Merchandise Assortment Planning

A Blue Print for Success

Annual Catalog Conference
June 4-7, 2001

Presented by:
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GJM Associates
“Adopting a well grounded merchandising plan is far and away the single most important thing a company must do for success.”
“The key to growing sales and profits, providing better direction to the merchants invariably results in better product selection.”
“More and better products lead to increased response rates, which in turn expand the universe of names that can be mailed profitably, increasing circulation and sales.”
Planning Process Overview

- Take A Simple & General Approach
- Improve majority of items - Don’t try for 100% accuracy on all items
  "ALMOST" Right NOW is better than...
  "EXACTLY" Right Later!
- Reduce exceptions
- Use Historical Analysis
- Start (at least) 9-12+ months in advance
RELATIONSHIPS!
Planning Process Overview

- Item Counts (based on pages/density)
- New vs. Repeat Item relationships
- Space Allocation
- Margin Targets & Price Points
- Average Price Offered vs. Sold
- Vendor Performance History
- Estimated Item Profitability
Planning Process Overview

- Identify “Season/Horizon” To Be Planned
- Identify “Comparable Season/Horizon”
- Establish Initial Demand Plan (Season & Campaign)
- Validate Demand Goals
- Produce “Category” Goals (Campaign & Season)
Planning Process Overview

- Produce “Sub-Category” Goals (Campaign & Season)
- Distribute “Sub-Category” to Items (Campaign & Season)
  - Repeat & New Items
- Allocate “Color/Size” Percents
What Are Key Issues to Consider - That May Impact the Approach to the “Top Level” Campaign and/or Category Plan?
General “Top Level” Information

- Campaign Dates
- Circulation
  - Quantity
  - List Productivity (vs. LY)
  - List Profile
General “Top Level” Information

- Historical Page Counts
  - Selling vs. Editorial
  - Calculations of Editorial (included or not?)
- Catalog Costs
- Market Trends
- Special Merchandise Focus
Top Level “Control” Entry

- Item Count (for AII)
- Demand
- Profit Statistics
  - Margins
  - Catalog Costs
  - NMVOE (% of Sales)
  - Fixed Expense (% of Sales)
  - Cost of -- Returns, Overstock Provision
Marketing Plan

- Obtain LY Comparable “Horizon” (Season)
  - Demand by Season & Campaign
  - LY Plan vs. LY Actual
- Set TY targets
  - Demand by Season & Campaign
- Validate Targets (Reasonableness)
- Confidence Factor (Comps < 100% done)
The Category / Sub-Category Plan
What Category Goals (Factors) Should Be Considered?

- Demand ($, share %)
- Item Count
- Margin
- Price Points (Offered vs. Sold)
- Category Productivity*
What Category Goals (Factors) Should Be Considered?

- Page Counts (Space Allocated)
- Density
- Sell Ratio
- Return Rates
- Fill Rates
- Profitability
Definitions (Relationship Indices)

- **Performance Index** = \( \frac{\% \text{ of demand}}{\% \text{ of items}} \) -- (Category AII)

- **Category Space Index** = \( \frac{\% \text{ of demand}}{\% \text{ of space}} \) – (Space AII)

- **Sell Ratio** = \( \frac{\text{Item percent of page} \times \text{cost per page}}{\text{Projected item $$ demand in Offer}} \)

- **AII** = \( \frac{\text{Projected Item $$ Demand in Campaign}}{\text{Number of items}} \) / \text{Average Item Demand} \)
Performance Index:

(% of demand / % of items) --

(a.k.a. - Category AII)
<table>
<thead>
<tr>
<th>Description</th>
<th>This Year</th>
<th>Year</th>
<th>This Year</th>
<th>Year</th>
<th>TY Avg.</th>
<th>TY Perf.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Items</td>
<td>%</td>
<td>Demand</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spring 00 TOTAL DROP:</td>
<td>218</td>
<td>100.0%</td>
<td>5500.0</td>
<td>100.0%</td>
<td>25,229</td>
<td>1.00</td>
</tr>
<tr>
<td>GIFTS</td>
<td>43</td>
<td>19.7%</td>
<td>1204.5</td>
<td>21.9%</td>
<td>28,012</td>
<td>1.11</td>
</tr>
<tr>
<td>HOME</td>
<td>54</td>
<td>24.8%</td>
<td>1353.0</td>
<td>24.6%</td>
<td>25,056</td>
<td>0.99</td>
</tr>
<tr>
<td>APPAREL</td>
<td>50</td>
<td>22.9%</td>
<td>1743.5</td>
<td>31.7%</td>
<td>34,870</td>
<td>1.38</td>
</tr>
<tr>
<td>ACCESSORIES</td>
<td>71</td>
<td>32.6%</td>
<td>1199.0</td>
<td>21.8%</td>
<td>16,887</td>
<td>0.67</td>
</tr>
</tbody>
</table>
Category Space Index:

% of demand / % of space
## Space Index

<table>
<thead>
<tr>
<th>Description</th>
<th>This Year</th>
<th>This Year</th>
<th>TY Perf.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pages</td>
<td>%</td>
<td>Demand</td>
</tr>
<tr>
<td>Spring 00</td>
<td>64</td>
<td>100.0%</td>
<td>5500.0</td>
</tr>
<tr>
<td>TOTAL DROP:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GIFTS</td>
<td>20</td>
<td>31.3%</td>
<td>1204.5</td>
</tr>
<tr>
<td>HOME</td>
<td>14</td>
<td>21.9%</td>
<td>1353.0</td>
</tr>
<tr>
<td>APPAREL</td>
<td>16</td>
<td>25.0%</td>
<td>1743.5</td>
</tr>
<tr>
<td>ACCESSORIES</td>
<td>14</td>
<td>21.9%</td>
<td>1199.0</td>
</tr>
</tbody>
</table>
Sell Ratio: 
(Item percent of page * cost per page) / Projected item $$ demand in Offer
Projected Catalog Demand: $5,000.0
Total Pages: 64
Total Selling Costs: $1,370.0
(Creative, Paper, Printing, Postage, List Rental)
Selling Cost Per Page: (Editorial ?) $21,406

Item A = 25% of Page ($30k Demand) 17.7%
Item B = 25% of Page ($20k Demand) 26.5%  Sell Ratios
Item C = 25% of Page ($14k Demand) 38.0%

(25% page = $5351.5 Ad Cost)
AII (Average Item Index)

AII = Projected Item $$ Demand ÷ (Projected $$ demand in Offer/ Number of items)
AII (Average Item Index)

Projected Catalog Demand: $5,000.0
Total # of Items: 250
Average Item: $20,000

Item A = $ 30000 1.5
Item B = $ 20000 1.0
Item C = $ 14000 0.7
Sub-Category

The same analysis – only at the sub-category level
Relationships!!

- How Many Use These Measures -- Yet Independent of Each Other ??
  - Item Count
  - Page Space
  - Demand
  - Page or Spread Average
  - Etc......
Relationships!!

- Multiple Measures (or Indices) Used Together - Will **Strengthen** the Analysis

For example:
- Performance Index with Space Index
- Space & Item Demand with Sell Ratio
- Average Item with Item Count (and Demand)
What Product Goals (Factors) Should Be Considered?

- Repeat vs. New
- Retail (Price Points)
- Margin %
- Demand
- Ranking (A-B-C & Relationships)
- # of Colors (SKU intensity)
What Product Goals (Factors) Should Be Considered?

- AII (Average Item Index)
- Return Rates
- Space
- Sell Ratio
- Presentation
- Trends
Summary of Planning/Forecasting Factors

- Demand History
- Item Counts
- Space
- Circulation
- Competition (Internal & External)
- Item Relationships (Ranking A - B - C)
- Price Points
- Creative Factors
- Presentation
- Location in Catalog
- Space Costs (Sell Ratio)
- Seasonality
- Indices
# Department View

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Retail</th>
<th>MU %</th>
<th>Dmd $</th>
<th>All %</th>
<th>Sell Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>l/s Shirt</td>
<td>7.50</td>
<td>18.00</td>
<td>58.3%</td>
<td>15.7</td>
<td>0.62</td>
<td>0.25</td>
</tr>
<tr>
<td>s/s shirt</td>
<td>5.50</td>
<td>12.00</td>
<td>54.2%</td>
<td>22.7</td>
<td>0.90</td>
<td>0.25</td>
</tr>
<tr>
<td>plaid shirt</td>
<td>7.80</td>
<td>20.00</td>
<td>61.0%</td>
<td>11.4</td>
<td>0.45</td>
<td>0.25</td>
</tr>
<tr>
<td>henley shirt</td>
<td>8.00</td>
<td>22.00</td>
<td>63.6%</td>
<td>37.0</td>
<td>1.47</td>
<td>0.50</td>
</tr>
<tr>
<td>pique polo</td>
<td>10.00</td>
<td>32.00</td>
<td>68.8%</td>
<td>32.2</td>
<td>1.28</td>
<td>0.40</td>
</tr>
<tr>
<td>interlock polo</td>
<td>10.00</td>
<td>32.00</td>
<td>68.8%</td>
<td>25.3</td>
<td>1.00</td>
<td>0.25</td>
</tr>
<tr>
<td>denim shirt</td>
<td>9.15</td>
<td>27.00</td>
<td>66.1%</td>
<td>18.5</td>
<td>0.73</td>
<td>0.25</td>
</tr>
<tr>
<td>chambray shirt</td>
<td>15.00</td>
<td>38.00</td>
<td>60.5%</td>
<td>16.7</td>
<td>0.66</td>
<td>0.25</td>
</tr>
<tr>
<td>dress shirt</td>
<td>17.75</td>
<td>40.00</td>
<td>55.6%</td>
<td>20.2</td>
<td>0.80</td>
<td>0.25</td>
</tr>
</tbody>
</table>

**Department Totals:**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg Price Offrd</td>
<td>26.78</td>
<td></td>
</tr>
<tr>
<td>Avg Price Sold</td>
<td>23.65</td>
<td>62.6%</td>
</tr>
</tbody>
</table>

**Avg Price Sold:**

- 23.65
- 62.6%
## Average Item Index

<table>
<thead>
<tr>
<th>Item #</th>
<th>Description</th>
<th>drop 1</th>
<th>drop 2</th>
<th>drop 3</th>
<th>drop 4</th>
<th>drop 5</th>
<th>drop 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item A</td>
<td>l/s shirt</td>
<td>2.0</td>
<td>1.8</td>
<td>1.6</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Item B</td>
<td>s/s shirt</td>
<td>0.4</td>
<td>1.4</td>
<td>2.0</td>
<td>5.0</td>
<td>2.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Item C</td>
<td>plaid shirt</td>
<td>1.0</td>
<td>0.8</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Item D</td>
<td>henley shirt</td>
<td>0.9</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Item E</td>
<td>pique polo</td>
<td>2.0</td>
<td>2.0</td>
<td>2.2</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Item F</td>
<td>interlock polo</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
</tr>
</tbody>
</table>
Planning Factors

♦ Life of Item (> 1 Campaign)
  • Stresses Importance for Horizon/Season Plans
♦ Realistic Estimating
  • Based on Demand NOT on Availability
♦ Maintain Relationship to Buy Plan
  • Don’t Spend $$ Twice
♦ The Assortment Plan is the CONTROL
  • This process virtually eliminates a Merchants’ concerns re: product selection and DOES ALLOW change while providing control and greater bottom line profits
Rule of “50”

Guideline:

Any increase in items, space, etc. will only yield 50% of the expected results!

Ex: If we add 8 pages to a catalog – Revenue will increase by approx. the value of 4 pages
Improving Inventory Coverage

- Better Planning & Forecasting allows increased “Just in Time” Buying
- With Longer Range Planning - Identifies “Horizon” of Need
- Buys can be Scheduled
- Risk/Rewards of Overbuying Can be Considered - In Advance
Planning New Items

- Identify Similar Items
- Varying Rules -- New Items should be > 20% of average
- Review Relationships to other product
- Consider competition (Internal & External)
- Profit Projections (Is the item justified?)
Planning Repeat Items

- Identify Similar Items
- Consider “Wear Out” factors
- Review Relationships to other product (especially competing new product)
- Profit Projections (Is the item still justified?)
Timing - When Should You Start?

- Based on Product Lead Times (Generally 9-12 months in advance, maybe longer)
- Plan by “Horizon/Season” not by Drop
Benefits to Other Areas (Positive Profit Impacts)

- Creative costs can be substantially reduced
- DC supplied forecasts for bin “profiling” and setup
- Last minute exceptions - handled more efficiently
Benefits to Other Areas (Positive Profit Impacts)

- Inventory Buying can be “Scheduled” on a “Horizon” (and allow for less costly changes)
- Dramatic positive impacts to cash flow
- Reduced backorders & reduced overstock
- Higher fill rates (both initial and final)
- Increased “Bottom Line”
Planning for the Internet

- New Medium/Channel
- Standard Catalog Benchmarks?
  - Demand, Response Rates?
- How to Measure?
  - Hits, Click-thru, Traffic, Actual Sales?
Planning for the Internet

- Approach similar to Retail
- Plan Assortment
- Plan Sell-Thru
- Constantly Move the Floor Adapting to Sales (Pull items on/off the Web Page)

Possible Approach
- Combination of Retail & Catalog – (ratio of days/views offered to sell-thru/sales at base level??)
Summary

♦ Take A Simple & General Approach
♦ Improve majority of items
  “ALMOST” Right NOW is better than...
  “EXACTLY” Right Later !
♦ Reduce exceptions
♦ Let the Assortment Plan be the CONTROL !!!
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