

# **Beyond Basic Product Planning: Store Planning and Clustering (Part 3 of a Series)**

by  
**Terry J. Donofrio**  
**President,**  
**Retail Systems and Services**

*Our first article outlined planning capabilities that go beyond basic product planning. The second discussed some of those capabilities, specifically Assortment Planning and its related aspects. This article explains how Store Planning and Clustering help to fine-tune the Merchandise Plan even further, making the company more competitive and more responsive to its customer base.*

## **Store Planning**

Store planning generates a merchandise plan by individual store, or store group, within the merchandise hierarchy (e.g., class or subclass). You can build a store plan along many of the same parameters as a merchandise plan, such as sales, inventory, and receipts. Store plans also have similar time considerations, such as by month or week.

With a good store plan you can:

- Have a store performance and tracking capability based on actual results
- Provide input to store allocation, where weekly store plans at a class or subclass level are often needed
- Generate accurate bottom-up merchandise plans, considering key store attributes
- Develop store budgets to guide staffing and performance functions
- Build customized assortments and perform micromarketing.

## **Store Clustering**

Store clustering shrinks the size of the store-planning task by categorizing stores into groups, or clusters, based on common characteristics or attributes. For example, you can cluster stores by performance, such as volume; or by location, such as warm weather vs. cold; strip vs. mall; downtown vs. suburbs; or by target customer, such as resort, retirement, ethnicity; or by store size and layout.

Store clusters provide the basis for developing customized store assortments and addressing micromarketing.

## **How Are Store Planning and Clustering Done?**

Basically there are two approaches to developing the store plan —“***passive and active.***”

“***Passive***” store planning carries that name because the planner is less involved.

That is, the plan is generated automatically. It is based on algorithms or defined mathematics, using data from historical performance, forecasts, and chain-level merchandise plans. Many allocation systems have built-in algorithms to develop store plans from merchandise plans. It is possible for a planner to review system output and alter it if necessary, but direct involvement is much less than in the active method.

In “**active**” store planning, the store planner participates more fully (or actively) in developing and reviewing the plan, as in building the chain-level merchandise plan.

How do you decide which method to use? By the purpose you have for the plan. Use the passive approach when you intend to use store plans to support allocation or in tracking store plan against actual results.

Use active store planning:

- to develop comp (existing) vs. new-store projections
- to develop store budgets
- to support assortment planning
- to help derive accurate bottom-up chain-level merchandise plans

Store groups or clusters can be developed:

- By categorizing stores based on key attributes, such as weather zones (warm vs cold); location (region, strip vs. mall, downtown vs. suburbs); or store size and layout
- By analyzing demographics to define customer patterns such as income, age, and ethnicity, or customer shopping patterns
- By applying statistical analysis and forecasting to develop dynamic groups based on performance (volume) and facilitate shifting stores from one cluster to another for an upcoming season or over time

New methods based on data mining are also being considered for developing store clusters. Whatever the grouping criteria or method, this kind of information can be especially important for supporting allocation or assortment planning as well as micromarketing.

Because store planning and clustering can require a lot of effort, use the passive method if you only want to support allocation or track plan vs. actual. You can put your effort into developing the right algorithms. If, however, you want to do more with the store plan, such as make comp-store projections and or bottom-up planning, you'll have to use the active approach. In other words, know where you're headed before you decide how to get there.