Subject : Apparel Merchandising

Unit 7: Assortment planning

Quadrant 1 – E-Text

Learning Objectives

The learning objectives of this unit are to:

- Review the concept of assortment planning.
- Review the principles of assortment planning.
- Describe the factors affecting the assortment planning.
- Describe the characteristics of assortment plan.

7.1 Introduction to Assortment Planning

A retailer's assortment is defined by the set of products carried in each store at each point in time.

The goal of assortment planning is to specify an assortment that maximizes sales or gross margin subject to various constraints, such as a limited budget for purchase of products, limited shelf space for displaying products, and a variety of miscellaneous constraints such as a desire to have at least two vendors for each type of product.

The assortment a retailer carries has an enormous impact on sales and gross margin, and hence retailers give high priority for assortment planning. However, no dominant solution has yet emerged for assortment planning, so assortment planning represents a wonderful opportunity for academia to contribute to enhancing retail practice. Moreover, an academic literature on assortment planning is beginning to emerge.

Retailers engage in assortment planning because they need to periodically revise their product assortment. Several factors require a retailer to change their assortment, including seasons (the fall assortment for an apparel retailer will be different from the spring assortment), the introduction of new products and changes in consumer tastes.

Assortment planning is a relatively new but quickly growing field of academic study. The academic approach to the assortment planning problem rests on the formulation of an optimization problem with which to choose the optimal set of products to be carried and the inventory level of each product. Decisions for each product are interdependent because products are linked in considerations such as shelf space availability, substitutability between products, common vendors (brands), joint replenishment policies and so forth.

Merchandise planning is a process. The merchandise planning process begins with the formulation of objectives, establishment of policies, and implementation of procedures necessary to carry out department or store objectives. The planning process includes both dollar planning in terms of merchandise budgets and unit planning in terms of merchandise lists. Since effective planning requires accurate record keeping, top management, in conjunction with store buyers, must plan and set specific policies for various types of records used in most retail establishments.

A successful retail operation requires a merchandise assortment of the right type, in the right place, and at the right price. To accomplish this objective, activities such as profit and loss, sales, inventory, purchases, markups, markdowns, and expenses must be planned at least six months in advance by buyers and managers. This plan is called the merchandise budget. It is also referred to as the six month merchandise plan.

What should a well-planned assortment contain? Factors such as quality, price range, brands, good taste, timing product life cycle, and products mix affect assortment planning. Since, no one retail sore can carry all products available in the marketplace, decisions about which merchandise assortment to carry are not left to chance but are based on a number of important factors such as the type of retail institution, past sales records, determination of consumers wants internal and external sources of information, type of goods offered, and elimination of merchandise items.

Unit (assortment) plans may be developed in two ways. The first method is through the use of a basic stock list and the second method is through the use of a model stock plan. All merchandise assortments can be planned by using either of these methods. However, the method used depends on the kind of merchandise under consideration. When determining unit (assortment) plans, consideration must also be given to the quantity of units to purchase.

7.2 Assortment Strategies

The last factor the buyer should consider is the breadth and depth of the assortment. Working with the money available in the inventory budget, the buyer must make a decision about the breadth of the assortment with respect to its depth and vice versa. The balanced assortment must also be considered.

7.3 Assortment Depth

This may be defined as a characteristic of an inventory assortment offering limited versions of proved popular styles. This kind of assortment is spoken of as a "narrow and deep assortment." Mass merchandisers usually use this method of stock inventory, since it has been proved the most efficient from a cost point of view.

Its advantages are:

(1) Enables faster turnover.
(2) Provides ease of stocking.
(3) Uses less room and display area.
(4) Provides ease of reordering, checking and receiving.
(5) Enables simplified counting.
(6) Helps avoid markdowns.

A major disadvantage, however, is that consumers are not offered a wide selection of products and may have to shop in competing stores to find what they want.

7.4 Assortment Breadth

Assortment breadth may be defined as a characteristic of an inventory assortment offering a large number of different categories or classifications, but not a large stock of any of style. This is a "broad and shallow assortment." Stores and departments catering to middle- and upper-income consumers usually use this kind e. the major of inventory assortment.

The advantages of this type of assortment are:

(1) Enables presentation of a wide variety of goods.
(2) Provides a high degree of stopping and pulling power.
(3) Allows a slant to those customers of discriminating taste.

The major disadvantage is that because of the shallowness of the assortment, alert and frequent reordering is needed to keep everything in stock. Consequently, this is a costly method of inventory.

7.5 The Balanced Assortment

This may be defined as an inventory assortment using both assortment breadth and depth to develop an assortment that is balanced.

For example, broad assortments are used early in the season, when new styles are still being tested for consumer acceptance. However, narrow and deep assortments are used later in the season, when demand is clearly defined. The balanced type of assortment may be used by mass merchandisers as well as by stores boasting a high fashion image. In fact, this may be considered a normal compromise. Breadth and depth comprise a retailer's product mix, which may be defined as all the products and services offered for sale.

7.6 Store Polices with regard to Merchandise Assortment Planning

Stores being the major factor for deriving assortment planning, play a very major role by:

Determining the stock vs. sales and achieving the budget planned for the season.

Providing the end of season stock in hand.

Providing the sales data for the season, category wise, option wise and style wise.

Following up with the planning team for replenishment and in season stock availability.

Ensuring that the visual merchandise parameters are met as per season's plan.

Keeping a track of fast moving and slow moving merchandise (which gives insights to the planning and buying team in forecasting).

7.7 Assortment Planning in Detail

The buying for a particular season happens in two seasons prior based on these factors: Quantity and style options to be launched in the particular season, buying budget, vendor negotiations and management, stock in hand, sales data of the product, budget achievement vs. allocation of stock and replenishment quantity (in percentages).

After consideration of these factors, the buying team and the planning team works out on the open to buy for the coming season.

Open to buy determines the quantity to be purchased to the particular season and also helps in stock vs sales projection. The buying team thus negotiates with the vendors about the costing of the merchandise.

The final retail price is determined by the buyer based on costing of the product, past sales and sale projection and profit margin (generally 13-15%).

The buying team orders for the quantity and sets the store hit dates for the stock. Once the buying is done and the store hit dates are determined, the planning team allocates the stock to the stores based on their previous sales data and sends the stocks accordingly. After the season launch, the regional planning teams are responsible for the replenishment and overall stock vs sales achievement.

7.8 Characteristics of a Good Assortment

No aspect of retailing is more subject to close and constant scrutiny, than the selection of merchandise assortments. The buyer must not only plan the selection of a particular merchandise classification or category, but also must decide whether or not to offer the classification or category. Additionally, the buyer must also decide whether or not to offer the classification at all.

Other important factors are: Quality of the merchandise for sale, choice of National Brand or Private Store, price range, good taste, proper timing, product life cycle and variety of product lines.

7.9 Quality of the Merchandise for Sale

Merchandise quality may be defined as the best or finest material available or superior to that of lesser quality or standards.

Usually, a high quality merchandise line will boast a higher price range, while merchandise of low or inferior quality may be found in the lower price ranges. However, with the merchandising evolution brought about by discounters, hypermarkets, and catalogue houses, good quality merchandise may be offered at lower prices.

Merchandise quality will reflect the image of the store. Those stores that cater to clientele in the upper income bracket will offer merchandise representative of high standards and excellent quality. Such merchandise will “wear well” “last longer.” Or “never wear out.”

On the other hand, a store’s merchandise presentation may be felt to be “junky,” “low quality.” Or “not worth the money.” Perhaps this retail store was offering merchandise that was not consistent with good standards of quality.

7.10 Choice of National Brand/Private Store

The established store policy may call for offerings of national brands, as well as private or store brands. National or standard brands are identified by a name, reputation, or symbol associated with certain product characteristics such as price, quantity, fit, and so forth. They are usually easily recognized by the store’s customers and, therefore, readily accepted. Recognized brands are Fruit of the loom underwear and Lee Jeans.

Private brand merchandise carries the name of y and the particular retail store where it is sold or a name used exclusively by the retailer. Examples are labels by Nordstrom, Lord, and Taylor, or Kmart.

Private branding gives the buyer an opportunity to be exclusive, offer a variety of different goods, and avoid direct competition.

Today, most stores have adopted thee policy of offering a selection of popular brand items along with private brand items that are consistent with store standards of quality and price.

Price Range

Price range and quality usually interact with each other during the selection process. There is no specific correlation between price and quality. However, a general correlation does exist. Better quality merchandise is usually offered at a higher price ranges. Since a Store normally cannot offer merchandise of all price ranges, management must determine particular price lines and suitable quality. The buyer must follow the pricing policies of the store when selecting the merchandise assortment.

Good Taste

Good taste is not easily defined. What is in good taste for one individual may be in poor taste for another. The buyer must determine what will be aesthetically pleasing to all customers.

Buyers are responsible for providing a selection of goods that will be appropriate in design, express the moods and feelings of the season, and appeal to the majority of people. Trade papers and journals, in both the hard goods line and fashion apparel markets are usually able to predict trends in consumer preferences. However, many buyers will relate costly mistakes resulting from inaccurate prediction of consumer likes and dislikes.

Proper Timing

Timing is of vital importance, especially when introducing a new item. The buyer, therefore, has the problem of deciding not only what to offer, but also the best time at which to introduce new items. Each department must develop policy guides as to how often to experiment with new items and at what risk and how soon previously existing merchandise lines should be dropped from the stock.

Product Life Cycle

Maintaining a regular stock assortment is important to most types of goods. For example, staple convenience goods, shopping goods, and specialty items must be available for ample replenishment.

Even fashion line must be available to ensure continuity of individual colours, styles, size, and prices. However, factors such as changing consumer wants and needs, a higher standard of living, the growing youth market, and the mass media have all contributed to a constantly changing retail environment.

These factors, as well as others, have affected the life cycle of individual products.

7.11 Stages of a Product’s Life Cycle

A product’s life cycle may be divided into seven stages.

They are:

(1) Research and development.

(2) Introduction into the market.

(3) Product growth

(4) Product decline and obsolescence stage.

Variety of Product Lines (Product Mix)

A product line may be defined as a broad category of products having reasonably similar end uses. The variety of product lines or product mix offered by any retailer will be based on type of retail store or format.

The variety of product lines or product mix offered may be limited, as in the specialty store, which offers only few lines of merchandise, or may be numerous, as in the department store.

Factors Affecting Assortment Planning Decisions

In assortment planning, the merchandise manager and the buyer together must determine where to place the greatest emphasis, just as no one retail store can carry all products available in the market, so no one store can offer all available merchandise categories.

Therefore, decisions about which merchandise assortments to carry are not left to chance but are based on a number of important factors, including: Types of retail institution, past sales records, customer wants, types of goods offered and elimination of merchandise lines.

Types of Retail Institution

Merchandise assortment planning depends on the type of retail format. All retail stores will not have similar kind of merchandise assortment plan.

A discount store usually will not offer high priced one of-a-kind types of merchandise, a variety chain will not stock Oriental rugs, and a department store usually will not carry landscaping and gardening supplies. Customers usually expect to find merchandise consistent with a store's image merchandise that meets their individual needs and interests and reflects the store's reputation in the business community.

7.12 Challenges Faced by a Buyer

Since no single store can be all things to all people, the buyer must work within certain limitations set up by top store management.

Such limitations are: Availability of capital resources, particular trading area served by the store, the nature of the goods carried and amount and kind of competition represented in the trading area may affect the buyer in attempting to plan the merchandise assortment.

Past Sales Records

The second factor that the buyer must consider when planning the merchandise assortment is the record of past sales. Sales records provide valuable information about Sales made and lost, returned goods, and customer complaints. Numerous records are available that can supply the sales information, such as unit control records, special promotion records, and files from the adjustment office.

Personal observations on the selling floor, as well as conversations with salespeople, will also give valuable information for assortment planning.

As there will be fluctuations in the sales of different product lines from year to year and from season to season, the wise buyer will use past sales records information for planning sales in any given season. The buyer's sales records will contain notes that refer to weather conditions, economic trends, labour strikes, supply conditions, market opportunities, and whatever else affected sales activity in a particular period.

Consumer Wants

A third factor a buyer must consider when planning the merchandise assortment is the consumer. With the growth of the middle income group, a more affluent society has developed.

Thus, there has been a greater demand for goods which has led to quicker product replacement and an increase in impulse buying. Today the consumer can afford new and attractive variations of a particular item or product.

As a result of having more money to spend and an increase in consumer education and employment, the modern shopper is more critical in merchandise selection. Shoppers read labels carefully check the warranty or guarantee, and compare before buying.

Types of Goods Offered

A fourth factor the buyer must consider when planning the merchandise assortment is the type of goods offered will depend on the merchandise policies of the store.

Merchandise can be categorized as fashion goods or seasonal goods. Merchandise can also be classified according to the amount of consumer shopping efforts such as convenience goods, shopping goods, and specialty goods.

Fashion Goods

Fashion goods may be defined as merchandise that appeals to consumers for a short period of time and has a relatively short life cycle. Fashion products may have cyclical sales due to changing tastes and life-styles. Buyer who purchases these lines of goods will not be influenced by seasonal changes as much as the buyer of soft goods. Fashion apparel and accessories will change with each new season, that is, every three to four months, while the buyer of hard goods will have two market seasons, that is, one every six months.

Seasonal Goods

Seasonal goods are products that sell well over nonconsecutive time periods. They may be defined as merchandise that is in demand only a certain times of the year or for particular seasons of the year. Buyers will plan assortments for seasons such as fall, back-to-school, spring, summer, transitional, and resort, Assortments may be planned for special promotional events, such as Mother's day, Father's Day and so forth.

Convenience Goods

Convenience goods can be defined as those goods consumers expect to have readily available at a convenient location.

These goods are usually inexpensive and may include such products as candy, notions, small housewares, drug items, hardware items, and beauty and medical aids.

Convenience goods can be further classified into staple, impulse, and emergency goods.

Staple Goods

Staple Goods may be defined as goods that should always be in stock since they are demanded year-round. Never-out goods is a term used synonymously by the buyer. Staple goods are found in many types of retail stores.

Notice the kind of merchandise found by the checkout counter of a food market or a variety store. Here one will find razor blades, film, and deodorant, among others.

Impulse Goods

Impulse goods may be defined as goods purchased by consumers on impulse, that is, with little logical thought, impulse goods nay include snack foods, costume jewelry, cigarettes, and whatever else appeals to the impulsive mood of the consumer.

Emergency Goods

Emergency goods may be defined as goods purchased by consumers when a severe need arises. For example, a sudden downpour may cause you to purchase an umbrella from a street vendor, or a home accident may cause you to purchase gauze or adhesive tape from the local pharmacy.

Shopping Goods

Shopping goods may be defined as those products for which a consumer will accept no substitute and about which the consumer does not have a thorough knowledge. This includes merchandise for which there is no replacement or no alternative in the mind of the customer.

Since consumers usually do not have a thorough knowledge of the item, they will go from store to store and different prices, colours, products features, styles, guarantees, and warranties, as well as other characteristics, usually, the consumer will decide on a brand of merchandise to purchase.

Thus, the retail buyers will make an effort to provide the customer with specific information and advice on the product sought, as well as offering deals, customer service, prompt delivery, and credit terms. Examples of shopping goods are television sets, stereo equipment, radios, cameras, automobiles, small appliances, gift items, and furs.

Specialty Goods

Specialty goods may be defined as those products of which the consumer will usually accept only a well-known brand and of which the consumer has full knowledge.

For example, a buyer of fine china is providing specialty merchandise. The consumer may wish to increase a set of chinaware and will return to the store for the particular pattern or design buyers of specialty goods will plan to have as wide an assortment as possible, since consumers will surely be satisfied once they locate the specific item. Examples of specialty goods are brand-name items, silverware, furniture, pianos, watches, kitchen appliances, household appliances, and cosmetics.

Elimination of Merchandise Lines

The final factor the buyer must consider when planning the assortment is the elimination or dropping of certain items from the merchandise plan. As more items are added to the assortment, a limit to what can be carried by the store or department, considering the financial investment involved and the amount of space required to store the goods, becomes evident.

Therefore, the buying specialist must include the elimination of certain items in the assortment plan. The buyer must also consider whether or not the items to be dropped are fashion goods, since, due to their short selling life, such goods must be eliminated before they become out of style. If the goods to be dropped are staple type of merchandise, they must be eliminated before they become obsolete or outdated.

7.13 How Unit (Assortment) Plans Are Developed

Assortment plans are developed in one of two ways. The first method is through the use of a basic stock list and the second method is through the use of a model stock plan.

All merchandise assortments can be planned by using either of these methods. However, the method used depends on the kind of merchandise under consideration.

7.14 Planning a Basic Stock List

In a retail store, basic stock lists are composed of staple types of merchandise. For example, in a variety store, staple goods may include toothpaste, deodorants, socks, underwear, detergents, light bulbs and sewing thread. The list will specify in detail the items to be carried in stock. Homogeneous and heterogeneous staples and, seasonal and non-seasonal staples.

Homogeneous Staples may be defined as staple goods that are all of the same size, colour, fabric, and style (“homogeneous” means “the same or similar”). For example, light bulbs are manufactured by Westing house and General Electric. The 100 watt bulbs produced by each company are alike in that they are the same size, provide the same amount of light, and fit into standard light bulb sockets.

Heterogeneous staples may be defined as staple goods that are alike but not identical (“heterog-neous” means “containing dissimilar elements”). For example, shoelaces of the same length and width will come in assorted colours, patterns, and texture, though they all perform the same function.

Hairpins or bobby pins of the same size come in different colours, to be worn by blondes, brunettes, or redheads. The buyer must plan the staple stock according to the similarities that exist among the staple goods available, as well as differences.

Seasonal and Non Seasonal Staples

A second factor the buyer should consider is seasonal and non-seasonal staples. Items offered in the staple category should be available at all times of the year or at least during recurring seasons of demand.

For example, some staples may be in demand regularly for years and not be effected by seasonal variations. This is true for hardware, foodstuffs, and toiletries. On the other hand, many staples tend to be seasonal, since sales will vary throughout the year or during specific times of the year in a manner that is predictable.

For example, Easter egg decoration may be staples only during the Easter season, Christmas tree trimmings during the Christmas season, Halloween costumes during the fall season, and ski poles during the winter season.

Planning Model Stock

The model stock plan is the second method a buyer may use to develop the assortment plan.

A Model Stock may be defined as the desired assortment of stock broken down according to predictable factors, such as classification, price, material, colour, and size, based on consumer demand.

The model stock plan is used by buyers of fashion goods to plan fashion assortments. This is done since, unlike staple goods, fashion items are identified by general characteristics, rather than by specific details.

In planning a model stock, accurate sales and stock information is necessary to achieve maximum sales from the merchandise assortment.

The buyers of fashion apparel must be guided by current trends as well as by previous sales patterns. The buying specialist will develop a specific buying plan that gives consideration to what to buy, when to purchase and when to have merchandise delivered for the model stock plan to be fulfilled. The model stock plan is used to plan the ideal assortment. Thus, it will include an assortment of staple goods, fashion goods, and seasonal goods.

7.15 Characteristics of Fashion Merchandise Affecting Fashion Assortment

The model stock plan will include a fashion assortment.

Fashion stock in both apparel and home furnishings is the most difficult of all classes of merchandise to plan for because of the many choices of styles, colours, materials, vendors, and manufacturers and the many new items available.

Five characteristics of fashion merchandise will assist the buyer in determining the fashion assortment. They are: Classification, price, size, material and colour.

Classification

In planning by classification, the buyer will break each general line of merchandise down into subdivisions. For example, furs can be broken down into fun furs, expensive furs, and fur accessories.

The consumer demand for merchandise in each classification is usually predictable by the buyer who can determine fairly accurately the quantity of merchandise to buy.

Often further subdivisions may be used if the subdivision becomes too cumbersome (for example, fur stoles may be further subdivided into expensive, medium priced and low-priced within the fur classification).

Price

Retailers will to store a variety of price lines within each classification of fashion goods since consumers represents many income levels.

The buyer will plan the fashion assortment to include at least there price lines tailored to the income brackets of the customers who patronize the store. Such planning will enable the customer to have a choice in the price of the item bought.

Once the price norm in each classification is determined, the buyer can predict with considerable accuracy future demands in lower and higher price ranges, as well as a specific price range.

Size

Size is an important factor with most fashion merchandise. This is true not only of fashion apparel, but also of many home furnishings.

The buyer must determine the customer demand for each size and buy accordingly. The size distribution of the items sold during the past season is usually an indication of future demands.

Material

Knowledge of textiles and the kind of materials available will help the buyer determine customer wants.

For example, wide customer acceptance of cotton denim during the past decade caused retail store buyers to stock fashion apparel, such as jeans, hats, swimsuits, and handbag, made of denim.

Knowledge of customer acceptance of materials will assist the buyer in stocking a well-balanced fashion assortment with proper emphasis given to particular materials in demand.

Colour

Colour plays an important role in the selection of fashion goods. Since each new season popularizes specific colour combinations, the buyer can predict the colour or colour combinations most consumers will seek.

Basic colours usually account for the majority of sales. However, fashion colours or seasonal colour have promotional value and are used to attract not to overstock that which is new and popular while neglecting the standard and more conventional colours. For example, Indian fashion merchandise stores carry five Categories.

There are five major categories which the fashion store deals with; Menswear, Women’s wear (Ethnic wear and Western wear), Kids wear, Footwear and Accessories

Seasons

As an Indian Retailer, these seasons are followed by Fashion store.

For Spring the type is minor. The season is from January to March. The merchandise line includes, half sleeve t-shirts, kurtas with light prints and casual shirts.

For Summer the type is Major.

The season is from March to June.

The merchandise line for this season includes T-shirts, shirts, short kurtas with summery colours and prints, shorts, capris and casual denims.

For Pre-autumn, the type is Minor. The season is from July to September. The merchandise line includes, T-shirts, shirts, denims and trousers.

For the festive season, the type is Minor. The season is during September and October. The merchandise line is mainly ethnic.

For the winter season, the type is major. The season is from October to January. The merchandise line during this season includes, sweaters, heavy t-shirts, shirts, coats and other winter centric products.

7.16 Conclusion

To summarize, the buying specialist must exercise careful planning techniques when selecting the merchandise assortment. Since the success of retailing dependents on accurate merchandise assortment planning, certain important factors must be considered when planning the assortment: quality, price range, brand “store or private”, good taste, proper timing, product life cycle, product mix, and assortment strategies.

Decisions as to which merchandise assortments to carry or not left to chance but are based on a number of important factors. These factors are: Type of retail institution, past sales records, Determination of consumer wants, Type of goods offered for sale and, Elimination of merchandise lines. The buyer will work within limitations set forth by store management.

The limitations to consider are: Availability of capital resources, Particular trading area served by the store, Nature of the goods carried, and Amount and kind of competition represented in the trading area.

However, to be effective, they must contain a breakdown of specific information. The type of goods offered in the merchandise assortment will depend on the type of retail store.

Merchandise can be categorized as fashion goods or seasonal goods. Merchandise can also be classified according to the amount of shopping afford such as convenience goods, shopping goods, and specialty goods.

The plan for the merchandise assortment may be developed in one of two ways. The first method is through use of a basic stalk list. The second method is through the use of a model stalk plan. These methods will be used to plan merchandise assortment for staple goods and fashion goods to make successful business.