

Lucky Brand Optimizes Allocation and Store Fulfillment Using Advanced Analytics

How the fashion retailer earned better margins, increased services levels, and improved inventory turnover with Celect

“Everyone says lets use big data, but no one knows what to do with it. With Celect, we actually do know what to do with it.” - Mike Relich, COO, Lucky

Key Takeaways

- Lucky Brand leveraged Celect’s predictive analytics and machine learning to optimize the company’s’ retail inventories throughout the merchandise allocation and fulfillment processes.
- In doing so, Lucky Brand was able to meet its ROI goals and reduce the variance in margins between its top-performing and lesser-performing stores.

The Challenge

Over the years, Lucky Brand’s dedicated planning system morphed from a predictive tool to something more resembling a system of record, and many of the company’s allocation and fulfillment decisions were made using a traditional TY/LY comparison rather than data-driven forward forecasting. This led to several inefficiencies:

- **Allocations were an inexact science**
Lucky Brand used store groups to drive product buys—one for all stores, another for the top fifty, etc. While a decent rule of thumb, the process lacked an understanding of location-specific demand, and in many cases, lead to either surpluses (resulting in increased markdowns and lowered margins) or stock-outs (which meant disappointed customers and the loss of potential sales.)
- **Allocating one style at a time led to an incomplete picture of demand**
Lucky Brand’s allocation system, like most retail allocation systems, offered a line of styles for an employee to choose from, from which they would make calculations based on traditional metrics (weeks of supply or the latest three-week trend, for example) and allocate accordingly, repeating the process for each individual style.
The problem, however, was this allocation system lacked context. Styles were allocated in isolation, one at a time, without a comprehensive view of how they interacted with one another, increasing the potential for over-assortment.
- **Fulfillment processes were inefficient**
Lucky Brand fulfilled 40% of online orders by pulling the item from the closest stocked location without an eye to weeks of supply (WOS). That resulted in double shipping costs, and in some cases, removing merchandise from stores with high demand elasticity.
- **Inventory carrying costs were high**
Inventory carrying costs were Lucky Brand’s single biggest use of working capital. As a result, the company found that an unoptimized inventory had a significant adverse impact on its bottom line.

The Solutions

Lucky Brand chose to integrate Allocation Optimization and Fulfillment Optimization to improve the accuracy of the company's demand predictions and optimize its inventory:

Allocation Optimization to optimize available inventory and give proper depth

Fulfillment Optimization to intelligently leverage its store inventories to fulfill online orders without negatively impacting in-store inventories

The Approach

Lucky Brand had a wealth of historical data spread across multiple, and in some cases legacy, systems. After collecting and attributing all of it, they provided the data to Celect for ingestion. From there, Celect identified relevant data sets that could help in predicting how Lucky Brand should allocate inventory in order to meet localized demand and optimize its fulfillment approach to pull inventory from slow-turn stores and speed order delivery. Then, following feedback and testing, the Celect solutions were integrated into Lucky Brand's existing allocation system, giving the company one holistic source of data truth.

"What blew my mind was the adoption of the tool. Because I've been doing this a long time and most times, Systems always tell people it's going to take a twice as long, do half of you expect, and cost twice as much. But with Celect, that's not the case. I sat down with the Allocation team a couple of months after we implemented and they loved it. The adoption is great. It's compressed our training, and the UI is really, really intuitive." - Mike Relich, COO, Lucky

The Results

With Celect, Lucky Brand was able:

- Meet its ROI goals
- Leverage AI and ML to understand the location-specific demand of existing inventory to inform allocations
- View styles in context with one another and understand the complete picture of demand
- Decrease split shipping costs and avoiding pulling inventory from high-demand stores
- Reduce markdowns and increase turnover
- Decrease variance in margins between top-performing and bottom performing stores

"I've been in retail for thirty years. Everyone talks about store-specific assortments, but no one has been able to do it. The Celect tool, this is the first tool that I've seen where you can actually do it economically without an army of people." - Mike Relich, COO, Lucky

