



Five Top Tips for Creating a Merchandising or Product Hierarchy

The first place to start when developing a merchandising strategy is to create a solid merchandise hierarchy. Although it's primarily an internal tool, keeping your customer and how they shop in mind will help create a strong merchandise hierarchy and strategy. Typically, a merchandise hierarchy has five levels. These are division, department, and classification in addition to style and SKU level. Some systems give the ability to accommodate six levels (sub-class) but most of the time five is plenty.

In developing a merchandise hierarchy it's important to remember that the hierarchy will be in place for several years, and that it will be a key way to organize, plan, and analyze the merchandise strategy and its results. Changing a merchandise hierarchy is difficult and often gives "apples to oranges" data for one year following the change. Therefore, it's a good idea to view this as a very universal hierarchy that accommodates annual style changes.

In developing a merchandise hierarchy it's important to remember that the hierarchy will be in place for several years...

Maybe an example would help at this point!

Divisions may be defined as: Men's Apparel, Women's Apparel, Kids Apparel, and Hard Goods

Departments may be defined as: Jackets, Woven Tops, Knit Tops, Pants, Skirts, and Shorts

Classifications may be defined as: Sleeveless Tops, Short Sleeve Tops, and Long Sleeve Tops

Let's say that next fall short wool plaid skirts are a trend and this online retailer is planning to go after that trend. Many retailers make the mistake of developing a classification for short wool plaid skirts. The problem with that is that next year the new trend is going to be floral long skirts and that classification will no longer be available. In the merchandise hierarchy a good way to approach it is to have short patterned skirts, long patterned skirts, short solid skirts, and long solid skirts. The universal classifications should be able to accommodate trend changes.

While developing the merchandise hierarchy it's important to involve cross-functional partners, because they will be working on things such as search engine optimization, marketing

spend, sourcing and logistical plans. It's also important to organize cross-functional business teams to manage the sales, margin, and profit of a business unit (perhaps the Men's division), so they need to be involved in the final decision.

Merchandise hierarchies are linear and have one to one relationships. Attributes give a buyer the ability to plan and analyze their business in a different way than the merchandise hierarchy. One example is a fabrication like denim that crosses over several departments or classifications—pants, jackets, and skirts. Another example is ski widths in hard goods. While you are developing the merchandise hierarchy, it's helpful to identify appropriate attributes and create reporting for these also.

The merchandise hierarchy should be consistent across all channels of distribution. In the e-commerce world, the navigation and browse taxonomies are much more fluid than the static merchandise hierarchy. However, if it's well thought out, with the customer in mind, it can serve as the basis for the browse and navigation functions.

Now that you have a workable merchandise hierarchy, and a good cross-functional team (Merchandising, Sales, Marketing, and Finance) to plan and manage the business, you will develop sales, margin, inventory, and even the number of SKUs by department. Once you do this a buyer can go shopping for these styles with a number in mind, or you can give the SKU count to your product development team!

In summary

1. Develop a universal and timeless merchandise hierarchy (Division, Department, Classification, and SKU) that will work to accommodate seasonal trend changes keeping your customer in mind.
2. Include your cross-functional partners in the final decision. Establish your cross-functional teams around these departments or divisions.
3. Keep the merchandise hierarchy consistent across channels of distribution and develop attribute reporting also.
4. Plan and manage your key metrics (sales, margin, inventory, SKUs) by these departments.
5. Utilize the style/SKU plans by department in the marketplace or with product development to design and develop your line.

I'd love to hear about your merchandise strategy successes and needs. I can be reached at Janice@JLSearsConsulting.com or at 206.369.3726.

More about us



ABOUT THE AUTHOR | Janice Sears has served as **Principal** of JL Sears Consulting, Inc. based in Seattle, since 2004. She is also a Principal of **Tag Team Business Solutions**.

Janice brings more than 20 years of **broad multichannel retail and wholesale experience** in merchandising, planning, marketing, finance, and operations to her clients. She is a Certified Management Consultant (CMC), and received her **MBA in Finance** from the University of Colorado.

As a former **Vice President at Eddie Bauer**, she was accountable for \$1.6 billion in annual sales, which included 400+ stores in the US and Canada, catalog and internet sales, along with margin and profit. Janice directed strategic business planning, merchandise planning, inventory and margin management, and led the cross-functional business teams by channel to manage the P&L. She also drove system and business process improvement projects and was integral to marketing, assortment planning and organizational development initiatives.

She served on the **Board of Directors for Big Brothers Big Sisters of Puget Sound** for more than 10 years while being a Big Sister herself. Janice continues to serve on a variety of professional and non-profit boards and is currently a University of Washington Business School Mentor.

Janice is an avid skier and cyclist who writes a [travel blog](#) about her quest to visit all 58 National Parks. She enjoys northwest urban living and time with family and friends from her Seattle home.

ABOUT J.L. SEARS | JL Sears Consulting, Inc helps organizations and business teams boost profitability and productivity through strategic business planning, development of merchandise strategy and implementation of key execution tools.

We specialize in working with multi-channel retail and wholesale clients to craft a roadmap to success in an ever-changing business environment.

Clients include: Belkin, Branders, Charlotte Russe, Crosstown Traders, evo, Griot's Garage, Lucy, Nasty Gal, Outdoor Research, and Sur La Table.

JL Sears Consulting, Inc. is a former member of 1% for the Planet and continues to focus its one percent donation on saving Puget Sound and supporting our National Parks.

STAY CONNECTED

Janice Sears MBA, CMC®
206.369.3726
janice@jlsearsconsulting.com
www.jlsearsconsulting.com
[whitepapers](#)
[linkedin](#)
[twitter](#)
www.tagteambiz.com