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Retail Management Block 3 MERCHANDISE MANAGEMENT UNIT 8 Merchandise Assortment Planning 1-30 UNIT 9 Purchasing Systems 31-59 UNIT 10 Merchandise Purchasing 60-99

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BLOCK 3: MERCHANDISE MANAGEMENT This block, Merchandise Management, elaborates on the buying process, assortment process, budgeting process, and branding strategies of a retail organization. This block consists of 3 Units. Unit 8 - Merchandise Assortment Planning: A retailer must have a thorough knowledge with necessary information on what merchandise to purchase for his/her store. To take a decision on this, a retailer should have a clear idea on certain important factors like (i) Planning for merchandise assortment (ii) Choosing the proper retail category (iii) Using tools like Gross Margin Return on Inventory Investment (GMROI) (iv) Inventory turnover and sales forecasting, etc. All these factors are analyzed in this Unit. Setting financial objectives is another area of focus that occupies a prominent place in this Unit. In addition, factors affecting the merchandise planning is explained. The various product mix trends to serve the twin objectives — surviving competition and meeting customer needs — are also explained as a finishing note. Unit 9 - Purchasing Systems: The Unit begins with the merchandise budget plan of a retail unit that is derived through sales forecasting and inventory management. The difference in the purchasing systems between staple merchandise and fashion merchandise is elucidated with suitable examples. The Unit also proceeds to illustrate the significance of assigning merchandise to the stores and performance analysis of

the merchandize through ABC Analysis, Sell-through Analysis and Multi-attribute method.

Unit 10 - Merchandise Purchasing: The components of merchandise purchasing, viz., selecting brands and choosing a branding strategy is enveloped by this Unit. The five steps in merchandise purchasing process are detailed along with the ethical and legal issues that surround merchandise purchasing like counterfeit merchandise, grey market merchandise, diverted merchandise, and related issues are explained. Under dual distribution, the

role of merchandising and merchandise buying manager in modern retailing

are also explained.

Unit 8 Merchandise Assortment Planning Structure

Advertising moves people toward goods; merchandising moves goods toward people." - Morris Hite, Former Chairman, President & CEO, Tracy-Locke 8.1 Introduction Hundreds of assortment planning and buying decisions are made every day by merchants and planning teams, from the initial product concept through to the point of sale. Each decision needs to marry creativity and insight with careful thought informed by data. The variety and assortment of merchandise offered by a store play a major role in attracting customers. The retailer must make decisions regarding the merchandise offered depending on the sales targets and financial objectives of the store. Merchandise comes in a variety of sizes, colors, makes and models. Retailers should be very careful while deciding on the amount of stock to be maintained in

each category; if large stocks are maintained in a category, there may not be sufficient resources left for providing a deeper assortment of goods. Hence, the retailer should establish a trade-off between the types of categories or assortment and the inventories being maintained. For a judicious mix of merchandise and its arrival in the store for sale at the right time, several individuals, and functional departments such as purchase, warehouse, finance, store operations, etc., have to coordinate their activities. Managing merchandise properly is of great significance for any retail firm. Retailers take many decisions pertaining to thousands of individual products being offered for sale and sourced from hundreds of vendors. Therefore, retailers should adopt a well-organized and systematic merchandise buying process. A systematic merchandise planning process enables the purchaser to forecast with some degree of accuracy, what to purchase and when to make the goods available to customers. A good merchandise plan is important for a retail store to achieve its sales and gross margin goals. Unit 7 discussed retail organization and management. This unit explains how retailers can manage their different merchandise categories in order to achieve their objectives. 8.2

Objectives After reading through this unit, you should be able to: ?

Convert product categories into sales revenues through proper merchandise management ? Set financial objectives and use Gross Margin Return on Inventory Investment to measure the firm's performance ? Describe Category Lifecycles to predict sales ? Develop a suitable Assortment Planning Process to attain a sustainable competitive advantage ? Operationlize product mix strategy to fulfil customer needs 8.3 Organizing the Buying Process by Categories A category is a retailer's fundamental unit of analysis for making decisions pertaining to merchandising. A category is a distinct, manageable group of products or services, which are perceived by customers to be interrelated and/or substitutable. For example, men's jeans and girls' jeans are two categories, which have similar characteristics. The pricing and promotional aspects of these two merchandise categories are targeted at similar customers.

Example: Target Corporation Organizes Shopping to Creating Distinct Categories Target Corporation was a departmental store chain headquartered in USA. Target stores were designed to offer physical and digital experiences to provide to shoppers a fun filled shopping experience. A whole range of products like sports goods, liscensed products, host of toys are all categorised and offer variations of engagement moments. The entire arrangement of the store is such that it offers a wholistic shopping experince unique to Target. Source: (August 19, 2020). Bringing More Smiles to the Aisles of Target. Retrieved from https://www.collemcvoy.com/work/target/target-designs-the-retail-experience-all-around-its- guests. Accessed on 20-07-2022 8.4 Category Management Category management helps a retailer orient his strategic decisions to reach his customer base better. The category management is a process of managing all Stock Keeping Units (SKUs) within a product category. It involves the simultaneous management of price, shelf-space, merchandise strategy, promotional efforts and other elements of the retail mix within the category and is based on the firm's goals, the changing environment and the consumer behavior. Thus, category management has two main objectives: satisfying the customers and increasing sales in each category. In a majority of retail organizations, the responsibility for purchasing merchandise is shared by a category manager and a merchandise planner. Merchandise planning is an evolving concept in retailing and hence, this process is handled differently by different retailers. Typically, it is the category manager who looks after all the functions of merchandise management. The responsibilities of a category manager include interacting with the vendors, merchandise selection, merchandise pricing and working with the advertising department for developing various promotion schemes. The responsibilities of a merchandise planner in a typical retail organization are more analytical and involve purchasing the right quantities of each merchandise category, assigning the merchandise to stores, looking after the sales activities and suggesting markdowns. 8.4.1 The Category Management Process Category management helps the retailer answer questions like: What type of merchandise should be offered to the customer? What quantities of merchandise should be made available? What pricing strategy should be adopted? In which stores should the merchandise be made available? Which part of the store should be assigned to particular types of merchandise? How much shelf space should be assigned to a particular merchandise category? What type of advertising strategy should be adopted?

A typical category management process is split into the following steps: ? Category Definition: Defining a category is the first step in the category management process, in which the retailer classifies the products into different categories depending on the usage of the product by the consumer and its packaging. ? Role of Category: Deciding on the role of a category is the second step in the category management process. In this step the retailer decides the role of each category and determines its position in the category mix. In general, there are four category roles: o Destination categories: These are used by the retailers to position themselves as the preferred stores of customers through their superior service and better value offerings. For instance, the fresh foods (fruits, vegetables, bread, butter, etc.) made available at a particular hypermarket make it a choice location for customers for food products. For instance, Reliance Fresh is generally preferred by the customers for fresh fruits and vegetables, whereas Croma is preferred for its wide assortment of electronic goods. o Routine categories: These are products that are used by customers on a daily basis. Products placed under routine categories include hair oils, detergent powders and cakes, shampoos, soaps, toothpastes and services like banking. o Convenience categories: It includes products that are more conveniently purchased by customers from neighborhood retail outlets rather than from an outlet at a greater distance, carrying a wide range of products and low prices. o Seasonal categories: It includes products that are bought occasionally. Some retailers, who specialize in offering items classified under the seasonal categories, can change those particular products into destination categories in order to attract more number of customers during that season. For instance, certain departmental stores offer crackers during festive seasons at low prices, thus making them preferred place to shop for crackers. ? Category Assessment: Category assessment is the third step in the category management process. In this step, retailers conduct a detailed analysis of the sales, profits and return on assets and investments depending on the stock keeping units, sub-categories, brands, etc. Retailers also assess the categories with the help of data on the consumers, vendors or competitors. ? Category Scorecard: Category scorecard is the fourth step in the category management process. This step involves developing bottom line and setting

targets to measure the performance of the categories. Retailers use a tool known as a category role matrix together with parameters like the sales volume and the Gross Margin Return on Investment (commonly referred to as GMROI) for measuring the performance of a category. ? Category Strategies: In the fifth step of the category management process, the retailer develops marketing strategies for the category. There are two types of strategies: demand-chain strategies and supply-chain strategies. While demand-chain strategies emphasize store traffic, profit margins, store image, cash and excitement, supply-chain strategies emphasize the flow of merchandise and the cost of transactions. ? Category Tactics: This step in the category management process involves determining various tactics that ensure the smooth implementation of strategies. These tactics relate to assortments, pricing, promotion and supply chain. ? Implementation: Implementation is the last stage of the category management process where all the action takes place. In fact, implementing the category management process in the store is the most crucial element. Retailers monitor and control the category management process regularly in order to ensure the maximum contribution to profits from every category. Example: Decathlon Categorises Strategies for the Sports Goods Decathlon was a France based sporting goods retailer. In 2022, the company went for expansion of distribution channels to offer to customers a range of sustainable sporting goods for everyone, everywhere. Products ranged right from entry-level options to high performance products. Decathlon host over 30 in-house brands and over 80 sport categories of products. With headquarters in northern France and design facility at Mont Blanc Valley for outdoor sports, at Hendaye for water sports equipment and various other centres for design, it is strategically located to offer a fully dedicated speciality store experinece. Source: (June 9, 2022). Decathlon Expands US Distribution Channels to New Retailers. Retrieved from https://www.prnewswire.com/news-releases/decathlon-expands-us-distribution-channels-to- new-retailers-301564696.html. Accessed on 20-07-2022 8.4.2 The Buying Organization All retailers, including those having a single category manager who may be the proprietor of the store, should split their merchandise purchasing activities into categories so as to establish a systematic purchasing process. The merchandise classification pattern given in Figure 8.1 is popular among retailers, though they usually modify it a little to suit their individual situation. This pattern is also practiced by many international retailers like Walmart and Toys 'R' Us.

Figure 8.1 shows the five levels in a buying organization – the Merchandise Group, Department, Classification, Category and the Stock Keeping Unit. Figure 8.1: Levels of Buying Organization

Source: ICFAI Research Center Category

Chairman Vice-President, Women's Wear Vice-President, Men's & Kids'Wear Vice-President, Cosmetics & Accessories Vice-President, Furniture & Kitchen Ware Merchandise Group Divisional Merchandise, Manager, Kids' Accessories Divisional Merchandise, Manager, Men's Casuals Divisional Merchandise, Manager, Kids' Wear Divisional Merchandise, Manager, Men's Formals Divisional Merchandise, Manager, Accessories Department Classification Purchaser, Accessories Purchaser, Infants Purchaser, Boys' Wear (Age 7-14) Purchaser, Boys' Wear (Age 3-6) Sports' Wear Casual Wear Swim Wear Stock Keeping Unit Casual Wear Boys' Jeans, Size 7, Deep Blue, Relaxed Fit

The merchandise group is the highest level of the buying organization, and consists of the vice-presidents of merchandise for different sections, like vice- president, merchandise for men's toiletries, shoes and accessories. The vice- president is responsible for different departments. Departments form the second level of the retail buying organization and a divisional merchandise manager, working under the guidance of the vice- president, merchandise, heads each department. Classification is the third level of the retail buying organization. Purchaser, who reports to the divisional merchandise manager, manages the buying activities at this level. Category is the next level in a retail organization, where each purchaser (from the previous level) buys merchandise for a number of categories. For example, a purchaser for boys' apparel (aged 7 to 14) purchases different categories of merchandise such as outerwear, sportswear, casual wear and swimwear. Moreover, each one of these categories can comprise merchandise from one or many manufacturers (for each SKU). And this makes the fifth level of buying organization. But, defining levels is not as simple as it appears in the figure. It requires thorough market research, without which the retailer will not have a clear idea of how the consumer will perceive the merchandise. For instance, a manufacturer might perceive fairness creams and moisturizing creams as two different product categories, whereas a consumer might consider purchasing a fairness cream as an alternative to a moisturizer. Though fairness creams and moisturizers are products that cannot be substituted for each other, the consumer may use them in a similar manner. Hence, in order to improve sales of a particular category, retailers should understand how consumers perceive products and buy them. An SKU is the smallest classification available for controlling the inventory. For example, at a Levi's jeans outlet, men's jeans of size 30 x 34, in classic fit, in the colors of dark blue, light blue and black, can be placed in one stock keeping unit. Once the retailers understand the need for managing the merchandise through categories, they should analyze the various financial implications of merchandise management. 8.5 Setting Financial Objectives Setting financial objectives is the blue-print of a firm to move in the direction for success in the long-term. The success of a retailer depends on how each of the merchandise categories contributes to sales revenues of the store. Hence, stores should set financial objectives for each of the merchandise categories to measure their performance.

Usually, the top management of the retail organization undertakes financial planning. The top management of a retail organization sets the financial objectives, taking into consideration the overall performance of the organization and the strategic areas of thrust. These objectives are conveyed to the middle level managers (category managers and merchandise planners) for them to work out further details. Category managers and the merchandise planners take a detailed approach by analyzing the previous performance of the categories, and market trends, and then projecting the merchandise needs for the coming seasons. The final merchandise plan is prepared by the merchandise planner and the category manager, in consultation with the top management.

The process of financial planning for a retailer, whether large or small, is the same even if the retail organization does not have many levels of management. The planning process typically starts with the overall financial objectives of the retailer, which are then divided into objectives for various categories. The merchandise plan, developed as a result of the intensive planning of the top management and the category managers, acts as a financial blueprint for purchases in each category. A merchandise plan helps the category manager and the merchandise planner in determining how much money should be spent on a specific merchandise category every month to meet the sales forecasts and other financial goals. After the merchandise plan has been developed, the category managers develop an assortment plan. The category managers work closely with vendors to select the merchandise, negotiate the prices and design promotional schemes. The merchandise planners split the merchandise financial plan based on category-wise requirements and the needs of each store. Once the financial objectives of the merchandise have been set, the retailer will have to examine and measure the performance of the merchandise. Factors Affecting Merchandise Plan There are many factors which retailers need to consider while formulating their merchandise plan. These include: i. Sales forecasting of different merchandise types: Sales forecast refers to the total expected sales to be attained by a retailer in a given period. These are the cornerstone of a merchandise plan and consist of overall sales projection of the overall organization, various product categories, the stores, and stock-keeping units (SKUs). For developing an effective merchandise plan, retailers need to categorize their merchandise into staple (or regular) merchandise, assortment merchandise, fashion merchandise, seasonal merchandise, and fad merchandise. After that, they need to prepare a basic stock list that encompasses in terms of inventory level, color, brands, style, size, and packaging for each of the staple merchandise. Assortment merchandise refers to the merchandise in which choice is an important buying factor for customers, and hence retailers need to provide customers with adequate selection. Compared to staple merchandise, demand forecasting is difficult in assortment merchandise due to variation in consumer demand. In such types of merchandise, retailers must emphasize (a) projected product lines, designs, color, and styles; and (b) model stock plan that provides information related to specific SKUs in terms of different criteria such as size, color, and style. Fashion merchandise refers to merchandise which follows a cyclical pattern in consumer demand due to continually changing consumer tastes and lifestyles. Seasonal merchandise refers to the merchandise where the consumer demand is high during non-consecutive periods. Fad merchandise refers to merchandise that experiences consumer demand for a short duration of time. ii. Innovativeness of merchandise plan: The innovativeness of a merchandise plan provides a point of differentiation to a retailer and provides it with a first- mover advantage. Various factors determine the innovativeness of a merchandise plan. These include the customer segment targeted by the retailer, growth of the retail market, nature of the fashion trends, the image of the retailer, competitive intensity, customer innovativeness towards the merchandise, the level of investment required by the retailer, potential profitability, nature of risks associated with merchandise innovativeness, constraints in the decision making of a retailer, and prior performance of the merchandise. Retailers need to assess the growth potential carefully for the new product or services offered to the customers by clearly delineating its position on the product lifecycle. iii. Merchandise assortment: Merchandise assortment includes both the width and depth of merchandise offered by a retailer to its customers. The width of the merchandise refers to the number of distinct goods/services offered by the retailer, whereas the depth of the merchandise indicates the variety in the product line offered by the retailer. Both the merchandise width and depth depicts the quality of the merchandise offered by a retailer. Various factors influence the above merchandise quality that includes target customers segment of the retailer, competitive intensity, the image of the retailer, location of stores, inventory turnover, merchandise profitability, retailer preference to keep national brands versus private labels, customer services offered by the retailer, the level of skills and knowledge of frontline salespersons, and constraints in the decision making of the retailer. A retailer can better capitalize on market opportunities and minimize risks if it keeps the above factors in mind while designing a merchandise plan. iv. Brands offered by the retailer: An essential factor influencing the merchandise plan of a retailer is the brand mix consisting of the national

brand and private labels. National brands (also called manufacturer brand) are brands that are produced and marketed by the manufacturer that is supported by the marketing communication efforts pulling the customers towards the retail store. These brands are well known and require limited marketing efforts by the retailers and are perceived by customers to be of better quality. Private Labels (also called store brands or owned brands) consist of merchandise that is designed by a wholesaler or manufacturer but is marketed by the retailer sometimes under its brand name. Private labels provide product exclusivity to retailers, better margins, and customer loyalty. These are of two types, viz. premium private labels and generic brands. However, customers perceive private labels as value for money merchandise compared to better quality national brands, unless the retailer decides to position it as a premium substitute of a prominent national brand. The emergence of private labels has intensified the competition between manufacturers and retailers for shelf space leading to a battle of brands for more significant shelf space and control. v. Timing of merchandise purchase, display, and sell: The merchandise plan also depends on the inventory management concerning when a retailer purchase, display, and sell merchandise. The above decisions are critical, depending on whether the merchandise is new or established. The timing of the merchandise also depends on the nature of merchandise, i.e., staple, fashion, or seasonal. Therefore, the efficiency of inventory management is a significant determinant of merchandise in terms of merchandise lead time, fill rate, and desired level of product availability. Staple merchandise requires routine orders, which involves restocking the items regularly. Therefore, retailers need to track the inventory (or stock) turnover as it determines the amount of merchandise to be ordered and kept as a buffer (or buffer stock). Furthermore, retailers should also focus on pricing and promotion (or discount offered) policy as it determines the merchandising decision. vi. Merchandise allocation both within and among the stores: The retailer should decide its merchandise plan depending on the allocation of merchandise among its stores. For single-store retailers, they need to decide on the amount of storage space that it should provide for every merchandise. A retailer having a chain of stores needs to determine the storage space in a store provided to each merchandise, along with the allocation of merchandise among its different stores. Some retailers also rely on their warehouse or distribution centers for storage of products supplied by the vendors and then assigned to various stores in the region. Therefore, retailers need to adopt a centralized or decentralized merchandising philosophy to have a clear idea of their store-by-store merchandise allocation plan.

Example: Amazon Sets Objective to Challenge Walmart in Grocery Segment 26% of US grocery segment was owned by Walmart in 2022. Amazon had the objective to challenge the grocery segment of US as selling grocery was key to selling everything else. Hence, Amazon had an objective to focus on Amazon Fresh the online grocery store of Amazon. Amazon had expectation in Quarter 2 of 2022 to hold a revenue of $119.4

billion up by 5.6% year-on-year (YOY). This was in tune with Amazon’s previous set target of somewhere between $116.0 billion and $121.0 billion. Sources: i) Gudat, S. (January 17, 2022). Amazon Business Strategy: 2022 Goals, Objectives & Retail Marketing Takeaways. Retrieved from https://www.customer.com/blog/retail- marketing/amazon-business-strategy/. Accessed on 27-07-2022 ii) Rong, Y., J. (July 22, 2022). Retrieved from https://www.ig.com/en/

news-and-trade-ideas/can- amazon_s-share-price-rise-further-with-its-upcoming-q2-

resul-220722. Accessed on 27-07-2022 8.6 Gross Margin Return on Inventory Investment Managers at corporate level use 'return on assets' as a key parameter to plan and evaluate the performance of the operations of retail stores. In unit 5, we studied how to use the Strategic Profit Model (SPM), which is based on return on assets, to evaluate and compare the performance of Store Managers across the chain. But SPM is not the only tool for evaluating the performance of merchandise managers. This is because merchandise managers and purchasers only have control over the gross margin and investment, but not on operating expenses and other assets. Therefore, using performance evaluation tools/ratios that are based on return on investment would be more effective for measuring the performance of merchandise or merchandise managers instead of SPM, which is based on return on assets. Gross Margin Return on Inventory Investment (GMROI) is one of the popular financial ratios used by retailers to measure the performance of investment in inventory/merchandise. GMROI gives the number of rupees earned by the retailer on every rupee invested in inventory. In other words, GMROI informs the retailer how much he got back from inventory investment in a year.

GMROI = Gross Margin percentage x Sales to Inventory ratio = (Gross Margin/Net Sales) x (Net Sales/Average Inventory) = Gross Margin/Average Inventory

GMROI = Gross Margin percentage x Sales to Inventory ratio = (Gross Margin/Net Sales) x (Net Sales/Average Inventory) = Gross Margin/Average Inventory

Gross Margin percentage x Sales to Inventory ratio = (Gross Margin/Net Sales) x (Net Sales/Average Inventory) = Gross Margin/Average Inventory

The average inventory used in GMROI can be expressed either in terms of retail price or in terms of cost. Though some retailers express average inventory at retail price, many retailers express the average inventory in terms of cost, as inventory in the denominator of a return on investment ratio is measured in terms of cost.

Thus, GMROI (₹) = Gross Margin (₹) ÷ Average Inventory at Cost GMROI (%) = (Sales ÷ Avg. Inventory at Cost) x Gross Margin (%) GMROI for a category X can be calculated as shown in the Table 8.1 below. The steps are explained below: Table 8.1: Gross Margin Return on Inventory Investment I II III IV V VI VII Merchandise Category Annual Sales (in ₹) Average Investment at Cost (in ₹) Sales-to- Stock Ratio Gross Margin% Gross Margin (in ₹) GMROI (in ₹) GMROI % (I ?II) (I ?IV) (V?II) (III ? IV) Category X 6,50,000 1,30,000 5 40% 2,60,000 2 200% Source: ICFAI Research Center i. Determine annual sales (in rupees) at retail for each department, product line, or category. ii. Calculate average inventory at cost by averaging the month-end inventories for the year. iii. Calculate sales-to-stock ratio by dividing annual sales by average inventory at cost. iv. Determine the gross margin percentage of each product line, department, or category. v. Calculate the gross margin in rupees by multiplying column I by column IV. vi. To arrive at the GMROI in rupees divide column V by column II. vii. To arrive at the GMROI percentage, multiply column III by column IV. In the above example, the retailer gets ₹ 2 for every 1 Re. (at cost) invested in Category X. GMROI, like return on assets, combines the impact of both profits and turnover and it helps compare and evaluate departments with different margins and turnover profiles. For instance, in a department store, private label clothes have a high margin and low turnover, whereas branded clothing has a low margin and high turnover. If the management compares the performance of the department in private label clothing with that of the department with branded clothing, using inventory turnover only, the private labels will perform comparatively poorly. On the other hand, if the retailer compares them using the gross margin ratio, then private labels will show better performance.

GMROI, a profitability measure of return on investment, is used to compare and evaluate departments, merchandise categories, vendor lines and items. Though GMROI is a combination of gross margin and inventory turnover, the gross margin component of GMROI plays a vital role in deciding the pricing structure, whereas the inventory turnover component plays a more significant role when merchandise-related decisions are taken. GMROI cannot be calculated without measuring inventory turnover. The process of measuring inventory turnover and the various merits and demerits associated with a rapid rate of inventory turnover are discussed next. Measuring Inventory Turnover Inventory turnover is defined as the number of times a particular unit of inventory has to be replenished in a store in a fixed period of time. Generally, in a store the purchaser orders some merchandise (say, a box of hair conditioners), which is displayed in the stock keeping unit till it is sold out. When this happens, an order is placed for another box. The inventory turnover for the product (hair conditioners) is the number of times, on average, that the box of conditioners is sold out, and the stock keeping unit is replenished with fresh supplies of one unit or box in a given period of time. Usually, retailers calculate inventory turnover for a period of one year. The faster a product comes into the store and moves out of the store (i.e. is sold), the higher is the turnover of the

inventory. Inventory turnover = Net Sales ? Average Inventory (at retail price), or Cost of Goods sold ? Average Inventory (at cost).

inventory. Inventory turnover = Net Sales ? Average Inventory (at retail price), or Cost of Goods sold ? Average Inventory (at cost).

Although both the formulas give the same results, a majority of retailers use the first formula. However, no matter which formula is used, the retailer should ensure that both the numerator and the denominator are expressed in similar terms, either at retail price or at cost. Retailers usually represent inventory turnover rates annually rather than for specific seasons of the year. When the net sales figures used in calculating the inventory turnover is for a period of three months, the annual turnover is calculated by multiplying it by four. For instance, if the inventory turnover for the spring-summer season (three months) of a fashion boutique is calculated to be 2.1, then the annual inventory turnover rate can be represented as 8.4, which is four times 2.1. Example: Samsung Measured Inventory Turnover Amidst Global Turbulance Samsung, the South Korean tech giant's inventory turnover took 94 days on an average which was two weeks additional to what it took in 2021. The company cut down on the production of its TVs and home appliances. Slow consumer demand, challenging global conditions and Russia-Ukraine war escalated the need to make adjustment to its inventory levels. Contd....

Block 3: Merchandise Management 14

In 2022, Samsung had 50 million unsold smartphones stuck with distributors which comprised about 18 percentage of its smartphone shipment. Source: (June 27, 2022). Retrieved from https://telecom.economictimes.indiatimes.com/news/samsung-now-cuts-production-of-tvs-home-appliances/92485799. Accessed on 20-07-2022 Calculating Average Inventory Calculation of average inventory is done by dividing the sum of inventory for each of the various months by the total number of months. Average Inventory = (M1+M2+M3+M4+...... + Mn)/n where, M1, M2, M3 are inventories for different months and 'n' is the total number of months. But the number of months to be used in the formula and the process for determining the inventory for any particular month has to be decided. One procedure is to consider

the end of the month (EoM) inventories for different months and divide it by the number of months.

This procedure is explained through an illustration in Table 8.2. This procedure is applicable only if the EoM inventory figures do not fluctuate significantly from the inventory levels on any other day of the month. The majority of retailers these days do not physically count the number of items to determine the average inventory. The point of sales (POS) terminals at the billing counters of the stores keep track of the daily sales and subtract them automatically from the inventory on hand. Thus, retailers with POS terminals are able to get average inventory levels accurate by averaging the inventory on hand for each day in the year. Table 8.2: Average Inventory Turnover Month Retail Value of the Inventory (in ₹) EoM September 2,00,000 October 1,50,000 November 2,50,000 December 1,50,000 Total Inventory 7,50,000 Average Inventory = 7,50,000/4 = 1,87,500 Source: ICFAI Research Center Advantages of Rapid Inventory Turnover Retailers generally wish to have a rapid turnover of their inventory, but not above a certain rate. Rapid inventory turnover is advantageous in the following ways: Increases volume of sales: A rapid turnover of inventory enables the retailer to offer new/fresh merchandise on a regular basis. Availability of new merchandise increases sales as customers can buy the latest products.

Reduces the risk of obsolescence and markdowns: The value of certain goods, i.e. fashion and food products, starts declining from the time they are put on display. If the merchandise sells quickly, the retailer need not stock merchandise for long, thus reducing the risk of product obsolescence and markdowns. Improves salesmen morale: Stores with rapid inventory turnover, often re-stock new or fresh merchandise. Sales personnel therefore find it easy to sell the fresh merchandise. This leads to improved sales and hence high morale among the sales teams. Increases money for market opportunities: Rapid turnover of inventory releases the money that is otherwise held up in the inventory, and this helps the retailer to buy more merchandise. Reduces operating expenditure: The Rapid turnover of inventory implies that a lower level of inventory supports a given level of sales. A lower level of inventory implies lower inventory carrying costs, and hence, a lower amount of interest payment on loans taken to maintain inventory levels. Increases the turnover of the assets: Inventory is considered a current asset. The asset turnover increases if inventory decreases with an increase in sales. This has a direct impact on the return on assets, a key measure of performance for a retailer. Disadvantages of Rapid Inventory Turnover Retailers should establish an ideal rate of inventory turnover. A rapid turnover of inventory can be counter-productive for the following reasons: Risk of losing a customer: Usually, retailers stock only fast-moving brands or products in order to increase the rate of inventory turnover. In the process, they limit the assortment in a product category. When a customer does not find a particular variety of a product in the store, he may shift to another store offering a wide variety and deeper assortment of goods. Increases the cost of goods being sold: In order to achieve rapid turnover, retailer purchases merchandise more frequently and in small quantities, thereby reducing the inventory level without having an impact on sales. But, by purchasing in small quantities, the retailer loses the benefits of quantity discounts and economies of scale in transportation. Increases the operating expenditure: Retailers can gain economies of scale by purchasing large quantities. The category manager
has to allocate the same amount of time in meeting vendors and
processing orders, irrespective of the size of the order. All orders, big or small, consume the same amount of time to print invoices, receive merchandise and pay invoices. These factors increase the overhead costs of merchandise retailing. Though a rapid turnover of inventory is usually preferred to slow turnover, an important concern for a majority of merchandise managers in all retail

organizations is that the turnover rate above a point may result in diminishing returns. Activity 8.1 Take any brand of face wash and analyze the depth of the category in a convenience store, a hyper market and a specialty store like Health & Glow.

Check Your Progress - 1 1. Which of the following is called as
a process of managing all stock keeping units (SKUs) within a product category? a. Category management b. Merchandize management c. SKU management d. Product management e. Assortment management 2. Which of the following is known as the smallest classification used for controlling the inventory in a retail organization? a. Unit b. Category c. SKU d. Batch e. Lot size 3. Which of the following is Inventory turnover? a. The number of times a particular unit of inventory has to be replenished in a store in a limited period of time. b. The number of times a category of inventory has to be replenished in a store in a fixed period of time. c. The number of times a particular unit of inventory has to be replenished in a quarter of the year. d. The number of times a particular unit of inventory has to be replenished in a store in a fixed period of time. e. The number of units that have to be replenished in a store in a fixed period of time.

 4.

One among the following is not an advantage of rapid inventory turnover. Spot it. a. Increases volume of sales and reduces risk of obsolescence and markdowns. b. Improves salesmen morale and increases money for market opportunities. c. Reduces operating expenditure and increases turnover of the assets. d. It enhances the image of the organization. e. Increases profitability. 5. Which of the following is not a disadvantage of rapid inventory turnover? a. Risk of losing a customer. b. Increases the cost of goods being sold. c. Increases the operating expenditure. d. Risk of eroding store loyalty due to stock out situation. e. Increases profitability. 8.7 Sales Forecasting A business is strongly tied to sales forecasting. To determine related business objectives like revenue forecasting and demand or volume forecasting, sales forecasting becomes a significant feature for a business unit. Sales forecasting is an integral part of any merchandise assortment plan. There are many internal and external factors that affect the sales of a retailer. Let us see what role these factors play in sales forecasting. The external factors affecting sales are seasons, holidays, special events, competition, external labor movements, productivity fluctuations, births and deaths, changes in fashions, population changes, consumer earnings, political environment and weather conditions. The internal factors that affect sales are product changes, adaptability to prevailing fashions, product quality, service changes, shortages, production capacity, changes in promotional efforts, price fluctuations, inventory shortages, working capital shortage, distribution methods, changes in the credit policy and labor problems. Thus, without a proper sales forecast or sales forecasting technique on hand, retailers cannot determine how much merchandise to order. The retailer should have detailed knowledge and understanding of category lifecycles in order to make realistic sales forecasts. 8.7.1 Category Lifecycles A sales forecast should be able to predict the effective salability of different product categories over a certain period of time. Typically, every product category follows a specific pattern of sales spread over its life cycle – introduction, growth, maturity and decline. The stages of the lifecycle are distinguished on the basis of their differing sales volumes – low sales in the introduction stage, steep increases in the growth stage, and stagnant sales in the maturity stage, followed by a fall in the sales volume in the decline stage. Though every category follows the above pattern, the shape of the pattern varies significantly from category to category. Category-wise sales information helps the category manager understand customer preferences. It helps him understand the type of customers who are likely to buy the products, their expectations in terms of the variety of the products, the nature of competition, and the types of promotion and pricing decisions that will be suitable. When making a sales forecast, it is important for the retailer to know the type of merchandise on offer, i.e. whether it is a fashion, staple or seasonal merchandise. It is important for a retailer working on a sales forecast and merchandise strategy, to know at what point in its lifecycle a product category lies, as this has a significant impact on the target market, the variety of products to be offered, distribution, pricing and promotional strategies. Exhibit 8.1 outlines the importance of the position of a category in its lifecycle in terms of the target market, variety, intensity of distribution, price and promotion of the product. Exhibit 8.1: Sales Patterns – According to Category Lifecycle Stages Introduction Growth Maturity Decline Variables Target market High-income innovators Middle- income adopters Mass market Low-income laggards Variety One basic offering Some variety Greater variety Less variety Distribution intensity Limited or extensive More retailers More retailers Less retailers Price Penetration or skimming Wide range Low prices Low prices Promotion Informative Persuasive Competitive Limited Compiled from various sources by ICFAI Research Center Retailers usually set high-income innovators as their target market for their newly launched categories. As the categories pass through the growth and maturity stages, they start offering the products to middle income and mass-market consumers. As the categories reach the decline stage, they are made accessible to low-income customers also, who follow rather than lead fashions. During the introduction stage of a category lifecycle, a customer is usually offered a fairly small variety of the newly launched product, but the variety increases as the category passes from growth to maturity and is again limited as it reaches decline.

The intensity of distribution refers to the number of retailers offering a particular category. In the introductory stage, the categories can be distributed either in a limited or an extensive manner, depending on the type and availability of the products in the category. Increasing popularity of the category in the growth and maturity stages usually increases the intensity of distribution. But when the category reaches the decline stage, very few retailers will be interested in carrying it because of its declining demand. A newly launched category can be priced either according to the 'skimming' pricing strategy or the 'penetration' pricing strategy, depending on the type of the category and the intensity of distribution. A skimming strategy is adopted when the category is in short supply and is available through a limited number of dealers. As the category grows, reaches maturity and starts declining, the price usually declines as it is more readily available and as demand is declining. Promotion in the introductory stage of a newly launched category is aimed at informing the customer about the newly launched category. With the passing of the category into the growth and maturity stages, promotional strategies get competitive and are aimed at persuading the customers to patronize a specific store. Once the category reaches the decline stage, retailers decrease promotional support to the category and assign the same funds to categories that can generate more sales. Thus, the knowledge of the position of a category in its lifecycle helps the retailer to forecast sales. Though a majority of categories follow the basic structure of the category lifecycle – introduction, growth, maturity and decline – there are some variations in category lifecycles depending on whether the category is a fad, a fashion, a staple or a seasonal product. The differentiating factors among these are the number of seasons for which a category lasts, the number of seasons for which a particular style sells and whether sales figures fluctuate significantly from season to season. A fad is a phenomenon in which a merchandise category generates huge sales for a relatively short period of time – the period generally lasts less than a season. The most common examples are apparels and toys, which become fashionable for a short period of time and video games which create ripples as soon as they are launched and fade away when new games enter the market. Marketing fads are among the riskiest and toughest ventures to manage in retailing. Effective management of a fad lies in identifying the fad at the earliest possible stage and owning an exclusive distribution channel to sell it. Identifying the fad at the proper time alone will not be enough for the retailer to derive maximum benefit. He should also identify the peak period of sales for the merchandise considered a fad so that all the merchandise can be cleared and not left unsold in the warehouse when the fad ends. A fashion is a phenomenon exhibited by a merchandise category that usually lasts for a few seasons with sales fluctuating significantly from one season to the next.

The lifespan of a fashion is based on the type of category and the target customers. For example, wrought iron furniture may be a fashion which sells for a couple of years, while broken twill jeans and short sleeve shirts may be a fashion that lasts only for a couple of seasons. A merchandise category can be referred to as staple if it enjoys a continuous demand over an extended period of time. For example, 'blue jeans' is a merchandise category that has enjoyed continuous demand over an extended period of time. A merchandise category in which sales vary significantly at different times in a year is referred to as seasonal merchandise. Staple and fashion merchandise both have seasonal sales. Managing variations during the category lifecycle is a challenging job for the merchandise manager, as it involves thorough planning, without which the retailer would invest more than what is needed in inventory. 8.7.2 Making a Sales Forecast Retailers make sales forecasts by using previous sales records of the category and studying its lifecycle trends. The process of sales forecasting has not been streamlined in India so far. This job is usually assigned to someone from the top management and is usually done at the level of broad merchandise categories. Category managers, when making sales forecasts, usually consider several sources for collecting data. The sources of information are past sales records, published sources, and information from customers. The forecasts derived from such past data may have many errors when examined at the micro level and this is where the real problem lies. For instance, it is easier to forecast the sales of the trousers rather than the sales of casual Khakis. Category managers should be realistic while estimating future sales. Retailers should follow the guidelines given below in order to enhance the accuracy of their sales forecasts: ? The products should be categorized into basics and fashionables. Sales of basic products or merchandise can usually be forecasted fairly accurately and the retailer need not check the sales forecasts a number of times. ? Retailers should develop top-down and bottom-up sales forecasts, and then derive a mean by clubbing these two figures. ? They should allow different individuals to develop sales forecasts. ? They should use feedback from consumer panels and research on the styles and colors of the merchandise being considered. Once the retailer has all the financial and sales forecasts for a particular category of merchandise, the next step is to determine what type of merchandise to purchase.

Example: Best Buy Revises its Sales Forecast Best Buy was an American multinational consumer electronics retailer company. In July, 2022, the company did a sales forecast stating that it saw a weaker demand for consumer electronics amidst inflation. The store sales were expected to decline by about 13 % for the three-months period. Best Buy expected store sale to decline by about 11% compared with drop of between 3% and 6%. Source: Repko, M. (July 27, 2022). Best Buy cuts its outlook, joining other retailers as inflation pressures shoppers. Retrieved from https://www.cnbc.com/2022/07/27/best-buys-shares-fall- 10percent-as-it-cuts-its-forecast-for-second-quarter-cites-weaker-demand.html. Accessed on 05- 08-2022 8.8 Assortment Planning Process Every retailer, in order to attain a sustainable competitive advantage, has to answer basic strategic questions: First, what type of a retail format should be adopted? Second, deciding the type of merchandise assortment, that will be offered by the store. The second point is a critical component of the choice of a retail format. Assortment planning is considered to be the holy grail of every retailer. It determines the product mix and the inventory size that meets customers' changing preferences and tastes. Decisions on merchandise assortment are generally constrained by the availability of space in the store and the availability of finances to spend on merchandise. Decisions pertaining to the variety and assortment of products and the product availability are based on the retailer's financial goals. It is essential for the retailer to understand the importance of variety, assortment and product availability and analyze the need for strategic trade-offs among them. Variety refers to the number of different categories of merchandise within a store or a department. Stores offering a large variety of merchandise are said to offer a good breadth, as the terms breadth and variety are used interchangeably. The assortment is the number of stock keeping units within a
merchandise category. Generally, stores offering a large assortment of merchandise are said to offer a good depth, as the terms depth and assortment are used interchangeably. Finally, product availability indicates the percentage of demand that has been satisfied by a specific Stock Keeping Unit (SKU). Product availability is sometimes referred to as service level or level of support. For instance, if 100 people come into an apparel store to purchase broken twill blue jeans in the size 30-32 and the store is able to sell that item to only 75 customers, on account of limited stock, the product availability in this case is 75%. 8.8.1 Need for Trade-off between Variety, Assortment and Product Availability Establishing a trade-off between variety, assortment and product availability is the most challenging task for any retailer. It is the marketing strategy of a retailer

that determines how the trade-off will be made. Retail strategy helps the retailer determine the target market to which the merchandise would be offered, the nature of the merchandise being offered to satisfy the needs of the target market, and the basis on which the retailer wishes to gain a competitive advantage. Thus, establishing a trade-off between variety, assortment and product availability assumes strategic importance for a retailer. Generally, variety stands out as an issue of the highest strategic importance, as it helps describe the retailer in the customer's mind. In attempting to determine the appropriate variety and assortment of each category in a store, the category manager in a retail organization takes the following factors into account: merchandise mix, profitability, and corporate philosophy on assortment, physical characteristics of the retail outlet, and the degree to which the merchandise categories complement each other. Since retailers have limited financial resources to spend on merchandise, and limited space to display the merchandise, they try to determine the most profitable merchandise mix. The category manager of a retail store, using its corporate philosophy on assortment, will be able to identify the number of styles and colors that are to be bought. Another key issue is that of expansion or contraction of a specific category of merchandise. Determining the amount of space to be allocated to a particular category of merchandise is also an important issue. The greater the number of styles and colors in the assortment, the greater will be the space required to display and stock the merchandise category. The retailer should also take into account the physical characteristics of the merchandise display area. While expanding the store's assortment, retailers should consider merchandise that complements the existing merchandise.

Product availability is the third most significant issue in the process of assortment planning. As product availability indicates the percentage of demand that has been satisfied through a specific stock keeping unit, the greater the planned availability of the product, the greater is the amount of buffer inventory required, so as to ensure that the customer does not walk out due to the non-availability of the product. Determining an optimum level of buffer stock is critical for the success of the assortment planning process. A low-level buffer stock might lead to stock-outs and the loss of customers, whereas a high level buffer stock might lead to unnecessary blocking of funds in inventory. The retailer should establish a trade-off between the investment made on inventory and the availability of the product. The actual investment in inventory depends entirely on the situation in the store. The factors that determine the level of buffer stock needed are: i. The level of product availability that the retailer desires to offer. ii. The demand fluctuation (since, the greater the demand fluctuation greater will be the need for buffer stock).

iii. The fluctuations in lead time (since, higher the fluctuations in lead time, the greater is the requirement of buffer stock). iv. The product availability levels of the vendor. Once the retailer has set the financial objectives for the merchandise in the store and understood the relative significance of variety, assortment and product availability, the next step is to determine what merchandise to carry, using an assortment plan. Assortment Plan

An assortment plan depicts what should be carried in a specific category of merchandise. An assortment plan for a merchandise category based on fashion will not identify particular stock keeping units, because fashions vary from year to year and sometimes, from season to season. The more fashion-oriented the merchandise category is, the more necessary it is for the merchandise planner to accommodate changes in fashion, and hence, the lower the level of detail in the assortment plan. The starting point for developing an assortment plan for a given season is the historical data of a particular merchandise category. Apart from the assortment plan for a merchandise category during the previous season, sales, inventory turnover and GMROI figures are used to develop an assortment plan for the current season. The merchandise planner then makes the required changes according to his expectations of what products or fashions will be really significant for the coming season. Exhibit 8.5 represents a sample assortment plan for men's jeans. This plan describes general styles, price levels, fabric composition and colors. The process of developing an assortment plan can be quite complex, especially in multi-store chains. An effective assortment plan requires equal or more effective sales, inventory turnover and GMROI forecasts, to complement the experienced judgment of the merchandise planner. Exhibit 8.5: Assortment Plan for Men's Jeans Style Straight-leg Straight-leg Straight- leg Loose-fit Loose-fit Retail price (in ₹) 999 1,399 1,799 1,299 1,599 Type of Fabric Regular denim Stonewashed denim Tinsel – Lycra- based denim Broken twill Over dyed Colors Light blue Dark blue Light blue Light blue Blue Black Indigo Black Black Black Black Deep blue Source: ICFAI Research Center

Example: Assortment Display Planning @ Gymboree Gymboree was the retail chain of kids clothes, toddler clothes & baby clothes. Gymboree holds cross merchandising on display hosting a range of items matching a range of shirts and sweaters with matching purse. Planning from customers perspective helps in doing so. If a customer is looking for a particular dress what other things will go well with it? Source: Nicasio, F. (January 31, 2022). Retrieved from https://www.vendhq.com/blog/retail- merchandising-2/. Accessed on 20-07-2022 8.9 Product Mix Trends With increasing levels of competition in retailing across the globe, retailers are required to adapt the product mixes rapidly and creatively to meet the needs of the dynamic marketplace. Product mix does not refer to combination of products and their price points but also to special services offered by a firm. It determines the brand image of the business. It helps in maintaining consistency about the brand image in the eyes of the customers which forms the target market. Forest Essentials, claims and sells Ayurvedic products prepared in the traditional way as given in ancient Hindu scriptures, falls in the premium category. It gives head- to-to skin and beauty solutions through its wide range of products that are sold as per the seasonal requirements. It also demarcates its market between gender while offering products. Retailers should first determine the consumers' emerging unsatisfied needs and design an innovative product mix strategy that best fulfills their needs. Let us explore further on these trends. There are two emerging trends in the area of product mix. They are: ? Shotgun merchandising, and ? Rifle merchandising. Shotgun Merchandising This is a marketing strategy that involves expansion of the merchandise being offered in a store in order to satisfy the increasing needs of the consumers. By expanding the number of product options, retailers attempt to increase their market size by catering to different sub-markets and trying to fulfill the specific needs of various individual target customers. In the process of product-mix expansion, a retailer adopting shotgun merchandising tries to develop a general product mix that satisfies the needs of a majority of the customers reasonably well. In order to develop a general product mix, a retailer can either include a new product item or a major product line. Including a new product item involves adding product items. Adding stationery, greeting cards, music software to a supermarket's primary product line can be considered as including new products. Adding a new product line involves combining two or more broad product lines with the regular product lines of the store. The reason for combining a major

product line with the store's regular product lines is to offer the consumer the convenience of one-stop shopping. Inclusion of a drug store in a supermarket is referred to as combining product lines with the store's regular product lines. Rifle Merchandising This is a marketing strategy that is aimed at targeting merchandise at a select group of customers. Though the stores using rifle merchandising strategy carry a very limited number of product lines, a large assortment of merchandise is made available in each product line. Thus, such a retailer follows a penetration strategy, emphasizing on all the product options in the limited product lines to fulfill all the individual needs of a specific market segment for a specific product line. In the process of emphasizing a limited product line, a retailer adopting rifle merchandising strategy, develops a product mix with a specific purpose that completely fulfills the specific needs of the target consumers for a particular product. Market positioning and Multiplex distribution are the two marketing strategies adopted by a retailer developing a specific purpose product mix. Market positioning of a retailer refers to the kind of image the retailer wants to establish among its target group and the group of firms with which it wishes to compete and coexist. Multiplex distribution is a marketing strategy that is aimed at various target markets. Example: IKEA's Shotgun Merchandising for All A customer needs a home care product and IKEA has got it! The range of products span from host of furniture items, lights, tools and much more. Anything and everything of home needs has been added in the product range of IKEA like crockery to appliances to range of furniture are available at IKEA. Stuff for children needs to winter holidays to summer parties to even pet accessories all can be found under one roof at IKEA Even the needs of pet accessories are met by the product mix at IKEA. Source: (May, 2020). Retrieved from https://www.ikea.com/in/en/cat/products-products/. Accessed on 20-07-2022 Activity 8.2 Visit a departmental store in your locality and study the following aspects: ? Store layout: Which layout is used? How does the store layout facilitate purchases? Do you have any suggestions for change in the layout? ? Merchandise display: How has the merchandise been organized and displayed? Do you have any suggestions to make? ? Are there any boards, displays that attract the attention of the customers?

 Answer: 6. Which of these may not be a direct advantage of accurate sales forecasting in retail organization? a. Offer high levels of service to its customers. b. Helps reduce inventory costs. c. Helps satisfy both the channel partners and final consumers. d. Accurate sales forecasting helps retailers avoid out-of-stock situations, and prevent loss of customers to competitors. e. Keeps all stakeholders happy including employees and public. 7. Which of the following fads are among the riskiest and toughest ventures to manage in retailing? a. Variety in merchandise b. Profitability c. Marketing d. Stock Keeping e. Fashion 8. Which of the following is a marketing strategy that involves expansion of the merchandise being offered in a store in order to satisfy the increasing needs of the consumers? a. Rifle merchandising b. Auto merchandising c. Shotgun merchandising d. Expanded merchandising e. Increased merchandising 9. This is a marketing strategy that is aimed at targeting merchandise at a select group of customers. Stores carry a very limited number of product lines, but

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a large assortment of merchandise is made available in each product line. Identify the strategy highlighted in the above scenario. a. Rifle merchandising b. Auto merchandising c. Shotgun merchandising d. Expanded merchandising e. Increased merchandising 10. Which of the following is a merchandise category which enjoys a continuous demand over an extended period of time? a. Fashion b. Fad c. Grocery d. Staple e. Both fashion and fad 8.10 Summary ? Issues such as what merchandise to purchase, in what quantity, are of strategic significance to every retailer, especially for today's multi-store retail chains. ? For decisions on these matters, a thorough plan called a merchandise assortment plan has to be adopted. First, the merchandise is split into categories for the purpose of planning. The categories thus split, are managed by purchasers and merchandise planners, as well as vendors. ? Retailers have many tools that help them develop a merchandise plan – Gross Margin Return on Inventory Investment (GMROI), inventory turnover and sales forecasting. GMROI is a tool that helps the retailer plan and evaluates the performance of the merchandise. ? The GMROI for a specific category of merchandise is calculated on the basis of the overall financial objectives of the retailer, which are further assigned to specific categories. The gross margin percentage in combination with the inventory turnover evolves into a useful tool for managing merchandise. The most significant issue for a retailer is determining the inventory turnover and developing inventory turnover goals. Retailers should avoid the extremes in inventory turnover rates; i.e. extremely rapid and extremely slow turnover rates. Though rapid inventory turnover is necessary for the financial success of a retailer, any attempt of the retailer to push the level of inventory turnover to the maximum will lead to frequent stock-outs and increased costs.

When forecasting sales, retailers should identify the stage of the lifecycle of the specific category, and should also determine whether the merchandise category offered is a fad, a fashion, a staple or a seasonal item, so as to plan merchandising accordingly. ? When making sales forecasts for a specific merchandise category, retailers take information from various sources, such as past sales volume, published secondary data and customer surveys. ? Determining a merchandise strategy is a crucial issue for a retailer. It involves establishing a trade-off among the variety offered, assortment provided and the availability of the products. A thorough analysis of this trade-off helps the retailer answer the most significant question – what kind of store will it be? – A specialty store or a general store. ? Thus, an assortment plan tends to be the amalgamation of the GMROI plan, the inventory turnover plan, sales forecasting, and assortment planning. The assortment plan provides the merchandise planner with a view of what the composition of a specific category of merchandise should be. ? Retailers adopt marketing strategies like shotgun merchandising and rifle merchandising in order to cope with the dynamics of the market. A retailer adopting shotgun merchandising caters to a variety of market segments by expanding its product lines either by including a product item or product lines. A retailer adopting rifle merchandising caters to a specific market segment with a specific product mix, either by following a market positioning strategy or a multiplex distribution strategy. 8.11 Glossary Assortment Plan: It depicts what should be carried in a specific category of merchandise. Category Management: It is a process of managing all Stock Keeping Units (SKUs) within a product category. It involves the simultaneous management of price, shelf-space, merchandise strategy, promotional efforts and other elements of the retail mix within the category, based on the firm's goals, the changing environment and the consumer behavior. Fad: A fad is a phenomenon in which a merchandise category generates huge sales for a relatively short period of time – the period generally lasts less than a season. Fashion: A fashion is a phenomenon exhibited by a merchandise category that usually lasts for a few seasons with sales fluctuating significantly from one season to the next.

Rifle Merchandising: This is a marketing strategy that is aimed at targeting merchandise at a select group of customers. Though the stores using rifle merchandising strategy carry a very limited number of product lines, a large assortment of merchandise is made available in each product line. Seasonal Merchandise: A merchandise category in which sales vary significantly at different times in a year is referred to as seasonal merchandise. Shotgun Merchandising: This is a marketing strategy that involves expansion of the merchandise being offered in a store in order to satisfy the increasing needs of the consumers. Store Keeping Unit (SKU): An SKU is the smallest classification available for controlling the inventory. 8.12 Self-Assessment Test 1. What do you understand by category management? Explain the category management process. 2. Explain the significance of effective inventory management in a retail organization. 3. Explain the assortment planning process. 4. Elucidate shotgun merchandising and rifle merchandising. 5. Differentiate between fashion and fad with an example. 8.13

Suggested Readings/Reference Material 1. Giri Arunangshu and Chatterjee Satakshi, "Retail Management: Text & Cases" Paperback, PHI Learning Pvt. Ltd., 2021. 2. Swapna Pradhan, "Retailing Management: Text and Cases", McGraw Hill, Sixth Edition, 2020. 3. Barry Berman, Joel R Evans, Patrali Chatterjee and Ritu Srivastava, "Retail Management", Thirteenth Edition Pearson Education, 2017. 8.14 Answers to Check Your Progress Questions 1. (

a) Category management Category management is a process of managing all stock keeping units (SKUs) within a product category. 2. (c) SKU The smallest classification used for controlling the inventory in a retail organization is known as SKU. 4.

Gibson G. Vedamani, "Retail Management", 5 th edition, Pearson Education, 2017.

 3. (

d) Inventory turnover is defined as the number of times a particular unit of inventory has to be replenished in a store in a fixed period of time. 4. (d) It enhances the image of the organization The rapid inventory turnover increases volume of sales, reduces risk of obsolescence and markdowns, improves salesmen morale, increases money for market opportunities, reduces operating expenditure, increases turnover of the assets and increases profitability. All options point to the benefits of rapid inventory turnover except option d, which is not true. 5. (e) Increases profitability A rapid turnover of inventory can be counter-productive for the following reasons: Risk of losing a customer, increase in the cost of goods being sold, increase in the operating expenditure and can dilute store image because of frequent stock out situations. Option 'e' (increases profitability) is an advantage and not a disadvantage. 6. (e) Keeps all stakeholders happy including employees and public Accurate sales forecasting in retail organization helps retailer to offer high levels of service to its customers, reduce inventory costs, to help satisfy both the channel partners and final consumers and prevent out of stock situation. All options represent an advantage of accurate sales forecasts, except option 'e'. 7. (c) Marketing Marketing fads are among the riskiest and toughest ventures to manage in retailing. Effective management of a fad lies in identifying the fad at the earliest possible stage and owning an exclusive distribution channel to sell it. 8. (c) Shotgun merchandising Shotgun merchandising is a marketing strategy that involves expansion of the merchandise being offered in a store in order to satisfy the increasing needs of the consumers. 9. (a) Rifle merchandising It is a marketing strategy that is aimed at targeting merchandise at a select group of customers. 10. (d) Staple A merchandise category can be referred to as staple if it enjoys a continuous demand over an extended period of time.
Unit 9 Purchasing Systems Structure 9.1 Introduction 9.2 Objectives 9.3 Budgeting in Retail 9.4 Purchasing Systems for Fashion Merchandise 9.5 Purchasing Systems for Staple Merchandise 9.6 Assigning Merchandise to Stores 9.7 Analyzing the
Merchandise Performance 9.8
Summary 9.9 Glossary 9.10 Self-Assessment Test 9.11 Suggested Readings/Reference Material 9.12 Answers to Check Your Progress Questions '
Every time you spend money, you're casting a vote for the kind of world you want.' - Anna Lappe, an American author and educator 9.1 Introduction

Efficient purchasing systems ensure balance between sales, stock levels, quantity ordered and account for influences on availability of merchandise. There are several nuances of the purchasing systems, which when followed systematically, ensure retail success.

A formal purchasing system helps the purchaser and merchandise planner to determine the quantity of merchandise to be purchased. Retailers generally use two types of purchasing systems – Fashion merchandise purchasing system and Staple merchandise purchasing system. To establish an effective purchasing system a good sales forecast is required. The sales forecast helps retailers in planning their purchases to effectively meet the needs of the customers. To forecast the sales of a particular stock keeping unit, the purchasers must have the previous sales record. But, the previous sales records for fashion merchandise at the stock keeping unit level are not available at all

times. Forecasting sales of staple merchandise is relatively simple as compared to that of fashion merchandise. In case of staple merchandise, there are organized sales records for every stock keeping unit and hence it is easy to use standard statistical techniques for forecasting sales. In the previous unit we have discussed merchandise assortment planning. In this unit, we will be discussing the purchasing systems for fashion merchandise and staple merchandise. We then discuss the process of allocating merchandise among multiple stores of a retailer and the methods of analyzing the performance of merchandise, thus allocated. 9.2
Objectives After reading through this unit, you should be able to: ?
Define budgeting and explain its process to analyze the cash flow of the firm ? Specify the importance of Fashion Merchandise Purchasing System to manage fashion merchandise category ? Summarize the significance of Staple Merchandise Purchasing Systems that contributes to the steady flow of revenue to the firm ? Judge the level of stock to be assigned to every store in the retail chain to enhance sales contribution from each ? Assess the performance of merchandise in the stores that helps in establishing the right type of inventory management. 9.3 Budgeting in Retail Merchandise budgeting provides a framework for meeting investment and sales objectives. It is the chord that runs between the payment for inventory and overhead costs of a firm. Berman, Evans & Mathur (2011) define budgeting as "retailer's planned expenditures for a given period of time based on expected performance". According to them, such expenditures of a retailer are aimed at accomplishing company goals pertaining to customers, employees and management. Budgeting provides following benefits to the retailers: ? Clear alignment between expenditure and expected performance and opportunity to adjust cost with revision in goals. It leads to increase in retailer's productivity. ? Optimum allocation of resources to various departments, product categories leading to better coordination. ? Structured and integrated planning results in better efficiency. ? Provides the organization with the ability to set cost standards.
 ?

Makes the retailer adopt a proactive, rather than reactive approach making them better prepared for the future. ? Ability to analyze their performance by comparing planned vis-à-vis actual expenditure. 9.3.1 The Budgeting Process A retailer needs to take six budgetary decisions at the preliminary stages of the budgeting process. These are: i. The Budgeting Authority: First, the retailer needs to specify the budgeting authority consisting of senior executives who take centralized financial decisions and communicate the same down the line to succeeding levels of management. However, the above role can also be performed by lower level executives in the form of departmental budgets. The budgets of various departments are then assembled which represents the company budget. Retailers may choose to adopt both top down or bottom up approach while deciding on the budgeting authority. ii. Retailers should then specify the time frame for which the budgeting is to be done. Majority of the retailers have yearly, half yearly, quarterly and monthly components to their budgeting. iii. Retailers should then determine the frequency of budgeting. Most of the retailers review their budget on an ongoing basis; a lot of them do it on a yearly basis. iv. The fourth decision pertains to establishment of cost categories which includes capital expenditures, fixed costs, variable costs, direct costs, and indirect costs. v. The fifth decision relates to the level of detail with respect to expenditure assigned by department, product category, product subcategory, or product item. vi. The sixth decision is concerned with the flexibility of budgeting. Budgeting should be done in a way that it guides planned expenditure and link to goals. However, it should be flexible enough to enable retailers to adapt to changing market conditions as well as capitalize opportunities. Once the preliminary decisions are taken, the retailer engages in the following budgeting process: ? The retailers set goals catering to customers, employees and management needs. ? Retailers then specify performance standards pertaining to customer service levels, employee compensation, and sales as well as profitability targets set by the management.

? The above goals determine the planned expenditure of the retailers. Sometimes, firms start working on every new budget from the scratch and then outline the planned expenditure needed to meet firm's objectives (known as Zero-based budgeting). In incremental budgeting, firms outline planned expenditure based on current and past records. ? This is followed by the actual expenditure incurred by retailers on various outlays such as rent, employee salaries, merchandise buying, promotion etc. ? The retailers then compare the actual expenditure with the planned expenditure for every expense category and investigate the underlying causes in case of discrepancies. ? The retailers adjust its budget with minor or major revision depending on the extent to which company was able to achieve its customer, employee and management goals. Retailers should also keep a close watch on its cash flow, which contains the amount and timing of revenues received by it compared to the amount & timing of expenditure incurred during a specified period. The purpose of preparing the cash flow statement is to ensure that the revenues received by retailers are in sync with expenditure. Example: Walmart Budgeted to Invest More on eCommerce, Technology, Supply Chain and Store Remodelling Walmart, the largest physical store retailer in United States was dedicated to bringing seamless shopping experience to its customers. It constantly worked to improve its store experiences, ecommerce portals, technology and strengthened its supply chain. In 2022, Walmart expended on technology, eCommerce platform and strengthening of supply chain spending an amount of $5.64 billion. Store remodelling costed $2.2 billion to Walmart in 2020. Walmart spent $77 million on opening new stores and clubs in 2020. Source: (May 22, 2022). Walmart's costs and expenses in fiscal 2019, 2020 and 2021. Retrieved from https://statstic.com/walmarts-costs-and-expenses-in-fiscal-2019-2020-and-2021/. Accessed on 21-07-2022 9.4 Purchasing Systems for Fashion Merchandise Fashion merchandise usually has unpredictable demand that lasts for a limited period. Different type of pants are popular at different times in the men's wear. Long bell bottom pants were popular at one point of time in 1980's; now slim fit pants are popular with men. Similarly, ayurvedic products, which were part and parcel of Indians' lifestyle in the seventies went out of fashion for almost thirty-five plus years returned in the latter part of the decade, 2017. With Patanjali products becoming popular, all FMCG leading players like Dabur, Colgate or ITC bringing various ayurvedic products in their product mix. Such fluctuations in product demand makes sales forecasting highly unpredictable and therefore necessitates an efficient buying system that strikes a balance between fashion levels, sales, and stock of goods. Two kinds of systems are used to manage fashion merchandise: Merchandise budget plan and Open-to- buy. While a merchandise assortment plan provides a general view of the types of merchandise that should be offered in a store, a merchandise budget plan helps determine the amount of money to be spent every month on a specific fashion merchandise category. However, the merchandise budget plan cannot serve as a complete guide for purchasing as it does not indicate how much of a specific stock keeping unit to purchase. While the merchandise budget helps the merchandise planner plan to purchase a specific category of merchandise that is to be delivered in a specific month, the open-to-buy system helps the merchandise planner to keep track of the merchandise flow in real time. 9.4.1 Merchandise Budget Plan The merchandise budget plan helps the category manager to determine the quantity of each product that should be bought every month. Generally, a merchandise budget plan is based on the sales forecasts, inventory turnover and the gross margin return on investment (GMROI) estimates. It helps the category manager identify if the merchandise is: ? Selling well and is to be replenished ? Not selling well and is to be marked down, and repositioned A merchandise budget plan helps retailers establish merchandise objectives and plan financial issues of the business in terms of merchandise. However, this plan is not comprehensive as it does not talk about the kind or quantity of merchandise to be purchased. It only determines how much money should be spent every month in order to support the sales activity and accomplish the objectives of inventory turnover and GMROI. In order to calculate the amount of money to be spent on purchasing merchandise each month, the purchaser should have a thorough knowledge of various factors like: ?

Monthly sales percentage distribution to season ? Monthly sales ? Monthly reductions percentage distribution to season ? Monthly reductions ? Beginning of the month (BOM) inventory to sales ratio

Inventory at the beginning of the month ? Inventory at the end of the month (EOM) ? Monthly additions to stock The calculation for each is described with the help of Table 9.1. Table 9.1: Merchandise Budget Plan Jul Aug Sept Oct Nov Dec Total Projected 1 Monthly Sales % Distribution to Season (in percentage) 21 12 12 19 21 15 100% 2 Monthly Sales (in ₹ Thousands) 1,365 780 780 1,235 1,365 975 6,500 3 Monthly Reductions % Distribution of Sales (in percentage) 40 14 16 12 10 8 100% 4 Monthly Reductions (in ₹ Thousands) 330 115.5 132 99 82.5 66 825 5 BOM Inventory to Sales Ratio 3.6 4.4 4.4 4 3.6 4 4 6 BOM Inventory (in ₹ Thousands) 4,914 3,432 3,432 4,940 4,914 3,900 4,914 7 EOM Inventory (in ₹ Thousands) 3,432 3,432 4,940 4,914 3,900 3,280 3,280 8 Monthly Additions to Inventory (in ₹ Thousands) 213 895.5 2,420 1,308 433.5 421 5,691 Source: ICFAI Research Center

Unit 9: Purchasing Systems 37 Monthly Sales Percentage Distribution to Season This is the first component of a typical merchandise budget plan. This gives the merchandise expected to be sold every month as a percentage of total sales for the season 1 . According to Table 9.1, twenty one percent of the seasons expected sales would take place in the month of July. The total of all monthly sales percentages in the season should add up to 100 percent. The percentage distribution of monthly sales is determined with the help of previous sales records. Usually, the percent sales figure of a particular month does not fluctuate drastically from the previous year’s figures. However, it would be advisable to analyze every month’s percentage sales contribution over a few years, so as to identify major fluctuations. The percentage distribution of sales sometimes shows considerable fluctuation. This could be due to the change in the marketing strategies of the merchandise planner or of a competitor. Monthly Sales The sales of each month in a period should sum up to the total projected sales for that period, say six months as given in Table 9.1. Monthly sales must be calculated by multiplying the percentage sales distribution of every month with the total projected sales figure for the six-month period. Monthly Reductions Percentage Distribution to Season The merchandise planner should

take into account all the factors that reduce the level of inventories in order to support the monthly sales projections. Though the level of inventory is generally reduced

due to sales, other factors like markdowns, shrinkages and employee discounts can also reduce the level of inventory. Merchandise planners can predict markdown percentages by analyzing the previous year’s plans. While projecting the markdown percentages, care should be taken to consider factors like changes in markdown strategies, competition and the state of the economy. Employee discounts refer to the special discounts provided to the employees on purchase of merchandise from the store. The amount of discounts usually depends on sales and the number of employees. Hence, the percentage of sales to employees and its value can be projected accurately with the help of previous sales records. Shrinkage is the result of poor book keeping, misplacement, damage, or shoplifting by the employees or customers. The merchandise planner calculates shrinkage by measuring the difference between the recorded value of the inventory and the physical inventory present in the stores and distribution centers. Generally, shrinkage is directly proportional to sales, though it varies also by department and season. 1

The period of 6 months, i.e. from July to December, is considered as one season throughout the unit.

Monthly Reductions A merchandise planner arrives at the monthly reduction value by multiplying the total projected reduction with the percentage of reduction for that particular month. Beginning of Month Inventory to Sales Ratio The beginning of the month inventory to sales ratio is calculated with the help of the four steps given below: 1. Calculate Sales to Inventory Ratio: To arrive at this figure, we begin with the planned GMROI, Gross Margin and the Sales to Inventory Ratio, that are assigned to the merchandise category depending on the retailer's financial objectives. GMROI = Gross Margin (%) x Sales to Inventory Ratio (for the season)

52%	**MATCHING BLOCK 11/35**	W

Sales to Inventory Ratio = GMROI ? Gross Margin (%) 2. Represent Sales to Inventory Ratio in terms of Inventory Turnover: Inventory Turnover = Sales to Inventory Ratio x

Cost of goods sold % ? Inventory Turnover = Sales to Inventory Ratio x (100% - Gross Margin %) The sales to inventory ratio is represented in terms of inventory turnover because the sales to inventory ratio defines sales at retail prices and inventory at cost prices, while inventory turnover defines both sales and inventory either at retail prices or cost prices. The inventory turnover is usually calculated for a six-month period. 3. Calculate Average Inventory to Sales Ratio: Average Inventory to Sales Ratio = 6 months/Inventory Turnover The average inventory

62%	**MATCHING BLOCK 10/35**	W

to sales ratio determines the amount of inventory that should be in hand at the starting of the month in order to achieve the

60%	**MATCHING BLOCK 13/35**	W

to sales ratio determines the amount of inventory that should be in hand at the starting of the month

56%	**MATCHING BLOCK 15/35**	W

to sales ratio determines the amount of inventory that should be in hand at the starting of the month in order to achieve the

targeted inventory turnover and to support sales forecasts. While calculating average inventory to sales ratio, both the numerator and the denominator should be represented either at retail price or at cost price. The merchandise planner must be very cautious while considering this ratio, as it is generally confused with sales to inventory ratio. But actually, there is significant difference between the two. Though sales are the same in both the cases, inventory in 'sales to inventory' ratio is the average inventory at cost prices over a period and inventory in 'average inventory to sales' ratio is the average inventory at the beginning of the month at retail prices. Moreover, the inventory in the 'beginning of the month inventory to sales ratio' is an average for all the months.
Unit 9: Purchasing Systems 39 4.
Calculate Monthly Inventory to Sales Ratios: Usually, the monthly inventory to sales ratio is inversely proportional to the sales. The merchandise planner should consider the seasonal patterns for a particular merchandise category in order to determine the monthly inventory to sales ratio. In order to achieve the forecasted inventory turnover, the monthly inventory to sales ratios mentioned in the fifth component of Table 9.1 should average the beginning of the month inventory to sales ratio calculated in step 3. A merchandise planner should thoroughly evaluate the past inventory to sales ratios while developing a merchandise budget plan for a category, especially the one that has most abundant sales records (men's suits, women's wedding sarees). The merchandise planner can assess the adequacy of the past ratios by determining whether the level of inventory was significantly low or high in any of the previous months. The planner can then make adjustments to the ratios, if required. Beginning of the Month Inventory Beginning of the month inventory (BOM), the sixth component of the merchandise budget plan, can be defined as
the amount of inventory planned for the beginning of the month. It can be calculated as: Monthly Sales x BOM Inventory to Sales Ratio End of the Month Inventory The BOM inventory of the present month

becomes the EOM of the previous month because the end of the month inventory for the month of July is the beginning of the month inventory for the month of August. Thus, to calculate the EOM inventory, the merchandise planner should move the BOM inventory to one box down and left (i.e. S. No. 7) as given in Table 9.1. Monthly Additions to Inventory 'Monthly additions to inventory' is the amount of merchandise to be ordered every month for delivery. Additions to the inventory can be denoted as: Monthly Sales + Reductions + EOM Inventory – BOM Inventory 9.4.2 Evaluating the Merchandise Budget Plan Sales forecasting, inventory turnover and GMROI are some of the tools that help a retailer to plan and control the merchandising activities of a retail store. Depending on the planning process adopted (top-down/bottom-up), the merchandise planner arrives at sales forecasts, inventory turnover and GMROI goals. The planner then develops a merchandise budget plan by combining the sales forecasts, inventory turnover and the GMROI. The merchandise budget plan thus developed can be used to purchase the merchandise of a specific category, well in advance of the season (in the months specified by the plan).

Once the selling season is complete, the merchandise planner should evaluate the performance of the merchandise budget plan. If the actual sales, inventory turnover and the GMROI figures exceed the forecasted figures in the plan, then the performance is said to be better than expected. However, the merchandise planner should not base his evaluation only on one of these three parameters, but should consider other parameters like open-to-buy. Open-to-Buy An Open-to-Buy (OTB) system helps the category manager to adjust the inventories according to the fluctuations in the actual sales (from the planned sales), as the merchandise flow is recorded real time in this system. OTB is generally calculated on a monthly basis. For maximizing the profits (if the actual sales exceed the planned sales) and minimizing the markdowns (if the actual sales are less than the planned sales), these calculations must be accurate and timely. To ensure the success of a merchandise budget plan (i.e. to accomplish the sales forecasts, inventory turnover and GMROI goals), the merchandise planner should purchase the merchandise in such quantities and on such delivery dates that the actual EOM inventory of a month is equal to the projected EOM inventory. Table 9.2 illustrates the open-to-buy system for a category of merchandise as given in Table 9.1. The approach of a retailer towards open-to-buy systems and its calculations varies depending on whether it is being calculated for the previous years, for the present period or for the forthcoming seasons. The formula for calculating open-to-buy is given as OTB = Projected EOM Inventory + Projected Sales + Projected Markdowns – Inventory on Order – Projected BOM Inventory Calculating Open-to-Buy for Previous Periods Let us assume that the data in Table 9.2 is as of mid-August. Table 9.2: Open-to-Buy Plan (in ₹ Thousands) Jul Aug Sep Oct Nov Dec BOM Inventory Planned 4,914 3,432 3,432 4,940 4,914 3,900 Actual 4,750 2,975 ? ? ? ? Monthly Additions to Inventory Planned 213 895.5 2,420 1,308 433.5 421 Actual 175 350 ? ? ? ? Monthly Sales Planned 1,365 780 780 1,235 1,365 975 Actual 1,345 ? ? ? ? ?

Planned 330 115.5 132 99 82.5 66

 Jul Aug Sep Oct Nov Dec

Monthly Reductions Actual 82.5 ? ? ? ? ? EOM Inventory Planned 3,432 3,432 4,940 4,914 3,900 3,280 Actual 2,975 ? ? ? ? ? Projected BOM Inventory Planned 1,228.5 2,975 3,329.5 4,837.5 3,503.5 2,056 Projected EOM Inventory Planned 2,975 3,329.5 4,837.5 3,503.5 2,056 1,015 Open-to-Buy Planned 102.5 102.5 1,410.5 1,844 2,265 On Order Actual 2,250 900 2,420 ? ? ? Source: ICFAI Research Center According to the table, the actual EOM inventory for July is ₹ 29,75,000, while in August it is not known. It is simple to calculate open-to-buy at the end of a period, as we know both the projected EOM inventory and the actual EOM inventory. In the above case, the open-to buy will be zero, as the actual EOM inventory in July is the same as the projected EOM inventory (` 29,75,000) for that month. Since the planned EOM Inventory = actual EOM Inventory, Open-to-Buy = 0 Calculating Open-to-Buy for the Present Period According to Table 9.2 the present period is August. The table shows a BOM inventory of ₹ 29,75,000 for August, while the EOM inventory is not given as the month is not yet complete. The projected EOM inventory plays a major role in calculating the open-to-buy for the present period. The merchandise planner has to pay greater attention to projected EOM inventory (as it is an improvement over the planned EOM inventory). Moreover, this improved estimate considers the information, which was not available while developing the merchandise budget plan. Thus, the formula for the projected EOM inventory can be given as follows: Projected EOM Inventory (in) = Actual BOM Inventory + Actual monthly additions to the Inventory + Actual on Order – Planned Monthly Sales – Planned Reductions for the Month For example, Projected EOM inventory for the month of August (in) = 29,75,000 + 3,50,000 + 9,00,000 – 7,80,000 – 1,15,500 = ₹ 33,29,500

The formula for calculating Open-to-Buy for the present month is simply the difference between the planned EOM inventory (obtained from the merchandise budget plan) and the projected EOM inventory (on the basis of information collected during the month) Thus, Open-to-Buy is given as: Planned EOM Inventory – Projected EOM Inventory = ₹ 34,32,000 – ₹ 33,29,500 = ₹ 1,02,500 Which implies that the retailer is left with having to place additional orders for ₹ 1,02,500 worth of merchandise in the month of August, in order to meet the planned EOM inventory of ₹ 34,32,000. Calculating Open-to-Buy for the forthcoming Periods Calculating this is slightly complex as there is no actual data available for the forthcoming months, except the actual inventory on order. The projected EOM inventory in this case is calculated as follows: Projected EOM Inventory = Projected BOM Inventory + Actual on Order – Planned Monthly Sales – Planned Monthly Reductions Thus, the projected EOM inventory for the month of September = ₹ 33,29,500 (Projected EOM Inventory of August) + ₹ 24,20,000 – ₹ 7,80,000 – ₹ 1,32,000 = ₹ 48,37,500 Therefore, Open-to-Buy = Planned EOM Inventory – Projected EOM Inventory = ₹ 49,40,000 – ₹ 48,37,500 = ₹ 1,02,500 Which implies that the merchandise planner must place additional orders for ₹ 1,02,500 in the month of September to match the planned EOM inventory of ₹ 49,40,000. Evaluating Open-to-Buy The merchandise planner should carefully maintain the records of all the merchandise being purchased; otherwise, it could lead to too much or too little of purchasing, i.e. it would be delivered in greater quantities when it is not required or it would not be delivered when it is required. In such a situation, the sales and inventory turnover would get affected and all the efforts that went into developing a merchandise budget plan would be futile. Thus, developing an effective open- to-buy plan can be considered as the most critical aspect of the total merchandise management process.

Example: Zara's Centralized Purchasing System Zara was a Spanish apparel retailer. It was not immune to the effects of Covid- 19 but the flexible business model and approach to supplier relationships helped it to navigate the pandemic. Despite the halt due to Covid-19 which led to halt of factories, blockage of supply chain yet Zara clothing brand saw its inventory drop by 9%. Zara successfully managed to reduce inventory because of centralized purchasing system which made it feasible to track and keep an eye on its flow from warehouse and to sale. It managed 77% increase in online sales in its each of its 7000 stores through the centralised centre. Most of its procurement happened in Spain, Portugal, Morocco and Turkey. Source: Orihuela, R. (March 16, 2021). Zara Owner's Lesson for Others Is Keep Supplies Close to Home. Retrieved from https://www.bloomberg.com/news/newsletters/2021-03-16/supply-chain- latest-zara-owner-succeeds-with-regional-networks. Accessed on 21-07-2022 9.5 Purchasing Systems for Staple Merchandise An entirely different and more routine inventory management system is used for managing staple merchandise. Staple merchandise is merchandise that form a typical order-receipt-order cycle. A majority of the merchandise categories follow this cycle. It helps the retailer to determine in advance the inventory/stock- keeping pattern of such products based on such historical cycles. For example, retailers in New York may hold stock of winter coats if they expect the temperature drop to 51 degrees Fahrenheit while in Chicago, only when it drops to 41 degree Fahrenheit. Using historical data of purchase-pattern, stocks would be held by retailers of different locations in the same country. Hence, purchasing systems used for planning staple merchandise are not compatible with systems used for planning fashion merchandise. This is because the purchasing systems for staple merchandise use past sales records to forecast future sales, while there will be no historical sales data available for the fashion merchandise in particular stock keeping units. These days, retailers, big or small, are making use of several inventory management systems for managing the staple merchandise categories. Among the most famous are the JDA, J D Edwards and the IBM's inventory forecasting and replenishment modules. Staple merchandise purchasing systems consist of a number of programed modules that determine how much to order and when to order. These systems help the merchandise planner to: ? Monitor and determine the average existing demand at the level of stock keeping units. ? Predict the future demand of the stock keeping units with adjustments to accommodate seasonal fluctuations and trend variations. ? Make decisions pertaining to orders so as to have maximum replenishment.

 Inventory

Management Reports An inventory management report helps the merchandise planner by providing information on sales frequency, availability of inventory, inventory on order, inventory turnover, sales forecasts and the quantity on order for each stock keeping unit. The inventory management report is presented to the merchandise planner at a particular time, depending on the frequency with which the planner desires to review the inventory and make purchases. Table 9.3: The Inventory Management Report for

Cello

Buckets Source : ICFAI Research Center Table 9.3 provides a sample inventory management report for Cello plastic buckets at a retail store. The first four columns of the report in Table 9.3 represent the basic inventory list, with each stock keeping unit and inventory position. The basic inventory list provides information on aspects like inventory number, description of the item, quantity on hand, quantity on order and the sales figures for the last three months. The basic inventory list of fashion merchandise varies from that of staple merchandise because every stock keeping unit of fashion merchandise requires meticulous planning. Looking at the first item in Table 9.3 (item number 5001, the Cello Frost bucket), we notice that there are six units on hand and 120 units on order, thus pushing the available quantity to 126. The sales figures for the past three months and one month are 215 and 72 units respectively. The basic inventory list is the most important component of any inventory management system. However, many retailers look far beyond this and derive the next four columns of Table 9.3 – inventory turnover, product availability, buffer stock, sales forecasts, and order point (order quantity).

Inventory No. Description Quantity on Hand (on Order) Sales last 3months (1 month) Inventory turnover Actual (Planned) Product Availability (Buffer) Sales forecast Current 1 month (Next 2 months) Order Point (Order quantity) 5001 Cello Frost 6 (120) 215 (72) 9 (12) 96 (20) 94 (117) 167 (42) 5002 Cello Clear 0 (96) 139 (56) 5 (9) 100 (17) 58 (113) 110 (96) 5003 Cello Green 1 (60) 234 (117) 9 (12) 95 (27) 42 (196) 200 (144) 5004 Cello White 2 (0) 41 (31) 5 (9) 95 (10) 41 (131) 58 (60)

Just like the merchandise budget plan, planned inventory turnover is dependent on the retailer's financial plan and is one of the most critical factors of the overall inventory management system. The 6th column of the table shows the product availability on a base of 100. For instance, for Cello Frost, the number 96 indicates that out of 100 customers who wanted to buy Cello Frost, only 96 could get the item. It means that 4 customers faced stock-out for this product. Hence, for making the product available to all customers, a significant amount of managerial judgment is required. To counter situations when demand exceeds forecasts or when merchandise is not received from the vendor on time, retailers maintain certain buffer stock (the level of inventory that is used to prevent stock- outs). The next column gives the forecasts. Forecasting sales of staple merchandise is relatively simple and mechanical when compared to that of fashion merchandise. While determining the sales forecasts of fashion merchandise, previous sales records and other issues like seasonal fluctuations, fashions and fads are considered, but for staple merchandise, sales forecasting is simply done by extending the sales trends of the past into the future. Retailers can also use a sales forecasting technique called exponential smoothing, which analyzes the previous sales figures to forecast the future sales. Let us consider the data from Table 9.3 to illustrate how this is done. Suppose the average sales forecast of Cello Frost over the last few months was 100 units, while the actual sales during the last one month was 72 units. While determining the sales forecasts for the next one month, the merchandise planner may be tempted to consider 72 units as a target base instead of 100 units. However, he should be cautious while taking such decisions as the actual sales (72) reported in the last month was an exception to the overall sales trend. Therefore, the planner should respond to these changes after ignoring the exceptions. The following formula can be used to determine the sales forecasts: New Sales forecasts = Old Sales forecasts + ??(Actual Demand – Old Sales forecasts) Where, ??is a constant that lies between 0 and 1, and measures the impact of actual demand on the new sales forecast. In situations where the demand fluctuates rapidly, a high ??value like 0.5 results in a quick reacting forecast. However, when the demand is more or less stable, a low value like 0.1 should be assigned to ???Considering the same example, the sales forecasts for Cello buckets (using both high and low values of ???can be calculated as? New Sales forecasts = Old Sales forecasts + ?? (Actual Demand–Old Sales forecasts) Hence, New Sales forecast = 96 + 0.1(72-96) = 94 (or) New Sales forecast = 96 + 0.5(72-96) = 84

 But, determining the usage of a high or low value of ? requires both expertise and experience. If the merchandise planner interprets the decrease in the previous period's demand as an actual shift rather than a rare happening, it would be better to use 0.5 ? because it results in a much lower sales forecast of 84 units. Assigning a higher value to ? usually leads to an unstable forecasting process because the sales forecasts hyper-react to even a slight variation in demand. On the contrary, a lower value of alpha results in sales forecast that is far behind or far ahead of the existing trend. To ensure continuous availability of products on the shelves, retailers should have proper reordering systems in place. There are two types of reordering systems available for the retailer to determine the reorder point, the perpetual and the periodic. Under a perpetual reordering system, the inventory levels are tracked perpetually and a predetermined quantity of inventory known as Economic Order Quantity (EOQ) is ordered. An order point is the inventory level below which the item may face a stock-out problem. Under a periodic reordering system, which is used by many retailers, the review time is constant, but the quantity being ordered can fluctuate. Under a periodic reordering system, the purchasers need not review each product line every day. The formula for determining the order point in this system can be denoted as under: Order Point = (Demand per Day x [Lead time +Review time]) + Buffer stock where lead time is the difference between the time taken in identifying the need to place an order

and the time at which the stock arrives at the store and is made available for sale. The order point should be fixed such that the next consignment arrives before the buffer stock is depleted. Reorder quantity refers to the quantity that is to be ordered when the existing inventory goes below the order point. The quantity to be ordered is the difference between the order point and the quantity available at hand. Example: Ratnadeep's Purchasing System Revised During Lockdown Ratnadeep was a well-known and well awarded supermarket chains in the State of Telangana. It started its grocery retail journey in 1987. It grew by procuring farm-fresh products and skilfully handpicking products. During lockdown, new tie-ups were set by Ratnadeep to ensure a stable purchasing system and keep the supply constant. Source: (October 22, 2022). Ratnadeep Retail Pvt. Ltd.-- Built On the Pillars of Quality, Variety and Freshness. Retrieved from https://brandequity.economictimes.indiatimes.com/times-business- awards-2020/news/detail/23577. Accessed on 28-07-2022 Activity 9.1 If you are the purchasing manager of a big departmental store, what strategies would you adopt while purchasing staple merchandise and fashion

merchandise? How would the purchase approach and strategies differ for the two merchandise categories? Answer: Check Your Progress - 1 1. While the merchandise budget helps the merchandise planner plan, to purchase a specific category of merchandise that is to be delivered in a specific month, the open-to-buy system helps the merchandise planner to do the following: a. Keep track of the merchandise flow in real system. b. Keep track of the merchandise flow in periodic time. c. Keep track of the merchandise flow in real time. d. Keep track of the merchandise flow in regular time. e. Keep merchandise level to the minimum. 2. The merchandise budget plan helps the category manager to determine the quantity of each product that should be bought every month. Which of these is not a consideration based on which a merchandise budget plan is made? a. The sales forecasts b. Inventory turnover c. Gross Margin Return On Investment (GMROI) estimates d. Assets turnover e. Seasonal forecasts for product categories 3. Which of these functions is not supported by the Merchandise Budget Plan? a. Selling well and is to be replenished. b. Not selling well and is to be marked down, and repositioned. c. Selling well and is to be marked down to increase the sales. d. Spurt in sales due to seasonal factors and plan for purchase. e. Advertising expenditure of various products based on sales forecast. 4. An Open-to-Buy (OTB) system helps the category managers to adjust the inventories according to the fluctuations among which of the following? a. In the actual sales from the planned sales. b. In the actual sales from the estimated sale. c. In the actual sales from the approximated sale.

d. In the actual sales from the adjusted sales. e. In both actual sales and targeted sales. 5. To manage their retail operation effectively, retailers with multiple stores generally categorize their stores as A, B and C and this categorization depends on which of the following? a. Profit earned b. Sales of the items c. Risk associated with the items d. Cost of the items e. Importance of the items 9.6 Assigning Merchandise to Stores A sophisticated analysis of assigning the right mix of merchandise with inventory stock aids a retailer in improving the rate of stock-turn. The merchandise, either fashion or staple, once purchased must be assigned to the retail stores. Table 9.4 describes the pattern in which a merchandise planner assigns the addition in inventory (broken twill-boot cut men's jeans in dark blue costing ₹ 1,750) of value ₹ 75,00,000 among 15 stores. Retailers with multiple stores generally categorize their stores as A, B and C depending on their sales. As per the information given in Table 9.4, there are four stores that can be categorized under A, each of which is expected to have a sales potential of 10% of the total sales, amounting to ₹ 7,50,000 per store. There are three stores categorized under B, each with a sales potential of 6.7% of the total sales, amounting to ₹ 5,00,000 per store and finally, eight stores under category C, each with a sales potential of 5% amounting to ₹ 3,75,000 per store. The sales potential of each store has been derived on the basis of its past sales records for the same merchandise category. Table 9.4: Assigning Broken Twill-Boot Cut Men's Jeans to Stores of a Multi-Store Retailer Store Category Number of Stores Sales Potential of Each Store in the Category (in percentages) Sales per Store (Total Sales x Sales Potential per each Store) (in ₹ Thousands) Sales per Store Category (Number of Stores x Sales per Store) (in ₹ Thousands) Unit Sales per Store (Sales per Store / ₹ 1750) A 4 10 750 3000 429 B 3 6.7 500 1500 286 C 8 5 375 3000 214 Source: ICFAI Research Center

Unit 9: Purchasing Systems 49 Though every retail chain has its own way of assigning the merchandise to its stores, the assigning pattern should be based on the number of stores present in the chain and their individual sales contribution to the chain. However, every store of the chain should offer a large proportion of the merchandise assortment similar to that offered by the largest store in the chain. Else, the consumer would be left with an impression that the smaller stores in the chain offer an inferior assortment of merchandise. Therefore, the inventory to sales ratio of the smaller stores must be higher than the average inventory to sales ratio of all the stores put together. The larger stores of the chain should have an inventory to sales ratio that is lower than the average inventory to sales ratio of all the stores put together. Table 9.5 shows the merchandise distribution pattern adopted by a multi store department chain. It implies that if a store has 4% sales contribution in a particular store category of the chain, it should receive an equivalent inventory of four per cent. Moreover, it has also been observed that stores with less than 4% of sales contribution require a relatively higher level of inventory, to avoid giving an impression to the customers that the store is not well stocked. On the other hand, it is found that a store with a sales contribution greater than 4% requires a relatively lesser level of inventory. The largest store in the chain with a sales contribution of 12% of the total sales requires only 10% of the inventory levels of the total category. Further, stores in this category can increase the inventory turnover rate by frequent reordering. Large stores, thus, can provide a visually appealing and well-stocked look even with less inventory because of their high sales. Table 9.5: Assigning Merchandise to Stores of a Department Store Low Sales More Sales More Inventory Less Inventory Percentage of total sales 1 1.5 2.5 3.5 4 6 8 12 Percentage of total inventory 1.5 2 3 4 4 4 6 10 Source: ICFAI Research Center Example: Nordstrom Rack Pack and Hold Strategy for Assigning Merchandise to Stores Nordstrom Rack was an American departmental store chain founded in 1973, and a sister brand to the luxury department store chain, Nordstrom. In 2021, Nordstrom Rack bought larger quantities of relevant items when available and held a portion of it for deployment at stores "in periods with high demand, tight supply or system constraints". Contd....

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Pack and hold strategy helped Nordstrom build inventory during a period of aggressive store expansion. The company used the strategy to bolster its ability to maintain sales despite supply chain disruptions. It invested in pack and hold at Rack and shipped products to meet holiday demand at stores. Source: Howland, D. (March 3, 2021). Inventory mismatch squeezes Nordstrom's holiday quarter. Retrieved from https://www.retaildive.com/news/inventory-mismatch-squeezes-nordstroms-holiday-quarter/596043/. Accessed on 28-07-2022 9.7 Analyzing the Merchandise Performance Retailers should evaluate the performance of the SKUs, vendors, merchandise categories and the departments to determine when to add or eliminate a specific SKU, vendor, merchandise category or department. This helps in reducing complaints about the quality of the product sold by the retailer that affects his profits. This is also a way of analyzing the reduction in customer base, an aftermath effect of dissatisfied customers on the quality of products. There are three different types of procedures that are usually adopted by the retailers to analyze the performance of their merchandise. a. ABC analysis b. Sell-through analysis c. Multi-attribute method ABC analysis, the first procedure for analyzing the performance of a particular merchandise. It is a process in which the merchandise is ranked according to its sales to take inventory stocking decisions. Sell-through analysis, the second procedure for analyzing merchandise performance, helps determine whether markdowns are required to sell the merchandise or whether more merchandise is required to fulfill the demand, by comparing the actual sales figures with the planned sales figures. The multi-attribute method evaluates the performance of the vendors by ranking them on various parameters. 9.7.1 ABC Analysis ABC analysis helps determine the items that

should never be out of stock, items that can go out of stock occasionally and the items that should be eliminated from the stock.

This is done by ranking the merchandise on the basis of some performance parameters. An ABC analysis can be conducted at any level of merchandise classification, starting from a stock keeping unit to a department. ABC analysis is based on the commonly used 80-20 principle, according to which, approximately 80 percent of the sales or profits of a retailer are derived from 20 percent of its products. This implies that the retailers should identify and stock products that generate maximum revenues for them.

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The first step in ABC analysis is to rank the stock keeping units using one or more parameters. The most significant performance parameter that is required to be measured is the contribution margin, given as:

Contribution Margin = Net Sales – Cost of Goods Sold – Other Variable Expenses (

such as commission on sales) As measuring different performance parameters provides different types of information, it is important for the retailer to conduct an ABC analysis using multiple performance measures. These multiple performance measures can be the amount of sales, sales units, gross margins and GMROI. Retailers carry less profitable items like portable goods because of their high value in terms of sales value and their ability to attract customers to the store. By holding low-profit/high-volume items, retailers benefit through the sales generated due to the complementary nature of that merchandise with existing merchandise. For example, selling batteries in a store selling cameras and similar equipment would complement each other. The next step is to measure sales or gross margin per square foot. It is important because it helps estimate the profitability. For example, carrying a line of leather wallets in a department store might not seem profitable when compared with other lines of merchandise (like bathing soaps or shampoos) on parameters like contribution margins, sales volume or variety to carry. Though such items may not be particularly profitable, still, the performance per square foot may be quite high, owing to the little display space needed by such merchandise. The next step in ABC analysis is to develop criteria to sort items based on their levels of profits or volumes. For example, consider formal trousers in a chain of men's department stores in which the purchaser categorized the stock keeping units as A, B and C by ranking on the basis of sales volume and the distribution of sales. According to the purchaser, only 5% of the items can be categorized under A and they alone contribute to 70% of the total sales in the SKU. Thus, items categorized under A should never go out of stock. It is relatively expensive to offer such items for sale, as a higher level of buffer stock is needed to manage the fluctuations in demand and lead times; for example, full sleeve and half sleeve white and all dark color plain shirts. Items categorized under B represent 10% of the stock on the SKU, with a contribution of 20% towards sales. These items consist of some of the best-selling colors with combinations of checks and stripes. Some stock keeping units of B items can go out of stock occasionally, as the retailers do not maintain the same amount of buffer stock.

And, 65% to 70% of the items can be categorized under C and they represent only 10% of the SKU sales. The purchaser might wish to carry C items of particular size and would place such an order only when needed. Though it is common to consider only A, B and C categories of items, there is another category D that represents the remaining units of the SKU, which do not contribute to any sales. The retailers should get rid of such merchandise as quickly as possible, either by marking it down or by giving it away, because it distracts the consumer's attention from the main inventory and it also clutters the store. 9.7.2 Sell-Through Analysis A sell-through analysis helps determine the requirement for early markdowns or the requirement of more merchandise to fulfill the demand by comparing the actual sales with the planned sales. To know more about this method, Table 9.6 provides a sell-through analysis for men's T-shirts for the first two weeks of the summer season at a men's fashion store. According to the historical sales data, T-shirts have been fast moving, and hence, the purchaser may have to modify the purchase plan frequently according to the changing fashions. Table 9.6: Sell-Through Analysis for Men's T-shirts Week 1 Week 2 Actual-to-Plan Actual-to-Plan Inventory No. Size Description Planned Actual Percent Planned Actual Percent 2210 Small Polo red 40 35 –12.5 40 20 –50 2211 Medium Polo red 35 25 –28.5 35 20 – 43 2212 Large Polo red 40 20 –50 40 20 –50 2310 Small V-neck print 25 50 100 25 35 40 2311 Medium V-neck print 35 55 57 35 40 14 2312 Large V-neck print 45 45 0 45 60 33.3 Source: ICFAI Research Center As per the data given in the table, it is found that the small polo red T-shirts were expected to sell 40 units but the actual sales were 35 units. Thus, the actual to

 planned percentage for this item stands at –12.5%, which implies that the actual sales were less than the planned sales by 12.5 percent. But, the actual-to-planned percentage is negative for all polo red T-shirts and positive for all the V-neck basic printed T-shirts. In such a situation, it becomes difficult to arrive at a decision. As there is no specific rule to determine the timing of a markdown and reordering of merchandise, the purchaser's decision depends on his experience in merchandise management. In this case, as the sales of polo red T-shirts are less than what has been planned, offering an early markdown can be justified, in order to make sure that the inventory is sold out before the end of summer. On the other hand, though all the varieties of V-neck printed T-shirts are selling at a faster pace, the purchaser can observe the sales for some more weeks in order to establish a sales pattern. If the actual sales continue to show a significantly higher sales pattern, a reorder should be made accordingly. 9.7.3 Multi-Attribute Method This method is used to evaluate the vendors by assigning a weighted average score for each vendor. The weighted average score is assigned on the basis of several parameters. Table 9.7 describes the multi-attribute method of evaluating an existing or a prospective vendor for women's ethnic wear. Overall rating = Where is the sum of expression; I j is the importance weight assigned to the i th dimension P ij is performance evaluation for j th brand alternative on the i th issue Vendor evaluation is done by following the steps given below: i. A list of different parameters or criteria (product features, price, promotional assistance, service quality, etc.) that are to be taken into account while evaluating a vendor is first prepared. The purchaser should take a balanced approach while developing the list. The list of issues being considered should be neither too short nor too long (as a short list might overlook some significant issues, and a long list would make it complex). The purchaser must ensure that the vendor's performance is not based on a single criterion that receives too much emphasis. ii. The purchaser should assign weights for each criterion in consideration only after proper consultation with the merchandise manager. The weights lie on the scale of 1 to 10 (1 implies not important and 10 implies very important). ? ?

n 1i ij P* j I ? ? n 1i

iii. The category manager along with the merchandise manager should then evaluate the performance of the individual brands on each and every issue being considered. iv. Then, the overall performance of the vendor can be evaluated. This is done by combining the performance and importance weights. As per the data given in Table 9.7, vendor reputation (9) multiplied by the performance rating of brand Indi (5) gives 45 and the issue of vendor promotional assistance (4) on multiplication with the brand Madhur's performance rating (7) gives 28. The performance cannot be measured properly unless the importance weights are attached with the individual brand ratings. It is important that vendors score well on the criteria that are perceived to be important by the customers. Though the vendor of Madhur brand scored well on promotional assistance, the purchaser did not rate this issue as important and hence it was ranked lower. v. To determine the overall rating of a vendor, add the product of each brand on the basis of various performance criteria. According to the data provided in Table 9.7, the brand Madhur stands out to be a preferred vendor with the highest overall rating of 341. Table 9.7: Multi-Attribute Method of Vendor Evaluation Issues Performance Evaluation of Individual Brands Importance Weights (I)* Brands of Ethnic Women Wear (P) Indi Maya Pavithr Madhur Reputation of the vendor 9 5 9 4 8 Service 8 6 6 4 6 On time delivery 6 5 7 4 4 Quality of merchandise 5 5 4 6 5 Opportunity to mark-up 5 5 4 4 5 Country of origin 6 5 3 3 8 Product fashionability 7 6 6 3 8 Selling history 3 5 5 5 5 Promotional assistance 4 5 3 4 7 Overall rating 280 298 212 341 * Where 1 - Not Important and 10 - Very Important Source: ICFAI Research Center
Unit 9: Purchasing Systems 55 Example: Joy Organics Appreciates ABC Analysis for Merchandise Performance Joy Organics was a company that sold products containing cannabidiol (CBD) online. These helped reduce stress, support the muscles and joints, and improve sleep patterns. Gerrid Smith, the Chief Marketing Officer (CMO) at Joy Organics, does not Sbelieve in overstocking items that are sold once in a while. It made use of ABC analysis for product classification which facilitated in efficiently managing the supply chain performance for Joy Organics reducing safety stock being carried. Source: Dopson, E. (November 16, 2021). How to Run an ABC Analysis: Find Your Top (and Worst) Performing Inventory. Retrieved from https://www.shopify.in/retail/abc-analysis. Accessed on 28-07-2022 Activity 9.2 Visit a fashion retailer and have discussions to understand the situations that lead a fashion retailer to go for a markdown. Also, identify two situations where the retailer would be willing to take the risk of carrying the inventory to the next budget period. Check Your Progress - 2 6. There are three different types of procedures that are usually adopted by the retailers to analyze the performance of their merchandise. Which of the following are they? a. ABC analysis, Sell-through analysis and VED Analysis b. ABC analysis, XYZ and VED Analysis c. 123 analysis, XYZ analysis and ABC Analysis d. ABC analysis, Sell-through analysis and Multi-attribute method e. ABC analysis, Sales analysis and Multi-attribute method 7. Vendor evaluation is a multistep process. Which of the following is not a step in the steps followed for vendor evaluation? a. A list of different parameters or criteria (product features, price, promotional assistance, service quality, etc.) that are to be taken into account while evaluating a vendor is first prepared. b. The purchaser should assign weights for each criterion in consideration only after proper consultation with the merchandise manager.
Block 3:
Merchandise Management 56 c. The category manager along with the merchandise manager should then evaluate the performance of the individual brands on each and every issue being considered. d. Look for mismatch between supplier's products and organization's requirements and evaluate the cost factor. e. Make a list of potential suppliers. 8. This analysis helps to determine the requirement for early markdowns or the requirement of more merchandise to fulfill the demand by comparing the actual sales with the planned sales. Which of the following inventory analysis techniques is discussed above? a. Sell-through analysis b. ABC Analysis c. Multi-attribute method d. VED Analysis e. Open to Buy 9. Which of the following is called as the difference between the time taken in identifying the need to place an order

and the time at which the stock arrives at the store and is made available for sale? a. Transaction time b. Process time c.

and the time at which the stock arrives at the store and is made available for sale? a. Transaction time b. Process time c.

Run down time d. Lead time e. Lean time 10. Which among the following concepts suits the sentence: "The quantity to be ordered is the difference between the order point and the quantity available at hand."? a. Reorder quantity b. Order quantity c. Required order quantity d. Repeat order quantity e. Merchandise plan 9.8 Summary ? Sales forecasting, together with inventory management, helps in developing a merchandise budget plan for the fashion merchandise category. Sales forecasts for fashion merchandise are given on a monthly basis according to the previous sales patterns. The merchandise planner should purchase more merchandise in the months in which the sales forecasts are higher than the average.

Unit 9: Purchasing Systems 57 ? Open-to-buy records the merchandise flows, i.e. the merchandise purchased for delivery in each month. Open-to-buy also helps merchandise planners keep track of the money spent so that they can compare it with the money that they have planned to spend and also know what is left to spend. ? The purchasing systems used to purchase staple merchandise are quite different from the purchasing systems of fashion merchandise. The purchasing systems of staple merchandise help determine the amount of stock to be purchased for each specific stock keeping unit. ? While assigning the merchandise to the stores, merchandise planners should chiefly consider the sales potential of the stores. They should also think of the impression of the stores that customers would take home if faced with inferior assortments. ? After assigning the merchandise to the stores, the retailer must analyze the performance of the merchandise through various aspects like performance of vendors, classifications and SKUs. Three procedures that we discussed to evaluate the merchandise performance are: ABC analysis, Sell-through analysis and Multi-attribute method. ? ABC analysis is used to rank merchandise categories and establish an inventory management philosophy. Sell-through analysis helps analyze the performance of various SKUs. Multi-attribute method helps evaluate the performance of vendors. 9.9 Glossary ABC Analysis: It is the first procedure for analyzing the performance of a particular merchandise. It is a process in which the merchandise is ranked according to its sales to take inventory stocking decisions. Inventory Management Reports: An inventory management report helps the merchandise planner by providing information on sales frequency, availability of inventory, inventory on order, inventory turnover, sales forecasts and the quantity on order for each stock keeping unit. Lead Time: It is the difference between the time taken in identifying the need to place an order and the time at which the stock arrives at the store and is made available for sale. Multi-Attribute Method: This method is used to evaluate the vendors by assigning a weighted average score for each vendor. Open-to-Buy (OTB): It is a system which helps the category manager to adjust the inventories according to the fluctuations in the actual sales (from the planned sales), as the merchandise flow is recorded real time in this system. Order Point: An order point is the inventory level below which the item may face a stock-out problem.

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Sell-Through Analysis: It helps determine the requirement for early markdowns or the requirement of more merchandise to fulfill the demand by comparing the actual sales with the planned sales. 9.10 Self-Assessment Test 1. What do you understand by the merchandize budget plan? Explain its various components. 2. Elucidate the concept of 'Open-to-Buy'. 3. What are the different types of procedures that are usually adopted by the retailers to analyze the performance of their merchandise? Explain. 4. Elucidate the steps followed for vendor evaluation. 5. Explain the purchasing system for staple merchandize. 9.11

Suggested Readings/Reference Material 1. Giri Arunangshu and Chatterjee Satakshi, "Retail Management: Text & Cases" Paperback, PHI Learning Pvt. Ltd., 2021. 2. Swapna Pradhan, "Retailing Management: Text and Cases", McGraw Hill, Sixth Edition, 2020. 3. Barry Berman, Joel R Evans, Patrali Chatterjee and Ritu Srivastava, "Retail Management", Thirteenth Edition Pearson Education, 2017. 9.12 Answers to Check Your Progress Questions 1. (

c) Keep track of the merchandise flow in real time While the merchandise budget helps the merchandise planner plan to purchase a specific category of merchandise that is to be delivered in a specific month, the open-to-buy system helps the merchandise planner to keep track of the merchandise flow in real time. 2. (d) Assets turnover The merchandise budget plan helps the category manager to determine the quantity of each product that should be bought every month. Generally, a merchandise budget plan is based on the sales forecasts, inventory turnover and the gross margin return on investment (GMROI) estimates and also seasonal forecasts of product categories. Option 'd' (asset turnover), is not considered while drafting the merchandise budget plan 4.

Gibson G. Vedamani, Retail Management", 5 th edition, Pearson Education, 2017.

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e) Advertising budget of various products based on sales forecast. Merchandise budget supports all functions like: ascertaining whether the merchandise is selling well and is to be replenished or not; selling well and is to be marked down and repositioned; increase inventory if spurt in sales is expected due to seasonal factors, etc. Merchandise plan does not help in (Option 'e') determining the advertising budget of various products. 4. (a) In the actual sales from the planned sales An Open-to-Buy (OTB) system helps the category manager to adjust the inventories according to the fluctuations in the actual sales (from the planned sales). 5. (b) Sales of the items Retailers with multiple stores generally categorize their stores as A, B and C and it depends on sales. 6. (d) ABC analysis, Sell-through analysis and Multi-attribute method There are three different types of procedures that are usually adopted by the retailers to analyze the performance of their merchandise. They are ABC analysis, Sell-through analysis and Multi-attribute method. 7. (

e) Make a list of potential suppliers: Vendor evaluation is a multistep process. All factors except option 'e' are steps in vendor evaluation. Option 'e' (make a list of potential suppliers) is the first step in vendor selection and not an evaluation. 8. (a) Sell-through analysis Sell-through analysis helps to determine the requirement for early markdowns or the requirement of more merchandise to fulfill the demand by comparing the actual sales with the planned sales. 9. (d) Lead time Lead time is the difference between the time taken in identifying the need to place an order

and the time at which the stock arrives at the store and is made available for sale. 10. (a)

58%	MATCHING BLOCK 18/35	W

and the time at which the stock arrives at the store and is made available for sale. 10. (a)

Reorder quantity Reorder quantity is the quantity that is to be ordered when the existing inventory goes below the order point.
Unit 10 Merchandise Purchasing Structure 10.1 Introduction 10.2 Objectives 10.3 Merchandise Purchasing 10.4 Branding Strategies 10.5 Global Sourcing Decisions 10.6

78%	MATCHING BLOCK 19/35	W

Managerial Issues in Global Sourcing Decisions 10.7 The Merchandise Purchasing and Handling Process 10.8 Merchandise Handling 10.9 Ethical and Legal Issues in Merchandise Purchasing 10.10

Summary 10.11 Glossary 10.12 Self-Assessment Test 10.13 Suggested Readings/Reference Material 10.14 Answers to Check Your Progress Questions "
Buy Less, Choose Well, Make it Last" - Vivienne Westwood, an English fashion designer and businesswoman, largely responsible for bringing modern and new wave fashions into the mainstream 10.1 Introduction The phrase has a great significance at many levels. Buying is one of the most important roles in the retail and consumer sector. It is the buyers who decide what products the company is going to sell, and from where it is going to be sourced. Merchandisers will decide how the products will be displayed and packaged. A job in buying and merchandising brings lot of responsibility. Retailers should have a thorough knowledge of the merchandise purchasing process. In order to purchase merchandise, the category manager should have knowledge of the hundreds of products carried by the store, and should also be competent to test and evaluate the products being purchased. The sources of supply for the merchandise can be spread across the globe. The category manager should evaluate these sources in order to determine their ability to satisfy the
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retailer's needs. Before getting involved in the actual process of merchandise purchasing, the retailer should take one of the most important merchandising decisions: Branding. Customers generally evaluate a retail store on the basis of the brands it carries. Brands have a significant impact on the loyalty of customers towards a store and the image of the store. The brands carried by a retailer also have an influence on the retailer's margins and the retailer's dealings with suppliers. Often, decisions regarding brands go hand-in-hand with decisions regarding global sourcing, especially for retailers considering private labels. The country of origin of a product, apart from representing its quality, also has a bearing on the cost and time for procuring the merchandise. The previous unit discussed purchasing system in retail. This unit examines the branding options available to a retailer, the various sourcing decisions possible, the merchandise purchasing and handling process, and the various legal and ethical issues involved in purchasing merchandise. 10.2 Objectives After reading through this unit, you should be able to: ?
Differentiate the various branding strategies that helps a firm in adopting a suitable one while handling the merchandise ? Interpret the roles played by different strategies for attracting customers to the store ? Critically analyze the decision on global sourcing for understanding the weightage attached to various factors influencing global sourcing ? Relate the managerial issues associated with global sourcing to understand the potential of strategic alliance ? Discuss the various steps involved in merchandise purchasing and handling process for ensuring efficient distribution of merchandise ? Describe the ethical and legal issues associated while purchasing merchandise from vendors for translating the transactions in accordance to ethics and legality. 10.3 Merchandise Purchasing The process of purchasing merchandise, either from domestic or from global markets, warrant all the activities that are required for establishing a successful relationship with various vendors. Once the merchandise has been purchased, it should be brought safely into the store and placed on the shelves for sale. This process of getting the merchandise physically into the store and taking care of it till it is sold is referred to as merchandise handling. As the same vendor may supply the merchandise to a

 retailer over a period of time, a relationship is bound to develop between the vendor and the retailer. The retailer must strengthen this relationship to gain a competitive advantage. However, simply purchasing from a particular vendor will not give a retailer competitive advantage. Both the retailer and the vendor should establish a strategic partnership that is based on trust, common goals and financial commitment, to gain a competitive advantage. With the increasing number of transactions between retailers and various vendors across the globe, a number of legal and ethical issues can arise. Ignoring or overlooking the impact of these issues can be disastrous for the retailer. Example: Increff Named Cool Vendor in Retail Gartner, in 2020, named Increff Cool Vendor in Retail. The key to retail differentiation was intelligent merchandising. Increff was adept in achieving that. Increff's retail merchandising solution made use of algorithms and data analysis to predict pre-season and in-season smart assortment plans. This also helped to finalise an ideal buy plan, and a distribution plan for each store. Source: (July 13, 2020). INCREFF Named a 'Cool Vendor' by Gartner. Retrieved from https://www.prnewswire.com/in/news-releases/increff-named-a-cool-vendor-by-gartner- 890398635.html. Accessed on 29-07-2022 10.4 Branding Strategies The type of merchandise brands a store holds as inventory plays a major role in creating and improving the image of the store and also attracts more customers. Retailers should determine an optimum mix of manufacturers' brands and private brands to be offered at the store. Manufacturers' brands are those products that are designed, produced and marketed by a manufacturer such as Hindustan Unilever Limited, Amul, Britannia, and so on. Private brands are those products that are designed, developed and marketed by a retailer, such as Foodworld's jams and honey, Shoppers' Stop's Kashish, Stop, and Life. 10.4.1 Manufacturers' Brands These brands are produced and controlled by the manufacturer. They are generally well known, backed by the manufacturers' advertising, and require a minimum investment by the retailer. Manufacturers' brands have the maximum sales in many categories. In the case of manufacturers' brands, it is the responsibility of the concerned manufacturer to develop the merchandise and build its brand image. Manufacturers promote their brands either by associating their name with the brand (like Nestle KitKat, Cadbury's Dairy Milk) or by developing an individual brand (like Surf, Tide). As manufacturers usually spend a significant amount of money (and their resources) to generate demand for their brands, retailers do not have to spend much on selling and promoting manufacturers' brands. Some retailers even build

some of their categories around some key national brands as it helps them purchase merchandise in a coordinated fashion based on a central theme. For example, purchasers in departmental stores take up the responsibility of the entire brand, like Nike rather than individual products like shoes. Purchasing manufacturers' brands helps enhance the image of the store, increases the foot falls and reduces the selling and promotional expenditure of the retailer. Retailers stock manufacturers' brands as they pull customers to their stores. But manufacturers' brands offer smaller margins than private labels, because there is heavy competition among retailers to carry manufacturers' brands and because the promotional costs for these brands are borne by the manufacturers. As most retailers offer same manufacturers' brands, customers tend to compare the prices of these brands in different stores. Hence, to attract customers, some retailers provide considerable discounts on manufacturers' brands. A retailer offering national brands can transform a customer's brand loyalty into store loyalty when these national brands are available in only a few stores. But when manufacturers' brands are made available through a large number of retailers, then the loyalty of customers towards a particular store will decline and retailers will find it difficult to stand out in the competition. Table 10.1 provides a list of some popular manufacturer brands and their product categories. Table 10.1: List of Popular Manufacturer Brands Product Category Manufacturer Brands Consumer Electronics – Brown Goods LG, Samsung, Sony, Onida, Videocon, Sharp, Panasonic Consumer Electronics – White Goods LG, Godrej, Siemens, IFB, Samsung, Videocon, Godrej, Whirlpool Fast Moving Consumer Goods HUL – Pond's, Surf, Rin, Fair & Lovely, Lux, Breeze, Lakme, Kissan, Kwality, Annapurna, Ayush etc. Procter & Gamble – Ariel, Tide, Gillette, Pampers etc. Clothing Raymond, Park Avenue, ColorPlus, Zodiac, Zod!, Van Heusen, Allen Solly, Louis Philippe, Peter England, Lee, Levi's, Wrangler, Flying Machine, Grasim, Reid & Taylor Jewellery Tanishq, Gili, De Beers, TBZ, GRT Watches Titan, Timex, Citizen, Swatch, Casio, Cartier, Rolex, Longines

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Cosmetics Lakme, Revlon, Maybelline, Biotique, Lotus Automobiles – Four Wheelers Maruti Suzuki, GM, Ford, Toyota, Honda, Skoda, Mitsubishi, Mercedes-Benz, Mahindra and Mahindra Automobiles – Two Wheelers Bajaj, Hero, Honda, Honda Scooters, Yamaha, TVS, Vespa Foods Amul, Britannia, Nestle, Haldirams, Parle Compiled from different sources by ICFAI Research Center The list is not exhaustive. Licensed Brands Licensed brands are another form of manufacturers' brands. In this type of brands, the owner (the licenser) of a popular brand name establishes a contract with another party (referred to as the licensee) to manufacture and sell the licenser's branded products. The licensee can be either a retailer or a third party that entered into a contract with the licenser to produce the merchandise and sell it to a retailer. Example: Branding Nei Native Ghee was available in the market in the price range from ₹ 400 to ₹ 4000 per kilo. Nei native created itself as a brand that was positioned in the upper end of the market. Nei native used the Bilona method of churning curd to butter. The pure cultured cow ghee was the embodiment of the concept of "Farm to Kitchen". It was homemade and handcrafted manufacturer's brand. It built up its brand based on its superior aroma, granular texture and nutty flavour that acted as its USPs. Nei native did not target joint families where in all likelihood, the ghee was made at home. The product was meant for nuclear families. The product already evoked very strong emotions and attracted more than 4000 customers with high levels of repeat purchases. Source: Dr. Vedpuriswar. (15 April, 2022). WiseViews Leadership Converstaion by ICFAI. An evening with Nitya Ganapathy. Retrived from https://online.ifheindia.org/evening-with- nitya-ganapathy.html, Accessed on 29-07-2022 10.4.2 Private Label Brands Private label brands, also referred to as in-store brands, are products that are produced and marketed by retailers. Category managers generally develop the specifications for the merchandise to be offered as a private label and enter into a tie-up with a third-party to manufacture it. It is the responsibility of retailers to market their private brands. In India, the following factors are perceived to have

enabled major manufacturers' brands to dominate the market and keep other new entrants at bay. ? The major manufacturers have developed high entry barriers through their strong distribution channels. ? Older brand names have better brand recall than the newer ones. It is difficult for new entrants to build such strong brands because of the fragmented media and the cost involved. ? The removal of high import duties made Indian consumers aware of the quality of imported goods. As a result, they expect higher value from Indian retailers. The popularity of private labels is significantly low for the following reasons: ? Retailers are not able to advertise as aggressively as manufacturers. ? Retailers are not able to achieve economies of scale in designing and manufacturing (unlike manufacturers). ? Retailers lack technical sophistication. ? Consumers regard private label brands as inferior to manufacturers' brands. Since most customers want value for money, the success of private-labels is dependent on the retailer's ability to offer quality products that cost less than the manufacturers' brands. However, only big retailers will be able to offer products that can compete with manufacturers' brands. During the past 20 years, international retailers like Walmart, The Limited, and K-Mart, have grown and become stronger than manufacturers / vendors. In India too, retailers are bringing out private labels. Before discussing the various aspects of private labels, let us try to understand the type of products that qualify as private labels. A product does not qualify to be a private label just because it carries a retailer's name. A private label must be produced by the retailer, not just packed by the retailer. Private label products should ideally have the following characteristics: A private label should be a unit package: Assigning a specific character to a private label is a complex process. However, any commodity that is sold loose out of a big bag does not qualify to be a private label. For example, a retailer may sell 4 kilograms of onions from a 100 kg bag; however, the 4 kg pack of onions does not qualify as a private label. The product should be relabeled: The unit package should carry the brand name of a specific retailer or the name of the other party which is authorized by the retailer to supply private label products. For example, Reliance honey. Private labels are expected to increase the profitability of the categories being carried, enhance the retailer's negotiation power, and increase consumer loyalty. In developed markets, private labels are used as key differentiators. This trend is just catching on in India.

Adopting a private label strategy is not a simple task for any retailer. It involves high levels of customization at every level – country, region and category. When making decisions regarding private label operations, a retailer should determine which products should carry private labels, understand how customers assess the value of a product, and identify the value gap, if any. The success of a private label strategy is doubtful if its sole aim is to satisfy the private agenda of a retailer or a manufacturer. Such an attempt would fail to deliver value to the consumer. Hence, in order to find an appropriate private label that delivers value to customers, the retailer should identify the gaps in consumer's expectation of value from the retailer. These gaps are generally referred to as 'value gaps'. Determining the value gaps in consumers' value expectations from a retailer is not a simple task. The following are some key factors that help retailers determine the value gap: ? The retailer should have proper and well-organized data, derived from point of sale terminals. The store format determines the usefulness of the data. Retailers can find out consumer preferences by examining the sales records of a complete self-service format. Such records provide behavioral data. While deciding on private label brands, retailers should not use sales figures collected from a non-self-service format stores as indicators of customer behavior, because in such stores, customer behavior is influenced by salespeople. ? Equation of Price Quality and Willingness to Pay (PQ&WP) is essential for determining the value gap. Consumers will reject a product if the quality of the product is below the minimum threshold level they are currently in. The retailer, while analyzing the PQ&WP equation, should not forget that consumers see value in the additional costs charged by manufacturers for increasing the quality of the product/service. ? The pricing strategies for groceries can be defined easily. The value delivery of merchandise can be enhanced by offering products with consistent quality at a low price. The retailer can increase the penetration level of a category by offering cheaper products in that category. Consumers always expect cheaper and better products with high value from the retailer. However, it has been found that the categories that have less number of brands provide less value. Reasons for Launching Private Labels The increasing emphasis given by major manufacturers to shareholder value over consumer loyalty has compelled retailers to launch private label brands. Almost all the major retailers in the organized retail sector in India carry their own private labels. The private label brands of some of the major retailers in India

are given in Table 10.2. There are three main reasons for introducing private labels: Table 10.2: Private Labels of Some of the Famous Retailers in India Retailer Private Labels Shopper's Stop Stop, Kashish, Life Lifestyle Free Man Westside All merchandise, except perfumes and cosmetics Pantaloons Bare Wills-Lifestyle Wills Sport Ebony Ebony ETC Foodworld Foodworld Giant Giant Compiled from various sources by ICFAI Research Center i. The consumer does not see any tangible value in some of the manufacturers' brands offered by the store. In such a situation, the retailer should offer a value that can be felt and experienced by the consumer. To do so, the retailer must offer store brands. ii. The retailer does not earn good margins through the sale of national brands. Organized retailers like Food world get only a 6-10% margin from manufacturers or vendors, but they require a 20 percent margin to support their operations. Of late, there has been a significant increase in the number of manufacturers' brands being offered. All of these brands might not sell well, leading to a further decline in the retailer's margins. iii. Of all the purchase orders placed, the vendors fulfill only 60 to 65 percent of the orders. The customers of a store expect the retailer to carry a substantial number of products on its stock keeping units. This means that the retailer should maintain a large inventory. With the available credit period of 7 to 10 days, storing large inventories has a negative effect on the return on interests on account of the paid inventory and a lower inventory turnover rate. Because of these reasons, the retailer may have no option but to introduce private labels. Table 10.3 gives a glimpse of some major retailers who had adopted private branding of products.

Table 10.3: Private Labels of the Top 10 International Retailers Retailer Private Labels Walmart Sam's Choice Cola, Decadent Cookie, Better Homes and Gardens, Great Value Kmart Martha Stewart Everyday label, Route 66 clothing, Ora-Pure, Kgro, Jaclyn Smith Sears Kenmore, Diehard, Craftsman, Canyon, River Blues, Tough Skins JC Penney Arizona, Fox, Stafford, Hunt Club Safeway Shurfine, Empress Target (formerly Dayton Hudson) Archer Farms Kroger Private Selection, Kroger, Ralphs, King Soopers, For Maximum Value (FMV) Costco Companies Kirkland Signature Compiled from various sources by ICFAI Research Center Once a retailer decides on a suitable branding strategy (whether to carry manufacturer's brands or private labels) and determines an appropriate brand mix, he must identify the different sources for purchasing the merchandise. The retailer should then choose between global sources of supply and domestic sources of supply. If the retailer decides to use global sources, he must consider factors like fluctuations in foreign exchange, GATT and WTO regulations, free trade zones, and local and international laws. 10.5 Global Sourcing Decisions Bags, shoes, caps, cordless telephones and similar goods that are sold in the US are sourced mostly from China or South-East Asian Countries like the Philippines, Taiwan, and Bangladesh. The decision to source merchandise from international sources is associated closely with branding decisions. A retailer should be careful while taking global sourcing decisions as customers judge the quality of an imported product on the basis of the country of origin. For instance, just as Japan is known for producing electronic goods, certain countries are well known for manufacturing certain products. Brazil is known for coffee, and France is known for wines. However, the retailer's decision to source the merchandise from international sources would have many implications in terms of cost. Though sourcing merchandise from international regions might

look cheaper, there could be many hidden costs. Hence, when making sourcing decisions, retailers should examine various cost-related factors like: ?

Country-of-origin effect ? Foreign exchange fluctuations ? Tariffs ? Free trading zones ? Inventory carrying costs ? Transportation costs

Country-of-Origin Effect When making global sourcing decisions, retailers should compare the savings derived from sourcing merchandise from a low cost region with the prestige derived from sourcing merchandise from a country that is known for a particular product. Some countries are technically superior in manufacturing certain products and can hence offer those products in global markets at a lower price than other countries. Though such products may be offered at a higher price initially, the prices come down with the increasing efficiency of the manufacturers. Foreign Exchange Fluctuations Fluctuations in the value of foreign currencies must be considered by retailers when deciding on a global sourcing strategy. Changes in the foreign exchange rate will have a significant impact on the cost of merchandise being sourced. For example, frequent changes in the exchange rate of Indian and US currencies would increase or decrease the cost of merchandise for an Indian retailer sourcing product from the US. Tariffs/Duty A tariff refers to a list of taxes charged by the government on imports. Governments generally use import taxes to protect domestic industries against foreign competition. These taxes also serve as a source of income for the government. As tariffs usually increase the cost of the merchandise being imported, retailers' participation in channels like WTO, NAFTA and free trading zones, reduce these tariffs. General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) The General Agreement on Tariffs and Trade (GATT) was first signed in 1947. GATT was an international forum that encouraged free trade between member countries by regulating and lowering tariffs on traded goods. It also served as a mechanism for resolving trade disputes. In January 1995, GATT evolved into the World Trade Organization. The WTO monitors and arbitrates GATT agreements and supports all negotiations.

Free Trade Zones A free trade zone is a specially established zone in a country for warehousing, packing, inspecting, labeling, exhibiting, assembling, and fabricating goods or for shipping of imports without coming under the purview of that particular country's tariff rules. Retailers sourcing merchandise from international sources can reduce tariff rates with the help of free trade zones. Example: The Jebel Ali Free Zone Jebel Ali Free Zone (Jafza), was rcognized as one of the world's largest free zones with speciality in industry, trade and logistics. The port played a key role inviting international partners to UAE. Jafza, established in 1985 grew in 2020 to accomodate more than 7,500 companies in 2020. This included about 100 Global Fortune 500 companies. The free zone has a 1.58 sqm free zone which generates about 150,000 jobs in UAE and trade worth $93 billion in 2018. Source: Nandkeolyar, K, H. (January 14, 2020). Jebel Ali Free Zone: Everything you need to know about Jafza. Retrieved from https://gulfnews.com/uae/jebel-ali-free-zone-everything-you- need-to-know-about-jafza-1.1577097555736. Accessed on 29-07-2022 Inventory Carrying Costs Inventory carrying costs tend to be higher for products being sourced from foreign countries than for those sourced from within the country of operation. Inventory carrying costs are arrived at by calculating the average value of the inventory at cost and multiplying it by the opportunity cost of capital. The opportunity cost of capital is the rate (return) derived from the next best investment opportunity. There can be many possible reasons for higher inventory costs. For instance, longer lead times would require retailer to maintain high levels of inventory, thus increasing inventory carrying costs. Determining the exact lead times in global sourcing decisions is a difficult task. Inconsistent lead times also force the retailer to carry higher levels of buffer stock. Transportation Costs In general, the cost of transportation is directly proportional to the distance the merchandise has to travel, irrespective of the mode of transportation. For instance, the cost of shipping a container from Japan to Chennai will certainly be higher than shipping the container from Mumbai to Chennai. 10.6 Managerial Issues in Global Sourcing Decisions Managerial issues like quality control and strategic alliances must be considered when making global sourcing decisions. While sourcing merchandise from different parts of the world, the retailer faces the challenge of maintaining quality standards.

Quality problems are likely to occur if the sourcing destinations are located in underdeveloped countries. The poor quality detected at the source may lead to rework, and this in turn may lead to delayed shipping of merchandise to the retailer. This may force the retailer to stock more merchandise as a buffer. Thus, quality problems may have an impact on other store activities. Establishing a strategic alliance with vendors is the most crucial part of retail supply chain management. It would be difficult to establish an alliance with vendors in foreign regions, especially if they are located in distant underdeveloped nations. Establishing a proper communication channel is a difficult job in a global setting. Language and culture are the most prominent barriers in such a setting. Building and maintaining vendor's trust is also difficult when dealing with vendors in foreign countries. Example: Quality Concern of Chinese Imports In 2020, many

83%	MATCHING BLOCK 22/35	W

European countries complained about the quality of the equipment supplied from China to deal with the coronavirus outbreak.

Stating quality issues,

64%	MATCHING BLOCK 23/35	W

Netherlands recalled thousands of masks imported from China. Similarly, Spain had issues with defective imported test kits. China's foreign ministry said several countries raised doubts about the quality of products imported from China.

Source: (March 31, 2020). Covid-19: Countries complain about quality of China-made equipment. Retrieved from https://www.hindustantimes.com/world-news/covid-19-countries- complain-about-quality-of-chinese-made-equipment/story-w21f302vczLdoAzKHFLasJ.html. Accessed on 29-07-2022 10.7 The Merchandise Purchasing and Handling Process Merchandise purchasing, and handling processes are vital part of implementing merchandise plans that would appeal the customers. Purchasing merchandise in a retail environment involves the process of identifying, evaluating and selecting merchandise for resale to end consumers. The process of merchandise purchasing involves all the activities that are required to establish a successful relationship with the different sources of supply and source the retailer's merchandise in an efficient manner. The process of merchandise handling involves all the activities pertaining to the procurement of merchandise. In other words, it involves getting the merchandise physically into the store and onto the shelves. 10.7.1 The Merchandise Purchasing Process Purchasing the merchandise is the retailer's first step in bringing the merchandise to the store. To purchase merchandise, the retailer must: ? Identify the available

40%	MATCHING BLOCK 21/35	W

sources of supply ? Contact and evaluate the different sources of supply ? Negotiate and purchase from the best sources of supply Block 3: Merchandise Management 72 Identifying the Sources of Supply This is the first step in the merchandise purchasing process.

The retailer should find out the available sources of supply, and then identify the channel through which each merchandise line would be obtained. In some cases, retailers prefer to use a direct channel to the manufacturer or the actual producer (in case of agricultural products). Retailers also use indirect channels with one or more intermediaries, depending on the situation and the type of product. A retailer can use any of the following four sources of supply, or a combination of these sources of supply: i. Raw resource producers ii. Manufacturers iii. Intermediaries iv. Resident purchasing offices Raw Resource Producers Retailers, especially food retailers, may choose to obtain merchandise directly from raw resource producers. Big retailers selling food or food-based products, like McDonald's, Domino's, Food world, etc., would like to avoid intermediaries and instead obtain fresh vegetables and fruits and other raw-materials for their private labels. Selecting a direct channel to the raw-resource producer increases the speed of delivery, and minimizes handling. As a result, perishable goods like vegetables reach the store with minimum damage. Retailers may also adopt this direct channel to obtain non-perishable goods like construction goods and heavy equipment to reduce costs (intermediaries would charge a higher price). Manufacturers Big multinational retailers like Walmart and domestic players like Giant or Food world prefer to purchase directly from the manufacturer, as they deal in huge volumes. Purchasing directly from manufacturers offers many benefits to retailers, such as delivery of fresh products, faster delivery and quicker processing of initial orders, and lower prices (due to elimination of intermediaries). In addition, the manufacturer can provide more reliable information on product lines than intermediaries. Apart from the above mentioned benefits, the relationship between the manufacturer and retailer can also result in flexible adjustment policies and faster adjustment responses to products that are returned by the retailer's customers. Further, purchasing merchandise directly from manufacturers allows the retailer to order and obtain goods as per his specifications. Wholesale Intermediaries Wholesale intermediaries are those who act as intermediaries between the manufacturers and retailers. They facilitate the transfer of goods from the
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manufacturer to the retailer. Their role in the chain varies according to the nature of their operations and the services provided by them. Most wholesale intermediaries do not offer all wholesaling services such as purchasing, selling, breaking bulk, developing assortment, storing, delivering, extending credit, providing information, consultation and title transferring. Generally, intermediaries specialize in offering one or few services. Wholesale intermediaries can be classified into different groups, depending on the number and nature of services being offered. Retailers can select any of the intermediaries given in Table 10.4 depending on their requirements. Resident Purchasing Offices These offices are owned by the retail store or by an independent organization. They specialize in providing purchasing services to retailers. Providing information and assisting purchasers are two key services. They provide information on: a. Product availability b. Supplier reliability c. Market and supply trends d. Special offers, services, prices and promotion offered by various suppliers Example: Zara Manufacturing Plants in Asia and Europe to Source Right Zara was a fashion merchandise retail store owned by Inditex. The company counted on robust supply chain and flexible business model which were the defining factors in its business. The company had plants in Asia as well as Europe. The plants in Asia were catering to stable demands while those in Europe catered to expensive and unpredictable demands. It also had decentralised planning process that brings products from design to sales in less than six weeks. Source: Pearson, J. (June 10, 2020). Zara

owner says supply chain flexibility "pivotal" in reducing COVID impact.

Retrieved from https://internetretailing.net/

operations-and- logistics/zara-owner-says-supply-chain-flexibility-pivotal-in-reducing-covid-impact-21533/.

Accessed on 29-07-2022 Services aimed at assisting purchasers include identifying the sources of supply, contacting the suppliers, helping with sales negotiations by acting as the representatives of several retailers, providing delivery services, scheduling payments, and ensuring quick and timely delivery of the merchandise to the retailers.

Table 10.4: Types of Wholesale Intermediaries Category of Wholesale Intermediaries Type Description Merchant Intermediaries General merchandise (full function) Carries a number of different product lines, usually unrelated, without a single dominant product line. Single line (full function) Carries one general product line, like groceries or cosmetics. Specialty line (full function) Carries only one specialty product line within a general product line. Cash and carry (limited function) Discount supermarket of wholesalers, visited by the retailers who select the order, assemble it, pay for it and ship it. Drop shipper (limited function) Distributes heavy and bulky products, like construction material. Truck distributor (limited function) The driver travels a particular route by truck and performs both the sales and distribution jobs. Rack jobber (limited function) Furnishes shelves for display, stocks the shelves, creates attractive displays and prices the merchandise. Agent Intermediaries Broker (limited function) Closes the transaction by bringing together prospective purchasers and sellers. Sales agent (limited function) Takes up the total marketing activity of the manufacturer. Manufacturer's agent (limited function) Acts as a sales organization for many manufacturers, within specific market areas carrying complementary product lines.
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Commission Merchant Assumes physical possession of the merchandise, offers storage and handling facilities Commission merchant. Auction houses Special type of agent intermediaries, that sell products like used furniture, used cars, and agricultural equipment. Provides physical facilities for manufacturers to display their merchandise (for retailers to inspect). Contractual Intermediaries Cooperative group Operated by a group of participating retailers. The group provides retailers with merchandise at lower prices, depending on the quantity of the merchandise being bought by the member retailers. Voluntary chain Retailers may join voluntarily. Source: ICFAI Research Center Contacting the Sources of Supply This is the second step in the merchandise purchasing process. Though most retailers have their own sources of supply, they should have as many contacts as possible with different sources of supply. This process of contacting can be categorized into supplier-initiated contacts and retailer-initiated contacts, depending on the party that initiated the contact. Visits by vendors' sales representatives and solicitations through telephone and mail orders are all types of supplier-initiated contacts. Making sales call at a retailer's store is the most commonly used way of selling staple merchandise. This method helps the retailer in the following ways: a. It saves time and money. b. It simplifies the market search process. c. It facilitates easy access to inventory and sales records. d. It allows consultation with other personnel in the store prior to placing an order.

Some suppliers use the telephone or the mail to fix appointments with prospective retailers to visit their store, to follow-up orders, and to find out the needs of present customers. Visits to central markets, resident buying offices, and merchandise exhibitions and inquiries through telephone and mail, represent retailer-initiated contacts. Many suppliers locate their selling offices and merchandise showrooms in a central market, so that a retailer can visit them and analyze and compare the merchandise being offered by different vendors. Vendors usually help retailers evaluate the merchandise by displaying it permanently at the central markets. A group of vendors may come together to host a trade fair for a certain period, in which they display their merchandise for the retailers to evaluate. Evaluation of Source of Supply Once a retailer has identified and contacted various sources of supply, he must evaluate the vendors on the basis of their operational consistency. To evaluate vendors, the retailer should ideally have an evaluation criterion and a procedure for ranking the abilities of each and every supplier in satisfying the retailer's requirements. Evaluation criteria: The various criteria on which potential vendors are evaluated are related to merchandise, distribution, pricing, promotion and service. Merchandise is the primary consideration in the evaluation of potential vendors. The most common factors on which merchandise is evaluated are the availability, suitability and adaptability of the merchandise carried by the vendor. The suitability of merchandise refers to how well the vendor's merchandise suits the requirements of the retailer's customers and the retailer's image in the market. Suitability is evaluated on the basis of a variety of factors like brands, style, and pricing, and other factors such as uniqueness, originality, durability, quality and aesthetics. To evaluate the availability of the merchandise, the retailer should determine whether the vendor will take the order. The retailer should also determine whether the vendor can offer the merchandise in different quantities, sizes, styles and colors. The adaptability factor refers to the vendor's ability to make the required changes in the merchandise so that it meets the requirements of both the retailer and its customers. The following parameters are used to judge the adaptability of the vendor: ? Ability to produce products according to the retailer's specifications. ? Willingness to place retailer's store label on the merchandise. ? Ability to manufacture merchandise in different colors, sizes, and styles, so that the retailer can introduce new trends in the merchandise lines being carried currently.

Distribution is another significant criterion for evaluating the vendor. Retailers usually analyze a vendor's past performance to determine his future performance. The degree of exclusiveness offered by a vendor can be a deciding factor for many retailers. Offering a product exclusively for a particular retailer, or for selected retailers or for many retailers, would be a deciding factor for selecting a particular vendor. Apart from the above criteria, there are some distribution policies that should be considered by retailers when evaluating a vendor – terms and conditions of delivery, constraints on size of the order and assortments, time taken for processing initial orders and reorders, and the ease and flexibility of placing an order. When evaluating a vendor on the basis of pricing, the retailer considers the price offered to the end consumer as well as the price offered to the retailer. When evaluating on the basis of the price offered to the consumer, the vendor should be evaluated on the basis of the appropriateness and maintenance of price. The selling price of the merchandise should suit the concerned retailers' target market. A retailer situated in a low end locality cannot sell its merchandise at a premium price. The price appropriateness for a premium lifestyle retailer refers to selling high-quality merchandise at a premium price. Price maintenance refers to a vendor's policy to maintain or retain the selling price at or over a certain level. When evaluating a vendor, the retailer must also determine the price that the retailer should pay to the vendor for the merchandise. The price paid by the retailer should allow him to operate profitably and retain his competitiveness in the market. The type and amount of promotional assistance given by a vendor is also a key criterion for evaluating the vendor. The vendor can provide promotional assistance to the retailer in many forms: providing allowances in advertising, offering cooperative advertising, making in-store demonstrations, allowing free display of equipment and making other offers like coupons, contests and samples that attract consumers. The degree of support extended by the vendor for selling merchandise, with the help of national or local advertising, is a key factor when evaluating and selecting a vendor. The following additional services are provided (fully or partially) by some vendors: ? Warranty and repairs ? Exchange facilities ? Finance and credit services ? Training of sales personnel ? Accounting services ? Planning and controlling inventory ? Designing store facilities ? Providing display units, fixtures and signs

Though these services can help a retailer lower its operational costs or capital investments, they can also increase the dependence of the retailer on its vendors. Methods of Evaluation To evaluate alternative sources of supply, retailers should evaluate each vendor using the weighted rating method. In the weighted rating method, weights are assigned to each evaluation criteria. According to John. S. Barens's decision matrix approach to vendor selection, a retailer should ideally go through five steps when selecting an appropriate vendor. These five steps are given below: Selecting the criteria: In this step, the retailer selects the appropriate criteria for evaluating the vendors. Retailers can consider different criteria for evaluating vendors, as given in Table 10.5. Table 10.5: Criteria Used for Evaluating Vendors Criteria Description Reliability Vendor's ability to satisfy all written promises. Price Vs Quality Vendor's ability to provide best merchandise at the least possible price. Time for processing orders Speed in delivering the merchandise. Exclusive selling rights Vendor's ability to provide exclusive selling rights to the retailer. Services provided Vendor's ability to provide services like shipping and storing, if required. Information Vendor's ability to provide any significant data pertaining to goods and services. Guarantee Vendor's support for its goods. Credit Vendor's ability to provide credit purchases to the retailer. Ethics Vendor's ability to stick to all its verbal promises. Long-term relationship Availability of the vendor over an extended period of time. Reorder filling capacity Vendor's ability to fill reorders on time. Markups Vendor's ability to provide sufficient markup or price margins. Innovativeness Innovativeness of the vendor's product line. Advertising support Advertising support provided by the vendor. Investment costs The size of the vendor's total investment cost. Risk involved The amount of risk involved in dealing with the vendor. Source: ICFAI Research Center

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Weighing the criteria: The retailer assigns predetermined weights to each evaluation criteria. Then these criteria are ranked in descending order, depending on their importance to the retailer. Selecting the vendor: In this step, the retailer uses a set procedure to identify the potential vendor for evaluation. Rating the vendor: In this step, the retailer ranks each vendor being considered on the basis of each evaluation criteria. The retailer can assign appropriate weightage to each vendor, by comparing each vendor with every other vendor in the list on each evaluation criterion. Weighted rating: The retailer multiplies the weights of each vendor by the weight assigned to the criteria in step two to obtain the weighted rating for each vendor and to determine the overall weighted rating for each vendor, the retailer should just add the weighted rating of each evaluation criteria. The evaluation procedure starts with the retailer selecting the vendor who was assigned the maximum weighted rating (Refer to Table 10.5). Then the retailer tries to obtain the necessary commitments from the vendor. If the retailer requires more than one vendor or if there is no vendor with maximum weightage, then the retailer should repeat the process until all the required

sources of supply are found. Negotiating with the Sources of Supply Negotiating with the sources of supply is the fourth step in the

process of purchasing merchandise. It involves active negotiation with potential vendors (who were identified through evaluation). Through negotiation, retailers can get the best merchandise for the least possible price, and with the best services. Price negotiations generally begin with the basic list price of the vendor. The basic list price of a vendor plays the most significant role in determining the final price the vendor offers the retailer. Generally, vendors provide retailers with 'list prices' of the different merchandise they deal in. Vendors arrive at a final price after giving some discounts on the list price. This 'final price' depends on how well the retailer negotiates with the vendor. Therefore, the 'final price' offered to the retailer is given by the following equation: Final Price = List Price – negotiated discounts and allowances A trade discount is a price discount that is available only to some classes of purchasers, like wholesalers or big retailers. It is typically quoted in a series and is represented as a percentage decrease from the basic list price given by the vendor. Even though a trade discount is used, the invoice shows only the retail price. For example, if the trade discount of a certain manufacturer is quoted as 12%, 6%, and 4% to its wholesalers, then the 12% discount goes towards handling

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and credit costs, 6% towards selling effort, and the remaining 4% towards profits. Vendors use trade discounts for the following reasons: ? They offer a simple method for changing prices to meet changing market conditions. Instead of publishing the changed price of each individual product, vendors just publish the change in the discount rate, whenever there is an increase or decrease in the prices. ? They help vendors have some control over the retail price of merchandise, by mentioning the price on the invoice and then quoting a series of discounts. This helps retailers make up a certain margin. A quantity discount refers to a discount that is offered to retailers by vendors upon the purchase of a specific quantity of merchandise. A seasonal discount refers to a discount that is offered to retailers for ordering or receiving the merchandise prior to the starting of the normal selling period. Seasonal discounts are regarded as the vendor's attempt to encourage retailers to purchase early. These discounts also help vendors secure business even during slack periods. Vendors give retailers cash discounts to show appreciation for prompt payment. To encourage retailers to pay their bills before the due date, vendors allow the retailers to deduct a set percentage from the net amount in the invoice (total invoice value minus all discounts like trade, quantity). Retailers have to consider three factors when negotiating cash discounts with vendors: net invoice price, amount of discount, and the dating terms. Dating terms specify the time allowed for retailers to claim the cash discounts. They also specify the due date for paying the invoice. There are two types of dating terms, immediate dating and future dating. Immediate dating permits no additional time for claiming cash discounts. Future dating provides the retailer with more time to pay the bill and receive the cash discount. Vendors use future dating to encourage retailers to purchase merchandise prior to the beginning of the normal selling season. Future dating allows the retailer to reduce inventory costs, because the retailer does not pay for the inventory for a specific period. There are five important terms that a retailer must be familiar with when purchasing merchandise: ? Net: This refers to the net number of days from the date of invoice within which the retailer has to make the payment. For instance, Net 30 implies that the payment must be made within a period of 30 days from the date of invoice. ? Free on Board (FOB): FOB implies that the goods are placed on board a truck, ship or an aircraft. The ownership of the goods is transferred from the vendor to the retailer at the point of FOB. Till the ownership is transferred from the vendor to the retailer, the merchandise on board is the responsibility of the vendor.

 ? Free Alongside Ship (FAS): FAS at a recognized port implies that the vendor specifies a price for the merchandise, including the delivery costs, alongside a vessel. The vendor/seller bears the loading costs, while the buyer (retailer or the wholesaler) bears the costs of unloading, sea transportation and insurance. ? Cost, Insurance and Freight (CIF): CIF to a particular place implies that the vendor specifies a particular price that includes transportation, insurance and other miscellaneous costs. ? Cash on Delivery (COD): The vendor might insist on COD when the retailer is unfamiliar or when he has a poor credit record. In order to obtain retailers' cooperation for promotional programs, vendors usually offer a promotional allowance to retailers. A promotional allowance decreases the price paid for the merchandise by the retailers to the vendors. It consists of advertising allowances, preferred selling space, free display materials and merchandise offers. The actual cost of merchandise for a retailer also depends on the transportation and handling costs. Therefore, when negotiating the terms of transportation and handling, the retailer should consider which party will bear the transportation costs, which party will be responsible for filing claims, and what will be the terms of exchange. Apart from negotiating on price discounts, the retailer should also negotiate on the different types and levels of services offered by the vendor. Services, in some cases, are almost standard (with some minor differences), while in other situations the services offered are highly negotiable. Purchasing from the Sources of Supply This is the final step in the process of purchasing merchandise. In this step, the actual purchasing takes place. The retailer should consider two major issues when purchasing merchandise: purchasing strategies and purchasing methods. Purchasing Strategies The retailer can adopt a concentrated strategy or a dispersed strategy when deciding on the number of different vendors to use for obtaining merchandise. In concentrated strategy, the retailer uses a limited number of vendors, thinking that it reduces the total costs and allows him to get a preferential treatment. Through concentrated buying, the retailer can reduce the cost of goods with the help of quantitative discounts and reduced transportation costs. The retailer can also reduce operational costs because of the increased efficiency in merchandise ordering, delivering, and processing by few vendors.

Retailers adopting a dispersed strategy believe in using a large number of vendors, as it helps them: ? Secure a greater variety of goods or merchandise. ? Gain awareness of 'hot selling' goods. ? Develop a buffer for the sources of supply. ? Develop a competitive spirit among the various sources of supply (to improve service). Generally, retailers handling fashion merchandise adopt a dispersed purchasing strategy, while retailers handling staple merchandise adopt a concentrated purchasing strategy. Purchasing Methods The use of various purchasing methods by retailers depends purely on the situation. The various purchasing methods considered by retailers are regular, consignment, memorandum, approval and specification purchasing. Regular purchasing involves the organized issuing of purchase orders and reorders. The total purchasing process is dependent on the type of merchandise. Regular purchasing is usually used to purchase most staple merchandise and many fashion merchandise items. In consignment purchasing, the vendor remains the owner of the merchandise even after shipping it to the retailer. The retailer then offers the merchandise for sale, sells the merchandise to the final consumer, retains the predetermined percentage commission, and transfers the remaining money to the vendor. This type of purchasing is generally adopted, when the merchandise being sold is new or expensive, or when the risk involved is so high that it is relatively difficult to determine the degree and duration of the demand. Memorandum purchasing is quite similar to consignment purchasing, except that the ownership is transferred to the retailer when the merchandise is shipped. The retailer can return any unsold merchandise to the vendor and is allowed to pay for the merchandise only after it is sold. In approval purchasing, the merchandise purchased is subject to the retailer's approval. The merchandise is shipped to the retailer even before the retailer makes the final decision to buy. But the retailer should obtain the ownership before selling the goods to the final consumer. This type of purchasing allows the retailer to examine the merchandise prior to making the purchasing decision. This method also allows the retailer to alter his purchasing decisions till he takes physical possession of the merchandise. In specification purchasing, the retailer can purchase merchandise according to his specifications. The extent of specifications can vary from minute changes in the present merchandise lines to complete changes in raw material, design, quality, labels and packaging.

Activity 10.1 In the Indian context, penetration of private label is very high in the case of certain product categories like Food, Home care, FMCG products, and Apparel (KPMG Report: Time to change lanes). What, as a consumer, do you think are the factors which contributed to the rise in the number of private labels in India? Answer: Check Your Progress - 1 1. Which of the following are the products that are designed, produced and marketed by a manufacturer? a. Local

brands b. Private brands c. Store brands d. Manufacturers' brands e. National brands 2. Which of the following are

brands b. Private brands c. Store brands d. Manufacturers' brands e. National brands 2. Which of the following are

the forms of manufacturers' brands
in which the owner of a popular brand name establishes a contract with another party to manufacture and sell the manufacturers branded products? a. Store brands b. Owners brands c. Local brands d. Licensers brands e. Licensed brands 3. While making sourcing decisions, it is essential that retailers should examine factors which impact the overall cost. Which of the following is not a cost- related factor that impacts sourcing decision? a. Country-of-Origin effect and foreign exchange fluctuations. b. Tariffs and free trading zones.

c. Inventory carrying costs. d. Social and cultural environment of the exporting country. e. Transportation costs. 4. Resident Purchasing Offices specialize in providing purchasing services to retailers. Except for one, all other options given below constitute key information provided by purchasing officers. Which of these options represents information that may not be provided by the purchasing officer? a. Product availability and seasonal factors. b. Market, supply trends, special offers, and services. c. Consumer insights and changing consumer preferences. d. Prices and promotion offered by various suppliers. e. Potential suppliers and information on supplier reliability. 5. Which of the following terms is used to denote, when a vendor specifies a price for the merchandise, including the delivery costs, alongside a vessel? a. Free Alongside Ship (FAS) b. Free Carrier c. Cost, Insurance and Freight (CIF) d. FAS at an unrecognized port e. Free on Board 10.8 Merchandise Handling Merchandise handling refers to the physical handling of the merchandise by the retailer. It ensures proper maintenance of inventory in the chain of stores at different locations. The merchandise handling process consists of different activities like receiving and stocking merchandise, pricing and marking inventory, setting up displays, determining on-floor quantities and assortments, completing customer transactions, providing delivery and pickup of goods (for customers), processing goods that are damaged, processing returns and exchanges, monitoring pilferage and merchandise control. The effective management of distribution is crucial during this stage, whether distribution is done through retail centers or through direct store delivery. According to a recent study conducted in the US on many retail formats (such as grocery stores, department stores, category killer stores, the specialty stores and mass merchants), over 80% of them had at least one distribution center. But, over 25% of the retailers had received at least some of the merchandise directly from the vendor. It was found that around 10% of merchandise in specialty stores and around 80% of merchandise in category killer retail outlets come directly from

the vendor. The following are the merchandise handling process adopted by many retailers: i. The vendors ship the merchandise either to the warehouses for storing and distributing or to the retailer's store directly. ii. Retailers mark the prices and inventory information on the merchandise being received. There are several ways in which retailers mark prices and place inventory information on the merchandise. Small retailers may maintain inventory records manually and mark the prices by pasting them manually. Some retailers might use computer-generated price tags to mark prices on the merchandise. They maintain inventory records with the help of the barcodes provided on each product being sold. Retailers may even purchase tags containing price and inventory data from the vendors, which can be read both by machines and humans. The efficiency of an inventory control system is directly proportional to the information on the labels and tags. The type of retailer and the type of merchandise being carried determines the store displays, on-floor quantities and assortments being offered. Supermarkets generally store most of their inventory on the selling floor, through bins and rack displays. Department stores generally have ensemble displays and store most of their inventory in the storeroom, which is off the sales floor. The process of merchandise handling cannot be regarded as complete unless the customer purchases the merchandise from the store and receives it from the store. Purchasing and receiving the merchandise from the store is usually a process represented by taking an order, receiving cash or credit payment, packing, and delivery or receipt of goods. The performance of retailers in each of these areas has improved significantly because of computerization and automation. Once customer purchasing systems are established, the merchandise handling process should develop a procedure for handling returns and damaged merchandise. Specifically, the retailer should identify the entity responsible for the goods returned by the customers (the vendor or the retailer) and the terms and conditions under which the damaged merchandise would be taken back for a refund or exchange. For example, many products come with a warranty, which will be honored only for a limited period. Re-ordering Merchandise Merchandise controlling is a process for evaluating revenues, profits, turnover, and shortage of inventory, seasonal fluctuations and costs for each product in the merchandise category being offered by the retailer. A retailer can exercise control over the inventory by creating and maintaining a perpetual inventory data and then conducting a physical inventory count to measure the accuracy of the perpetual data, on a timely basis.

While counting the inventory physically on a timely basis to measure the accuracy of the perpetual data, the retailer should take into account factors like damaged merchandise, inventory pilferage, goods returned by customers, and other similar factors. Retailers should have a reordering plan for merchandise that has to be purchased more than once. To develop an effective reordering plan, the following four critical factors must be considered: order and delivery time, inventory turnover, financial implications, and inventory versus ordering costs. Retailers should first determine the time required to process the order and the time required for a vendor to deliver the order. In some items, the retailer may have to reorder when the level of inventory is still high because of lengthy delivery time. But for some items, a vendor may offer overnight delivery. Retailer should also determine how long it would take to sell the inventory being carried. Fast selling merchandise allows retailers to order a large quantity of merchandise and expand the reorder points, or carry a low level of inventory and have shorter reorder periods. Slow moving merchandise might make retailers lower their initial levels of inventory and expand the reorder periods. Retailers should take into account the financial implications of the different purchasing options. A big reorder with a quantity discount requires considerable cash expenditure. A smaller reorder would lead to reduced total costs because of carrying a lower inventory. Lastly, retailers should weigh the benefits of inventory holding versus ordering costs. Holding large inventory levels offers many benefits like increased customer satisfaction, quantity discounts on purchases, reduced shipping costs per-item, and ease in controlling and handling merchandise. On the other hand, there can be disadvantages like high levels of investment, high probability of obsolescence and damage, high inventory carrying costs, and high insurance and opportunity costs. Holding low levels of inventory and reordering frequently offers many advantages like reduced investments, reduced opportunity costs, reduced inventory carrying costs and less damage and obsolescence. The disadvantages of carrying low levels of inventory are increase in the probability of stock-outs (thus disappointing customers), increase in per-item costs, delay in filling orders, increase in the need for partial shipments, increase in service charges, and greater difficulty in handling and controlling merchandise. Retailers generally try to strike a balance between inventory costs and ordering costs by carrying inventory that is sufficient to meet customer needs and at the same time does not lead to surplus inventory. Quick Response Delivery System (QRDS) helps retailers lower both inventory costs and ordering costs by establishing a closer relationship between vendors and retailers.

Regular Re-evaluation After establishing a well-integrated plan for purchasing and handling merchandise, retailers should not only follow it but also re-evaluate it periodically. The top management of the concerned retail organization should review the purchasing and handling processes. Retailers should also monitor the procedures for handling services. Example: Home Depot Offers Free, Fast and Easy Returns The Home Depot was an American multinational home improvement retail corporation that sold tools, construction products, appliances, and services. It wanted its customers to be 100% satisfied with its purchases. It offered an easy 90-day instant return policy for most items as long as it had a receipt. Customers got full return or exchange within a year. Source: Retrieved from https://www.retailmenot.com/blog/stores-with-the-best-return- policies.html. Accessed on 01-08-2022 10.9 Ethical and Legal Issues in Merchandise Purchasing Retailers should consider the many ethical and legal issues that may arise due to the transactions that take place between retailers and vendors. Retailers should not misuse their power in the marketing channel. From a retailer's perspective, slotting allowances and commercial bribery are areas of concern under ethical issues. Retailers, to protect their image and the interests of consumers, should determine whether the merchandise being procured is genuine or a gray market product. The basic issues of concern from the vendor's perspective are exclusive territories, exclusive dealing agreements, tying contracts, refusal to deal, and dual distribution. 10.9.1 Slotting Allowances Slotting allowances also referred to as slotting fees, can be defined as the fees paid by a vendor for securing space in a retail outlet for its products, usually for displaying its merchandise. Slotting allowances, though currently not considered illegal, can be regarded as unethical in some situations. For instance, a fast moving consumer goods company may pay high slotting allowances to retailers for displaying its products on their shelves. The fees paid by the vendor would vary significantly, depending on the retailer's power in the marketing channel and also on the type of the product being displayed or introduced. Vendors usually tend to pay high slotting allowances for products that have low consumer loyalty. Though some retailers defend the practice of paying slotting allowances as efficient use of valuable retail space, some producers and vendors see it as a coercive practice.

Slotting allowances, though used by some retailers as a short-term method for generating profits, can have an impact on long-term customer relationships. Some producers and vendors, in order to develop strategic partnerships with retailers, avoid slotting allowances. Instead, they work closely with retailers and share the financial risk of carrying new products if they fail to perform well. 10.9.2 Commercial Bribery Vendors or their agents usually offer to pay purchasers in order to influence their purchasing decision. Such a practice is referred to as commercial bribery. For instance, the vendor of premium cosmetic products might offer a liquor party to the category manager of a department store at one of the luxury hotels in the city (or town) and/or a three-night two-day stay at a luxury hotel. Such gifts can be referred to as kickbacks or bribes and are considered illegal. To avoid such problems, many retailers forbid their employees from receiving gifts or favors from vendors or their agents. Though most organized large retailers have developed a code to prevent their employees from taking bribes, many retailers either do not have any such policy in place, or even if they have such a policy, it is not followed by most employees. Ideally, retailers should permit employees to accept small token gifts such as flowers, cakes, cards, diaries, etc., that are of nominal value, but not expensive gifts that could influence their purchasing decision. 10.9.3 Counterfeit Merchandise Counterfeit merchandise can be defined as products that are manufactured

and sold without the permission of the owner of the trademark, copyright

and sold without the permission of the owner of the trademark, copyright or patent which is legally protected in its country

of operation. Though consumer goods with strong brand names tend to have many counterfeit products, even high technology products like software and mobile phones are counterfeited. The act of selling counterfeit merchandise is both illegal and unethical There are four ways in which retailers and vendors can seek protection against counterfeit merchandise – product registration, legislative action, bilateral and multilateral negotiations and organizational measures. The manufacturer, vendor or the retailer should patent, trademark or copyright the product being sold in a country. 10.9.4 Gray Market Merchandise Gray market merchandise can be defined as products that carry a valid trademark, but are manufactured in a foreign country and imported into another without the permission of the owner of the trademark. Gray market merchandise cannot be referred to as counterfeit merchandise. Figure 10.1 illustrates the flow of merchandise through cross channels of distribution in gray market activities.

 Figure 10.1: The Flow of Merchandise in a Gray Market Source: ICFAI Research Center The quality of merchandise made available through gray markets is the same as that of merchandise that is sold legally in the country. The major disadvantage of gray market merchandise, from the point of view of traditional retailers, is that consumers have a negative image of the merchandise, as it is not accompanied by a warranty. Gray market merchandise also has the potential to dilute the image of a trademark. More significantly, a product bought from the gray market can be an obsolete one or may not work properly in another country, because of inappropriate specifications. Example: Grocery Gray Market Busted in Hyderabad The Hyderabad police, in April, 2022, seized large quantities of duplicate grocery items. One person was also arrested who was involved in the illegal business. The police seized duplicates of leading shampoo brands, tea powder, hair oil, soap, detergents, among other products. Products were supplied at a cheaper price and later supplied to small retail stores around the city after passing them off as genuine products. The packaging of the products was so similar that it appeared almost like original goods. Source: (April 4, 2022). Hyderabad: Duplicate Grocery Goods Seized, One Held. Retrieved from https://telanganatoday.com/hyderabad-duplicate-grocery-goods-seized-one-held. Accessed on 01- 08-2022 10.9.5 Diverted Merchandise Diverted merchandise is the same as gray market merchandise, except that it might not be distributed across international borders. For example, mobile phone manufacturers might assign an exclusive territory for a particular retailer and a distributor at another nearby area can buy the merchandise from another

Manufacturer Production Center Distributor A Unauthorized Distributor Distributor B End Customer Authorized exclusively for A End Customer Authorized exclusively for B Gray Market Gray Market wholesaler in a different place and sell the merchandise at a discounted rate. The merchandise in this case, is diverted from its legal distribution channel by the wholesaler, who is referred to as the diverter. Many retailers have been forced to cut prices (thus reducing their margins) because of stiff competition from gray markets and diverted merchandise. Manufacturers and vendors can adopt the following measures to protect themselves against gray markets and diverted merchandise: ? Make all retailers and wholesalers sign a contract which specifies that they will not deal in gray market merchandise. ? Ensure that producers and vendors stop dealing with a retailer found dealing in gray market or diverted merchandise. ? Manufacture different models of products, in different versions for different regions. 10.9.6 Exclusive Territories Vendors usually assign exclusive geographic territories to retailers. No other retailer in that territory is legally permitted to sell that product in that area. For example, only a few retailers are offered exclusive territories for selling the Mont Blanc range of pens and accessories. Assigning exclusive geographic territories to retailers can benefit vendors. If there is a limited supply of merchandise, then adopting this strategy would ensure that the inventory is sufficient to display in a decent manner and provide the customer with better choices. Having exclusive territories is an advantage for retailers also, as it offers them a monopoly for that particular product. In addition, they have a strong incentive for selling the vendor's merchandise. The profit margins of retailers with exclusive territories are protected as there are no competing retailers to cut prices. Such retailers can usually gain additional benefits by carrying more inventory, advertising more, personal selling, sales promotions, special displays, and offering special services to the consumers. Some countries regard exclusive territories as illegal as they hinder competition. Competition is said to be curtailed when other retailers cannot access the same products. 10.9.7 Exclusive Dealing Agreements Exclusive dealing agreements refer to agreements between manufacturers or vendors and retailers that restrict retailers to sell only their merchandise and not that of competitors or competing vendors. For example, cola majors Pepsi and Coca-Cola may restrict their retailers to carry only their merchandise and nothing from the competitor's. The legality of these agreements is determined by their impact on competition. This practice is usually not regarded as illegal if it does not affect the competition and the competitors have many other alternative retailers. But these agreements are considered illegal if they hamper competition.

 10.9.8

Tying Contracts A tying contract refers to a contract between a vendor and a retailer. In such a contract, the retailer accepts a product that is not essentially required, so as to be able to purchase a product that is actually required. Tying contracts are considered illegal if they have the potential to reduce competition and create a monopoly. Vendors are allowed to develop tying contracts to protect their brand image and reputation for quality. 10.9.9 Refusals to Deal Generally, both retailers and vendors have the authority to accept or refuse to deal with each other. But if this practice affects the competition, then it is considered unethical/illegal. A producer can refuse to deal with a specific retailer, but it cannot refuse to deal just for the sake of benefiting a competing retailer. 10.9.10 Dual Distribution Dual distribution occurs when a manufacturer or a vendor competes directly with the retailer. A dual distribution system develops when a vendor decides to adopt vertical integration by taking up retailing activities. In a dual distribution, competition and trade suffer, if vendors quote higher prices to independent retailers than to the retail chains owned by them. Such an act would lead to a severe and continual decrease in competing retailers. Clearly, many legal and ethical issues can crop up when two parties interact.

Role of Merchandising and Merchandise Buying Manager in Modern Retailing

The growth of Indian organized retailing, and the exponential growth of the internet has changed the retail landscape in India. The above developments have raised the expectations of customers, reduced their brand loyalty, and hence increased the level of competition among the Indian retailers. The above situation is exacerbated by the emergence of online retailers, which have started to capture the Indian market using two key levels viz aggressively: low prices and customer convenience. The above situation has forced Indian retailers to rethink their merchandise strategy with the emergence of various retail technologies. In the above scenario, retailers are under pressure on various fronts viz. channel migration by customers (webrooming and showrooming) and decline in brand loyalty among the customers. Furthermore, the market penetration of organized retailing in India ranges between 8-10 percent as of 2019. The high low penetration has made retailers make every possible attempt to capture the growing Indian market and differentiate themselves from the other retailers by moving beyond low prices and convenience. Exclusivity in merchandising offering has emerged as one major area of competitive advantage for Indian retailers. In the above situation, the buying and merchandising managers act as a bridge between the marketing (on the front end) and the supply chain department (at the back end). The buying and merchandising managers focus on four W's of merchandising: what to sell, whom to sell, where to sell, as well as when to sell, the merchandise. The above factors determine the success of sales, marketing, and supply chain activities as it enables a retailer to maintain the critical balance between providing superior customer buying experience and maintaining optimum inventory levels in their stores. The above balance helps retailers to enhance the customer shopping experience in a profitably. The above five functions have become even more critical as retailers strive to provide a seamless shopping experience by adopting omnichannel retailing. The traditional role of the buyer and merchandising manager can be summarized as follows: i. Development of merchandise strategies for the entire organization, every store and each product line. ii. Tracking and analyzing the changing customers' preferences as well as economic conditions and matching the merchandise assortment to matching in accordance with the above changes. iii. Developing and maintaining relationship with selected vendors and collaborating with them to ensure timely delivery of customer-centric merchandise on favourable terms. iv. Developing the pricing strategy for merchandise assortment in a way that enhances the profitability of their retail organization. v. Procurement and allocation of the merchandise for the various stores of the retailer as per their requirements and as per the desired product availability. The following are some of the strategies adopted by the Indian retailing related to merchandising buying aimed towards increasing their market share through enhanced customer loyalty. 1. Moving from product-centric towards customer-centric merchandising: Customers continue to rule the roost in the emerging and extremely competitive Indian retail landscape. The buying and merchandising practitioners are attempting to bring the customers at the heart of their decision making. Most of the organized retailers are making attempts to understand their the needs and preferences of their customers by adopting methods to gain information about their customers which aims to: (i) align their product offering with the needs and preferences of customers, (ii) understand the entire shopping journey of their customers, and (iii) comprehend the purchasing power of customers along with their choices in the relevant catchment areas.

Industry experts believe that role of buying and merchandising executives needs to evolve towards identifying the latest trends and adopting the merchandise assortment towards caters to the preferences of the customers through the data-driven decision making and innovation in merchandising. Furthermore, buying and merchandising managers play a critical role in maintaining the cordial retailer-vendor relationship in balancing inventory availability (Merchandising 1.0), selling channel (Merchandising 2.0), and customer-related information (Merchandising 3.0). 2. Maintaining the freshness and relevance of merchandise: The tastes and preferences of customers are ever-changing, especially in the case of fashion merchandise. Moreover, the advent of the internet and smartphones have made the customers better informed and more demanding towards getting the merchandising per the latest fashion trends. The above developments have made buying and merchandising managers to continually offer fresh and relevant merchandise by introducing new and innovative fabric, the latest graphic designs, prints, and embellishments. The above strategy helps retailers communicate the freshness and relevance of merchandise offering to their customers. 3. Innovative and differentiated Product Offerings: The role played by buying and merchandising managers in building a customer-centric inventory through a cordial relationship with vendors help a retailer. The above collaboration helps the retailer in clearly communicating the requirements to the vendor and procuring customer-centric innovative merchandise in a timely manner, and on favourable terms. The above symbiotic relationship between vendor and retailer enable both the parties in anticipating changes in customer preferences, and understanding the product lifecycle stage of their existing products. Activity 10.2 Visit a fashion store in your locality and interview the store manager to understand how products are evaluated before orders are placed and confirmed for sourcing and purchasing. Select a boy's readymade wear and a woman's cosmetics. Analyze the order placement schemes of both and give reasons as to why the purchasing technique (orders placed based on description or scrutiny of samples) of each of the products differs.

Check Your Progress -2 6. Which of the following is called as

the fee paid by a vendor for securing space in a retail outlet for its products, usually for displaying its merchandise? a. Slotting fee b. Slotting allowances c. Slotting charges d. Slotting cost e. Slotting tariff 7. Vendors or their agents usually offer to pay purchasers in order to influence their purchasing decision. Which of the following is referred to as given above? a. Bribery b. Retailers bribery c. Commercial bribery d. Transactional bribery e. Commission 8. Products that carry a valid trademark, but are manufactured in a foreign country and imported into another without the permission of the owner of the trademark. Which of the following are referred above? a. Counterfeiting merchandise b. Gray market merchandise c. Diverted merchandise d. Smuggled merchandise e. Duplicate merchandise 9. When a manufacturer or a vendor competes directly with the retailer by vertically integrating by taking over retailing activities, it is known as which of the following? a. Dual distribution b. Dual retailing c. Duopoly d. Dual marketing e. Dual selling

 10.

Which of the following is a type of contract where retailer accepts a product that is not essentially required, so as to be able to purchase a product that is actually required? a. Trying contract b. Bundling c. Mutual contract d. Tying contract e. Bilateral contract 10.10

100%	MATCHING BLOCK 30/35	W

Summary ? Retailers can source their merchandise from manufacturers or produce their own store brands (referred to as private labels). Both manufacturer's brands and private labels have their own advantages. ? Selecting brands and choosing a branding strategy are components of a retailer's process of merchandise assortment planning. The most complex task for a retailer is to decide whether to source the merchandise from within the country or to source it from global sources. ? The merchandise purchasing process consists of five steps: identifying the sources of supply, contacting the sources of supply, evaluating the sources of supply, negotiating with the sources of supply, and purchasing from the sources of supply. ? The first step in the merchandise purchasing process deals with determining the type of channel to be used for purchasing each line of merchandise. The retailer can consider different sources of supply: raw-resource producers, manufacturers, wholesalers and resident purchasing offices. ? The second step in the merchandise purchasing process involves contacting the various sources of supply. Both the vendor and the retailer can initiate the contact process. Contacts initiated by vendors involve store visits by vendors' sales personnel or mail or telephone inquiries. Contacts initiated by retailer include visiting central markets, resident purchasing offices, and merchandise trade shows, and making telephone and mail inquiries. ? The third step in the merchandise purchasing process deals with the evaluation of several prospective vendors. Retailers evaluate vendors on the basis of a) suitability, availability and the adaptability of the merchandise being offered, b) the exclusiveness of the merchandise offered and the vendor's distribution policies, c) the appropriateness of the vendor's price, d) the type and amount of promotional support offered by the vendor, and e) the type and amount of additional services provided by the vendor. Retailers can use a weighted rating method to evaluate vendors.

Block 3: Merchandise Management 96 ?

100%	MATCHING BLOCK 31/35	W

The fourth step in the merchandise purchasing process involves negotiating with the sources of supply. Retailers usually negotiate on price and service issues. Retailers should also consider the various transportation and handling issues that influence the cost of sourcing new merchandise. ? In the fifth and final step of the merchandise purchasing process, the actual purchasing takes place. Retailers can purchase all the merchandise from a few vendors or from a number of different suppliers. They can also choose from different purchasing methods like regular, consignment, memorandum, approval or specification. ? The merchandise handling process is as important as the merchandise purchasing process. This process involves developing a plan to get the merchandise carefully into the store and place it on the shelves for sale. Merchandise handling includes processing, receiving and storing merchandise, pricing and marking the inventory, arranging displays and on- floor assortments, customer transactions, delivering the goods, handling the goods that are returned by customers, taking decisions regarding damaged merchandise, and finally, controlling and monitoring losses due to merchandise pilferage. ? Once a retailer develops a strategy for handling merchandise, a reorder procedure must be developed. This procedure depends on various factors like the time taken by the retailer to process the order, the time taken by the vendor to fulfill the order, the inventory turnover rate, the financial expenditure and the cost of holding inventory versus the cost of ordering merchandise. The retailer should re-evaluate the complete merchandising process periodically. ? The hundreds of transactions that take place between retailers and vendors can give rise to a number of ethical and legal issues. These issues must be addressed by both retailers and vendors. 10.11

Glossary A Tying Contract: It refers to a contract between a vendor and a retailer. In such a contract, the retailer accepts a product that is not essentially required, so as to be able to purchase a product that is actually required. Cash on Delivery (COD): The payments are made after the delivery of the goods at the buyer's place. The vendor might insist on COD when the retailer is unfamiliar or when he has a poor credit record. Counterfeit Merchandise: It can be defined as products that are manufactured

83%	MATCHING BLOCK 33/35	W

and sold without the permission of the owner of the trademark, copyright

64%	MATCHING BLOCK 34/35	W

and sold without the permission of the owner of the trademark, copyright or patent which is legally protected in its country of operation. Free Alongside Ship (FAS): FAS at a recognized port implies that the vendor specifies a price for the merchandise, including the delivery costs, alongside a vessel.

Free on Board (FOB): FOB implies that the goods are placed on board a truck, ship or an aircraft. The ownership of the goods is transferred from the vendor to the retailer at the point of FOB. Free Trade Zones: A free trade zone is a specially established zone in a country for warehousing, packing, inspecting, labeling, exhibiting, assembling, and fabricating goods or for shipping of imports without coming under the purview of that particular country's tariff rules. Gray Market Merchandise: It can be defined as products that carry a valid trademark, but are manufactured in a foreign country and imported into another without the permission of the owner of the trademark. Licensed Brands: They are another form of manufacturers' brands, in which the owner (the licenser) of a popular brand name establishes a contract with another party (referred to as the licensee) to manufacture and sell the licenser's brand. Manufacturers' Brands: Products that are designed, produced and marketed by a manufacturer such as Hindustan Lever Limited; for example, Amul and Britannia are manufacturers' brands. Merchandise Handling: The process of getting the merchandise physically into the store and taking care of it till it is sold is referred to as merchandise handling. Net: This refers to the net number of days from the date of invoice within which the retailer has to make the payment. Private Brands: Products that are designed, developed and marketed by a retailer, such as Foodworld's jams and honey, Shoppers' Stop's Kashish, etc. Slotting Allowances: Also referred to as slotting fees, it can be defined as the fees paid by a vendor for securing space in a retail outlet for its products, usually for displaying its merchandise. Tariff: A tariff refers to a list of taxes charged by the government on imports. Governments generally use import taxes to protect domestic industries against foreign competition. 10.12 Self-Assessment Test 1. Differentiate manufacturers' brands from licensed brands quoting suitable examples. 2. Explain the various cost-related factors which affect sourcing decisions for the firm. 3. What are the legal and ethical issues in merchandise purchasing? Discuss. 4. Explain the term tying contract and dual distribution with examples from the market. 5. Private brands are not as popular as manufacturer's brands. Discuss.

 10.13

Suggested Readings/Reference Material 1. Giri Arunangshu and Chatterjee Satakshi, "Retail Management: Text & Cases" Paperback, PHI Learning Pvt. Ltd., 2021. 2. Swapna Pradhan, "Retailing Management: Text and Cases", McGraw Hill, Sixth Edition, 2020. 3. Barry Berman, Joel R Evans, Patrali Chatterjee and Ritu Srivastava, "Retail Management", Thirteenth Edition Pearson Education, 2017. 10.14 Answers to Check Your Progress Questions 1. (

d) Manufacturers' brands Products that are designed, produced and marketed by a manufacturer are called. 2. (e) Licensed brands Licensed brands are a Forms of manufacturers' brands

in which the owner of a popular brand name establishes a contract with another party to manufacture and sell the manufacturers branded products as 3. (d) Social and cultural environment of the exporting country While making sourcing decisions, it is essential that retailers should examine factors which impact the overall cost. These factors are

country-of-origin effect & foreign exchange fluctuations, tariffs & free trading zones, inventory carrying costs & transportation costs.

Social and cultural environment does not directly impact cost. 4. (c) Consumer insights and changing consumer preferences Providing information and assisting purchasers are two key services of purchasing officers. They provide information on product availability & supplier reliability, market, supply trends, special offers & services, prices and promotion offered by various suppliers. While all other options represent key information or services provided by purchasing officers, option 'c' is the correct answer because it is unlikely that the purchasing officer would provide consumer insights. 5. (a) FAS Free Alongside Ship (FAS): FAS at a recognized port implies that the vendor specifies a price for the merchandise, including the delivery costs, alongside a vessel. 4.

Gibson G. Vedamani, "Retail Management", 5 th edition,Pearson Education, 2017.

 6. (

b) Slotting Allowances The fees paid by a vendor for securing space in a retail outlet for its products, usually for displaying its merchandise are called as Slotting Allowances. 7. (c) Commercial bribery Vendors or their agents usually offer to pay purchasers in order to influence their purchasing decision. Such a practice is referred to as commercial bribery. 8. (b) Gray market merchandise Gray market merchandise can be defined as products that carry a valid trademark, but are manufactured in a foreign country and imported into another without the permission of the owner of the trademark. 9. (a) Dual Distribution When a manufacturer or a vendor competes directly with the retailer by vertically integrating and taking over retailing activities are known as Dual distribution. 10. (d) Tying contract A tying contract refers to a contract between a vendor and a retailer in which the retailer accepts a product that is not essentially required, so as to be able to purchase a product that is actually required.

Retail Management Course Structure Block 1: Introduction to Retailing Unit 1 Retailing: An Overview Unit 2 Retail Institutions Unit 3 Understanding the Retail Customer Block 2: Retail Strategy Unit 4 Retail Market Strategy Unit 5 Financial Strategy Unit 6 Store Location and Site Evaluation Unit 7 Retail Organization and

Management Block 3: Merchandise Management Unit 8 Merchandise Assortment Planning Unit 9 Purchasing Systems Unit 10 Merchandise
Planning Block 4: Managing the Retail Store Unit 11 Store Management Unit 12 Store Layout, Design and Visual Merchandizing Unit 13 Customer Service Unit 14 Retailing Selling Unit 15 Information Systems and Logistics Block 5: Retail Marketing Unit 16 Retail Marketing Mix Unit 17 Retail Pricing Unit 18 Retail Promotion Mix Unit 19 Application of IT in Retailing Unit 20 International Retailing Unit 21 The Future of Retailing Block 6: Contemporary Issues in Retailing Unit 22 Ethical and Legal Issues in Retailing Unit 23 Careers in Retailing

Hit and source - focused comparison, Side by Side

Submitted text As student entered the text in the submitted document.

Matching text As the text appears in the source.

1/35	SUBMITTED TEXT 14 WORDS	66% MATCHING TEXT 14 WORDS
	billion up by 5.6% year-on-year (YOY). This was in tune with Amazon's previous	billion, up 5.6% year-on-year (YoY). This is largely in line with Amazon's previous

W https://www.ig.com/en/news-and-trade-ideas/can-amazon_s-share-price-rise-further-with-its-upcomin ...

2/35	SUBMITTED TEXT 25 WORDS	59% MATCHING TEXT 25 WORDS
	GMROI = Gross Margin percentage x Sales to Inventory ratio = (Gross Margin/Net Sales) x (Net Sales/Average Inventory) = Gross Margin/Average Inventory	GMROI = Gross Margin Percent x sales-to-stock ratio = gross margin x net sales net sales avg inventory at cost = gross margin avg inventory

W https://tsnghia.files.wordpress.com/2010/11/chapter121.pdf

3/35	SUBMITTED TEXT 25 WORDS	59% MATCHING TEXT 25 WORDS
	GMROI = Gross Margin percentage x Sales to Inventory ratio = (Gross Margin/Net Sales) x (Net Sales/Average Inventory) = Gross Margin/Average Inventory	GMROI = Gross Margin Percent x sales-to-stock ratio = gross margin x net sales net sales avg inventory at cost = gross margin avg inventory

W https://slideplayer.com/slide/5924233/

4/35	SUBMITTED TEXT 25 WORDS	81% MATCHING TEXT 25 WORDS
	inventory. Inventory turnover = Net Sales ? Average Inventory (at retail price), or Cost of Goods sold ? Average Inventory (at cost).	Inventory Turnover • Inventory turnover = Net Sales Average inventory at retail • Inventory turnover = Cost of goods sold Average inventory at cost •

W https://tsnghia.files.wordpress.com/2010/11/chapter121.pdf

5/35	SUBMITTED TEXT 25 WORDS	81% MATCHING TEXT 25 WORDS
	inventory. Inventory turnover = Net Sales ? Average Inventory (at retail price), or Cost of Goods sold ? Average Inventory (at cost).	Inventory Turnover Inventory turnover = Net Sales Average inventory at retail Inventory turnover = Cost of goods sold Average inventory at cost

W https://slideplayer.com/slide/5924233/

6/35	SUBMITTED TEXT	19 WORDS	58% MATCHING TEXT	19 WORDS

the end of the month (EoM) inventories for different months and divide it by the number of months.

the end-of- month (EOM) inventories for several months by the number of months 15 12 - 15

W https://slideplayer.com/slide/5924233/

7/35	SUBMITTED TEXT	1 WORDS	100% MATCHING TEXT	1 WORDS

news-and-trade-ideas/can- amazon_s-share-price-rise-further-with-its-upcoming-q2-

News and trade ideas • Can Amazon's share price rise further with its upcoming Q2

W https://www.ig.com/en/news-and-trade-ideas/can-amazon_s-share-price-rise-further-with-its-upcomin ...

8/35	SUBMITTED TEXT	23 WORDS	73% MATCHING TEXT	23 WORDS

Gross Margin percentage x Sales to Inventory ratio = (Gross Margin/Net Sales) x (Net Sales/Average Inventory) = Gross Margin/Average Inventory

gross margin percentage x sales-to-stock ratio =(gross margin/net sales) x (net sales/avg inventory at cost) =gross margin/avg inventory

W https://quizlet.com/689109087/retailing-test-3-flash-cards/

9/35	SUBMITTED TEXT	35 WORDS	69% MATCHING TEXT	35 WORDS

Efficient purchasing systems ensure balance between sales, stock levels, quantity ordered and account for influences on availability of merchandise. There are several nuances of the purchasing systems, which when followed systematically, ensure retail success.

Efficient buying systems ensure the balance between sales, stock levels, quantity ordered and account for influences on availability of merchandise. There are several steps in the buying process, which when followed systematically ensure retail success.

W https://www.yourarticlelibrary.com/retailing/merchandise-buying-systems-two-types-staple-and-fash ...

10/35	SUBMITTED TEXT	25 WORDS	62% MATCHING TEXT	25 WORDS

to sales ratio determines the amount of inventory that should be in hand at the starting of the month in order to achieve the

to sales ratio Specifies the amount of inventory that should be on hand at the beginning of the month to support the

W https://quizlet.com/344600590/retail-exam-3-definitions-and-questions-flash-cards/

11/35	SUBMITTED TEXT	31 WORDS	52% MATCHING TEXT	31 WORDS

Sales to Inventory Ratio = GMROI ? Gross Margin (%) 2. Represent Sales to Inventory Ratio in terms of Inventory Turnover: Inventory Turnover = Sales to Inventory Ratio x

Sales-to-Stock Ratio = GMROI / Gross Margin % Step 2: Convert the Sales-to-Stock Ratio to Inventory Turnover Inventory Turnover = Sales-To-Stock Ratio X (1-

W https://quizlet.com/571928536/ree-lecture-6-merchandising-planning-and-control-related-inventory- ...

12/35	SUBMITTED TEXT	25 WORDS	45% MATCHING TEXT	25 WORDS

should never be out of stock, items that can go out of stock occasionally and the items that should be eliminated from the stock.

should never be out of stock, which should be allowed to be out of stock occasionally, and which should be deleted from the stock

W https://quizlet.com/344600590/retail-exam-3-definitions-and-questions-flash-cards/

13/35	SUBMITTED TEXT	20 WORDS	60% MATCHING TEXT	20 WORDS

to sales ratio determines the amount of inventory that should be in hand at the starting of the month

to-Sales Ratio specifies the amount of inventory (in retail dollars) that should be on and at the beginning of the month

W https://docplayer.net/47668404-Merchandise-management.html

14/35	SUBMITTED TEXT	25 WORDS	56% MATCHING TEXT	25 WORDS

and the time at which the stock arrives at the store and is made available for sale? a. Transaction time b. Process time c.

and the point at which the merchandise arrives in the store and is ready for sale. A. Lead time B. Order time C.

W https://quizlet.com/344600590/retail-exam-3-definitions-and-questions-flash-cards/

15/35	SUBMITTED TEXT	25 WORDS	56% MATCHING TEXT	25 WORDS

to sales ratio determines the amount of inventory that should be in hand at the starting of the month in order to achieve the

to-Sales Ratio specifies the amount of inventory (in retail dollars) that should be on hand at the beginning of the month to support the

W https://quizlet.com/80013433/tam-1300-ch-12-flash-cards/

16/35	SUBMITTED TEXT	22 WORDS	58% MATCHING TEXT	22 WORDS

and the time at which the stock arrives at the store and is made available for sale. 10. (a)

and the point at which the merchandise arrives in the store and is ready for sale. A.

W https://quizlet.com/344600590/retail-exam-3-definitions-and-questions-flash-cards/

17/35	SUBMITTED TEXT	25 WORDS	56% MATCHING TEXT	25 WORDS

and the time at which the stock arrives at the store and is made available for sale? a. Transaction time b. Process time c.

and the point at which the merchandise arrives in the store and is ready for sale. A. Lead time B. Order time C.

W https://quizlet.com/336220379/retail-exam-3-questions-flash-cards/

18/35	SUBMITTED TEXT	22 WORDS	58% MATCHING TEXT	22 WORDS

and the time at which the stock arrives at the store and is made available for sale. 10. (a)

and the point at which the merchandise arrives in the store and is ready for sale. A.

W https://quizlet.com/336220379/retail-exam-3-questions-flash-cards/

19/35	SUBMITTED TEXT	26 WORDS	78% MATCHING TEXT	26 WORDS

Managerial Issues in Global Sourcing Decisions 10.7 The Merchandise Purchasing and Handling Process 10.8 Merchandise Handling 10.9 Ethical and Legal Issues in Merchandise Purchasing 10.10

Managerial Issues in Global Sourcing Decisions The Merchandise Purchasing and Handling process The Merchandise Purchasing Proces Merchandise handling Reordering merchandise Regular Re-evaluation Ethical and Legal issues in Merchandise Purchasing

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm

20/35	SUBMITTED TEXT	21 WORDS	90% MATCHING TEXT	21 WORDS

Country-of-origin effect ? Foreign exchange fluctuations ? Tariffs ? Free trading zones ? Inventory carrying costs ? Transportation costs

Country-of-origin effect Foreign exchange fluctuations Tariffs Free trade zones Inventory carrying costs Transportation Costs

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm

21/35	SUBMITTED TEXT	44 WORDS	40% MATCHING TEXT	44 WORDS

sources of supply ? Contact and evaluate the different sources of supply ? Negotiate and purchase from the best sources of supply Block 3: Merchandise Management 72 Identifying the Sources of Supply This is the first step in the merchandise purchasing process.

sources of supply, evaluating the sources of supply, negotiating with the sources of supply, and purchasing from the sources of supply. The first step in the merchandise purchasing process

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm

22/35	SUBMITTED TEXT	19 WORDS	83% MATCHING TEXT	19 WORDS

European countries complained about the quality of the equipment supplied from China to deal with the coronavirus outbreak.

European countries have complained about the quality of the equipment being supplied by China to help deal with the coronavirus outbreak.

W https://www.hindustantimes.com/world-news/covid-19-countries-complain-about-quality-of-chinese-ma ...

23/35	SUBMITTED TEXT	34 WORDS	64% MATCHING TEXT	34 WORDS

Netherlands recalled thousands of masks imported from China. Similarly, Spain had issues with defective imported test kits. China’s foreign ministry said several countries raised doubts about the quality of products imported from China.

Netherlands recalled thousands of masks imported from China because of quality issues, while Spain complained about defective imported test kits supplied by a Chinese manufacturer, media reports said. China’s foreign ministry said several countries had raised doubts about the quality of products imported from China,

W https://www.hindustantimes.com/world-news/covid-19-countries-complain-about-quality-of-chinese-ma ...

24/35	SUBMITTED TEXT	11 WORDS	100% MATCHING TEXT	11 WORDS

owner says supply chain flexibility “pivotal” in reducing COVID impact.

owner says supply chain flexibility “pivotal” in reducing COVID impact

W https://internetretailing.net/operations-and-logistics/zara-owner-says-supply-chain-flexibility-p ...

25/35	SUBMITTED TEXT 25 WORDS	58% MATCHING TEXT 25 WORDS
	sources of supply are found. Negotiating with the Sources of Supply Negotiating with the sources of supply is the fourth step in the	sources of supply, negotiating with the sources of supply, and purchasing from the sources of supply. The first step in the

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm

26/35	SUBMITTED TEXT 24 WORDS	55% MATCHING TEXT 24 WORDS
	brands b. Private brands c. Store brands d. Manufacturers' brands e. National brands 2. Which of the following are	brands B. national brands C. general brands D. generic brands E. licensed brands B. All of the following are

W https://quizlet.com/344600590/retail-exam-3-definitions-and-questions-flash-cards/

27/35	SUBMITTED TEXT 24 WORDS	55% MATCHING TEXT 24 WORDS
	brands b. Private brands c. Store brands d. Manufacturers' brands e. National brands 2. Which of the following are	brands B. national brands C. general brands D. generic brands E. licensed brands B. All of the following are

W https://quizlet.com/336220379/retail-exam-3-questions-flash-cards/

28/35	SUBMITTED TEXT 13 WORDS	83% MATCHING TEXT 13 WORDS
	and sold without the permission of the owner of the trademark, copyright	and sold without the permission of the owner of a trademark or copyright

W https://quizlet.com/689109087/retailing-test-3-flash-cards/

29/35	SUBMITTED TEXT 22 WORDS	64% MATCHING TEXT 22 WORDS
	and sold without the permission of the owner of the trademark, copyright or patent which is legally protected in its country	and sold without the permission of the owner of a trademark, a copyright, or patented invention that is legally protected in the country

W https://docplayer.net/47668404-Merchandise-management.html

30/35	SUBMITTED TEXT	311 WORDS	100% MATCHING TEXT	311 WORDS

Summary ? Retailers can source their merchandise from manufacturers or produce their own store brands (referred to as private labels). Both manufacturer's brands and private labels have their own advantages. ? Selecting brands and choosing a branding strategy are components of a retailer's process of merchandise assortment planning. The most complex task for a retailer is to decide whether to source the merchandise from within the country or to source it from global sources. ? The merchandise purchasing process consists of five steps: identifying the sources of supply, contacting the sources of supply, evaluating the sources of supply, negotiating with the sources of supply, and purchasing from the sources of supply. ? The first step in the merchandise purchasing process deals with determining the type of channel to be used for purchasing each line of merchandise. The retailer can consider different sources of supply: raw-resource producers, manufacturers, wholesalers and resident purchasing offices. ? The second step in the merchandise purchasing process involves contacting the various sources of supply. Both the vendor and the retailer can initiate the contact process. Contacts initiated by vendors involve store visits by vendors' sales personnel or mail or telephone inquiries. Contacts initiated by retailer include visiting central markets, resident purchasing offices, and merchandise trade shows, and making telephone and mail inquiries. ? The third step in the merchandise purchasing process deals with the evaluation of several prospective vendors. Retailers evaluate vendors on the basis of a) suitability, availability and the adaptability of the merchandise being offered, b) the exclusiveness of the merchandise offered and the vendor's distribution policies, c) the appropriateness of the vendor's price, d) the type and amount of promotional support offered by the vendor, and e) the type and amount of additional services provided by the vendor. Retailers can use a weighted rating method to evaluate vendors.

SUMMARY: Retailers can source their merchandise from manufacturers or produce their own store brands (referred to as private labels). Both manufacturer's brands and private labels have their own advantages. Selecting brands and choosing a branding strategy are components of a retailer's process of merchandise assortment planning. The most complex task for a retailer is to decide whether to source the merchandise from within the country or to source it from global sources. The merchandise purchasing process consists of five steps: identifying the sources of supply, contacting the sources of supply, evaluating the sources of supply, negotiating with the sources of supply, and purchasing from the sources of supply. The first step in the merchandise purchasing process deals with determining the type of channel to be used for purchasing each line of merchandise. The retailer can consider different sources of supply: raw-resource producers, manufacturers, wholesalers and resident purchasing offices. The second step in the merchandise purchasing process involves contacting the various sources of supply. Both the vendor and the retailer can initiate the contact process. Contacts initiated by vendors involve store visits by vendors' sales personnel or mail or telephone inquiries. Contacts initiated by retailer include visiting central markets, resident purchasing offices, and merchandise trade shows, and making telephone and mail inquiries. The third step in the merchandise purchasing process deals with the evaluation of several prospective vendors. Retailers evaluate vendors on the basis of a) suitability, availability and the adaptability of the merchandise being offered, b) the exclusiveness of the merchandise offered and the vendor's distribution policies, c) the appropriateness of the vendor's price, d) the type and amount of promotional support offered by the vendor, and e) the type and amount of additional services provided by the vendor. Retailers can use a weighted rating method to evaluate vendors.

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm

31/35	SUBMITTED TEXT 279 WORDS	100% MATCHING TEXT 279 WORDS
	The fourth step in the merchandise purchasing process involves negotiating with the sources of supply. Retailers usually negotiate on price and service issues. Retailers should also consider the various transportation and handling issues that influence the cost of sourcing new merchandise. ? In the fifth and final step of the merchandise purchasing process, the actual purchasing takes place. Retailers can purchase all the merchandise from a few vendors or from a number of different suppliers. They can also choose from different purchasing methods like regular, consignment, memorandum, approval or specification. ? The merchandise handling process is as important as the merchandise purchasing process. This process involves developing a plan to get the merchandise carefully into the store and place it on the shelves for sale. Merchandise handling includes processing, receiving and storing merchandise, pricing and marking the inventory, arranging displays and on- floor assortments, customer transactions, delivering the goods, handling the goods that are returned by customers, taking decisions regarding damaged merchandise, and finally, controlling and monitoring losses due to merchandise pilferage. ? Once a retailer develops a strategy for handling merchandise, a reorder procedure must be developed. This procedure depends on various factors like the time taken by the retailer to process the order, the time taken by the vendor to fulfill the order, the inventory turnover rate, the financial expenditure and the cost of holding inventory versus the cost of ordering merchandise. The retailer should re-evaluate the complete merchandising process periodically. ? The hundreds of transactions that take place between retailers and vendors can give rise to a number of ethical and legal issues. These issues must be addressed by both retailers and vendors. 10.11	The fourth step in the merchandise purchasing process involves negotiating with the sources of supply. Retailers usually negotiate on price and service issues. Retailers should also consider the various transportation and handling issues that influence the cost of sourcing new merchandise. In the fifth and final step of the merchandise purchasing process, the actual purchasing takes place. Retailers can purchase all the merchandise from a few vendors or from a number of different suppliers. They can also choose from different purchasing methods like regular, consignment, memorandum, approval or specification. The merchandise handling process is as important as the merchandise purchasing process. This process involves developing a plan to get the merchandise carefully into the store and place it on the shelves for sale. Merchandise handling includes processing, receiving and storing merchandise, pricing and marking the inventory, arranging displays and on-floor assortments, customer transactions, delivering the goods, handling the goods that are returned by customers, taking decisions regarding damaged merchandise, and finally, controlling and monitoring losses due to merchandise pilferage. Once a retailer develops a strategy for handling merchandise, a reorder procedure must be developed. This procedure depends on various factors like the time taken by the retailer to process the order, the time taken by the vendor to fulfill the order, the inventory turnover rate, the financial expenditure and the cost of holding inventory versus the cost of ordering merchandise. The retailer should re-evaluate the complete merchandising process periodically. The hundreds of transactions that take place between retailers and vendors can give rise to a number of ethical and legal issues. These issues must be addressed by both retailers and vendors. •

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm

32/35	SUBMITTED TEXT 2 WORDS	100% MATCHING TEXT 2 WORDS
	operations-and- logistics/zara-owner-says-supply-chain-flexibility-pivotal-in-reducing-covid-impact-21533/.	Operations and Logistics » Zara owner says supply chain flexibility “pivotal” in reducing COVID impact

W https://internetretailing.net/operations-and-logistics/zara-owner-says-supply-chain-flexibility-p ...

33/35	SUBMITTED TEXT 13 WORDS	83% MATCHING TEXT 13 WORDS
	and sold without the permission of the owner of the trademark, copyright	and sold without the permission of the owner of a trademark or copyright

W https://quizlet.com/689109087/retailing-test-3-flash-cards/

34/35	SUBMITTED TEXT	22 WORDS	64% MATCHING TEXT	22 WORDS
	and sold without the permission of the owner of the trademark, copyright or patent which is legally protected in its country		and sold without the permission of the owner of a trademark, a copyright, or patented invention that is legally protected in the country	

W https://docplayer.net/47668404-Merchandise-management.html

35/35	SUBMITTED TEXT	18 WORDS	90% MATCHING TEXT	18 WORDS
	country-of-origin effect & foreign exchange fluctuations, tariffs & free trading zones, inventory carrying costs & transportation costs.		Country-of-origin effect Foreign exchange fluctuations Tariffs Free trade zones Inventory carrying costs Transportation Costs	

W https://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Purchas.htm