

How Marks & Spencer maximized profits and the customer experience with Quantum Retail

With a rich history of success dating back over 131 years, Marks & Spencer plc is among the world's leading international multi-channel retailers. From its modest beginnings as a single market stall, today M&S operates in over 50 territories worldwide with the support of over 82,000 employees in 854 stores.

An opportunity to Innovate

In 2008 Marks & Spencer kicked off an initiative to update and optimise its IT capabilities to not only support, but drive future growth and innovation in its foods business. The foods business represents more than half of M&S's overall turnover with a reputation for selling food of high quality at great value. M&S needed to replace its legacy forecasting, ordering and allocation system which had supported the foods business for the previous 20 years but was no longer suitable to support its growth aspirations.

M&S was going through a significant change as part of its IT strategy, including replacing its core ERP system with SAP. Key to their strategy, they needed an integrated forecasting, ordering, and allocation solution that would work with their new ERP implementation.

Specifically they were in need of functionality that could support their unique business processes and needs including:

- The perishable nature of a large portion of its inventory within a complex and changing supply chain.
- Lengthy lead times for certain inventory items (e.g. grocery products).
- SKU-store level complexity that accounted for product life and waste.
- Offer a simple user interface that was easily understandable by M&S's business team, without the need for a scientist.
- Provide a 'high intelligence, low touch' forecasting solution that enabled growth in stores and forecasts without the need for incremental headcount.
- Accommodate high growth areas including Food to Go, or their travel focused food offerings "Simply Food", items which can have a shelf life of less than a day.
- Deliver value in an environment with continuous change of over 20% of the product range

A solution in sight

To help address these challenges, M&S selected Quantum Retail's business optimization solution, Q. Quantum's key advantage in top tier retailing environments is its solution's grounding in advanced retail decisioning. Q's retail decisioning considers and delivers optimized inventory recommendations at both the store level and at the business level to ensure the business as a whole, and each individual store is performing optimally to meet the retailer's primary business objectives. This ensures optimal performance for any given store is considered comprehensively against the needs of other stores and the goals of the business as a whole.

Typically used by tier one retailers who understand the need to dynamically respond to rapidly changing demand, Quantum's Allocation and Replenishment and Order Planning solutions understand the

WHEN IS FOOD LIKE FASHION

At M&S, keeping up with the constant changes in consumer preferences requires a unique level of flexibility and focus. Flexibility to respond to changes in seasonality and constantly evolving tastes. Focus to anticipate how much and for how long any given item will be in demand, and in what locations.

These realities, which have long been a hallmark of the typical fast fashion retailer, are met by M&S in an array of uniquely innovative ways.

At peak trading periods, there is little time for forecasts to learn, so the emphasis on accurate inventory management is even more important.

The ability for Q to order and allocate to satisfy all stocking points ensures that all ranged stores have the opportunity to sell fast turnover products from day 1. Replenishment of limited remaining inventory of fast turn items is critical as well. Subsequent allocation allows M&S to place stock where it is actually needed using the latest store data.

strategic importance of and value of each piece of inventory, thereby optimizing the customer experience while maximizing financial returns.

Ultimately Q's unique ability to maximize M&S's inventory investment against their multilayered business objectives while minimizing waste and offering greater supply chain efficiencies, made the solution particularly well positioned to support the M&S business needs.

During implementation Quantum and M&S teams worked together to identify how best to apply the functionality inherent in the Quantum solution against the M&S Category Management approach. In addition, the teams quickly recognized that the adaptable nature of the Q solution could work at the most granular SKU/Store/Day level to give M&S the greatest control in tuning their fresh and longlife grocery inventories. This allowed them to optimize the customer experience at each store, while simultaneously minimizing excessive stock, thereby reducing waste.

Ultimately M&S's use of Q delivered improvements in a number of different ways:

Customer Service: Q's ability to learn has ensured that customers can find the items that they need, when and where they want them. Quantum's analytic driven approach allows Q to automatically determine and execute ordering and allocation decisions based on the latest demand signals of customer preference. The implementation of Q in combination with a reorganization for a more strategic forecasting function, has played a key role in improving the M&S Food customer service levels by +5%.

Strategic Growth: The use of Quantum's software automated a spectrum of task based activities that allowed the M&S team to focus on the strategic drivers of growth for their business. Q's ability to dynamically respond to changes in demand, coupled with the flexibility of an exception based framework has delivered financial and operational improvements reducing the workload associated with these areas by up to 40%. At the same time, Q has helped support the delivery of 22 consecutive quarters of like-for-like growth in the M&S foods business since it's implementation in 2009.

Operational Flexibility: Quantum automatically adjusts the forecasts at the product-store level when the demand differs from the forecast. This has resulted in improvements in forecast accuracy of more than 3%, while reducing holding and warehousing costs. This future visibility has enabled M&S to implement process improvements such as

synchronizing the ordering and allocation functions to drive further operational and financial gains.

“Managing the M&S’ core food business is both complex and fast paced. Our core food catalogue includes over 6,400 products and includes both everyday items and special occasion foods.” said Steve Rowe, Executive Director, Food, Marks and Spencer’s. “Quantum’s ability to help our team easily make many decisions we make to fully exploit the opportunities we have has resulted in us acting as a unified team and helped to meet M&S’ key business objectives.”

“Sales were up 3.4%, up 0.6% on a like-for-like basis. Our strategy to be more specialist and focus on quality and innovation continues to deliver results. Despite the competition intensifying through the period, we outperformed the market by some 3.5% pts, and have now delivered 22 consecutive quarters of like-for-like growth.” - Marks and Spencer Group PLC annual results 2015

M&S and the Quantum difference

In place since 2009, Quantum has played an important part in the M&S’s food business success story. As of 2015, Quantum has helped support over 6 years of growth, consistently outperforming the market in the highly competitive UK grocery market.

M&S has credited Q with playing an important part in their growth story on both high product quality and operational innovation to meet the needs of their customers, which is an increasingly complex task. *“Quantum has played a key role in helping M&S getting the right products to our customers at a time when shoppers are offered and expect a rich array of choices,” said Steve Rowe, Executive Director, Food, Marks and Spencer’s. “Our ability to see strong revenue growth in an increasingly competitive marketplace has made Quantum’s solution a key strategic differentiation for us.”*

In addition, Quantum is able to support one of M&S’ key differentiators in the market – product innovation. Quantum helps optimize the new product introductions for over 20% of M&S’s catalogue and ensures items are placed in locations where they will best perform based on the seasonality, product lifecycle, and the trading pattern of the store.

“Food gross margin was up 30bps at 32.8% due to ongoing operational efficiencies. Some of the benefits realised through streamlining our operations have been reinvested in price and quality, and also shared with suppliers to help them create further efficiencies..” -Marks and Spencer Group PLC annual results 2015

PREDICT THE UNPREDICTABLE TAKING THE GUESSWORK OUT OF NEW PRODUCT LAUNCHES

Last year M&S changed around 25% of its product assortment. This means they have the significant task of predicting and responding to demand for hundreds of items for which they have no past sales history or forecasts.

One of the keys to M&S’s ongoing success in launching new products is leveraging Q’s advanced analytics to make the initial allocations, and the system’s subsequent ability to continuously learn and quickly respond to new demand signals.

In September of 2014 when M&S introduced the “Taste” range in their Global Meals area, they launched 33 new products and additionally extended the range of another 11 products. In doing so they increased their stocking points from 4,000 to 17,000.

When products were launched, sales increased significantly while maintaining availability at the optimum levels. Q’s ability to aggressively learn throughout a product’s lifecycle meant that demand forecasts continued to quickly update, even when coming out of a promotional period, which ensured continued service levels and waste minimization.

Along with helping improve the revenue and profitability of specific food items, Quantum has also played an important role in gaining greater operational efficiencies throughout the supply chain. M&S has been able to reduce the lead time of their supply chain, and Q has helped improve the product flow with their suppliers who now have an improved forecast. This allows them to better plan production far in advance.

“With the contribution of Quantum, Marks and Spencer’s Food has not only exceeded our own goals, we have consistently outperformed the market. We consider our use of their solution and our relationship with them to be a strategic part of our continued future growth and ongoing planning for our Food Business,” added Syd Reid, Head of Food Supply Chain, Marks and Spencers.

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Store photos: Marks & Spencer’s has photos on the press section of their web site which we will choose from unless they want to specify something particular (Hi Res print quality)