

GUITAR CENTER //

INITIAL RESULTS



Q helps Guitar Center grow from 160 to 210 stores without increased headcount by improving their forecasting and allocation.

QUANTUM RETAIL TECHNOLOGY



GUITAR CENTER IMPLEMENTS Q FORECASTING AND ALLOCATION //

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IRENE MESSIER Senior Vice President, Allocation, Forecasting and Replenishment, Guitar Center

Americans know and love their music and that passion is just one reason why Guitar Center is the largest musical retailer in the world. From small accessories costing less than a dollar to all types of guitars, amplifiers, drums, keyboards, and \$90,000 state-of-the-art mixing desks, it's all there; a place where seasoned professionals and budding amateurs alike come to satisfy their musical leanings. Depending on where they are in the country, those tastes can range from blues, bluegrass and folk, to heavy metal, hip hop, hard house and literally hundreds of other genres.

Guitar Center also operates a Music and Arts division with more than 90 stores specializing in band instruments for sale and rental to teachers, band directors, college professors, and students. Through their wholly owned subsidiary, Musician's Friend Inc. they're the largest direct response retailer of musical instruments in the United States.

“The types of customers we deal with vary widely across demographic and geographical regions,” says Bret Hayden, the company's director of business process design. For the company's planners and forecasters, it's a major challenge because no two stores are alike. With a range of musical tastes across the country, forecasting demand for each of 210 stores is a complex task, particularly when you consider there are over 7,000 SKUs.

Having outgrown their current forecasting, allocation and replenishment systems, Guitar Center needed to find a simple way to deal with the increasing complexity of their business. The solution they were looking for would enable them to understand their inventory at the micro level, yet would simplify their forecasting and allocation processes.



INITIAL RESULTS »

QUICK FACTS // ABOUT GUITAR CENTER

- Guitar Center is the world's largest musical retailer
- 210 stores
- Annual Revenue: \$2B
- Over 7,000 SKUs



A SINGLE HOLISTIC SOLUTION //

Prior to 2006 Guitar Center relied on an in-house forecasting system.



While it functioned at chain level, the system lacked the detail to understand inventory movement at store level. There was also a serious knowledge gap between forecasting and allocation: the forecasting team were using one set of metrics to determine the volume and mix of products to be sent to distribution centers, while the allocation team used an altogether different set of criteria to create the product mix for stores.

Management knew that in order to satisfy customers and drive profits, they needed to be able to examine the individual performance of each SKU in every store, something their current system couldn't handle. The company's executives were looking for something that would give them a better forecast outcome on the slow moving expensive items and could also be utilized in updating cheaper, fast moving items as well.

With the business entering a major period of growth, the search was on for a bolt-on system that would contribute to their future merchandising and financial goals. While there were any number of packaged solutions available, management examined the options and found these didn't fulfill their needs.

Initially Q was trialed on high velocity items. "We observed consistently better forecasting, month after month, coming out of the Q application," says Messier. Following this, the system was rolled out live on higher priced inventory.

A system that adapts to retail strategy

"A key difference with Q compared to other systems," points out Messier, "is that it takes a strategic view of our portfolio and considers the role each product plays in the company's merchandising strategy."

Using current data to monitor product movement in real time, Q informs planners when actual performance doesn't match the forecast. If an item is selling better than expected, the system will automatically update the order plan to increase future quantities.

Each time Guitar Center adds a new product to its assortment, the buyer and planner can assign it a role and a strategy. "They can also set up other types of parameters," explains Hayden. "For example, they can plan for a display in the store for that product, or set a 'max stock' if the item is big and bulky."

As well as assigning these rules to each product, executives decided to move one level higher, dividing stores into several 'grades' based on performance of product categories. "One store could be an 'A' store for drums, but a 'C' store for guitars," Hayden says. "The great thing about Q is that it gives us the ability to manage inventory using those grades."

"We don't have as many over and under-stocks as we had in the past,"

BRET HAYDEN Director of Business Process Design, Guitar Center

As Q recommends inventory allocations for different stores, it considers the roles the company assigns to different products at those stores, then tracks the movement of products to see how well they play their parts. More precise information about product demand and performance now means the allocation process at Guitar Center runs more efficiently. Q's ability to reveal what is happening at the SKU/store level means it highlights anomalies in parts of the operation that were previously not receiving enough attention.

By continuously leveraging merchandise and assortment goals and taking a multi-layered view of how items behave at store level, Q provides visibility to both near- and long-term item performance potential, effectively bridging the gap between planning and execution. "We don't have as many over and under-stocks as we had in the past," Hayden says. "Not only does Q help us identify when to buy and how much to buy, it also helps us identify how to navigate through our supply network to support seasonality, life-cycle and promotional activity."

Increased Efficiency and Fifty More Stores

From the outset, Guitar Center was able to see improvements in service levels; a key strategic metric for the retailer. After only an eight-week monitoring period, service levels showed an increase while overall inventory reduced when compared to a control group.

Since then, by delivering insights and exceptions that planners can quickly take action on, Q has continually rebalanced stock throughout Guitar Center's 210 stores, leading to fewer stock-outs and improved customer service, sales and profit. Moreover implementing Q has not demanded any major upheaval. Q's ability to work alongside existing systems means that it takes data, via a JDA ERP and feeds optimal information back into Guitar Center's Arthur system.

Messier is unequivocal about the benefits to her organization, stating that Guitar Center was in a position where their in-house solution was generating a great deal of volatility. Allocators had to bring in four or five different elements – manually – to make decisions.

"Quantum has been able to give us stability; their numbers have credibility and our people know exactly what is coming up. Our forecasters can now spend time analyzing the business and underlying trends instead of sorting SKU by SKU and continuously rechecking. It is a stroke of genius." Messier adds that the retailer's growth from 160 to 210 stores – could not have been achieved without the efficiencies and productivity improvements brought by Q. "We did it without increasing any headcount in planning, allocation and replenishment, which is a testament to how well Q has worked for us."



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IRENE MESSIER Senior Vice President, Allocation, Forecasting and Replenishment, Guitar



QUICK FACTS // INITIAL RESULTS

- Enabled growth from 160 to 210 stores, without increasing headcount
- Reduced forecasting errors by 50%
- Reduced inventory by 10%, reducing overstocks by \$8million and filling under stocks by \$8 million.
- Eliminated additional backroom storage normally needed to support holiday trading
- Gives visibility to lost sales
- Long range order planning enabled management of inventory flow, greater visibility and collaboration with Guitar Center's vendors
- Q introduced centralized merchandise strategies to address local market needs
- **Q utilized a phased implementation:** Augmented then replaced existing systems without disruption

QUICK FACTS // ABOUT QUANTUM RETAIL



Quantum Retail has created a dynamic engine, called Q, that optimizes and automates retail processes related to localized [forecasting and advanced order planning](#), [allocation and replenishment](#), and [assortment and range planning](#). Through a deep understanding of item behavior and merchandise roles, goals, and strategies, Q is driving unprecedented value for retailers of all types.

CONSUMER-DRIVEN: Q addresses the rapidly shifting patterns of today's sophisticated consumer by translating demand insight into increased market share.

GLOBAL STRATEGY, LOCAL ACTION: Q provides a competitive advantage by understanding the evolving nuances of localization, channels and retail formats.

HYPER-RESPONSIVE: Q allows retailers to continuously maintain pace with market shifts, competitive pressure and emerging threats to strategic goals.

PROFIT SEEKING: Q is proven to unlock unprecedented value for retailers contributing at least a 2% sales lift, 5% reduction in inventory and 2% margin contribution in only a few months.

EFFICIENT: Q helps retailers do more with less to scale their people, processes and systems, translating data into actionable knowledge and automatically aligning execution to strategic goals.

Every Quantum Retail customer has achieved 100% return on investment in less than 6 months of implementation. For more information visit <http://www.quantumretail.com>. Follow Quantum Retail on Twitter at <http://twitter.com/quantumretail>.