



Using The Store As Fulfillment Center: Challenges for Merchandise Planning

Prospective View

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Abstract:

Anecdotally, we have observed an uptick in interest in merchandise planning systems. These anecdotal observations are backed up by responses to our benchmark surveys. Planning applications, in use for over thirty years, are sorely in need of a refresh, starting from the forecast used to seed the plans all the way through predicting the variety of fulfillment options consumers expect and having the appropriate merchandise where it's needed. Infusing forecasts with non-transactional demand signals promises to make merchandise plans more precise.

However, without a solid foundation of data and a change in merchandise processes, planning systems will be sub-optimized. It's unreasonable to expect planning to be successful unless data is clean and accurate.

This paper explains how the world of planning has changed, why the store remains important in the context of merchandise planning and order fulfillment, the value of AI and ML in improving the forecast, the need to change merchandise processes, and finally, the building blocks that are necessary for success.

The World Of Merchandise Planning Has Changed

For several years, the retail industry has discussed and debated the implications of Omnichannel retailing and non-transactional customer information on Merchandise Planning systems. Omnichannel added far more complexity to merchandise planning than pure eCommerce: many retailers just treated the online channel as another store. But with Omnichannel and the advent of social media, the "just treat it as a store" paradigm became an ineffective patch over the real issues.

The first question that arose was, "*What do we do with the new demographic and sociographic information we now can obtain about our shoppers?*" It was clear that adding an additional dimension to the merchandise planning "cube" was untenable from a usability perspective. A cube is hard enough to represent on a two-dimensional computer screen. Adding a fourth dimension and using the information in any kind of meaningful way was ultimately impossible to manage. The industry seemed to settle on attributes to drive trend identification, but in many ways, that seemed sub-optimal. Still, it was the only sensible option available.

Then the question arose, "*What data should we use to seed our merchandise planning systems?*" This went far beyond the notion of seeding the plans with a forecast vs. prior seasons' sales. Using a sku level forecast was easy to evangelize. Once we accept that computing power is such that we can calculate merchandise plans from the sku/store level up, rather than at the category or subclass level, it's a very small step (though perhaps one that makes traditional merchants' heads ache) to building bottoms up forecasts.

But then subtler questions started to arise around the forecast itself. "*Do we count the sale based on where an order was fulfilled, or where demand was generated?*" became a big subject of interest.

On the surface, this also seemed to be a no-brainer. If demand was generated on-line and the distribution center didn't have product available, retailers could fill the order from a store. Or if a customer wanted to buy a product from one store and it was out of stock, it could be filled from another store easily enough. But for the retailer, the most efficient solution seemed to be to fill the order based on where demand was generated, not where it was fulfilled. So we

recommended that retailers follow the path of efficiency: fill the order where demand was generated!

Well, it turns out that the world just isn't that simple. The real answer is, "It depends."

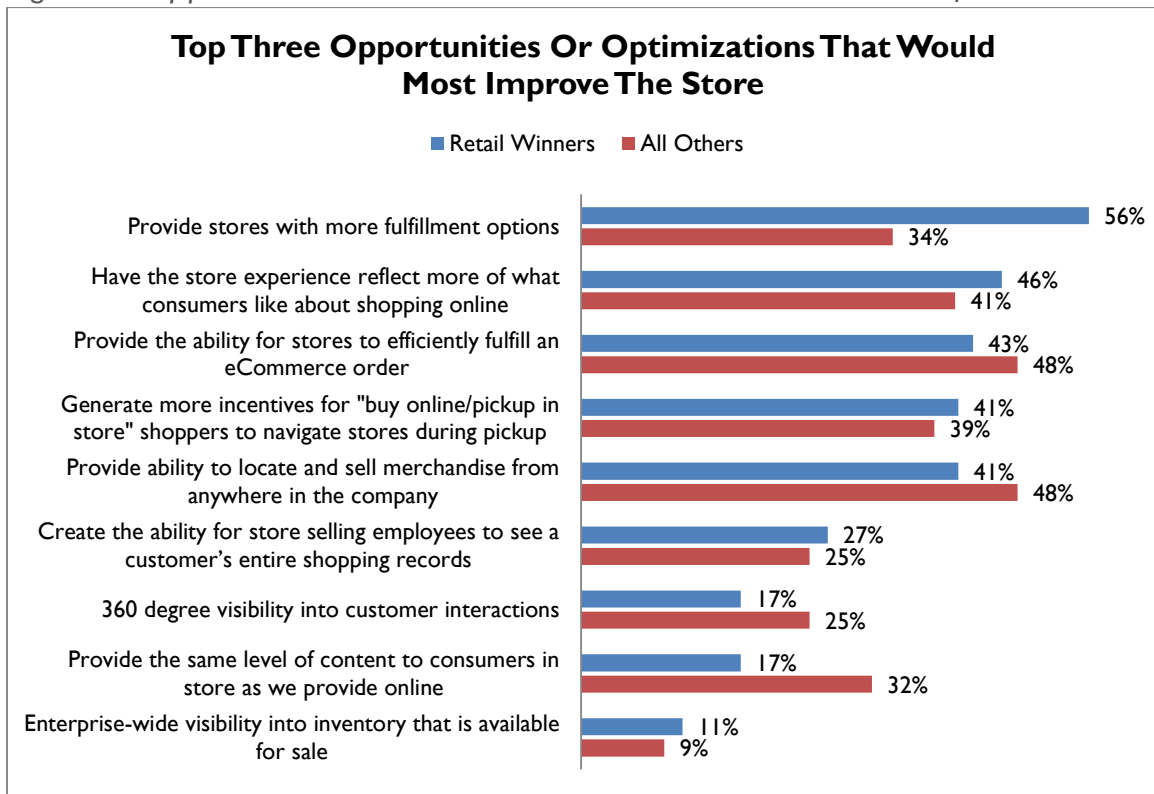
The Store Remains A Focal Point

We recently surveyed 110 retailers on the role of the [store](#) (Ed. Note: free registration required to download). We learned a lot from this data.

As we can see from Figure 1 below, over-performing retailers believe that the single biggest opportunity for optimization that could help stores would be to provide them with new fulfillment options.

There is also significant interest in incenting shoppers to "buy online, pick up in stores" and to navigate their way through stores while they are there to pick their products up. In other words, just as drug stores put the prescription counter in the back of the store, so shoppers would walk through other departments, retailers now hope that walking through the store will generate incremental sales. It's harder to generate interest in impulse buys online.

Figure 1: Opportunities Abound With The Store As A Hub For Fulfillment



Source: RSR Research, June 2019

Further, we know that recently, Target Corporation [announced](#) that it has been really successful using its stores to fulfill online orders as well. And, of course, if a retailer is serious about same day delivery, fulfillment from stores becomes an imperative, unless that retailer is Amazon and has distribution centers all around the country. As we wrote in our recent store benchmark report,

... In Q1 2019, Target reported eComm topline growth of 42%. The company CEO attributed this growth to the “have it your way.” Philosophy enabled by using stores as fulfillment centers. Whether consumers want same day delivery or to pick up merchandise bought online in stores, the company has made the investments required to accommodate them. Supply Chain improvements and the purchase of same day delivery company Shipt allow for last mile economies as well as in-store rapid response.

So this leads us back to our original question: *What is the best data we can use to seed merchandise planning systems?* And our original answer, “It depends.” But before we get to that, let’s take a look at some basics that are required for today’s planning systems to provide optimal results.

Start With The Right Building Blocks

There are some building blocks that cannot be ignored when thinking about in-store fulfillment or optimized planning in general.

- 1) **Inventory accuracy and visibility is a must.** In [our recent merchandising benchmark study](#), 43% of respondents reported that unclean data is a top three organizational inhibitor to having more integrated merchandising processes. Thirty-seven percent reported poor inventory visibility and accuracy as a top-three concern.
- 2) **A modern technology infrastructure is no longer a luxury.** In the same study, 41% of respondents reported that their existing technology infrastructure is keeping them from moving forward. This is a familiar refrain in RSR studies. Retailers know what they want to do, but their legacy technology portfolios get in their way. We are empathetic to the problem of “changing the tires on a bus while it’s racing down the highway” but it really has to happen. Soon.
- 3) **Inventory management processes and systems need improvement now.** In that same merchandising benchmark study, 54% of respondents said that improved inventory management processes and systems were top three ways to overcome their internal challenges. Technology change without process change is very dangerous. Process should always come first.

Infuse Merchandise Planning With AI and Machine Learning

What once seemed simple is now complex. Merchandise planning should be infused with data around where the customer *wanted* demand to be fulfilled.

In other words read your demand signals carefully:

- If the customer wanted to buy online and pick up in a particular store, that store should be assigned the sale in the forecast engine.
- If the customer wanted delivery direct to their door with no time constraints, but the distribution center was out of product, the forecasted sale should definitely be assigned to the direct channel.
- If the customer wanted to pick up product at one store, but the merchandise had to be shipped from another, the sale should be assigned to the store that the customer wanted.

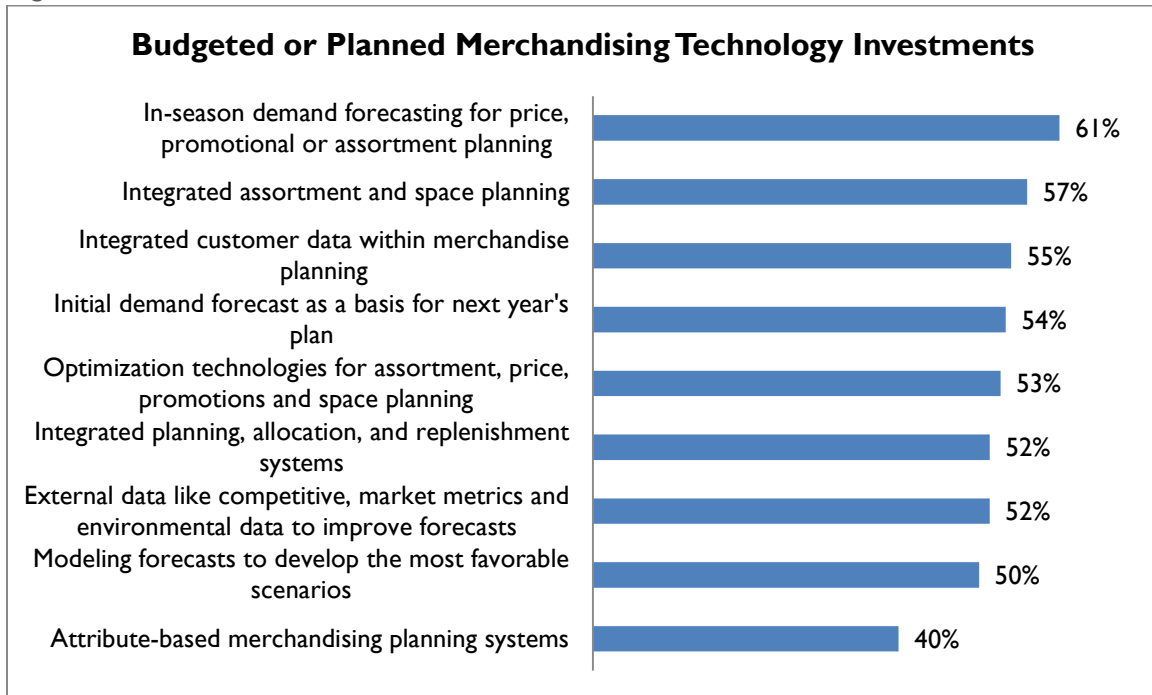
These things are easy to say, but not so easy to do. It requires more robust data capture, and a robust AI/ML engine to calculate and move data around appropriately.

Retailers Are Actively In A Merchandise Planning Refresh Cycle

Merchandise planning has been used by retailers for more than thirty years. But original implementations had no concept of eCommerce, Omnichannel, advanced forecast engines, AI, machine learning or non-transactional customer data. As previously mentioned, different patches have been overlaid on both processes and technologies, but absent continual improvement and updates, those patches have become unwieldy and unmanageable.

Retailers know this, and as we can see from Figure 2, below, they're actively seeking change across all aspects of the planning process.

Figure 2: Investment Plans Illustrate Retailer Realization Of New Need



Source: RSR Research, April 2019

Whether or not these retailers already have something implemented, they are recognizing the need to change. The future of retail is in giving the customer what she wants, when she wants it, and making a profit while that happens. This is easier said than done, but it explains the resurgence in interest in merchandise planning. The better the forecast, the better the plan. And the quicker retailers can respond to changes in demand, the fewer markdowns they'll take and out of stocks they'll experience.

Ask yourself...are you gathering demand signals from everywhere possible? And if so, are you putting them to use? This is the future of retailing.

Appendix A: About Our Sponsor



Mi9 Retail is the fastest growing provider of enterprise software for retailers, wholesalers, and brands. Mi9 enables the world's leading retailers to automate and optimize their entire Plan-to-Sell™ process, from planning to executing, influencing, and selling merchandise in-store, online, and on any device. Mi9 corporate retail systems facilitate better planning, master data management, allocation, and replenishment, and Mi9 customer engagement and point-of-purchase systems boost revenue across digital and brick-and-mortar channels. Our solutions are connected via a common analytics framework that serves as the foundation of the system and speeds time to insight with role-based dashboards, KPIs, and governed self-service data discovery. Mi9 Retail is committed to helping retailers on their path to success, so they can maximize revenue and customer engagement while minimizing costs.

Appendix B: About RSR Research



Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.

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