

Allocation - Understanding the Basics

At its core, allocation is the optimal deployment of inventory to best meet customer demand. It is usually the last step in the merchandise lifecycle before the sale. Allocation originated from merchandising, when the merchant's assistant was responsible for tracking purchase orders (POs) and getting the products into the right store. As retailers became larger, with an expanding store base and a corresponding increase in complexity, allocation became its own specialized function.

Today, allocation has matured, with many companies having established the function and its processes decades ago. However, initiatives around store planning, assortment planning and omnichannel merchandising are disrupting the "tried and true" ways of allocating, and, for apparel retailers, the push for inventory efficiency through better sizing has created even greater complexity.

The Essentials of Allocation

In allocation, the customer demand is represented by a sales projection. Most retailers do not have a store-level weekly sales plan or forecast for each SKU that they sell, so the allocation process usually generates the sales projection "on the fly." This projection is generated from a combination of historical performance, current performance and a plan or forecast.

The next step in the process is to calculate what the "ideal" inventory is to support this sales projection. There are two prevalent philosophies:

1. Inventory to cover sales. This is usually based on a turnover metric such as weeks of supply or forward cover.

2. Inventory to cover sales as well as to preserve presentation in the store. If the retailer is attempting to preserve presentation, there are usually well-developed rules for doing this that are intrinsically tied to the visual merchandising standards and brand definition.

The difference between the “ideal” inventory and the current on-hand inventory is the “ideal” allocation.

For a retailer dealing with unconstrained inventory (i.e. there is always available inventory at the supplier), the allocation process simply gives each location its ideal allocation. For most retailers, however, the inventory is constrained, so the last step of the process involves best fitting what is available against the “ideal.” Some retailers

The Challenges of Allocation

Intrinsic to the established allocation processes is that each style, or style and color, stands alone. In today’s world, the role of the assortment, and in particular, the localized assortment, has become very important. Do you want to send a jacket to a specific location if the skirt or pant that goes with it won’t be there? If it takes a certain number of items to create the visual impression of the store, what happens if there isn’t enough for a given location? Assortments usually cross multiple departments, yet allocation is traditionally aligned with each department. So, how are real-time decisions coordinated? Can the allocation system manage and execute assortment-level decisions? Typically, the algorithms within allocation

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choose to protect their flagships or high-volume stores; others assign the inventory proportionally to the demand.

With the prevalence of store size profiles today, many retailers create the sales projection at the level above size and then calculate the ideal allocation down to the size level using the profile. There are two significant benefits to this: first, the projection tends to be more accurate at the higher level, and second, the fitting of the available inventory to the ideal can take into account the overall need as well as the quantities of the other sizes available at that location.

make extensive use of history, but is it good history? Many external and internal factors can create aberrant data. Is there a means for cleansing the history within the tool? There are also challenges when new products are introduced. If they are new to the chain, are there analogous products that can be used for modeling? If they are new to the store, are there “sister stores” that can be used, and does the system have the capability of using them?

How is the merchandise plan best used within allocation? Is it at the channel or chain level, requiring location-level performance data to break

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it down to the individual location? Is it simply ignored, knowing that the POs being allocated were placed to the plan?

Some retailers have developed store planning capability in addition to chain or channel-level merchandise planning. At what level is this plan and how can it be used within allocation? With allocation traditionally being the function that determines the inventory deployment by store, how does a store-level plan at the class or department level affect those decisions?

For retailers who still run their stores and online channels as separate business units, the inventory is purchased separately and the allocation function typically sits in the stores' channel. However, with greater integration of the channels, together with "buy in-store, fulfill online" (i.e. save the sale) and "buy online, pickup in store," allocation needs to balance the inventory across the channels, as well as the locations within the channels. But how is this possible with allocation processes based on placing inventory at the point of demand and the customer's expectation of fulfillment potentially being from a different channel or location?

Assortment planning is typically a process that resides within merchandising and merchandise planning, but with greater localization, how can store-level knowledge be incorporated within the plan? Is merchandise planning required to understand regional and store cluster variations or should the allocation function be included in the

process? And if allocation is to be included, do they have the capability and the capacity?

For many retailers, the allocation function is seen as entry-level, with career paths requiring promotion out of allocation within a relatively short period of time. Other organizations have multiple levels of experience and seniority within allocation. With the increased complexity and changing role of allocation, what is the right structure for the future?

With these challenges come the associated challenges of where the resources and knowledge to address them would come from. Is there enough capacity at the right level within allocation to take on the redesign of the business processes? And how do you bring the thought leadership to these new processes when the experience does not exist within the organization?

The Impact of Technology

From a systems perspective, a major consideration of any change is the impact on the technology eco-system that has been built up over the years. The software costs, implementation costs and the considerable time and effort expended on creating robust interfaces to integrate a multi-vendor environment have a significant financial impact.

Can the existing solution be upgraded and re-implemented to meet the needs of the new business processes? Can the existing solution be

augmented with low-cost or free software? How do you compare the capabilities of the current solution to the offerings of other software vendors when little or no experience of those solutions exists within the organization?

A solution to these challenges is to engage with a partner who has the experience and can shoulder the heavy lifting. A partner whose success is seated with your success.

What Does Columbus Consulting International Bring to the Table?

We are a unique agent of change for any client we work with. As a trusted partner, we can guide, support and deliver new ways of working through our:

- Deep expertise in allocation – We have “sat in the seats” of our clients in corporate roles and have first-hand industry experience and understanding of best practices.
- Unique mixture of strategic insight and hands-on pragmatism.
- Agility and flexibility in focusing on your success.
- Change Management – We know how to make change stick and how to work with users/stakeholders to successfully adopt change.

Allocation has been a core strength since our inception with a team of professionals who have direct experience from a variety of companies across the globe. As an organization, we have expertise in allocation across a broad range of retail sectors. Our consultants have spent more than 15 years implementing leading allocation technologies, across a variety of technology platforms, being software vendor agnostic.

We leverage the extensive experience of proven retail executives, allocation professionals, and systems and technology experts. Our team understands that allocation is changing, yet intricately tied to the merchandising and planning business processes and calendars. We understand that to be successful, the solution must be a perfect match to the needs of the retailer.

For more information, and to learn how we can bring about real and lasting change to your company, contact us or visit www.columbusconsulting.com.

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