Merchandise Planning

What You Will Learn

- How a seasonal merchandise plan will greatly assist you in deciding what to buy.
- The external factors that can affect a store's merchandise planning process.
- How to prepare your own merchandise strategy.
- Industry stock turn benchmarks for different retail store types.
- How to increase your stock turns.

Planning For Success

"The great wars of the world were won in the planning tents, not on the battleground".

In the large retail store, we find a dizzying array of goods to clothe our bodies, decorate our homes and entertain our families. All of this merchandise comes in a variety of sizes, colours, makes and models. Bringing it all together requires the successful coordination of numerous individuals and divisions, including buyers, warehouse employees, financial staff, store operations, etc.

Yet, merchandising takes top priority. It doesn't matter how efficiently the other departments are operating. If merchandising is not firing on all cylinders, the company cannot succeed.

The merchandise planning process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered. This will greatly assist the company in attaining its sales and gross margin goals. Buyers must rely heavily on historical sales data, coupled with personal experience and their own intuition about market trends.

The foundation of this planning process is the six month merchandise plan, which will be analyzed in this chapter.

Step #1: Define Your Merchandise Policy

✓ ***Tip***

A successful retail strategy is to be better than your completion in one of the following three key areas:

- *Price*
- *Service*
- *Product*

At the same time, you must also remain competitive in the other two.

Every retail organization must have a vision in order to provide it's buyers with some insight into the following business components:

- Demographics of current and potential customers.
- Store's image.
- Merchandise quality levels.
- Price point policy.
- Marketing approach.
- Customer service levels.
- Desired profit margins.

This will allow you to develop a clear merchandise policy that outlines buying goals and objectives.

Communicating this policy effectively will not only provide direction, but should also drive all decision making throughout the merchandise planning process.

Step #2: Gather Historical Information

In building your six month plan, the objective is to prepare a month-by-month total dollar-purchasing schedule for the company. Then, repeat this process for the next level of detail (i.e. the departmental level). Depending on the sophistication of company information systems, each department can then be broken down into smaller segment "classes", for which a similar sales plan is prepared.

The first step in preparing these plans is to pull the sales information for the same period last year. Not only should we gather actual sales numbers, but also statistics on returns, markdowns and any inventory carry-over. Unless your store is computerized, detail of this nature will not always be available. However, even a manual analysis of total merchandise purchases will provide you with an acceptable level of data, which is far better than having no information at all.

Step #3: Perform Qualitative Analysis

Most professionals will agree that the buying process is 90% analytical and 10% intuitive. In other words, you must do your homework to achieve any level of success. But your efforts will be rewarded. As the most critical aspect of a successful operation, buying/ merchandise management is what retail is all about.

"Qualitative Analysis" refers to "identifying the proper components in a mixture". In this case, the mixture is the merchandise plan and the components that affect this plan are as follows:

✓ ***Tip***
Build your store around your best customers. Find out what they want, and give it to them.

(a) Customer Profile Analysis

- Who are our best customers, and what are their buying behaviors and attitudes?
- Who do we want our customers to be?
- Who are our secondary customers, and what should we be buying for them?

Winning specialty store concepts focus on one "individual" and build their merchandise mix to please this specific shopper. Learn right away that you can't be everything to everybody.

(b) Department Analysis

To effectively forecast sales and purchase the right product, you need a further breakdown of your store's major departments. For example, a typical family shoe store may have the following departments: men's footwear, women's footwear, children's footwear and accessories. The men's department may be made up of the following subcategories or "classes": dress shoes, sport shoes, boots and slippers.

To plan at the "class" level, you need sales and inventory data at the "class" level.

✓ ***Tip***
Become an

(c) Key Department Trends

information junky when it comes to industry trends and fashion.

The professional buyer is always looking for trends in his market. For example, what is happening in men's footwear? Maybe Western boots are growing in popularity, brown dress shoes have been declining for the last two seasons and black sport shoes are hot with the youth market. Do you always run out of large sizes in slippers weeks before Xmas?

Trend information is available from a number of sources, including trade publications, merchandise suppliers, the competition, other stores in the U.S. and Europe, and your own experience.

(d) Major Vendor Analysis

“Information is power." Even a minor analysis of the performance of your major vendors can identify significant buying issues.

For example, in the case of the family shoe store illustration, a closer look reveals that our number one supplier last season did not do us any favours. Although they shipped 98% of what we booked, further analysis indicates late deliveries coupled with styling and fitting problems. This resulted in a poor in-season sell through, creating the need for heavy markdowns. Due to poor supplier performance, we ended up with a gross margin of 10% below the store average.

As you can see, this type of vendor analysis is essential in planning your merchandise strategy.

✓ ***Tip***

It is approximately five times more expensive to lure a new customer into your store than

(e) Advertising Review

Increased traffic flow often results in higher sales. To this end, advertising and promotions are used to improve traffic levels. The buying and advertising departments must work closely together to ensure the company’s investments in this area result in strong performance.

A promotional calendar outlining event dates, media *your store than it is to get an existing customer to make another visit.*

buys and budgets should be developed and taken into consideration when the merchandise planning process takes place. Buyers may have to coordinate product deliveries with promotions, or vice versa. A successful promotion last year may be hard to equal this season, or, by contrast, a poor promotion may require a higher forecast for this season.

(f) Visual Presentation Analysis

People usually respond best to visual stimuli, so product presentation is a major driver of sales. For this reason, another segment of the buyer's seasonal written report describes their thoughts about visual merchandising for the products. This includes the following:

- Are any special fixtures required?
- Where should the product be displayed?
- What type of signage is necessary?

Visual merchandisers work very closely with the buying departments in most chains. Information concerning delivery dates, promotions and product quantities may affect decisions about what to feature in store windows and key display areas. The "visual people" will also handle any special in-store signage that will accompany the product.

✓ Tip

Take a course in Excel if you don't already have spreadsheet experience.

The Six Month Merchandise Plan

With the subjective part of the planning process completed (forecasting trends and analyzing customers, suppliers and promotions), we can start putting numbers on paper. On the following page is a sample of a six month merchandise plan.

Six Month Merchandise Plan

(Retail Method)

Department: ____All____
Date: __________ Season: __Fall______

Planning Parameters			August	September	October	November	December	January	Season Total
	B.O.M. Inventory	Last Year	$56,000	$120,750	$155,760	$166,850	$182,000	$151,800	
		Plan	50,000	110,000	140,000	150,000	170,000	140,000	
		Actual							
	Purchases	Last Year	101,980	89,740	53,420	64,300	56,100	5,800	$371,340
		Plan	97,800	89,400	53,200	68,600	61,800	14,000	384,800
		Actual							
	Sales	Last Year	34,500	51,600	39,100	45,500	79,900	45,000	295,600
		Plan	35,000	55,000	40,000	45,000	85,000	50,000	310,000
		Actual							
Reductions	Markdowns	Last Year	1,695	1,600	2,060	2,300	4,000	11,250	22,905
		Plan	1750	2750	2000	2250	4250	12,500	24,500
		Actual							
	Employee Discounts	Last Year	345	510	390	450	800	450	2,945
		Plan	350	550	400	450	850	500	3,100
		Actual							
	Shrinkage	Last Year	690	1.020	780	900	1,600	900	5,890
		Plan	700	1,100	800	900	1,700	1000	6,200
		Actual							
	E.O.M. Inventory	Last Year	120,750	155,760	166,850	182,000	151,800	100,000	
		Plan	110,000	140,000	150,000	170,000	140,000	90,000	
		Actual							
	Stock-to- Sales Ratio	Last Year	3.5	3.0	4.3	4.0	1.9	2.2	
		Plan	3.1	2.5	3.8	3.7	1.6	1.8	
		Actual							
	Gross Margin	Last Year	46.0	46.0	46.0	46.0	46.0	36.0	45.0
		Plan	46.0	46.0	46.0	46.0	46.0	36.0	46.1
		Actual							

SEASONAL STATISTICS

	Markdown %	Employee Discount %	Shrinkage %	Average EOM Inventory	Inventory Turns
Last Year	7.75%	1.00%	2.00%	$146,000	2.02 x
Plan	7.90%	1.00%	2.00%	$133,000	2.33 x
Actual					

✓ ***Tip***

Top down planning is the best approach for most small retailers. Start with total company figures, then move to the departmental level.

The primary objective of merchandise planning is profit improvement. As the buyers' plan for each department unfolds, you can get a better handle on potential profitability. You then have the opportunity to fine-tune these plans, allowing investment dollars to be redistributed among departments in order to achieve company goals and objectives.

In preparing the six month merchandising plan, larger retail chains will build from the bottom up. Starting at the class level, each class of merchandise will have its own plan. Combining entire subclasses will give us the strategy for each department. Taking that one step further, the amalgamation of all department strategies will give us the total company plan. In the case of an individual store, this will produce the store's overall objective.

The level of sophistication involved with this type of planning may be overwhelming for some independent store operators. However, given the number of independents we have lost in the last few years and the future prognosis for such operations, consider this a wake-up call. Change your business practices or become a statistic!

Completing Your Six Month Merchandise Plan

Step #1: Assemble Last Year's Figures

Assemble and fill in last year's results. Unless your operation is computerized, however, getting most of the monthly data for your plan will be impossible.

In such cases, simply begin with six month or even annual figures, then divide by the relevant number of months. Or just take an educated guess. The more times you do this, the sooner you will develop systems to extract these numbers on a monthly basis.

✓ ***Tip***
It is not unusual to experience a 5% to 10% increase in sales after investing in a major store renovation.

Step #2: Planned Sales

Sales planning is the most difficult step in the whole process. It would be great if you could purchase a retailer's crystal ball and sales forecasts would miraculously appear after rubbing it with a cash register tape! In the real world, however, we start by reviewing last year's figures and trying to determine what might affect our performance this year. Some things to consider are:

(a) Sales Performance Coming Into The Season

What percentage increase or decrease is the class, department, or total store expecting coming into the season compared to the previous year? There's no guarantee that it will continue, but if sales are up 15% over last year and the new season is only three months away, you may be more optimistic than pessimistic in your forecasting.

(b) Monthly Promotions

✓ ***Tip***
Most successful retailers

Planning your promotions at least six months in advance will be necessary if you hope to have an effect on performance. A promotional philosophy followed by too many retailers is to run two clearance sale ads per *retailers always have some type of promotion going on because a large percentage of shoppers buy only "on sale".*

year, and if sales are soft they might run another ad or two.

This may have been acceptable in the boom years, but a "seat of the pants" approach like this is a recipe for disaster in today's environment. Chapter #11 on advertising and promotion suggests a number of promotional strategies, one of which is to promote in periods when sales and margins are strong (e.g. back-to-school, Xmas and Mothers Day).

(c) How is My Customer Changing?

This has more impact when planning at the class level and is most noticeable in areas of fashion. Are there new styles or markets that pose either an opportunity or a threat to this class of merchandise?

Consider the case of the family shoe store where western boots, as a class, was expanding. This style trend will obviously affect our buying plan. Other demographic changes that may affect your buying include the baby boomer trends (e.g. they're aging, saving more, spending less, putting on weight, etc.).

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(d) Economic Factors

Unemployment rates, interest rates, dollar value fluctuations and inflation may all have an affect on the buyer's crystal ball. If these factors are creating economic drag on our customers, there will certainly be an effect on what they purchase from us. You may have to move price points down, source new suppliers, or even adjust your forecasts.

✓ ***Tip***

Make your first markdown your best. A mere 10% off doesn't draw flies nowadays.

Step #3: Planned Reductions

Markdowns, employee discounts and inventory shrinkage come under the heading of planned reductions. These three figures affect our ending gross margin, so they must be considered when calculating department and class profitability. Since they also affect inventory levels, they must be projected to ensure enough merchandise is on hand to attain forecasted sales levels.

(a) Planned Markdowns

Taking any markdowns is a difficult task for most retailers to face. Shoddy merchandise and bad weather are factors that may be out of the retailer's control.

However, the buyer must start by analyzing last year's markdown numbers very closely. Some factors to consider are:

- Markdowns as a percentage of sales by month.
- How aggressive are this year's pricing policies?
- When did we promote last year and how will it change?
- How were deliveries last year and did they affect our markdowns?

(b) Employee Discounts

As a percentage of sales, this figure remains relatively constant from one year to the next unless company policy changes. Therefore, it is then safe to use last year's dollar figure as a percentage of sales and apply it to the sales projections for the current period.

(c) Shrinkage

Chapter #10 covers the methods of calculating your shrink percentage. Like employee discounts, the acceptable method of calculating the shrinkage dollar amount per month is to use the year-end shrink percent multiplied by the monthly sales projection.

Winning Facts

It takes approximately $10 in extra sales to recover $1 lost due to theft.

Step #4: B.O.M. & E.O.M. Planned Inventory Levels

Planning End-of-Month (E.O.M.) or Beginning-of-Month (B.O.M.) inventory levels (one month's "ending" is the next month's "beginning") is another important element of the six month merchandise plan. Inventory is by far the number one dollar asset within the company, and careful planning is required to ensure an adequate return on investment is attained.

Stock-to-Sales Method

The Stock-to-Sales Method is a popular way to forecast how much inventory is required to attain monthly sales projections. Stock-to-sales (S/S) is a ratio of the amount of inventory on hand at a particular date to the sales for the same period, and is calculated as follows:

$$\textbf{S/S ratio} = \frac{\textbf{Stock on hand E.O.M (at retail value)}}{\textbf{Sales for the same month}}$$

Winning Facts

There are only 2 ways to increase stock turns:

- *Increase sales.*
- *Decrease inventory.*

When using the S/S method for planning stock levels, the buyer selects the S/S ratios he desires each month. Desired S/S ratios are usually obtained by referencing previous seasons. The selected ratio is then multiplied by the projected period sales to get the desired E.O.M inventory level. For example, the E.O.M. chart on the following page is from the sample six month plan:

E.O.M. Inventory Levels

Month	Planned Sales	X Stock-to-Sales Ratio	= E.O.M. Inventory
August	$35,000	3.1	$110,000
September	$55,000	2.5	$140,000
October	$40,000	3.8	$150,000
November	$45,000	3.7	$170,000
December	$85,000	1.6	$140,000
January	$50,000	1.8	$90,000

The Stock-to-Sales Ratio also provides you with an estimate of what your Inventory Turnover will be.

Winning Facts
The best retailers by store type turn their stock up to twice as many times as average retailers listed below.
(See the chart titled "Industry Averages For Retail Inventory Turns".)

If your S/S Ratio is:	Estimated Annual Inventory Turnover is:
1	12
2	6
3	4
4	3

Keep in mind that this approach to calculating your Annual Inventory Turnover is merely an estimate. You'll need to calculate it accurately, using the method described below.

Step #5: Inventory Stock Turns

Inventory stock turns measure the rate at which merchandise is sold from your store compared to the inventory level on hand. The higher the rate, the more profit the buyer brings to the company and the better your cash flow will be. Stock turns are calculated by dividing the total sales for the season by the season's average ending inventory (at retail value).

Using the sample six month merchandise plan, the season's average inventory and stock turn rate is calculated in the following way:

Winning Facts
An increase in stock turns is advantageous to the bottom line only if gross margins have been maintained!

$$\textbf{\textit{Season Average Inventory}} = \frac{\textbf{Sum of E.O.M. Inventory}}{\textbf{Months in Season}}$$

$$= \frac{\$110{,}000 + 140{,}000 + 150{,}000 + 170{,}000 + 140{,}000 + 90{,}000}{6}$$

$$= \frac{\$800{,}000}{6}$$

= **$133,000**

Stock turn rate **=** $\dfrac{\textbf{Total sales for season}}{\textbf{Season average inventory}}$

$= \dfrac{\$310{,}000}{\$133{,}000}$

= 2.33 times for the 6 month season

Note: This calculation is only for six months. In most retail companies, annual turnover is approximately double the six month rate.

Industry Averages for Retail Inventory Turns

Store Type	Gross Margin	Stock Turns
Women's Shoes	44.2	4.1
Men's Shoes	44.6	2.5
Women's Sportswear	47.3	6.0
All Women's Apparel	43.6	7.1
Luggage	48.1	7.3
All Men's Apparel	42.3	4.4
Cosmetics & Drugs	38.6	3.9

Sporting Goods	32.2	3.7
Furniture	43.1	3.3
Electronics	20.8	3.5

Step #6: Gross Margin Return On Inventory Investment (GMROII)

While the standard Inventory Turnover ratio tells you how efficiently you are moving your inventory, it ignores the profitability of this inventory movement. For example, an item with a low gross margin and high sales will show a higher turnover rate. However, this is obviously not as desirable as moving inventory with higher (or even average) gross margins. Basically, it produces a lot of activity, but with fewer financial results.

Gross Margin Return On Inventory Investment has become the standard inventory statistic for many retailers because it reflects the movement of inventory relative to profitability, rather than to sales. This is a better measure of inventory performance because retailers are more interested in profitability than sales.

Think of GMROII as the rate of return you are earning on your inventory investment. As you know, a savings bond that pays 8% is better than one that pays only 3%. Similarly, inventory that provides you with a higher rate of return is more desirable.

$$\textbf{GMROII} = \frac{\text{Gross Margin \$}}{\text{Avg. Inventory Investment @ Cost}} \times 100$$

Look at the following example, where both departments generate the same volume of sales from the same amounts of inventory:

	Sales	GM %	GM$	Avg. Inventory	Turnover Rate	GMROII
Bikes	$25000	20%	$5000	$5000	5	100%
Clothing	$25000	50%	$12500	$5000	5	250%

If we were to look only at Inventory Turnover rates, we would say both departments perform equally. However, as soon as you calculate GMROII, you can clearly see how clothing outperforms bikes. Wouldn't you rather have a 250% return on your investment, instead of just 100%? That's the power of GMROII!

Note: The minimum standard for GMROII in most retail operations is 200%. Anything less is considered to be unprofitable.

Step #7: Planned Purchases

Once sales projections, stock reductions and stock levels have been established, you can calculate your planned purchases. The planned purchase figure is also the buyer's first **"open-o-buy"** estimate. Using the August figures from the sample six month plan, the formula for planned purchases is as follows:

Planned Purchases = EOM Inventory + Sales + Reductions - BOM Inventory

= $110,000 + $35,000 + ($1750 + $350 + $700) - $50,000

= **$97,800**

✓ ***Tip***
Start with a higher

Step #8. Planned Markup

After calculating how much inventory to purchase, retailers must determine the initial markup for these *"markup" so your first markdown doesn't destroy your ending margin.*

retailers must determine the initial markup for these goods. This may fluctuate between different classes of goods within a department. The original markup must allow for a final profit after paying all operating costs, reductions, cost of goods, etc.

Most retailers have a target markup they want to start with. This markup percentage is calculated by dividing the markup in dollars by the retail price. Markup dollars is the difference between the cost price and the selling price. i.e. Our shoe store buys men's slippers for $10 and follows the manufacturer's suggested retail of $20 which is a 50% markup percentage, otherwise known as gross margin.

Markup dollars = Selling price - Cost price

= $20 - $10

= **<u>$10</u>**.

Markup percent = <u>Markup dollars</u>
Retail Price

= <u>$10.00</u>
$20.00

= **<u>50%</u>**

Step #9: Gross Margin

Gross margin is the difference between the selling price and the cost of the product, less reductions for markdowns, shrinkage and employee discounts. Hopefully, what is left after these reductions is enough to pay all operating expenses and leave the retailer with a profit.

Winning Facts
A 20% markdown on an item that has a 55% mark- up

In our six month plan, we work in retail dollars. To determine the gross margin for each month, all purchases and inventories must be converted to cost *mark- up leaves you with a 43.75% gross margin.*

price. Using our family shoe store illustration, note that we have a 50% markup on all goods. To calculate cost price, multiply the inventories and purchases by the original markup percent (in this case 50%).
Example: Using the month of August from the six month plan, we must first convert to cost figures by multiplying opening/closing inventories and purchases by 50%. Next, we calculate Cost of Goods Sold (C.O.G.S.) as follows:

***C.O.G.S*. = B.O.M. Inventory + Purchases - E.O.M. Inventory.**

= $25,000 + $48,900 - $55,000

= **$18,900**

Finally, we determine Planned Gross Margin like this:

$$\textbf{\textit{Planned Gross Margin}} = \frac{\textbf{Period sales - C.O.G.S.}}{\textbf{Period sales}}$$

$$= \frac{\$35{,}000 - \$18{,}900}{\$35{,}000}$$

= **46%**

COMPUTERIZATION

It is not hard to build a strong business argument for computerizing any retail store today, especially if you are doing any sort of merchandise planning. As you can see from the depth of this chapter, before purchasing any merchandise you must do your homework.

Strong historical data in a format that is readily accessible will greatly facilitate this exercise. Chapter 14 covers computerization. If you are considering a computer purchase, make sure it can provide the information needed for this planning process.

SUMMARY

Preparing a seasonal merchandise plan makes the critical task of buying that much easier. This is no different from the need for an architect to design a house before he starts building it. During this process, remember to follow these key suggestions:

1) Become proficient (if you aren't already) in the use of a computerized spreadsheet program.

2) Begin with a higher original markup so your first markdowns can be meaningful without killing gross margin.

3) Plan some markdowns for each month as you offer in-store specials for the "sale- only" buyer.

4) Become proficient at performing physical inventory counts, so you can obtain accurate figures at least four times per year.

CASE STUDY: MERCHANDISE PLANNING

Now let's get back to the challenges at Jackson's Department Store. In this segment, you will focus on creating a seasonal merchandise plan.

CHAPTER 2: MERCHANDISE PLANNING

Bill White has worked at Jackson's for over 30 years. He has held the title "Manager/ Buyer: Men's Wear" for the last 25. Just last year, Bill celebrated his 65th birthday and, as yet, has no plans to retire. Bill professes boldly, *"If I stay home, I'll wither up and die."*

Likewise, Steve Hollaren (Bill's right hand man) has a long-standing history with Jackson's. At age 42, Steve has worked there for 21 years. Steve has long hoped that Bill would throw in the towel so that he could get the chance to run the department.

According to Susan's strategic 12-month plan, Jackson's men's wear department was salvageable. She proposed to stop the store's bleeding and refocus her efforts. She would therefore concentrate on the strongest classes of merchandise and eliminate the weak ones. Susan hoped to attract younger to middle-aged customers from 30 to 50 years of age.

Susan's experience in the "majors" provided her with great insights in managing Jackson's. For example, she knew the importance of keeping merchandise selections "fresh" by way of strong "category management" discipline. In its simplest form, this meant getting greater efficiencies out of each "class" of merchandise. Not computerized, the men's wear department's "sales history" had only been maintained at the department level and the cash register had only five departments. This surely made it more difficult in determining how the sub-departments (classes) were performing.

Susan began to tackle this problem by first sitting down with her father, Bill & Steve. Based on the strategic planning sessions held earlier, the group fine-tuned their department plan. Following is the plan outline that they came up with:

- **Target customer demographics:**

Presently, the group's "best" customer stands at 60-plus years old. They want to retain this customer's business, but to also attract men in the 30 to 50 age range. The ideal customer? Your textbook baby boomer -- very involved in saving for his kid's education while trying to pay down the mortgage. This ideal customer also hates shopping and only braves the major malls once or twice yearly to buy his clothes (with his wife's help!). Typically, the ideal customer plays old-timer hockey in the winter and golfs in the summer.

- **Target fashion image:**

Susan has termed this merchandise type "dress casual" or "Friday wear". She hoped this category and "look" of clothing would appeal to a younger audience. And with more casual office attire, why wouldn't it? Since many baby-boomer men want something a little dressier for special weekends, Susan thought it important to carry the "right" labels. This, she thought, went a long way to both dispel the "old folks" image of the men's wear department and to differentiate Jackson's merchandise from that of department store house brands, which Susan and her colleagues saw as major competition.

- **Merchandise quality levels:**

The group decided quality was of serious concern for their target customer. Brand names suggest good quality and a good investment. Since labels don't mean as much to the target customer as to, perhaps, a younger group of men, the "quality" that the label connotes will provoke the target customer to spend a little bit more for their clothing.

- **Price point policy:**

As a general rule of thumb in men's wear, branded lines have a higher price point than house labels (because house brands have fewer middlemen). In comparison, there are low, mid and higher priced lines to choose from. Susan's group felt that Jackson's should focus on the lower to mid price points whenever possible.

- **Desired profit margins:**

For the last five years, the overall department margins lay in the 38% to 39% range. As a goal, the company wanted to attain an overall 42% within the next 12 months. With this in mind, the group then decided to increase their starting markup to 55% (wherever possible), instead of the traditional keystone (50%).

- **Marketing approach:**

An increased margin from higher markups would allow Jackson's more in-season markdowns without completely destroying its overall margin. Therefore, a 20% markdown on product with a 55% markup still gives Jackson's a 43.75 % ending margin. Through the strategic planning sessions, Susan's group also decided to increase the marketing budget, so as to be constantly in front of the public.

- **Customer service levels:**

In all departments at Jackson's, customer service levels had to increase. Susan's group concluded this by way of the overall company strategic plan. Since men typically do not like to shop, staff must develop and work their own client lists. To make this goal more attainable, both Bill and Steve planned to start maintaining customer purchase history for future marketing programs. The group voted down the policy of charging for alterations.

1. CLASS ANALYSIS:

Unable to come up with a breakdown of sales for five major departments, Jackson's accounting department provided the following summary of last year's sales:

Department	Sales	Percent	Margin
Tops	$109,800	36%	37.9
Pants	$39,600	13%	42.0
Suits	$64,000	21%	41.5
Outerwear	$79,300	26%	34.6
Accessories	$12,200	4%	49.7
Total	**$305,000**	**100%**	**38.6%**

Without subclass information, it would be difficult to make any meaningful merchandise decisions. So before doing the fall "buy," Susan asked for a volunteer to go over the previous fall/winter season's handbills. She also had the volunteer break each department down into smaller sub-categories, in order to provide the management team with some sales figures to work with. Jackson's largest department, "Tops", generated Steve with six months worth of sales bills to take home. After only a couple of evening's work, Steve presented the group with the following "Tops" breakdown:

Department /Class	Total Sales	Percent	Average Inventory	Sales to Inventory	Gross Margin	Sales Plan
1. Dress Shirts	$30,300	16%				
2. Casual Shirts	$64,300	34%				
3. Sweaters	$15,200	8%				
4. Sweat shirts	$26,400	14%				
5. Knits	$13,200	7%				
6. T-shirts	$7,600	4%				
7. Other Tops	$32,000	17%				
Total Fall	$189,000	**100%**				

Senior management discussed this information. They agreed (and they were right!), that they did not yet have enough detail to decide that Jackson's should eliminate or expand any of the above classes. Without a computerized merchandise system producing stock turn figures and gross margins, the group could not move forward on this issue.

The group did agree, however, that this was a worthwhile exercise, as you will soon see in developing your own six-month merchandise plan.

In order to get a feel for future class performance, you asked Bill and Steve to do a brief class analysis based on their personal feelings. After all, they do have over 50 years combined experience! The following outlines the recommendations Bill and Steve brought back for the rest of the team:

- Dress Shirts: Average inventory can be reduced. Eliminate the fringe colours, sizes and suppliers. Stick with the two main vendors that have a strong fill-in program.
- Casual Shirts: Too many suppliers. Pick three main brands and go deeper in each style, trying to coordinate with pant program.
- Sweaters: Missed the boat last year on sweaters because a major supplier did not ship. Must increase the buy in this area.
- Sweat Shirts: Like sweaters, a big Xmas item but lower priced. Must have matching bottoms.
- Knits: Long sleeve needed for fall/winter and must have higher quality short sleeve for Xmas season, as people are looking for gifts for the golfer.
- T-shirts: Mostly worn under a shirt since 60% of sales are in white. Must have in stock at all times as a staple item.
- Other Tops: This was a catchall group that must be broken down in more detail for future use. Part time staff tends to use this too often. If computerized, this would be virtually eliminated.

2. GROSS MARGIN AND STOCK TURN PLANS:

The team is really starting to click. Now, they realize that planning before you buy is as important as what you buy. Next, they must plan for markdowns, so they can both achieve Jackson's desired ending markup and know how much inventory they need to achieve their sales projections.

See page 13 in this chapter of "Winning Retail", for averages of inventory stock turns.

Markdowns or reductions come from three main areas: planned promotional markdowns, employee discounts and theft or shrinkage. The team could only produce department actuals for total season. But this is still extremely helpful because it will build into the six-month merchandise plan. Next, you'll see last year's fall/winter statistics for the entire men's wear department.

FALL SEASONAL STATISTICS: MEN'S WEAR

	Sales	Planned	Employee	Shrink %	Avg. Inv.	Inv. Turns

		Markdown %	Disc. %		E.O.M.	
Last Year	$305,000	8.9%	2.00%	2.5%	$150,000	2.03
Plan	$325,000	10.0%	2.00%	2.5%	$140,000	2.32
Actual						

3. DEVELOPING THE "SIX MONTH MERCHANDISE PLAN"

With the subjective part of the “Tops” department planning process complete, the team can now begin putting numbers together for a six-month merchandising plan. The initial part of this analysis included forecasting trends, sales forecasts; stock turns and gross margin goals.

See page 5 in this chapter of “Winning Retail”, for instructions on completing "The Six Month Merchandise Plan".

After spending considerable time with their favourite bookkeeper, the team constructed the following information, including last fall’s actuals for the entire men's wear division. Now it’s your turn! Using last year as a guide, fill in the remaining numbers for both purchases and stock ratios for the current year.

Six Month Merchandise Plan (Retail Method)

Date: ______ **Division: Men's Wear** **Department: All** **Season: Fall 1999**

		01/08/98	01/09/98	01/10/98	01/11/98	01/12/98	01/01/98	Total
B.O.M. Inv.	Last Yr.	$100,000	$135,000	$150,000	$170,000	$200,000	$150,000	
	Plan	$90,000	120000					
	Actual							
Sales	Last Yr.	$24,000	$37,000	$30,000	$30,000	$122,000	$62,000	$305,000
	Plan	$26,000	$39,000	$33,000	$33,000	$130,000	$64,000	$325,000
	Actual							
Purchases	Last Yr.	$61,160	$55,330	$52,700	$62,700	$82,980	$17,580	$332,450
	Plan	$58,600	$52,900					
	Actual							
Markdowns	Last Yr.	$2,160	$3,330	$2,700	$2,700	$10,980	$5,580	9%
	Plan	$2,600	$3,900	$3,300	$3,300	$13,000	$6,400	10%
	Actual							
E.O.M. Inv.	Last Yr.	$135,000	$150,000	$170,000	$200,000	$150,000	$100,000	
	Plan	$120,000	$130,000	$150,000	$180,000	$130,000	$90,000	
	Actual							
Stock Ratio	Last Yr.	5.6	4.1	5.7	6.7	1.2	1.6	2.3
	Plan	4.6	3.3					
	Actual							
Margin	Last Yr.	39%	39%	39%	39%	39%	39%	39%
	Plan	49%	46%	45%	45%	42%	33%	42%
	Actual							

Answer found on following page.

Six Month Merchandise Plan (Retail Method)

ANSWER

Date: **Division: Men's Wear** **Department: All** **Season: Fall 1999**

		8/1/98	9/1/98	10/1/98	11/1/98	12/1/98	1/1/98	Total
B.O.M. Inv.	Last Yr.	$100,000	$135,000	$150,000	$170,000	$200,000	$150,000	
	Plan	$90,000	120,000	130,000	150,000	180,000	130,000	
	Actual							
Sales	Last Yr.	$24,000	$37,000	$30,000	$30,000	$122,000	$62,000	$305,000
	Plan	$26,000	$39,000	$33,000	$33,000	$130,000	$64,000	$325,000
	Actual							
Purchases	Last Yr.	$61,160	$55,330	$52,700	$62,700	$82,980	$17,580	$332,450
	Plan	$58,600	$52,900	56,300	66,300	93,000	30,400	325,000
	Actual							
Markdowns	Last Yr.	$2,160	$3,330	$2,700	$2,700	$10,980	$5,580	9%
	Plan	$2,600	$3,900	$3,300	$3,300	$13,000	$6,400	10%
	Actual							
E.O.M. Inv.	Last Yr.	$135,000	$150,000	$170,000	$200,000	$150,000	$100,000	
	Plan	$120,000	$130,000	$150,000	$180,000	$130,000	$90,000	
	Actual							
Stock Ratio	Last Yr.	5.6	4.1	5.7	6.7	1.2	1.6	
	Plan	4.6	3.3	4.5	5.5	1.0	1.4	
	Actual							
Margin	Last Yr.	39%	39%	39%	39%	39%	39%	39%
	Plan	49%	46%	45%	45%	42%	33%	42%
	Actual							