

Reprint from SGB (December, 2000)

Six Planning Mistakes Companies Make

As we wind down Calendar 2000, retailers should have Year 2001 planning well underway. If planning is not done annually, at the very least Spring 2000 planning should already be done. Ideally, the planning cycle should begin at least midway through the prior comparable season (i.e. Fall 2001 planning should have started by now). If you import merchandise or do any product development, your planning cycle must start even earlier, since detailed assortment plans must be completed before any commitments are made or any design work launched.

I have found over the years that there are several common missteps companies make when developing their merchandise plans.



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Over-dependence on history

Where do you start when you begin the planning process? If you start with last year, or the last several years, you're in good company, as this is the common starting point for most planning. As we've written here before, and to quote Edmund Burke "You can never plan the future by the past." For a retailer or supplier, looking only at history is notoriously self-limiting. In addition to historical information, you must always take into account:

- Current trends
- Industry intelligence
- Market research

The categories that performed best for you last year are bound to have more competition this year and may even be "commoditized" as we are seeing this year with polar fleece. Personally, I admire retailers who ascribe to the discipline of "zero based budgets" and who start with a clean sheet of paper and construct a plan that makes sense for them before they take into account the successes and failures of history. This method takes the excesses and shortfalls of the past out of the equation. This method asks, "How fast should this department or classification turn?" rather than "how much faster or slower do I want to turn than last year?"

If you start with history as a baseline, how much history should you review? I advise looking only at the past year or two; too much has changed in our industry to go back much further than that. The only exception might be a cyclical business, like sweaters or ski. If you had a year with exemplary performance you may want to create a template on which to pattern an upcoming cycle.

Creeping (or rampant) Incrementalism

What's new in your business or assortment? Is it really new and different or does it take the place of another business? Does it cannibalize another category? Remember, the customer has only so many discretionary dollars to spend in your store. My experience with merchants has taught me that they think everything is incremental. My favorite example is the advent of wrinkle-free apparel – which was presented to us as part of the plan as a "whole new business for us". But is it really? How many pants or shirts will a customer purchase? And if we offer them wrinkle-free, why won't they just make a choice? One of the most difficult and potentially treacherous transitions any retailer or manufacturer must make is how much and how fast to take an established category down and how much and how fast to ramp up a new category.

Flow it like you sell it

Planning a healthy receipt flow seems to be one of the most difficult stumbling blocks for many retailers. Over-reliance on history compounds this problem. If you've never flowed merchandise appropriately (i.e. as close as possible to time of need) then looking to last year as a baseline will only perpetuate the problem. Again, not to cast aspersions on buyers and vendors, but everyone seems to want to front-load the season. This unhealthy

habit slows turns and ties up valuable inventory that could better be utilized for opportunistic early season purchases.

Take the following elements into account and bring in merchandise as close as possible to the timing of the sales:

- Lead-time from the vendor to DC or store
- Sufficient time for receiving, ticketing (if necessary) and shipment to stores
- Sufficient time for store personnel to put the merchandise into stock

Receiving your merchandise in the month before you intend to sell it is normally sufficient. In addition, splitting a large order into multiple smaller shipments will assist the DC and stores while improving your inventory turn. If vendors offer dating as an incentive to get you to bring in receipts earlier, make sure your finance people do the calculation to determine which is **really** best for you. Above all, never “pack and hold”. I always ascribe to the adage “if they didn’t want it this year, they’ll want it less next year.” Clear out unsold merchandise as the selling season winds down. Trust me, it won’t get better, and it will use up valuable inventory that should be used for fresh product.

The whole cannot be greater than the sum of the parts

“Top down” versus “bottom up” planning – this battle has been raging since the first merchandise plan was etched on a stone tablet. The system developers haven’t necessarily helped, since many systems force you to choose between the two methodologies. The finance and ops weenies will tell you that top down planning is the only way to go because you start with a series of assumptions and break them down to fit. The merchants will make a credible case that bottom up planning will better identify business opportunities and ultimately forces management to accept or reject plans on a case by case basis. The truth is that you really need to do both. We recommend that top management start with a set of plan assumptions that will achieve the company’s financial obligations. The merchants, meanwhile, need to be developing skeletal line plans (rudimentary assortment plans) to lay out the categories they intend to uptrend, downtrend and maintain. The most critical part of any planning cycle is the process that reconciles the bottom up plan the merchants have developed with the top down expectations of management. No one leaves the room until everyone agrees on the final plan assumptions, in total and by month.

- Sales
- Receipts
- Inventory
- Markup
- Markdowns
- Shrink Reserve
- Employee Discount
- Gross Margin

Everybody needs to have the same plan

What’s the key to closure on the plan? Insure there is total and complete integration among all the operating areas of the business:

- Finance
- Merchandising
- Stores
- Operations
- Budgeting
- Logistics

Everybody needs to be working with the same playbook. Maintaining multiple plans adds complexity and confusion to what should be a simple and straightforward process.

When does the planning stop and the forecasting begin?

Many companies confuse **planning** with **forecasting**. The plan is the up front roadmap for the upcoming season or year. When it's done, it's done; lock and load, then move on. The plan should be final at least a month before the season begins. Once you close the books on the previous season, the forecast process takes over. The plan remains set and the business (and individual performance) is measured against the plan. Unless a major change takes place, like an acquisition or divestiture, **don't change the plan**. Use the forecast to update on a monthly basis.

So how important is all of this to you? Would you drive around in a foreign country you'd never visited without a roadmap? Would you launch yourself in a rocket ship without calibrating your trajectory? Then don't approach the New Year without a well-developed, fully integrated merchandise plan.

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