



JEFF JOHNSON

# Waste Not, Want Not

Patagonia champions inventory efficiencies as part of its dedication to sustainability

by SUSAN REDA, EDITOR

*"Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."*

Patagonia's mission statement is woven throughout every aspect of the business — from sourcing to manufacturing and from marketing to sustainability efforts.

For Amanda Koper, the notion of "cause no unnecessary harm" holds particular significance. Koper, senior director of global planning and merchandising, is responsible for overseeing all product forecasting and inventory allocation for the global outdoor apparel and accessories business.

"The more accurate we are at planning, the more efficient we are with the resources we're using," she says. "We don't want to over-forecast and

make products we can't sell. Managing inventory productivity across the board is the key to better margins and less waste throughout the supply chain. And it's in natural alignment with our mission statement."

## EXPOSING SHORTCOMINGS

Getting to the point where global demand planning could be achieved across a company that owns 32 stores in North America and 41 more worldwide (Japan is its second-largest retail market), a growing domestic and international wholesale business and an exploding e-commerce operation was no simple task.

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Like most retailers, Patagonia struggled with siloed forecasting and was hamstrung by a long-standing allegiance to Excel spreadsheets. The implementation of a new enterprise resource planning system brought the need for a revamped approach to planning into sharp focus.

"The ERP gave the company better visibility, but it also exposed some shortcomings," Koper says. "As a planning organization we've always been very lean, but ours is a complicated business. The need for us to have one platform that would provide visibility across Patagonia's global business quickly became an imperative."

After a year-long search for the right partner, Koper and her team signed on with 7thonline, a provider of cross-channel demand planning systems for the apparel, footwear and accessories industries. Deployed in the cloud, 7thonline gives Patagonia more effec-

tive planning, demand forecasting and inventory optimization.

“Patagonia may be a 42-year-old company, but they are as forward-thinking as any upstart,” says Louise Chazen, president of 7thonline. Noting that the company has doubled in size over the past six years and acknowledging that Patagonia gives equal weight to the idea of profitability and world improvement, Chazen believes feels their core principles mesh neatly with 7thonline’s objective.

“The understanding of total demand across all segments of distribution is

ment than expected, but we wanted to be sure we got everything right and that we were getting the full benefit of the software,” Koper says. “Instead of just marching toward a ‘go-live’ date and putting Band-Aids on problems with the intent to fix them later, we tackled anything and everything that came up.”

Among the sticking points were issues related to how data was being captured and stored in the company’s data warehouse. In addition, demand calculating practices that were set up 10 or 15 years earlier were challenged

much is old versus new, and making decisions with insight into inventory aging, because they are so conscious of inventory productivity.”

The second component is the assortment planning piece — otherwise referred to as the “bottoms up” approach. Using this tool, merchants plan inventory at the style, color and size level.

“With the top down global plans in hand, the merchant can see what they’re expected to achieve ... how many styles they should be buying, what’s the delivery by month and what’s the sales goal they should be hitting. Then they shift into style review and select the items they believe are the best suited to meet that plan,” Lentini says.

The final module of the planning system is the “open to buy.” Here, merchants can analyze current trends on a weekly basis and compare them to data that goes back about two years, thus enabling them to forecast future business with great accuracy.

## GLOBAL VIEW

How does that translate into action? Koper says that prior to using the 7thonline systems, “there was a lot of pulling data history to determine what was our number one color, what percentage of that style did we think would be sold in our number two color, etc.

“Now, we can rank the colors and the analytics pull from a wider breadth of data, giving us insight on the number one color for similar products and suggesting how much volume to anticipate,” she says. “The software blends the merchandising and the art side of things with analytics versus having to build it in an Excel template. We’re finding that there’s real financial strength in data.”

Looking specifically at the men’s rainwear category, Koper notes that Patagonia starts by determining the number of styles to buy, the quantity needed by month and the total quantity desirable to achieve a profit. Every region does



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critical to running a business that is efficient, effective and responsive — and, of course, as profitable as it can be.

“They were coming out of a spreadsheet environment and that has its limitations in terms of collaboration, visibility and one version of the truth,” Chazen says. “Once we started talking to them about the ability to maximize all factors of product, demand and customer reaction — globally, regardless of how the demand was coming into the company — the long-term value became clear.”

## INSIGHTFUL DECISIONS

Patagonia began the implementation in its U.S. wholesale division, spending close to a year on the initial rollout.

“It took us a bit longer to imple-

and re-engineered.

To date, the global assortment planning and merchandise financial planning modules have been rolled out across the U.S. wholesale division; Japan is up next, followed by Europe. Koper is committed to being 100 percent live globally by October.

Ben Lentini, vice president of planning solutions for 7thonline, describes the merchandise financial planning piece as “top down planning,” meaning the retailer uses the tools to try to understand demand from an attribute level, including product and location.

“Patagonia’s structure is based on category and class and they’ve recently begun to look closely at seasonal attributes,” he says. “They’re assessing inventory position based on how

its own plan, providing Koper with a global view. From there, the merchants step in — assorting the mix by style, color and size and factoring sourcing, design and financial objectives.

Of the analytics provided by 7thonline, a standout for Koper is the ability to plan for fluctuations in exchange rates.

“Being able to project future business with an understanding of what’s anticipated in the global economy is invaluable to us,” she says. “Using 7thonline analytics we’re able to run scenarios with exchange rates and build a plan based on how shifts could potentially affect our comp store sales and overall margins.”

Not to be overlooked, Koper says, is the global support provided by 7thonline. “Making sure our users around the world have someone they can call for support if something goes wrong can’t be underestimated.” Thinking

longer range, she knows that as the company expands into newer regions (Australia is up and coming, for example), 7thonline is prepared to scale with it.

### ASSETS MANAGED

While Koper is reluctant to offer precise financial benefits Patagonia has seen as a result of successfully devising and executing global merchandising strategies, she’s convinced that access to sophisticated forecasts and rich analytics has positively impacted nearly every aspect of the business.

“Having more accurate information and being able to communicate effectively across the business has allowed us to be a better partner to our vendors and wholesale dealers,” she says. “It has also enabled us to be more efficient at negotiating costs and managing the supply chain.”

Patagonia was on track to have

the most profitable year in its history in 2015, with expected sales of \$750 million, according to recently published reports speculating on the success of the closely held company. Profits have tripled since 2008 and the compound annual growth rate has been 14 percent.

Those returns were achieved despite Patagonia’s “Don’t buy this jacket” campaign, which launched in 2011 and urges customers to purchase less stuff and reuse what they already owned, and the company’s “if it’s broke, fix it” mantra that includes a lifetime repair guarantee.

“At the end of the day, inventory is one of our biggest assets — we buy and sell products,” Koper says. “To be able to manage that process more efficiently and serve a global customer — while doing the least amount of harm to the environment — is what it’s all about at Patagonia.” **STORES**