How to Succeed in Retail When Consumers Hold All the Power

Four Foundational Steps to Integrate Merchandise Planning and Product Development

by Sonia Parekh and Hala Hassoun

Rapid innovation in the retail industry has created a market where consumers have more information, more choices, and more influence than ever before. As power shifts towards the consumer, retailers struggle to keep up with evolving expectations. Earlier this year, we published a piece on the importance of an Integrated Planning Approach. Now, we’d like to focus on how critical it is for merchandise planning and product development teams to work together to ensure that the right product gets to the right channel at the right time.

The Importance of the Merchandise Financial Plan

Everything begins with a solid Merchandise Financial Plan, initiated from senior management and then strategized by the planning teams. This plan becomes the framework for all decisions, from cash flow to factory selection. The plan must be approved in the timeframe dictated by the corporate planning calendar so that the merchandising, design and product development teams can begin their own processes with the planning team’s input. Approving and sharing the Merchandise Financial Plan too late in the calendar can lead to inaccurate cash flow projections, inefficient design processes where product categories are over or underdeveloped, and ineffective sourcing decisions that impact minimum order requirements and production capacity. This constant volatility leads to low adoption rates, over-sampling, increased production costs, and a host of other issues that ultimately impact the bottom line.

Leading Practices for Integrating Planning and Product Development

Capabilities and Processes

To address these issues, leading companies work to improve capabilities in both product development and merchandise planning, and try to close the gap between the two. On the planning side, they invest in advanced analytics to arm planners with better information to make decisions. They refine their planning processes to ensure integrations across all planning functions and they implement new software to support these processes. On the product development side, they redefine processes to ensure there is close integration between design, development, sourcing and other teams while new Product Lifecycle Management (PLM) technologies support the end-to-end processes. Despite these numerous investments across the organization, companies can still find it challenging to align the work being done by multiple and distinct groups.

Systems

In order to bridge the gap between the different functions and truly integrate planning and product development processes, companies need to leverage a merchandise planning system that is integrated to systems used by other functions, such as PLM. Connecting the merchandise planning and product development systems ensures that changes or modifications are automatically captured, decreasing the time spent accumulating data and increasing the time spent analyzing it. This leads to approvals and sign-offs that are more in line with the corporate planning calendar, allowing the design and product development teams to begin their work armed with accurate planning data.

Four Foundational Steps for Continuous Improvement

The integration between planning and product development shouldn’t just stop with the systems. Based on both the market pressures and the complexity of merchandise planning process, cross-functional partners need to work together to continuously develop and refine the plan.

Here are four foundational steps that enable continuous integration between planning and product development:

1. Make sure that the merchandise planning and product development/design teams are both working from the same information. This begins with a Conceptual Assortment Plan (CAP). By creating a CAP early enough in the process, planning can provide the design team with high-level direction before any product development begins. It also ensures that design is creating product to meet the business needs while still giving them enough freedom to create trend-right products. With a CAP as a starting point, both teams are moving in the same direction and towards the same strategic goals.

2. Plan a separate CAP for each channel to ensure different product strategies and business needs are addressed. By breaking out the product needs for retail, wholesale, and e-commerce, planners can identify the right assortment breadth and depth that will maximize each channel’s sales. Design can then focus its efforts on creating the right mix of product to address each channel’s unique needs.
3. Incorporate market feedback into the assortment plan as early as possible. This can be through early product testing, customer feedback, or product previews with key accounts (if you are a wholesaler). Share this feedback with design and product development to allow them to refine and change their product designs based on customer input. Incorporating customer and market feedback early on helps reduce the need for re-work and products adds later on in the process.

4. Strategically plan for chase product. There will always be unexpected changes or late adds to an assortment. This can come from anywhere, such as a specific request from a key wholesale account or a new product trend that the design team feels strongly about. Keeping a percentage of the assortment open as chase will give teams the flexibility to add late products to the line without disrupting the rest of the development. Planning ahead will enable the planning team to remain nimble when new requests arise.

Integrating the planning and product development/design teams, processes, data, and systems can drive significant business benefits, both strategically and in quantifiable terms. Strategically, companies attain tangible competitive advantage by working faster and reducing time to market. Their designs and products do a better job of meeting consumer needs because decisions are made closer to market. This capability has a direct correlation to improved customer service and relationships. Companies can also achieve significant reductions in material costs due to more effective cost management in PLM, better order accuracy due to data-driven demand planning, and improved inventory management due to increased visibility to products across all channels and regions.

As omnichannel commerce continues to put pressure on manufacturers and retailers to continuously innovate and improve, we expect to see greater integration between merchandise planning, product development and sourcing activities. Aligning planning, merchandising, product development and design will enable organizations to better anticipate and meet customer needs. And in an ever-evolving marketplace where the customer has all of the power, staying in step with them is essential to remaining strategically relevant.

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