CHAPTER 9

planning merchandise assortments

LEARNING OBJECTIVES

lo1 Examine how the buying process is organized.

lo2 Explore how retailers determine the profitability of their merchandising decisions.

lo3 Explore how retailers forecast sales for merchandise classifications.

lo4 Determine what trade-offs retailers must make to ensure that stores carry the appropriate type and amount of merchandise.

lo5 Review how retailers plan their assortments.

Executive Briefing

Mark Foote, Executive Vice President, General Merchandise, Loblaw Cos. Ltd.

Loblaw Cos. Ltd., Canada's largest food retailer, is building for its future success in an unexpected direction—clothing. Although the core strength of the retailer is being the best food retailer in Canada, it is expected that the Joe Fresh brand of apparel launched in 2006 will hit its $1 billion target in annual sales by the end of 2010. The clothing line is fun, stylish, and inexpensive, and is both popular with customers and profitable for Loblaws. The concept is that shopping for clothes can be compatible with buying weekly groceries for the family, provided the price is right. According to Richard Talbot, owner of Talbot Consultants International "the concept works well with food because Canadians venture to the grocery store an average of 1.8 times a week, much more often than they do to the mall, which they might visit once a month."[1] Canadians must agree since its debut three and a half years ago, Joe Fresh has made a quick ascent to become the second biggest clothing brand by unit sales in Canada.[2]

Loblaw operates 1000 stores across Canada under various names, including Loblaws, No Frills, Fortino's, and Maxi. Galen Weston Jr., Loblaw CEO, admitted that the company has been organizationally too complex and ineffective, and was slow to respond to the customer and the competitive environment. Plans to make Loblaw more competitive include a company that is committed to cutting prices, boosting customer service, and investing in product innovation. Loblaw needs to be well positioned to defend itself against Walmart—the world's number one general merchandiser which has been moving aggressively into the grocery sector.

As a major step toward innovation Loblaw adopted the in-house brand Joe Fresh, a line of casual clothing created exclusively for Loblaw by Toronto designer Joe Mimran. The clothing offers "integrity of design and a good price-value ratio." Mimran was the founder of the popular Club Monaco concept that was bought out by Ralph Lauren. Initially the Joe Fresh line included 350 different products, aimed at men and women 18 and up, with an average price of $14 per item, but the Joe Fresh label has since been expanded to include kids' clothes and accessories and most recently a well priced cosmetics aptly named Joe Fresh Beauty. Joe Mimran says, "The approach we've used with the fashion collection translated beautifully to cosmetics. We want to dress our customers from head to toe and that includes makeup. For us, it's always about store value, style and quality." The Joe Fresh Beauty collection has 200 SKUs with prices ranging from $4–$8 for makeup and $2–$6 for brushes and accessories.[3]

The company is making a major commitment to Joe Fresh, devoting up to 558 square metres of selling space to apparel in stores ranging from 11 160 to 18 000 square metres. The Joe Fresh clothing area will also have dedicated sale associates and separate cash registers. In the larger format stores general merchandise accounts for 55 percent of the floor space. With the guidance of Mark Foote, executive vice president, General Merchandise, Loblaw stores will be strategically positioned to offer the customer one-stop shopping, with pharmacies, electronics, seasonal household goods, items for the kitchen, bedroom, and bathroom, and now clothing along with groceries. "The partnership with Joe Mimran and our design team lets us enhance the shopping experience of all our customers," says Elizabeth Margles, vice president, Marketing, Joe Fresh Style, Loblaw Companies Limited.[4] "At one location, you get impulse buys on both sides (food and fashion)," Ms. Margles said, adding the retailer tries to time new Joe Fresh items with customer shopping patterns. "If you are in there once every week or 10 days, you will see something new, and that, we believe, distinguishes us from any other apparel retailer."[5] In the fast changing, fiercely competitive market, it is critical for Loblaw to build market share to defend its position as Canada's supermarketer of choice.

The company announced it would stop building superstores until the economics of these new formats is proven. The action plan includes making immediate improvements in all stores, including designating some stores as "learning centres" where new staff receive training, and ensuring goods get moved from the back door to the shelves on time.

merchandise management The process by which a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time while meeting the company's financial goal.

assortment plan A list of merchandise that indicates in very general terms what should be carried in a particular merchandise category.

The primary goal of most retailers is to sell merchandise and services. Nothing is more central to the strategic thrust of the retailing firm.

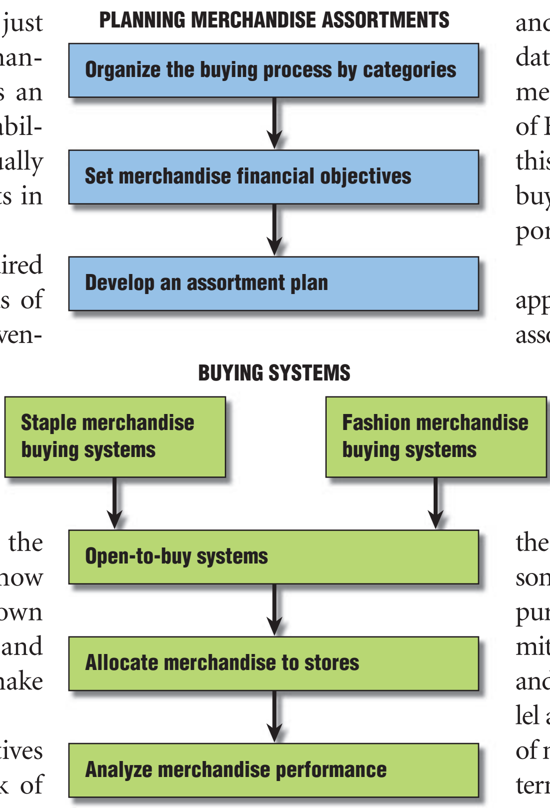
Merchandise management is the process by which a retailer attempts to offer the *right quantity of the right merchandise in the right place at the right time while meeting the company's financial goals.* Buyers need to be in touch with and anticipate what customers will want to buy, but this ability to sense market trends is just one skill needed to manage merchandise inventory effectively. Perhaps an even more important skill is the ability to analyze sales data continually and make appropriate adjustments in prices and inventory levels.

Small and large retailers are required to make decisions about thousands of individual items from hundreds of vendors. If the buying process is not organized in a systematic, orderly way, chaos will result.

As in any business, a retailer's ultimate objective is to achieve an adequate return on the investment. In this chapter, we show how financial objectives trickle down the merchandising organization, and how these objectives are used to make buying decisions.

Once the financial objectives are set, the retailer starts the task of determining what to buy. Retailers are limited by the amount of money available for merchandise and the space in the store. They must decide whether to carry a large variety of different types of clothing (categories)—for example, dresses, blouses, and jeans—or carry fewer categories but a larger assortment of more styles and colours within each category. To complicate the situation, they need to decide how much backup stock to carry for each item. The more backup stock, the less likely they are to run out of a particular item. On the other hand, if they decide to carry a lot of backup stock, they will have less money available to invest in a deeper assortment or in more categories.

exhibit 9–1 Merchandise Management Issues



This chapter examines strategic and planning issues that lay the foundation for the merchandise management process shown in the top portion of Exhibit 9–1. The issues examined in this chapter are used as input into the buying systems, as shown in the green portion of Exhibit 9–1.

It is acknowledged that when approaching the study of merchandise assortments, building the merchandise financial plan (introduced in Chapter 10) is often preferred as the first step in the learning process. The financial budgets including merchandise plans are the starting point to beginning a season because the merchandise cannot be purchased without the financial commitment, although the product research and assortment development is a parallel activity. An **assortment plan** is a list of merchandise that indicates in general terms what the retailer wants to carry in a particular merchandise category. For instance, an assortment plan for girls' jeans would include the average number and percentage of each style/fabric/colour/size combination that the retailer would have in inventory.

Organizing the Buying Process by Categories

The Buying Organization

Every retailer has its own system for grouping categories of merchandise, but the basic structure of the buying organization is similar for most retailers. Exhibit 9–2 illustrates this basic structure by depicting the organization of the merchandise division for a department store chain such as The Bay or Zellers. The exhibit shows the organization of buyers in the merchandise division. The buyers negotiate with vendors to buy the merchandise and the planner (also called assorters) focus on distribution to specific stores and replenishment.

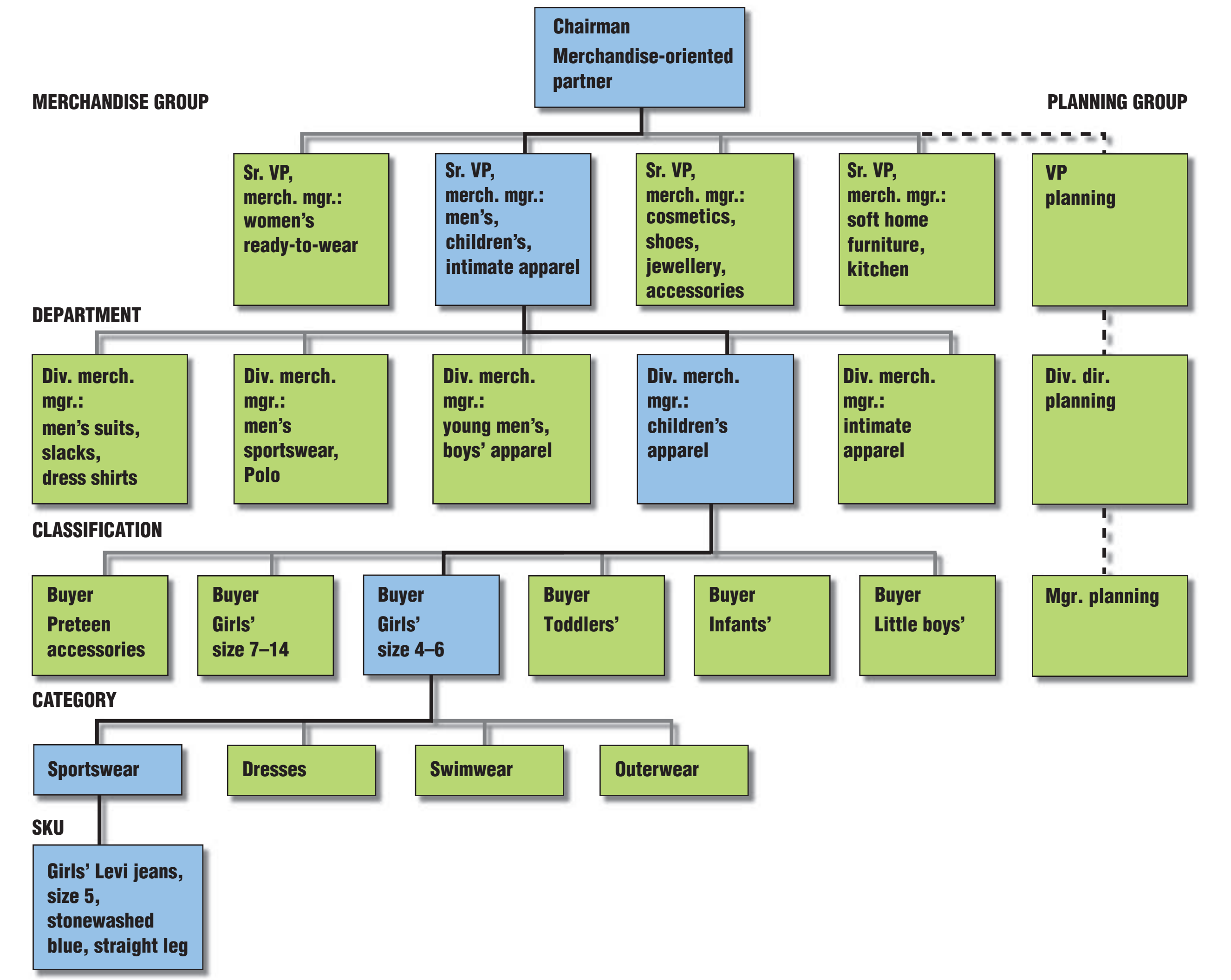
Merchandise Group The highest classification level is the **merchandise group**. The merchandise group is managed by the senior vice presidents of merchandise, also called general merchandise managers, or GMMs (Exhibit 9–2). These merchandise managers are responsible for several departments. For instance, the second senior vice president on the chart in the exhibit is responsible for men's, children's, and intimate apparel.

Department The second level in the merchandise classification scheme is the **department**. These departments are managed by divisional merchandise managers who report to the vice presidents. For example, the vice

merchandise group A group within an organization managed by the senior vice presidents of merchandise and responsible for several departments.

department A segment of a store with merchandise that represents a group of classifications the consumer views as being complementary.

exhibit 9–2 Standard Merchandise Classification Scheme and Organizational Chart



classification A group of items or SKUs for the same type of merchandise, such as pants (as opposed to jackets or suits), supplied by different vendors.

category An assortment of items (SKUs) the customer sees as reasonable substitutes for each other.

merchandise category See category, above.

category management The process of managing a retail business with the objective of maximizing the sales and profits of a category.

president of merchandising for men's, children's, and intimate apparel has responsibility for five divisional merchandise managers. Each divisional merchandise manager is responsible for a department. For example, the divisional merchandise manager highlighted in Exhibit 9–2 is responsible for children's apparel.

Classification The classification is the third level for categorizing merchandise and organizing merchandise management activities. Each divisional merchandise manager is responsible for a number of buyers or category managers. The children's apparel divisional merchandise manager in the exhibit is responsible for six buyers. Each buyer purchases a **classification**—a group of items or SKUs for the same type of merchandise (such as men's pants as opposed to men's jackets or suits) supplied by different vendors. A stock keeping unit (SKU) is the smallest unit available for keeping inventory control. In soft goods merchandise, for instance, a SKU usually means size, colour, and style. For example, a pair of girls' size 5, stonewashed blue, straight-legged Levis is one SKU. The exhibit highlights the one buyer responsible for girls' apparel sizes 4 to 6. In some cases, a buyer is responsible for several classifications.

Many retail organizations divide responsibility for buying merchandise between a buyer or category manager and a merchandise planner. Since the merchandise planning function is a relatively new concept, it's handled in various ways by different retailers. In some organizations, the category manager or buyer supervises the planners; in others, they're equal partners.

The planners' role is more analytical. They are responsible for buying the correct quantities of each item, allocating those items to stores, monitoring sales, and suggesting markdowns. In effect, they implement the assortment plan developed by the buyer. Together, the buyer and planner are the merchandising team. This team attempts to maximize the sales and profits of the entire classification, not just a particular category or brand.

Categories Categories are the next level in the classification scheme. Each buyer purchases a number of categories. So the men's pants buyer might buy jeans, khakis, and dress slacks. The girls' size 4 to 6 buyer in Exhibit 9–2 purchases several categories, such as sportswear, dresses, swimwear, and outerwear. A **category** such as swimwear may be made up of merchandise from one or several manufacturers.

How many SKUs are there in this picture?

Merchandise Category—The Planning Unit

The merchandise category is the basic unit of analysis for making merchandising decisions. A **merchandise category** is an assortment of items that customers see as substitutes for one another. It would be virtually impossible to keep the buying process straight without grouping items into categories. Girls' apparel, boys' apparel, and infants' apparel are categories. Each of these categories has similar characteristics. For instance, girls' jeans are purchased from a set of vendors that are similar to each other. Also, the merchandise is priced and promoted to appeal to a similar target market. The price promotions are timed to occur at the same times of the year, such as back-to-school in August.

Retailers and their vendors might begin with different definitions of a category. A vendor might assign shampoos and conditioners, for example, to different categories, on the basis of significant differences in product attributes. The category manager for a grocery store, however, might put them and other combination shampoo–conditioner products into a single category on the basis of common consumers and buying behaviour. Paper towels could be assigned to a "paper products" category or combined with detergent, paper tissues, and napkins in a "cleaning products" category.

Some retailers such as department stores may define categories in terms of brands. For example, Tommy Hilfiger might be one category and Estée Lauder and Polo/Ralph Lauren another. Why? Because a "Tommy" customer buys Tommy and not Ralph. Also, it is easier for the buyer to purchase merchandise and plan distribution and promotions if the entire line is coordinated. No matter how the category is defined, supply chain members must agree on the category definition, and it must be based on what is logical to the consumer.

Category Management

Category management is the process of managing a retail business with the objective of maximizing the sales and profits of a category.

The category management approach to managing breakfast cereals would be to have one buyer or category manager who oversees every aspect of the merchandising function.[6] Although a category manager is more than a buyer in the traditional sense, we will interchange the terms. For instance, the buyer is responsible for developing the assortment plan for the entire category, working with vendors, selecting merchandise, pricing merchandise, and coordinating promotions with the advertising department and stores.

Two reasons for adopting category management are as follows:

- The category manager is ultimately responsible for the success or failure of a category. It's harder to identify the source of a problem and solve it without category management. Suppose, for instance, an ad is placed in a newspaper for a Valentine's Day sale, but the store doesn't receive the merchandise. Who caused the problem? Was it because the buyer didn't order the merchandise in time? Did the advertising manager fail to inform the buyer or the logistics manager that the ad was going to run? Did the distribution centre fail to get the merchandise to the stores? Importantly, without the emphasis on category management, the buyer doesn't have the power to solve the problem. By using category management, all of the activities and responsibilities just mentioned come under the control of the buyer's staff.
- It is easier to manage to maximize profits using category management. For example, the breakfast cereal category manager has a choice of purchasing corn flakes from Kellogg, General Mills, General Foods, a private-label vendor, and a popular locally produced brand. The category manager cannot purchase every size box from each of these vendors or there wouldn't be any room for any other cereal type in the cereal section. By the same token, the category manager needs some representation for each brand. An analysis indicates that there is relatively little demand for the giant-size box of corn flakes, when aggregated across all brands. It also indicates that although the locally produced brand is not a top seller, it has a strong following. If the store drops the local brand, it may lose some very good customers. Managing by category can help assure that the store's assortment is represented by the "best" combination of sizes and vendors, that is, the one that will get the most profit from the allocated space.

The Category Captain

The importance of establishing strategic relationships with vendors has been emphasized. Since retailers and their vendors share the same goals—to sell merchandise and make profits—it's only natural for them to share the information that will help them achieve those goals. Since vendors can develop systems for collecting information for all of the areas that they service, they can provide buyers with valuable information. Later in Chapter 10 we discuss CPFR (collaboration, planning, forecasting, and replenishment), a system some retailers use with their vendors to share sales data to better manage inventories.

category captain
A supplier that forms an alliance with a retailer to help gain consumer insight, satisfy consumer needs, and improve the performance and profit potential across the entire category.

Some retailers turn to one favoured vendor to help them manage a particular category. Known as the **category captain**, this supplier forms an alliance with a retailer to help gain consumer insight, satisfy consumer needs, and improve the performance and profit potential across the entire category.

Managing by category can help assure that the store's assortment is represented by the "best" combination of sizes and vendors, that is, the one that will get the most profit from the allocated space.

Kraft acts as a category captain by working with key retailers to help balance assortments.[7] Since it spends US$850 million a year on promotion and advertising, Kraft has a lot of influence in the grocery industry. As category captain, grocery chains give Kraft access to all market and store information, including costs and sales of its competitors. In return, the captain works with the category manager/buyer to make decisions about product placement on shelves, promotions, and pricing for all of the brands in the category. Before category management, these decisions were often made by whichever vendor was able to make the best argument to the store manager. Shelf space allocation, for instance, could change daily, depending on which vendor's salesperson was in the store that day.

A potential problem with establishing a category captain, however, is that vendors could take advantage of their position. It is somewhat like letting the fox into the henhouse. Suppose, for example, that Kraft chose to maximize its own sales at the expense of its competition. There are also serious competition regulations to consider.[8] The captain could collude with the retailers to fix prices. It could also block other brands, particularly smaller brands, from access to shelf space.

Appointing a category captain can be enticing for a retailer. It makes the category manager's job easier and brings the promise of higher profits. But retailers should not turn over important decisions to their vendors. Working with their vendors and carefully evaluating their suggestions is a much more prudent approach.

forecast To estimate or calculate in advance: predict the future.

category life cycle A merchandise category's sales pattern over time.

fad A merchandise category that generates a lot of sales for a relatively short time—often less than a season.

Sales Forecasting

Category Life Cycles

When developing a sales forecast, a retailer must be able to predict how well product categories will sell over time. Product categories typically follow a predictable sales pattern—sales start off low, increase, plateau, and then ultimately decline. Yet the shape of that pattern varies considerably from category to category and will help buyers forecast sales. This section describes the most fundamental form of sales pattern, the category life cycle. Using the category life cycle as a basis, we'll examine some commonly found variations on it: fad, fashion, staple, and seasonal.

In the retail industry **"forecast"** is the term used for forecasting short-term sales and other financial factors based on current business conditions. For example, a six month merchandise plan is created six to nine months prior to the beginning of the season. As the season begins and business starts to occur, planners will forecast sales, markdowns, etc. for the current month and perhaps the following two months as well. This process measures the actual results against the original plan and helps the merchandise teams manage and assess their original plan objectives. In summary, the term often used is "plan" or "budget."

The **category life cycle** describes a merchandise category's sales pattern over time. The category life cycle (Exhibit 9–3) is divided into four stages: introduction, growth, maturity, and decline. Knowing where a category, or specific item within a category, is in its life cycle is important in developing a sales forecast and merchandising strategy.

When personal digital assistants (PDAs) were first introduced in 1996, the target market was businesspeople who were high-tech aficionados, people who wanted to be first in adopting an innovation and were willing to pay for the convenience of having a very small computer.[9] PDAs were very expensive compared to paper address and appointment books, and they weren't available at all stores that normally sell office supplies or computers. PDAs were next marketed to doctors, stockbrokers, and business executives, who use them for access to medical databases, stock markets, and e-mail. As categories reach the growth and maturity stages, they usually appeal to broader, mass-market customers who patronize discount stores and category specialists.

Knowing where a category is in its life cycle is useful for predicting sales. However, the shape of the life cycle can be affected by the activities undertaken by retailers and vendors. For instance, a vendor might set a low introductory price for a new product to increase the adoption rate of the product, or set a high price to increase profits even though sales might not grow as fast. Care must be taken, however, that use of the category life cycle as a predictive tool does not adversely affect sales. If a product is classified as being in decline, it's likely that retailers will stock less variety and limit promotions. Naturally, sales will go down. Thus, the decline classification may actually become a self-fulfilling prophecy. Many products have been successfully maintained at the maturity stage because their buyers have maintained innovative strategies that are consistent with a mature product. For instance, Kellogg's Corn Flakes has been the best-selling ready-to-eat cereal over many decades because it has innovative advertising and competitive pricing.

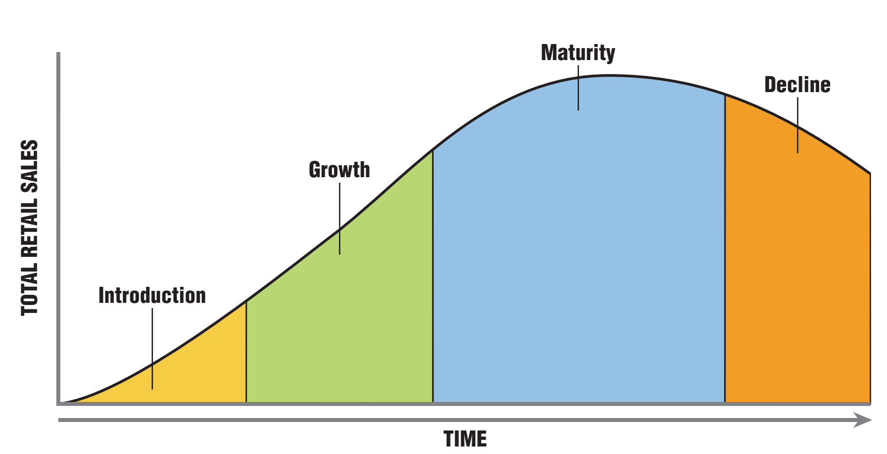
Variations on the Category Life Cycle

Most categories follow the basic form of the category life cycle: sales increase, peak, and then decline. Variations on the category life cycle—fad, fashion, staple, and seasonal—are shown in Exhibit 9–4. The distinguishing characteristics between them are whether the category lasts for many seasons, whether a specific style sells for many seasons, and whether sales vary dramatically from one season to the next.

Life cycle trends can impact many different categories. For example, consider the popular colours for kitchen appliances, cars, and paint for home items such as bathroom fixtures that have now become jewellery for the home.

A **fad** is a merchandise category that generates a lot of sales for a relatively short time—often less than a season. Examples are Pogs, Furbys,

exhibit 9–3 The Category Product Life Cycle



Pokémon, butterfly hair clips, and some licensed characters such as Star Wars action figures. More mainstream examples are certain computer games, new electronic equipment, and some apparel, such as cropped and flared jeans. Fads are primarily aimed at children and teens.

Fads are often illogical and unpredictable. The art of managing a fad comes in recognizing the fad in its earliest stages and immediately locking up distribution rights for merchandise to stores nationwide before the competition does. Marketing fads is one of the riskiest ventures in retailing because even if the company properly identifies a fad, it must still have the sixth sense to recognize the peak so it can bail out before it's stuck with a warehouse full of merchandise.

Unlike a fad, a fashion is a category of merchandise that typically lasts several seasons, and sales can vary dramatically from one season to the next. A fashion is similar to a fad in that a specific style or SKU sells for one season or less. A fashion's life span depends on the type of category and the target market. For instance, double-breasted suits for men or certain colours are fashions whose life may last several years. On the other hand, fashions such as see-through track shoes may last only a season or two. Retailing View 9.1 describes how Mango creates and manages fashion merchandise.

Some questions that help buyers distinguish between fads and more enduring fashions are:

- *Is it compatible with a change in consumer lifestyles?* Innovations that are consistent with lifestyles will endure. For example, denim jeans are an enduring fashion because they are comfortable to wear and can be worn on multiple occasions. Leather pants, on the other hand, can be hot, heavy, and are typically worn in the evening. They are a fad.
- *Does the innovation provide real benefits?* The switch to poultry and fish from beef is not a fad because it provides real benefits to a health-conscious society.
- *Is the innovation compatible with other changes in the marketplace?* For example, shorter skirts resulted in a greater emphasis on women's hosiery. Now the sales of hosiery are declining due to the growing emphasis on casual apparel.
- *Who adopted the trend?* If it is not adopted by large, growing segments such as working mothers, baby boomers, Generation Y, or the elderly, it is not likely to endure. Alternatively, if it is being adopted by teenagers, who are known to be fickle in their tastes, it is likely to fade quickly.

Items within the **staple merchandise**, also called **basic merchandise**, category are in continuous demand over an extended period of time. Even certain brands of basic merchandise, however, ultimately go into decline. Most merchandise in grocery stores, as well as housewares, hosiery, and women's intimate apparel are considered to be staple merchandise. Changing technology resulted in the decline of CD sales with the growth in demand for downloadable music. Retailing View 9.2 questions whether jeans are a fad, a fashion, or a staple.

Seasonal merchandise is inventory whose sales fluctuate dramatically according to the time of the year. Both fashion and staple merchandise usually have seasonal influences. For instance, wool sweaters sell in fall and winter, whereas staples such as lawn mowers and garden tools are popular in spring and summer. Retailers carefully plan their purchases and deliveries to coincide with seasonal demand.

Armed with information about where an item or a category is in its life cycle, retailers develop their sales forecast.

staple merchandise Inventory that has continuous demand by customers over an extended period of time. Also known as basic merchandise.

basic merchandise See staple merchandise, above.

seasonal merchandise Inventory whose sales fluctuate dramatically according to the time of the year.

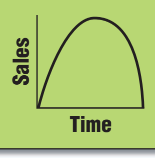
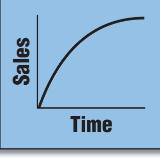
REFACT

Even toilet paper has seasonal influences. Fancy toilet paper sells better during the holiday season between Thanksgiving and New Year's, since people have guests in their homes.

Developing a Sales Forecast

Forecasting Staple Merchandise The sales of staple merchandise are relatively constant from year to year. Thus, forecasts are typically based on extrapolating historical sales. Because there are substantial sales data available, statistical techniques can be used to forecast future sales for each SKU. Exhibit 9–5 illustrates the analysis of past unit sales data for a 30-cm, cast iron, Lodge frying pan at a national home store chain to forecast sales for 2009.

exhibit 9–4 Variations in Category Life Cycles

	FAD	FASHION	STAPLE
Sales over many seasons	No	Yes	Yes
Sales of a specific style over many seasons	No	No	Yes
Sales vary dramatically from one season to the next	No	Yes	No
Illustration (Sales against Time)			

9.1 **RETAILING VIEW**

Fast fashion at Mango

"We know how to improvise," says David Egea, Mango's merchandising director and a top executive. "To react and have what people want, we have to break some rules." Mango/MNG Holding SL, with over 850 stores in 81 countries, including the United States, typifies the new retail trend of "fast fashion," pioneered by Spain's Zara and Sweden's H&M. These chains fill their racks with a steady stream of new, gotta-have-it merchandise. Their retail strategy combines stylistic and technological resources built on flexibility and speed, from design sketch to the store shelf.

Mango is famous for an eclectic mix of body-hugging styles. A black pinstriped jacket sells for $60 and a tight black minidress for $40. It maintains tight controls over the design and manufacturing of its private-label merchandise. Last minute changes, like substituting a fabric or dropping a hemline, are a built-in part of the creative process. So long as the company has fabric in stock, it can move a design from sketchpad to store in four weeks.

Mango's merchandise planning cycle begins every three months when designers meet to discuss important new trends for each of its main collections, which contain five or six mini-collections. So shops receive a near-constant stream of new merchandise, ranging from clingy short dresses to work wear and sparkly evening gowns. New items are sent to its stores once a week, roughly six times as often as the typical American clothing chain.

To get ideas for each collection, designers attend the traditional fashion shows and trade fairs. But they also stay close to the customer. They take photos of stylish young women and note what people are wearing on the streets and in nightclubs. "To see what everyone's going to do for next season is very easy," says Egea. "But that doesn't mean this is the thing that is going to catch on." Hoping to stay au courant, design teams meet each week to adjust to ever-changing trends. Mango commissioned Penelope Cruz and her sister Monica to design a 25-piece collection to compete with the other fast fashion companies that have used celebrities as designers. Top Shop released its Kate Moss collection, and H&M came out with a Madonna collection.

When collection designs are set, Mango's product management and distribution team assigns them

Mango stocks high fashion, trendy merchandise to attract its target shoppers.

personality traits, denoting SKUs as trendy, dressy, or suitable for hot weather. Depending on an item's personality, it heads to one of Mango's 731 stores, which also has its own set of traits, such as the climate, where the shop is located, and whether large or small sizes sell best. A proprietary computer program then matches compatible shops and styles.

Orders are sent to a distribution centre where clothes are scanned and dropped into one of 466 store-specific slots. Then they're boxed and shipped to shops, where managers can adjust store layouts daily on the basis of input from regional supervisors and headquarters.

Mango stores only display a limited merchandise assortment. On each rack, only one size per item is hung. This policy encourages a sense of urgency by playing on customers' worst fear: Maybe your size is going to run out.

Sources: www.mangoshop.com (accessed September 18, 2007); Beth Wilson, "Mango's Fast-Fashion Approach To Expansion," *WWD*, December 7, 2006, p. 23; and Sally Raikes, "Cruz Control," *Scotland on Sunday*, September 16, 2007 (accessed September 18, 2007).

exhibit 9–5 Sales of 30-Cm Lodge Frying Pans at a National Home Store Chain

exhibit 9–5a Unit Sales by Quarter

Year	Quarter	Sales by Quarter	Annual Sales	Annual Sales Growth Rate	% Annual Sales by Quarter
2001	1	21 074			23%
	2	24 123			26
	3	16 066			17
	4	32 145	93 408		34
2002	1	20 728			23
	2	23 656			26
	3	15 867			18
	4	30 135	90 387	−3.2%	33
2003	1	21 076			22
	2	25 259			26
	3	18 585			19
	4	33 064	97 984	8.4	34
2004	1	20 617			21
	2	26 084			26
	3	18 308			18
	4	34 921	99 931	2.0	35
2005	1	21 464			20
	2	27 568			26
	3	18 996			18
	4	38 163	106 192	6.3	36
2006	1	24 401			21
	2	28 057			25
	3	21 092			18
	4	40 843	114 394	7.7	36
2007	1	23 859			22
	2	27 441			25
	3	19 537			18
	4	39 726	110 562	−3.3	36
2008	1	24 588			21
	2	30 788			26
	3	19 869			17
	4	43 718	118 963	7.6	37

exhibit 9–5b Plot of Sales by Year

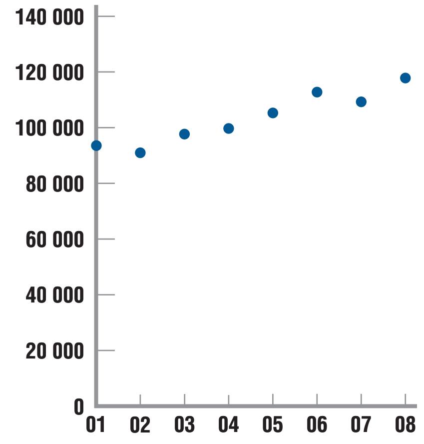


exhibit 9–5c Plot of Sales by Quarter

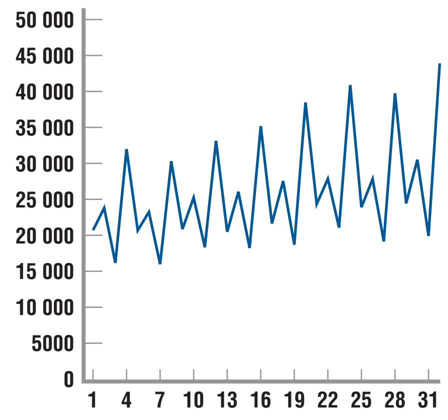


Exhibit 9–5a contains the sales data by quarter for the past eight years. The annual sales data are plotted in Exhibit 9–5b, and the quarterly sales data are plotted in Exhibit 9–5c. The annual sales pattern reveals a slight annual growth in sales. Average annual growth rate has been 3.3 percent; however, sales actually decreased in 2007 and then jumped 6 percent in 2008.

The graph of quarterly sales shows a seasonal pattern, with sales greatest during the fourth quarter and lowest during the third quarter. The average percentage of annual sales for each quarter is 21 percent for the first quarter, 26 percent for the second quarter, 18 percent in the third quarter, and 35 percent in the fourth quarter. Even though people use frying pans throughout the year, there is a tendency to give them as holiday gifts, and people tend to cook more on the stove when the weather gets cold.

On the basis of these past unit sales data, the buyer could simply project the sales data and estimate the annual unit sales for the frying pans for 2009 as

2009 annual sales = 1.036 (3.6 percent growth)
× 118 963 (2008 annual sales)
= 123 245

The estimated quarterly sales would be

First-quarter sales = 123 245 × .21 = 25 881
Second-quarter sales = 123 245 × .26 = 32 044
Third-quarter sales = 123 245 × .18 = 22 184
Fourth-quarter sales = 123 245 × .35 = 43 136

However, these projections are based on the assumption that the factors affecting 30-cm, cast iron, Lodge frying pan sales in 2009 will be the same and have the same effect

9.2 RETAILING VIEW

Are jeans a fad, a fashion, or a staple?

The answer to the question, whether jeans are a fad, a fashion, or a staple, all depends on what style and market segment you are considering. For example, skinny jeans hit the market in 2005–2007. After a decade of boot-cut pants, the skinny look was a major silhouette change. Designers and retailers attempted to change women's looks to upside-down triangle silhouettes, characterized by larger tops and narrower bottoms. At the same time, clothes steadily are becoming less flashy, with details like darts, stitching, and pleats instead of sequins, embroidery, and holes.

It doesn't take a fashion guru to realize that skinny jeans wouldn't look good on all women. But those retailers that could accurately predict the fashion lifecycle of these jeans profited handsomely.

A jeans fad like skinny jeans is more likely to succeed for retailers that cater to younger women, such as Urban Outfitters, Abercrombie & Fitch, and Bebe. Retailers that target older women, such as Chico's, Talbots, and Ann Taylor, approached this silhouette more cautiously.

Although not as trendy as skinny jeans, boot-cut jeans have been a fashionable cut for several years. What's the difference between the relatively long-term success of the boot-cut fashion and the short-lived skinny jean? First and foremost, the boot-cut is a complementary silhouette for most bodies. As a result, it appeals to many large market segments.

Some jeans are considered staples from a merchandise management perspective. Levi's 501 jean, for instance, was introduced in 1873 and remains popular all over the world. Wrangler, Lee, L.L. Bean, Lands' End, and private labels from JCPenney and other retailers are purchased by people of all ages and walks of life for work and play.

Can you predict the fashion cycle for high-waisted jeans?

Sources: Helen Tither, "Flares: Bigger, Better, Beautiful," *Manchester Evening News*, September, 10, 2007 (accessed January 15, 2008); and Chelsea Emery, "Fashion Shift May Help Teen Retailers, Hurt Others," www.washingtonpost.com, June 11, 2006 (accessed January 15, 2008).

as they have had for the past eight years. Even though sales for staple merchandise categories such as cookware are relatively predictable, controllable and uncontrollable factors can have a significant impact on them.

Controllable factors include openings and closings of stores, the price set for the merchandise category, special promotions for the category, the pricing and promotion of complementary categories, and the placement of the merchandise categories in the stores. Some factors beyond the retailer's control are the weather, general economic conditions, special promotions or new product introductions by competitors. In this case, the buyer might adjust the annual unit sales projection downward for the 30-cm frying pan because the manufacturer, and thus the retailer, has increased its prices. Also, third-quarter sales might be adjusted upward because the chain, for the first time, is holding a series of in-store cooking demonstrations in which the guest chef will use this particular pan.

Forecasting Fashion Merchandise Categories

Forecasting sales for fashion merchandise categories is challenging because some or all of the items in the category are new and different than units offered in previous years. Some sources of information that retailers use to develop forecasts for fashion merchandise categories are (1) previous sales data, (2) personal awareness, (3) fashion and trend services, (4) vendors, and (5) traditional market research.

Previous Sales Volume Although items in fashion merchandise categories might be new each season, the basic merchandise in many categories is the same, and thus, accurate forecasts might be generated by simply projecting past sales data. For example, women's fashion dresses might change from season to season with new colours, styles, and fabrics. Whereas the SKUs are different each season, the total number of fashion dresses sold each year might be relatively constant and very predictable. Exhibit 9–6 shows Levi's sales by season over a 10-year period. Sales have been increasing by about 25 percent per season for several years. The exhibit illustrates a strong seasonality pattern. Typically, 40 percent of the annual sales occur in fall, 30 percent in winter, and 15 percent each in spring and summer. In the eighth year, the fall season was unusually strong due to early cold weather, whereas spring sales were particularly weak because of a temporary turndown in the local economy.

For fashion merchandise, where styles change from year to year, sales figures older than three years probably aren't very useful. When forecasting sales, retailers must identify real trends (either up or down) and try to isolate a real change in demand from random occurrences. Thus, the unusually high and low sales in the eighth year should be ignored when trying to forecast sales for the current season.

The "More information about . . ." box on page 253 shows a simple method of forecasting sales using the data from Exhibit 9–6.

Published Sources Adjustments to sales trends are based on economic trends in the geographic area for which the forecast is developed. For example, a buyer for The Gap would consider national economic indicators such as the gross national product (GNP), interest rates, and employment rates, whereas an independent local clothing store would primarily consider local conditions. Even if national unemployment rates are low, they may be significantly higher where a particular retailer has a store. If so, people may spend less money on fashion in this region than in other areas.

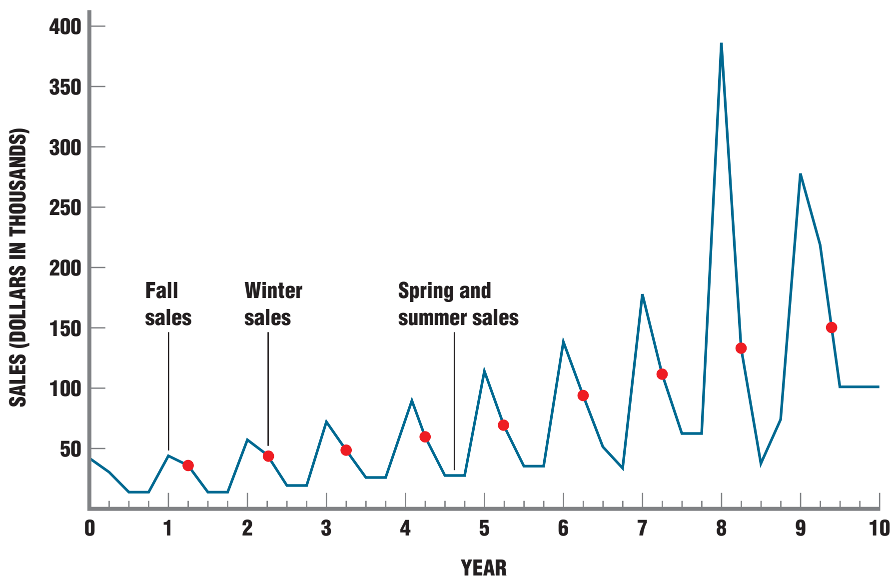
Data on a monthly basis are obtainable from Statistics Canada. This information source covers general trends, but it may not be particularly helpful for a buyer forecasting sales for a particular merchandise category.

Retailers and their vendors can also buy data from private firms. Market research companies buy information from individual supermarkets on price and promotion activity that has been scanned through their POS terminals and aggregates the data by region, chain, or market area. Information on customer demographics and psychographics as well as competitive information is available. Finally, general retail trade publications such as *Canadian Retailer,* published by the Retail Council of Canada, analyze general retail trends.

Customer Information Customer information can be obtained either by measuring customer reactions to merchandise through sales, by asking customers about the merchandise, or by observing customers and trendsetters. Knowing what customers want today is very helpful in predicting what should be purchased in the future. Buyers for fashion merchandise categories need to be aware of trends that can affect their category sales. To find out what customers are going to want in the future, they immerse themselves in customers' worlds: go into Internet chat rooms and blogs, look in their closets, attend sporting events and rock concerts, and visit hot spots around town like restaurants and nightclubs. Some suggestions to help buyers keep abreast of what Gen Y customers will want to buy are shop, converse, act, and notice (SCAN):

Shop the retail stores, Web sites, and catalogues of competitors as a customer would. When visiting your own stores, don't identify yourself. When store employees know you are coming, they are on their best behaviour. Surprise them: Watch how your staff interacts with shoppers. Pretend to be a customer. The key is to open your eyes to things that are new and different.

exhibit 9–6 Sales for Levi's Jeans at Trendsetters Department Store



Note: The peaks show the falls sales, typically 40 percent of annual sales; the horizontal lines typify 15 percent of annual sales each in spring and summer; and the dots (the winter sales) are typically 30 percent of annual sales. These data are for illustrative purposes only. They do, however, represent typical growth patterns for a category such as jeans.

resident buying office An organization located in a major buying centre that provides services to help retailers buy merchandise.

Converse with consumers, sales clerks, and neighbours. Ask them: What are your favourite bands? Why are you buying a $16 Gap t-shirt to wear with a $200 suit? What TV and radio shows are you tuning in to? What do you do in your spare time? Talk to vendors and other people who are close to consumers, such as beauticians and real estate agents.

Act like your customer. For one weekend, become your customer and see your merchandise or stores through the eyes of the consumer. Buy yourself a pair of high-waisted jeans, Saucony shoes, and a "green" cotton t-shirt. Spend the day in a mall, pick up a copy of *Flair* and *Chatelaine*, listen to Rihanna and Justin Timberlake, go to a trendy nightclub, watch MTV, and then log on to MTV.com (www.mtv.com) to find out about the after-shows. Check out Web sites such as Alloy.com (www.alloy.com) and Perezhilton.com's (www.perezhilton.com) cool hunting polls to see how Gen Y really feels about reality shows, celebrities, and inflatable furniture.

Notice, notice, notice. Become a cultural sleuth by noticing the things that make you uncomfortable or seem strange and different. What movies are hits at the box office? Who is going to see them? What books and albums are on the top 10 lists? What magazines are consumers purchasing? Become an information junkie and read voraciously. Are there themes that keep popping up? All of these clues are cultural trend posts that can become an on-ramp into the mainstream.

Fashion and Trend Services There are many services such as Trendzine (www.FashionInformation.com), Doneger Creative Services (www.Doneger.com), and Fashion Snoops (www.fashionsnoops.com) that buyers, particularly buyers of apparel categories, can subscribe to that forecast the latest fashions, colours, and styles. For example, Doneger Creative Services offers a range of services related to trend and colour forecasting and analysis for apparel, accessories, and lifestyle markets in the women's, men's, and youth merchandise categories through its print publications, online content, and live presentations. Its colour forecast service provides colour direction for each season using dyed-to-specification colour standards plus suggested colour combinations and applications for specific categories. Its online clipboard presents actionable information and style news from the runways to the streets.

Kim Hastreiter, the cofounder and editor of *Paper* magazine, is a cool hunter.[10] To most people, *Paper* is just a glossy magazine filled with clothes they can't imagine ever wearing. But exploring the underground has been *Paper's* mission for 25 years—discovering and documenting provocateurs, places, and ideas in their earliest, rawest, and often most disconcerting form. *Paper* doesn't pride itself on being trendy. It is pretrendy.

"Trends don't start with trendy people," Hastreiter says. So you won't find Hastreiter dining at the latest restaurant where reservations can only be made using a secret number. Instead, Hastreiter wll be at the restaurant off the alley behind a seedy street. "We prefer to write about things when they're still in garages, when they're more rough," Hastreiter says. "Years ago we put a local waitress with tattoos all over her body on the cover of the magazine. We lost ads because of it. But we had never seen that before." Now, of course, tattoos and body piercings are common, and their wearers are models for such mainstream brands as The Gap and Pepsi.

Japan's youth have become the world's trendsetters.[11] Some retailers, notably Abercrombie & Fitch and Sweden's H&M, have set up shop in Tokyo and are using the stores to test new fashion concepts. Others, such as Gola, an English brand of athletic shoes and apparel, have teamed up with Euro-Pacific (Japan) Ltd., a Tokyo-based retailer of fashion footwear to test new concepts. For instance, after testing shin-high boxing boots to young women in Japan, Gola successfully introduced them in Europe. Japan has its own "cool hunter" entrepreneurs that take foreign visitors around to boutiques. They typically spend $20 000 or more buying up merchandise that they send back to their companies' design teams or directly to factories in China to adapt and make for the North American market.

Japan's youth have become the world's trendsetters.

Vendors and Resident Buying Offices Buyers may seek information from vendors and resident buying offices. **Resident buying offices** either are independent organizations or are directly associated with particular retailers that offer a number of services associated with the procurement of merchandise. Vendors and resident buying offices are excellent sources of market information. They know what's selling in markets around the world. Buyers, vendors, and buying offices must share such information if all are to succeed. Shopping markets in buying centres such as New York, Milan, London, and Paris provide information on trends. Vendors have proprietary information about their marketing plans, such as new product launches and special promotions, which can have a significant impact on retail sales for their products and the entire merchandise category. In addition, vendors tend to be knowledgeable about market trends for merchandise categories because they typically specialize in fewer merchandise categories than retailers. Thus, information from vendors about their plans and market research about merchandise categories is very useful to buyers as they develop category sales forecasts.

Market Research Information on how customers will react to new merchandise can be obtained by asking customers about the merchandise and measuring customer reactions to merchandise through sales tests. For example, a cashier at a restaurant may ask how a customer liked a new item on the menu. But retailers need to have a systematic way to collect this information and relay it to the appropriate buyers. Some retailers have their salespeople maintain **want books** in which out-of-stock and requested merchandise is recorded. This information is then collected by buyers for making forecasts and purchasing decisions.

Customer information also can be collected through traditional forms of marketing research such as depth interviews and focus groups. The **depth interview** is an unstructured personal interview in which the interviewer uses extensive probing to

want book Information collected by retail salespeople to record out-of-stock or requested merchandise. Similar to a want slip.

depth interview An unstructured personal interview in which the interviewer uses extensive probing to get individual respondents to talk in detail about a subject.

9.1 MORE INFORMATION ABOUT...

Forecasting sales for Levi's Jeans

The procedure for forecasting sales by season is accomplished in two steps. First, the retailer determines a sales forecast for the entire year. Then it considers seasonal sales patterns for each season.

The accompanying exhibit summarizes sales by season for Levi's jeans for years 6 through 9 from Exhibit 9–6. For instance, during the fall season of year 6, the store sold $152 587 in jeans, which represents 41.9 percent of the total sales for year 6 ($152 587 ÷ $364 247 = 41.9 percent). The last column indicates the percentages of the increases for the previous three years: 30.1, 48.5, and 5 percent. The 30.1 percent increase from year 6 to year 7 was calculated as follows: ($364 247 − $476 835) ÷ $364 247. Unfortunately, the data don't show a consistent pattern due to unusually high sales in year 8. The buyer should probably discount the impact of year 8 sales on the forecast and examine sales increases from earlier years as well as more qualitative factors. The average sales increase over the previous nine years has been 25 percent, general economic indicators in the area are strong, and top management sees an opportunity to grow this classification, so the buyer estimates the sales increase for year 10 to be 30 percent. Thus, the sales forecast for year 10 is [($745 056 × 0.3) + $745 056] or $968 573.

The second step is to apply the seasonal sales pattern to the annual sales forecast to determine sales for each season. The percentage of annual sales occurring in each season has been fairly stable except in year 8. Thus, the buyer decides to apply the same percentages as those in years 7 and 9. To forecast sales for each season, the buyer multiplies the annual sales by each of the seasonal sales percentages. For instance, fall sales for year 10 should equal ($968 573 × 0.4) or $387 429.

	SEASON					
Year	Fall	Winter	Spring	Summer	Total	Percentage Increase
6	$ 152 587 41.9%	$ 114 440 31.4%	$ 57 220 15.7%	$ 40 000 11.0%	$ 364 247 100%	
7	190 734 40.0%	143 051 30.0%	71 525 15.0%	71 525 15.0%	476 835 100%	30.1%
8	400 000 56.5%	178 813 25.3%	40 000 5.6%	89 406 12.6%	708 219 100%	48.5%
9	298 023 40.5%	223 517 30.0%	111 758 15.0%	111 758 15.0%	745 056 100%	5.0%
6–9 (total)	1 041 344 45.4%	659 821 28.2%	280 503 12.2%	312 689 13.6%	2 294 357 100%	
10 (forecast)	387 429	290 572	145 286	145 286	968 573	

focus group A marketing research technique in which a small group of respondents is interviewed by a moderator using a loosely structured format.

get individual respondents to talk in detail about a subject. For example, one grocery store chain goes through the personal cheques received each day and selects all customers with large purchases of groceries and several with small purchases. Representatives from the chain call these customers and interview them to find out what they like and don't like about the store.

A more informal method of interviewing customers is to require buyers to spend some time on the selling floor waiting on customers. In most national retail chains, buyers are physically isolated from their customers. For example, buying offices for Target and The Gap are in northern California and Minnesota, respectively, yet their stores are throughout America. It has become increasingly hard for buyers in large chains to be attuned to local customer demand. Frequent store visits help the situation. Some retailers, like Lululemon, require their buyers to spend a specified period of time, such as one day a week, in a store.

A **focus group** is a small group of respondents interviewed by a moderator using a loosely structured format. Participants are encouraged to express their views and comment on the views of others in the group. To keep abreast of the teen market, for instance, some stores have teen boards comprised of opinion leaders who meet to discuss merchandising and other store issues.[12]

Finally, many retailers have a program of conducting merchandise experiments. For example, Claire's, an international specialty accessory retail chain targeting teens, continually runs tests to determine whether new merchandise concepts will produce adequate sales. It introduces the new merchandise into a representative group of stores and sees what sales are generated for the items. Multichannel retailers often run similar tests by offering new items on their Web sites before making a decision to stock them in their stores.

Sales Forecasting for Service Retailers

Due to the perishable nature of services, service retailers face a more extreme problem than fashion retailers. Their offering perishes at the end of the day, not at the end of the season. If there are empty seats when a plane takes off or the rock concert is over, the revenue that might have been generated from these seats is lost forever. However, if more people are interested in dining at a restaurant than there are tables available, a revenue opportunity also is lost. So service retailers have devised approaches for managing demand for their offering so that it meets but does not exceed capacity.

Some service retailers attempt to match supply and demand by taking reservations or making appointments. Physicians often overbook their appointments so many patients have to wait. They do this so they will always fill their capacity and not have unproductive, non-revenue-generating time. Restaurants take reservations so that customers will not have to wait for a table. In addition, the reservations indicate the staffing levels needed for that meal. Another approach is selling advanced tickets for a service.[13]

Store-Level Forecasting[14]

As retailers respond to increased competition, oversaturated markets, and shoppers who want more of everything for less, it is becoming increasingly important for retailers to become more efficient and quickly tailor merchandise offerings to meet the needs and desires of smaller and smaller market segments. To do this requires the merchandise planner to predict sales at the store SKU (stock keeping unit) level (colours, sizes, etc.) The forecasting method described in the previous sections was performed by buyers at more aggregate levels, such as a region or a distribution centre servicing many stores, and it was done by category, not by SKU. The problem with forecasting at more aggregate levels is that store-level variability gets averaged or summed out of the data. This, for example, happens when one store sells more single-serving-sized food products and a different store sells more family-sized products. Combining results from the two stores results in demand data that report evenly distributed sales.

Although sophisticated systems infrastructure and computational power enable the move to store-level forecasting, traditional approaches are not designed to address the complexity and operational issues related to store-level data in a timely manner. To predict store-level demand, forecasting systems need to be able to measure simultaneously the impacts of many factors on unit sales. These factors include promotion, price, placement of merchandise in the store, substitution, competition, location, and others. These factors are described in Exhibit 9–7.

As retailers respond to increased competition, over saturated markets, and shoppers who want more of everything for less, it is becoming increasingly important for retailers to become more efficient and quickly tailor merchandise offerings to meet the needs and desires of smaller and smaller market segments.

exhibit 9–7 Factors Impacting Sales Forecasts, Merchandise Plans, Budgets

Price The amount of unit sales of an item obviously depends on the price at which it is offered. Generally, with a few exceptions, raising the price causes unit sales to decrease, and vice versa. The question is, by how much? The answer can be found by determining the item's elasticity—the percentage change in unit sales resulting from a given percentage change in price. Thus, items that have a high elasticity are price-sensitive, and items with a low elasticity are insensitive to price.

Seasonality Some categories, most notably apparel, are highly seasonal in nature. In the extreme case, all of the sales of a particular merchandise category will occur during a single season. Seasonality also refers to increased sales associated with Christmas, Thanksgiving, Mother's Day, and others.

Promotion The degree and type of promotion are also critical in determining the unit sales of an item. Promotional techniques include weekly circulars, store signage, end-caps and other special product displays, and manufacturer coupons and rebates.

Store Location There can be large variations in demand depending on store location. Snow shovels obviously have a much higher demand in Northern Ontario than in Vancouver. Even in the same metropolitan area, the same item could have a different demand depending on whether the store is in a downtown location or a suburban or rural location. Customer demographics also play a role. For example, the buying patterns in a store adjacent to a retirement community will be different from those in a store located in a residential neighbourhood with many young families.

Product Placement The amount of shelf space afforded an item, as well as its location on the shelf, can have a large impact on sales. A diagram that shows how and where specific products should be placed on the shelves, called a planogram, is created to help maximize sales.

Other Factors There are many other factors that impact sales, usually to a lesser degree, but sometimes significantly. Among these are:

- *Product life cycle* —knowledge of whether product demand is growing, stable, or in decline, is important.
- *Product availability* —the degree to which the merchandise is, or is not, on the shelves ready for sale impacts sales.
- *Competitor price and promotional activity* —these also affect a retailer's sales.
- *Business cycles* —sales may be higher at the beginning of the month due to payroll cycles; also, sales are higher on weekends than on weekdays.
- *Weather* —late or early arrival of hot or cold weather can have a significant impact on sales of seasonal items.
- *Unusual events* —a new highway, an unexpected or severe storm, and other natural disasters can have a large local impact.
- *Cannibalization* —for example, decreasing the price of Apple Jacks would increase sales, but perhaps to the detriment of the sales of Froot Loops.
- *Complementary products*—putting hot dogs on sale will also cause an increase in sales of hot dog buns.

Source: Adapted from KhiMetrics.

Observing the impact of, say, adding another SKU to a supermarket shelf or of making a 2-percent price increase when weekly sales are fluctuating by 30 percent presents a daunting task, especially since most routine merchandising changes are made in response to manufacturer price increases or other incentives or seasonal trends and therefore affect competition as well. When multiple changes occur simultaneously, it is difficult to determine how much of the change should be attributed to each independent change. Traditional forecasting techniques such as exponential smoothing that are found in spreadsheets or standard statistical packages cannot pick up the subtle differences at the store level.

Today, most large retailers have implemented sophisticated systems that can track and archive weekly sales at the store and SKU level. With the advent of low-cost data storage and computing, it is now economically feasible to implement sales forecasting solutions that require massive computational power, such as advanced planning systems that are commercially available to retailers.

Setting Objectives for the Merchandise Plan

Retailers cannot hope to be financially successful unless they preplan the financial implications of their merchandising activities. Financial plans start at the top of the retail organization and are broken down into categories, while buyers and merchandise planners develop their own plans and negotiate up the organization. Top management looks at the overall merchandising strategy. They set the merchandising direction for the company by:

- defining the target market
- establishing performance goals
- deciding, on the basis of general trends in the marketplace, which merchandise classifications deserve more or less emphasis

Buyers and merchandise planners, on the other hand, take a more micro approach. They study their categories' past performance, look at trends in the market, and try

merchandise plan A plan used by buyers to determine how much money to spend in each month on a particular fashion merchandise category, given the firm's sales forecast, inventory turnover, and profit goals.

variety The number of different merchandise categories within a store or department.

breadth See variety, above.

assortment The number of SKUs within a merchandise category. Also called depth of merchandise and depth of stock.

depth See assortment, above.

to project the assortments for their merchandise categories for the coming seasons.

The planning process is similar for smaller retailers. Although there aren't as many layers of management involved in planning and negotiations, they still start with the firm's overall financial goals and break them down into categories.

The resulting **merchandise plan** is a financial buying blueprint for each category. It considers the firm's financial objectives along with sales projections and merchandise flows. The merchandise plan tells the buyer and planner how much money to spend on a particular category of merchandise in each month so that the sales forecast and other financial objectives are met. Once the merchandise plan is set, the buyers and planners develop the assortment plan. The buyers work with vendors choosing merchandise, negotiating prices, and developing promotions. The merchandise planners break down the overall financial plan into how many of each item to purchase and how they should be allocated to stores.

As you can imagine, there's a great deal of negotiating at each step. Merchandise managers and buyers compete with each other over the size of their merchandise budgets.

The Assortment Planning Process

All retailers face the fundamental strategic question of what type of retail format to maintain to achieve a sustainable competitive advantage. A critical component of this decision is determining what merchandise assortment will be carried. Merchandise decisions are constrained by the amount of money available to invest in inventory and the amount of space available in the store. Based on the financial objectives that have been set at the top and have trickled through the retail organization, decisions regarding variety, assortment, and product availability must be made. After forecasting sales for the category, the next step in the merchandise management planning process is to develop an assortment plan. An assortment plan is a list of SKUs that a retailer will offer in a merchandise category. The assortment plan thus reflects the variety (breadth) and assortment(depth) that the retailer plans to offer in a merchandise category.

REFACT

Loblaws Companies Limited President's Choice and no name control brands are the number one and number two packaged goods brands by sales in Canada, respectively. Further, their Joe Fresh brand is the third highest volume unit brand in Canada.[15]

Category Variety and Assortment

The **variety** or **breadth** of a retailer's merchandise is the number of different merchandising categories within a store or department and the retailer's **assortment** or depth of merchandise is defined as the number of SKUs within a category.

Services retailers also make assortment decisions. For example, some health clubs offer a large variety of activities and equipment from exercise machines to swimming, wellness programs, and New Age lectures. Others, like Gold's Gym, don't offer much variety but have deep assortments of body-building equipment and programs. Some hospitals, such as big municipal hospitals found in most urban areas, offer a large variety of medical services, whereas others specialize in services such as trauma or prenatal care. For service retailers, the level of product availability is a sales forecasting issue.

Assortment planning involves decisions concerning the amount of merchandise choice that is available to the customer. Overstocking merchandise results in lower turnover and reduced profits; understocking may mean lost sales and unhappy customers who will take their business elsewhere. The ideal situation is the right merchandise, in the right quantity, at the right price, and at the right time.

Breadth of stock refers to the number of SKUs, which could be the variety of brands, sizes, or colours available to the customer.

- Broad assortment will include numerous choices.

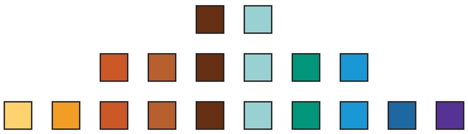
- Narrow assortment will provide the customer with only a few choices.

Depth of merchandise, or the amount of a particular item that a retailer will stock, includes the attributes of brand, size, or colour; for example, how many styles of a specific brand of bicycle.

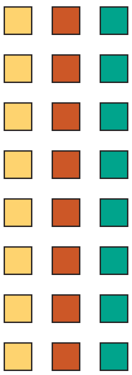
- Deep assortment refers to a large quantity of a single item.

- Shallow assortment consists of only a few of a single item.

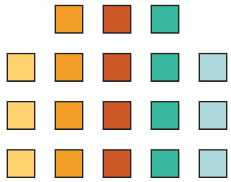
Examples:
Broad and shallow assortment planning is typical of the fashion retailer Club Monaco, which will stock a broad assortment of styles to satisfy the style-conscious consumer but does not carry depth in any particular item. The fashion customer is more selective about style, size, and colour, and will change with the newest trends.



Narrow and deep assortment planning is an assortment strategy typical of the mass merchandisers, such as Walmart and Zellers. The assortment mix has only a few choices in a particular category, but it is stocked in considerable depth so as to be seldom out of stock within that product group. There may be, for example, three brands.



Square assortment planning is a moderate assortment strategy that is adopted by traditional department stores. In order to provide customers with a greater product selection than the mass merchandisers, The Bay and Sears will adapt a square assortment plan. This assortment strategy is planned to have limited depth within the categories to avoid having an overstock situation that could result in markdowns and a loss of revenue at the end of the season.



product availability
A measurement of the percentage of demand for a particular SKU that is satisfied.

In the context of merchandise planning, the concepts of variety and assortment are applied to a merchandise category rather than a retail firm. At the category level, variety reflects the number of different types of merchandise, and assortment is the number of SKUs per type. For example, the assortment plan for girls' jeans in Exhibit 9–8 includes 10 types of varieties (traditional or boot cut, regular denim or stonewashed, and three price points reflecting different brands). For each type, there are 81 SKUs (3 colours × 9 sizes × 3 lengths). Thus, this retailer plans to offer 810 SKUs in girls' jeans.

REFACT

Sport Chek's e-commerce site brings together merchandise from virtually all categories available under the Sport Chek banner, targeting a catalogue selection of 5000 styles and colours.[16]

Product Availability

The backup stock in the model stock plan determines product availability. **Product availability** defines the percentage

exhibit 9–8 Assortment Plan for Girls' Jeans

Styles	**Traditional**	**Traditional**	**Traditional**	**Traditional**	**Traditional**	**Traditional**
Price levels	$20	$20	$35	$35	$45	$45
Fabric composition	Regular denim	Stonewashed	Regular denim	Stonewashed	Regular denim	Stonewashed
Colours	Light blue Indigo Black	Light blue Indigo Black	Light blue Indigo Black	Light blue Indigo Black	Light blue Indigo Black	Light blue Indigo Black
Styles	**Boot-Cut**	**Boot-Cut**	**Boot-Cut**	**Boot-Cut**		
Price levels	$25	$25	$45	$45		
Fabric composition	Regular denim	Stonewashed	Regular denim	Stonewashed		
Colours	Light blue	Light blue	Light blue	Light blue		
	Indigo	Indigo	Indigo	Indigo		
	Black	Black	Black	Black		

level of support See product availability, p. 257.

service level See product availability, p. 257.

of demand for a particular SKU that is satisfied. For instance, if 100 people go into a Levi Strauss & Co. store to purchase a pair of tan jeans in size 33–34, and it sells only 90 pairs before it runs out of stock, its product availability is 90 percent. Product availability is also referred to as the **level of support** or **service level**.

Trade-Offs between Variety, Assortment, and Product Availability

How do retailers make the trade-off between variety, assortment, and product availability? It depends on their particular marketing strategy. A retail strategy identifies:

- the target market toward which a retailer plans to commit its resources

9.3 RETAILING VIEW

Costco goes for variety, or does it?

The Costco experience is often described as a treasure hunt. Products can include everything from blue jeans, air conditioners, and computer games one day to books, children's toys, and diamond rings the next, plus a huge selection of food products. Costco keeps customers on their toes by offering a wide variety of merchandise that changes from day to day. This is the place where individual and business customers pay $45 to $100 per year for a membership to buy 24 rolls of toilet paper or none at all. This is where laundry detergent and Italian olive oil come in extra-large sizes and where a 1000-piece lot of Ralph Lauren golf jackets, selling at 75 percent below retail, will vanish in an afternoon. In Costco's 1.5-hectare stores you can also visit the meat counter with its onsite butchers, order a cake from the bakery, or pick up a prescription and talk to the resident pharmacist to receive health advice.

All of these disparate categories provide an illusion of expansive variety. A Walmart Supercentre carries as many as 125 000 items; a grocery store will stock approximately 40 000. Not so at Costco, where you will find just 3800 to 4000 carefully chosen products. This makes it easier for the company to manage inventory and to monitor prices obsessively. Three-quarters of the merchandise is basic stock, such as canned tuna and paper towels; the other items are discretionary, often with high-end brands such as Godiva chocolates and Waterford crystal. The stores' periphery offers a variety of services, including film development, an optical centre, a pharmacy, and a tire shop.

Costco's successful strategy is planned so that a pallet of product must bring in a specific amount of cash or it is out; it is about volume per item, operating with a margin of about 8 percent, and how to increase the volume per item. Traditional category management does

not apply to Costco; for example, because Costco sells computer printers does not mean that it will sell printer paper. Unusual product juxtapositions, such as face creams next to crackers, are all part of a selling formula that homes in on the middle-class tastes for cross-shopping and impulse purchases.

The typical Costco customer is 35 to 55 years old and earns on average $100 000 in family income, about double the income of most Canadians. Costco's Canadian customers number about 3.5 million households, with up to 35 percent of its business in grocery. There are 60 Canadian Costco stores, whose average size is 15 248 sq. metres, with sales figures averaging about $118 million per store.

Growth continues internationally with 504 stores worldwide that have outpaced the sales of Sam's Club (which has 579 stores). Internationally, Costco has extremely low operating expenses, pegged at 8.74 percent of sales, and an enviable shrink that is almost nonexistent. It is extreme attention to detail that has made Costco a retail success story.

Sources: Julia Drake, "Welcome to the Big Time: Big Stores, Big Products, Big Savings, Big Profits: They're All Part of the Costco Experience," *Canadian Grocer*, May 2001; and Ann Zimmerman, "Costco Goes for Variety, or Does It?" *Retailing*, McGraw-Hill Ryerson.

- the nature of the retail offering that the retailer plans to use to satisfy the target market's needs
- the bases upon which the retailer will attempt to build a sustainable competitive advantage

The Chippery in Vancouver rates high on assortment and low on variety. It is the place to get fresh potato (or beet, or yam) chips, a selection of gourmet dips and fruit smoothies. That is it!

As a specialty store, Banana Republic tries to be the one-stop shopping alternative for its target markets. It carries a large variety of merchandise categories for both men and women. As a result, it can't physically or financially carry either gigantic assortments within each category or sufficiently high backup stock so as never to be out of stock. Alternatively, Levi Strauss & Co. stores have developed a marketing strategy around a target market of people who are particularly interested in buying jeans. As a result, they provide a large assortment of a limited number of categories. At Levi stores, product availability is high; they don't want to miss a sale because they don't have the right size. If any of these three elements—variety, assortment, or product availability—aren't what the customer expects or needs, a retailer will likely lose the sale and possibly the customer.

The trade-offs between variety, assortment, and product availability are strategic issues. Of the three issues, variety is the most strategic. Variety is most important in defining the retailer in the customer's eyes. For instance, is the retailer perceived to be a category specialist like Toys "R" Us or a generalist like a department store? Variety also defines the retailer's vendor structure. Does it purchase from many different types of manufacturers or just a few? Finally, decisions regarding variety are typically made less often and at higher levels in the organization than decisions regarding assortment or product availability. Top managers, for instance, make decisions about whether to delete categories or even departments from the store. Since these decisions have important ramifications, they're made only after serious consideration.

Banana Republic tries to be the one-stop shop for its target market. It carries a large variety of merchandise categories.

Determining Variety and Assortment

In attempting to determine the variety and assortment for a category such as jeans, the buyer would consider the following factors:

- profitability of the merchandise mix
- the corporate philosophy toward the assortment
- physical characteristics of the store, layout of the Internet site
- balance between too much versus too little assortment
- complementary merchandise

Profitability of Merchandise Mix Since retailers are constrained by the amount of money they have to invest in merchandise and space to put the merchandise in, they're always trying to find the most profitable mix of products. Thus, for a chain of stores such as Levi Strauss & Co. to add a category like shoes to the assortment, a reduction must be made elsewhere. It would attempt to take the inventory investment that it's been making in a less profitable merchandise category (flannel shirts in which it's invested \$1 million to generate \$2 million in sales) and shift it to shoes, which it hopes will generate \$2.5 million.

REFACT

Home Hardware has approximately 60 000 SKUs with more than 10 000 exclusive items and private label products, each one delivering top quality and great prices to the consumer and increased profit margins to Home Hardware Owners.[17]

Corporate Philosophy toward the Assortment The corporate strategy toward the assortment helps the buyer determine the number of styles and colours to purchase. To illustrate, let's again consider the hypothetically different philosophies of Levi Strauss stores

breaking sizes
Running out of stock on particular sizes.

and Banana Republic. Both chains have a merchandise budget of $150 000 to spend on jeans that retail for $50. Thus, both stores can purchase 3000 pairs. The Levi Strauss stores purchase 30 different style/colour combinations (100 units per combination); Banana Republic purchases 10 (300 per combination). The Levi Strauss stores with 30 styles and colours are more diversified than Banana Republic.

With Levi Strauss stores, since there are so many style/colour combinations, on average the category will perform adequately even if a few don't sell. But by spreading the 3000 pairs across so many style/colour combinations, the buyer runs the additional risk of **breaking sizes**, which means running out of stock on particular sizes. Typically, retailers take markdowns on assortments with broken sizes since they become harder to sell. Additionally, a large assortment of styles and colours won't enable the buyer to maximize profits by investing a large portion of the budget on the big winners.

Another issue is whether top management wants to grow or shrink a particular merchandise category. Some department stores, for instance, have dropped furniture and major appliances altogether because of low turnover, low profit margins, or lack of space.

Physical Characteristics of the Store and Layout of the Internet Site Retailers must consider how much space to devote to the category—in terms of both physical space and space on their Internet site. If many styles and colours are in the assortment, much space will be required to properly display and store the merchandise. The display area's physical characteristics are also important in the case of bricks-and-mortar retailers. A rack, for instance, may hold 300 pairs of jeans. It wouldn't be aesthetically pleasing to display only 100 units on the rack or to mix the jeans with another merchandise category.

By the same token, Web sites must be designed so that the customer can easily navigate through them. If there are too many choices, if the merchandise is organized in a less than obvious fashion, if the customer perceives the site to be cluttered, or if the checkout process is difficult, customers click and are off to another site.

Multichannel retailers address the space limitations in stores by offering a greater assortment through their Internet and catalogue channels than they do in stores. For example, Staples offers more types of notebook computers and printers on its Internet site than it stocks in its stores. If customers do not find the computer or printer they want in the store, sales associates direct them to the company's Internet site and can even order the merchandise for them from a POS terminal.

Balance between Too Much versus Too Little Assortment Both traditional retailers and multichannel retailers must contend with the balance between having too much versus too little assortment. In general, retailers must offer enough assortment to satisfy the customers' needs and expectations, but not too much so as to confuse them and turn them off.

Complementary Merchandise When retailers plan to add to their assortment, they must consider whether the merchandise under consideration complements other merchandise in the department. For instance, Dockers may stimulate the sale of shirts and belts. After the customer selects a book, Amazon.com suggests books that have been purchased by other customers who purchased that book.

GMROI of Merchandise Assortment Buyers are constrained by the amount of money they have to invest in a merchandise category and the store space available to display the merchandise. They must deal with the trade-off of increasing sales by offering more breadth and depth but potentially reducing inventory turnover and GMROI by stocking more SKUs.

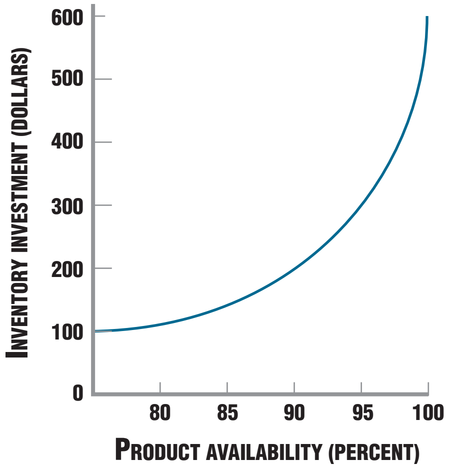
Increasing breadth and depth also can increase the need to put more merchandise on sale and thus negatively affect the gross margin. For example, the more SKUs offered, the greater chance of breaking sizes. If a stockout occurs for a popular SKU in a fashion merchandise category and the buyer cannot reorder during the season, the buyer will typically discount the entire merchandise type. The buyer's objective is to remove the merchandise type from the assortment altogether so that customers will not be disappointed when they don't find the size and colour they want.

Determining Product Availability

Another dimension of the assortment planning process is product availability. Recall that product availability defines the percentage of demand for a particular SKU that is satisfied. The higher the product availability, the higher the amount of backup stock necessary to ensure

Retailers must offer enough assortment to satisfy the customers' needs and expectations, but not too much so as to confuse them and turn them off.

exhibit 9–9 Relationship between Inventory Investment and Product Availability



that the retailer won't be out of stock on a particular SKU when the customer demands it. Choosing an appropriate amount of backup stock is critical to successful assortment planning because if the level of backup stock is too low, the retailer will lose sales, and possibly customers too, due to stock-outs. If the level is too high, scarce financial resources will be wasted in needless inventory that could be more profitably invested.

Exhibit 9–9 above shows the trade-off between inventory investment and product availability. Although the actual inventory investment varies in different situations, the general relationship is that a very high level of service results in a prohibitively high inventory investment. This relationship can be explained by the relationship between cycle stock and backup stock.

Cycle stock, also known as **base stock**, is inventory that results from the replenishment process and is required to meet predicted demand. Replenishment times (lead times) are depicted in orange in Exhibit 9–10. In this case, 96 units of SKU are ordered. During the next two weeks, much of the inventory is sold. But before the store is out of stock, the next order arrives. The cycle then repeats in this typical zigzag fashion

Retailers carry **backup stock**, also known as **buffer stock** or **safety stock**, as a cushion for the cycle stock so they won't run out before the next order arrives. Backup stock is depicted in yellow in Exhibit 9–10.

Several issues determine the level of required backup stock:

- First, inventory management systems should calculate safety stock requirements for each SKU. That way, SKUs with smooth demand won't be overstocked, and the retailer won't constantly be out of stock on SKUs with erratic demand.
- Second, determine the product availability the retailer wishes to provide. If, for instance, a Levi Strauss store wants to satisfy almost all its customers who wish to purchase a pair of Levi's 501 jeans in size 31–32, it must carry a great deal of backup stock compared to what it needs if it decides to satisfy only 75 percent of the demand for the SKU.
- Third, the higher the fluctuations in demand, the greater the need for backup stock. In some weeks, sales are greater or less than the average. When sales are less than average, the retailer ends up carrying a little more merchandise than it needs. But if sales are more than average, there must be some backup stock to ensure that the retailer doesn't go out of stock. Note in Exhibit 9–10 that during week 4, sales were greater than average so the retailer had to dip into backup stock to avoid a stockout.
- Fourth, the amount of backup stock also depends on lead time from the vendor. **Lead time** is the amount of time between recognition that an order needs to be placed and the point at which the merchandise arrives in the store and is ready for sale. If it took two months to receive a

cycle stock Inventory that results from the replenishment process and is required to meet demand when the retailer can predict demand and replenishment times (lead times) perfectly.

base stock See cycle stock, above.

backup stock The inventory used to guard against going out of stock when demand exceeds forecasts or when merchandise is delayed. Also called safety stock or buffer stock.

buffer stock Merchandise inventory used as a safety cushion for cycle stock so the retailer won't run out of stock if demand exceeds the sales forecast. Also called safety stock.

safety stock See buffer stock, above.

lead time The amount of time between recognition that an order needs to be placed and the point at which the merchandise arrives in the store and is ready for sale.

exhibit 9–10 Cycle and Backup Stock

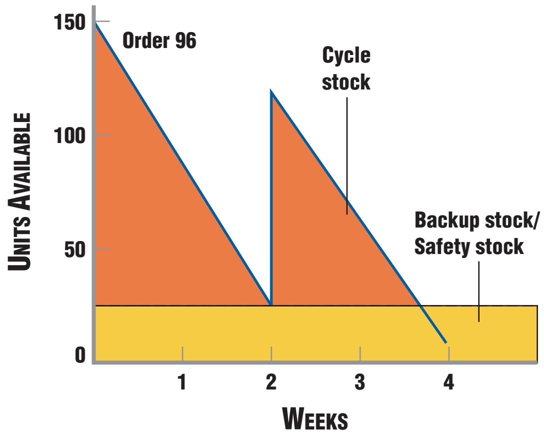
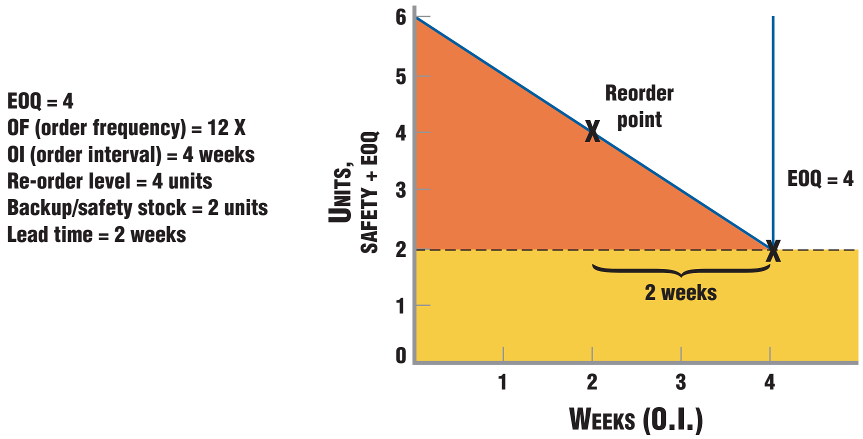


exhibit 9–11 EOQ-Based Computer Ordering System



shipment of jeans, the possibility of running out of stock would be greater than if lead time were only two weeks because the Levi Strauss stores would have to forecast for a longer period. The shorter lead times inherent in quick response inventory systems result in a lower level of backup stock required to maintain the same level of product availability.

- Fifth, fluctuations in lead time also affect the amount of backup stock. If Levi Strauss & Co. knows that lead time for jeans is always two weeks, plus or minus one day, it can more accurately plan its inventory levels. But if lead time is plus or minus one day on one shipment and then plus or minus five days on the next shipment, the stores must carry additional backup stock to cover the uncertainty in lead time. Many retailers using quick response inventory systems are forcing their vendors to deliver merchandise within a very narrow window—sometimes two or three hours—to reduce the fluctuations in lead time and thus the amount of required backup stock.
- Finally, the vendor's product availability also affects the retailer's backup stock requirements. For example, Levi Strauss & Co. can more easily plan its inventory requirements if it normally ships every item that the Levi Strauss stores order. If, on the other hand, Levi only ships 75 percent of the ordered items, the stores must maintain a higher backup stock to be certain that the jeans' availability to their customers isn't adversely affected.

For example, computer-ordering systems are based on EOQ (economic order quantity), as shown in Exhibit 9–11 above.

The EOQ model is suitable for staple merchandise with a consistent demand and rate of sale. It permits a systematic way to automate reorders based on a set reorder point calculation. The reorder point can be established as a stock level point at which an order for the economic order quantity can be placed at an appropriate time in order to allow for the delivery time required and the maintenance of a basic stock level.

EOQ also takes into account the holding costs associated with maintaining inventory over time and the ordering costs associated with placing orders. This system prevents stock outages since it builds in a safety stock level and the reorder can happen automatically when inventory drops to the reorder point.

The EOQ model requires the following calculations:

$$\text{EOQ} = \frac{2 \times \text{Demand} \times \text{Ordering cost}}{\text{Holding} \times \text{Unit cost}}$$

$$\text{Order Frequency} = \frac{\text{Demand}}{\text{EOQ}}$$

$$\text{Order Interval} = \frac{\text{Number of weeks in a year}^{*}}{\text{Order frequency}}$$ (often assumed 12 months with 4 weeks)

$$\text{Number of Lead Time Periods in a Year} = \frac{\text{Number of weeks in the year}}{\text{Lead time}}$$

$$\text{Amount Used in the Lead Time} = \frac{\text{Demand}}{\text{Number of lead time periods in year}}$$

Reorder Point = Amount used in the lead time + Safety stock

The Assortment Plan

After setting financial goals and determining the relative importance of variety, assortment, and product availability, the retailer is ready to determine what merchandise to stock using an assortment plan. An assortment plan describes in general terms what should be carried in a particular merchandise category. The assortment plan for fashion merchandise doesn't identify specific SKUs since fashions change from year to year. The more fashion-oriented the category, the less detail will be found in the assortment plan because the merchandise planner requires more flexibility to adjust to fashion changes.

Historical precedent is the starting point for developing the assortment plan for the current season. The merchandise planner uses the sales, GMROI, and turnover forecast along with the assortment plan from the previous season to develop the plan for the current season. Adjustments are then made based on the merchandise planner's expectations for what items or fashions will be important in the coming season. For instance, if a particular style, such as boot-cut jeans, is expected to be especially popular in the coming season, the merchandise planner will use more of the merchandise budget for that style and cut back on traditional jeans.

Assortment plans for apparel and shoes also typically include a size distribution. To illustrate, Exhibit 9–12 breaks down size and length for the 429 units for girls' traditional $20 denim jeans. Thus, the store wants to have nine units of size 1–short, which represent 2 percent of the 429 total. Note that the size distribution approximates a normal distribution or bell-shaped curve. The buyer buys less of the small and large sizes, and more of the middle sizes. The process of applying the size distribution is repeated for each style/colour combination for each store.

The development of an assortment plan can be complicated. In an actual multistore chain, the process is even more complex than in our example. A good assortment plan requires a good forecast for sales, GMROI, and inventory turnover along with a mix of subjective and experienced judgment. A good inventory management system that combines these elements is also critical to successful merchandise management.

exhibit 9–12 Size Distribution for Traditional Denim Jeans—Model Stock Plan

		Size								
LENGTH		**1**	**2**	**4**	**5**	**6**	**8**	**10**	**12**	**14**
Short	%	2	4	7	6	8	5	7	4	2
	Units	9	17	30	26	34	21	30	17	9
Medium	%	2	4	7	6	8	5	7	4	2
	Units	9	17	30	26	34	21	30	17	9
Long	%	0	2	2	2	3	2	2		0
	Units	0	9	9	9	12	9	9	4	0
	Total 100% 429 units									

SUMMARY

Planning merchandise assortments involves a range of activities including organizing the category, setting financial objectives, and developing the assortment mix. Successful merchandise management will involve the planning of what to buy and how much to buy—the merchandise mix—and allocating the appropriate merchandise budget. The goal is to offer the right quantity of the right merchandise in the right place at the right time while meeting the company's financial objectives.

This chapter was the second of five on merchandise management. As such, it examined basic strategic issues and planning tools for managing merchandise. First, merchandise must be broken down into categories for planning purposes. Buyers and their partners, merchandise planners, control these categories, often with the help of their major vendors.

Tools to develop a merchandising plan include GMROI, inventory turnover, and sales forecasting. GMROI is used to plan and evaluate merchandise performance. The GMROI planned for a particular merchandise category is derived from the firm's overall financial goals broken down to the category level. Gross margin percentage and inventory turnover work together to form this useful merchandise management tool.

Calculating inventory turnover and determining inventory turnover goals are important. Retailers strive for a balanced inventory turnover. Rapid inventory turnover is imperative for the firm's financial success. But if the retailer attempts to push inventory turnover to its limit, severe stockouts and increased costs may result.

When developing a sales forecast, retailers must know what stage of the life cycle a particular category is in and whether the product is a fad, fashion, or staple so they can plan their merchandising activities accordingly. Creating a sales forecast involves such sources of information as previous sales volume, published sources, customer information, and shopping at the competition as well as utilizing vendors and buying offices.

The trade-off between variety, assortment, and product availability is a crucial issue in determining merchandising strategy. Examining this trade-off helps retailers answer the important question of what type of store to be: a specialist or generalist.

The culmination of planning the GMROI, inventory turnover, sales forecast, and assortment planning process is the assortment plan. The assortment plan supplies the merchandise planner with a general outline of what should be carried in a particular merchandise category.

KEY TERMS

assortment, 256
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Get Out & Do It!

1. **GO SHOPPING** Go to your favourite apparel specialty store and your favourite department store. Do an audit of the variety and assortment at the specialty store. (Tabulate how many merchandise categories it carries and how many SKUs within each category.) Compare the variety and assortment for the same type of merchandise in the department store.

2. **GO SHOPPING** Go to a retailer that has both bricks and clicks formats. Describe the differences in merchandise variety and assortment available.

DISCUSSION QUESTIONS AND PROBLEMS

1. What are the differences between a fashion, fad, and staple? How should a merchandise planner manage these types of merchandise differently?
2. How and why would you expect variety (breadth) and assortment (depth) to differ between a traditional bricks-and-mortar store and its Internet counterpart?
3. Assume you are the grocery buyer for canned fruits and vegetables at a five-store supermarket chain. Del Monte has told you and your boss that it would be responsible for making all inventory decisions for those merchandise categories. It would determine how much to order and when shipments should be made. It promises a 10 percent increase in gross margin dollars in the coming year. Would you take Del Monte up on its offer? Justify your answer.
4. An assortment plan indicates that a buyer can purchase 1000 units of fashion wristwatches. The buyer must choose between buying 20 styles of 50 units each or 5 styles of 200 units each. In terms of the store's philosophy toward risk and space utilization, how does the buyer make this decision?
5. A buyer has had a number of customer complaints that he has been out of stock on a certain category of merchandise. The buyer subsequently decides to increase this category's product availability from 80 percent to 90 percent. What will be the impact on backup stock and inventory turnover? Will your answer be the same if the buyer is implementing a quick response inventory system?
6. Variety (breadth), assortment (depth), and product availability are the cornerstones of the assortment planning process. Provide examples of retailers that have done an outstanding job of positioning their stores on the basis of one or more of these issues.
7. Given the following information, calculate:
   (a) EOQ
   (b) Order frequency
   (c) Order interval
   (d) Reorder point
   When:
   - Demand is 156
   - Unit cost is $1.00
   - Ordering cost is $0.34
   - Holding cost is 65 percent
   - Lead time is two weeks
   - Safety stock is three units

   Graph your results, showing the EOQ points [(a) to (d)].
8. How does Canadian Tire change its merchandise inventory on a seasonal basis? How has this retailer used its merchandise offerings to attract more female customers?
9. Give examples of products that you have purchased that are fad, fashion, and staple items according to the category life cycle. How does each item fit the definitions given in Exhibit 9–4?
10. Refer to Exhibit 9–7, Factors Impacting Sales Forecasts, Merchandise Plans, Budgets. Discuss how the seasonal weather had an impact on the sale of specific merchandise carried by retailers in your area.

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