Merchandise Planning Perspectives: David Kudas

In this series, leaders in the retail industry share their thoughts on the challenges merchandise planners face today, and what we should be thinking about for tomorrow. Today's responses submitted by David Kudas, Managing Director at DK Consulting, Inc.

What current challenges do you see with planning in the retail industry?

Retailing is a tale of two extremes: *Personalizing* an experience in a *global* marketplace. The retail planning function must take all of the macroeconomic events and stimuli, such as weather, economics, and corporate strategies and then personalize them to a customer persona. Key to this is moving from the typical merchandise financial hierarchies, like category and department, to planning a multi-layered *attribute* plan.

What's the biggest challenge to planning across business channels like e-com, wholesale and retail, especially considering the sweep of information coming from touch points across mobile channels?

The challenge isn't that there is too much data, it's in transforming the data to information that is **pro**active, not **re**active. Information that includes not only sales, but views, lost sales and opportunity sales, enables a real time planning process. Developing business intelligence tools and processes that use key KPIs and integrate with the art of merchandising strategies is a critical to successful planning.

Are there vast differences in how you look at planning international markets vs. domestic?

Planning is fairly consistent across the globe. The challenge is delivering the plan to the customer! It requires delivering the product at the correct time, incorporating it into the flow of the customer experience, pricing the product to a customer persona, and then making the decision to replenish or remove the product. In Europe, Asia and South America, there can be a more seamless customer experience between the buying channels (store, e-com, mobile, social). At the same time, selling space and delivery are more challenging in the non-USA markets. As a result, planning is more ongoing in non-USA markets, because product MUST sell and/or turn more quickly.

What are the key benefits of an integrated planning system?

There is a firmly entrenched belief and value in having "one version of the truth." This can only be achieved through a check and balance business process and integrated planning system. While there still should be various parts of the organization building plans (Merchandise Planning, Finance, Store Operations, Marketing, Customer Insights), these plans ultimately must be reconciled. This is best achieved through an integrated planning calendar, sign offs of key metrics and action plans for assortments, touch point staffing, SC and fulfillment operations, and cash flow.

Do you see predictive analytics playing an important role in forecasting today or in the future?

Business intelligence and artificial intelligence analytics will become the standard for the future planning process. As retailers convert transactional and mobile/social data to scientifically based predictive analytics and affinities, planning will become more closely aligned to the forecast and supply chain. With 3D production becoming more common and less expensive, you will see your customer engaging with to help define assortments. The retail merchant and planner will need to predict those activities and guide the customer to their brand (which is called assortment today).

How do you think retailers/wholesalers should use data to make better planning decisions?

The distinction of data vs. information will become critical for the success of tying your customer to your brand. Retailers must understand who is shopping (not necessarily buying) the product presented. These personas will be driven by any number of factors: price, speed of delivery/availability, individual brand identity and value, turnover, and engagement with the online/social community. These data points need to become integers to purchasing algorithms.

What is one major near-term change you see for planning?

The visualization of the assortment in the store and site. In planning in the near past, merchants had to pick product, line price it with the rest of the other products and then physically place the product sample in a room/area to see how it looked. In the near future, assortments will be

virtually created, placed together using affinity algorithms, and then branded for the customer.

How do you integrate the customer experience throughout all of the available channels?

There are two aspects of customer experience: 1) what does the customer expect of the retailer and 2) to what customer does the retailer cater their brand?

- The **customer** expects the seamless experience of seeing it anywhere and then, based on qualifications of time, prices and style, buy it in any fashion and then have it delivered to any place.
- For the **retailer**, success is creating a brand that supports a particular type of customer: early adopter, value shopper, showroom shopper, etc. Each of these personas must have an assortment that is perceived as specific to them and must include the experience of availability/delivery, price, and product specifications (like fit, fabric and color) and social acceptance.

What are some of the new key performance indicators and metrics for planning?

Sales and sales growth have been - and will remain - key metrics in retail, *but only within a context of cash flow*. It is time to cut same store sales as a key performance metric. You get what you measure, and attributing sales to particular channels only drives channel conflict. It also has nothing to do with an omnichannel shopper experience.

Sales-per-shopper is the most salient selling metric, and it's available across all channels. Plus, while average transaction value (ATV) is still useful, sales per customer across all channels is more reflective of omnichannel effectiveness. This metric needs to take in 'looks' as well as 'clicks.'

Other key operational metrics include customer acquisition costs and lifetime customer value calculations. It's about brand awareness, recognition, retention and loyalty. And, for retailers, it's about maximizing each and every opportunity to connect with, interact, listen and engage.

About Today's Expert

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