

Point of View Sales versus Space



The objective of retail assortment planning is to create a product offering that supports the assortment strategy and meets the needs of the customer. However, all great product ideas don't necessarily fit in the space. So, the pressing question is: do you build the assortment to sales potential or available space? The answer is "yes". But, which goes first?

The Retail Assortment Plan considers the financial objectives and seasonality of merchandise to ensure proper receipt flow. Furthermore, the plan will lead toward sales-driven planning and away from space-driven planning. It is also important to keep in mind that planning for the direct businesses will always be done to sales, as space provides relatively little or no constraint. This means that multi-channel plans will be created to maximize sales potential rather than only to fit space constraints of the retail location. Further background on the different planning ideologies and our recommendations for a specific method follow.

Planning to Space

Some retail businesses have subjected themselves to planning their assortments according to their space constraints. That is, they use floor space, fixture size, peg availability, etc. in order to answer the following questions driving their assortment decisions:

- Which items will be included?
- How much of each item will be included?
- When will items enter or exit an assortment?
- Which locations will receive the specified assortment?

This method of planning is often referred to as "supply-driven planning" or "space-driven planning." This means that the retailer, by way of their assortment plan, is making available to the consumer those items - in selection and quantity - that fit the space constraints of the store environment. For example, if the Merchant is given 8 linear feet of shelf space for life jackets and the life jacket category averages 1 linear foot of shelf space each, they will likely have 8 facings of product. Although they have certainly done analysis to know which styles will sell more and managed their buy quantities accordingly, they have in essence dictated to the customer what they may purchase due to the supply they have made available.

Planning to Sales

Leading retailers plan their assortments according to the sales potential of an item. More importantly, they manage these assortments in order to ebb and flow with changes in customer demand for products. Planning to sales is, in essence a method of bottom-up planning that combines historical consumer behavior with planned financial objectives to develop an optimal mix of merchandise required to achieve the assortment strategy.

This method of planning is referred to as “demand-driven planning,” “consumer-driven planning” or a combination thereof. This means that the retailer uses a product’s sales behavior (or consumer’s buying behavior) and forecasts to answer the following questions:

- Which items do they expect to sell best?
- In which styles will these items sell?
- In which quantities will they sell?
- When do they expect these sales

In a manner similar to the example given above, this would mean that the Merchant would have the same 8 linear feet of display space for lifejackets. But they would start planning their assortment by allowing the assortment planning system to give them a recommended number of style options – rather than relying on filling the space.

Planning to Sales will allow the Merchant to develop a more accurate picture of merchandise flow across time. By utilizing the Average Per Store selling units measure in the assortment planning process, the Merchant is able to determine a starting point for the product mix and determine a total number of units, by product category, to use for executing their product buy. The consideration of space is handled by the Planogram team and the Allocation system.

EXHIBIT 1 – Advantages and Disadvantages of Sales vs. Space Planning

Planning to Sales



Planning to Space



Advantages

- Able to maximize the productivity of the space they have been allocated
- Presents a product mix that best meets the preferences and needs of the Multi-Channel Retailer customer
- Develops more focused assortments as they will be compelled to drop under-performing inventory in exchange for over performing inventory
- Considers seasonality of merchandise to provide proper merchandise flow in accordance with planned consumer demand

Disadvantages

- Does not account for space needs of oversized stores that may need additional product to fill out less productive floor space
- Will likely result in inconsistent floor sets that, although more financially productive, may be different in stores of the same size and may change from season to season

Advantages

- Allows a plan to accommodate for filling floor space in oversized stores, ensuring a full presentation
- Creates simpler fixture plans and plan-o-grams by allowing for a standard floor set across stores of a common size

Disadvantages

- Potentially results in a contradictory strategy to the targets set out in the assortment strategy and disregards the overall merchandise financial planning targets
- Can disregard seasonality, specifically when floor sets remain unchanged, by maintaining a predetermined receipt flow based on floor set changes

Conclusion

Based on the advantages and disadvantages detailed above, The Parker Avery Group recommends Retailers adopt a method of assortment management that utilizes sales or demand-driven planning. This recommendation holds, regardless of whether the Retailer chooses to conduct assortment planning by each individual channel or for multi-channel retailers, as a single, multi-channel plan. By being sales driven, this means that assortments will be built based on the planned consumer demand for the Retailer's products rather than the Retailer's Merchant buying product according to the space constraints of floor or fixture space. This will result in more focused and productive assortments that will help the Merchant achieve financial goals and, more importantly, produce a better customer shopping experience. This method is considered a retail industry leading practice.

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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