The world of retail and distribution in the fashion industry

Business and organization models
(Company producing brands, distributing by property shops retail chain, shop in shop and wholesalers)

Verona, 19 dicembre 2012
The retail and distribution scenarios

Sales models for fashion companies are rapidly evolving, with major focus on retail ever, in order to improve margins and brand visibility.

Brand shops are the gateway to final customers, that need to be continuously attracted with product and brand appeal, personalized attention and service, fidelity acknowledgments

New strategies, ways of collaboration with partners, new competitors, urge attention to organization of the entire distribution and retail area
The world of retail and distribution

The retail and distribution in the fashion industry present a specific scenario, characterized for:

- High presence of fashion items, increasing the variance of products: personnel must become familiar with items set every collection
- Fast evolving concept of season in the classic sense,: during a “season”, products offered are frequently refreshed, creating a lot of “collections”, during the season lifecycle
- Frequent need of replenishment, due to products seasonality, fashion trends, competitors (season initial period often concentrates majority of sales), so it demands weekly analysis, quick delivery…., in order to minimize out of stock
- Segmentation of shops (flagship stores, outlets, temporary shop, flash retailing..) often associated with assortments, that is lines of products restricted to certain typologies of shops
- Personnel at PoS focalized at customer and products and not familiar with software and hardware stuffs handling
- Heterogeneous personnel involved in the supply chain, with different languages, culture
The world of retail and distribution (cont.)

The retail and distribution in the fashion industry present a specific scenario, characterized for:

- Necessity to be compliant to local regulations, for fiscal aspects, contract rules, personnel management
- Dispersed supply chain, with shops and distribution centres scattered through different countries, locations, all needing to be supplied by heterogeneous sources of production centres, often having third parties involved (logistics centres, brokers)
- Complex company organizational structure, involving foreign branches, per-distribution-channel (retail/wholesale) specialized companies, intercompany organization….
- Difficulty for buyers and merchandiser to plan how to convert financial targets into real merchandise purchases (OTB, category management)
Core business characteristics

- Produce and sell own brand products
- Total look offer, while important grassroots maintained
- Worldwide presence
- Unified company name at shop level
- Retail based on property shops and assimilates
- Outlet concept common and highly evolved
- Retail philosophy based on push model
- High developed wholesale
- Collection concept exists
- Intermediate warehouse often present
- Shipments mainly via warehouse
- Discounted sales exist
- Promotion absent or rare
Business and organization models

The models of organization can be introduced as views (or layers), subdivided as:

- **Organizational view**
  - Topological: sites and their relations
  - Processes constellation: sites to processes liaisons
  - Roles constellation: sites to roles liaisons
  - Roles identity: roles to processes liaisons

- **Behavioural view**
  - Products visibility: assortments
  - Buying and merchandising organization
  - Distribution centres organization
  - Merchandise distribution organization
  - Outlets management
  - Discounted sales organization
  - Special PoS management: Shop in shop, concession, corners
  - Advertising organization
  - Customers care
  - Repairs management
  - Governing merchandise lent from shops

- **Dynamical view**
  - Merchandise flow: physical items handling
  - Documents flow: electronic and physical documents handling

- **Infrastructural view**
  - Services constellation: sites to services liaisons
  - Data location: sites to data liaisons
  - Data flow: data propagation among sites
Organizational view

- Topological: sites and their relations
- Processes constellation: sites to activities liaisons
- Roles constellation: sites to roles liaisons
- Roles identity: roles to processes liaisons
Topological: sites and their relations model 1 central and local distribution centres

- Headquarters
  - Central distribution centre
  - Country/area headquarters
  - Country/area headquarters
  - Country/area distribution centre

- Shops
  - Shop
  - Shop
  - Shop

Manages: Headquarters
Has relations: Country/area headquarters

Non property sites not included
Topological: sites and their relations

Model 2 specialized central distribution centres only

Central distribution centres:
- Planned seasonal shipments
- Replenishment in season shipments
- Large, programmed, non-frequent shipments (e.g. beginning of season)
- Small, non-programmed, frequent shipments (e.g. on demand shipments)

Manages:
- Headquarters
- Country/area headquarters

Has relations:
- Headquarters
- Country/area headquarters
- Central distribution centre planned seasonal shipments
- Central distribution centre: replenishment in season shipments

Shop
- Country/area headquarters
- Headquarters

Non property sites not included
Processes constellation: sites to processes liaisons
Stage 1: organization

Enterprise

Headquarters
- Define organizational structures
- Define business rules and general guidelines
- Define business processes' frame
- Define business processes distribution and relations
- Define roles and responsibility
- Define roles distribution and relations
- Define core business common KPI and metric
- Define controlling rules
- Define customer care policy

Central distribution centre
- Define activity models in accordance with frames

Country/area headquarters
- Define activity models in accordance with frames and local reality

Country/area distribution centre
- Define activity models in accordance with frames and local reality

Shop

Apply defined structure throughout the enterprise by local cloning
Processes constellation: sites to processes liaisons
Stage 2: operative

**Enterprise**

**Headquarters**
- Defines items
- Define assortments
- Define intercompany and retail prices
- Define general criteria for Discounted sales
- Define allocation plan
- Define collection timing and calendar
- Issue invoices to branches
- Receive merchandise
- Execute allocation plan
- Execute beginning of season shipments
- Execute in season shipments
- Handle merchandise
- Cross docking
- Stock placement
- Unpacking/repacking
- Print priced tickets on shipments
- Analize global sales reports
- Define collection timing and calendar

**Central distribution centre**

**Country/area headquarters**
- Define budget per shop
- Define Discounted sales
- Define intercompany and retail prices
- Define general criteria for Discounted sales
- Define allocation plan
- Define collection timing and calendar
- Issue invoices to third party
- Receive merchandise
- Execute allocation plan
- Execute beginning of season shipments
- Execute in season shipments
- Handle merchandise
- Cross docking
- Stock placement
- Unpacking/repacking
- Print priced tickets on shipments
- Analize global sales reports
- Define collection timing and calendar

**Country/area distribution centre**

**Shop**
- Sales activity
- Receive merchandise
- Stock merchandise
- Issue orders
- Issue special orders
- Serve requests from shops
- Execute in season replenishments
- Cross docking
- Stock placement
- Unpacking/repacking
- Print priced tickets on replenishments
- Manage repairs
- Analize sales reports
- Prepare and manage bar.sales
- Manage customer care

**Sales activity**
- Receive merchandise
- Stock merchandise
- Issue orders
- Issue special orders
- Serve requests from shops
- Execute in season replenishments
- Cross docking
- Stock placement
- Unpacking/repacking
- Print priced tickets on replenishments
- Manage repairs
- Analize sales reports
- Prepare and manage bar.sales
- Manage customer care
### Roles identity: roles to processes liaisons

(Responsibility assignment matrix, or RACI matrix)  (example)

#### Sales perspective: retail

**A** = approve  
**C** = cooperate  
**D** = decide  
**E** = execute  
**M** = monitor

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<th>Processes</th>
<th>Role</th>
<th>Buyer</th>
<th>Marketing</th>
<th>Merchandiser</th>
<th>Procurement planner</th>
<th>Retail controller</th>
<th>Retail executives</th>
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**Example**

- **Buyer**
  - **D**: decide
  - **C**: cooperate
  - **DM**: decide, monitor

- **Marketing**
  - **D**: decide

- **Merchandiser**
  - **C**: cooperate
  - **CM**: cooperate, monitor
  - **DE**: decide, execute

- **Procurement planner**
  - **C**: cooperate

- **Retail controller**
  - **M**: monitor

- **Retail executives**
  - **A**: approve, decide, execute
Behavioural view

- Products visibility: assortments
- Buying and merchandising organization
- Distribution centres organization
- Merchandise distribution organization
- Outlets management
- Discounted sales organization
- Special PoS management
- Advertising organization
- Customers care
- Repairs management
Define lines of products
- products’ image
- products’ target segment

Define lines of shops
- shops’ image
- shops’ target segment

Associate lines of products to lines of shops

Define selling politics (pricing, periods, presentation rules)
- create explicit multiple company images
- create company’s looks suited to multiple target segments
- create unified vision by common themes and feeling

Manage assortments throughout all events
Buying and merchandising organization

**Financial planning**
- Define revenue, margin and markdown per fiscal year (targets)
- Transform previous values in seasonal figures (€)
- Transform previous values in geographical figures (season/shop)
- Calculate OTB from previous values

**Merchandise planning**
- Define company products categories structure and composition
- Transform previous values in figures per category (category/season/shop)
- Acquire variants per category: transform € values in quantities
- Market position Price points analysis

**Buying and merchandising**
- Get the collection items (collection created)
- Insert collection items into categories
- Verify placed orders vs. OTB
- Place orders for retail:
  - Beginning of season
  - In season bulk orders
- Define bulk orders per shop
Distribution centres organization

General organization

- Decide model of service
- Estimate economical convenience of the chosen model
- Estimate convenience in relation to level of service
- Decide timing, number of stopovers
- Size of shops
- Sourcing of inbound items
- Cost of: shipping, duties, storage, transportation

Per distribution centre organization

- Decide set of shops to serve
  - Per country
  - Per country area
  - Per shop
  - Per shop category
  - No allocation
- Decide allocation rules
- Decide allowed merchandise handling
  - Cross docking
  - Stock placement
  - Unpack/repack
- Decide relations with third party
  - Shipments always allowed/ never allowed
  - Shipments allowed on special cases

Distributed, on a per area basis
Centralized specialized (beginning of season, in season)
Define beginning of season (BOS), in season (INS) quotas

- BOS in accordance with collection concept visibility

Define BOS scheduled delivery date(s)

Define INS allocation modalities
- no allocation
- allocation per area, country
- allocation per shop
- Allocation per shop category
- any combination of the previous

Define INS stocking modalities
- centrally located
- at local distribution centres
- any combination of the previous

Define INS distribution modalities and rules
- pull: driven from local headquarters or shops
- push: driven from headquarters
- replace weekly sales
- consider previous weeks trends (derivative)

Analyze service levels of chosen configurations
- key performance indicators
  - Sell-Through
  - Stock turn
  - Days cover
  - transit timing
  - out of stock frequency
  - level of service (expected vs. actual)
  - level of service (discrepancies)

Correct configurations depending on events
Outlets management

Decide typology
- Factory outlet
- Standard outlet
- Shopping centre outlet
- Temporary outlet

Decide budget
- in relation to general retail planning (planned final stock and markdown at regular shops)

Decide merchandise policy
- Same season as regular shops, previous collections items;
- Mixed seasons;

Decide replenishment policy
- Regular shops sources for outlets (from where)
- Stocking rules while waiting to sell old items (local distribution centre, third party warehouses)

Decide locations

Outlets organization

Outlets operations

- Discounted sales rules
- Leftover treatment:
  - Destruction
  - Carnival as in Japan
  - ...
- Verify performances
Discounted sales: organization

- Analyze per shop sell out/inventory data at season to date window
- Score worst seller items
- Set markdowns configuration on them
- Simulate inventory devaluation
- Estimate sell out for Discounted sales period
- Compare result to planned markdown / final inventory
- Select optimal configuration
- Select period of sales per country/group of shops/shop
- Send information to shops
Discounted sales : monitoring

Analyze per shop sell out/inventory data at Discounted sales (starting) to date window

Check worst seller items performance while on sale

Verify markdowns configuration on them

Re-simulate inventory devaluation

Re-estimate sell out for Discounted sales period

Compare result to planned markdown / final inventory

Adjust markdowns configuration

Adjust items configuration

Adjust periods on shops

Send information to shops
Special PoS management

Shop in shop (SIS), concessions and corners are special PoS, being characterized by specific processes and peculiarities as:

- Limited space for sale
- Limited space for stocking goods
- Need to observe rules for inbound and outbound merchandise handling and stock count (from mall policies, department store policies)
- Contract with landlord can depict different scenarios:
  - Personnel from department store or from SIS tenant
  - Payment:
    - Fixed rent
    - Fixed rent plus commission on sales
    - ....
  - Merchandise property:
    - Of tenant
    - Sold to landlord
    - Sold to landlord with payment when sold (property of merchandise can be reclaimed if not payed )
    - In deposit until sold to final customer (on consignment)
- Heterogeneous modalities of cash management:
  - Central cash serving all corners
  - Local cash at corner
  - Mixed situations
- Necessity to communicate sales figures to landlord or to receive these figures from him
- SIS at third party shops having one PoS to manage merchandise from different vendors
- Extended opening hours
Special PoS management

These processes need to be supported by specific organization modalities and suited IT tools

- **Replenishment**: must be frequent and quick
  - Typical: two times a day (Japan, large cities) or one time a day
  - So: monitor of sales and inventory must be continuous
  - So: model of replenishment can be “replace what sold”, in case setting a minimum stock level for best sellers (minimize out of stock)
  - So:
    - SIS can be treated using VMI (Vendor managed Inventory) concepts: its supplier analyzes and supplies: no intervention from SIS
    - Or SIS can issue its own orders

- **Necessity to communicate brand items catalog in standard formats** (EAN COMM, XML UCC) if alien retail systems are in use

- **Necessity to propagate vital data to tenant Information System (I.S.)** but also to alien I.S. (e.g. landlord I.S.), or to receive vital data from alien I.S. (depending on cash management modality)

- **Necessity to carefully manage personnel shifts**, due to opening hours constraints
Advertising organization

Decide regions/countries

Decide period

Decide media

Organize information system with suited data
- Items on advertising
- Period, media

Plan and launch procurement

Place orders for shops in relation to location and audience

Send merchandise in relation to periods

Get feedback of sales to monitor campaign efficacy

Goals of process: availability of merchandise on advertising at shop level during advertising time

Decide items to advertise: create a test panel

Goals of process:
- Availability of merchandise on advertising at shop level during advertising time
Customers care

• Customers care organization
  – Decide level:
    – Basic (passive)
      – Collect names:
        – Customers and related sales/credits/gift certificates
        – Visitors
        – Bought/collected from external sources
      – Make these data visible to your internal retail network
    – Advanced (semi-passive)
      – Analyze data
        – External provider analysis
        – cluster analysis
        – geographical mapping
        – propensity, behaviour
        – link to other interesting topics (habits..)

Goals of process: get information about the most suited actions in order to optimize customers filedilty, relations and satisfaction
Customers care

- Customers care organization (cont.)
  - Decide level:
    - Ad personam (active)
      - Fidelity card
      - Merchandise special orders
        - Acceptance cycle definition
        - Fulfillment and delivery cycle definition
    - Create mailing list
      - Catalog
      - Special events invitation
      - Sales pre invitation
    - Coupons on advertisements
    - Analyze feedback from mail sent /coupon

- Customers care operations
Repairs management

• Repairs organization:
  – Decide level of management:
    – Basic level of handling:
      – Accept/Repair/Deliver
    – Enhanced level of handling (quality)
      – Create list of failures:
        – Typology (stitching, glue…)
        – Location (zip, handle, heel…)
      – Fill list at acceptance
      – Analyze failures to improve quality
        – In relation to
          – item/typology and location
          – Item’s age
          – Item manufacturing source and date
    – Enhanced level of handling (service)
      – Keep track of service level:
        – Receiving date/Delivery date
        – Analyze duration of repairs in relation to item/type of failure
  – Decide acceptance rules
  – Decide price list
  – Decide/Acquire sources:
    – Internal workshop
    – External repair procurement

• Repairs operations
  – Operate in accordance to decided organization
Governing merchandise lent from shop

Relationships with other stakeholders of the fashion world entails distributing merchandise for advertisements, photographic services, magazines opinions and articles.

The number of value items flowing from shops to heterogeneous places for different purposes can be relevant and needs to be controlled in terms of:

a) What has been lent (item)
b) To whom
c) For what reason
d) When
e) Until when
f) Autorization flow
g) Management of returned items
Dynamical view

- **Merchandise flow:** physical items handling
- **Documents flow:** electronic and physical documents handling
Merchandise flow

Property shops: non direct shipment
Third party: direct shipment (not through property DC)
Documents flow

Property shops: non direct shipment

Third party: direct shipment

Branch orders (via ASP)

Country/area headquarters

Invoices

Broker, customs clearance, import quota negotiation

Order confirmations

Invoices, customs clearance notification, packing list

Packing list

ASN

Third party headquarters

Advanced shipping notice (ASN)

Country/area distribution centre

Electronic documents

Material documents

Seasonal and replenishment orders

Third party headquarters

ASN

Third party: direct shipment

ASN

Third party headquarters

Packing list

Order confirmations

Invoices

Invoices, customs clearance notification, packing list

Packing list

Order confirmations

Invoices

Brother, customs clearance, import quota negotiation

Branch orders (via ASP)
Infrastructural view

- **Services constellation:** sites to services liaisons
- **Data location:** sites to data liaisons
- **Data flow:** data propagation among sites
- **Shop IT topology:** applications and data at shop level
Services constellation: sites to services liaisons: model 1 centralized architecture

Application service provider

Zero footprint applications

Sales operations: local application

Other operations: zero footprint applications

Logistics side

Sales and customers relation side

Mandatory Centralized applications
Consumer names management
Gift certificates management
Credits management
Fidelity cards management
Promotion definition & management
Bargain sales definition & management
Services constellation: sites to services liaisons: model 2 semi centralized architecture

Application service provider

Headquarters

LHQ Mandatory Centralized applications
- Consumer names management
- Gift certificates management
- Credits management
- Fidelity cards management

LHQ Centralized applications
- Promotion definition & management
- Bargain sales definition & management

Distribution: local applications at (local) headquarters

Other: zero footprint applications

Sales and customers relation side

Sales operations: local application

Other operations: zero footprint applications

Logistics side

Local headquarters (LHQ) level

Local distribution centre level

Shop level
Data location: sites to data liaisons: model 1 centralized architecture

Overall data location

Suited data visibility
(on hand, on order, in transit..., consumer names...)

No data location

Suited data visibility
Items catalog and prices, Sales transactions and local customers names location

Mandatory Centralized repository
Overall Consumer names
Overall Gift certificates
Overall Credits
Overall Fidelity

Centralized repository
Promotion definition
Bargain sales definition

Local headquarters (LHQ) level

Local distribution centre level

Shop level
Data location: sites to data liaisons: model 2 semi centralized architecture

Overall data location

Suited data visibility (on order, in transit…)

Local distribution-related data location at local headquarters (on hand, on order, in transit…)

Suited data visibility

Items catalog and prices, Sales transactions and local customers names location

LHQ Mandatory Centralized repository
- LHQ related Consumer names
- LHQ Gift certificates
- LHQ Credits
- LHQ Fidelity

LHQ Centralized repository
- Promotion definition
- Bargain sales definition

Local headquarters (LHQ) level

Local distribution centre level

Shop level
Data flow: model 1 centralized architecture

(1) Alternative for promotion
- Rule exposed as web service
- Sale receipt sent from shop to HQ
- Rule applied on sale receipt items
- Sale receipt sent back to shop

Item codes, price lists, markdown configurations
promotion Rules & markdown configuration (1)

Sales transactions, local customers names

Local headquarters (LHQ) level

Local distribution centre level

Shop level
Data flow: model 2 semi centralized architecture

- Headquarters
- Local headquarters (LHQ) level
- Local distribution centre level
- Shop level

1. Alternative for promotion
   - Rule exposed as web service
   - Sale receipt sent from shop to LHQ
   - Rule applied on sale receipt items
   - Sale receipt sent back to shop

2. Markdown configurations
   - Promotion Rules & markdown configuration (1)

3. Items codes, price lists, markdown configurations

4. Local distribution-related data

5. Sales transactions, local customers names
Shop IT topology: boutique shop

**Business model:** Low traffic

**Topological IT model:**
- no data redundancy
- business applications provided by local server and thin client or zero footprint application
- Access to central services via BoS

### Provided business services:
- Front PoS application
- Data repository
- Catalog
- Transactions

### Central application & repository
- Consumer names
- Gift certificates
- Credits
- Fidelity cards

### Business services:
- Back of sale (BoS) application
- Data propagation to and from headquarters

### Services:
- Fiscal cash, if requested
- Access via BoS

- Shop application service provider
Shop IT topology: Large-Scale Retail Trade (or similar)

**Central application & repository**
- Consumer names
- Gift certificates
- Credits
- Fidelity cards

**Business model**: high traffic

**Topological IT model**: data redundancy
- business applications directly provided by front shop machines
- Direct access to centralized services

**Business services**:
- Front PoS application
- Data repository
- Catalog
- Transactions

**Shop front PC**
- Fiscal cash, if requested

**Shop front PC**
- Fiscal cash, if requested

**Back of sales PC**
- Business services: Back of sale (BoS) application
- Data Propagation to and from headquarters

**Back of sales PC**
Shop IT topology: Large-Scale Retail Trade (or similar)

Business model: high traffic

Topological IT model: data redundancy
business applications directly provided by front shop machines
Direct access to centralized services

Variant: independent data propagation to/from headquarters
The world of retail and distribution in the fashion industry

Business and organization models