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Professional Certificate in Fashion Buying and Merchandising

## Merchandise Planning and Allocation

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**Allocation** – The process of distributing purchased inventory to specific stores or sales channels based on projected demand, store performance, and strategic objectives. Related terms: Merchandise Planning, Replenishment, Open-to-Buy. Example: A retailer allocates 1,200 units of a new jacket style, sending 300 to flagship stores and 150 to regional outlets based on historical sell-through. Challenge: Balancing limited stock against unpredictable fashion trends.

**Assortment** – The range of product styles, sizes, colors, and price points offered within a category. Related terms: Assortment Planning, SKU, Product Mix. Example: A spring collection may include three silhouettes, five colors, and four sizes, creating 60 unique SKUs. Challenge: Over-assortment can lead to excess inventory; under-assortment may miss sales opportunities.

**Assortment Planning** – The strategic activity of determining which product attributes (style, size, color) will be offered in each store or channel. Related terms: Merchandising Calendar, Allocation, SKU Rationalization. Example: Using past sales data, a buyer decides to stock only the top-selling colors of a dress in smaller stores. Challenge: Requires accurate demand forecasting and real-time data.

**Backlog** – Orders that have been placed but not yet fulfilled due to production or allocation constraints. Related terms: Lead Time, Order Management, Stockout. Example: A wholesale client's order for 5,000 units sits in backlog because the factory is at capacity. Challenge: Managing backlog without harming retailer relationships.

**Base Forecast** – The initial quantitative estimate of future sales derived from historical data, seasonality, and trend analysis before adjustments. Related terms: Adjusted Forecast, Statistical Forecast, Demand Planning. Example: A base forecast predicts 8,000 units for a summer dress based on last year's sales. Challenge: Base forecasts may not capture emerging trends or promotional impacts.

**Buy-out** – A contractual agreement where a retailer purchases excess inventory from a supplier, often at a discounted rate, to prevent stockouts for the supplier. Related terms: Consignment, Markdown, Vendor Managed Inventory. Example: A designer offers a buy-out on unsold runway pieces to a flagship store. Challenge: Negotiating fair pricing while maintaining brand equity.

**Buy-in** – The process of placing purchase orders with suppliers for upcoming seasons, specifying quantities, delivery dates, and terms. Related terms: Purchase Order, Open-to-Buy, Supplier Lead Time. Example: A buyer issues a buy-in for 10,000 units of denim jeans for the fall season. Challenge: Aligning buy-in volumes with uncertain demand.

**Category** – A broad grouping of products that share a common purpose or consumer need, such as "women's outerwear" or "accessories." Related terms: Category Management, Product Hierarchy, Sub-Category. Example: The "Footwear" category includes sneakers, boots, and sandals. Challenge:

Managing cross-category cannibalization.

**Category Management** – A retail strategy that treats each product category as a distinct business unit, optimizing assortment, pricing, and promotion to maximize profit. Related terms: Category Review, Assortment Planning, Gross Margin Return on Investment (GMROI). Example: The footwear category manager sets a 45% GMROI target for the next quarter. Challenge: Requires deep market insight and cross-functional coordination.

**Clearance** – The sale of remaining inventory at reduced prices to free up space and recover costs. Related terms: Markdown, Liquidation, End-of-Season Sale. Example: A retailer runs a clearance on winter coats after the season ends. Challenge: Timing clearance to avoid premature discounting while minimizing excess stock.

**Closed-to-Buy (CTB)** – The amount of budget that has already been allocated to inventory purchases, reducing the available Open-to-Buy. Related terms: Open-to-Buy, Budget Allocation, Financial Planning. Example: After allocating \$500,000 to summer styles, the CTB for the quarter is \$500,000. Challenge: Monitoring CTB to prevent overspending.

**Consignment** – An inventory ownership model where the supplier retains title to goods until they are sold, reducing retailer risk. Related terms: Buy-out, Vendor Managed Inventory, Stock Transfer. Example: A boutique displays designer handbags on consignment, paying only for sold items. Challenge: Managing cash flow for suppliers and tracking consignment stock.

**Cost of Goods Sold (COGS)** – The direct costs attributable to the production of goods sold, including material, labor, and freight. Related terms: Gross Margin, Net Profit, Pricing Strategy. Example: A jacket with a COGS of \$80 sells for \$180, yielding a \$100 gross profit. Challenge: Accurate COGS calculation is essential for pricing decisions.

**Cover Ratio** – The proportion of sales periods covered by existing inventory, often expressed in weeks or months. Related terms: Inventory Turns, Stock Coverage, Reorder Point. Example: A cover ratio of 8 weeks means current stock will last eight weeks at projected sales rates. Challenge: Miscalculating cover ratio can lead to stockouts or overstock.

**Demand Forecasting** – The practice of predicting future product demand using statistical models, market intelligence, and expert judgment. Related terms: Base Forecast, Adjusted Forecast, Sales Projection. Example: Using a moving average model, a retailer forecasts a 12% increase in dress sales. Challenge: Incorporating unpredictable fashion trends and promotional effects.

**Demand Sensing** – The use of real-time data (e.g., point-of-sale, social media) to adjust short-term forecasts and respond quickly to demand changes. Related terms: Real-Time Analytics, Adaptive Planning, Forecast Accuracy. Example: Spike in online searches for neon colors triggers a rapid increase in allocation for those SKUs. Challenge: Requires robust data infrastructure and rapid decision cycles.

**Distribution Center (DC)** – A centralized facility where inventory is received, stored, and shipped to retail locations or directly to customers. Related terms: Warehouse Management System (WMS), Cross-Docking,

Fulfillment Center. Example: The main DC processes 1,200 shipments per day for a national retailer.

Challenge: Balancing inventory levels across multiple DCs to minimize lead time.

Distribution Planning – The strategic coordination of inventory movement from suppliers to distribution centers and onward to stores, optimizing cost and service levels. Related terms: Allocation, Replenishment, Transportation Management. Example: A retailer uses a transportation model to decide whether to ship goods by air or sea based on urgency. Challenge: Aligning distribution decisions with dynamic demand forecasts.

Double-Stacking – A logistics technique where two pallets are stacked vertically to maximize trailer space, often used for non-fragile fashion items. Related terms: Freight Optimization, Load Planning, Palletization. Example: A shipment of T-shirts uses double-stacking to reduce freight costs. Challenge: Ensuring product integrity and safety during handling.

Economic Order Quantity (EOQ) – The optimal order size that minimizes total inventory costs, balancing ordering costs against holding costs. Related terms: Reorder Point, Safety Stock, Inventory Holding Cost. Example: EOQ calculation suggests ordering 2,500 units of a basic tee to achieve cost efficiency. Challenge: EOQ assumes constant demand, which is rarely true in fashion.

End-of-Season (EOS) Review – An analysis conducted after a season ends to evaluate sales performance, inventory levels, and profitability, informing future planning. Related terms: Post-Season Analysis, Sell-Through, Gross Margin. Example: EOS review shows 85% sell-through for summer dresses, prompting a repeat of the successful styles. Challenge: Extracting actionable insights from large data sets.

Excess Inventory – Stock that exceeds expected sales, often resulting in markdowns or write-offs. Related terms: Over-stock, Write-Down, Inventory Write-Off. Example: 4,000 unsold jackets become excess inventory after the winter season. Challenge: Reducing excess without eroding brand perception.

Fast-Fashion Cycle – A rapid product development and turnover model where new designs are introduced frequently to meet changing consumer trends. Related terms: Quick Response, Lead Time, Trend Forecasting. Example: A retailer releases a new collection every two weeks to stay ahead of trends. Challenge: Maintaining quality and supply chain agility under tight timelines.

Forecast Accuracy – The degree to which actual sales match forecasted sales, often expressed as a percentage error. Related terms: Mean Absolute Percentage Error (MAPE), Forecast Bias, Forecast Error. Example: A forecast accuracy of 92% indicates high reliability. Challenge: Improving accuracy requires continuous data refinement and model updates.

Gross Margin Return on Investment (GMROI) – A performance metric that measures the profit earned for each dollar invested in inventory. Related terms: Gross Margin, Inventory Turnover, ROI. Example: A GMROI of 2.5 means \$2.50 profit is generated for every \$1 invested. Challenge: Balancing GMROI with brand positioning and customer expectations.

Inventory Aging – The categorization of inventory based on the length of time it has been in stock, often used to prioritize markdowns. Related terms: Age Buckets, Stock Turn, Write-Down. Example: Inventory

older than 90 days is flagged for clearance. Challenge: Managing aging inventory without damaging brand value.

Inventory Management System (IMS) – Software that tracks inventory levels, locations, movements, and financials across the supply chain. Related terms: Warehouse Management System (WMS), ERP, SKU Tracking. Example: An IMS alerts the planner when a SKU falls below the safety stock level. Challenge: Integrating IMS with disparate data sources.

Inventory Turn – The number of times inventory is sold and replaced within a given period, indicating efficiency. Related terms: Inventory Days, Sell-Through, Stock Turns. Example: An inventory turn of 4.5 means the stock is refreshed 4.5 times per year. Challenge: High turns may indicate stockouts, low turns suggest excess.

Key Performance Indicator (KPI) – A quantifiable measure used to evaluate the success of an organization or specific activity. Related terms: Dashboard, Benchmark, Performance Metric. Example: KPI for allocation accuracy is set at 95%. Challenge: Selecting KPIs that align with strategic goals.

Lead Time – The period between placing an order with a supplier and receiving the goods at the distribution center. Related terms: Supplier Lead Time, Order Cycle Time, Production Lead. Example: A 45-day lead time for a new fabric requires early buy-in. Challenge: Long lead times reduce flexibility in fast-fashion environments.

Markdown – A price reduction applied to inventory to stimulate sales, typically as a product ages or demand weakens. Related terms: Clearance, Discount, Price Promotion. Example: A 30% markdown on winter coats helps clear excess stock. Challenge: Timing markdowns to maximize revenue while minimizing loss.

Merchandise Planning – The comprehensive process of forecasting demand, setting financial targets, and determining the optimal mix and quantity of products to purchase. Related terms: Allocation, Open-to-Buy, Assortment Planning. Example: Merchandise planning sets a \$10 million sales target for the spring season. Challenge: Aligning multiple functional inputs (finance, buying, marketing) into a cohesive plan.

Merchandise Return – The process of sending unsold inventory back to the supplier, often subject to contractual terms. Related terms: Reverse Logistics, Return Authorization, Vendor Return Policy. Example: A retailer returns 500 unsold dresses to the vendor for credit. Challenge: Managing return costs and maintaining supplier relationships.

Open-to-Buy (OTB) – The financial budget available for purchasing new inventory during a specific period, after accounting for existing commitments. Related terms: Closed-to-Buy, Budget Allocation, Merchandise Planning. Example: An OTB of \$2 million for Q3 guides the buying team's purchase decisions. Challenge: Monitoring OTB in real time to avoid overspending.

Order Cycle Time – The total elapsed time from order placement to receipt of goods, encompassing all processing stages. Related terms: Lead Time, Order Fulfillment, Turnaround Time. Example: Reducing order cycle time from 30 to 20 days improves allocation responsiveness. Challenge: Coordinating multiple internal

and external stakeholders.

**Order Management System (OMS)** – A platform that captures, processes, and tracks purchase orders throughout the supply chain. Related terms: ERP, Purchase Order, Order Fulfillment. Example: The OMS automatically generates purchase orders when inventory falls below reorder points. Challenge: Ensuring OMS integration with inventory and accounting systems.

**Over-stock** – Inventory levels that exceed demand forecasts, leading to higher holding costs and potential markdowns. Related terms: Excess Inventory, Stockout, Inventory Optimization. Example: Over-stock of a seasonal sweater forces a mid-season promotion. Challenge: Preventing over-stock through accurate forecasting and flexible allocation.

**Performance Benchmarking** – The practice of comparing a company's metrics against industry standards or competitors to identify improvement areas. Related terms: KPI, Best Practices, Gap Analysis. Example: Benchmarking reveals the retailer's inventory turn is 10% below the industry average. Challenge: Translating benchmarks into actionable strategies.

**Plan-ogram** – A visual representation of product placement on store shelves, designed to maximize sales and shopper experience. Related terms: Shelf Layout, Visual Merchandising, Space Allocation. Example: The plan-ogram for a denim aisle places high-margin styles at eye level. Challenge: Adapting plan-ograms to changing inventory levels.

**Pricing Strategy** – The method used to set product prices, balancing cost, competition, perceived value, and profit objectives. Related terms: Markdown, Gross Margin, Price Elasticity. Example: A penetration pricing strategy introduces a new line at a lower price to gain market share. Challenge: Maintaining profitability while staying competitive.

**Product Lifecycle Management (PLM)** – The integrated process of managing a product from concept through design, production, and retirement. Related terms: Design Development, Sample Review, End-of-Life (EOL). Example: PLM software tracks the development timeline of a new sneaker line. Challenge: Coordinating cross-functional teams across multiple time zones.

**Product Mix** – The combination of product categories, styles, and price points offered by a retailer. Related terms: Assortment, SKU Portfolio, Category Management. Example: A balanced product mix includes high-margin luxury items and lower-priced basics. Challenge: Aligning mix with target customer demographics.

**Product Portfolio** – The total collection of products a brand offers, spanning multiple categories and segments. Related terms: SKU, Product Line, Brand Architecture. Example: The portfolio includes casual wear, formal wear, and accessories. Challenge: Managing portfolio breadth without diluting brand identity.

**Purchase Order (PO)** – A formal document issued by a retailer to a supplier, detailing quantities, specifications, and delivery terms. Related terms: Order Management, Contract, PO Confirmation. Example: PO #12345 requests 5,000 units of a summer dress with a 60-day delivery window. Challenge: Ensuring PO accuracy to avoid costly amendments.

**Quantity Discount** – A price reduction offered by suppliers when a buyer purchases larger volumes, incentivizing higher order sizes. Related terms: Tiered Pricing, Volume Incentive, Cost Savings. Example: Buying 10,000 units of a T-shirt earns a 5% discount. Challenge: Balancing discount benefits against risk of excess inventory.

**Quick Response (QR)** – A supply chain approach that shortens lead times and improves flexibility, enabling rapid reaction to market changes. Related terms: Fast-Fashion Cycle, Demand Sensing, Agile Supply Chain. Example: QR allows a retailer to introduce a new color within two weeks of trend detection. Challenge: Requires tight coordination with suppliers and logistics partners.

**Reorder Point (ROP)** – The inventory level at which a new order should be placed to replenish stock before it runs out. Related terms: Safety Stock, Lead Time, Inventory Management. Example: With a 20-day lead time and daily sales of 50 units, the ROP is set at 1,000 units. Challenge: Calculating ROP accurately in volatile demand environments.

**Replenishment** – The ongoing process of restocking stores or channels based on sales data, forecasts, and inventory policies. Related terms: Allocation, Reorder Point, Automated Replenishment. Example: Automated replenishment triggers a shipment of 200 units of a best-selling top when inventory falls below the threshold. Challenge: Preventing both stockouts and over-stock through precise algorithms.

**Retail Price Index (RPI)** – A measure used to track changes in the cost of a basket of retail goods, often influencing pricing decisions. Related terms: Inflation, Cost of Goods, Price Adjustment. Example: An RPI increase of 3% prompts a modest price hike on core apparel items. Challenge: Communicating price changes without alienating consumers.

**Revenue Forecast** – An estimate of future sales revenue, derived from demand forecasts, pricing strategies, and market assumptions. Related terms: Sales Projection, Financial Planning, Top-Line Forecast. Example: Revenue forecast for the upcoming season is \$15 million based on projected unit sales and average selling price. Challenge: Aligning revenue forecasts with realistic market conditions.

**Safety Stock** – Extra inventory held to protect against demand variability and supply disruptions. Related terms: Buffer Stock, Reorder Point, Service Level. Example: Maintaining a safety stock of 10% of average weekly sales for a high-turnover style. Challenge: Determining optimal safety stock levels without inflating carrying costs.

**Seasonal Index** – A factor applied to forecasts to account for predictable seasonal fluctuations in demand. Related terms: Seasonal Adjustment, Trend Factor, Forecast Modifier. Example: A seasonal index of 1.2 for summer dresses reflects a 20% higher demand than the average month. Challenge: Updating indices as consumer behavior evolves.

**Sell-Through** – The proportion of inventory sold within a specific period, expressed as a percentage of available stock. Related terms: Stock Turn, Gross Margin, Inventory Aging. Example: A sell-through rate of 75% for a new jacket indicates strong market acceptance. Challenge: Low sell-through may signal over-stock or mis-pricing.

SKU (Stock Keeping Unit) – A unique identifier assigned to each distinct product variant (style, size, color). Related terms: Item Code, Product Identifier, Inventory Tracking. Example: SKU 12345-BLK-M represents a medium black dress. Challenge: Managing thousands of SKUs while maintaining data integrity.

SKU Rationalization – The process of evaluating and reducing the number of SKUs to improve efficiency and profitability. Related terms: Assortment Optimization, Product Line Simplification, Inventory Consolidation. Example: Removing low-performing SKUs that generate less than 5% of sales. Challenge: Balancing variety with operational simplicity.

Stock Keeping Unit (SKU) Velocity – The rate at which a specific SKU sells, often measured in units per day or week. Related terms: Sell-Through, Demand Forecast, Inventory Turn. Example: SKU velocity of 30 units per week indicates high demand. Challenge: Predicting velocity for new or limited-edition items.

Stockout – A situation where demand cannot be met because inventory is unavailable. Related terms: Lost Sales, Backorder, Service Level. Example: A stockout of a popular sneaker leads to lost sales and customer dissatisfaction. Challenge: Anticipating stockouts while avoiding excess inventory.

Store Allocation – The distribution of inventory to individual retail locations based on store performance, demographics, and forecasted demand. Related terms: Allocation, Replenishment, Store Profile. Example: Allocating higher quantities of a luxury handbag to high-spending urban stores. Challenge: Aligning allocation with rapidly changing local trends.

Store Profile – A data set describing a store's characteristics, such as size, sales history, customer demographics, and foot traffic. Related terms: Store Segmentation, Allocation, Assortment Planning. Example: A store with a high proportion of young shoppers receives trendier styles. Challenge: Keeping profiles updated with accurate data.

Supply Chain Visibility – The ability to track and monitor inventory, shipments, and processes throughout the supply chain in real time. Related terms: Traceability, Real-Time Data, End-to-End Visibility. Example: Using RFID tags to view product location from factory to store shelf. Challenge: Integrating disparate systems for seamless visibility.

Supply Chain Resilience – The capacity of the supply chain to absorb disruptions and continue operating effectively. Related terms: Risk Management, Contingency Planning, Flexibility. Example: Diversifying suppliers reduces risk of a factory shutdown. Challenge: Balancing resilience investments with cost efficiency.

Target Gross Margin – The desired profit margin expressed as a percentage of sales, set for each product or category. Related terms: Gross Margin, Pricing Strategy, Cost of Goods Sold. Example: A target gross margin of 55% for premium outerwear. Challenge: Achieving target margins while remaining price-competitive.

Target Net Sales – The projected revenue after discounts, returns, and allowances, used for planning and performance measurement. Related terms: Revenue Forecast, Gross Sales, Net Revenue. Example: Target net sales of \$8 million for the fall collection. Challenge: Aligning targets with realistic market demand.

**Test Market** – A limited release of a product in a specific geographic area or channel to gauge consumer response before a full launch. Related terms: Pilot Launch, Market Research, Feedback Loop. Example: Introducing a new sneaker line in three flagship stores to assess demand. Challenge: Extrapolating test market results to larger markets.

**Time-Series Forecasting** – A statistical method that uses historical data points collected over time to predict future values. Related terms: Moving Average, Exponential Smoothing, Seasonal Index. Example: Applying ARIMA modeling to forecast quarterly sales of a handbag line. Challenge: Accounting for sudden trend shifts or promotions.

**Top-Down Planning** – A strategic approach where corporate financial targets drive merchandise decisions, cascading down to categories and SKUs. Related terms: Bottom-Up Planning, Financial Forecast, Merchandise Planning. Example: A corporate sales target of \$100 million informs each department's allocation. Challenge: Ensuring bottom-up insights are incorporated into top-down targets.

**Turn-over Rate** – The frequency at which inventory is sold and replenished within a period, often expressed as a ratio or percentage. Related terms: Inventory Turn, Stock Turns, Sell-Through. Example: A turnover rate of 4.2 indicates inventory is refreshed slightly more than four times per year. Challenge: Maintaining a healthy turnover without frequent stockouts.

**Vendor Managed Inventory (VMI)** – A collaborative arrangement where the supplier monitors stock levels and makes replenishment decisions on behalf of the retailer. Related terms: Consignment, Collaborative Planning, Replenishment. Example: A denim supplier automatically ships additional units when retailer inventory falls below a threshold. Challenge: Trust and data sharing between parties.

**Visual Merchandising** – The practice of designing store layouts, displays, and signage to enhance the shopping experience and drive sales. Related terms: Plan-ogram, Store Layout, Brand Presentation. Example: Creating a window display that highlights a new sustainable collection. Challenge: Aligning visual concepts with inventory availability.

**Warehouse Management System (WMS)** – Software that controls and optimizes warehouse operations, including receiving, storage, picking, and shipping. Related terms: Inventory Management System, Fulfillment, Automation. Example: The WMS directs pickers to the most efficient routes for order fulfillment. Challenge: Integrating WMS data with merchandising and sales platforms.

**Write-Down** – An accounting reduction in the book value of inventory when its market value falls below cost. Related terms: Write-Off, Impairment, Excess Inventory. Example: Writing down unsold winter coats by \$20 each due to fashion obsolescence. Challenge: Minimizing write-downs through accurate forecasting.

**Yield Management** – A pricing and inventory control strategy that maximizes revenue by adjusting prices based on demand and remaining inventory. Related terms: Dynamic Pricing, Revenue Management, Capacity Optimization. Example: Raising prices for limited-edition sneakers as inventory diminishes. Challenge: Avoiding customer backlash from perceived price gouging.

**Zero-Cost Allocation** – An allocation method where inventory is distributed without additional cost

considerations, often used for promotional or clearance items. Related terms: Cost Allocation, Promotional Planning, Margin Management. Example: Allocating excess stock to stores at zero cost to clear floor space. Challenge: Tracking the impact on overall profitability.

Zero-Inventory Model – A supply chain approach aiming to eliminate on-hand inventory by relying on rapid production and delivery, often supported by advanced analytics. Related terms: Just-In-Time, Agile Manufacturing, Demand Sensing. Example: A fashion brand produces garments only after receiving confirmed online orders. Challenge: Maintaining product quality and delivery speed with minimal buffer stock.