

Cognos Strategic Merchandise Planning Performance Blueprint

**ALIGN MERCHANDISE
PLANS WITH CORPORATE
STRATEGIES, CUSTOMER
DEMAND**

COGNOS®

THE NEXT LEVEL OF PERFORMANCE™

Meet Demand, Manage Margins

Well-designed practices for merchandise planning and continual analysis of the results against plans are critical to retailers' success – particularly in the current environment of changing demographics and pressure on margins. A differentiated assortment of goods that meets market demand ensures chains will be able to increase sales, protect profits and satisfy customers.

Equally important is collaboration – consensus between merchandise, finance, marketing and operational plans – to ensure all parts of the organization are working towards a single set of financial objectives and business goals. In most retail chains this disconnected process of each organization operating as an independent silo, causes company-wide execution and performance to suffer. Reaching consensus between top-down corporate strategies and bottom-up departmental plans lets cross-functional teams to work together to achieve financial goals and meet market demand.

Retailers have difficulty planning, managing and evaluating their merchandise performance due to:

- limited ability to model and accurately forecast merchandise sales, control margins and optimize investment in inventory
- difficulty setting targets based on past, present and future demand
- poor processes for ensuring top-down and bottom-up plans are synchronized
- lack of integration between merchandising and other organizations, particularly finance, operations and marketing

Integrated Retail Performance Management



Performance Blueprint: Strategic Merchandise Planning

The Cognos Strategic Merchandise Planning Blueprint provides an integrated performance management framework – including planning, metrics, and reporting – that allows chains to plan sales, margin, gross profit and stock by division, channel, department or category. It is designed to reconcile with company-wide strategic financial and operational plans, so that all parts of the organization are planning to a single set of financial goals and business objectives.

The Strategic Merchandise Planning Blueprint gives merchandising executives target-setting capabilities to forecast sales and gross profit for divisions or channels; calendaring to adjust performance data for year-over-year differences in demand, such as date-based holidays; ability to spread top-down targets across departments or categories based on historical data to create financial and stock plans; exception-based planning to adjust line items and break-back capabilities to pro-rate costs to meet profitability requirements to support sales and margin targets. It gives merchandise planners a single tool to complete top-down and bottom-up planning processes, and synchronize finance, merchandising, marketing, and operations.

Cognos provides performance management capabilities that empower retailers to develop plans that meet market needs and measure merchandise performance and financial goals:

- Top-down target setting for merchandise sales and gross profit by division or channel
- Calendar adjustments to accommodate year-over-year changes holidays to smooth demand patterns
- Financial merchandise plans by department / category for sales and gross profit
- Stock plans by department / category for managing value of inventory

Account	2017 FY	2018 FY	2019 FY	2020 FY	2021 FY	2022 FY	2023 FY	2024 FY
Net Sales	571,881	659,900	611,718	6,973	611,288	6,073	642,894	5,043
Returns	33,400	25,724	22,978	18,000	61,127	6,073	64,200	5,043
Net Sales	538,481	634,176	588,740	6,955	550,161	5,400	578,694	0
Cost of Goods Sold	317,412	357,831	327,931	3,713	305,763	3,076	325,256	2,643
Gross Margin	221,069	276,345	260,809	3,242	244,398	2,324	253,438	2,757
Supply Chain Costs	54,867	60,845	59,842	42,830	42,789	42,873	44,347	40,413
Supply Chain Costs %	10.2%	9.6%	10.2%	613.2%	17.5%	17.5%	17.9%	14.6%
Net Margin	166,202	215,500	200,967	2,529	201,609	19,447	209,091	2,344
Net Margin %	29.1%	32.4%	34.1%	36.3%	36.7%	35.7%	36.1%	4.1%
Operating Expenses	405,180	418,676	387,931	3,713	305,763	3,076	325,256	2,643
Operating Profit	133,301	215,500	200,809	3,242	244,398	2,324	253,438	2,757
Operating Profit %	23.3%	32.4%	34.1%	46.6%	44.4%	43.7%	43.8%	4.8%

Cognos provides financial and pre-season planning of key financial indicators, including: sales, returns, markdowns, promotions, cost of goods, shrink, supply chain costs, and gross profit.

Cognos supports planning at the department or category level for multiple divisions and/or channels. Best-practices, built-in workflow, powerful modeling, exception-based planning capabilities and integrated reporting and analysis give retailers a seamless and speedy process for financial merchandise planning. That ultimately leads to improved revenues and margins, differentiated products and higher customer satisfaction.

The Cognos Performance Management System

The Cognos Strategic Merchandise Planning Blueprint is comprised of Cognos Planning and Business Intelligence products. Cognos 8 Planning is a Web-based, high-participation solution for modeling, planning, budgeting, and forecasting in retail organizations. It lets merchandising executives define the process, models, and organizational and merchandise hierarchy required, and then distribute pre-populated, Web-based templates to merchandise planners across the company. Merchandise planners contribute required information for their department or category, using a single set of top-down targets and calculations that are consistent throughout the company. Cognos 8 Planning helps companies

achieve consistent operating performance through highly collaborative, real-time planning. By integrating with Cognos 8 BI capabilities, the Blueprint gives merchants the power to identify and measure key metrics, produce standard reports, publish exceptions and conduct analysis based on critical information such as past and present sales, markdowns, promotions, shrinkage, supply chain costs, gross profit and inventory valuation, among others.

Using the Web, Cognos 8 Planning gives managers the opportunity to participate in the planning, measurement and reforecasting process. As a result, up-to-date intelligence is available when needed, allowing more time for analysis and better-informed, more effective decision-making to optimize sales, margins and stock.

Planning Process Drives Profitable Growth

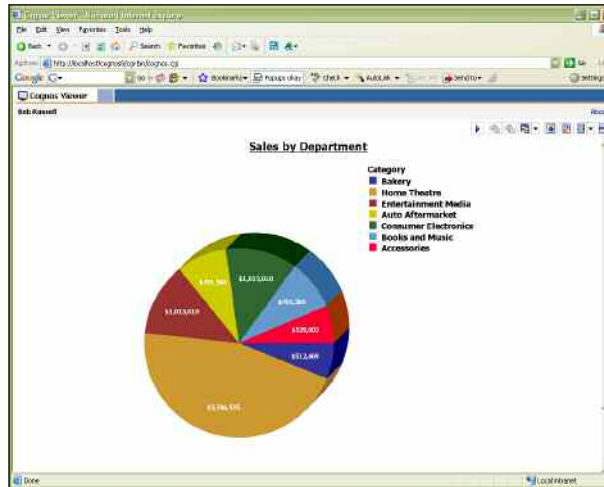
- *Top-Down Target Setting* allows merchandise executives to develop annual merchandise sales and gross profit plans for multiple divisions and/or channels. Using historical information, targets for key financial considerations – returns, markdowns, promotions,



shrinkage and supply chain costs – can be established based on corporate comp growth objectives. Then executives have the ability to do ‘what-if’ analysis, model impact of changes in line items and adjust targets.

- *Calendar Capabilities* allow retailers to account for year-over-year shifts (by week) in holidays, adjusting previous year sales, margin and profit data to reflect current year calendar. This allows chains to do meaningful year-over-year comparisons and projections. Top-down targets are spread across departments or categories, based on historical performance which has been smoothed out to accommodate floating holidays.
- *Merchandise Financial Plans* for department or category are created by season by week. Exception-based planning allows planners to adjust line items and model financial implications of changes to sales, costs and gross profit.
- *Strategic Stock Plans* are pre-populated with merchandise financial plan details. Using sales and inventory information stock levels and valuation are calculated, allowing merchandisers to plan inventory requirements and value at retail and at cost. Cognos provides capabilities to plan the impact of *markdowns and promotions* on inventory value and margin. Multiple types of markdowns (ie: competitive, mid-

season or clearance) and promotions or temporary price reductions (ie: weekly ad specials) are supported. Markdowns reduce the value of the stock, promotions reduce margin but inventory value remains unchanged. All types of markdowns and promotions each may have a different percentage value and may applied to a specific percentage of the inventory on-hand, so that profits can be protected.



Metrics, reports, and analysis measure performance against targets, providing a closed-loop process for managing merchandise performance. Role-based portals, dashboards, reports and analysis, including exception reporting and trending, provide executives and merchandise planners visibility into merchandise sales and margins.

About Cognos

Cognos is a recognized leader in delivering business intelligence and performance management solutions for the retail industry. In fact, 30 per cent of the world’s top 250 retailers, and over 325 retail chains worldwide, are already Cognos customers.

Cognos brings together technology, analytical applications, best practices, and a broad network of partners to give customers a complete performance system. The Cognos performance system is an open and adaptive solution that leverages an organization’s ERP, packaged applications, and database investments. It gives customers the ability to answer the questions – How are we doing? Why are we on or off track? What should we do about it? – and enables them to understand and monitor current performance while planning future business strategies.

Cognos serves more than 23,000 customers in more than 135 countries, and its top 100 enterprise customers consistently outperform market indexes. Cognos performance management solutions and services are also available from more than 3,000 worldwide partners and resellers. For more information, visit the Cognos Web site at <http://www.cognos.com>.