

FROM A-Z: STRATEGIC BUILDING BLOCKS FOR MERCHANDISING SUCCESS

(A three part series)

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Introduction

Three “in-the-trenches” merchandising experts with a cumulative total of 60+ years of experience have gathered together an A-Z checklist for your next strategic planning merchandising session. Take a peak at what they have to say...you may never look at your planning process the same way again!

Analysis

Almost - right now.

Analysis is a critical part of Merchandise Planning. We learn from our mistakes and our successes. The key is to use simple measures and not get bogged down in “analysis paralysis.” Detailed analysis is important after the fact but while you are in season or “on the spot” analysis might not always be available. As an example, by estimating percent of a page and approximate page costs you can get to “almost the same answer” as doing a detailed square-inch analysis. If an item projects to lose money at 25% of a page, it won’t do much better at 20%. I am a firm believer in “Almost right now is better than exactly right later.” Use multiple measures, like page average, average item, average page, etc. and don’t forget to include your gut and instinct. If several measures lead you in the same direction, don’t be afraid to take it. Build your plans with a “horizon’ view which will allow changes as more data and information become available.

Brand

What’s love got to do with it?

Your brand is by far the decision driver behind all you do. It is the guiding force behind all strategic product decisions. Is it front and center in all you do? Have you created a brand fit chart that will serve as a product compass to your merchants?

Are you in love with your brand? Are your customers in love with your brand? Kevin Roberts runs one of the world's largest advertising agencies. In his new book, he coined the term "Lovemarks" to describe brands that truly are part of people's lives, that are infused with sensory experiences, that are meaningful. Make your brand a lovemark.

Champion

Don't leave home without one.

Don't start a project without one. Don't expect to finish a project without one. The old QTM adage was "All of us together are smarter than any of us." Well, that may work on production and assembly lines. But, where creative, qualitative work is concerned one person with passion trumps many with enthusiasm.

Trust your idea originators.
A champion is a person with passion and know-how.

Give your champion the freedom and responsibility to drive your project. Your job, then, is to clear obstacles, provide resources for the project champion, and get out of the way.

Demand

We want it NOW!

Planning and fulfilling customer's demands or requests for products is what makes catalogs differ from bricks and mortar. The key, however, is to ensure that we capture demand even if we can't fulfill it. This is sometimes referred to as lost or shadow demand. When I ask a client what their fill rates are and they tell me "my initial fill is low however we fill 98% of our demand," through experience I know that all demand is not being captured. While at Disney I was told something similar and when we peeled back the covers, initial fill was in the low 60% range and final item fill was only in the low 70% range. Not only does this lead to potentially incorrect merchandise decisions as to what were indeed your best sellers, but it can potentially impact other costs as well. By not capturing all demand, response rates and average orders are understated; there are potential incremental list rental costs if names which could have been on your house file have to be re-rented because customer information is not captured. Fill rates and therefore perceived customer service levels are greatly overstated – all of which can have disastrous impacts on the long-term business. Capture all the demand to get the whole picture.

Emotion

Where are you, Dr.Phil?

It's time to get in touch with your feelings. How does your brand make you feel? And even more importantly, how does your brand make your customers feel? Research shows that it is indeed the emotional aspects of your brand that really resonate with your customers and keep them coming back for more. The aspirational elements of your brand...the experiential aspects of your brand...the sensory aspects of your brand...the personal touch aspects of your brand. The more emotional needs of your customers that you can meet, the more connected to your brand your customers will be. Go ahead; get emotional.

Forecasting

Art, Science, Crystal Ball or - ?

The key to accurate forecasting lies in a disciplined and thoughtful approach to planning. However my key word in forecasting is relationships. When forecasting, consider the relationship the item has with other items in the category, on the page, in your catalog, to the market. Consider its price point and value relationship. Try to consider the customer's perception of its value and presentation. Factor its amount of space, presentation and location in the book. Be sure to never do your item forecasts in isolation, as the sum of the parts will always be greater than the budgeted demand. Suggestion: After doing forecasts for the items in a category, rank the items from top to bottom and look at the relationship between the top and bottom seller. Many times history will say the difference may be a multiple of 3-4 times, while your forecast may reflect 10 times. So your top seller may be forecasted too high, while the bottom may be too low. Finally, follow the *Mollo Rule of Forecasting* – Always forecast your items presuming that out of stocks can be reordered and back in stock within 60 seconds. That's right, 60 seconds. Too many times I see forecasts based on lead times or minimum orders. That approach will always lead to backorders and overstocks.

Gaps

In between the zig and the zag

Your mother always told you not to follow the crowd. She was right. Same holds true with brands and products. The worst thing you can do is follow where your competitors lead. Don't just copy. Don't just tweak. Look closer...what isn't being offered in the marketplace? What's missing? Where are the merchandising gaps? Find your niche. Carve out your own path. When everyone else is zigging, go ahead and zag. Make your mother proud!!

Heroes

Are they out there anymore?

Heroes are those products that are the workhorses of your business. Heroes are those products that go back to your company's roots - perhaps they're even the reason the company was started in the first place, such as Lillian Vernon's personalized

handbag, or L.L. Bean's hunting boots and boat tote bags. Heroes are those products that your customers can't get enough of. Have you identified your heroes? Have you really paid them the honor they are due by leveraging them in as many ways as possible? Have you placed them in positions of honor on your spreads and put adequate page space behind them? Have you taken time to tell your customers the heroes' stories? Identify your company's product heroes and treat them with the respect they deserve!

Inventory

Asset or Liability?

Physical Inventory is one of the largest assets (or liabilities). Properly controlled inventory can move substantial profit dollars to (or from) the bottom line. With that in mind:

1) Consider how Inventory Control is treated in your organization. They are usually treated as second-class citizens, yet Inventory Control touches every department. This inevitably leads to finger pointing rather than cooperative efforts focused on the business itself. Instead, share responsibility - make buyers and Inventory jointly responsible for fill rates and overstock so they will work together to balance purchases and inventory turns to support customer needs. Also, physically situate inventory control to facilitate communication with buyers, marketing & creative departments.

2) Create an actual seasonal budget for inventory/merchandise purchases and track it in the same way you create and track payroll, catalog costs, costs per order, etc. It does require a strong inventory person working in conjunction with finance but can save hundreds of thousands of dollars and results in better cash flow, less overstock, faster inventory turns, etc. Caution: the "open-to-buy" budget does need to consider a number of factors, including demand, cancels, returns, overstock, initial margin, and carryover from prior seasons, however if done properly, the positive impact will be staggering.

Justify

To Be or Not to Be...it's still the question!

Justify your items. Never include an item simply because you have the inventory. If planning has been done diligently the merchant will be looking for the best product that will make money. Whenever I work with merchants in considering an item for inclusion I use this simple profitability check: consider margin (costs of goods), Sell Ratio - the percent of the item's demand covering advertising costs (this can be anywhere from low 20% to mid 30% range, anything higher is harder to make money); Variable OPS costs (pick, pack ship) say 10-12%. So if an item has a margin of 55 percent (45% COGS), a sell ratio of 35%, and OPS costs of 12% (totaling 92%) we have potential profit of 8%. Keep in mind this is before cancellations or returns, and Administration costs. Add a projected high return rate for the item and the

question is: Is this item justified to be added to the line? A new item should do at least 20% better than average or it probably isn't worth doing.

Also keep in mind when adding products - will it compete with another item in the same price point within the category? Make sure you are giving the customers a choice in low, moderate and a higher price points to select from.

Set thresholds: for example if your margin target is 58% - reevaluate any item that is 3 or more points lower than your target. Finally, another threshold I use relates to carryover products. I establish a guideline that adds (on paper only) 10% to its cost for cost of money and overhead costs to determine if an item still justified?

K.I.S.S.

The fine, fine art

K.I.S.S. - you know the acronym. It's all about keeping it simple. Customers are looking to you to be their editors. With too many choices and too many micro-level decisions to be made before one can purchase a product, companies who edit well will win their customer's heart. They will be looked at as time-savers, as personal shopping heroes. How are you editing your product offering? How are you simplifying your entire offer? Is your copy as clear and brief as possible? Is your ordering process short, sweet and most of all, convenient? Make your entire multi-channel experience one of your customer's simple pleasures in life. You'll both win.

Listen

Check your ego at the door!

Sorry, it's not about you. It's all about your customers. How well are you listening to their needs? Like savvy politicians embarking on "listening tours," perhaps its time to start one within your company. Get on the phones; read the emails, read the snail mail, better yet, hang out with your customers. Take them to lunch; it's more fun, more personal and more truthful than a focus group. Listen to what they have to say about your products and services...to what they have to say about their needs. Listen to the nuances; listen to what they're *not* saying, too. Share this listening with others in your merchandising department. Act on what your customers are telling you. You'll be glad you listened!

Metrics

Besides Sales - what do we need to care about?

Creating a dashboard of key industry metrics is critical to a company's success. Again, keep it simple. You don't have to create an encyclopedia of metrics. Some key metrics to monitor (from a merchandising/inventory perspective):

- Demand – measures success to mailing and a key component of dollar response and average order values. The key to what we re-buy or not!

- Fill Rates – both initial and final fill and both from an order level and item level. (Order level is measured as an all-or-nothing and it aids the DC in projecting split rates, i.e. the number of packages per order). Item fill is a guide to inventory control to measure service levels and forecast accuracy
- Backorder Rates - initial satisfaction levels or out-of-stock levels when a customer called. Keep in mind that not everyone agrees to wait for a backorder and will immediately cancel.
- Cancel rates – identifies customer dissatisfaction and lost sales.
- Return Rates – not only from an inventory standpoint but to handle the returns and make sure that they are being recognized
- Overstock at Cost and Cost of Overstock – the first measures how much is created and the second tells you the bottom line impact. Knowing these can help in the open-to-buy budgets as well as how much overstock we can safely generate and still “liquidate” at above cost levels
- Inventory Turns – this measures how quickly you are turning your inventory (i.e. how efficient you are to a just-in-time inventory) and thus has significant implication for cash requirements and inventory cleanliness.

Remember, you can't correct what you don't monitor!

Niche

Niche or be niched

Three points:

- 1) Your niche is your specialty. Own it. Specialize, don't generalize. Focus on doing one thing or one category of things really, really well. It's the only way to win in a big box world.
- 2) Niche what you know. Some people see a market vacuum and fill it. This can be a strategy for failure. Your niche should be something you're passionate about - one of your successful categories that is expanded and refined to a more comprehensive collection of products or services for a specialized audience.
- 3) Niche what customers want. Some specialties are too tight, the bulls-eye is too small to hit. Work from the leading sales indicators to find your narrow-but-deep market: like hot sauce, specialty teas, retro furnishings, pet gifts, Norwegian artwork, stuff for lefthanders – whatever.

Find your niche and own it.

Operations

They are there to support us!

Operations: this is the behind-the-scenes department that can either make or break a catalog business. I love to ask the question: How many of you provide SKU level forecasts to the DC in advance of the season? The answer never ceases to amaze me -

by providing that information the DC can prepare their setup more efficiently. For example, they can position faster sellers in larger bins requiring less frequent replenishments, or place them closer to the pack station for greater efficiencies. In addition, providing product samples, or even a spec book with photographs can provide the receiving department information to speed up the QC process. Or provide customer service enough information to quickly answer customer questions. Even providing a Top 10 backorder list with expected due dates and updates can make call center operators sound more knowledgeable and provide the DC with heads-up on incoming “hot” shipments.

At the beginning of the season I coordinate kick-off meetings where representatives from every department attend to review key issues for the upcoming seasons. The feedback from operations on everything from extra internal costs necessary to prep or ship an item to customer service reps providing reasons for item returns can save substantial hidden costs that would otherwise go undetected.

Remember, Operations are part of the team. Include them.

Purple Cows

Exact opposite of sacred

When something is sacred, it usually is not talked about. It is “hush-hush” and kept on a pedestal and pulled out just for special occasions. This is NOT what we want to do with our products. No sacred cows, just purple cows. It was actually Seth Godin who coined this phrase, “purple cows.” Tom Peters might say “wow products” or “dream products.” Some of my clients say their products have to be “buzz-worthy” or “crave-worthy.” What everyone means is that they want their products to be talked about. Raved about. Felt passionate about. Recommended to others. How many purple cows do you have in your line? How many more can you add? As the song says, “Let’s give them something to talk about!”

Quality

The Whole Enchilada

You have a few critical contact points with customers:

- The catalog or mailing
- The call center
- The delivery
- The moment the package is opened.
- The follow-up – the next mailing, the bounce-back email, or the return.

Quality for catalogers means building a brand strategy around each of those key moments. Your brand needs to be clear and present in each of those contacts – in every detail. Everything should be thought through from the customer point of view – and as much quality as you can train, hire, produce, or generate needs to be clustered around every single step: the whole enchilada.

Repurpose

Your grandmother was right!

There's a lot to learn from the folks who survived the Great Depression. You may have seen some of this thriftiness and resourcefulness in your own grandparents or great grandparents. They re-used *everything*...twice, maybe even three or four times. In the product world, I call this "repurposing." It is often an untapped wealth of innovation in many companies. Crawl back in the attic...take a look at your bestsellers from 3-5, or 10-15 years ago or even longer. What treasures can you find there? Can any art, copy, design or actual products be re-worked, up-dated or re-invented to fit your customers' needs of today? The fashion world is famous for this...those clothes you see teens wearing today remind you a bit of the clothes you wore in your very own glory days. They've been "re-purposed." Why not go in your own brand attic and see what else is waiting to be transformed?

Stories

It's Alive!

Direct marketing has several distinct advantages over retail. One of the most important is story telling. We're the storytellers, and our customers come to us as much for the stories we tell as for the stuff we sell.

Our picture and our copy are right there on the page together. We get the chance to show and tell how special, unique, unusual, and important an item is right then, right there. Who made it? What's the material? What's the history behind it? Why is it wonderful? What caught your eye? How can you use it? What does it mean? How does it fit in your life?

The picture is why they're interested; the copy - the story - is why they buy.

Thunderstorm

Let the divine madness begin!

Here's a unique brainstorm method – beyond the typical idea dump from the creative team. We use this for bigger concepts. The idea is this: bring together a united nations team: from finance, order fulfillment, purchasing, product management – plus creative - to focus on the cosmic concepts. Think outside the boundaries of your departments and job descriptions: what could our company do to surprise and delight our customers?

Other perspectives spice up the soup.

One of our key ideas last year came from an engineer – it was copy for a tee-shirt. This is not a suggestion box. It's a working meeting of diverse disciplines to shake the sky with big ideas.

Underneath

What's under the covers?

I know, I know. No one has any time anymore to do things in the way they would really like to do them. Deadlines are tight. Not enough time or people to get the job done. Often times, we function on autopilot. Just tweaking the plan from last season. A little more of this, a little less of that and we're on our way. STOP. Take a strategic pause. Yes, I know you don't have time. BUT STOP. Really take time to understand what is happening *underneath* all the stats you're responding to, underneath all the bestsellers, underneath all the products that are not selling. The customers are telling you important things but you need to read between the lines. Between the covers of each season's catalog. STOP. Get underneath. Ask "WHY" these things are happening. Don't stop at the "WHAT." Be a good detective. Pay attention to all your hidden clues.

Vendors

Strangers, Partners, Winners, Losers

I believe we're in a relationship business, built on trust and sometimes even on friendship: inward among ourselves, backward to our vendors and forward to our customers. We need to treat each person and each part of this process with care and respect.

I believe that the energy in the process shows in the product. If we buy and build things based on real ethical values, it will show in the products we sell. And, as we used to say, if we do it with love and respect, prosperity will come.

Web

dot.COM or Dot.GONE

Not so long ago the web was going to rule the world and catalogs would fade away. Well, the internet has become a driving part of our business. But the key point to remember is: the web is another important way to reach customers.

Factoid: a recent study revealed that over 53% of American households now have broadband access to the internet, double the number of just two years ago.

Many businesses are doing upwards of 70% of their direct business on the web. I don't know of one cataloger who isn't also on the web.

The businesses that are succeeding are sending their customers a clear message. "We will be consistent across all channels and our goal will be to make it convenient for you to reach us." That means we have to work harder to identify cross-channel shoppers, and we have to monitor our costs so we can complement their experience between catalogs, email promotions or in-store promotions (for those who have brick & mortar). From a brand perspective, we have to ensure that a customer will have the same experience regardless of channel.

XL - XXL

All things to all people

In trying to cover the broadest range possible, we sometimes lose sight of the costs of achieving that business. Don't over assort your product. This applies to SKUs within an item but also to your brand in general. Keep in mind that additional SKUs require attention, effort, inventory, warehouse space and operational costs, etc. for what – a few more sales? The costs far outweigh the advantage of carrying the extra SKUs.

I have also seen many businesses stretch beyond their core competency and end up doing many things poorly instead of one thing exceptionally by trying to extend their brands – or what they believe to be an extension of their brands. When I was at Disney in the mid-90s we had 4 brands and the staff was obviously stretched. After careful evaluation we decided to focus on the Disney brand and in fourteen months more than doubled the top line demand and took the catalog from a loss to a 15% EBITDA.

Yawns

What bores you may make you strong.

Does your company have MADD? Market Attention Deficit Disorder? I know we often do, or I do. We're in love with whatever's shiniest, newest – next. We're easily bored with what we did last year, last month – yesterday.

But customers could care less. They're in love with what connects with them. They're tuned to station WIIFM – What's In It For Me?

So, if white replacement candles, or polishing cloths, or poster putty, or dictionaries are selling, so be it. They may be boring service items that you wouldn't and shouldn't change. Pay attention to these boring things. The convenience, or the simple functionality of your old pickup products may represent and define your brand to some consumers. That's worth your attention.

Zen

Give thanks every now and zen.

A basic tenet of Zen thought is mindfulness – being aware and awake to the present moment.

Here's a present-tense moment for us to contemplate in the catalog business: we should be grateful, thankful, for every single order we receive. Look around: we're in the most over-marketed, over-merchandised, over-advertised society ever – except for the next one. Out of all these stores, these offers, these messages that say “read me,” “see me,” “buy me”... your customer chose you. What a great, wonderful moment. What a gift they have given you. In addition to their order, they have given you their full attention.

So, my Zen thought to you for today is to take a moment of thanks. Listen to the sound of one customer responding.

Conclusion

26 strategic merchandising tips...all of them important! But if you only take one thing from this article, remember to passionately, creatively give your customers *more* than they wanted or needed. Exceed their expectations with value. You can't do that by slavishly repeating your best sellers. You have to know your audience, and creatively go beyond what they say they want. Put your customers first – that's the royal treatment!

So next time you start a strategic merchandising planning session, remember these ABC's. They're just the beginning building blocks of something BIG!!

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