

Point of View Merchandising Strategy



A traditional Merchandising organization structure is based on the principle that a product expert makes the assortment, buying, pricing and initial allocation decisions. This same individual is also responsible for identifying vendors, setting terms, managing the vendor relationship and overseeing product performance. And depending on the category of business, this product expert may be responsible for \$50m in sales or \$2b in sales.

With this span of control, the merchant often has difficulty looking in to the future, defining a strategy and aligning the day-to-day activities to that strategy. Most large retailers have wrestled with this challenge by implementing some variation of a Retail Strategy Team structure, often times called the Portfolio Strategy team. But small and medium-sized retailers don't have the luxury of headcount and by default, try and satisfy this same function by adding on the responsibilities of the Vice President of Merchandising. This doesn't work. **Setting a merchandising strategy is not an one person job.**

A merchandising strategy is the result of a series of activities beginning with the financial and competitive objectives agreed to by the top executives of a retail organization. The key steps involved in establishing a merchandising strategy include,

- **Evaluate Market Activity** - market share, revenue trends, geographic and demographic trends
- **Understand Company Objectives** - market penetration, revenue growth, EPS commitments
- **Review Product Category Performance** - sales, margin, inventory turn, sell-thru, GMROI
- **Develop Annual Merchandising Strategy** - market shifts, product mix, high level space, margin goal shifts
- **Review Merchandising Strategy with Business Leaders** - reconcile with business goals, financial commitments

The objective of this process is to review the business against trends and set direction for Merchandising and Product Development for a calendar year. A key output of this strategy is direction on pricing and promotional activities for the calendar year. This will be used to frame markdown planning and steer the marketing calendar and events.

Who is Responsible (and Accountable)

The Chief Merchandising Officer (CMO) is **accountable** for establishing and communicating the merchandising strategy. However, the CMO requires support and analysis by others to complete the process successfully. Several large retailers task the Retail Strategy team with **responsibility** for this analysis and the facilitation of this process. Smaller retailers typically don't have the resources to do the analysis up front and often times focus the planning process around the annual budgeting cycle.

It is a safe bet that if the same effort was put in to developing a merchandising strategy that goes in to operational budgeting, the benefits would be immediately recognizable on inventory and margins.

Organizational Alternatives

If the organization does not have the unique resources to focus on developing a merchandising strategy (and overseeing the alignment of day-to-day merchandising activities against this strategy), the first place to look is Planning. As the 'CFO's of merchandising, the Planners have a strong understanding of product category performance and the company's objectives. A Vice President of Planning can play a consultative role to the CMO in defining the strategy.

If you don't have a Planning organization, you should consider engaging outside resources during the strategic planning window to provide the analysis and counsel to the CMO to get the merchandising strategy right. The benefits are easily recognizable.

If you don't have a Planning organization or interest in leveraging outside expertise, you can build extra time in to your planning calendar to perform this activity. However, there are two downsides to this approach. First, the CMO is generally not best suited to crunch spreadsheets, market analysis and trend information. Second, the earlier you plan, the less accurate and responsive you are to trends.

Conclusion

Based on a great deal of experience working with Retail executives in developing merchandising strategies, The Parker Avery Group recommends this become a specific and critical path activity in the annual planning calendar for any retailer. This recommendation holds true for small, medium sized or large retailers. This will result in making better assortment, allocation, pricing and promotion decisions throughout the calendar year and produce recognizable bottom line margin and inventory performance improvements.

The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm. We are a leading provider of strategy and business consulting services to retail and consumer goods companies. We work with our clients to help them research and develop strategies, design improved processes and execute change. We specialize in integrating customer insights and multi-channel business models. If you would like to learn more about our vision or understand how you might take advantage of this strategy, contact us at:

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