Lifecycle Space Planning: Aligning Your Store-Specific Space Execution with Overall Corporate Growth
Introduction
The changing retail business landscape is putting greater pressure on retailers to maximize profits from every inch of their retail stores. Shoppers are more discerning than ever before. Today’s customer walks through your door expecting a highly tailored shopping experience that allows him or her to find the right product at the right price at the right place. Retailers need to find a way to meet heightened expectations for personalized customer service and improve the profitability of their stores in a historically challenging and changing economic environment.

As we prepare for the recovery, retailers need to target key consumer segments and localize and tailor their assortment mix, pricing and promotions — all while strategically laying out and maximizing space utilization for each store. However, this holistic, highly tailored, space-driven strategy, known as “lifecycle space planning,” is only successful when it is implemented in a manner that has been fueled with store input, is profitable and can be successfully executed at the store level.

Further pressing the need for lifecycle space planning is the fact that retailers are increasingly remodeling existing stores and reusing existing buildings, rather than opening new stores from scratch, to produce corporate growth. A variety of retailers, including Toys R Us, SUPERVALU, Walgreens and Winn-Dixie, have embarked upon major store remodeling projects. Others, including Wal-Mart, Kroger and Best Buy, are partially remodeling stores, reconfiguring and adding select departments to better promote certain product categories and gain market share in key areas.

Space is one of a retailer’s most important assets and how well this asset is utilized can lead to either customer and margin erosion or customer retention and margin maximization. One of the main reasons that space utilization is so important is the strong reaction customers have when a store’s layout isn’t what they expect.
Overall, out-of-stocks represent a significant threat to retailer efforts at building customer loyalty and providing a top-notch customer experience. Especially in this time of tightened wallets and heightened expectations, giving customers what they want, when and where they want it, is a competitive necessity.

Achieving maximum utilization of space is a difficult task for most retailers. This is often due to a lack of understanding around store-specific execution. The result is a failure of store-level space compliance, which is the mis- or non-alignment of store-specific space execution with corporate-driven category and space performance goals. Total space compliance has long been the goal of retailers, but it is viewed as extremely difficult to achieve, with costly inefficiencies to execute and track.

This paper will demonstrate how retailers can use lifecycle space planning and a collaborative space planning methodology to actively achieve space compliance, manage fixturesing and signage costs, and ensure that every store is using its unique space dimensions to comply with and execute overall corporate performance goals, as well as meet the specific needs of its target customers.

According to a recent study funded by Procter & Gamble, when customers cannot find the products they want and need and where they want them, the cost to retailers can represent as much as 40% of intended sales. And when customers cannot find the product they want, 31% will purchase it at a competitor, 15% will delay their purchase, and another 9% won’t purchase the item at all.

Source: Out of Stock study funded by P&G, sponsored by FMA, FMI and NACDS and conducted by Thomas W. Gruen, Ph.D., University of Colorado at Colorado Springs, USA and Dr. Daniel Corsten, IE Business School Madrid
The Roadblocks to Space Compliance

Store-level compliance with corporate space plans has long been a concern for retailers. The experience of retailers who are addressing store-level space planning compliance reveals it is difficult to address and costly to achieve. And there are many reasons why a retailer cannot achieve store-level space compliance, which leads to stock-outs, lost sales, and shopper dissatisfaction. The two key areas of concern leading to this lack of compliance are cluster space planning at corporate headquarters and lack of visibility and collaboration across the organization.

Cluster Space Planning – One Size Fits All

For many retailers, space planning is still a “one size fits all” proposition where space planners at corporate headquarters create multiple planograms consisting of different sizes of a space plan for a cluster of stores without regard to the actual fixture size, and with little regard to local customer insight or buying behavior. Using the best historical sales and performance data they have available, store personnel select the planogram they think is the closest match to their store’s specific needs and use it with their floor plan.

Another issue with developing cluster space plans is that demand is not understood, and therefore space is improperly allocated. This results in excess inventory of slow-moving SKUs while high-demand items quickly go out of stock – which leads to lost sales, increased inventory and labor costs due to misaligned inventory requirements, low customer service levels, and declining customer loyalty. All of these negative factors take a heavy toll on the already fragile bottom line.

Lack of Collaboration and Visibility

Space plans are typically developed at corporate HQ in a fairly isolated manner. Generally speaking, the development process does not include store-level input, provide stores with early visibility to space execution needs, or enable HQ and store personnel and manufacturer partners to share data related to space planning.

Today, corporate space planners often lack visibility into what has actually been executed in the stores. As a result, performance data used to support space planning is based on inaccurate history due to lack of an efficient means of tracking and reporting actual store-level execution details. Without an accurate, detailed historical record of how stores were laid out at specific dates and times, retailers cannot match this information to sales performance for an optimal view of the effectiveness of a particular space plan. This results in a vicious cycle where planners use inaccurate history to create less-than-optimal plans, which then skew sales results and result in even more inaccurate history for the next round of space plans. According to a study conducted by the Grocery Manufacturers of America (GMA), lowest common denominator space plans fall short to the tune of $6 billion a year in annual lost sales across the retail industry.

In addition, corporate HQ has no visibility into the actual fixture or space allocation at store level. This results in inefficient fixture orders and in-store delays, which can mount to millions of dollars when performing remodels or new store openings. As mentioned above, this lack of space planning visibility forces retailers to build multiple size planograms using average historical data for a specific cluster of stores and then send all sizes to all stores within that cluster. Without the necessary visibility, store-level space planners are forced to choose the planogram closest to their fixturing and space constraints and
while using their best judgment, adjust for wrong fixture heights and the inability to accommodate recommended shelving and/or annoying obstructions such as poles.

Unfortunately, since all this adjustment and fine-tuning takes place at the local level, corporate HQ has no visibility into what changes or which planograms have actually been implemented, unless by chance they receive a call from the store.

For many retailers, the majority of the planograms are developed by their supplier partners, which are typically referred to as their category partners or category advisors. Given the fact that many of their major categories are also DSD (Direct Store Delivery), the execution at the store level is actually being performed by the vendor. In addition, many in-store displays and key signage all come from the vendor. This means the lack of visibility and collaboration between corporate HQ and their supplier partners is another major contributor to the lack of store-level space planning compliance.

Symptoms of Space Planning Problems

Retailers who are experiencing less than optimal performance from their space planning operations generally realize there is a problem. However, maintaining awareness of and remaining vigilant to detect the early symptoms of a space planning problem can help you identify and begin solving a space planning problem more quickly. Here is a helpful list of some common “symptoms” that can alert you to a potential need for improvement in your space planning process:

Lack of Store-Level Compliance
• Store personnel are inundated with generic “one size fits all,” paper-based merchandising change instructions, and are forced to “customize” HQ plans with no decision support.

Lack of Visibility & Collaboration between HQ, Stores, and Vendor Partners
• Stores have no input into space plans or associated assortment, resulting in unauthorized local ordering, and massive, store-level store plan and planogram changes.
• HQ has no visibility to what was actually executed, forcing false assumptions of historical performance as a basis for future space planning.
• HQ has no visibility into actual fixturing or executed signage at store level, resulting in unnecessary fixture ordering, or late and add-on orders.

Space Planning Performed in a Silo
• Space planning is not aligned to category-level roles & strategies (e.g., high-demand categories not allocated enough floor space or merchandised inappropriately).
• Space planning is not aligned to downstream inventory planning, creating a misalignment of the shelf and backroom resulting in stock-outs and lost sale opportunities.

The Road to Compliance

Although the space planning process is fraught with difficulties and inefficiencies, many retailers have become accustomed to them and have accepted a deeply flawed process as the best that can be achieved. For years, HQ and stores have both known that space plans developed at headquarters are rarely executed
exactly according to plan when they reach the store. Simply put, the path to achieving store-specific plans and total compliance isn’t clear and most retailers do not have the tools to enable it.

However, the good news is that significant technological advancements can help put retailers on the right path to achieving proper levels of compliance. Most retailers do not fully understand the critical path to achieving and maintaining compliance. By looking at each of the following steps along the path, you can begin to understand when and where the process breaks down.

**Step 1: Store-Specific Assortments** – Before you can even get to the point of developing an executable plan, you first need to ensure that you are developing local assortments using store-specific demand.

**Step 2: Store-Specific Planograms** – Once you have store-specific assortments, you need to ensure you are developing planograms for the actual fixturing and space constraints of each individual store. Although historically this has been a challenge for retailers, technology in this area has proven itself.

**Step 3: Store-Specific Floor Plans** – No one store is alike, and therefore no one floor layout or associated space constraint is alike, either. Retailers need to move away from developing prototype store layouts and toward developing, executing, and maintaining store-specific plans. Although this has also historically been a challenge, technology exists to help retailers achieve this step.

**Step 4: Collaborate & Communicate** – Once you have store-specific assortments, floor plans and planograms, you need a method to collaborate and communicate among corporate HQ, stores, and even vendors while providing real-time visibility throughout the process.

**Step 5: Enable Stores to Make Intelligent Decisions and Give Them a Voice** – To be successful, retailers need to tap into the knowledge of the stores. They not only need to enable them to provide input into the upfront planning process, but to make intelligent decisions during execution, as opposed to blindly making adjustments with little visibility into the impact of the overall plan.

**Step 6: Stores Need to Provide Visibility Back to Corporate HQ** – Stores need a method of collaborating and providing visibility into the changes taking place at store level. Plans need to be updated and reused the next time around, instead of using the historical “start from scratch” approach.

**Step 7: Corporate HQ Needs to be Armed with the Proper Technology** - Corporate HQ must have the right systems in place to have real-time visibility to monitor, manage, and react to critical non-compliance with corporate space plans. The key to maintaining compliance is to manage by exception, effectively monitoring it and reacting to areas of non-compliance that are significant. Having the proper technology in place to enable this oversight is key.

**Lifecycle Space Planning Enables Compliance**

Lifecycle space planning meets the localized needs of customers by breaking the traditional space planning process out of its silo and fully integrating it across stores and corporate HQ. Via a dynamic centralized database, corporate HQ can deliver store-specific macro space plans and micro planograms in real time, while stores can make simple notations or recommendations to corporate HQ, or if desired, they can make actual floor plan and or planogram changes. Stores get early visibility into upcoming merchandising changes to more appropriately align labor and reduce store-level delays. And perhaps even more importantly, corporate HQ is provided real-time visibility into exact fixture space constraints and detailed fixture inventory, including but not limited to costs, capacity, size, and age for every store, laying the
Top-down vs. Bottom-up Space Planning: Why Neither on Its Own is Enough

Most retailers typically take either a top-down approach to space planning or a bottom-up approach. However, neither of these approaches can deliver maximum return on investment. Top-down space planning, or planning that is focused mostly on floor space, typically fails because it doesn’t take into consideration key constraints or lower level merchandising strategies. For example, a macro space planner may decide to reduce space for a particular category by four feet, because it seems less profitable than another category of the same size, but because he has no visibility into the space constraints at the micro level such as actual product dimensions, legal orientations, minimal facing requirements, blocking requirements or an item’s strategy or purpose such as profit generating, turf defending, etc, his decision to reduce space will most likely have a more serious impact on the ability to meet demand and achieve overall category objectives.

On the converse, bottom-up space planning, or micro space planning, where actual planograms are produced, is focused on one category and the space requirements to optimally allocate and balance space on the shelf. The space planner is only focused on meeting the space allocation of a single category and lacks the understanding of the space constraints of the aisle or total store. Ultimately, when enacted in a silo, each of these approaches leads to inefficiencies, lost sales, and shopper dissatisfaction.

The optimal approach is a top-down/bottom-up methodology in which space planning is performed and optimized in a unified fashion, where macro level planning has visibility into the micro level constraints and strategies and the micro level planning is developed with insight into the total store.

necessary foundation to support the production of store-level space plans. As noted above, this is the first crucial step on the road to space planning compliance.

Let’s look at an actual example of how gaining timely access to space plans by store-level personnel can aid a retailer’s performance. Tesco, the UK’s largest retailer, created an automated, two-way link between store-level space planning tools and the internal Tesco network. This dynamically linked merchandise, floor plans and fixturing and signage, enabling the generation of dynamic reports with required specs that reduced the time needed to walk stores. Automatic updates of layouts and fixturing and signage significantly reduced planning and fitting cycles, and the resulting elimination of misunderstandings between stores and equipment fitters reduced costs. Now Tesco has streamlined its planning process and can continually improve working practices.

Space planners at stores and corporate HQ are not the only ones who can obtain an advantage from improved space planning practices. As the next section will demonstrate, the entire retail organization can also share the rewards of better space planning.

Space Planning’s Role throughout the Enterprise

A holistic approach to space planning recognizes space planning’s crucial role in other areas of the enterprise. As retailers place increasing priority on delivering localized assortment and merchandising strategies that target specific consumer segments, effective space planning becomes that much more critical. While business processes and key enablers evolve to ensure that retailers can develop store-specific assortments, pricing, promotions, and inventory management, all this is meaningless if it cannot be executed at the shelf – the infamous “last three feet” of merchandising.

To successfully complete the last three feet of merchandising, space plans must be developed collaboratively. Rather, space plans must be developed to align with overall category roles and objectives.
For example, Destination or Flagship categories will most likely be awarded more floor space, while ensuring key adjacencies are strategically placed since their roles are to be the primary store of choice for consumers.

In addition, space planning should be performed with full visibility into other key planning activities, such as assortment, pricing, promotion, and inventory planning. For example, space planning should leverage new pricing and real demand already influenced by the new assortment and pricing versus 52-week historical averages. In addition, space plans should be built with the understanding of the promotional impact to the shelf and to ensure the right items are supported within endcaps and in-store displays and are located properly within the store.

When necessary, space plans should be developed to support key promotions that will not have the luxury and support of an endcap or in-store display, placing them at a higher risk for stock-outs. To achieve this, space tools should support rapid space plan production.

Both assortment and space need to be tightly integrated together and support integration into replenishment and inventory planning systems to ensure proper shelf assortment and inventory alignment. This includes a proper understanding of store-level shelf capacity constraints that are synchronized to ensure a smooth flow of inventory to the store, as well as a tight alignment with backroom inventory, shelf capacity, stocking schedules and delivery frequencies to guarantee on-shelf item availability while minimizing backroom inventory and excessive labor costs. Ultimately, lifecycle space planning will provide real-time access to upstream planning functions as well as downstream execution activities, creating a single version of the truth to drive the entire organization.

The Advantages of Store-level Compliance

In addition to allowing corporate HQ timely access to store-level planning requirements and needs, space planning should provide stores with real-time visibility into corporate planning instructions and mandates. The accurate, automated flow of information between headquarters and stores allows store associates to
comply with and execute corporate space plans with a much higher rate of success than they do with traditional, manual space planning communications.

One major North American grocery chain with more than 1,500 stores and annual revenue of more than $40 billion used space planning technology to achieve near-perfect compliance of every store to capture end cap displays, leading to the capture of full fixture/schematic within three months. The chain was also able to bridge its master source planogram to an optimized store-specific planogram, using a lifecycle space planning tool as the center of hosting and delivery of store-specific layout maintenance. Full ROI was achieved within six months of implementation.

Critical Success Factors of a Lifecycle Planning Solution

There are a number of space planning solutions on the market today that deliver various pieces of functionality within lifecycle space planning, and an increasing number of retail systems vendors are recognizing the value this planning technology can offer their clients. While business needs should always drive technology investments and no one set of functionalities is right for everyone, following are some general features that a quality full lifecycle space planning package provides:

Strategic Approach

- Alignment and compliance across stores to corporate strategic plan
- Visual 3D photo-realistic “walkthrough” environment
- Dynamic, centralized database providing a single version of the truth in real time throughout the enterprise
- Workflow management to support the process from site selection through in-store execution

Enable the Tactical

- Integrated floor planning and execution capability
- 2-way AutoCAD communication
- Automation capability to manage planogram updates
- Fixture management
- In-store survey & maintenance

Facilitate Collaboration

- Web-based, real-time collaboration & compliance among corporate, store, and supplier partners
- Robust and analytics and business intelligence
- Interfaces between various micro space planogramming systems
Introducing Oracle Retail Macro Space Management and Oracle Retail In-Store Space Collaboration

Oracle Retail Macro Space Management and Oracle Retail In-Store Space Collaboration solutions are built to enable the business strategies retailers need to sustain competitive advantage in today's challenging environment. These solutions offer powerful functionality to execute sophisticated space planning techniques through features such as:

Communications

- Real-time access to a dynamic, centralized database of store plans, planograms, fixturing, and product data
- Wired or wireless communication among head office, stores and vendors
- Interfaces to planogramming systems from certified partners
- In-store capture of confirmed store-level fixture and merchandise changes
- Early visibility into upcoming changes

Analytics

- Insight into performance analysis
- Visibility into space allocations at any point in time past, present, future

Physical/Visual

- Views of pending changes, inquiries and workflow
- Display and merchandising change management
- Store-specific fixturing and planogram maintenance

Retailers can maintain real-time, store-level access and floor plans, link store-specific space data to upstream and downstream planning and execution systems, improve collaboration among corporate headquarters, stores and vendors, and improve compliance through store visibility and executable macro and micro space floor plans.

For the Container Store, the in-store experience is a culmination of the online exploration of the store’s target customers. The Container Store leverages Oracle Retail Macro Space Management to merchandise and optimize the setup of each and every store to showcase its expertise: organization. The company has a unique set of opportunities with its merchandising of products on modular shelving that includes Elfa™ solutions. The store layout and design serve as a showcase of the potential partnership between the customer and the retailer. The Container Store evaluates the in-store real estate to better design and optimize the store experience—in sizes from 22,000 to 29,000 square feet, showcasing more than 10,000 products.
Conclusion
As a recession impacts sales and causes store closings, retailers are under immense pressure to maximize the ROI of every inch of store selling space, contributing to the increase shift in retail focus away from new store expansion and towards placing an even greater focus on remolds. To survive, retailers must abandon traditional “one-size-fits-all” space planning techniques and move towards a consumer centric store-specific approach.

Challenge
- Traditional space planning ignores differences among individual stores and provides no real corporate visibility into store-level compliance and execution.
- Lack of real-time visibility results in poor space planning data at the corporate level, perpetuating a cycle of suboptimal space plans.
- Improperly executed space plans result in out-of-stocks, lost sales, reduced customer loyalty, increased inventory costs, and declining margins.

Opportunity
- Lifecycle space planning opens channels of communication among corporate headquarters, stores and vendors, while enabling visibility and accurate reporting of compliance and execution data.
- Lifecycle space planning is a holistic approach that recognizes space planning’s importance to other areas of the enterprise that are necessary to fully support overall category and corporate level objectives while maintaining alignment across other tactical levers – assortment, price, promotion, and product supply.
- Lifecycle space planning provides merchandisers and store managers real-time access to valuable performance data and space allocations that can aid the entire planning process and ensure intelligent execution.

The Solution
- Properly executed, lifecycle space planning can increase store-level profits, decrease store-level operating and labor costs, improve customer service, satisfaction and loyalty, improve inventory throughput, and generally maximize the ROI of store selling space.
- Oracle Retail Macro Space Management and Oracle Retail In-Store Space Collaboration work together to deliver solid store plans and enable true corporate real-time visibility into store-level space planning needs and activities, improving compliance and execution and increasing profitability.
About Oracle Retail

Oracle is the number one provider of innovative and comprehensive industry software solutions for retailers - enabling organizations to serve their customers better by applying insight into daily business decisions for more profitable results. With software that provides supply chain, operations, merchandising, store systems, optimization as well as enterprise applications and infrastructure software, Oracle partners with the world's leading retail companies, including 20 of the top 20 retailers worldwide, to transform the economics of their businesses.

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