Retail Product Merchandising: Retail Buying-Selling Cycle

<u>SECTION 2</u>: Establishing the Retail Merchandise Mix

Part 1: The Basics of the Retail Merchandise Mix

<u>Part 1: 1-1 Types of Merchandise</u>

There are numerous types of products available for purchase and consumption by the target consumer. Companies produce transportation products such as automobiles, boats, and motorcycles, or they produce electronic devices such as televisions, radios, and cell phones or iPods. Others produce sporting goods equipment such as fishing rods, bows, skate boards, and baseballs or basketballs.

Another major industry segment producing a variety of product is the fiber/textile/apparel and home furnishings/retail (FTAR) complex. Furthermore, the FTAR Complex frequently produces component materials and fabrications for many other industry segments. For example, fiber companies produce product for materials in airplane and boat construction, as well as electronic devices. Fabric companies produce materials for automobile interiors, healthcare products, and building construction.

Manufacturers and branded companies produce both hardgoods and softgoods. *Hardgoods* include items such as furniture, electronics, appliances, or nonapparel goods. *Softgoods* consist of home furnishings, textile products, and apparel as well as accessories. For the purpose of this study, types of goods from the apparel and home furnishing segment (i.e., softgoods) of the FTAR Complex will be addressed.

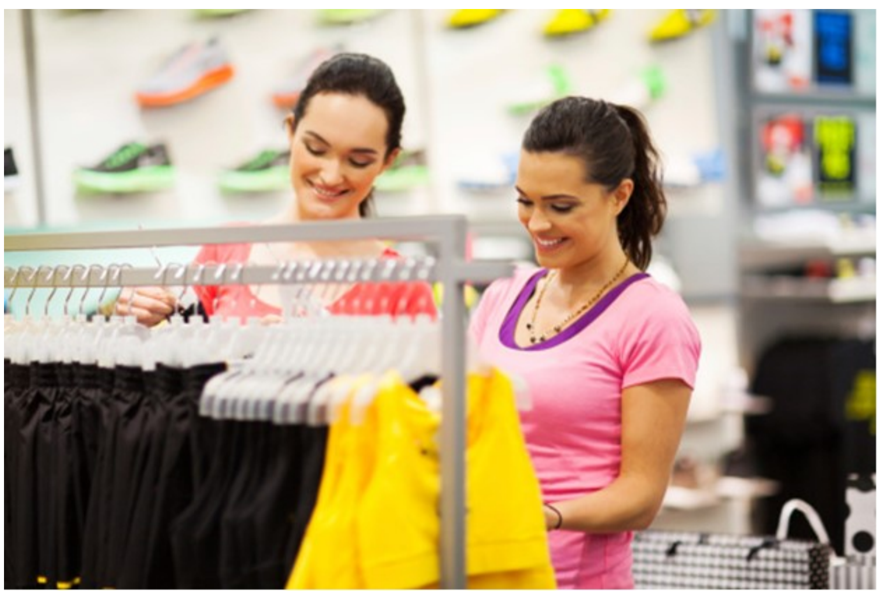
The type of goods produced by a FTAR company depends upon several factors. First, the company must determine in which segment of the industry it would like to do business. Next, the company must pinpoint the market segment that it would like to target as a customer. For example, will the company produce fibers, fabrics, home furnishings or apparel products and to whom will they sell the products?

Frequently management makes the decision as to what product will be produced by a company. The decision may be based upon market research or on the organizational structure of the company. However, if the business is an established operation, that decision may be based on management skills, expertise of the employees, specialized equipment owned by the company, or existing circumstances in which the company operates.

For example, when the company, Blue Bell®, who originally owned the Wrangler® jeans brand, sold the company to VF Corporation, VF then inherited management and employee expertise, as well as equipment, to produce cotton denim jeans. VF also inherited a client base that appreciated and purchased the Wrangler® denim brand.

Therefore, the decision of what product to produce was evident. However, since making the Blue Bell® acquisition, VF Corporation has diversified and now is producing and marketing many different lifestyle brands of cotton denim jeans. Some of those brands include Lee®, Rustler®, 7 for All Mankind®, and Rock 47® by Wrangler, etc. Thus, VF Corporation leveraged the production capabilities and marketing expertise of its employees in order to become a major player in designing, producing/sourcing, and marketing cotton denim jeans!

On the other hand, if an entrepreneur is beginning a new business, more than likely the business is being opened in order to produce product in which the owner has interest and a desire to produce. For example, Nike™ was established based on the need of the owners to produce a better performing product or athletic shoe.



As previously stated, in the FTAR Complex, a major factor to consider when determining what product type to produce is the industry segment in which the company operates. If the company has expertise in automotive fabrics, it will produce upholstery fabric, headliner, and floor covering fabrications for automobiles, airplanes, etc. A textile home furnishings business might produce bedding (e.g., coverlets, duvet covers, bedspreads, sheets, pillowcases, mattress pads and covers). In contrast, another home furnishing company might produce floor coverings such as carpets, area rugs, mats, etc.

In summary, the decision for the type of product a company produces is established based upon a) the interests of management and philosophy of company owners, b) the ownership of the company's specific capabilities and/or equipment to produce various products, and c) the company's availability of trained employees with specific expertise and skills. Additionally, the industry zone in which the company operates and the channel of distribution in which it markets product dictates what product type the company will produce.

Often one of the above factors impacts several of the other factors. For example, the wholesale industry zone dictates not only the design level and quality (i.e., fineness of fabrications, workmanship, construction techniques) of the product but also the wholesale price and frequently the channel of distribution in which the company operates, thus the company's target consumer.

On the other side of the coin, the retailer must decide in which channel of distribution it wishes to do business, in what location it wishes to operate, what store image it wishes to exude, and which end consumer it plans to target. Then the product selection can be tailored to meet the needs and desires of the target consumer. Moreover, the product type will be dictated by the industry zone in which the retailer procures goods for building the store's merchandise mix.

In the following segment, *Part 1: 1-2*, *"Industry Zones in the Apparel Industry"*, definitions and explanations of each industry zone (i.e., wholesale zone), or the brand architecture for companies that have multiple tiers of brands (e.g., designer collection, secondary lines, or bridge lines) is discussed.