

## You've got *how* many SKUs?

### March 2013 Newsletter

Think you've got the right offerings in your product line to grow? Think again.

I was at the Outdoor Retailer Winter Market show in January and was horrified at the SKU proliferation I saw in the booths of most companies. Footwear and apparel brands with less than \$5 million in sales were sporting over 100 SKUs in their line. That's financial lunacy. True, you'll get reams of glowing press and glossy photos from the industry magazines. Sadly, you can't use that to pay your bills.

You need to learn to say no.

#### **Understanding the real cost**

I get it: you want to be perceived as a real player that your retailers can rely upon. And as a passionate climber/trail runner/backpacker/telemark skier, you understand the value of each and every one of the SKUs. However, the product development burden of creating those styles, combined with the financial burden of buying the inventory, and the administrative burden of managing it, are setting you up for long term failure.

In a world of finite resources—time, people, energy, and money—you can't afford to dilute your efforts. You've got to focus on the products that will cost you the least and give you the greatest return on your investment. Are your other products suffering because they're not getting enough attention? Would you have more money for marketing if you weren't sinking it into inventory? Have you factored in the markdown cost of excess inventory? How will your core brick & mortar dealers feel when you've got a ton of product marked down at one of the big online retailers?

Now: do you really need six colorways of your latest zero drop trail shoe—or can you get by with three?

#### **The paradox of choice**

New research on the psychology of decision-making also argues against having too many SKUs. Sheena Iyengar, professor at Harvard Business School and the author of *The Art of Choosing*, has shown that when confronted with too many choices, consumers effectively shut down and choose not to buy anything at all. When choice is overwhelming, it's easier to not make a decision rather than sift through all the options. (Think about your own reaction when you had to choose your 401(k) investments.)

When you give a retailer nine styles of trail shoes to choose from in six colors each, you're setting them up to say no. It's just too hard to figure out which items to choose. In other words, your huge product line is actually hurting you.

Your sales reps know this: when I was in charge of the running product line at Asics, they begged me to drop the weird colors and the niche market products and just give them “three things they could sell all day, everyday.”

### **Better leverage**

Years ago, I was head of product marketing for men’s and women’s running shoes at Asics. My categories did \$87 million in sales with only about 50 SKUs. And even with such a tight product line, the 80/20 rule held true: most of our business came from four models in two colorways each. That’s more than \$1.5 million per SKU.

A brand like Hoka One One is building their line correctly. They only had 10 SKUs last year in men’s and women’s combined, but they generated about \$6.5 million in sales—\$650,000 per SKU. At the OR Winter Market, they only showed a total of 17 SKUs. True, their dealers are asking for more products in more colors, but that’s a far better situation than trying to unload a bunch of distressed inventory.

There’s no formula to determine the right sales per SKU leverage for your product line, but if it’s low, you should take a long, hard look at whether or not you really need the item.

### **Staying relevant**

Of course you need a certain amount of product line breadth to be a relevant brand. Based on what I saw at the OR show, however, many companies have gone well past the point of relevance and deep into the metastatic zone.

If you want to be relevant, focus on providing fewer products that sell through easily, rather than trying to cover every single market niche and color preference. Sure, you’ll lose a few sales. But if the retailers can count on your products to sell through and make money, they and your sales reps will forgive you for not providing the fashion-forward lime/habanero/eggplant colorway.

Building a product line is not only art and science; it’s also dollars and cents. You can’t look only at the expected revenues for each product. You also have to consider the financial and human cost when you plan your line. If you do that, you’re more likely to have successful products—and a successful company.