

# Merchandise Planning - Understanding the Basics

Every planning professional or retail executive knows the answer to this question, right? In reality, though, it's not that simple. Merchandise Planning (or Merchandise Financial Planning) means different things to different people depending on the retail sector, the origin and the history of the company; there is no singular approach to Merchandise Planning.

For a fashion specialty, it is all about encapsulating the product strategies and trends in a detailed financial plan to be executed from design concept through to final markdown and liquidation. For an off-price retailer, the focus is on Open-to-Buy management in-season with few, if any, long lead-time production or commitment issues to worry about. For a mass merchant, the concerns range from those of specialty retailers to maintaining in-stock service levels for staple items. Each of these businesses has a distinctly different approach to Merchandise Planning.

## The Essentials of Merchandise Planning

When Merchandise Planning became its own specialized function a few decades ago, the adage that described its purpose was, "the right product, in the right place, at the right time." In today's hyper-competitive omnichannel world, however, the adage has become, "The right product, in the right place, at the right time, at the right price, in the right quantity." This puts greater pressure on retailers to have the right planning process in place to meet the needs of today's demanding customers.

For most retailers, merchandising is charged with the responsibility of meeting the company's financial goals by satisfying the needs and wants of the customer. The merchandise plan is the "how" in achieving this. At its heart, it's a sales plan; for long lead-time businesses this may be



based on strategy and a 12- month outlook, while for replenishment businesses this could be based on a system-generated forecast that looks only a few weeks or months ahead. The sales plan drives every other metric within the merchandise plan.

The next area to address is the pricing and promotion strategies that are needed to drive the sales plan. Whether it is the full-price strategy of a luxury brand, the everyday value of a mass merchant, or the pulsed promotions of many mall-based retailers, pricing and promotion drives the sales plan out to the unit demand.

For the online channel, determining the inventory requirements to support sales are fairly straightforward, as the customers' behavior is not impacted by the level of inventory held. For the store channel, however, the visual impact of the merchandise presentation has a very direct relationship to sales and the customers' perception

## The Challenges of Merchandise Planning

For the majority of retailers, the day-to-day running of the business consumes the most time and energy. Business processes evolve over time to meet the demands of a changing market, but the planning process and supporting systems are often frozen in time. Without a significant event, such as acquisition or brand repositioning, it is often difficult to dedicate the time and resources that are needed to re-evaluate the planning process and develop new capabilities. Retailers that fail to do this risk being left behind, too; after all, retailers must not only continually evolve the products and experiences they offer consumers, but the business processes and the technology that support them.

# Retailers that fail to do this risk being left behind...

of the brand. For some, sparsity is desired in order to create urgency, i.e. "buy it now or it is gone forever." For others, guaranteeing the availability of a variety of brands, or all colors and sizes within the assortment, is a promise of customer satisfaction. How the retailer represents itself through inventory helps define the brand, and has a very direct impact on profitability.

Pricing and promotion combined with the initial markup (IMU) generated by the sourcing strategy drives the margin achieved on sales. But for many retailers today, the costs of liquidating excess inventory, whether through in-store and online discounts or through third-party wholesalers and off-price retailers, dwarf the impact of promotions on the bottom line. A key aspect of Merchandise Planning is converting sales to profits, so planning inventory to balance the financial goals against the customer experience is critical.

The challenge is making changes that can give you a competitive advantage without pulling people out of their "day jobs," addressing challenges such as:

- How do you extend the level of detail of Merchandise Planning from class down to subclass or item?
- How do you extend Merchandise Planning from the chain or channel level out to individual stores and fulfillment centers?
- How does the Merchandise Planning process become more granular, more accurate, more sophisticated without ballooning the function's headcount?
- How do you bring thought leadership to these new processes when that experience doesn't exist within the organization?

# ...engage with a partner who has the experience and can shoulder the heavy lifting...

From the systems perspective, a major consideration of any change is the impact on the technology eco-system that has been built up over the years. The software costs, implementation costs and the considerable time and effort expended on creating robust interfaces to integrate a multi-vendor environment have a significant financial impact.

Can the existing solution be upgraded and re-implemented to meet the needs of the new business process? Can the existing solution be augmented with low-cost or free software, such as Excel? How do you compare the capabilities of the current solution to the offerings of other software vendors when little or no experience of those solutions exists within the organization?

A solution to these challenges is to engage with a partner who has the experience and can shoulder the heavy lifting – a partner whose success is measured only by your success.

## What Does Columbus Consulting International Bring to the Table?

We are a unique agent of change for any client that we work with. As a trusted partner, we can guide, support and deliver new ways of working to a company through our:

- Deep expertise in Merchandise Planning – We have “sat in the seats” of our clients in corporate roles and have first-hand industry experience and understanding of Best Practices.

- Unique mixture of strategic insight and hands-on pragmatism.
- Agility and flexibility in focusing on your success.
- Change Management – We know how to make change stick and how to work with users/ stakeholders to successfully adopt change.

Merchandise Planning has been a core strength of Columbus Consulting since our inception, with a team of professionals who have direct experience from a variety of companies across the globe and a broad range of retail sectors. Our consultants have worked for over 15 years implementing leading Merchandise Planning technologies across a variety of technology platforms, and we are software vendor agnostic.

Columbus Consulting leverages the extensive experience of proven retail executives, planning professionals, and systems and technology experts. Our team understands that Merchandise Planning is complex and intricately tied to the merchandising business processes and calendars. We recognize that in order to be successful, the solution must be a perfect match to the needs of the retailer.

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](http://www.columbusconsulting.com).

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