

Part 2: Pre-Planning Stage for Development of the Six Month Plan: The Environmental Scan

Part 2: 2-1 Macro Trends Affecting the Marketplace

The first stage of development for creating The Six Month Merchandise Plan is the *Preplan Stage*. This stage is a continuous process of gathering information about the current environment in which the retailer is operating and provides the foundation for making critical decisions regarding the calculation of the future merchandise plan.

This information gathering process is known as the **environmental scan**, or the analysis of the **macro** (i.e., external environment in which the business operates) and **micro** (i.e., the companies and organizations with which the company does business) environments; or an analysis of internal and external factors impacting the business environment. The buyer must research the present cultural environment; the current state of the industry, especially the retail and wholesale segments of the industry; and marketing, advertising and visual merchandising trends. Additionally, the buyer must track what is happening in the lives of the store's target consumers and its competitors. Finally, the buyer must stay current on new trends and innovations in the fashion industry, especially the product classifications to be procured for the department or store.

In this segment, the macro environmental factors or elements impacting the retailer's business will be discussed. In *Part 2: 2-2, Micro Trends Emphasizing the Target Consumer*, the micro environmental factors will be discussed briefly. The **macroenvironment** is composed of: a) *cultural barometers* (i.e., sociological and psychological factors), b) *economic* factors, c) *political and legislative* elements, d) *technological* factors, and e) *natural environmental* components.

Cultural barometers surround the retailer and the retailer's target consumer. They are constantly changing and evolving. Sometimes these changes develop quickly over a short time span and are very obvious. At other times they evolve slowly, suddenly appearing as a factor greatly impacting the business of the retailer. These **cultural elements** include *sociological* and *psychological* factors that shape the society in which the retailer operates and the consumer lives. *Sociological* aspects include characteristics of a population, including shifts in those populations. The populations' age, geographic location within the United States, composition of the family unit, income, education levels, and ethnicity are all factors that impact the retailer's merchandise planning.

For example, in the U.S., Japan and Germany, the population is *aging* or *graying*, while Mexico's population is more youthful. In the U.S., most marketers classify the population by generations (i.e., children, tweens, teens, Gen Y or Millennials, Gen X, Baby Boomers, mature market). For more than a half a century, retailers targeted Baby Boomers, or the population segment born between 1946 and 1964. This population changed the retailer's business climate. Boomers were the first generation that accepted brands and used brand names to determine product status and quality. Boomers also demanded innovative product categories to accommodate active lifestyles.

However, this population is changing drastically. The youngest sub-segment of the population is turning fifty years old and the oldest sub-segment is retirement age. However, Boomers are not retiring as early or at the same retirement age as their parents did. Some are changing careers in order to maintain their standard of living. Others are downsizing from large houses in suburban areas to condos in urban areas in order to be nearer to health facilities and shopping centers as well as other cultural opportunities in the community. Many travel more and remain very active as participants and spectators in sports and other leisure activities.

While Boomers still have buying power, they are spending money on different types of product classifications, or not buying products at all. Rather they are purchasing more services and paying for higher-priced health care. The apparel industry, especially, has not been kind to Boomers. Many cannot find appropriate apparel for their changing physique and lifestyle activities. Several retailers who attempted to target this consumer closed their doors due to failure to offer product in the design or sizes that the Boomers want and desire.

Further, major differences exist in the *population composition of geographical regions* in the United States. Many older people live where fewer children are located, and many young families reside in areas offering opportunities and amenities not needed or demanded by seniors. The consumer buying patterns in these areas are very different since young families tend to have different product and marketing preferences as well as different values and attitudes regarding the purchasing of these products and services.

Likewise, the *family composition* has also changed. When adding the diverse racial makeup and ethnicity of the current population to many different family compositions, a new norm has been established. This changing composition signifies a new, younger generation driving the marketplace. This younger generation has changed the marketing and merchandising rules in the current business environment due to their use of technology and knowledge of the global market environment.

The psychological factors impacting the consumer are a second cultural barometer that must be pinpointed. *Psychological factors* include the values, attitudes, ideas, interests, opinions, and mores of a consumer segment. They are learned from a person's family unit, community, religious and political organization within a region of a country, the country, or even the global community.

Values, attitudes and ideas impact how a person thinks, what s/he believes, and how s/he reacts to a person, happening, product, service or marketing message. Thus, the impact of religious affiliations, educational institutions, political organizations and other organized groups, clubs or associations flavor the consumer's taste levels and spending patterns. Pinpointing the psychographics of a population assists the retail buyer in selection of product, marketing to the consumer and motivating that consumer to buy.

One of the most important external or macroenvironmental forces impacting the consumer and the business environment is the **economic climate** of the region in which the business is located. Many *economic benchmarks* such as the health of the stock market, the gross domestic product, interest rates, unemployment rates, savings and borrowing patterns, income growth, building and infrastructure growth, manufacturing indexes, and tax rates impact not only the business environment but also consumer confidence in the state of the economy.

One of the measures used to track the country's economic health is the *gross domestic product (GDP)* or the amount of goods and services that a country produces within a year. Businesses continually examine their stock value or what is happening domestically and globally on the stock market. Often these measures greatly impact consumer confidence and behavior, thus affecting consumer buying patterns. High interest rates or the amount of money charged for borrowing money may hamper business expansion. With regard to the consumer, high interest rates may affect the amount of discretionary income (i.e., income left after paying for necessities such as housing, food, transportation) available for purchasing product other than necessities for daily living.

Presently, the unemployment rate is critical to some consumer segments and regions of the country. High unemployment rates, income levels, and income distribution have caused the middle class in the U.S. to shrink, thus pushing more people into a poorer category and creating less discretionary income for purchasing non-essential retail products.

Manufacturing indexes and cost of raw materials are very important indicators of the state of the well-being of many industry segments. For example, the cost of cotton, the scarcity of the cotton fiber, or the location of production of the fiber, may cause a change in the price of product, the shipping cost for the product, or even the availability of a cotton product.

Other important elements impacting the business environment are **political forces** and **legislative regulations** governing how business is conducted. Understanding laws that govern business transactions (i.e., domestically and internationally), knowing trade regulations impacting the sourcing of merchandise, and pinpointing what consumers expect of the retailer regarding production of globally sourced goods (e.g., human rights in the workplace), are only a few aspects of how legislation impacts the retail environment.

Additionally, political decisions on waging wars, passing fair trade laws, and regulating fair competition must be tracked. Further, the retailer must be aware of other factors, such as laws for regulating advertising, use of credit, product safety regulations, environmental protection measures and packaging and labeling requirements, which impact the business operations. Although these factors might or might not be directly or readily known to the consumer, they continue to influence the marketing and merchandising of available product for that consumer.

Technology has changed the face of retail more during the last ten years than the industry changed during the previous thirty years. It impacts the place or location to shop, the method in which the final sales transaction is handled, the way in which the merchandise moves from the retailer to the consumer as well as the way goods are moved from the vendor to the retailer and the method the retailer uses to track inventory. Online shopping has exploded, flash sales are prevalent, and hashtags and RFID codes (i.e., radio frequency identification codes) are now commonplace in the marketplace.

Due to advanced technology, consumers can comparison shop, companies can collect consumer information or input for product design and development of merchandise; and, marketing companies can reach consumers all over the globe instead of a regional area or one country.

Lastly, the environmental scan must cover the **natural environment** in which the retailer resides and the manufacturer produces merchandise. The natural environment, or air, water, land, plants, animals and humans, has become a major focus of both businesses and consumers. From the sustainable design process to the type of dyeing and finishing of fabrications to packaging and shipping to waste disposable and heating and lighting, the textile, apparel and retail industries have made major efforts to go *green* or preserve the natural environment.

The buyer may track and pinpoint information on all of the external factors from many sources. For example, bankers, financial companies, and marketing agencies have extensive up-to-date information on current trends in the marketplace and industry. Industry publications also have incredible information, keeping the buyer abreast of happenings in the industry and global marketplace.

For example, *Woman's Wear Daily (WWD)* is an excellent source for the ladies and mens apparel buyer. *Earnshaw's* is an informative publication for the children's wear industry. Further, Cotton Incorporated's *Lifestyle Monitor™* Survey is an excellent source for the most current information available on all factors of the environmental scan.

Additionally, numerous other publications and organizations such as National Retail Federation (NRF) or National Panel Data (NPD) track the total environment, compiling information and research on the business environment, especially in the United States.

In *Part 2: 2-2*, the microenvironmental factors impacting the retailer's business will be investigated.