

11.15: Retail Buying Organizations

Learning Objectives

- Describe the characteristics and functions performed within retail buying organizations

What are the characteristics and functions performed within the retail buying organization? As you think about the sheer size and the value of each individual industry within the global apparel market, imagine how many functions are performed due to all of the individual contributions.

Retail organization merchandise management functions can be categorized into three main areas:

- Merchandise Operations
- Merchandise Planning
- Merchandise Buying

Keep in mind that not every retailer is national in scope and would have a division of labor with separate departments and even separate individuals performing these functions. Also keep in mind that there are other supporting functions in accounting, marketing, and human resources within retail organizations. However, the functions referenced above support the merchandise management process which many believe to be the heart of the retail business.

Merchandise Buying

Merchandise Buying involves sourcing goods from vendors and wholesalers at the best possible cost to achieve maximum profitability. Merchandise Buying and Planning work hand in hand as the buyer must understand the merchandise financial plan and what products will drive sales in that category. A buyer must be fiscally responsible ensuring they are purchasing goods in line with their seasonal plans (prior to the season) and the Open to Buy (in-season). The Open to Buy calculates how much they have to spend based on the financial sales and inventory plan.

The buyer must also understand the strategy of the company as well as how their category fits in line with that strategy. To understand the customer they must also understand the trends driving the industry. Part of the merchandise buying process is attending trade shows to select meaningful product and also conducting line reviews to present the product to the team.

Lastly, one of the key roles of merchandise buying is in-season management of the business. Managing the business is essential as oftentimes sales will vary from what was initially planned. Sales might increase or decrease beyond original estimates. Inventory levels must be adjusted accordingly. For example, if you are a buyer summer shorts and sales are better than expected you would want to try to accelerate merchandise deliveries as early as possible to minimize markdowns. Managing the business in-season becomes especially important during peak timeframes as the opportunity to procure more inventory might not be possible. At the same time, if merchandise isn't selling as anticipated the merchandise buyer must have a contingency plan to either promote the product, return to the vendor (if possible), or any other options that might be available.

Merchandise Planning

The overall goal in merchandise planning is to maximize profitability by limiting markdowns and achieving and exceeding sales targets while also limiting excessive inventory.

Typically the merchandise planner will plan pre-season utilizing history from last year to build the six month plan that is typically either Fall or Spring. Pre-season planning accounts for any shifts in the business such as major holidays and any missed sales opportunities. For example, if the weather was unseasonably warm in the winter months and sales were missed or didn't come until much later they would want to keep accurate history to make sure they aren't planning this in future fall seasons.

The process involves forecasting sales which might be from a bottoms-up or tops-down approach. In the bottoms-up approach the merchandise planner will work on the plans based on what they know about individual store performance to come up with sales and inventory goals. The Tops-down approach involves the executive team providing each individual department with sales plan goals. Oftentimes both approaches are combined to arrive at the most realistic planning goals.

Another function of merchandise planning is to assist in assortment planning, which is determining how many styles (breadth) and in what quantities (depth) should be carried in each merchandise category. In addition, merchandise planning is responsible for

individual store inventory levels as they break down plans to regions and store units. This is known as merchandise allocation. We will discuss specific merchandise allocation options and strategies in a future module.

Here are some questions to consider in assortment planning:

- What SKUs will drive profitability?
- What items are essential to strategy of business?
- How does your assortment compare to competition?
- How original are the items within your assortment and how much is duplication?

Merchandise Operations

Merchandise Operations can be thought of as those functions that support merchandise planning and buying and, ultimately, the overall retail planning strategy. While allocation and replenishment are often referred to as the same thing, they are quite different. A replenishment strategy is the process of ordering inventory on an ongoing basis to maintain preset inventory levels. This is often basic inventory such as underwear and socks that are predictable and do not go out of style. Often times the retailer will set min and max levels to set the amount of inventory each store will receive.

Purchase Orders are generated and managed via the merchandise operations team as well. They work hand in hand with both the buying and planning team to ensure orders are shipped by the vendor and received at the warehouse. Lastly, they manage all pricing execution functions such as changing prices associated with markdowns, re-pricing, and all promotional pricing that needs to be entered into the POS system for accurate store transactions.

Take a look at the following video which gives you insight into how both buying and planning functions operate as one global unit for Lululemon. This is especially important as you consider those businesses, such as Lululemon, with operations all over the world. As you watch this video consider how buying and planning functions work together to achieve one vision and strategy.

A link to an interactive elements can be found at the bottom of this page.

You can view the [transcript for “lululemon athletica: Benefits of One Global Planning Process”](#) (opens in new window).

Practice Questions

<https://assessments.lumenlearning.co...sessments/9256>

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