

Merchandising and Category

Date: June 17 , 2012
Version: 1.2



Agenda

- Overview of Merchandise Management
- Overview of Category Management
- Merchandising Processes
- Supply Chain Management

Retailing Truism

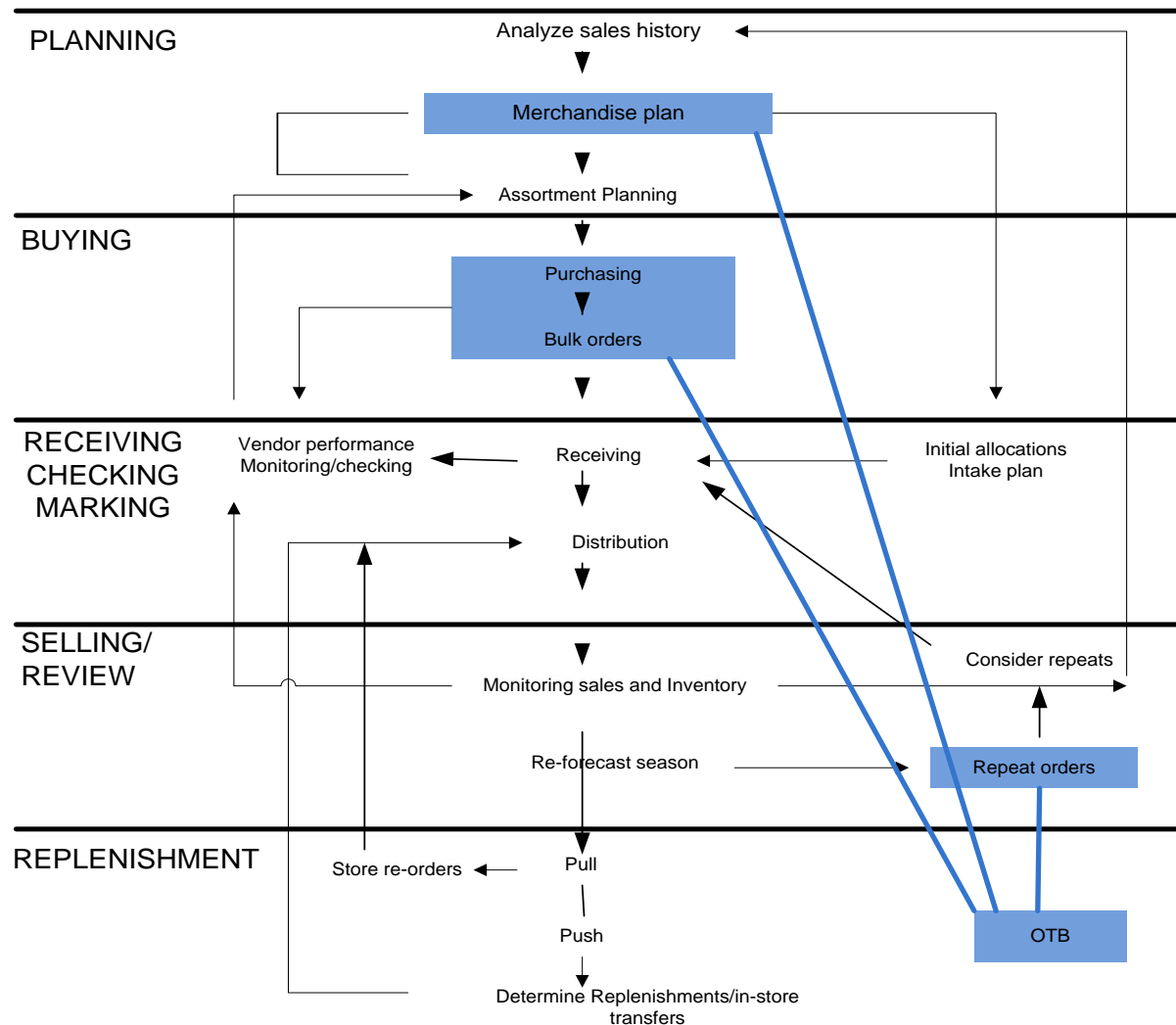
- *If a Retailer doesn't have the merchandise, there is nothing to promote and sell.*

Overview of Merchandise Management

- Merchandising management is the science of evaluating human behavior and buying habits in order to determine the best way to stock, display, and sell goods at retail stores.
- **It means offering**
 - the right product
 - at the right time
 - at the right price
 - with the right appeal !!

Merchandise Management Cycle

The chart below represents the activities that comprise the merchandise management "cycle".



Merchandise Management Functions

- **Planning**
- The Planning function defines the resources required to meet particular company sales objectives for a specific season. This includes the History analysis of previous season sales.
- Considerations in producing practical, balanced merchandise plans
 - Average retail prices
 - Sales
 - Expected margins
 - Planned markdowns
 - Inventory levels
 - Weeks of supply
 - Selling space



Merchandise Planning Objective

- Ensure that both the customer's merchandise needs and the retailer's financial requirements are satisfied by creating an acceptable **balance between merchandise inventories and sales**

Merchandise Planning

- **Involves those activities which are needed to ensure a balance between inventories and sales.**
- **Marketing the right merchandise at the right place at the right time in the right quantities at the right price.**
- **Management of the product component of the marketing mix.**

Why plan stock levels?

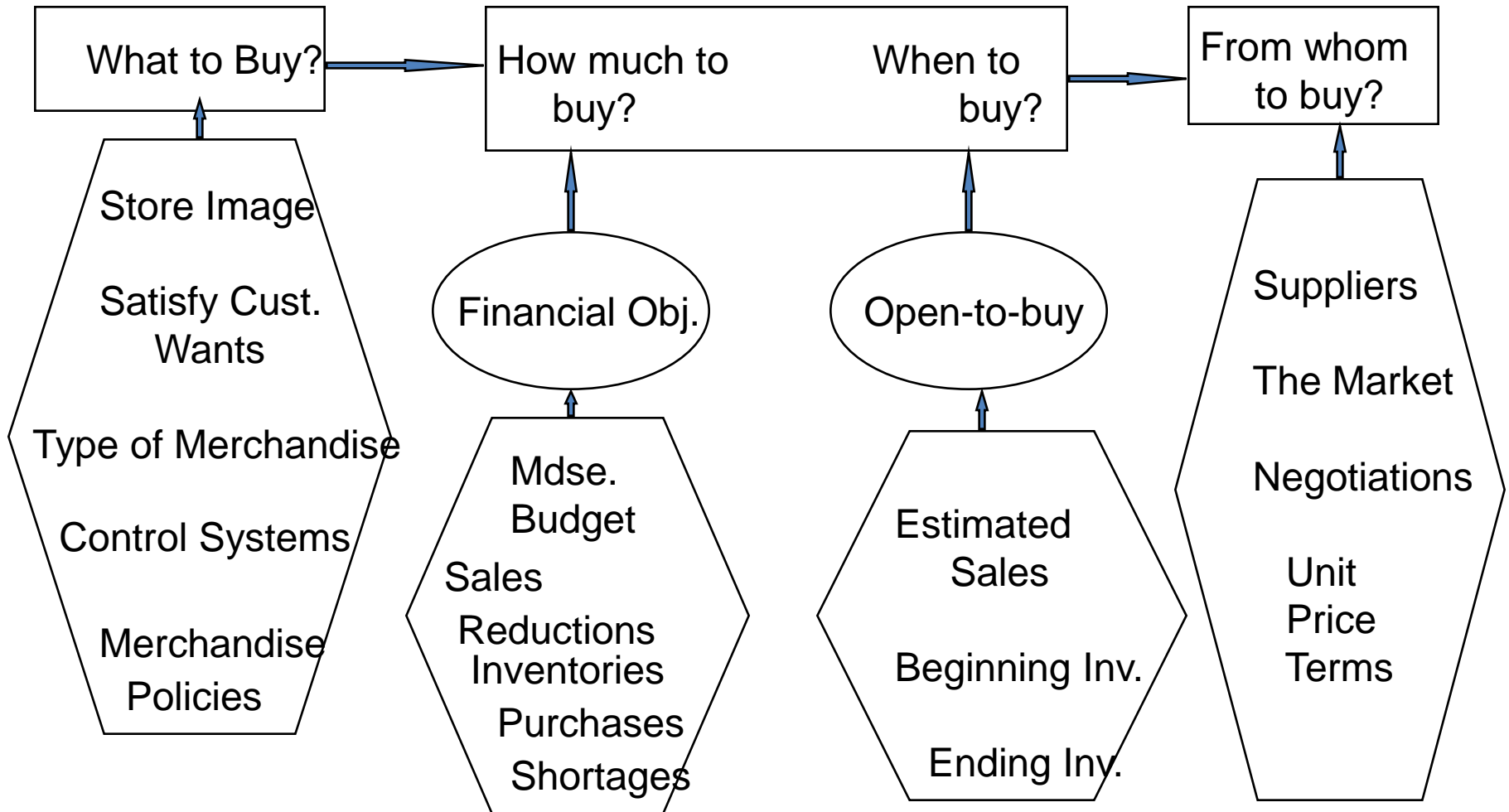
- Meet **sales expectations**
- Avoid **out-of-stock** conditions
- Guard against **overstock**
- Keep **inventory investment** at acceptable level

Merchandise Management Functions (Cont ..)

- **Buying**
- **Purchase Order**
 - SKU (Stock keeping unit)
 - Shipping methods(centralized/non centralized)
 - Discount terms
 - Cancellation dates.
- Orders placed by buyers can be broadly categorized as:
 - initial orders (new season merchandise)
 - re-orders (basic merchandise)
 - special orders (slow selling/non-standard items)



Buying Decision Process



Merchandise Budgeting

- Planning **Annual Sales**
- **Annual sales estimates**
 - time series
 - judgmental forecasting
- **Make monthly sales estimates**

Forecasting Sales

- **Staples:** demand year-round (appliances, hardware, etc.). Consider sales trends, profitability, quantity discounts
- **Seasonal Merchandise:** use past knowledge, info. from vendors, length of season, planned sales, selling price
- **Style and perishable** items

Merchandise Management Functions (Cont..)

- The key decision areas of buying
 - Product assortment/product mix (assortment planning).
 - Supply sourcing and contracts.
 - Buying methods - centralized/decentralized.
 - Brand policy, including own brand.
 - Spending control.
- Buyers normally use an open-to-buy system (OTB) to relate actual sales to purchases and merchandise plans in order to prevent over or under spending.

How much to order?

- **Lead time**: length of time between order placement and receipt of goods
- Importance of **safety or cushion stock**: protection against strikes, delays
- **Base or cycle stock**: amount sufficient to accomodate regular sales
- **Lead time + Safety stock + Basic stock = Inventory Level**

Example

- Al's Party Shop wants to maintain a 3-week supply of domestic beer in inventory and average sales of Miller Lite beer are 500 6-packs per week. The order point is 1500 (500×3 weeks). When inventory drops below 1500, more beer should be ordered.

Example cont'd.

- Suppose the order interval is 2 weeks. We must consider to include stock to maintain during the order interval and add to our order point -- in order to determine our order ceiling. **Order ceiling=Order point+Order interval sales.**

➤ $1500 + (500 \times 2) = 2500$

Example cont'd.

- We can then determine our order quantity by subtracting stock on hand from order ceiling.
 - $\text{Order Quantity} = \text{Order ceiling} - \text{stock on hand}$

Merchandise Management Functions (Cont..)

- **Receiving, checking and marking**
 - Each type of order will be **received** (usually at a central warehouse),
 - **checked** to ensure that the quantities and styles ordered by the buyer were shipped correctly
 - **marked** with the price and required point of sale information.
- **Vendor pre-ticketing and warehouse cross-docking** procedures can eliminate the need for human order verification and thus **speed the receiving process.**



Merchandise Management Functions (Cont..)

■ Selling

- The efforts of **planning, buying and distributing** come together in selling.
- The selling process starts with determining **where to put the merchandise in the store** and how to display it.
- Promotion management is an important element of driving sales.

- Customer Service: As competition for customer's business is extremely fierce, many retailers are focusing on customer service and using it as a selling tool and a competitive advantage.
- As customer become accustomed to better service, their tolerance for poor service lessens



Merchandise Management Functions (Cont..)

■ Review

- On an ongoing basis,
- The merchandiser monitors sales and inventory performance at store level against the initial plan
- Re-forecast
- Forecasting the need for additional inventory,
- Adjust or Cancel pending future months' orders based on the business condition.

■ Decisions to revise, change or cancel will affect:

- Allocations
- Store re-orders
- Replenishment levels
- Markdowns
- Promotions
- Inventory transfers



Merchandise Management Functions (Cont..)

■ Replenishment

- Replenishment is the process of organizing the supply of new inventory to the stores to replace the items that have been sold.
- Replenishment decisions may be made at store level or at the corporate level
- Replenishment allows reaction to actual sales and inventory trends as opposed to planned sales.



Overview of Category Management

- Categories as strategic business units
- Move away from micro-managing at the brand or SKU level.
- A category is an assortment of merchandise that the customer sees as reasonable substitutes for each other.
- Examples of categories are laundry detergents, breakfast cereals, boys action toys and women's jeans.
- Category management is the control of all aspects of the retailing process for a category.
- This includes buying, promotions, planning, pricing, advertising and space management .

Overview of Category Management (Cont..)

- Two essential factors in order to implement Category management :-
 - Buying and merchandising functions, including assortment, pricing, promotions, space management and inventory replenishment must be integrated under, and managed by, individual category managers.
 - Category managers must be given the freedom and authority to manage their categories like small businesses within a larger framework.
- The category managers will develop strategic plans, oversee the implementation, evaluate progress and make appropriate adjustments.
- They will be totally responsible for the results.

Category Management

- The five stages of Category Management
- **Reviewing The category**
 - In-store data,
 - Third party analysis
 - Manufacturers' expertise.
 - Past History
- **Targeting consumers**
- This can be identified by factors such as:
 - Income
 - Education level,
 - occupation
 - Number of children
 - Home ownership
- Once the main groups of target consumers have been identified, a strategy must be decided upon for each group.

Category Management (Cont..)

- **Planning and Merchandising**
- This stage involves the creation of a strategic marketing and financial plan for achieving sales and profit goals within the category, based on its strategic role within the company.
- Profit Goals
 - Sales volumes
 - profit
 - market share
 - inventory turns

Category Management (Cont..)

- **Implementing The Strategy**
- After planning the merchandising strategy it must be communicated to store managers and store employees.
- Some aspects that need to be ensured for the implementation to succeed include:
 - Discontinued items are marked down to hasten sell-through and then removal from the shelves.
 - Additional approved items are ordered and added to store stock.
 - Promotions are handled and communicated properly.
 - The pricing strategy is implemented.
 - Shelf space allocations are revised and planograms are sent to the stores.

Category Management (Cont..)

- **Evaluating results**
- Rapid, comprehensive and accurate data analysis is critical at this stage.
- It allows the category manager to react quickly to unforeseen challenges or opportunities in the market place.

Merchandise Assortment

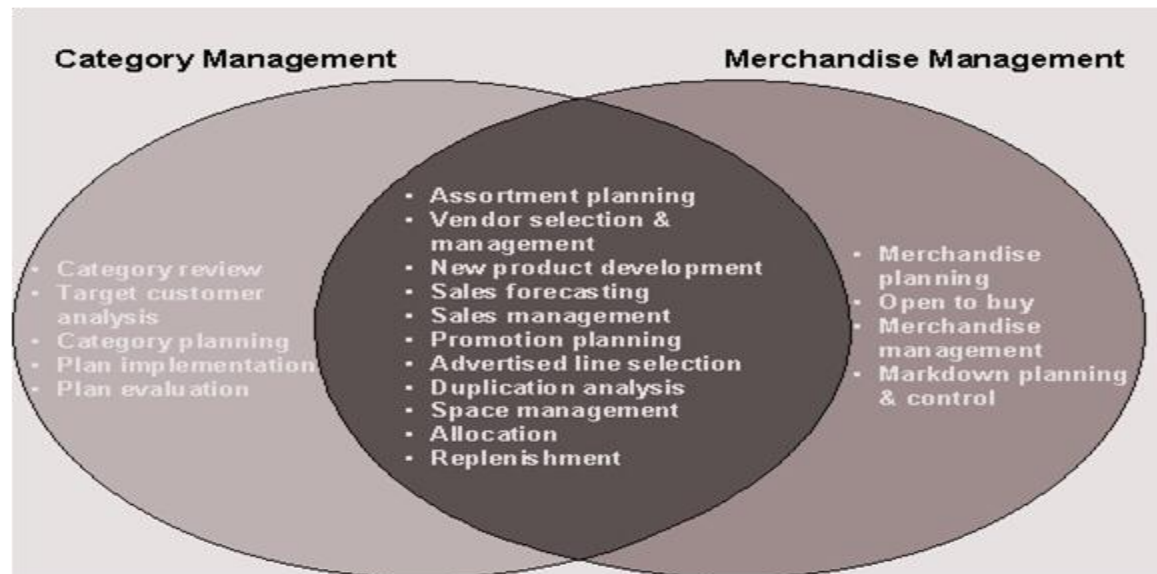
- **Width (Breadth):** refers to assortment factors necessary to meet needs of target market and competition
- | Brand of Beer | Types | Sizes |
|---------------|-------------|-------------|
| ➤ Coors | reg., light | 6-pk, 12-pk |
| ➤ Miller | | |
| ➤ Budweiser | | |
| ➤ Michelob | | |
- **SKUs = 16**

Assortment cont'd.

- **Support (Depth):** Determination of how many units of merchandise are needed to support expected sales of each assortment factor (e.g. brand, type, size, color, etc.)
 - Rely on customer needs, past sales trends, image of department and store, etc.

Merchandising Processes

- The Venn Diagram below summarizes which sub-processes belong in each classification.
- The sub- processes in the left segment of the diagram represent those specific to category management of continuity merchandise.
- The ones in the middle are those common to both situations and the ones on the right are specific to merchandise management of seasonal merchandise.



Supply Chain Management

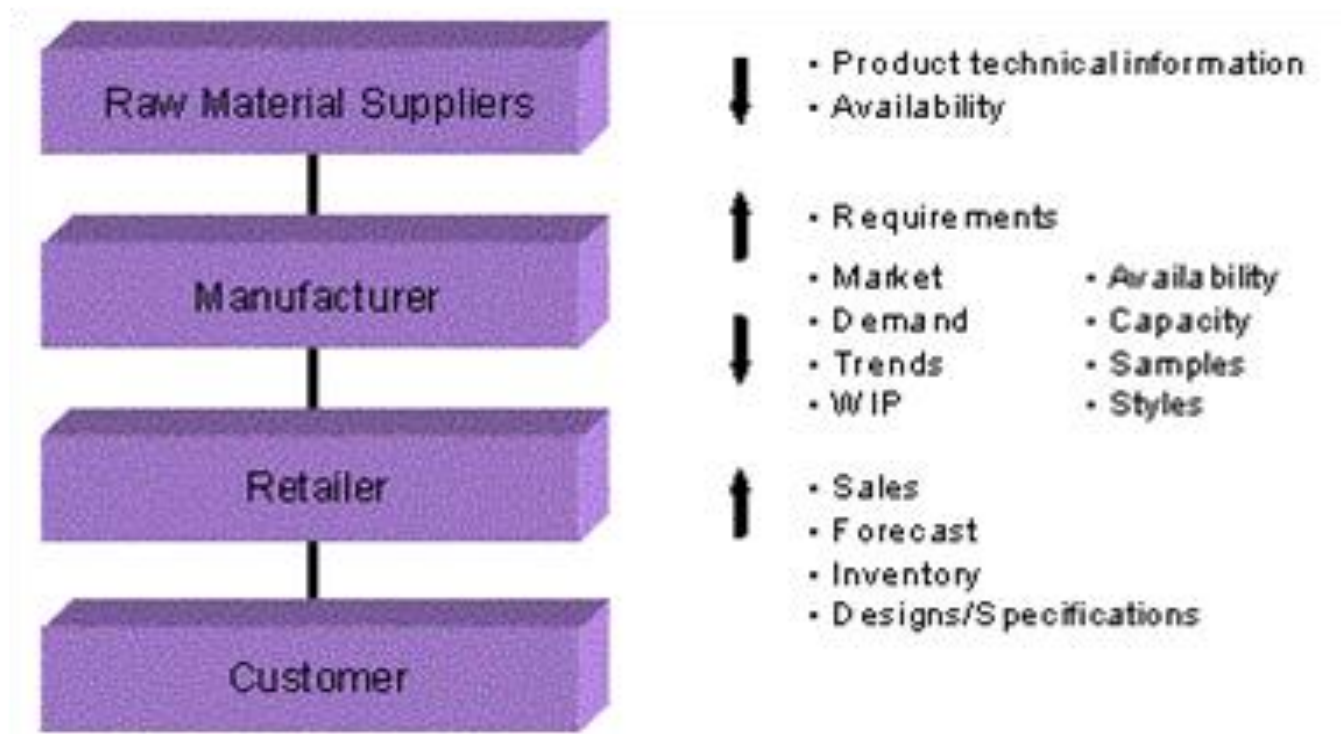
- Lower inventory levels and to reduce the costs of handling merchandise (labor, warehousing, transportation, damages, shortage, etc).
- Raise customer service levels.
- SCM typically encompasses the following functions:
 - Forecasting
 - Supplier relationships
 - Purchasing
 - Manufacturing
 - Distribution
 - Sales
 - Marketing



Supply Chain Management (Cont..)

■ The Flow Of Information

- For the flow of merchandise to be efficient, the information about that merchandise needs to be integrated.
- The next diagram shows the types of information about merchandise that needs to be moved around the supply chain to facilitate efficient flow.



Supply Chain Management (Cont..)

- **Reducing Cost and Improving Efficiency**
- There are a number of ways that the retailer and supplier can reduce the costs associated with handling merchandise.
- The key is to ensure that there are as few points as possible where merchandise is handled.
- Ways of reducing costs include:
- Handling merchandise as few times as possible to reduce labor costs and lead times.
- Ensuring that packaging is appropriate for the entire supply chain so that merchandise is not packed and repacked or handled unnecessarily or damaged.
- Improving sales forecasting techniques so that merchandise is ordered at regular, frequent intervals as needed, rather than long in advance, which may lead to markdowns.
- Keeping the supply chain as simple possible - each extra process adds costs.

Supply Chain Management (Cont..)

- **Vendor Relationships**
- Another important aspect of Supply Chain Management is closer working relationships between suppliers and retailers.
- These can eliminate many of the inefficient practices that exist in the supply chain.
- The relationships between buyers and sellers that are being developed as a result of the collaborative process are making information easier to share between the retailer and links in the supply chain.
- **Bringing the demand and supply side closer** together improves efficiencies, increase sales, reduces fixed assets and reduces inventory for the entire supply chain while satisfying consumer needs.



Essential Terms

- **Product:** what retailer is selling (or service)
- **Product line:** all products/services offered by retail firm
- **Category:** assortment of items that the customer sees as reasonable substitutes for each other
- **Assortment:** range of choices/selection in a given product line (# of SKUs in a category)
- **Inventory turnover:** # of times the avg. inventory of an item or SKU is sold, usually in annual terms

Thank you!

