

Golden Rules for Retail Excellence

Background

The world is witnessing exponential changes, because of rapid technological advancements and globalisation. The technological advancements are also influencing distinct changes in consumers behaviours. Today's consumers are well informed and have multiple choices for their requirements, and they look for instant gratification since their tolerance for waiting is declining.

The evolving landscape of the jewellery industry

The global market size of the jewellery industry is estimated at USD 269 Billion by the end of 2022 and is being retailed by over several hundred thousand retailers across the globe. Some of the pertinent changes that we have witnessed in the last decade being,

- 1) The showroom sizes are becoming bigger and bigger
- 2) The advertisement spends are spiralling north
- 3) The Jewellery retailers are venturing into E- Commerce
- 4) Customers are constantly lured with attractive discounts and offers
- 5) The Jewellery Industry has come under many regulatory ambits
- 6) Frequent introduction of new products to attract the consumers

Challenges faced by jewellery retailers

The major challenges faced by the Jewellery retailer, (because of the trends listed above) are Three-fold.

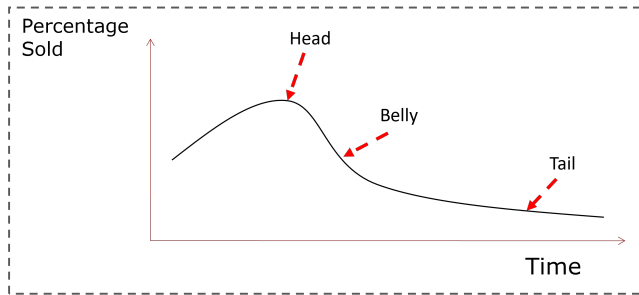
- 1) Their investments are increasing (Larger showroom, More Inventory and Investment in E- Commerce))
- 2) Their spends are increasing (Advertisement, Rental, Power and Employee cost)
- 3) Their margins are eroding (more of discounts and offers, increase in melting loss because of More inventory and frequent New Product Introduction)

The dichotomy faced by most retailers is in satisfying the customer by showcasing varieties and at the same time minimising the risk of obsolescence. The few who have been successful in Jewellery retailing has learnt to master their assortments, covering what they sell, the speed at which they sell them, what remains in stock, what more gets introduced and what gets removed, on an ongoing basis. Following paragraphs further narrate the underlying dynamics involved in retailing that leads to the above-mentioned challenges and the direction of solution to secure retail excellence.

Key dynamics in jewellery retailing

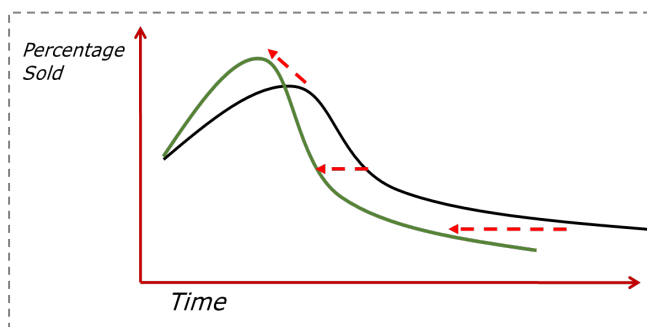
Leading Jewellers across the world carry several thousands of designs at their retail outlets to woo customers through variety & to offer a delightful shopping experience. From a gross margin perspective, jewellery retailers derive minimum margins from plain gold jewellery & the margins tend to improve with curated collections more so with diamond related varieties. In general, to set up and operate a jewellery retail outlet, significant portion investment is needed & majority of the investment is in the form of retail inventories & display pieces. Therefore, securing higher stock turns (aka Return on Investment) is a crucial business objective for a retailer (sales to inventories ratio). Several jewellery retailers across the world, face a grim situation of low return (stock turns) & margins due to high age of inventory at the

store. To explore this perspective further, if historical data can be collected and analysed, we can observe that most retailers experience the following inventory consumption curve, which we call 'HEAD BELLY TAIL' curve.



A small proportion (say 15%) of stock keeping units (SKU's) sell quickly (say within 30 to 60 days), we call these SKU's as 'HEAD' & contribute to a sizable 45% of store's sales value. A sizable (say 25%) of SKU's take some time to sell (between 60 to 180 days) and contribute to about 30% of sale, we call

these SKU's as 'BELLY'. Approximately 15% of SKU's take considerable time to sell (180 to 270 days) and contribute to a meagre 15% of sale, we call them 'TAIL' SKU's & most importantly a considerable number of SKU's (45%) take a very long time (say beyond 270 days) to sell & contribute to 10% of sale, we call them 'NON MOVERS'. Jewellery retailing has a long TAIL, which results in low stock turns. The HEAD BELLY TAIL curve that we see above is the a net effect of our current way of managing the store planogram, replenishment methods, new production introduction policies, seasonality planning processes, melting practices etc.



To alter this current reality and to derive maximum returns, we need to take suitable actions to shift the curve from right to left (as shown in the fig). Moving the curve to the left would entail increasing the count of HEAD SKU's, lessening the contribution of belly/tail & elimination of non moving SKU's.

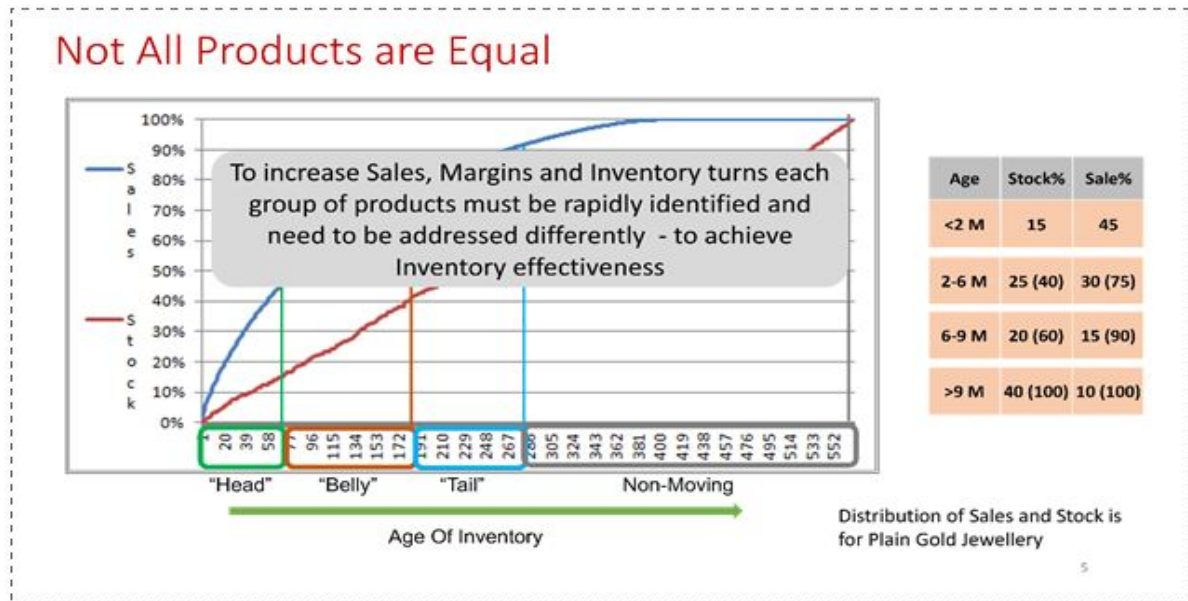
About Theory of Constraints (TOC)

Dr. Goldratt introduced the concept of TOC through his book 'The Goal' in the early 80's. Subsequently he authored several other books through which he demonstrated the application of TOC philosophy across different business areas (such as production, supply chain, finance, retail, business strategy and tactics etc). TOC has been applied in several reputed organisations and these companies have reaped enormous business benefits in the form of higher sales, enhanced profits, lower manufacturing lead times, lower inventories etc. TOC's core approach is based on the conviction that 'Every business has at least one constraint (or leverage point) which limits the output of the entire business operation; Constraint limits business profitability – just as chain's weakest link limits its strength'. Theory of Constraints (TOC) is systematic management approach which focuses on improving a few physical and logical leverage (constraints) points of an organization to achieve improvement in the performance of the system as a whole.

Direction of Solution to transform the HEAD BELLY TAIL curve

We must first recognise that 'ALL SKU's ARE NOT THE SAME!!!'. Every SKU has got its own consumption behaviour which needs to be ascertained through prudent data analytics. If we analyse the past consumption history of the SKU's (at a store level) it is possible to

classify the SKU's as the Head, BELLY, TAIL & NON MOVERS as described in the earlier paragraphs.



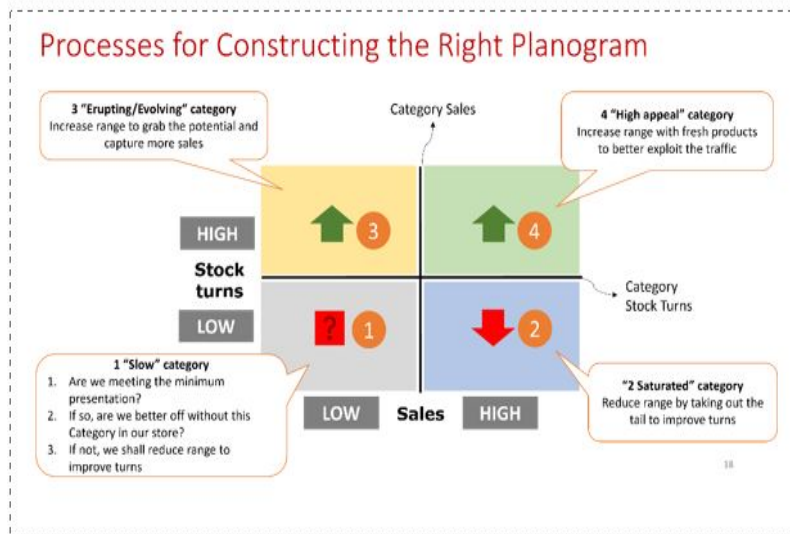
Since the consumption story for each of the classified groups of SKU is unique, it is imperative to design a unique inventory planning & replenishment system for each of the before mentioned groups uniquely and not treat them alike. Towards identifying & managing the SKU's based on its consumption behaviour, we propose a set of 4 golden rules



which we believe will transform the HEAD BELLY TAIL curve towards the left.

Golden Rule 1 – Managing the HEAD SKU's: Through data analytics, we must set a predefined criteria to identify the SKU's that sells through quickly & replenish the same SKU every time it sells. The key to improving the performance of HEAD SKU's is by having high 'Availability' of the SKU at the store. We need to design & implement a TOC guided replenishment solution to improve the availability (>95%) of SKU's at the stores. Improving

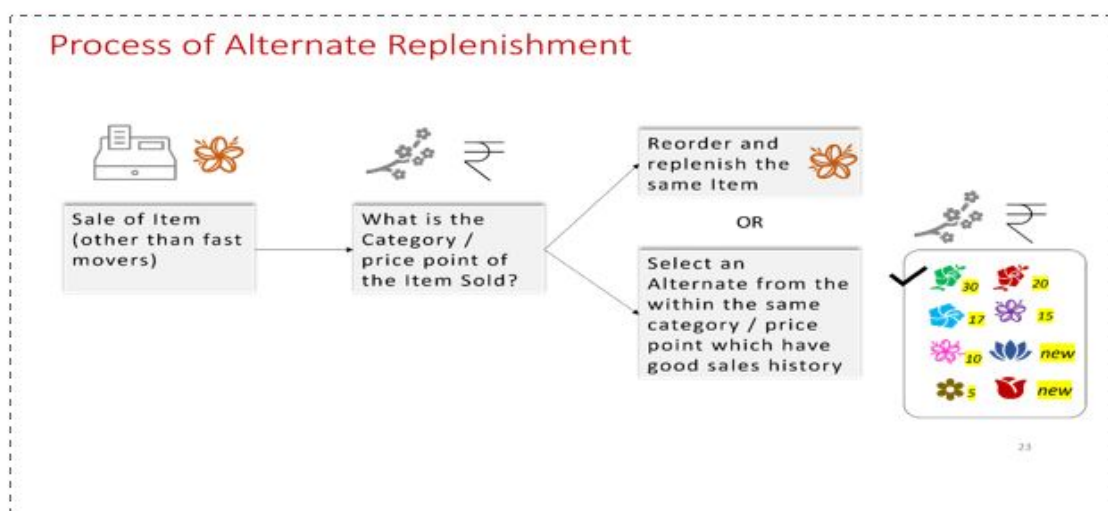
the availability of the HEADS ensures that there are no shortages & hence eliminates potential lost sales opportunities, leading to a higher contribution of HEADS to sales.

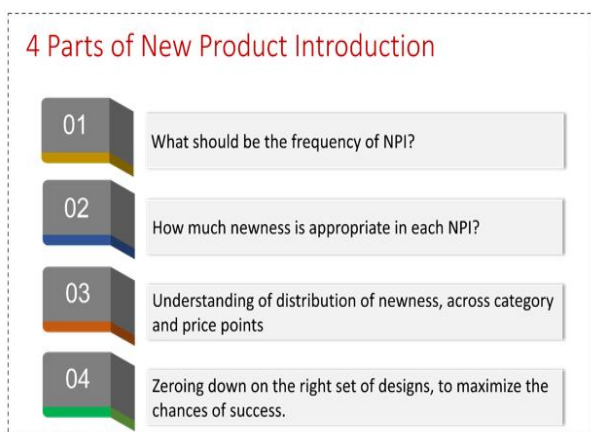


Golden Rule 2 – Setting up a scientific store planogram & managing the ‘BELLY & TAIL SKU’S: Every store must carry their assortments as per a scientific store planogram. We propose a scientific 4 quadrant approach to set up a planogram that analyses every SKU performance at a store level against its category sales & stock turn performance. As a result, a well-defined planogram quantity gets

ascertained at a category-subcategory-price point level. Above image summarises the mechanics involved in setting up a store planogram. As sales happen across multiple categories, the store’s assortment is continuously aligned to the planogram planned quantities through the replenishment processes for HEAD, BELLY, TAIL & Non-Movers. The replenishment process for the HEAD SKU’s are as explained in golden rule 1.

As the belly, tail SKU’s have taken a considerable time to sell, when any of these item sells at the store, we need to replace them with an alternative SKU which carries a higher sale probability. (In order to reverse the Head Belly Tail curve, we need to sell the SKU’s quicker relative to the current methods). Towards supporting this process at a store level, we propose the jewellery retailer to set up a common design bank (across all the company’s retail outlets) comprising of all the images & details of the SKU’s that the retailer intends to sell. When an existing SKU sells from a given store, the store manager selects an alternative item from the design bank as prospective alternatives subject to maximum planogram quantity & sale history considerations – suitable systemic rules are built in the software to offer alternatives.





Golden Rule 3 - Process for dealing with new product introductions: New products are introduced by the retailer to improve walk in & also to increase the morale of store staff to sell to potential customers. While new products are expected to increase sales, it equally carries a risk that the new SKU's becoming a belly, tail or a non-mover. Therefore, we recommend a curated 4 stepped process to identify & introduce new products in the right categories & price points to maximise the

chance of sales. We also recommend a 3-step filtering process to identify, screen & select new products that carries a higher probability of sale at the store.

Golden Rule 4 – Process for managing non movers: SKU's that have high inventory age in the store (greater than 270 days) are labelled as non movers. Non movers block the retailer's working capital & also carries low probability of future sale. We recommend identifying the non moving SKU's systematically through a well defined criteria (for example SKU's with an inventory age of 270 days and beyond) on a regular basis and actions are taken quickly. (such as discounting the SKU's, incentivising the store staffs or melting the SKU and brought back to inventory as a new design as per the planogram requirements). We believe that melting the non-movers is much more beneficial than to hold the inventory expecting future sale.

Implementing the above mentioned processes & rules results in altering the curve decisively and benefit jewellery retailers on an going basis. Stores inventory become more streamlined, fresh and effective to capitalize on customer walk ins resulting in superior inventory turns (returns).

About Strategy and Systems Consulting

Strategy and Systems is a fast-growing management consulting company, offering value-based consulting services. Strategy and Systems through its consultancy aims to deliver significant and tangible value to its client's business thereby ensuring a robust WIN WIN & enduring partnership with its clients. The core experts from our company have been personally mentored by Dr. Eliyahu Goldratt & have enormous experience by virtue of consulting with several industry verticals. Our cumulative consulting experience exceeds 100 man years of guiding several companies towards significant business benefits. Our website is www.strategyandsystems.com and would provide additional information regarding our company and its activities.

Our consulting experience with Jewellery businesses

Over the last two decades, we have worked with several reputed jewellery retailers in India and have guided these companies to implement the before said golden rules. Retailers have benefitted significantly in terms of increased customer walk ins & conversions, increased retail sales & profits, drastic improvement in profitability, higher stock turns ratio &

improved store freshness. Companies such as Titan Industries (Tanishq brand), Malabar Gold & Diamond, Reliance Jewels, Emerald Jewel Industry India Limited, Progressive Jewellers group (comprising of 18 jewellery retailers) have implemented the above-mentioned processes and have benefitted significantly.

Flow software – Retail module

Flow is a TOC based software that supports easier implementation of the retailing processes – Flow software imbibes the principles explained under the 4 golden rules and are used to support our consultancy projects & actively supports our customers to implement the recommended principles. Flow is a cloud-based application that allows users to access the screens and reports through browsers such as Chrome. Flow imports client specific data as per predefined format everyday & publishes the relevant reports & charts for easier implementation of the before said principles. Design bank is an integral part of Flow software that guides our retailers to make prudent decisions during replenishments. Flow supports the retailers to improve overall stock turns, decrease average age of inventory & improve freshness.

*The above document describes a generic approach to jewellery retailing as assessed by the authors of this write up; However, every retail company has a unique business reality & therefore needs to be assessed in detail for determining the relevant customised business solution.