Instore Magazine – Merchandising From a Clean Slate, Part Two

As we discussed last month, your Merchandising Strategy defines your company's future plan in terms of what you want your assortments to be, *regardless of what you currently have in stock*. The Merchandise Plan articulates your desired outcome by product groups - revenue, gross profit percentage. Once you have created your Merchandising Strategy, we can begin the next steps of creating a Merchandise Plan.

A Merchandise Plan can be too detailed and therefore too unwieldy to implement. Conversely if it is too top level it won't direct your day to inventory management and buying. I find to be most effective to evaluate and plan your inventory by product groups such as designer collections, other collections or programs, and *not* by the merchandise hierarchy in your computer system. Many hierarchies seem to be based on materials or components (diamond, color, metal, etc.), which is too granular for a Merchandise Plan.

An example is that you'll want to look at your "Colorless Diamond Solitaire" program as an entity, rather than "1/2 ct. Round Diamond Solitaires" (a class in your hierarchy) which might cut across all of your solitaire programs.

Or designer "David Yurman" which may encompass separate sterling, two tone or gold classes within your hierarchy.

Depending on your inventory software you may need to code your skus with the product group name so you can easily extract the data needed for the Plan, and to monitor your progress each month.

Your product groups should be based on style, look and feel, and should easily relate to your Merchandise Strategy goals. If one of your goals is "Expand my Bridal business by 30% over last fiscal year by creating 3 in-store branded collections by March 2011, targeted to entry level price points of $1000" you would add the three collections into the Plan with no historical data, only projected.

The Plan can easily be created in Excel as a worksheet. At the top you have your company Objectives for 2011 – Sales revenue at cost, current inventory at cost, projected inventory at cost, margin percent and margin dollars. All your cells should balance to your Objectives and adjust as you are working on your plan.

Your Plan should have the following data by your designated product groups:

- Sales for 2010 at cost
- Percentage variance (increase/decrease) over 2009
- Projected sales for 2011
- Current inventory at cost
- Projected inventory at cost
- Variance in dollars and percent
- Gross margin percent and dollars for 2010
- Gross margin dollars variance over 2009
- Projected gross margin and dollars for 2011

The part which requires the most thought and consideration is your projections. This is not a rote numerical formula or calculation; rather you are creating your road map for your replenishment, new purchasing, and aged inventory. While working on your Plan you should have your Merchandise Strategy available so you can periodically check to see if your Plan accurately reflects your Strategy. You will decide if you want to add brand new product groups, discontinue others, grow sales, decrease sales, increase margins or margin dollars, decrease margins or margin dollars, and which inventory levels need to be increased or decreased. One enhancement you may want to add to the Plan is Sales for 2010 by quarter, so you can monitor trends, both up or down.

When the Plan is completed and you have balanced to your Objectives, you can now break it down by month, so you can see your progress. Each and every purchasing or inventory management decision should be viewed through the lens of your Plan. I think you will find it very rewarding as you see your progress toward having the type of offerings and assortments that your customers desire.