

Guide

Essentials for Digital Fashion:

How SAP S/4HANA® Fashion and Retail can enable the new fashion model



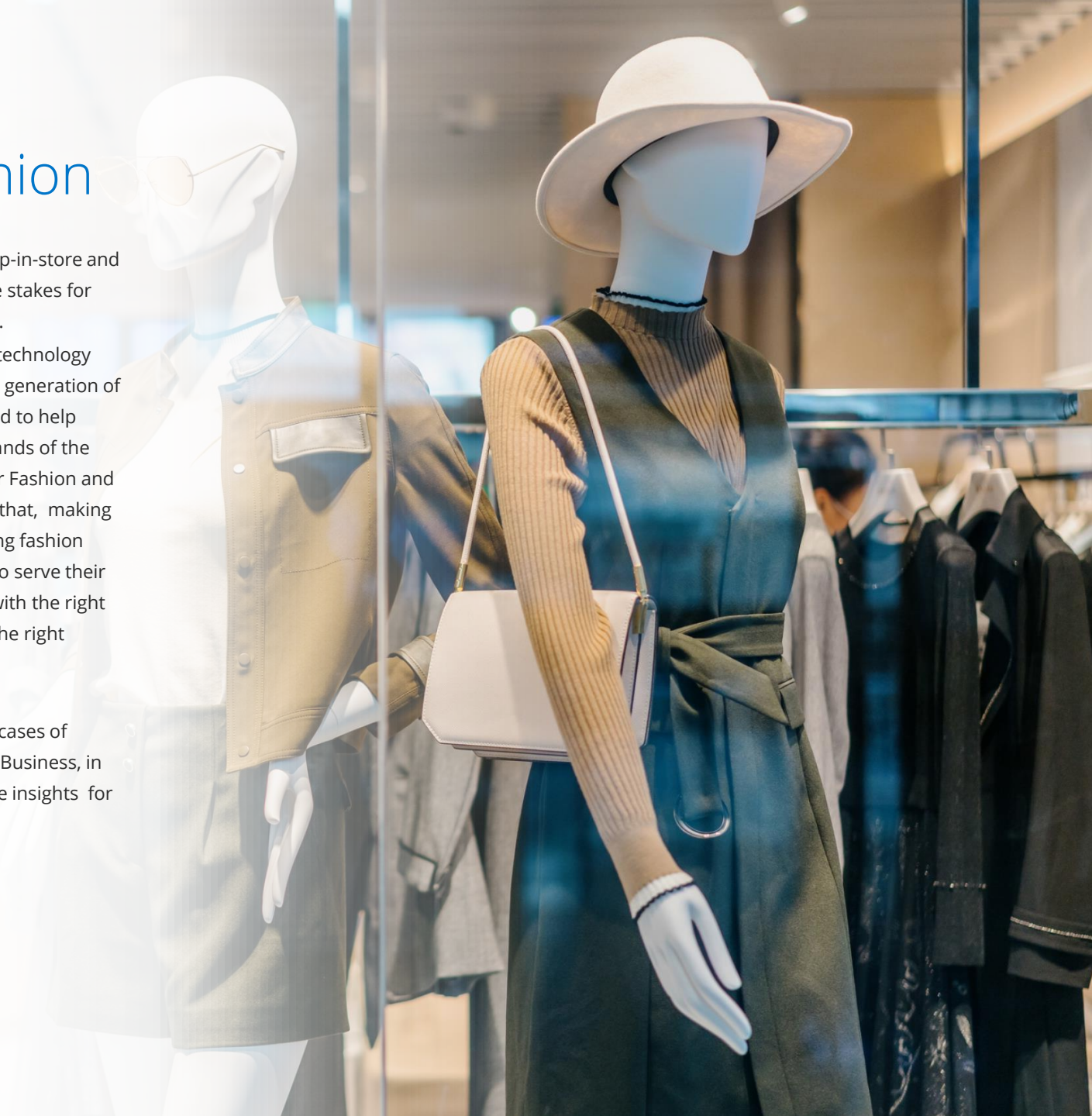
Omnichannel: Uncovering the Business Value of S/4HANA Fashion

For fashion retailers, digital acceleration remains a priority in 2023. The volume of digital interactions rose to unprecedented levels last year, setting in place a continued upward trend for digital engagements through 2021. However, it was not digital alone that surged last year. Omnichannel, with its mix of digital and store operations, also took center stage and is likely to remain a major force in retail. According to NPD, 34% of consumers reported using a buy online, pick up in store option since COVID-19 restrictions began, and 31% said they had used curbside pickup.

Latest reports show that consumers are likely to keep the behaviors they've adopted amid stay-at-home orders, such as more online shopping and fewer store visits. This means that retailers can no longer afford to be in a wait-and-see mode.

Features such as buy-online-pick-up-in-store and ship-from-store are absolute table stakes for fashion retailers in this new reality. As legacy ERP data structures and technology begin winding down, a whole new generation of technology is making way, designed to help fashion businesses meet the demands of the digital economy. SAP S/4HANA For Fashion and Vertical Business is an example of that, making significant progress towards helping fashion brands leverage new technology to serve their customers at any given moment with the right information, the right product, in the right location, and at the right price.

This guide will explore several use cases of S/4HANA for Fashion and Vertical Business, in providing enterprise-wide real-time insights for optimal omnichannel fulfillment.



Omnichannel Fulfillment & Returns

There are two sides of the supply chain: the “buy” side (getting products to stores and DCs), and the sell side” – getting products into customers’ hands. It used to be relatively straightforward, but this is no longer true due to the growing trend of omni-channel fulfillment. Now that most retailers are operating in multiple channels, inventory, fulfillment, and order management have become far more complex.

Traditional ERP

When orders reach a fashion company through multiple channels, it places an enormous burden on the business to effectively manage inventory and conduct simultaneous logistical operations through various channels.

For fashion brands with legacy systems, this burden becomes two-fold because each channel is designed in isolation from the requirements and processes of each other, which means no system provides true inventory visibility across channels in real time. This results in delays and errors – which ultimately leads to customer dissatisfaction.

In traditional ERP, brands will have to wait for days to move inventory from a web fulfillment center to satisfy demand at a retail site. While you wait, the likelihood of other companies taking your sale, or even your customer is inevitable.

To overcome this challenge, most brands have resorted to developing specialized software to achieve even a modest degree of visibility and control over processes across channels. However, this does little to address the challenge of achieving true inventory visibility and maintaining that visibility on a real-time or near real-time basis.



In the case of “buy online, pick up in store”, the following requirements are crucial to ensuring successful omni-channel fulfillment:

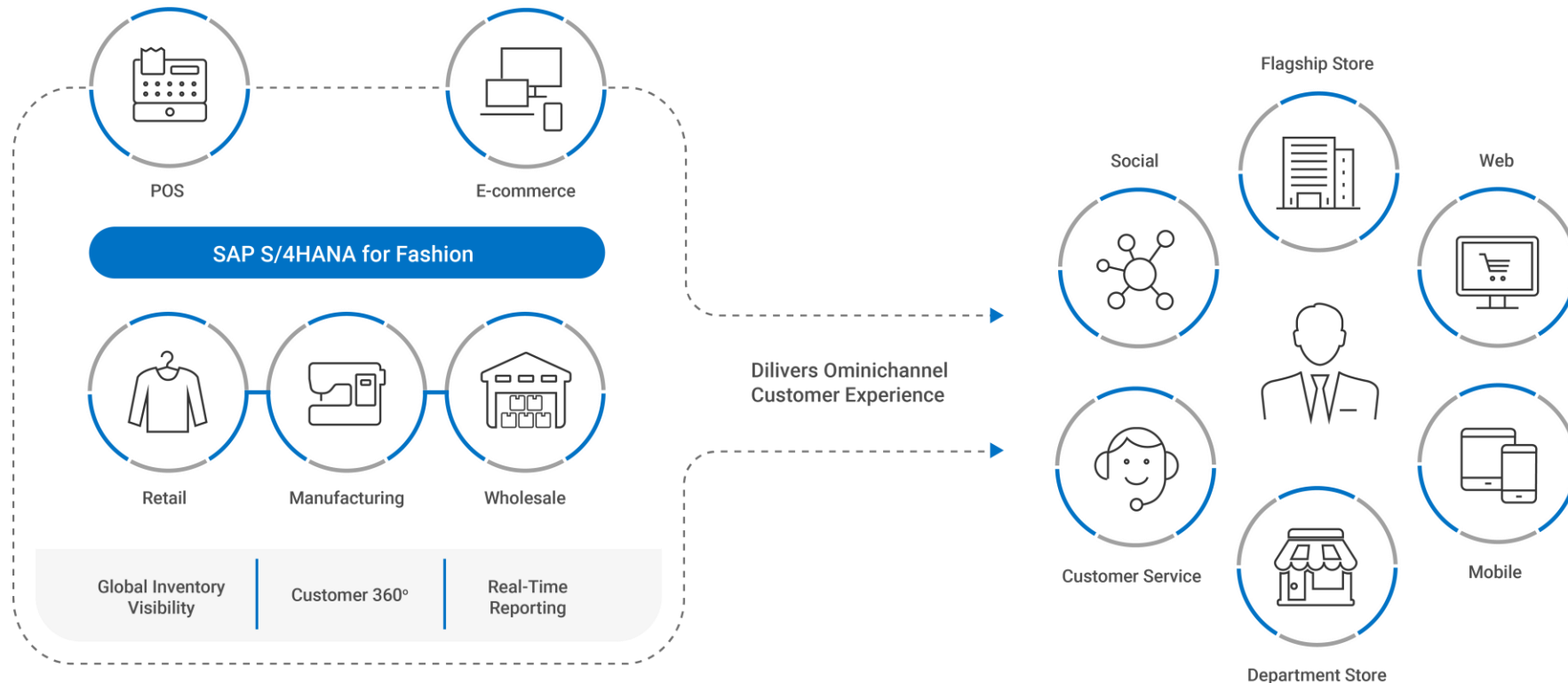
- Rapid coordination and decision-making are essential across e-commerce, supply chain, stores, planning, merchandising, and marketing.
- The e-commerce channel needs to know if inventory is available in the local store to offer to a customer.
- Stores need to successfully receive the order, reserve it for the customer, and provide great service when the customer comes to pick it up.
- Supply chain and planning need visibility into the movement of inventory, and marketing has to be involved to effectively up-sell/cross-sell to customers.



Digital ERP

A real-time unique view of inventory is the starting attribute that retailers need to put in place to achieve a more efficient and innovation-ready order orchestration. When ecommerce relies on this complete integration across warehouses, distribution centers, and the store network, retailers can unlock greater value, improve service levels, and reduce inventory costs.

Developed to overcome industry challenges, SAP S/4HANA Fashion leverages advances in technology to deliver a solution that helps fashion businesses with multiple sales channels to act as one – combining wholesale, retail, and manufacturing businesses. The underlying data model builds a customer-centric supply chain to support end-to-end common processes.



In addition to SAP S/4HANA for Fashion and Vertical Business, customers can benefit from a portfolio of solutions built around SAP S/4HANA, which connects front-office with back office, digital channels with brick and mortar, and transactional systems with consuming applications.

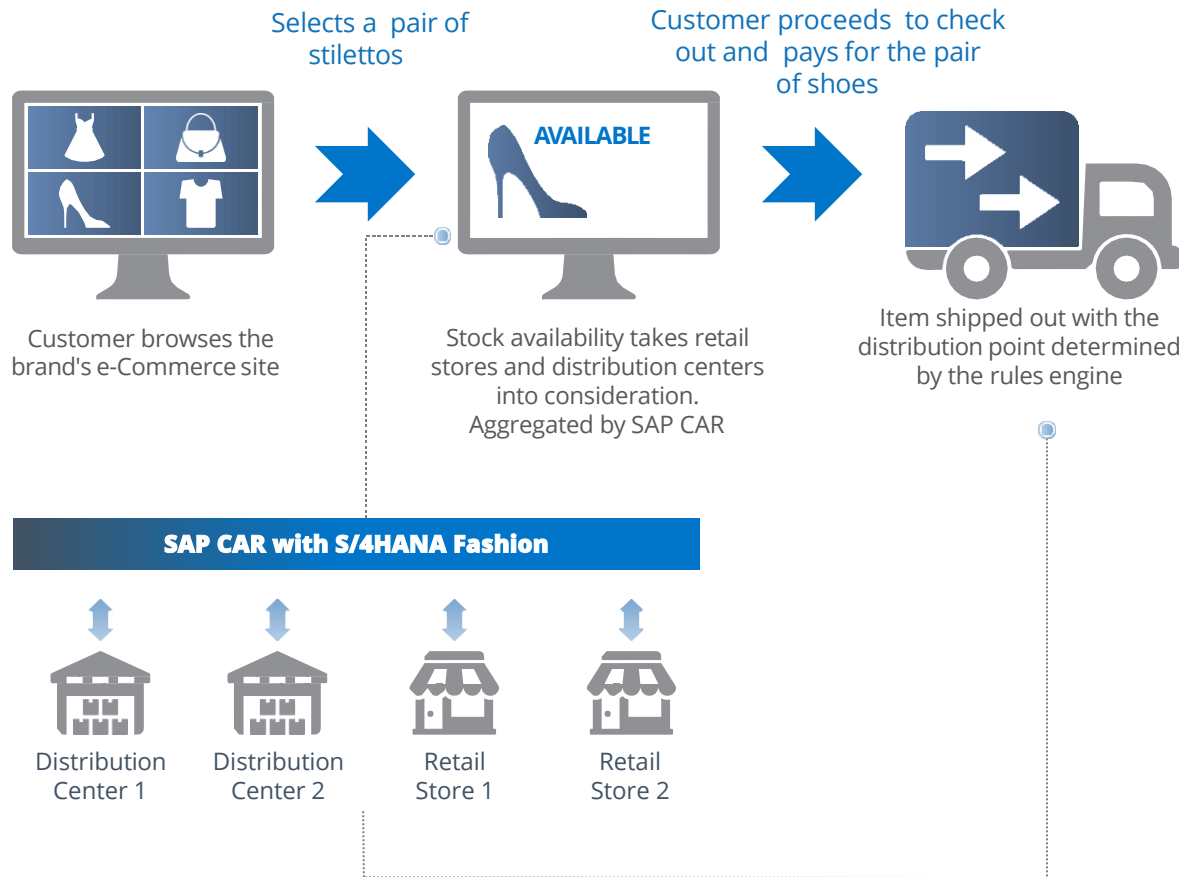
SAP Customer Activity Repository, for instance, provides real-time customer and business insight in one location. When integrated with S/4HANA Fashion, it helps drive compelling customer experiences by providing a centralized location for merchandising, assortment planning, allocation management, inventory information, and pricing.

As a result, fashion companies can retrieve stock levels in real-time across online and offline channels as well as fulfill cross-channel demand by intelligently sourcing inventory from the best locations - stores or warehouses. Inventory can be reserved and promised during the processing of customer orders, enabling brands to fulfill demand for their products from anywhere, thereby reducing stock-outs and missed revenue opportunities.

The following examples depict some common business scenarios made possible with S/4HANA Fashion in delivering a seamless omni-commerce experience for the customer and the fashion brand.

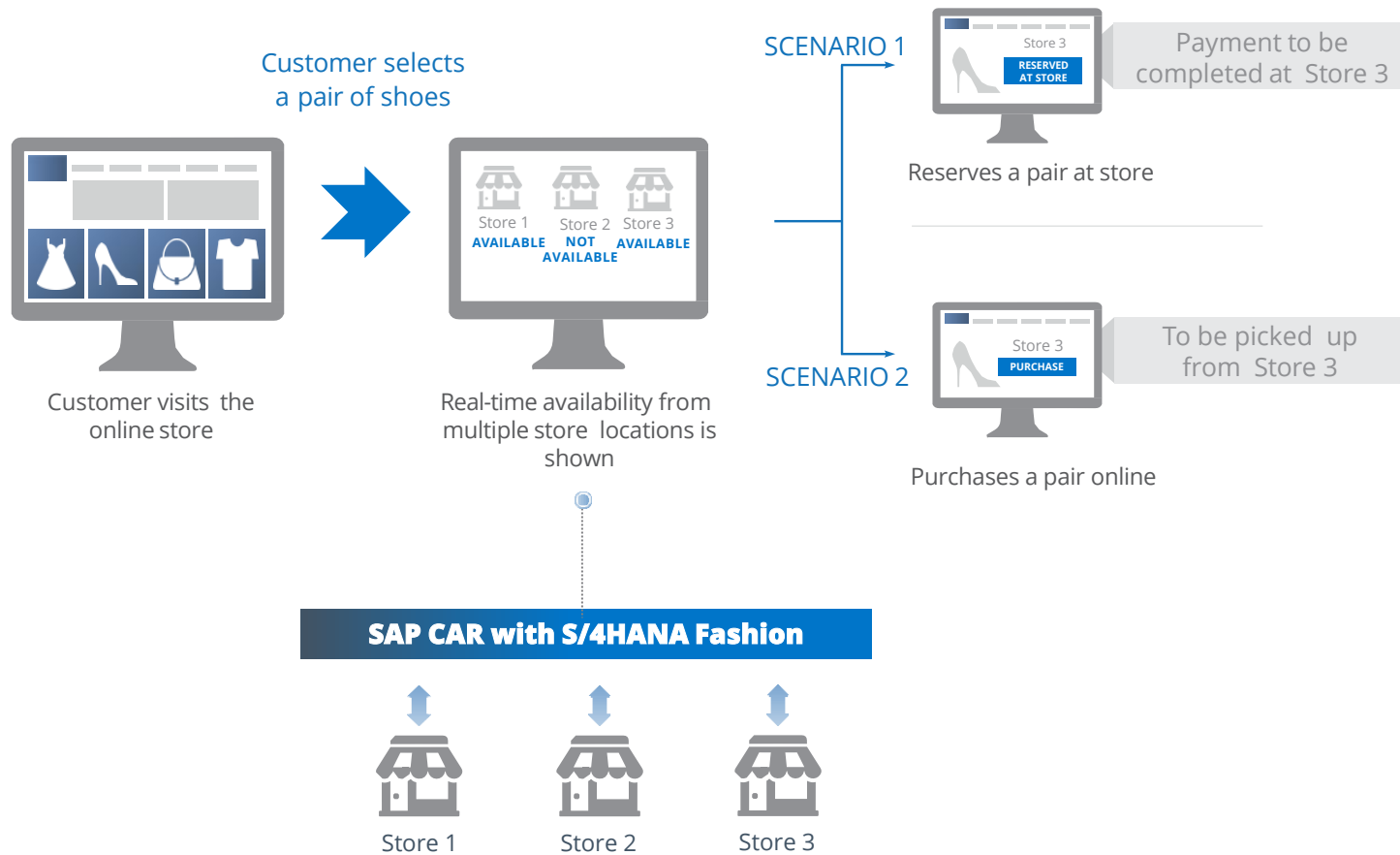


Orchestrate Customer Orders Using **Consolidated Inventory**



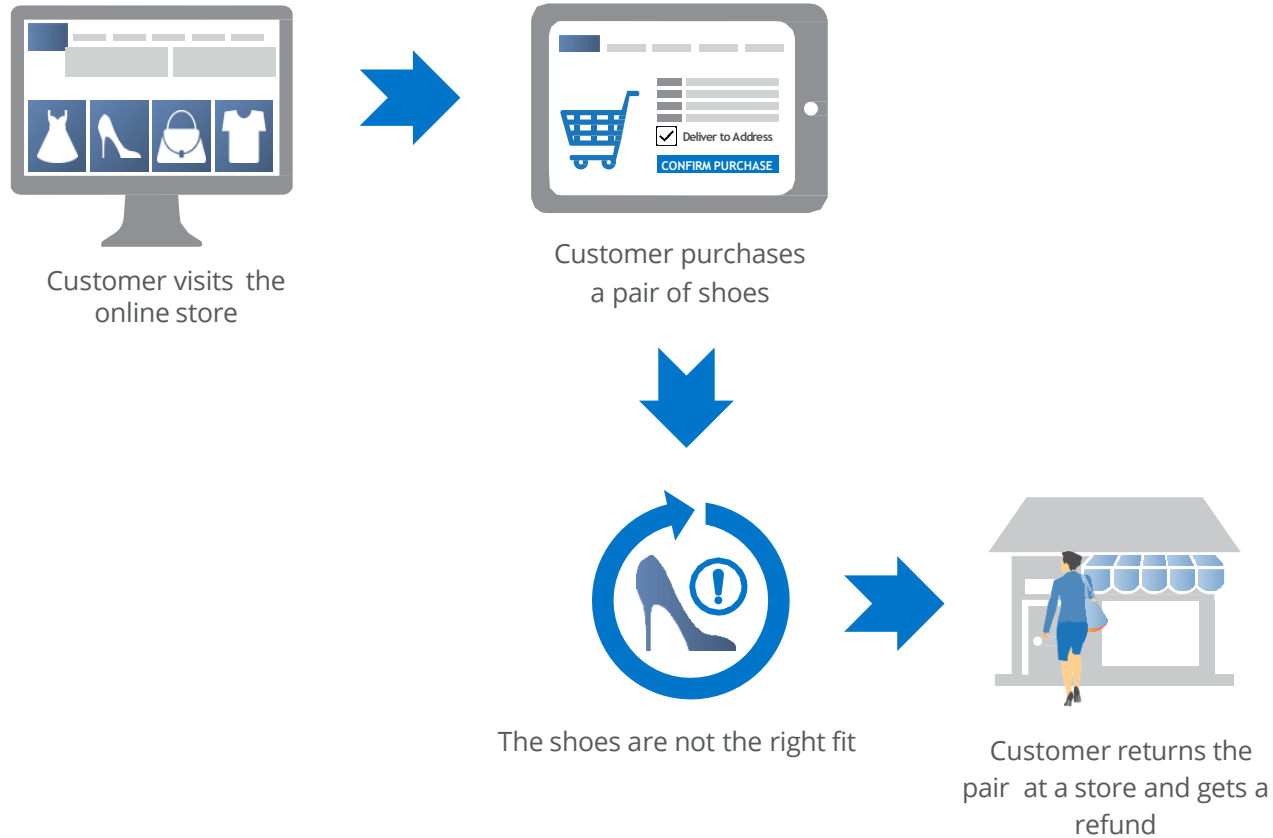
- ✓ Once the customer purchases the shoes, the dispatch point is selected by the Rules Engine, based on pre-determined criteria such as distance and freight costs.
- ✓ The system provides the customer with a seamless shopping experience and your business with an efficient delivery process.

Guide Customers Into Your Stores with **Click & Collect**



- ✓ In the online store, the customer is able to view the real-time stock levels of multiple store locations with the data aggregated in SAP CAR.
- ✓ The customer can select the preferred store (store 3), reserve the shoes during the online session, and complete the payment in-store.
- ✓ Alternatively, the customer can purchase the shoes online and collect them at the preferred physical store.

Facilitate Cross-Channel Returns



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- ✓ Alternatively, the customer can purchase the shoes online and collect them at the preferred physical store.

Inventory Planning

The growing number of products and locations a fashion company must manage places increased pressure on inventory planning. Making this even more complex are intricate fashion supply chains, which considerably slow down collaboration among teams responsible for ensuring stock reaches the right customer at the right time.

Traditional ERP

In traditional ERPs, inventory status is calculated overnight with multiple screens and transactions needed to analyze the stock situation – often involving cumbersome manual work, complex interactions between applications and non-transparent processes to assign orders to different channels.

This slow inventory update cycle leads to outdated information and compounded by the inability to address last-minute rescheduling, it affects several areas across the value chain. Ultimately, fashion companies suffer from revenue loss, customer dissatisfaction, and fulfillment issues due to the inability to promise accurate and reliable order dates.



Delivery commitments are likely to be cancelled/delayed due to inaccurate order dates.



Inability to manage business-critical exceptions results in slow resolution of order fulfillment issues with a risk of delayed delivery.



Outmoded processes result in increased lead times, procurement timings, error rates, supply shortages, and stock buffers.



Preference maybe given to low priority orders instead of high priority customer orders, following first-come, first-served basis approach

Digital ERP

The redesigned process provides real-time inventory visibility, dramatically improving on-time delivery for realistic fulfillment commitments and real-time order confirmations.



A new feature on S/4HANA Fashion, Advanced ATP provides a sophisticated order promising and confirmation process that allows users to check availability in real-time



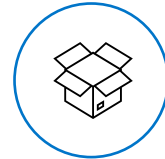
High-volume orders are processed faster with automated assignment and release processes to determine items ready for delivery



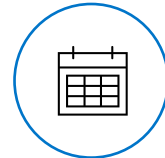
Aligned processes, order promising, order rescheduling, and assignment of stock to orders across channels eliminate commonly found inconsistencies



An intuitive user experience on any device provides a single consolidated source of truth to analyze inventory turnover and keep track of material flows, stock transfers, and purchase processes



Order fulfillment (supply assignment) across all channels including allocation of limited supply to multiple channels is done according to business rules for optimized stock usage.



Rescheduling enables fashion business to adapt to last-minute changes in customer orders or supply to ensure profitability



Back Order Processing can be completed easily via Fiori apps utilizing requirement classifications that help to identify and fulfill the most critical orders in a timely manner.

01. Stock Protection

Vertical fashion companies often sell through a multitude of channels. However, not all orders are placed at the same time. In such cases, fashion companies must ensure that the most important customers are served first.

Stock protection helps companies achieve this goal by protecting inventory for high-priority demand even if important sales orders are received late and low-priority orders precede them.

At the beginning of the season, a retailer may want to maintain maximum in-store inventory levels. If business rules are not in place, especially in a click-and-collect or ship from store situation and the last item of a particular style in-store has just been shipped out, the chances for in-store customer dissatisfaction are high. For this case, business rules can be used to optimize online order fulfillment directly from the nearest distribution center instead of the store.

E.g - A fashion company has multiple sales channels: Retail, e-commerce, and Wholesale. e-commerce is set as priority 1, Retail as priority 2, and Wholesale as priority 3 as below:

| Channel | Sequence | Planned Stock | Quantity for e-commerce |
|------------|----------|---------------|-------------------------|
| E-commerce | 1 | 1000 | |
| Wholesale | 2 | 1000 | 300 |
| Retail | 3 | 1000 | 200 |

In this example, if e-commerce does not have sufficient stocks, it can consume 300 units from wholesale and 200 units from retail to ensure demand from profitable channels is always met. Referred to as Horizontal Stock Protection, this protects channels from cannibalizing each other to keep the possibility of balancing stock for a more profitable outcome.

Fashion retailers can also use the same functionality to ensure stock protection for a channel or channel + customer combination, with business rules in place to ensure other channels cannot consume or poach its stock. This method referred to as Vertical Stock Protection protects stock for high-priority channels and is useful if you want to ensure the success of a critical sales channel, even if less important ones are repressed.



02. Backorder Processing

In traditional systems, conventional Available-to-Promise (ATP) is a function provided to help fashion businesses confirm order delivery dates based on actual supply chain and manufacturing resources. ATP provides this confirmation by analyzing data like warehouse stock, planned orders, and sales orders to ensure that future orders do not disrupt confirmed orders.

Although the approach was easy to use, the increased complexity in today's digital world requires more complex mechanisms, leaving conventional ATP insufficient. For example, availability checks were done on a first come first serve approach, which averted businesses from meeting their strategic priorities.

To cope with all these changes, Advanced Available-to-Promise (aATP) on SAP S/4HANA Fashion was introduced, allowing fashion companies to manage demand and supply intelligently.

With the newly revamped Back Order Processing (BOP) on SAP S/4HANA, fashion companies can check stock availability when the demand or supply situation in the order fulfillment process has changed and reconfirm if previously calculated confirmations for sales orders or stock transport orders are still realistic.

Back Order Processing on SAP S/4HANA for Fashion is done using five different predefined confirmation strategies (business rules) to minimize losses due to inventory stock-outs, protect customer interests, and ensure strategic customers always get served.

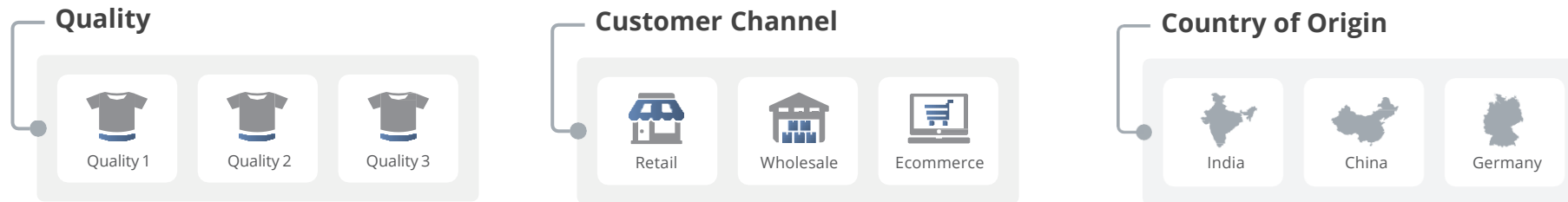
| | |
|---------------------|---|
| WIN | Shall be fully confirmed in time (the most important customer orders) |
| GAIN | Shall keep the confirmations and should gain if possible |
| REDISTRIBUTE | Might gain, might lose (orders that can lose confirmations) |
| FILL | Shall not gain anything, should keep confirmation, but may also lose (non-priority customer orders) |
| LOSE | Shall lose all confirmations (orders under credit block) |

E.g - A last-minute customer order is created for a very strategic customer. However, the stock has already been committed to another customer, belonging to a lower confirmation hierarchy. After executing the back-order processing, stock previously committed to sales orders with customers classified as REDISTRIBUTE, FILL and LOSE has shifted to the customer classified as WIN.

03. Demand and Supply Segmentation

To help fashion brands manage demand and supply better, Demand and Supply Segmentation on SAP S/4HANA Fashion is designed to categorize stock logically, based on specific criteria.

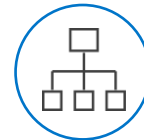
Using segmentation on SAP S/4HANA for Fashion, you can order materials of different quality levels, for different customer channels, and from different countries of origin. This way, you can easily manage supply with greater visibility into stock, separated by channels.



Some of the **key benefits include:**



Easily meet the unique requirements that are specific to the fashion industry



Leverage these characteristics during other processes such as order promising, order allocation, and other related processes.



Implement rules to segment stock with predefined logical characteristics such as retail or wholesale sales channels or physical characteristics such as quality grade or country of origin.

Minimizing Out of Stock and Lost Sales in the Store

One of the most frustrating experiences for a fashion consumer is when they are told that they can purchase a particular product in a given channel, only to later find all stocks of that item have been sold. For example, a customer checks a product online and visits the store to make the purchase only to find that online inventories are available, but in-store stocks have been cleared.

This need to intelligently source an out-of-stock product from another location becomes detrimental when it comes to managing the modern customer journey.

Traditional ERP

Traditional ERP systems are often static repositories of inventory information- recording the warehouse or store in which it resides, the location, and the quantity. What's missing is real-time visibility into both stored and work-in-process inventory across channels, the ability to quickly move inventory from one place to another as needed, and the ability to accurately report on inventory at a moment's notice. Manual inventory control is time-consuming, error-prone, and inaccurate.

Since legacy systems are closely tied to individual channels, locating an out-of-stock item somewhere else in the retail enterprise, and providing a potential customer with accurate, up-to-date information about where and how they can purchase it is nearly impossible – or would require a considerable degree of complex integrations and heavy degrees of customization. This poses an interesting challenge for many retailers who rely heavily on manual and tediously slow processes for checking inventory availability.

Recent years have shown advances in POS and other systems that give associates visibility into nearby stores' inventory. But, more often than not, even when the out-of-stock item can be found at an in-stock location, there is no effective process to confirm item availability and prompt the item to be reserved for the customer.

While piecemeal interventions at crucial points in back-end legacy systems have produced useful results for retailers to help manage out-of-stock across channels, these ERP systems lack the agility to seamlessly orchestrate multichannel orders and support the standardization of best practices. In fact, connecting siloed systems, and then syncing the data will not give fashion retailers the ideal response time to lead the market.

Digital ERP

With S/4HANA Fashion, you can control a single global pool of inventory by unifying retail, wholesale, and e-commerce. This helps to reduce stockouts and gain endless aisle capabilities while increasing customer service, inventory turns, and profitability.

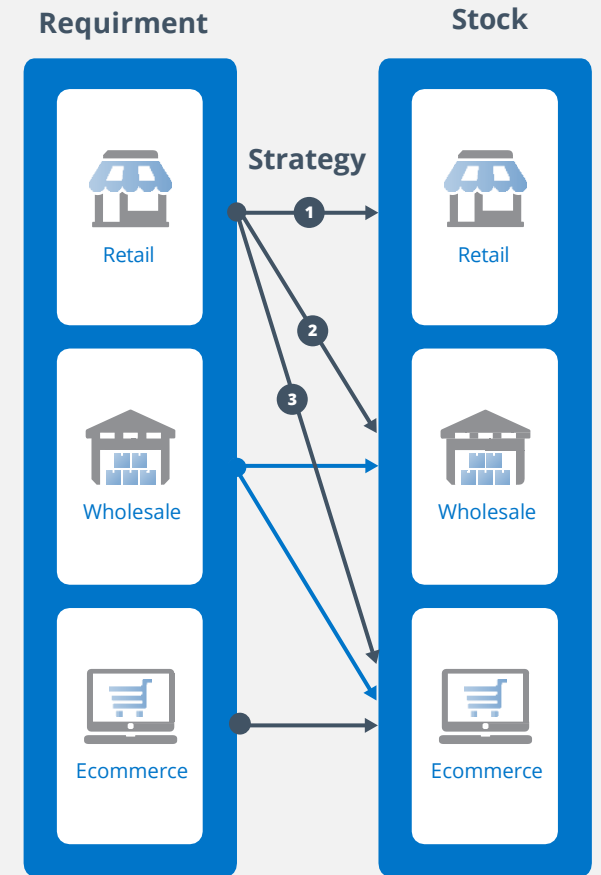
When integrated with an e-commerce solution such as SAP Hybris Commerce, and SAP Customer Activity Repository, the trifecta allows a fashion company to combine its B2B and B2C backend systems. Not only does this give the company a single view of its inventory, but it also allows a fashion company to run as a single business, rather than separate wholesale, e-commerce, and retail businesses.

When it comes to 'Save the Sale' and confronting an out-of-stock situation in stores, S/4HANA Fashion offers total inventory visibility to store associates to source items from any inventory pool, including inventory held for other channels.

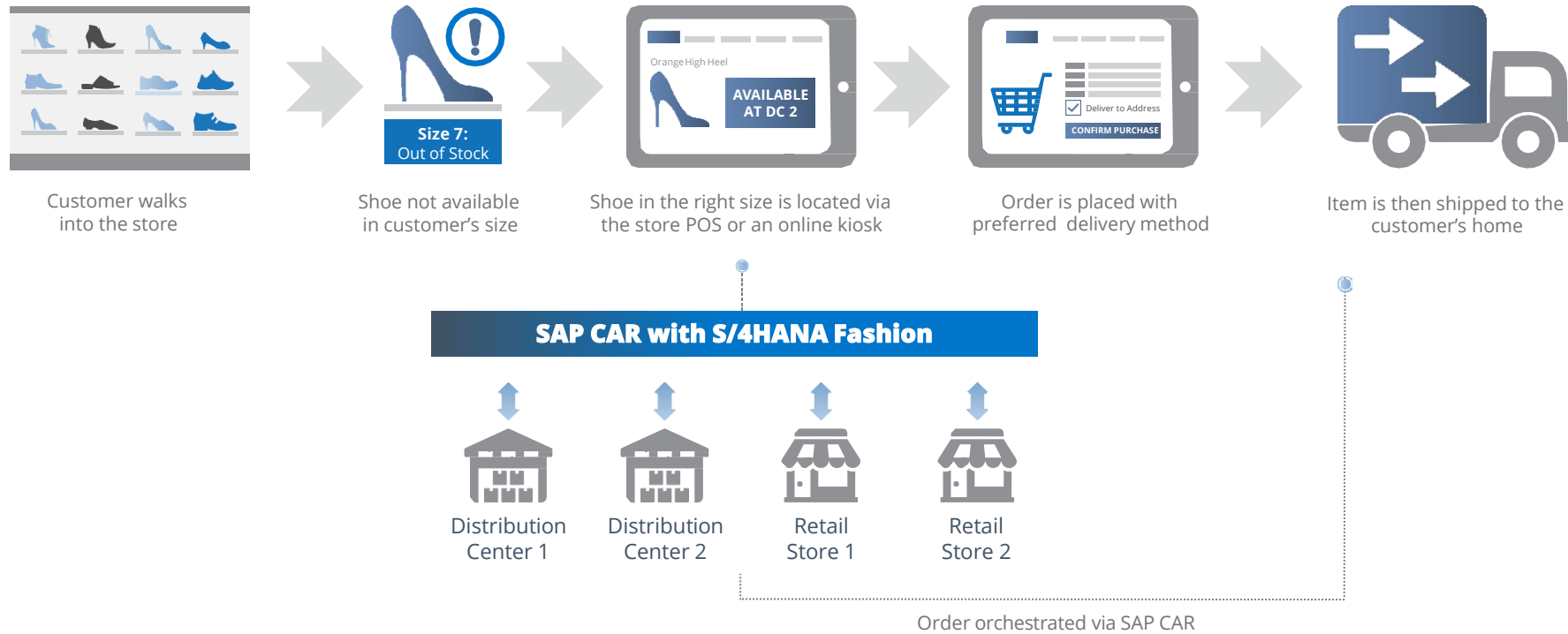
In so doing, fashion retailers can maintain adequate in-stock quantities while eliminating duplicate safety stock, which legacy systems held separately in each inventory pool that often resulted in excess safety stock.

In the following scenarios, in-built segmentation strategies in S/4HANA Fashion help separate inventory across each channel (retail, wholesale, and e-commerce), and cross-consumption tactics help retailers prioritize which channel can consume inventory from another in case of stock-outs - with stock protection in place to ensure items are always available for high priority orders/segments.

One of the key elements tying this all together is Rizing's order orchestration rules engine, which helps determine the most suited site for shipping to the customer - taking into consideration multiple factors such as geolocation.



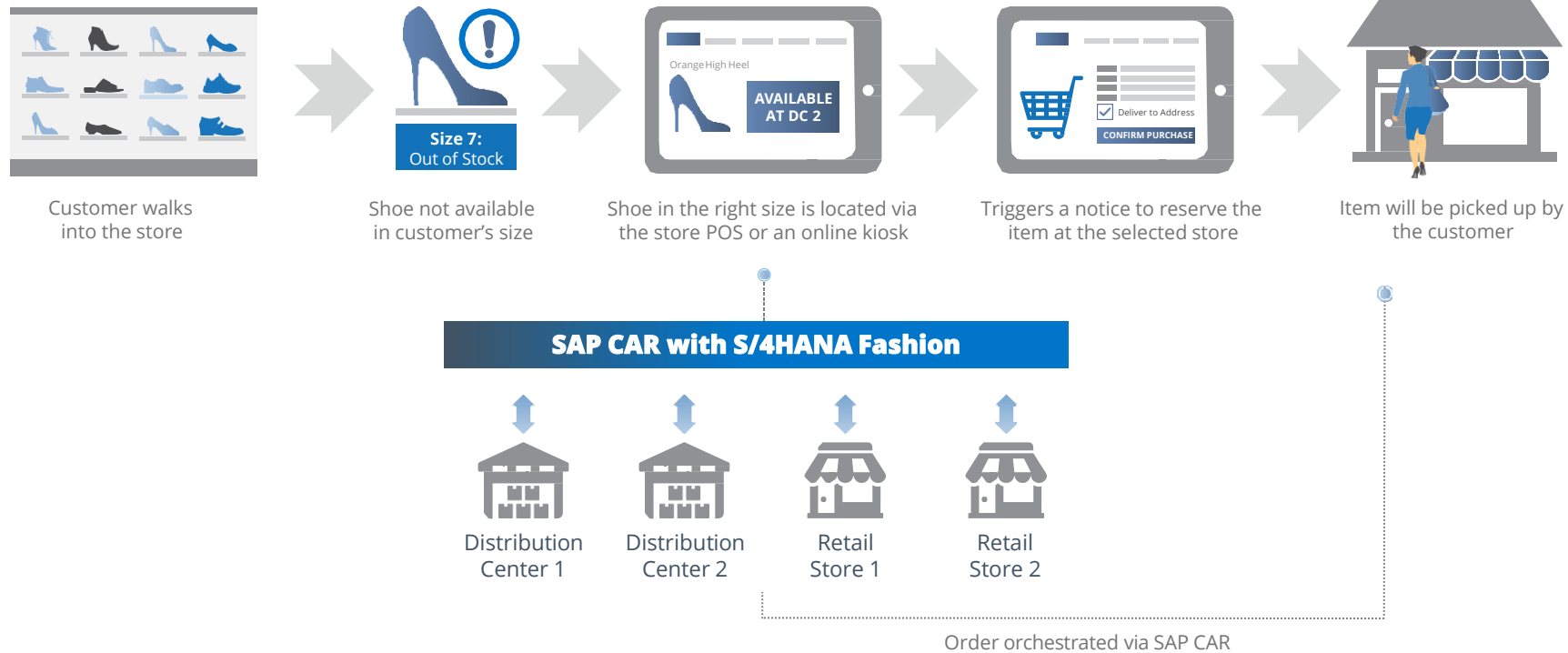
Save the sale - **from the DC**



✓ Store associates are provided with visibility into inventory.

✓ An in-store kiosk offers associates a convenient mechanism to capture orders for out-of-stock items in the store and trigger a notice to the warehouse, where the item is then shipped to the customer's home.

Save the sale—involving customer **pickup at other stores**



Store associates are provided with visibility into inventory.



Leveraging the in-store kiosk, the associate captures the order for the out-of-stock item and triggers a notice to the selected store to reserve the item.



The item will be picked up by the customer.

Conclusion: Why Act Now

Digital transformation has moved on from its initial hype to be a business priority. The fashion and retail industries have been very susceptible to changes driven by technology, evidenced by regularly occurring store closures and bankruptcies of companies that were slow to adapt.

On the flip side, it also resulted in a gold rush-like frenzy to implement digital initiatives and projects. But as some are finding out the hard way, many of these projects end up as false starts - mired in the complexities and limitations of the previous generation of ERP systems.

While the likes of IoT, AI, and chatbots hold great potential in digitization programs, what most businesses are realizing is the need to have a core that brings all its applications together and facilitates organic extensions to new technologies.

The sum of the real-world business scenarios discussed above showcases how SAP S/4HANA for Fashion offers an end-to-end solution for fashion companies to run live. These are not merely incremental improvements based on processes that have existed before, but transformational changes delivered to each department, unlocking the new value to the business. These examples show that by starting a business transformation project and renewing the ERP core with SAP S/4HANA - a company can safely plan for a significant transformation of its business while minimizing the risk.

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