It is The Day of the Merchandise Planner

ABSTRACT

The Coronavirus is still here and retailers are trying to re-open while sitting with tons of Spring and Summer Inventory. Now what?

Olson Ng
RETAIL CONSULTING GROUP

Photo by Ipopba

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Over the past 20 years of our consulting practice, we have been fortunate to work with specialty retailers having operations crossing the US, Canada, Mexico and Europe. During this time, we have ridden waves of economic ups and downs with our clients, moved with the birth of the digital age, experienced the changing complexion and demands of consumers, and adapted to the educational needs of each new wave of the retail workforce.

Now we are in the midst of a pandemic.

There is a lot being published now and multiple webinars being conducted on the re-opening of the Retail Industry as the coronavirus continues its spread across the United States. We recently participated in a webinar conducted by **Multimedia Plus** on this subject. The panel of "boots-on-the-ground" industry experts Multimedia Plus assembled was impressive and the subject matter extensive and comprehensive. Most of the time was spent on the physical re-opening of the brick-and-mortar sites, the training of and impact on the employees who are on the frontlines, and the nuances of engaging Customers behind masks in an environment under constant sanitization.

At Olson-Ng, we are not really sure that now is the time to re-open brick-and-mortar locations as the coronavirus statistics are not stabilizing yet in the US. If they continue their rise, a second wave of Stay-at-Home orders may occur or we may find Customers are simply not willing to risk their health while shopping in the same pre-coronavirus manner. Whichever way the coronavirus and the Country may turn, it will be awhile before retail as we knew it, falls into its new pattern of operations. Perhaps between now and then, we can consider this time as a "bridge". But will it become a bridge to how and where to conduct brick-and-mortar business in the future? Or is there another unforeseen path that our industry will be forced to take in the wake of a pandemic. This we see as our greatest challenge as an industry. Where are we going?

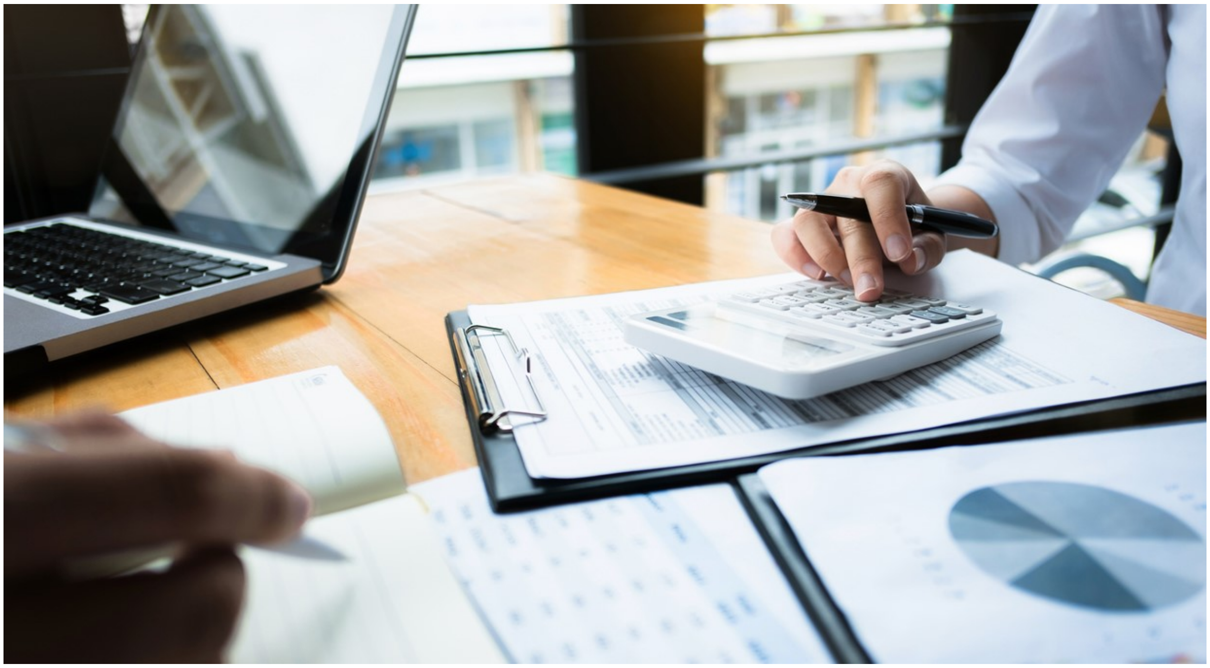

Photo by Chaljrmpoj Pimpisan

Retail is Detail

As consultants who started their retail careers with positions totally focused on profit-and-loss forecasting and inventory productivity, our leanings continue to be toward strategies for maximizing profitability during this time of re-opening. We certainly spent enough of our careers working with GMM's and DMM's to eke out profitable results in tough economies or when assortments missed their mark. We are concerned that with the zeal to re-open and the focus on front-of-house needs, the backlog of inventories and their impact on profitability may be taking a secondary position for many retailers. This should not be.

Retailers, we hope, are now concentrating on revised cash flow, margin, expense and profitability forecasts, in addition to front-of-house re-opening strategies. The prior "balance of year" plans are now worthless; new plans and strategies must be formulated and executed. Overarching this is the safety and well-being of front-line and home office employees. And, lest we forget, we retailers sell merchandise, merchandise collectively comprises the inventory, and the inventory is the single largest investment of any retail organization. Profitable management of the inventory is critically foundational to each of these critical points.

Fresh out of school, we were hired into the Merchandise Information division of the former Macy's New York. We each had groups of professional clericals – among them Goldie, Helen, Lisa, Bea, Lynette - trained to review and evaluate style selling reports. These hard-copy reports were delivered to our offices every Monday from the IT department and our clerical staffs would line up for their reports beginning at 7:00 in the morning. If the reports were late, there were uprisings by the clericals. Yes, uprisings, usually led by Goldie who you didn't want to displease.

The clericals poured over the reports for the divisions they were assigned, then delivered to their Buyers and DMM's the results of style selling ***BY STORE***, so re-orders could begin, markdowns could be strategized profitably, and inventory could be moved to where it was selling. This was done ***EVERY*** Monday**.** **First thing.** First, before any dollar sales reports were reviewed. In fact, the unit reports were always the first to be delivered. We all were trained that selling items to our Customers was our **Number 1 Priority** and we were charged with maximizing this item selling, no matter what your job responsibility was in the company. Item sales led to dollar sales and full-price dollar sales led to strong margins.

While we were managing our clericals, many of whose knowledge of their businesses was beyond reproach, we were later charged with developing a new unit reporting system to better support the expansion of Macy's into new markets, increasing efficiencies without sacrificing detail. This was our first foray into systems and reporting. The result, after months of working with Merchants and our clericals to perfect their needs, was *The Unit Status Reporter*. It was comprehensive down to the color level to report on style performance ***BY STORE***, carrying all the major metrics needed to effectively analyze and react to Macy's most valuable asset, its Customers.

And, while working on *The Unit Status Reporter*, we must have done something right in that suddenly we were working side-by-side to assist Herb Rackoff, the Vice President of Strategic Research for Macy's New York. Mr. Rackoff immersed us in analyzing the conversion of style sales to division profitability using our Hewlett Packard programmable calculators; we learned from him to forecast into the future with the knowledge gained from our analytical work. We maintained a five-year moving average of daily sales to perfect our forecasts, always remembering to throw out the abnormal "highs and lows"!

Mr. Rackoff was also responsible for developing the P&L statements for each merchandise division of Macy's. In this too, he immersed us under his tutelage. The P&L's were the cornerstones of the annual P&L Meetings with Art Reiner, the chairman, and Herb Yalof, the president. Learning this process and really being part of the action by working with the SVP/GMM's directly, was a dream come true for a finance major and a math major who were eager to apply their book learnings. Mr. Rackoff became our mentor. A few years later, Mr. Rackoff retired and suddenly we were given full execution responsibility of this process for all of Macy's New York. Back then, Mr. Reiner and Mr. Yalof ran a tight ship, focused fully on driving sales and profitability in the upscale theatrical environment for which Macy's New York was then known. It wasn't unusual for us to be in their offices with our forecasts, accompanying our divisional VP; as such, we had little room for error. Mr. Reiner and Mr. Yalof were both were strategic in their approaches to the business, both numbers oriented, and both required thorough analysis with detailed back-up statistics to answer any challenging questions; they had no tolerance for anything but this approach to work.

So why are we telling you this? Well, this all set the foundation for our careers to come. We now tend to evaluate every retailer for which we've worked and/or consulted after Macy's using our Macy's experiences as the first benchmark. We learned that it all starts with careful and thorough analysis of style selling. Eventually Sally Frame Kasaks, as our former CEO of Ann Taylor, put a label on this benchmark: ***"Retail is Detail"***. And this, brings us to the purpose of this article regarding the re-opening of brick-and-mortar retailers and managing their inventories.

Today is the Day of the Merchandise Planner

Now is the time for your **Merchandise Planners** to step forward and take control of the inventory that has backed up during the restrictions placed on brick-and-mortar stores during the coronavirus Stay-at-Home time frame. It is the **Planners'** time to shine, harnessing their knowledge and surgical approach to managing the single largest investment of your company as the ***financial portfolio of investments*** that it is. Managing investment portfolios is about increasing wealth while mitigating losses. There is no room for emotions. Either your existing merchandise has potential to deliver margin dollars today, potential to deliver margin dollars at a later point in time, or is at some level, a liability. Strong **Planners** understand this and will categorize their styles into one of these three buckets. Then the real analysis and strategy planning begins. We've always believed that managing inventory is just like managing a portfolio of investments. Good **Planners** know how to apply the definitions of high risk and risk averse to styles. And they know how to categorize merchandise into profitability buckets. They also know the meaning and reasons for "de-listing" styles.

Don't Panic and Make Knee-Jerk Decisions

Most brick-and-mortar retailers are now sitting with a lot of unsold inventory that was bought for the Spring and Summer 2020 seasons. And, brick-and-mortar retailers are facing locomotives coming toward them of new fall deliveries. As stores open, they need to drive traffic to their stores and they need to give their Customers reasons to shop. We all know a good, strong "POS" sale drives traffic. But, do you need to immediately go deep on your POS event? After weeks of pent-up demand, can 25% off purchases for four days over a weekend accomplish enough of this goal? 30%? A strong marketing message welcoming Customers back into stores coupled with a special "25% off Spring and Summer" may be all that is needed to drive traffic and begin to lower inventories. And, most importantly, it will conserve margin and profitability.

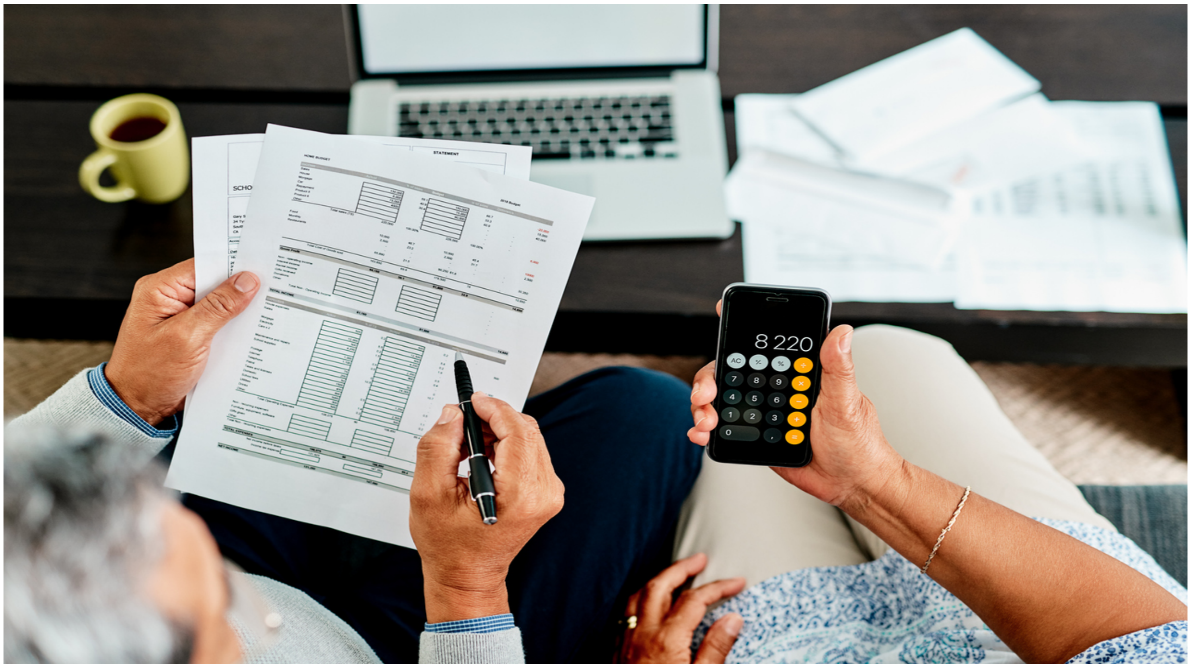

Photo by Katleho Seisa

We are sure management is panicked now over the backlog of inventories. And, we are sure they are equally concerned over profit margins. A slow, steady strategic approach after careful analysis and forecasts on sales, margin and resulting inventory levels are better than a "let's throw it against the wall and see if it sticks" approach while hoping for the best. **Your Senior Merchandise Planners now need to work side-by-side with their Financial Planner partners in developing the best strategies and accompanying forecasts on sales, margin and resulting inventories and profitability.** What categories and which stores can be emphasized and carry the margin? What categories are hopeless? Which stores have a history of underperforming? How do you use leveraging for optimal results? Get the Merchandise and Financial Planners talking and running their numbers, together! **No one leaves the Zoom call until there are multiple strategic scenarios!**

Not All Inventory Is Created Equal

Most brick-and-mortar retailers have a wealth of knowledge at their fingertips from the past few months of performance of their E-commerce sites. Although we know product tends to perform differently on E-comm versus in brick-and-mortar stores, EVERYBODY now has been shopping on E-comm sites as stores have been closed. This should give retailers a sense of comfort that a significant percentage of their E-comm sales are reflective of the general population of their Customer base. So, use this knowledge!

As we previously stated, in our early careers we learned the importance of analyzing and reacting quickly to unit sales. **But, unit sales without understanding the margin dollars being generated is worthless information.** It is the margin that counts in the end. We watched our Macy's clericals, the precursors of today's **Merchandise Planners**, spend hours each week analyzing unit sales, margins and inventory productivity. They created their own lists of best sellers and worst sellers and markdown and transfer recommendations. Unfortunately, we must report that we have seen repeatedly through our work in our industry there is now a general lack of solid, standard unit reporting covering all relevant metrics. So we know we are assuming a lot if we ask the **Planners** today to use their unit reports to begin analyses.

But, it is necessary. So **Planners**,

- Run reports of your E-comm style sales for all full-priced styles, ranking them by unit sales to identify best to worst selling.
- Layer into the report the dollar sales for each style.
- Layer in the margin dollars and margin percent for each style.
- And, most importantly, layer in inventory **in units** for each style.
- Now, slap a unit Weeks of Supply calculation next to the unit inventories and finally,
- Run a new sort, first on unit sales and second, on unit Weeks of Supply.
- Do this by category.

Voila!

What do you get? A listing of your best sellers in units with the number of weeks remaining for them to be in stock coupled with the margin dollars they are generating.

We have about 9 weeks to go before the Summer selling cycle is over. So to continue,

- For seasonal product, draw a line at the point where 9 Weeks of Supply ends and 10 Weeks of Supply begin.
- Now you know what can probably remain at full price for awhile and what styles will probably need markdown or POS promotion action.
- The styles from 10 – 14 weeks of supply probably need a gentle markdown and/or targeted category POS promotion, those over 14 weeks will need progressively heavier markdowns and/or heavier targeted POS promotions.

This is a recipe for a game plan that works.

As your stores begin to open, have your **Planners** execute this process every week for both E-comm and brick-and-mortar locations. Require them to review their results and recommendations ***CONCURRENLTY*** with their Vice Presidents of Merchandising and Vice Presidents of Planning. Do separate analyses for full-price merchandise and markdown merchandise. As style performances begin to slow, hit them with new or additional markdowns and/or promotions. **Keep emotional attachments to merchandise out of this analysis.** But go slow! No need to go to 75% off in June, no matter how scary the inventories may look. Trust me, if Goldie or Helen or Lynette were around, they could do this work without blinking and they certainly would not allow you to markdown or promote any margin-generating style!

And, by the way, no need to do this process for basics and seasonless merchandise. They are and will continue to be fine and usually are good margin builders. Leave them alone.

In our November 7, 2017, article entitled ***Business Intelligence*** we emphasized the need for data to maximize profitability, stating "Successful Retailers Understand the Power of Knowledge". Now, perhaps more than ever in the past, informed, data-driven decisions are critical to success and nowhere is this more important than in the work of your **Merchandise Planners** as they now manage your inventory investments. We encourage you to take a moment and review this article, which can be found on our website.

Not all Stores are Created Equal

We aren't trying to make a poor joke. Density is one of the metrics often missing in analyzing the amount of inventory in brick-and-mortar stores. It is simply a calculation of "units per square feet". We've seen it calculated in various ways by companies who watch this metric, but the most common method seems to use selling square footage as the denominator. Specialty apparel retailers tend to use "apparel units on floor and in backstock/square feet of selling space (front of house)". Departments stores tend to use "units on floor and in backstock/square feet of shop space" or "units on floor and in backstock/linear feet of case line space". Whatever the calculation, the units counted include front of house and back stock.

With the collision of new Fall merchandise into existing Spring and Summer merchandise, we see density as a metric that is critical to monitor on a weekly basis. There is going to be a lot of merchandise to manage in your stores and you will want to avoid those overstock positions that lead to no room to walk in the stockroom and firemen at the front door wanting to temporarily close the store due to fire safety violations. Some companies with which we have worked have density reports as part of their standard weekly reporting. They are used by both **Merchandise Planners** and Allocators. But again, we know we are assuming a lot if we ask the **Planners** and

Allocators today to use their density reports to begin density analyses, as more than likely these reports don't exist.

But, they are necessary. So **Planners**, work with your Allocators,

- Run reports by store showing their total unit sales and inventory, their full-price unit sales and inventory and their markdown unit sales and inventory.
- Layer in percentages for each store of full-price sales and markdown sales to the respective total store sales.
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- Now, slap a unit Weeks of Supply calculation next to the three unit inventories – total, full price, and markdown - for each store.
- Layer in the square footage metric that you want to use for each store.
- Divide the **TOTAL** unit inventory for each store by the store's square footage to calculate density.
- Now do some totals for each District, Region and for the total company.

Voila!

What do you get? *A report showing*

- *The percentage of full-price sales being done in each store against what percentage of full-price inventory they own,*
- *The percentage of markdown sales being done in each store against what percentage of markdown inventory they own,*
- *And a calculation (preferably to two decimal places) of their total unit density as compared to their total Weeks of Supply, full-price Weeks of Supply and markdown Weeks of Supply.*

With this report, it is very easy to identify stores that are either too dense (too much merchandise) or not dense enough as compared to Weeks of Supply, and from where density is coming: full-price inventory or markdown inventory, or both!

Have your Allocators run this report weekly and review it with your **Planners**.

Really!

Don’t Drive your Store Teams Crazy

The majority of us have worked on the selling floors of retailers if we are in the business. If you’ve worked on the selling floor, you probably at one time or another thought the people in the corporate office were insane. In the Multimedia Plus webinar, we discussed the crazy actions many (especially apparel) retailers take on a weekly basis thinking they are reacting to sales performance. Mondays: Take off the weekend sales promotion signs. Tuesday: Put them back up because Monday sales were down. Wednesday: Take new markdowns and replenish your basics on the selling floor once you locate them in the stockroom (they have got to be there somewhere in a box or on a shelf because the “system” says we have them). Thursday: Mark back up the styles that were inadvertently marked down or that your VP is emotionally tied to and didn’t agree to AND slap on new 30% POS signs, and new 40% POS signs. Friday: Switch some of the 40% POS signs to 30% POS signs and vice versa while stocking new deliveries and changing prices on some new styles that were marked down before you received them. Saturday: Deal with angry Customers wanting markdown adjustments who bought something at 30% off, but it is now 40% off. Saturday night: Close at 10:00, return home, open a bottle of wine or can of beer, kiss your kids as they sleep, and fall asleep on the sofa while the television watches you, hoping not to spill any good wine or beer as your hand relaxes away from the large water glass holding your drink.

So this is what a week may have been like BEFORE COVID-19. Now, we are asking our Store Teams to do all of this while wearing masks, learning to smile and greet Customers with their eyes since their mouths are covered, sometimes wearing gloves, sanitizing the store every X-number of hours, clearing out fitting rooms and hanging garments in a “hold” area for 24 hours hoping that any virus on them will die before returning them to the selling floors, practicing social distancing in a very confined space, receiving new cartons not knowing how many hands touched them or where they previously were sitting from the delivery guys and gals who are not wearing masks and handing you a pen from a gloveless hand to sign for a delivery, finding a place to stack those cartons so they can sit for the required 24 hours to allow any virus on them to die, counting Customers to maintain new COVID-19 floor capacity regulations, and dealing with some angry Customers who don’t want to wear masks when entering your store.

Oh yea, let’s not forget that most are coming to work now after being furloughed: late on rent, mortgage and car payments; worried about putting food on their tables; fearful of carrying the virus home to their families; and fearful for themselves of getting sick and having their paychecks stop once again. And… this will be an evolving role for the stores staffs as more is learned about the spread of the virus, all on top of what they were originally hired, trained and asked to do.

Our point here is that business will not be “as usual” by a wide margin. And “as usual” may not always have been so well thought out or strategized anyway.

Photo by flzkes

So, to mitigate stress and knee-jerking, especially at this time, in both stores and the home office,

- Strategize a marketing and promotion calendar that is rooted in your **Merchandise Planner**-defined margin generating and inventory liquidation strategies through the end of the Summer selling season.
- Your **Merchandise Planners** need to be front and center in this process, running all the scenarios needed to make the right decisions to maximize all metrics. And, they need to be aligned with their Financial Planner partners.
- Order ALL the necessary promotional and markdown signage NOW and have it delivered ASAP to your stores.
- Review the calendar each Monday and make any necessary adjustments based on the reforecasts and recommendations completed by your **Merchandise Planners**.

You must be flexible to remain steady in this very unsteady environment.

- Execute the strategy for the current week and then step aside and let it roll forward until the following Monday, then repeat.

We've seen these well thought-out and methodical strategies work many times over in our consulting practice with some of the best specialty stores with which we've worked. It eliminates "knee jerk" reactions to one or two days of down sales, and it takes stress off your Sales Associates. Trust us, they have enough undue stress now in their COVID-19 front-of-house working environments. We need them selling, not doing head-spinning activities that also confuse your Customers. The analysis and input of your **Merchandise Planners** in this process will be **THE STABILIZING FORCE** behind a successful execution. With them, pick a lane and stay in it for a week.

Have an Advance Strategy for New Fall Deliveries

Most retailers are going to be carrying a lot of Spring and Summer inventory they had planned to sell during the time of our Stay-at-Home restrictions. And, new Fall deliveries are starting to roll in. We still have about 9 weeks to go before Summer is over. The Spring and Summer product, since your stores have been closed, will still have an aura of newness about it since Customers have not been shopping in brick-and-mortar locations. Continue to highlight in a significant segment of front-of-house square footage the full-price Spring and Summer product that is still selling at acceptable Weeks of Supply as determined by your **Planners**.

Together with the Merchants and Visual Merchandising, decide on an appropriate percentage of the selling floor and an appropriate location on the selling floor, to showcase your new Fall deliveries. If all of Fall doesn't fit on the selling floor because of the existing Spring and Summer inventories, keep Fall in the stockroom and feed it to the selling floor as Spring and Summer product is depleted. There is plenty of time to sell Fall product but not Spring and Summer product. For most Customers, Summer is just beginning and new wardrobes are needed to replace their tired sweatpants and pj's. Demand should be there.

And, move your Spring and Summer markdowns to a location in the back of your selling floors and keep it well signed. If inventories start to swell, throw a 25% or 30% POS on the markdowns. Try not to go deeper until August on the POS or hard markdowns though to conserve margin. Your **Planners** will know best how and when to do this to continue liquating old product in a margin-positive manner. They will keep an eagle eye on the Weeks of Supply of each Style and Category, surgically taking markdowns and executing promotions when necessary. They know that come Labor Day, it is Fall.

Outlets

And finally, if you have Outlets, remember them! Make them part of your overall strategy, not an afterthought for the placement of old, tired merchandise. Have your **Planners** evaluate the amount of inventory the Outlets can hold. Then, have them lay out various scenarios of promotions and markdowns to liquidate Spring and Summer product in your full-price locations, knowing the goal is to reach a delicate balance of protecting as many margin dollars as possible while ending with a reasonable amount of leftover inventory for the Outlets.

The big question will be, "Should we transfer some of Spring and Summer 2020 to the Outlets?" Yes, if it is done surgically with the best interests of your full-price stores in mind. But we caution that **transferring is always a slow process**, with merchandise being off the selling floors for sometimes up to 3-4 weeks while it is being packed, moved, received adhering to the new COVID-19 regulations, then unpacked. With only 9 weeks of possible Spring and Summer selling remaining, can you afford this time for product to be off the selling floors, unless of course, you are sending the product to warm-weather Outlets in the South?

The **Senior Merchandise Planners** should again sit with their Financial Planner partners to review and discuss their models with the joint goal of determining the best scenario for your company to margin out with the best profitability. Whatever inventory is remaining after a plan is adopted and executed can be moved to a holding location in the warehouse or distribution center, eventually to be re-introduced at the beginning of Spring 2021 in the Outlets. And hopefully, the prices were not gutted on this merchandise at the end of its 2020 selling life in the full-price stores so that the Outlets can later reintroduce it and contribute margin dollars. You don't want to open Spring 2021 in your Outlets with merchandise marked at 75% off. It just sends the wrong message on so many levels to your Customers.

What is important to remember here is that your **Planners** and Allocators will need to develop this plan in conjunction with your Outlet Management: a strategy for introducing this leftover Spring and Summer product into the Outlets, based on the selling needs of the Outlets. Personally, we prefer when the product is returned to a warehouse or distribution center, that it is checked into the backstock at the SKU level, sorted, identified and housed by category. We tend to like Allocation to send this product to Outlets using the powerful knowledge of your Allocation system to ensure the Outlets receive the styling and sizing most appropriate to their Customer demands.

Yes, there is a carrying cost and transfer costs involved here. But, this is why the **Merchandise Planners** and Financial Planners need to work together on this process to identify and protect the most profitable scenario. And, why waste good margin dollars when they can be realized at a later point in time?

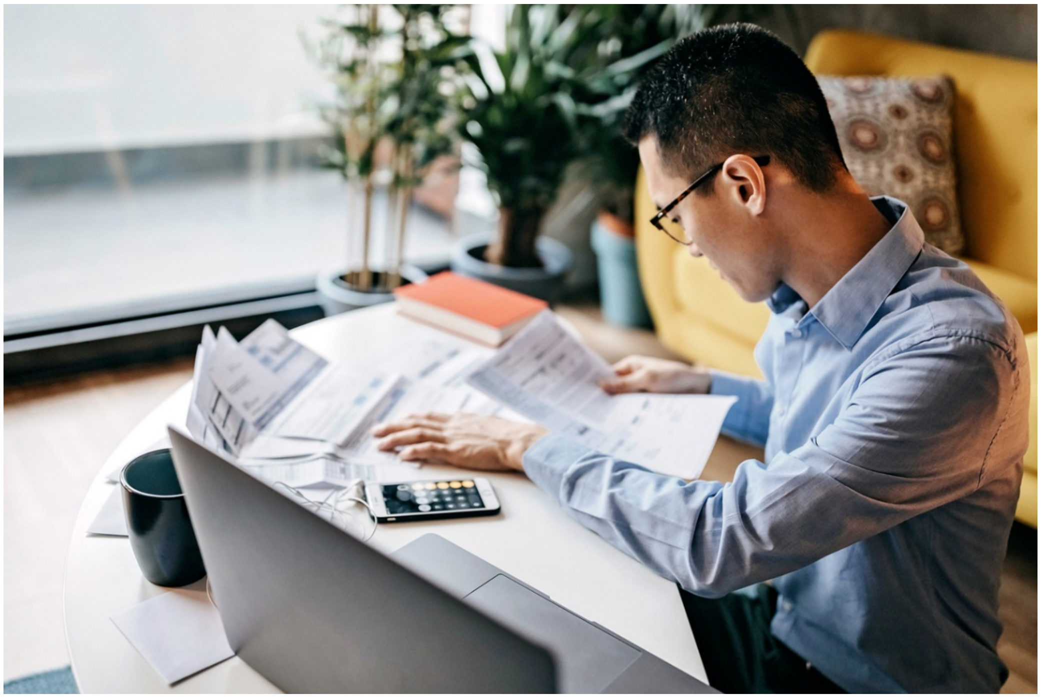

Photo by Pekic

Keep Eyes Wide Open on the Economy

By economy, we are not talking Wall Street. We are speaking to the unemployment rate and household income levels. As of now, current forecasts for the economy, while improving, are still not good. We are not quite sure where we will land by the end of the Summer with COVID-19 and we all remember that with a presidential election, business tends to slow right before the election.

Add to this, as Sally Frame Kasaks has stated and we have repeatedly quoted, “Retail is the canary in the coalmine”. Even before COVID-19, retail was struggling and the reason wasn’t all due to Amazon. Something was happening within the general population of consumers and spilling over into our industry; the pandemic exacerbated it. Austan Goolsbee, a professor of economics at the University of Chicago’s Booth School of Business, offered a startling perspective on this in his February 14, 2020, article in *The New York Times* entitled “*Never Mind the Internet. Here’s What’s Killing Malls”.* Mr. Goolsbee states that “Collectively, three major economic forces have had an even bigger impact on brick-and mortar retail than the internet has” which he identified as Big Box Stores, Income Inequality, and Services Instead of Things. Income inequality is what frightened us the most. Mr. Goolsbee’s article is well worth reading.

Photo by DeSid

In Summary

None of us are sure of where our industry will be one year from now, let alone three months from now. Most of us who have been in the industry for years have learned to ride the roller coaster wave of retail, knowing "what is" will eventually change for the better. For many of our younger retail professionals, this may be their first big wave. For us more seasoned retail professionals, this is a convergence of outside and inside forces we have not previously and concurrently experienced. Perhaps what is critically different for all of us now is the absolute focus on well thought-out strategies to deliver margin, strong disciplines on managing inventory profitably, being flexible to remain steady in this very unsteady environment and most importantly, moving our thought processes from a macro level to a micro level. That is, the weekly individual performance of every style counts toward profits.

"**Retail is Detail**" now more than ever. Where are our new Goldies and Helens and Lisas and Beas and Lynettes? They live on - in our precious **Merchandise Planners**.

If we can be of assistance, let us know.

Be well. Stay well. Stay safe.

Olson-Ng Retail Consulting Group *is a boutique consulting practice focused on financial and operational improvements, merchandising system selection and implementation, inventory management, merchandise assortment planning and allocation strategies, merchandise reporting, strategic growth planning and execution, turnarounds, and jump-starts for specialty retailing. Founded in 2001 by Rod Olson and Kim Ng, Olson-Ng provides over 40 cumulative years of industry experience.*

www.OlsonNg.com

For more information, please contact us at:

Rod Olson – Kim Ng
Olson-Ng Retail Consulting Group
330 East 38th Street, Suite 42b
New York, New York 10016
Office: 212-679-6552

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