

Unraveling the Mysteries of Assortment Planning – Executive Summary



Presented by:
The Parker Avery Institute
the education, training and research unit of The Parker Avery Group

Executive Summary

In determining our 2015 research agenda, we mulled over quite a few areas, including pricing strategies, store operations, product lifecycle management, retail branding and more. However, through countless discussions with our retail clients and colleagues, there lately seemed to be a common thread: **the strong desire to better understand Assortment Planning**, how it fits into the overall merchandising environment and how to successfully take advantage of its capabilities as a strategic advantage.

Parker Avery's main objective in conducting this study was to unravel some of the mystery on the topic and shed light on current Assortment Planning practices and objectives, including what elements are most important to retailers, the challenges that exist and plans or considerations for the near future.

As retailing has gone through its many evolutions over the past century, the importance of understanding consumers' desires and expectations has prevailed, almost always driving the selection of products sold through retail's varied channels. Regardless of new technology, store development plans, and innovative allocation, fulfillment and marketing efforts, if the assortment does not match a retailer's target consumers' needs, even the most sophisticated efforts in other areas may be rendered fruitless.

Complexities and Objectives

Through our observations, we have concluded that the many variations in comprehending Assortment Planning is due to a combination of factors:

- Assortment Planning needs are very different based on the number and type of sales outlets
- Intensity of Assortment Planning activities depends on the amount of product "newness"
- Responsibility crosses organizational groups
- In space-intensive categories, Space Planning trumps Assortment Planning
- Assortment Planning software is only now reaching the level of sophistication and flexibility to truly support the activity

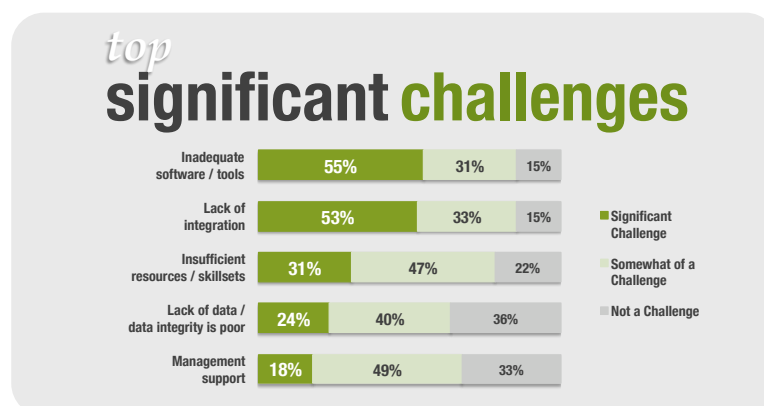
Because of the varying perspectives on Assortment Planning, it is difficult to isolate a "standard" definition of the term. This was evident when we asked study participants about Assortment Planning objectives. For over half of the retailers in our study, the **top objectives included**: developing different assortments by cluster, developing different assortments by channel and quantifying sales at the style / color level. These objectives were followed very closely by: planning sales by product attribute (such as color, fabric or brand), and quantifying purchases or receipts at the style / color level. This wide range of high priority objectives demonstrates one of the fundamental challenges with Assortment Planning: **retailers strive to achieve a vast number of different goals with this capability.**

over half
identified these as **top objectives**

- **develop different assortments by cluster** (57.4%)
- **develop different assortments by channel** (54.1%)
- **quantify sales at the style / color level** (52.5%)

Challenges

When it comes to **Assortment Planning challenges**, our retailers considered two issues to be standouts and almost equal in significance: inadequate software / tools and lack of integration. Related to both of these, we confirmed our hypothesis about pervasive use of spreadsheets in Assortment Planning. What we did not expect was how very prevalent this is – roughly 71% of retailers in our study use spreadsheets for at least some aspect of Assortment Planning. Albeit, spreadsheets are sometimes coupled with another solution, but this is still a higher proportion than we anticipated. At nearly 40%, custom developed applications were cited as the next most widely used. It seems that while most retailers are using a combination of tools, this mixture frequently does not involve a commercial software solution. Another surprise was that none of the software vendors who have Assortment Planning offerings surfaced as having meaningful penetration in the retail market – despite the fact that many vendors have been strategically focusing efforts on supporting this space for over a decade. The relative prevalence of spreadsheets and custom developed applications would seem to indicate dissatisfaction with commercially available solutions.



Despite the lack of more advanced solutions, we found that 37% of our study respondents have no plans to implement a new solution – a relatively high number, given the admitted challenges of insufficient tools and poor integration. However, a solid 58% are in some stage of planning or implementing a new solution to support desired Assortment Planning capabilities.

Highlighting the integration challenge were responses about current and planned integration with other existing systems, where we found that the combination of “no integration” or “not integrated but planning to” beat responses for “currently integrated” for merchandise financial planning (MFP), purchase order (PO) creation, demand forecasting, item creation / product lifecycle management (PLM) and space planning. Topping the list of solutions currently integrated with Assortment Planning was merchandise financial planning with 44% of respondents citing integration.

Following closely on the heels of tools and integration, respondents named resources and skillset as the next most prevalent challenge, meaning the organizations simply do not have the people, bandwidth or expertise to effectively execute complex Assortment Planning activities. Separately, we asked which group within their company was responsible for Assortment Planning; 59% responded that the merchandising / buying organization perform this set of tasks, while 28% of respondents said that the planning organization held the responsibility. Given the multiplicity of other responsibilities on a buyer's plate, it is no wonder that insufficient resources are available for Assortment Planning. Also, we have observed that in many organizations, the skills required to be a successful buyer do not necessarily match those required to be a top notch assortment planner, leading to a perceived gap in expertise.

Other challenges include a lack of data and / or data integrity and leadership / management that does not visibly understand or support Assortment Planning capabilities. While these both were cited as *significant* challenges in less than a quarter of our respondents, over 60% identified both as some level of a challenge to effective Assortment Planning. It goes without saying that the downstream impacts of

insufficient and “bad” data can result in inefficient processes, poor decisions and – ultimately – an ineffective Assortment Plan that does not meet consumer needs or strategic objectives.

Current Practices & Desired Capabilities

In the study, we dove into additional detail regarding time frames, use of clusters, other types of planning performed, relationship with merchandise financial planning (MFP) and how different product types are handled within Assortment Planning. Our findings in these areas underscored our initial statements and hypotheses about the varying definitions and uses of Assortment Planning.

We conclude the study by discussing capabilities desired in the “ideal” Assortment Planning solution. The majority of our participants identified the following as “very important” capabilities: linkage to MFP, the ability to begin planning with a conceptual item / placeholder, linkage with PLM solutions for item creation and lastly, linkage to allocation / replenishment. These same capabilities were deemed of some level of importance for over 90% of our respondents.

Final Word

In our opinion, Assortment Planning holds tremendous value for retailers in tapping capabilities to more closely align offerings with consumer needs. To do it well, however, key prerequisites include: putting the appropriately skilled resources and collaborative environments in place for successful decisions that align with consumer needs; understanding specific business requirements and identifying the correct solution set that will enable Assortment Planning capabilities (where tools and solutions are inadequate); and performing the requisite system and process integrations to take full advantage of technology investments. With these as a foundation, retailers will be able to concentrate efforts on closely aligning their product offerings across all channels to the desires of their target consumers.

The Parker Avery Group

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