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Guest Commentaries

Automation Will Only Get You So Far in Today's Customer-Centric World

Sep. 25 2008
 By Doug Erickson
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There is often a fine line between being good and being great. For instance, Michael Phelps took away eight gold medals from the 2008 Olympics by defeating his opponents by fractions of a second. Likewise, Tiger Woods won the 2008 U.S. Open title by one stroke. While both athletes endured close races, their victory earns them a prestigious title and millions in endorsements, separating themselves immensely from their competition. This same mentality correlates into the realm of merchandise planning. When executed properly, going the extra mile to optimize inventory can equate into millions in store labor savings and reduced out-of-stocks for retailers.

No Customer or Store Is Average

Every retailer has a common, ideal goal: To provide customers what they want, when they want it, while simultaneously reducing inventory and out-of-stocks to maximize their gross margin return on inventory Investment (GMROI). The best way to achieve this goal is by utilizing a customer-specific merchandise plan, not an average plan. Many retailers use a top-down planning strategy to develop merchandising plans based on averaged performance data such as banner or cluster. While this works well to determine overall strategies or spot trends, it does not work well for individual products as there is no average store or average customer. By using this method, retailers are not addressing each store's unique needs based on localized demand and ultimately end up with items either over-stocked or under-stocked.

The key to executing an ideal merchandise plan is to plan from the bottom up, using highly granular data-performance by item, by store, by week-to satisfy each store's individual customers and unique demand patterns.

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Once customer needs are understood, retailers can apply constraints such as format, banner or supply chain requirements to ensure plans are executable. The result is customer-driven, optimized inventory at the store level with each category merchandised to fit the exact space available. Typically, when transitioning from generic to customer-specific merchandise planning, 20% to 30% of inventory must be adjusted to meet proper demand. When a retailer implements a customer-centric solution it can achieve 98% or more inventory accuracy.

Automate and Optimize**RetailCareersNow.com**

There are many merchandise-planning solutions on the market that initially seem to provide similar benefits. However, what differentiates the good products from the great products is the utilization of both automation and optimization. All space-planning solutions have evolved to provide a degree of automation, but very few systems have truly synchronized assortment and space planning and enabled the retailer to truly optimize assortments, store inventories and store selling space. While retailers might see a reduction in manual steps and labor savings required to produce planograms, automation alone tends to only automate 85% of the plan, requiring the final 15% to be manually tweaked. This means employees must manually adjust each planogram, which can be a time-consuming process with a high rate of inaccuracy. Ultimately, if the plan is sub-optimized, it will not result in any benefits or yield the return on investment that optimized merchandising plans are proven to deliver.

Why invest in such a solution when fully automated programs that optimize inventory accuracy to 98% or more are available? The truth is that the bulk of GMROI comes from optimizing the merchandise plan without any manual intervention. In doing so, retailers achieve truly customer-centric assortments that can be defined at any level depending on the dynamics of the category. For instance, a relatively static category, such as batteries, may be defined at an enterprise level and still achieve optimal performance. Alternatively, a dynamic category prone to variation in shopper taste, such as chilled ready meals, will realize significant benefits from store-specific planning. In each case, however, it is critical to set inventory levels based on each store's specific merchandising space and unique demand, resulting in optimized inventory on the sales floor. By automating and optimizing inventory this way, retailers can generate thousands of store-specific merchandise plans in minutes to meet consumer demand while reducing out-of-stocks.

Results Pay Off

While no solution can always guarantee perfect planograms, achieving 98% accuracy can equate to significant increases in sales and millions in inventory savings. For instance, a leading U.S. retailer that implemented such an optimized, customer-specific merchandise-planning solution for just two categories achieved an average inventory reduction of 5.37%, creating an average savings of \$8,357 per store. The bottom line resulted in a savings of \$10,029,486 for the retailer. Another leading retailer experienced a sales

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increase of 8.8% and 95% planogram compliance by applying the same solution during a pilot for four grocery categories.

To achieve the ideal level of customer-centricity and maximize operations to increase GMROI, it is important to invest in a technology that can truly deliver optimized customer-specific merchandise plans. Deciphering good solutions from great solutions will allow retailers to gain the strong competitive advantage needed in the industry. Doing so will result in millions in increased sales, reduced wastage and the ability to meet consumer demand on a localized level.

Doug Erickson is the executive VP of global sales and marketing for Galleria, Chicago, a provider of customer-centric merchandising solutions that provide value by integrating with a retailer's existing systems and resources to deliver the right product to the right stores in the right capacity (Doug.Erickson@galleria-rts.com).



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