

## A New Model for Industry Research

### The Holy Grail – Process Management for Merchandise Business Planning

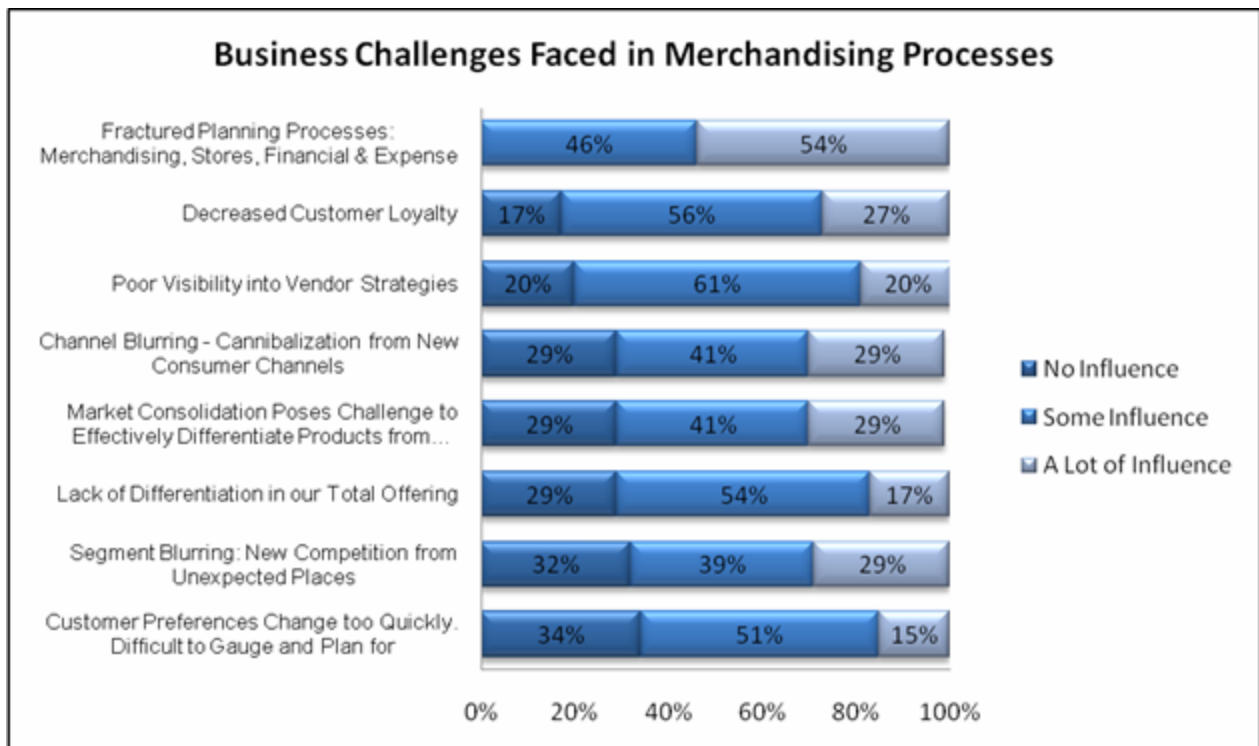
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Reflexis is well-known as a vendor of closed-loop execution systems for the retail store. Through a variety of modules, the company's software helps retailers confirm that stores are doing what they're supposed to do, when they're supposed to do it. The application footprint has grown from simple task management to labor scheduling, workforce management, and exception reporting.

By all accounts, Reflexis's customers are happy ones. While user conferences are often a mixed bag of excitement and gripes, last week's user conference in Orlando was described by at least one analyst as a "love fest", a room full of large, very satisfied customers and excited prospects.

#### *Taking on the Intractable*

Only a deep well of good will could cause a company to take on the seemingly intractable: the merchandise planning process. At last week's annual user conference, client AutoZone and Reflexis talked about their plans to create the same type of closed loop process management for merchandise planning as they have put in the stores. This is no small feat. In a recent study on merchandising issues, fractured merchandise planning processes was identified by 100% of respondents as a top three critical business challenge they face.



This is not a new problem. In fact, retailers have struggled to bring order to this siloed process for more than twenty years.

***Why has the Problem Resisted a Solution?***

Academia has an excellent generic explanation for the historical problem faced by retailers in merchandise planning. It's described as "Asking for A, but rewarding B". Merchants are asked to share their planning processes with their peers on other departments. A full knowledge of receipt and sales plans could help stores and logistics departments plan their workloads better. Tweaks to receipt plans can often result in dramatic labor savings in both stores and distribution centers. So merchants are asked to share this information.

But how are merchants measured? How are they rewarded? They are typically rewarded on sales, turn, and selling gross margin. Selling gross margin does not include labor costs or transportation costs, and in fact, activity based costing has struggled to gain much traction across retail segments. So, merchant compensation is tied to how much they sell and the difference between what they paid for the merchandise vs. what they sold it for. Because of the mathematics of the turn calculation, it is advantageous to receive merchandise as early in the month as possible – creating very lumpy labor scheduling requirements across the enterprise.

***Coming to a Solution – Driving Changes in Compensation***

AutoZone should have some pilot results for review by January 2008. We eagerly await their results. The company has a history of progressive thinking and adoption of technology and given the nature of its products and corporate DNA coupled with Reflexis's software, it has an excellent chance to succeed.

We are still very cautious when it comes to adoption at other retailers. We believe the most important first step is to tie a larger portion of merchant compensation to the fortunes of other departments. Without this plan, in board rooms and executive corridors, as a former boss of mine used to say, "It's easier to ask for forgiveness than to ask for permission ". As long as merchants deliver on short term sales, fractured planning processes will be forgiven.

We believe the time is right to drive performance management into the core of the enterprise, but we know that fundamental organizational change must happen first. We'll be circling back around in January 2008, to see how AutoZone and Reflexis are doing.