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ADAPTING TO THE NEW RETAIL MARKETPLACE

Evolving consumer path to purchase patterns are creating a new set of challenges for retailers that their existing infrastructure may not support. This white paper examines options for addressing those challenges and details methods used by innovative retailers to leverage these opportunities to gain greater insight and maintain control over their brand promise, their supply network and their inventory investment.

QUANTUM RETAIL TECHNOLOGY

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INTRODUCTION

In today's highly competitive retail environments, it's never been more important for merchandisers to see the maximum value from their inventory investment. At the same time, major shifts including multichannel and international expansion have made a difficult task even more complex. In this white paper, I will take you through a variety of ways retailers are not only addressing those challenges but leveraging them to better meet their overall business objectives.

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Reinforce your Brand Experience with Consumer Driven Allocation and Replenishment

The current retail environment has created challenges for retailers that their existing processes and tools do not solve. The only certainty is that consumers are less predictable than ever and buying patterns are changing at an exponential rate**.**

The increasing importance of Allocation and Replenishment
Allocation and Replenishment has been core to retail for years. Significant changes related to how consumers are opting to transact with retailers has put the spotlight back on this function and has broadened both what retailers are expecting from their systems and the mission critical nature of the results.

Accurate demand and the ability to react to it has become a matter of strategic importance for tier one and two retailers who are trying to balance client responsiveness while improving sales across their entire portfolio.

Basing allocation and replenishment on client demand is transformational for retailers that need to maximize their inventory investment comprehensively leading to more full priced sales, fewer markdowns and a predictive view to where and when items will sell next.

Merchandising Optimization

Merchandise optimization takes the proper mix of science, retail intelligence and merchandising art to ensure that every channel in the retailer's supply chain carries the right inventory to satisfy demand, maintains a high service level, and ultimately delivers the retailer's brand experience. In order to adapt to the evolving market, retailers need to respond to consumer demands and rationalize inventory investments at a granular level. Retailers need to monitor the changing demand at each point-of-sale, so they can align their inventory in a way that is the most profitable and strategic.

THE RETAILER FACES MANY CHALLENGES IN THE TECH SAVVY ENVIRONMENT

Delivering the Brand Promise Across all Channels: Customers have no regard for the boundaries between a retailer's channels, to shoppers the channels are largely invisible. Consequently, in order to keep customers loyal, retailers need to blur the boundaries too. This means an increasingly complex supply network environment structured to fulfill merchandise to customers, regardless of how they choose to interact. Retailers that successfully align their supply network to support the complex multi-touch consumer environment will reap the rewards of their investment.

Electronic & Mobile Commerce: Consumers' new digital/mobile paths-to-purchase have shaken retail to its foundations. Traditional systems were built on the assumption that all consumer activities leading up to a purchase (investigating, selecting, payment, and fulfillment) happen in the physical domain, the store. That is clearly no longer the case for many buying cycles. Many consumers investigate, select, and pay for merchandise outside of the store even though they may intend to pick up their purchases in the store. Beyond that, consumers may choose to skip the store altogether by selecting direct-to-consumer fulfillment. While retailers are absorbing these changes, they lack efficient processes and tools to handle the profit optimization of clicks vs. bricks.

Channel proliferation - An increase in the number of ways that a retailer can reach out to their customers. This is putting a strain on existing forecasting and replenishment processes, in many cases, significantly increasing the inventory investment required to support the business, with each of the channels being operated semi- autonomously and little to no sharing of information or consistency of customer experience.

Internationalization - In order to maintain growth, many retailers are looking overseas, away from their congested home markets. This has led them into unfamiliar channels, with entirely new supply chain challenges and constraints, from lead-times and delivery frequencies to a new customer that looks and acts very differently than they expected.

Supply-chain complexity – Major changes to retail processes has become standard. Whether it is creating new supply chains to be more reactive to the consumer or offshore/near shore sourcing, the supply chain is no longer a simple hierarchy for moving product from vendors to stores. Typical supply networks are complex with scheduled/predefined deliveries, bi-directional logistics, and inter-store stock movement. They can even serve locations direct from overseas suppliers, while at the same time, having varying lead times.

Localization - The current state of the economy has driven the desire to understand the needs of the market at a lower level of granularity. It has caused a need to create local assortments and

inventory fulfillment that reacts to local needs. Most retailers' existing processes and systems were developed to meet the needs of the market average, not the individual location or channel. In order to increase demand in today's markets, the next step for retailers is to take on the challenge of localization.

OPTIONS TO OVERCOME THESE CHALLENGES

Inventory is one of the most significant investments that a retailer makes and, in many cases, this investment is a bet - will their offering be successful or not? The costs involved in placing inventory in the wrong place is substantial; therefore, retailers are trying to get smarter about understanding where and when products are likely to sell. This means better forecasting and awareness of how to respond to the uncertainty inherent in the retail environment. Retailers have to be more reactive to changes that they are seeing, which in turn place more pressure on the people, processes and systems that are programmed to function on models from the last century. The new retail market requires an entirely new approach, one that accepts and understands the unpredictability of channel-specific demand.

There are two main areas that retailers should focus on right now:

1. *Allocation and Replenishment* – Removing the simplifications from the inventory planning process and focusing on real-time channel demand. Retailers need to create an agile inventory plan that is highly reactive to near real-time demand fluctuations, allowing the retailer to be flexible and respond to how their customers are behaving now. This allows the customer to have product availability when and where they want it.

2. *Order Planning* - Looking forward in time and planning how to bring inventory into the business based on customer demand is essential fulfilling a retailer brand promise. When retailers can track customer needs in real-time, they can keep their assortments flexible to monitor the profitability and performance of each product. In time, each location or channel reveals its own patterns and tells retailers how to best align with the specific needs of customers.

EASY WAYS TO STAY COMPETITIVE

Focus on the informed consumer: The market has shifted with the heightened intelligence of consumers. The economy has further focused the customer on seeking out the highest value for the lowest cost. The environment has also brought to light new values and criteria that the customer has begun to judge products on. Retailers need to recognize the needs of their customers and give them products that meet these new expectations. Remember, these expectations will continue to evolve.

Optimize inventory: Retailers need to focus on optimizing their assortments and choosing their inventory based on the financial and merchandise performance of those products. Many retailers are focused on decreasing their assortments, but less of the wrong products will not create more sales, it will only frustrate customers. Investing in the right products brings new energy to the retail market.

Increase availability: Focusing on which products need to be made available at what locations and when, is a difficult task. But when the right products are available in the right sizes, colors, and amounts, stores increase sales and increase their customer service levels. Placing inventory that has already been purchased in the channel or location where it can best support the retailer in achieving their goals. This will allow retailers to increase their profits and minimize markdowns.

Focus on newness: If a retailer can continually have something new for the customer to see, it will increase the frequency of customer visits and increase turn rates. Newness is especially important in fashion and consumer electronics, where customers have become increasingly savvy and demanding. If retailers can keep up with the pace of fashion, they'll be able to keep their inventory fresh and unique.

KEY INVESTMENTS THAT HELP RETAILERS QUICKLY PULL AHEAD

The best retailers are prioritizing their investments with processes and tools that will have the largest impact on their business. While initially concerned with maintaining store comps at the expense of margin, retailers have now turned their attention to being profitable. This has meant a focus on inventory - one of their single biggest investments. Retailers need to find ways to better align the inventory that they purchase with their customers purchasing patterns.

Retailers need to look at some of the simplifying assumptions they are making in their supply-chain and challenge them. They treat groups of stores the same because it makes maintenance quicker and easier, but does it lead to a better result? Very few stores align with "the average", so does it make sense to use a single pack configuration? It may seem difficult to allocate on local demand, but there are tools that automatically respond to these demand signals. In turn, this kind of process will increase sales by having an offering that fits the space and aligns with the buying habits of each store.

Retailers also need to have the ability to monitor the profitability of every product at every point of sale. It comes down to building strategic financial and merchandising objectives for each product in their inventory and empowering customers to drive the inventory flow, range and depth.

- Technology that helps retailers align inventory investment with their customers purchasing trends
- Technology that monitors and responds to channel and local demand in near real-time
- Technology that can track performance based on the strategic business goals

QUANTUM RETAIL SOLUTIONS

Quantum Retail offers an innovative approach to help retailers transform their retail data into actions and insights that both optimizes their business results and maximizes their inventory investments. Today Quantum is already helping the world's most successful retailers improve customer satisfaction by:

> **Maximizing their high-value sales:** Quantum's comprehensive and granular responses to product demand give retailers a view to their consumers' behavior coupled with the ability to quickly act on that intelligence for more full priced sales.

Delivering the best brand experience across all their channels: Our solution continuously learns, dynamically analyzes and then responds to changes in demand for every product and channel to present shoppers with the items they want, and where they want to buy them.

Getting the most from their retail experts: Quantum's solutions offer the maximum flexibility and usability with an intuitive product design to allow retailers to focus on other parts their business and their customers. Our exception driven interface, with built in business alerts and workflow strategies provides both effectiveness and productivity in an easy-to-use solution.

Working with their existing environments: Quantum is adaptable within the retailer's existing environment and works in conjunction with many of today's leading supply chain and merchandising platforms including Oracle, SAP, and JDA.

Quantum Retail are the experts at combining deep retail and merchandising intelligence with a dynamic technology engine that adapts to a retailer's needs and makes changes based on how their customers are behaving. The Q system continuously learns and dynamically analyzes and responds to changes in demand for every product and store location to maximize value for retailers of all types. More information can be found on our website www.quantumretail.com.