

Hudson's Bay Company creates an award-winning inventory solution.



Overview

■ **Challenge**

A competitive market made it critical to enhance efficiency and profitability by improving the replenishment of fast-moving merchandise

■ **Solution**

A shelf-replenishment solution that uses IBM Data Integration Facility to share real-time sales and inventory information

■ **Key Benefits**

Decreased backroom inventory levels saves approximately CA\$5 million per year; anticipated 100% ROI in one year

A Canadian retail icon

In the retail industry, where margins are often razor thin, the profits are in the details. And for Canadian retailers, which are subject to rapid American expansion and channel blurring, competitiveness depends on process ingenuity.

Hudson's Bay Company (Hbc; www.hbc.com), one of Canada's largest retailers and oldest corporations, was established in 1670 as a fur trading company in a remote area to the northwest of the Great Lakes. Today it employs more than 70,000 people and provides multichannel shopping experiences across Canada

through each of its banner stores, which include Zellers mass merchandise stores, The Bay department stores, Home Outfitters specialty stores and Designer Depot, an off-price retail chain. Hbc's more than 300 Zellers stores nationwide focus on providing excellent value, service and prices.

Ensuring that popular products are where they should be—on store shelves

The high-throughput, low-cost environment of mass merchandising poses several inventory-related challenges for retailers. Fast-selling goods must be available on shelves

when customers are ready to buy them. Inventory levels in the back room must be aligned closely with sales to minimize the costs associated with excess. However, effective tools are often not available to help store managers and associates ensure that supply chain operations are running efficiently and shelves are stocked. Inefficiencies in any of these areas can create significant hurdles, especially given the difficulty of competing against other leading retailers on price.

Like many retailers, Zellers was struggling with these challenges. The company was particularly concerned about the timeliness and accuracy of its paper-based process for identifying low-inventory and out-of-stock merchandise and the associated impact on operations. According to Gary Davenport, chief information officer (CIO) for Hbc, the company's previous inventory solutions relied heavily on maintaining and printing Microsoft® Excel spreadsheets based on stockroom inventory, making merchandise movement processes—from gathering sales-floor and stockroom inventory information to providing associates with direction—cumbersome and ineffective. “Typically, when most retailers talk about in-stock

measurement, it's more or less that they know that the merchandise is somewhere within the store or back office,” says Davenport. “We recognized that it was important to create a solution that could tell us exactly where merchandise is at any given time, so we could ensure that it would be available for sale when customers want it.”

“Zellers was struggling with a number of challenges related to shelf replenishment. We needed a way to leverage existing technology to quickly transform our processes to reduce out-of-stocks on popular items and improve inventory management.”

*—Gary Davenport, chief information officer,
Hudson's Bay Company*

To enhance competitiveness and maintain market leadership, Davenport's team began exploring ways to create an automated, seamless approach to merchandising that could empower store managers and associates to manage their stores and shelf replenishment more efficiently and effectively.

The challenge was to consolidate data from various areas—for example, integrating existing point-of-sale (POS) and stockroom inventory systems with thresholds from planograms—and provide it to employees in a timely and useful way. Zellers sought to establish an integrated flow of sales and distribution data to better manage inventory and drive out costs. The goal was to decrease out-of-stocks on popular products while improving responsiveness to customers and increasing employee productivity.

Integrated. Automated. Real-time. A more effective approach to replenishment

Hbc and Zellers worked with technology partners, including IBM—with which it has had a strategic alliance since July 2000—to develop the Listed Inventory Database (LID) application. The application enables Zellers to track product sales in near real time and automates much of the replenishment process. The LID system consolidates sales and inventory information from POS and sales-event systems, as well as planogram capacity from across Zellers stores, into a centralized view that can be accessed by store managers and associates, executives and supply chain

personnel. It provides unprecedented visibility into the supply chain and helps Zellers identify when and where items will be required in individual stores. “Now the system automatically lets managers know twice a day what items are running low and provides pick lists for associates—which take into account shelf capacity and locations—so they can replenish shelves right away,” says Davenport. In addition to helping Zellers replenish items faster, the LID system also monitors what is selling, what is in the storeroom and what is coming from the distribution center to more accurately predict which products are likely to go out of stock—enabling Zellers to take preventive action.

The LID solution is based on a two-tier enterprise environment. At the store level, the IBM Data Integration Facility solution, a component of IBM Store Integration Framework—which is middleware that translates POS data so it can be used by other store systems—enables the real-time transfer of sales data from POS systems running the IBM 4690 operating system to the enterprise level. Because it supports open standards, Data Integration Facility software enables Zellers to integrate POS systems and the LID application with other key infrastructure components, including wireless devices from Symbol Technologies, a Cisco Systems 802.11b

infrastructure and Microsoft servers. “Data Integration Facility is a key behind-the-scenes piece of infrastructure,” says Davenport. “It really enabled my technology team to make LID work seamlessly so we could actually deliver it.” The LID solution has been rolled out to all Zellers locations, and Hbc is considering how it could use the solution in its other banner stores.

“In our IT department today, every dollar is important and it’s extremely vital that we create every efficiency that we can. IBM Data Integration Facility enabled us to build on our existing infrastructure to address a pressing need...It worked out well and we’ll be using it on other solutions as we move forward.”

—Gary Davenport, chief information officer,
Hudson’s Bay Company

The impact: stocked shelves, productive employees, reduced costs

Hbc estimates that the LID solution has reduced Zellers’ costs by approximately CA\$5 million per year, driving a rapid

return on investment (ROI). “The solution will pay for itself within a year,” says Davenport. More important, merchandise is more often in stock and on the shelves when customers shop with Zellers. “I hear directly from our store managers how much better filled shelves are. We also know our back-room inventories are a lot less, and we know where our total inventories are,” Davenport observes. And because employees are more productive as a result of accurate pick directions, the company can now have more employees on the floor to assist customers. According to Davenport, IBM Data Integration Facility software was a key component for integrating processes to optimize the flow of goods. “I don’t think this solution would be where it is today without IBM’s assistance,” says Davenport.

By minding the details and continually innovating processes, Zellers and parent company Hbc are once again cementing their leadership position in the latest era of retail—the on demand era. And according to Davenport, the LID solution has proven universally popular. Not only did it win the Best Corporate Systems award at the 2004 Retail Systems Awards, Zellers’ managers also love it. “And it’s the only time I got a hug from the CEO,” exclaims Davenport.

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