

# RETAIL IQ



## ASSORTMENT PLANNING AT THE SPEED OF RETAIL

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## 04

### Maturity Ladder:

#### Assortment Planning

The *RIS News Retail IQ Report Maturity Ladder* is a diagnostic measurement tool for a retailer's state of technology advancement in a specific category. There are four key phases: **1. Basic** – minimal capabilities, **2. Intermediate** – mostly basic with some advanced capabilities, **3. Advanced** – mostly advanced capabilities with some limitations, and **4. State-of-the-Art** – comprehensive capabilities are fully integrated and up to date. Note that it is possible to be on more than one step of the ladder simultaneously as specific technology components and processes are upgraded in phases.

#### 4. STATE-OF-THE-ART

- Assortment planning software helps narrow the time frame between product conception and in-store placement, allowing new merchandise to be introduced every few weeks instead of every few months.
- Planning software is integrated with forecasting, financial planning, lifecycle management, and supply-chain management tools.
- Since assortments are on trend, carefully tailored by store and market, the retailer can safely and successfully address “flash in the pan” fashion trends. This puts it in a highly competitive position, particularly in the young adult-driven juniors market.

## 03

#### 3. ADVANCED

- Buyers and other users do not have to be IT experts to use assortment planning tools effectively.
- Merchandise is offered in the locations and channels where it performs best.
- Software tools help provide information on market voids for certain products, allowing retailers to develop profitable private label lines.
- Retailers are in a strong competitive position and repeat customer traffic levels are high.

## 02

#### 2. INTERMEDIATE

- Assortment planning software has been purchased but its complexities have made full implementation difficult or impossible.
- Software is too complex for buyers and other “non tech” staff to fully understand and use.
- Tools are unable to provide the insights and recommendations required to develop effective omnichannel assortments.
- System disparities impede the integration of software to handle the various phases of assortment planning.
- Lack of sufficient knowledge makes retailers hesitant to enter additional markets or launch new store formats.

## 01

#### 1. BASIC

- Reliance on Excel spread sheets and/or legacy systems make the assortment planning process labor intensive, tedious and lengthy.
- Products are not always available in-store and some locations are left with overstock that is not compatible with the area's demographics, taste profiles, size needs or lifestyle.
- It is difficult to track which online offerings would sell better in a brick-and-mortar environment and vice versa.
- Product introductions are often not timely enough to keep pace with fashion trends.
- Poorly selling products lead to heavy markdowns, low margins and overall unsatisfactory profits.
- Systems must be continually updated and maintained.



**Today's retail market is a highly fragmented ecosystem: chains keep expanding their footprints, consumer demographics are shifting and e-commerce continues to grow. Consequently, one size no longer fits all — nor does one color, style or price. This makes it necessary for apparel retailers to develop assortment planning strategies to better serve — and be more competitive in — this jigsaw market.**

Assortment planning has many touch points. In short, it involves developing different factions of items on the requirements of specific stores and/or digital channels. Stores and channels are clustered according to the needs of consumer groups, which are identified by demographics, market size and other criteria.

In recent years, a number of retailers have begun using assortment planning software to plan product strategies based on these needs. Assortment planning software is frequently part of an integrated package involving complimentary financial planning, lifecycle management, forecasting and supply-chain management tools.

In addition to determining which items best suit particular stores, assortment planning software puts retailers in stronger competitive positions by generating unique, trend-right assortments. It improves in-stocks on strong sellers, decreases markdowns and, most importantly, creates happy return customers.

## **A Dramatically Different Landscape**

Many of the large chains that define modern retail began gaining momentum in the 1960s with the launch of Kohl's, Kmart, Target and Walmart. While each steadily expanded, it was years before they ventured far beyond their relatively homogenous home bases in the South and Midwest.

In the 1990s and 2000s, these and many other chains went national. This exposed them to new climates as well as different customer attitudes, backgrounds, regional nuances and other factors not addressed by their original business plans.

Since the 1960s, society also changed. Today, more people reside in cities, couples start families later and the range of lifestyles has broadened. And with the burgeoning Asian and Hispanic populations, few

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**Retailers want to enhance merchandise planning.**

&

# 24%

**Would like to customize/localize assortments.**

Source: Boston Retail Partners "Merchandise Planning Survey 2016"



places are homogenous, with Caucasians representing a much smaller part of the population. The non-Caucasian population of Nebraska, for example, increased 300%, going from 6% in 1980 to 18% today, said the U.S. Census Bureau. By 2050, it is expected to reach 38%.

Historically, retailers offered chain-wide assortments with a few variations. But all these changes have made it necessary for them to implement assortment planning strategies to serve the needs of an increasingly disparate customer base.



# 58%

**Retailers that integrate merchandise financial planning and assortment development.**

Source: EKN Research "Assortment Optimization Strategies"

## Who is My Customer?

The first step in assortment planning involves defining the customer. Fifty-nine percent of leading retailers say understanding shopper preferences is among their top three challenges, according to RSR's "Merchandising 2016: Big Changes Coming" report. Issues like age, life stage, interests, market size and daily routine can be important. Customers who ice fish, for example, may have little interest in tuxedos. But heavy socks and thermal underwear are attractive.

Insights into preferences, needs, lifestyles and shopping behaviors are not only vital to become truly omnichannel, but also to create more personalized assortments — a factor that becomes critical to understanding profitable consumer relationships and positive financial results.

Not all chains have enacted a store-specific strategy. Still, 35% of retailers say they want to enhance merchandise planning, while 24% would like to customize/localize assortments, stated Boston Retail Partners in a report titled, "Merchandise Planning Survey 2016." Retailers regard these actions as merchandising priorities.

Lack of better customer segmentation insights and difficulty clustering locations to local tastes are among retailers' top seven challenges in assortment management, according to EKN Research's "Assortment Optimization Strategies" report.

But Zara has overcome these and other hurdles and is way ahead of the pack when it comes to assortment planning. Viewed as a benchmark in retail technology and apparel, the 200-plus designers at Zara's Spain-

**CLAY PARNELL****President & Managing Partner,  
The Parker Avery Group**

“Assortment planning requires merchant/planner collaboration because it truly blends the art and science of merchandising.”



The Parker Avery Group is a boutique strategy and management consulting firm that is a trusted advisor to leading retail brands. We combine practical industry experience with proven consulting methodology to deliver measurable results. We specialize in merchandising, supply chain and the omnichannel business model, integrating customer insights and the digital retail experience with strategy and operational improvements. Parker Avery has worked with many of the world's most recognizable retailers, helping clients develop enhanced business strategies, design improved processes and execute global business models. For more information, please visit [www.parkeravery.com](http://www.parkeravery.com).

# A Resolution for 2017: Assortment Planning Success

**Q: Why is assortment planning sometimes viewed as the “last frontier?”**

**CLAY PARNELL:** There has continued to be a certain mystery around assortment planning, and it often seems that when retailers discuss assortment planning, they are speaking different languages. There are certainly numerous definitions across the retail landscape of what it is and how it is used.

Assortment planning needs and the intensity of the activity are very different based on the number and type of sales outlets and the degree of fashion “newness” in the product line. These demonstrate one of the fundamental challenges with assortment planning: retailers strive to achieve a vast number of different goals with this capability. Given the variation in definition and process needs, it has been difficult for solution providers to develop a tool that fits what any one retailer needs.

**Q: Why have some retailers been hesitant to adapt (or implement) assortment planning software and continue to do things manually?**

**PARNELL:** Given the challenges noted, many retailers have continued to rely on either custom, proprietary systems, or more commonly, spreadsheets. Based on an assortment planning study Parker Avery conducted last year, over 70% of respondents use spreadsheets for some aspect of their assortment planning process. Other challenges have been lack of sufficient data, or lack of integration, to truly drive a robust assortment planning solution.

Another key challenge in focus and adoption success is organizational. Assortment planning straddles the traditional responsibilities of buying and planning organizations (albeit typically heavier on the buying side). Elements of assortment planning that are characteristic of one organization may not be recognized or valued by the other. Assortment planning requires merchant/planner collaboration because it truly blends the art and science of merchandising.

**Q: How are the software planning tools available today better than those of only a few years ago?**

**PARNELL:** Assortment planning software is really only recently reaching the level of sophistication and flexibility to truly support the breadth of retailers’ assortment planning needs. Without question many assortment planning solutions are making headway in development and adoption and are better able to satisfy the needs of retailers.

One key area of need and focus has been around integration. The real value of assortment planning is ensuring it is not a standalone process. Rather, assortment planning processes have touch points with merchandise financial planning (MFP), product lifecycle management (PLM), space planning, and even purchase order (PO) creation.

**Q: How does assortment planning differ when applied to apparel versus non-apparel categories?**

**PARNELL:** In non-apparel people speak in terms of item planning/key item planning more than assortment planning. Also, in hardlines companies the space planning is done to a lower level of detail than is typically done for apparel. Non-apparel retailers tend to have more product on replenishment so there is naturally less item/assortment focus.

There is usually a higher degree of importance of attribute-based planning for apparel. Other categories are less dependent on attributes to plan and review different elements of the assortment architecture. While other categories may use “Good, Better, Best” for example, apparel may want fabrication, fashion content, silhouette, fit and other attributes available.



based headquarters constantly collect information about their shoppers' decisions. While many retailers do this, Zara goes a step further: It sends "scouts" out into streets and malls worldwide to probe new trends and gain inspiration.

The retailer does little advertising. But it attracts repeat customers who constantly look for newness in the 2,000-plus stores it operates in 88 urban markets worldwide.

### A Perfect Fit for Apparel

Assortment planning is applicable to many categories. But it is particularly useful in apparel. Unlike grocery, CPG and certain hardlines purveyors, apparel retailers change most or all of their assortments several times annually. Changes are in response to seasonal and fashion trends.

Assortment planning helps retailers put together assortments that meet specific shopper criteria and are not carried by competitors. Even when products are not proprietary, a tailored assortment can make a retailer unique. With the right knowledge, retailers can also develop private labels that fill market voids, turning stores into destinations. Hence, competition no longer revolves around price. This means fewer markdowns and higher margins.

For retailers specializing in "flash in the pan" fashion, assortment planning can help avert disaster. Their shoppers are primarily teens and young Millennials (e.g., Express, Forever 21). While a product may perform well today, this age group might not care about it tomorrow.

Assortment planning can help determine what belongs online and what does not. While the online case is obvious for size 16 shoes, other items may do better in stores where a salesperson can explain detailed attributes.

### The Case for Assortment Planning Software

Today, many retailers use spread sheets and/or legacy systems for assortment planning and related functions. Each decision has a well-defined timeline that retailers "stick to like crazy," said one executive. This takes much work and discipline, particularly for retailers creating multiple assortments.

Legacy systems processes often involve Excel spreadsheets and can

# 18%

Retailers that use a vendor app for assortment planning and localization across stores and channels.

Source: Boston Retail Partners "Merchandise Planning Survey 2016"

**PETER CHARNESS****SVP North America and Chief Marketing Officer, TXT Retail**

“Retailers must update their fundamental processes and technology to support localizing assortments while also dealing with the increased workload created from more products, shorter floor sets, and increased business complexity.”



TXT Retail™ is the leading provider of end-to-end merchandise lifecycle management solutions for luxury, fashion and specialty retail sectors. The TXT Retail Solution is the preferred end-to-end planning solution for over 300 omnichannel retailers and global brands. The solution spans merchandise planning, assortment planning, PLM, forecasting, allocation and replenishment, supporting the demands of the challenging omnichannel retail environment. For complete information, visit [www.TXTRetail.com](http://www.TXTRetail.com).

## The Growing Importance of Localizing Assortments

**Q: How does product localization answer the various needs of multiple channels, climates and shopper demographics? How have these things changed over the past few decades?**

**PETER CHARNESS:** Today's shopper expects to buy virtually any product, anywhere — in store, online — and wants the purchase process to be quick, easy and risk free. To satisfy shoppers today, products have to completely meet their wants and needs. That means localizing the assortment to hone it for the specific demographics of the shoppers of each store is critical to retail success. Carrying more or less the same assortment everywhere assumes that the customer is more or less the same everywhere, which just isn't true. Years ago the shopper had fewer choices, couldn't compare products via mobile phone, wasn't shopping as much online, and was willing to select something from what the retailer had to offer. Today the consumer gets exactly what they want, meaning if you don't have it, you've lost the sale.

**Q: In some verticals, upscale apparel brands for example, the sales window is getting shorter and the number of product introductions per year is increasing. How are retailers handling this?**

**CHARNESS:** Most retailers today muscle through the more demanding merchandising seasons — more products, more floor sets, localized assortments. A good deal of the available IT spend has gone into capabilities for the omnichannel shopping experience. Enabling buy anywhere, pick up anywhere, ship from anywhere and return to everywhere was a primary necessity retailers had to get in place. Unfortunately, these kinds of capabilities have made it even harder for the merchandise office to plan and manage inventory. Muscling through was the only solution feasible at the time, but it's not a sustainable solution. Retailers must update their fundamental processes and technology to support localizing assortments while also dealing with the increased workload created from more products, shorter floor sets, and increased business complexity.

**Q: How has the Internet changed how retailers look at assortments and assortment planning?**

**CHARNESS:** Phase I of online shopping was the endless aisle. Get as much "stuff" online as possible, making the online store the sum of all other stores. An overwhelmingly large assortment may work for some retailers (mostly pure plays), but many traditional retailers have learned that their online business, while possibly serving a different customer set, benefits from a well-curated assortment that is easily shopped online. Forward-thinking retailers are looking at their online channel as needing an assortment that is more complex in nature than a store, but they no longer subscribe to the online equivalent of "stack it high and watch it fly."

**Q: How can assortment planning software and related products be applied — and interfaced with each other — through the entire merchandise life cycle?**

**CHARNESS:** Merchants must deal with their products with a cradle to grave approach: plan, design, develop, deliver and managing in-season. We call this merchandise lifecycle management (MLM) and believe that trying to deal with all the complexities and intricacies of modern retail with the outdated approach of integrating a variety of solutions and business processes is like trying to plug a garden hose into an electrical outlet: No matter how you do it, you're not going to get the result you desire. A requirement of the complex, omnichannel environment is a single system that handles the end-to-end merchandising process.

Having a single MLM solution that delivers more precision, more visibility, and more control of the entire merchandise lifecycle is actually less work for the merchants than the traditional approach of implementing a variety of solutions and then dealing forever with a sub-optimized set of business processes and an IT maintenance nightmare.



take days. Functions are loosely integrated or not linked at all. Extensive maintenance is often required. Today, just 18% of retailers use a vendor app for assortment planning and localization across stores and channels, said the Boston Retail Partners report, “Merchandise Planning Survey 2016.” Twenty-four percent use a home grown app, 27% use spread sheets and 12% use a combination. Just 36% cited their methods as effective, 27% said they are ineffective and 18% were “neutral.”

Assortment planning software and related products address vital issues like forecast-based clustering and customer optimized inventory. Forecast-based clustering uses statistical tools to identify patterns and cluster stores according to criteria like geography, climate, size and/or demographics. It helps improve both forecast accuracy and assortments to expected shopper demand. Only 24% of retailers currently perform these functions, but within five years, that number should climb to 74%, according to the Boston Retail Partners report.

Customer optimized inventory software analyzes CRM, customer demand, forecast data and transaction history to help place merchandise where it is most likely to be purchased. This helps predict which assortments suit certain shoppers and how well assortments are working. Today, just 9% of retailers are implementing customer optimizing inventory technology. In five years, 75% of retailers plan to do so, said the Boston Retail Partners report.

Another valuable assortment planning component is 3D visualization. These tools allow retailers to create real life plan-o-gram simulations on product facings and aisle placements in different store formats. 3D visualization lets retailers incorporate pictures of what they are buying into the assortment planning system. 3D is also invaluable online, where photos and descriptions must be gathered sooner and in a more deliberate format.

### Technical Challenges

While assortment planning software has been around for some time, many of the biggest technological advances have come over the past five years. One problem is that the software has not always been user friendly. And



# 28%

**Retailers indicate that disparate systems and process challenges are the biggest planning obstacles.**

Source: Boston Retail Partners “Merchandise Planning Survey 2016”



## Kohl's Assortment Localization:

- 70% of assortments localized chain wide.

- 70 point basis lift in comps in those locations.

- 40 basis point reduction in inventory in those locations.

some tools have been unable to provide the insights and recommendations needed to create effective omnichannel assortments. It has also been difficult to integrate the software that handles the various phases of assortment planning. Twenty-one percent of retailers indicate that disparate systems and process challenges are their biggest planning obstacles, according to Boston Retailer Partners' "Merchandise Planning Survey 2016."

Many retailers have stuck to spread sheets or purchased assortment planning tools that they never completely integrated. Today's tools are more user-friendly and standardized so that the average retail buyer does not need to be an IT expert. This was important to Forever 21, which wanted its buyers to be able to evaluate past performance of color and fashion by segment. With assortment planning and size profile optimization tools, "data can be sliced and diced in a way that is meaningful for our merchants," said Robert Kim, vice president of planning and allocation. "[The solution took] a very complicated model and made it user friendly."

### Success Stories

Assortment planning can be used to reach a number of goals. While all involve grouping products in certain ways, retailers' reasons for doing so vary. Here are a few examples of these scenarios:

**New Store Format.** This past fall, Kohl's unveiled its new, smaller format stores in the Midwest. At 35,000 square feet, they let the retailer enter markets that would have previously been too small. Since assortments are edited down, they must be tailored to their markets. "Even more importantly than in our standard stores, we've seen the importance of localization, as each area is unique," said CEO Kevin Mansell.

**Downtown vs. Resorts.** Fat Face, a U.K.-based lifestyle apparel retailer, has 212 locations in the U.K. and Ireland. Stores are everywhere from downtown centers and travel hubs to beach and mountain resorts. It also has concessions in John Lewis department stores and operates a North American website.

Product demands vary tremendously. This was making its various planning processes increasingly difficult to manage. "With business ex-



panding, handling merchandising and buying on spread sheets was no longer suitable for making critical decisions.” said Nick Stevenson, head of merchandising.

A merchandise and assortment planning solution now lets Fat Face balance goals with merchandise plans to identify ideal product mixes and volumes. A season ahead, software creates high-level financial plans. Next, based on analysis of historical data and what typically sells where and when, objectives are automatically broken down into weekly stock, profit and sales targets. Then, software generates a detailed plan of what and how many each location or channel should offer.

**New Image, New Markets.** Specializing in footwear and fashion-forward athletic apparel, AW Lab operates 170 stores in Spain and Italy along with a website. By 2020, the company wants to transform its image from that of a “sneaker retailer” to a style retailer that better targets Millennials. By 2020, it plans to expand to five European countries. But the percentage of products and brands it offers by country are very different, as is its online versus in-store merchandise. Competition is fierce, so the product mix must be right for the retailer to take these growth steps.

AW Lab installed an end-to-end merchandise lifecycle management system that supports pre-season and in-season planning. It can react to real demand at any point in the business cycle, from replenishment to development and design, said Marcello Pinato, product merchandise manager. Knowledge from stores is combined with that of product departments, generating a plan that defines assortments by store grade, country and channel level.

**Stores of Every Size.** Outdoor apparel and equipment retailer Kathmandu operates 160 stores across New Zealand, the U.K. and Australia along with a website. In addition to being in multiple countries, store sizes vary significantly from 650 to 4,000 square feet. Kathmandu wanted to determine the best size assortment for new and existing stores. But it had outgrown a legacy system that relied on Excel spreadsheets.

It installed inventory planning software, along with assortment and item planning, demand forecasting and replenishment tools. “We can



**Leading retailers say understanding shopper preferences is among their top three challenges.**

Source: RSR, “Merchandising 2016: Big Changes Coming”



“With business expanding, handling merchandising and buying on spread sheets was no longer suitable for making critical decisions.”

NICK STEVENSON, HEAD OF MERCHANDISING, FAT FACE

now purchase stock knowing we will open a specific number of stores by store grade during the coming season without having to specifically associate inventory requirements at point of purchase,” said CIO Jolann Van Kyk. For all stores, it has also been able to stock assortments that are more suitable to each location’s demographics.

### Narrowing the Cycle

The next frontier involves using assortment planning technology to narrow the window between product conception and in-store placement. Since the software makes product information flow faster, retailers can introduce assortments every few weeks instead of every few months. These short cycles have little relevance for replenishable basics like men’s white cotton briefs. But they allow fashion-forward retailers to be more distinctive, competitive, on-trend and “safe” with flash-in-the-pan styles.

Since assortments are only available for a few weeks, shoppers visit frequently to see what is new. Shorter windows also create a sense of urgency to buy — at full price — since products will soon be gone. And, by responding immediately to fashion trends, shoppers get what they want when they want it.

Zara has set a precedent by bringing out new assortments every 15 days. The retailer produces only about 50% of its proprietary assortment before the start of a season, compared to 80% to 100% for other specialty retailers. In total, it cranks out an astonishing 30,000 items annually.

Being in the thick of the newest trends has been very profitable: Year round, Zara’s margins average around 55%, varying by just one or two points. Margins at other specialty retailers range from the low to upper 40s. The retailer also sells 85% of products at full price compared to an industry average of 50%. “Customers know they have to buy it right away because it can go out of stock and never come back,” said José Luis Nuño, professor of commercial management at Spain’s IESE Business School in an article on the Wharton University of Pennsylvania’s website titled, “Zara’s ‘Fast Fashion’ Business Model.”

Other retailers are trying to follow suit — although not to the same de-



gree. Kohl's is working to reduce the end-to-end cycle time on its private and exclusive brands as well as in ladies' apparel. At the end of 2015, it had tailored assortments in 40% of stores. Today, the total percentage of tailored assortments is 70%. It is in the process of expanding the strategy to 90% of its locations.

### Conclusion

By some estimates, the complexity of assortment planning has made it one of the "last frontiers" in retail technology. But as software becomes more integrated and easier to use, 53% of retailers say they plan to upgrade or replace their systems over the next two to five years; 26% have no plans to upgrade or replace them, said the Boston Retail Partners report, "Merchandise Planning Survey 2016."

Having the right assortment can make or break a shopper's purchasing decision, particularly when decisions are impulse-driven or not related to basic needs. Some ethnic groups, for example, may find a certain color particularly flattering. A location that deepens offerings in that color may gain a whole new customer base. And while most people do not tend to buy down jackets in July, stores in cities where folks frequently travel may generate additional sales with out-of-season garments.

Those retailers not considering implementing assortment planning software will not be on the competitive edge. "They need to think about the overall value associated with customer purchase drivers," said EKN Research's "Assortment Optimization Strategies" report. "Augmenting products or assortments needs to be a higher focus so customers look beyond price as the leading factor influencing their purchases. Enhancing assortments ensures full price sales and higher margins. Such strategies enable stronger, long-term competitive differentiation."

# 9%

Retailers are implementing customer optimizing inventory technology.

# 75%

Plan to do so within five years.

Source: Boston Retail Partners "Merchandise Planning Survey 2016"

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