RETAIL RISK MANAGEMENT:

Optimizing Your Stores

The Big Risks

This year, retailers are facing significant headwinds from multiple directions. These headwinds are not limited to a specific retailer but seen across an industry that has faced supply chain woes through a pendulum ranging from undersupply to oversupply all within 6-12 months. We have identified three key challenges that retailers are facing as they look forward.

- **Inflation risk** – consumers are now spending less to battle the inflationary pressures that they are facing.
- **Workforce risk** – the workforce is changing and there is a skills gap that employers will need to address as they work to keep their workplaces staffed.
- **Convenience risk** – 90% consumers expect their orders to arrive within 2-3 days, this means having an omnichannel experience that requires precision demand planning and top notch customer experience.

Leveraging Modern Tools to Optimize Margins and Combat Inflation Risk

As consumers are spending less due to inflation, retailers are having to find creative ways to maintain margins and combat increased supply chain expenses. Retailers are finding that they must adapt to this economic state in creative ways.

There are innovative enterprise tools that retailers leverage that help mitigate inflationary challenges during turbulent economic times. Retailers have a wealth of consumer data that could be used to drive inventory decisions. Retailers can use the data to create machine learning models that generate demand signals and markdown

ladders to optimize for profit. These outputs can then be fed back into a planning tool to provide a robust way for business users across the organization to plan assortment and inventory.

Another way Slalom has helped clients manage the inflation threat is through margin optimization. The concept of margin optimization may not be new, but many retailers struggle to do this effectively. This has several meanings within the retail space. From a planning perspective, this means having sufficient information to make informed decisions based on product assortment mix. This is often challenging because of the large number of factors at play when deciding what products to assort where.

As the impact of inflation hits retailers margins, they will need to implement a data informed strategy around margin optimization. Slalom has worked with retailers through a robust strategy around people, processes, and technology to help retailers optimize their business for the new world.

Getting Ahead of the Workforce Risk with an Effective Workforce Planning Strategy

Labor costs in the retail and consumer space range from 10%-20% of gross sales. This means a 10% increase in efficiency could mean a 1%-2% increase in net margins. While that may not seem like much, that represents a $1M-$2M in savings for every $100M in sales. Good workforce planning could yield massive savings for retailers seeking to address the inflation threat as well as the workforce threat.

The workforce risk is a multifaceted issue that is a combination of people, processes, and technology. On the people front, employees are seeking stability, something that employers are finding increasingly harder to provide given the dynamic needs in the retail environment. On the process front, many companies still use dated processes to plan their workforce separated from data such as demand signals, external factors, and customer sentiment. This commonly means taking broad strokes to both top down and bottoms up planning. This is further exacerbated by legacy technology that only allows limited planning both from a top down and bottoms up approach.

These failures in workforce planning drive a bad customer experience which results in lost sales, lost loyalty, and ultimately a higher cost of sales due to the high cost of customer acquisition vs retention. A strong workforce planning strategy is a key tenet of the omnichannel experience. Omnichannel consumers spend approximately 34% more than store only consumers and employees are key to that experience for consumers. Many omnichannel consumers use stores as experiential centers for their favorite brands and shop online for convenience.

To create a strong instore customer experience, retailers must rethink their workforce planning strategy. **We believe that there are three key opportunities that retailers will need to embrace as they look to optimize their workforce planning.**

The first is leveraging data to inform workforce planning. This means using data that was alluded to earlier such as demand signals, external factors, and customer sentiment. These factors differ by retailer, but an example may be a retail store in a mall gets busier when there is rain, the weather forecast should be used to increase staffing on days that are predicted to be rainy. This data is readily available within an organization or publicly available for use in machine learning and optimization models.

The second opportunity is in enhanced planning tooling that can help to not only inform at a lower level, the budget available, but drive top level planning for labor and wages throughout an organization. Tools such as Anaplan can help decision makers throughout an organization accurate plan and forecast headcount by leveraging data available.

The third opportunity we believe to be key in an organization's workforce planning transformation is the store associate of the future. A highly targeted approach to enabling staff (in retail, CPG, and quick serve restaurants) to know exactly what needs to be done at all moments in time. That means a workforce plan to optimize for demand at key points in the cycle by leveraging technology.

In our experience, this transformation cannot be done in a silo, rather it must be deliberate and collaborative. Our customers who have embraced the people, process, and technology transformation have seen their return-on-investment increase exponentially.

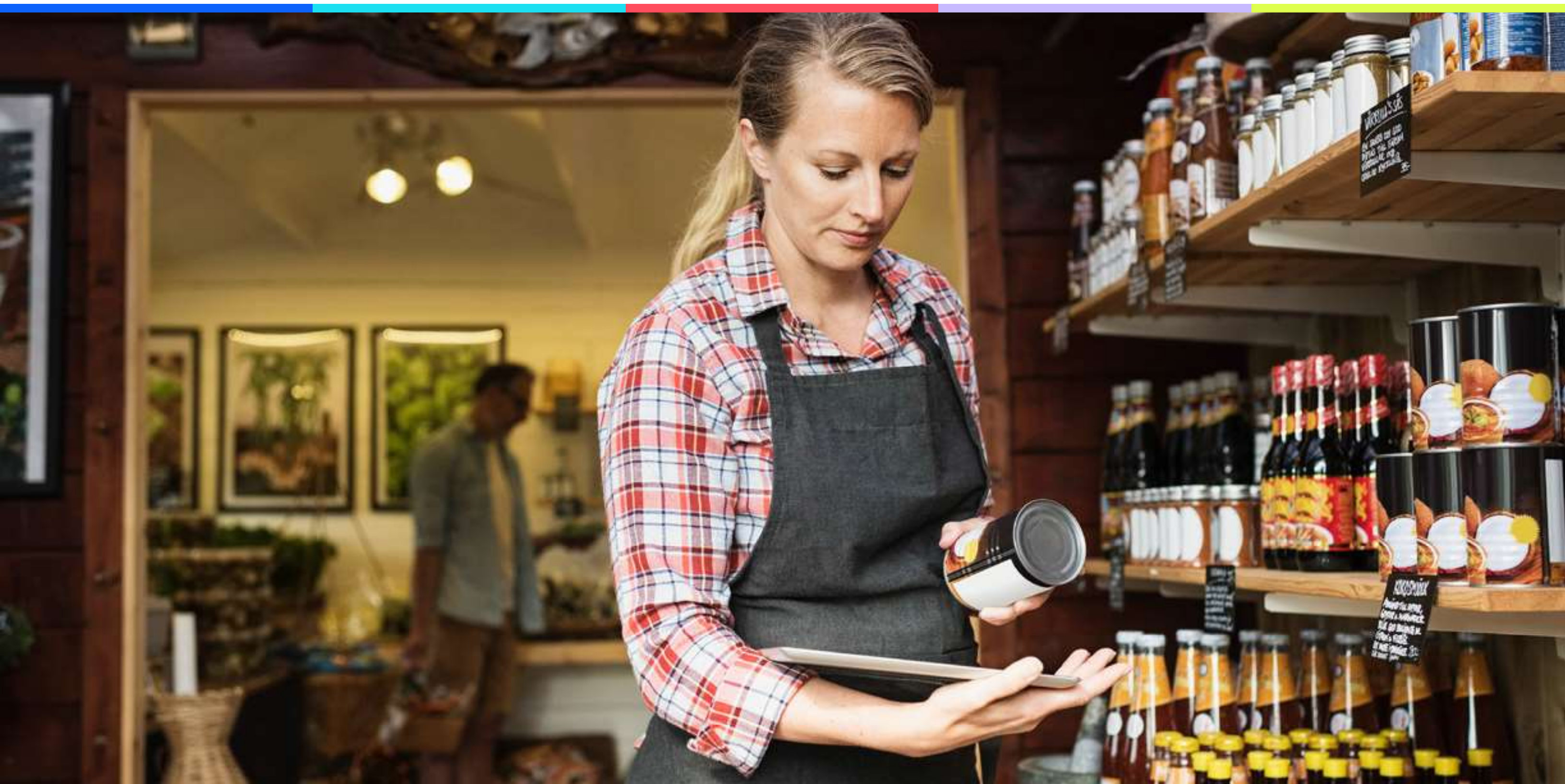
Gaining Control of Inventory to Better Predict Changing Customer Demands

The in-store experience is multifaceted. With in-person customer service, window displays and floor sets, and the overall physicality of shopping merchandise, there are many touchpoints for consumers when they shop in stores. While e-commerce has changed much of consumer behavior, brick and mortar stores have not become completely antiquated. In fact, the in-store experience remains a stronghold for many in the industry even as retailers adapt to an omnichannel market. According to Mastercard, instore sales during the 2022 holiday season increased by 6.8% despite economic headwinds. With the continued growth of in-store shopping, there is going to be a greater emphasis on in store experiential shopping combined with product availability. This is especially important as customers demand immediate product availability wherever they are.

Inventory control is more critical to business than ever, and retailers are needing to meet a new set of demands – today's challenges have transformed not only the availability and timing of deliveries, but also how customers are tracking and receiving their merchandise. As we enter a new inflationary period, retailers face the opposite issue of a gluttony of inventory.

To manage inventory control, retailers will need to leverage modern planning tools to help. Retailers are moving away from the traditional spreadsheets into more interactive, agile planning systems. Most retailers have only scratched the surface of the art of the possible. More advanced retailers are using tools such a linear programming or even AI/ML to optimize store and DC inventory for maximum profit and assortment. In one example, we had seen an increase in accuracy from 50% to 70% by implementing a data driven approach to planning.

With better planning tools, retailers can increase margins, reduce inventory, and reduce their environmental footprint by making less. This is a win-win scenario that help retailers drive value in the new normal.



Driving Change to Meet These Risks Head On

It begins with a connected planning experience for retailers facing these headwinds. Cash is king, especially in tough economic times. By leveraging a proper planning tool, retailers can begin to fight the three big threats with a single tool in a well thought out manner. The benefits are immense, especially when we consider that retailers can increase margins, reduce labor costs, and reduce inventory on hand with a modern connected planning tool.

In trying economic times, retailers cannot afford to stay stagnant by getting into a strictly defensive position. This is the time to be investing in rethinking processes and technology that help the organization better weather economic stress in the future.

Slalom can help by bringing our expertise in people, processes, and technology transformation. Our people first approach to transformation has often meant creating a humancentric tool for planners to make better decisions faster.

Get to know Slalom

Slalom is a purpose-led, global business and technology consulting company. From strategy to implementation, our approach is fiercely human. In eight countries and 45 markets, we deeply understand our customers—and their customers—to deliver practical, end-to-end solutions that drive meaningful impact. Backed by close partnerships with over 400 leading technology providers, our 13,000+ strong team helps people and organizations dream bigger, move faster, and build better tomorrows for all. We're honored to be consistently recognized as a great place to work, including being one of Fortune's 100 Best Companies to Work For eight years running. Learn more at slalom.com.

Slalom is a leader in Connected Planning. We help our clients transform the way they plan and report across their business and collaborate across functions. Connected Planning technologies, such as Anaplan, where Slalom was awarded the 2023 North America Partner of the Year, provide companies with new opportunities to evaluate end to end planning processes and establish more connected, data-driven ways of working across the business. Implementation done right includes keeping the bigger picture in mind and bringing in the right experts with functional, data preparation, connected planning, and change management expertise – all areas Slalom can serve without a revolving door of resources. Beyond technology and management consulting, Slalom knows how to develop cohesive strategies, transform the way clients plan, report across businesses, and collaborate across functions.

Learn more about Slalom's impact and the power of connected planning through our case study with Carter's, Inc.