

## Demand-Driven Retail: The New Normal



### Retailers Can Improve Profits and Service Levels by Anticipating and Incorporating Demand into Retail Merchandising and Supply Chain Management

The spring season for apparel retailers officially begins in February, but in some regions demand for warm weather clothing and footwear exists even during the traditional winter season. In the upper Midwestern part of the United States, many residents routinely escape the cold weather for vacations and cruises in warmer climates; meaning shoppers on the lookout for summer apparel and sandals often find slim-to-none selection or simply find that boots and winter clothing are the only options in-stock.

While savvy retailers have adjusted their product assortments to meet this regional demand, there still exists a costly disconnect among many – leading to lost revenues and less-than-satisfied customers. It's hard not wonder how much more merchandise could be sold with a more localized assortment plan; this is the preverbal “black hole” of not knowing what you don't know.

#### One Size Does Not Fit All

In today's dynamic merchandising environment, the aforementioned scenario is happening around the world in every market and every vertical. Accurately aligning product selections with changing consumer preferences has become more challenging than ever. Traditional “broad-brush” planning and buying strategies based solely on historical data are no longer effective when it comes to offering consumers the right products.

Additionally, there is no question that the global recession has had a significant impact on the retail sector. More than likely, consumer shopping behavior has been permanently altered. And with the shortened lifecycle of products, more retail channels and markets, as well as an increase in demand volatility, it is more difficult than ever for retailers to make the best merchandising decisions, predict where demand is likely to occur and for what products. To adequately respond to these changing retail dynamics and positively impact sales and margin, retail organizations really need to have an end-to-end supply chain planning process.

The answer for a growing number of retailers is to become more consumer driven in their decision making. While it's certainly not an overnight process, it starts by gaining a better understanding of true demand for your products by market and channel. This means integrating the traditional art of buying with the innovative science behind time-phased demand planning.

#### Anticipate and Incorporate Demand Drivers

While manufacturers have been successfully applying the disciplines of time-phased demand planning into their supply chain processes for years, retailers have just recently started to embrace the value of one synchronized view of demand. Leading companies are realizing tremendous performance improvements by integrating time-phased demand planning practices into their merchandising processes. By accurately predicting not only the “how much” but also the “why,” retailers can develop a holistic model that considers all of the market-demand drivers, including:

- Baseline drivers such as seasonality, trends and lifestyle
- Marketing and merchandising drivers such as pricing, promotional calendars and advertising
- Market drivers such as competitive actions and the local economy

With insight into this level of granular intelligence, retailers can better predict the demand for products sold through any channel, at any location, to any demographic. They can then leverage this information to improve their supply chain and merchandise planning processes. And create statistical, scientific forecasts that provide the best prediction of what will happen with their categories and items over an extended period of time. As a result, retailers will be able to make more insightful decisions in these critical areas:

**Market-specific assortments** - Utilize local preferences and align with the purchase patterns of each store's unique customer base. You can optimize product selection by relying on processes and technologies that efficiently sift through scores of options to generate tailored plans that match your product classification strategies.

**Market-specific pricing** – Synchronize promotional planning, price determination (including initial prices, promotional prices and markdowns) and advertising execution with localized consumer demographics, purchase preferences and competitive activity. You'll improve performance with regionalized pricing and markdowns that can be integrated back into your demand plans to confirm inventory is readily available for your customers to purchase.

**Market-specific space allocation** - Ensure premium floor space is allocated for the ideal mix so that your customers can easily find just what they want. You can optimize product positioning, performance and layout to make every square foot of selling space as profitable as possible.

## Demand Management: Achieving One Synchronized View of Demand

It's clear that retailers can no longer rely on traditional planning and buying strategies or historical shopping patterns alone to determine demand; they must take into account market-specific trends, seasonality, pricing and promotion. In addition to these market drivers, achieving one synchronized view of demand relies on creating a time-phased consensus demand forecast. Created in collaboration with suppliers, this time-phased demand planning forecast should provide the scientific visibility to predict what is going to sell, when and where over an extended period of time. This

forecast can then be leveraged into the replenishment, space and category management, merchandise planning, labor and workforce management and transportation/logistics strategies.

With one synchronized view of demand, retailers can effectively drive all merchandise planning and execution activities, at any given time or season, for true integrated planning and execution. By anticipating and incorporating demand into their merchandising processes, retailers can more effectively respond to consumer demand, balance their inventory investment with their sales goals, and transition their businesses to effectively manage a complex supply chain. This all leads to greater ROI, increased profits, improved inventory turns, reduced out of stocks and decreased carrying costs.

Wayne Usie, JDA Software's senior vice president, retail, is responsible for JDA's retail industry strategy and executive-level relationships with JDA's retail customers and key prospects.

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