How to Plan Your Merchandise Buys
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Effectively planning your merchandise buys will have a dramatic impact on your customer service levels, fill rates and inventory management.

Although there are many approaches to planning buys, I'll offer an overview of the one I've used most successfully in my many years in the catalog industry. The process isn't difficult, but it should be done with some consistency as you build your history from one timeline to the next.

Although we frequently talk about the catalog industry being "item-driven," to plan effectively, step back and look at your business from a broader categorical point of view.

Start by defining the 10 to 12 product categories that govern the merchandising focus to your customers. If you have significantly more categories, your merchandise direction may be too broad, and you may not have adequately defined your expertise or niche to your customers.

If you have too few categories, you may not generate enough appeal to bring new customers to your offering.

Each category can have a number of sub-categories; however, my initial discussion will focus on the category level.

Category Planning

Keep the process simple to avoid analyzing yourself into paralysis trying to cover everything. Instead, rely on a few key metrics to trigger thresholds that warrant deeper analysis.

Rather than refer to a specific season, I prefer using a "horizon" perspective. "Season" tends to define a specific timeline, such as spring (January to June) or summer (July to September). Not every cataloger's selling period coincides with the specific seasonality.

Once you've identified and defined your horizon, develop a simple spreadsheet using basic historical pieces of information to create an "assortment." The analysis should be done at the category level for the horizon and then for each catalog mailing within the horizon/season.

The basic information needed at the category level includes item count, demand and space. With these data you can demonstrate relationships that will guide decisions for increasing or decreasing your assortment based on customer performance. Consider the example outlined in the chart "How to Determine Optimal Product Assortment" (below). By looking at comparable history, we see that Category A had 10 percent of the total items, generated 10 percent of the total demand and occupied 10 percent of the total space.

Meanwhile, Category C had 12 percent of the total items, generated 6 percent of the total demand and occupied 16 percent of the total space.

By calculating the relationship between percent of demand to percent of items and percent of space you

can develop a performance index in which 1.0 becomes the standard (or average) upon which to measure the productivity of each category. Indices significantly greater than 1.0 are areas that may warrant increases in product.

In the chart, Category A reflects relatively balanced item counts to demand generated to total space utilized. On the other hand, Category B shows a performance index of four times the average. This indication would warrant further research at the sub-category level to determine if the category as a whole performed or if one or two items actually drove the demand.

Based on those answers, it may be wise to slightly increase the item counts in that category. However, while item-to-demand performance was high, the amount of space used to represent the 19 products in this example represented only a small increase in productivity above average.

If an increase in item count was warranted, this analysis might, at the same time, lead us to limit the amount of space for new items to avoid a significant reduction in the space-performance index.

Finally, Category C in the chart shows opposite results, thus requiring research and decisions to perhaps reduce item count and space in this category.

This analysis, which uses only three basic pieces of information, can highlight "volumes" as to where the strengths and weaknesses in your business may be.

Taking the analyses to the next level (i.e., adding data such as space costs, margins, average price offered/sold by category) can provide critical information in getting your business on track with minimal effort.

Taking the same information down to sub-category level can provide detailed direction for your merchants in terms of which categories need more new and updated products versus categories where only a few new additions to the assortment may be required to maintain and grow those respective businesses.

Item Planning and Buying

Once you've completed the analysis for all the editions/catalogs mailed within that horizon/season — and that, in turn, has been drilled down to the respective item level — you will have developed a picture of specific items and their "flow" of demand.

In other words, you'll see which items are planned for multiple consecutive catalogs and which items are being planned for only one or two catalog appearances.

These data are critical to properly plan and schedule your buys for maximum coverage and in-stock positioning.

Before looking at the timing of your buys, define certain rules. Following are some suggestions:

1. Plan your catalog in dollars, and then buy in units.

If you plan your season-to-dollar totals before you place your commitments, you'll ensure that you tie your overall plan to your marketing and financial control totals.

2. When developing your item plans, stay realistic — regardless of what your respective supply lead times may be.

Don't taint your plans or buys with the idea that items requiring longer lead times also need higher plans. If you do, you're guaranteeing yourself out-of-stock situations and overstocks.

Plan your items first, and then review whether your plan requires, for instance, higher commitments due to minimums.

By doing so, you then can decide if buying to the minimum is warranted or if the overbuy would impact your item profitability (and perhaps the item itself should be replaced). This new perception might surprise you and guide your actions.

3. Review the life and demand requirements of the item (i.e., how many catalogs it will appear in) before committing to buy it.

By recognizing that curve, you should be able to modify the timing of the actual purchases to flow inventory receipts to actual demand needs rather than bringing the entire horizon/season quantity into your warehouse all at once.

This step will improve your inventory turns and cash-flow requirements and allow you greater flexibility to react to unexpected changes in your item plans.

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