ENHANCED RETAILERS SOLUTIONS

Case Study: Bringing a Retailer Back from the Brink

Overview

Contraction and increased competition from retailers continues to plague the retail sector. An American retail chain who lost 75% of annual revenue in just 5 years was facing the threat of bankruptcy because they could not keep their thousands of domestic and international stores profitable. One significant reason for this was an antiquated buying and planning process that did not allow them to manage or optimize inventory productivity. Before the retailer filed for bankruptcy, they recruited Enhanced Retail Solutions (ERS) to enhance their Planning and Allocation process in order to identify problems in the supply chain and create solutions that ultimately helped save the company from becoming obsolete. Throughout an intensive three month onsite engagement, ERS was able to create action oriented reports, programs, and dashboards to address the company's specific needs. Our dashboards condensed the data for thousands of SKU's in all 3,000+ stores to identify and prioritize the most urgent problems.

Our consulting team was confident we could apply our industry expertise to help this company defer or lessen the effect of bankruptcy. By customizing our software to cater to the company's particular situation, we saved time and were able to provide them with immediate help.

Developing a Strategy

After collecting and analyzing the sales and inventory data, we noticed the company was losing money due to missed sales. While some stores' revenue was declining from inadequate inventory levels, others were suffering on too much or the wrong inventory items. We also had to prepare the retailer for the all-important holiday season, which accounts for 40% of annual revenue, by ensuring there would be enough of the right inventory in the right doors.

It was clear that the retailer did not have the right software or manpower to properly analyze and manage the thousands of SKU's in each store. Furthermore, our client did not have any sort of business strategy and was only applying short-term fixes instead of finding the source of the problem. By running a needs analysis, we determined that to best serve the company we would create a three part action plan.

I. Phase 1: Triage
   a. Reduce Lost Sales
   b. Conduct a Policy Effectiveness Analysis
   c. Optimize SKU's and Inventory
   d. Balance Private v. National Brands
   e. Prepare and Analyze Black Friday Buys/Purchases
   f. Analyze Open Production Orders and Pipeline
   g. Create Store Performance/ Segmentation Reports

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II. Phase 2: Sustain
   a. Calculate More Accurate Forecasts
   b. Compare ERS v. Auto Replenishment Forecast
   c. Create a Closing Store Inventory Allocation Program
   d. Create a New Assortment Planning Process & Tools

III. Phase 3: Long-term Growth
   a. Reinforce Planning Disciplines

Phase 1: Triage

a. Reducing Lost Sales

Phase 1 was primarily about identifying key issues, which we were able to do by creating and customizing various types of reports. Since the most pressing problem was the obvious lack of inventory, we developed an interactive report specifically for this case, called the Lost Sales Interactive Dashboard. It identified which item-store combinations were responsible for missing the most sales, based on stock outs or inventory levels below the model. The dashboard listed the items in priority of the highest to lowest missed sales and could track the progress week to week. It also provided various report links which contained the actionable information needed to write an order or adjust the auto-replenishment system. The ultimate goal of the dashboard was to enable the retailer to quickly prioritize inventory problems and make better buying decisions in the long run.

Complementary to the Lost Sales Interactive Dashboard, was the Inventory Optimization Report. This report determined the ideal inventory amount for each store and aimed to alert the retailer when an item fell below the optimal amount so it could be purchased, thus reducing lost sales. The ideal inventory amount was based on how much volume an item sold, while also taking into account weeks of supply at the Distribution Center (DC).

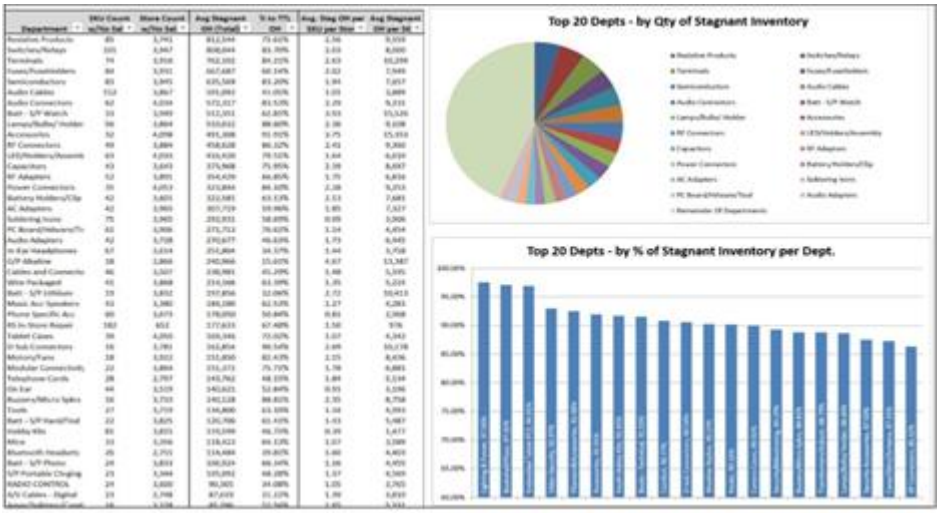
b. Conducting a Policy Effectiveness Analysis

Our Policy Effectiveness Analysis determined how effective our client's auto replenishment system was keeping the most important stores in business. The retailer used two main policies but after running an analysis on how they affected the lost sales, we discovered that only one of the policies was effective. The analysis also highlighted areas where the auto replenishment system policies and forecasts needed to be adjusted.

c. Optimizing SKU's and Inventory

Our SKU Optimization Report graded and ranked data from thousands of SKU's to find the most vital and profitable items. It helped highlight the top and bottom performing categories which allowed the retailer to focus on continuing item programs that sold the best and eliminate those that were the worst to maximize profit.

The Stagnant Inventory Report allowed us to help the retailer fix unproductive inventory. The report pinpointed SKU-Store combinations that had not been sold in over eight weeks. In this case, we found that about 60% of our client's items fell into this category and recommended the retailer cut them to save money.



d. Balancing Private vs. National Brands

Our Private v. Branded Comparison report, which was newly created for this client, has proven to be widely successful and easily customizable for other clients as well. This report integrated POS, Store Inventory, DC Inventory and Production Orders, to compare private and branded item performance side by side. It also estimated future sales and inventory requirements while summarizing at various levels, which included detailing all the way down to store level. This enabled the buying team to implement the proper private and branded assortment in each store.

e. Preparing and Analyzing Black Friday Buys/Purchases

To prepare for the holiday season, we had to ensure that the retailer would be able to stay afloat, which meant having enough inventory to meet or exceed their financial goals. By conducting an Inventory Analysis for Black Friday, we predicted how much inventory was needed at store level so that no sales opportunities would be missed.

Inventory Analysis

Once Black Friday had ended, sales were analyzed to provide information necessary for future planning. Using the sales data, we created reports that noted how much was spent per customer and brand, the quantity of items customers bought, whether the items were private or branded, the sales by hour, traffic patterns and more. By analyzing the season's performance we had better information to plan other promotional events and understand how marketing and increased traffic, affected sales.

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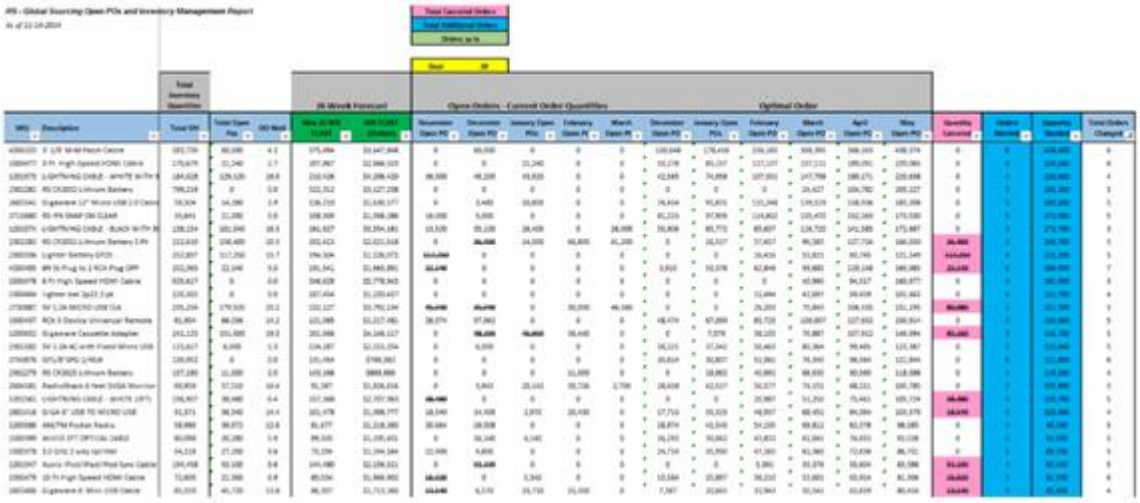
f. Analyzing Open Production Orders and Pipeline

The Open Production Orders report looked at which orders could be cancelled or added by the retailer to save or gain capital. We found instances where there would be too much inventory and retracted the purchase orders to avoid unnecessary spending so the retailer could prolong the impending bankruptcy.



Open Production Orders Analysis Report

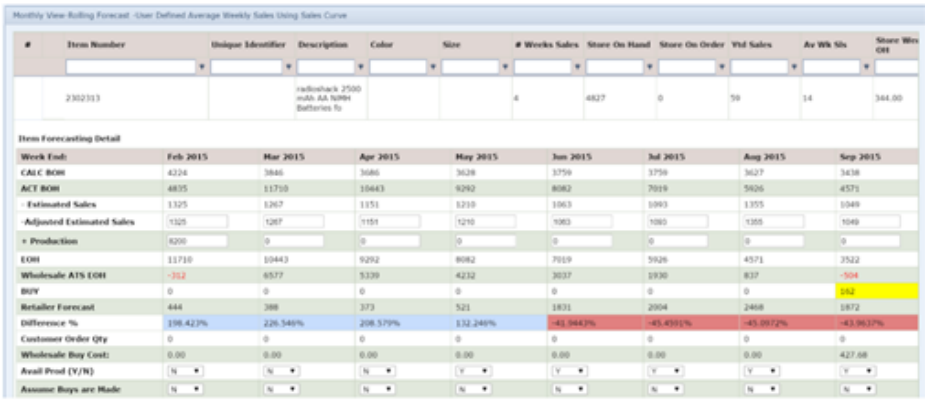
g. Creating Store Performance/ Segmentation Reports

The Store Performance/Segmentation Report allowed us to analyze store performance by grade, tier and decile. It served as a tool in helping us to identify any potential growth opportunities for our client.

Phase 2: Sustain

a. Calculate More Accurate Forecasts

Once we assessed which SKU's were selling and how much to keep on hand, our next step was to anticipate the item demand and how much needed to be ordered. The retailer's pre-existing auto replenishment system was meant to forecast and plan orders, but was unable to do so because of irregular sales and lack of policies needed to make an accurate forecast. To overcome this issue, we set up forecasts for items using our intelligentretail.net software, which took into account historic sales trends and seasonality along with customizable parameters to make precise predictions.



Monthly View Rolling Forecast -User Defined Average Weekly Sales Using Sales Curve

#	Item Number	Unique Identifier	Description	Color	Size	# Weeks Sales	Store On Hand	Store On Order	Ytd Sales	Av Wk Sls	Store Wks Oh
	2302313		radioshack 2500 mAh AA NiMH Batteries fo			4	4827	0	59	14	344.00

Item Forecasting Detail

Week End:	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015
CALC BOH	4224	3846	3686	3628	3759	3759	3627	3438
ACT BOH	4835	11710	10443	9292	8082	7019	5926	4571
- Estimated Sales	1325	1267	1151	1210	1063	1093	1355	1049
Adjusted Estimated Sales	1325	1267	1151	1210	1063	1093	1355	1049
+ Production	8200	0	0	0	0	0	0	0
EOH	11710	10443	9292	8082	7019	5926	4571	3522
Wholesale ATS EOH	-312	6577	5339	4232	3037	1930	837	-504
BUY	0	0	0	0	0	0	0	162
Retailer Forecast	444	388	373	521	1831	2004	2468	1872
Difference %	198.423%	226.546%	208.579%	132.246%	-41.944%	-45.491%	-45.097%	-43.961%
Customer Order Qty	0	0	0	0	0	0	0	0
Wholesale Buy Cost:	0.00	0.00	0.00	0.00	0.00	0.00	0.00	427.68
Avail Prod (Y/N)	N	N	N	Y	Y	Y	Y	Y
Assume Buys are Made	N	N	N	N	N	N	N	N

Private Brand Forecast

b. Compare ERS v. Auto Replenishment Forecast

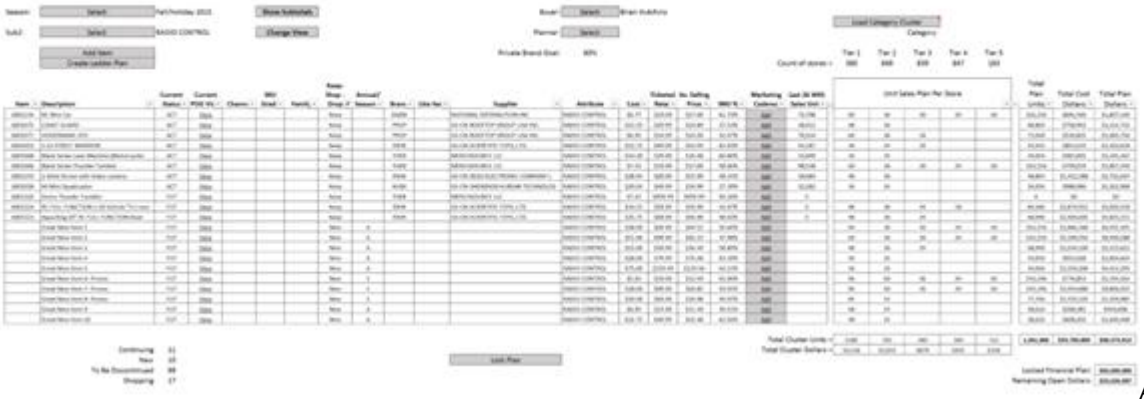
We used this forecasting report to compare our estimates side by side with the auto replenishment system estimates. The auto replenishment system may not have taken into consideration accurate lost sales or set up sufficient models, so our forecast allowed us to confirm the accuracy of our predictions and order the right amount of inventory despite the flaws in the replenishment system.

c. Create a Closing Store Inventory Allocation Program

An unavoidable consequence of preparing to file for bankruptcy is the closure of multiple store locations. Our retailer closed about 2,000 stores, which meant there was an excess of inventory from these stores that needed to be handled properly to prevent any further losses to the company. To facilitate the inventory reallocation process, we created a Closing Store Inventory Allocation Program. With this program we were able to look at the current inventory of the closing stores and decide which remaining stores could sell those items best without becoming overstocked. It also allowed us to move the End of Life (EOL) items in the DC warehouse inventory to the closing stores so they could be sold off as clearance items. Because of this program, we were able to optimize inventory and reduce the markdowns to improve profit margins for the closing stores.

d. Create a New Assortment Planning Process & Tools

With our Assortment Planning System, a planner or buyer could add predictive intelligence to aid in planning their department's assortment. For continuing items, the system automatically populated store tiers with the unit sales history and new items could be spread based on a like item. The system could then derive the optimum assortment based on historic store level data. This system determined categories that were crucial for the retailer in their future fiscal year.



Assortment Planning System

Phase 3: Long-term Growth

Between Phase 2 and Phase 3 of our plan, our client was forced to file for bankruptcy which changed the nature of the work we were providing. With bankruptcy and a new creditor on board, they were given a clean slate that inspired the retailer to focus on issues previously overlooked. This gave us the opportunity to recommend a reset of their stores to optimize their assortment and inventory. Beset with other priorities, our client started to focus on the smaller and more time pressing details, rather than looking at the big picture in an effort to avoid bankruptcy. Evidently, it was these smaller issues that were causing revenue loss all along.

To ensure that our client was able to achieve long term growth, we implemented planning best practices. It increased awareness of what needed to be done and when, assigned accountability to the responsible team and enabled them to see which reports could help them with each function.

Summary and Results

While ERS had an immediate and positive effect on our client's revenue and profit in just a few short weeks, our client still filed for bankruptcy due to other issues. Thanks to our customized databases and weekly reports, the client was able to move inventory, minimize lost sales, and keep the remaining stores profitable. Because we were able to act so quickly and provide actionable information to keep the organization alive, the bankruptcy judge deemed ERS an "Ordinary Course Provider." Only 6 firms were granted this exception and the others were lawyers or accountants. As they emerge from bankruptcy with a new owner, we continued to work with this retailer by performing weekly lost sales and in-stock reports. While they still use their auto replenishment system to generate orders and keep track of inventory, they now rely solely on our lost sales reports to make purchasing decisions.