

Juggling Stats?

by Andrea Syverson

Holistic merchandising metrics separate wheat from chaff

Multichannel merchants are born multitaskers. They juggle the planning of multiple seasons and offers, industry macro and micro trends, numerous categories, SKUs, forecasts, vendors, inventory levels, management expectations, channels, customer feedback, product reviews, creative input, trips for sourcing, and product development processes. Their time — your time — is precious and must be used strategically.

Multichannel merchants are forced to be experts at editing and sifting wheat from chaff. They continually ask themselves, “What really matters?” when it comes to evaluating the health of a product portfolio. It’s easy to get overwhelmed and/or stuck in a sea of statistics.

With that in mind, here are a few suggestions for merchants and marketers wanting to take a holistic view of their product lines — post-square-inch analysis:

First, find out what matters to management right now. In today’s short-term business world, goals change quickly. Ask these questions about your main priorities this year:

- Is this year’s priority increasing top-line sales?
- Improving bottom-line profitability?
- Growing the housefile?

Merchants need to be key players at their companies’ strategic planning tables, as they’re integral to helping a company achieve its goals. With merchants working anywhere from six to 18 months out, they must attain a clearly communicated vision from the top.

Metrics That Matter

Simplify your metrics dashboard, but use one. Lauren Freedman, president of the e-tailing group, confirmed the problems that merchants and marketers face in the industry survey on pg. 23.

A simplified, user-friendly dashboard of key product indicators would help solve these problems. With collaboration, insights and management buy-in, merchants

should look to monitor no more than one to three relevant-to-their-business metrics that are clearly actionable. These metrics should be true dashboard alerts, signaling when things are going well, not so well and when the danger zone is approaching.

Without this kind of transparent communication tool, merchants can drown in a sea of irrelevant data points. As master product-line editors, merchants need to use those same pruning skills to hone their analytic reports.

“As time compression dominates most of our lives, the purchasing catalyst has never been more intriguing,” says Chris Tso, director of merchandising of technology products at music equipment cataloger Musician’s Friend. “When analyzing product performance levels, I refer to a balanced view of traditional catalog metrics, matchbacks and sales across channels. As customers become more channel-agnostic, knowing what makes the customer’s heart beat and multiple left-brain metrics provide direction for our merchandising decisions.”

While reviewing various unit metrics, Tso keeps a holistic view of product demand. How, when and where customers shop continue to shift as technologies “transform how we live, making merchandising metrics more thought-provoking.”

Monitor Product Life Cycles

In the fray of managing a large product portfolio, merchants can lose track of individual product life cycles. The top, brand-enhancing product winners are given attention (colors updated, prices evaluated, bundling or cross-sells considered), but the middle-performing products can be neglected. How long have they been exposed? In which channels? At which price points? In what types of presentation? Are they truly tired or just in need of a bit of merchandising TLC? Perhaps some minor modifications can re-energize those mid-performing products and extend their life cycles before sales suffer.

“Planning item buys to a certain sell-through expectation helps control markdowns,” says Dean White, vice president of merchandising at Paul Fredrick MenStyle. The men’s apparel cataloger protects profitability and forces the demand for regular price sales by limiting the clearance products made available.

Phil Minix, a lifelong merchant and president of computer equipment cataloger MCM Electronics, says his “standby go-to” merchandising metric is a hybrid that “measures the dollar demand for an item within the context of the space it takes in the catalog.”

He indexes this to the average for the whole effort. Anything greater than one is better than average, less than one is worse.

Minix’s metric is expressed as sales/square inches/circulation x 1,000. “I multiply by 1,000 because it’s usually quite a small number.”

Dividing by circ takes out variances in circ from effort to effort and let's you monitor the item's performance over time. "I would then sort all items by this result and draw a line at the one that represented the assortment given the percentage of new items I wanted in the next effort," Minix says. "Everything below the line had to have another reason to stay in the next effort (high units, high margin, etc.). This is great for the starting point of determining what should go forward and what should be dropped."

Category Level

"The real power of analysis," according to Minix, "comes from looking at the category level, not just the item level. Then you know where your customer is guiding you for growth, contraction, etc."

The problem with that metric today is that most multichannel marketers receive so many orders online, but Minix's calculation assumes all sales were driven by catalog presentation. "So I now recommend also looking at items per thousand orders," he says. "This gives you a great idea of the demand penetration the item has. You can create an average for the effort — or for a period of time on the Web — and then index each to the average."

The key to using metrics is finding one or two that narrow what you need to look at, Minix points out. Anything way below isn't good; anything way above "is a no-brainer."

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Exploring a Brand's Lifeblood

A good deal of a merchant's energy, enthusiasm and time go into vigorous new product development. It's a brand's lifeblood. Look at Apple. Not content to rest on its laurels with its best-selling Mac, iPod, iTunes or iPhone products, this year Apple unveiled iLife and iWork. New is part of Apple's DNA, and risk is part of its culture. The strength of a brand-enhancing merchandising program lies in its funnel of new, customer-centric products. A strategic merchandising metric is the robustness of this funnel.

Another strategic merchandising metric is customer involvement. "The must-have Web site metric is an operational measure of *visitor engagement*. A metric that combines brand awareness, visitor loyalty, session duration, depth of visit, recency and qualitative inputs like direct visitor feedback and satisfaction data," says Eric Peterson, CEO of online consulting firm Web Analytics Demystified.

Not only is a merchant's soul warmed when customers post product reviews, blog about a product, recommend products to friends or *gasp* over a product, but merchants also learn a great deal from these customer touchpoints. These

customers are involved, engaged and acting like brand ambassadors. Merchants need to pay close attention to this measurement and do all they can to track the conversation-worthiness of their product lines.

You might get by with just looking at the same old metrics in the same old way, but why not challenge your team to incorporate one or more of these holistic merchandising practices into your seasonal reviews and see what kind of robust conversations your brand can have about your product portfolio this year.

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