MERCHANDISE INTELLIGENCE

DAN MITCHELL, RETAIL INDUSTRY GLOBAL PRACTICE
Merchandise Intelligence

• Plan sales strategy across channels.
• Determine optimal product mix to achieve targets and customer expectations.
• Localize product mix.
• Ensure execution is informed by operational constraints.

PLAN, OPTIMIZE, ACT

• Merchandise Financial Planning & Store Planning
• Demand Forecasting
• Assortment Planning/Category Management
• Store Segmentation & Intelligent Clustering
• Revenue - Price Optimization
• Allocation/Size Optimization
Net sales, for the Q1 2010 ended November 28, 2009, increased 3.9% to $1.823B from $1.754B in the Q1 2009. Comparable store sales for the quarter increased 2.4%.

SAS named FDO Strategic Partner of the Year 2009
I want this dress but they don't have my size. I really wanted to wear it tonight.

I'll wait; I can always get my size on sale.
SAS® SIZE / PACK OPTIMIZATION

HOW SAS CAN HELP...

Understand how sizes are truly *demanded*
- Lowest intersection product and location
- Continue to plan at the levels done so today

- Optimize Assortments
- Maximize Omni Strategies
- Localize by Size
- Reduce Stock Outs
- Build Customer Satisfaction
- Rapid ROI
- Give Users Time Back
**SAS® SIZE / PACK OPTIMIZATION**

**THE VALUE**

**THE POWER OF ONE**

- **+$3M**
- **Average Sales Unit Shift**
  - 3 – 8 units

<table>
<thead>
<tr>
<th>Net Revenue $</th>
<th>Power of One Net Revenue $s</th>
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<td>-1</td>
<td>+1</td>
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Based on $1B Annual Revenue, $25 AUR, 30% MD ppt, 65% ST prior to MD
DSW SIZE OPTIMIZATION
Enables retailers to **automatically** convert higher-level plans into **optimized** size- and pack/single recommendations for pre-season orders and in-season allocations.

**Delivers Value Quickly**
SAS® SIZE / PACK OPTIMIZATION

‘FITS’ INTO THE BUSINESS PROCESS

Pre-Season Planning

Merchants Planners
Size Analysts

Assortment Planning

Merchants Planners
Size Analysts

Product Planning

Product Development Merchants
Size Analysts

Supply Chain and Factory Collaboration

Supply Chain Suppliers
Size Analysts
Locations

Decision Making
Insights

Size Profiling

Allocations

Pack Optimization

Allocation / Replenishment

Executives
Merchants
Planners
Size Analysts
Allocations
Regions
Locations

Purchase Order Creation

Merchandise Operations
Order Entry
SAS® SIZE / PACK OPTIMIZATION

A QUICK BIG WIN TO PREVENT LOST SALES

Drive Financial Results

Improve Size Precision Accuracy

Optimize Assortment Management and Omni Strategies

Maximize Location Size Precision with Recommended Packs
OVER INVENTORIED? GOT MARKDOWNS?

Source: http://www.westcoasttrading.com/sites/all/themes/theme530/images/slide1.jpg
Markdowns may mean ‘deals’ to your customers, but what does it mean to your organization?

- Increased Shrink?
- Poor Customer Experience?
- Loss Margins and Profitability?
- Space Allocation Concerns?
- Supply Chain Inefficiency?
- Broken Merchandising Assortments?
WHAT IS MARKDOWN OPTIMIZATION?

Markdown Optimization is simply defined as a solution that defines the *right price*, at the *right place*, at the *right time* markdown pricing to drive improvements in margin, sales, and customer satisfaction.
SAS MARKDOWN OPTIMIZATION

EFFICIENT CLEARANCE STRATEGIES

• Manages markdown recommendations to the store level
• Maintains budgets and margin protection while eliminating inventory
• Monitors inventory at risk to identify areas of opportunities
A MARKDOWN STRATEGY THAT LEVERAGES...

...AN OPTIMIZED AND LOCALIZED APPROACH CAN PRODUCE A...

1 Coat

30% OFF

10% OFF

45% OFF

2% Incremental Margin Gain for Total Chain
SAS IS ABLE TO EFFECTIVELY MARKDOWN PRODUCTS THAT...

FORECAST, LOCALIZE, AND OPTIMIZE DEMAND TO MEET CONSUMERS’ EVER-CHANGING NEEDS!
Assortment Optimization recommends the best assortment mix based on available shelf space and your financial objective.
WHAT DOES IT DO  ASSORTMENT OPTIMIZATION

➢ Recommends an assortment mix that reflects how the customers shop
➢ Finds the best products to carry to meet the financial objective
➢ Makes the best use of available space to offer variety while avoiding duplication of like products
➢ Determines optimal inventory for the space
➢ Balances the breadth and depth of an assortment
Scale assortment to store specific space

Eligible Assortment

The eligible assortment is considered the largest possible planogram with forecasted or historical performance as a input. SAS Assortment Optimization then identifies the best mix of product to fit store specific fixture configurations.
SAS ASSORTMENT OPTIMIZATION

Thousands of possible choices & multiple store configurations

Optimization is required
Optimally choose the best performing mix of SKUs for specific space

- **Optimization objective**: Maximize financial objectives

**Subject to:**

- **Decision variables** - describing the actions that can be taken
  - *Customer Decision Tree, Eligibility list*

- **Constraints** - describing the limits of the decision variables
  - *Item selection requirements: days of supply, consumer loyalty, item relationships, minimum presentation size*
  - *Physical properties: Item and shelf dimensions*

**Optimization Tasks**

- *Score each item based on financial objective and occupying linear space.*
- *Determine inventory requirements based on service level and local demand.*
- *Calculate product block shape that maximizes shelf space.*
- *Optimally determine breadth & depth by store considering space trade-offs.*