

# Retail Product Merchandising: Retail Buying-Selling Cycle

## SECTION 2: Establishing the Retail Merchandise Mix

### Part 1: The Basics of the Retail Merchandise Mix

#### Part 1: 1-6 Trend Modifiers

*Trend modifiers* are current industry, market, or societal customs, modes, or norms in vogue that impact consumers' opinions and purchasing patterns for specific product categories and classifications. At any given time, there are many trends that drive the FTAR industry and society in general. For example, three trends that are currently influencing all products are a) social accountability or social compliance for the production of products, b) sustainability (i.e., design to packaging) of the environment, and c) consumer desirability for luxury products.

#### *Social Accountability and Compliance*

For several decades U.S. consumers, human rights groups, labor unions, and religious organizations have held manufacturers, brand companies, and retailers responsible for sourcing or producing product using sound and moral business ethics. For example, in recent years, retailers such as Gap®, JC Penney®, and Walmart® along with apparel and athletic shoe companies such as LEVI'S® and Nike® have received negative press and media reports with regard to sourcing of product from below-standard factories. Many of these manufacturers and contractors were operating what is known as "sweatshops" (i.e., manufacturer or contractor employing workers who perform jobs under unsafe, unsanitary, unregulated hours, and sometimes forced and illegal working conditions).



Presently, many of these companies have hired their own employees or auditors to travel the globe in order to check on working conditions in all manufacturing plants or factories where their product is produced. These auditors check for human rights infractions such as the use of child labor, forced labor, and discrimination and/or harassment of factory employees. Further the wage structure and working hour limits as well as employee training opportunities are examined to assure that fair and legal

standards are being followed by factory management. Additionally, these auditors may cite unsanitary, unhealthy, and unsafe working conditions.

On the other hand, many of the U.S. companies, that own their own global production plants and/or develop partnerships with their international factories, provide cafeterias and medical and dental facilities on-site at those factories. Also, others offer child-care facilities and educational programs such as GED programs or skill-building courses for job advancement. Some even encourage their employees to organize and participate in community service projects that benefit the local population. In fact, these companies pay their employees while the workers are implementing the community service projects in areas near the factory facilities.

Furthermore, the industry trade association, the *American Apparel and Footwear Association* or *AAFA* (i.e., a merger of the former American Apparel Manufacturers Association, Footwear Industries of America, and The Fashion Association), has developed guidelines and certification criteria for the production of products utilizing legal, humane, and ethical social accountability standards. The AAFA works with the *Worldwide Responsible Accredited Production (WRAP®)* Organization that provides certification for global manufacturers meeting those social accountability standards. WRAP® is an independent, nonprofit organization certifying manufacturing facilities worldwide.

In summary, current social accountability trends oftentimes impact from where and from what brand company or manufacturer the retailer sources and procures product. Thus, product produced under sanctioned ethical, humane, and legal worldwide standards frequently determines the availability of specific product assortments offered by the retailer. In today's retail environment, consumers are driving the market; therefore, the selection of product and where and how it is produced must meet their criteria and standards.



### *Sustainability*

With many scientific experts warning both businesses and consumers about the rapid depletion of our natural resources, the negative impact of increased pollution in both the water and air, and the impact

of global warming on our natural environment, the word “*sustainability*” has become a key rallying point and concern for many industries worldwide. Although the trend began as early as the 1960s with Lady Bird Johnson’s beautification projects and pollution removal in the natural environment, it has continually evolved as new findings reveal a changing environment in the U.S. More recently the adverse effects of rapidly-occurring unfavorable changes in the climate have concerned not only business leaders but also leaders and citizens in those communities that are most affected. In fact, in the early part of the 2000 decade, former Vice President Al Gore produced a movie of his findings on climate change and the depletion of natural resources. His work resulted in his receiving the Nobel Prize.

Sustainability is a many faceted trend. Words coined to describe and explain the various components of the sustainability trend include “green”, “eco-friendly”, “recycling”, “pollution”, “global warming” “greenhouse emissions” “carbon footprint”, etc. Regardless of which aspects of the trend are being targeted, businesses and consumers alike are concerned with preserving natural resources for future generations, thus reducing carbon emissions, disposing of waste without creating unwanted pollution, and recycling or reusing materials that would otherwise be disposed of in landfills or cause environmental issues. However, many times the techniques and procedures needed in order to implement *green strategies* (i.e., preserving the natural environment) are cost prohibitive.

Recently businesses in the FTAR Complex have been leaders in attempting to do business in a manner that protects and preserves major elements of the natural environment. Fiber producers have improved processes and techniques for producing natural fibers. For example, due to new developments in technology, cotton growers have reduced the number of pesticide applications for growing the fiber as well as the amount of water needed in order to irrigate the cotton crop during the growing season. Additionally, new insect-resistant and drought-resistant varieties of cotton which reduce the amount of water needed for crop growth have been developed. Thus, there is less pollution to the land and a larger conservation of natural resources, especially water. Also updated conservation farming practices are fostering the preservation of farm lands.



Many fabric manufacturers or textile mills are currently tracking their *carbon footprints* (i.e., the amount of natural resources such as energy and water used to produce the product and how much waste and pollution are emitted from the production of the product). Mills are attempting to conserve water and energy and reduce the amount of waste or by-products that must be disposed of. Some companies are reducing the amount of chemicals used in the production process, or are using low-impact dyes and waterless or low-water technologies. Other companies are using solar energy in order to conserve resources. In summary, this segment of the industry is concentrating on the conservation of water and energy as well as the reduction of waste and pollution.

Some brand companies and apparel producers are concentrating on *sustainable design* (i.e., products that are eco-friendly from origin or creation until the item is discarded). The design process begins with the type of materials used in the product. For example, are the fabrications, trims, and findings eco-friendly, recyclable, or easily biodegradable? Does the assembly process of the product use low-energy processes and procedures and produce a minimal amount of waste to be discarded? Additionally, what is the carbon footprint of the company when producing the product?

Some athletic shoe companies (e.g., Brooks® Athletic Shoes) have experimented with producing the most eco-friendly packaging for their shoes. For example, the Brooks® Shoe company has limited the number and sizes of boxes for storing and marketing the shoes, reduced the amount of tissue in the box along with other extraneous materials found in shoes boxes, and discarded the cardboard form that formerly supported the shape of the shoe. Without impacting the quality of the shoe, even in the shipping process, this company cut cost of packaging and shipping fees while also saving trees and energy and reducing the amount of disposable waste for the consumer!



Retailers also have attempted to go *green* or do business in a manner that protects and preserves the natural environment. Many retailers have changed their lighting to LED light bulbs and/or are using solar panels in order to produce and save energy. An example of a retailer who has implemented a substantive sustainability program is Walmart®. For example, this retailer challenged its electronic suppliers to design innovative packaging that attracted the target consumer, yet was eco-friendly. A

major electronics company met the challenge by replacing Styrofoam™ and cardboard with a bag made of recycled materials (<http://www.fastcompany.com/pics/print/189?slide=0>).

Walmart® is also working on unique types of transportation vehicles and innovative types of fuel for its trucking fleets in order to increase its transportation efficiency. Additionally, the retailer is sourcing locally-grown produce for its grocery areas in order to save freight and fuel costs, thus reducing its carbon footprint. Further Walmart® has created a recyclable trash (e.g., plastic, paper, aluminum cans) program that keeps trash out of landfills. This program is not only environmentally-friendly but also cost saving.

In summary the sustainability trend definitely impacts the merchandise mix as well as the design, development, marketing, and packaging of product. However, sometimes sustainability practices require additional operational costs for the retailer to implement. Some consumers refuse to pay the increased cost of the product while others are willing to do so in order to help save the planet!

### *Luxury Merchandise*

Another trend impacting the retailer's merchandise mix is the popularity of "luxury" merchandise with today's consumer. Regardless of the state of the economy, some consumers purchase luxury products. To the surprise of some consumers, there are different levels of luxury merchandise and many luxury products are now available in most channels of distribution. Luxury goods may be identified as aspirational luxury, affordable luxury, and true luxury.



*Aspirational luxury* products are frequently created by known designers as secondary or extension seasonal product lines. Many times these lines are designed and developed exclusively for specific retailers. For example, Target® is recognized for offering name designer goods at discount prices in limited quantities. Frequently, these products sell out very quickly and do not remain in the store for more than a few days. Additionally, sometimes aspirational luxury goods are knockoffs of designer merchandise. Thus, consumers who cannot manage to purchase affordable or pure luxury goods still

have the opportunity to purchase luxury goods at a price that is within their budgets, yet associated with a designer name.

*Affordable luxury* goods are products that are positioned in the middle of the luxury range and are usually found in specialty stores. These products may well be a copy of designer products and are offered in high quality fabrics that might be a blend of fibers, instead of the pure fiber found in the original designer product. For example, an affordable luxury item might be produced in a 90 % cashmere and 10 % wool knit fabrication while the original was 100 % cashmere; or, towels may be offered in an 85 % cotton and 15 % polyester blend instead of the 100 % Egyptian cotton fiber found in the luxury product.

The *pure luxury item* is the top luxury level and is an innovative, unique designer product that is very expensive. It is made of high quality fabrications, constructed with expert workmanship techniques and is sold by the most exclusive retailers.

Thus, a luxury item can run the gamut from a \$100,000.00 dollar sapphire necklace designed in an exquisite setting to a copy of that necklace made with assimilated sapphires set in a semi-precious metal. Currently, there are some consumers who purchase only pure luxury items, while others who can afford the pure luxury choose to purchase the copy or affordable version of the item. Furthermore, these same customers may also purchase an aspirational luxury product offered in the merchandise mix of the mass merchant.



As previously discussed, at any given time in the retail environment, current industry, market, or societal trends impact consumers' opinions and purchasing patterns for specific product categories and classifications. However, these trends are constantly evolving and changing. Therefore, the retailer must track the trends that impact its merchandise mix and make an adjustment in its merchandise assortment in order to reflect the most current trends driving consumer purchases.