

25TH ANNUAL

**ACCM**

**The Largest Conference for Catalog  
& Multichannel Merchants**

**Merchandise Analysis:  
A Critical Measurement for Success (Made Easy)**

**Roseanne Mazzarella, *Director of Merchandising, Blissworld, LLC***

**George Mollo, *President, GJM Associates, Inc.***

Co-Presented by:



# Introduction

## Roseanne Mazzarella:

- Merchandise Director, Blissworld, LLC. Responsible for merchandising and forecast planning for the Bliss Catalog, Web, and Spa 3<sup>rd</sup> party retail.
- 25 year veteran in the Direct Mail Industry.
- Concentration in merchandising and forecast planning.
- Held Merchandise Director positions at Disney Direct, Time Warner, Genesis Direct, and Lillian Vernon.
- 2003-2006 worked as an independent consultant implementing sales reporting and strategic analysis for several catalog businesses.

# Introduction

## George Mollo:

Consulting firm (GJM Associates, Inc.) focuses on all aspects of merchandising operations for direct marketing companies.

- 12 years Retail
- 3 Wholesale
- 15 years Catalog
- 8 years Consultant
  
- 2002-2007 Served as Chair of the DMA's Catalog & Multichannel Marketing Council
- Speaks at conferences (User Groups, NCOF, ACCM, ECMOD)\*\*
- Contributes articles for trade publications\*\*

(\*\*available on [www.gjmassociates.com](http://www.gjmassociates.com))

# Agenda

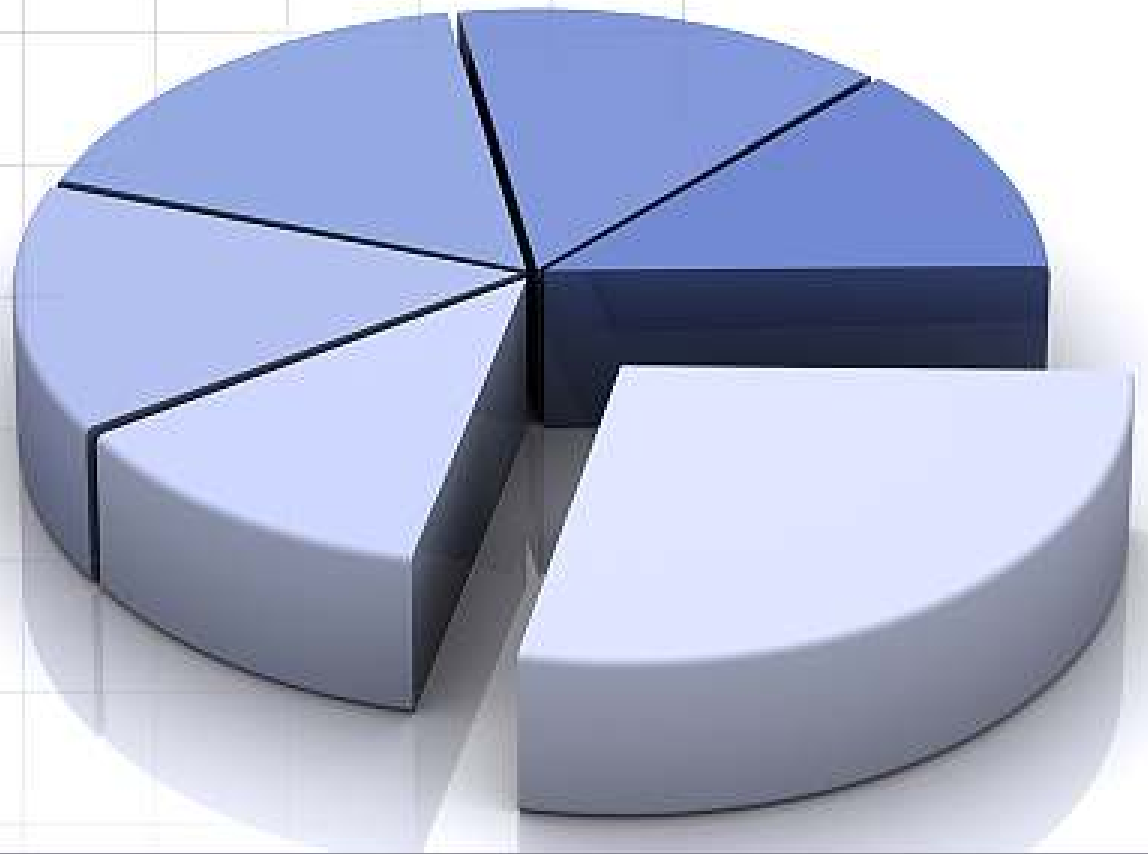
Defining Key Metrics (KPI)

How Indices can “Make it Simple”

High Level Category View – “Tells ALL”

Item Profitability Review

Industry Axioms that impact Planning



# Key Performance Indicators

# Defining KPI

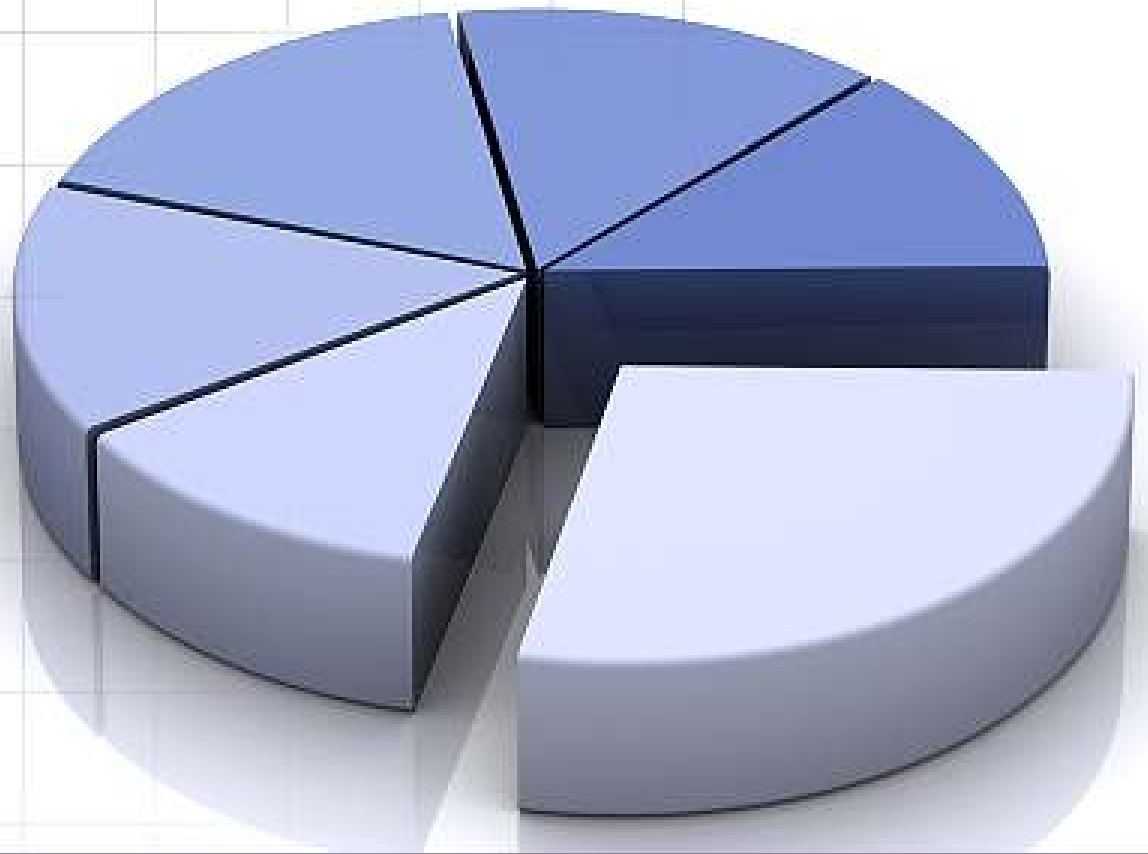
## Performance Indicators (KPI):

Separate the “winners” from the “try agains;” and knowing not only what to measure, but also how to measure it and what it all means, is what separates and defines levels of success.

You can't fix what you don't measure!!!

# Defining KPI

- a quantifiable measurement that can be tracked and evaluated, and that is harmonious with what you want to achieve
- a metric that an organization measures to help determine its progress towards a goal
- a reflection of the tactical performance of an organization; and, is used to substantiate an organization's objectives.
- can be quantitative or qualitative, objective or subjective, although preferably quantitative, unambiguous, and reliable.
- a critical measurement of the performance of essential tasks, operations, or processes. A KPI will usually unambiguously reveal conditions or performance that is outside the norm and that signals a need for managerial intervention



**What are the Key Measures?**



# Key Measures

Demand

Margin

Ad to Sales Ratio

Contribution

Profit

# Key Measures

Backorder rates

Cancel Rates

Fill Rates\*

Inventory Turns

Overstock\*

Returns\*

# Key Measures & Definitions

## Fill Rates

- Initial/Final Fill
- Order vs. Item Fill
- Target vs. Acceptable Ranges
- Apparel vs. Hard Goods

## Cancel Rates

- Backorder Rates

# Key Measures & Definitions

## Returns

- Returns vs. RGS (Returns to Good Stock)
- Apparel vs. Hard Goods

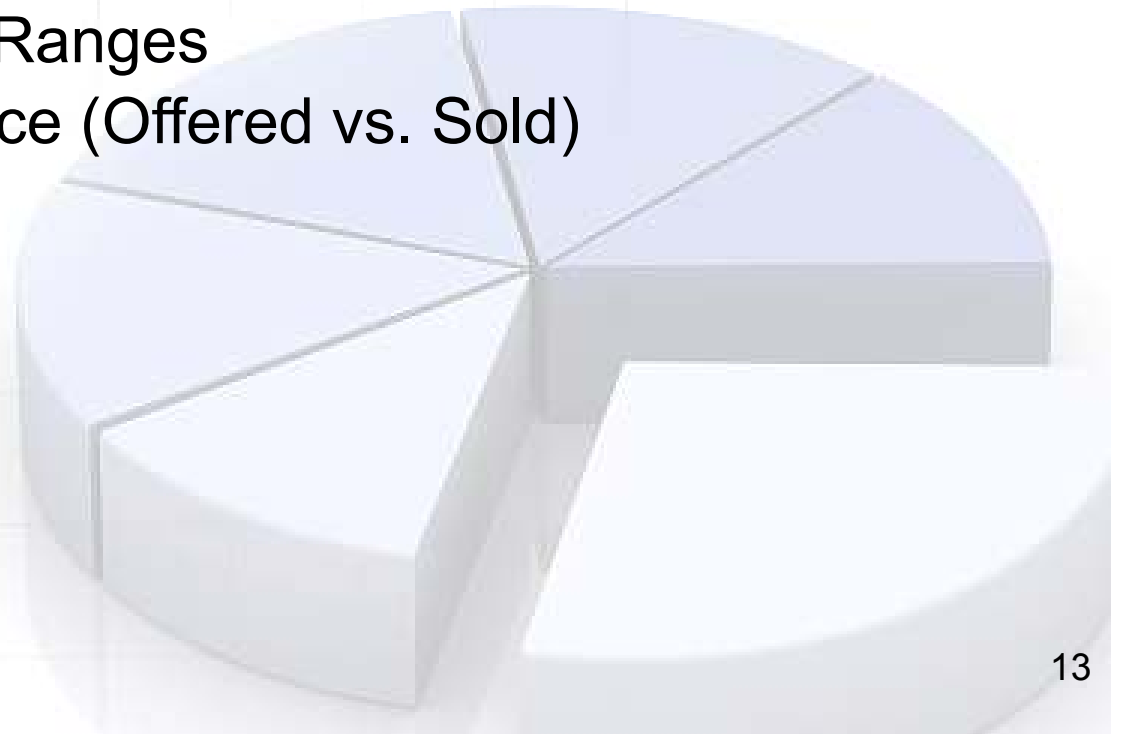
## Overstock

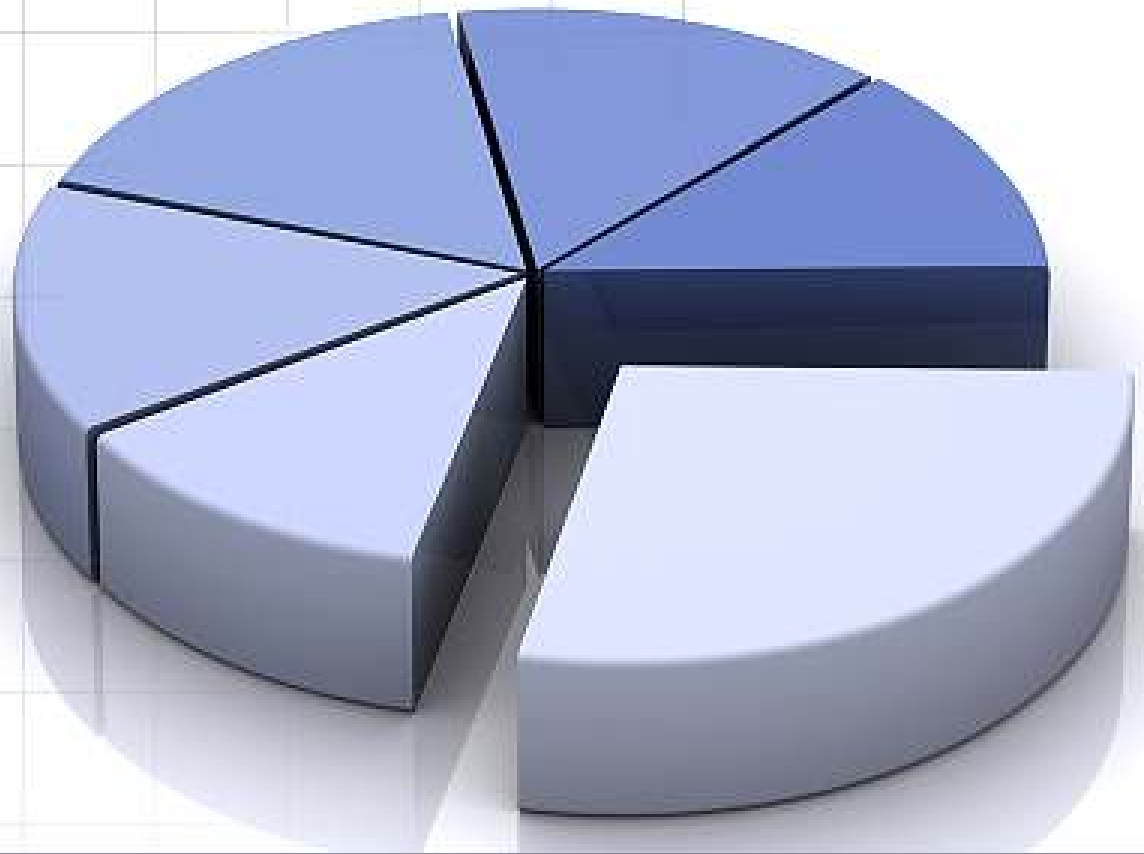
- “At Cost”
- “Cost of”

# Key Measures

## Price Points

- Price Point Ranges
- Average Price (Offered vs. Sold)





**Analysis Made Easy  
Through the Use of Indices!!**

# Creating Indices

Offer a Simplified Approach

Establishes “Relationship” Analysis

Create a Reference Base of 1.0

Provide Management a Top Level Review

# Analyzing Demand

What to Measure.....

It's All in RELATIONSHIPS !

Items

Category

Spreads

Space

Price Points



# New (Basic) Measures

## Category Indices

- Demand to Item
- Demand to Space

## Page/Spread Average

## Average Item

# How to Measure.....

## Simple Analysis Metrics

### Performance Index

- $(\% \text{ of demand} / \% \text{ of items})$

### Space Index

- $(\% \text{ of demand} / \% \text{ of space})$

### Average Item Index

- $\text{Item Demand} / (\text{Projected Item } \$\$ \text{ Demand in Campaign} / \text{Number of items})$

### Sell Ratio

- $(\text{Item percent of page} * \text{cost per page}) / \text{Projected } \underline{\text{item}} \text{ } \$\$ \text{ demand in Offer}$

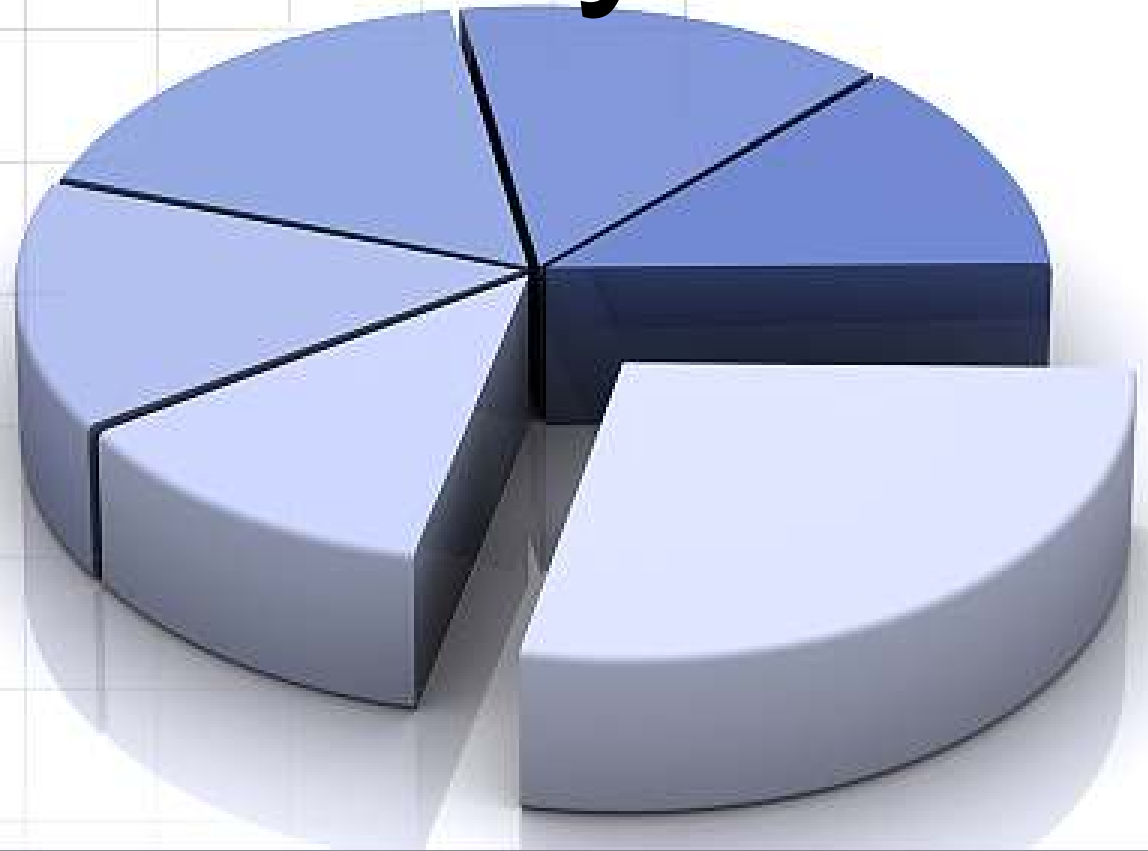
### Net (Ad) Margin

- $\text{Initial Margin } \% - \text{Sell Ratio}$

# Category (MAPS) View

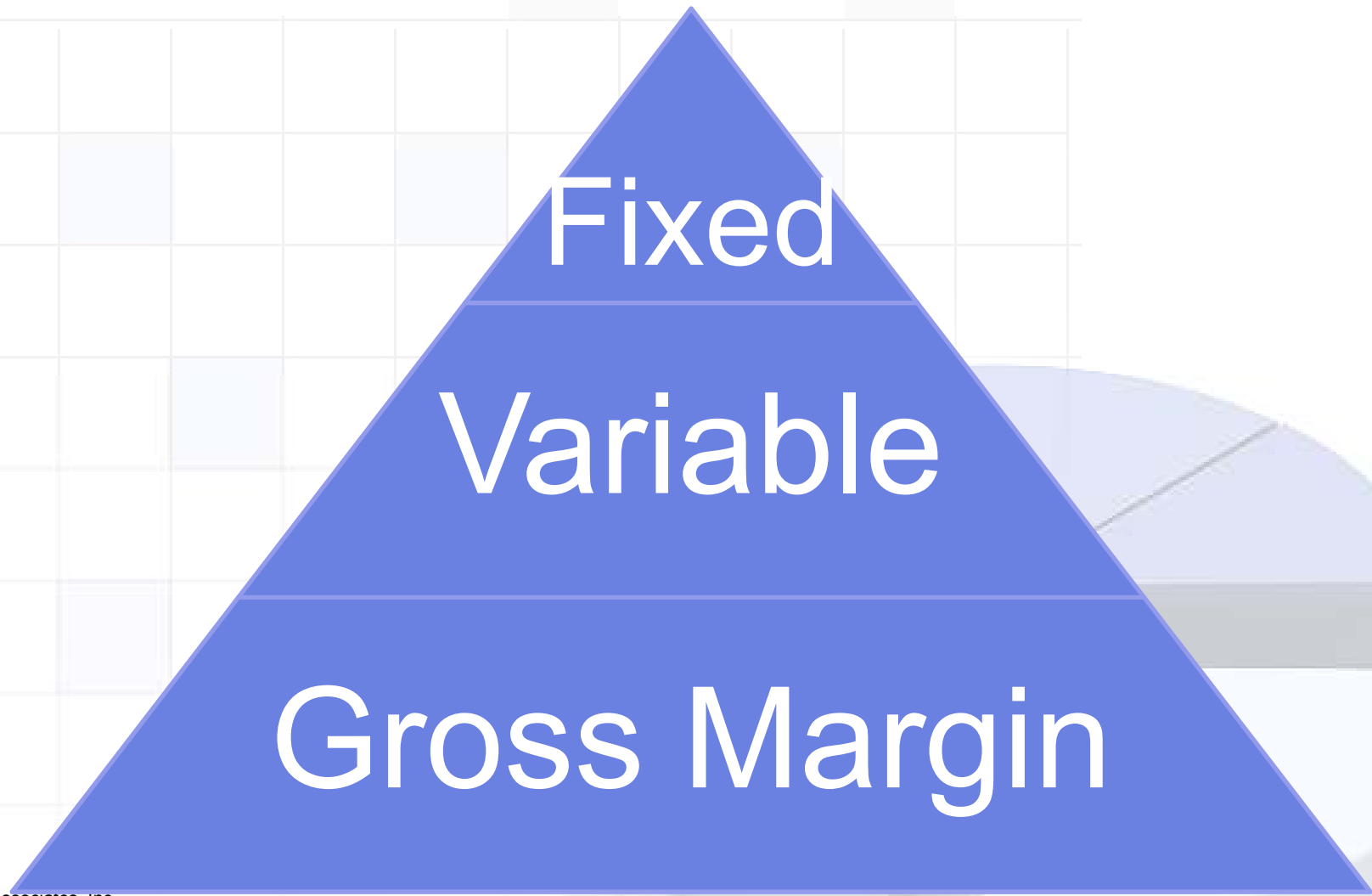
Description	Items	%	Dmd	%	Avg ltm	rAii		Mrgn	Space	%	S I	SR	Net Mgn
						P I							
<b>TOTAL DROP:</b>	<b>314</b>	<b>100.0%</b>	<b>5985.0</b>	<b>100.0%</b>	<b>19,061</b>	<b>1.00</b>		<b>57.9%</b>	<b>64.00</b>	<b>100.0%</b>	<b>1.00</b>	<b>43.1%</b>	<b>14.8%</b>
<b>GIFTS</b>	<b>87</b>	<b>27.7%</b>	<b>1310.7</b>	<b>21.9%</b>	<b>15,066</b>	<b>0.79</b>		<b>61.0%</b>	<b>15.00</b>	<b>23.4%</b>	<b>0.93</b>	<b>46.1%</b>	<b>14.9%</b>
<b>HOME</b>	<b>72</b>	<b>22.9%</b>	<b>1472.3</b>	<b>24.6%</b>	<b>20,449</b>	<b>1.07</b>		<b>54.6%</b>	<b>17.00</b>	<b>26.6%</b>	<b>0.93</b>	<b>46.5%</b>	<b>8.1%</b>
<b>APPAREL</b>	<b>53</b>	<b>16.9%</b>	<b>1897.2</b>	<b>31.7%</b>	<b>35,797</b>	<b>1.88</b>		<b>59.8%</b>	<b>15.00</b>	<b>23.4%</b>	<b>1.35</b>	<b>31.8%</b>	<b>28.0%</b>
<b>ACCESSORIES</b>	<b>102</b>	<b>32.5%</b>	<b>1304.7</b>	<b>21.8%</b>	<b>12,791</b>	<b>0.67</b>		<b>55.4%</b>	<b>17.00</b>	<b>26.6%</b>	<b>0.82</b>	<b>52.5%</b>	<b>2.9%</b>

# Item Profitability



**Reviewing Item P&L**

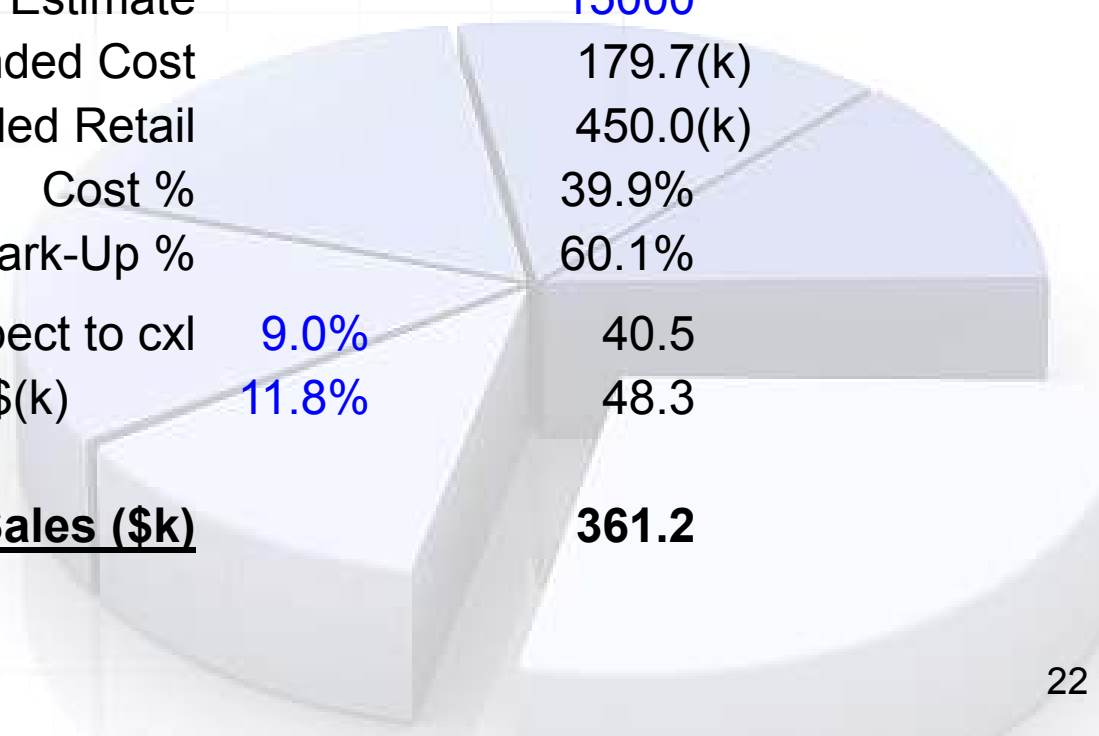
# Contribution Levels



# Item Contribution Model

## Item Summary

Item #	ABC123	
Description	Sample Item	
Cost		11.63
Inbound freight	3.0%	11.98
Retail		30.00
Unit Estimate		15000
Extended Cost		179.7(k)
Extended Retail		450.0(k)
Cost %		39.9%
Mark-Up %		60.1%
% of tot dmd \$ -you might expect to cxl	9.0%	40.5
Total Returns as % of ships/ \$(k)	11.8%	48.3
<b><u>Net Sales (\$k)</u></b>		<b>361.2</b>



# Item Contribution Model

## COGS

### Cost of Goods Sold

standard cost			144.2
overstock (inv not sold)	10.0%	36.1	-
Cost of overstock	3.0%		1.1
returns	3.0%		1.4
other	0%		0.0

### Gross Margin (\$k)

214.4

# Item Contribution Model

## Variable Expenses

### Variable Cost

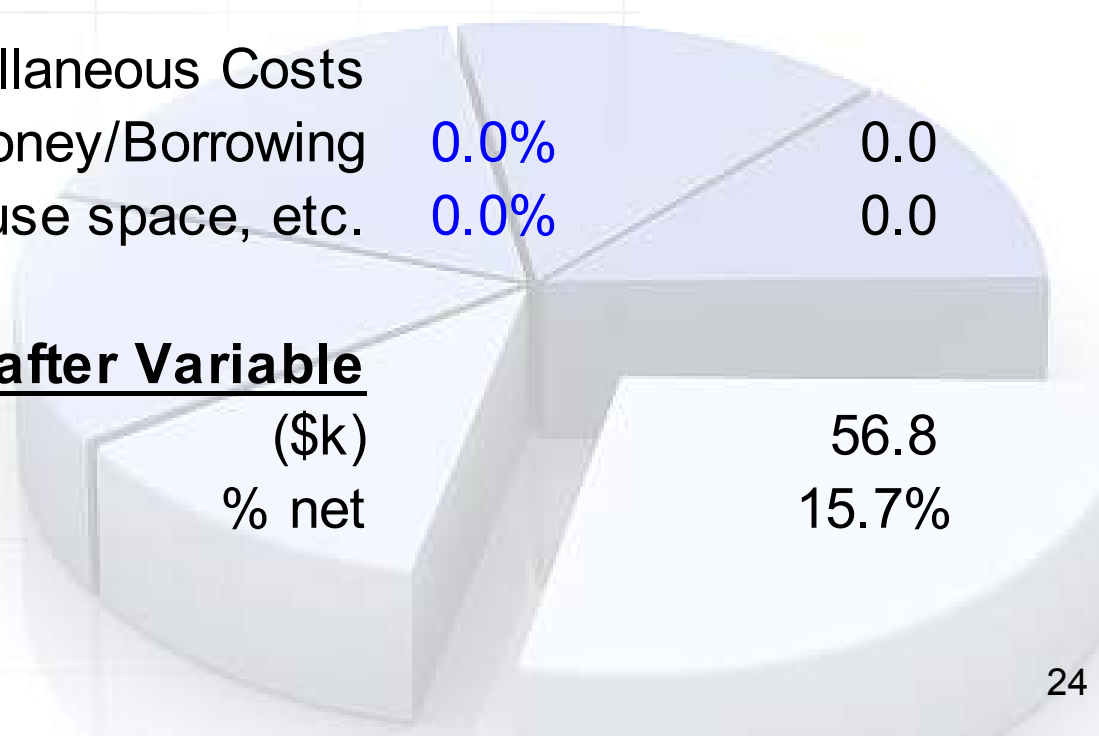
Promotion		0.00
<b>OR</b> promotion (% of demand)	27.0%	121.5
Cost of pick-pack-ship	10.0%	36.1

### Miscellaneous Costs

Cost of Money/Borrowing	0.0%	0.0
Addn'l Overhead, warehouse space, etc.	0.0%	0.0

### Contribution after Variable

(\$k)	56.8
% net	15.7%

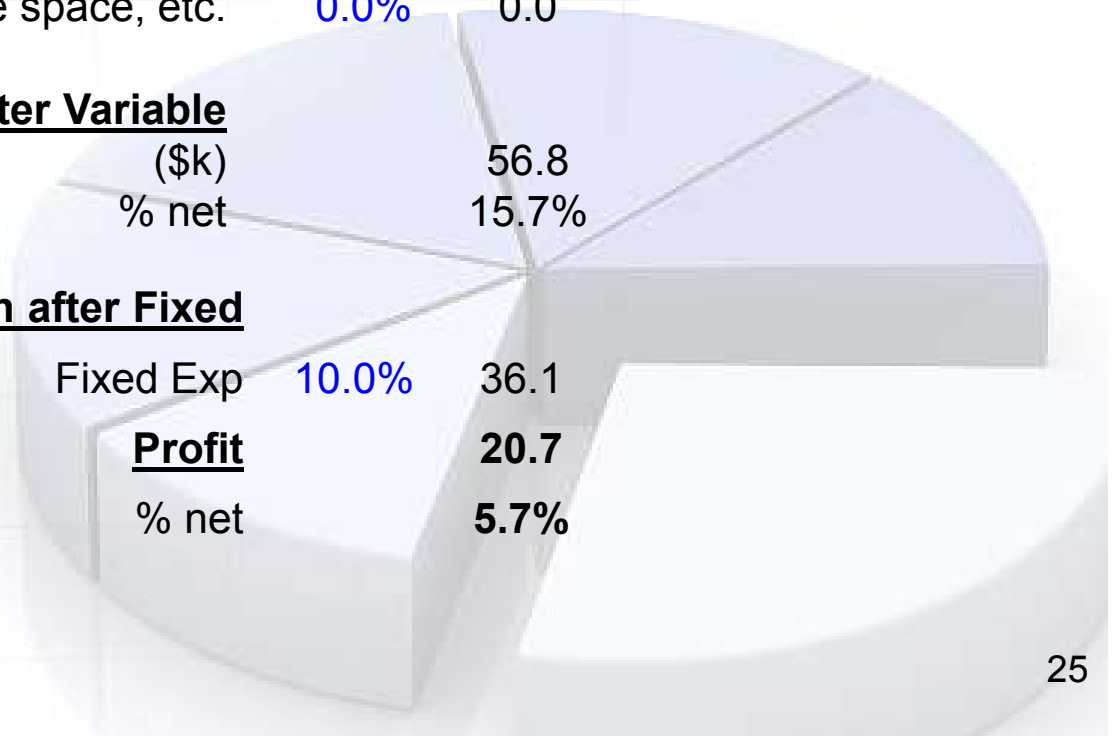


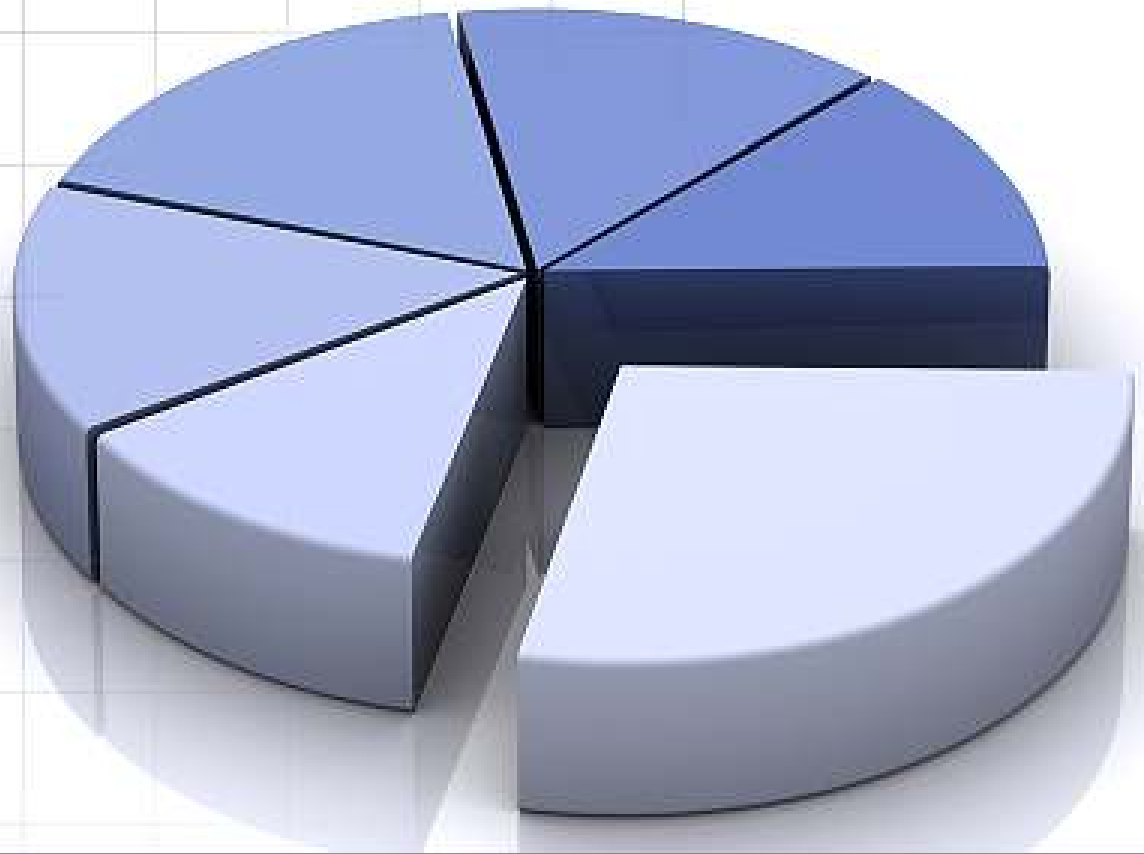


# Item Contribution Model

## Fixed Expenses

<u>Variable Cost</u>		
Promotion		0.00
<b>OR</b> promotion (% of demand)	27.0%	121.5
Cost of pick-pack-ship	10.0%	36.1
Miscellaneous Costs		
Cost of Money/Borrowing	0.0%	0.0
Addn'l Overhead, warehouse space, etc.	0.0%	0.0
<u>Contribution after Variable</u>		
(\$k)		56.8
% net		15.7%
<u>Contribution after Fixed</u>		
Fixed Exp	10.0%	36.1
<u>Profit</u>		
		20.7
% net		5.7%





# Building a Merchandising Strategy Based on Analysis

# Merchandising Strategy

- Product Categories should be main focus of business
  - Target 10-12 categories \*
  - Sub-categories define further
  - Don't over assort, e.g. Shirts > 40% of total
  - Avoid “Paradox of Choice”
- Consistent with Brand
- Provide a merchandising “statement” to the customer

\* Define categories based on product offerings and “end use”. Be careful of “themes” as comparison.

# Merchandising Strategy

## Assumptions:

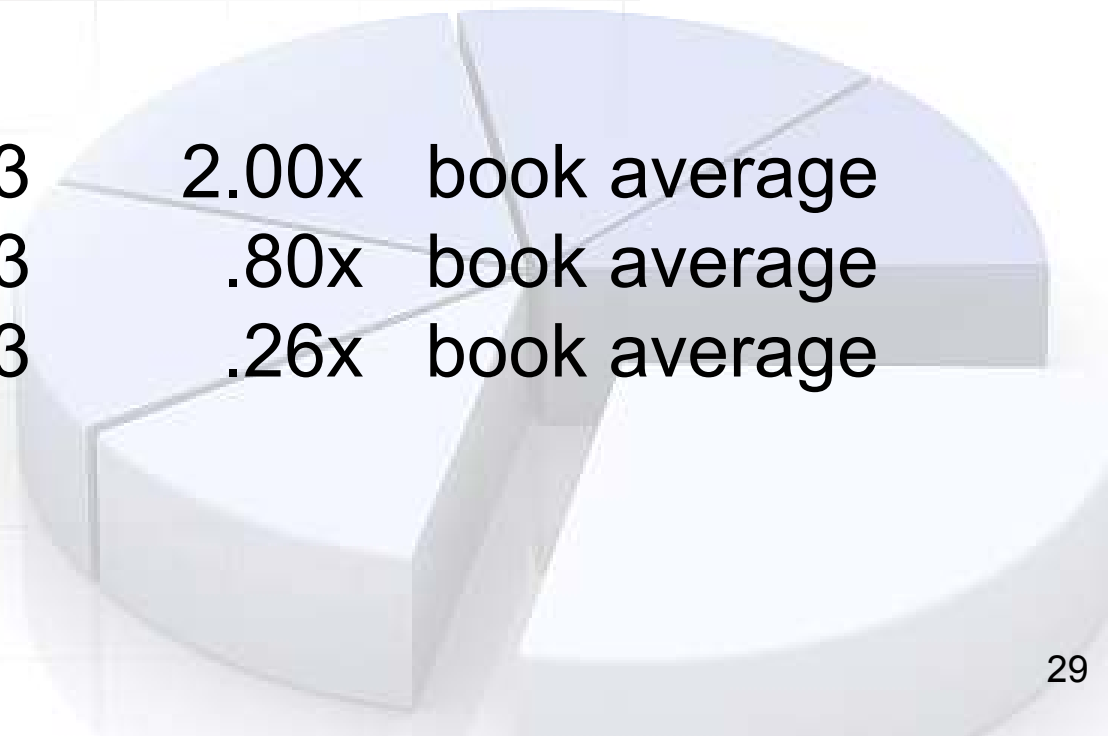
- Products fatigue if not reinvented or renewed
- Best customers need more newness because of their interest in the book and rate of purchasing activity
- The cost of paper and postage will continue to increase
- Competition will continue to increase in all distribution channels. (MO/E-commerce).
- No more than 1/3 of new products are winners
  - Perform above book average
  - Are profitable

# Merchandising Strategy

## Axiom 1:

Sales in a typical catalog, regardless of product category, are distributed across items as follows.

Best selling	1/3	2.00x	book average
Middle	1/3	.80x	book average
Bottom	1/3	.26x	book average



# Merchandising Strategy

## Axiom 2

As the space given to an item is increased or decreased the impact on sales is equal to between  $1/3$  to  $1/2$  of the change. (aka “Rule of 50”)

e.g. If we increase the space devoted to an item by 60% we would expect the sales of the item to increase between 20 and 30%.

# Setting Goals

## Corporate

- Industry Standards
- Internal History
- Achievable/Realistic

## Department

- Historical
- Cooperative/Joint
- Achievable/Realistic

# Merchandising MAPS Metrics

Alternative  
Measurements

High Level Metrics

Creating New  
Metrics:  
Provides “Direction”



# Several Rules of Business

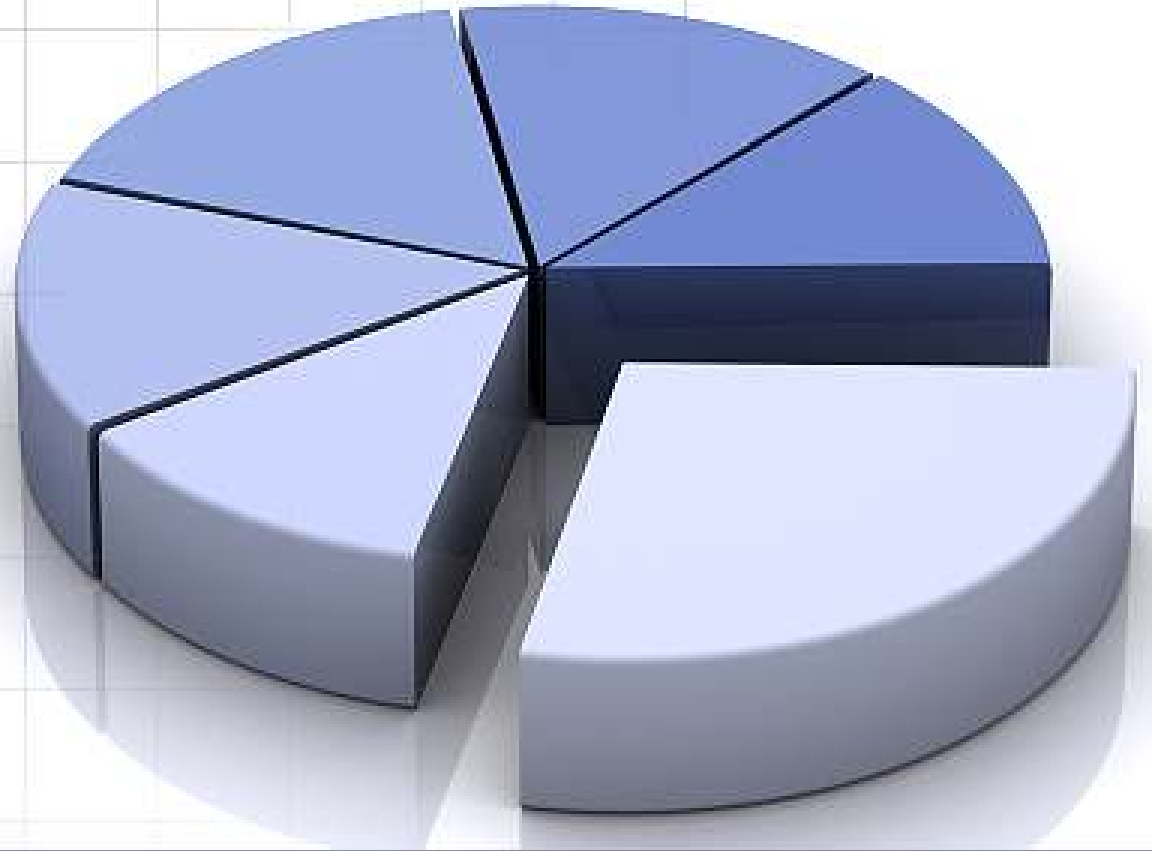
Almost Right Now is Better than Exactly Right later.....”

A bad decision is better than no decision at all!

Do 1<sup>st</sup> things First, 2<sup>nd</sup> things NEVER!

Always tell the bad news first-never last

# Thank You !!



# Questions ?

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