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SCHOOL OF BUSINESS & COMMUNICATION STUDIES

MERCHANDISING THEORY

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INTRODUCTION

One definition of **merchandising** is a marketing practice in which the brand or image from one product or service is used to sell another. It is most prominently seen in connection with films, usually those in current release and with television shows oriented towards children.
Trademarked brand names, logos, or character images are licensed to manufacturers of products such as toys or clothing, who then make items in or emblazoned with the image of the license, hoping they'll sell better than the same item with no such image.
Merchandising, especially in connection with child-oriented films and TV shows, often consists of toys made in the likeness of the show's characters or items which they use. However, sometimes it can be the other way around, with the show written to include the toys, as advertising for the merchandise. The first major example of this was the TV show "He-man and the Masters of the Universe," in the early 1980s, but this practice has been common in children's broadcasting ever since.
Sometimes merchandising from a television show can grow far beyond the original show, even lasting decades after the show has largely disappeared from popularity(Hello Kitty). In other cases, huge amounts of merchandise can be generated from a pitifully small amount of source material.
A smaller niche in merchandising is the marketing of more adult-oriented products in connection with similarly adult-oriented films and TV shows. This is common especially with the science fiction and horror genres. (Examples: Star Trek) Occasionally shows which were intended more for children find a following among adults, and one can see a bit of a crossover, with products from that show oriented towards both adults and children.
The most common adult-oriented merchandising, however, is that related to professional sports teams (and their players).
Sometimes a brand of non-media products can achieve enough recognition and respect that simply putting its name or images on a completely unrelated item can sell that item. (An example would be Harley-Davidson branded clothing.)
Merchandising, as commonly used in Marketing also means the promotion of merchandise sales, as by coordinating production and marketing and developing advertising, display, and sales strategies to increase retail sales. This includes disciplines in pricing and discounting, physical presentation of products and displays, and the decisions about which products should be presented to which customers at what time.
In Eastern Europe, particularly in Russia, the term “merchandising” is commonly used within the trading industry and denotes all marketing and sales stimulation activities around PoS (point of sale): design, creation, promotion, care and training of the sales staff.

Another definition of Merchandising is the Supply Chain practice of making products in retail outlets available to consumers, primarily by stocking shelves and displays. While this used to be done exclusively by the stores' employees, many retailers have found substantial savings in requiring it to

be done by the manufacturer, vendor, or wholesaler that provides the products to the retail store. By doing this, retail stores have been able to substantially reduce the number of employees needed to run the store. While stocking shelves and building displays is often done when the product is delivered, it is increasingly a separate activity from delivering the product. In Grocery Stores, for example, almost all products delivered directly to the store from a manufacturer or wholesaler will be stocked by the manufacturer's/wholesaler's employee who is a full time merchandiser. Product categories where this is common are Beverage (all types, alcoholic & non-alcoholic), Packaged Baked Goods (Bread & Pastries), Magazines & Books, and Health & Beauty products.
For major food manufacturers in the Beverage and Baked Goods industries, their Merchandisers are often the single largest employee group within the comapany. For nationwide branded goods manufacturers such as The Coca-Cola Company and PepsiCo, their respective merchandiser work forces number in the thousands.

Merchandising therefore, is a branch of marketing theory and practice concerned with maximizing product sales by designing, packaging, pricing, and displaying goods in a way that stimulates higher sales volume. The underlying assumption in merchandising is that consumers may have a general need for (or interest in) a certain class of product, and it is the merchandiser's task to present the product in a way that best captures consumers' attention and persuades them that the product will fulfill their needs and wants. Merchandising employs a wealth of theories about consumer behavior to accomplish this.
A particular merchandising campaign can involve myriad considerations, such as

- product packaging
- signage
- location in the store
- shape, size, color, and other physical characteristics of the display
- advertising (in-store and other means)
- discounts, prizes, or other promotional offers

DIFFERENT VIEWS OF MERCHANDISING

Although they all revolve around these basic principles, several different definitions and uses of the term "merchandising" exist.

MERCHANDISING AS A PROCESS.

First, and most broadly, some view merchandising as an entire set of economic activities, conducted by firms that may be labeled merchandisers, extending from an initial product idea to a finished product on display in a store. In this sense, merchandising is the process of bringing products successfully to market, especially in retail settings. In order to complete this process, the merchandising function requires coordination of many areas of a business, including marketing, procurement, accounting, production, and warehousing/distribution. The entire process is guided by what the company perceives as a market need, and this need will dictate whether there is will be one uniform product or many variations, how it will look, whether it will be produced seasonally or year round, and so on.

MERCHANDISING AS RETAILING.

Second, merchandising is sometimes seen as equivalent to retail trade, particularly for stores that sell a large volume of popular items (i.e., "mass merchandisers" such as Wal-Mart Stores, Inc.). This view emphasizes merchandising as a function of choosing product lines to carry that are likely to move quickly, organizing the store to maximize traffic past profitable lines, and maintaining visual displays and advertisements that turn traffic into sales.

MERCHANDISING AS MASS MARKETING OF INTELLECTUAL PROPERTY.

A third and rather narrow notion of merchandising is the familiar practice of creating and marketing a product line centered around a popular theme (usually associated with a piece of intellectual property), such as a movie, a television show, a brand name, a corporate identity, a celebrity, or a fictitious character. This is often described as the merchandising side of the entertainment business, although non-entertainment companies also market these kinds of products.

THEORIES & APPLICATIONS

A large body of theory and empirical evidence informs many merchandising decisions. The theoretical factors that must be considered when developing a merchandising plan span from market research to consumer behavior to competitive intelligence.

The following theories can be considered for merchandising planning –

- Decision Theory

Decision theory is a body of knowledge and related analytical techniques of different degrees of formality designed to help a decision maker choose among a set of alternatives in light of their possible consequences. Decision theory can apply to conditions of certainty, risk, or uncertainty.

- Grounded Theory

Grounded theory refers to theory that is developed inductively from a corpus of data. If done well, this means that the resulting theory at least fits one dataset perfectly. This contrasts with theory derived deductively from grand theory, without the help of data, and which could therefore turn out to fit no data at all.

Grounded theory takes a case rather than variable perspective, although the distinction is nearly impossible to draw. This means in part that the researcher takes different cases to be wholes, in which the variables interact as a unit to produce certain outcomes. A case-oriented perspective tends to assume that variables interact in complex ways, and is suspicious of simple additive models, such as ANOVA with main effects only.

- Economic Theory

Economics is often described as a body of knowledge or study that discusses how a society tries to solve the human problems of unlimited wants and scarce resources. Because economics is associated with human behavior, the study of economics is classified as a social science. Because economics deals with human problems, it cannot be an exact science and one can easily find differing views and descriptions of economics. In this discussion, the focus is an overview of the elements that constitute the study of economics, that is, wants, needs, scarcity, resources, goods and services, economic choice, and the laws of supply and demand.

Every person is involved with making economic decisions every day of his or her life. This occurs when one decides whether to cook a meal at home or go to a restaurant to eat, or when one decides between purchasing a new luxury car or a low-priced pickup truck. People make economic decisions when they decide whether to rent or purchase housing or where they should attend college.

As a society, and in economic terms, people have unlimited wants; however, resources are scarce. Don't confuse wants and needs. Individuals often want what they don't need. In the automobile example used above, someone might want to drive a large luxury car, but a small pickup truck may be more suited to the purchaser's needs if he or she must have a vehicle for hauling furniture. Economic decisions must be made.

- Behavioral Life-Cycle Theory

The neoclassical theory of consumer behavior makes strong assumptions about the informational and computational bases of consumer behavior. The core assumption is that consumer behavior is reasonably characterized as the maximization of expected lifetime utility subject to a budget constraint and conditional on the available information. In short, consumer behavior can be characterized as the solution to a discounted dynamic programming problem.

The standard neoclassical model of consumer behavior has both friendly and adversarial critics. Friendly critics seek better empirical results within the core neoclassical framework and suggest.

The behavioral life-cycle theory (BLCT) emphasizes self-control, mental accounting, and framing. Shefrin and Thaler (1988) characterize the BLCT as enrichment of the traditional life-cycle theory of saving, but it clearly introduces considerations inimical to the neoclassical.

The BLCT hypothesizes that, because of their "impatience", consumers maintain mental accounts that lead them to treat various components of their wealth as nonfungible. The BLCT uses a concept of impatience that conflicts with the neoclassical theory of the consumer.

Impatience is not just a high discount rate; it is "akrasia" or weakness of will.

- Theory of Planned Behavior/ Reasoned Action

Ajzen and Fishbein formulated in 1980 the theory of reasoned action (TRA). This resulted from attitude research from the Expectancy Value Models. Ajzen and Fishbein formulated the TRA after trying to estimate the discrepancy between attitude and behavior. This TRA was related to voluntary behavior. Later on behavior appeared not to be 100% voluntary and under control, this resulted in the addition of perceived behavioral control. With this addition the theory was called the theory of planned behavior (TpB). The theory of planned behavior is a theory which predicts deliberate behavior, because behavior can be deliberative and planned.

Other Theories Impact

Product pricing is a good example of how many considerations can go into merchandising. Prices can be set in various ways to serve different objectives, with the ultimate goal usually being to maximize profitability. In a retail setting, this often means taking a slim profit on certain items while taking a generous profit on others. For instance, in a practice known as price signaling, many grocery stores consciously price certain common staple items, such as milk, at a very competitive low price. The reasoning, supported by empirical research, is that consumers see these staples as a bellwether for the overall value paradigm of that store. In other words, if the consumer sees that the price of milk is low, he or she tends to draw the conclusion that most things at the store are fairly priced. The retailer's hope, however, is that while the customer is there to get milk, he or she will also purchase any number of other items—which tend to be more prominently displayed—that carry a higher price margin. In contrast, even if a convenience store buys its milk at the same wholesale price as the grocery store, it generally doesn't need to practice the same type of price signaling. This is because its customers implicitly derive their value from convenience and are willing to pay more at the register for this convenience.

Another common application of merchandising theory is the practice known as cross-merchandising. This occurs when a manufacturer or retailer links the marketing of one product to the marketing of another. A simple yet powerful example is the use of food displays at grocery stores. Say a store wishes to promote the sales of deli cheeses, which carry an attractive profit margin. To improve the likelihood of selling cheese, the store may locate items consumed with cheese nearby, e.g., crackers and breads, and may even display them directly together or offer samples. All of these things tend to shore up sales. Another alternative frequently used in higher-end grocery stores is to display interesting facts or information pertaining to the product alongside it. The information may answer common questions about the product (e.g., to reduce uncertainty about buying or using it) or it might be something catchy to stimulate the shopper's interest. For example, the cheese stand might include creatively worded reviews and wine suggestions for each type of cheese (provided that the store stocks wines). If the cross-merchandising works, the customer will not only buy the cheese but also the crackers or wine.

Although these examples focus mostly on one factor at a time, usually merchandisers must plan the full array of options in a merchandising program. For instance, in addition to merely determining which products have cross-merchandising potential, the company may also decide whether the appropriate emphasis in the display is (1) price, e.g., using a large sign advertising the low price and a utilitarian display; (2) convenience, e.g., locating the items on the main aisle; or (3) luxury, e.g., emphasizing quality, status, mood, or enjoyable experience with a creative or elaborate display.

Retailing Strategy

The retail marketplace has fast become the domain of those who know how to use core strengths to dominate. Successful retail strategies are based on four primary areas:

1. Product Selection
2. Convenience
3. Shopping Experience
4. Price

To succeed, one must dominate the marketplace using one of these strategies. A second strategy must also be well supported by the retail concept. Let's look at each of them in a little more detail.

1. Product Selection

To dominate the marketplace based on Product Selection, one must have either the largest and widest selection of a product category imaginable (think Home Depot), or merchandise that is so unique people will seek one out (think Build-A-Bear Workshop).

The reality is that very few retailers have the resources to dominate the market based on a vast product assortment. It requires a tremendous amount of retail space, and even more financial resources. As well, the market continues to sub-divide and become more specialized. What once were merely departments within a Big store are now Big stores on their own.

One needs to determine where one's product selection fits on this scale:

If the majority of consumers think of the store first when they're interested in a product category, then it is the dominant player based on Product Selection.

2. Convenience

Many retailers establish their position in the market based primarily on their Convenience (think of convenience stores and many pharmacies). Convenience is achieved predominantly through one of three avenues:

1. **Location:** location is the closest and easiest one for customers to find.
2. **Hours:** extended hours (e.g. 24 hours) makes one unique.

3. **Mass Assortment:** product selection includes ancillary items that appeal to target customers. (Customers buy them while they shop for other goods.)

3. Shopping Experience

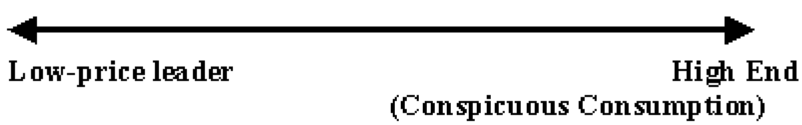
Let's face it ... most retail shopping experiences are boring. This strategy involves the creation of a shopping experience that is not only positive, but (more importantly) memorable. It encourages word-of-mouth marketing.

Numerous retailers have created successful concepts based on Shopping Experience. The Shopping Experience strategy will be driven by two important factors:

1. A unique, exciting and inspiring store environment.
2. Staff that provide exceptional entertainment and service.

4. Price

It's pretty tough to achieve dominance in this area, but being the price leader is still a valid strategy. However, don't just think about being the low-price leader. The other end of the pricing spectrum also presents an opportunity (albeit a narrow and risky one).



Product, Convenience, Shopping Experience and Price ... If one doesn't dominate at least one and perform well in another, one probably aren't having the success one needs or want.

Let's examine the components of a store's strategy and discuss how one can become a store "worth shopping at".

Location

Location is an essential element of a retailing strategy. For years, experts argued that the three most aspects of any retail business were:

1. Location
2. Location
3. Location

Merchandising (Product Selection)

Merchandising drives the core retail business. If one doesn't have a handle on merchandising strategy, then one is out of the game already. To quickly summarize strategy options, consider the following choices:

1. Low-price leader **versus** Higher prices.
2. Narrow, highly specialized product focus **versus** Broader, more general assortment.
3. Basic, standard items **versus** Unique, leading edge selection.

Pricing

All retailers have a basic philosophy about how to price their products. What is more important is that they create and stick to a pricing strategy that conveys a clear message to the consumer.

The market has certainly developed a need for all retailers (even those at the higher end) to become more value-oriented. This doesn't mean that one must compete on price ... only that one provides the consumer with perceived value.

Here are some examples of value-pricing strategies:

1. Frequent Shopper programs

   These programs offer future discounts to entice shoppers into becoming repeat customers.

2. Regular pricing, frequently "on sale"

   The most popular strategy in today's market, creating a perception of terrific value. Consumers have now been trained to wait for these sales. When they buy only during off-price promotions, this can pose a problem for retailers.

3. Added values

   In this case, regular pricing is used, but a gift is included with the purchase (e.g. buy one, get one free; gift certificate with purchase).

4. Value lines

   These are generally private labels carried to offset the more readily known product lines. They provide the consumer with low, regularly priced items.

5. Everyday low price

   This approach predominantly features discounted prices on all basic items. These products are no longer on sale ... they are always available at this low price.

6. Price guarantees

   Price guarantees give consumers confidence that the price paid will be the lowest available.

Personnel

Retail is a business that is built on the skills, abilities, attitudes, commitment and dreams of people. Getting the best performance from the staff is a main priority for all retail managers. Personnel strategy will greatly influence success in this area.

Training is always a key issue, but it rarely gets the attention it deserves. For example, most retailers would agree that "sales and service" is their number one priority. Yet, less than 50% of their employees have ever had any sales or service training. How about one?

Pay and incentives play a major role in personnel strategy. This is because they have the ability to influence both sales and profits in either a positive or negative way. The wrong pay system will de-motivate staff because of its lack of incentive, or it will drive up wage costs because of its poor design.

A properly designed pay and incentive program will drive sales upwards and will allow one to control wage costs, thus ensuring profitability. A whole range of other issues must be explored ... staff authority and decision making power, hiring procedures, orientation of new staff, performance appraisals, internal communication, and more.

In developing a competitive strategy, remember that one must strive to maximize sales and profits from every area of business.

Promotion

Once again, as in each area of business, planning is the key issue. Running the advertising and promotion element by the seat of one’s pants is a route to disaster.

By developing a proper and well thought out promotion strategy, one can begin to gain control over the marketplace and the message one is sending to one’s target customers.

Service

First, one must determine the level of personal service one wants to provide in one’s business. Here are the options:

1. a full service store where the customer is pampered?
2. a completely self-serve store where customers are left to fend for themselves?
3. Or, somewhere in between?

Once one has decided, one can then determine what one needs to have in place to make it happen. If full service is for required, then one needs an abundance of highly trained staff, supported by a first class showroom with all the perks. On the other hand, if one aims for self-service the role of signage takes on tremendous importance.

Whichever path one chooses, one must have a plan that covers the myriad of details involved.

Setting Goals

If one doesn't know where one is heading, how will one know when one gets there?

People are goal-driven creatures. Give them an objective they can identify with and want to achieve, then stand back and watch them work. This is equally true in the retail world.

In setting goals for the retail business, one should consider the following:

1. The Owner's Personal Quality of Life
2. Sales
3. Profits
4. Customer Satisfaction
5. Suppliers
6. Employees
7. Image and Positioning

1. The Owner's Personal Quality of Life

For the independent retailer, this is perhaps the most important issue to address. The business will succeed or fail based on the owner's values, decisions and actions. Accordingly, business objectives must support the owner's direction (provided, of course, that it is both realistic and sustainable).

Factors such as time, additional investment, change, new ownership approaches and personal finances should be addressed. Without the owner's full endorsement, the retail strategy will certainly fail.

2. Sales

For many retailers, sales goals are the measuring stick for their business. They provide a sense of market share and, in some limited respects, indicate profitability.

Increasing sales objectives can sometimes require renovations, additional space or even new stores. Of course, these actions would have to support the owner's personal direction, as discussed above. One must also bear in mind that sales goals cannot be viewed in isolation, since they are achieved only through the implementation of all other strategies.

3. Profits

Specifically, this refers to return on investment (ROI) objectives. Once the overall ROI goal has been established, the ideal approach is to work backwards to determine what it will take from all areas of the business to achieve it.

For example, if one set an ROI goal of 20% and the total investment in the business is Rs500,000, one must generate Rs100,000 in profits (20% x Rs500,000 = Rs100,000). Now one can begin to determine what level of sales, margins and expenses will be required to meet the objective. This bottom up approach will quickly determine whether or not a goal is realistic.

4. Customer Satisfaction

After personal quality of life objectives, setting customer satisfaction goals should be the number one focus. This aspect of the business will have more of an impact on the bottom line than any other factor. When one become truly focused on satisfying customers, one will win the game.

5. Suppliers

Working closely and effectively with suppliers is a key element for the retail enterprise. Therefore, objectives for vendor relations should be established. The most successful retailers today forge strategic alliances with their suppliers. As a result, they benefit from faster deliveries, special ordering assistance, return privileges, financing programs, favorable payment terms and overall improved cooperation.

6. Employees

Strong morale and mutual trust are important ingredients in defining a successful retailer. By establishing goals in these areas, one can begin to work towards improvements.

7. Image and Positioning

An important goal for all retailers relates to the image they develop within the marketplace. Image is determined by how consumers and others view a business. The image may be one of thriftiness, luxury, tradition or innovation. No matter how one present the business, the key to a successful image is that customers see the business the same way that an owner will do.

Positioning refers to where one stands in the eyes of the consumer in relation to the competitors. Is one a leader or a follower? Leadership has its advantages since consumers look to them for direction. On the other hand, it requires foresight, innovation and significant commitment to be a consistent leader.

In the process of setting goals, the role of ethics as an underlying principle has become a key focus in the business world. "Doing the right thing" is something consumers demand. Being a responsible corporate citizen involves a full range of environmental, social, moral and legal issues. Don't treat any of these factors lightly when establishing the goals.

Defining the Target Customer

Trying to satisfy the entire marketplace results in no one group ever being truly satisfied. One needs to determine who one's "best" customer group is. This is known as the Target Customer.

That is not to say one won't have secondary consumer markets one will sell to, but rather that one need to build the store around the target customer profile. Doing so will result in an overall business strategy that is highly effective and results-oriented. In the absence of such a target customer, strategies become weak, misguided and ultimately fail.

The Target Customer Assessment that follows is an ideal tool to help one define the customers one are after.

Target Customer Assessment

Demographics

1. Market size: How many customers are in the target market?
2. What is the size of the target customer's household?
3. Is the target customer single or married?
4. Any children? If yes, how many?
5. Lower, middle or upper income? Give a Rs range.
6. Any discretionary income for impulse purchases?
7. What age bracket is the target customer in?
8. How often does the target customer move?
9. Distance from home to the store? Provide a radius.
10. How much does the target customer spend on that retail category?
11. What is the total market size, in Rs, for this retail category?
12. Are new births an important factor for the business?
13. Is the target customer female or male, or both?
14. Does the target customer work outside the home?
15. In what sectors/industries does the target customer work?
16. What is the education level of the target customer?
17. What is the ethnic breakdown of the target customer?

Lifestyles

18. Is the target customer lower, middle or upper class?
19. What cultural values and customs are important?
20. Is the target customer a high, middle or low social performer?

21. With whom does the target group consult before purchasing?
22. At what stage of life is the target customer (just graduated, new empty nesters, just retired, etc.)?
23. How does the target customer spend his/her time?
24. How does she/he view time spent shopping?
25. What are the recognizable personality traits?
26. Is status important?
27. How important is this product to the target customer?

Customer Needs/Wants

28. How far will the customer travel to buy the goods/ service?
29. Is convenience important?
30. Does the customer want evening, weekend and Sunday hours?
31. What level of service is required?
32. How wide an assortment of merchandise is expected?
33. How important is price?
34. What quality of goods is desired?
35. Any other special needs?
36. How long does the customer spend in the store

Watching the Trends

Uncontrollable trends do affect a business and there is nothing one can do about them. However, what one can do is be aware of them and make plans for any changes they may create. By keeping an eye on these external events, one can often discover new opportunities ahead of the competition, or at least avoid significant economic loss from negative consequences.

Watch for key trends that involve the following groups or topics:

1. Consumers
2. Competition
3. Economy
4. Government Policy
5. Technology
6. Industry

1. Consumers

Are customers becoming more value-conscious? Or is conspicuous consumption starting to regain its former stature?

By analyzing the sales history and staying current with trade literature and business magazines, one can often anticipate and prepare for significant changes in consumer buying patterns. Those who do "keep their finger on the pulse" know that many people predicted the consequences of the aging baby boomers. Now one can see the huge impact of this trend in many sectors (e.g. pharmaceuticals).

2. Competition

The entrance of competitors into trading area can have a significant effect on the business. Awareness of this activity can be a cue to refocus the concept. Listen to suppliers, developers and the media. Information is power, and in the case of competition, just may represent survival.

3. Economy

Generally speaking, there are not too many surprises where the economy is concerned. Most upswings and downturns are predicted well in advance. Knowing which way the economy is heading can help one make strategic decisions about expansion, renovations and other investments.

4. Government Policy

Be aware of pending changes to government policy. For example, if one are located in an area that depends on the patronage of civil servants and the government is aggressively looking to reduce its workforce, one can anticipate a potential negative impact on the business.

Similarly, if the government is about to introduce new small business training programs or employment incentives, one need to determine how to take advantage of these positive changes.

5. Technology

Faster and cheaper. Those are two words that explain the general state of technology available to retailers. What new technologies are coming to the forefront in the market sector? Attend trade shows, read trade literature and watch competition to see what's new out there.

6. Industry

Retail has been changing so fast it's hard to keep up. The "big box" concept, retail globalization, online retailing and power centers all play an active role in today's marketplace. How are these and other industry trends affecting a store? Nothing should ever catch one by surprise. Stay informed!

Competitive Strength

Identifying who are key competitors are and understanding their strengths and weaknesses relative to a store are key factors for every retailer. As discussed earlier, retailers must dominate a key area of the marketplace and accomplishing this requires a thorough understanding of the competition. Once one understand how one compare to the competitors, one can make plans to improve.

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Competitive Assessment

Please rate a store and two other competitive stores using the following scale:

1 - The Best 2 - Second place 3 - Third place

	Store	Competitor 1	Competitor 2
Store Location			
Exterior signage			
Convenience			
Window displays			
Hours			
Parking			
Service			
# of staff available			
Staff quality			
Selling ability			
Service policies			
Visual			

Signage

Lighting

Laonet

Atmosphere

Cleanliness

Excitement

Merchandise

Assortment - breadth

Assortment - depth

Range of sizes

Quality

Brand names

Stock levels

Advertising

Budget

Creativity

Frequency

In-store tie in

Major events

Media mix

Pricing

Price levels

Sale promotions

Aggressiveness

Other

Delivery service

Return policy

Technology

Merchandise Planning

Planning for Success

In the large retail store, we find a dizzying array of goods to clothe our bodies, decorate our homes and entertain our families. All of this merchandise comes in a variety of sizes, colours, makes and models. Bringing it all together requires the successful coordination of numerous individuals and divisions, including buyers, warehouse employees, financial staff, store operations, etc.

Yet, merchandising takes top priority. It doesn't matter how efficiently the other departments are operating. If merchandising is not firing on all cylinders, the company cannot succeed.

The merchandise planning process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered. This will greatly assist the company in attaining its sales and gross margin goals. Buyers must rely heavily on historical sales data, coupled with personal experience and their own intuition about market trends.

The foundation of this planning process is the six month merchandise plan.

Step #1: Define the Merchandise Policy

Every retail organization must have a vision in order to provide it's buyers with some insight into the following business components:

- Demographics of current and potential customers.
- Store's image.
- Merchandise quality levels.
- Price point policy.
- Marketing approach.
- Customer service levels.
- Desired profit margins.

This will allow it to develop a clear merchandise policy that outlines buying goals and objectives.

Communicating this policy effectively will not only provide direction, but should also drive all decision making throughout the merchandise planning process.

Step #2: Gather Historical Information

In building the six month plan, the objective is to prepare a month-by-month total Rupee-purchasing schedule for the company. Then, repeat this process for the next level of detail (i.e. the departmental level). Depending on the sophistication of company information systems, each department can then be broken down into smaller segment "classes", for which a similar sales plan is prepared.

The first step in preparing these plans is to pull the sales information for the same period last year. Not only should we gather actual sales numbers, but also statistics on returns, markdowns and any inventory carry-over. Unless the store is computerized, detail of this nature will not always be available. However, even a manual analysis of total merchandise purchases will provide one with an acceptable level of data, which is far better than having no information at all.

Step #3: Perform Qualitative Analysis

Most professionals will agree that the buying process is 90% analytical and 10% intuitive. In other words, one must do the homework to achieve any level of success.

"Qualitative Analysis" refers to "identifying the proper components in a mixture". In this case, the mixture is the merchandise plan and the components that affect this plan are as follows:

(a) Customer Profile Analysis

- Who are our best customers, and what are their buying behaviors and attitudes?
- Who do we want our customers to be?
- Who are our secondary customers, and what should we be buying for them?

Winning specialty store concepts focus on one "individual" and build their merchandise mix to please this specific shopper. Learn right away that one can't be everything to everybody.

(b) Department Analysis

To effectively forecast sales and purchase the right product, one needs a further breakdown of a store's major departments. For example, a typical family shoe store may have the following departments: men's footwear, women's footwear, children's footwear and accessories. The men's department may be made up of the following subcategories or "classes": dress shoes, sport shoes, boots and slippers.

To plan at the "class" level, one needs sales and inventory data at the "class" level.

(c) Key Department Trends

The professional buyer is always looking for trends in his market. For example, what is happening in men's footwear? Maybe Western boots are growing in popularity, brown dress shoes have been declining for the last two seasons and black sport shoes are hot with the market.

Trend information is available from a number of sources, including trade publications, merchandise suppliers, the competition, other stores, and one's own experience.

(d) Major Vendor Analysis

"Information is power." Even a minor analysis of the performance of major vendors can identify significant buying issues.

(e) Advertising Review

Increased traffic flow often results in higher sales. To this end, advertising and promotions are used to improve traffic levels. The buying and advertising departments must work closely together to ensure the company's investments in this area result in strong performance.

A promotional calendar outlining event dates, media buys and budgets should be developed and taken into consideration when the merchandise planning process takes place. Buyers may have to coordinate product deliveries with promotions, or vice versa. A successful promotion last year may be hard to equal this season, or, by contrast, a poor promotion may require a higher forecast for this season.

(f) Visual Presentation Analysis

People usually respond best to visual stimuli, so product presentation is a major driver of sales. For this reason, another segment of the buyer's seasonal written report describes their thoughts about visual merchandising for the products. This includes the following:

- Are any special fixtures required?
- Where should the product be displayed?
- What type of signage is necessary?

Visual merchandisers work very closely with the buying departments in most chains. Information concerning delivery dates, promotions and product quantities may affect decisions about what to feature in store windows and key display areas. The "visual people" will also handle any special in-store signage that will accompany the product.

The Six Month Merchandise Plan

With the subjective part of the planning process completed (forecasting trends and analyzing customers, suppliers and promotions), we can start putting numbers on paper. On the following page is a sample of a six month merchandise plan.

Six Month Merchandise Plan (Retail Method)

Date: ___________ Department: _All_
Season: _Fall_

Planning Parameters		August	September	October	November	December	January	Season Total
B.O.M.Inventory								
	Last Year	Rs56,000	Rs120,750	Rs155,760	Rs166,850	Rs182,000	Rs151,800	
	Plan	50,000	110,000	140,000	150,000	170,000	140,000	
	Actual							
Purchases								
	Last Year	101,980	89,740	53,420	64,300	56,100	5,800	Rs371,340
	Plan	97,800	89,400	53,200	68,600	61,800	14,000	384,800
	Actual							
Sales								
	Last Year	34,500	51,600	39,100	45,500	79,900	45,000	295,600
	Plan	35,000	55,000	40,000	45,000	85,000	50,000	310,000
	Actual							
Reductions								
Markdowns								
	Last Year	1,695	1,600	2,060	2,300	4,000	11,250	22,905

Planning Parameters			August	September	October	November	December	January	Season Total
		Plan	1750	2750	2000	2250	4250	12,500	24,500
		Actual							
	Employee Discounts	Last Year	345	510	390	450	800	450	2,945
		Plan	350	550	400	450	850	500	3,100
		Actual							
	Shrinkage	Last Year	690	1.020	780	900	1,600	900	5,890
		Plan	700	1,100	800	900	1,700	1000	6,200
		Actual							
E.O.M.Inventory		Last Year	120,750	155,760	166,850	182,000	151,800	100,000	
		Plan	110,000	140,000	150,000	170,000	140,000	90,000	
		Actual							
Stock-to- Sales Ratio		Last Year	3.5	3.0	4.3	4.0	1.9	2.2	
		Plan	3.1	2.5	3.8	3.7	1.6	1.8	
		Actual							
Gross Margin									

Planning Parameters		August	September	October	November	December	January	Season Total
	Last Year	46.0	46.0	46.0	46.0	46.0	36.0	45.0
	Plan	46.0	46.0	46.0	46.0	46.0	36.0	46.1
	Actual							

Seasonal Statistics					
	Markdown %	Employee Discount %	Shrinkage %	Average EOM Inventory	Inventory Turns
Last Year	7.75%	1.00%	2.00%	Rs146,000	2.02 x
Plan	7.90%	1.00%	2.00%	Rs133,000	2.33 x
Actual					

The primary objective of merchandise planning is profit improvement. As the buyers' plan for each department unfolds, one can get a better handle on potential profitability. One then have the opportunity to fine-tune these plans, allowing investment Rupees to be redistributed among departments in order to achieve company goals and objectives.

In preparing the six month merchandising plan, larger retail chains will build from the bottom up. Starting at the class level, each class of merchandise will have its own plan. Combining entire subclasses will give the strategy for each department. Taking that one step further, the amalgamation of all department strategies will give us the total company plan. In the case of an individual store, this will produce the store's overall objective.

Completing Six Month Merchandise Plan

Step #1: Assemble Last Year's Figures

Assemble and fill in last year's results. Unless the operation is computerized, however, getting most of the monthly data for the plan will be impossible.

In such cases, simply begin with six month or even annual figures, then divide by the relevant number of months. Or just take an educated guess. The more times one do this, the sooner one will develop systems to extract these numbers on a monthly basis.

Step #2: Planned Sales

Sales planning is the most difficult step in the whole process. It would be great if one could purchase a retailer's crystal ball and sales forecasts would miraculously appear after rubbing it with a cash register tape! In the real world, however, we start by reviewing last year's figures and trying to determine what might affect our performance this year. Some things to consider are:

(a) Sales Performance Coming Into The Season

What percentage increase or decrease is the class, department, or total store expecting coming into the season compared to the previous year? There's no guarantee that it will continue, but if sales are up 15% over last year and the new season is only three months away, one may be more optimistic than pessimistic in forecasting.

(b) Monthly Promotions

Planning promotions at least six months in advance will be necessary if one hope to have an effect on performance. A promotional philosophy followed by too many retailers is to run two clearance sale ads per year, and if sales are soft they might run another ad or two.

This may have been acceptable in the boom years, but a "seat of the pants" approach like this is a recipe for disaster in today's environment. Chapter #11 on advertising and promotion suggests a number of promotional strategies, one of which is to promote in periods when sales and margins are strong (e.g. back-to-school, Diwali and Xmas).

(c) How is My Customer Changing?

This has more impact when planning at the class level and is most noticeable in areas of fashion. Are there new styles or markets that pose either an opportunity or a threat to this class of merchandise?

Consider the case of the family shoe store where western boots, as a class, was expanding. This style trend will obviously affect our buying plan. Other demographic changes that may affect buying include the baby boomer trends (e.g. they're aging, saving more, spending less, putting on weight, etc.).

(d) Economic Factors

Unemployment rates, interest rates, Rupee value fluctuations and inflation may all have an affect on the buyer's crystal ball. If these factors are creating economic drag on our customers, there will certainly be an effect on what they purchase from us. One may have to move price points down, source new suppliers, or even adjust oner forecasts.

Step #3: Planned Reductions

Markdowns, employee discounts and inventory shrinkage come under the heading of planned reductions. These three figures affect our ending gross margin, so they must be considered when calculating department and class profitability. Since they also affect inventory levels, they must be projected to ensure enough merchandise is on hand to attain forecasted sales levels.

(a) Planned Markdowns

Taking any markdowns is a difficult task for most retailers to face. Shoddy merchandise and bad weather are factors that may be out of the retailer's control.

However, the buyer must start by analyzing last year's markdown numbers very closely. Some factors to consider are:

- Markdowns as a percentage of sales by month.
- How aggressive are this year's pricing policies?

- When did we promote last year and how will it change?
- How were deliveries last year and did they affect our markdowns?

(b) Employee Discounts

As a percentage of sales, this figure remains relatively constant from one year to the next unless company policy changes. Therefore, it is then safe to use last year's Rupee figure as a percentage of sales and apply it to the sales projections for the current period.

(c) Shrinkage

Chapter #10 covers the methods of calculating oner shrink percentage. Like employee discounts, the acceptable method of calculating the shrinkage Rupee amount per month is to use the year-end shrink percent multiplied by the monthly sales projection.

Step #4: B.O.M. & E.O.M. Planned Inventory Levels

Planning End-of-Month (E.O.M.) or Beginning-of-Month (B.O.M.) inventory levels (one month's "ending" is the next month's "beginning") is another important element of the six month merchandise plan. Inventory is by far the number one Rupee asset within the company, and careful planning is required to ensure an adequate return on investment is attained.

Stock-to-Sales Method

The Stock-to-Sales Method is a popular way to forecast how much inventory is required to attain monthly sales projections. Stock-to-sales (S/S) is a ratio of the amount of inventory on hand at a particular date to the sales for the same period, and is calculated as follows:

$$\text{S/S ratio} = \frac{\text{Stock on hand E.O.M (at retail value)}}{\text{Sales for the same month}}$$

When using the S/S method for planning stock levels, the buyer selects the S/S ratios he desires each month. Desired S/S ratios are usually obtained by referencing previous seasons. The selected ratio is then multiplied by the projected period sales to get the desired E.O.M inventory level. For example, the E.O.M. chart on the following page is from the sample six month plan:

E.O.M. Inventory Levels			
Month	**Planned Sales X Stock-to-Sales Ratio = E.O.M. Inventory**		
August	Rs35,000	3.1	Rs110,000

E.O.M. Inventory Levels			
Month	**Planned Sales X Stock-to-Sales Ratio = E.O.M. Inventory**		
September	Rs55,000	2.5	Rs140,000
October	Rs40,000	3.8	Rs150,000
November	Rs45,000	3.7	Rs170,000
December	Rs85,000	1.6	Rs140,000
January	Rs50,000	1.8	Rs90,000

The Stock-to-Sales Ratio also provides one with an estimate of what the Inventory Turnover will be.

If S/S Ratio is:	Estimated Annual Inventory Turnover is:
1	12
2	6
3	4
4	3

Keep in mind that this approach to calculating Annual Inventory Turnover is merely an estimate. One will need to calculate it accurately, using the method described below.

Step #5:

Inventory Stock Turnover - measures the rate at which merchandise is sold from the store compared to the inventory level on hand. The higher the rate, the more profit the buyer brings to the company and the better the cash flow will be. Stock turns are calculated by dividing the total sales for the season by the season's average ending inventory (at retail value).

Using the sample six month merchandise plan, the season's average inventory and stock turn rate is calculated in the following way:

$$\text{Season Average Inventory} = \frac{\text{Sum of E.O.M. Inventory}}{\text{Months in Season}}$$

$$= \frac{\text{Rs}110{,}000 + 140{,}000 + 150{,}000 + 170{,}000 + 140{,}000 + 90{,}000}{6}$$

$$= \frac{\text{Rs}800{,}000}{6}$$

= Rs133,000

Stock turn rate = $\frac{\text{Total sales for season}}{\text{Season average inventory}}$

= $\frac{\text{Rs310,000}}{\text{Rs133,000}}$

= 2.33 times for the 6 month season

Note: This calculation is only for six months. In most retail companies, annual turnover is approximately double the six month rate.

Industry Averages for Retail Inventory Turns Store Type	**Gross Margin**	**Stock Turns**
Women's Shoes	**44.2**	**4.1**
Men's Shoes	**44.6**	**2.5**
Women's Sportswear	**47.3**	**6.0**
All Women's Apparel	**43.6**	**7.1**
Luggage	**48.1**	**7.3**
All Men's Apparel	**42.3**	**4.4**
Cosmetics & Drugs 38.6 3.9		
Sporting Goods	**32.2**	**3.7**
Furniture	**43.1**	**3.3**
3.		

Step #6: Gross Margin Return On Inventory Investment (GMROII)

While the standard Inventory Turnover ratio tells one how efficiently one are moving inventory, it ignores the profitability of this inventory movement. For example, an item with a low gross margin and high sales will show a higher turnover rate. However, this is obviously not as desirable as moving inventory with higher (or even average) gross margins. Basically, it produces a lot of activity, but with fewer financial results.

Gross Margin Return on Inventory Investment has become the standard inventory statistic for many retailers because it reflects the movement of inventory relative to profitability, rather than to sales. This is a better measure of inventory performance because retailers are more interested in profitability than sales.

Think of GMROII as the rate of return one are earning on oner inventory investment. As one know, a savings bond that pays 8% is better than one that pays only 3%. Similarly, inventory that provides one with a higher rate of return is more desirable.

$$\textbf{GMROII} = \frac{\text{Gross Margin Rs}}{\text{Avg. Inventory Investment @ Cost}} \times 100$$

Look at the following example, where both departments generate the same volume of sales from the same amounts of inventory:

	Sales	**GM%**	**GMRs**	**Avg. Inventory**	**Turnover Rate**	**GMROII**
Bikes	Rs25000	20%	Rs5000	Rs5000	5	100%
Clothing	Rs25000	50%	Rs12500	Rs5000	5	250%

If we were to look only at Inventory Turnover rates, we would say both departments perform equally. However, as soon as one calculates GMROII, one can clearly see how clothing outperforms bikes. Wouldn't one rather have a 250% return on investment, instead of just 100%? That's the power of GMROII!

Note: The minimum standard for GMROII in most retail operations is 200%. Anything less is considered to be unprofitable.

Step #7: Planned Purchases

Once sales projections, stock reductions and stock levels have been established, one can calculate the planned purchases. The planned purchase figure is also the buyer's first **"open-o-buy"** estimate. Using the August figures from the sample six month plan, the formula for planned purchases is as follows:

Planned Purchases = EOM Inventory + Sales + Reductions - BOM Inventory
= Rs110,000 + Rs35,000 + (Rs1750 + Rs350 + Rs700) - Rs50,000
= Rs97,800

Step #8. Planned Markup

After calculating how much inventory to purchase, retailers must determine the initial markup for these goods. This may fluctuate between different classes of goods within a department. The original markup must allow for a final profit after paying all operating costs, reductions, cost of goods, etc.

Most retailers have a target markup they want to start with. This markup percentage is calculated by dividing the markup in Rupees by the retail price. Markup Rupees is the difference between the cost price and the selling price. i.e. Our shoe store buys men's slippers for Rs10 and follows the manufacturer's suggested retail of Rs20 which is a 50% markup percentage, otherwise known as gross margin.

Markup Rupees = Selling price - Cost price
= Rs20 - Rs10 **= Rs10**

Markup percent = $\frac{\text{Markup Rupees}}{\text{Retail Price}}$

= $\frac{\text{Rs10.00}}{\text{Rs20.00}}$

= 50%

Step #9: Gross Margin

Gross margin is the difference between the selling price and the cost of the product, less reductions for markdowns, shrinkage and employee discounts. Hopefully, what is left after these reductions is enough to pay all operating expenses and leave the retailer with a profit.

In our six month plan, we work in retail Rupees. To determine the gross margin for each month, all purchases and inventories must be converted to cost price. Supposing we have a 50% markup on all goods. To calculate cost price, multiply the inventories and purchases by the original markup percent (in this case 50%).Example: Using the month of August from the six month plan, we must first convert to cost figures by multiplying opening/closing inventories and purchases by 50%. Next, we calculate Cost of Goods Sold (C.O.G.S.) as follows:

C.O.G.S. = B.O.M. Inventory + Purchases - E.O.M. Inventory.
= Rs25,000 + Rs48,900 - Rs55,000
= **Rs18,900**

Finally, we determine Planned Gross Margin like this:

Planned Gross Margin = $\mathbf{\frac{\text{Period sales - C.O.G.S.}}{\text{Period sales}}}$

$$= \frac{Rs35{,}000 - Rs18{,}900}{Rs35{,}000}$$

= **46%**

Retail Merchandising
…is the management of inventory to ensure the most advantageous display of fast & slow moving items, and to maximize sales per retail sq. ft.
It includes:
– inventory assortment planning
– Sales floor design
– Product presentation: visual merchandising and display.
– Pricing
– Interior Signage

What Good Assortment Planning Does

Assortment planning breaks the Merchandise Plan down into the components that enable the planner to address customer preference and need. These components are product attributes, styles, colors, and SKUs. By addressing these components, the assortment plan becomes the transition to the customer by way of the store.

In developing a good assortment plan, the retailer hopes to:

- Manage inventory while addressing customer need and demand
- Develop a complete range of merchandise for presentation
- Enhance and maintain the company philosophy and image
- Support and execute the overall merchandising strategy
- Integrate with other planning processes, such as merchandise allocation

The assortment plan, then, provides the most effective way to balance the presentation of merchandise to the customer. The properly assorted presentation ensures enough selection without overstocking and strikes the right balance between breadth (e.g. number of styles) and depth (quantity of each style). In addition, the good assortment plan considers seasonality, to provide the right merchandise flow.

Because assortment planning addresses the most detailed element of merchandising to the customer—the items for sale—the process is often very detailed and time-consuming. Automation is therefore a must in building effective assortment plans.

Automation Facilitates a Comprehensive Plan

To build a comprehensive assortment plan, details in a number of areas come into play, and the planner could not realistically manage that level of detail without an automated system. The automated system makes it possible to address dozens of parameters in these four key areas:

Product Attributes. – This set of parameters helps the retailer relate to the customer, by factoring into the plan brand, vendor, fabric, silhouette, pricepoint, and theme. These parameters enable the planner to tailor the assortment and build the proper relationships among the various components. For example, the planner can determine the right percentage of brands, the right quantity of each brand, and similar calculations.

Store Structure/Store Characteristics - These parameters enable the planner to categorize stores into groups, a critical step before one can define product assortments. Grouping by the size, volume, and type of store, the climate, and the customer type helps the planner meet each store's particular demands. The store characteristics are pivotal in micro marketing and they also support distribution to the stores.

Time Dimension/Product Seasonality - The time dimension for an assortment plan considers the usual week, month, and season definition, along with product transition and crossover between seasons. But assortment planning also needs smaller time periods or mini-seasons such as back-to-school, holiday, and summer clearance. These overlapping time periods consider events and/or time periods that help define the product characteristics needed to address customer demand.

Space Dimensions/Space Utilization - As the assortment plan develops, it allocates available space based on the product definition. Factors such as the number of styles and quantities of each style will affect space utilization. Product dimensions, product density, product display requirements, store structure, store layout, store "look," and visual merchandising all affect the space plan and, consequently, the assortment plan as well.

Managing the Volume of Detail

To handle all of the calculations in these key areas, assortment planning systems that go beyond simple spreadsheets are becoming available for retailers. These systems apply the automation necessary handle the voluminous and tedious detail necessary in today's assortment planning process. Because these systems can churn through the calculations in all of these areas, retailers are better able to develop a good assortment plan.

Retail Assortment Strategies

Any of the following can be adopted:

1. Wide & deep - Many categories & large assortment in each category

Advantages

- Broad market
- Full selection of items
- High level of customer traffic
- Customer loyalty
- One-stop shopping
- No disappointed customers

Disadvantages

- High inventory investment
- General image
- Many items with low turnover
- Some obsolete merchandise

2. Wide & shallow - Many categories & limited assortment in each category

Advantages
- Broad market
- High level of customer traffic
- Emphasis on convenience customer
- Less costly than wide and deep
- One-step shopping

Disadvantages
- Low variety within product line
- Some disappointed customers
- Weak image
- Many items with low turnover
- Reduced customer loyalty

3. Narrow & deep - Few categories & large assortment in each

Advantages
- Specialist image
- Good customer choice in category(ies)
- Specialized personnel
- Customer loyalty
- No disappointed customers
- Less costly than wide and deep

Disadvantages
- Too much emphasis on one category
- No one-stop shopping
- More susceptible to trends/cycles
- Greater effort needed to enlarge the size of the trading area

4. Narrow & shallow - Few categories & limited assortment n each

Advantages
- Aimed at convenience customers
- Least costly
- High turnover items

Disadvantages
- Little width and depth
- No one-stop shopping
- Some disappointed customer
- Weak image
- Limited customer loyalty
- Small trading area

Optimal Merchandise Mix

3 Dimensions

_ Variety

- Refers to the mix in terms of number of different lines the retailer

stocks in the store. e.g. men's wear, women's wear, toys,
appliances, cosmetics, sports goods etc.
_ Breadth
- Or assortment is the number of merchandise brands that are found in a merchandise line. e.g. A '7-11' store will carry very narrow breadth, as opposed to Shoppers Stop carries 6-8 brands of jeans or mens shirts.
Battle of brands vs. private labels
_ Depth
- The average number of SKU's within each brand of individual merchandise line. e.g. Due to shelf space constraints A7-11 store may carry only 1-2 fast moving sizes whereas a Walmart may carry all sizes & sufficient quantity of each.
Retailers task is to find a balance between the above 3 dimensions in relation to his store, it's positioning, customer profile & financial resources.

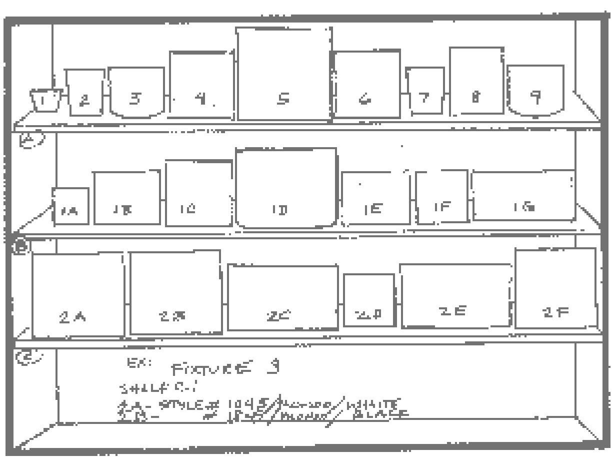
Planogram

A **planogram** is a diagram of fixtures and products that illustrates how and where retail products should be displayed, usually on a store shelf in order to increase customer purchases. They may also be referred to as **plano's**, **plano-grams**, **plan-o-grams**, **schematics** or **POGs**. A planogram is often received before a product reaches a store, and is useful when a retailer wants multiple store displays to have the same look and feel. Often a consumer packaged goods manufacturer will release a new suggested planogram with their new product, to show how it relates to existing products in said category.

Planograms differ significantly by retail sector. Fast-moving consumer goods organizations and supermarkets largely use text and box based planograms that optimise shelf space, inventory turns, and profit margins. Apparel brands and retailers are more focused on presentation and use pictorial planograms that illustrate "the look" and also identify each product.

Since the purpose of a planogram is to communicate how to set the merchandise to increase customer purchases, much research often goes into the layout of a planogram. Attention is given to adjusting the visibility, appearance and presence of products to make them look more desirable, or to ensure sufficient inventory levels on the shelf or display. There are some consulting firms which specilize in retail space layout and planogramming. Some chain stores and wholesalers also create and maintain planograms for their stores.

Planogramming is a skill developed in the fields of merchandising and retail space planning. A person with this skill can be referred to as a planogrammer.



BASIC PRINCIPLES OF EFFECTIVE MERCHANDISING
PRINCIPLE 1: DEPARTMENTAL DISPLAYS
• Stores should be set up to encourage extra sales
• Displaying related items together builds impulse sales
PRINCIPLE 2: CROSS-AISLE MERCHANDISING
• Cross-aisle merchandising expose shoppers to related items on both sides of the aisle
• Cross-aisle merchandising creates the impression of larger departments and assortments
• Cross-aisle merchandising increases impulse sales
PRINCIPLES 3: VERTICAL MERCHANDISING
• Horizontal merchandising limits visibility and makes the shopper walk to buy
• Vertical merchandising groups items for maximum visual impact and lets the customer "see" more of the entire assortment from one spot
• Customers "read" left to right scanning the length of an aisle not top to bottom
• Think of every display as a series of vertical display modules of varying widths
PRINCIPLE 4: EYE LEVEL DISPLAYS
• The best selling area on any display is between belt and eye level (40" to 72" = 80% of sales)
• Fast selling and high margin items should be the easiest to see, reach and buy
• Put slow moving and lower margin items farthest from the customers reach
• Slow movers do not warrant good display space!
PRINCIPLE 5: COMMON SENSE MERCHANDISING
• Concentrate merchandising efforts on the most visible areas first!
- Main aisle end-caps/promo's
- Checkout/service counter displays
• "Details" make the difference
- Re-stock "abandoned" product to its correct home
- Repair damaged packages/remove old price stickers
- Follow regular maintenance procedures including dusting of product & fixtures
- "Face forward" products to make shelves look fuller
PRINCIPLE 6: GROUP PRODUCTS VISUALLY
• Visually stronger displays can be created by grouping merchandise by **COLOR BLOCKS** rather
than intermingling different colors
- Vertical color grouping can increase impulse purchase opportunities for related items by showing a more complete assortment
PRINCIPLE 7: MAKE SPACE WORK
• We don't sell pegboard. Make your store look full!
• Shelves too far apart waste space
• Leave "finger" space around pegged product to allow customer access
PRINCIPLE 8: IDENTIFY PRODUCTS
• Effective Point-Of-Sale Signs Should:

- Catch the shoppers attention & create a sense of urgency
- Clearly identify the item or service for sale
- Describe features and benefits of the product
- Tell the price and/or savings to the customer

• Point-of sale signs act as a **CONSTANT SALESMAN** and are effective in providing the customer with information and incentives to buy

The combination of Planogram, display and banners should be constantly used.