

## **INVENTORY MANAGEMENT IN THE WOMEN'S RETAIL CLOTHING INDUSTRY**

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Inventory is the most significant financial asset of women's clothing retailers. The majority of successful retailers look at inventory management as a tool to improve customer satisfaction through refined merchandise assortments and in-stock position. They believe satisfying customer needs results in increased revenues, lower inventory levels, greater liquidity, and improved return on investment (Anonymous, 1998).

### **Keys to Successful Inventory Management**

In order to manage inventory successfully, women's clothing retailers should understand customer needs, vendor partnerships, technology, data integrity, and performance measurements.

#### *Enhancing Customer Services*

Having the desired products on hand when the customer wants them is critical to satisfy customer needs. More and more retailers are using inventory-management information to improve their ability to fulfil a key customer demand: having the right product at the right time (Anonymous, 1998).

Understanding consumer behaviours and market trends can help retailers to satisfy customer needs and to manage inventory information efficiently.

#### *Consumer Behaviours*

Discounters' biggest spenders are brand-loyal, and they visit discounters because they carry a large stable of well-known labels and brands. The reason people go to Wal-Mart 26 times a year on average is they will find what they want. It will be a good product, and they are certain not to overpay. The five reasons people prefer brands are listed below (Anonymous, 1998).

1. They believe it is simply better, with a quality, feature, benefit or performance the competition can not match.
2. Freedom from disappointment. Fear of the unknown keeps people from switching.
3. Expectation of availability at many different stores.
4. The manufacturer makes people feel good, that it has a conscience and cares about people - either through charitable work or customer services.
5. They seek a certain image. People share the brand's persona.

Brand selection is important to keep customers because they purchase only what they see as good quality. Retailers who bring in better brands need to advertise and make them visible in-store, or else the customers who shop incompletely will not know about them, and their ability to induce sales is wasted. Chains have a receptive audience when they announce branded merchandise upgrades, because they are helping to identify purchase opportunities, save consumers time, and give them what they want at an acceptable price. Clearly, brand-dependent customers are far more productive for retailers than those with no preferences. They spend more, visit more, and are often willing to pay full price for their preferred brands even when others are promoted, because brands bring confidence to their purchase decisions (Anonymous, 1998).

In women's sportswear, Chic, a brand built around denim, holds a powerful position at Kmart and is proportionately even more popular at Target. Discount retailers cite Chic and Wrangler as the best-performing women's denim brands. In spite of the success of Chic and Wrangler, women's sportswear in the mass channel is only moderately driven by national brands. About one-half of the shoppers polled have a brand preference in mind when shopping in discount stores for women's apparel. One-half of those said they would readily switch brands. Retailers have found fairly good acceptance of their private label efforts in women's sportswear, as well as in allied categories from intimates to activewear (Anonymous, 1997).

### *Market Trends*

One size does not fit all. Special sizes are among the brighter areas of growth in the mass market apparel sales today. Discount retailers have found broad response to more on-trend assortments in women's plus sizes. Women's plus sizes as a proportion of all women's apparel sales has grown rapidly, and accounts for 10 per cent to more than 20 per cent of the category, depending on the retailer (Anonymous, 1995).

With manufacturers supplying more styles in more sizes, consumers' demand for fashionable out-sized apparel is increasingly being met in the discount channel. Plus-oriented categories such as hosiery, sleepwear, and dresses have also been growing, but not as fast as the sportswear components (Anonymous, 1995).

Vendors and retailers alike are careful to appeal to glamour rather than size. The style trends aim at younger, fun, softer feminine looks. The examples of Lane Bryant and SaraMax described below can help us to understand the characteristics of successful products.

Lane Bryant is a retailer that has an especially long history of catering to the large-size customer. It has carved a niche as the plus-size store of the middle class. Laurie Van Brunt, vice president and general merchandise manager of intimate apparel at Lane Bryant, attributes the company's recent success to "doing the unexpected". Fashion-forward, sexy intimate apparel that does not compromise on support is what's selling at Lane Bryant stores. Sheerwear, a large-size version of Victoria's Secret's explosive Angels bra collection, is an example of doing the unexpected. While Sheerwear may seem like an oxymoron in large-size foundations, the bras offer great fit and support. The broad range of colours is another indication that this is not your basic plus-size offering. Lane Bryant offers five to ten colours on key fashion items, most of which are created internally and marketed under the chain's own private label (Anonymous, 1998).

SaraMax recently expanded its size range up to size 10 on the company's Best Fitting Panty. Besides, the company is offering two-piece bra sets in an array of fashion prints, including florals and animal skin motifs. The sizes range up to 42DD, with a size 10 panty. "Our merchandise appeals to a younger customer and satisfies merchants desire to offer something different for the large-size customer with a younger attitude", said Joy Haizen, executive vice president of merchandising and design at SaraMax. Haizen claims the large-size shopper needs to see the same lifestyle photography as her regular-size counterpart. SaraMax encourages retailer to do things in their stores to catch her eyes and create impulse sales (Anonymous, 1998).

### *Enhancing Supply Chain Effectiveness*

More and more retailers, discounters included, are demanding that vendor partners play a key role in helping them keep shoppers—whose loyalty is eroding—out of competitors' stores. They want vendors to take more responsibility for ensuring that they have the right product—in the right sizes, styles, and quantities—available in their outlets when patrons want them. If vendors can better comprehend where our customers are, as well as their preferences and purchasing patterns, vendors can access the information needed to make this happen (Anonymous, 1998).

Savvy retailers are developing partnerships with key and preferred suppliers and sharing information to ensure products meet customer buying patterns and preferences. The information being shared with vendors includes sales, inventory, sales forecast, and margin(5). When vendor partnerships are properly executed, retailers realise tangible improvements in revenues and inventory turnover derived from shorter lead times, improved in-stock performance, reduced inventory investment, improved gross margin, and more satisfied customers (Anonymous, 1998).

VF Corp., an apparel manufacturer commanding more than 30% market share of the jeans market in the United States, is trying to micromerchandise the space in the stores. The technology VF and its retailer partner implemented represents the evolution in vendor-managed inventory (VMI) systems for soft goods. The evolutionary application needs data input from VF's manufacturing through the retail partner's floor space dimensions in order to plan merchandise. The result is a micromerchandising application for mass merchants' assortments, space and store planning, category and cluster management, planogramming, and related financial functions (Sender, 1998).

VF's system components encompass packaged and internally developed software, divided into four modules that utilise information from a data warehouse. Solutions are designed to analyse point-of-sales (POS) transac-

tion data, demographic consumer data, and physical store layouts. Then they generate recommendations for effective allocation of retail space. The modules are fully integrated with each other, and that maximises their functionality while promoting reconciliation of data disparities common to non-integrated applications (Anonymous, 1998).

Because of the interface between the modules, data generated by the sales planning, micro-management, and in-store planning components moves directly into VF's Flow Replenishment system. The Flow Replenishment system was developed during the early 1990s as part of the manufacturer's initial foray into VMI. Several hundred retailers, such as Wal-Mart, use it to manage at least a portion of their apparel business. Flow Replenishment calculates the exact quantity of each SKU individual stores should carry, with INFOREM, an inventory forecasting and replenishment tool from IBM. INFOREM applies statistical formulas to calculate optimum ordering parameters, taking into consideration fluctuating variables like product demand, trends, seasons, promotions, and service levels (Anonymous, 1998).

Each night, stores send computer files containing scanned POS and inventory level information via electronic data interchange (EDI) to VF's mainframe computer. Files are processed by the GENTRAN translation package from Dublin, Ohio-based Sterling Software before moving to proprietary applications set up for the jeanswear and intimate apparel divisions. The system compares individual unit sales figures and quantity of goods on hand with the model devised for every SKU, factoring in volumes of product already scheduled to arrive at the back door. Nightly updates are also compared to INFOREM forecasts so that adjustments to the model may be executed to reflect periods of peak demand as well as slow periods (Anonymous, 1998).

Upon identifying any discrepancy between models and stores' on-hand/on-order counts per SKU, the system calculates a proposed order and compares it against pre-set shipping minimums in the data warehouse. If the minimums can be met, it then generates an order for the merchandise and transmits it through the mainframe to the appropriate manufacturing facility. Advance shipping notices, in the form of EDI transaction sets, are sent to the retailer (Anonymous, 1998).

Some of VF's jeans brands include Lee, Wrangler, Britannia, Rustler, Riders, and Maverick. This denim laundry list, which also includes colours and sizes, can now be managed automatically by VF for its retail partners. For the retailer, micromerchandising soft goods means that apparel can be merchandised at store level beginning at the time the order is placed instead of when it arrives at the distribution centre or on the sales floor. Then, the apparel is automatically replenished based on consumer demand without human interference. The application on the retailer's side can determine whether to replenish if returns are high and open-to-buy dollars are available (Sender, 1998).

The type of information that is exchanged between the manufacturer and the retailer is critical to the micromerchandising application and requires mutual trust. In addition to the retailers' point-of-sale data, VF needs to know at what price the denim goods are sold and whether they are sold on promotion. The retailer also needs to provide store-by-store fixturing information. On the flip side, the manufacturer must provide suggested assortments and planograms that have to be integrated back into the retailer's overall store planning systems. Once the denim area planograms are fed back into the retailer's space management systems, they can determine how these fit into the overall space available on any store floor. Beyond using the space management system to monitor inventory levels and schedule promotion dates, the retailer can match the micromerchandising activity in-house to fit its financial plan, requiring teamwork with the financial department within the retail organisation (Sender, 1998).

The nature of soft lines requires flexibility both physically and chronologically. "Product cycles" or "time sets" for apparel change a lot more than in a typical hard lines area. Orders are placed by retail buyers six to eight months before they are received. New styles and colours arrive at the stores two weeks after the assortment has been planned on the floor space. In the past, by the time the product arrived at the store, there was always more product than the floor could hold. The time-sensitive nature of apparel makes it very difficult for retailers to merchandise assortments and budget precisely. The new system, however, is bringing the transaction and merchandising side of the buyer's job together. The VF micromerchandising

application helps buyers plan and roll up numbers from the bottom up. Buyers can now see what their entire purchasing budget, inventory investment, and space performance is in real-time (Sender, 1998).

#### *Technology*

The application of Mervyn's California moves goods out of stores efficiently by making store-by-store price markdown decisions on products that have passed their peak selling periods. Traditionally, merchandisers meet the desired timetable only about 75% of the time, and this system can move merchandise within a prescribed time frame more than 90% of the time (Orenstein, 1999).

Some other major chains, such as Wal-Mart Stores Inc. in Bentonville, Ark., also are working on systems to bring some science to clearance markdowns, but most retailers still depend on human merchandisers to make the markdown decisions. Merchandisers often have an emotional stake in the items they have brought into the chain and can be reluctant to mark them down far enough. Nevertheless, the unfeeling application has proved that the steepest markdown should be taken early to ensure that the merchandise leaves the store while it still has some appeal. It avoids the tendency of human merchandisers to make only small markdowns to stay within a prescribed amount of how much the retailer is willing to sacrifice to get the merchandises out the door. The system also uses data on sales at the full price to calculate when a smaller discount would be enough to spark sales, keeping losses to a minimum (Orenstein, 1999).

Determining markdowns on a store-by-store basis is essential to maximising profits because some items sell better at some stores. Giving an unnecessarily large discount would cost a chain dearly. Mervyn's has used its application for several years, and it does give it a competitive advantage (Orenstein, 1999).

#### *Improving Data Integrity*

Data integrity at the SKU and location level is critical to successful inventory management. Without data integrity, errors in the data are compounded in analyses and projection which can result in out-of-stocks, missed sales opportunities, excess inventory, unnecessary markdowns and disappointed customers (Anonymous, 1998).

Discounters are split regarding the inventory-management programmes they use. About 50% use physical inventories only, while 50% use physical inventories plus cycle counts. During the physical-inventory process, 80% report capturing retail prices, 60% SKU codes, 47% department or merchandise class, 40% UPC code, and 13% age of inventory. Price is captured from the masterfile more than any other outlet except department stores. As a result, it is not surprising that discounters, more than any other retailer, attach great importance to maintaining the accuracy of each item's quantity on-hand in the store masterfile (Anonymous, 1998).

Receiving errors, selling errors, and counting errors are viewed as the primary obstacles to maintain inventory integrity. These obstacles can be alleviated through better employee training on policy and procedures. Moreover, further educating store, distribution, and headquarters associates about how their actions affect the accuracy of the on-hand file is effective in eliminating data-integrity problems. Some retailers also believe establishing specific internal standards of measurement would help to improve overall inventory accuracy (Anonymous, 1998).

#### *Financial Performance Measurements*

Gross profit per cent and inventory turns are the primary performance measurements retailers focus on. Financial performance measurement is most valuable when used as a comparative tool. A firm's performance can be monitored over time to detect significant improvement or deterioration of its financial or competitive position. Additionally, a firm's performance can be compared with that of other firms or industry averages. In this context, a successful firm is one that continually outperforms its competitors' norms (Anonymous, 1998).

As the most significant financial asset of retailers, inventory has a major impact on most performance measurements. As a result, retailers would find expanding their measurements beyond profitability to be valuable in evaluating their business (Anonymous, 1998).

## Conclusion

The trends that will take hold in the next one to three years include greater use of technology in taking inventory, more cycle counts, recording inventories using SKU and/or UPC information, cycle counts by SKU, and increasing participation in vendor-managed inventory programmes (Anonymous, 1998).

These trends indicate many retailers are moving in the direction of continuous assessment of their inventories through cycle and exception counts, and away from the point-in-time updates supplied by infrequent wall-to-wall physical inventories. Retailers are placing increased emphasis on timely and accurate inventories, which are necessary for effective and efficient use of automatic replenishment systems and vendor partnerships. Timely and accurate inventories also help retailers refine assortments, maximise store-sales opportunities and exceed customer needs and expectations. Without a doubt, inventory-management practices are in the process of significant change.

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