Merchandise Planning Concepts
From Strategy to Execution

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Bob Schafer – Independent Consultant - Profile

Prior to becoming and independent consultant in 2007, Mr. Schafer spent over 15 years as a principal of MarketMAX, Inc., a Merchandise Intelligence Software Company, where he was largely responsible for leading the solution design and implementation teams, then with SAS Institute, the world’s leading provider of Business Analytics which acquired MarketMAX in 2003.

Selected Professional Experience

• Retailigent Solutions, LLC – Principal (2007 – Present)
  • Recent Client Engagements:
    • Belk Stores –
      • Implementation and on-going support of SAS Merchandise Planning
      • Consulted on the integration of SAS Size and Pack Optimization and Demand Forecasting
    • Academy Sports + Outdoors –
      • Implementation of SAS Merchandise and Assortment Planning.
      • Development and implementation of the Retailigent Cluster Management Utility
      • Development and Implementation of the Retailigent Planogram Sub-Clustering Utility
      • Consultant to the Business and IT Teams - Space Panning enterprise wide integration.
  
• Sr. Director - SAS Institute – Global Retail Practice (2003 – 2007)
PLANNING PROCESS OVERVIEW

Strategic Plan
STRATEGIC PLANNING

• Board Room Plan
• High Level Corporate Goals and Objectives
  • Multiple Years by Season
  • General Merchandise Areas
  • Channel Level
• Provide Guidance for the Seasonal Merchandise Plans
• Will drive all aspect of the organization
PLANNING PROCESS OVERVIEW
MERCHANDISE PLANNING

Strategic Plan

Merchandise Plan
• Corporate Merchandise Plan By Channel
  • By Season to Month or Week
  • By Department to Category or Class
  • By Company to Channel
• How can the Strategic Goals and Objectives be achieved
  • What needs to be done across the organization to support the plan?
    • Marketing, Store Operations, Purchasing, etc.
• Feedback to the Strategic Plan
  • Is the Strategic Plan Achievable?
• Corporate Merchandise Plan By Channel
  • By Season to Month or Week
  • By Department or Category or Class
  • By Channel to Location
    • Direct Channels may look at trading area groups
• How can the Merchandise Financial Plan be achieved
  • What needs to be done across the locations to support the plan?
  • What is the location specific competition landscape?
  • General support for the Allocation processes
• Feedback to the Merchandise Financial Plan
PLANNING PROCESS OVERVIEW
LOCALIZED ASSORTMENT PLANNING

- Strategic Plan
- Merchandise Plan
- Assortment Plan
ASSORTMENT PLANNING / MANAGEMENT
KEY ELEMENTS

• Master Assortment Plan
  • Based on Product Life Cycle to Month or week
  • By Category or Class to Item or SKU
  • By Company to Channel

• Cluster Based Assortment Plans
  • Conceptual Assortment Plans
  • Detailed item/SKU level Plans
    • By Cluster and Sub-Cluster

• Ad-hoc Analytical Plans – To Evaluate non-standard Scenarios
  • Ratio of Tops to Bottoms, etc

• Planning Structures/Approaches are driven by Merchandise
  • Traditional Hard goods
  • Traditional Apparel
  • Locally Supplied Merchandise (Grocery / Produce)
• Traditional Approaches
  • Sales Volume
    • Store sales - Traditional
    • Trading area sales – Becoming more important
  • Space Considerations
  • General Location Attributes
  • 3rd Party Location Groupings

• Analytical Clustering Criteria (Becoming more Popular)
  • Common Selling Patterns
  • Common Customer Profiles

• Number of Clusters depends on the Category and Situation
  • May need to organize and plan by Sub-Cluster (Groupings of clusters within the cluster set)
ASSORTMENT PLANNING TECHNIQUES

• Level of detail should be driven by the category
  • Hard goods categories should focus on Sales and inventory objectives to support a replenishment process
  • Apparel Categories traditionally focus on the buy plan to support the Merchandise Financial Plan or a Conceptual Assortment plan.

• Leverage the Consumer Decision Tree
  • Understand the “Switch Points” on the Decision tree
  • Cover all Branches of the Tree

• Understanding the Assortment Profile of each Cluster
  • Customer Profiles help drive the Breadth and depth of each Branch of the Consumer Decision Tree
• Analytical Forecasts can provide insights and assistance when projecting demand
  • The planner should have knowledge of the information available to the forecasting system when evaluating the results.

• Focus on the Decision Levels that you can control and leverage analytics to drive out details
  • Size Profiles can address the mix of sizes required for a give Style/Color within an apparel assortment

• Advanced Analytics and Predictive Models are providing Insights to assortment profiles that may not be visible within the traditional planning processes

Make sure that any Analytical Function is leveraged and consumable within the Business Process
As web-based and mobile sales activities grow, store specific sales may be impacted.

Various Indications of Web-based and mobile Sales:

- Stores as Showrooms
  - Need to understand store traffic changes
- May indicate Stores that should increase breadth and/or decrease depth of the assortment
- May indicate potential for a store to be a fulfillment Center (for specific items)
  - Ship from Store
  - Pick-up in Store
PLANNING PROCESS OVERVIEW
EXECUTION OF THE PLAN

- Strategic Plan
- Merchandise Plan
- Assortment Plan
- Execution Plan
EXECUTION PROCESSES

• Space Planning
  • Macro – Floor Layouts
    • Space allocations
    • Customer traffic patterns to set adjacencies, etc.
  • Planograms
    • General approach for Hard Goods and Grocery
      • Concept Planograms (suggest-o-grams)
        • Provide Guidance to the store personal
      • Sub-Cluster based on Fixture Configuration
        • Store Specific Presentation based on the actual fixture available in each store.
        • Primarily supporting the Replenishment Processes

• Assortment Management Processes
  • Support In-Season Adjustments (Limited “Minor Resets”)

• Open-To-Buy (OTB)
  • In-Season management for Apparel and Other Seasonal / Short Life-Cycle Merchandise
    • Primarily supported by Purchasing and Allocation Processes
    • Presentation Guidance to be provided to the Stores
PLANNING PROCESS OVERVIEW

Customer Focused Analysis

- Discover
- Data
- Deploy

Strategic Plan

Merchandise Plan

Assortment Plan

Execution Plan

Continuously Evaluate, React and Adjust
SELECTED BUSINESS BENEFIT EXAMPLES

• Inventory Management
  • Sunglass Hut Europe (Luxottica Retail) –
    • Reduced Inventory 17% during the first 6 months (July – December) – Focus on Managing Store Specific Assortments by establishing Class level Location Plans and Cluster based Assortment Plans integrated directly to the Purchase Order Management and Store Replenishment Systems

• Business Process and Coordination
  • Academy Sports + Outdoors –
    • Leveraging Consumer Decision Tree concepts and Store Clustering within the Assortment planning process to provide Localized Assortment.
    • Improve Coordination between Merchandise Planning and Space Planning (Planogramming) to support Store Clusters and Integrate Assortment Plan data with the Planogramming system.
• Reduced Markdowns:
  • **Belk Department Store** –
    • Leveraging Size Profiles to improve Purchasing, Allocation and Replenishment
    • Improved Open-To-Buy process to Maximize Vendor Markdown Allowances
  • **Academy Sports + Outdoors** –
    • Collaborative Assortment planning with the Vendors to improve Margins by increasing Vendor commitments and Allowances.

• **Supply Chain Coordination:**
  • **Levi Strauss & Co.** –
    • Collaborating with the retailers assortment plans to help drive manufacturing processes earlier in the process to improve the mix of styles and colors being produced.

• **Enhanced Demand Forecasting:**
  • **Family Dollar** –
    • Integration of Demand Forecasts with the Cluster based Assortment Plans to improve space allocations within the stores (10% - 15% improvement in forecast accuracy)
COMMON CHALLENGES

• Risk of Over-Complication of the User Process
  • Tendency to be too granular in the user process vs leveraging Analytics and focusing the users on the area they can make an impact.
  • You can execute localized assortments without the user planning each individual store.

• Assortment plans may be required in advance of the Merchandise plans
  • Lead times may require order commitment early in the process
  • Mitigation = Communication and planning to develop an initial Merchandise plan in advance of the primary Merchandise Planning process to provide general guidance with the best possible information available at that time.
Common Challenges

• Multiple vendors provide similar products in the various geographical areas.
  • Grocery stores receiving Dairy and other produce items from local suppliers
  • Mitigation = Establishing Conceptual Assortment plans at an “item” level vs the specific SKU and develop a store specific process to support the distinct items in each store
    • Great opportunity for tailored automation processes

• Determining the appropriate number of Clusters to drive assortment plans
  • Great area to leverage analytics.
  • What do you do when the number of required clusters is significant?
    • Planning by “Sub-Clusters” (logical groups of clusters) within multiple planning worksheets (Multi-Level Assortment planning)
KEYS TO ESTABLISHING A SUCCESSFUL PLANNING PROCESS

1. Plan to Plan
   - Document and Communicate the strategy and goals of each portion of the plan.
2. Establish a Corporate Calendar of events with the planning tasks included
3. User Training
   - Understanding the Metrics and the Key performance Indicators (KPI’s) and their relationships
   - How to leverage various analytical Techniques and inputs within the process
   - How to leverage the various planning Tools and applications
4. Ensure that senior executives are engaged and providing relevant input and guidance throughout the process
“Demand-driven analytic technology and process change is a necessity, not an option…”
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Questions?