Assortment Planning in the Age of Omni-Channel Retailing
How Smarter Merchandising can keep the Amazon Wolf at Bay
Assortment Planning in the Age of Omni-Channel Retailing

The Goal: Localizing/Customer Focused Assortments
You know what they are, you know why you need them
Here’s how to finally achieve the goal

Classic marketing theory suggests that retailers need to select a particular business model or game strategy, perfect it, and stay true to it in order to win the battle for the customer. In the past, these strategies were inextricably linked to the type of product offered to the customer. According to the classic theory, there are 3 primary ways to win at the Retail game.

- **Power Assortments** - Have the broadest possible collection of products within a retail segment (office, electronics, toys, sporting goods, etc.) and maintain high in-stock levels. High SKU counts in the 50 - 100,000 plus range are common. Shoppers visit these stores knowing they will always find what they want, with comfort knowing that the price is acceptable because of the store's buying power. This is, “If we don’t have it, you don't need it” retailing. This strategy is typically associated with Big Box and Department Stores and initially led to lots of growth and expansion, but eventually resulted in consolidation within the format. This is now becoming a failed strategy of some former Big Box and current Department Store retailers.

- **Convenience Assortments** - Find locations of convenience along high traffic areas, easy to find, easy to park, easy to shop, and stocking a narrow selection of most needed item for busy consumers (who are not too choosy about price). SKU counts are commonly in the 5,000 to 10,000 range. Often, shoppers come into buy things unavailable elsewhere (prescriptions, gas) and once inside choose additional items for convenience such as milk, motor oil and more recently fresh fruit-impulse and necessities. Drugstores and convenience stores are typical of this model.

- **Exclusive Assortments** - Carry items that are exclusive to your own stores and to a select group of retail partners. This type of retailer is typically the Brand Owner giving it the ability to control the brand promise through limited distribution and a strict pricing strategy that is consistent with the Brand. Select product type dictates low SKU counts in the range of a few thousand. Specialty private label stores and luxury goods retailers are in this group.

These basic models, with variants and combinations of each have prevailed in retail for decades. Most Retailers fell into one of these 3 categories, and rounded out the model with varying levels of staffing that complimented the model-self service for convenience, high service for exclusive, and some amount of expertise with varying amounts of service for the others.

Enter Amazon.com - Somewhere along the way to becoming the world’s dominant book seller, Amazon ignored the book on Retail Assortment Strategy and created a behemoth that executed upon all 3 strategies at the same time.

- #1 Power Assortment: recent reports suggest the product count on Amazon (and Amazon marketplace) now exceeds 300 million items. No typo here, that's 300 MILLION.
- #2 Convenience Assortments: delivery options include 2-day, next day, same day, and is heading for 2-hour delivery, without any need to take an umbrella with you. A quick and easy shopping experience, check.
- #3 Exclusive: Amazon brands, check. Luxury and specialty brands selling on Amazon, check and click.
Over the next 5 years retailers that carry only undifferentiated, commodity-heavy assortments might benefit from the “concentration effect,” picking up business as competitors go out of business (think sporting goods stores in the US). If that strategy doesn’t give you hope, the alternative is to rethink your assortment strategy to keep existing customers and ensure that you can also attract new ones.

**Time to Stop Talking, Time to Start Doing Customer Focused Assortments**

With Amazon at the gate of many retailers and its sales soaring past the $100 billion mark, can ordinary Retailers compete? In a word - yes. The simple strategy for competing is to offer curated, local assortments that make it easier for the Customer to say yes to buying (multiple) products, wherever and whenever they want to shop.

**How can retailers make it easier for the Shopper to say “yes”?**

Creating customer focused assortments is a topic that Retailers have been talking about for some time now, but the urgency to implement is now an imperative. But adding localized assortments on top of the planning challenges already introduced by omni-channel retailing creates a new bar for planners and merchandisers that requires new and different approaches. Achieving the time and efficiencies required to accomplish the task of offering curated local assortments requires looking at a new methodology. To find time for new deliverables also requires taking a completely thorough look at current planning processes, and figuring out what to leave behind while adding to the curriculum.
While reviewing these process changes and creating a new to-do list, it is also important that new processes do a better job of aligning to the Merchant Vision. Most merchants “know” what they want their stores and collections to look like when the customer shops. Great Retailers and Merchants have a firm concept of the proper implementation of their product vision, dictating what each customer will see when they walk in the store, or interact on a website. The challenge, even today, is the myriad of detailed execution decisions that make the attainment of that Vision difficult.

Achieving the goal of Localized Customer Focused Assortments is based on 4 fundamental planning processes: Assortment Strategy, Product Selection, Product Distribution and Product Quantification. What’s new here is that achieving the goal of localizing assortments requires undertaking a number of activities at a more detailed level, such as product selection by location. There will still be “all store buys,” but with the complexity of adding many more localized ranges and colors. Since most Retailers aren’t planning to double the size of their planning and merchandise operations, it’s time to take a total “bottoms-up review”.

**Low Value Activities to Evaluate**

For most retailers, planning systems consist of one formalized Merchandise Financial Planning (MFP or WSSI) solution, and a myriad of Excel spreadsheets. Spreadsheets have been used for assortment management in the (formerly not incorrect) belief that there is not a commercial assortment planning application that will meet the specific and often unique needs of a particular retailers’ business model and culture, and that can be implemented successfully. While Excel has a lot of power, most people are familiar with its challenges including inadvertent errors, slow response times, and mostly the inability to “see the forest through the trees”. With MFP being the only formal solution that imposes discipline on the planning process, it has somewhat become the planning hammer, to which every planning problem looks like a nail.

Combining this fact with the occupational predilection of planners to love detail, many MFP solutions, as implemented, also include far too many measures, levels, and attention to planning factors that will neither result in an acceptable level of accuracy, nor lead to any tangible business decision. When the Monday morning merchandise meeting illustrates a large variance to plan, and the first question is “how does that compare to last year?” you can suspect an MFP overload.

The other major low-value activity is the result of the lack of integration between formal and informal planning processes, and all of the ancillary execution systems that require shared plan information. In some respects these issues are more significant in that they get into the way of the primary Merchant Vision and overall Product Strategy. That beautiful, 6-color program meant to be displayed near the cash wrap? A great idea that dies a 1st death when the PO is generated with insufficient quantity to cover all the stores that were supposed to receive it. A 2nd death when the allocator who didn’t know that 2 of the colors were on a different PO gave some stores 6 colors and some stores only 4. A 3rd death when the replenishment system didn’t set up the late receipt stores so they never got fill ins, the display shattered and the reduced sells-through resulted in a mark down based on rate of sale. Small wonder that the Head Merchant comes back from store visits with a list of failures longer than the Monday style report.
‘The simple strategy for competing is to offer curated, local assortments that make it easier for the Customer to say yes...’
Achieving Customer Focused Assortments

Merchants need to consider being more disciplined about the four major processes essential to the goal of offering Customer focused collections across all channels.

Assortment Strategy

There are a number methods of creating this aspect of the collection. Some retailers work towards a value triangle or a brand statement. The goal of an assortment strategy is to marry the product requirements to the understanding of the customer needs, on a market-by-market basis. Understanding local customer needs is achieved through the use of clustering and defining the attributes of customer groups in a manner that can be related to types of products. Perhaps one grouping contains “thrifty college students in sports schools” that want brands, bigger sizes and lower prices. Another grouping could involve customers who are “fashion forward early adopters with an ethnically oriented preference towards certain colors and fabrics, and who don’t mind spending money on exclusive products”. Grouping customer by characteristics allow the merchants to understand how many and what type of products (attributes) are required by location or location type. The end result of the Assortment Strategy is a proposed shopping list of choices by attributes (products) and by cluster, effectively the buyer’s guide to how many of which options for where.
Product Selection
With the guidance of the Assortment Strategy, the merchants can start shopping for the items in the quantities that will fill the needs of the shopping list. Some of the needs may be filled from existing continuity products, some may be found in replacement products that are “similar” to last year. Depending on the retail model, supplier/market product lines provide choices, as do new products to be designed and developed to the characteristics dictated by the Assortment Strategy. This is an iterative process. Maybe after some research the buyers just can’t find, or don’t believe in the product list that the Strategy has produced, and want to modify the strategy. As the Assortment Build out continues, the buyers will assemble a list of candidate products (usually longer) than the strategy requires.

Product Distribution/Fulfillment
This phase of the assortment management process is more straightforward, based on the Strategy that dictated which products should be designated to which locations, channels or clusters that satisfy the local customer needs. This “distribution process” will establish product/location eligibilities as well as suggest quantities for the merchants to consider in refining the shopping list. In this phase, it’s important to understand not just what the numbers indicate, but also to have a visual representation of exactly what the customer will see when they walk into a store, or view products on a web page.

Product Quantification
With a now narrower product candidate list, designated locations and quantities, and a strategy to balance to, the next task is to determine the potential quantities of the products to be ordered, the exact color and size requirements based on the location destinations (with reference to their individual size and color preferences) and the delivery timing that makes sense to achieve the original merchant vision. This quantification needs to be in balance with the overall financial constraints that the business has chosen to operate with including planned sales, inventory levels, amongst a small number of additional factors. Quantification may get more detailed (i.e. weekly) if the product will be carried longer term and ordered frequently (vs. a “one and done” buy.)

These four processes are iterative, with retailers starting the process at different points and continuously adjusting all 4 areas until happy that the balanced assortment meets the customers’ needs by location, and matches the merchant vision as well as the financial needs of the organization.

Added benefit of Synergy
While the 4 processes on the surface sound simple enough, their execution in a timely and successful manner is often the challenge. As the saying goes, “the devil is in the detail.” However given that all 4 of these processes are completed in a timely fashion, a few significant facts emerge with the potential for tremendous savings of time and energy along with increased merchandising precision. The Assortment Plan is automatically balanced to the MFP. Since the major “buying and collection building decisions” have been moved from the MFP to these Assortment processes, it is likely that the MFP can be simplified, requiring less time and effort to keep it up to date. The Assortment Building process has produced all of the information to create the style set ups,
as well as generate the initial purchase orders resulting in a significant time savings, as well as ensuring that orders will be generated in strict accordance to the Merchant Vision. There should be no additional work required (beyond an interface) to get purchase orders completed and issued. The Assortment Building has also created the basis, if not the actual initial allocation, as well as the replenishment set-up. This also saves a good deal of time and energy, as well as ensures that the execution of the assortment will maintain the intent of the strategy and meet the needs of the local customer.

About the Author
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A seasoned executive with significant capabilities in the areas of Business Intelligence and Supply Chain Planning and Execution, Peter started his career in retail, and has held a number of executive positions with varied responsibilities, including store management, buying, and IT. During his time in retail, Peter has introduced new and innovative planning and analytical capabilities to the Retailers he has worked with, coordinating changes to people, process and technology.

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