

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

This issue's article was written by long-time associate Terry Donofrio, president of Retail Systems & Services. I had approached Terry with my belief that there is still a gap in coordinating merchandise plans with assortment plans, with the space planning, with the physical space available in individual stores.

Terry agreed to write what I think is an insightful article which predicts the future state of the art. Enjoy!

Bob Amster
Principal

Make the Plan Fit the Space

One of a retailer's main objectives is to satisfy its customers' changing demand for product at diverse store locations. While Store Assortment Planning addresses the product strategy and product quantities based on store characteristics, there is still another essential element in the process - **Space**. Assortment Planning is only one part of the equation to provide the right product in the stores. A Space Plan addressing the space utilization must be formulated in conjunction with the Assortment Plan. A successful retailer needs to consider how

it will utilize available Space based on sales and inventory plans as well as its assortment definition.

Today many retailers consider the "visual" side of space planning i.e. how the stores will look and how product will be displayed. However, there is a quantitative side to addressing space. The Merchandise or Financial Plan considers the sales, inventory, receipt and margin interaction at a product level (e.g. Dept and Class). That Merchandise Plan, when driven to store level, provides the basis for store performance and the necessary guidelines for the store assortment. In addition, it is necessary to address the store capacity based on physical constraints and the layout and fixtures needed for the product. Bringing together the store plan, the assortment plan and the fixture/layout considerations is the focus of Space Planning. This quantitative or mathematical side of Space Planning is now being considered as part of the integrated Advanced Planning Methodology: Merchandise Planning, Store Planning, Store Clustering, Assortment Planning and Allocation/Replenishment (see Chart 1).

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Now let's discuss the Space Planning methodology.

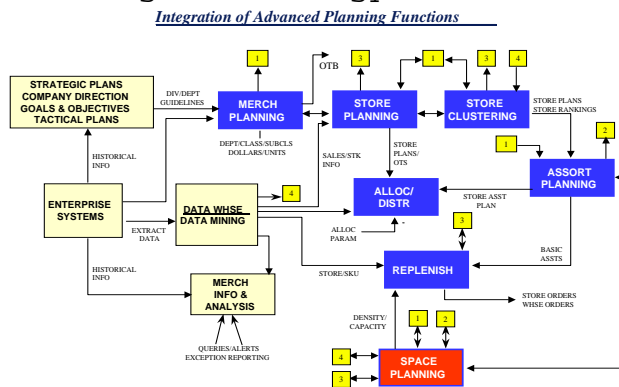


Chart 1: Advanced Planning Interaction/Integration

Space Planning Methodology

To address Space Planning, it is necessary to consider three key factors:

- Capacity Relative to Physical Constraints
- Targets Based on the Plan
- Utilization of Space (Fixtures and Sq. Ft.)

Let's take a careful look at each of these factors:

Capacity

When considering Capacity, the retailer needs to start with available space (sq. ft.) at a Department/Class or Department level and also consider the fixtures necessary for the various types of products in the assortment. The fixture needs are determined based on considering the number of units that can be displayed as well as the density considerations. For example: a standard hanging fixture

might hold fewer coats than tee shirts. Some retailers have even chosen to consider a "Factored or Weighted Inventory." A standard product like a tee shirt might be considered a 1.0 in terms of space utilization. A coat or other similar item might be "normalized" to a 2.2 based on space requirements. The inventory needs (units) would then have these normalized weighting factors applied to determine "Factored Inventory" levels: e.g. 1000 tee shirts and 200 coats would be $1000 + 440$ or 1440 factored units. Fixture and space capacity can then be determined mathematically based on the inventory plan in the assortment. The last part of the Capacity considerations addresses the physical layout of fixtures in the store, i.e. how many fixtures are placed in various areas (zones) within the store. The available space, layout, type of product, density and overall store configuration all are factors that impact the Capacity.

Targets

The Targets provide the plan for the units of inventory that will help determine the necessary layout within the available space in the store. The process starts with a Merchandise Plan at a Department/Class (and possibly

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Subclass) level in Dollars and Units. The Merchandise Plan addresses both the inventory targets and receipt flow as well as margin considerations. As part of the planning process, we begin to tie together performance and space with sales and inventory per sq. ft. These performance measures help us consider the utilization of space even as we build our Merchandise Plan. The Merchandise Plan is then broken down by store to provide sales and inventory targets for the store assortments. Now the assortment must be added to the process. The number of styles, colors, sizes and other product characteristics are considered to provide the assortment definition and product targets. Based on the assortment definition, a full Assortment Plan is developed and store level unit inventory values are determined. At this stage we can now bring together the Capacity and Targets to determine the optimum utilization of space.

Utilization of Space

The Capacity considerations, together with the store level sales and inventory targets, the assortment definition and the Assortment Plan define the basis for the Space utilization and final layout. The number of styles, as well as units of inventory, is

combined with the Capacity considerations to generate a fixture plan and requirements. The number of fixtures and variety of fixtures (hanging, tables etc.) are defined. The result is a final store layout that quantitatively addresses both, the Store Plan, the Assortment Plan and the overall store Capacity. Following this approach leads to a Space Plan that is coordinated with the Store and Assortment Plans. At this point we are able to validate the Merchandise and Store Plans against the Store Assortment and Space Plans. Inconsistencies can be determined and modifications can be made to the appropriate plan. Often this coordination of all plans is an interactive process with both top down (Merchandise/Store Plan) and bottom-up (Store Assortment and Space Plan) adjustments necessary.

The Gap

There can be a gap in the traditional planning processes if there is no real attempt among retailers to actually reconcile the physical space available for fixtures, merchandise, and customers in individual stores or even groups of stores, to the merchandise and assortment plans created at the top.

The Solution

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The solution is to implement an assortment planning tool that is based on the results of having refined a space planning (physical merchandising) layout for each type and/or size of store. While it is often not practical to develop a unique layout for each store in a chain, automating the process of space planning enables a merchandising organization to consider a number of store groups that are similar in size and layout. Once this is done, and if the retailer desires, individual store's assortments, down to size and color, can be adjusted to fit the exact physical constraints of each store. These results can be compared to the merchandise planning targets to validate the space planning and assortment approach.

Some space planning solutions offer the collateral advantage of generating a highly-visual, ready-made directive to the stores that the stores then have to execute. Each store's physical layout can be posted on the company's intranet for continuous reference by store personnel.

Space Planning - Summary

As retailers begin to consider all the elements of Advanced Planning, they are integrating

the systems and processes, applying automation and addressing optimization techniques such as forecasting. Space Planning will be considered a major element of this Advanced Planning integration. From a process point of view, the Space Plan provides the validation point to check that both Assortments and Space match the Targets defined in the Merchandise and Store Plans. By adding Space Planning to our Advanced Planning process, we bring together two critical resources: Inventory and Space.

From a resource perspective, the complete Advanced Planning process requires the collaboration between planning, merchandising, visual merchandising and store operations (visual store planners). This joint effort will ensure that all aspects of the assortment presentation are given the time and effort necessary. By coordinating these resources in an organized manner, we improve our customer environment and our ability to meet customer demand.

Terry Donofrio - President
Retail Systems & Services

WHAT'S NEW

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You can read about us at www.RetailTechnologyGroup.com.

Tommy Hilfiger

We are pleased to announce that Tommy Hilfiger selected RTG to conduct a POS software evaluation project for the company's retail stores.

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