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INDUSTRY ANALYSIS

Merchandising and
Assortment planning the
art of being consumer
driven in Fashion-Retail

Merchandising and Assortment planning the art of being consumer driven

The beauty of Assortment planning: control!

Retailers are striving for localized merchandise plans based on consumer Demand: The unpredictability of today's consumer added to the volatility of the financial market means that retailers simply must change the way they approach understanding consumers and gaining insight from demand signals and how these are executed.

The Holy Grail is clearly to get closer to exactly what the consumer wants, regardless of location, and not only to launch the products they want but also to be able to do the right promotions based on stores and consumer demographics.

Assortment management gives that control; Assortment management is comprehensive collection of planning and execution processes that connect merchandise planning with purchasing, allocation, replenishment, and Planogram execution.

- Consumer insight helps define merchandising strategies.
- Assortment management enables localization by aligning planning and execution with store-specific demand levers.

One size does not fit all.



It is the case that not every consumer in every country will buy the same product, yet in order to save costs companies have in fact tried to do exactly that: standardise products to the point of devaluing brands.

Localizing products a little as possible to limit packaging variances and language variances is not just a Fashion and apparel trend, consumer goods companies have done the same, and have gone as far as harmonising recipes.

But consumers don't like to be generalised! And this seems almost an obvious statement; after all there is plenty of cultural awareness to take into account. Different cultures appreciate different qualities in a product, Italian manufacturing, French design and couture or British tailoring, that coupled with the huge variety of shapes and sizes makes generalisation a risky move.

The best apparel manufacturers know how to leverage local knowledge and balance the uniqueness of their designs with the call for localisation.

How a product is merchandised has always been a strong weapon for stores but ensuring the right product is available at the right time in the right place is easily what can make or break a brand.

This leaves organisation with no other choice than to get to know their consumer, who they are, what they like, and what quality are important to them in a brand.

This knowledge once harnessed will drive profitability and longevity of a retailer or manufacturer.

As such consumer driven merchandising connects demand intelligence and execution to provide a closed loop cycle from planning to financials, pricing, promotion and space allocations.

Done well it brings the manufacturer closer to being able to respond to the need for making specific promotional and product decisions and aligning these to channel and store specific demand signals.

Successful localization depends on assortment planning

Assortment aims to provide the right product mix for a given store and for a precise time frame. The importance of capturing local consumers is the fundamental driver behind the growing number assortment management initiatives and investment in technology.

Assortment has rapidly gone from being a means to justify buy-in quantities and match these up to financial budget to now being about pre-season planning and in-season monitoring in order to create a much closer alignment between top level financial planning and activities ranging from purchasing, product development, and allocation and down to promotional execution.

As such Assortment planning is now seen as the connector and heart of a consumer driven business.



Assortment management – a closer look:

Assortment management has 6 key components that connect product related processes from pre-season planning and in-season execution and monitoring to drive sales, margins and profits. (Source AMR research Inc. 2008)

- **Store clustering**—identifying store attributes, demographics, and using Consumer loyalty data to localize store assortments.
- **Assortment planning**—Product assortments to connect the number of customer choices and quantity per store for each cluster of stores and each season and floor set.
- **Item & supply flow planning**—Product delivery flow strategy identified for key product. Includes Time-phased elements at the item/store/week level in order to optimize inventory in the context of a multiple tiers network.
- **Size and pack outline**—Store-level size ratios and optimal pre-packaged quantities used for spreading colour-level buy quantities down to the SKU for apparel merchandise.
- **Allocation**—Allocation of the initial buy which is pushed down to stores rather than pulled via demand-based signals.
- **In-season tracking** —monitoring of preseason plans against actual sales and inventory levels providing an opportunity for timely reaction to change price point, promotions or increasing orders of merchandise.

Assortment planning alone will not solve the problem: connecting the pieces.

The key intersection between assortment planning and merchandising planning with allocation ensures decisions are executed in the intended way. Assortment management must connect to consumer driven merchandising processes.

- **Cross-channel merchandise planning** aligns corporate financial goals with tactical activities.

- **Lifecycle pricing and promotions management** makes it possible for retailers to best identify and execute base, promotional, and markdown prices according to demand forecast throughout the life cycle of the product.
- **Demand forecasting** no longer replenishment a tool, but an essential element of merchandise planning, assortment management, and price and promotion optimization.
- **Cross-channel core merchandise management** main processes of master data management (MDM). The backbone of every retailer and vital to managing all channels.

Become consumer driven through merchandising and assortment planning – 5 go-dos.



1- Why is M&A relevant to your organization? What are your goals, drivers, and current capabilities?

The pain felt by lack of those capabilities is all too often felt by those who hold the accountability of the processes going wrong or performance and margins pressure. But to what extend do your executive back this initiatives, do they fully understand that their business could be transformed by such a project and that whilst this is a complex project, the benefits of aligning high level planning to product development and execution are rich.

2- If assortment management is your starting point, create a wider understanding of how it fits into and support the bigger picture.

It is difficult to sell a new vision internally, consumer goods company have similar difficulties with Sales and Operations planning; here as with every new and transforming project as starting point that is understandable and for which benefits can be clearly estimated is the right place to start. But do not let this limit your long term scope. It is paramount that all

parties understand that this is just the beginning and there will be other pieces added in order to bring your organization a unique competitive edge.

3- Ensure your approach focuses on delivering benefits in at least the following 4 key areas

- a. **Demand forecasting** – whilst it has been at the centre of a debate in terms of its relevance as part of the Merchandising and assortment process, yet is a key component of markdown optimization and is seeing adoption in broader merchandising.
- b. **Connecting cross channel plans to the business goals**
Still very much a to-be state, company is striving towards connecting their many channels into one picture. This means creating specific assortment plans for each channel but having a suitably well established MDM that allows a reconciliation of plans and assess alignment to business goals.
- c. **Visual merchandising**
Visual merchandising allows a planner translate an assortment plan into an in-store experience. , Europe specifically has more space constraints than the US and as such sees the value of such capabilities; European vendors are therefore more advanced.
- d. **Performance management for margin control**
Performance management is without question the glue that holds the full process together from beginning to end: from merchandise planning to product development to assortment planning. Ultimately gaining visibility of product performance and process performance is

what enables a company to move from reactive to proactive; making decisions that protect margins, and ensure profitability and revenue targets are met.

4- Educate your organization to performance management and monitoring and fast reactive decision making.

Expecting teams to work differently, for example expecting designers to take into account in-season analysis that clearly shows good and bad performing products and use this insight into their future designs will be an uncomfortable transition. It is therefore important to set up a well thought out education plan, that not only walks teams through the new process but helps them to understand the power that will be at their fingers tips and how they will be more readily able to deliver margin and revenue targets.

5- Choose a technology partner with experience and references.

No one likes to take risks when embarking on a project that not only will be costly, but also one that has the potential to disrupt business. Most Fashion and Apparel retailers and manufacturers alike deal with numerous collections a year and to find the appropriate time to implement new systems is not an easy task. Working with a solution provider who has experience and happy customers should be a strong consideration. In addition your technology partner should be able to support your long term strategy and share your vision. Becoming consumer driven is a journey, implementing the technology that will enable this is also one. Ensure that your chose partner has the complete footprint required for you to meet your long terms goals, not just the solution for right here right now.

Conclusion

As assortment planning is becoming a central pivot point for an increasing number of activities, retailers have stretched the boundaries of legacy systems and are increasingly turning to software vendors for “next-generation” solutions. They are struggling to extend their current sytems to support new channels, geographies, or processes. Manufacturers / Retailers are keen to create a robust merchandise management underpinning, and take advantage of up-and-coming science-based applications.



Whilst many retailers are not currently using consumer driven merchandising capabilities they are investing in can impact the on-shelf

availability of product. “Use of demand forecasting, and particularly demand analytics, are increasingly growing thanks to evolved BI capabilities made available in systems today and companies strategy to deploy these are at the enterprise level; particularly retailers adopt attribute-based forecasting and the heavy use of forecasting, scenarios and what-ifs for promotional activities.” (Source AMR research Inc. 2008)

As retailers continue to move toward demand-driven retailing, the need for flexible and responsive supply chains only increases and is driving the adoption of Merchandising and Assortment strategies and the relevant technology. Software companies are responding to retailer needs for comprehensive assortment management suites by broadening their application portfolios and building flexible functionality to support the needs of multiple retail segments and channels.

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