__SECTION 3__: **Preparing the Six Month Merchandise Plan**

Part 1: Developing the Six Month Merchandise Plan

__Part 1: 1-1 Introduction (Three Stage Development)__

Based on the Expanded P & L Statement (Refer to Section 2.) developed by top management of a retail organization or store, the retailer has information needed to establish store and merchandising objectives. These objectives support the organization's or store's planned profit and sales goals. Additionally, the objectives relate planned profit goals to merchandise planning and control to *"meet plan"*. At the store level, there is an overall **master store merchandising plan** that must be subdivided based upon the organizational structure of the retail store.

Most modern day stores structure their organization into divisions and departments, and/or merchandise classifications and subclassifications for which merchandising plans and controls are developed. These units are **strategic business units (SBU)** and operate as small businesses within the retail organization. They are expected to contribute to the overall profit and sales goals of the organization.

These SBUs may be organized based on the end consumer being targeted by the store (e.g., plus size females, big and tall men), lifestyle of the consumer (e.g., activewear), merchandise zones (e.g., designer, contemporary), price ranges (e.g., better, moderate), size ranges (e.g., missy, petites), occasion for wearing, selling season and several other categories. Usually these divisions or departments, classifications or subclassifications of merchandise parallel the wholesale market from which the merchandise is procured. For example, in the wholesale market, there are many vendors who produce missy sportswear classifications (e.g., sizes 8 or 10 – 18 or 20, moderate price points) such as pants, shorts, tees, blouses, shirts, sweaters, etc. Many stores have Missy Sportswear Departments located in concept shops or within specific areas of the store. In a Missy Sportswear Department all of these different classifications and brands of products can be merchandised together for ease and convenience of consumer shopping.

Each SBU must have planning and control tools to reach specific profit and sales goals while minimizing the use of capital and level of inventory. The **Merchandise Plan** is the tool that relates profit objectives to merchandise planning; the **Open-to-buy** is the control to assure that the planning goals are met or that purchasing is aligned with the merchandise plan. A retail Merchandise Plan consists of the following components:

- The Twelve Month Merchandise Plan composed of the two Six Month Merchandise Plans
- The Assortment Plan to create a balanced merchandise mix
- The Retail/Vendor Matrix utilized for procuring the *right merchandise* mix
- The Pricing Strategy for the retailer
- The Product Delivery and Markdown Schedules for the SBU
- The Open-to-buy at both retail and cost.

(Due to course limitations, the Assortment Plan and Retail/Vendor Matrix will not be discussed.) Although the merchandise plan is usually developed for twelve months, the portion of the plan that is most often used is the **Six Month Merchandise Plan**, also known as the **Six Month Merchandise Budget**.

The retail year is divided into two six month periods – **Spring** (i.e., spring and summer seasons) and **Fall** (i.e., fall and winter plus holiday). For each of these major fashion seasons, the buyer develops a plan or budget to drive the business of the department, classification or subclass. The retail year is not based on a calendar year. Rather it begins in February and ends in January of the next year. Therefore, the **Spring** season runs from February to July, and the **Fall** season begins in August and ends in January of the next year. Each season is divided into **quarters** or two three month periods. The first quarter (i.e., February, March, April) and the second quarter (i.e., May, June and July) are the months included in the Spring season. The Fall season is divided into the quarters of August through October and November through January.

The retail calendar is known as a **4-5-4 calendar**. Each season (i.e., Spring, Fall) is composed of 26 weeks. Those weeks are arranged in a 4-week month, 5-week month, and a 4-week month. Therefore, some months do not begin or end at the beginning or ending of a regular calendar month. This type of calendar allows the retailer to easily make comparisons of sales, sale promotions, holidays and days of the week from last year (LY) to the current year (TY).

Careful planning and monitoring of The Six Month Merchandise Plan or Budget is one of the major factors contributing to the success and profitability of the retailer. The merchandise plan is constantly monitored by the retailer and buyer and is used as a tool to measure the success or the lack thereof for the retail store or department.

Specifically defined, **The Six Month Merchandise Plan/Budget** is:

- a dollar plan that controls the merchandise activities of the retailer
- a blueprint, map, or guide for assisting the retailer in attaining realistic retail objectives and sales goals
- a projection in retail dollars of the amount of merchandise that is needed to achieve the planned sales goals
- a merchandise vehicle that coordinates the balance of sales and stock or inventory levels
- a tool to estimate the value of inventory needed in the store for a given period of time
- a merchandise vehicle that coordinates sales, stock or inventory levels, purchases, reductions (i.e., markdowns, shrinkage/shortages, employee discounts, customer returns and allowances), initial markup, gross margin and turnover
- a means by which the retailer can measure effectiveness of current business operations by analyzing actual figures as compared to plan in order to evaluate and improve the buying process
- a plan for the future that can be reviewed and revised or adjusted throughout the period
- an organized "how to" guide that may impact the retailer's day-to-day merchandising activities.

It is evident from the above discussion, that The Six Month Merchandise Plan is one of the most important planning tools used by the retailer. An astute buyer, therefore, is constantly collecting both internal and external information throughout the year that will impact decisions regarding the development of the merchandise plan.

The Six Month Merchandise Plan has **three stages of development**: the preplan stage, the information collection stage and the calculation stage. Each of these stages impacts the other stages, thus influencing the retailer's merchandising operations.

The *Preplan Stage* consists of conducting an **environmental scan**, or an analysis of internal and external factors impacting the business environment. (For a listing of the factors, refer to **Section 1***, Part 3: 3-1*.) Not only do top retail management personnel conduct this scan before developing strategic plans and

P & L Statements, but also the retail buyer must scan the environment before creating The Six Month Merchandise Budget. This responsibility is never ending and is performed by the buyer throughout the year. Constantly gathering information, both domestic and internationally, about the state of the industry and analyzing internal store happenings and operational procedures and activities, the buyer uses this information for developing a workable merchandise budget.

The key issues that the retail buyer must address are the identification and impact of external factors that affect the retail business environment. There are many uncontrollable external factors that affect how the retailer conducts day-to-day business operations. Some of these factors include cultural barometers or sociological and psychological trends and political and legislative policies, both domestically and globally. All of these factors impact, in some manner, the development of the merchandising plan or influence the buying patterns and purchasing power of the target consumer. Additionally, economic trends are one of the most important factors impacting both the cost of the product and the buying power of the target consumer; therefore, the astute buyer must keep a close watch on the cost of goods as well as the daily sales patterns of the department.

Other external elements that must be tracked are technological and natural environmental elements affecting the industry. Also, in this stage it is very important that the retail buyer develops an insight into the demographics, psychographics, lifestyles (Refer to *Part 1: 1-2* of this section for definition of terms.), and life stages of the store's consumers as well as the changing buying patterns and behavior of those target consumer segments.

Moreover, the retailer must always monitor internal cues in the store. One of the most important internal factors is the retail store image. The retailer must establish and maintain a clear, concise store and fashion image. Likewise, the buyer must constantly monitor that image to assure that the target consumer perceives it in the same manner as the image was initially planned. Additionally, the buyer must persistently analyze the buying-selling process (i.e., all business procedures beginning with financial planning and ending with final sale to target consumer) as it relates to the product life cycle of the merchandise assortment. When tracking the daily sales of product with regard to the product life cycle, the buyer has the information to develop the most effective **Retail/Vendor Matrix** (i.e., listing of top vendors providing goods for store) for the particular geographic location of the retail store.

Furthermore, the retail buyer must constantly monitor not only the merchandising activities of the competition but also the sales promotional activities and marketing strategies in the store for which the Six Month Merchandise Plan is being developed. Finally, if the buyer is buying goods for a fashion department, the latest fashion trends (i.e., themes, styles, colors, fabrics, product classifications) must be pinpointed and those trends that are appropriate for the store's target consumer must be identified.

As previously discussed, the process of keeping records with regard to internal and external elements impacting the retail store is an on-going responsibility for the retail buyer. If a buyer misses a major cue, the impact on the merchandise planning can be disastrous to the retailer's bottom line.

The second stage or the *Information Collection Stage* consists of the buyer collecting numerical data that will be utilized in the calculation stage. If a buyer is developing a merchandise budget for an existing store, s/he will analyze the actual sales figures for the same season of the previous year and will identify selling patterns, monthly sales distribution patterns, and peaks and valleys in the buying-selling process. Additionally, the buyer will examine the reduction percentage as compared to the annual sales volume as well as the monthly distribution pattern of those reductions. Purchases, delivery patterns, stock/sales ratios and turnover will also be analyzed.

The buyer will be looking for the atypical, for special promotions held only one time, for community events and for special holiday events that impacted sales, markdowns, and purchase patterns in the same season of the previous year. Most retail establishments track the weather and even special promotions and advertisements of the competitors. Many retailers maintain an advertising and special events calendar that identifies the most and least successful sales promotion activities of the previous year. Holidays must be pinpointed and their impact assessed on the product classifications carried by the retailer. Also, as previously discussed, changing market and economic conditions are monitored as they impact the planning of the future merchandise budget.

If the buyer is planning for a new store or department opening, there will be no historical records upon which the merchandise plan can be based. Trade associations and other business resources (e.g., banks, financial firms, marketing organizations) provide information about expected sales relative to the size and location of a store. For example, a trade organization, known as the National Retail Federation (NRF), collects data from retail stores located throughout the United States and is an excellent resource for the new store owner. (Refer to http://nrf.com/)

The buyer of a new store can use these figures as "educated estimations" for predicting sales. However, remember that these figures are usually averages for various types of retail stores and are not sales figures for any one particular store in any one geographic region. Therefore, the merchandiser must adapt this information to a specific store type in a specific geographical location for specific target consumers.

The third and last stage for developing The Six Month Merchandise Plan is the *Calculation Stage*. The major components of the merchandise budget which must be calculated include the following elements:

- Planned Sales
- Projected Inventory (i.e., BOM and EOM)
- Planned Reductions
- Planned Purchases
- Stock/Sales Ratio
- Average Inventory and Turnover (stock)

All merchandise budgets begin with calculating the *Total Planned Sales* for the season, since all other components of the budget are based on the planned sales figure. Therefore, it is of utmost importance that the total planned sales figure is realistic and attainable. *Total Planned Reductions* are also calculated in this stage.

After total planned sales and total planned reductions are calculated, based on previous sales and reduction patterns, the buyer will need to determine the monthly distribution pattern for planned sales and planned markdowns. Then stock or inventory levels can be determined based on stock/sales ratio and planned purchases can be calculated. The last calculation for the plan is determining the open-to-buy at cost or wholesale so that the buyer will know what dollar amount of merchandise can be purchased on market trips.

In summary, the Calculation Stage consists of a seven-step procedure. These steps include the following calculations:

- Step 1: Calculate total planned sales and total planned reductions.
- Step 2: Calculate monthly distribution of planned sales.
- Step 3: Calculate monthly distribution of total planned reductions.
- Step 4: Calculate beginning of month (BOM) inventory/stock for each month.
- Step 5: Calculate end of month (EOM) inventory/stock for each month.
- Step 6: Calculate planned purchases at retail for each month.
- Step 7: Calculate open-to-buy or planned purchases at cost for each month.

Each of the above stages will be investigated in-depth in this Section. In *Part 2: (2-1 – 2-3) Pre-Planning Stage for Development of the Six Month Plan: The Environmental Scan* will be explored. Information will be provided on researching macro and micro environmental trends, the target consumer and the Buying-Selling Cycle.

In Part *3: (3-1 – 3-2) Collection of Numerical Data Information Stage for Development of the Six Month Plan* will be analyzed. Numerical data for existing stores and other factors impacting the day-to-day retail operations will be examined.

In *Part 4: (4-1 – 4-2) Calculation Stage for Development of the Six Month Plan*, the student will be introduced to the formulas and logic behind the calculations for a Six Month Merchandise Plan based on an actual merchandise plan from a previous fashion department.