Subject: Apparel Merchandising

Unit 2 Merchandising mix, assortment and vocabulary

Quadrant 1 – E-Text

Learning Objectives

The learning objectives of this unit are to:

- Define the concept of merchandising mix.
- Explain merchandise assortment and its types.
- Outline the four R’s of merchandising and their significance.
- Review the important terms of merchandising (Vocabulary).

2.1 Merchandise Mix

A merchandise mix is the breadth and depth of the products carried by retailers. It’s also known as product assortment.

Retail merchandising is the process used in order to conduct retail sales. As part of the process, the merchandiser pays close attention to the types of products offered for sale, how to best present those products to consumers, and determining what a reasonable retail price is for each unit sold. The product assortment is the core of the retailing service. A retailer’s total product offering is called a merchandise mix or product range.

SKU

The lowest level of detail identifying a product in the retailer’s assortment is the stock keeping unit (SKU), which identifies a particular item.

For example: A pair of pants of a certain brand, in a particular style, color, and size, is one SKU.

The number of SKUs at various retailers varies tremendously. While hard discounters often carry less than 1,000 SKUs, a typical hypermarket assortment accumulates to around 100,000 SKUs.

Product Breadth
The variety of product lines offered by the retailer. It is also known as Product Assortment Width, Merchandise Breadth.

**Product Depth**
The number of each item or particular style of a product. It is also Known as Product Assortment, Merchandise Depth.

**Merchandise Mix**
Merchandise Mix is made up of all the products that a business sells.

1) **Product Line**: A group of closely related products that a business sells.

2) **Product Item**: The products that make up a product line.

Businesses must pay close attention to their target market and must obtain, develop, maintain, and continually improve upon their merchandise mix.

**Merchandize Hierarchy**

- The Merchandise Hierarchy

![Merchandise Hierarchy Diagram]

**Planning and Controlling the Merchandise Mix of a Retail Store**

Planning and Controlling the Merchandise Mix of a Retail Store, is the crux and the entire blueprint for the effective and efficient management of the retail store. The most fascinating thing about merchandise mix is the combination of art & science. Only after the successful amalgamation of these two key ingredients it is possible to successfully operate the store.

There are no rules as to what should be included or excluded in the merchandise and hence this calls for powerful managerial skills.
**Category Management**

The most widely used management technique is Category management. Each product is managed as a business unit at the store level. The merchandise mix should be organized as to the number of different product lines carried. A decision on the mix must include: Brands, sizes, colours, material, styles and price points. The goal is to ensure that product choice meets targeted consumer needs. It is important to carefully plan the number of units to have on hand to meet the expected sales for the brand, size, color combinations etc.

**The Product Life Cycle**

The product life cycle is one important categorization criterion. Merchandize is of different kinds.

**Staple merchandise**
It consists of those products that are carried permanently by the retailer and that have relatively stable sales over time. A hammer or a paint brush at a DIY retailer or jeans and white T-shirts at a department store would be examples of staple goods.

**Fashion merchandise**
It refers to products that have cyclical sales due to changing tastes and lifestyles. Colors and cuts of clothing change and merchandise offered this year is usually out of date next year.

**Seasonal merchandise**
It consists of products that do not sell equally well over consecutive time periods. Barbecue grills, skiing equipment, short pants and similar products have very high sales during one season of the year, but are not sold at all in other seasons.

**Fad merchandise**
It generates very high sales for a short time period. Often, toys and games, certain clothing accessories, or certain music CDs are fads. Tamagochis and Pokémon’s, for instance, were classic fads. Movie merchandise (e.g. Batman accessories) also constitutes typical fads. Price sensitivity is often very low and ensuring supply, while demand is high, is crucial for success.

The product life cycle of merchandise is also important; because it emphasizes that all products in the assortment need to be replaced after a (varying) period of time.

Another management method is the “ABC analysis” where each product line is rank ordered based on performance levels. Hence *Category management* has developed as a stepwise planning process for categories, and was first proposed by the consulting company The Partnering Group in the mid 90’s. Over the last decade, it has developed into a standard industry process.

**The Merchandise Mix Strategy**
The basic Merchandise Mix Strategies involve:
**Development**  
Develop new products to bolster the company’s image or to expand their market share.

**Expansion**  
Businesses can choose to add either new product items or new product lines. Modification and altering a company’s existing product.

**Deletion**  
This may occur when a product is no longer useful, obsolete, not fashionable, or room is needed for another product.

**New Trends in Strategy**  
The average store size has increased continuously over the last decades, giving retailers more space to enter new categories. Many product categories have stagnated, making a move into new fields attractive. And some retailers wish to exploit their high customer frequency by selling new product ranges. That is the reason why an increasing number of retailers use a combination of specialist and generalist approaches within their product offer. They are specialist in one or a few categories, but add other categories, in which they only offer a shallow assortment. Temporarily or permanently, retailers diversify by adding new products to their assortment, which do not belong to their traditional merchandise.

**The Five R s of Merchandising**  
Fashion Merchandising is the process of planning, buying and selling fashion apparel and accessories in order to offer the right merchandise blend to meet demands of the target market(s). Fashion Merchandising is the function of planning to fulfill customer’s requirement with the right merchandise at the right time in the right quantity at the right place and at the right price.

**The Four R s Of Merchandising**  
A successful retail operation requires a merchandise assortment of the right type, in the right place, and at the right price.

To accomplish this objective, activities such as profit and loss, sales, inventory, purchases, markups, markdowns, and expenses must be planned at least six months in advance by buyers and managers.

**2.2 Merchandise Assortments**  
Merchandise assortment is a complete range of merchandise in a category planned to various depths of inventory to meet customer demand. Merchandise assortment planning is done to determine how many separate items should be bought, and in what quantities. The goal of merchandise assortment planning is to ensure that product choice meets targeted consumer needs. Merchandiser / buyer must carefully plan the number of units to have on hand to meet the expected sales for the brand, size, and colour combinations. The lists of merchandise will be
developed will be as follows: Basic Stock List (staple items), model Stock List (fashion items), never out List (key items and best sellers).

**Merchandise Assortment Plan**
Merchandise assortment plan requires continuous monitoring and adjusting the types of product lines that are added and dropped from the merchandise mix. Two widely used methods to control assortment and support are inventory turnover and open-to-buy.

**Inventory turnover:** Rate at which the retailer depletes and replenishes stock.

**Open-to-buy:** Amount of new merchandise a retailer can buy during a specific time period without exceeding planned purchases for the period.

**Optimal Merchandising Mix Strategy**
To run a successful Retail outlet the retailer must find an optimum balance between the three dimensions of merchandise assortment in their Merchandise mix.

**Three Merchandize Assortment Dimensions**
The Three Merchandise Assortment Dimensions of Merchandise Mix are: Variety, Breadth and Depth.

**Variety**
It refers to the mix in terms of number of different lines the retailer stocks in the store. For example, men’s wear, women’s wear, toys, appliances, cosmetics, sports goods etc.

**Breadth**
Assortment is the number of merchandise brands that are found in a merchandise line. For example, A ‘7-11’ store will carry very narrow breadth, as opposed to Shoppers Stop carries 6-8 brands of jeans or men’s shirts.

**Depth**
The average number of SKU’s within each brand of individual merchandise line. For example, due to shelf space constraints A7-11 store may carry only 1-2 fast moving sizes whereas a Wal-Mart may carry all sizes & sufficient quantity of each.

**Types of Optimal Merchandising Mix Strategies**
Different optimal variety and possible Merchandise Assortment strategies are as follows:

**Narrow Variety/Shallow Assortment**
This includes vending machines, newsstands and Door-to-door sales.
**Example:** Celio, Addidas

**Wide Variety/Shallow Assortment**
This includes variety Stores, general Stores and discount Stores.

**Example:** Mother Earth, Brand Factory

**Narrow Variety/Deep Assortment includes:** specialty stores.

**Example:** Nike, Puma, Levis

**Wide Variety/Deep Assortment includes:** full-line Department Stores.

**Example:** Pantaloons, Westside, Shopper Stop

**Advantages of Narrow and Shallow Merchandise Assortment**
The advantages of these are: they are aimed at convenience customers, they are least costly and are high turnover items.

**Disadvantages of Narrow and Shallow Merchandise Assortment**
The disadvantages of these are: they have little width and depth, there is no one-stop shopping, there could be some disappointed customers, they have a weak image, and have limited customer loyalty, they have a small trading area.

**Advantages of Wide and Shallow Merchandise Assortment**
The advantages of these are: they have a broad market, they have high level of customer traffic, the emphasis is on convenience to the customer, they are less costly than wide and deep and it is One-step shopping.

**Disadvantages of Wide and Shallow Merchandise Assortment**
The disadvantages of these are: they have low variety within the product line, there could be some disappointed customers, they have a weak image, items stocked are many with low turnover, there is reduced customer loyalty.

**Advantages of Narrow and Deep Merchandise Assortment**
The advantages of these are: they have a specialist image, there is good customer choice in various categories, specialized personnel are available, there is increased customer loyalty, there are no disappointed customers, they are less costly than wide and deep.

**Disadvantages of Narrow and Deep Merchandise Assortment**
The disadvantages of these are: there is too much emphasis on one category, there is no one-stop shopping, it is more susceptible to trends and cycles, greater effort is needed to enlarge the size of the trading area.

**Advantages of Wide and Deep Merchandise Assortment**
The advantages of these are: it is a broad market, full selection of items are available, it has a high level of customer traffic, customer loyalty is more, it is one-stop shopping and there are no disappointed customers.

**Disadvantages of Wide and Deep Merchandise Assortment**
The disadvantages of these are: there is high investment in inventory, it has a general image, many items with low turnover are stocked, there could be some obsolete merchandise.

2.3 Conclusion

As with many other facets of retail management, merchandising is becoming more strategic and more fact based, because retail information systems provide the necessary data for analyzing the effects of merchandise changes.

Some trends have emerged in the last few years. These include:

Retailers are increasingly adding new categories to their merchandise (category migration).

Retailers are reducing the depth of their assortments in each category, focusing on leading brands, and eliminating underperforming manufacturer brands.

Retailers are increasingly adding store brands to their assortment and the store brand portfolios cover all segments, including the premium segment.

In many cases, merchandising planning is integrated into a category management process, which supports the strategic retail positioning. This is done by assigning defined roles to a category and systematically deriving the subsequent marketing decisions from the role. The merchandising process is determined by the retailer’s most valuable and limited resource: shelf space.