

Party On!

By Denise Deveau

Ask Michael Shneer for the key to success in merchandise planning, and he tells you: "It's not a science -- it's a lot of instinct and art." But probe deeper and you'll find that Shneer, President of Party City Ltd., also relies on innovative technology to give instinct and art some crucial help.



Expanding to Canada in 1995, U.S.-based Party City is a leading retailer of costumes, party supplies, decorations, greeting cards and other special-occasion items. In its first two years of operations here, it opened three stores. Once the company got the "lay of the land," it was time to expand in earnest, to the point where it now has 16 stores in Ontario, with an additional eight to 10 stores slated to open this year (including outlets in Western Canada).

Finding the right merchandising mix is an ongoing challenge because of the unique nature of his business, Shneer points out. "We operate in a rather unusual environment from a merchandising standpoint. Most retailers talk in terms of four seasons. We talk of at least one season a month -- sometimes more." In other words, each holiday represents a selling season for Party City, with Halloween being the busiest of all.

Party City operates under a decentralized scheme, which means each store manager is responsible for ordering products according to his/her specific market needs. "Certain religious holidays will carry more weight in some geographical or ethnic areas. That's why we have to get into micro-merchandising at the store level to ensure we have the right merchandising mixes in each location," says Shneer.

He adds that as a master franchiser of a U.S. company, operating in Canada was not without its growing pains. "We had to learn a few merchandising lessons in the Canadian market. When we first opened here, we emulated U.S. merchandising only to find out that the market for certain holidays such as Thanksgiving was much less important in Canada than the U.S. We had to go through a bit of trial and error the first couple of years."

But Party City's merchandising strategies are not hit and miss. Since opening in Canada, it has been using Toronto-based Magstar Inc.'s fully integrated Retail Enterprise System. The Magstar system was developed to accommodate Party City's short- and long-range plans to manage all its activities at both head office and store levels. Pricing and product lists are generated at the head office and downloaded to in-store processors that in turn communicate with the POS terminals. POS activity is polled nightly by the in-store processor and uploaded to head office.

Sounds simple enough. However, in addition to the usual sales activity, report generation, and pricing and inventory functions, the system also features a Min/Max function that allows Party City to be more proactive in its merchandising planning. The function -- which has been customized for the company's needs -- uses a complex matrix of multiple variables that correlate historical sales activities, market trending and existing application data in order to download Min/Max levels (which are adjusted according to the season) to each store's processor. Purchase orders can then be automatically generated

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[November/December 2002](#)

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[September/October 2002](#)

[July/August 2002](#)

[May/June 2002](#)

[March/April 2002](#)

[January/February 2002](#)

[November/December](#)

[2001](#)

[September/October 2001](#)

[July/August 2001](#)

[May/June 2001](#)

[March/April 2001](#)

[January/February 2001](#)

[November/December](#)

[2000](#)

[September/October 2000](#)

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for replenishment. These purchase orders are reviewed by managers and forwarded to the individual suppliers.

"It used to take three store managers three days to write orders for a quarter of our vendors," Shneer reports. "Now a purchase order can be generated in a matter of minutes. It has cut a huge amount of time out of the buying process."

But when it comes to merchandise forecasting, he cautions, there are never any guarantees. "No matter how prepared you might think you are, it's not always possible to forecast the 'hot' items a year in advance. But you can at least find a way to build in early-warning signals and track trends so you can adjust order quantities as quickly as possible."

He cites the Pok mon phenomenon. "No one predicted how big Pok mon was going to be. A lot of retailers were bullish on Star Wars, which did not perform as well as expected. They didn't bet on that from a merchandising standpoint. With our system, we were able to see these things relatively early in the season and respond by adjusting orders. Even at that, we cleaned out the suppliers."

Shneer adds that when it comes to forecasting you also have to factor in the "cause and effect" of certain trends. "It's simply not enough to increase overall inventory by 10% to meet a growing demand. You have to determine how a shortage in one item could impact sales on another. People who could not get a Pok mon [Halloween] outfit would maybe go for a Spiderman costume as a second choice. But if the Pok mon costume was there, the Spiderman one would not have sold. It can become a very complex process that takes months of planning."

He does acknowledge, however, that Party City is fortunate in that many of the items in its stores -- such as seasonal napkins and decorations -- can be carried over year after year. Steven Greenwood, Vice President of Magstar Inc., notes that with access to historical and trending information, many mid-sized retailers can be much more proactive -- and hopefully more accurate -- in their merchandise planning.

"By tracking sales history and market trends, retailers can better project types of sales and realign budgets to optimize the movement of inventory. As sales are recorded, inventory and forecasting can be dynamically updated based on activity. With three years of trending information, retailers can see if increased sales are a spike or a true industry trend and adjust their inventory levels accordingly. When dealing with a new product with no sales history, trending can be done using similar product groupings. Party City uses this type of forecasting to the nth degree with great success."

Denise Deveau is a Toronto-based business writer.