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)

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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 trough 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

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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

Manages ⟶

Has relations ⟶ (dashed)

Non property sites not included

Topological : sites and their relations
model 2 specialized central distribution centres only

Large, programmed, non frequent shipments (e.g. beginning of season)

Central distribution centre planned seasonal shipments

Country/area headquarters

Shop

Shop

Shop

Shop

Headquarters

Country/area headquarters

Shop

Shop

Shop

Central distribution centre: replenisment in season shipments

Shop

Shop

Shop

Small, non programmed, frequent shipments (e.g. on demand shipments)

Country/area headquarters

Manages

Has relations

Non property sites not included

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Processes constellation: sites to processes liaisons
Stage 1: organization

Enterprise

Headquarters

Central distribution centre

Country/area headquarters

Country/area distribution centre

Shop

Apply defined structure throughout the enterprise by local cloning

- 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**

Define activity models in accordance with frames

Define activity models in accordance with frames and local reality

Define activity models in accordance with frames and local reality

Define activity models in accordance with frames and local reality

Processes constellation: sites to processes liaisons
Stage 2: operative

Enterprise

Headquarters

- Defines items
- Define assortments
- Define intercompany and retail prices
- Define and Verify local budgets
- Define replenishment policy
- Define allocation plan
    - Beginning of season
    - In season
- Define general criteria for Discounted sales
- Analize global sales reports
- Distribute items codes, prices
- Define collection timing and calendar
- Issue invoices to branches

Central distribution centre

- 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

Country/area headquarters

- Define budget per shop
- Issue season retail orders
- Send retail orders to headquarters
- Decide replenishment
- Verify inbound flow (ASN)
- Define Discounted sales
    - Items on sales
    - Markdowns
    - Scheduling and locations
- Analize area sales reports
- Issue invoices to third party

Country/area distribution centre

- Receive merchandise
- Execute local allocation plan
- Serve requests from shops
- Execute in season replenishments
- Handle merchandise
    - Cross docking
    - Stock placement
    - Unpacking/repacking
- Print priced tickets on replenishments

Shop

- Sales activity
- Receive merchandise
- Stock merchandise
- Issue orders
- Issue special orders
- Manage repairs
- Analize sales reports
- Prepare and manage bar.sales
- Manage customer care

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Roles constellation: sites to roles liaisons

Enterprise

Headquarters
- Designer, product manager
- Buyer, merchandiser
- Central retail controller
- Prices office
- Central PR
- Accounting and Invoice payable /receivable
- Customer Orders Office (third partiy)

Central distribution centre
- Shipping and Delivery office
- Stock room personnel

Country/area headquarters
- local retail controller
- Local merchandiser
- Orders office
- Customer Orders Office (third partiy)
- Accounting and Invoice payable /receivable
- Local PR

Country/area distribution centre
- Shipping and Delivery office
- Stock room personnel

Shop
- Shop manager
- Sales persons
- Stock room persons

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

Processes

Discounted sales management(promotions and sales)
Sales auditing
Sales monitoring
Consumer care (fidelity cards...)
Replenishment to shops
Merchandise or demand planning
Sale budget
Clustering material structures (shops) and products(assortments, ideal shops)
Define offer

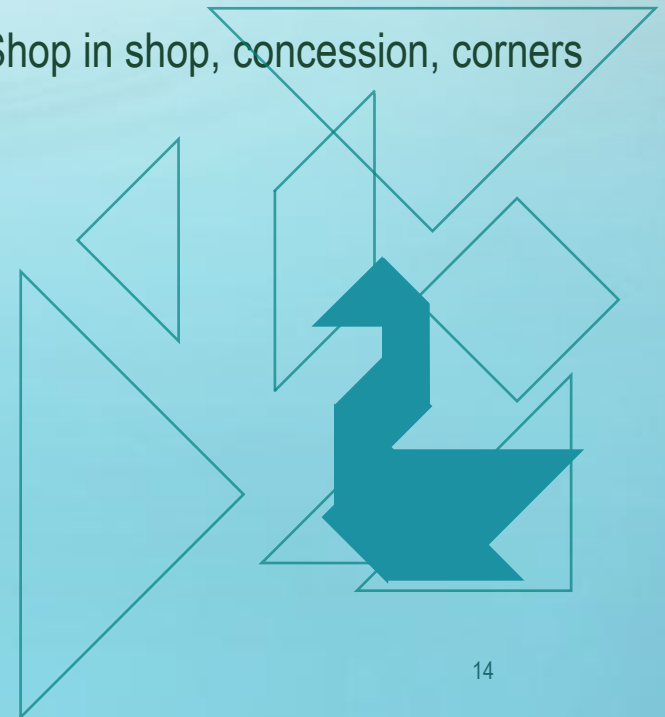| Role	Define offer	Clustering	Sale budget	Merchandise or demand planning	Replenishment to shops	Consumer care	Sales monitoring	Sales auditing	Discounted sales mgmt
Buyer	D	D	C	DM					C
Marketing					D				
Merchandiser	C	C	CM	DE		E			DM
Procurement planner		C	C						
Retail controller		M					DE		
Retail executives	A	D	A						A

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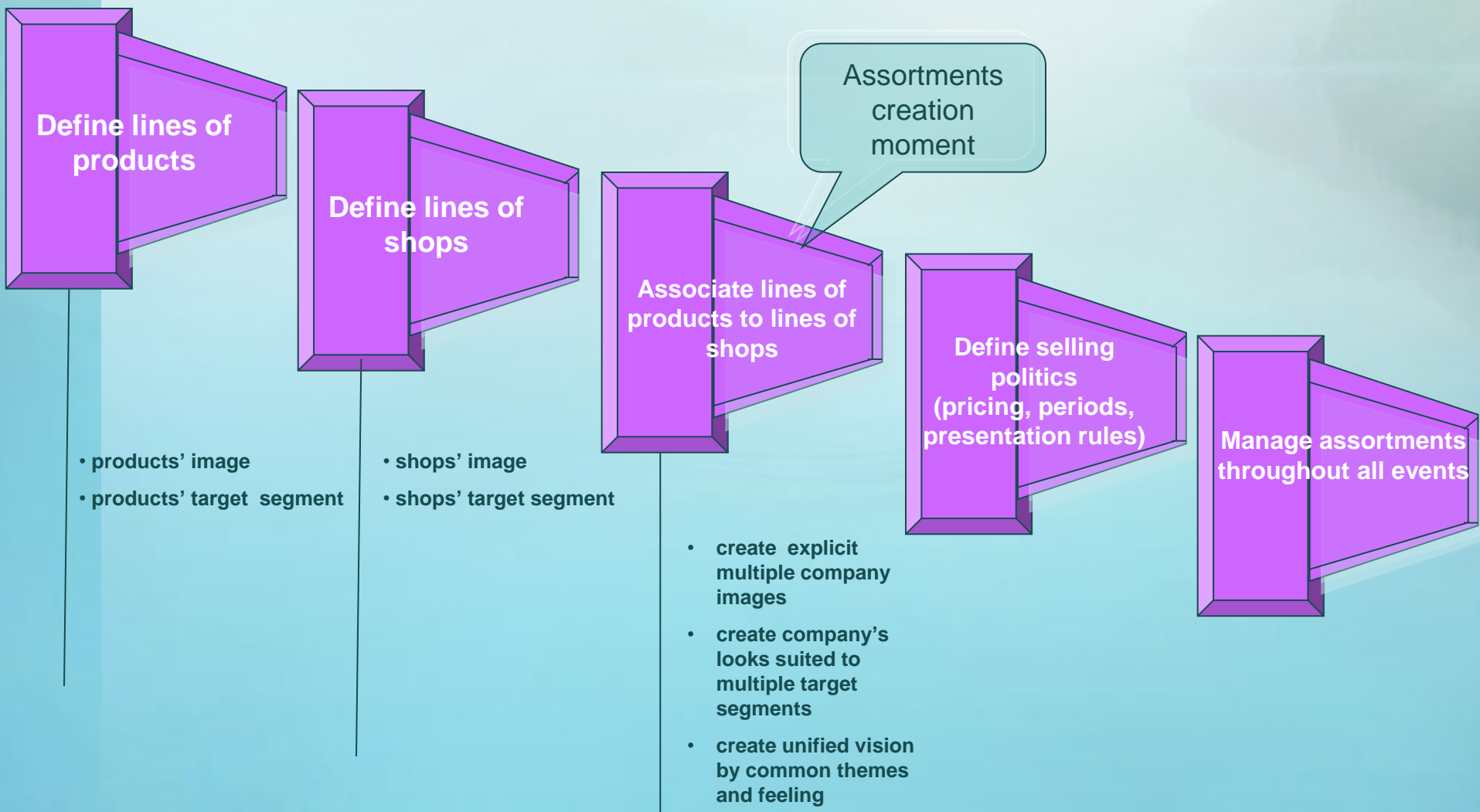
Behavioural view

- 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

Products visibility: assortments

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

- create explicit multiple company images
- create company's looks suited to multiple target segments
- create unified vision by common themes and feeling

Assortments creation moment

Define selling politics (pricing, periods, presentation rules)

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

Control global OTB constraint

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

Verify placed orders vs. OTB

Buying and merchandising

Get the collection items (collection created)

Insert collection items into categories

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

cost of:
shipping,
duties,
storage,
transportation

Estimate convenience in relation to level of service

centralized

Distributed, on a per area basis

Centralized specialized (beginning of season, in season)

Transfer timing, number of stop over

Size of shops

Sourcing of inbound items

Per distribution centre organization

Decide set of shops to serve

Decide allocation rules

Decide allowed merchandise handling

Decide relations with third party

- Per country
- Per country area
- Per shop
- Per shop category
- No allocation

- Cross docking
- Stock placement
- Unpack/repack

- Shipments always allowed/ never allowed
- Shipments allowed on special cases

Merchandise distribution organization

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 merchandise policy

-Same season as regular shops, previous collections items;
-mixed seasons;

Decide budget

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

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

• Discounted sales rules

• Leftover treatment:
  • Destruction
  • Carnival as in Japan
  • ....

• Verify performances

Outlets organization

Outlets operations

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 items to advertise: create a test panel

Plan and launch procurement

Decide media

Decide period

Decide regions/countries

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

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

Place orders for shops in relation to location and audience

Send merchandise in relation to periods

Get feedback of sales to monitor campaign efficacy

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
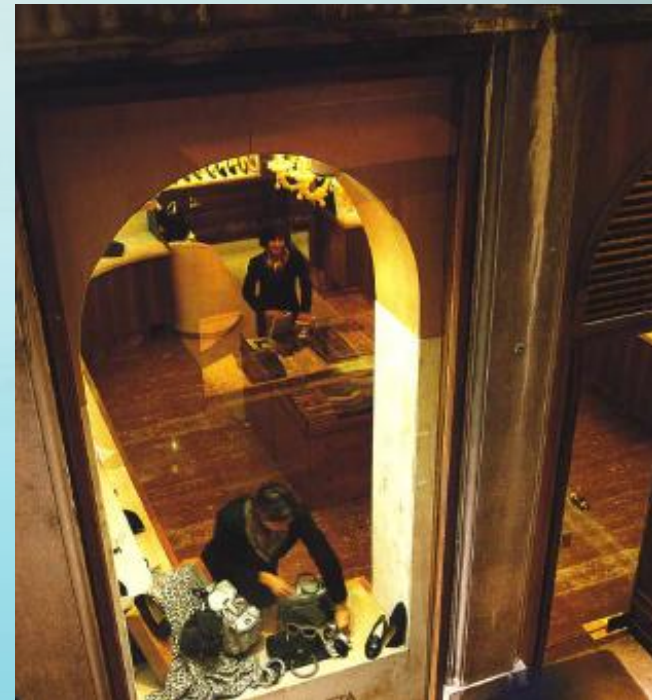   - Advanced (semi-passive)
      - Analyze data
        - External provider analysis
        - cluster analysis
        - geographical mapping
        - propensity, behaviour
        - link to other interesting topics (habits..)

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)

Local finished goods suppliers → Country/area distribution centre

Central distribution centre

Broker, customs clearance, import quota negotiation

Alien logistic centres

Shop

Outlet

Shop

Third party distribution centre

T.P. Shop

standard → non common ▶ rare/forbidden →
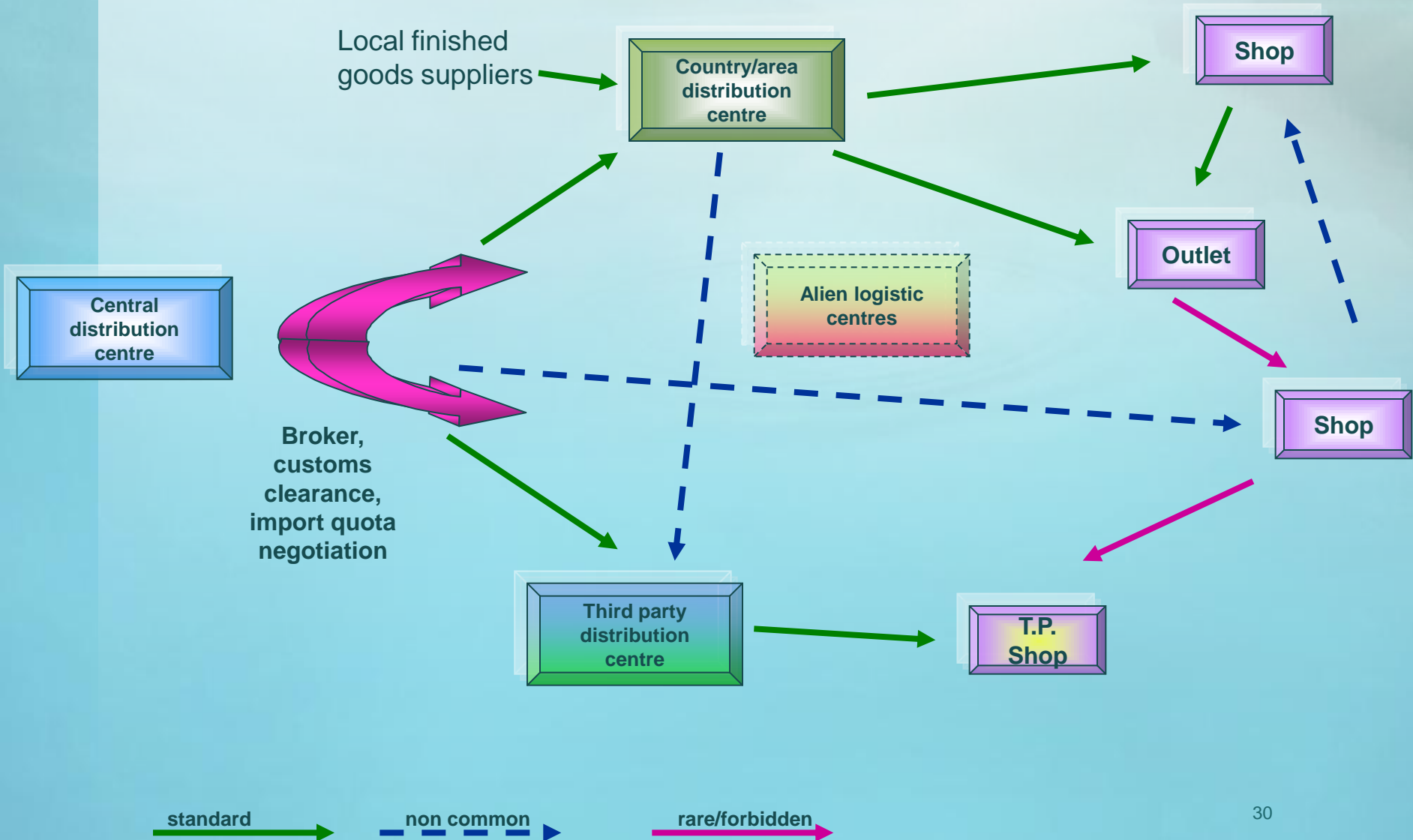
Documents flow

Property shops: non direct shipment

Third party: direct shipment

Branch orders (via ASP)

Country/area headquarters

Invoices

Broker, customs clearance, import quota negotiation

Shop
Shop
Shop

ASN

Invoices, customs clearance notification, packing list

Packing list

Headquarters

Country/area distribution centre

Order confirmations

Advanced shipping notice (ASN)

Invoices

Packing list

Third party distribution centre

ASN

T.P. Shop
T.P. Shop

Seasonal and replenishment orders

Third party headquarters

Electronic documents ----→ **Material documents**

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

Headquarters

Mandatory Centralized applications
Consumer names management
Gift certificates management
Credits management
Fidelity cards management
Centralized applications
Promotion definition & management
Bargain sales definition & management

Zero footprint applications

Local headquarters level

Local distribution centre level

Sales and customers relation side

Sales operations: local application

Other operations: zero footprint applications

Logistics side

Shop level

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

Local headquarters (LHQ) level

Local distribution centre level

Sales and customers relation side

Sales operations: local application

Other operations: zero footprint applications

Logistics side

Shop level

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

Headquarters

Overall data location

Mandatory Centralized repository
Overall Consumer names
Overall Gift certificates
Overall Credits
Overall Fidelity
Centralized repository
Promotion definition
Bargain sales definition

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

No data location

Local headquarters (LHQ) level

Local distribution centre level

Suited data visibility

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

Shop level

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

Overall data location

Headquarters

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

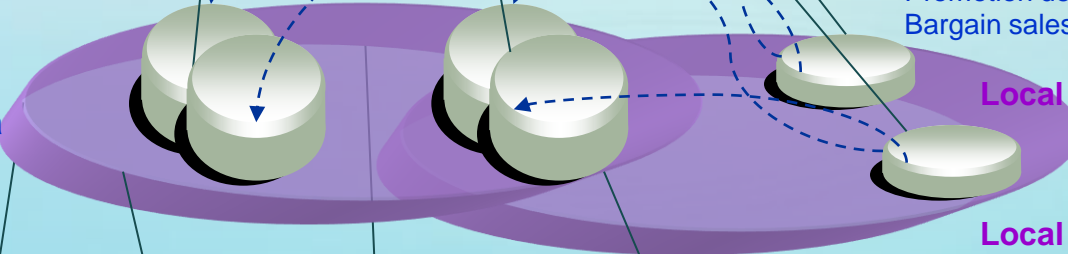**LHQ Mandatory Centralized repository**
 LHQ related Consumer names
LHQ Gift certificates
LHQ Credits
LHQ Fidelity
LHQ Centralized repository
Promotion definition
Bargain sales definition

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

Headquarters

Item codes, price lists, markdown configurations

promotion Rules & markdown configuration (1)

Local headquarters (LHQ) level

Local distribution centre level

Shop level

Sales transactions, local customers names
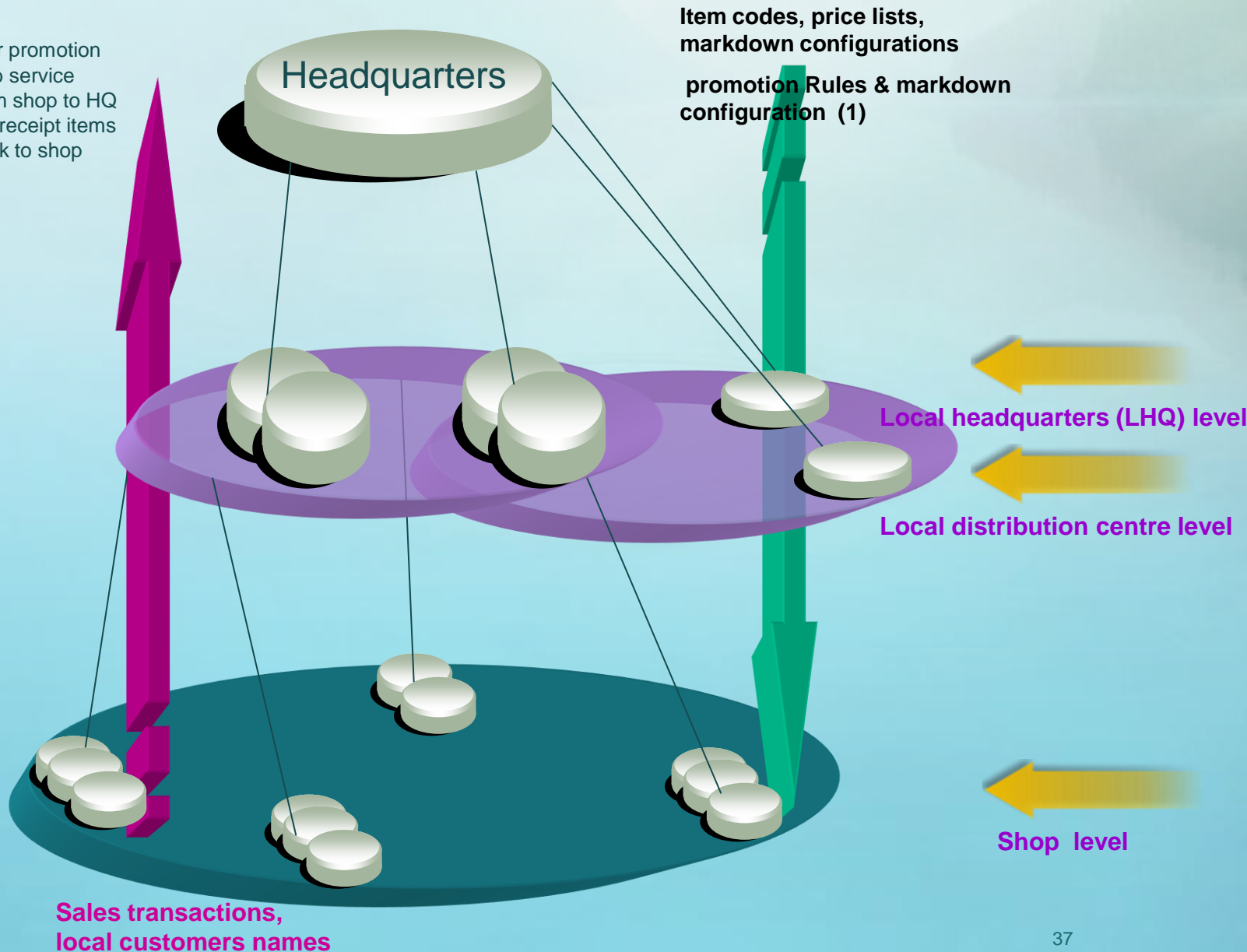
Data flow: model 2 semi centralized architecture

Items codes, price lists, markdown configurations

Headquarters

Local distribution-related data

(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

Local headquarters (LHQ) level

Local distribution centre level

markdown configurations promotion Rules & markdown configuration (1)

Shop level

Sales transactions, local customers names

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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

Shop front PC

Shop front PC

Fiscal cash, if requested

Fiscal cash, if requested

Provided business services:
Front PoS application
Data repository
Catalog
Transactions

Back of sales (BoS) PC

Access via BoS

Central application & repository
Consumer names
Gift certificates
Credits
Fidelity cards

Business services:
Back of sale (BoS) application

Data Propagation to and from headquarters

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

Direct Access

Business services:
  Front PoS application
  Data repository
     Catalog
     Transactions

Shop front PC

Shop front PC

Business services:
  Front PoS application
  Data repository
     Catalog
     Transactions

Fiscal cash,
if requested

Fiscal cash,
if requested

Back of sales PC

Business services:
  Back of sale (BoS)   application

Data Propagation to and from headquarters

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

Data Propagation to and from headquarters

Direct Access

Business services:
Front PoS application
Data repository
Catalog
Transactions

Shop front
PC

Shop front
PC

Business services:
Front PoS application
Data repository
Catalog
Transactions

Fiscal cash,
if requested

Fiscal cash,
if requested

Data Propagation to and from headquarters

Variant: independent
data propagation
to/from headquarters

Back of sales
PC

Business services:
Back of sale (BoS) application

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Business and organization models