

Strategic Merchandising At Large Direct Marketing Company: Developing Catalog Management Capabilities With Item-Level Strategies

The Challenge: A large direct marketing company had been purchased by a PE firm in a hotly contested auction. In 6 years, the company had more than doubled its sales to \$700MM, but was now experiencing flat sales and EBIDTA. CatalogCo's conventional formula for growth (spend more on catalogs) was no longer working, and company management recognized the need for a new merchandising strategy to support its goal of \$200MM of top-line growth in 3 years. The CEO asked Gotham to help merchandising revamp its strategy and business processes in order to develop the capability needed to reach growth goals.

The Partnership:

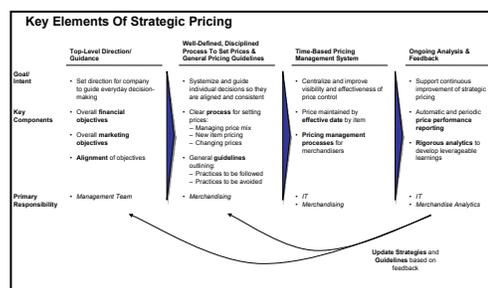
Analysis: The team conducted a thorough analysis of historical performance and led a wide range of brainstorming sessions with various internal groups (Buyers, Inventory team, Product design, E-commerce, Catalog Production, and Merchandise Planning) to develop insights into existing merchandising methodologies. We quickly identified several barriers to growth: (1) merchandisers spent a limited amount of time (15-20%) on the strategic and planning activities required to manage and grow product categories; (2) the planning and forecasting process was disjointed and unreliable, causing significant issues downstream; (3) product assortment decisions were driven by the catalog offering (vs. managing to achieve an effective product assortment); (4) this catalog-centric view persisted despite the fact that 60% of the business was now coming through the growing e-commerce channel; and (5) merchandising lacked standardized processes, tools, and reports. The team then identified key process needs to support CatalogCo's merchandising driven growth plan:

- New product development/introduction – ad-hoc and costly, driven by need to “fill spaces” in the catalog, with item selection based on merchandiser's “gut feeling” (e.g., no test marketing of new product)
- Media placement – no consideration to changing needs of products as they matured, resulting in obsolete inventory, excess media spend on declining products, and under-realized potential of growing products
- Pricing – few overall policies; primarily periodic, ad-hoc initiatives, often counter to corporate goals
- Lifecycle management – catalog-centric merchandising and ad spend despite growth in e-commerce channel (now accounting for over 60% of sales); limited robust e-commerce data and lack of guidelines on media placement contributing to inefficient ad spend on catalogs

Process issues were creating problems in other areas as well: the E-commerce group was not being provided with information needed to promote products via search terms and E-mail; excess and often wasted product design costs – almost 50% of the designed concepts were ultimately dropped; the inventory team had trouble planning initial buys and replenishment; the catalog marketing team was playing a perpetual game of catch-up; and the finance department had no item-level plan from which to create robust forecasts.

Strategy: Working with process owners, Gotham developed an overall strategic merchandising framework to migrate the merchandising team from ‘item-pickers’ to multi-channel category and solution managers in order to drive growth by introducing formal and robust processes/controls:

- **New Item Introduction:** Stage-gate process to help select and develop only the most viable concepts to meet SKU planning targets and financial goals
- **Product Lifecycle Management:** Process and timeline to assess and make lifecycle-related decisions for SKUs, and tools to identify stage of life and manage SKUs accordingly based on automated reporting.
- **Pricing:** Strategic process anchored by 4 key elements: top-level direction; disciplined price-setting methodology; a time-based price management system (vs. current catalog-based pricing); and a feedback system
- **Media Placement:** A framework to leverage key inputs (e.g., SKU market positioning, past media positioning) in creating a cohesive media and depiction plan, and synchronize it with the contact/channel strategy (determined through a cross-department collaborative process) and the overall financial plan



Gotham also detailed policies and procedures for day-to-day merchandising activities. To ensure the necessary support for these new strategic processes, the team also worked with client management to develop an organizational structure and to define immediate and longer-term IT requirements.

Execution: Gotham worked with client management to generate detailed implementation plan timelines and milestones for each change initiative, and to select implementation teams. Gotham then worked with the client implementation teams to kick off the implementation and continues to be involved in the transition via bi-weekly conference calls with the client team leaders.

The Outcome: Implementation is well underway and all key milestones have been met on time. The new merchandising strategy is already evidencing success, starting with meeting SKU targets, planning media placement, and identifying opportunities for incremental revenue by addressing newly highlighted gaps in assortment.