

Grading, Clustering and Store Attributing - Understanding the Basics

Retailers are always looking for ways to achieve the highest margins and least amount of markdowns for merchandise at each store. The key is to assign the merchandise where it is most likely to sell. To do this accurately, information is needed to derive each store's selling uniqueness. Where is the store located? Is it in a mall, a college town or the middle of the city? Who is the customer?

Identifying the differences between stores can be achieved by attributing the stores. Once the stores are attributed, they can then be grouped into clusters with similar selling patterns. This forces a move from a 'one size fits all' buying and selling model to a localization model. This also includes identifying the uniqueness of individual stores and trying to adapt the merchandise mix to that uniqueness. Plans that were previously created as 'all store' or 'average store,' move

to a more granular level. Planners need to think about creating their plans at a lower level in the location hierarchy whether that is by store, store cluster or grade.

The Essentials of Grading, Clustering and Store Attributing

To begin attributing the stores, we need data, and lots of it. To look at the store's ability to sell specific merchandise, work with someone who can analyze the store's characteristics and nuances. In most organizations this is usually a store planner or an allocation analyst. Both have knowledge of the store's performance and can easily attribute the stores.

But what attributes should be used? Identifying store attributes that can be tied to the merchandise attributes is the first step. Knowing that a store sells a high amount of 'beach wear' will help an assortment planner to plan for the right merchandise assortment and an allocator to get the merchandise to the stores more apt to sell it. This is, however, only the first step, as this data needs to be translated into meaningful attribute definitions. For each characteristic you expose, it is possible to create a whole new attribute: border stores, collegiate locations, resort wear, etc.

Is this a price sensitive store? Does this store sell ethnic merchandise better than other stores? The key is to identify enough attributes to create meaningful clusters. If you create too many

A traditional way to cluster the stores is by using store volume to rank each store to average sales. This results in a set of grades and each store would be assigned a relative score (e.g. A to E). Historically, volume was the only measurement used for grading but two stores could be the same in volume even if one store has a larger selling capacity. The inventory requirements would be very different for these two stores. A recommendation is to use both volume and location size to derive a store grade. A matrix can be created with volume and size, and stores can be placed in the matrix (e.g. A1 to E5). This matrix could be used to determine the number of weeks of supply that each store warrants in an allocation. The stores with a high volume and low selling space would turn faster than a high volume store

...create the best assortments for an individual group of stores.

clusters, maintenance becomes a nightmare. Too many attributes or members will result in a larger number of store clusters; the attributes could be so distinct that there is only one location in each cluster.

The merchandise team need to determine the number of store clusters that are reasonable to manage and will genuinely add substantial value to the process to offset the increase in complexity and workload they generate. The attributes could be used in combinations to create unique store clusters. These store clusters would be used in merchandise and assortment planning to create the best assortments for an individual group of stores. Allocation would then use these store clusters to prioritize allocations or for determining depth of the item.

with large selling space. Conversely stores with low volume and a large selling space would turn considerably slower than the average store.

At what level should the grades exist? How often should regrading occur? Setting a grade at the total store level does not allow for the uniqueness of a store's selling to be accounted for. The same store could be an 'A' store in outerwear but a 'C' store in denim. To be able to see the individuality of the store and to utilize it in plans and allocations, a grade at a lower level of the merchandise hierarchy might be warranted. Often the grading occurs at the level of the merchandise hierarchy where the merchandise within that level is well defined. Choosing to grade at the department level of accessories might be too high-level when the classes below are as disparate as socks, earrings and slippers. In this

...stores need to be grouped into manageable subsets...

example, it might add a bigger benefit to grade at the class level. But beware, the lower the level, the greater the workload and complexity!

Determining how often to update the grades requires some analysis of a store's grade within a merchandise level over time. Stores may maintain the same grade for a quarter and only need updating quarterly. Another retailer may have stores that are more volatile and require grading by month. It is key that the grading is done to support the planning calendar. If the merchandise plans are created and maintained on a monthly cadence, then monthly grades could be the answer. These store grades will be used in merchandise and assortment planning, as well as when the merchandise is allocated.

The Challenges of Grading, Clustering and Store Attributing

Localized assortments is a laudable goal, but pragmatically it is extremely difficult to manage at the individual store level if there are more than a handful of stores. In all but the most unique of circumstances, stores need to be grouped into manageable subsets of stores and attributes of the store's selling uniqueness. The traditional attributes are location, store size and climate, but these do not get to the heart of the customer's needs. To get to really know the store and its customers, you need to analyze the store from more angles and with greater precision. There are many questions to ask when considering how to attribute the stores. How are the attributes decided upon? How many should there be? How do I balance large data analysis with workload

considerations? How do I manage the cultural transition of my organization to think differently about our stores? All of which needs to be considered in conjunction with the challenges of migrating to an omni-channel operation.

What Does Columbus Consulting International Bring to the Table?

As a trusted partner, Columbus Consulting can work with your organization to identify and utilize grades, clusters and location attributes that will balance the desire for detail with the workload considerations. We can help you decide on the optimal number of store attributes and store groups and work with you to Grade the stores at the ideal level of the hierarchy and utilize the grades across your business.

As an organization we have over 500 years of expertise in merchandising, planning and allocation. We have experts who have come from businesses like yours and understand the challenges as they have faced them before. We leverage the experience of planning executives, allocation experts and IT innovators. Our team understands that retail is constantly changing and evolving and we are here to help your organization evolve. Change can be difficult; we have change management experts who can help to alleviate the pain of transitioning from a macro view of stores to a more localized approach.

For more information, and to learn how Columbus Consulting can bring real and lasting change to your company, contact us or visit www.columbusconsulting.com.

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