BlueYonder

A Buyers Guide To Modern Merchandise Financial Planning

What Is Merchandise Financial Planning?

Merchandise financial planning (often referred to as MFP) is a strategic process used by retailers to optimize inventory, sales, and profitability across their product offerings. It involves forecasting long range shopper demand, setting sales targets, and allocating financial resources such as budgets and profitability effectively to ensure that the right products are available at the right time and in the right quantities.

Merchandise financial planning helps retailers make informed decisions about pricing, promotions, and assortment planning to maximize revenue and minimize costs. It plays a crucial role in the overall business strategy, helping retailers achieve their financial goals while meeting customer demand and maintaining competitive advantage.

Why You Need This Guide

Merchandisers face a vast array of challenges in financial planning, including volatile demand, inventory management complexity across channels, seasonal impacts, and changing market trends.

Balancing these factors while optimizing margin and operational costs, and ensuring sufficient cash flow poses an ongoing challenge in today's dynamic retail environment.

The traditional approach to merchandise financial planning has been highly manual, often off-system, and with defined stage gates, each prolonging the process toward the perfect plan.

Which, essentially, is the problem. No plan can ever be perfect, and arguably the time spent building merchandise financial plans the traditional way no longer yields the results required to justify the effort.

New technology promises the ability to work faster and smarter, but to get the best out of your merchandise financial plan, the balance of emerging and converging technologies is critical to ensure that you are not just accelerating existing process, but transforming the way you make decisions.

The Challenges Merchandise Planners Face

Merchandising financial planning is complex — and getting harder. To build a viable plan, merchandisers have to navigate many of the following challenges:

Dynamic Market Conditions

Retailers operate in dynamic markets where conditions can change rapidly. Adapting financial plans to evolving market trends, economic shifts, or unforeseen disruptions requires agility and quick decision-making, often complicated by siloed data and differing levels of granularity, leading to off-system analysis.

Demand Forecasting Accuracy

Ensuring precise and accurate long range forecasts of shopper demand is difficult, especially when reliant on sales history and statistical algorithms. Changing market trends, consumer preferences, and fluctuating seasons can compromise forecasting accuracy, leading to overstock or stockouts.

Omnichannel Integration

Where in-store and online sales were once planned and allocated independently, the rise of true omni-channel retailing and complex buying journeys has necessitated inventory management across channels, with the need to understand the origins of demand, ensuring a unified customer experience across various platforms with one view of inventory levels.

Network Complexity

Juggling a vast array of products and managing inventory levels efficiently across increasingly complex networks can be intricate, especially with increasing levels of localisation and personalisation, leading to tension between balancing stock levels while minimizing holding costs and ensuring on-shelf availability.

Seasonal Sensitivity

For industries like fashion or DIY, dealing with seasonality and staying attuned to rapidly changing trends is a perpetual challenge. Overstocking on seasonal items, failing to land inventory in line with local conditions or failing to adapt quickly to shifting trends, can drag down performance against plan, reducing profitability.

Is the Juice Worth the Squeeze?

A typical merchandise financial plan consolidates several plans at varying levels of granularity, resulting in manual reconciliation between plans and objectives.

Changes made at any level of the plan require reconciliation to ensure consistency. As different planners are working at different levels of the plan, with increasingly detailed metrics, reconciliation tends to be manual and time consuming. And when finally complete, the plan needs to contend with reality.

When shoppers change their preferences in-season, it really hurts. Simultaneous markdowns, stranded inventory, additional warehouse space and labour costs, while your merchandise team attempt to explore solutions across multiple systems in spreadsheets, with answers rarely satisfying every department, and often redundant by the time they are designed.

In an environment in which improving the productivity of working capital is critical, now is the time is right for retailers to rethink their inventory strategy. In a perfect world, merchandise financial planning would be either faster to complete, or more accurate. But what if you could have both?

A strategic plan defines a high-level view of the sales and margin targets for each business unit, by channel for an entire season or year.

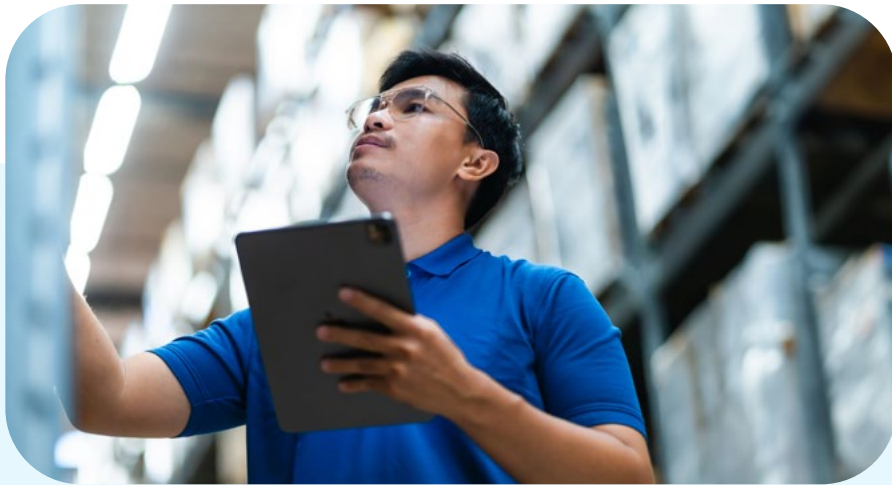**A top-down plan** breaks the strategic plan to a lower level of granularity, usually department by month.

A bottom-up plan is usually made at the lowest level of the hierarchy above items, and often recorded at weekly granularity.

Must-Have Capabilities for Modern Merchandise Planning

Product & Location Planning

Long range and pre-season product planning work-flows across stores, e-commerce and wholesale channels, and strategic, pre-season and in-season planning horizons.

Process Orchestration

Configurable process definitions, allowing role-based access to different business functions and layouts.

Performance Analysis

Visibility across multiple plans created by different planners, with the ability to span across merchandise hierarchies.

AI/ML-Based Forecasting

AI/ML-based forecasting able to better predict sales, margins, returns, with extensibility that allows you to configure new causals to suit your business.

Granularity at Scale

Able to scale to retail data volumes across merchandising data, with the ability to automate slicing and dicing for rapid root cause analysis.

Season, Trend & Event Aware

Uses ML-driven trend, season and event sensing that frees merchandisers to focus on shaping plans.

Dynamic Scenario Planning

The ability to create the most optimal plan based on hindsights, emerging trends, and insights into evolving shopper behaviour.

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A Modern Merchandise Strategy Should Drive the Modern Supply Chain

Without a significant event, such as acquisition or brand repositioning, it is often difficult to dedicate the time and resources that are needed to re-evaluate the planning process and develop new capabilities. Many companies are playing it safe with additional inventory, rather than risking leaving consumers empty-handed and frustrated.

Decisions on whether to plan top down, bottom up or middle out become a thing of the past, as predictive AI creates intelligent forecasts of metrics based on user defined targets. The time savings in reconciliation can be immense, providing merchandising teams with the time and space to focus on higher value outputs like scenario planning or more dynamic and intelligent adjustments to plan to achieve targets.

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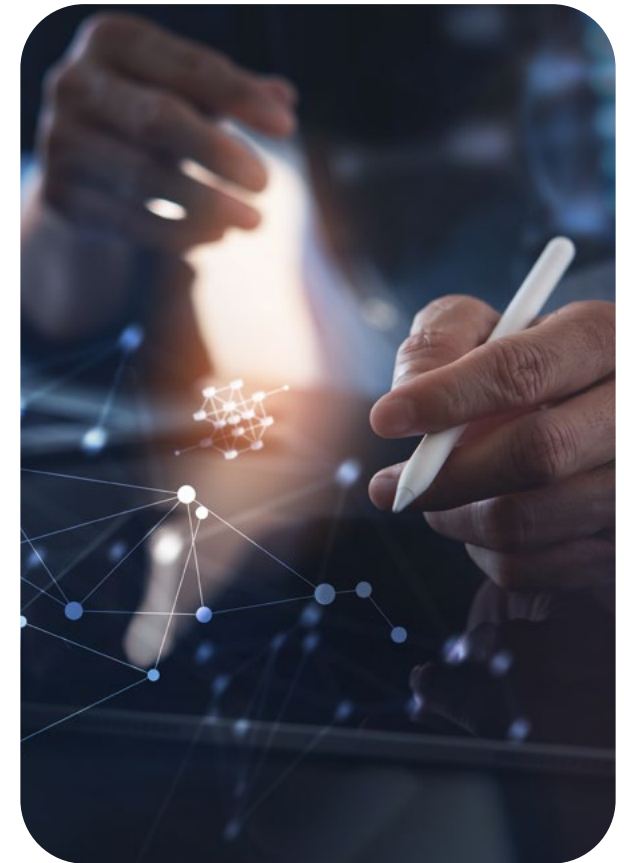
Introducing Cognitive Merchandise Financial Planning

Cognitive Merchandise Financial Planning radically re-shapes the foundational process of retail enterprise planning by combining predictive and generative AI to free merchandise planners from manual KPI calculation, reconciliation, and in-season adjustment, and allow them the freedom to use their expertise and domain knowledge to drive faster, better and more agile decisions.

Blue Yonder has seamlessly combined predictive and generative AI with human expertise, to fundamentally shift merchandise planning from an intuitive manual process supported by complex analysis to an orchestrated work-flow focused on shared strategic outcomes.

Smarter Seeding Drives Better Results

Rather than rely on history as the baseline for key metrics like markdowns, promotions or returns, Cognitive Merchandise Forecasting understands the causal driving metrics, such as events, holidays, day of the week, promotional prices, and uses these to create intelligent and granular forecasts to feed a more dynamic merchandise plan.

Technology Helps You Plan Faster

A new approach to planning leverages generative AI to guide merchandisers through the planning process with the ability to access the entirety of your merchandising financial planning data through a conversational way that far exceeds traditional rules-based recommendations and draws the best out of users.

Simplify Complex Scenario Planning

Decision making is enhanced by AI-fuelled scenario planning that provides retailers with unparalleled foresight, allowing them to model various market conditions and anticipate outcomes. Rather than extract and consolidate data off-system, users can request multi-variable scenarios to be built in the time it takes them to make their morning coffee.

Ready To Join the Retail Revolution?

Cognitive Merchandise Financial Planning

Improve productivity with a highly automated planning work-flows supported by generative AI, designed to foster collaboration and guided user experience.

Read the Guide >

Cognitive Merchandise Forecasting

Accelerate and improve merchandise planning by dramatically improving the forecast accuracy of key merchandise targets, such as sales and inventory, by automatically sensing the impact of influencing factors within a single technology ecosystem.

Read the Guide >

Blue Yonder Orchestrator

Blue Yonder Orchestrator brings together generative AI, large language models (LLMs) and industry-leading IP to support faster, smarter decision-making. Allowing users to query in everyday language encourages faster & better decisioning through in system collaboration.

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