Retail Product Merchandising: Retail Buying-Selling Cycle

<u>SECTION 1</u>: Defining Retail Product Merchandising

Part 1: Defining Retail Product Merchandising

<u>Part 1: 1-1 Introduction: Retail Product Merchandising as Compared to Product Merchandising</u>
Retail product merchandising is intriguing, exciting, fun, and creative. Yet, it can be very stressful, time-consuming and laborious work. Merchandising is both an art and science. Successful merchandisers develop their expertise and make their decisions based on part instinct, part experience, part educational background, and part inspiration. Merchandisers must develop a combination of both creative and number-crunching skills. In other words, they must use both sides of the brain to be successful in their work!

Merchandising is all the business activities in the management of planning, creating, developing, distributing and marketing merchandise assortments to selected target consumers, while reflecting the image, pricing policies, and sourcing capabilities of the company, as well as current market trends. Each link or company in the fiber, textile, apparel, and retail complex (i.e., FTAR Complex) houses merchandising departments or divisions.

In the retail store, **merchandising** is considered the hub of the organizational structure and the division around which all other activities resolve. **Retail product merchandising** at the retail store level is defined as procuring or selecting and buying product at wholesale cost and reselling the merchandise at a retail price. More specifically, retail product merchandising is all of the business activities involved in: a) planning, b) procuring, c) presenting or merchandising product, and d) marketing and promoting the merchandise for selection and purchase by the target consumer, while maintaining a profitable retail operation.

In 1927, Paul Mazur defined **retail product merchandising** as the five rights of merchandising: 1) the right merchandise, 2) in the right quantities, 3) at the right time, 4) at the right price, 5) in the right place. With current updated technology, an additional "right" may be added to Mazur's five. That right is number six or the right merchandise in the right color, size, and style. When Mr. Mazur wrote the initial five rights, *"the right merchandise"* was defined as merchandise needed, wanted, and desired by the target consumer. For the retail store, the merchandise assortments (i.e., collection of related product classifications and quantity of each unit of each product classification) frequently include a) exclusive, b) distinctive, c) trendy, d) seasonal, e) staple, f) fashion, and g) basic merchandise categories.

In order to compete in a competitive marketplace and exude its own unique image and individuality, a retailer must secure merchandise that is exclusive to that particular store or store group. For example, prestigious apparel companies, producing exclusively branded merchandise, maintain an *exclusive distribution pattern* or sell to select stores in a geographical region. In other words, in a particular region, only one retail store in that region, that conspicuously displays a store image which reflects the image of the branded company and the image of the merchandise selection produced by that company, may purchase and merchandise the branded company's product lines.

A retailer also wants to maintain a merchandise mix with *distinctive merchandise* that reflects new and prophetic trends in the fashion world. This type of merchandise is utilized in order to assist the retailer in positioning the store as a particular store type in a specific channel of distribution. Differentiation and exclusivity of merchandise assortments are major tools that the retailer may use for both positioning of the store and attracting the store's target consumer. On the other hand, the retailer also needs to offer merchandise that is trendy. *Trendy products* include popular branded goods, *"hot items"* (i.e., product classifications that are quickly selling goods due to immediate and immense consumer demand), and *fads* or goods that have a quick popularity and then fade from the fashion scene in a very short span of time.

Furthermore, all retailers carry merchandise mixes composed of some or all of the following types of merchandise: seasonal, staple, fashion, and basic. Retailers purchase seasonal product lines from their major *vendors* or suppliers such as branded apparel companies, manufacturers, contractors, wholesale companies, or other types of auxiliary firms*. Seasonal goods* are products that change throughout the year, based on the climatic change during a calendar year. Therefore, the major volume of some product classifications sells within a specific climatic season. For example, swimsuits are in more demand in spring and summer, while the majority of winter coats sell in the fall season.

On the opposite end of seasonal goods are *staple goods*, or products that change very little from season to season and/or year to year. The only changes in the product may be a slight style variation or the color of the product. An example of staple goods is natural colored panty hose or Christmas ornaments.

Fashion merchandise consists of items that are in constant and continual change based on the fashion trends of the time. The source of these trends may be domestic or global. The products range from trendy, stylistic interpretations of a designer creation to the designer's one-of-a-kind original produced for a specific client. Thus, retailers must view the most current fashion trends and adapt those trends to the desires and wants of the store's target consumer and the region of the area where the store is located.

For fashion products, most retailers offer four to five seasonal lines in order to supply the desired product for a specific change in both fashion trends and climate. These lines include a) spring, b) summer, c) early fall or transitional, d) fall, and e) holiday. Also, a few companies offer a sixth seasonal line or cruise/resort attire.

Not all manufactures produce all five, or especially the sixth seasonal line, of goods. However, the majority of them always produce Spring and Fall lines, since they are the major product lines of the year. Also, due to warmer climatic changes in the southeast and southwest, the Early Fall/Transitional line has become very important to the retailer.
Basic merchandise is the opposite of fashion product and is merchandise that may change slightly from season to season and year to year. For example, the weight of the yarn used in the fabrication may change in the spring season as compared to that of the fall season; or, there might be a slight style or color modification. An example of a basic product is men's white cotton knit underwear. Even though men's underwear has now become a fashion statement, several companies continue to produce basic white cotton briefs and tees for the male consumer.

With the state-of-art technology available to both manufacturers and retailers in the present day retail environment, the responsibility of procuring (i.e., search, select, and purchase) the "right merchandise" becomes much easier for buyers than their predecessors. The "right size", the "right color", and the "right style" of merchandise should be available in the retailer's inventory based on sales data received at point-of-sale as well as the data of the retailer's inventory levels.

For an ideal inventory level, there should be a balance of a product classification (i.e., a subcategory of a merchandise category) in relation to the sales volume of that same unit. In other words, a quantity of each product classification, known as a *stockkeeping units (SKU),* should be maintained in stock to meet projected sales for that particular item. There should be few *stockouts* or items unavailable for sale in the correct size, color, or style for the store's target consumers.

After reading the above discussion, the novice retail buyer/merchandiser might think that securing the "right merchandise" is not a monumental task. However, this job responsibility is not as simple as attempting to offer a merchandise mix with exclusive, distinctive, trendy, seasonal, staple, fashion, and basic merchandise in the correct quantities, colors, sizes, and styles. Consumers are fickle and change their minds about their wants, needs, and desires. New, innovative items are introduced into the marketplace, sometimes displacing a current product classification or trend. Thus, the job of the buyer is a continuous process of tracking trends, locating the most recent market offerings, and presenting product that is the most desirable and saleable to the target consumer.

As previously discussed, "*the right quantities"* of merchandise should be readily available for the target consumer's selection. Too little merchandise most often results in the loss of sales and even worse the loss of loyal or repeat consumers. Too much merchandise frequently induces costly markdowns from heavy inventories, thus a loss of profit. Therefore, it is a necessity that the retailer determines the correct *stock/sales ratio* (i.e., how many dollars needed in inventory in order to sell one dollar of merchandise) of any product classification in order to meet the needs and demands of the target consumer.

Based on the type of merchandise and the climatic environment, the timing that the merchandise is shipped to the store by the vendor and presented to the target consumer by the retailer is most critical to the success of a retail operation. "*The right time"* insures that the merchandise is not received too early or delivered too late for building profitable sales. Thus, merchandise must arrive at the store, be processed and presented to the target consumer before the peak selling period of the merchandise. The consumer must train her/his “fashion eye” and become accustomed to new fashion trends, product classifications, and the variety of selection in the merchandise mix before making the final transaction in order to purchase the product.

Concisely, merchandise delivered too early, more than likely, results in low turnover of inventory or slow sales and heavy inventories. With a slow turnover of stock, there are additional operating costs incurred by the retailer. If the merchandise is received into the store too late, often there is a loss of sales, high markdowns, and poor profit results. Furthermore, not only do the late deliveries not sell in a timely manner but also other product classifications that were to be sold with the late arrivals do not sell either. Then the retailer realizes a poor selling season with high markdowns and low profit margins.

Determining *“the right price”* of merchandise that the target consumer will pay for any given product is most difficult. Of course, all consumers want to purchase the highest quality product at the lowest price possible. However, there are many factors that the manufacturer and retailer must consider when costing or pricing product. The cost of raw materials, the location of sourcing, the operating costs of doing business, the channel of distribution, and the fashion and quality level of the product are just a few factors that must be taken into consideration when deciding upon the price. Frequently, all of these factors are not evident in the finished product or even a concern of the target consumer.

Regardless, the wholesale cost of the vendor’s product impacts the retail price at which the retailer must sell the item. Some other factors, besides wholesale costs and terms of the manufacturer, that impact retail price include the economic market conditions (e.g., cost of raw materials, interest rates, inflation), the prices in which the competition offers the same or similar product to the target consumer, sales volume of the product classification during the same season of the previous year, and the quantity and dollar amount of markdowns taken on the product during that same season of the previous year.

However, the wholesale cost of an item must be high enough or at a level for the vendor or manufacturer to maintain a profit. Yet, the cost must be low enough for the retailer to price (i.e., markup the wholesale cost to retail price) the item at a level for maintaining a profitable, successful business operation. In other words, both the vendor and the retailer must offer a price that is low enough to meet that of the competition as well as consumer demand, yet maintain enough margin in order to remain in business and make a nice profit.

Off-price retailing or discounters have changed the face of the retail environment. These retailers not only sell branded merchandise and “special-cut” merchandise produced especially for the discount channel of distribution, but they also sell closeouts (i.e., vendors leftover seasonal merchandise), discontinued styles, and irregulars. Most often these items are sold dramatically below the initial or regular retail price of retailers in other channels of distribution. Since much of this merchandise is current or trendy items, many consumers who buy in the other retail channels of distribution also buy from these discount retailers.

Finally, the merchandise must be presented within the store in a physical location that is convenient and enticing to the target consumer. Many times "*the right place"* for the merchandise presentation is most important in order to create additional sales volume, impulse buys, and add-on sales for the retailer.

Merchandise presentation is the technique of storing, displaying, and promoting merchandise classifications in the store or department. The placement of the fixturing and the merchandise layouts in relation to the floor space and wall areas within the store/department are arranged for the creation of maximum sales per square feet of selling space. Also, it includes aesthetically displaying the merchandise in order to create sales volume, foster additional store traffic, and encourage add-on and impulse buys. The ultimate goal of the right place for the merchandise is to foster "silent selling" and to increase sales volume.

Thus, retail product merchandising is reflecting all of the rights of merchandising when planning, procuring, presenting, marketing and promoting the retailer's merchandise mix. Concisely, *retail product merchandising* is selecting and meshing together various and sundry product categories from multiple brand companies (i.e., designer [exclusive, secondary, or licensed], national, private label, private brand, store brand, and/or generic brands) in order to build a merchandise assortment that is a saleable mix of product desired by the target consumer.

For example, pants from Company A must coordinate with shirts from Company B, sweaters from Company C, and jackets from Company D. Fashion trends, themes, color palettes, fabrications and styles must be compatible and coordinate from all of these different companies in order for the retailer to provide a saleable merchandise assortment that reflects the store image, attracts the target consumer, and provides a successful profit level for the retailer. Many times, the task is very challenging, difficult, tedious, and stressful; yet, it is also creative, exhilarating and rewarding. Welcome to the world of retail product merchandising!

Product merchandising in the manufacturing company or at the wholesale level is planning, designing, developing, sourcing, marketing, and distributing a seasonal line of merchandise (i.e., spring, summer, early fall/transitional, fall, holiday, cruise/resort) for a specific target consumer, while maintaining the design integrity of the product, reflecting the company image and maintaining a profit for the company. More specifically, it can be defined as developing a cohesive package of seasonal merchandise that a) reflects the needs and demands of the target consumer; b) reflects the image, merchandising philosophy, pricing structure, and sourcing capabilities of the company; and c) maintains trend direction of both the market and fashion cycle, while providing a profit for the company.

Moreover, based on the company management decisions of a) the channel of distribution in which to market the company's product line, b) the retailers and end consumers within that channel to target, c) the number of seasonal product lines to offer, and d) the types of product classifications to produce, the brand product merchandiser must create each seasonal line of goods that reflects the lifestyle of the target consumer, the occasion for wearing, and current trends and fashion themes prevalent in the marketplace.

Developing the seasonal line begins with market and trend research, including both macro domestic and global environmental scans (i.e., economical, sociological, psychological, technological, environmental, political factors impacting the fiber, textile, apparel, retail complex), as well as analyses of fashion and product trends currently appearing in the market. Additionally, the product merchandiser reviews sales data from the previous year, same season, including *point-of-sale* (i.e., *POS*) data of the company's major retail clients.

Astute merchandisers scan and study the *sell-in* (i.e., types and quantity of seasonal line product classifications bought by the retailer) of the different products purchased by those same retail clients. Likewise, merchandisers may analyze and compare the *sell-through* (i.e., quantity of each of the company's product classifications sold at regular retail price to the retailer's clients) of those various product classifications purchased by the retailer's target consumers. Other data the merchandiser might examine include sales and product classification information from major national and international marketing firms and financial institutions.

The product merchandiser begins the product merchandising process for a seasonal line based on consumer demand, line content and type of product classifications offered by the branded company, and the fashion trends plus market and climatic conditions impacting that particular season. The line may be developed around only one product category and/or classification manufactured by the company. For example, the company may produce only cotton denim jeans.

However, many companies build their lines based on *groupings* or coordinated product classifications that are designed to be sold in multiples as mix and match attire. Also, some companies produce *related separates* or items that may or may not sell as a multiple purchase. For example, a jean company producing colored denim products may offer cotton knit tees or shirts in matching or blending colors in order to create multiple sales for both the brand company itself and its client, the retailer.

Regardless the type of product line content, all product merchandisers select the major themes for the overall seasonal line as well as the groupings within the line (if this type of product line development is applicable to the manufacturer's line composition). Merchandisers must develop the silhouettes or styles (i.e., bodies) composing the line, and select fabrications, trims, and findings in which to execute those product classifications. Further, selection of the color story (i.e., combination of colors) is most critical to the process, since color is the number one selling factor of any product. Lastly, the size range(s) for the production classifications must be established.

Merchandisers may begin the line concept development process with any of the above factors; however, many times a *fashion theme trend* or trends are identified and the theme becomes the inspiration for all other components of the line. Specific themes dictate explicit colorways, fabrications, styles and accessories.

For example, a southwest theme demands color palettes (i.e., range of colors) of earth tones, and shades of khaki and green, plus touches of coral and turquoise. The fabrics may be cotton poplins, heavy cotton twills, or cotton knits in both solids and patterns. The styles might include heavy cotton knit, Aztec-patterned sweaters; cotton, coordinating tees embellished with a cactus-pattern print or coordinating cotton shirts in tints of coral and turquoise; and cotton twill shorts and pants in shades of earth tones, khaki or green. The accessories may be turquoise, coral, or other natural stone jewelry set in sterling silver.

Styles or silhouettes of product classifications in the seasonal line may be determined by the line content (i.e., line composition of product classifications) and types of the product classifications offered by the branded company. Also, the company's production capabilities and employee skill levels and expertise with developing and producing the product classification must be taken under consideration. And, as previously discussed, the fashion trend theme or market and climatic conditions impacting the specific seasonal line being developed may dictate what styles or silhouettes are included in the line.

The *fabrics* or materials utilized to create the product are crucial elements that the merchandiser considers when developing the seasonal product line. In fact, the cost of the fabric frequently is the main cost of producing the product. Oftentimes the fabric selection is dictated by the theme or fashion trend. On the other hand, the fabric selection may actually determine the fashion level of the grouping or product classification and may be utilized by the merchandiser as the fashion element of the line.

At other times, a special fabric, trim, or finding may be included in the silhouette development in order to tie together the theme, colorway, and silhouette or add extra "spice" to the grouping or line. Fabric types and qualities are most often determined by company management decisions, the apparel zone in which the company does business, the expectations of the target consumer, and the theme of the fashion trend being executed in the line development.

Since *color* is the number one selling factor for any product and the first element identified by the target consumer, the color palette for the seasonal line must be on target with consumer expectations, fashion trend direction, fabric selection, and seasonal climate variations. As previously mentioned, color stories may be dictated by fashion trends; the fabric selection, such as a print or patterned fabric with several coordinating colors; or consumer demand.

Many times high-fashion designers influence the color palettes of a company's seasonal line, while at other times societal influences impact the color direction of the market. Recently, other diverse product categories in various types of industries have impacted the color palettes of a specific industry. For example, the home furnishings industry has provided color direction for the apparel industry, and the food industry has also influenced colorways for textiles and apparel. Oftentimes, textile fabric companies develop new colorways that are selected and utilized by designers in their seasonal product collections. Those same colorways are then adapted by all zones of the apparel industry. (Refer to **Section 2**: *Part 1: 1-2*.)

In summary, the product merchandiser develops a seasonal line of merchandise that reflects the needs and demands of the target consumer; reflects the image, merchandising philosophy, pricing structure, and sourcing capabilities of the company; and maintains trend direction of both the market and fashion cycle, while providing a profit for the company. Product merchandisers select the major themes for the overall seasonal line as well as the groupings within the line, develop the silhouettes or styles composing the line, and select fabrications, trims, and findings in which to execute those product classifications. They also select the color story and determine the size range(s) for the production classifications.

On the other hand, based upon the seasonal line offering or the cohesive package of seasonal merchandise created by the brand company's product merchandiser, the retail buyer/merchandiser selects and combines various and sundry product categories from multiple brand companies' seasonal lines in order to build a merchandise assortment that is a saleable mix of product desired by the store's target consumer.

In summary, merchandising divisions at both the retail and brand company levels are the hub of the company and impact all activities as well as the entire process of conducting and maintaining a profitable business in the marketplace. Both retailers and manufacturing corporations must develop a cohesive package of seasonal merchandise and maintain appropriate inventory levels in order to meet sales goals, profit margins and the wants and needs of their target consumers.

To be successful a merchandiser must understand the merchandising processes and procedures at both the wholesale (i.e., branded company or manufacturer) and retail levels. The ultimate premise of retail merchandising stipulates that the retailer's merchandise mix and assortments depend upon the product merchandising and seasonal lines available at the wholesale or brand company level.