

## **Subject: Apparel Merchandising**

### **Unit 5: Merchandising mix and product development**

#### **Quadrant 1 – e-Text**

#### **Learning Objectives**

The learning objectives of this unit are to:

- Describe gross margin and gross margin percentage.
- Describe stock sales ratio as a measure of merchandising performance measure.
- Outline the concept of stock turnover.
- Describe mark up and ways to measure mark up and mark up percentage.
- Explain the GMROI as an important measure of merchandise.

#### **5.1 Retail Merchandise Mix**

Merchandise mix planning is a projection of the variety and quantity in details of merchandise to be carried in stock to meet customer demand.

BOM (Beginning of Month) and EOM (End of Month) inventory levels are calculated for each month of plans.

#### **Basic Stock Plan**

Basic stock plan is composed of staple items that have consistent demand and should be in stock all time and has a highly predictable sales history with stable customer demand for a long period of time.

#### **Model Stock Plan**

The model stock plan breaks down merchandise needs according to such factors as classification, price, colour, size etc. to describe the requirements.

#### **Percentage Variation Method**

The percentage variation method determines stock for a higher turnover rate.

It allows for stock fluctuation and is best on the premise that the variation of monthly stock from average stock should be half as much as the percentage variation in monthly sales from average sales.

### **Stock-to-Sales (SSR) Method**

The stock-to-sales method arrives at a planned stock level that is based on what should be on hand at any given time, rather than on an average stock basis.

### **Week's Supply Method**

The week's supply method is used when calculating a needed stock level by week. Here, planned stock is equal to the average stock in a week's supply multiplied by the planned weekly sales.

## **5.2 Objectives of Merchandise Mix Planning**

The main objectives of merchandise mix planning are:

To provide sufficient inventory consisting of the right styles, sizes, colours, prices and other important selection factors.

To time merchandise deliveries to correlate with customer demand and in line with the store's ability to stock, display and promote the goods.

To plan purchases so that OTB is available at all times, enabling the buyer to have funds available to purchase.

### **Balanced Assortment of Merchandise**

Balanced Assortment of Merchandise is having sufficient Breadth and Depth to meet the demand of the store's target customers.

*Assortment Breadth* is the number of different classification or items that are offered to the customer.

*Assortment Depth* is the quantity of each item of merchandise available.

### **Merchandise Selection Factors**

These are the merchandise selection factors. Silhouette, colour, fabrication, decoration or trim, workmanship and quality, size or fit, brand or designer name, product packaging, ease and cost of care, utility, price and fashion level.

## **5.3 Key Terms**

**Stock Keeping Units (SKU):**

It is the smallest unit level of merchandise and includes styles, color, size and any other information that needs to be tracked.

**Forecasting:**

Predicting the styles and trends of the merchandise to be purchased for the customer.

**Long-Range Planning:**

Entails looking toward the future for a business and projects goals of five or more years.

**Short-Range Planning:**

Involves looking at the most immediate concerns and setting goals of the business to achieve them.

**Top-Down Planning:**

Involves goal setting at the highest level of organisational structure and management, and then filtering the goals down to the other levels.

**Bottom-up planning:**

Involves goal setting at the lowest levels of management and then filters plans up the organisational structure to the highest level.

**Stock Turn:**

How many times stock is sold and replaced within a time.

**Retail Merchandising**

Retail merchandising is the process of developing, securing, pricing, supporting and communicating the retailer's merchandise offering. It means offering the right product at the right time at the right price with the right appeal.

The retail merchandising mix process involves these steps.

1. Planning Merchandise Variety
2. Controlling Merchandise Variety
3. Planning Merchandise Assortment/Support
4. Controlling Merchandise Assortment/Support
5. Merchandise Mix Strategies

Developing the merchandise mix allows the retailer to segment the market, and appeals to a select group of consumers.

## **5.4 Managing the Merchandise Budget**

Retail merchandising requires management of the merchandise budget including: Planning And Controlling Retail Sales, planning And Controlling Inventory Levels, planning And Controlling Retail Reductions, planning And Controlling Purchases, planning and Controlling Profit Margins.

The Components of the Merchandise Mix comprises the:

- Merchandise Variety (number of product lines)
- Merchandise Assortment (number of product items)
- Merchandise Support (number of product units)

## **5.5 Planning Merchandise Variety**

Planning merchandise variety involves planning and Controlling Product Lines. Retailers use many factors to evaluate product lines. They are:

1. The compatibility among product lines. The factors to be considered are: Product substitutes, product complements, unrelated products.
2. The physical attributes of each product line. The factors to be considered are: Product bulk, product standardization, product service levels, product selling methods.
3. The product lines' potential profitability. The factors to be considered are: Direct and indirect contribution to profitability, calculations of gross margin % and \$\$.
4. The role branding plays in the success of the product line. The factors to be considered are: How brands can distinguish a retailer from competitors? How brands can build store loyalty.

The advantages and disadvantages of offering different types of brands – no names, vendor brands, store brands (private labels) and licensed merchandise

5. The age of each product within the product lifecycle. The factors to be considered are: What stage a product is in to judge future sales potential? The number of products offered at different stages.
6. The fashionable nature of each product line. The factors to be considered are: Use of unique designer fashions as part of the store's strategy.

The average risk of fashion merchandise (But also note: high margin items with above average profitability)

7. The market appropriateness of each product line. The factors to be considered are: How well the product matches consumption patterns and buying needs of targeted, consumers, the relative advantage, affinity, trialability, observability and complexity of new product introductions, market trends – provide products the market wants.

8. The impact of lifestyle on product line acceptance. The factors to be considered are: Targeted customers' activities, interests, and opinions, the match between consumers' lifestyle and retailer's image, usefulness of trade shows to identify product lines for targeted consumers' lifestyles.

9. The competitive threat facing each product. The factors to be considered are: Competitive conditions under which the product line is available – intensive, selective or exclusive distribution, is the product line available to direct (intra type) competitors or indirect (inter type) competitors, or both.

10. The conditions under which each product line will be procurable. The factors to be considered are: Availability and reliability of various suppliers, terms and conditions under which the product will be made available.

### **Controlling Merchandise Variety**

Controlling merchandise variety is both an art and a science. There are no specific rules for what should be included in the merchandise mix and what should be excluded. Two useful management methods are: Category Management, where each product managed as a business unit at the store level. ABC Analysis, where each product line is rank ordered based on performance levels.

### **5.6 Planning Merchandise Assortment and Support**

One must organize the merchandise mix as to the number of different product lines carried. Decide on Brands, Sizes, Colours, Material, Styles and Price points. The goal is to ensure that product choice meets targeted consumer needs. Carefully plan the number of units to have on hand to meet the expected sales for the brand, size, colour combinations. Develop merchandise lists, Basic Stock List (staple items), Model Stock List (fashion items), and Never Out List (key items and best sellers). This involves monitoring and adjusting the types of product lines that are added and dropped from the merchandise mix.

Two widely used methods to control assortment and support are:

#### **1. Inventory turnover**

The rate at which the retailer depletes and replenishes stock.

#### **2. Open-to-buy**

The amount of new merchandise a retailer can buy during a specific time period without exceeding planned purchases for the period.

### **5.7 Merchandise Mix Strategies**

Different optimal variety and assortment strategies possible!! These include:

- Narrow Variety / Shallow Assortment
- Wide Variety / Shallow Assortment
- Narrow Variety / Deep Assortment
- Wide Variety / Deep Assortment

Examples of Narrow Variety/Shallow Assortment are, Vending machines, Newsstands and Door-to-door sales.

Examples of Wide Variety/Shallow Assortment are, Variety Stores, General Stores and Discount Stores.

Examples of Narrow Variety/Deep Assortment are Specialty Stores.

Examples of Wide Variety/Deep Assortment are Full-line Department Stores.

### **5.8 Merchandise Budget Management**

Financial management tools are used to plan and control the total amount (in dollars) of inventory carried in stock at any time. They determine how much a retailer should invest in inventory during a specified period.

*Remember:* Merchandise Budget controls dollars and Merchandise Mix controls product units.

*We will consider:* Calculating monthly sales index to project next year's sales. Using Basic Stock Model to calculate BOM stock. Using Stock/Sales Ratio Method to calculate BOM stock. Calculating planned monthly purchases and open-to-buy.

### **5.9 Product Development in Export House**

*Chronological Process Of Apparel Merchandising In An Export House:* Salesman Samples, Counter Samples, Approval Samples, Photo samples, Preproduction Samples, Production Samples, Shipping samples. Swatch, and Trims, Trim's Related Affairs.

*Sample:* Reference garment corresponds to: The artwork (styling) done by designer and/or developer, particular purchase order, any revision to the style work, conform to any specific requirement.

### **5.10 Sequence of Sampling**

This is the sequence of sampling.

1st Pattern → 2nd Pattern → Counter Sample → Salesman Sample → Photo Sample → Approval Sample (Size Set, Mock-Up) → Pre- Production Sample → Production Sample → Shipping Sample.

#### **First Pattern**

First pattern is the first physical version of any garment as per the artwork done by designer and for a developer.

Human Mind → Sketch → Paper Pattern → Sample

The purpose is to see the design work and test the fitting. Regarding status, Nothing specific. The Material should be available. Price has not been confirmed yet. Quantity is 1 for the customer and 1 for the merchandiser. Delivery: As per urgency.

#### **Second Pattern**

Usually designer /developer always ask for some changes to the first pattern. Second pattern is made as per comments.

#### **Counter Sample**

While the first pattern is made on a designers artwork, the counter sample is not made on a designer's artwork, but has to follow another sample given by the merchandiser.

The purpose is to see the workmanship and test the factory skill. Nothing specific regarding the status. Materials should be available. Price is not yet confirmed. The Quantity is 1 for customer and 1 for self-keeping. Delivery is as per request.

#### **Salesman Sample**

A salesman sample is made when the price is confirmed and orders are on speculation, usually in 1 size in all colour combinations of expected order. The buyer holds a meeting with its customer and records their response on order quantity per colour, size etc. And finally, an order is placed with their vendor.

The purpose is for sales meeting by retailers, market appraisal and Demand / order forecast. The status is the final stage of the order confirmation. Actual material is used. The price is confirmed. There is minimum quantity per colour combination. It is very important to meet the delivery date.

## **5.11 Other Samples**

### **Photo Sample**

Photo samples are made with actual colours and materials that are to be worn by the models on the event of shooting for a catalogue.

### **Approval Sample**

An approval sample is a new sample that is taken in a discrete period of time, whenever any revision in the sample is required. Sometimes, mock-up is workable too, as per new specification. It is sent to the buyer who checks if the new sample conforms to the revision that was necessary and then approves it.

### **Pre- Production Sample**

When material for bulk production arrived, the factory makes a sample with the actual material and sends it to the buyer.

### **Production Sample**

It is a reference to the buyer that the bulk is being produced as per specifications. The Buyer wants to be assured that correct material is sourced and line workmanship conforms to the quality level.

### **Shipping Sample**

A sample is kept from every Pre-Shipping inspection to be referred, if required, after the order has been delivered. This is usually done for any disputes, for example Claims.

### **Swatch**

A swatch is a presentation of all the materials (Fabric & Accessories) used for any specific style / order.

Usually, small pieces of fabric and each piece of accessories are attached on board paper in a systematic manner. A swatch is very important for the production line to make the correct construction of a garment and QC department ensures it. The concerned merchandiser should confirm and approve the swatch.

### **Trims**

Trims cover all the items used in the garment, except the basic fabric. There are hundreds of items used to manufacture the garments. Proper selection of trims and its quality are very important for styling, otherwise the garment may be rejected or returned by the customers. Here is a part of a list that covers some names of the trims:

**Zipper/Fastener**

**Teeth:** Nylon, Vislon, Metal.

**Colour:** Tape Colour, Teeth Colour.

**Size:** #3, #5, #8 etc.

**Length:** As per requirement 18 cm, 72 cm.

**End:** Close End (C/E), Open End (O/E).

**Slider:** One Way, Reversible.

### **5.12 Product Development Process**

The purpose of the product development process is to certify that the supplier understands and adheres to the specifications established for a specific product.

Typically, a retailer's objective is to provide their customers with the highest level of quality and service at the most competitive price. Clothing stores can meet this objective most successfully, when their supplier fully understands the product development process. The development process is critical to ensuring customers' satisfaction and minimizing customer returns. Most retailers approach to product development consists of a multi-step process that must be completed before finished goods are produced.

### **5.13 Steps in the Product Development Process**

Common steps in the product development process are:

- Product Review Meeting
- Submission of Trimming & Components
- Fit Testing
- Photo Samples
- Performance Testing

#### **Product Review Meeting**

Apparel buyers, merchandise managers, quality assurance personnel, or other members of the retailers' staff can schedule a product review meeting with the supplier. This meeting should be conducted directly after the merchandise manager approves the concept for development.

The purpose of the meeting is to review the preliminary product and package specifications, and to ensure that the supplier is aware of the companies quality and product development procedures. The meeting should be of a technical nature. Therefore, the supplier should bring to the meeting the appropriate representation from their staff.

Expect to discuss the manufacturing process in detail, and address any potential manufacturing concerns or limitations, in regard to manufacturing the particular item being discussed. In this meeting, the supplier should be provided a preliminary specification file with details of the garment that is to be manufactured. The supplier should be requested within a short period of time, to formally acknowledge their understanding of the requirements. It is a good idea to obtain this in writing.

### **Submission of Trimming**

Before apparel production begins, it is critical that the buyer approves all components that will comprise the finished product. Some buyers will require review of all trimming, and others will require the approval of major trim components only. For example, some buyers will want to see examples of the actual sewing thread.

However, it may not be required for others to view the thread. It is important to understand what the buying company wishes to review prior to production. Experienced fashion merchants will require that you submit trim submissions on an appropriate form. This allows both the supplier and the purchaser to maintain well organized records.

### **Items that may need to be submitted for Review**

Here are a few examples of items that may need to be submitted for review.

- Lab dips, strike offs (screen printed swatches), reeling of yarn in all colours.
- Production fabric, knit downs, handlooms, etc.,
- Care labels and main labels.
- Clothing Components such as Buttons, lace, zippers, interlinings, shoulder pads, elastics, hangers, hangtags, price tickets, etc.,
- Packaging items such as ASN labels, chip boards, jet clips, tissue paper, polybags etc.,

In addition to trimming, you will most likely be required to submit Fit Samples, pre-production garment samples, testing samples, TOP Samples (Top of Production Samples), etc. You may also be required to submit documents during this phase such as flammability documents etc.

### **Fit Testing**

Some fashion companies will require fit testing as part of the product development process. In order to ensure proper fit, steps must be taken to evaluate the garments comfort. This process is

to both monitor the manufacturer, but also to make sure the original size spec developed was proper.

Even if the manufacturer follows the spec file perfectly, during the fit process the fit technician may discover that adjustments maybe needed. Some companies will conduct the fit testing on live fit models and others will do the testing in fit forms (mannequins). The merchandisers should advise the supplier regarding which size garments they wish to review for fit. Some companies will review only one size, and others like to review the smallest and largest size.

For example, if production is ordered in a scale including small thru double XL, one sample in size small and one in XXL may be required for the fit review. Again, the retailer (or company purchasing your product), should advise you regarding the sizes they require for review.

**Note:** There are many different How to Measure Guides in existence. Make certain to receive a copy of the how to measure guide that your buyer utilizes. This is the only way to insure that you provide accurate garments. After the fit testing is complete, the final spec file should be issued in writing.

### **Photo Samples**

Some retailers will require photo samples. These samples are utilized for developing catalogs or advertising. Photo samples, typically do not require all final trimming, such as brand labels, but the outside appearance of the garment must be in correct silhouette and colour.

The photos must represent exactly what the finished product will look like when shipped (the outside visual appearance; does not need price tickets, hangers, etc.). Unfortunately, retailers cannot wait for bulk production samples, because catalog photos and advertising photos are needed far before the finished garments are ready to ship from the factory. Again, not all retailers need photography samples.

By the way, some companies use digital fabric printing to make samples more quickly, if they have an urgent photo shoot pending.

### **Performance Testing**

This is a very important aspect of the product development process. All products developed must pass performance testing requirements. It is the suppliers responsibility to ensure, that all products produced meet or exceed the buyers performance standards.

Before entering into an agreement to manufacturer apparel, be certain to fully understand the quality standard requirements requested by your buyers. It is normal practice to have both fabric and garments tested before product is delivered. Typically, the testing is done at a third party testing facility such as CTL, MTL, etc.

Often, the buyer is the one to assign the testing lab. Sometimes, the retailer (buyer) will submit the garments for testing. However, often the buyer will require that the supplier submits the fabric and garments directly to the testing laboratory, and then provide them with copies of the test results. Testing will be done prior to production and after final production is complete. Many retailers will also do surprise testing on garments after they arrive into the stores. This technique is used to discourage suppliers from submitting garments for testing that are not actually the same quality as final production.

Some articles of clothing will require more testing than other items. For example, items that claim to be flame retardant, water resistant, anti-bacterial, etc., may require additional testing. Also, some children's apparel may require additional safety evaluation.

## **5.14 Concepts of Apparel Product Lines**

### **Product Line**

The total merchandise mix presented for sale. Within each line / category / classification, the merchandiser builds an assortment. For example: Style. Merchandisers and designers when planning and developing product lines think in groups rather than individual styles.

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### **Categories for Merchandising Groups**

Separate: Tops, bottoms or both items. For example: 1 Style+5 colors+4 sizes.

### **Coordinates**

Groups of different products with common characteristics such as style, trim, colours, etc. For example, 5 styles+2 colours+ 6 sizes, Multi-piece style (Example: Suits).

### **Related Separates**

These are displayed and sold like a separates line, but has even more coordinating potential, because of common colours and materials. For example: 2 styles of shirts + 2 styles of sweaters.

### **Merchandising Responsibilities**

Line planning: Merchandising responsibilities include guiding, defining, and limiting the line by evaluating merchandise mix and forecasting.

Merchandising responsibilities include: Looking at last seasons' sales at same selling period, reviewing current market information, brainstorming for new ideas, shopping on the world

market. Plan merchandise budgets by looking at last year's sales and plan for sales increase / decreases. Take into consideration new accounts and current retail relationships. Talk with buyers on their projected buying % for the upcoming selling period.

### **5.15 Planning Merchandise Assortments Based on Budgets**

A balanced assortment matches the assortment plan to customer demand. Assortment balance is based on the development of model stock plans that identify SKU (number of Stock Keeping Units).

SKU = Number of Styles x Number of Sizes x Number of Colours

Assortment is the range of choices offered. It is usually defined by:

Style + Size + Colour

#### **Assortment**

*Assortment variety* is the total number of unique items that must be produced to satisfy the design plan.

*Assortment volume* is the number of units that must be sold to achieve planned sales.

*Assortment diversity* is measured by Volume per SKU (VSA) for the assortment. For example: 5 or less means losing sales.

*Assortment distribution* is the allocation of volume broken down by style, size, and colour. Analyze and update merchandise plans when conditions change in the market, merchandising plans must be adjusted.

### **5.16 Line Development and Concept**

Line development includes all processes required to translate a line plan into real merchandise. In Line concept, the first phase, determines the look and appeal that establishes identity and saleability. It takes into account current issues, and fashion trends, and finds inspiration from various sources and involves the development of a concept board.

#### **Product Development**

Product Development is the design and engineering that is required to make products saleable and producible. Apparel product development consists of 2 phases. In the *Creative design phase*, the focus is on creativity and formation of merchandisable groups. In the *Technical design phase*, the style, fit, and patterns are perfected. It also includes specifications and costing.

#### **Line Presentation**

At the wholesale level, there are two activities. Line preview and line release. In the Line preview, sales representatives see the line and become inspired with its sales potential. The Line release must coincide, with market dates and target dates for showing to buyers.

### **Developing a Line (Collection)**

The timing of developing a line depends on: Required production time, and the Price category of the merchandise (popular, moderate, better). Better market offerings are copied by moderate priced houses, and in turn, popular priced makers copy the moderate priced houses.

Hence, the highest priced apparel is produced earliest as it comes first in the market and lower priced lines later. Manufacturers and Brands show their lines in showrooms during market weeks for buyers to visit, select, negotiate and order merchandise for new season.

The process can happen 2-6 months in advance, before the merchandise is to be received in the store. Couture houses create their own style, based on the designer's sensitivity to the influence of time. These designers shop in the textile fairs and markets, visit foreign centers and have good insight and experience to conceptualize what people will be prone to accept.

For price levels below couture level, that is, for various brands and stores the process can vary. A line can be designed originally, or are Semi designed, or Straight copies.

### **Purpose of Developing and Selling the Line (Collection)**

The main purpose of developing and selling the line is to:

- Seek objective advice from their customers
- Sell the line in order to realize the profit
- Know what samples / styles will come into production and which style to discard.

### **Brand Design Efficiency**

By concentrating on best sellers, the manufacturer or brand can *maximize profit*. Early favorable selling, puts the manufacturer in a position to know what to prepare for later records. Hence, future sales can be predicted realistically.

*Selling of a line.* A fashion manufacturer's aim is to produce apparel for a group of people with recognizable purchase behavior, characteristics, using retailers as a middle man to reach those potential customers.

Manufacturers or brand showrooms maintain samples during Market week with information on price, tentative garment delivery, for buyer's selection, and hence, order booking.

A manufacturer or a brand can have sales people, who are assigned to sell to stores, within their territory. Sales representatives can act as independent agents who work on commission basis. Some sales people can carry the merchandise to more than 1 buyer.

When orders are placed early, it: Ensures early delivery, can cut down on a buyers workload during market week, allows the manufacturer to book fabric in advance, in order to ensure timely fabric delivery from the mill, ensures superior quality of construction, detailing and fabric, to the buyer, as the manufacturer does not need to compromise on any factor in order to meet the tight delivery.

However, early commitments can be made on the basis of two buyer alternatives: The right to alter an order when the market week is still on, and to hold up the order confirmation until the market is shopped.

### **5.17 Conclusion**

To summarize in this unit you have reviewed the retail merchandise mix.