




MK 322 Retail Management

Chapter 12: Managing the Merchandise Planning Process

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A sepia-toned photograph of a grand hotel entrance. The building features classical architectural elements like columns and arches. A prominent sign above the entrance reads "HOTEL". In the foreground, a taxi is parked on the street. The overall atmosphere is one of a classic, established establishment.

In the broadest terms, the retail industry involves **selling goods or services to customers through various channels of distribution with a view to turning a profit.** This makes it one of the world's oldest professions, with evidence of markets and stores stretching back to antiquity.

What is considered a retail industry?

Hospitality retail management reflects the feeling of familiarity and security that customers experience when they enter a hotel, pub, restaurant or other establishment and know what level of service and quality to expect, according to the Conrad Lashley book, "Hospitality Retail Management." In essence, **hospitality ...**



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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**

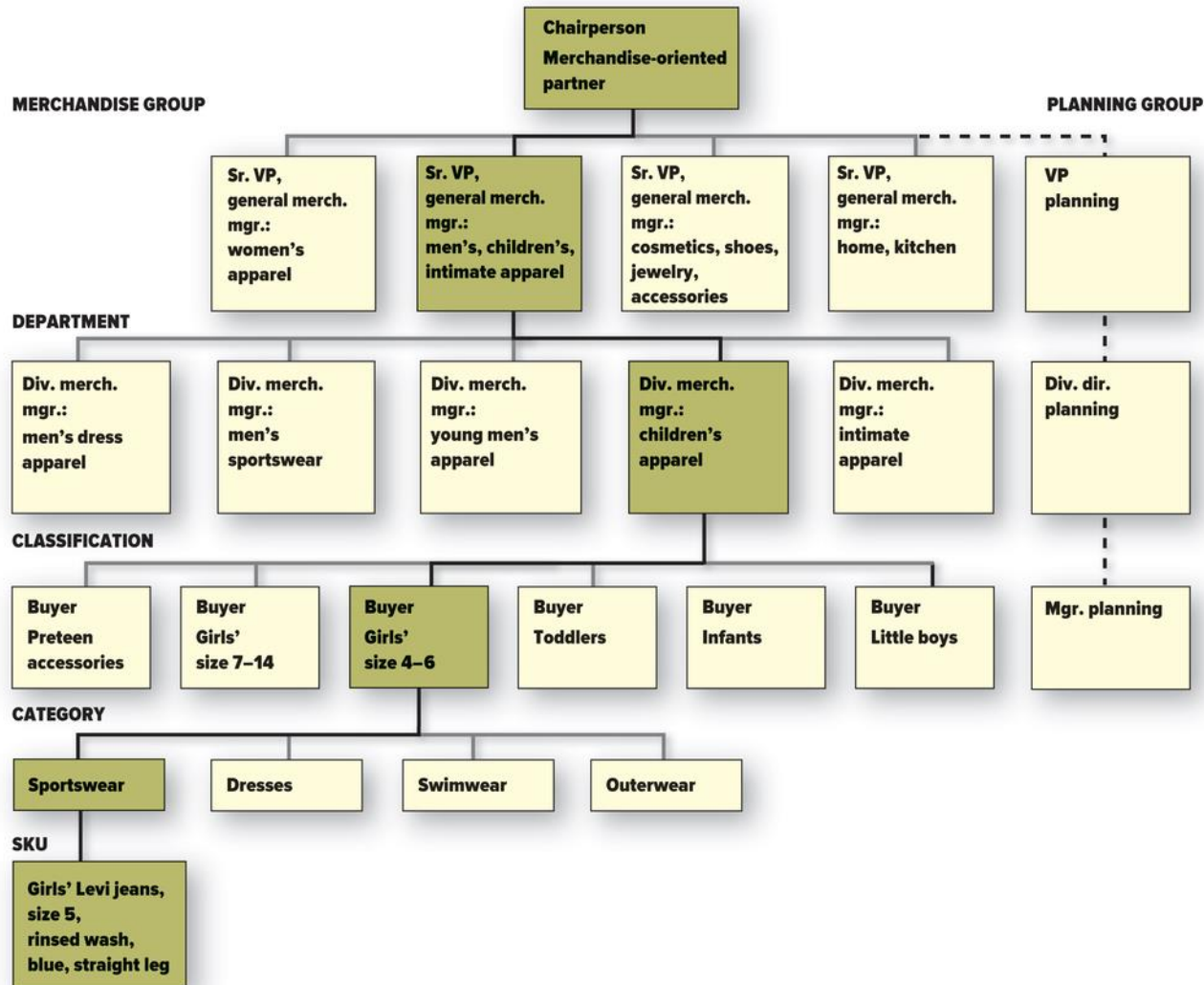


The Buying Organization

- 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

GMROI = Gross margin percentage x Sales-to-stock ratio

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

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

GMROI



Bread



Prepared Foods

Evaluating Merchandise Management Performance

Exhibit 12-2

12-16

Illustration of GMROI

		Bread		Prepared Foods		
		Gross margin	\$2,000	\$150,000	\$150,000	
		Sales	\$150,000	\$300,000	\$300,000	
		Average inventory	\$1,000	\$75,000	\$75,000	
GMROI	=	$\frac{\text{Gross margin}}{\text{Net sales}}$	×	$\frac{\text{Net sales}}{\text{Average inventory}}$	=	$\frac{\text{Gross margin}}{\text{Average inventory}}$
GMROI	=	$\frac{\$2,000}{\$150,000}$	×	$\frac{\$150,000}{\$1,000}$	=	$\frac{\$2,000}{\$1,000}$
	=	1.333%	×	150 times	=	200%
GMROI	=	$\frac{\$150,000}{\$300,000}$	×	$\frac{\$300,000}{\$75,000}$	=	$\frac{\$150,000}{\$75,000}$
	=	50%	×	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?

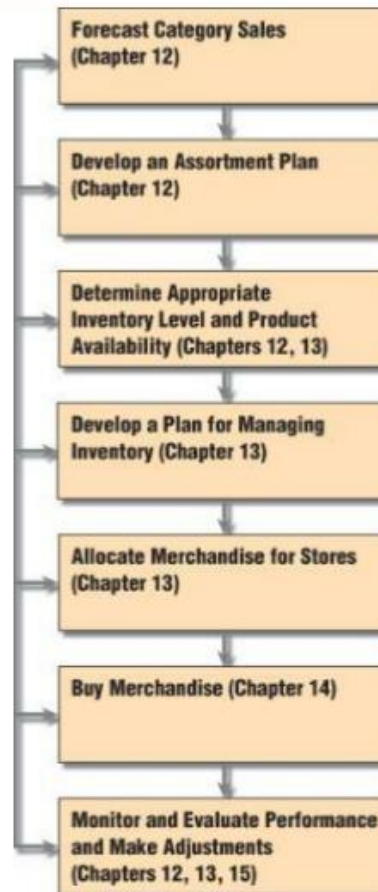
1. Increasing prices
2. Reducing cost of goods sold
3. Reducing customer discounts



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



Forecasting Category Sales



Forecasting Staple Merchandise

- Use of Historical Data- sales
- Adjustments for Controllable and Uncontrollable Factors



Forecasting Staple Merchandise

Controllable

- Opening and closing of stores
- Price set for merchandise in category
- Special promotions for category
- Pricing and promotions of complementary categories
- Placement of merchandise categories in store

Uncontrollable

- Weather
- General economic conditions
- Special Promotions
- New Product introductions by vendors,
- New product, pricing and promotion activities by competitors

Forecasting Fashion Merchandise Categories

- Challenging since need to place orders and commit to buying specific quantities between 3-6 months
- No opportunity to increase or decrease quantity ordered before selling season has ended
- Suppliers of popular merchandise usually have orders for for more merchandise than they can produce and excess inventory of unpopular items
- Some or all items are new or different from the previous season

Forecasting Fashion Merchandise Categories

- Forecasting
 1. Previous Sales Data
 2. Market Research (In-depth interview or focus group)
 3. Fashion Trend Services
 4. Vendors - have proprietary information about their marketing plans, ie.new product launches, special promotions, etc.

Sales Forecasting for Service Retailers

- Perishable in nature is very challenging -events, concert
- Match supply and demand by taking reservations and bookings

ie. Restaurants, reservations help in staffing



Developing an Assortment Plan



Category Variety and Assortment

- **Variety or breadth-** is the number of different merchandising subcategories
- **Assortment or Depth –** is the number of SKUs within a subcategory

Merchandise Offering

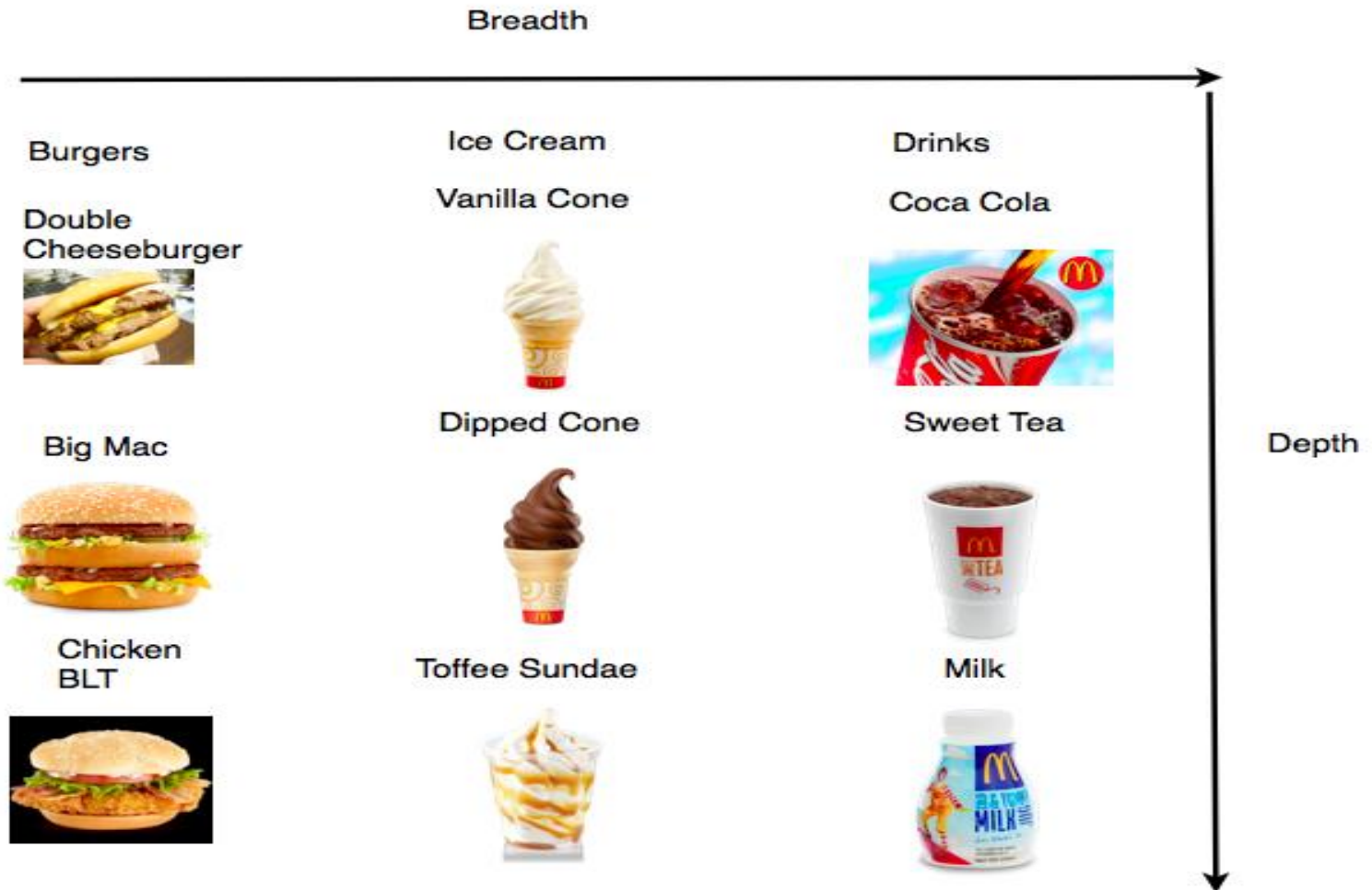
- **Variety (breadth of merchandise)**
The number of merchandise categories



- **Assortment (depth of merchandise)**
The number of items in a category (SKUs)



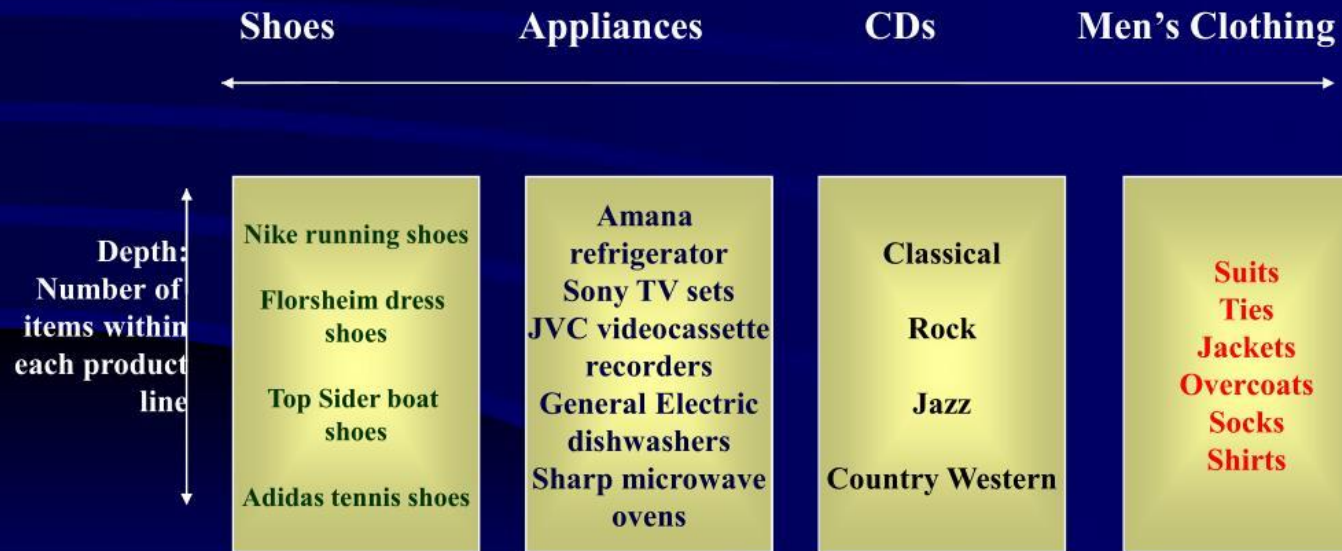
Category Variety and Assortment



Category Variety and Assortment

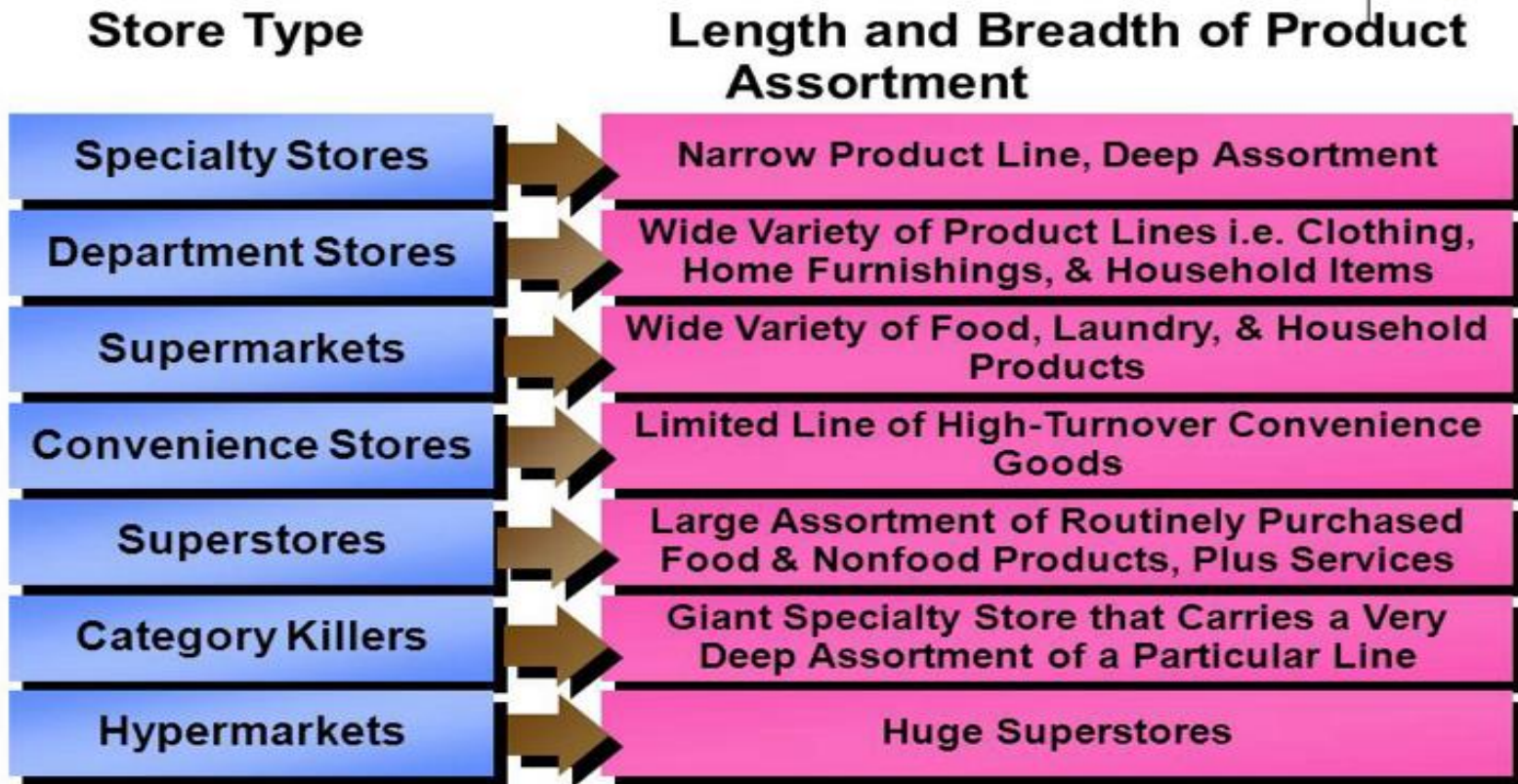
Breadth vs. Depth of Merchandise Lines

Breadth: Number of different product lines



Category Variety and Assortment

Breadth and Depth of product lines



Determining Variety and Assortment



- Editing the assortment is the process of determining the variety and assortment for a category

Determining Variety and Assortment

Exhibit 12-4

Assortment Plan for Girls' Jeans

Styles

T R A D I T I O N A L

Price levels	\$20	\$20	\$35	\$35	\$45	\$45
Fabric composition	Reg denim	Stone-washed	Reg denim	Stone-washed	Reg denim	Stone-washed
Colors	Light blue	Light blue	Light blue	Light blue	Light blue	Light blue

B O O T C U T

Price levels	\$25	\$25	\$40	\$40
Fabric composition	Reg denim	Stone-washed	Reg denim	Stone-washed
Colors	Light blue	Light blue	Light blue	Light blue
	Indigo	Indigo	Indigo	Indigo
	Black	Black	Black	Black

Determining Variety and Assortment

- **Retail strategy-** number of SKU
- **Assortments and GMROI**
- **Complementary Merchandise** – Blu-Ray player low GMROI, but may buy complementary products such as accessories, cables, etc
- **Effects of Assortment Size on buying behavior** – increases chance of finding goods, valued by providing more informative and stimulated shopping experience, appealing for customers who seek variety

Determining Variety and Assortment

- **Physical Characteristic of the store-** need to consider how much space to devote to a category
- **More space for large assortments, SKUs**
- To **display individual item** ie.furniture
- **Multichannel retailers have space limitations**, so they offer great assortment via internet or catalog channels



Determining Variety and Assortment



Determining Variety and Assortment



Determining Variety and Assortment



Setting Inventory and Product Availability Levels



Model Stock Plan

- The model stock plan is the number of each SKU in the assortment plan the buyer wants to have available for purchase in each store
- Retailers have model stock plans for different store sizes in a chain, classify their store as A,B, and C stores on basis of sales volume. C is stocked with basic assortment

Model Stock Plan

EXHIBIT 12-5
Model Stock Plan
for Girls' Jeans

LENGTH		SIZE								
		1	2	4	5	6	8	10	12	14
Short	%	2	4	7	6	8	5	7	4	2
	units	9	17	30	26	34	21	30	17	9
Medium	%	2	4	7	6	8	5	7	4	2
	units	9	17	30	26	34	21	30	17	9
Long	%	0	2	2	2	3	2	2	1	0
	units	0	9	9	9	12	9	9	4	0
Total 100%										
429 units										

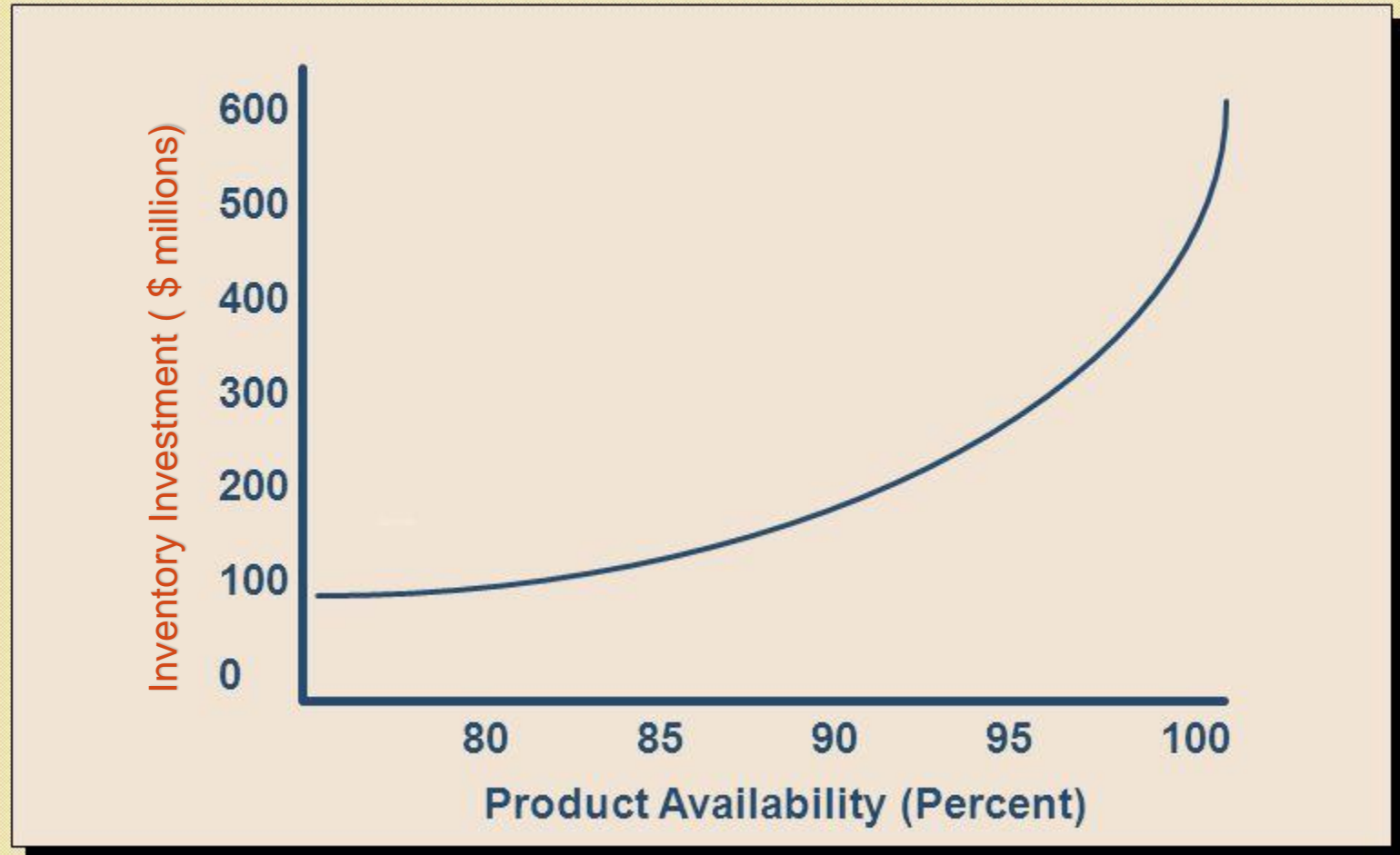


Product Availability

- The number of units of backup stock, also called buffer or safety stock in the model stock determines product availability
- Product Availability is defined as the percentage of the demand for a particular SKU that is satisfied – also called level of support or service level



Relationship between Inventory Investment and Product Availability





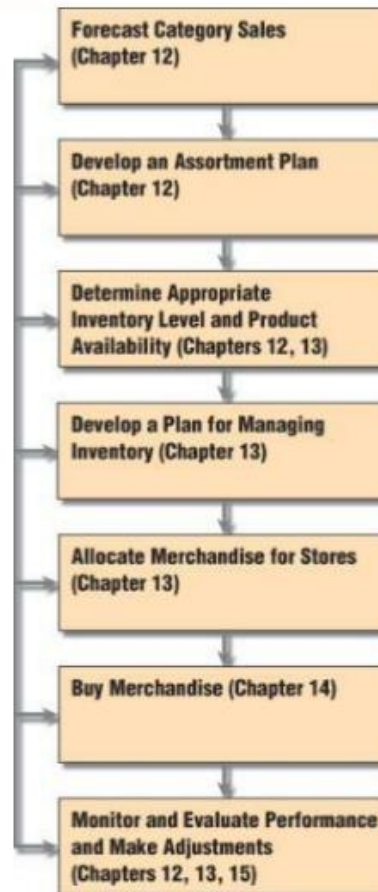
Day in the Life of a Retail Merchandiser

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Merchandise Planning Process





That's All Folks