

Fashion Line Merchandising

A new approach for branch merchandising in the fashion sector

Maximise sales and customer satisfaction by reducing range fragmentation & maintaining stock availability

Introduction

Increase like-for-like sales and customer satisfaction in fashion and lifestyle retailing

A new approach to branch merchandising can yield a **10%+** uplift in sales for fashion retailers, improving customer service levels and cutting merchandising and operations staff workloads.

An e-book from Prologic

In this e-book you'll discover a new approach that will optimise your branch merchandising and practically eliminate in-store range fragmentation problems. You'll learn how this new approach can help to ensure stock availability in your key stores throughout the season, and maximise your sales opportunities.

Questions?

If you have any questions after reading our e-book, you can contact us at Prologic. For over 25 years we've been supplying end-to-end business consulting, software and services to the fashion & lifestyle sector. Our customers value the difference we make and we'd be delighted to help you too.

What is range fragmentation?

Range fragmentation is a term used to describe the situation when there is plenty of unsold stock of a particular product or 'line' in the business as a whole, yet some shops have prematurely run out of stock in some of the sizes.

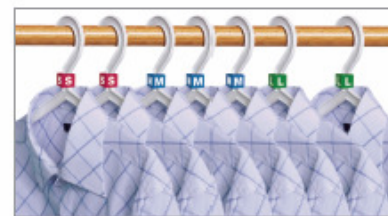
At the start of each season, stock is allocated to stores in accordance with a range plan. Although there will be variation between stores, most will receive a consistent range of products and stock in a full range of sizes.

While the majority of the stock is sent to stores at the beginning of the season, it is common for some stock to be held back in the warehouse for replenishment. When a shop sells an item, a replacement unit of the same size is dispatched from the warehouse. By replenishing store stock every few days, stores are able to maintain a shop floor display that is consistent with the original range plan.

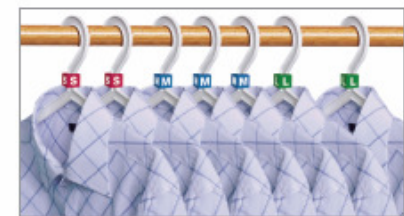
Unfortunately, as soon as the warehouse replenishment stock is depleted the situation can deteriorate rapidly. For example, one store might rapidly run out of middle sizes of a particular line while a neighboring store experiences little demand for these sizes but instead runs out of stock of the small and large sizes.

Midway through a season, stores that have been selling a product faster than forecast will start to experience stock outs.

Season Start



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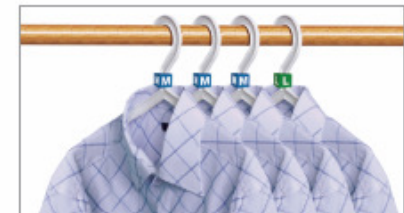


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Mid-season fragmentation



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The causes of range fragmentation

The two primary causes of range fragmentation are limited replenishment stock, and highly variable demand

Limited replenishment stock

Seasonal products in a fashion business typically have supply chain lead times measured in months, and seasonal sales windows measured in weeks. Most fashion businesses have very little ability to change the size of their commitment for a particular line once the season has commenced.

Every fashion shop would ideally like to have several units of stock in every size for every line. They would like to be certain that they won't miss out on any sales, and can maintain a comprehensive display over the busiest weekends.

Unfortunately, because rates of sale are relatively low, even two or three units of each size can represent a very high proportion of the total forecasted season's sales for each shop.

Initial allocations of a high proportion of stock to stores at the beginning of a season leaves very little stock in the warehouse (or supply chain) to replenish gaps caused by spikes in demand.

Highly variable sales

At first glance, sales demand in a store that is a few units more or less than expected doesn't sound like a major problem.

Unfortunately, however, because each store is only allocated a small number of units of each size of a line, a series of small variations in sales can mean that each store has half or twice the amount of stock of a line that they require. This means that small, apparently random variations in sales can have a disproportionate impact on store stock availability.

This problem is compounded by the challenges of developing accurate store forecasts. Seasonal products are hard enough to forecast at the total company level because of the amount of newness and change in the sector, and precise line-level forecasts at store level are almost impossible.

Comparable seasonal sales data is usually a year old and, in that time, important local factors such as a change in the store manager or adjacent competing shops might result in significantly different outcomes. Relatively low sales volumes at a store / category level make it hard to quickly and confidently identify meaningful change.

Why is range fragmentation a particular problem in the fashion sector?

The fashion sector is not unique in having products with limited replenishment and highly variable sales. Books, furniture and electronics, for example, can sometimes share these characteristics. A significant point of difference though, is that fashion products are often available in a range of sizes.

When a store has a fashion product in stock but is missing one or more core sizes, they are faced with a difficult dilemma. Not only is there the prospect of missed sales, there is also potential customer dissatisfaction.

Financial implications

If a particular fashion line in a store only has half the sizes available, it is likely to be selling at half the previous rate, while still taking up approximately the same amount of display space. Some of the unfulfilled demand may be met by sales of similar products in the same store, by other stores nearby, or even the company website. But in many cases, sales will be lost.

There is a significant risk that store managers will move the fragmented line from the shop floor to the store stock room to free up the display space and prevent potential customer dissatisfaction. The fragmented line will be brought out again in the sales period and the remaining units sold at a significant markdown.

Customer satisfaction & brand image

Some level of scarcity is potentially a good thing in fashion but, ideally, it is the entire line that becomes unavailable rather than certain sizes.

As consumers, we are all familiar with the frustration of finding a piece of clothing or footwear that we like, only to discover that our size is not available in that store.

Frustrating customers is obviously a bad idea but it can potentially have additional negative consequences:

- If the customer is looking for large or small sizes they may conclude that this business doesn't cater well for them.
- If they are responding to advertising, promotional material or the recommendations of a friend, they might become less likely to respond in the future.
- They might draw the conclusion that this line or even the entire store collection is not 'new' or 'fresh', and delay all purchases until the end of season sales or new season launch.

Quantifying the value of missed sales

Simple availability calculations

There is a simple way to estimate the financial impact of reduced availability. If a store has at least one of each size of a particular line in stock, it can be described as having 100% availability of that line. If it only has half of the sizes in stock, this would then be labelled as 50% availability. Total availability of the product across all stores can then be calculated in a similar way.

Simple lost sales calculations

During the middle of a season there will be plenty of stock in the business as a whole but some lines will be starting to experience significant fragmentation. It is relatively straightforward to estimate the level of sales that could have been achieved in these weeks if stock of these lines had been optimised.

The sales actually achieved for each week are divided by the availability percentage for that week to calculate the sales that might have been achieved with full availability. For example, if 100 units were sold when availability was at 80%, sales for that week could have been $100 \div 0.80 = 125$ if availability had been maintained at one hundred percent. In other words, optimising the distribution of store stock could have increased sales by up to 25 units.

Weighted lost sales calculations

This simple method can be improved by taking into account the relative rates of sale of top stores vs. bottom stores, and core sizes vs. fringe sizes.

Availability calculations should be weighted according to potential sales at store and product size level. For example, better stores might be selling a product four times faster than a bottom store, so, if a top store is missing a size, this potentially has four times the sales impact of a small store missing the same size.

Ironically, the better a store performs, the sooner it can run out of stock. Identifying what these stores might have sold, if they had managed to maintain availability through the season, usually produces significantly higher estimates of missed sales.

Traditional approaches to branch merchandising

Branch merchandising is about delivering and maintaining the right stock in the right stores at the right time. It's a business process that starts with initial allocation, and runs right up to the end of the season, at which point markdowns are managed.

There are three key phases in the branch merchandising process. Each one is essential to the ultimate goal of maximising sales, and each brings its own distinctive challenges.

Phase 1: Balancing initial allocations and stock for replenishment

The first phase of branch merchandising is to place the right amount of stock into the right shops at the start of a season.

A difficult decision for a retail businesses is how much stock to hold back in the warehouse (or supply chain) for replenishment and how much to send to stores at the beginning of the season. This is a difficult balance to strike because, if too much stock is allocated initially, it can mean that under performing stores are left with excess stock, while top stores are starved. On the other hand, if too little stock is allocated, peaks in demand on a busy weekend may result in missed sales.

The challenge for fashion businesses is the degree of uncertainty inherent in seasonal store sales forecasting. There is an unusually high degree of newness and change in the fashion sector and forecasts are rarely precise at the store / line level.

For any particular line, it is quite possible that a store will perform significantly better or worse than expected. Ironically this simultaneously creates pressure for both larger initial allocations, in case some stores experience higher demand than forecast, and lower initial allocations in case some stores perform much worse than expected.

Traditional approaches to branch merchandising

Phase 2: Adjusting store stock level targets or plans

After a few weeks of sales, it will usually become clear which stores are better at selling a particular line than expected and which others are under performing.

At this point, the target, or ideal stock levels of the branches may be adjusted (manually or automatically) so that top stores receive more stock and lower performing stores have their target stock levels reduced. This will not immediately reduce stock in poor performing branches but will mean that when they do make a sale they may not automatically receive a replacement unit.

The challenge for fashion businesses is the limited amount of time and sales data that is available to support stock level decisions.

The use of stock targets to manipulate actual stock distribution is only effective while replenishment stock is available in the first few weeks of a season. In fashion, each store has such low rates of sale at size level that it is hard to distinguish random sale variations from actual sales trends and therefore hard to be confident in making significant adjustment decisions.

Phase 3: Stock consolidation

Towards the end of a season, it can make sense to move some fragmented stock from poor performing branches back to the warehouse for redistribution, or directly to higher performing stores.

This process is useful for high value items but can be complicated and labour intensive if performed manually. It also risks incurring significant costs for small net benefit if over used.

Stock consolidation presents several challenges for fashion businesses. Sized products make it more complex to calculate ideal consolidation strategies and short seasons, and low rates of sale mean that there is a significant risk that even after expense is incurred in moving a product, it doesn't sell at full price in its new location.

Fashion Line Merchandising

Fashion Line Merchandising offers a new approach for branch merchandising that can practically eliminate range fragmentation in seasonal fashion products while simultaneously reducing manual effort.

In each of the three branch merchandising phases, fashion line merchandising introduces automated approaches that address the unique challenges of fashion businesses.

Phase 1: Balancing initial allocations and stock for replenishment

Fashion Line Merchandising allows a fashion business to allocate the preferred proportion of the season's total buy at the beginning of the season while simultaneously extending the life of replenishment stock. This means that shops can be allocated enough stock at the beginning of the season to avoid missing sales and, at the same time, any stock gaps in top-performing stores are still being re-filled in the middle of the season.

Fashion Line Merchandising extends the life of replenishment stock by reducing target store stock levels just before warehouse stock of a particular product is exhausted.

By reducing target store stock levels, replenishment can be reserved for top-performing stores that need stock to fill a gap in their range. By rationing stock in this way, availability is maintained longer through the life of a line, particularly where it is needed most - in the stores where the product is most popular.

Phase 2: Adjusting store stock level targets or plans

Fashion Line Merchandising allows store stock levels to be adjusted in line with sales performance quickly and confidently despite the limited sales data available.

The first way that this is achieved is to base the stock adjustment decisions on the total sales of that product in a store, rather than considering each size in isolation.

So, for example, if a store is selling a lot of small and large sizes and only a few mediums, Fashion Line Merchandising will add together the sales for all small, medium and large sizes to draw conclusions about the success of that product in that store. Total line-level sales data is usually just enough to identify statistically significant trends over a small number of weeks.

Once a conclusion has been drawn from this line-level sales data about the relative performance of a store with a particular product, the stock is also adjusted at line level.

In our example, if a store is selling more small and large sizes than expected, and a conclusion has been drawn that the line is performing very well in this store, the target stock in the store will be adjusted upwards in proportion to the normal bell shape size curve that reflects normal demand.

This may mean that stock of medium sizes is increased even though this store has not been experiencing higher than expected demand for this particular size. Although this may seem counter intuitive, it is the best prediction of future demand that the sales data allows.

There is enough data to identify that this is a store that is selling the product well but not enough information to draw the conclusion that medium sized people are not attracted to the product in this area.

Phase 3: Stock consolidation

The Fashion Line Merchandising approach to stock consolidation ensures that stock distribution can continue to be managed after warehouse replenishment stock has been exhausted.

The approach ensures that stock is directed towards stores that are experiencing high sales and is moved out of locations where the product is not selling. It also ensures that movements only occur when absolutely necessary.

The approach involves nominating which stores are able to request that stock is sent to them and which stores can donate stock. This is achieved by a combination of target stock levels and rate of sale thresholds.

So, for example, a rule could be established that stipulates - if a store selling more than five units a week runs out of a particular size, it will trigger an automatic inter-branch transfer from a store that is selling less than one unit per week.

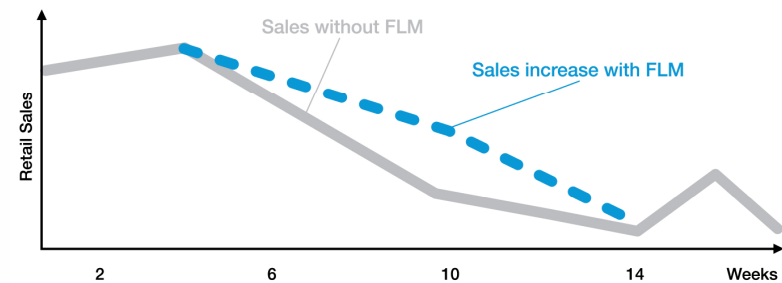
In this way a product would move from a shop that is almost certainly not going to sell this product before the end of the season, to fix a fragmentation problem in a store that is likely to continue to be successful.

Conclusion

Towards the middle of a season, with a traditional branch merchandising approach, fashion retailers find their stock is fragmented and not positioned in the best performing stores. The result is inevitable - a loss of potential sales and higher levels of stock markdown at the end of the season.

With the new Fashion Line Merchandising approach, retailers can be sure of maintaining stock availability in key stores throughout the season, resulting in higher sales and customer satisfaction. Results can be impressive with sales increasing by 10%+.

Fashion Line Merchandising can be implemented, and branch merchandising fully automated, without the replacement or modification of existing systems.



Fashion Line Merchandising maximises sales by maintaining in-store availability during the season

About Prologic

Our consultancy, software and services allow our customers to manage every area of their fashion retail business operation better – from merchandise planning, through supply chain management to multi-channel Point of Sale.

Some of the UK's most successful fashion companies work with us to meet the challenges of a rapidly changing business environment, including: Paul Smith, Hobbs, Ted Baker, TM Lewin, and Fat Face.

Visit www.prologic.com to learn more about Prologic.

Contact us for more information about our products and services.

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