and even bolster, its upscale brand by keeping inventories lean and minimizing discounts; the company has even pulled out of some U.S. department stores that slashed prices on its products.[3]

The relationship between suppliers and stores is getting shakier as e-commerce grabs a bigger portion of sales, and the conflict is escalating in the apparel world as lean supply chains that serve fast-fashion companies push consumers toward lower-cost goods.

2. Balance merchandising volatility:

Adjust to the influence of external factors.

Wages, employment conditions, and climate are three volatile factors that retailers should always consider and incorporate into their plans. For example, an unusually warm winter means fewer people buy cold-weather gear, causing issues for retailers that rely on a strong winter sales season.

An example of a retailer adjusting to climate-related changes is JCPenney. The retailer has started selling appliances again to reduce the effect of weather-related categories (like apparel) and to stay competitive with online sellers such as Amazon.

> The company has kept apparel inventories thin as a hedge against the volatile clothing category, and the company plans to continue that strategy after what JCPenney CEO Marvin Ellison noted was the "warmest September ever on record."[4]

3. Balance fulfillment channels:

Keep it customer-centric.

Big retailers like Walmart and Target are making it easier for shoppers to pick up online orders in brick-and-mortar stores. Among the changes: Walmart allows same-day store pickups for more products and has put more staff at pickup counters.[5] In-store pickup eliminates shipping costs for retailers and allows customers to see, touch, and feel what they're buying, in an attempt to turn the brick-and-mortar business into an advantage over online competitors. Brick-and-mortar stores also have the habits and preferences of customers going for them: 75 percent of the time, we still prefer to shop in physical stores.[6]

But managing inventory for both online and brick-and-mortar sales has been a major challenge for retailers. For long-term success, retailers need to balance a customer-centric approach with a cross-channel mix.

4. Align with the supply chain:

Collaborate with manufacturers on pricing.

Rising prices for commodities like palm oil, crude oil, and aluminum present increasingly tough challenges for producers and distributors.[7] Unilever—the world's second-largest consumer-goods company behind Procter & Gamble—pointed to rising prices for commodities as a drag on earnings. Companies like Unilever and Reckitt Benckiser (makers of Lysol), are being squeezed from both sides as raw materials costs rise and consumer demand remains uncertain. Unilever and Reckitt both reported recent gains in revenue, but the gains came largely from price increases rather than expanding demand.

Since commodity price fluctuations impact retail prices, alignment with suppliers is key so that prices can be adjusted to maintain profitability. Innovation can also help: For example, Macy's is working with its suppliers and distributors to place RFID tags on all its merchandise.[8] This will allow Macy's to monitor inventory better and align merchandise to the supply chain.

5. Apply integrated technology to retail planning:

Strive for digital transformation.

Technology can have a powerful impact on improving the accuracy of forecasts and enabling integrated business planning across all lines of a retailer's business. Digital transformation can help retailers understand the financial impacts of trade-offs and enable advanced decision-making in their planning processes.

Success story: Circle K

One example of integrated technology in action is Circle K's use of the Anaplan platform for supply and demand planning in its European locations. Circle K is a global retail brand with over 12,000 convenience store locations around the world. They are the largest independent convenience store operator in the United States and have locations in more than 20 countries worldwide.

The company's supply chain team now has an accurate, dynamic, 18-month rolling forecast of current and future stock levels for their European locations. Magnus Tagtstrom, Senior Director of Supply Chain Optimization at Circle K, said the Anaplan platform reduces guesswork. "One of the clear benefits that I see is forecast accuracy," he said. "This will help us to have the right stock level throughout all our sites. That's money that we have as a buffer in the supply chain now."

With an accurate view of demand, the Circle K team can save money by reducing inventory and using resources more efficiently. Tagtstrom explains the savings this way: "We have full visibility into our current and forward-looking inventory levels because our demand plans tell us how much we will sell and when we can distribute inventory to sites. This allows us to be much more precise in driving down both distribution costs and working capital."



Retailers today can drive the future of their business—within and across departments at strategic, tactical, and operational levels—without compromising usability, flexibility, ease of model changes, or speed. Integrated technology can help retailers assess the impact of business decisions and planning scenarios better than the disconnected array of systems that most retailers rely on for planning today.

> The Anaplan platform delivers a single cloud-based environment that can help retailers accurately plan, optimize, and respond to customer demand while seamlessly aligning across the business to meet overall retail planning objectives.

An investment in the right technology can be the foundation of achieving Merchandising 3.0. To learn more, visit the Anaplan App Hub to explore the retail-specific applications that can automate and streamline the planning process across sales, marketing, and supply chain.

Footnotes

[1]Adam Hartung, "How The 'Amazon Effect' Will Change Your Life And Investments," Forbes. Published February 28, 2017. https://www.forbes.com/sites/adamhartung/2017/02/28/how-the-amazon-effect-will-change-your-life-and-investments/ - 4e2177e75e76

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[3]Saabira Chaudhuri, "Burberry Reports Decline in Underlying First-Half Revenue," Wall Street Journal. Published October 18, 2016. https://www.wsj.com/articles/burberry-reports-decline-in-underlying-first-half-revenue-1476772828

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[6]Oliver Chen, CFA, John Kernan, CFA, & John Blackledge, "Retail's Disruption Yields Opportunities—Store Wars!" Cowen. Published April 6, 2017. http://www.cowen.com/reports/retaildisruption/

[7]Saabira Chaudhuri, "Shine Comes Off Big Consumer-Product Companies," Wall Street Journal. Published October 19, 2016. https://www.wsj.com/articles/shine-comes-off-big-consumer-product-companies-1476884773?mod=djemlogistics

[8]Barbara Thau, "Is The 'RFID Retail Revolution' Finally Here? A Macy's Case Study," Forbes. Published May 15, 2017. https://www.forbes.com/sites/barbarathau/2017/05/15/is-the-rfid-retail-revolution-finally-here-a-macys-case-study/ - 3f8403603294

About Anaplan

Anaplan is driving a new age of connected planning. Large and fast-growing organizations use Anaplan's cloud platform in every business function to make better-informed plans and decisions and drive faster, more effective planning processes. Anaplan also provides support, training, and planning transformation advisory services. Anaplan is a privately held company based in San Francisco with 18 offices and over 150 expert partners worldwide.

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