



## EVOLUTION OF THE 5 R'S OF MERCHANDISING

### Abstract

As the world is progressing towards the post pandemic era, almost every industry is debating on their priorities and processes while keeping customers at their core. This change is led by the evolving customer behavior, which albeit started pre-pandemic, but got further accelerated during and post pandemic. In this POV, our focus will be on one such key process of the retail industry i.e., Merchandising.

Merchandising, which used to be a pure product-centric process is now shifting focus to be more customer-centric. The previous siloed method of merchandising needs to be even more inclusive of the other functions in the industry to be able to deliver a pleasurable customer experience. This supported by technology and having the ability to view data through an analytical lens, is what the merchandisers need today. The 5 R's or the pillars of merchandising are evolving with these changes in customer preferences.

## The 5 R's of Merchandising

Merchandising deals with ensuring that the **Right Product** is available at the **Right Place**, on the **Right Time**, in the **Right Quantity**, and at the **Right Price**. It includes any practice(s) which leads to the sale of products to a retail customer, in other words it is the process leading up to a sale.

While Visual Merchandising (or VM) is more of a front-end function pertaining to the display of products and the store set up to attract the attention of the customers, the Retail Merchandising is more of a back-end function concerned with the arrival of the product at the retail stores in time for sale. This involves careful planning, implementation, management, and analytics. That's why in many organizations Retail Merchandising is also commonly referred to as Retail Planning.

Customers today look for an exceptional buying experience and prefer hybrid shopping methods which suit their convenience. There is a rise in the percentage of customers who are opting for ecommerce, social commerce, live commerce, omnichannel retail and values-driven consumption. In order to be relevant and preferred by a customer, the retailers need to be equipped with the right kind of resources to fulfill these expectations.

Let's see how these 5 R's of Merchandising are evolving and how their definition should change, given the change in customer preferences.

Recently I was looking for a black dress for an event and I chanced upon a sponsored social media post. I clicked on the link to see the product details, which took me to their website, and I decided to buy it from there. One of the delivery options allowed me to pick it from an available outlet close by and I opted for it.



**RIGHT PRODUCT** – The product details on their portal and availability of the dress in all its variants across their outlets is what defines it being the **Right Product**. But the fact that this brand had provided a hybrid shopping experience to me, takes it a step ahead than just being the Right Product. They adapted to a change in consumer behavior, the change being the freedom to shop from your preferred channel. Through an Instagram algorithm, I was able to see the sponsored dress and it took me to their store for the pick-up.

The Right Product recommendations and suggestions is also a key in driving this, for example, [Dynamics 365 Commerce](#) offers personalized recommendations for customers in reference to “New”, “Best Selling”, “Trending”, “Frequently bought together” etc. However, it is not only the product, but the packaging that also needs to be worked on. Customers now are very aware of their







consumption patterns and want the retailers to drive it so that customers can follow. According to Nielsen, a leading global provider of information and insight into what consumers watch and buy, 73% of global consumers surveyed would or probably changed a behavior to reduce their impact on the planet. [ <https://www.nielsen.com/wp-content/uploads/sites/3/2019/04/global-sustainable-shoppers-report-2018.pdf> ]

It is essential for the retailers to incorporate elements of sustainability in their product offering. The use of sustainable materials, ethical sourcing and practices for workers, options for handling returns and slow-moving products, all these form a very important part of the customer's purchase decision. Many retailers are offering ReCommerce options as well to customers and providing transparency into the product details like a Product 360 view w.r.t its manufacturing sources, material information etc.

So, it is not just necessary for the product to be available across all possible channels but considering the changes in the retail landscape, retailers will need to **"Rethink Product"** before they are made available for consumption.



**RIGHT TIME** – When I chanced upon the black dress on social media, the timing for the product discovery on social media and the timing of its availability at the store for consumption is what

I define as the Right Time. In merchandising terms, Right Time is when a customer discovers the product at the time, they are expecting to find it. For instance, the merchandisers are doing a great job by making the winter season a success by launching the Winter Range in stores on time, or by launching products for other seasons/festivals in a timely manner. As discussed

earlier, when a marketing event is planned for a store/channel, it is imperative that the products being highlighted during that event are available for sale at that time across all their channels of distribution.

The time here refers to the lead times that merchandisers need to bear in mind before they are placing the production orders. This lead time for supply ordering is done in a manner that it doesn't end up reaching too early before it is needed, as it then increases the storage costs, nor too late to result in loss of sale.

This lead time today has changed to "now" for the customers across all possible channels of distribution. When I saw the black dress available online, I expected it to be available for store pick up immediately because I had no time to wait for the dress to arrive from their normal online ordering route. The challenge for the merchandisers is to ensure the products are available "now" omnichannel.

It may sound absurd that as a customer I expect a winter jacket to be available for sale in peak summer season. But if I have to travel to a cold place in summers, and if the retailer is able to provide me with a few options in winter jackets, through any of their channels, I will call it the Right Time.

Retailers are using the Production Planning Systems in Dynamics 365 to help calculate the supplier-to-store distribution lead times based on historic data, in an optimized manner. Through the Dynamics 365 Intelligent Order Management capabilities, they are also able to arrive at risk mitigation measures in case there are delays expected.

Not just this, with the use of computer vision, machine learning



**EVERYDAY VALUE**

Food

Desserts

Vegetables

Meat

Fish



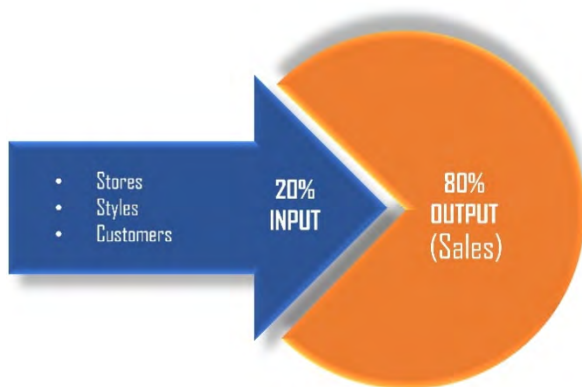


and AI, retailers are trying to track customer movement within the store and plan their timings accordingly like shift timings for the staff based on peak hours or planning category-based events based on the customer traffic data. A perfect example of this would be Marks and Spencer, one of Britain's most known retail brands. Every M&S store has been leveraging this technology to track, manage, and replenish stock levels in real time, and deal with the unexpected. [ <https://medium.com/@ryanhanau/4-artificial-intelligence-examples-how-retailers-are-reimagining-the-shopping-experience-4d6df27d0963>]

With the changing preference of customers to get the products "now", retailers need to work with cross functional departments to "**Rectify Time**" to "now" and ensure the products are available everywhere.



**RIGHT PLACE** – In merchandising language "Right Place" means the product being available in the right place based on the retailer's seasonal launch plans and promotional strategy. In my search for the black dress, there was not one but three Right Places for me during my experience with the brand. Retailers today are targeting to provide a hybrid shopping experience to their customers. With ecommerce and quick commerce, there is an additional location added for distribution, micro fulfilment centers or dark stores. To provide a seamless experience to their customers, merchandisers need to ensure the products are available across all locations. It may sound easy to ensure availability across all locations for products, however, this isn't possible to do for all products.



Merchandisers world over follow the 80-20 rule

Merchandisers across the globe have been following a thumb rule of 80-20 (also known as the Pareto Principle) while working on the product assortments or product ordering, which if put simply, means that 80% of their business is coming from 20% of their stores/product offering. These are informally referred to as Top Stores and Top Sellers. So, when the assortments are being planned, the impetus is on these top sellers and top stores. Retailers now are mostly taking the help of ERP systems to arrive at the stock levels and assortments per store, and with the help

of these systems the top stores and top sellers are further refined and defined. [Dynamics 365 Commerce](#) provides assortments that let you manage product availability across channels. Assortments determine which products are available at specific stores and during a specific period.

The definition of "Right place" in today's world should include places that are more than just being available across channels/ locations.

- It must include visibility of the merchandise across locations. For example, endless aisles at stores enable customers to view the product availability throughout the retail chain, for all the styles in the assortment. This helps in retaining your customer rather than leading them to competitors.
- It is also important where your product is appearing on your website; recommendations, frequently bought, with the help of keywords for product discovery, product tags etc.
- The product placement in the store as per the marketing promotions is utmost important. As discussed previously, Marks and Spencer are doing a great job in being able to track the customer movement to understand the ideal product placement in the stores.

All these additional required capabilities within "Right Place" are compelling the merchandisers to "**Redefine Place**".



**RIGHT PRICE** – Arriving at the right pricing to sell your product to the customers is very important. This price should be in line with how your product is positioned, both in terms of your marketing strategy as well as in the minds of the customers. Armani, the Italian luxury fashion house, has different pricing strategies for all its labels like Giorgio Armani Privé, Giorgio Armani, Armani Collezioni, Emporio Armani, Armani Jeans, Armani Junior, and Armani Exchange. All these labels cater to a very distinct target group and their positioning is very clear in the minds of their customers.

Along with the positioning, the base rules for pricing must be kept in mind. The price should cover all the costs and include profits. Pricing strategy also needs to involve competition pricing. Most retailers follow the cost-plus pricing, where a merchandiser works out the total cost of the product and then adds a profit or mark-up to arrive at the selling price.

But the term "**Right Price**" should now have additional factors added to its definition, thereby renaming it as "**Review Price**". Let's see how it is changing.

With products being available across channels, price parity is the need of the hour. As customers, if we find a product with multiple prices across channels, it sends out a very unclear message about the retailer's pricing strategy. Handling price parity is the toughest challenge faced by retailers today. To tackle this challenge there are various pricing tools available in the market with Price Intelligence Analytics which can help to track your prices across

channels, pricing history, competitor's pricing, and product movements etc. The [Dynamics 365 commerce pricing engine](#) supports most business-to-consumer (B2C) pricing scenarios, such as store-level pricing, affiliation-based and loyalty-based pricing, mix-and-match discounts, quantity discounts, and threshold discounts.

Another important part of pricing strategy is markdown and discounting during clearance sales. Markdowns are normally done for products that cannot be sold at their original selling price and may sell better if marked down. This can prove to be a smart strategy for attracting customers if done correctly. Unsuccessful markdowns and discounting strategies mostly lead to confused customer perceptions and lower margins on products.



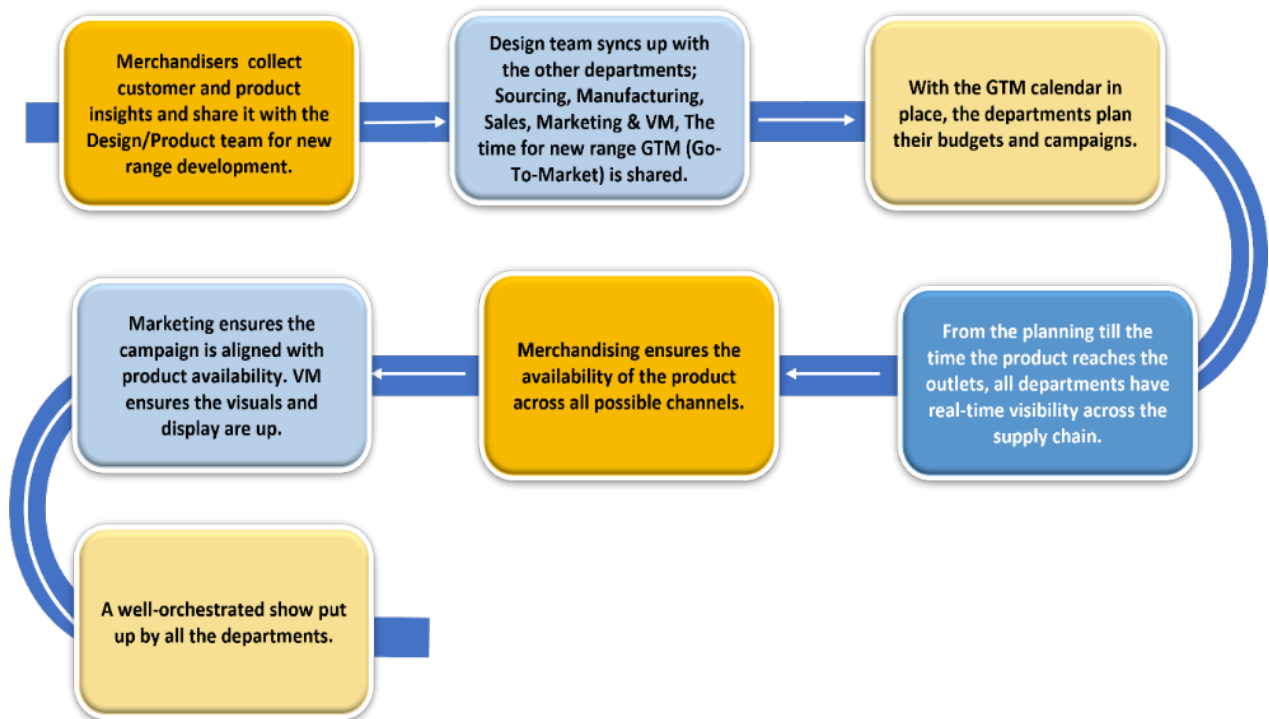
**RIGHT QUANTITY** – In general terms, having the Right Quantity simply means having an adequate amount of stock on hand to avoid loss of sales, and not holding excess inventory which would lead to increased storage costs.

“Right Quantity” is one of the most important KPIs of a merchandiser which requires them to accurately forecast future sales and arrive at a purchasing budget. This purchasing budget, also known as the OTB (Open to Buy) drives the entire forecasting activity. All purchases are OTB bound and cannot exceed this budget. This KPI is for the overall product purchase quantity for the category as well as the quantity that needs to be sent to the stores/channels. It also considers, the slow moving/old/dead stock that blocks the working capital thereby reducing the OTB. Hence, along with adding stocks it is equally important to liquidate the ageing inventory.

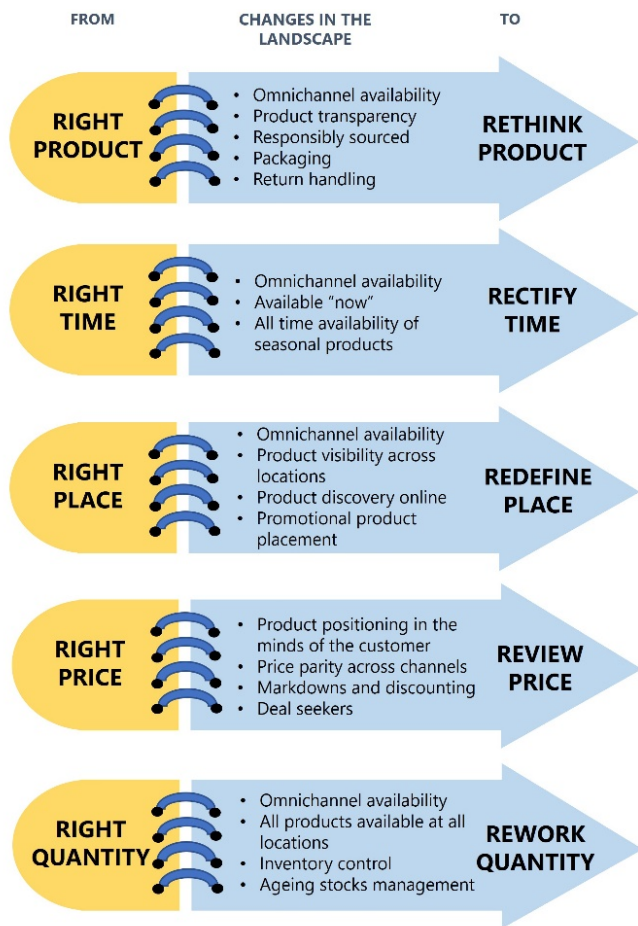
Retailers are adopting the inventory management capabilities of ERP systems to carry out these activities more efficiently. It also helps with multi-channel order fulfilment as per the store wise assortments. Using Dynamics 365 Supply Chain Management one can monitor and synchronise logistics across all facilities and warehouses, improve order fulfilment, and get AI-driven predictive insights to help you quickly identify issues.

One of the key reasons why hybrid shopping will be a success is the availability of products across all possible channels of distribution. This includes availability of merchandise at the physical stores as well as online store warehouses (dark stores, microfulfilment centers and central warehouses). Arriving at the right quantity earlier was simple by just planning the quantities and assortment for the physical as well as online stores. But now with the addition of multiple channels, it is a mammoth task to work the assortments, maintain buffer stocks and fulfill the order quantities across to ensure a pleasurable customer experience. With the increase in the number of locations for merchandise availability, there is bound to be an increase in excess inventory. We need to address and include these new challenges in the last Right of Merchandising thereby changing it to being more than just the Right Quantity. We need to **“Rework Quantity”** to accommodate the ever-growing customer needs.

Now that we've seen how these 5 R's of Merchandising are evolving, let's go through how various departments are working together to make it a pleasurable experience for the customers. (Refer to the figure below)



Inter department collaboration



**EVOLUTION OF THE 5 R's OF MERCHANDISING WITH THE CHANGES IN THE RETAIL LANDSCAPE**

Many retailers today are making this inter department collaboration seamless with the use of ERP systems like Dynamics 365 that allows them to get a visibility into each other's functions by being able to generate and share reports and automate tasks.

Summarizing the evolution journey of the 5 R's of merchandising in the figure below.

The terminology for these R's must change, considering the changes in the retail landscape. We are not implying that the merchandisers are not aware of these changes, and they aren't already working in this direction. The discussion was about the evolution and the transformation of these 5 R's and how these R's now need to include the highlighted capabilities that will change their original definition. Their scope may even go beyond just the merchandising functions.

Technology plays a major role in supporting these capabilities. There are numerous tools available in the market which will assist with major activities in merchandise planning. For instance, Demand forecasting and planning, Assortment planning, Product cataloguing, Pricing Analytics, Inventory management and optimization, Product transparency, Product 360 view, Returns management, Omnichannel fulfilment, Inventory visibility etc. Microsoft's Dynamics 365 product stack helps to support most of these activities through Intelligent Order Management, Commerce, Connected Spaces and Supply Chain Management which form a part of their ERP offering.

Merchandising is like the dark horse of the Retail industry, not many would write about this function or may not be able to understand it's importance, but it forms the basis for the retailer's success.



In the words of David Nicholson, "The merchandising is where the real profits are made."





## About the Author:



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Deepika Khare is a Senior Consultant in the Retail Domain with Infosys. She has over 13 years of experience in the Retail Industry, specializing in Retail Operations, Product Merchandising and Category Management. Her role comprises of lending a domain perspective to understanding client pain points and evaluating the possible solution options. Her current area of interest is building new solutions in the Retail space spanning across customer and employee experience, leveraging the Microsoft Dynamics product capabilities.

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