

The Retail Management Advisors

Hurdles (Planning)

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As we work with clients across the country, we find general acceptance of the need for good merchandising planning. Yet we all know that planning alone does not translate into success. Execution of the plan (which involves the discipline to follow, review and react to the plan) is another part of the formula for success.

Despite agreement on this, planning is usually way down the list of action items. The goal of succeeding cannot effectively take place if there is no merchandising plan to follow, review or adjust.

It is necessary to plan sales, markdowns, stock turn rates and inventory levels. This should not be news, yet it is a significant hurdle to moving forward. As we help people develop an open-to-buy, we review historical information for these items, assuming it is available. In many cases, weak point-of-sale/inventory systems do not provide quality information in these areas. (We are amazed at the number of systems that do not properly account for markdowns vs. discounts, maintain historical inventory levels, or even calculate stock turn rates.)

Reviewing Trends

As we are ultimately attempting to determine optimum inventory levels, a good starting point is to review class sales trends by month over the last three years (and actual markdowns and turn rates). Based on economic conditions in your area (competition, staff capabilities and your customers), you must determine how these trends will project for the coming planning period. While you can mathematically calculate a plan based on history, it ignores your evaluation of market conditions for the coming year. Starting with a mathematical trend projection is a beginning, followed by adjustment to the plan based on your knowledge.

Stock turn rates are different. You might have a trend of decreasing turn rates and we certainly want to reverse that trend. It is necessary to be realistic and not try to hit targets that cannot be realized. I once worked with a client that had several classifications turning at less than 1.0 that should have been closer to 3.0. For that industry, some of these classes contained stable products and it was necessary to take small steps to move to reasonable turn rates. If we set turn rates at 3.0, there would have been no open-to-buy dollars for years.

Several of the classes had "technological obsolescence", similar to fashion obsolescence. I recommended a complete liquidation of this inventory through a sale at a hotel. While significant markdowns were taken, they were able to benefit by converting inventory to cash and then budget future inventory levels based on reasonable turn rates.

These approaches work if you have information, but what if you do not have history or are missing key elements? Unfortunately, there is no easy answer. In some cases, clients may take inventory at the class level and at least determine the percentage that each class contributes to total sales. It is necessary to account for seasonality using this method. In other instances, reviewing financial statements, cash register tapes or other information is necessary,

Will these be accurate? ABSOLUTELY NOT. Yet, if you overcome the non-planning hurdle, the hurdles of reviewing and reacting are easier to overcome and better accuracy will be the result.