MK 322 Retail Management
Chapter 12: Managing the Merchandise Planning Process Part I

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Merchandise Management Overview

The Buying Organization

- The highest classification level is the merchandise group.
- The organization chart has four merchandise groups

1. Women's apparel
2. Men's, children's and intimate apparel
3. Cosmetics,shoes,jewelry,and accessories
4. Home and kitchen

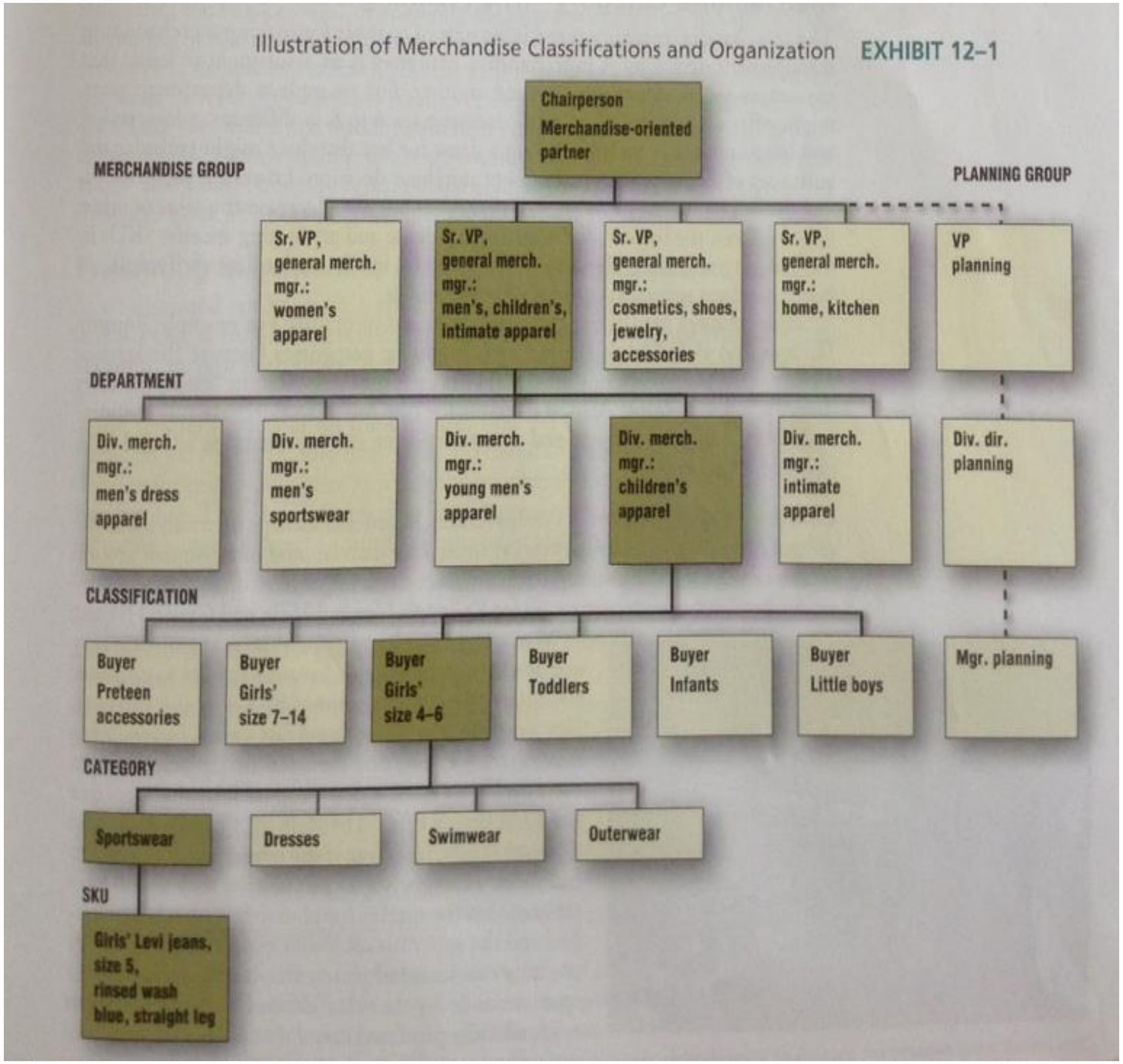
The Buying Organization

- Department is the second level in merchandise Classification and managed by division managers
- The classification is the third level and merchandising management activities

The Buying Organization

- A stock-keeping unit (SKU) is the smallest unit available for inventory control.
- In soft goods, SKU means a particular brand,size,color, style – for example a pair of size 5, rinsed wash, blue,straight-legged Levi jeans is a SKU

The Buying Organization



Merchandise Category –Planning Unit

- The merchandise category is the basic unit of analysis for making merchandise management decisions
- A merchandise category is an assortment of items that customers see as substitutes for one another

Merchandise Category –Planning Unit

For example, a department store might offer a variety of girl's dresses size 4 to 6 in different colors, styles and brand names

Merchandise Category –Planning Unit

- For example, a department store might offer a variety of girl's dresses size 4 to 6 in different colors, styles and brand names
- A mother buying a dress for her daughter might consider the entire set of dresses when making her purchase decision
- Lowering the price on one dress may increase the sales of that dress, but also decrease the sales on other dresses
- Thus the buyers' decisions about pricing and promoting specific SKUs in the category will affect the sales of other SKUs in the same category
- Typically a buyer manages several categories of merchandise

Merchandise Category –Planning Unit

- Category Management approach to managing merchandise assigns one buyer category to oversee all merchandising activities for the entire category

- Category Captain works with the retailer to develop a better understanding of consumer shopping behaviors, create assortments that satisfy the needs, and improve profitability of the merchandise category

Merchandise Category –Planning Unit

The chilled drink department consists of several categories.

Evaluating Merchandise Management Performance

- GMROI- A financial ratio that assesses a buyer's contribution to ROA is gross margin return on inventory investment
- It measures how many gross margin dollars are earned on every dollar of inventory investment made by the buyer
- GMROI combines gross margin percentage and sales-to-stock ratio, which is related to inventory turnover

Evaluating Merchandise Management Performance

- The reason sales-to-stock is used to calculate GMROI (instead of inventory) is the GMROI which is a type of return on investment measure, so the investment in inventory is expressed at cost
- Inventory turnover and sales-to-stock ratios are very similar in concept, but they are calculated slightly differently

Evaluating Merchandise Management Performance

$$\text{GMROI} = \text{Gross margin percentage} \times \text{Sales-to-stock ratio}$$

$$= \frac{\text{Gross margin}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Average inventory at cost}}$$

$$= \frac{\text{Gross margin}}{\text{Average inventory at cost}}$$

Evaluating Merchandise Management Performance

EXHIBIT 12–2
Illustration of GMROI

	Fresh Bakery Bread	Gourmet Canned Food
Sales	$1,000,000	200,000
Gross margin	200,000	100,000
Average inventory	100,000	50,000

$$\text{GMROI} = \frac{\text{Gross margin}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Average inventory}} = \frac{\text{Gross margin}}{\text{Average inventory}}$$

Fresh Bakery Bread

$$\text{GMROI} = \frac{200{,}000}{1{,}000{,}000} \times \frac{1{,}000{,}000}{100{,}000} = \frac{200{,}000}{100{,}000}$$

$$= 20\% \times 10 = 200\%$$

Gourmet Canned Food

$$\text{GMROI} = \frac{100{,}000}{200{,}000} \times \frac{200{,}000}{50{,}000} = \frac{100{,}000}{50{,}000}$$

$$= 50\% \times 4 = 200\%$$

Evaluating Merchandise Management Performance

supermarket wants to evaluate the performance of two categories: fresh bakery bread and gourmet canned food. If evaluated on gross margin percentage or sales alone, gourmet canned food is certainly the winner, with a 50 percent gross margin and sales of $300,000, compared with fresh bakery bread's gross margin of 1.33 percent and sales of $150,000. Yet gourmet canned food's sales-to-stock ratio is only 4, whereas fresh bakery bread has a sales-to-stock ratio of 150. Using GMROI, both categories achieve a GMROI of 200 percent and so are equal performers from an ROA perspective.

Evaluating Merchandise Management Performance

The bakery department in a supermarket typically has a high sales-to-stock ratio and a low gross margin.

Improving GMROI

- Two paths that buyers can take to increase GMROI is

1. Improve inventory turnover (sales-to-stock ratio)
2. Increase gross margin

Improving GMROI

How to improve inventory turnover (sales-to-stock ratio)?

1. Reduce number of SKU within a category
2. Keep the same number of SKU but reduce the backup stock for each SKU
3. Buy merchandise more often, but in smaller quantities
4. Increase sales but not increase inventory proportionally ie. Increase sales by reducing prices

Improving GMROI

- Increasing inventory turnover can have positive impact on sales by attracting more customer visits, improving sales associate morale, and providing more resources to take advantage of new buying opportunities

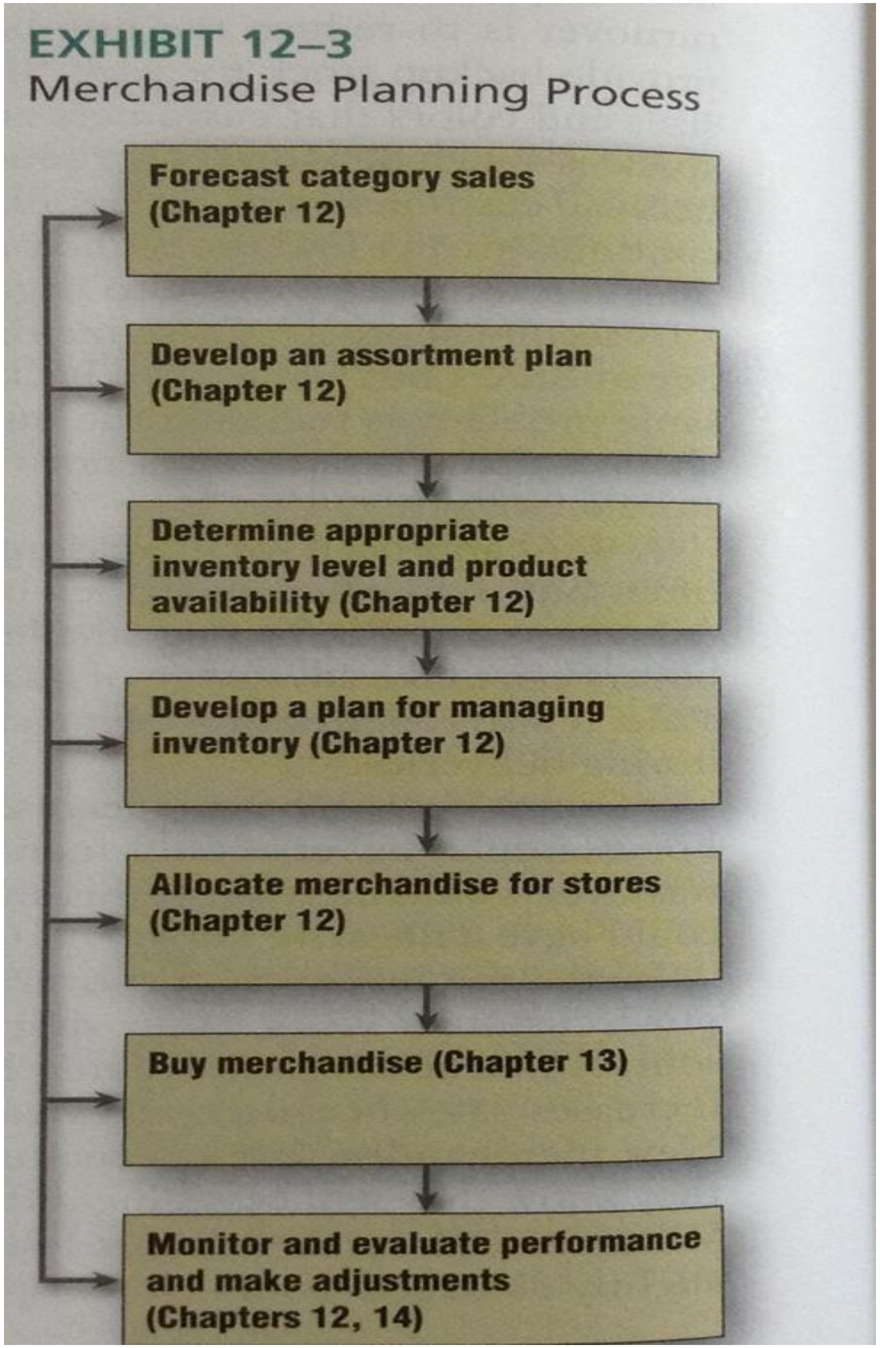
Improving GMROI

How to increase gross margin?

1. Increasing prices
2. Reducing cost of goods sold
3. Reducing customer discounts

Merchandise Planning Process

Merchandise Planning Process



Types of Merchandise Management Planning Systems

- Different merchandise planning systems for these categories

1. Staple – called basic merchandise that are in continuous demand ie. Most categories sold in supermarkets, white paint, copy paper, basic casual apparel such as T-shirts and men's underwear

- Demand for staple merchandise is very predictable, merchandise planning systems involve continuous replenishment

Types of Merchandise Management Planning Systems

2. Fashion merchandise- are in for a short period of time ie. Athletic shoes, tablets, smartphones, women's apparel

- Forecasting sales is more challenging

Types of Merchandise Management Planning Systems

3. Seasonal merchandise category consists of items whose sales fluctuate dramatically depending on the time of year ie.Halloween candy, Christmas ornaments, swimwear

- Retailers buy seasonal merchandise in the same manner as fashion merchandise


That's All Folks