
UNIT 9 PRODUCT MERCHANDISE

Objectives

After reading this unit, you should be able to:

- comment on the meaning and scope of merchandising;
- define merchandising;
- discuss the factors affecting merchandising; and
- enumerate the conceptual issues.

Structure

- 9.1 Introduction
- 9.2 Merchandising
 - 9.2.1 Cross Merchandising
- 9.3 Objectives of Merchandising
- 9.4 Merchandise Planning
- 9.5 Category
- 9.6 Category Captains
- 9.7 Private vs. National Brands
- 9.8 Quality as a Parameter of Merchandising
- 9.9 Merchandise Mix
- 9.10 Factors Affecting Merchandise Mix Decisions
- 9.11 Merchandise Logistics
- 9.12 Supply Chain Management
- 9.13 Summary
- 9.14 Key Words
- 9.15 Self Assessment Questions
- 9.16 Further Readings

9.1 INTRODUCTION

Retailer is into the primary function of buying from some sources and making it available to the customer at convenient sizes at a proper price. This process is known as merchandising. Whenever you go to a retail store, you are on the lookout for products which fulfil your needs. It is a welcome from the fact that customers do not have a preplanned list of products to be brought. Majority of the buying done by customers in a store is impulse buying. Interestingly none of the retail stores can survive if they count on customers who have planned what to purchase from the store. It is the merchandise which is displayed in the store arouses the attention of the customers. This in turn develops an urge amongst the customers to buy. Therefore, we can say that merchandise is the core of retailing, and buying and selling of merchandise is the central retail function.



9.2 MERCHANDISING

Merchandising comprises of planning as to what to purchase for the outlet (obviously to resell), how much to purchase and at what price to purchase. Thereon maintaining proper stocks and finally pricing them for selling purpose.

Merchandising is a critical function. The neighbourhood grocery shop has to keep an eye on hundreds of items from maybe similar number of suppliers, both small and large. He has not only to order what is going to be out of stock but also products whose prices are going to shoot up in the near future due to seasonal effects. He has not only to make payments but also claim various purchase discounts which ultimately will nourish the bottom line of his Profit and Loss account. Similarly when you go to a cloth shop what do you do? For the same print of cloth you ask many colours. While purchasing a shirt you would like to look into all the designs and colours available in your size before taking the final purchase decision. A retailer should therefore maintain a proper depth in his merchandise which in the present example would mean that he should be stocking maximum possible range of colours and prints in different sizes of shirts.

9.2.1 Cross Merchandising

Each retailer wants to boost his sales. The increase in sales can be either through the main line of products which he is stocking or complimentary goods which may arouse interest in the customer. Maintaining stocks of complimentary goods along the main line is known as Cross Merchandising.

In today's era where every retailer is trying to increase the footfalls in his outlet it is very essential that he adopts the cross merchandising in strategic manner. It makes it relatively easy for the retailer to convince the customer with a wider range of same utility products for the ultimate purchase.

9.3 OBJECTIVES OF MERCHANDISING

Like in any other business activity even in merchandising one must first set his/ her objective. All the further activities can be guided with the principal objective. Some authors have also termed this as merchandising philosophy. The core of your merchandising activity is to make whatever is required by your target market. While setting up merchandising objectives a retailer must keep in mind the following factors:

- 1) Diversity in requirements of the customers
- 2) Fashions/Market trends
- 3) Suppliers capacity to supply
- 4) Competitors merchandising strategy
- 5) Warehousing capacity and warehousing costs

Customers have different set of requirements. Thus a chain of store catering to the same type of target segment has a different set of assortment of products kept in its separate stores depending upon the geographic location and demographics of the place.

Fashions and Market trends are big time indicators of sales trends in the present as well as near future. Especially in the apparels a retailer can on the basis of last couple of years and the current trends can predict the type of demand which he will see during the year and the one to come.



Each retailer is depending on a set of suppliers for the supply of finished products to be resold to the customers. Suppliers are critical participants of the total supply chain of the retailer. It is very essential that the retailer has complete information about the ability and limitations of each of his supplier. This would help him to plan his purchase of merchandise better from each of them.

Major players in the market have their individual strategies regarding merchandise management. It is worth knowing their strategies (although difficult to do so but not impossible). Merchandising strategy of any top player can throw ample light on the strategic use of merchandising. It can also help you to know the economies of scale which the retailer must be enjoying. Finally it helps you to know as to what is the calculation on the part of the particular retailer regarding latest fashion trends and consumer requirements.

Storage is an important aspect of merchandising. All the merchandise procured should be adequately stored in a proper manner before the sale. Some retailers prefer to showcase the total material in the store itself. Their intention is to impress the customer with the range of the products which they have. However if not displayed properly it may add to the clutter in the outlet and give a very confused look. This may adversely affect the store atmosphere and ultimately the sales. Again even if some part of the stocks is kept in the warehouse it should be the endeavour of the retailer to put it in the outlet at the opportune time. This is besides the general precautions against pilferage, loss due to various hazards etc.

9.4 MERCHANDISE PLANNING

Once we have set our objectives the stage is set for planning it-out. Significance of planning here is worth discussing. Whenever you plan for merchandise it is based mainly on the sales projections or forecasts as we call it in common parlance. These forecasts carry projections for the overall company, product category, item wise and in case it is a retail chain then individual store wise projections. While merchandise planning we have to keep in mind the following considerations

- Types of Merchandise
- Merchandising Objectives
- Category/Unit Forecasts
- Budget
- Assortments Planning
- Timing
- Strategic Considerations

Types of Merchandise

Essentially merchandising is of two types: staple/basic merchandise comprises of daily need products as well as those commodities which the customers buy frequently throughout the year. Fashion merchandise comprises of luxury items as well as products, related to fashion, style, and status. Depending upon the type of merchandise the planning may differ. A retailer selling staple merchandise will have lesser maneuverability regarding charging of premium brand of fashion merchandise retailer. However, of fashion merchandise retailer will have a greater risk of changing fashions than the staple merchandise retailer who will not have such risks at all.



Merchandising objectives

We have discussed about merchandising objectives earlier. It is most essential that we look into the fashion trends and the category and unit forecasts before planning out our merchandise.

Category/Unit Forecasts

Forecasts put logic behind acquiring a particular assortment of goods as well as quantity to be ordered. It is worth mentioning here that authenticity of the forecasting procedure makes it dependable.

Budget

Every retailer would like to keep the correct quantity of merchandise in the correct place at the most suitable time/month/season. Moreover he would like to achieve this within the limited budget of his store.

Strategic Considerations

Each store starts its plan with setting its financial objectives. Once they are set the next stage is to decide what to purchase for sale in the store. Here the retailer is cautious about his financial as well as space limitations. Thus with his ground reality clearly known he now has many merchandise related decisions to take -- For example if the store is a men's clothing store, then the retailer has to decide whether to carry a large variety of different types of clothing technically known as categories like shirts, trousers, jeans, t-shirts, suits, jackets or maintain fewer categories but a larger assortment of more styles and colours within each category. The decision problem does not end here. A retailer has to now decide as to how much stock to carry in each unit, each category and so on. However from a business perspective it is very important to note that more the retailer invests in back up stocks the less he would be able to invest in variety or say deeper assortments. A retailer on the basis of his experience and market forecasts makes a trade off between variety, assortment and back up stock. This is known as assortment planning.

Timing

In merchandise planning timing and the strategic considerations are the key determinants. We should always keep in mind the importance of time in merchandising. Procuring grains by a big grocery shop can become very strategic proposition if proper time is kept in mind. This can be the harvest period. Similarly what is the strategy? This question decides the merchandising plan.

Strategic Assortment Planning

Each retail store is looking forward to have the best return on investment. For having the best returns it is essential that the store is able to stock what the customer needs especially what is the size requirements, and other preferences like colour, shade, design fragrance etc. for example if you go to buy a shirt in a retail store you will have specific preferences. You'd like to buy shirt of a particular size, selected from a set of your favourite colours along with your preferred designs. The design can be either a check, or plains, stripes or prints. Therefore on the part of the retailer to make you purchase from that particular store it will be necessary to have those very combinations which you require. This makes it indispensable on the part of the retailer to have a strategic assortment planning. This indeed feels a lot of research into the consumer psyche as well as planning well in advance. It would include the following three steps:



9.6 CATEGORY CAPTAINS

There are circumstances that for a particular item one supplier become the favourite of all the retailers or say a majority. This may be due to the quality offered, prices or even miscellaneous services. In such cases the supplier is known as category captain.

Each retailer has to take supplies from numerous suppliers or vendors. Both the retailer as well as the supplier has mutual interest in seeing the customer purchasing their products in the shortest possible lead time after the goods have been stocked in the store. Thus there lies a merit in maintaining a harmonious relationship amongst them.

Organise Buying Process Category Wise

Once the categories have been determined, the next step is to plan the buying process accordingly. Each product category may have a distinct feature or buying requirements. Buying requirements can be different from the point of view that, specific expertise may be needed for buying a particular category of products. For instance men's wear will be distinctly different from women's wear from buying point of view. Similarly there can be other such differences in procurement of different category products. Thus it will be in the interest of the retailer that procurement of different categories of merchandise is looked into in their own unique ways.

Key Issues in Merchandise Assortment Planning

While initiating assortment planning you should always remember the key issues. You have to take a decision of balancing amongst variety, assortment, and product availability. You have to make an optimum level in all three. It's very simple to understand once you go into a retail store you expect that first of all, the product you desire will be available and that, you will be shown reasonable range of variety. Now once you have the product available and with a reasonable variety, you will definitely expect that you will be able to access a decent level of assortment. Now from the retailer's perspective, in case you want to become a one-stop shop in ready-made shirts then, you would give product availability and rightly more emphasis. Therefore, you cannot carry large assortments. Similarly if you have in the store to have wide assortments in the given product category, then, you have to sacrifice variety..

One interesting dimension in this context will be in case, passed over is interests in the variety aspect of merchandising then he/she will have to outsource his merchandise from numerous vendors. This decision of whether to have a greater variety or not is taken at the top level. However, you must appreciate the limitations of a retail store while taking such decisions.

Set Merchandise Budget Stipulations

In any commercial activity financial discipline is what leads to profits and success. A retailer cannot even dream to earn profits unless he is able to forest the financial implications of his merchandising activities. Financial planning is done at the top level. This financial plan is broken into various categories which percolate to the lowermost level of the store. Based on the financial plan given by the top management the merchandise managers as well as the buyers develop their own individual financial plans, It is here that decision regarding the cost profit margins, sales to stock ratio, expected return on assets, and inventory turnover have to be decided. Some relevant equations in this regard can be as follows:

$$\begin{aligned}
 \text{Return on assets} &= \text{net profit margin} \times \text{asset turnover} \\
 &= \frac{\text{Net profit}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \\
 &= \frac{\text{net profit}}{\text{Total assets}}
 \end{aligned}$$

$$\text{Sales to stock ratio} = \frac{\text{Net sales}}{\text{Average cost inventory}}$$

$$\text{Therefore its sales} = \text{Rs. 2,000,000}$$

$$\text{And average cost inventory} = \text{Rs. 66,666}$$

$$\text{Then sales-to-stock ratio} = \frac{\text{Rs. 2,000,000}}{\text{Rs. 66,666}} = 3$$

$$\text{Inventory turnover} = \frac{\text{Net sales}}{\text{Average inventory (at retail)}}$$

This equation looks into the productivity of inventory. This means if I invest Rs. 1,00,000 in our specific product than harmony of these can be generated from that investment. This means greater the preference of the customers, greater is the off take of that product, thus greater is the cycle frequency.

Methods of Inventory Planning

Any merchandising planning can never be successful without proper inventory planning. Proper inventory planning can be done through various methods.

In case the retailer has a strong belief that all times specific level of inventory should be on hand. Then he should go for the basic stock method. In the basic stock method we simply deduct the average monthly sales for a particular season from the average stock being kept for the particular season. Here the beginning of month stock or BOM. stock as it is called will be a total of the basic stock as well as the amount which the retailer intends to sell in the month.

In case retailers need to plan on a weekly basis then they should go for the week's supply method. Here the retailer can calculate the average weekly sales and based on *his* way of announcing capacity as well as affordability an economic order quantity can be derived.

In case the retailer wants to direct link his inventory with sales only then he can go for sales to stock ratio. This is one of the elementary methods whereby the retailer based on his sales decides upon what should be the size of his inventory. However, here the retailer has to decide as to what should be his beginning of the month inventory size.

Develop an Assortment Plan

Once we have finalised the categories, and fixed our budget limitations then the important task remains is assortment planning. As mentioned earlier in assortment planning we will have to get down to the details of colour, size, brand, material, etc. We should keep in our mind that it is not always possible to have an optimum assortment which can satisfy all the cross sections of the customers and at same time suit our budget. However the merchandise manager with his field experience can take a judicious decision in this regard. In assortment planning key terminologies to be kept in mind are assortment breadth and assortment depth.

Assortment breadth: when you go to a bicycle shop you ask for how many brands of bicycles that he has. This is the breadth of his assortment



Assortment depth: before you select any brand having in your mind which size of bike. you require, which colour and maybe which style. This is the depth of assortment.

9.7 PRIVATE VS. NATIONAL BRANDS

Generally retailer pays the dilemma of achieving a suitable balance between old brands and private labels and national assortments of products. Here we must know the fact that national brands generally have smaller profit margins and maybe more stringent terms of payment. To top it a more conservative goods return policy is also adopted by national brands. However it is noteworthy that these brands have national advertising backup and a much better customer reception. Such brands have national, regional and local promotional programmes running throughout the year. Such brands strengthen store image and help boosting traffic flow into the store. Moreover since the loyal customers have been using the brand for a long time they are very comfortable in using them. Brands like Colgate, Rin, Ariel and Nirma are all manufacturers' brands.

Of late private labels have become prominent and popular among the Indian masses. Some big retailers like Shopper's Stop have developed their own brand labels. We have seen such private labels at supermarkets and prominent grocery shops for a long time. These shops have been acquiring the food grains, getting it cleaned, packing in polythene bags and branding them. They have been pricing them a shade higher than the market rates.

9.8 QUALITY AS A PARAMETER OF MERCHANDISING

At any given point of time the retailer is to keep in mind that, a range of quality exists for each product. Therefore retailers must decide what levels of quality they want when purchasing inventory and planning the merchandise assortments. Whenever we enter electronic consumer goods store, we come across a range of televisions with different price ranges. However while taking a decision a customer decides about the specific brand based on his judgment, past experience, as well as various terms and conditions. Consumers in general have been purchasing goods for a long time. Therefore they are used to making judgments about the product as well as the brand in a way which is most beneficial to them. Here it becomes very critical for the retailer to decide what sort of quality range to stock. This in turn sets the brand image for the store. While deciding the quality range of merchandise to be stocked a retailer must have a fair idea about this clientele. For instance a retailer located in a posh area uses premium modes of communication, makes efforts to provide elegant store atmosphere as well as offer best of the customer services possible. In such a case it becomes essential that he also carries the best quality merchandise. On the other hand if we have a daily needs shop located in one of the downtown areas, scenario will be very different. Here the store need not stress on providing best of the store atmosphere more importantly his customers will not be in a position to pay for the best quality products. The point to be noted here is the merchandise mix for any retail store should reflect the clientele of that store.

Price points

Pricing is another important issue. India is a very price sensitive market. At any given point of time what should be the price range of the merchandise? Is a very important question asked to himself by the retailer. For the same product prices vary depending upon the type of quality as well as brand name. There can be



situations where despite being a price sensitive market high-priced products are in high demand. There are many up market stores which stock brands which are status symbols for the higher echelons of the society. Depending upon the location of the shop as well as nature of commodities dealt with a retailer should decide what sort of price points to deal within.

9.9 THE MERCHANDISE MIX

Before deciding upon the sourcing of merchandise a retailer has to decide about the merchandise mix. He has to look into the variety, assortments and quality of merchandise decides the most important merchandise price points. This in combination is known as the merchandise mix. One must realise that the key to effective merchandise planning lies in exceeding the needs and wants of the market. It is worth mentioning that while planning merchandise mix a retailer must necessarily have complete information about this target audience as well as conduct the market situation analysis.

9.10 FACTORS AFFECTING MERCHANDISE MIX DECISIONS

Budget constraints

In merchandising budget seems to be the biggest constraint. The range of merchandise as well as variety has become so large that it is impossible for the retailer to stock all varieties of any given product. The retailer has to decide within his limited resources what sort of depth in each product line he should maintain.

Space limitations

Every day scores of new brands are hitting the market. With the limited space as well as resources any retailer has to take a decision regarding number of products or brands to stock in his store. This in fact has gone in the larger interest of the retailers. Nowadays reputed retailers with strong customer loyalty are charging slotting allowances from the manufacturers and dealers to display their products. This has led to a battle of slots amongst the multinational corporations and prominent manufacturers. However this constraint does not exist in case of e-tailing: But, we should take note that e-tailing is still at a very nascent stage in India.

The rate of product off take

As explained earlier a retailer makes efforts to keep the depth in his merchandise assortment to satisfy the maximum number of customers. However this leads to another problem in case the off take of the total product line is not sufficient. The more variety of merchandise a retailer keeps; he himself is in the danger of unsold stock. Thus the retailer has to decide whether he would like to go for a small product line with a great depth or limited product lines with large variety. This decision however would save him of investing in dead stock.

Stock replenishment schedule

It is most essential for the retailer to know the replenishment schedule for his stock. He should be well aware about his present level of inventory, reordering level, danger level, as well as the lead time taken by the supplier or vendor to supply the goods ordered for. At any given point of time the retailer must discount various factors like festivals, strikes, seasons etc which may affect the



supply of merchandise by the vendor. Moreover it is advisable that the retailer has the required quantity and quality of merchandise available in good number at his store at the onset of any specific season. For instance in a ready-made garment shop it will be wise on the part of the retailer to order for sufficient quantities of specific garments much before the onset of the season. This enables the retailer to not only stock the goods but also charge a premium in case of high demand and scarcity of the product.

9.11 MERCHANDISE LOGISTICS

Each retailer would like to receive his merchandise as early as possible. For this, he needs to do logistics planning, select modes of transportation. Not only does the retailer plan to receive the goods in time but also strategically plan the reverse logistics to send goods to other stores of the chain. Similar reverse logistics can also be planned for returning any below standard goods back to the vendor.

Activity 2

Make a visit to a departmental store,/retail store and also a multibrand garment store in your area/location and try and make an attempt to study the merchandise mix strategy adapted by each of these stores.

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9.12 SUPPLY CHAIN MANAGEMENT

An efficient coordination within the supply chain of an organisation is known as supply chain management. A typical supply chain would include producer, agents are brokers, wholesalers, retailers, and consumers. A retailer must know all the key parties in the supply chain from promulgated, producers to the end-user. By understanding each party's goals the retailer can strategically devise their supply chain plan keeping in mind the constraints, environmental issues and factors related to product availability.

Duties of a Merchandise Manager

Generally merchandising is looked after by the retailer personally as far as small size stores are concerned. However, in large retail stores like shoppers stop, pantaloons, Chennai Central, there are professionals to deal with. this vital function of the retailing. It is very much possible that one retail store has got multiple merchandise managers depending upon specific categories. Merchandise managers basically are to look into buying the best product at the reasonable price. This in turn, makes it necessary for them to perform the basic functions like planning, organising, directing, coordinating, and controlling the merchandising process as a whole.



Planning: This is the first basic step for merchandise manager to be successful in his endeavour. Since, once the season starts the retail store may not have the time to fine tune their merchandise plan. Based on the previous sales data a sales forecasting chart is prepared. Further based on the available resources of the store the budgeting has to be done. The budget as well as the sales data helps the buyers plan what to buy? and, what are other financial limitations for the present year's purchase.

Organising: Merchandise manager has to organise the merchandising process which starts with collecting the sales forecasting data and then proceeding onto the budget. Further all the activities related to merchandising planning are to be initiated and seen that they work to achieve organisational goals. Merchandising being the most important function of the organisation, organising the process is an essential function.

Directing: It is the responsibility of a merchandise manager to not only guide the buyers regarding what and how to purchase but also to train them to work efficiently. It is essential on the part of the buyers to be vigilant about the quality and price aspects. Merchandise manager has to direct from time to time as per the market situation.

Coordinating: The essence of merchandising lies in coordination. The merchandising manager needs to coordinate with various people to achieve the required results. A retail store requires many products at a given point of time. This in turn is handled by many buyers. An efficient merchandising manager needs to coordinate with all the buyers as well as the seller parties. All these activities run parallel to each other. Efficient coordination is therefore essentially needed.

Controlling: At any given point of time multiple factors influence the business of a retailer. Therefore it is possible that a retail store is unable to achieve its targets in merchandise performance due to such factors. It is the duty of a merchandise manager to look into the reasons and apply control. Corrective measures taken in time can minimise losses to the store at the same time may be instrumental in maintaining goodwill of the firm.

9.13 SUMMARY

Merchandising is the primary function of a retailer. Procurement and reselling of merchandise is the basic function of a retailer. Each retailer stocks hundreds of products. Each product has further multiple brands. He has to keep an eye on the movement of each product and brand in the market. He must have proper information about demand and supply situation of merchandise. Customer is in prime focus here. A good merchandising strategy keeps a watch on diversity in requirements of the customer needs. Merchandise Planning therefore is the most important step of merchandising. Besides other factors one of the important aspects which influences merchandising decisions are the financial objectives. Issues like assortment planning, price points, etc. are based on the financial objectives. Finally a retailer has to decide whether to stock national brands or develop own private brands.

9.14 KEY WORDS

Category: An assortment of similar items with reasonable degree of similarity. Eg. Men's toiletries category.

Category Captain: When in a specific category one vendor becomes the most preferred by all or majority of retailers.

Merchandising: The function of buying from some sources and making the same available to the customer in convenient sizes and at a reasonable price.



main line dealing in by the retailer. This is done to arouse interest in the customer.

Price points: Price Range.

9.15 SELF ASSESSMENT QUESTION

- 1) Describe various considerations to be kept in mind while doing merchandise planning.
- 2) Select a category and make a list of national brands in that category. Now select some private brands and evaluate the comparative performance and benefit to the retailer.
- 3) Explain what is merchandise mix and various factors affecting merchandise mix decision.

9.16 FURTHER READINGS

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Dunne Patrick M, Lusch Robert F, Griffith David A, (2002) *Retailing* 4th Ed, (Thomson South Western)