

# Merchandising Services: Putting the Merchant Back in Merchandising

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## 1 Introduction

The practice of merchandising continues to change significantly. A decade ago, Buyers could rely on their product knowledge and experience to make selections they felt would best satisfy their consumer's needs. Now, science has an increasing role in the industry as leading retailers rely on advanced merchandising techniques such as innovative product flow modeling, clustering and micro-merchandising, radio-frequency inventory tracking and assortment rationalization to create competitive advantages through speed to market and regionalized assortments. Retailers who have not embraced change as quickly as their competitors are forced to compete against such advantages and must consider a holistic approach toward change involving organizational, technological and process improvements to rapidly meet this emerging challenge.

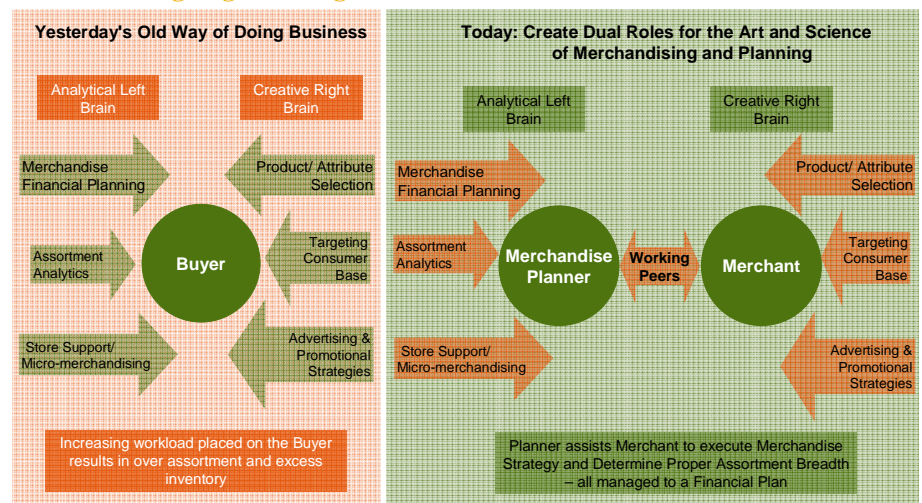
## 2 Organizational Improvement: The Merchant and the Merchandise Planner

Because Merchandising is the fundamental process in retailing—the critical point where priorities and objectives defined by corporate strategies intersect with plans and commitments driven by supply chain and financial strategies—fundamental organizational changes that drive strategic advantage cannot be ignored.

Leading merchants have embraced a seamless blend of art and science that creates a competitive advantage. Yesterday’s view of Buyer responsibilities has changed significantly as Buyers are increasingly asked to support many additional analytical exercises around product selection, price negotiation, development and execution of promotional and pricing plans, inventory staging, positioning and store support. Without fundamental organizational change, this increasing workload results in a reactive and tactical merchandise execution, over-assortment and excess inventory. More importantly, these new tasks do not match the skills of the Buyer.

The solution: create dual roles by adding a planning organization focused on science, allowing Buyers to focus on the artistic half of the equation. Consequently, as retailers have moved to this mixed model, the title itself has begun to evolve from “Buyer” to “Merchant” representing the shift from experiential procurement to thoughtful strategic assortment planning.

**Exhibit 1: Aligning to Strengths**



This natural division of labor introduces a system of checks and balances—the peers work as a team, jointly sharing in the risks and rewards of thoughtful merchandise planning and execution, analogous to a “left brain, right brain” dichotomy. Furthermore, by distributing the workload held solely by the Buyer, other stakeholders (such as stores, supply chain, advertising, vendors, etc.) can now rely on consistent and accurate information as responsibilities more closely aligned with the capabilities of the individuals.

The Merchant demonstrates the “right brain” or creative activities of the merchandising operation. By having a peer capable of managing product flow and merchandise financial planning, the Merchant is free to craft the retailer’s point of view in a particular department or category, define its target consumer base and select a tailored assortment that is relevant to that target. With assistance from the “left brain” or analytical peer, the Merchant can evaluate proper assortment breadth and develop a promotional strategy that prevents costly excess inventory at the end of the season while still achieving margin goals. Finally, through focused pre-season assortment planning, the Merchant is able to go to market with a clearly defined plan for what attributes will be important and understand the fiscal reality upfront, thus preventing costly impulse purchases.

The Planner brings a highly analytical perspective to the merchandising operation. Through advanced assortment analytics, clustering techniques and merchandise financial planning, the Planner assists the Merchant in determining proper assortment breadth and manages the execution of the merchandising strategy after procurement is complete. By managing to a financial plan, the Planner enforces fiscal discipline throughout.

Whether an organization is about to begin this fundamental transition in responsibilities or has already traveled down the path, lessons learned from our experience at best-in-class retailers provide the necessary insight to fundamentally optimize the “art and science” of merchandising and planning.

### 3 Technology Improvement: Enabling the New Merchandising Organization

Merchandising technology is rapidly growing to support the new merchandising paradigm. A plethora of tools is available to assist retailers to better manage their product assortments, financial plans and supply chain efficiencies:

- **Merchandise Planning Systems:** Systems that allow merchandising management to properly reconcile top-down dollar targets from leadership with bottom-up item and category unit targets and to track actual performance versus plan.
- **Revenue Optimization:** These systems facilitate the execution of in-season exit strategies by optimizing sell-through with innovative price elasticity modeling.
- **Retail Analytical Toolkit:** Robust analytical tools that evaluate historical performance and identify candidates for SKU rationalization and better allocation techniques to facilitate regional and demographic targeting.
- **Forecasting, Planning and Replenishment Systems:** Systems that help retailers to better forecast their seasonal purchases and management of inventory—all the way down to the individual store level.
- **Consumer Insights and Research:** Innovative techniques that help retailers to determine what key product attributes are driving consumer purchases and assist in the development of comprehensive target consumer profiles.
- **Integrated Space Planning:** Systems that help determine proper spatial layout of product to best utilize floor space for optimal profitability.

Implementing these systems requires significant resource investment and should only be considered when an organization is able to demonstrate its readiness to effectively capture the benefits these tools provide. Our evaluation of leading retail organizations consistently shows that capitalizing on systems investments must be preceded by the right alignment of people and responsibilities.

## 4 Process Change: Tying It All Together

Merchandising processes have become more complex as more human resources are added to the merchandising operation. Leading retailers have developed structured calendars that detail specific milestones for each process. Through measured steps, a detailed process can move the retailer to a highly developed tactical plan that is in place several months before the start of a season. These detailed process definitions must document each participant's role and define each system touch-point.

Effective change begins with an in-depth assessment of the “as-is” merchandising process with careful consideration of planned organizational and technology improvements. During this assessment, performance analytics present the state of the business and benchmark a retailer's performance against its competition. Through extensive gap analysis, the organization's merchandising environment is compared to leading practice. Once gap analysis is completed, detailed design of the “to-be” process and organization is documented and vetted with all stakeholders. During implementation, effective change management techniques are critical and should be employed to determine the organizational readiness of change and the system effects of adding or supplanting technology to the retailers IT infrastructure. Finally, a consistent metric must be determined and applied to evaluate whether expected benefits are truly being realized. Thus, process change must pull all of the moving parts into a comprehensive vehicle for change.

## 5 Symptoms: Key Questions for Retailers

- Are rising out-of-stocks the result of overbuying based on inaccurate forecasts or over-assortment?
- Do you know the level of assortment breadth required to maintain a healthy level of assortment productivity and drive turns and profitability?
- Is the right data for making decisions readily available to your Merchants and Planners?
- Can you easily understand the implications of narrowing or broadening your assortment?
- Do your Merchants use a standard set of analytical tools to support their decisions?
- Are forecasts sufficiently accurate?
- Is your distribution network slow and unresponsive?
- Would your Merchants say they have adequate time to fulfill their daily responsibilities?

The answers to these questions identify growing pains in your organization and determine the opportunity to positively impact your business by addressing your practices (organization, technology and process) in merchandise planning and execution. In the end, the entire organization must work together effectively. However, in retail it all begins with effective merchandise planning.

## 6 ~~Kanbay's~~ Industry Perspective and How We Can Help

Today, the importance of Merchandising as a differentiator among retailers is increasing. In the past, some retailers have used supply chain proficiency to differentiate themselves. In fact, recent statistics suggest that retailers have never been better as an industry at moving product from place to place as they are now. New enabling technologies, such as RFID in particular, will lead to even greater visibility, shorter lead times and even further improvements in overall inventory effectiveness.

But are they moving around the right product? Will the merchandising teams be capable of managing the business in a shorter lead time environment? Even the most nimble and advanced supply chains can suffer under the weight of over-assorted conditions, or under-achieving categories. The increasing sophistication, speed, and effectiveness of retail supply chain operations will place a closer lens on the decisions of merchants and the implications of those decisions.

Through extensive experience working with leading retailers, our point of view is that superior merchandising execution is driven by the following fundamental principles:

- Balanced decision-making blending both “art” and “science”
- Work to the right assortment size before selecting product
- Meaningful analysis performed by analysts with know-how, and less reliance on traditional weekly or ad hoc reporting
- Tirelessly pursue the availability of data
- Guarantee the integrity of the merchandise hierarchy within your systems and be sure it is defended.
- Let the machines worry about depth – trust the forecasts
- Ensure your merchandising calendar is up-to-date and credible
- Challenge the trend research process

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### Exhibit 2: A Comprehensive Vehicle for Merchandising Process Change

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Kanbay's portfolio of Merchandising Services uniquely addresses these needs.

### 6.1 Market and Consumer Intelligence Services

Kanbay can help your Buyers. Understanding the attributes of your customers is fundamental to superior merchandising performance. Kanbay is one of only a handful of consulting firms with a primary research arm, the Kanbay Research Institute. Kanbay leverages proven, patented research methodologies to produce relevant syndicated and tailored research studies that support your efforts identify target customers and develop assortments that meet their desires.

### 6.2 Assortment and Product Performance Analytics

Kanbay can help your Planners. Understanding customers can only be capitalized on through the science of evaluating assortment performance. Kanbay has a proven set of Business Intelligence services and capabilities that you can leverage to assist your organization to extract data from complex systems, create meaningful analysis and open your Merchant's eyes to the value of "science" in the merchandising process. Because Kanbay has global IT capabilities and expertise, we can talk with your IT Department with confidence.

### 6.3 Merchandise Planning Process Design and Support Services

The merchandise planning process is the point of failure and success where consumers and assortments are matched. The decisions made during this process impact not only sales and margin for the year, but the investment in inventory that will be required. From our perspective, it is a major differentiator between high-performing retailers and below average performers. Kanbay has the experience necessary to assist you with creating meaningful change through effectiveness assessments and process and organizational design.

### 6.4 Inventory Effectiveness Services

Once assortments are planned and developed, product must be acquired and managed. Kanbay's experience in retail supply chain management, demand planning and forecasting will help your organization ensure that margins are protected and that good merchandising decisions are not derailed by ineffective buying.

### 6.5 Merchandising Transformation Services

We have extensive experience assisting multi-billion dollar retailers with large-scale transformation. Today's winners have adjusted to today's market realities. Kanbay's structured change management approach will accurately assess the readiness of your organization, technology infrastructure and process to develop a comprehensive plan for taking your organization to the next level.



[www.capgemini.com](http://www.capgemini.com)

**For more information, please contact:**

**North America**

Doug Romain  
+1 305 423 2564  
[doug.romain@capgemini.com](mailto:doug.romain@capgemini.com)

**Global**

Brian Girouard  
+1 952 212 0417  
[brian.girouard@capgemini.com](mailto:brian.girouard@capgemini.com)