Identifying Tier 1
and
Improving Instocks

Summer 2009 Intern Project

Reference Packet **(SAMPLE*)**

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LETTER FROM THE INTERNS

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Ready-to-Wear and Men's,

For ten weeks in the summer of 2009, our intern team had the tasks of identifying instock opportunities in specific market segments, and establishing an overall Tier 1 of programs in the Ready to Wear and Men's divisions. This packet contains the outcome of our efforts to provide insightful and impactful recommendations for opportunities of growth. However, though the findings from our exploration are evident throughout the packet, it should be noted that they come as the result of our experience as much as our research.

The learnings we have gained throughout this summer are owed to the numerous people throughout Target that have actively cultivated our development. Initially our mentor and managers were the primary resources and set the foundation for our endeavor, exposing us to gains by having us attend team meetings and holding weekly statuses. As our project inquiries became increasingly focused, they did an excellent job of guiding the team into the right direction by utilizing their contacts and knowledge of opportunities beyond our initial sphere.

With a quickly expanding relationship map, our team met with numerous Experts, Captains, Managers, Analysts, and interns to learn more about their specific businesses or fields of specialty. Through these meetings, not only were our project specific questions answered, but we also received first-hand knowledge of their experiences and ambitions. Supporting our project and overall development, those we met with were receptive and inviting of our inquiries, often initiating conversation outside the project and making sure our overall experience was a positive one.

Between our mentor, managers, and the many experts and BAs we spoke with, the overall experience has been exceptionally rewarding and what follows in the packet are the results of our ten week collaboration. With equal parts learning and teamwork, our sincerest gratitude goes out to all who had a hand in our development.

Best regards,

Anand Dave

Belinda Lau

Andrew Schaber

Danielle Sponder

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IMPROVING INSTOCKS OF TIER 1 ITEMS   **INTRODUCTION**

INSTOCK IMPROVEMENT DRIVES PROFITABILITY

Our main goal is to improve instocks and determine the most important subclasses in Ready to Wear (RTW) and Men's. These programs are the main unit drivers of both divisions. We chose 3.5% of all subclasses on a sales unit per store per week basis (SPSPW) and these programs constitute XX% of overall sales. They are long-running programs that the guest expects to always be instock (or, never out of stock, NOOS).

INSTOCK IMPROVEMENT DRIVES GUEST SATISFACTION

While our recommendations can improve profitability, we cannot overlook the impact on guest satisfaction. Guests expect these items to be in stores at all times. If core subclasses are out-of-stock, they may stop looking for them in stores. While many guests come to Target for necessities such as detergent and healthcare, it is softlines such as RTW and Men's that drive profit. Having an item out-of-stock may not lose a customer, but it could prevent them from coming back to the RTW or Men's floor pad and purchasing the items that have high PMU.

INSTOCK IMPROVEMENT IS ALIGNED WITH EMPHASIS ON CORE PROGRAMS

RTW and Men's are currently focusing on core programs. The guest is looking for simple items that can work with many outfits. Our recommendations show how to identify and keep the core categories instock. By ensuring these items are instock the guest will keep coming back for more dependable core products.

INCREASING INSTOCKS CREATES OPPORTUNITIES FOR POTENTIAL SALES

Out-of-stocks lead to lost sales. Over the past year potential sales of the identified subclasses totaled $XX million. This is X% of sales for RTW and Men's for the entire year. This is used as the most important quantitative measure for the benefits of our recommendations.

BAS AND EXPERTS WERE LEVERAGED TO DETERMINE MAINTENANCE STRATEGIES

We met with BAs from many Tier 1 subclasses along with Supply Chain, Replenishment, and 4th Quarter Flow Experts to develop our recommendations to be used on to increase instocks on Tier 1 subclasses.

ADDITIONAL SEGMENTATIONS WERE INSTOCK OPPORTUNITIES EXIST INCLUDE:

- Climate Zones
- Mini-seasons
- Multi-cultural
- Back-to-college (BTC)
- College Stores

IMPROVING INSTOCKS OF TIER 1 ITEMS   **METHOD OF RESEARCH**

TIER 1
GOAL: Identify Tier 1 subclasses in Ready to Wear (RTW) and Men's.

METHOD
      In order to establish a metric for Tier 1 our team pulled quarterly sales for all of RTW and Men's. We sorted these subclasses from high to low in terms of Sales Units per Store per Week, here forth referred to as SPSPW. We compared the quarters to see which subclasses were consistent across at least two of the quarters. We found that the top items are typically consistent for Q2 and Q3, as well as for Q4 and Q1. Therefore, we determined that Tier 1 will be established twice a year, during Fall plan and Spring plan.
More details on our results can be found in "Identifying Tier 1" (pg. 7).

MAINTENANCE
GOAL: Develop maintenance that can help keep Tier 1 subclasses in stock.

METHOD
      After identifying Tier 1 items we met with the BAs of all Tier 1 subclasses that were out of stock during any quarter. We discussed potential causes of out-of-stock issues as well as what could be done to get back in stock. We took these factors into account while developing a pool of ideas for maintaining instocks. We evaluated each potential idea with Supply Chain and/or Replenishment experts.
Here are the maintenance strategies we considered (bolded are maintenance options we recommend):

- More Grid Picks
- Higher Service Level
- Higher Presentation Minimums for Tables
- **Increase automatic forecast for Tier 1 items**
- **Increasing Instock Goal**
- **Reserve Legality**
- **RBU vs. RTD**
- **Flow distribution**

After identifying maintenance options, we researched how each of them would be implemented and what the impact would be. The non-bolded options did not impact instocks, the bolded items are what we determined to be an effective method of improving instocks and guest satisfaction.

MAINTENANCE STRATEGY   **INCREASE AUTOMATIC FORECAST FOR TIER 1**
GOAL: Provide recommendations for improvements of instock opportunities within Tier 1.

TIER 1 WAS CONSISTENTLY UNDER-FORECASTED

This recommendation looks to lessen the effect of automatic forecast error on Tier 1 instocks. Subclasses often outperformed expectations. The possible explanations for this are buyers under-forecasting during tough economic times or that the subclasses are consistently outperforming expectations.

- XX% of Tier 1 subclasses were under-forecasted XX XXXX – XX XXXX
- Tier 1 subclasses were under-forecasted by XX%
- Out-of-stock subclasses under-forecasted by XX%

BUSINESS ANALYSTS CONSISTENTLY CITED POOR FORECAST AS A REASON FOR BEING OUT OF STOCK

We conducted many interviews with BAs of RTW and Men's. Every BA said poor forecast were the largest problem claiming that small errors in color and size breakdowns can lead to large problems even if the overall forecast was on point.

- XX% of out-of-stock Tier 1 subclasses oversold forecast
  - More prominent in RTW at XX%

ARTIFICIALLY INCREASING FORECAST BY X% AT SET DATE WILL PUSH ITEMS TO THE STORE FASTER

With early weeks being the hardest to forecast it is important to prevent out-of-stocks through programs over-selling. The recommendation of X% was chosen as a balance between Tier 1's total under-forecast and how much out-of-stock subclasses were under-forecasted. We believe the upside of having more items instock outweighs additional cost of unproductive inventory because Tier 1 items will eventually sell through.

Benefits of artificially increasing forecast
- Prevent out-of-stocks on over-selling programs
- Enable BAs to use contingencies in place and capitalize on more sales and get back instock in the upcoming weeks
  - Bringing up fashion updates
  - Ordering additional product domestically

Costs of artificially increasing forecast
- More items held in store opposed to IW or DC where it can be allocated more effectively
  - Mitigated through low increase in forecast and core nature of Tier 1
- Some programs will not oversell forecast and too much will flow to stores
  - Added unproductive inventory costs
    - $X if XX% of forecast increase becomes unproductive
      - This would be the worst case scenario if all of our increase that didn't account for the overall XX% became unproductive
  - Automatic forecast will automatically lower forecast according to past week sales
    - If sales do not actualize, automatic forecast will reduce replenishment to where it should be

MAINTENANCE STRATEGY   **REPLENISHMENT BOTTOM UP (RBU)**
> GOAL: Provide recommendations for improvements of instock opportunities within Tier 1.

REPLENISHMENT BOTTOM UP WILL IMPROVE INSTOCKS FOR TIER 1 ITEMS BECAUSE THEY MEET THE CRITERIA BENEFITING RBU

- RBU is helpful with long running programs that repeat each year and have one or two years of history for profiles
- RBU is useful with specific items within a subclass that are carrying sales
  - Especially if different colors/styles have lifts at different times of the year.

	RBU	RTD
P R O S	- More control when reacting to in-season maintenance issues - Recovers quicker from low instocks because it updates forecast faster - Updates forecast quickly without losing history - More accurate because it is based on history - More Stable→stays closer to instock goal - Flexible when predicting trends - Can enter promo events when you expect a variance from history or see a lift in sales - Sales forecast is determined at an item level - Able to better forecast items that sell differently at an item level	- Sales for a program can be pulled from UPS - Less time consuming to set up - More Simplified→Sales forecast is determined at a category level - Can be used for faster programs that are more fashion sensitive
C O N S	- Initial set up is more time consuming - Sales forecast must be determined for each item - Sales trend is based on history and may not match the sales trends that the buyers anticipate for the upcoming year	- History for that program is lost when you repull sales. - May overlook opportunities at an item level that are your top sales drivers - Forecast is not as accurate - Monthly models could miss weekly peaks - High workload when reporting Estimated Time of Arrival (ETA)