# Retail Buying

## DMGT554

Edited by:
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LOVELY PROFESSIONAL UNIVERSITY

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Printed by
**EXCEL BOOKS PRIVATE LIMITED**
A-45, Naraina, Phase-I,
New Delhi-110028
for
Lovely Professional University
Phagwara

# SYLLABUS

## Retail Buying

***Objectives:*** To make students learn and understand the roles and responsibilities of a Buying Manager which include:

- Formulate a retail buying strategy
- Procure merchandise with a customer focus
- Build an effective product range
- Establish and maintaining effective supplier relationships
- Provide an effective product analysis

| S. No. | Description |
|---|---|
| 1. | The buyer's role, Buying for traditional retail organizations, Buying for discount operations |
| 2. | Buying for off-price retail operations, Buying for off-site retail operations |
| 3. | The market specialists and how they service retailers |
| 4. | Consumer analysis, Merchandise sourcing and timing for purchase |
| 5. | Deciding what and how much to buy |
| 6. | Purchasing in the domestic and foreign marketplace |
| 7. | Wholesale purchasing on the internet, Negotiating the purchasing and writing |
| 8. | Merchandise pricing |
| 9. | The development of private label brands and labels |
| 10. | Disseminating product information to retail personnel |

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# Unit 1: The Buyer's Role

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## Objectives

After studying this unit, you will be able to:

- Determine the Scope of the Buyer's Role
- Explain the Duties and Responsibilities of Buyers
- Discuss the Personal Qualifications, Qualities, and Abilities for a Buying Career
- Discuss the Evaluation of Buyers

## Introduction

Anyone who has pursued a career oriented toward merchandising fully understands that the challenges demanded of him or her are significant. These individuals are on the firing line each and every day. The decision making required of the merchandisers must be accurate so that the company represented can turn an acceptable profit. Within the ranks of the merchandising division of the major stores are the general merchandise manager, several divisional merchandise managers, and a host of buyers. It is the buyer who has the ultimate responsibility for selecting merchandise from the vast number of resources available for purchasing. When a consumer examines a variety of shoe styles for his or her own use, the ultimate decision may be difficult to make. Of course, the choice is a personal one, with no considerations other than self-satisfaction. When the professional buyer makes the final selections, personal satisfaction is not of paramount importance. Customer satisfaction and company profitability are the only barometers by which the purchases are judged. Thus, it is apparent that a great deal of the fate of the company is in the hands of the buyer.

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## 1.1 Role of Buyers

Many who wish to embark on a career in retailing do so with the intention of becoming a buyer. The role seems to provide a wealth of excitement and, often, glamour. The buyer of electronics and appliances may not have these expectations, but the would-be purchasers of fashion-oriented merchandise often believe this comes with the territory. While some fashion buyers are fortunate enough to experience some of these glamorous trappings—attending designer runway shows and making trips to exotic destinations—this is by no means the norm for the buying profession. On the contrary, the role of the buyer is multifaceted; many of the tasks performed are rigorous and challenging.

Merchandise selection is just one of many activities that are regular parts of the buyer's day. This and other tasks will be explored in the following sections.

### 1.1.1 Determining the Scope of the Buyer's Role

Before you can define the scope of the buyer's role, factors such as the type of organization in which he or she is employed, organizational structure of the company, the dollar volume, the merchandise classifications, the number of staff personnel, and the location of the retail outlets must be assessed.

#### Company Organizational Structure

Those who are familiar with retailing, either as practitioners or as students learning about the industry, understand that each organization requires a specific structure to carry out its goals. There are many different types of retail operation—those that are more traditionally oriented such as department stores, chains, and single-unit independents; operations that exclusively feature their own merchandise under private labels; franchises and licensed stores; and the off-site variety, from which continued growth is expected. The latter classification is a typical in retailing in that the operations do not have store locations. It is these retailers—specifically catalog operations, home shopping networks, and Internet Web sites—that are expected to make great gains in sales.

- ***Chain Organizations:*** In the early days of retailing, the general store was often the place in which consumers could make their purchases. General stores offered a variety of unrelated products. When merchandise became more plentiful, merchants began to specialize in just one type of goods in new ventures called *limited line stores*. These ventures, ultimately to become known as specialty stores, were greeted with success, and their owners began opening other units. Thus, the chain organization, a name given to two or more units (often as many as a couple of thousand) under common ownership, enjoyed extreme financial rewards.

  Today, the majority of the chains are centrally organized. They are managed from corporate headquarters, where all of the decision making is made. The buyer operates from this centralized facility and has very little in-store contact with the various units. The major responsibility is purchasing, with communication coming by way of the telephone, faxes, and e-mail.

*Notes* Some of the typical chains are Target and Walmart, each of which operates as discount value-oriented merchants; Petite Sophisticate, a traditional operation that specializes in apparel for the smaller-female figure; The Limited, a company that deals exclusively with their private-label brands; and SteinMart, an off-price operation.

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- ***Department Stores:*** Department stores are either of the full-line designation, in that they carry a wide assortment of hard goods and soft goods, and occasionally prepared and gourmet foods, or the specialized entries that restrict their offerings to one or two merchandise types, such as apparel and accessories. The former group includes companies like Macy's, Dillard's, and Belk, and the latter, Neiman Marcus and Nordstrom.
- ***Flagship:*** In the vast majority of these companies, the buyer operates from the store's main retail facility, known as the **flagship,** and is responsible for purchases for that unit as well as the **branches.** Others, however, operate from centralized locations, similar to those utilized by chains. At one time, the sales staff was the buyer's responsibility, but as organizations expanded, this management function was generally removed as a day-to-day activity. Today, with catalogs and Internet Web sites becoming important to these retailers, some buyers are called on to make purchases for these outlets as well as for the stores.
- ***Single-unit Independents:*** Although the trend has been and continues to be big business in retailing, there are still entrepreneurs who wish to operate their own stores. Many of them are extremely successful since they are able to offer their clientele both specialized merchandise and personalized services. Most important in this classification are specialty stores that feature just one item such as shoes, jewelry, or apparel, and boutiques that generally sell limited quantities of higher-priced ladies apparel and accessories, and sometimes custom-made items. The owner usually has the buying responsibility, although in these independent ventures, as they grow in size, other professional buyers may be used.
- ***Franchised Operations and Licensed Stores:*** Before you can actually understand the role of the buyer in a franchised operation, it is necessary to become familiar with the **franchising** concept. As defined by the Small Business Administration, *"A franchise contract is a legal agreement to conduct a given business in accordance with prescribed operating methods, financing systems, territorial domains, and commission fees."*

  There are two major parties in a franchising arrangement, the **franchiser** and the **franchisee.** The former is the party who has come up with the concept. He or she has developed a product, idea, or formula that is generally retail-oriented. After a few units have become successful retail operations, expansion could take place, as in the case of traditional chain organizations in which all of the stores are centrally owned and managed. In franchising, the franchiser chooses to go the expansion route by allowing individuals to open stores in specific locations. For a startup fee, and other monetary requirements, the franchisees, or owners of theses individual units, are given the right to operate their own businesses. Of course, as the earlier definition indicates, the franchisees must follow specific rules and regulations that have been set forth by the franchisers. The vast majority of franchises are food-oriented and bear such famous names as McDonald's, Wendy's, and Burger King. There are, however, many others that retail wearing apparel, accessories, and home furnishings.
- ***Licensing:*** Similar to franchising is **licensing.** The significant difference is that in franchising there is a startup fee for the privilege of becoming a member of a franchise family. In licensing, there typically isn't a startup fee. One of the most well-known licensed arrangements is Benetton—the largest retail licenser in the world, with more than 500 units in the United States alone. Another is Ralph Lauren. As with the franchise arrangement, licensees are required to follow the merchandising philosophies established by the licensers.

  The buyer's role in both franchising and licensing is quite different from that in any of the other retailing formats. The merchandise sold in the stores is either produced by the

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franchiser or licenser or purchased by buyers for distribution to the individual units. Generally, the individual stores have no buying responsibility. In some situations, however, the individual merchants have some say about the merchandise assortments they will carry in their stores.

*Example:* In the Benetton organization, where the company produces several thousand styles, the individual licensees have the right to choose or "buy" the items from the company that they believe best satisfy the needs of their customers. Thus, while they do not have the right to make purchases from outside vendors, as most buyers do, they do have these limited purchasing privileges.

- ***Catalogs:*** The catalog phenomenon continues to grow. What was once a method to bring some extra sales revenue to retailers, catalog selling is now a retailing mainstay? The major department stores such as Macy's, Marshall Field, Bloomingdale's, Belk, and Dillard's, as well as the chains like Victoria's Secret, Crate & Barrel, and Pottery Barn use catalogs throughout the year to reach their markets. Some of the stores feature catalogs in which the merchandise is available only through this means.

*Example:* Some like Macy's have separate buying staffs to buy the merchandise that is featured in the catalogs.

Other retail organizations use the catalog as their only means to reach the target markets. They have neither stores in which customers may shop nor any other means to sell their goods.

*Example:* Spiegel is primarily a catalog operation, with just a few retail closeout centers used to dispose of slow-selling items.

- ***Home Shopping Networks:*** With more and more people having less time to shop in stores, cable television has given them the opportunity to make purchases right from their easy chairs. The two major entries are QVC and HSN. They sell a variety of merchandise with the specialties of both being jewelry and women's apparel. With reported sales by these major outlets at more than 25,000 transactions per hour, the buyers are constantly scouring the globe for merchandise.
- ***Internet:*** In terms of overall retail sales, the Internet has yet to generate significant revenues for the majority of the companies using it, in order to make them profitable. Each year, however, they regularly beat the previous year's sales. This channel is being used by retailers all over the world with established stores and catalogue operations. Some businesses are based exclusively on the Net, with this their only means of selling to consumers.

*Did u know?* One enormously successful Web site is amazon.com, which sells books and CDs at discounted prices.

As with the other retail concepts such as the in-store ventures and off-site outlets, the buyer plays a significant role.

### Dollar Volume

When one thinks of the department store buyer of both the flagship and branch stores, the dollar volume and responsibility for purchasing is generally enormous. By contrast, the buyer for a

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small independent operation with just one unit has very little dollar volume to consider. The scopes of their activities will thus be quite different from each other.

Because of the enormous volume generated, the buyer for the major department store, chain organization, and catalog operation or other off-site ventures is unlikely to have responsibilities other than purchasing. Travel to various parts of the globe to make purchases and product development are just about all they are expected to handle. Other management chores are left to different employees. On the other hand, small company purchasers generally have other obligations. They might be called on to manage their sales associates, change merchandise displays, and handle advertising.

### Merchandise Classification

Although all buyers have a number of responsibilities in common, the nature of the merchandise they purchase often dictates different functions.

*Example:* Fashion buyers, by the very nature of the perishability of the goods and the quick changes in fashions, must always be in contact with specialists and in-store personnel to educate them in terms of what shoppers are likely to be looking for. They might be called on to assist with fashion shows, **trunk shows,** and other fashion-oriented promotions as part of their regular routines. Buyers of food items, on the other hand, do not have to perform such activities.

### Staff Personnel

Large retail operations such as chain organizations and department stores are structured as *line and staff* operations. This arrangement allows for two specific groups of employees. The line people are those who have the decision-making powers and perform tasks that provide revenue for the company. The staff people are the ones who assist or advise the line personnel with information that will hopefully make the operation run smoothly.

Many of those with staff positions are part of the merchandising division. In the major retail operations with fashion orientations, they might include a fashion director and a comparison shopper. The former is a specialist whose role is to cover the primary markets, such as the textile mills, where they learn about new fabrications, color trends, and so on. They then scout the secondary markets to assess the products that the designers and manufacturers are planning to offer for sale. They also meet with fashion forecasters to determine which styles should be stressed in their company's merchandise assortment. With this information in hand, the fashion director then meets with the retailer's buyers and merchandisers to help them plan their fashion purchases.

The latter, the comparison shoppers, although not as frequently used by retailers as are fashion directors, provide information about the prices of the company's competitors. They regularly visit the stores that offer the most competition to determine what products they are emphasizing, where the merchandise is being featured on the selling floor, and what prices are being charged. In an era when price-cutting is dominant, it is essential to know at what price the competition is retailing comparable items.

In-store comparisons are not the only means used to "shop" the competition. Daily examinations of newspapers also reveal what the opposition is featuring and what prices are being charged. Catalogs are also carefully scrutinized to determine how competitive the merchandise offerings of the other stores are by comparison. Off-site outlets such as the Internet and home shopping cable programs are also closely examined.

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*Notes* In most of the larger organizations, the staff in the merchandising division is supervised by the general merchandise manager, but these individuals provide service for everyone in the division.

**Location of Retail Outlets**

In single-unit organizations, the buyer is often a jack-of-all-trades, playing a number of roles. In department-store organizations where there are numerous branches and in chains where the units may number more than one thousand, the buyer's role is generally restricted to purchasing. The stores are geographically distant from each other, making regular visits difficult. Therefore, in-store management is left to others. Decision making is based on computerized reports, and telephone, faxing, and e-mail communications.

In some organizations, the buyer might oversee advertising for his or her department and make general recommendations concerning promotions, but the main responsibility is for purchasing.

It should be understood that in the earlier years of retailing, when buyers were responsible for fewer stores, their roles were broader.

### 1.1.2 Duties and Responsibilities of Buyers

Whether the buyer is someone who works for a small independent operation, a department store with branches, a chain organization with numerous units, a catalog operation, an Internet-based company, or a home shopping outlet, several duties and responsibilities need to be performed. Of course, the nature and size of each organization dictates exactly what will be required as part of the buyer's routine. Collectively, the following provides an overview of the major activities that the buyer performs.

*Caselet*

**Rice Gathers Steam on Retailers' Buying**

Prices of aromatic varieties increased further by ₹ 300-400 a quintal on good demand, while a few non-basmati varieties too went up on domestic buying on Monday. Frantic buying by retailers mainly pushed prices up. In the physical market, Pusa-1121 (steam) increased by ₹ 350 and quoted at ₹ 6,900-7,000 a quintal, while Pusa-1121 (sela) sold at ₹ 6,000 (up ₹ 400). Pure Basmati (raw) went up by ₹ 300 and quoted at ₹ 6,980, while pure basmati (sela) ruled around at ₹ 5,850 (up ₹ 400). Tibar sold at ₹ 3,650, Dubar was at ₹ 2,800-3,050 and Mongra at ₹ 2,100-2,350 a quintal. Sharbati (steam) improved by ₹ 100 and quoted at ₹ 3,900-4,000 a quintal while Sharbati (sela) sold at ₹ 3,800-3,850 a quintal, up ₹ 225. PR-11 (sela) went up by ₹ 50 at ₹ 2,900 a quintal, while PR-11 (Raw) was at ₹ 2,700. Permal (raw) increased by ₹ 50 and sold at ₹ 2,000-2,300 while Permal (sela) went for ₹ 1,900-2,270, up ₹ 70.

***Source:*** http://www.thehindubusinessline.com/markets/commodities/article3704303.ece

**Merchandise Selection**

Of primary importance to any retail operation, no matter how large or small, is the selection of the merchandise to be resold to consumers. The merchandise must be suited to the needs of

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customers in terms of price, quality, and individual tastes. Not only must the buyer be able to select from everything that is available the merchandise that has the most potential for resale and profit, but he or she must carefully plan the purchases. This planning includes determining what will be bought, deciding on the quantities of each item, selecting resources, and determining the appropriate time for the merchandise to be available to the shoppers.

*Did u know?* Charged with enormous responsibility, the buyer spends the most time planning and executing the acquisition of the merchandise.

### Extensive Travel

For many years, regional markets were the mainstay for buyers of every type of merchandise. Whether it was the fashion buyer who headed for New York City's Garment Center, the largest market in the United States for ready-to-wear, or Chicago's Apparel Mart for the same type of merchandise, or the food buyer who purchased from vendors all across America, purchasing was generally accomplished on domestic soil.

Typically, buyers chose the venues closest to their homes, since, the manufacturers generally had representation in all of these markets. In addition to purchasing at America's vendor showrooms, many buyers frequented the trade expositions to view the lines and write their orders. These visits are more important than ever because the buyer's time is often limited and many lines can be screened quickly, under one roof. Expos such as MAGIC in Las Vegas—the largest for the menswear industry—and NAMSB in New York City—the second largest menswear show—attract tens of thousands of buyers each time they are in session. Others of importance include The International Boutique Show and Kid's Show, both also in the United States.

With such a vast assortment of vendor collections, one might wonder why today's buyers are circling the globe several times a year to make their purchases. Whether it is clothing, accessories, home furnishings, or foods, buyers are always looking for merchandise from new places.

A number of factors contribute to this worldwide exploration, including lower wholesale prices, goods that are unavailable in domestic markets, prestigious fashion collections that are on the forefront of design, and so forth. Thus buying might require trips to the Asian markets, the European fashion capitals, and even some third-world nations where merchandise may be acquired for very little money.

Overseas travel is generally restricted to major retailers who have both the financial resources to sponsor such trips and the buying potential to warrant such expenditures.

### Advertising, Promotion, Visual Merchandising, and Publicity

The major retailers have in-house advertising and promotion staffs who produce all of the advertising for newspapers, television, magazines, and catalogs; special events; and visual presentations aimed to capture the shopper's attention.

These staffs have the responsibility to develop and produce all of the ads and commercials for the company, either by themselves or sometimes with the assistance of an advertising agency, to create special events, and to develop and install visual presentations in windows and interiors. In many of these operations, however, the buyer also plays an important role. While the promotional team has the expertise to create the projects, they have little knowledge of merchandising. Who is better qualified than the buyer to select the specific items to be advertised or featured in displays? He or she knows what is hot, the selling points that should be stressed, and anything else that would bring positive results to the company.

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## Communicating with the Merchandise Departments

Independent retailers with just one store communicate with their staffs on a daily basis and quickly acquire information that could be helpful to future buying plans. Buyers who have merchandising responsibilities for numerous stores in a vast geographical region, however, cannot visit them regularly. Since, feedback from the various people who interact with the customers on a regular basis is imperative, it is necessary to have a plan that provides for communication with them. By establishing such a plan, the buyers are able to feel the pulse of their departments throughout the organization. In this way, they can better serve the needs of their clientele.

The focus of these buyers' attention is with both in-store department managers and sales associates. These are the individuals who learn firsthand such important pieces of information as what types of goods the shoppers are looking for that are not on the selling floor. The store's records quickly tell the buyers which merchandise are selling quickly and which items are slow sellers, but not the merchandise that is being sought by the shoppers that is not in stock. Only some sort of direct communication will provide such information. Some of the ways in which this exchange of information is generated are discussed below.

- ***Store Visits:*** In some of the larger organizations, the buyers determine which branches or units are the best barometers to gather firsthand merchandising information that will improve purchasing. By selecting one or two stores that are typical of the others in the group, the buyer can make routine visits and use the information gathered to plan for all of the stores that are his or her responsibility.

*Example:* At Belk, buyers based in one of the regional offices make regular visits to their major units in the malls to meet with department managers and sales associates. They also carefully check interior displays of merchandise and make suggestions as to how and where they would like certain styles featured. By merely moving an item from one floor location to another, sales of that product could improve. No amount of telephoning or other communication method could possibly afford such information.

- ***Telephone Communication:*** Of course, daily telephone calls are the order of the day between the buyer and the selling-floor personnel. These are generated either by the buyer or the department manager. A buyer might want to know what kind of sales activity is taking place during a special promotion or how shoppers are reacting to new merchandise. The department manager might want to inquire about the availability of certain merchandise that is out of stock or offer advice on possible reorders. The telephone provides quick interaction.
- ***Fax:*** The fax has offered an opportunity for buyers and sellers to communicate in yet another timely fashion. It doesn't take the department managers away from their selling floor responsibilities as does the telephone. It also may be used to forward a visual document to or from the buyer.

*Example:* If the buyer wishes to have merchandise placed on a display fixture in a certain manner, a picture of this would eliminate any confusion. The use of the telephone in such a situation might not clearly deliver the message.

- ***E-mail:*** The emergence of e-mail has added yet another dimension to the communication effort. Instant messages or questions that require immediate responses can be delivered to the stores by the buyer. With most retailers having a wealth of computer terminals throughout the store, quick decision making can take place. More and more buyers are using this communication technique.

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- ***In-house Video:*** One of the more important parts of a buyer's job is to make certain that when new merchandise arrives at the store, the department managers and sales associates are aware of the item's selling points. Such factors as fabrication advantages and price competitiveness often help to make the sale. While this type of communication is helpful at any time during a season, it is at the beginning of a new season that it is extremely important. At Dayton-Hudson, the buyers present the highlights of the new merchandise that is headed for the selling floor on closed circuit TV. The buyer shows each item and discusses its selling features. It might be the new colors for the season, a fabric that will launder easily without the necessity of ironing, or a silhouette that has the potential to become a winner.

  Some stores are taking this method of communication even further by offering an interactive approach. Not only may the buyer make his or her presentation, but questions and responses may be exchanged between the buyer and the department managers.

  Some major retailers have used special information days during which the buyers, store managers, department managers, and sales associates meet to provide an orientation about new merchandise. Such presentations may take place at in-house facilities or outside venues. While this has been successful, it does take a great deal of planning and often a good deal of expense, especially if the presentation arena is away from the store's premises. In its place, the in-house video has proven effective as well as cost efficient.

*Task* Discuss the use of Fax and Email in exchanging information.

### Department Management

In the early 1900s, major retailers subscribed to an organizational structure known as the *Mazur Plan*. It was a four-division approach to managing a retail operation that had merchandising as one of its divisions. In this plan, the buyer was responsible not only for purchasing, but also for the management of the selling floor and the sales associates. While this worked satisfactorily when there was perhaps a main or flagship store and one or two branches, it didn't work as well when the stores started to expand. Buyers were just too busy with other chores to take care of the daily requirements of department management. In the vast majority of retail organizations, department management is no longer the responsibility of the buyer. In small operations, however, where the buyer is housed within the store, this type of arrangement still exists.

Reassigning some of these duties and responsibilities to other individuals frees the buyer to spend more time on merchandising matters.

### Setting a Schedule

When one examines the many different tasks performed each and every day by the buyer, it is obvious that only careful planning will enable him or her to perform in a productive manner. With responsibilities such as merchandise acquisition, pricing considerations, extensive travel to wholesale markets, meetings with market specialists, and so forth, a working schedule must be established to do the job.

It should be noted that even the best-planned schedule doesn't address some unforeseen situations. Thus the schedule, while carefully executed, must allow for these unusual occurrences.

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The plan should address all of the different duties and responsibilities of the buyer, which may include:

- How many hours are typical of the work week?
- The number of people for whom there is direct supervision, such as assistant buyers, and how much time is spent with them in meetings.
- What responsibility, if any, there is on the selling floor? In some major retail organizations, the buyers are expected to sell during peak periods such as the day after Thanks, givings until Christmas Eve.
- The size of the department in terms of "dollar" and "unit volumes".
- The distance of the wholesale markets from the store's headquarters and whether it is domestic or foreign buying or a combination of both.
- How much responsibility there is for involvement with advertising, special events, and visual merchandising?
- The need to interact with staff personnel such as a fashion director or comparison shopper.
- Once these factors have been considered, the buyer must arrange a schedule on a priority basis, leaving some "breathing time" for the unexpected.

### 1.1.3 Personal Qualifications, Qualities, and Abilities for a Buying Career

At one time in retailing, stories were told of individuals who started out on the lowest rung of the ladder, such as a stock clerk, and eventually rose to become a buyer, or sometimes even to the level of top management. While these stories are wonderful to relate, this is no longer typical of the industry. Today's buying hopefuls must possess leadership, management, and decision-making skills to meet the challenges of the career.

A substantial number of interviews with buyers, merchandise managers, and directors of human resources in many different retail classifications, in many parts of the country, revealed that a wealth of personal qualifications, qualities, and abilities are necessary for a successful buying career. Those questioned included both large and small store merchants. Their responses generally included the following qualifications, qualities, and abilities.

#### Education

A college education is considered a must for a buying career. While some individuals may possess many of the other necessary qualifications, few buying hopefuls will be considered for such a career without the formal education.

Retailers desire the best college-educated personnel they can find. Generally, those sought after have majored in retail business management, marketing, business administration, or fashion merchandising. Courses such as merchandising, mathematics, computer use, accounting, selling, psychology, and those that include units on product information are considered essential by those who make the ultimate hiring decisions. Although the business-oriented student is generally preferred, retailers do consider liberal arts graduates who show an interest in retailing and a desire to pursue a buying career.

In order to understand the many different reports and financial statements that come across the buyer's desk on a regular basis, such as inventory analysis summaries, open-to-buy positions, active seller positions, unit sales summaries, and others, a mastery of quantitative analysis is a must. Except for the rarest cases, this ability can be acquired only through formal education.

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The question of how much formal education is needed to achieve the level of buyer is often debated. Is a two-year associate's degree sufficient? Is a bachelor's degree a must? Or is a master's degree even better? In the major department stores that have executive training programs, a minimum of a bachelor's degree is generally required. Some even seek those who have graduate business degrees. Many chain organizations will accept associate-degreed graduates for their training programs and eventually promote them to assistant buyers and eventually buyers.

There are a great number of major retailers who will hire the two-year graduates and offer them tuition reimbursement for part-time study so that they can acquire their baccalaureates. There is no absolute educational formula. Those with the ambition and a limited educational background might enter a retail organization and demonstrate in lesser jobs that they have the practical knowledge and desire for upward mobility. Sometimes this track will eventually lead to a buying career.

### Enthusiasm

When two candidates for employment offer similar credentials in terms of education and experience, the enthusiastic candidate is more likely to be hired. It is generally agreed that someone who aspires to become a buyer and will interact with assistant buyers, department managers, and sales associates should have an enthusiastic attitude to motivate them in their jobs. This enthusiasm could then transfer to the shoppers who are looking to make purchases. It might not be considered a qualification, but perhaps an important quality.

### Analytical Excellence

With decision making always present in the buyer's daily routine, analytical ability is a must. Should we buy the safe basic colors of the season, or should we buy the fashion colors? Should a new price point be added to the inventory, or should I stay with the price points that have proven to generate the most sales in the past? Should the items that have sold well be advertised, or should newer, more exciting styles be promoted in the newspaper? Should some of the promotional dollars be spent on television commercials, or should the newspaper get all of the budgeted advertising allocation? These are just some of the questions that require buyer analysis. Only analytical excellence will help measure and evaluate situations and trends necessary for sound decision making.

### Ability to Articulate

Buyers, by the very nature of the job, are continuously interacting with people. When visiting vendors to evaluate new lines and make their merchandise selections, they must be able to articulate the terms in their negotiations. When speaking with their superiors, such as divisional merchandise managers, in the hope of acquiring a larger purchasing budget, communications skills are essential. They must be able to communicate with their assistants in a meaningful and knowledgeable manner so that the assistants will be able to carry out delegated responsibilities. The ability to articulate with department managers and sales associates will help give them a better understanding of new merchandise and how to handle questions from the shoppers to whom they hope to sell.

A buyer's communication skills should be not only of a verbal but also of a written nature. With the buyer often based in corporate headquarters away from the selling floors, or visiting foreign arenas where a wealth of purchases are now made, written communication is extremely important. Information regarding a particular style or inventory level can quickly be obtained through faxing or by e-mail. When clearly and concisely spelled out, the response will surely contain the desired information.

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### Product Knowledge

How could a buyer make merchandise purchasing decisions without the necessary product information? New technology has significantly expanded vendor offerings, and only the educated can satisfactorily evaluate them.

A good starting point for gaining product knowledge is by taking classes offered in many colleges. Many offer apparel and accessories courses that detail the language of the trade and detail construction techniques, silhouette explanations, and technical information on textiles and nontextile fabrications. Other courses feature information needed by home furnishings buyers, such as materials used in the products, furniture periods, color comprehension, and so forth. Still other courses are geared for those who purchase hard goods and feature information about appliances and furniture.

In addition to formal college instruction, a wealth of information can be acquired through discussions with merchandise managers, trips to factories, meetings with market representatives, interaction with vendors, and reading trade journals.

With all of the merchandise changes being offered in most product classifications, it is essential that the buyer update his or her knowledge on a regular basis. Only then will he or she be able to help maximize profits.

### Objectivity

When you purchase for your own needs, the ultimate selection is based purely on what makes you happy. For professional purchasers to follow this approach would be disastrous for the company.

For example, a female buyer, with the responsibility to buy dresses cannot gauge each style by her personal preferences. While the dress in question might satisfy her own needs, the selection could be inappropriate for her customers. Similarly, a male buyer for men's apparel cannot purchase items that seem appropriate for his personal needs unless they fit into the **model stock** that has been preplanned.

Objectivity must prevail. Choices must be made keeping in mind the wishes of the customers that have been reflected by past sales records, consultations with market representatives, trade paper forecasts, and other objective resources. If this rule is not followed, the store's shelves are apt to be left with merchandise the customers have rejected.

### Knowledge of the Market

In order to make certain that the best possible merchandise will be chosen for the store's clientele, the buyer must know about all of the possible resources from which purchases may be made. Not only must they know where the best deals may be made, but they must be able to assess which vendors will deliver the goods on time (many are notorious for late shipments), which will deliver goods exactly like the samples, and which have the best production capabilities.

Although selection of the right products is extremely important, without the quality and time considerations the goods might not prove to be successful sellers.

### Forecasting

One of the more difficult tasks that buyers face is predicting what direction the merchandise is taking. For purchasers of staple items such as appliances, food, athletic socks, and the like, there is little risk involved.

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*Caution* For fashion buyers, where change is a constant, accurate forecasting is a must.

While past sales help in forecasting, as do the experts in the field such as the fashion forecasters, the buyer must have the ability to make his or her own judgments. Through continuous communication with in-store personnel such as store and department managers, fashion directors, and sales associates, the pulse of the customer can be felt. It is the customer who has particular likes and dislikes, and with this information, accurate forecasts are more likely to be made.

### Dedication

Working long, irregular hours is typical for buyers. Unlike those who work 9-to-5 days, buyers cannot predict how long it will take to complete their obligations. During peak purchasing periods such as **market week,** a period when fashion buyers make purchases for the next season, and when in attendance at trade shows and expositions to see the new collections, the days are extremely long. When high-volume selling periods such as Christmas time might require working on the selling floor, there is no telling how many hours will be worked each day. The opening of a new branch could necessitate many hours making certain that the inventories are presented in the best possible arrangements on the selling floor and that displays are carefully set. Only those dedicated to the job and able to endure these long days will go on to be successful in their careers as buyers.

### Appearance

Although presented at the end of this long list, a professional appearance is one quality without which a buyer may not be successful. Whether on the selling floor or for trips to vendor resources, the properly attired individual will make the best impression.

Proper grooming and dress give the buyer the edge in both of these situations. On the selling floor, the buyer will serve as a role model for assistant buyers, department managers, and sales associates. When interacting with the store's customers, the better-groomed individual will impart a positive image, and more than likely will help to gain the customers' confidence.

Most of the major stores have a policy on proper dress so that a uniform image will be projected by the buyers both in the store and in the wholesale markets.

*Task* Analyze the qualifications, qualities, and abilities required for a buying career.

## 1.1.4 Buyer's Relationship with Management Personnel

The buyer interacts with different levels of management. Some are individuals in his or her own division, both above and below him or her in the table of organization, or others who are employed in other segments of the store's structure. In addition to the Merchandising Division, particularly in large retail organizations, interaction may be with those specializing in advertising, visual merchandising, special events, store and department management, and human resources.

### Merchandising

The buyer's superior in large chains and department stores is the divisional merchandise manager. This executive is responsible for such tasks as disseminating the merchandise budget,

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setting goals for the division, and establishing a fashion image if the store has a fashion orientation. The buyer seeks guidance and counsel from the divisional merchandise manager because most likely he or she has served in a purchasing capacity and has the experience that could assist the buyer in decision making.

Below the buyer are the assistants who help the buyers in many ways. Good communication with these people will tell them exactly what is required of them and how they can better serve the buyer's needs.

In fashion organizations, fashion directors help apparel and accessories buyers with their future purchasing plans. A good relationship with them will help with the difficult task of forecasting which styles are likely to make the grade.

### Advertising

Whether in a small single-unit operation or a large organization, the buyer usually has an advertising responsibility. He or she doesn't have anything to do with the artistic areas of the broadcast or print media designs, but is generally the one who makes the merchandise selections. Who better than the buyer to know which items should be promoted?

Through regular communication and a good working relationship with the advertising manager, the buyer is likely to have ads placed that will assure his or her department of the proper consumer exposure. Advertising is the best means by which a merchant "prospects" for customers.

### Visual Merchandising

In most major department stores, chains, and independent single-unit operations, one of the motivational devices used to attract shoppers to specific merchandise is visual merchandising. Displaying specific products in windows and store interiors in a style that will capture the shopper's attention in an eye-appealing manner will result in purchases.

As in advertising, the merchandise selected for display is usually the buyer's decision. Choosing items to be featured in displays that are either trendsetting or are getting attention in the editorial pages of leading consumer magazines (as in the case of fashion merchandise) or those that are price competitive (as might be the case for any type of products) will help promote sales.

With the right merchandise selection and the appropriate display setting, good sellers may become winners.

### Special Events

Whether it is a fashion show, anniversary sale, or any special store promotion with a merchandise orientation, the buyer is the one who selects the items to be used for the special event. As with other promotional endeavors such as advertising and display, the insertion of the right merchandise can contribute to more sales.

### Store and Department Management

Although the buyer is often based in corporate headquarters, far from the store's branches and individual units, a good, steady relationship with the store or department managers is a must. These are the people who learn firsthand about customer merchandise requests and complaints and forward this information to the buyer to make adjustments to their inventories. These are also the managers who might position the goods on the selling floor in a manner that will enhance sales.

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Through proper communication techniques, the buyer ensures cooperation that will make his or her bottom line more profitable.

### Human Resources

Selecting the people who are best suited to aid the buyer in his or her everyday role is not the responsibility of just one person. Although the buyer makes the ultimate decision concerning the choice of assistant buyers, the Human Resources Department plays a significant role in the selection process. Through the proper recruitment techniques and screening devices, the buyer will receive a list of candidates that has been narrowed to those with the most potential. In this way, the buyer is needed for only a brief period to make the final decision, and is saved from spending valuable time that could be used for other responsibilities.

By working closely with the people in human resources, the type of individuals sought by the buyer can be more easily discovered. Although initially the recruitment procedure is based on company job descriptions, a word from the buyer will most often help to give specific suggestions for the search.

When the working relationships between the buyer and the other members of the store's management team have been solidified, and a regular dialogue has been established, the overall success of the company is better served.

## Self Assessment

Fill in the blanks:

1. ..... is a name given to two or more units under common ownership, enjoyed extreme financial rewards.
2. In the vast majority of the companies, the buyer operates from the store's main retail facility, known as the .....
3. ..... does not include a startup fee.
4. Large retail operations such as chain organizations and department stores are structured as ..... operations.
5. The facility of ..... doesn't take the department managers away from their selling floor responsibilities as does the telephone.
6. ..... was a four-division approach to managing a retail operation that had merchandising as one of its divisions.
7. The ..... selected for display is usually the buyer's decision.
8. Whether it is a fashion show, anniversary sale, or any special store promotion with a merchandise orientation, the buyer is the one who selects the items to be used for the .....
9. When visiting vendors to evaluate new lines and make their merchandise selections, they must be able to ..... the terms in their negotiations.
10. The store's records quickly tell the ..... which merchandise are selling quickly and which items are slow sellers.
11. ..... is the best means by which a merchant "prospects" for customers.

Notes

## 1.2 Evaluation of Buyers

Buying is the lifeblood of the retail operation. Without the proper merchandise, retailers wouldn't turn the profits needed to make the business prosper and ultimately expand. Because of this, most buyers are paid excellent salaries, with some earning more than executives in other fields. In order to make certain that the buyers are performing as expected, they are regularly evaluated by their superiors, the divisional and general merchandise managers.

Specifically, evaluation is based on one or more of three criteria. They are sales figures, inventory levels, and margin results.

### 1.2.1 Sales

Sales volume is expected to increase according to reasonable goals that have been established by the merchandise managers. They are figured not only in terms of dollars, but also in units sold. Most major retailers evaluate effectiveness by **sales per square foot.**

*Caution* Each department must generate a specific preestablished annual dollar amount according to the square footage allocated.

### 1.2.2 Inventory Levels

A careful inspection of inventory figures will reveal indicators of buyer effectiveness such as stock turnover (the number of times in a period the average amount of inventory on hand is sold), how much merchandise has been left in the inventory past the expected selling period, and how much has been carried from one season to the next.

### 1.2.3 Margin Results

Such factors as initial markup (the difference between original cost and what the merchandise has been marked to sell for), the maintained markup (the actual selling prices after discounts have been taken to move slow sellers), and the department's profit are just some of the margin considerations on which buyers are judged.

Those who successfully achieve the goals that have been established for them usually have the opportunity for promotion to the level of divisional manager, and in some cases, the highest position on the merchandising team—general merchandise manager.

### Self Assessment

State whether the following statements are true or false:

12. Sales volume is expected to decrease according to reasonable goals that have been established by the merchandise managers.
13. Each department must generate a specific preestablished annual dollar amount according to the square footage allocated.
14. The lowest position on the merchandising team is general merchandise manager.
15. A careful inspection of inventory figures will reveal indicators of buyer effectiveness.

Notes

*Case Study*

## Career Opportunity in Retail

About to graduate from college, Toby Phillips has been investigating the possibility of a buying career with several companies. During her last semester, she participated in a number of recruitment sessions on campus. Human resources managers from the major retail organizations have interviewed her, and the time for a decision is drawing near. After considerable investigation and deliberation she has narrowed her choice to three companies, one a department store with 15 branches, one an off-price chain operation with 75 units, and one a catalog company without any stores. A summary of these opportunities follows.

1. Crane's Department Store is based in Kansas City, Missouri. Its flagship is in the downtown area, with the branches in the suburban part of the city and in St. Louis. It is a specialized operation catering to women's and men's clothing and accessories. Its executive training program is limited to 25 trainees each year. The trainees participate in a rotational program that rotates them through different jobs and takes them to a number of branches in both Kansas City and St. Louis. Regular evaluations are performed every 3 months. The successful trainees generally achieve the level of buyer or some other executive position within 5 years. The starting salary is $30,000, with regular increases every 6 months, until a regular managerial position has been achieved. In that case, salaries are commensurate with the demands of the job and individual progress.

2. Centrally operated from New York City, Sebastion's, an off-price specialty chain dealing exclusively in women's apparel, has 75 units throughout the eastern seaboard. It has been in business for 20 years and expects to open 10 new units every year. Its merchandise offerings include closeouts from all of the top designers and manufacturers as well as private-label products made exclusively for the company. The private-label goods are generally developed by the buyers. The buyer is responsible for covering the New York City garment center as well as overseas markets. The starting salary is $32,000, with periodic increases based on performance.

3. Potpourri is a retail catalog company that doesn't have any stores. Their business is all catalog-generated. Based in Chicago, they have been in business for 15 years, dealing exclusively with ornaments and accessories for indoor and outdoor gardens. Each year since their beginning, they have had significant sales increases. They employ eight buyers, with each having a different merchandise responsibility. The available position is for a buyer of glass and metal products used to grow indoor plants. The company has no formal training program, but on-the-job assistance is used to train new employees. The starting salary is $32,000.

Ms. Phillips, who lives in New York City, majored in retailing at a 4-year college and has a 3.2 grade point average.

**Questions**

1. Develop a list of criteria for Ms. Phillips to use in the evaluation of the three opportunities.

2. Which job would you recommend she choose? Why?

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch01.pdf

Notes

## 1.3 Summary

- Chain organizations, with units numbering anywhere from two to several thousand, operate in a variety of formats. Some are traditionalists dealing in regularly priced merchandise, with others classified as discounters and off-pricers.
- Department stores are either full-line operations or specialized organizations.
- Both franchises and licenses are companies that enable individual merchants to operate units within a parent organization as long as they follow prescribed regulations established by this parent company.
- Catalogs are becoming more and more popular in retailing. Some are offered by merchants who operate stores, while others are available from companies that sell to customers only through catalogs.
- Interactive retailing via the home shopping networks and the Internet Web sites continues to increase in sales year after year.
- Buyers are often called on to interact with the managers of departments such as advertising and visual merchandising to make certain that their products are well promoted.
- Buyers must set schedules for themselves so that they are able to fulfill all of their duties and responsibilities in a timely manner.
- Among the more important personal qualifications, qualities, and abilities necessary for a successful buying career are formal education, analytical excellence, the ability to articulate, product knowledge, and objectivity.
- Buyer evaluations are most often based on sales, inventory levels, and margin results.

## 1.4 Keywords

***Chain Organization:*** Chain organization is a name given to two or more units under common ownership, enjoyed extreme financial rewards.

***Department-store Organizations:*** In department-store organizations where there are numerous branches and in chains where the units may number more than one thousand, the buyer's role is generally restricted to purchasing.

***Franchise Contract:*** A franchise contract is a legal agreement to conduct a given business in accordance with prescribed operating methods, financing systems, territorial domains, and commission fees.

***Franchiser:*** A franchiser is the party who has come up with the concept.

***General Merchandise Manager:*** The highest position on the merchandising team—general merchandise manager.

***Limited Line Stores*****:** When merchandise became more plentiful, merchants began to specialize in just one type of goods in new ventures called limited line stores.

***Single-unit Organizations:*** In single-unit organizations, the buyer is often a jack-of-all-trades, playing a number of roles.

***Visual Merchandising:*** It is process of displaying specific products in windows and store interiors in a style.

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## 1.5 Review Questions

1. Explain the role of company's organizational structure in determining the scope of the buyer's role.
2. How does buying for individual franchised units differ from that which is done for non-franchised stores? Discuss.
3. Discuss the purpose of staff personnel in the merchandising division of a store.
4. Explain the concept of line and staff organizational structure.
5. Why has the buyer's role increased in stores that carry private-label merchandise?
6. Other than through store visits, how does the buyer communicate with department management?
7. How does an in-house video communication system help the buyer?
8. Why has the Mazur Plan given way to new organization structures in retailing?
9. How necessary is formal education to becoming a buyer? Discuss.
10. Explain the criteria used for buyer evaluation.

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Chain organization | 2. | Flagship |
| 2. | Licensing | 4. | line and staff |
| 5. | fax | 6. | Mazur Plan |
| 7. | merchandise | 8. | special event |
| 9. | articulate | 10. | Buyers |
| 11. | Advertising | 12. | False |
| 13. | True | 14. | False |
| 15. | True | | |

## 1.6 Further Readings

*Books*

Clodfelter, Richard (2012), *Retail Buying: From Basics to Fashion,* Fairchild Books.

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Field, Clifton Coutard (2010), *Retail Buying; Modern Principles and Practice.,* General Books.

Pradhan, Swapna (2010), *Retail Merchandising,* Tata McGraw-Hill Education.

United States, Small Business Administration, Office of Management Assistance, *Retail buying function,*

Varley, Rosemary (2013*), Retail Product Management: Buying and Merchandising,* Routledge.

**Notes**

*Online links*

http://retail.about.com/od/careers/p/buyer.htm

http://thetemplargroup.com.au/retail-buying/a-retail-buyers-responsibilities

http://www.prospects.ac.uk/retail_buyer_job_description.htm

http://www.vault.com/wps/portal/usa/vcm/detail/Career-Advice/Industry-Overview/Planners-and-Buyers?id=863&filter_type=0&filter_id=0

# Unit 2: Buying for Traditional Retail Organizations

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CONTENTS



## Objectives

After studying this unit, you will be able to:

- Explain the Divisions of Department Store Organization
- Describe the Concept of Chain Organizations
- Explain the Concept of Single-unit Independents

## Introduction

Retailing today features some other types of formats from which shoppers may make their purchases. Included are the discounters, the off-price retail operations, and the off-site outlets.

*Example:* Discounters include Target and Walmart, examples of off-price retail operations include Burlington Coat Factory, Stein Mart, Loehmann's, Marshalls, and Men's Wearhouse, and the examples of off-site outlets include catalogs, home shopping networks, and Internet Web sites.

To properly merchandise any of these retail operations, buyers must have specific qualifications to carry out their duties and responsibilities. With these special talents, they are likely to help their companies maximize profits. In this unit, we will focus on the characteristics of each of the traditional organizational groups as well as the necessary qualifications of their buying personnel. This category of retailers is confined to department stores, chain organizations, and single-unit independents. Although, they all possess similar characteristics, each has other characteristics exclusive to its individual classification.

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## 2.1 Department Stores

Within this group there are two subclassifications, each based on the merchandise it offers. One is the full-line department store; the other is the specialized department store organization. The former offers a wide assortment of hard goods and soft goods such as apparel and accessories for the entire family, cosmetics, furniture, tableware, electronics, and bedding and also features non-merchandise departments such as travel centers and beauty salons.

*Example:* Full-line organizations are Bloomingdale's, Belk, and Dillard's. Stores such as Macy's and Carson Pirie Scott also feature departments that offer a variety of prepared foods.

The specialized department store restricts its offerings to a large assortment of one or two merchandise classifications. In this group are stores like Nordstrom, Neiman Marcus, Saks Fifth Avenue, and Bergdorf Goodman. They are generally upscale operations that specialize in fashion apparel and accessories for women, men, and children.

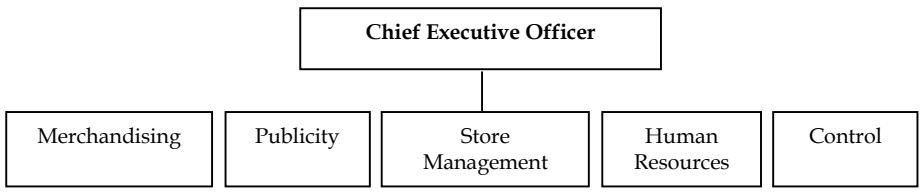
Although the merchandise emphasis in each of these groups is different, their organizational structures are generally the same.

### 2.1.1 Divisions of the Organization

In the department stores and chains, there are several divisions or functions that make up the organizational structure. In the table of organization, a division features a number of different departments as well as the personnel who carry out the responsibilities that have been assigned to them. They also depict the lines of authority for management purposes. In this way, there is no duplication of effort on the part of those employed by the company. While each is a somewhat independent entity, there is a great deal of interaction among the various divisions and departments to ensure that the operation functions as a cohesive unit.

The tables of organization vary from one department store to another, with each establishing that which is best suited to their needs. They do, however, feature most of the same divisions. Whereas these divisional designations or names might be slightly different in many of the cases, there is a significant similarity among all of them.

**Figure 2.1: A Five-function Organizational Structure**




***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch02.pdf

Department stores, as do all other major retailers, prepare organization charts, which are graphic presentations of their tables of organization. Each chart features the divisions of the company and the departments found within each one. Sometimes, the company is so large that it is necessary to offer individual charts of the various divisions to completely spell out their operations.

The chart above features a typical organization chart for a department store that utilizes five divisions or functions.

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*Notes* It should be noted that the number of divisions varies from company to company and generally ranges from four to seven.

An overview of the various divisions of the five-function plan spells out their specific roles in the operation.

- ***Merchandising:*** The division that is considered to be the lifeblood of the retail organization is merchandising. In it, the *General Merchandise Manager* (GMM), the *Divisional Merchandise Managers* (DMMs), and the *buyers* and their *assistant buyers* are responsible for making certain that the appropriate merchandise is purchased for the store and that it will satisfy the needs of the customers.
- ***General Merchandise Manager:*** At the helm of the merchandising division is the general merchandise manager. He or she serves as a policy maker and operating officer along with the others in the company who head their divisions. This is an extremely important role in a retail company, regarded by many to be the most important after the company's Chief Executive Officer. The duties and responsibilities of the GMM are discussed below:
  - *Developing an overall merchandise budget:* After the analysis of past sales for the entire operation, and considering any economic factors that might increase or decrease future sales, a merchandise budget is established.
  - *Establishing the store's merchandise direction with top management:* Retailers generally proceed from year to year with a merchandise direction and philosophy that they used in the past, in terms of product lines, quality, and price points. Of course, this direction is not engraved in stone and must be examined each year to see if changes are warranted. If the venture continues to be profitable, and the established goals are achieved, major changes are not necessary. However, if business and economic indicators tell of different consumer needs that might be successfully addressed by the organization, then merchandise changes might be in order. It might be the expansion of a bedding department to include designer labels that were once reserved for apparel or the inclusion of more value-oriented lines of merchandise to attract the shoppers who are seeking more for their money. Whatever the case, it is the GMM who must be aware of any potential merchandise changes and must alert the others in top management positions about them.
  - *Determining the budgetary allocations for divisional merchandise managers:* The overall merchandise budget must be divided among the DMMs. This is based on past sales for each division, potential for curtailment or expansion of each division, and any outside indicators that might require merchandise adjustments.
  - *Carrying out top management's merchandising policies:* Although the GMM is the chief of the merchandising division, policies that apply to this segment of the organization are not his or hers alone. Merchandising policies come from a meeting of the minds of those in top management, of which the GMM is a member, and sometimes from the company's board of directors. Whatever the case, when the ultimate merchandising decisions are made, it is the GMM who must carry them out.
  - *Meeting with the merchandising team:* Regular meetings must be on the agenda with the divisional merchandise managers, buyers, fashion directors (if this is a fashion retailer), and anyone else who can help make the division a more productive one. Of course, impromptu meetings must always take place as occasions arise.

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- *Visiting the wholesale markets:* While the buyer is charged with the responsibility for merchandise procurement, the GMM makes regular market visits during peak purchasing periods. Meetings with market specialists, attendance at trade ex-positions, and showroom visits with the appropriate DMM and buyer will help make certain that the merchandise needs of the store will be met for the coming season. When sizable orders are being considered, this is an extremely important market visit for the GMM.

- ***Divisional Merchandise Manager:*** Next in command in the merchandising division are the divisional merchandise managers. Their numbers vary according to the size of the operation and the breadth of its offerings. They act as the liaison between the GMM and the numerous buyers within their division. Specifically, they participate in a variety of duties and responsibilities that include many of the following:

  - *Assisting and advising the general merchandise manager:* Although, the GMM has the full responsibility for overseeing the store's merchandising division and formulating the necessary plans to maximize profits for the company, the DMMs play a role in this planning. They provide the GMM with trends that might affect sales for their respective divisions; offer advice on how certain departments might be expanded; and examine the potential for new private labels that might bolster sales in a particular area, competition from area retailers that could hamper sales, and sales projections that would have an impact on the distribution of the budget.

  - *Distributing the division's budget to the buyers:* Given the merchandise budget for the coming season from the GMM, the DMM has the responsibility of distributing it to the various buyers in his or her departments. This is not a uniform distribution, but one that is based on past sales of each department and estimates of future sales.

*Caution* The divisional manager must carefully assess economic conditions, potential changes in styles, and any other factors that could improve or impede future sales for a department.

With all of these conditions carefully considered, the budgeted figures are then expended to the different buyers.

  - *Coordinating the efforts of the buyers:* Each retail organization has a merchandising philosophy that it wishes to project to the general public so that it might motivate the consumer to shop there. By disseminating this concept to the buyers, it will be likely that an overall merchandising image will be guaranteed in each of the DMM's departments.

  - *Advising buyers on merchandise acquisition:* Since divisional merchandise managers came up from the ranks of buyers, they have firsthand knowledge of the buying scene. With this invaluable information, they are able to assist the buyers in terms of planning for future purchases, product assessment, resource selection, purchasing negotiations with vendors, and forecasting and planning future sales.

- ***Buyers:*** Immediately below the divisional merchandise managers are the buyers. Since they are the focus, their roles will be examined throughout.

- ***Assistant Buyers:*** The duties and responsibilities of the buyer are exhaustive. To relieve the buyer of some of these tasks, and to have some input from others who are familiar with a department's merchandising needs, assistant buyers are employed. They perform a host of activities in addition to advising the buyers, as discussed in the following text.

**Notes**

- *Selecting the merchandise and reordering:* When the buyer visits the market, especially in preparation for the next major purchasing period, the assistant usually goes along. In this way, the buyer can get another opinion about potential selections and familiarize the assistant with the various products. Major purchases are the responsibility of the buyer, but some purchases, particularly from lines that have been bought over and over again, might be delegated to the assistant.
- Reorders of fast-selling items are also generally placed by the assistant buyer. The buyer makes the decision, but the assistant places the orders.
- *Following up orders:* After the orders have been placed, often delivery isn't forthcoming as rapidly as promised. In these situations, the assistant buyer either calls on the vendors at the places of purchase, telephones, faxes, or e-mails to determine if there are any delivery problems. In cases of special orders, where customers are waiting for merchandise they have ordered from the store, the follow-up is extremely important.
- *Working with sales associates:* Whether the assistant buyer is in the flagship store, as is often the case with department stores, or in a company's buying facility that might be separate and apart from the store, there must be communication with the sales associates. Through either in-person communication or some means of telecommunication, there must be regular contact. In this way, the needs of the shoppers, as ascertained by the sellers, may be assessed. This is extremely important to determine what merchandise is being requested but not being stocked and any other information that can help future purchasing plans. Although, the computer gives a great deal of vital merchandise information to the buyer and the assistants, it isn't able to communicate the customers' requests that aren't being addressed. This responsibility is often shared by the buyers with their assistants.
- *Interacting with shoppers:* By being on the selling floor during certain selling periods, the assistant buyer can learn firsthand the wishes of the shoppers who are in the store. Although, this information is sometimes forthcoming from the sales associates, firsthand interaction with customers is best. With all of the tasks needed to be performed by the assistants and the time spent performing other chores, this may be a limited role. Whenever possible, visits to branches are also beneficial so that department managers and sales associates can express their opinions about the merchandise assortments.
- *Performing other duties:* Other daily tasks may include helping the buyer determine which items might be considered for advertising, promotions, and visual merchandising presentations; preparing merchandise returns to vendors; reviewing computer printouts for assessment of all the items in the inventory; placing merchandise in key positions to guarantee customer attention; and prescreening lines of merchandise to determine if the buyer needs to see them. Assistant buyers who diligently perform these duties are on their way to becoming buyers.

- ***Other Merchandising-related Positions:*** In many of the very large department stores, the merchandising division maintains one or more departments that are technically known as **staff functions.** Unlike the merchandising team that has the direct responsibility for making the merchandising decisions, the people in the staff positions are there to advise and support the merchandisers. Their roles are quite significant in many retail operations, particularly those with a fashion orientation. Of major importance is the **fashion director.** He or she covers the wholesale markets long before the buyer gets there. By providing this service well in advance of the buyer's need to prepare a **model stock** (the assortment of merchandise that satisfies the needs of the customer), all of the information concerning

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fashion trends in terms of silhouette, color, fabrications, and so forth is assessed and brought back to the buyer for use in his or her buying plans. Another staff position in some stores is the **comparison shopper.** This individual scouts the competitors' advertisements and inventories to determine if there are any price conflicts between the companies. In many stores this job has been eliminated, with this responsibility given to the assistant buyer. Another function that might fall within the merchandising division includes **testing bureaus,** where merchandise might be put to certain tests to determine reliability. The latter is used only by the giants in the industry.

*Task* Make distinction between General Merchandise Manager and Divisional Merchandise Manager.

### Publicity

With the fierce competition being faced by retailers every day, it is necessary to get the attention of the consumer as often as possible. It is the publicity division, called the sales promotion division by some retailers, that has this responsibility.

This division is often divided into four departments, each with a specific role in gaining customer attention: advertising, visual merchandising, special events, and publicity.

*Did u know?* In many store organizations, the buyer often participates in the publicity division's endeavors by selecting merchandise that suits the needs of the particular event or campaign that is being developed.

The publicity division employs specialists who perform a variety of functions ranging from the preparation of advertisements to the installation of visual presentations in windows and on the selling floor. Included in this division's roster are artists, copywriters, layout experts, display installers, lighting experts, press writers, and others.

### Store Management

In the store management division, those involved range from the upper levels of the management team down through the sales associates who interact with the shoppers. In the early years of retailing, as described earlier, many of the major stores employed a table of organization known as the Mazur Plan, in which the sales personnel were part of the merchandising division and were the responsibility of the buyers. Today, however, with the buyer's role so full of other duties and responsibilities that warrant a great deal of time away from the store, as well as expansion through the opening of many branch stores, in most major companies this role has been given to the store management division.

Although, the buyer does not have direct supervisory responsibility over the department managers and sales associates, he or she interacts with them regularly nonetheless. Communication with those in the selling departments is extremely vital to the buyer, whether it is through in-person visits, closed-circuit TV, or by telephone, faxes, or e-mail. By maintaining these direct lines of communication, the buyer is able to disseminate merchandise information to them and ascertain any ideas that they might have from their interaction with shoppers.

Notes

### Human Resources

The recruitment and training of store employees is the role of the human resources division. The buyer's role is limited in terms of working with this division, except in cases where new assistant buyers are needed in the store. In that situation, the buyer alerts human resources to his or her need for an assistant and helps with job descriptions to use in recruitment procedures.

Once human resources has recommended candidates for the open positions, it is the buyer who makes the final decision of who is hired.

### Control

The division that makes the accounting and credit decisions is called the *control division.* The buyer's involvement is often with accounts payable to make certain that the purchased items are properly charged, along with answering questions concerning discounts, delivery charges, and so forth. Unless there are discrepancies with vendors, these chores are generally routine.

## 2.1.2 Branch-store Organization

The running of the department store is overseen by those in the upper strata of the store's management team. Headed by a CEO and the managers of the various divisions and input from the board of directors, decision making generally takes place at the company's flagship store, with the home office as an alternative choice. Although, the flagship is key to the success of the company, a vast amount of business is realized at the numerous branches. Since the 1950s, the expansion of branches has been a steady factor in retailing. As the suburban markets grew, retailers opened these units to accommodate the needs of the consumers in those areas. Although the branches are managed by a team headed by a store manager and other managerial staff members and the rules of operation are established by the company's management team, there must be continuous interaction between these two management groups. The most significant involvement comes from the merchandising division, with the buyers playing the major roles. Of paramount importance are the buyers' visits to the branches to evaluate their merchandise needs. Since, there might be variations in the branches in terms of specific merchandise needs such as assortments, price points, and other factors, these visits are necessary to maximize the success of these units. Although a wealth of computerized reports are generated for buyer evaluation and guidance, in-person visits to the branches can address issues that these reports cannot provide.

Some of the variations found in the branches that differ from the flagship include different populations, different merchandise needs, and different price emphasis.

### Population Differences

When a retailer establishes its merchandising policies, it looks at its potential trading market and determines its merchandising needs. One of the factors deals with its potential customers' careers and lifestyles.

*Example:* If the flagship is based in a downtown, central shopping district, as is Macy's East in New York City, the population served is more often a sophisticated clientele that is unmarried, married without children, or perhaps married with a small family.

**Notes**

When expansion takes place into suburban outlets, the population is likely to be different. There might be single households or married without children, but the more dominant family is the one with children. With this information in mind, the focus of the store's merchandise requirements might differ from those of the downtown flagship.

### Merchandise Differences

Department stores generally like to have the branch stores carry a representation of the merchandise carried by their flagships. However, this might be an impractical approach to maximize the branch's profits. While there might be some of the same merchandise as found in the main store, the assortment might be different. A smaller inventory for career dress and more merchandise oriented toward leisure might be the wiser choice. Similarly, the flagship might not focus on products for outdoor living such as garden furniture, whereas this might be a natural product classification given the nature of the suburban locations. These and other factors must be considered to make the merchandise assortment appropriate for these shoppers' needs.

### Price Point Variation

Generally, the flagship operation carries a wide assortment of merchandise at many **price points,** the major focus of prices that are merchandised by a company. Since, their clientele base is usually made up of different family income ranges, they must carry an assortment that caters to all of their needs. In the suburban branches, however, there is often a more homogeneously grouped population in terms of income. Because of this, the price points must be appropriate for the needs of that specific clientele. Thus, the merchandise assortment might place emphasis on higher price points if the population served is more affluent. Merely carrying the same price points in the same quantities as the flagship store might be inappropriate.

If the buyer regularly visits the branches, firsthand analysis of the variations from one branch to another can take place. Discussions with the store manager, department heads, and sales associates may reveal some merchandise price point directions that computerized reports will not reveal. By making this a practice, it is more likely the merchandising decisions will be wisely made.

## Self Assessment

Fill in the blanks:

1. The ..... department store offers a wide assortment of hard goods and soft goods for the entire family and also features non-merchandise departments.
2. The ..... department store restricts its offerings to a large assortment of one or two merchandise classifications.
3. In the table of organization, a ..... features a number of different departments as well as the personnel who carry out the responsibilities that have been assigned to them.
4. The ..... manager serves as a policy maker and operating officer along with the others in the company who head their divisions.
5. ..... managers act as the liaison between the GMM and the numerous buyers within their division.
6. The ..... scouts the competitors' advertisements and inventories to determine if there are any price conflicts between the companies.
7. In the ..... division, those involved range from the upper levels of the management team down through the sales associates who interact with the shoppers.

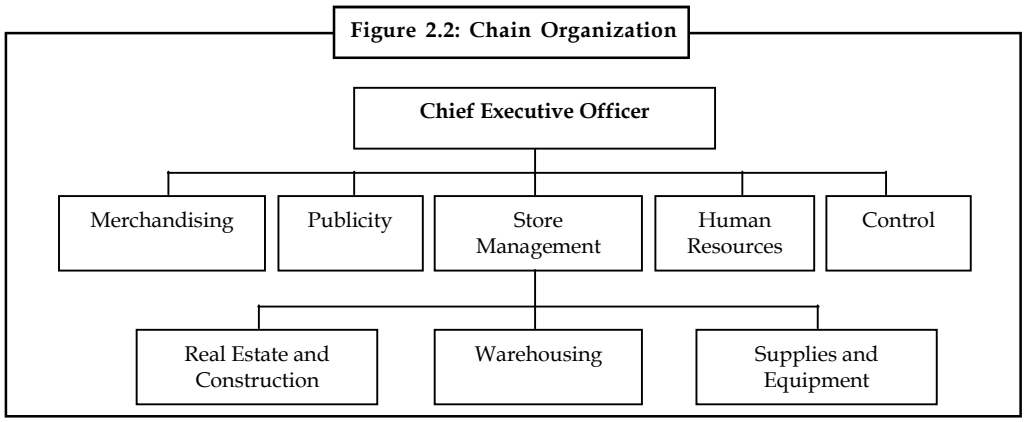
Notes

## 2.2 Chain Organizations

This major retail classification includes different groups of stores. They include the specialty stores, discount operations, supermarkets, drugstores, variety stores, and those that specialize exclusively in their own product lines—the private-label merchants. What they all have in common is best understood through the broad definition of a *chain:* a group of stores of essentially the same type, centrally owned, and with some degree of centralization.

*Did u know?* Chains include retailers that have as few as two units and those that number as many as two thousand or more.

**Figure 2.2: Chain Organization**




***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch02.pdf

### 2.2.1 Divisions of the Organization

The organizational structure of most chain organizations parallels that of the department store. They usually have many of the same divisions such as merchandising, publicity, store management, human resources, and control, each of which is responsible for the same duties and responsibilities in both types of organizations. Therefore, there is no need to reexamine these divisions. In the chains, however, there are often divisions other than those that have been discussed in the department store organization. Those divisions make these types of companies function better.

The nature of the chain organization is centralization. That is, unlike the department store, which generally operates from the flagship store, the chain operates from a central location or corporate headquarters where decision making for all of the units takes place. Known as company headquarters, it houses those who are responsible for all of the policies that govern the business. Included are the different levels of executives responsible for merchandising, advertising, accounting, warehousing, traffic and transportation, human resources, equipment and supplies, research, and sales.

The chart above displays a typical table of organization for a chain that features eight divisions.

#### Real Estate and Construction

Many of today's chains are in a constant state of expansion. Some have as many as two thousand units and are constantly looking to open more to meet the needs of consumers all across the nation and, in some cases, abroad.

Notes

*Example:* Walmart is constantly opening new units in other countries.

*Caution* Before new locations may become a reality, a considerable amount of research must go into the planning.

The real estate and construction division must research population trends, income, family size, competition, and other factors that would help evaluate the new site under consideration.

In addition to new locations, there is always the need to update the existing units. Renovations are often the order of the day to make certain that the stores have a fresh look that will appeal to customers. At this time, the Limited Group is updating many in the new millennium. This construction may be one that entirely alters the unit or merely makes the changes necessary to give it a fresh face.

### Warehousing

Merchandise purchases are most often sent directly to a central location for redistribution to the individual stores. In the larger chains, there may be regional warehouses so that the merchandise may reach the stores within that geographical location in a more timely manner. The receiving and movement of the goods is a major concern for the company. It involves checking incoming goods, marking them according to the buyer's instructions, entering the merchandise descriptions and quantities into the computer, and anything else that guarantees accurate record keeping.

### Supplies and Equipment

The various supplies and equipment that are needed to keep the units in good working order such as light bulbs, wrapping materials, cleaning compounds, office supplies, and so forth are controlled by this division. When you think of the size of an organization as large as the Gap, the numbers of merchandise hangers that must be purchased and distributed indicates the complexity of this division.

## Self Assessment

Fill in the blanks:

8. A ..... is defined as a group of stores of essentially the same type, centrally owned, and with some degree of centralization.
9. The organizational structure of most chain organizations is parallel to that of the ..... store.
10. The nature of the chain organization is .....
11. The ..... division must research population trends, income, family size, competition, and other factors that would help evaluate the new site under consideration.
12. ..... purchases are most often sent directly to a central location for redistribution to the individual stores.
13. Before new locations may become a reality, a considerable amount of research must go into the .....

Notes

*Caselet*

**Retail Sales Growth Lift Titan Industries Profit**

Titan Industries Ltd profits are up 21.34 per cent at ₹ 180.14 crore for the second quarter this fiscal. The watch and eyewear businesses of the company, with decent import content, continued to be affected by input cost increases and adverse currency movements, leading to a challenge on managing desired margins.

All businesses of the company have recorded growth in income compared to the same period last year. The income for watches was higher by 13 per cent to ₹ 471.79 crore in Q2 compared to ₹ 417.42 crore last year.

Jewellery business grew 5.7 per cent in Q2 to ₹ 1,723.93 crore compared to ₹ 1631.51 crore last year. Other businesses of the company — precision engineering (a B2B business), eyewear business and accessories — grew 49 per cent to ₹ 97.37 crore in Q2 compared to ₹ 65.17 crore last year. Titan Industries retail chain has 879 stores as on September 30, with a retail area crossing 11.3 lakh square feet nationally for all brands.

***Source:*** http://www.thehindubusinessline.com/companies/retail-sales-growth-lift-titan-industries-profit/article4051025.ece

## 2.3 Single-unit Independents

The dream of many people interested in retailing is to be in business for themselves. Some have gained their experience by working in large operations, while others might have had some formal retail educational training and wish to test their entrepreneurial skills in a small store of their own. Generally, single-unit independent stores are speciality stores that feature just one merchandise classification, such as children's wear or shoes, boutiques that sell limited quantities of higher-priced fashion merchandise, gourmet food emporiums that feature quality prepared foods, and the like.

Unlike the formal structures found in the department stores and chains that employ vast numbers of employees, these ventures are generally run by a handful of people. Of course, some of these stores grow and eventually employ many people.

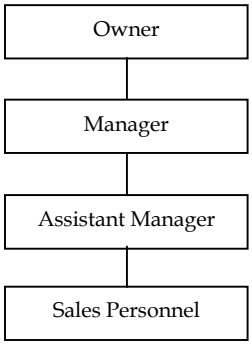
The proprietor is most often a multitalented individual who performs numerous tasks. He or she purchases the merchandise, determines the selling prices, hires employees, sells to customers, manages the sales staff, performs clerical tasks, and does anything else that is necessary to operate his or her business.

*Notes* The actual organizational structure might include, in addition to the owner, a store manager who is in charge during the owner's absence, an assistant manager if one is warranted, and salespeople. Others might include an alterations person in a boutique or a chef in a gourmet food store that specializes in takeout meals.

The numbers and types of people employed are determined by the size of the business, the role played by the owner, and the products offered for sale.

Notes

**Figure 2.3: Organization of a Small Independent Store**




***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch02.pdf

A typical small independent retailer that specializes in fashion apparel and has only one unit is often organized as shown in the chart above.

*Task* Analyze the use of single-unit independent stores.

## Self Assessment

Fill in the blanks:

14. ..... stores are speciality stores that feature just one merchandise classification.
15. A ..... is in charge during the owner's absence.

*Case Study*

## Problem Faced in Expansion in Retail

In 1980, the Curtis family opened a retail operation that specialized in apparel for the family, fashion accessories, and some merchandise for the home. The first two categories accounted for approximately 80 percent of the merchandise assortment; the last, which featured bedding, dinnerware, flatware, glassware, and some gift items, accounted for the rest.

As the years passed, the Curtises expanded their operation not only in terms of space that they acquired when adjoining stores abandoned their operations, but also in merchandise offerings. While apparel had always been the mainstay of the business, the shoe, jewelry, and handbag departments became more important, as did the products for the home. What began as a small company with the Curtis family at the head, with Jim and Marge Curtis sharing most of the responsibilities, steadily grew into a major retail player in its Mid-west, downtown location. As business grew, the Curtises could not handle all of the buying and merchandising chores, and they had to employ others to perform some of the purchasing.

At first one buyer was responsible for home furnishings, while another handled the accessories areas. As these departments grew, the buying duties were again expanded to

*Contd...*

Notes

include additional buyers, one each for menswear, women's apparel, children's wear, shoes, jewelry, handbags, dinnerware, glassware, and bedding. The Curtises were now involved strictly as the general merchandisers, involving themselves with budgeting, sales forecasting, policy making, and other managerial tasks. The buyers were the store's purchasers.

Although, this expansion proved to be profitable right into the new millennium, the chores handled by the buyers became too broad for them to handle. Specifically, their responsibility for managing the sales staffs in their respective departments, as the Curtises did in the early days, was no longer a viable approach. Merchandise procurement, now an international task, with markets in many countries far away from the store, took the buyers away from their retail bases for long periods. With this situation, it became less and less possible for them to spend adequate time on the selling floor with the sales associates.

At this point, the company is looking to amend its organizational structure in some way to relieve the buyers of the sales management responsibility without risking the success the business has realized in all of its years in operation.

Two proposals have been made by a group of buyers representing their team. One would be to expand the duties of the buyers' assistants to include management of the sales associates in their departments. The other would be to hire department managers who would oversee the sellers. At this time, the Curtises are still not sure if any new approach would have merit but are willing to listen to the details of the proposals.

**Questions**

1. Is it appropriate to continue the original plan of buyers managing the sellers?
2. Would the addition of department managers best serve the needs of the company? Present the advantages and disadvantages of each proposal.

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch02.pdf

## 2.4 Summary

- The traditionalists are categorized as department stores, chain organizations, and single-unit independents.
- Department stores are classified as either full line or specialized. Stores like Bloomingdale's and Macy's are examples of the full-line classification, with Neiman Marcus and Nordstrom the specialized type.
- Department stores are organized into a number of divisions or functions, each of which plays specific roles in the store.
- The merchandising division is often known as the lifeblood of the store since its success is based on the merchandise that is carried.
- At the helm of merchandising is the general merchandising manager, who is involved in directing the store's merchandise image and determining the store's overall merchandise budget. Next in line are the divisional merchandise managers, who oversee the buyers in their divisions and distribute to them the money that is used for purchases.
- Branch stores follow the same rules of operation of the flagship. However, it is the branch store manager who carries out the established procedures of the organization.

Notes

- Chains are most often classified as specialty chains, discounters, off-pricers, supermarkets, drugstores, and variety stores. Their tables of organization parallel that of department stores, but in most cases they feature additional divisions.
- Many small stores, known as single-unit independents, are in operation all across the country. They usually specialize in one type of merchandise.

## 2.5 Keywords

***Chain:*** A chain is a group of stores of essentially the same type, centrally owned, and with some degree of centralization.

***Comparison Shopper:*** The comparison shopper scouts the competitors' advertisements and inventories to determine if there are any price conflicts between the companies.

***Divisional Merchandise Manager:*** Divisional Merchandise Manager acts as the liaison between the GMM and the numerous buyers within their division.

***Fashion director:*** Fashion director covers the wholesale markets long before the buyer gets there.

***General Merchandise Manager:*** The general merchandise manager serves as a policy maker and operating officer along with the others in the company who head their divisions.

***Model stock:*** A model stock is the assortment of merchandise that satisfies the needs of the customer.

***Proprietor:*** The proprietor is most often a multitalented individual who performs numerous tasks.

***Publicity Division:*** The publicity division employs specialists who perform a variety of functions ranging from the preparation of advertisements to the installation of visual presentations in windows and on the selling floor.

## 2.6 Review Questions

1. Describe the traditional classification of retail stores, and give examples.
2. How does the traditional chain organization differ from those that belong to the category that employs the store is the brand retail strategy?
3. Make distinction between full-line department stores and those that are specialized.
4. In a department store that utilizes the five-division structure, which divisions are generally included? Discuss.
5. Discuss the responsibility of the divisional merchandise manager in terms of merchandise budgeting.
6. If a major retailer employs a comparison shopper, what is the position and what responsibilities does it carry? Discuss.
7. If the buyer is provided with a wealth of computerized reports for merchandise assessment, why are visits to branch stores necessary?
8. Why might a department store's branch stock a merchandise assortment that is different from that of the flagship?
9. Elucidate the operation of the warehousing division of a chain organization.
10. Describe the role played by the owner of a single-unit independent store.

Notes

### Answers: Self Assessment

1. full-line
2. Specialized
3. division
4. general merchandise
5. Divisional merchandise
6. comparison shopper
7. store management
8. Chain
9. department
10. Centralization
11. real estate and construction
12. Merchandise
13. planning
14. Single-unit independent
15. store manager

## 2.7 Further Readings

*Books*

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Notes

# Unit 3: Buying for Discount Operations

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Explain the Classification of Major Discount Organizations
- Identify the Characteristics of Discount Operations
- Identify Independent Discount Retailers
- Discuss the Buyer's Role in Purchasing for Discounters

## Introduction

Not too long ago, the traditional department stores and chain organizations were the favorite places for shoppers to make a large percentage of their wearable and household purchases. At these stores, replete with a wealth of brand names and private labels, the consumers availed themselves of marquee labels and nationally advertised brands as well as lesser-known offerings to satisfy their needs. It would not be long before Americans were given a chance to show their buying savvy and satisfy themselves with quality merchandise, albeit at value prices. The discount organizations came to life, with such names as Target and Walmart, leading the way, with a vast assortment of apparel, accessories, home furnishings, and small appliance product

lines. Along with these merchandising generalists were the specialty discounters who limited their inventories to one product classification. The former group might be compared to the full-line department stores that carry products for the entire family, while the latter somewhat resembles the specialized department store that restricts its offerings to one broad line of merchandise. Discounting is not only for major retail operations, but for small independent merchants as well. The explosion in discount retailing has challenged many buyers and merchandisers in terms of their purchasing expertise.

## 3.1 Classification of Major Discount Organizations

There are numerous types of operations within this retail classification. Although, their model stocks differ from one another in terms of products and price points, their overall philosophies are the same.

### 3.1.1 Merchandise Generalists

When one goes value shopping for a variety of family needs, he or she often heads to stores like Target, Walmart, and Kmart, now a part of Sear Holdings since they merged with Sears. In those premises one is able to purchase anything to satisfy both personal and household needs. Whether it is clothing, shoes, jewelry, small appliances, house wares, electronics, or even garden products, the assortments are there for the purchasing. Just as in the traditional chains and department stores, there are separate departments that enable shoppers to find what they are ready to purchase more easily. The different sections are clearly marked, making shopping a pleasurable adventure.

*Example:* The Retail Buying Focus explores Target stores.

### 3.1.2 Specialty Discounters

With specialization the key to success for many traditional chain organizations, the discounters have followed suit by opening retail chains that parallel the traditionalists, but offer discounts on all of their merchandise. The different types of specialty stores include electronics discounters such as Best Buy, furniture giants such as Rooms To Go, house wares and home furnishing companies such as Linens 'and Things and Bed Bath & Beyond, toy merchants such as Toys A Us, and home improvement centers headed by Home Depot and Lowe's.

Specialty stores also offer well-known products at prices that are typically lower than the traditional retail organizations.

*Example:* The Retail Buying Focus explores Home Depot.

### 3.1.3 Warehouse Operations

Somewhere between the merchandise generalists and the specialty discounters are the warehouse operations. The former group sells a variety of hard goods and soft goods and the latter restricts its offerings to one major classification of merchandise.

*Notes* The warehouse operation's product mix falls somewhere in the middle.

Notes

The most successful of these warehouse companies merchandises primarily a wide assortment of food products that include everything from packaged staples to fresh produce. Along with these "bread and butter items" is a comparatively small selection of high-volume clothing articles, linens, electronics, cameras, office supplies, and pharmaceuticals.

Unlike their discount counterparts, these organizations do not allow free access to their premises. Consumers must pay an annual fee in order to avail themselves of the bargains that await them. While such an arrangement might seem unusual, the success of companies like Costco, Sam's, and BJ's indicates its wide acceptance by the public.

*Example:* The Retail Buying Focus explores Costco.

Table 3.1 represents the top ten discount operations in the United States according to sales volume.

**Table 3.1: Top Ten Discount Operations**

| Company | Major Merchandise Classification(s) |
|---|---|
| Wal-Mart | Apparel, accessories, home furnishings, food products |
| Home Depot | Home products, nursery supplies |
| Costco | Food, beverages, wines, apparel |
| Target | Apparel, accessories, home furnishings, small appliances, electronics, garden supplies, food |
| Lowe's | Home products, nursery supplies |
| Best Buy | Electronics, appliances |
| TJX | Apparel, home fashions |
| Staples | Office supplies and furniture, printing |
| Kohl's | Family apparel |
| Toys R Us | Toy's, juvenile furniture, baby clothing |

*Task* Visit a specialty discount retail store in your city and understand its operations.

### Self Assessment

Fill in the blanks:

1. In a ..... store, one is able to purchase anything to satisfy both personal and household needs.
2. A ..... store is a retail chain that parallel to the traditionalists, but offers discounts on all of its merchandise.
3. Somewhere between the merchandise generalists and the specialty discounters are the .....

## 3.2 Characteristics of the Discount Operations

In many ways, the discount operation is similar to the classification of retail organizations. Their tables of organization are often comparable to the chains and the titles and people involved in purchasing are also similar. The characteristics that are different most often are concerned with merchandising philosophy and product acquisition.

Notes

### 3.2.1 Merchandising Philosophies

Whereas the traditional retailer bases its merchandising philosophies on the full markup when it prices its goods, the discounter operates on the concept of selling merchandise at a price lower than the full markup. The specifics of markup involve the amount that is added to the wholesale cost of the merchandise to arrive at the selling price or retail. Typically, traditional department stores and chain organizations mark up their merchandise anywhere from 50 to 60 percent, and sometimes even more. The discounter, on the other hand, works at a lower markup, often 20 to 25 percent less than traditional counterparts. By working at these lower prices, the sales volume is generally greater than if the full retail prices were charged.

The inventories are replete with brand names that are immediately recognized by the shoppers who frequent these operations.

Since, the profit margins are often affected by the lower markups philosophy, more and more of the discount operations are infusing their inventories with private brands that are exclusive to their companies. By doing so, they are able to obtain better markups than those achieved on the merchandise they purchase from vendors. The approach to this type of merchandising is often through the development of celebrity labels and brands. One of the earliest marriages of this type was undertaken in 1985 between Kmart and actress Jaclyn Smith, who designed an apparel line exclusively for Kmart. With its success, Kmart soon entered into another celebrity agreement with Martha Stewart, the guru of home design.

Other retailers whose operations are primarily discount oriented also subscribe to the private brand concept.

*Example:* Costco has a wealth of products bearing its Kirkland brand name. With the markups so low for its nationally branded goods, Costco makes up the difference with these items that are available only at its warehouse outlets.

### 3.2.2 Product Acquisition

The buyers and merchandisers who purchase for this retail classification are often the industry's major purchasers. Since, they represent many of the country's major retail operations in terms of volume, their purchasing requirements are considerable. They, like their traditional buyer counterparts, travel far and wide to procure the best available merchandise for their retail outlets. Their purchases are made from nationally known manufacturers, lesser-known producers, market specialists such as resident buying offices and merchandise brokers, and developers of private brands.

#### Nationally Known Manufacturer

A walk through any discount operation immediately brings to your attention well-known brands and labels that are often found in more traditionally oriented retail outlets. The only difference is the price. Whether it is apparel, accessories, home furnishings, or food products, the labels are immediately familiar ones. With the enormous sums these buyers are ready to commit, the manufacturers are eager to make the sale. While the prices they pay for the goods are the same as those paid by the traditionalists who generally purchase in smaller quantities, often they are given special consideration because of the extent of the orders. There might be promotional allowances, delivery priority, or the waiver of shipping charges in lieu of lower prices.

Notes

*Caution* Although, the nature of these purchases might cause you to reason that they should be rewarded with lower wholesale prices, the Robinson Patman Act, a key piece of federal legislation, disallows price discrimination no matter what the size of the order.

This act was established to protect smaller purchasers and to make the playing field a level one in which all merchants can do business. The law does have one provision that often enables the discounter to gain a price advantage: if the manufacturer can prove that the size of a large order saves money in the production of goods, the savings may be passed on to the purchaser.

You might wonder why manufacturers who sell to traditional merchants would sell to the discounters as well, and perhaps jeopardize their relationships with traditional companies. Aside from the fact that discounters generally purchase more than their conventional retailing counterparts, the manufacturers are bound by law to sell to any qualified retailers; in addition, they cannot force them to maintain predetermined prices. At one point, producers were able to dictate the prices retailers had to charge their customers through the use of fair-trade agreements. These agreements forced all retailers to charge the same prices for the same goods. The concept was declared unconstitutional and prevented such price restrictions.

In terms of who is able to purchase from a particular vendor, the law is also quite clear that any company may buy from any producer as long as it is able to pay for the goods in a timely manner as stated on the purchase order. Many years ago, vendors were able to pick and choose their retail customers and provide exclusivity for those they chose. As unfair trading became illegal, so did the exclusive arrangements that were once prevalent in the industry.

The advantage of being able to offer those brands and labels that are nationally advertised and immediately recognized by the consumer has given the discounter an edge that makes his or her operation a place where consumers may find an abundance of quality items at value prices.

### Lesser-Known Producers

Although, the inclusion of well-known brands in a discounter's inventory provides the company with instant product recognition and contributes to the retailer's company loyalty, the markups achieved on these items are generally low. To make up for these lower prices, most discounters elect to augment their better-known brands with merchandise from lesser-known producers. By doing so, the latter group of products may be marked at a higher percentage; so that their inclusion in the inventory will help the company to bolster its average markup. This is not to say that poor-quality goods should be merchandised along with the nationally advertised brands.

While the better-recognized product lines are easy to select, their unheralded counterparts are often difficult to find. The challenge is for the company's merchandising team to locate vendors whose goods haven't gained national attention, but at the same time make a perfect fit in its merchandise mix. A great deal of scouting, both here and abroad, must be undertaken to locate these potentially successful products. It is not unusual for the company's buyers to venture off to third-world nations that often produce goods of this nature.

Another advantage that is often realized in the procurement of such goods is the willingness of the manufacturers to provide incentives to the retailer. It might be in the form of promotional dollars that could be used to call attention to the items, free shipping, and better terms that include extended payment periods.

It is the negotiation ability of buyers of these lesser-known products that often provides an edge to the retailers they represent.

Notes

### Market Specialists

In every wholesale industry, there are specialists whose task it is to locate merchandise from vendors that will satisfy the needs of potential clients.

*Caution* These companies are divided into two groups: the *resident buying office* and the *merchandise broker*.

Their general roles are somewhat similar in that each is in business to bring together buyers and sellers.

- ***Resident Buying Offices:*** Market specialists called Resident Buying Offices (RBOs) often serve the fashion apparel and accessories markets. They are generally separate organizations that have as their members' retailers that operate fashion-oriented companies. Their major function is to locate vendors with desirable merchandise that will satisfy the product needs of those they represent. Their ability to bring together sellers and buyers makes them important to both parties. The vendor is able to locate potential customers who might otherwise be difficult to find. The buyer has the advantage of locating quality merchandise without having to scour the globe, a costly and time-consuming venture. When both parties are satisfied, the result is a perfect "merchandising" marriage. Resident buying offices charge their retail clients a fee for their services.
- ***Merchandise Brokers:*** Another type of business that brings together vendors and retailers for the purposes of merchandise procurement is the merchandise broker. Their role is similar to the RBO except that the merchandise offerings are not restricted to fashion apparel and accessories, and the fee for the service is paid by the vendor. Often, products of this nature are for closeouts that the vendor wishes to dispose of in a timely manner.

## 3.2.3 Timing of the Purchase

As is the case with purchasing planning for every retail classification, be it the traditional retailer, the off-site operation, or a value-oriented operation, the timing of the purchase is vital to the success of the company. When to bring the products into the brick-and-mortar outlets or catalogs is a very important factor to consider. If it is earlier than the shopper is willing to buy, then monies will be required to pay the invoices long before sales are made. If the goods arrive too late, potential sales will be lost.

Unlike the traditional buyer who has timing requirements generally early in the season as dictated by the industry in which it operates, the discounter must deal with different purchasing timetables according to the types of goods that will be incorporated in the inventory. For its regular product purchases, it buys the same as its traditional counterparts, whenever the season opens. For the discounter's own brands, the planning and purchasing must also coincide with the preestablished dates set by the leading vendors in the wholesale markets. For manufacturer's closeouts, which are often included in the merchandise mix, the timing is of an opportunistic nature, or whenever the "bargains" become available.

*Notes* The discount buyers wear "different hats" in terms of purchase timing, and are almost always in the wholesale marketplaces to make certain the goods are available and deliverable when they need them.

Notes

## Self Assessment

Fill in the blanks:

4. Traditional retailer bases its merchandising philosophies on the ..... when it prices its goods.
5. The discounter operates on the concept of selling merchandise at a price ..... than the full markup.
6. ..... involves the amount that is added to the wholesale cost of the merchandise to arrive at the selling price or retail.
7. The..... Act disallows price discrimination no matter what the size of the order.
8. The task of ..... is to locate merchandise from vendors that will satisfy the needs of potential clients.
9. Specialty companies are divided into two groups; the ..... and the .....

*Caselet*

### Walmart

Walmart was the first of the kind to recognize this opportunity and cash in on it; it didn't have much competition initially. Over a half of Wal-Mart's stores were still located in towns with populations between 5,000 and 25,000, a higher proportion than the rest of the industry. Its Rentals were lower compared to the industry average providing better margins. Moreover, About one-third of Wal-Marts were located in metropolitan areas or counties that weren't served by any of Wal-Mart's competitors. It often commanded 10%-20% of total retail sales in locations where it was alone. It had the philosophy of "everyday low prices". Wal-Mart's competitors cut 20%-30% on selected items nearly every week. This entailed a lot of promotional/advertising cost for the same. Wal-Mart saved this advertising/promotional cost by only running fewer promotions. Also, 30% of Wal-Mart's merchandise was customized to local needs. Managers had more latitude in setting prices unlike other centrally priced chains.

Wal-Mart offered lowest price compared to competitors especially when competitors were in the vicinity. Because of Computerized SKU (Stock Keeping Units), it filled out stock areas with different merchandise. Also, because of Central Computer Linked to those of vendors there was on time delivery of stocks.

***Source:*** http://www.antiessays.com/free-essays/122509.html

## 3.3 Independent Discount Retailers

Although the greatest amount of customer awareness in terms of discount retailing is most notably with the giants in the industry, there are a significant number of independent entrepreneurs that also sell their goods at prices below the traditional retail. With their larger counterparts able to offer a wealth of services to attract shoppers to their premises and off-site ventures, the smaller merchant oftentimes must use the only tool he or she has to operate a successful retail venture, *price*. With operating costs relatively low, sometimes calling only for the owner and perhaps an employee or two to run the operation, reduced rentals in off-the-beaten-path locations, and word of mouth as the only means of attracting customers, the ability

Notes

to sell at a lower than traditional price is a reality. The enormous costs of employee benefits packages, lower insurance premiums, and do-it-yourself visual merchandising also contribute to a reduction in expenses.

Retailers of this size are generally specialists who deal exclusively with apparel and accessories primarily for women, with some selling men's and children's wear.

*Did u know?* With markups generally at least 20 percent lower than the conventional retail operations, stores of this nature often attract the attention of the shopper interested in quality merchandise, but at lower prices.

You might wonder why they are able to remain as viable businesses with the likes of the giants in the field who also offer value shopping. The answer is simple: Some shoppers prefer the comforts of a small store with personalized attention to the impersonal environments generally found in the major ones.

*Did u know?* The largest retail chain in India is Pantaloon Retail.

### Self Assessment

State whether the following statements are true or false:

10. There are a significant number of independent entrepreneurs that also sell their goods at prices below the traditional retail.
11. The smaller merchant usually must use the only tool he or she has to operate a successful retail venture, Price.
12. Some shoppers prefer the comforts of a small store with personalized attention to the impersonal environments generally found in the major ones.

## 3.4 Buyer's Role in Purchasing for Discounters

While the role of the buyers of the aforementioned types of operations is somewhat similar in many ways to that of the buyers for traditional operations, there are some differences. Their concentration centers on the acquisition of merchandise that could be offered at discount prices, but, at the same time, bring a profit to the company they represent.

Among their priorities are establishing relationships with vendors that will bring them the best possible prices, and convincing those vendors who are reluctant to sell to them because of the potential problems with their traditional accounts, to do so.

### 3.4.1 Vendor Relationships

Every buyer for traditional operations must establish vendor relationships to ensure that they will be treated fairly in terms of prompt delivery, return privileges, and so forth. The discount purchasers, however, must take the lead to give them the edge when special pricing becomes available and "deals" are going to be offered. In this way, they will be ready to capitalize on purchases that will give them a better markup, and ultimately a greater profit for their company. With merchants of this nature doing business on less than the typical markup gaining that competitive pricing edge is a must.

Notes

### 3.4.2 Acquisition of "Off-Limit" Merchandise

Buyers who represent the traditional retail operations are "committed," by the very nature of their business practices, to sell the products at the standard, accepted prices.

*Example:* If a shopper goes from Saks to Neiman Marcus, he or she will find the same line, if both stores carry it, identically priced.

Often, the price is suggested by the manufacturer, or is understood by the industry, as the price it should be marketed. On the other hand, the discounter is reluctant to sell at the established price since this is in direct opposition to what discounting is all about. Manufacturers of highly desirable merchandise are reluctant to sell to the discounters because their pricing practices might discourage traditional retailers to purchase from them. To overcome this objection, the discount buyer must be able to convince the seller that he or she would be willing to abide by some stipulations that wouldn't affect the sales to the traditionalists. It might include a commitment not to advertise the brand, or to remove the labels and identifying tags. Sometimes, special products, under different labels, might be the answer to distinguish the lines. In any case, the discount purchaser must be a seasoned negotiator to excel in this position.

*Task* Note down the factors that will influence you as a customer when it comes to purchasing a particular retail product.

### Self Assessment

State whether the following statements are true or false:

13. Every buyer for traditional operations must establish vendor relationships to ensure that they will be treated fairly in terms of prompt delivery, return privileges, etc.
14. Establishing relationships with vendors that will bring them the best possible prices is not a priority to discount buyers.
15. Sometimes the discounter is reluctant to sell at the established price since this is in direct opposition to what discounting is all about.

*Case Study*

**Discount in Retal**

Julie Stevenson has had the American dream of opening her own business ever since she graduated from college. As a fashion buying and merchandising student she studied every facet of the women's wear industry and exemplified the qualities of one who would successfully enter the field. With an excellent academic record she had many entry level positions available to her. Still dreaming of entrepreneurship, she chose the one that she believed would eventually help her achieve her dream.

Ms. Stevenson began as an assistant buyer of fashion apparel for Damon's, an upscale department store, and after just three years she was promoted to buyer. She covered all of the domestic markets, as well as some overseas venues to make her purchases. Her record with Damon's was outstanding in that her planned profit margins were always achieved.

*Contd...*

Notes

Life was wonderful at the company, but in the back of her mind her lifelong dream still wasn't reached.

Three months ago she decided to make the leap and open a store of her own. With enough money saved; she believed a small operation was within her reach. She considered opening a small boutique that would carry high fashion merchandise, but unlike the company she worked for, this was to be a discount operation. She would cover the domestic markets with which she was familiar, and purchase products that would fall into the same price point category offered by Damon's. The only difference would be the prices she would charge.

Ms. Stevenson decided that a 20 percent discount would entice shoppers into the store, and that at this markup she would enjoy success. With the best of intentions, she decided to discuss the venture with someone who was a professional in the fashion industry. Her dream was almost shattered when Jim Martin, her confidant, said that her markup wouldn't be sufficient to turn a profit, and that her goal wouldn't be reached. He also asked why shoppers would prefer to patronize her store instead of the discount giants in the field.

**Questions**

1. How could Ms. Stevenson work on such a small markup and still operate a profitable business?
2. How might she better serve her clientele than the major discounters in the field?

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch03.pdf

## 3.5 Summary

- The major kinds of discount stores are merchandise generalists, specialty discounters, and warehouse discounters.
- In the case of merchandise general stores, one is able to purchase anything to satisfy both personal and household needs. There are separate departments that enable shoppers to find what they are ready to purchase more easily.
- A specialty discount store is a retail chain that parallel to the traditionalists, but offers discounts on all of its merchandise.
- Product acquisition vendors in a discount store travel far and wide to procure the best available merchandise for their retail outlets, made from nationally known manufacturers, lesser-known producers, and market specialists such as resident buying offices and merchandise brokers, and developers of private brands.
- The Robinson Patman Act disallows price discrimination no matter what the size of the order. This act was established to protect smaller purchasers and to make the playing field a level one in which all merchants can do business.
- In a discount operations store, the discounter works at a lower markup, often 20 to 25 percent less than traditional counterparts. By working at these lower prices, the sales volume is generally greater than if the full retail prices were charged.
- In every wholesale industry there are specialists whose task it is to locate merchandise from vendors that will satisfy the needs of potential clients. Their role is to bring together buyers and sellers.
- These specialist companies are divided into two groups: the resident buying office and the merchandise brokers.

Notes

- The discount purchasers have to monitor and identify when special pricing will become available and "deals" are going to be offered. That way they will be ready to capitalize on purchases that will give them a better markup, and ultimately a greater profit for their company.

## 3.6 Keywords

***Independent Discount Retailers:*** They are entrepreneurs that also sell their goods at prices below the traditional retail.

***Markup:*** It involves the amount that is added to the wholesale cost of the merchandise to arrive at the selling price or retail.

***Merchandise Broker:*** They bring together vendors and retailers for the purposes of merchandise procurement.

***Merchandise store:*** it is a store where one is able to purchase anything to satisfy both personal and household needs.

***Resident Buying Offices (RBOs):*** They often serve the fashion apparel and accessories markets. They are generally separate organizations that have as their members' retailers that operate fashion-oriented companies.

***Robinson Patman Act:*** It disallows price discrimination no matter what the size of the order. This act was established to protect smaller purchasers and to make the playing field a level one in which all merchants can do business.

***Specialty Operations Store:*** It is a retail chain that parallel to the traditionalists, but offers discounts on all of its merchandise.

***Warehouse Operations:*** It is somewhere between the merchandise generalists and the specialty discounters

## 3.7 Review Questions

1. Which retailer enjoys the status as the number one discounter in the United States?
2. Why have traditional department stores reduced or eliminated hard goods and electronics from their inventories?
3. Which is the number one warehouse operation that is based in India, and how is it able to sell its products at such low prices?
4. What is the primary merchandising philosophy of all discount operations?
5. In what way have many discounters adjusted their inventories to improve their average markups?
6. From whom do discounters purchase the majority of their merchandise?
7. Explain the major provision of the Robinson Patman Act.
8. Why do many discount operations buy from lesser-known manufacturers if the nationally known producers provide immediate customer recognition of their products?
9. What are the two major types of market specialists that assist buyers and sellers in the wholesale marketplace, and how do their roles differ?
10. How is the independent discount retailer able to compete with the giants in the industry?

Notes

## Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Merchandise | 2. | Specialty discount |
| 3. | Warehouse operations | 4. | Full markup |
| 5. | Lower | 6. | Mark up |
| 7. | Robinson Patman Act | 8. | Specialists |
| 9. | Resident buying office, Merchandise Broker | | |
| 10. | True | 11. | True |
| 12. | True | 13. | True |
| 14. | False | 15. | True |

## 3.8 Further Readings

*Books*

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Pradhan, Swapna (2010), *Retail Merchandising,* Tata McGraw-Hill Education.

United States, Small Business Administration, Office of Management Assistance, *Retail buying function,*

Varley, Rosemary (2013*), Retail Product Management: Buying and Merchandising,* Routledge.

*Online links*

http://www.antiessays.com/free-essays/122509.html

http://www.moneycrashers.com/discount-grocery-stores/

http://www.sec.gov/answers/specialist.htm

**Notes**

# Unit 4: Buying for Off-price Retail Operations

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Discuss the term "Off-price"
- Explain the concept of making purchase
- Describe the concept of pricing "Off-price"
- Discuss Indirect Purchasing
- Identify the suppliers of "Off-price" goods

Notes

## Introduction

The term "*off-price*" is often confused with discounting. Although both formats feature merchandise with a value orientation, they are not the same concepts. The off-pricers purchase goods far below the regular wholesale price and pass the savings on to the consumer. The discounter pays the usual wholesale price and resells the merchandise at prices that have a lower markup. The former's markup is generally the same as the traditionalists, their price feature coming from the savings they enjoy from off-price purchasing. The latter works on a lower markup and makes up for it by selling in large volumes. Some of the better known off-price merchants include Marshall's, Syms, Today's Man, T.J. Maxx, and the aforementioned Loehmann's. The most popular of the discounters are Walmart, Kmart, and Target, Buying for Discount Operations. The number of off-price operations continues to grow in the United States, making it an excellent arena for buyers to work. They are found coast-to-coast, featuring a wide assortment of goods in addition to apparel and accessories, and such items as home furnishings, toys, outdoor furniture, and food products. Their locations include freestanding venues; off-price merchandising centers such as the ones in Freeport, Maine, Reading, Pennsylvania, and Orlando, Florida; and power centers, shopping areas that cluster high-volume, value-oriented retailers.

## 4.1 Off-price: Fact or Fiction?

While the off-price phenomenon gains momentum, many traditional retailers try to dispel the price differential between themselves and the off-pricers by stating that the items offered for sale at these "bargain" retail outlets are second-quality, manufacturer rejects, end-of-season closeouts that have lost their luster, poor-quality copies of original designs, unwanted colors, or ill-fitting. Is the merchandise offered by the off-pricer the same as that found in the typical department store or specialty chain? Or is it some poor-quality, bargain items mixed together with the "real thing"? Is off-price fact or fiction?

The research of Kirby and Dardes, "A Pricing Study of Women's Apparel in Off-price and Department Stores," in the *Journal of Retailing,* indicates that there were, in fact, major price differences between the off-pricers and department stores. "Average prices for all twenty items during thirteen weeks were 40% greater in department stores than in off-price stores." The 20 items in the study included shirts, blouses, vests, sweaters, jeans, slacks, skirts, dresses, suits, and jackets.

While this research does scientifically prove the reality of the price advantage in off-price stores, it is not the only indicator that off-price is fact not fiction. Today's consumer is an educated one. He or she is generally knowledgeable about quality, timeliness of styling, prices, and other factors needed to make appropriate purchases. With enormous numbers of consumers visiting and buying from the off-price merchants, it is obvious that they have spoken and have determined that off-pricers provide the goods they want, and the prices are lower than charged by the traditional retail operations.

### Self Assessment

Fill in the blanks:

1. The ..... pays the usual wholesale price and resells the merchandise at prices that have a lower markup.
2. ..... provide the goods they want, and the prices are lower than charged by the traditional retail operations.

Notes

## 4.2 Making the Purchase

If the merchandise is the same except for price, how can the off-pricers sell for less? Is it magic? Or is it a different approach to the acquisition of the goods? Of course, the latter suggestion is the answer.

Most want to be first in bringing the goods to their customers, and therefore pay the most for the merchandise. It is similar to the purchase of an automobile. At the beginning of the new model year, prices for the cars are usually at their highest. When sales start to soften, prices often begin to fall and incentives are offered to dispose of inventory. Those willing to wait generally are afforded the bargain prices.

The concept is the same for the off-price operation. Wait as long as you can to buy and the prices are apt to fall. In this way, the off-pricer is able to sell for less.

The factors that play an important part in the buyer's role as an off-price purchaser include timing of the purchase, assortment, special handling, label removal, transportation, and terms of payment.

Some of these considerations are the same as when goods are bought for the traditional operations that charge their customers full price, with others falling exclusively in the off-price category.

### 4.2.1 Timing

Being willing to wait a little longer gives the edge to the retailer who deals in "bargain" prices. The traditional store generally purchases early so that the customers will be able to shop prior to the season for which the merchandise has been made.

*Example:* Stores that stock inventories geared to the college-bound shopper must have fall merchandise in their inventories as early as June to give these customers time to assemble the wardrobes that they will take with them to school.

Fashion-forward merchants such as Bloomingdale's, Macy's, Saks Fifth Avenue, Marshall Field, and Dayton Hudson base their reputations on being the first in their trading areas to introduce the new collections. While this approach gives the shopper the privilege of buying early, it results in the highest prices for merchandise.

The off-price retailer's philosophy is quite different. His or her approach to purchasing is always **opportunistic.** That is, when the opportunity arises for a purchase of desirable merchandise at rock-bottom prices, the deal is consummated. While it would please the off-price retailers to be able to purchase early, price is what they offer their clientele. To do so, they play a wait-and-see game. They don't plan for **market week,** a time when the traditional buyers visit the wholesale market to see the new collections. The off-pricers wait until the new lines have been shipped to the stores before they set out to make their deals. By playing the game by this set of rules, they can visit the same vendors as the department store and traditional specialty chain buyers, only it's to see what these vendors have on hand and must unload to make room for next season's goods. In fashion merchandising, where seasons are short and often unpredictable, manufacturers and designers are often hungry for business.

The traditional retailer has had the chance to test the merchandise and reorder **hot items.** Profitable seasons are made on hot items, which make up for the markdowns attributed to poor sellers. In today's fashion world, however, reorders are becoming less and less popular, except in very few cases, with merchants looking for new merchandise all the time. Except for these few winners,

Notes

there is always an abundance of well-known, designer merchandise available at closeout prices. Even at the season's end, some of these previous hot sellers are included as part of the bargain packages. By waiting patiently, and knowing where to find the best bargains, the off-price buyer is able to make a purchase well below the original wholesale price. It is not rare to see labels such as DKNY, Ralph Lauren, Calvin Klein, and Tommy Hilfiger at comparatively low prices. It should be understood that the merchandise acquired at discount is generally in-season. In some cases, when the buy is at such low prices, but the selling season in the store is at an end, the purchase is made and then packed away, to be brought out for the next appropriate selling period. This practice is somewhat dangerous since fashion merchandise might lose its desirability.

*Caution* When the deals are made, it is the buyer who must ascertain if the goods have sufficient staying power to be carried over to another selling time.

Table 4.1 shows the timing of the purchases, delivery periods, and wholesale price differentials. Analysis of these data shows that the only conditions of the purchase that were different were date of purchase, delivery, and wholesale price. Why was the price different? The department-store buyer, in the quest for early introduction of the item, had to make an earlier commitment to the vendor, and by doing so paid the higher price. This ensured receipt of goods on April 15 for selling through the summer season, which concludes toward the end of June. The off-price buyer didn't plan to purchase style 842 specifically but did so at the end of the season, when the price became more attractive. Since, the merchandise was in the vendor's inventory, it was available for immediate delivery, at a reduced price, with sufficient time left to sell it to the store's clientele. Even though the off-pricer's selling period is shorter, the price attraction should make it sell quickly. Waiting for this later date doesn't guarantee that all merchandise will be available at lower prices, but considering the enormity of production, especially in fashion merchandise, the off-price buyer is willing to take that risk.

**Table 4.1: Comparison of Retailer Cost and Delivery on Same Style**

| | Style | Date of Purchase | Delivery | Description | Wholesale Price |
|---|---|---|---|---|---|
| Department store | 842 | March 1 | April 15 | Red dresses | $52 |
| Off-price retailer | 842 | June 1 | June 1 | Red dresses | $36 |

### 4.2.2 Assortment

By looking at past sales and other buyer sources of information such as the trade papers, reports from market specialists, and fashion forecasters, the buyer develops a merchandise assortment in terms of number of styles, and how much inventory is needed for each one. This assortment or model stock ensures a good cross section of merchandise.

The off-price buyer's plan is different from that of the department-store buyer. Purchasing decisions are not as closely based on specific colors, exact size allocations, or styles, but on price. Because price is the dominant factor in the off-price buyer's decision making, he or she will forgo the specificity so common to department-store purchasing and will purchase only discounted goods that fit into the store's general concept.

*Did u know?* When visiting a resource and negotiating the off-price purchase, the buyer often buys "incomplete size ranges" or assorted colors.

Notes

*Caution* The department-store buyer must stay with the assortment specified in the model stock that has been planned prior to purchasing.

Table 4.2 shows the comparison of a same-style purchase from two buyers. It is obvious that the off-price buyer is willing to purchase a large quantity, perhaps the remainder of the vendor's inventory for that style, in colors and sizes that are in stock.

**Table 4.2: Comparison of Same-Style Purchase for Department Stores and Off-Pricers**

| | Style | Color | Size 3 5 7 9 11 13 15 | Total Pieces | Price |
|---|---|---|---|---|---|
| Department store | 615 | Pink | 1 2 2 3 2 1 1 | 12 | $55 |
| | | Blue | 1 2 2 3 2 1 1 | 12 | $50 |
| Off-price retailer | 615 | Assorted | Assorted | 85 | $32 |

Because of this, the wholesale price is considerably less than that paid by the department-store counterpart.

### 4.2.3 Special Handling

Buyers who purchase for their stores at full price often make special demands on the vendors. Some retailers require that their store labels be sewn into each garment and that the merchandise be shipped on special hangers or in individual plastic casings. The resource is generally amenable to such demands because the merchandise is being purchased for the top price. Those who consider price first are willing to forgo these special handling accommodations. It is equivalent to the shopper who buys a gift at Bloomingdale's or Neiman Marcus and expects expert gift wrapping at no extra cost versus the customer who buys off-price and is willing to wrap the purchase at home. The off-price retailer buys on a "no-frills" basis.

### 4.2.4 Label Removal

Often, manufacturers of nationally advertised brands and designer merchandise remove their labels from merchandise priced below the original wholesale price as a condition of the sale, although labels are becoming more commonplace at many off-price stores. By removing labels, the vendors can somewhat protect their department-store and traditional-chain retail accounts who have paid the full price and resell at higher prices. While the off-pricer would always prefer to have the recognizable labels intact so that they will attract a larger segment of the buying public motivated by famous labels, the concession is reluctantly granted to gain an even better price advantage.

Removal of the label might eliminate the most prominent identifiable mark of a particular manufacturer, but off-price merchants point to the other features that allow for easy identification.

*Example:* The lining of a garment might feature a designer logo, and the buttons might have a similar design.

The shopper at off-price stores is often an expert in the art of discovering the name of the manufacturer. Many shop the department stores to learn about what is in fashion and then move on to the off-pricers to see if they can find the same items at lower prices. Syms, an off-price chain that specializes in men's and women's clothing, often with the labels removed, boasts "An Educated Consumer Is Our Best Customer." Syms is saying that, with or without the label, their

customers can easily discern quality goods. Label removal is thus a small price to pay for top-quality fashion merchandise at considerably reduced prices.

### 4.2.5 Transportation

In the negotiation process, traditional store buyers often demand that the seller pay for delivery of the goods. With large retail organizations, F.O.B. destination, which requires that the seller pay for the shipping, is generally a forgone conclusion.

The situation is quite different in off-price purchasing. Because the seller has agreed to a reduction in the purchase price, the "extras" often wanted by the buyer are taken away. One of these extras, the cost of shipping, is absorbed by the retailer. Many off-price merchants make their own arrangements, either by private transport or their own trucks, to transport the goods at their own cost. Of course, this expense is generally figured into the markup on the new merchandise.

### 4.2.6 Terms of Payment

One major problem endured by vendors concerns payments for merchandise. Retail buyers demand as much time as they possibly can before they pay their bills.

In some merchandise classifications, the manufacturer permits as long as 4 months for the invoice to be settled.

*Example:* Swimsuits is one of the examples of merchandise classifications.

This demand by the typical traditional retailer often causes a cash flow problem for the seller. By giving in to the buyer's demands for extended time in which to pay the bills, the manufacturer's ability to run a business might be hampered. To compound the problem, many retailers take even longer to pay their invoices than allowed by the terms of the purchase.

When selling to the off-pricer, the situation is different. Since the wholesale price has been considerably reduced, the vendor requires earlier payment. In some cases, where the prices are rock bottom, immediate payment may be required. In this way, both the buyer and seller are satisfied. Sellers get the money they need to pay expenses, and the buyers get merchandise at a price that will make it more appealing to the customer.

### Self Assessment

Fill in the blanks:

3. The off-price buyer's plan is different from that of the ..... buyer.
4. Removal of the ..... might eliminate the most prominent identifiable mark of a particular manufacturer.

## 4.3 Pricing "Off-price"

While we have learned that off-price merchants pay less for the merchandise they bring to their inventories, many people are under the impression that they take a lower markup when they price their goods. Although some do work on a lower markup because they "turn" their merchandise faster than their traditional retail counterparts and generally restrict their customer services, the vast majority mark up their goods to levels that rival the department stores. The merchandise is purchased at discount, but it is marked up more than the off-pricers would have you think.

Notes

*Example:* Table 4.3 shows how the off-pricers can take the usual markup and yet still offer customers bargain prices.

**Table 4.3: Markup Similarities for Department Stores and Off-Pricers**

| | Cost | Retail | Markup (on Retail) |
|---|---|---|---|
| Department store | $52 | $110 | 53% |
| Off-price retailer | $36 | $75 | 52% |

In the example shown in Table 4.3, the markup taken by both merchants is known as **keystone plus markup.** This indicates that the cost has been doubled and a few extra dollars added to arrive at the retail price. When **keystone markup** is used, the cost is merely doubled to get to the retail price. Most department stores work on keystone plus, as do many off-pricers.

*Notes* This is to be noted from Table 4.3 that the markups are almost identical. Although the off-price merchant makes an excellent profit after all of the expenses have been paid, the off-price customer is saving a significant amount of money. The only differences that the off-price customer must be willing to accept is the inability to buy early in the season, environments that may not be comfortable in which to shop, and a limiting of services. The bottom line, however, is savings.

*Task* How different are the initial markups made by off-price stores and department stores?

### Self Assessment

Fill in the blanks:

5. Off-price ..... pay less for the merchandise they bring to their inventories.
6. When ..... is used, the cost is merely doubled to get to the retail price.

## 4.4 Indirect Purchasing

In most off-price operations, buyers are employed to make the company's purchases just as they are in traditional department store and specialty chains. As in the case of the traditional retailers, off-price stores use outside market specialists or resident buyers to cover the markets in their absence. A daily examination of the wholesale marketplace is vital to the success of the off-pricer. Distance from the various vendors and tasks required of the buyer in the store prevent daily market visits. To get a better handle on market conditions, outside agencies and specialists are used.

Some companies that specialize in off-price purchasing are either in business solely to cater to this retail segment or have separate divisions that deal exclusively with discounted goods. Not only is there representation in all of the major domestic regional markets, but also in many overseas wholesale venues. Price Breakers, based in New York City, deals exclusively in this type of merchandise, while the Doneger Group has a separate division called Price Point Buying to handle these purchases. In the following Retail Buying Focus, the Price Point Buying Service is explored.

Notes

In times when vendors are overstocked and must make room for the next season's offerings, the indirect purchasers are a means to quick merchandise disposal. Not only does the retailer benefit from this association, as we have learned, but so does the producer, who needs to sell to many stores without the complications of individually contacting each one.

## Self Assessment

State whether the following statements are true or false:

7. Some companies that specialize in off-price purchasing are either in business solely to cater to this retail segment or have separate divisions that deal exclusively with discounted goods.
8. In times when vendors are overstocked and must make room for the next season's offerings, the indirect purchasers are a means to quick merchandise disposal.

*Caselet*

### Price Point Buying

The Doneger Group has been a mainstay in the fashion industry for many, many years. Starting out as a small resident buying office, headed by its founder Henry Doneger, it now enjoys the enviable position of being the largest company of its kind in the United States. The growth has taken place with the acquisition of numerous rival companies, both large and small, and the introduction of new divisions to serve specialized needs. One of these specialized divisions is called Price Point Buying.

Price Point Buying is an off-price buying service that specializes in popular-priced to moderate-priced women's sportswear in all size ranges. They are dedicated to servicing volume-oriented retailers who have a constant need for off-price merchandise. With the use of a great number of market specialists who are well-versed in this type of product, the retailer is provided with a competitive edge. Coupled with the advantage of professional representation is enormous buying power as well as a presence right in the wholesale market.

One of the major advantages of Price Point Buying is that vendors are always seeking them out with discounted merchandise. Buyers at this Doneger division are regularly contacted by manufacturers and designers for the purposes of presenting off-price goods. In addition to these contacts from the vendors, the buying specialists make daily rounds to make certain that they haven't missed any buys for their clients.

In order to better serve the needs of the retailers they represent, the staff members have extensive retailing backgrounds, and they understand what is necessary to ensure their store's profitability.

Interaction with their client base is accomplished by several means of communication. Fliers, telephoning, faxing, and now the Internet are means of letting the merchants know what is available. The Internet has proven to be a device that helps make purchases faster.

By subscribing to the Price Point Buying Web site, retailers are able to get photographs and facts on their computers about merchandise that is available at reduced prices. In a matter of seconds, the items available for sale are photographed, downloaded, and sent to the potential purchasers.

*Contd...*

Notes

With their continued dedication to this type of buying, Doneger and Price Point Buying have made discount purchasing available to retailers who have neither the resources nor the time to conduct this type of buying on their own, and to others who need regular market information.

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/3515/3599405/MCH150_OL_04.pdf

## 4.5 Concessions to Vendors

In order to gain access to merchandise produced by leading designers and manufacturers, off-price merchants must be willing to make certain concessions as a condition of the purchase. These include the locations of the retail outlets, the manner in which the merchandise will be promoted, and the unconditional purchase of the goods.

### 4.5.1 Location of the Retail Outlets

In order to make certain that their regular customers are not harmed by those who sell off-price, the vendors generally sell their "distressed" inventories to companies whose locations are far away from the traditional malls and downtown central districts. By staying with this practice, both types of merchants are satisfied. The traditional stores that purchase early in the season are able to maintain their regular markups and not be fearful of a nearby competitor who sells for less.

The off-price merchants usually locate themselves in **power centers** where other "bargain" merchants locate themselves, in neighborhood clusters, or in freestanding stores. As a result, the traditional retailer's clientele will not be in the same vicinity as the off-price outlets when looking to make purchases. Many of those off-price merchants who have a great deal of clout have small shopping centers that bear their names.

*Example:* Loehmann's outlets generally locate themselves in Loehmann's Plazas all across the country.

*Task* Explain the term 'Power Center'.

### 4.5.2 Promotional Considerations

The lifeblood of most retailers is advertising, special events, and visual merchandising. These endeavors bring shoppers to the stores and hopefully turn them into purchasers.

For example, without advertising, the crowds would more than likely diminish. The names of key manufacturers and designers are highlighted in the retailer's promotions so that their "marquee labels" will attract attention. Many shoppers seek well-known merchandise, since these "signatures" generally guarantee something special.

Many vendors are willing, in fact, to participate in these traditional retailer's promotions. By offering cooperative incentives in which they share equally in the cost of advertising with the retailer, they are often rewarded with more business.

Off-price merchants on the other hand forgo any promotional dollars from vendors. They are chiefly concerned with price. In fact, they are often bound by the vendors' demand not to advertise the "famous labels." The vast majority of off-price merchants wishing to announce that they have such goods at greatly reduced prices usually restrict their ads to such generalities

as "20% to 50% Lower than Department Store Prices" or "Famous Designer Labels for Less." It is this guarantee to the vendors that enables the off-price buyer to purchase the same merchandise as the department stores.

### 4.5.3 Unconditional Purchasing

Many vendors are willing to make certain concessions to their regular accounts who purchase at full price. They often accommodate them by allowing **chargebacks** or discounts on merchandise that didn't sell as well as expected. By doing this, retailers are able to reduce the merchandise on the selling floor and not take discounts that will cause them monetary losses. In some cases, they might even allow the stores to return the unwanted goods for a full credit to their accounts.

The off-price buyer, however, does not enjoy the same conditions. He or she buys the goods at the negotiated prices and takes his or her chances as to their salability.

*Notes* Since the goods are often purchased in **job lots**—a term used to describe an assortment of goods without any consideration for specific colors or sizes—there might be some pieces in the **closeout** that are not "perfect."

The condition of the sale is generally on an "as-is" basis. Once purchased, the goods cannot be returned to the vendor. This is the nature of buying off-price, and the purchaser is well aware of the risks involved.

### Self Assessment

Fill in the blanks:

9. The off-price merchants usually locate themselves in ..... where other "bargain" merchants locate themselves, in neighborhood clusters, or in freestanding stores.
10. The condition of the sale is generally on an "....." basis.

## 4.6 Traditionalists as Off-price Purchasers

Although the discussion thus far has concentrated on off-price merchants who deal exclusively in merchandise that is bought at rock-bottom prices, it should be noted that traditional retailers also avail themselves of such merchandise.

*Example:* If one carefully scans the newspaper advertisements of department stores, the term *special purchase* will often be seen.

Special purchasing is just another term used to describe purchases at off-price.

The reason for the traditionalists to participate in such merchandising is to bolster the markups they finally achieve for the goods they sell.

*Example:* When some items do not sell as quickly as expected, the prices are reduced. By cutting these prices, the buyer is actually realizing a lower markup than initially expected.

In order to gain an "overall" higher markup for the department, merchandise that can be "mixed" into the inventory is sought at better prices. By doing this, the merchant is improving his or her average markup.

Notes

*Example:* If an item was originally bought at the wholesale price of $30 to be retailed for $60, the desired markup would be achieved if the item sold for that price. If it had to be marked down 25% to $45, the markup would not be maintained as originally planned. However, if the buyer was able to buy the same item off-price for $20 and sell it for the new selling price of $45, the loss on the earlier purchase price would be made up.

In actual practice, many vendors would like to dispose of all of their "distress" merchandise to their regular department-store and specialty-store accounts rather than to the off-price merchants. In this way, they do not jeopardize their names and they present a means of greater profitability to their regular-price customers. Of course, this is not always the case. The regular accounts might not have the need for more of the same merchandise because they could be making room for new arrivals, or the close-out inventories may be so significant that the only way to dispose of the goods is by way of the off-price merchants.

It should be noted that not only are the larger department stores and chains given the opportunity to buy the closeouts. Small retailers often buy these items, in lesser quantities of course, from the vendors they use regularly. They too mix these items in with their regular inventories. Some of the small retailers avail themselves of the heavily discounted merchandise through the services of resident buying offices or market specialists that make them aware of such situations.

Large or small, retailers are always searching for means to improve their maintained markup positions, and off-price purchasing is one method they employ.

### Self Assessment

Fill in the blanks:

11. ..... is just another term used to describe purchases at off-price.
12. In order to gain an "overall" higher ..... for the department, merchandise that can be "mixed" into the inventory is sought at better prices.

## 4.7 Internet and Off-price

As in-store off-price retail operations continue to expand, a new type of venture is making inroads into this type of merchandising. The Internet has joined the bandwagon of merchants offering goods at less than what is being charged by department stores and specialty chains. With the enormous success of online discounters such as Amazon.com, others featuring bargain prices have started to appear in this off-site venue. Another is Ebay.com, where bargains may be available as fixed prices, or from bidding opportunities where consumers compete with each other for the best price.

Fashion is now making news on Internet Web sites. One of the early entries that has proven that there is a market for such items is DesignerOutlet.com. The company sells overruns of current-season fashion merchandise that is purchased off-price and sold well below the originally expected retail price. It began in 1996 with just 60 products for sale, and today is running a business that features 65 lines with more than 1200 products. Now, such mainstays as Amazon and Ebay, who once sold a wealth of products that were not fashion-oriented, have joined the fray and feature numerous designer labels.

Day after day, other Web sites are being launched to take advantage of the consumer market looking for such goods but without the time to shop in stores.

Notes

### Self Assessment

State whether the following statements are true or false:

13. Fashion is not making any news on Internet Web sites.
14. In Ebay.com, bargains may be available as fixed prices, or from bidding opportunities where consumers compete with each other for the best price.

## 4.8 Suppliers of Off-price Goods

As much as they don't want to offend their regular traditional store buyers and jeopardize future business with them, almost all manufacturers and designers at every conceivable price point have some merchandise they must rid themselves of. These are not just the run-of-the-mill brands, but marquee-type labels that are quick to attract consumers' attention.

Off-price stores regularly display merchandise from Ralph Lauren, Calvin Klein, DKNY, Tommy Hilfiger, Liz *Claiborne*, Evan Picone, Adrienne Vittadini, and others.

*Did u know?* No line is sacred if there are goods left at the end of the season and room is needed for the next season's offerings.

### Self Assessment

Fill in the blanks:

15. ..... labels that are quick to attract consumer attention.
16. No line is sacred if there are ..... left at the end of the season and room is needed for the next season's offerings.

*Case Study*

### An Off-price Study

Langtree's is a small department store located in Pennsylvania. In operation for 18 years, it has made its success on offering quality merchandise and service. Langtree's upper-middle-class customers purchase merchandise that features labels such as Liz Claiborne, Calvin Klein, DKNY, Ralph Lauren, and a host of other reputable names.

About 3 years ago, Langtree's received its first taste of off-price competition. Clayton's, an off-price operation, opened a store 8 miles from Langtree's downtown flagship location. The new venture, unlike Langtree's was "off-the-beaten-path" and freestanding. Although the two companies were not direct competitors, they carried some identical lines. Because the new store was just a short car ride away, some of Langtree's customers visited Clayton's and purchased the same goods off-price for less. Some of the customers complained to Langtree's that although the service at Clayton's was poor, the price differential was significant.

Throughout the last few years, ever since Clayton's arrival, business has slightly declined at Langtree's, and management assessed the problem as price competition from the new

*Contd...*

Notes

merchant in town. Management held several meetings to determine a solution to combat shrinking sales. Three suggestions for coping with the situation were made.

Mr. Birmingham, the General Merchandise Manager, suggested a plan to upgrade service to an even higher level and to ignore the price competition. He believed that the customer who shops at Clayton's is only a "fringe" shopper at Langtree's, whose business is not important. He felt that new, upgraded services such as personal shopping and VIP charge cards for preferred customers, and a new gourmet dining room would keep the better customers.

Mr. Austin, the store's Fashion Director, felt that a new promotional strategy to extol the "fashion first" approach at Langtree's would help retain its share of the market. By promoting fashion clinics, trunk shows with designer appearances, special storewide fashion themes, and other events, Langtree's would separate its operation from Clayton's.

The third plan, the work of Mr. Laughton, was a radical approach to the problem. "If you can't fight them, join them." He was suggesting a total change in philosophy, one that would transform Langtree's into an off-price company. He said that their location would be perfect to attract scores of bargain-hunting shoppers.

At present, the situation hasn't been resolved and pressure to make a change has mounted.

**Questions**

1. Which, if any, of the three proposals seems to be the right solution? Defend your answer with knowledgeable reasoning.
2. Could you suggest another plan that might help Langtree's retain its profitable position?

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/3515/3599405/MCH150_OL_04.pdf

## 4.9 Summary

- The off-pricer's philosophy is to buy opportunistically.
- Although off-price retailers sell for less, their achieved markups are basically the same as their traditional retail counterparts.
- In order to protect their reputations, some vendors require label removal when the merchandise is sold off-price.
- With the tremendous increase in the availability of off-price merchandise, some market specialists such as Price Point Buying are making their offerings known and available via the Internet.
- In order to avail themselves of the closeouts, most off-price merchants locate their stores far away from the traditional retailers so that they won't antagonize them and hinder their chances for such goods.
- Generally, promotion of off-price merchandise is done without the mention of the labels being offered.
- Many traditional retailers are mixing off-price purchases with their regular inventories to bolster their profit margins.
- New outlets for off-price merchandise are popping up on the Internet to appeal to individuals who have little time to shop in stores.

Notes

## 4.10 Keywords

***Assortment:*** Assortment is a miscellaneous collection of things or people: "an assortment of clothes".

***Keystone Markup:*** Keystone markup is pricing a product at double its cost.

***Label:*** It corresponds to a descriptive or identifying tag.

***Marquee:*** Marquee is defined as a canopy that projects over an entrance or a sign.

***Off-price:*** Off-price is a retailer who sells name brand or designer products at reduced cost.

***Power Center:*** Power center is the location where other "bargain" merchants locate themselves, in neighborhood clusters, or in free-standing stores.

***Traditional Retail:*** Traditional retail refers to these thousands of small, mostly family-owned retail businesses.

## 4.11 Review Questions

1. Explain whether the terms off-price and discounting are interchangeable or not.
2. Are off-price retailers really charging less for the same merchandise found in department stores? Discuss.
3. Differentiate between the timing of purchases for traditional stores and off-price operations.
4. In what way does the assortment requested by the department-store buyer differ from that of off-price merchants? Discuss.
5. Explain the concept of indirect purchasing with example.
6. Discuss the method in which the indirect purchaser assists the off-price purchaser with his or her merchandise acquisitions.
7. Why is it advisable for off-price merchants to locate their stores away from the traditional malls and downtown central districts?
8. In what way does the vendor sometimes give consideration to the retailers who paid full price for the merchandise?
9. Does the traditional department store ever purchase off-price goods? Why?
10. Compare a same-style purchase from two buyers. Give example.

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Discounter | 2. | Off-pricers |
| 3. | department-store | 4. | label |
| 5. | merchants | 6. | keystone markup |
| 7. | True | 8. | True |
| 9. | power centers | 10. | as-is |
| 11. | Special purchasing | 12. | Markup |
| 13. | False | 14. | True |
| 15. | Marquee-type | 16. | goods |

Notes

## 4.12 Further Readings


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# Unit 5: Buying for Off-site Retail Operations

Notes

CONTENTS



## Objectives

After studying this unit, you will be able to:

- Discuss the Concept of Catalog Retailing
- Explain the Home Shopping Networks
- Describe the Concept of E-Tailing
- Explain the Duties and Responsibilities of an Off-site Buyer

## Introduction

There is a great deal of evidence that the traditional approach to retailing —namely, stores, or brick-and-mortar retailing establishments as they are referred to by industry professionals, where customers make their purchases is being challenged. At the beginning of the twenty-first century, retailers of every size and format were either significantly involved in selling by other means, such as catalogs or through e-tailing on Internet Web sites, or formulating plans to become involved. Although the catalog business is not new, it has never had the impact on retail sales that it does today. In the past, most stores sent catalogs to their customers during peak selling periods such as Christmas or Mother's Day, and perhaps to announce a sale. Today, the picture has changed radically. Consumer mailboxes are being inundated with as many as four or five catalogs a day from the very same stores the consumers would normally visit and from companies who sell merchandise by this means without any stores. At the same time, other

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competition for in-store shopping is coming via the "e-commerce" route on the Internet. Each day, more and more. Yet another off-site operation, the shopping channels on television, is cutting into sales that were formerly made in stores. This format enables the in-home shopper to see the actual merchandise and be able to interact with the broadcast's sellers if there are questions to be answered. With sales recorded at more than twenty thousand per hour during some of the time slots, this is an outlet that requires a constant flow of merchandise. With each of these fast-growing off-site retail segments, buyers are becoming more important than ever before. Not only must they purchase merchandise for a defined consumer base, but they must also consider a much broader trading area than that of the traditional store buyers.

## 5.1 Catalog Retailing

Before the buyer's role in purchasing for catalogs can be explored, it is necessary to examine the different types of companies that use catalogs to reach their markets. Some traditional retailers integrate their in-store and off-site ventures, whereas others have separate divisions for each type of outlet. Others are "catalog-only" merchants, who use only the direct-mail approach to selling their goods.

### 5.1.1 Department Stores

The backbone of retailing for the past hundred years has been the department store. Whether it was a visit to the company's flagship or to a branch location, the consumer was able to find a wealth of merchandise to satisfy his or her needs. Augmenting the in-store purchasing arena was and is an assortment of catalogs that are either directed to the store's regular customers or to others in the hope that they will become customers. The department stores are structured either as full-line operations or specialized stores.

#### Full-line Department Stores

Stores such as Macy's, Bloomingdale's, and Carson Pirie Scott are full-line stores. They feature complete merchandise assortments that include apparel for the family, accessories, home furnishings, electronics, and in some cases, specialty foods. The merchandise featured in the stores is often also sold in the catalogs. The buyers merely select some of the merchandise that has been earmarked for their stores for insertion in the catalogs. While this is standard practice, a new route is being taken by some of the major retailers.

*Example:* In companies like Macy's, a great deal of attention is being paid to the catalog operation. To make a full-scale effort in this direct retailing venture, Macy's has now opened a separate catalog division in which a full merchandising team has been put in place to make all of its purchases. In this way, the company is able to address the merchandise needs of people well outside its regular trading areas.

#### Specialized Department Stores

When the department store organization first appeared on the scene, it was a format that featured a wide assortment of hard goods and soft goods. Soon after its introduction, some merchants felt that by restricting its product line to a narrower classification it could provide more depth in specific merchandise. Thus the specialized department store was born. Typical of those companies doing business today are Saks Fifth Avenue, Nordstrom, Neiman Marcus, Fortunoff, and Bergdorf Goodman. As is the case in their stores, the catalogs they produce specialize in one or a few merchandise classes.

Notes

*Example:* Fortunoff specializes in jewelry and home furnishings; Bergdorf Goodman restricts its goods to apparel and accessories for women and men; and Nordstrom sells upscale fashions for the family.

Some of the aforementioned companies feature more than one type of catalog, with each marketed for a different purpose. One organization that subscribes to this philosophy is Neiman Marcus, the Dallas-based retailer. In the Retail Buying Focus, some of its distinctly different catalogs are discussed.

One of the more recent adjustments to these and other department store catalog offerings is merchandise that is available only through catalogs and not in the stores. The items featured might not generate a sufficient amount of interest inside the store, but with the vast audiences reached by catalogs, different merchandise might be warranted. In looking through the catalogs, notations such as "available by mail only" indicate that the store is looking for sales outside the normal trading area.

*Task* Make distinction between Full-line Department Stores and Specialized Department Stores.

### 5.1.2 Specialty-Chain Organizations

Specialty chains and specialized department stores, although using similar merchandising approaches that restrict merchandise offerings, are technically different types of businesses. The former is a company with anywhere from two to more than a thousand "small" units, with the latter usually having "large" stores that feature a flagship and, perhaps, no more than one hundred branches.

As is the case with department stores, the chains have also embraced the catalog as a means of generating increased sales. Some of the leading chains include The Limited, which has several different divisions such as Express and Bath & Body Works in its organization, with each specializing in a different type of merchandise; Ann Taylor, a company that promotes private-label fashion merchandise for women; and Williams-Sonoma, a housewares merchant.

The chains also rely on the catalog to provide additional revenue for their companies. Some merely send a catalog that features the same assortment found in the stores, whereas others focus on additional merchandise for their direct-mail customers.

*Example:* Victoria's Secret sells women's sportswear in the catalog in addition to lingerie. This expansion of the merchandise offering for the catalog necessitates a different buying team to make these purchases.

*Notes* This is to note that however, catalogs for specialty chains are generally not as frequently used as are those of department stores, but nonetheless they do bring in a great deal of business. There are some exceptions such as Pottery Barn and Crate & Barrel.

### 5.1.3 Catalog Operations

Retailing by mail and phone is by no means restricted to companies with brick and-mortar operations. There are more and more organizations being formed each day for the purpose of

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getting a share of the market that prefers to purchase at home or does so because of time limitations. Every conceivable product line and price point is available from catalog companies. Some feature the same full line of merchandise as is found in the department stores, while others restrict their offerings to a narrower product base such as is found in the specialty chains.

The largest of the direct retailing general merchandise businesses is Spiegel. Featuring a wide assortment ranging from apparel and accessories for the family to products for the home, Spiegel sends its buyers all over the globe to seek out merchandise that will fit most families' needs. Lands' End, a part of Sears Holdings on the other hand, limits its assortment to clothing and some wearable accessories for men and women, while Herrington, in its Enthusiasts' Catalog, sells only products with a golf, motoring, travel, fitness, photography, and audio orientation.

Although the catalog business continues to boom, some of these merchants are feeling that a "store" presence will help them gain an even broader customer base. Some are opening stores, on a limited basis, throughout the country to bring their merchandise to the traditional shoppers. Their belief is that once customers have been satisfied in the store, they will then make additional purchases through the catalogs.

Companies such as Smith & Hawken, which features merchandise for gardeners; The American Girl, specialists in dolls; and Patagonia, direct marketers that sell specialty items for sports enthusiasts and outdoors people, have entered into the traditional retail environments. Patagonia's stores are owned and operated by Great Pacific Iron Works. Thus without the challenge of running a retail operation, the company has the advantage of having its merchandise featured in a limited number of stores and hopefully gaining an additional customer base that will also use the catalog for future purchasing.

*Notes* Unlike the Spiegel operation, Patagonia's catalog is highly specialized, and it serves a very different type of customer. Unlike Spiegel, it also markets its catalog merchandise in stores that are affiliated with the company.

## Self Assessment

Fill in the blanks:

1. The ..... are structured either as full-line operations or specialized stores.
2. ..... Department Store feature complete merchandise assortments that include apparel for the family, accessories, home, etc.
3. ..... department store is a company with anywhere from two to more than a thousand "small" units.
4. ..... department stores usually having "large" stores that feature a flagship and, perhaps, no more than one hundred branches.
5. The largest of the direct retailing general merchandise businesses is ..... .
6. The chains rely on the catalog to provide additional ..... for their companies.
7. Notations such as "....." indicate that the store is looking for sales outside the normal trading area.

Notes

*Caselet*

## Spiegel Catalog

Spiegel, Inc., the nation's largest direct marketer and specialty retailer was founded in 1865. It sells apparel, household furnishings, and other merchandise through semiannual catalogs and various specialty catalogs. Spiegel reaches more than thirty million households in the United States. While the business is primarily a catalog operation, it does have a few outlet shops that dispose of overstocked or end-of-season merchandise.

Buyers and merchandisers alike are provided substantial information about customer purchases from computer-generated reports. Such data include customer demographics, behavioral information,merchandise preferences, and price points within the various markets. Through constant analysis, the buyers are better able to serve their customer's needs. In addition, primary research is a regular company undertaking. Studies are conducted that produce firsthand information about consumer preferences.

Typical of the consumer research done was a questionnaire that was inserted in a company catalog. Many of the responses confirmed the organization's own merchandising thoughts, whereas some turned up requests that hadn't been considered before the survey. About 72 percent responded affirmatively to the company's customer advisory panel. The success of the catalog is certainly due to the company's efforts to consider the consumer in the decision-making process; its mix of merchandise that includes both nationally advertised brands, many of whose items are specifically manufactured for Spiegel, and private-label items; and buyer's careful attention to merchandise acquisition and development. If problems arise, customer service representatives quickly address them.

Spiegel recognizes that while it doesn't have some of the advantages of companies that operate from stores, such as interaction with department managers and shoppers to determine merchandise needs firsthand, its regular involvement with research provides it with the information needed to run a successful business.

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch05.pdf

## 5.2 Home Shopping Networks

It was during the early 1980s that television viewers were first introduced to a new type of programming. Rather than entertainment, informational programs, and news broadcasts, the audience was shown a variety of goods available for their purchase. On several cable stations, merchandise that featured a "bargain" orientation was displayed. Promoted at what were said to be lower than regular retail prices, with both the regular and "special" price displayed, viewers were invited to make their selections and call in their requests.

Today, as we are at the beginning of the new millennium, more and more business is being accomplished in this manner. On such programming as the Home Shopping Network and QVC, the two major entries using this format, hundreds of thousands of transactions are recorded every day.

The format used by these "programs" involves someone showing the specific item or featuring it on a live model. In addition to merchandise that has been purchased by the company's buyers, well-known personalities come on to sell their own product lines. Celebrities such as Ivana Trump, Connie Stevens, and Joan Rivers make regular appearances on the home buying screens.

Notes

Interaction with the customers has become a regular feature on these programs. Those wanting additional information may call the station and speak with representatives about specific items. Sometimes the discussion is with the "stars," giving it even more meaning to many shoppers.

Another motivational device used to encourage purchasing involves on-screen merchandise inventories for each item and how quickly it is selling. The number of pieces still available for sale keeps changing as the sales are made, encouraging the doubters to buy more quickly or possibly be faced with a sold-out sign.

With most of the programming spanning a full day, the companies usually feature a schedule that shows when each of the merchandise categories will be featured on the air. "Fashion Coordinates" might be on at one o'clock, "Ideas to Beautify the Home" at two, and so forth. In this way, shoppers can set time aside when the items in which they are interested will be featured.

For people who do not have the time to shop the stores and find that the pictures in catalogs do not provide enough information for them to buy, shopping on television has been the answer for many.

### Self Assessment

State whether the following statements are true or false:

8. The number of pieces still available for sale does not change as the sales are made.
9. For people who do not have the time to shop the stores and find that the pictures in catalogs do not provide enough information for them to buy, shopping on television has been the answer for many.

## 5.3 E-Tailing

Every day, more people are turning to their computers as a means of purchasing goods and services. With computers in nearly every work environment and more being bought for personal use in the home, they are a natural outlet for merchants to sell their wares.

Although the overall sales generated thus far pale by comparison to in-store and off-site shopping such as catalogs, the outlook seems extremely positive for merchants engaged in e-commerce. Each year, sales continue to increase, making this channel an excellent purchasing outlet. Sales for 2005 reached $200 billion, and were expected to reach even greater numbers by the end of the decade.

*Did u know?* Men are responsible for 49 percent of online purchases, far more than they spend in brick-and-mortar operations.

With the Internet being a relatively new tool for purchasing, a brief discussion of how it may be accessed by potential shoppers is presented.

For as little as $23 per month, services like America Online and Comcast provide people with unlimited access to the Internet and all of the Web sites that feature goods and services for sale. By either entering an exact Web site name, which takes you to a specific merchant's location, or using a "**search engine**" such as Yahoo to find a category or directory that lists different types of merchandise, the user is able to locate the desired merchandise.

Notes

*Example:* Bluefly.com is a Web site that features designer merchandise at greatly reduced prices. It features a vast assortment of the latest fashions at rock-bottom prices. Amazon.com, an enormous retailer of books and CDs, features just about everything in those product lines at lower than traditional store prices, and is realizing significant sales of fashion merchandise. Expedia.com is a Web site that enables the shopper to purchase seats on planes typically at a cost less than they would pay using a travel agent.

While many of these sites are used as the only means for companies to sell their products, traditional retailers of every size and classification have joined the Internet method of reaching potential customers.

*Example:* The Gap, sells its basic products such as khaki pants, on its Web site. Shoppers can easily make the purchase and have the merchandise sent directly to their homes. The site is an interactive one in which customer questions may be addressed and immediate responses given.

Most department stores, chain organizations, and catalog operations that have successfully entered the Internet to reach broader markets include J. Crew, Eddie Bauer, Levi's Store, L.L. Bean, JCPenney, Big and Tall, Brooks Brothers, Disney Store, Jos. A. Bank, Spiegel, and Macy's.

As with catalogs and home buying networks, the potential consumer market is extremely large, and competition is significant. People all over the world with Internet access can be presented with merchandise that they will often be unable to find in stores in their trading areas. Even if the merchandise is available locally, the prices on the Internet are often better. A case in point follows.

A report in *USA Today* tells about a shopper wanting to purchase Portmeirion dinnerware. It was available in many stores throughout the United States, but the selling price was $150 per place setting, a price that was too high for the shopper. By searching the Web, beginning with the word *discount,* a number of different sites came onto the screen. Ultimately portmeirion.net appeared, where the dishes were offered at a 50 percent discount! The order was placed with a guaranteed date of delivery and an assurance that any damaged pieces would be replaced. Both the retailer and the customer were happy.

As is the case in traditional in-store retailing, merchants are always looking for ways in which to distinguish their operations from the competition. It might be through advertising, special events, personalized service, private-label merchandise, or a host of other initiatives. Retailers who use the Web are also using gimmicks or other means to bring themselves to the attention of potential customers.

To differentiate themselves from other Web sites, Lands' End has developed a "personal model" feature on its Web site that lets women "try on" tailored clothes without ever leaving the computer. A 3-D silhouette is created after the customer answers a few questions about hair color, height, and body proportions. Then, in a sort of electronic dressing room, the customer can outfit the model to see how certain fashions would look.

These two instances show how both the shopper and the Internet retailer can make the most of buying and selling on the Web.

Given the unlimited customer base that reaches the far corners of the globe, more and more buyers will be needed to purchase the merchandise to be sold through e-tailing. With relatively small markets being served by traditional buyer purchases for stores' inventories, the assortment of goods is generally restricted. On the other hand, with the limitless trading areas served by Internet users, buyers are able to purchase much broader assortments in terms of products and

Notes

price points. This gives the professional buyer a greater latitude in purchasing and a more expansive wholesale market in which to seek goods. The following section deals with some of the different aspects of purchasing involved in the acquisition of merchandise sold by means of off-site outlets. It also explores the question being faced by retailers who maintain both stores and Web sites concerning integration or separation of the two operations.

### Self Assessment

State whether the following statements are true or false:

10. Given the unlimited customer base that reaches the far corners of the globe, more and more buyers will be needed to purchase the merchandise to be sold through e-tailing.
11. With the limitless trading areas served by Internet users, buyers are not able to purchase much broader assortments in terms of products and price points.

## 5.4 Off-site Buyer Duties and Responsibilities

The duties and responsibilities of traditional and off-price retail buyers were addressed earlier. Their roles included, in addition to purchasing, interaction with other members of the store organization such as advertising managers, department managers, visual merchandisers, and human resources people. This interaction is necessary to make certain that the goods within their merchandise classifications bring profits to the store. They often select the merchandise to be advertised and displayed, meet with department managers and sales associates to get feedback from shoppers, and communicate with human resources personnel to participate in the recruitment process.

While the qualifications for buying for these off-site retailers are much the same as those required for their store purchasing counterparts, the scope of the duties they perform are somewhat different: Their major function is purchasing; they don't interact with a sales staff on the selling floor or recommend merchandise to be advertised. Whereas they aren't concerned with visual presentation, they are concerned primarily with merchandise acquisition.

Traditional retailers draw their customer base from a well-defined trading area.

*Example:* The small independent store usually serves customers who are within a thirty-mile area.

Major stores, such as department stores, have larger trading areas that encompass their flagship and branches.

*Did u know?* Each of the units generally draws from a thirty-mile radius.

In giant chain organizations, often a national venture, the buying is also restricted to a narrow segment of the market, since chains usually locate themselves in areas that, although widely separated geographically, are similar to each other.

Catalogs, home buying outlets, and Internet Web sites, on the other hand, serve a much broader geographic market. In some cases, the market is a global one.

### 5.4.1 Catalogs

Catalogs are readily distributed anyplace on the globe that has inhabitants who might have a need to buy the company's goods. As a consequence, the buyers who purchase for these publications

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must address much broader merchandise requirements than their store buyer counterparts. The merchandise, if so widely distributed, must have a "universal" appeal so that the customer in Austin, Texas, will have the same interest as the one in Baltimore, Maryland. In addition to item selection, the price factor is an important consideration. Often, catalog shoppers seek merchandise that features a price advantage or is at least competitive with the stores they may visit in person. Numerous catalogs use the phrase *special prices* to get shoppers' attention. To bring the most favourable prices to the consumer, the buyer must be a talented negotiator and must obtain the lowest prices possible from the vendors. Finally, continuity must be maintained in many catalogs.

*Example:* Spiegel publishes its major catalog twice a year. With such a long selling period, the buyer must make certain that the vendors represented in the catalog will provide the goods in a timely fashion for the six-month period the catalog will be used. If this is not the case, sales will be lost, and customers might start to look elsewhere for their needs. This is a very important consideration that a buyer must address before any order is placed.

### 5.4.2 Home Buying Networks

As in the case of catalog operations, home buying outlets also serve enormous markets. The buyers employed by these companies must also evaluate the "visual" appeal of the items selected. Will the merchandise have an attractive on-screen appearance that will motivate shoppers to become customers? Will it be necessary to feature the merchandise on live models to make it more appealing? Will it be necessary to underscore specific selling points to convince the viewer to buy?

*Caution* A careful visual inspection of the items considered for purchase must be made to make certain that the sales potential for each can be achieved.

### 5.4.3 E-Tailing

The fundamental considerations regarding merchandise acquisition for both catalogs and home purchasing networks are the same for those who buy goods to be sold on the Internet.

Buyers who purchase for brick-and-mortar operations as well as Internet Web sites must have both divisions in mind when they go to the wholesale markets. The items for the stores will have a narrower target market, while those destined for sale on the Internet will have widespread appeal. In cases, where the store and the Web site are totally separated, purchasing by the Web site buyer is a different responsibility. Attention to in-store shoppers' needs is not a requirement. Buyers whose companies are strictly Internet based need to choose merchandise only for that outlet. These goods must be evaluated in terms of their appeal to a global audience and the prices for which they would retail. With price competition an extremely important factor on the Internet, the buyers must be excellent negotiators so that they can purchase at the lowest possible wholesale prices.

The time factor is another consideration.

*Caution* The buyer must determine the potential "life" of each product and be ready to make adjustments to the Web site with new styles if sales for current goods decline.

Notes

Depending on the product classification, the selling periods vary.

*Example:* Books have comparatively long life cycles, whereas fashion items tend to have relatively shorter ones.

Inventory replenishment is another concern. For staple goods, this is not generally a problem. Items of this nature are always available from the vendors on short notice. Fashion items such as apparel and accessories are another matter. Manufacturers who produce this merchandise are often cautious and play a "wait and see" game before going into full-scale production. If a hot item surfaces, and it is not available for quick delivery, sales will be lost. During the negotiation for such goods, the buyer must get the producers' assurances that reorders will be filled in a timely manner. Even if this is risky business for the vendors, they must understand that without a guaranteed steady flow of goods, the buyers will seek other merchandise resources.

Another consideration is the graphics used in the item's presentation. Would an actual photograph of the product better serve the company's needs or would a sketch be more favorable? The buyer often advises those who prepare the Web sites as to which format would better present the merchandise.

Since, purchasing merchandise for resale on the Web is a relatively new situation, professional buyers must always be ready to redefine their buying methods. Once a satisfactory formula has been achieved that brings profitable results to the company, the buyer's task will become more routine.

*Task* Make distinction between brick-and-mortar catalog operations and those that are catalog-only businesses.

## Self Assessment

Fill in the blanks:

12. ..... are readily distributed anyplace on the globe that has inhabitants who might have a need to buy the company's goods.
13. Numerous catalogs use the phrase ..... to get shoppers' attention.
14. Buyers who purchase for ..... operations as well as Internet Web sites must have both divisions in mind when they go to the wholesale markets.
15. Depending on the ..... classification, the selling periods vary.

*Case Study*

### Merchandise Assortment

Gallop & Litt has been a successful specialty store merchant in Ohio, Missouri, and Kansasfor more than thirty-five years. Today, it operates forty-eight stores in the three states. The merchandise assortment focuses on understated sportswear for the middle-income woman.

As is the case with other chain organizations, G & L, as the firm is usually referred to by its customers, operates a catalog division. The merchandise is acquired by the same buying

*Contd...*

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staff for both in-store and catalog use and is basically the same for both divisions. That is, the most promising merchandise headed for the stores is earmarked for the catalog.

While the business has been generally profitable for all the company's years as a specialty retailer, management has decided it might be appropriate to expand the catalog division to make it even more profitable. After extensive brainstorming, the company's management team has narrowed down the expansion ideas to a few. They are as follows:

- Instead of merely sending the store's catalogs to its regular customers in the trading area, as it has in the past, the operation should be expanded to serve markets from coast to coast.
- The merchandise assortment should include classifications other than those featured in the stores and could include men's and children's clothing.
- A separate buying team should be put in place for catalog purchases, with the present buying team relegated to in-store purchases.

**Questions**

1. Could such changes prove to be a danger to the store's profit picture?
2. How should the team evaluate each of the suggested new approaches for catalog sales?
3. Which changes, if any, would you suggest be made?

***Source:*** http://wps.pearsoncustom.com/wps/media/objects/5808/5947551/MCH150_Ch05.pdf

## 5.5 Summary

- Off-site operations such as catalogs, home purchasing networks, and e-tailing are becoming more competitive with brick-and-mortar retailers than ever before.
- Department stores, who once published only a few catalogs a year at peak selling times, are now producing an abundance of them throughout the year.
- Some major retailers such as Macy's have opened separate divisions to handle the enormous volume of sales generated by their catalogs.
- Catalogs are often unique and sell much more than just the typical merchandise found in stores. Neiman Marcus, for example, features unique, high-priced merchandise that appeals only to the country's most affluent consumers.
- Some retailers are catalog-only operations. They use only the direct-marketing approach to reach the consumer.
- The home purchasing networks have increased their sales revenues by employing celebrities to sell goods.
- With its global market, e-tailing has the capacity to reach a larger number of consumers than any of the other retail operations.
- While the duties and responsibilities are the same for all professional purchasers, those involved in off-site buying face additional challenges.

Notes

## 5.6 Keywords

***Bricks and Mortar:*** Bricks and mortar refers to businesses that have physical presences.

***Catalog:*** Catalog is a complete list of items, typically in alphabetical or other systematic order.

***Chain Organizations:*** Chain organizations are groups of retail stores engaged in the same general field of business that operate under the same ownership or management.

***E-Tailing:*** E-tailing is the selling of retail goods on the Internet.

***Full-line Department Store:*** It is a department store which offers many different lines of products, including clothing, sporting goods, food, furniture, electrical goods, etc., and many different services, including wrapping, delivery and credit.

***Home Shopping Network:*** Home Shopping Network is a 24-hour/7, a home based shopping television network.

***Specialized Department Store:*** Specialized department store usually have "large" stores that feature a flagship and, perhaps, no more than one hundred branches.

***Specialty Chains Department Store:*** Specialty chains department store is a company with anywhere from two to more than a thousand "small" units.

## 5.7 Review Questions

1. Discuss the method in which many merchants broadened their playing fields to attract more shoppers to their companies.
2. How have some major department stores expanded their catalog offerings that were once limited to holiday shopping seasons and other peak selling periods?
3. Why do retailers sell some merchandise in their catalogs that they don't sell in their stores?
4. Discuss the marketing tools which have the home shopping networks used to attract more attention to their merchandise.
5. Describe why the cable "shows" such as HSN and QVC make use of celebrities to sell their products?
6. Discuss the purpose of interactive retail Web sites on the Internet.
7. Why are shoppers attracted to the Internet for their shopping needs? Explain.
8. Explain the "personal model" feature that Lands' End uses on its Web site to distinguish it from its competitors.
9. Discuss the manner in which retailers with stores operate Web sites.
10. Explain the duties and responsibilities of many store buyers that are not needed to be performed by those purchasing merchandise for catalogs, home buying networks, and the Internet.

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | department stores | 2. | Full-Line |
| 3. | Specialty chains | 4. | Specialized |
| 5. | Spiegel | 6. | Revenue |

Notes

7. available by mail only
8. False
9. True
10. True
11. False
12. Catalogs
13. special prices
14. brick-and-mortar
15. product

## 5.8 Further Readings

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Notes

# Unit 6: Market Specialist

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Define Retail Specialist
- Discuss the Retail Marketing
- Describe the Retail Market Specialists
- Explain the Challenges of Retail Marketing

## Introduction

When you run your own business, you must focus on the big picture: sales goals, marketing strategy, operations, financing, and compliance with rules and regulations. However, if your business is a retail store, you also need to tend to day-to-day selling to customers. You can maintain your focus on larger issues by hiring retail specialists. In this unit, we will discuss about retail specialist. We will also focus on retail market specialist, and challenges of retail marketing.

## 6.1 Retail Specialist

Retail specialists, also known as sales associates or retail salespersons, help customers find the products and services that they want to buy. They explain the features of your offering, and might demonstrate its uses. Depending on the requirements of your establishment, they might

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also need to operate a computer terminal to process orders, know how to accept payments by cash, check, credit card or debit card, bag and wrap purchases, count and tally cash at a registers, handle coupons and refunds, collect customer data and make deposits at a cash office. They might also stock shelves and product displays, mark price tags and take inventory.

### 6.1.1 Education

If you're willing to train your retail specialist extensively, you'll draw a wider pool of applicants and can pay a lower salary by specifying no educational background. However, requiring at least a high school diploma ensures some basic skills that might be useful for business. If your products or services are highly technical, then you might require a college degree, which will cost more. If you want to minimize training, look for sales experience, preferably in a retail environment similar to yours.

*Notes* Management background is also helpful if you want a specialist who can run the retail side of your operation.

### 6.1.2 Considerations

Hiring full-time employees might involve less training, promote a sense of commitment and attract workers with more skills. However, this also entails increased costs because you might have to provide benefits such as insurance and paid time off to remain competitive with other retail concerns. Part-time employees avoid the expense and paperwork of benefits, but may involve more headaches as you try to staff positions with more numbers of people. A common benefit for any type of employee is a discount on products and services. This encourages specialists to become familiar with your offerings as consumers, and to promote its advantages from first-hand experience.

*Did u know?* As of May 2010, mean wages for the profession ran $12.02 per hour or $25,000 per year, with lows of $7.75 per hour or $16,120 per year, and highs of $18.54 per hour or $38,570 per year.

### Self Assessment

State whether the following statements are true or false:

1. For highly technical products or services are, then the retail specialist might require a college degree.
2. A common benefit for any type of employee is a discount on products and services.
3. Hiring full-time employees might involves a lot of training.
4. Management graduates explain the features of your offering, and demonstrate its uses.

## 6.2 Retail Marketing

**Marketing** is the process of communicating the value of a product or service to customers. Marketing might sometimes be interpreted as the art of selling products, but sales is only one part of marketing. As the term "Marketing" may replace "Advertising" it is the overall strategy and function of promoting a product or service to the customer.

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From a societal point of view, marketing is the link between a society's material requirements and its economic patterns of response. Marketing satisfies these needs and wants through exchange processes and building long term relationships. In fact, it's the process of communicating the value of a product or service through positioning to customers. Marketing can be looked at as an organizational function and a set of processes for creating, delivering and communicating value to customers, and managing customer relationships in ways that benefit the organization and its shareholders.

*Notes* Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behavior and providing superior customer value.

There are five competing concepts under which organizations can choose to operate their business; the production concept, the product concept, the selling concept, the marketing concept, and the holistic marketing concept. The four components of holistic marketing are relationship marketing, internal marketing, integrated marketing, and socially responsive marketing. The set of engagements necessary for successful marketing management includes, capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, creating long-term growth, and developing marketing strategies and plans.

*Did u know?* 73% of Consumers love a brand because of friendly customer service.

Any organization's growth and survival in the highly competitive market depends on how well it understands its customers and responds to their current and potential needs. In the retail industry, understanding the retail customers plays an important role in the success of a retail store. The development of technology and globalization has led to a new era of consumerism where retailers focus completely on meeting the needs, wants and priorities of the consumer.

To understand the nature of the retail market, a retailer should analyze various factors like population, demography, and the geography of a particular area. Population analysis helps the retailer to understand potential markets. The population of an area is based on various parameters, like immigration and emigration rates, race and ethnicity. Immigration and emigration rates help the retailer to understand the actual population of a particular area. Race and ethnicity help the retailer to understand the choices and buying patterns of the consumers.

Under demographic analysis, the retailer classifies customers on the basis of their age, sex, education, income, occupation, race, nationality, etc. This allows the retailer to understand the customers in a better way and customize its products and service accordingly.

Geographic analysis allows the retailers to understand the buying population, based on the total population. Moreover, the population is classified on the basis of region – metro and non – metro – which helps the retailer to have more accurate data about the buying population.

*Example:* A supermarket may offer only the top 50 bestseller paperbacks, but a specialist bookstore will typically offer a choice of thousands of books.

Notes

*Caselet*

## OldPharm

*OldPharma* has a long, successful tradition in researching, developing, and selling "small molecule" drugs. This class of drugs represents the vast majority of drugs today, including aspirin and most blood-pressure or cholesterol medications. *OldPharma* is interested in entering a new, rapidly growing segment of drugs called "biologicals." These are often proteins or other large, complex molecules that can treat conditions not addressable by traditional drugs.

Biological R&D is vastly different from small molecule R&D. To gain these capabilities, pharmacies can build them from scratch, partner with existing startups, or acquire them. Since its competitors are already several years ahead of *OldPharma*, *OldPharma* wants to jump start its biologicals program by acquiring BioFuture, a leading biologicals start-up based in the San Francisco area. BioFuture was founded 12 years ago by several prominent scientists and now employs 200 people. It is publicly traded and at its current share price the company is worth about USD 1 billion in total.

*OldPharma* has engaged McKinsey to evaluate the BioFuture acquisition and advice on its strategic fit with *OldPharma's* biologicals strategy.

***Source:*** http://www.mckinsey.com/careers/apply/interview_tips/practice_case_studies/practice_case_-_oldpharma

### Self Assessment

Fill in the blanks:

5. ..... is the process of communicating the value of a product or service through positioning to customers.
6. Understanding the retail ..... plays an important role in the success of a retail store.
7. Under ..... analysis, the retailer classifies customers on the basis of their age, sex, education, income, etc.
8. Geographic analysis allows the retailers to understand the buying .....

## 6.3 Retail Market Specialists

The importance of formulating a retail strategy is understood by all small and big retailers. To build a competitive advantage that can be sustained, retailers need to pay special attention to aspects like price, location, merchandise, service and communications. Operations, purchasing/logistics, market research, financing and technology, which determine the strategic positioning of the firm are also equally important. In this unit, we discussed how each of these factors affect the firm's image. To utilize the limited human, financial and physical resources optimally, retailers should have a well-planned strategy. Thus, retailers should follow a systematic step-by-step planning process for formulating and implementing the strategy. Periodic reviews and evaluations will help the retailer to take corrective actions either by replanning the strategy or by implementing it more effectively.

Notes

*Caution* All the efforts of retailers are directed at the customers. So they should take every care to ensure that the customer gets the right impression and image of the stores.

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.

Retail sales and marketing Specialist would suit candidates who are enthusiastic and passionate about new technology, preferably with territory field, retail and training experience.

Following are essential desired for sales and marketing specialist.

### Essential Skills and Knowledge

- Field sales experience
- Training experience
- Confidence to challenge and liaise with senior retail managers
- Ability to drive sales performance
- Ability to drive store compliance
- Strong written and verbal communication skills
- Responsible for motivating staff to drive sales and create brand awareness
- Background experience/knowledge of current and upcoming consumer electronic products, particularly electronic tablets, mobile and digital imaging

### Main Duties and Areas of Responsibility

- Build meaningful relationships with key retailers
- Supporting a high number of stores within the territory
- Compliance/merchandising – negotiate prominent spaces in store
- Drive sales performance through sales/demo days in store
- Support in store promoters
- Maintain an expert understanding of mobile, tablets and digital imaging
- Maintain brand, visual and operational standards
- Adhere to company and client policies, procedures and compliance
- Design, assist, develop and implement special projects

### Requirements

- Personable, engaging and energetic
- Strong communication skills

Notes

- Weekend sales days per month – 2 minimum
- Full driving license

*Task* Make a short report on market specialist's profile.

### Self Assessment

Fill in the blanks:

9. Marketing specialist should essentially have Field ..... experience.
10. To utilize the limited human, financial and physical resources ....., retailers should have a well-planned strategy.
11. ..... adopt marketing strategies like shotgun merchandising and rifle merchandising.
12. Formulating a retail strategy is very important for all small and big .....

## 6.4 Challenges of Retail Marketing

Retail stores that sell directly to consumers face a different set of marketing challenges than other industries. For the retail industry, the majority of its marketing challenges deal with the perceptions and thought-processes of consumers shopping in retail stores.

### 6.4.1 High-ticket Items Require a Consumer Sacrifice

Especially, in tough economic times, many consumers may think that purchasing high-ticket items requires them to make a long-term sacrifice. To be able to afford the costly item, a consumer may have to cut back spending in other areas. To market these high-ticket products, retailers must focus on how the item benefits buyers, convincing customers it is worth the perceived sacrifice. Other retailers have used payment plans that do not charge interest for a certain period of time as a way of making the big-ticket item affordable.

*Caution* Retailers need to adjust their strategies or implement tactics in light of the huge drop-off in consumer spending.

### 6.4.2 Small Stores Have Limited Merchandise

Small retailers often have a hard time competing with bigger retail stores as many consumers assume smaller stores have smaller selections. Challenges that small retailers face is how to create marketing campaigns that make the store seem more broad-based. For many small retailers, this may require hiring professional marketers or graphic designers to create print or online advertisements. The ads should focus on the store's variety and ability to provide what the bigger name brand stores can offer, only closer to home.

### 6.4.3 Trendy Stores are Expensive

Trends in retail stores are often what make a store successful. Individuals interested in fashion want to buy the latest fashions. Electronic gurus want the newest cell phone or computer.

Notes

Golfers want to latest golf club. Often consumers relate trendy stores with higher price tags. Marketing these higher-end products is a challenge and overcoming this perception with targeted advertisements informs consumers that the store carries the latest products at affordable prices.

## Self Assessment

State whether the following statements are true or false:

13. In tough economic times, many consumers may think that purchasing high-ticket items requires them to make a long-term sacrifice.
14. The ads should focus on the store's owner credentials to provide what the bigger name brand stores can offer.
15. Trends in retail stores are often what make a store successful.

*Case Study*

### Newsletters

**Background**

Working Mum's Masterclass runs events for working mums and mumpreneurs. Penny, the owner, is a Mum of 2 boys, runs her business, writes a blog and lectures at ICMS, so is extremely busy. She had been sending out newsletters to her mailing list but found she wasn't managing it regularly and didn't have a plan in place to help her with content.

**Objectives**

The objectives for the newsletters were:

1. Increase subscribers to the newsletter, blog and social media
2. Encourage sales of tickets to Penny's events
3. Have regular newsletters sent at specific dates

**Strategy**

The strategy for the newsletter was to get organised! This was done during an initial planning session which resulted in an outline for the next 6 newsletters. The plan highlighted all the topics to be covered, dates it was to be written by and dates for it to be sent to the mailing list.

With this in place a template for regular newsletters and one for inviting subscribers to events were next on the list to be developed, giving brand continuity to the newsletters.

One of Penny's biggest issues was putting the newsletter out at a regular time, having an external party involved meant she would be prompted each month to organise the information and get it ready to send out.

**Execution**

Each month Penny supplied bullet points, images and links for the newsletter which was drafted into the final newsletter by Paperbag and given back for review. Once the content was approved, the final polish was put on it ready for sending out to the mailing list.

As well as sending to the database, links were placed on social media ensuring a larger coverage to readers who may not have subscribed.

*Contd...*

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**Results**

The 3 month review of the newsletter showed the following:

1. Open rate increased by 13%
2. Click rate (people opening links) increased by 500%
3. Subscribers increased by 100%

The newsletter mailing list is growing and a larger % of subscribers are opening it to read and following the links to the external sources. It has gone out regularly each month with much less stress for Penny as she has a plan in place for some of the content and also someone to bounce ideas off if she needs additional assistance.

**Question**

How did Penny manage to fulfill the objectives of her firm, Working Mum's Masterclass?

***Source:*** http://www.paperbagmarketing.com.au/case-studies.html

## 6.5 Summary

- Retail specialists, help customers find the products and services that they want to buy.
- Hiring full-time employees might involve less training, promote a sense of commitment and attract workers with more skills.
- Marketing is the process of communicating the value of a product or service to customers.
- There are five competing concepts under which organizations can choose to operate their business; the production concept, the product concept, the selling concept, the marketing concept, and the holistic marketing concept.
- Any organization's growth and survival in the highly competitive market depends on how well it understands its customers and responds to their current and potential needs.
- To build a competitive advantage that can be sustained, retailers need to pay special attention to aspects like price, location, merchandise, service and communications.
- Retailers adopt marketing strategies like shotgun merchandising and rifle merchandising in order to cope with the dynamics of the market.
- Retail sales and marketing specialist would suit candidates who are enthusiastic and passionate about new technology, preferably with territory field, retail and training experience.
- To market the high-ticket products, retailers must focus on how the item benefits buyers, convincing customers it is worth the perceived sacrifice.
- Trends in retail stores are often what make a store successful.

## 6.6 Keywords

***Advertising:*** It is the non-personal communication of information usually paid for and usually persuasive in nature about products, services or ideas by identified sponsors through the various media

***Demographic Analysis:*** It includes the sets of methods that allows one to measure the dimensions and dynamics of populations.

Notes

***Geographic Analysis:*** It includes any of the formal techniques which study entities using their topological, geometric, or geographic properties

***Holistic Marketing:*** A marketing strategy that is developed by thinking about the business as a whole, its place in the broader economy and society, and in the lives of its customers. It attempts to develop and maintain multiple perspectives on the company's commercial activities.

***Marketing:*** The action or business of promoting and selling products or services.

***Merchandise:*** It is any practice which contributes to the sale of products to a retail consumer.

***Periodic Reviews:*** It is the evaluation of a firm and its progress on a regular cycle.

***Retail:*** The sale of goods or commodities in small quantities directly to consumers.

## 6.7 Review Questions

1. What do you mean by retail specialists?
2. Explain the concept of "Marketing".
3. What are the five concepts under which organizations choose to operate their business?
4. Any organization's growth and survival in the highly competitive market depends on how well it understands its customers and responds to their current and potential needs. Justify.
5. Why is formulating a retail strategy important for retailers?
6. What are the essential skills and knowledge required for a retail sales and marketing specialist?
7. Elaborate on main duties and areas of responsibility for a retail specialist.
8. What are the challenges in retail marketing?
9. How do high-ticket items affect retail marketing?
10. How do latest trends make a store successful?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | True | 2. | True |
| 3. | False | 4. | True |
| 5. | Marketing | 6. | Customers |
| 7. | Demographic | 8. | Population |
| 9. | Sales | 10. | Optimally |
| 11. | Retailers | 12. | Strategy |
| 13. | True | 14. | False |
| 15. | True | | |

## 6.8 Further Readings

**Notes**

*Books*

Berman, B. and Evans, J., *Retail Management*, 11th edition, Pearson Education.

Diamond, J. Pintel, G., *Retail Buying*, Eight edition, Pearson education.

Sheikh, A. and Fatima, K., *Retail Management*, First edition, Himalaya Publishing House.

*Online links*

en.wikipedia.org/wiki/Retail

smallbusiness.chron.com/retail-specialist-34363.html

www.indeed.com/q-Retail-Market-Specialist-jobs.html

Notes

# Unit 7: Consumer Analysis

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Define Consumer Affect and Cognition
- Discuss the Consumer Behaviour
- Describe the Relationships Among Affect and Cognition, Behaviour, and the Environment
- Explain the Marketing Strategy
- Describe the Individual Consumers

## Introduction

Consumer analysis is the sum total of initial steps in the marketing research that identify and collect information on the target market's needs, profiles, and consumer behaviors in order to establish market segmentation.

Notes

In recent times, consumer behavior researchers have argued that it is important for them to study behavior for its own sake, for the purpose of advancing knowledge in any branch of knowledge and any part of business. Consumer behavior can also be studied within the framework of psychology (e.g., as a component of human behavior).

In this unit, we will discuss consumer affect and cognition and consumer behaviour. We will also focus on marketing strategy and Individual Consumer.

## 7.1 Consumer Affect and Cognition

Consumer *affect* and *cognition* refer to two types of mental responses consumers' exhibit toward stimuli and events in their environment. **Affect** refers to their feelings about stimuli and events, such as whether they like or dislike a product. **Cognition** refers to their thinking, such as their beliefs about a particular product.

Affective responses can be favorable or unfavorable and vary in intensity. For instance, affect includes relatively intense *emotions* such as love or anger, less strong *feeling states* such as satisfaction or frustration, *moods* such as boredom or relaxation, and milder overall *attitudes* such as liking McDonald's french fries or disliking Bic pens. Marketers typically develop strategies to create positive affect for their products and brands to increase the chances that consumers will buy them.

*Cognition* refers to the mental structures and processes involved in thinking, understanding, and interpreting stimuli and events.

*Did u know?* Cognition includes the knowledge, meanings, and beliefs that consumers have developed from their experiences and stored in their memories.

It also includes the processes associated with paying attention to and understanding stimuli and events, remembering past events, forming evaluations, and making purchasing decisions and choices. Although many aspects of cognition are conscious thinking processes, others are essentially automatic. Marketers often try to increase consumers' attention to products and their knowledge about them.

*Example:* Volvo ads often feature detailed information about the safety features of the cars to increase consumers' knowledge and the chances that they will buy Volvos.

### Self Assessment

Fill in the blanks:

1. ..... is the sum total of Initial steps in the marketing research that identify and collect information on the target market's needs, profiles, and consumer behaviors in order to establish market segmentation.
2. ..... refers to their feelings about stimuli and events, such as whether they like or dislike a product.
3. ..... refers to the mental structures and processes involved in thinking, understanding, and interpreting stimuli and events.

Notes

## 7.2 Consumer Behaviour

Behaviour refers to the physical actions of consumers that can be directly observed and measured by others. It is also called overt behavior to distinguish it from mental activities, such as thinking, that cannot be observed directly. Thus, a trip to The Gap at the mall involves behavior; deciding whether to go there is not an overt behavior because it cannot be observed by others.

*Example:* Behaviors include shopping at stores or on the Internet, buying products, and using credit cards.

Shopping behavior of consumers in urban India has changed over the past few years with consumers looking for convenience, everything under one roof and a bigger choice of products. With an increase in double-income households, people do not have much leisure time and seek the convenience of one-stop shopping.

*Did u know?* Consumers now seek more information, variety, product availability, better quality, hygiene and excellent customer service. Hence, the concept of "Value for money" is picking up.

### 7.2.1 Consumer Behaviour – A Key to Retail Management

In retailing clear understanding of consumer is paramount to be successful. In recent time, the concept of retail branding is flourishing in India, which requires considerable consumer behaviour research. In order to be an effective retailer, one must understand the role of consumer behaviour study in retailing, as it is one of the most crucial external factor affecting retail firms.

*Caution* It is very difficult to judge the consumer behavior because of variation in behaviour of individual consumers.

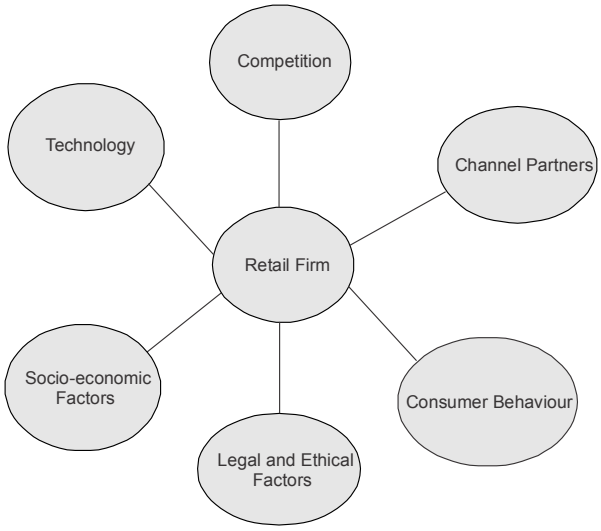
Sometime research through comprehensive survey or sometime sharp and minute observation of customers' need and observable behavior can help a lot to understand and predict the consumers' behavior. If one can analyze the basic building blocks of customers' behavior a better understanding of how and why of consumer behavior can be developed.

Following are some of the basic parameter on basis of which one can build detailed understanding of consumers' behavior:

1. Understanding of different group of customers and identification of different segments.
2. Customers' perception towards retail shopping including perceived risk.
3. Knowledge regarding the consumer buying decision process in retail buying.
4. Effectiveness and impact of different promotion tools.
5. Basic buying motives of customers from particular retail stores.
6. Factor affecting consumer buying behavior including demographic social and cultural factors.
7. Possibilities for continuous improvement and better retail service quality.

Notes

**Figure 7.1: External Environmental Forces Confronting Retail Firms**




***Source:*** Excel book, Retail at crossroads by Raju Rathod

## 7.2.2 Factors Influencing Consumer Behaviour

There are three main categories of factors that affect the consumers' behavior. The first broad category is a demographic factor that comprises occupation of customers, education level of customers, income level of customers, socio-economic class of customers and life style and value orientation of customers. These demographic factors largely influence customer's behavior towards retail stores. The other factors are personal and social factors.

Many retailers successfully prepare very strong database of customers and do customized retail marketing. Data mining tools can help retailer to target the specific group of customers with customized offers.

*Notes* Demographic factors like size and composition of population influence the way people in a country shop. India with large population of youngsters is hot destination for various life style brands. Many of these brands like Nike and Reebok have opened their exclusive stores in India. The US based clothing giant Levi Strauss and Co. sees India as one of the fastest growing markets for Levi's. Personal factors like age, gender and life cycle stage also affects the choice of retail store. People in family with kids are likely to visit a multibrand store or hypermarkets to accommodate family shopping needs while those in young age groups might have specific choice in terms of brand they need and might go to an exclusive brand outlet personal factors like occupation, education and economic situation of the consumer greatly affects the way consumers evaluate, purchase and use products. If we try profiling the Retail consumers we can find differences in terms of selection of a particular retail stores by consumers of different occupation, education and income levels. Several studies have revealed that consumers' selection of a retail store involves prestige seeking buying behavior and the choice is driven by their social and organizational status. A company president and top managers are likely to visit high-end stores like lifestyle and stores of designer brands. People from middle and lower income group are more likely to frequent value for money stores like Big Bazaar, etc. Lifestyle

*Contd...*

Notes

and value orientation may also affect the choice of store, for example, Globus and Provogue target people who like to be seen as trendy and fashion Conscious. There is an increasing trend of people following life style of health and sustainability thus creating market for chains offering healthy and low calorie food and Pure Cotton/Natural Fiber apparels.

Behavior is critical for marketing strategy because only through behavior can sales be made and profits earned. Although many marketing strategies are designed to influence consumers' affect and cognition, these strategies must ultimately result in Overt Consumer Behavior to have value for the company. Thus, it is critical for marketers to analyze, understand, and influence overt behavior. This can be done in many ways, including offering superior quality (Toyota), lower prices (Circuit City), greater convenience (Peapod online groceries), easier availability (Coke is sold in millions of stores and vending machines), and better service (Briggs & Stratton lawn mower engines are serviced at 25,000 locations). Marketers can also influence overt behavior by offering products, stores, and brands that are trendier (The Gap), sexier (Calvin Klein jeans), more popular (Nike), and more prestigious (Mont Blanc pens) than competitive offerings.

*Task* Visit a retail buying house and analyze the behaviours of buyer and purchaser.

### 7.2.3 Consumer Environment

The consumer **environment** refers to everything external to consumers that influence what they think, feel, and do. It includes social stimuli, such as the actions of others in cultures, subcultures, social classes, Reference Groups, and families, that influence consumers. It also includes other physical stimuli, such as stores, products, advertisements, and signs, that can change consumers' thoughts, feelings, and actions.

The consumer environment is important to marketing because it is the medium in which stimuli are placed to influence consumers.

*Example:* Marketers run commercials during TV shows that their target markets watch to inform, persuade, and remind them to buy certain products and brands.

Marketers can send free samples, coupons, catalogs, and advertisements by mail to get them into consumers' environments. Stores are located close to populated areas to get them in the proximity of consumers. Web sites become part of a consumer's environment if they are contacted.

### Self Assessment

State whether the following statements are true or false:

4. Behavior refers to the chemical actions of consumers that can be directly observed and measured by others.
5. Stores are located close to populated areas to get them in the proximity of consumers.
6. Web sites become part of a consumer's environment if they are contacted.

## 7.3 Relationships among Affect and Cognition, Behaviour, and the Environment

In Figure 7.2 each of the three elements is connected by a two-headed arrow signifying that any of them can be either a cause or an effect of a change in one or more of the other elements.

Notes

*Example:* A consumer sees an ad for a new laundry detergent that promises to clean clothes better than Tide.

This ad changes what the consumer thinks about the new brand and leads to a purchase of it. In this case, a change in the consumer's environment (the ad for the new detergent) led to a change in cognition (the consumer believed the new detergent was better), which led to a change in behavior (the consumer bought the new brand).

**Figure 7.2: Three Elements for Consumer Analysis**


***Source:*** http://answers.mheducation.com/marketing/consumer-behavior/consumer-analysis

A change in laundry detergent purchase and use could come about in other ways.

*Example:* A consumer receives a free sample of a new liquid detergent in the mail, tries it out, likes it, and then purchases it.

In this case, a change in the consumer's environment (the free sample) led to a change in behavior (use and purchase), which led to a change in the consumer's affect and cognition (liking the new brand).

Another possibility is that a consumer is dissatisfied with his or her current brand of laundry detergent. On the next trip to the grocery store, the consumer inspects other brands and selects one that promises to get white clothes whiter. In this example, a change in affect and cognition (dissatisfaction) led to a change in the consumer's environment (inspecting other brands), which led to a change in behavior (purchase of a different brand).

Although changes can occur in other ways, these examples serve to illustrate our view of consumers, namely, that consumer processes not only involve a dynamic and interactive system but also represent a *reciprocal system*. In a **reciprocal system** , any of the elements can be either a cause or an effect of a change at any particular time. Affect and cognition can change consumer behavior and environments. Behavior can change consumers' affect, cognition, and environments. Environments can change consumers' affect, cognition, and behavior.

Viewing consumer processes as a reciprocal system involving affect and cognition, behavior, and the environment has five implications. Firstly, any comprehensive analysis of consumers must consider all three elements and the relationships among them. Descriptions of consumers in terms of only one or two of the elements are incomplete.

Notes

*Example:* To assume that affect and cognition always cause behavior and ignore the impact of the environment underestimates the dynamic nature of consumption processes.

Similarly, to assume that the environment controls behavior without consideration of affect and cognition also gives an incomplete description. The development of marketing strategies should include an analysis of all three elements, their relationships, and the direction of causal change at particular times.

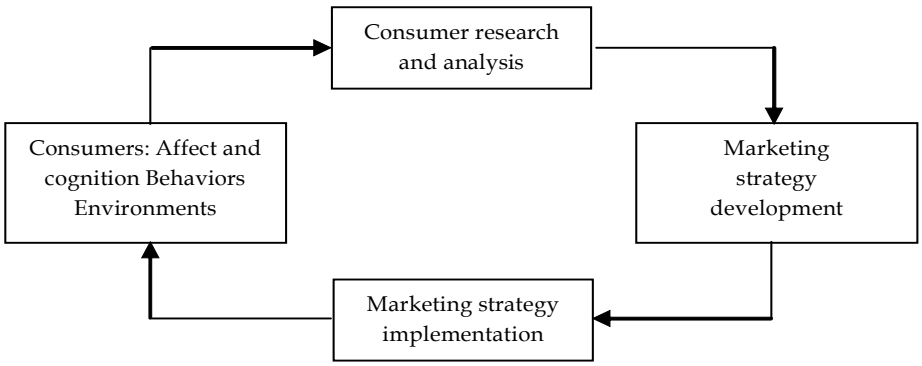
Secondly, any of the three elements may be the starting point for consumer analysis. Although we think that marketing strategists should start with an analysis of the specific overt behaviors consumers must perform to achieve marketing objectives, useful analyses could start with affect and cognition by researching what consumers think and feel about such things as the various brands of a product. Alternatively, the analysis could start with consumers' environments by examining changes in their worlds that could change their affect, cognition, and behavior. However, regardless of the starting point, all three elements and their relationships should be analyzed.

Thirdly, because this view is dynamic, it recognizes that consumers can continuously change. Although some consumers may change little during a particular time period, others may change their affect, cognition, behavior, and environments frequently. Thus, keeping abreast of consumers involves continuous research to detect changes that could influence marketing strategies.

Fourthly, although our example focused on a single consumer, consumer analysis can be applied at several levels. It can be used to analyze not only a single consumer but also groups of consumers that make up a target market—a larger group of consumers made up of all the purchasers of a product in an industry—or an entire society. Because marketing strategies can be applied at all of these levels, this approach is useful for all types of marketing issues.

Finally, this framework for analyzing consumers highlights the importance of consumer research and analysis in developing marketing strategies. As shown in Figure 7.3, consumer research and analysis should be key activities for developing marketing strategies. Consumer research includes many types of studies, such as test marketing, advertising pretests, sales promotion effects, analysis of sales and market share data, pricing experiments, traffic and shopping patterns, surveys, and many others.

**Figure 7.3: Role of Consumer Research and Analysis in Marketing Strategy**




***Source:*** http://answers.mheducation.com/marketing/consumer-behavior/consumer-analysis

Notes

A logical sequence is to first research and analyzes what consumers think, feel, and do relative to a company's offerings and those of competitors. In addition, an analysis of consumer environments is called for to see what factors are currently influencing them and what changes are occurring. Based on this research and analysis, a marketing strategy is developed that involves setting objectives, specifying an appropriate target market, and developing a marketing mix (product, promotion, price, place) to influence it. After the target market has been selected based on careful analysis of key differences in groups of consumers, marketing strategies involve placing stimuli in the environment that hopefully will become part of the target market's environment and ultimately influence its members' behavior.

Consumer research and analysis should not end when a strategy has been implemented, however. Rather, research should continue to investigate the effects of the strategy and whether it could be made more effective.

*Example:* Although AriZona Beverages implemented a successful strategy for selling its products, it tried to increase its market share by using squeezable sports bottles with a nozzle like the ones athletes use to guzzle on the run.

Thus, marketing strategy should involve a continuous process of researching and analyzing consumers and developing, implementing, and continuously improving strategies.

*Caselet*

## Customer Analysis

Using predictive analysis, this international computer manufacturer gained the information needed to clearly identify prospective clients, particularly those who were already using a competitor's products but might be ready for a change. In the highly competitive computer industry, this client gained a competitive advantage for winning the market share war.

**Business Needs**

- Identify prospective customers, particularly those who may already be using a competitor's products but who have not realized expected product performance.
- Determine under what conditions those prospects selected a competitive product.
- Understand how to best deploy marketing resources and sales efforts to realize increased category sales and market share gain.

**Solution**

Edison Group analysts conducted a market survey of 100 prospects currently using a competitor's products. These prospects were asked approximately two dozen questions to access their decision factors in product purchase decision-making.

By applying adaptive pattern recognition to the survey results, Edison Group analysts were able to:

- Segment prospective customers into seven profiles and identify the distinct business factors driving each group's behaviors.
- Identify distinct groups of customers each with high potential for purchase but differing purchase motivators.

*Contd...*

Notes

**Benefit**

Using the newly gained predictive knowledge, the client was able to:

- Recommend the right actions to convert those likely prospects into customers.
- Make better marketing and business decisions based on knowing customer preferences and behavior
- Identify up-selling and cross-selling opportunities by matching specific product or group of products for customers and predicting what they might buy next.
- Lead potential and prospective clients to capitalize on new revenue opportunities
- Develop effective marketing campaigns by knowing what product to sell to which person at what time and with what marketing message.
- Achieve an advantage in the marketplace by knowing how to sell against the competition.
- Realize cost savings by shortening the sales process and increasing return on marketing investment.

***Source:*** http://www.theedison.com/marketingCaseStudyCustomerAnalysis.php

### Self Assessment

Fill in the blanks:

7. A ..... sequence is to first research and analyzes what consumers think, feel, and do relative to a company's offerings and those of competitors.
8. Consumer research and analysis should not ..... when a strategy has been implemented.
9. Research should ..... to investigate the effects of the strategy and whether it could be made more effective.

## 7.4 Marketing Strategy

From a consumer analysis point of view, a **marketing strategy** is a set of stimuli placed in consumers' environments designed to influence their affect, cognition, and behavior. These stimuli include such things as products, brands, packaging advertisements, coupons, stores, credit cards, price tags, salespeople's communications, and, in some cases, sounds (music), smells (perfume), and other sensory cues.

Figure 7.4 presents our complete framework, which we call the Wheel of Consumer Analysis. It is a wheel because it is constantly rotating with changes in consumers and in marketing strategy. Marketing strategy is treated as the hub of the wheel because it is a central marketing activity and is designed by marketing organizations to influence consumers.

Notes

Figure 7.4: Wheel of Consumer Analysis


***Source:*** http://answers.mheducation.com/marketing/consumer-behavior/consumer-analysis

Clearly, marketing strategies should be designed not only to influence consumers but also to be influenced by them. For example, if research shows that consumers are disgusted (affect and cognition) with blatant advertisements for Calvin Klein jeans, the company may want to change its ads to better appeal to the market.

If research shows that consumers in the target market do not shop (behavior) in stores where a company's product is featured, the distribution strategy may have to be changed. If research shows that consumers want to be able to get information from a company's Web site (environment) and none exists, the company may want to create one. Thus, marketing strategies should be developed, implemented, and changed based on consumer research and analysis.

***Levels of Consumer Analysis***: As noted, consumer research and analysis can be conducted at several different levels. The Wheel of Consumer Analysis is a flexible tool that can aid in understanding different societies, industries, market segments, or individual consumers. It can be used fruitfully by both marketing strategists and public policy officials to understand the dynamics that shape each of these levels.

### 7.4.1 Societies

A change in what a society believes and how its members behave can be analyzed with the Wheel of Consumer Analysis.

*Example:* A recent change in our society involves greater concern with health and fitness.

How did this change occur? Surely, consumers were always concerned with living long, happy lives. A growing body of medical research indicated people could be healthier and live longer if they ate properly and exercised regularly. This research may have changed attitudes of some consumers about their eating and exercise habits. As these consumers, particularly those on the West Coast, changed their attitudes and began living more healthful lifestyles, many other consumers copied these beliefs and behavior patterns. In addition, healthy, well-toned people are considered more attractive in our society. This belief may have accelerated the health and fitness movement. Also, because a variety of health-related industries, such as health foods, exercise equipment, and sports apparel, developed and promoted proper eating habits and

Notes

regular exercise, consumers were increasingly exposed to the concept and benefits of an active lifestyle.

Of course, not everyone in society has changed his or her lifestyle, and some who did eventually reverted to less healthful habits. However, the brief discussion here shows changes in the environment (medical research reports), cognition and affect (beliefs about how to live longer and healthier), behavior (eating healthful foods and exercising), and marketing strategies (development and promotion of health foods, exercise equipment, and apparel products), that interacted to create this change in society in general. The Wheel of Consumer Analysis can account for these changes in our society and can also be applied to other societies to help explain their structures and practices.

### 7.4.2 Industries

The Wheel of Consumer Analysis can be used to analyze the relationships of a company and its competitors with consumers in specific industries.

*Example:* Consider the effects of health concerns on the beer industry.

Lite beer from Miller took advantage of the health movement and created the market for reduced-calorie beer. Miller Brewing Company became the light-beer market leader by being the first to offer a product that was consistent with a change occurring in society, and it also, through developing and marketing the product, helped accelerate the change. Thus, a change in consumer beliefs and behavior concerning calorie intake influenced a marketing strategy to introduce and spread the change in consumer beliefs and behaviors. The success of the product influenced competitors to also offer light beers, further changing demand for this product category.

However, another change in this industry is the concern with responsible drinking, which decreases demand for alcohol products in general. This change has led to the development and marketing of nonalcoholic beers and, for many consumers, abstinence from any alcoholic beverages. Consumer groups such as Mothers Against Drunk Driving and Students Against Drunk Driving have also influenced many members of society to reduce their alcohol consumption. Although being drunk and boisterous was considered acceptable behavior some years ago, many consumers no longer find it so. Similarly, smoking was at one time considered a sign of maturity and "coolness," whereas today fewer and fewer public places tolerate smoking.

At the industry level, changes in consumer cognition, affect, and behavior can threaten existing products and can also offer opportunities to develop products more consistent with new values and behaviors. Successful marketing strategies depend on analyzing consumer–product relationships not only for the company's products but for those of competitors, and creating an advantage over competitive offerings.

### 7.4.3 Market Segments

The Wheel of Consumer Analysis can be used to analyze groups of consumers who have some similarity in cognition, affect, behavior, and environment. Successful firms in an industry usually divide the total market into segments and try to appeal most strongly to one or more of them.

*Example:* The emphasis on health encouraged many consumers to become involved in sports. However, specific shoes designed to play each sport effectively were not always available.

Notes

Today consumers can find many varieties and styles of shoes for running, bicycling, soccer, basketball, and other sports. These shoes vary in design, features, and price ranges to appeal to groups of consumers that are similar in some ways.

*Example:* Reebok developed its Blacktop shoe for young basketball players on urban outdoor courts.

The shoe was a few ounces heavier than those of competitors, moderately priced, and designed for performance on asphalt and concrete. The shoe looked good, so it appealed to the 80 percent of consumers who buy athletic shoes solely for fashion, but it also was tough enough to stand up to rugged outdoor play. The shoe sold out in many stores in its first two months, and more than 2.2 million pairs were expected to be sold in its first year—a smashing marketing success. Thus, by understanding the wants and preferences (cognition and affect) of urban youths (target market) for a good-looking, moderately priced, long-wearing shoe, promoted for regular guys who play basketball (behavior) on outdoor courts (environment), Reebok developed a successful marketing strategy.

### Self Assessment

State whether the following statements are true or false:

10. A marketing strategy is a set of stimuli placed in consumers' environments designed to negatively influence their affect, cognition, and behavior.
11. Successful firms in an industry usually multiply the total market into segments and try to appeal most strongly to one or more of them.
12. The Wheel of Consumer Analysis can be used to analyze groups of consumers who have some similarity in cognition, affect, behavior, and environment.

## 7.5 Individual Consumers

Finally, the Wheel of Consumer Analysis can be used to analyze the consumption history, a single purchase, or some aspect of a purchase for a specific consumer. Lands' End, a catalog marketer, carefully analyzes individual consumers in terms of their previous purchasing history. The company can then target individual consumers with specialty catalogs of the types of merchandise previously bought.

### 7.5.1 Customer Service

Providing superior service has always been a complex and challenging job for retailers. This is because of the intangible and inconsistent nature of services. Retailers generally use customisation and standardization to deliver customer services. While customisation motivates the service providers to customize services according to the needs of individual customers, standardization ensures that they follow established guidelines when delivering service.

The various services provided by retailers to customers can be grouped under three categories; pre transaction, transaction and post transaction services. Convenient store hours and information availability are the most common pre-transaction services offered to customers. Pre transaction services help target customers gather information about a store's merchandise and methods for purchasing it easily. Transaction services are delivered to customers while they are shopping at a store. Post transaction services are provided by retailers after the merchandise or the services have been purchased.

Notes

Customers evaluate the quality of a service by comparing the actual service delivered at the store with the service expected. The gap between the perceived quality of service and the expected quality of service has led to the identification of four types of gaps in service quality being delivered: Knowledge gap, Standards gap, Delivery gap and the Communication gap. These four gaps together form the Service gap. In order to improve the quality of service, retailers have to minimize, if not close the service gap between the delivered and the expected service. Retailers can close the gap by finding out customer expectations, establishing standards for delivering the expected service to customers, providing instrumental and emotional support to service providers, and communicating the merchandise and the service offerings to customers in a realistic manner.

The failure to provide services according to the set standards leaves the retailer with little opportunity to build and strengthen relationships with his customers. Though recovering a service failure is very difficult, retailers can reestablish and strengthen their bonds with customers by following a three step procedure; listening to customers, providing a fair solution, and resolving the problem quickly.

Customer service has become the major determinant of retailing success. Retailers can earn maximum profits only by developing integrated customer service programs.

### 7.5.2 Role of the Consumer in Marketing

Following are the role of the consumer in marketing:

- Firms exist to provide value to consumers. When consumers disappear, so does the firm.
- The consumer is a human being. He or she is not a number in a spreadsheet or a point on a graph. The consumer has feelings and emotions.
- Each consumer is different.
- Customer service is an investment, not a cost.
- Every customer deserves to be treated with respect and dignity.
- Customers are talking to one another at unprecedented rates. If you are offering bad service to one consumer, it will not be long before others get to know this.
- You must devote resources to listening to the market conversation.
- Marketing must now adopt a collaborative approach with the consumer rather than trying to dictate how consumers must behave.
- Transparency of marketing operations will enhance consumer trust. If you are collecting personal information from the consumer, full disclosure is the way to go.
- By adopting win-win marketing. You can enhance your profits by obsessing about serving your consumers well.

### Self Assessment

Fill in the blanks:

13. The Wheel of ..... can be used to analyze the consumption history, a single purchase, or some aspect of a purchase for a specific consumer.
14. Customer service is an ..... not a .....

Notes

15. The failure to provide services according to the set standards leaves the retailer with little opportunity to build and strengthen relationships with his .....

*Lab Exercise* Go to website www.vebsar.com/consumer_analysis.html and collect information on Mobil oil change.

*Case Study*

## Consumer Needs and Segmentation Analysis

**Client Situation**

A leading media and entertainment company had recently launched a new cruise line to complement their theme park business. Despite a well-publicized launch, booking and occupancy levels were well below initial projections. Management was especially concerned since a second ship was slated to launch within the coming year.

Alliance was asked to work with the Marketing and Sales functions to develop a strategy to reposition the cruise line to rapidly improve booking and occupancy levels.

**Alliance Approach**

Using primary survey data from 1500 consumers and focus group input, the joint team evaluated several consumer segmentation alternatives before settling on a Needs-Based approach.

| Segmentation Approach | Methodology | Resulting Segments, e.g., | Advantages | Drawbacks |
|---|---|---|---|---|
| Needs-based | Cluster | • Character Experiences<br>• Common Solutions | • Captures underlying drivers of attitudes and behavior<br>• Identifies most relevant focus of marketing messages | • Although more accurate, may be more challenging to target media precisely |
| Attitude and Behavior | Cluster | • Theme Park Fans<br>• Family Cruisers<br>• Adult Cruisers | • Begins to link intangible attitudes with tangible behavior<br>• May explain current behavior | • Past behavior may not be indicative of future intent given unique product<br>• Does not capture impact that future marketing efforts could have on attitude and behavior |
| Lifestage | Cross-Tab` | • Pre-Family<br>• Young Family<br>• Older Family<br>• Post-Family<br>• Grandparents | • Useful for media location and targeting<br>• Easy demographic identification of potential customers | • Difficult to develop marketing message because needs cut across lifestage<br>• Most effective campaigns may cut across lifestage |

*Contd...*

Notes

| | | | | |
|---|---|---|---|---|
| Theme Park Behavior | Cross-Tab | • Intender<br>• First-Timer<br>• Repeater<br>• Loyalist | • Helpful in measuring strategic value<br>• Allows for targeting through theme park customer databases | • May overly bias marketing efforts based on past theme park behavior<br>• May not capture customers whose behavior is driven by new cruise offering relative to theme parks |
| Cruise Behavior | Cross-Tab | • First-Timers<br>• Repeat Cruisers | • Helpful in determining overall positioning relative to other cruise lines<br>• Indicative of overall product appeal | • Does not capture unique aspect of theme park/cruise package<br>• Only indicative of cruise behavior, not vacation behavior |

The Needs-based segmentation approach uncovered the following insights:

- The current marketing campaign built around the single theme of the cruise line being a high quality extension of the core theme park and character experience was ineffective – cruise enthusiasts feared being overrun by kids, theme park loyalists were uncertain what a cruise would offer
- The underlying needs of target consumers varied significantly – one segment sought to find new ways to enjoy the Character Experience; another segment sought a Common Solution vacation that both kids and parents would enjoy; a third sought an Extended Family experience that included grandparents, other relatives and friends
- Instead of one broad marketing campaign, targeted "mini-campaigns" were needed to address each segment's underlying needs and misconceptions. In addition, modifications to on-board programming and amenities would greatly enhance the cruise line's overall appeal

The team recommended that the single unifying marketing message be supported by separate "mini-campaigns" targeted at high potential customer segments. Each mini-campaign would utilize the optimal mix of media vehicles (e.g., television, print, internet) to communicate carefully tailored marketing messages. The team also made specific recommendations regarding on-board programming and amenities.

**Results and Impact**

As a result of the team's recommendations, booking and occupancy levels rose significantly and the second cruise ship experienced a successful launch. The cruise line was able to command a price premium relative to other cruise offerings and became a significant profit contributor to the Theme Park division.

**Question**

Analyse the case and write down the case facts.

***Source:*** http://www.alliancecg.com/customer_needs_case_study.asp

Notes

## 7.6 Summary

- Consumer analysis is the sum total of Initial steps in the marketing research that identify and collect information on the target market's needs, profiles, and consumer behaviors in order to establish market segmentation.
- Consumer affect and cognition refer to two types of mental responses consumers' exhibit toward stimuli and events in their environment.
- Affect refers to their feelings about stimuli and events, such as whether they like or dislike a product.
- Cognition refers to their thinking, such as their beliefs about a particular product.
- Behavior refers to the physical actions of consumers that can be directly observed and measured by others.
- Stores are located close to populated areas to get them in the proximity of consumers.
- Web sites become part of a consumer's environment if they are contacted.
- A logical sequence is to first research and analyze what consumers think, feel, and do relative to a company's offerings and those of competitors.
- Consumer research and analysis should not end when a strategy has been implemented.
- Research should continue to investigate the effects of the strategy and whether it could be made more effective.
- A marketing strategy is a set of stimuli placed in consumers' environments designed to influence their affect, cognition, and behavior.

## 7.7 Keywords

***Affect:*** Affect refers to their feelings about stimuli and events, such as whether they like or dislike a product.

***Behaviour:*** Behaviour refers to the physical actions of consumers that can be directly observed and measured by others.

***Cognition:*** Cognition refers to their thinking, such as their beliefs about a particular product.

***Consumer Affect and Cognition:*** Consumer affect and cognition refer to two types of mental responses consumers' exhibit toward stimuli and events in their environment.

***Consumer analysis:*** Consumer analysis is the sum total of Initial steps in the marketing research that identify and collect information on the target market's needs, profiles, and consumer behaviors in order to establish market segmentation.

***Marketing strategy:*** A marketing strategy is a set of stimuli placed in consumers' environments designed to influence their affect, cognition, and behaviour.

## 7.8 Review Questions

1. How do consumers interpret information about marketing stimuli such as products, stores, and advertising?
2. How does memory affect consumer decision making?
3. How do affect and cognition influence behavior and environments?

Notes

4. How do behaviour and environments influence affect and cognition?
5. How do marketing strategies influence consumers' affective and cognitive responses?
6. How do affective and cognitive responses influence each other?
7. How do behaviour approaches differ from affective and cognitive approaches to studying consumer behavior?
8. What consumer behaviours are of interest to marketing management?
9. How much control does marketing have over consumers' behaviour?
10. How can behaviour theory be used by marketing managers?
11. Do the frequency and quality of consumer behaviour vary by individuals, products, and situations?
12. In what physical environments do consumer behaviours occur?
13. How do environments influence consumers' affect and cognition and behaviour?
14. How do consumer affect and cognition and behaviour affect the environment?
15. How powerful are interpersonal influences on consumer behaviour?
16. What are some effective ways to segment markets?
17. How can products be effectively positioned?
18. What are the relationships between product strategies and consumers?
19. What is the role of consumer satisfaction in developing successful market offerings?
20. How does non store consumer behaviour differ from behaviour in stores?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Consumer analysis | 2. | Affect |
| 3. | Cognition | 4. | False |
| 5. | True | 6. | True |
| 7. | logical | 8. | end |
| 9. | continue | 10. | False |
| 11. | False | 12. | True |
| 13. | Consumer analysis | 14. | investment, cost |
| 15. | customers | | |

## 7.9 Further Readings

*Books*

Berman, B. and Evans, J., *Retail Management*, 11th edition, Pearson Education.

Diamond, J. Pintel, G., *Retail Buying*, Eight edition, Pearson education.

Sheikh, A. and Fatima, K., *Retail Management*, First edition, Himalaya Publishing House.

**Notes**

*Online links*

istobe.com/blog/2008/06/09/what-is-customer-analysis/ -

www.businessdictionary.com/definition/consumer-analysis.html

www.vebsar.com/consumer_analysis.html

Notes

# Unit 8: Merchandise in Retailing

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Describe the Merchandise Planning
- Discuss the different types of Merchandise offering
- Define Merchandise Procurement
- Analyse the Merchandise Sourcing
- Discuss about the Timing for Purchase of Merchandise
- Explain the Promotional Merchandise

## Introduction

Most world-class retail businesses have some form of range planning/merchandise planning process at the centre of all their commercial planning activities. Merchandise or range plans articulate the financial targets in terms of how the range should be built up, what proportion of the total business mix a range should take associated store and DC space allocations, etc.

In the broadest sense, merchandising is any practice which contributes to the sale of products to a retail consumer. At a retail in-store level, merchandising refers to the variety of products available for sale and the display of those products in such a way that it stimulates interest and entices customers to make a purchase.

In this unit, we will focus on merchandising sourcing and timing for purchase.

Notes

## 8.1 Merchandise Planning – Central to Profitable Retailing

Moving along the time line closer to the time of range launch, merchandise/range plans become a key document for buyers and merchandisers, a living document, that captures all key information as products are developed and data is gathered that ultimately influence buying price, selling price, store distribution and store position, promotion planning, markdown budget, supply chain flow, sourcing strategy, rate of sales, etc.

### 8.1.1 Range Planning

Range planning, from setting the concept, purpose and direction through to selecting the products and finalizing the price, distribution and sales forecast, is a truly iterative process that typically involves buying and merchandising working hand in hand, often with somewhat opposing objectives.

*Notes* The ultimate aim is for the final range selected to meet and exceed the customers' expectations.

Additionally, buyers will want the range to be innovative and to really shout the brand values whilst merchandisers will want it to achieve high rates of sale and deliver excellent margin. Of course, any range should be constructed such that it can be delivered to the consumers' baskets in the most reliable and profitable manner.

### 8.1.2 Effective Range Performance Measurement – Plan vs. Actual

The Range Plan or Merchandise Plan as they are equally well known, form the basis for the development of the store/store cluster level assortment plan and in a fully integrated planning process are the trigger for both the demand planning and visual merchandising processes. A good range plan also allows the buyer and merchandiser to measure the effectiveness of their ranges against the original budgets and against plan. It allows for hard and soft constraints to be applied in operations, such as Open To Buy (OTB), management of intake, delivered margins, promotional activity and markdown/residuals planning to be undertaken via use of a WSSI.

With such criticality to the business and a dependency on such a wide set of data a quality merchandise plan/range plan with adequate roll up and drill down capability can really only be delivered from a quality tool, supported by quality business processes and well trained teams.

*Caselet*

**Retail Planning is Complex**

Buyers and merchandisers have much to consider when developing and planning the range. Buyers and merchandisers have a lot of questions to consider when developing and planning the range, such as how to provide the customer with:

- the right depth and width of range – ensuring sufficient choice and range completeness
- the right price architecture – guiding the customer through the options available

*Contd...*

Notes

- the right quality and value – ensuring the brand and product propositions fit your business
- great on shelf availability (with minimal stock investment) – ensuring you maximise your sales potential off the lowest possible cost base

And all whilst delivering:

- a flexible, responsive, agile supply base – to ensure you can follow consumer trends quickly
- a better return per square foot than the last range – to mitigate the ever increasing cost of property
- a better shopping experience for the customer – to secure their loyalty, repeat business and increased basket size.

So it is understandably a lengthy and involved process.

***Source:*** http://retailacumen.wordpress.com/2010/10/06/retail-range-planning-merchandise-planning-and-assortment-planning/

### Self Assessment

State whether the following statements are true or false:

1. The ultimate aim of Range Planning is for the final range selected to meet and exceed the customers' expectations.
2. Merchandise or range plans articulates the financial targets in terms of how the range should be built up, what proportion of the total business mix a range should take associated store and DC space allocations, etc.

## 8.2 Types of Merchandise Offering

Merchandise mix, breadth (variety); depth (selection in product)

- Limited-line stores. For example, Sporting Goods Stores etc.
- Single-line stores-Specialty Retailers Foot Locker, Radio Shack
- Category Killers-Borders Books, Toys R Us etc.
- General merchandise stores
- Department stores-Macy, Strawbridge & Clothier etc.

  Competition from discount stores and specialty stores has put pressure on department stores. Some department stores are cutting services, offering basement discounts (competing with discount stores), others are remodeling and opening designer departments and boutiques (competing with specialty stores). Others increased services, IE restaurants. Leased departments, leased to entrepreneurs.
- Supermarkets-Superfresh etc.

  Supermarkets are adding high turnover non-food items to offset low margins of food items. Added delis and hot pizza etc, in response to societal pressure (fast food). Also competition from convenience stores, 7-11 etc.
- Hypermarkets...success in Europe, not in US 40% food, 60% general merchandise Walmart (222,000 Square feet, $2.5m per week) moving more toward supercentres.

Notes

- Supercentres, merchandise/groceries Walmart's projected high growth area of 1990s. Getting away from Hypermarkets. 80% of shoppers shop both sides of store. Use groceries to attract customers (traffic generaters), hoping they purchase high margin items.
- Discount Stores-Walmart, Kmart Developed in the 1950s when the post war supply for goods caught up with the demand for goods. Departmentalized, volume retailers.
- Off-price retailers-Buy manufacturers seconds, overruns, off seasons at a deep discount. TJ Maxx, Marshalls (317 stores, largest in the US).
    - Discounted prices, fewer customer services. Inventory turned over 9- 12* per year (specialty retailer *3).
    - Outlet malls-Reading VF outlet.
    - Manufacturers that use Off-price retailing may alienate specialty retailers.
    - Cannot advertise specific brands, but are advertising existence.
    - Factory Outlets Dollar Discounts

  Offering more and more first run items, it is difficult for manufacturers to make enough "seconds" to fill these stores. Also starting to offer services, i.e. taking credit cards etc. It is not always the case anymore that you are guaranteed to get a better deal here than at a Department Store that has items on sale...especially if you consider the costs of accessing remote locations, etc.
- Warehouse/Wholesale Club... Members' only selling operations combine cash & carry wholesaling with discount retailing. Pioneered by Price Club, now bought out by Cost Co. Wholesale Club. Largest, Walmart's Sam's Club, $6.6 bn. KMart's PACE
- Variety Stores... Woolworths are transforming to specialty merchants, Champs Sporting Goods, Kids Mart, Lady Footlocker, and Woolworth Express. Variety stores are becoming less popular.

*Did u know?* The present value of the Indian retail market is estimated by the India Retail Report to be around ₹ 12,00,000 crores ($270 billion) and the annual growth rate is 5.7 percent.

*Task* Collect information on the different types of merchandising stores in your state and classify them based on the information given above.

## Self Assessment

State whether the following statements are true or false:

3. Specialty retailers foot locker and radio shack are departmental stores.
4. Competition from discount stores and specialty stores has put pressure on department stores.

Notes

## 8.3 Merchandising Procurement

Buying items for a household is far different from buying inventory for a retail store. The business factor makes all the difference here.

*Example:* If you run a convenience store or ready-to-wear boutique, you would most probably know the importance of having a network of reliable suppliers.

A good supplier is a firm that you can contact anytime you need to replenish or replace your merchandise. It will readily and speedily answer to your needs through its own quality delivery and ample stocks. Above all, it has the capability of providing you lower prices, great promotions, and sufficient credit limit.

A convenience store that sells perishables like food stuff needs to have a supplier that can meet the special needs of the business and its clients. It must cater to the strong demand for the finest and freshest ingredients to make the retail business thrive. On the other hand, a fashion boutique would need to stock trendy items in time for the coming season. Thus, it requires a firm that can provide the right apparel and accessories to fill up the store's shelves and racks.

*Did u know?* More often than not, a retail store is only as good as its supplier.

If the supplier fails in its job, the retailer can find another one but it would have to suffer being unable to provide what its client needs at the moment. The two should work hand in hand for both to become sustainable and profitable.

The process of merchandise planning takes the buyer through to the stage of determining the products that he needs to have in the store and the quantities that he needs of the same. A key decision to be taken by a buyer is to determine where he has to buy the merchandise from. Determining the source who would supply the products as required by the retailer, in the quantities needed by the retailer, as per the requirements of the retailer, is an integral part of the buyer's function. Over the years, the importance of sourcing as a key element of merchandise management has increased. This has been largely due to the shrinking of world borders and the world becoming a global village. Global travel and the spread of mediums of mass communication have also made the consumer more conscious of global trends and products. For a retailer, this means that he has to be far more agile and competitive in his ability to meet consumer demands.

Having determined the sales that need to be generated the first decisions that need to be taken is one the type of merchandise that will be retailed. Typically, these may not be decisions that may be taken by the buyer or merchandiser as it is the retail model that the retailer chooses to operate which determines the merchandise mix.

*Caution* The merchandise mix may comprise:

1. National/Regional Brands
2. Own label Merchandise popularly known as the Private label.
3. A combination of both.

Notes

## Self Assessment

Fill in the blanks:

5. More often than not, a retail store is only as good as its .....
6. Global travel and the spread of mediums of ..... have also made the consumer more conscious of global trends and products

## 8.4 Merchandise Sourcing

The term "sourcing" means finding or seeking out products from different places, manufacturers or suppliers. The importance of sourcing in a retail environment can best be understood from the fact that sourcing of merchandise is a key element of cost. In recent years, sourcing and supply management has emerged as one of the greatest focus areas in the retail business, for suppliers as well as for retailers. Sourcing is not without its risks, but at the same time, it holds the key to improving service, product offer, and overall profitability. It enables the retailer to have winning products. Negotiations and cost management play a key role and hence, it becomes necessary to ensure that sourcing is well and truly integrated with the retailer's overall business strategy, and that sourcing activities closely follow the direction set by the overall business strategy.

Having determined the type of merchandise to be stocked in the retail store, the merchandise then needs to either be manufactured or sourced.

*Caution* The process of merchandise sourcing starts with the identification of the sources of supply.

The first decision that has to be faced is whether the merchandise should be sourced from domestic or regional markets or from international markets. This is largely related to the type of the retail organization, the product being offered and the target consumer.

*Example:* Products like high fashion garments, exclusive watches, perfumes, cosmetics etc may be obtained from the international marketing.

The process of merchandise buying is a five step process, which involves the following:

1. Identifying the sources of supply
2. Contacting and evaluating the sources of supply
3. Negotiating with the sources of supply
4. Establishing vendor relations
5. Analyzing vendor performance

## Self Assessment

State whether the following statements are true or false:

7. The term sourcing means finding or seeking out products from different places, manufacturers or suppliers.
8. The process of merchandise buying is a six step process.

Notes

9. The first decision that has to be faced is whether the merchandise should be sourced from domestic or regional markets or from international markets.

## 8.5 Timing for Purchase

Once the buying plan has been finalized, taking into account both the qualitative and quantitative considerations, and the decision as to which resources should be contacted for purchasing, the timing for purchase is the next issue to be addressed. All retailers do not have the same purchasing time frames. The policies of each company dictate when it is best to purchase to be most profitable. The traditionalist who buy at full price and the opportunistic merchants who buy when the merchandise is bargain priced have two different approaches in terms of their timing of their purchases.

*Notes* Prediction of purchase timing and quantity decisions of a household is an important element for success of any retailer.

This is especially so for an online retailer, as the traditional brick-and-mortar retailer would be more concerned with total sales. A number of statistical models have been developed in the marketing literature to aid traditional retailers in predicting sales and analyzing the impact of various marketing activities on sales.

However, there are two important differences between traditional retail outlets and the increasingly important online retail/delivery companies, differences that prevent these firms from using models developed for the traditional retailers: (1) the profits of the online retailer/delivery company depend on purchase frequency and on purchase quantity, while the profits of traditional retailers are simply tied to total sales, and (2) customers in the tails of the frequency distribution are more important to the delivery company than to the retail outlet. Both of these differences are due to the fact that the delivery companies incur a delivery cost for each sale, while customers themselves travel to retail outlets when buying from traditional retailers. These differences in costs translate directly into needs that a model must address. For a model intended to be useful to online retailers the dependent variable should be a bivariate distribution of frequency and quantity, and frequency distribution must accurately represent consumers in the tails.

### Self Assessment

Fill in the blanks:

10. The profits of the online retailer/delivery company depend on purchase ..... and on purchase .....
11. Customers in the tails of the frequency distribution are more important to the ..... than to the retail outlet.
12. For a model intended to be useful to online retailers the dependent variable should be a ..... distribution of frequency and quantity.
13. The profits of traditional retailers are simply tied to .....

## 8.6 Promotional Merchandising

In Retail commerce, visual display merchandising means merchandise sales using product design, selection, packaging, pricing, and display that stimulate consumers to spend more. This includes

Notes

disciplines and discounting, physical presentation of products and displays, and the decisions about which products should be presented to which customers at what time. This annual cycle of merchandising differs between countries and even within them, particularly relating to cultural customs like holidays, and seasonal issues like climate and local sporting and recreation.

*Example:* In the United States, the basic retail cycle begins in early January with merchandise for Valentine's Day, which is not until mid-February followed by Presidents' Day sales are held shortly thereafter.

Following this, Easter is the major holiday, while springtime clothing and garden-related merchandise is already arriving at stores, often as early as mid-winter (toward the beginning of this section, St. Patrick's Day merchandise, including green items and products pertaining to Irish culture, is also promoted). Mothers Day and Fathers Day are next, with graduation gifts (typically small consumer electronics like digital cameras) often being marketed as "dads and grads" in June (though most college semesters end in May; the grads portion usually refers to high school graduation, which ends one to two weeks after Father's Day in many U.S. states). Summer merchandise is next, including patriotic-themed products with the American flag, out by Memorial Day in preparation for Independence Day (with Flag Day in between). By July, back-to-school is on the shelves and autumn merchandise is already arriving, and at some arts and crafts stores, Christmas decorations. (Often, a Christmas in July celebration is held around this time.) The back-to-school market is promoted heavily in August, a time when there are no holidays to promote. By September, particularly after Labor Day, the summer merchandise is on final closeout and overstock of school supplies is marked-down some as well, and Halloween (and often even more of the Christmas) merchandise is appearing. As the Halloween decorations and costumes dwindle in October, Christmas is already being pushed on consumers, and by the day after Halloween retailers are going full-force with advertising, even though the "official" season doesn't start until the day after Thanksgiving. Christmas clearance sales now begin even before Christmas at most retailers, though they usually begin on the day after Christmas and continue on at least until New Year's Day but sometimes as far out as February.

Merchandising also varies within retail chains, where stores in places like Buffalo might carry snow blowers, while stores in Florida and southern California might instead carry beach clothing and barbecue grills all year. Coastal-area stores might carry water skiing equipment, while ones near mountain ranges would likely have snow skiing and snowboarding gear if there are ski areas nearby.

*Task* Give an example of a catchy visual merchandising display that you have noticed.

## Self Assessment

Fill in the blanks:

14. ..... means merchandise sales using product design, selection, packaging, pricing, and display that stimulate consumers to spend more.
15. This annual cycle of .....differs between countries and even within them.

Notes

*Case Study*

## Hudson's Bay Co. (HBC) : A Case Study in Ethical Sourcing

HBC is Canada's largest diversified general merchandise retailer, with over 580 retail locations and nearly 70,000 employees. HBC has 1,600 vendors from which they currently source their private label and captive brands. Most of the vendors that manufacture HBC merchandise are located in China.

**Policy & Program Scope**

HBC established the foundation for their ethical sourcing program in 1998, when they established a Code of Vendor Conduct (CVC). Their program has evolved since then into a broader Social Compliance Program (SCP), which was formalized in 2001, containing the CVC and a monitoring and remediation process, the overall goals of which are to improve factory conditions, educate buyers and share industry knowledge.

In developing their CVC, HBC was guided by International Labour Organization (ILO) standards and general social responsibility principles. Their ethical sourcing requirements, as stipulated in the CVC, obligate suppliers to:

- meet local, regional and national laws and regulations;
- satisfy employment standards (no forced labour, no child labour, no harassment/ abuse, freedom of association and collective bargaining, no discrimination, protection of health and safety, betterment of wages and benefits, reasonable work hours and overtime, a dispute resolution process);
- satisfy environmental requirements (including adhering to applicable environmental laws and regulations and taking active steps to protect and preserve the environment); and
- Prevent illegal transshipping by establishing and maintaining programs to document country-of-origin verification.

Although the CVC applies to all HBC's vendors, their monitoring program, in which they conduct factory audits to determine CVC compliance, focuses on the top vendors producing their private or captive brands. HBC prioritizes their top vendors since this is where they have the most potential for positive influence in their supply chain. In 2006 HBC conducted over 1,000 supply chain audits. Please see Section 4 Compliance and Auditing for a full explanation of how HBC determines its audit focus for each year.

**Key Drivers of the Ethical Sourcing Program**

The following are the key drivers for the development of their ethical sourcing program.

***Risk Management***

Risk management was a main driver for HBC to formalize their ethical sourcing efforts into a Social Compliance Program. Although HBC had created their Code of Vendor Conduct in 1998, when confronted with media attention probing the working conditions in some of the vendors they used, the company found it difficult to prove that their standards were being upheld in the manufacture of their products, since they had no process for monitoring or documenting supplier conformance with their standards. To address the risk of damage to the company's reputation and brand, HBC shareholders

*Contd...*

Notes

called upon management to adhere to ILO labour standards, and to report annually on supplier compliance. As a result of this desire to manage reputational risk and satisfy shareholder concerns, they developed a Social Compliance Program to communicate the expectations of their CVC to suppliers, and to establish a framework for compliance monitoring and reporting.

***Demonstrates Alignment with Organizational Goals and Values***

Another main driver of HBC's Social Compliance Program (SCP) is to bring their purchasing in line with organizational goals and values. The SCP not only helps improve Hbc's transparency and accountability to their internal and external stakeholders, it also ensures that HBC plays a role in improving workplace conditions. Further, it allows HBC to work with vendors to help advance more sustainable business operations.

***Enhances Image and Brand***

Reputation is extremely important to retailers for attracting and retaining customers and ensuring the financial sustainability of the business. An unintended benefit of HBC's Social Compliance Program (SCP) is that it enhanced the company's brand and their image with customers. The SCP was designed to support the company's operations, ensuring that the vendors HBC buys from are well-managed, including the ethical treatment of workers, in order to provide the best quality products. In part due to their SCP and concern for the ethical treatment of workers, HBC is perceived as a responsible corporation by their customers.

***Implementation and Accountability***

HBC implements their social compliance program through:

- Training external vendors and internal buyers on the SCP goals and requirements;
- Auditing priority vendors for compliance; and
- Enforcing a three-strike policy for non-compliance

**Information and Training**

HBC provides information and training on their SCP to both external vendors and internal buyers.

Their social compliance manual introduces new and existing vendors to all aspects of their SCP, including the CVC, and vendor monitoring and remediation process. HBC also conducts regular vendor training sessions on the Program and Code. High priority vendors, which are their most strategic and high-volume vendors, receive more detailed information and training sessions, including local law requirements, common audit issues, and processes for making improvements.

HBC requires buyers in their merchandising division take an online training course that covers the Social Compliance Program and how to access vendor social compliance information. Almost 1,000 employees have completed the course since it began, 613 in 2006.

**Compliance and Auditing**

To confirm that vendors in their vendor pool operate in accordance with the CVC, the company uses independent audit firms to conduct audits on vendors that they prioritize according to three categories:

- High priority vendors: the top 200 suppliers based on annual sales volume, perceived risk; and factory location;

*Contd...*

Notes

- Second priority vendors: all new vendors that have not yet been evaluated against social compliance criteria; and
- Third priority vendors: all remaining suppliers.

Although all vendors are on the same audit schedule, being scheduled for audits every six months or year depending on the grade received in their most recent audit, HBC uses the priority system to audit vendors strategically, allowing for audit flexibility to reflect the changing nature of the relationship to its vendors. For instance, one vendor may be high priority only for one season if they produce seasonal goods for HBC, and then slip down to third priority. Another may be a new vendor (second priority) to begin with, and purchases may increase quickly enough to push them into high priority. HBC uses this system to ensure that the time and expense of both HBC staff and vendors is focused on its top vendors at the time. High priority vendors are therefore more likely to be audited more often than other vendors.

**Three-Strike Policy**

Vendors are required to fully disclose factory locations, pay for audits, and participate in the Social Compliance Program. The three-strike policy applies to vendors who default on elements of the CVC three times in an 18-month period. They are suspended from doing business with HBC for a minimum of two years. Audit results for 2006 found that 32 vendors received one strike each. The audit results show that most vendors complied with HBC's Code; however, factory issues are consistent year over year: employee health and safety, problems with hours and/or overtime, and insufficient wages and benefits.

**Benefits, Challenges and Collaboration**

***Benefits***

HBC benefits from their ethical sourcing program by helping achieve its sustainable business goals in sourcing and selling products. The program provides a means for vendors to learn of poor performance areas and to continuously improve their operations and support their factory workers. As well, HBC can attract customers who prefer to shop at a reputable retailer with shared Canadian ethical values. Many HBC employees are proud to be associated with a socially responsible company. Additional benefits include improved quality of supplier business relationships and improved overall product quality. Vendors also benefit from the SCP, as compliance with the program puts them in a better position to continue business not only with HBC, but with other customers as well.

***Challenges***

As with any change, HBC experienced growing pains as they began implementing the program: employees, buyers and suppliers faced the challenge of understanding the new Social Compliance Program and the associated policies and procedures. Suppliers demonstrated some initial resistance to implementing the changes required as a result of the factory audits. Since purchasing is a timeline-driven activity, the biggest obstacle has been for HBC's buyers to adjust their schedules to allow adequate time for the auditing program's results to be integrated into purchasing decisions.

***Collaboration***

HBC joins in collaborative industry efforts to advance ethical sourcing globally by participating in the Retail Council of Canada's sponsored initiative, the Canadian Retailers Advancing Responsible Trade (CRART) group, which includes leading retailers and experts representing consumer, academic and industry perspectives. Their mandate is to encourage the adoption of responsible trading practices by Canadian retailers and to be a source of

*Contd...*

Notes

information for interested consumers. The firm also works with Canadian and international retailers, global and national retail industry associations and the Canadian federal government on common ethical sourcing issues. HBC participates in Fair Factories Clearinghouse (FFC), a joint industry effort to improve factory workplace conditions by sharing factory information, and liaises regularly with the Maquila Solidarity Network's Ethical Trading Action Group (ETAG) on ethical sourcing issues and opportunities.

**Questions**

1. Analyze the case and interpret it.
2. Write down the case facts.

***Source:*** http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/rs00168.html

## 8.7 Summary

- Merchandise or range plans articulate the financial targets in terms of how the range should be built up, what proportion of the total business mix a range should take associated store and DC space allocations, etc.
- Range planning, from setting the concept, purpose and direction through to selecting the products and finalizing the price, distribution and sales forecast, is a truly iterative process that typically involves buying and merchandising working hand in hand, often with somewhat opposing objectives.
- Competition from discount stores and specialty stores has put pressure on department stores.
- Offering more and more first run items, it is difficult for manufacturers to make enough "seconds" to fill these stores.
- Buying items for a household is far different from buying inventory for a retail store.
- If the supplier fails in its job, the retailer can find another one but it would have to suffer being unable to provide what its client needs at the moment.
- The process of merchandise planning takes the buyer through to the stage of determining the products that he needs to have in the store and the quantities that he needs of the same.
- Sourcing means finding or seeking out products from different places, manufacturers or suppliers and is a key element of cost.
- Once the buying plan has been finalized, taking into account both the qualitative and quantitative considerations, and the decision as to which resources should be contacted for purchasing, the timing for purchase is the next issue to be addressed.
- In Retail commerce, visual display merchandising means merchandise sales using product design, selection, packaging, pricing, and display that stimulate consumers to spend more.

## 8.8 Keywords

***Inventory:*** It constitutes the raw materials, work-in-process goods and completely finished goods that are considered to be the portion of a business's assets that are ready or will be ready for sale.

***Merchandise Plan:*** It refers to retailers' systematic approach to forecasting merchandise inventory requirements and negotiating the best deals with suppliers.

Notes

***Negotiations:*** It's a discussion aimed at reaching an agreement.

***Range Planning:*** It typically involves buying and merchandising working hand in hand.

***Sourcing:*** It means finding or seeking out products from different places, manufacturers or suppliers.

***Supplier:*** A party whose business is to supply a particular service or commodity.

***Vendor:*** They are the party in the supply chain that makes goods and services available to companies or consumers.

***Visual Display Merchandising:*** It means merchandise sales using product design, selection, packaging, pricing, and display that stimulate consumers to spend more.

## 8.9 Review Questions

1. What is range planning?
2. What is effective range performance measurement?
3. Explain the different types of merchandise offerings. Also give examples of the same.
4. Explain the process of merchandise planning.
5. What all may comprise the merchandise mix?
6. Explain the process of merchandise sourcing.
7. State the important differences between traditional retail outlets and online retail/delivery companies.
8. Explain promotional merchandising with the help of an example.
9. Is merchandising planning important for a firm? Give reasons to substantiate your answer.
10. What is a key decision to be taken by the buying for merchandise procurement?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | True | 2. | True |
| 3. | False | 4. | True |
| 5. | Supplier | 6. | Mass communication |
| 7. | True | 8. | False |
| 9. | True | 10. | Total sales |
| 11. | Frequency, quantity | 12. | Delivery company |
| 13. | Bivariate | 14. | Visual display merchandising |
| 15. | Merchandising | | |

## 8.10 Further Readings

*Books*

Berman, B. and Evans, J., *Retail Management*, 11th edition, Pearson Education.

Diamond, J. Pintel, G., *Retail Buying*, Eight edition, Pearson education.

Sheikh, A. and Fatima, K., *Retail Management*, First edition, Himalaya Publishing House.

**Notes**

*Online links*

http://www.managementstudyguide.com/retail-merchandising.htm

http://www.retailanywhere.com/solutions/retail-merchandise-management.php

http://www.udel.edu/alex/chapt17.html

www.slideshare.net/giri.singh143/retail-merchandising

www.wisegeek.com/what-is-retail-merchandising.htm

Notes

# Unit 9: Buying Decisions

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Discuss the Merchandise source to retailer
- Describe the Buyer Decision process
- Explain buying for retail stores
- Explain what and how much to buy

## Introduction

The purchasing systems 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.

Notes

## 9.1 Merchandise Source to Retailer

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.

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 reevaluate 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.

Notes

### Self Assessment

State whether the following statements are true or false:

1. The second step in the merchandise purchasing process deals with determining the type of channel to be used for purchasing each line of merchandise.
2. The fourth step in the merchandise purchasing process involves negotiating with the sources of supply. Retailers usually negotiate on price and service issues.
3. The retailer need not reevaluate the complete merchandising process periodically.

## 9.2 Buyer Decision Process

Buyer decision processes are the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service.

*Example:* Tim went to a nearby retail store to buy a laptop for himself. The store manager showed him all the latest models and after few rounds of negotiations, Tim immediately selected one for himself.

In the above example, Tim is the consumer and the laptop is the product which Tim wanted to purchase for his end-use.

Why do you think Tim went to the nearby store to purchase a new laptop?

The answer is very simple. Tim needed a laptop. In other words, it was actually Tim's need to buy a laptop which took him to the store.

The Need to buy a laptop can be due to any of the following reasons:

- His old laptop was giving him problems.
- He wanted a new laptop to check his personal mails at home.
- He wanted to gift a new laptop to his wife.
- He needed a new laptop to start his own business.

The store manager showed Tim all the samples available with him and explained him the features and specifications of each model. This is called information. Tim before buying the laptop checked few other options as well. The information can come from various other sources such as newspaper, websites, magazines, advertisements, billboards etc.

This explains the consumer decision making process.

*Notes* Decision making is the cognitive process of selecting a course of action from among multiple alternatives.

Common examples include shopping and deciding what to eat. Decision making is said to be a psychological construct. This means that although we can never "see" a decision, we can infer from observable behaviour that a decision has been made. Therefore, we conclude that a psychological event that we call "decision making" has occurred. It is a construction that imputes commitment to action. That is, based on observable actions, we assume that people have made a commitment to effect the action.

Notes

In general, there are three ways of analysing consumer buying decisions. They are:

- ***Economic models:*** These models are largely quantitative and are based on the assumptions of rationality and near perfect knowledge. The consumer is seen to maximize their utility.
- ***Psychological models:*** These models concentrate on psychological and cognitive processes such as motivation and need recognition. They are qualitative rather than quantitative and build on sociological factors like cultural influences and family influences.
- ***Consumer behaviour models:*** These are practical models used by marketers. They typically blend both economic and psychological models.

*Did u know?* Bernoulli developed the first formal explanation of consumer decision-making. It was later extended by Von Neumann and Morgenstern and called the Utility Theory.

*Caution* There are five stages which a consumer often goes through when he/she around their Purchase. These stages also exist because of normal human psychology.

These five stages are:

1. ***Problem/Need Recognition:*** This is in general the first stage in which the consumer recognizes that what essentially is the problem or need and, hence, accordingly a consumer can identify the product or kind of product which would be required by the consumer. Page text.
2. ***Information Search:*** In information search, the consumer searches about the product which would satisfy the need which has been recognized by the consumer in the stage previous to this one.
3. ***Evaluation of Alternatives:*** In this stage, the consumer evaluates the different alternatives which the consumer comes across, when the consumer was searching for information. Generally, in the information search the consumer comes across quite a few products and thus now the consumer has to evaluate and understand which product would be properly suited for the consumer.
4. ***Purchase:*** After the consumer has evaluated all the options and would be having the intention to buy any product, there could be now only two things which might just change the decision of the consumer of buying the product that is what the other peers of the consumer think of the product and any unforeseen circumstances. Unforeseen circumstances for example in this case could be financial losses which led to not buying of the product.
5. ***Post Purchase Behaviour:*** After the purchase the consumer might just go through post purchase dissonance in which the consumer feels that buying the other product would be better. But a company should really take care of it, taking care of post purchase dissonance doesn't only spread good words for the product but also increases the chance of frequent repurchase.

*Task* Map the consumer buying process for a Car.

Notes

## Self Assessment

State whether the following statements are true or false:

4. Buying is the cognitive process of selecting a course of action from among multiple alternatives.
5. There are five stages which a consumer often goes through when he/she around their purchase.
6. Decision making is the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service.

*Caselet*

### Decision of the Consumer

**Background**

A consumer products company wanted to understand the practices, needs and wants around one of our basic human needs—drinking water. Their objective was to determine the market need and positioning for a modified home refrigerator with a unique method of built-in water filtration. Key questions: Who are the key targets for this product? What are the factors that drive refrigerator buying and how are these factors prioritized? Could high quality water filtration be a leverage point for a refrigerator buying?

***Process: Ethnography (in-home and in-store), supplemented by interviews in-facility.***

*Phase One: Ethnography*

- ***In-home:*** Observed usage and storage of drinking water (bottled, filtered) in the home
- ***In-store:*** Conducted interviews with refrigerator buying in retail outlets to understand their decision making process and hierarchy of criteria when making this large, important household buying.

*Phase Two: Buying decision Fieldwork*

- Explored reactions to client's prototype product to understand how well it answered unmet needs
- Used validation scenarios to confirm decision criteria
- Test impact of various messaging options

***Outcome:***

- Rich insights into consumer's behaviours and attitudes
- Clear direction on which leverage points to address, both when purchasing a large item like a refrigerator, and a small item like bottled water or a filtration system.
- Detailed messaging recommendations for the brand

***Source:*** http://sundialresearch.com/sun_case_studies/purchase-decision-case-study

Notes

## 9.3 Buying for Retail Stores

Beginning with the turn of the century and continuing for many years, retailers and buyers for retail stores (retail purchasing) concentrated all of their buying efforts on the selection of merchandise items they thought their customers would like and would purchase. These buyers were product-orientated. It was called subjective retailing because the buyer based the buying decision on a personal view of the likes and dislikes of customers.

Within recent years the consumer movement (consumerism) has forced a change in the retailer's buying efforts from a subjective attitude to that of an objective one. The retailer now has to measure the likes and dislikes of the customers before a buying decision can be made. The buyer has to be consumer-orientated. Retailing has entered into the new era of the marketing of merchandise.

### 9.3.1 Marketing Approach

It was now necessary to obtain the answers, through research and study, to the where, who, what, when and why of the consumer's buying habits and choices. The "where" refers to the trading area from which the retailer attracts its customers. The "who" refers to the demographic descriptions of these customers which provide a profile of the potential customers. The "what" refers to the types of merchandise these potential customers want to buy and, therefore, want the retailer to stock. The "when" refers to the part of the year when the customers make their purchases. The "why" refers to the psychographics of the customers which reflect their varied life-styles and the projection of these life styles into purchasing habits.

As a result of this consumerism, the small retailer and the buyer for the larger store has had to learn the significance of a new vocabulary to successfully affect this marketing of the merchandise approach. The new vocabulary includes such phrases as: target group, an understanding of the wants and needs of the consumers the retailer has selected to serve; the marketing positioning, the merchandising policies the retailer has established upon which to develop a reputation as a price, value, quality, assortment, and fashion leader; market penetration, the extent to which the retailer has succeeded in interpreting and satisfying the merchandise wants and needs of the target group; the new tools, the new approach of marketing the merchandise requires a knowledge and understanding of the tools necessary to effectively buy for retail stores; and, the merchandise plan which is a timetable of merchandising objectives to be achieved within a stated time frame to ensure that your planned market positioning and market penetration are realized.

### 9.3.2 Merchandise Plan

The plan is applicable to all forms of retailing at all sales levels. It is most often a six-month merchandise plan but there can be time frame variations depending upon the merchandise.

*Caution* The first six-month plan includes February-March-April (spring) and May-June-July (summer).

This plan is prepared and finalized in the previous August to permit early buying of imports and other merchandise. The second six-month plan includes August-September-October (fall) and November-December-January (winter). This plan is prepared and finalized in the previous February for the same reasons stated above.

Notes

The important items to be considered monthly when developing your six-month Merchandise Plan are:

- ***Net Sales:*** This figure represents a realistic dollar estimate of your monthly merchandise sales. These sales estimates are based on past experience and on future considerations including; business conditions, competition, inflation, promotional plans, merchandising opportunities, and merchandise availability.
- ***Stock:*** In order to achieve your estimated (planned) sales figure you must provide sufficient stock to permit a satisfactory selection for your customers. This stock figure can be determined by calculating your inventory turnover rate or your sales-stock ratio, or by estimating the maximum quantity for each item or the stock requirements based on expected weekly sales.
- ***Reductions:*** Reductions refer to the lowering of retail value of your inventory and are caused by planned markdowns, shrinkage (stock shortage) and discounts to employees or other special groups. Since, these are the only three things that can cause the retail value of the inventory at the end of a period to have a lower valuation than it had at the beginning of the period, they are to be included in the plan.
- ***Purchases:*** This figure represents the dollar value of merchandise the buyer must purchase to replenish the stock likely to be sold to your retail customers. It is calculated by subtracting the dollar value of the stock-on-hand at the beginning of the month from the total dollar value of the planned net sales, shrinkage, and reduction for the month. The result is the planned purchases for the month.
- ***Open-to-Buy:*** To arrive at the open-to-buy figure for the month, it is necessary to subtract (from the above planned purchases figure) the dollar value of the commitments already placed for delivery during the same month. Since each month is an entity by itself, it is not possible to carry any unspent open-to-buy commitments over to the next month. Knowledgeable buyers generally commit about 50 percent of the planned purchase figure in order to allow funds for reorders, fill-ins, and to take advantage of unexpected marketing opportunities.

*Notes* In addition to the above items and depending upon the retail operation, the following elements may also be included in your six-month plan: turnover, markon, payroll, advertising, gross margin, number of transactions, and average sale.

It should be noted that the six-month plan is flexible and can be adjusted at any time to meet changing business conditions.

### 9.3.3 Stock Plan

After determining the broad categories of merchandise the store is to stock, the retailer divides the broad categories into smaller categories called classifications. In turn, the classifications are divided into subclassification.

*Example:* Stock such as men's clothing, stationary, costume jewelry, etc. is divided into men's suits, tuxedos, raincoats, etc. which is further divided into single-breasted, double-breasted, etc.)

A unit stock plan of the number of items to be stocked in each by price, style, color and size is then prepared. The purpose of this approach is to ensure that the stock will present an assortment

Notes

of items that will satisfy the wants and needs of the broad section of targeted consumers. One element of the stock plan approach is the model stock or basic stock list. This list will contain those items that the customer expects to find in stock at all times. These are the musts or never-out items which are sometimes referred to as the bread-and-butter items.

The number of items in all stock plans is multiplied by the price line to arrive at the dollar value of the planned inventory. Adjustments in the stock plan may be necessary if the financial constraints preclude an ambitious stock assortment.

### 9.3.4 Buying Plan

One of the most important aspects of market penetration is to have the items in stock when the customers want to buy them. This implies going into the market to buy the goods early enough to ensure delivery to the store at the proper time.

*Example:* To ensure on-time delivery of children's Easter clothes, you must place the orders and commit the resources in the previous September.

So, buying for a retail store requires advance planning to determine the merchandise needs for each month and then placing the commitments without procrastination. Since, retailers offer for sale the new items months before the actual calendar date for the beginning of the new season, it is imperative that buying plans be formulated early enough to allow for intelligent buying without any last minute panic purchases. The main reason for this early offering for sale of new items is that the retailer regards the calendar date for the beginning of the new season as the merchandise date for the end of the old season. For example, March 21st, from a merchandising viewpoint, is the end of spring while June 21st is the end of summer and December 21st the end of winter.

The period following the calendar date for the beginning of the season is used by the retailer to sell closeouts, job lots, imperfects, irregulars, seconds, distress merchandise, off-price purchases and markdowns from regular stock.

In summary, the buying plan should detail:

- When the market should be visited to see, examine, and study the new offerings for the coming season;
- When commitments should be placed; and
- When the first delivery should be received at the store.

### 9.3.5 Selling Plan

The selling plan is closely allied to the buying plan. Once, the merchandise has been purchased, plans must be formulated to ensure the sale of the greatest number of units during the period of customer acceptance. The selling plan should detail:

(a) When the items should be promoted through advertising, window and interior displays, etc.;

(b) When the inventory should be peaked;

(c) When reorders should no longer be placed;

(d) When markdowns from regular stock should be taken; and

(e) When the item should no longer be in stock.

Notes

The buyer for the retail store must determine at the time the merchandise is purchased when the item should be introduced, when it should be reordered, when it should be marked down, and when it should be removed from stock. This procedure can be compared to the tides – low and high. In merchandising terms it is referred to as the ebb and flow of merchandise. The old must go and the new must take its place.

### 9.3.6 Unit Control Plan

To maintain an in-stock position of wanted items and to dispose of unwanted items, it is necessary to establish an adequate form of control over the merchandise on order and the merchandise in stock. For the small retailer, there are many simple, inexpensive forms of unit control. They are:

- Visual or eyeball control enabling the retailer to examine the inventory visually to determine if additional inventory is required;
- Tickler control enables the retailer to physically count a small portion of the inventory each day so that each segment of the inventory is counted every so many days on a regular basis;
- Stub control enables the retailer to retain a portion of the price ticket when the item is sold. The retailer can then use the stub to record the items that were sold; and
- Click sheet control enables the retailer to record the item sold (at the cash register) on a sheet of paper, such information is then used for reorder purposes.

For the large retailer, more technical and sophisticated forms of unit control are used. They include:

- Point-of-sale terminals which relay to the computer the information of the item sold. The buyer receives information printouts at regular intervals for review and action;
- Off-line point-of-sale terminals relay information directly to the supplier's computer which uses the information to ship additional merchandise automatically to the retailer; and
- A manufacturer's representative visits the large retailer on a scheduled basis and takes the stock count and writes the reorder. Unwanted merchandise is removed from stock and returned to the manufacturer through the procedure of an authorized level.

A sound unit control must include control over open orders so that delivery dates are adhered to and to ensure that stores do no receive goods they did not order.

### 9.3.7 Conclusion

Finally, **retail purchasing** requires the buyer to be an aware person; Aware of the changing tones, the changing consumer and the changing products. To remain current with these changes, an aware buyer:

1. Reads trade journals and newspapers, consumer and business publications;
2. Talks to customers, salespeople, and vendors;
3. Sees all manufacturers, salespersons and their merchandise lines;
4. Visits museums, art shows, lively arts performances and sporting events; and
5. Visits offbeat fashion areas.

In short, the buyer for a retail store keeps an alert ear to new consumer rumblings and a sharp eye to lookout for new merchandising horizons and selling opportunities.

Notes

## Self Assessment

Fill in the blanks:

7. The ..... of the consumer buying habit refers to the trading area from which the retailer attracts its customers.
8. The ..... refers to the types of merchandise these potential customers want to buy and, therefore, want the retailer to stock.
9. The merchandise plan is usually a ..... month plan.
10. ..... refers to the lowering of retail value of your inventory and is caused by planned markdowns, shrinkage and discounts to employees or other special groups.
11. The number of items in all stock plans is ..... by the price line to arrive at the dollar value of the planned inventory.
12. ..... enables the retailer to examine the inventory visually to determine if additional inventory is required.
13. ..... relay to the computer the information of the item sold.

## 9.4 Deciding What and How Much to Buy

*When* are my customers going to purchase and *how much* are they going to spend on their purchase are two important questions that any retailer would like to answer. These questions gain added importance in the case of an online retailer/delivery service where the pick, pack and delivery costs are substantial, in some cases more than half of the operating costs.

*Did u know?* Traditional retailers generally are less concerned with the separate *when* and *how many effects*, mostly focusing on total sales.

Online retailers/delivery service, however, have a very different cost structure from that of traditional retailers. Because delivery costs are substantial, the online retailer cannot simply focus on total sales but must be concerned with purchase frequency and purchase quantity. For example, promotions that induce frequent small quantity purchases may actually reduce profits at an online grocer while increasing profits at a traditional brick-and-mortar grocer.

Knowledge of a household's timing and amount of purchase decisions will help the online store to actively target these individual households and customize its offerings either to induce them to shop more frequently or in some cases less frequently. The 'when' and 'how much' decisions of the household also have important implications for the pricing structure for the delivery occasion and delivery volume. Typically, these vary from pay-per-use to fixed monthly amounts with a variety of combinations of these two.

Due to the large quantity of data on grocery purchases that have been available, a large number of sales models have been developed in the marketing literature. Such models have been utilized to set price, promotion and advertising policies and much of their intended contribution has been to give practitioners better tools for understanding their markets.

*Example:* Boatwright, McCulloch & Rossi (1999) use their model to aid manufacturers allocating large trade promotion budgets across retailers.

Due to the cost structure of traditional retailers, most of the existing models focus exclusively on retailer profits as a function of total sales, i.e. the models are developed to predict sales.

Notes

So although there are a number of models of grocery sales that have been developed, the online retailer would need a different type of model from a majority of these, needing a model that would jointly predict purchase frequency and purchase quantity rather than simply a model of total sales. Almost all of the few existing models in the literature for the joint distribution of purchase frequency and purchase quantity condition on known purchases elsewhere in the store or treat the frequency and quantity decisions as independent. A recent model of unconditional purchase frequency utilized data from an investment brokerage to model the time between transactions for each customer. An alternative method of accommodating purchase frequency and quantity is to aggregate sales over long time frames such as months or quarters although aggregate models do not offer insight into the separate effects of frequency and quantity.

*Task* Visit a garment retailer and find out about the sales in peak and off peak seasons and how he/she handles it.

## Self Assessment

Fill in the blanks:

14. ..... are my customers going to purchase and ..... are they going to spend on their purchase are two important questions that any retailer would like to answer.
15. Due to the cost structure of traditional retailers, most of the existing models focus exclusively on retailer profits as a function of .....

*Case Study*

### Dillon's Hardware

Dillon's Hardware is an independently owned and operated business located in a small rural community. The store's owner, Hank Dillon, built the business on a simple but effective policy: to sell quality merchandise at reasonable prices. Hank and his assistant, Mike McFarland, are responsible for all decisions involving the purchase of merchandise stocked by the store.

During a recent week, Mike met with a number of salespersons who represent distributors that sell fasteners. Mike has narrowed his choice of possible suppliers down to two companies that both offer the quality and assortment of products he is interested in purchasing. He asked each sales representative to give him pertinent information regarding his company's pricing structure and terms of sale.

Midstate Fasteners quoted the price of assorted machine bolts and nuts at $10.50 per box (2 pounds net weight); assorted wood screws at $14.70 per box (3.5 pounds net weight); -inch threaded steel rod at $0.75 per foot; 3/8-inch threaded steel rod at $1.10 per foot; and 3-inch brass plated hinges at $25.20 a case (24 units per case). Midstate offers a 10%, 5%, and 5% trade discount on purchase orders over $500, and terms of 3/10, n/30 ROG. The company ships all merchandise by truck FOB shipping point.

Industrial Supply sells assorted machine bolts and nuts at $5.40 per lb., assorted wood screws at $4.05 per pound, -inch threaded steel rod at $2.20 per piece (3-foot sections), 3-inch threaded steel rod at $3.40 per piece (3 foot sections), and 3-inch brass plated hinges

*Contd...*

Notes

at $0.95 each. Industrial Supply offers its customers a trade discount of 10% on all purchases, and terms of 2/10 eom. All merchandise is shipped to customers via track FOB destination.

Using the terms provided by the two suppliers, Mike must decide which company offers him the best opportunity to achieve his store's policy. Mike plans to place an order for the following quantities of merchandise:

40 pounds

28 pounds

42 feet

57 feet

96

assorted machine bolts and nuts

assorted wood screws

-inch threaded steel rod

3/8-inch threaded steel rod

3-inch brass plated hinges

Dillon's Hardware remits payment for all merchandise purchased on credit within the terms offered by its suppliers to reduce the cost of its purchases.

**Question**

If the merchandise is of equal quality and the location of the two suppliers, result in similar transportation costs and delivery terms, with which supplier should Mike place his fastener order?

***Source:*** http://wps.prenhall.com/chet_rogers_mathematic_1/42/10876/2784386.cw/index.html

## 9.5 Summary

- Retailers can source their merchandise from manufacturers or produce their own store brands, called private labels.
- 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.
- Buyer decision processes are the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service.
- There are five stages which a consumer often goes through when he/she around their purchase. These five sates are problem/need recognition, information search, evaluation of purchase, and post purchase behaviour.
- The important items to be considered monthly when developing your six-month merchandise plan are net sales, stock, reductions, purchases and open-to-buy.
- The selling plan should detail when the items should be promoted through advertising, window and interior displays, etc.; when the inventory should be peaked; when reorders should no longer be placed; when markdowns from regular stock should be taken; and when the item should no longer be in stock.

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- Buying plan should detail when the market should be visited to see, examine, and study the new offerings for the coming season; when commitments should be placed; and when the first delivery should be received at the store.
- When are my customers going to purchase and how much are they going to spend on their purchase are two important questions that any retailer would like to answer.

## 9.6 Keywords

***Basic Stock List*:** This list contains those items that the customer expects to find in stock at all times.

***Buyer Decision Process:*** It is the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service.

***Decision Making*:** It is the cognitive process of selecting a course of action from among multiple alternatives.

***Off-line Point-of-sale Terminals:*** They relay information directly to the supplier's computer which uses the information to ship additional merchandise automatically to the retailer.

***Planned inventory:*** The number of items in all stock plans is multiplied by the price line to arrive at the dollar value of the planned inventory.

***Point-of-sale Terminals:*** They relay to the computer the information of the item sold to establish an adequate form of control over the merchandise on order and the merchandise in stock.

***Reductions*:** It refers to the lowering of retail value of your inventory and is caused by planned markdowns, shrinkage (stock shortage) and discounts to employees or other special groups.

***Tickler Control:*** It enables the retailer to physically count a small portion of the inventory each day so that each segment of the inventory is counted every so many days on a regular basis.

## 9.7 Review Questions

1. Explain the steps involved in the merchandise decision process.
2. Define buyer decision making process with the help of an example.
3. Which are the ways in which consumer buying decisions are analysed?
4. Explain the 5 stages that the customer goes through when he/she is around their purchase.
5. Which are the important items to be considered monthly when developing your six-month merchandise plan?
6. Explain how the stock plan is developed. Also give an example for the same.
7. What are the factors that the buying plan should detail?
8. What are the factors that the selling plan should detail?
9. Explain, in brief, the methods used to establish an adequate form of control over the merchandise on order and the merchandise in stock.
10. On what basis do retailers decide what and how much stock to buy?

Notes

## Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | False | 2. | True |
| 3. | False | 4. | False |
| 5. | True | 6. | False |
| 7. | Where | 8. | What |
| 9. | Six | 10. | Reductions |
| 11. | Multiplied | 12. | Visual or eyeball control |
| 13. | Point of sale terminals | 14. | When, how much |
| 15. | Total sales | | |

## 9.8 Further Readings

*Books*

Berman, B. and Evans, J., *Retail Management*, 11th edition, Pearson Education.

Diamond, J. Pintel, G., *Retail Buying*, Eight edition, Pearson education.

Sheikh, A. and Fatima, K., *Retail Management*, First edition, Himalaya Publishing House.

*Online links*

http://afterschooolmis.blogspot.in/2008/10/inventory-management.html

http://wps.prenhall.com/chet_rogers_mathematic_1/42/10876/2784386.cw/index.html

http://www.questia.com/library/1G1-111300280/a-model-of-the-joint-distribution-of-purchase-quantity

www.udel.edu/alex/chapt6.html

Notes

# Unit 10: Purchasing in the Domestic and Foreign Marketplace

**CONTENTS**



## Objectives

After studying this unit, you will be able to:

- Explain the Basics of Retail Purchasing
- Discuss the Purchasing in the Domestic Marketplace
- Describe the Purchasing in the Foreign Marketplace
- Explain the Merchandising the Budget Plan

## Introduction

Purchasing refers to a business or organization attempting to acquiring goods or services to accomplish the goals of its enterprise. Anyone in the retail industry will tell you that

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times are tough. Margins are tight and competition is fierce. Low consumer confidence, the absence of economic stimulus, and consecutive rises in interest rates did not help Christmas sales figures, resulting in shoppers spending less than the year before.

Purchasing did not get us the right product/right prices" while buyers blame "operations are not capable of selling our wonderful products". There are many reasons why this conflict is always bubbling over. It has to do with organizational culture, with the strong ego of company leaders, with the lack clear management accountability, etc. The one keyword, actually the one key-action everyone forgets about is cooperation.

In this unit, we will discuss purchasing in the domestic market. We will also focus on purchasing in the foreign marketplace.

## 10.1 Purchasing in the Domestic Market

Three major concerns regarding order placement

- Geographic location of vendors
- Appropriate timing
- Personal market trips or Internet resources

Why the domestic market is important:

- Delivery reliability
- Price guarantee
- Chargeback adjustments
- Economic advantage
- Reliability of 'fit'

### 10.1.1 Five Essentials Should be Considered before Purchasing a Retail System

Following are the major essentials :

**Has it been Designed for Retail?**

Retail has many unique characteristics. A retailer needs to know what stock it has available, the size, colour and location of its products and which ones are selling and where, so it can plan future marketing campaigns or sales. It is important therefore to consider whether the new IT system has been designed specifically for the retail industry.

**Does it provide Value for Money?**

An obvious point, especially in these challenging economic times, but some of the larger software companies would have you believe that you need to spend millions to get the retail systems you need. The truth is that you don't. Some of the retail systems available today are too expensive and too complicated. The question of on going operating costs is also critically important. Ultimately, a company should look to have one IT person for every 100 shops it operates to handle end-to-end retail functionality. Such ratios are easily achievable if the right technology is used.

Notes

**Is it scalable?**

Can the new retail system actually grow with the business or will you be looking for another system again in a couple of years? Are you planning to expand into other countries? Can the system be supported in other languages and currencies? Can it support tax rules in other countries? Can it support another retail brand, or will you need to buy another system?

*Caution* Businesses must not assume that the system they originally adopted when the company started up will be able to handle their needs as the company expands. As the organisation grows, the system must be able to grow with it.

***Can it be implemented quickly and is it fully supported?***

Time is money. The retail industry moves fast and retailers shouldn't have to wait years for a new IT system to be implemented. So, look for a system that can be implemented in a few months rather than years.

*Did u know?* As with any new IT system purchase, make sure that the technology is proven and reliable. Has the vendor got a number of happy retail customers that you can talk to? Again, you may think that the well known software brands are a 'safe choice' but this can be deceptive. Large software vendors are often inflexible and will tend to neglect smaller companies.

It is, therefore, important that you choose your retail systems wisely. If a mistake is made, it will hinder the potential growth and success of the business for years. Running a retail business without a good retail management software can impede not only on profits but also on customer service levels, stock management and sales conversions.

### 10.1.2 How to Prepare Your Purchasing Negotiation in 3 Basic Steps?

The way to make the preparation process easy, intuitive and less monotonous is to split it in 3 clear defined steps. After you do that a few times and you include this in your negotiation routine, it will take (in the often case of a supplier you already work with) an unimportant amount of your time, sometimes up to 20 minutes.

However, as a general rule, take enough time to plan. This may be the most productive part of your negotiation actually. There is no pressure. If you are not negotiating alone, but in a team, prepare/delegate/split the preparation work with your team. If there is a new supplier, then the amount of work involved is obviously bigger. In case of your usual partners, you already know the information, just put it in writing. Don't hurry, think in deep. This gives you the warranty that you leave at the hand of probability only very few variables.

When you have a new vendor in sight, the number of variables being much higher, documentation work takes a bit more time (also, the strategy and tactics adopted for the first meeting are specific).

Knowing your supplier is one of the best tools, weapons, instruments – no matter how you want to call it – to control the situation and always have the benefit in discussions, negotiations, day to day purchasing activity.

"Knowing" the supplier takes a lot of time and work at the beginning. It takes time to dig into the information, to learn all you can about their production capabilities, their partners (basically your competition), their competition; their reputation in the market and the reputation of their

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sales people and management; logistics and pricing, margin capabilities, service issues, quality issues, the company's financial strengths and weaknesses, their product's strengths, the marketing strategy and tactics, their short term and long term objectives, their targets for growth, their cost scheme, etc.

**Meaning: know them better than they know themselves.**

Having all that information, reviewed permanently to keep it up fresh, will help tremendously to get your business relationship focus on business and problem solving. Become an expert in your supplier. The results will be extraordinary. There will be no opening for them to mess around in negotiation room. Once your supplier knows and sees you cannot be fooled, the games in negotiations are finished and all is left for them to do is to discuss straightforward, serious business.

Getting whole the knowledge will not take an hour or a day; it can take sometimes weeks or months. Gather all the facts and data, learn it, work with it, play with it and confront it regularly

The merchandise budget plan specifies the inventory investment in a category over time. It isn't complete buying plan since it doesn't indicate the specific assortment to buy or the quantities. The plan just specifies how much money should be spent each month to support sales and achieve turnover objectives.

The buyer needs to plan how much merchandise should be delivered in each month to achieve the financial goals for the period.

Actual sales might differ from the sales forecasted in the merchandise budget plan. Even with this uncertainty, the plan is used to coordinate the supply and demand for merchandise and to ensure that the financial goals are realized. In addition, the plan coordinates the activities of buyers for different merchandise categories, so that there is not too much merchandise in some categories and not enough in others. From a global perspective, the merchandise variety could become off balanced and be less appealing to customers.

### 10.1.3 Early Decision Making

Following are the major advantages of early decision making in purchasing:

- See the line in its entirety
- Guarantee early delivery
- Obtain exclusive agreements
- Obtain seasonal discounts

**Disadvantages**

Following are the major disadvantages of early decision making in purchasing:

- Purchased items may be eliminated if vendor does not receive minimum order level
- 'Winners' are yet to be determined

**Lead Time Requirements**

- Definition: the amount of time it takes to receive the order once the order is placed
- Greater for fashion items; less for staple items
- May require six months
- Delivery must coordinate with catalog presentation

Notes

**While in the Marketplace, Buyers:**

- Can feel the pulse of the marketplace
- Enjoy the privileges of the earliest possible delivery dates
- Gain insight from market representatives
- Trade information with noncompeting buyers

**Discounts**

- Cash discounts
- Anticipation discounts
- Quantity discounts
- Seasonal discounts

*Caselet*

## What Price and What Profit?

Shawn Kelly manages a retail store in the Village Mall. The store sells a limited assortment of athletic merchandise and over the last two years it has expanded the athletic footwear department to respond to changing market conditions.

Three months ago, Shawn purchased 300 pairs of cross-trainer sneakers from a supplier at a cost of $48.30/pair. Shawn decided that he would use a 50% markup on the price to sell this particular line of merchandise. Inventory records at the end of the first month indicated the sneakers were not selling as quickly as expected. The store had sold only 125 pairs at the original price. Shawn marked the remaining inventory down 20% to stimulate sales. At the end of the second month, the store had sold an additional 100 pairs at the sale price. The remaining 75 pairs were marked down an additional 25% at that time to deplete the inventory. By the end of the third month, the entire stock of this purchase order had been sold.

Recently, a shipment of 100 pairs of soccer shoes of various sizes arrived at the store. Shawn wants to price the shoes and place them on display in the store immediately, as the soccer season is less than 1 month away.

Shawn has asked you (the store's bookkeeper) to analyze these situations and provide him with the following information:

1. The amount of profit or loss realized from the sale of the sneaker order over the 3-month period.
2. The actual percent of markup after all markdowns were applied.
3. The marked price per pair of soccer shoes if they cost $35.00 per pair. Twenty percent (20%) of the order is expected to sell at a reduced price of $42.00 per pair, and the markup required is 60% on cost. (Round the sales price to the nearest cent.)

You are to base your analysis of the sneaker order strictly on the cost and sales data provided for the 300 pairs of sneakers. Also, the store estimates its operating expenses at 40% of sales.

***Source:*** http://wps.prenhall.com/chet_rogers_mathematic_1/42/10876/2784402.cw/index.html

Notes

## Self Assessment

Fill in the blanks:

1. When you have a new vendor in sight, the number of variables being much higher, documentation work takes a ..... time.
2. Knowing your ..... is one of the best tools, weapons, instruments – no matter how you want to call it – to control the situation and always have the benefit in discussions, negotiations, day to day purchasing activity.
3. "Knowing" the supplier takes a lot of ..... and ..... at the beginning.
4. It takes time to dig into the information, to learn all you can about their production capabilities, their partners (basically your competition), their competition; their reputation in the market and the ..... of their sales people and management.
5. ..... might differ from the sales forecasted in the merchandise budget plan.

## 10.2 Purchasing in the Foreign Market Place

Internationalization of the marketplace, global competition, and changes in the business environment have contributed to the increase in international purchasing. U.S. firms, recognizing these trends, are entering the international arena in increasing numbers. Simply stated, domestic suppliers alone cannot meet all the competitive needs of a multinational corporation. As a result, international sourcing has emerged as a critical component of corporate strategy, aimed at reducing costs, raising product quality, increasing manufacturing flexibility, and improving designs. The strategic importance of international purchasing, describes procedural and managerial issues of concern in international procurement, and delineates the significant differences between buying from foreign and domestic sources. The importance of the linkage between the purchasing function and the other functions within a firm is becoming more evident with each passing year.

*Notes* Firms are becoming acutely aware that purchasing decisions impact many cross-functional decisions, such as capacity requirements and equipment needs (make-versus-buy decisions), product cost(*) and quality performance, (source selection and qualification decisions), delivery reliability (mode and carrier decisions), and product innovation (supplier partnering decisions). This awareness has been generated by the strategic emphasis placed on product quality, cost competitiveness, and the just-in-time approach to manufacturing and delivery.

U.S. firms, recognizing these trends, are entering the arena of international purchasing in increasing numbers. Simply stated, domestic suppliers cannot meet all the competitive needs of a multinational corporation. As a result, international sourcing has emerged as a critical component of corporate strategy, aimed at reducing costs, increasing product quality, increasing manufacturing flexibility, and improving product designs.

### 10.2.1 US Fashion Markets

- New York City
- Los Angeles
- San Francisco

**Notes**

- Chicago
- Dallas
- Miami

**New York City/Garment Center**

- Largest number of fashion manufacturers in U.S.
- Geographically spread out
- 34 million square feet
- 5,100 showrooms
- 4,500 factories
- 7th on Sixth

**Foreign Market Resource Advantages**

- Fashion forward design
- Prestige
- Value
- Exclusivity
- Product quality

### 10.2.2 Major Foreign Markets

- Paris
- Milan
- London
- Spain
- Germany
- Japan
- Hong Kong
- Canada
- Mexico

**Paris, France**

- Chambre Syndicale De La Couture
  - Membership criteria
- Couturiers
- Haute couture shows
- Caution fee

**Notes**

### RBO Preparation for Buyer Visits

- Locate new resources
- Prescreen fashion collections
- Analyze market conditions

### RBO Duties

- Present overview of market
- Provide list of scheduled appointments
- Alert retail buyers of new resources
- Answer questions about market conditions
- Make themselves available to retail buyers

### Market Visit Alternatives

- Fashion Representative Visits
- Web sites

### Writing the Order

It Includes:

- Price
- Discounts
- Allowances
- Delivery
- Shipping
- Chargebacks

### Robinson-Patman Act

- Designed to limit price discrimination
- All purchases must pay same price except under certain circumstances
    - Merchandise is job lot or closeout
    - Done to meet competitor pricing
    - Production savings for an order are passed on to the customer

### Market Week

The time when major buyers in the industry arrive in the market to visit vendor resources.

Notes

### 10.2.3 Trends in Purchasing

- Purchasing in a typical arenas
- Purchasing domestically produced products
- Using intermediary buying services

#### A Changing Business Environment

There are several reasons for the emergence of international purchasing as a strategic weapon in the restructuring of manufacturing operations in U.S. firms. Most of these reasons are related directly to the efforts of U.S. manufacturing firms to gain, or regain, competitive strength and market share by improving their strategic posture in response to a changing business environment. The principal changes in the environment that underlie the move by manufacturing firms to develop new corporate strategies are summarized in Table 10.1.

**Table 10.1: A Changing Business Environment**

- New Challenges to Corporate America
- Intense international competition
- Pressure to reduce costs
- Need for manufacturing flexibility
- Shorter product development cycles
- Stringent quality standards
- Ever-changing technology

#### Competition

Intense competition from abroad, pressures stemming from the need to reduce trade deficits through exports, and the interdependence of global economies have all served to internationalize the marketplace. Surviving and thriving in today's global markets require that manufacturing firms be truly "world class." There is evidence that the United States no longer enjoys an unequaled advantage in manufacturing and in manufactured goods. Steel, semiconductor, automobile, and consumer electronics industries all have fallen victim to international competition and have seen their market shares erode.

#### Cost Reduction

Most manufacturing firms are striving to be low cost, high quality producers. For firms selling in mature markets where there is little or no product differentiation, cost reduction is especially important. The recent experiences of U.S. industries in steel, consumer products, and automotive manufacturing underscore the importance of cost and quality as competitive weapons. Cost, quality, and customer satisfaction have become the foundation on which a successful competitive strategy is built. It is well known that the Pacific Basin countries enjoy a comparative advantage in cost.

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*Caselet*

## Amway: Reaching Customers through Direct Selling

For the modern business organisation, developing goods or services is not enough. Goods must also be available in the right quantity and at the right location in order to reach the customer.

For the organisations themselves, distribution strategies should never be underrated. Developing an effective way of reaching customers may be the cornerstone upon which their successes are founded.

One reason for their success is that they reach their customers in a better and more appropriate way than their competitors.

The success of every organisation depends upon the satisfaction of its customers. The Amway product range covers many consumable items which most people have in their homes. The quality of its products is considered to be the organization's driving force. Amway is committed to ongoing research and development.

The direct selling industry has grown rapidly over recent years. Changing lifestyles, demographics and economic recession have all been factors influencing this growth. Amway provides people with business opportunities across the globe.

Direct selling is not about 'getting rich quick' it is about creating rewards for effort and initiative. With low risk and low capital investment, Amway provides people with the opportunity to achieve and to improve their lives.

As a leading player in the world of direct selling, Amway is helping to 'clean up' the industry and provide a valuable and acceptable form of product distribution. In an impersonal fast-moving world driven by technology, Amway provides the personal touch.

***Source:*** http://businesscasestudies.co.uk/amway/reaching-customers-through-direct-selling/the-personal-touch.html#ixzz2OAiHoEO6

## Self Assessment

State whether the following statements are true or false:

6. Internationalization of the marketplace, global competition, and changes in the business environment have contributed to the decrease in international purchasing.
7. U.S. firms, recognizing these trends, are entering the international arena in increasing numbers. Simply stated, domestic suppliers alone cannot meet all the competitive needs of a multinational corporation.
8. International sourcing has emerged as a critical component of corporate strategy, aimed at reducing costs, raising product quality, increasing manufacturing flexibility, and improving designs.
9. The strategic importance of international purchasing, describes procedural and managerial issues of concern in international procurement, and delineates the significant differences between buying from foreign and domestic sources.
10. The awareness amongst the firms has been generated by the strategic emphasis placed on product quality, cost competitiveness, and the just-in-time approach to manufacturing and delivery.

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## 10.3 Merchandise Budget Plan

Merchandise budget plans are concerned with the financial planning of merchandise ranges, rather than the control of the physical number of items. For any retailer (of any size) it is vital that a balance is achieved between the amount of money going out of a business to pay for supplies of stock, and money coming into the business from sales to customers. Even though there are various accounting methods that allow a little flexibility (for example, extended credit terms), this balance is key to the liquidity of the business. A merchandise budget plan is difficult to accomplish without the benefit of previous experience and internal records; however, relying on historical data alone can lead a buyer or product manager into repeating previous mistakes, including missed opportunities.

The first step of the plan is a realistic sales forecast, the principles of which were discussed earlier. The time period for the plan will vary according to the individual needs of the retail business, but a six-monthly plan is common for many seasonal products. The sales forecast shown in table given below is for a relatively seasonal product-women toiletry gift pack. The sales are above average in January, because of all the reduced Christmas stock, in March because of Mothers Day and Easter (which usually fall in this month), and in June due to pre-holiday purchases. The forecasted sales are shown as a percentage of the total seasons sales estimate, and at retail selling value.

**Table 10.2: Planned Purchases**

| Category:toiletry | Jan. | Feb. | Mar. | Apr. | May | June | Total |
|---|---|---|---|---|---|---|---|
| Gift packs (Women's) Forecast sales (%) | 19 | 13 | 21 | 16 | 14 | 17 | 100 |
| Forecast sales (£) | 11,400 | 7,800 | 12,600 | 9,600 | 8,400 | 10,200 | 60,000 |
| BOM stock: sales ratio | 2.8 | 3.3 | 2.9 | 2.8 | 3.1 | 3.1 | 3.0 (average) |
| Beginning of month (BOM) stock (£) | 31,920 | 25,740 | 36,540 | 26,880 | 26,040 | 31,620 | N/A |
| End of month EOM stock (£) | 25,740 | 36,540 | 26,880 | 26,040 | 31,620 | --- | N/A |
| Planned purchases (£)) | 5,220 | 18,600 | 2,940 | 8,760 | 13,980 | --- | N/A |

The second step of the plan is to consider how much stock is needed in the stores in order to achieve the forecasted level of sales. Arriving at this stock to sales ratio will need consideration of the following:

1. How fast can replacement items be supplied?
2. How fast will the item sell out, and how important is it to keep the product in stock?
3. How much choice does the customer expect to find in the store, in order to make a purchase?

For a relatively slow selling, specific product item that can be restocked by a local distributor (for example, power tools), the stock to sales ratio can be kept low; but for party dresses, where lead-times might be three weeks or more and customers require an extensive selection of styles and sizes to choose from, the stock to sales ratio needs to be higher. Usually these factors are considered collectively for the category of merchandize being planned, and an average stock to sales ratio is arrived at for the planning period. Thus, an average ratio of 2 might be sufficient for power, tools, but may be as high as 10 for party dresses. This average is then raised or lowered through the selling season to reflect the effect of differing sales rates on the stock position: when sales peak, the stock runs down quickly and the stock to sales ratio drops down from the average; but when sales are slow, the stock to sales ratio rises. For seasonal goods it might be

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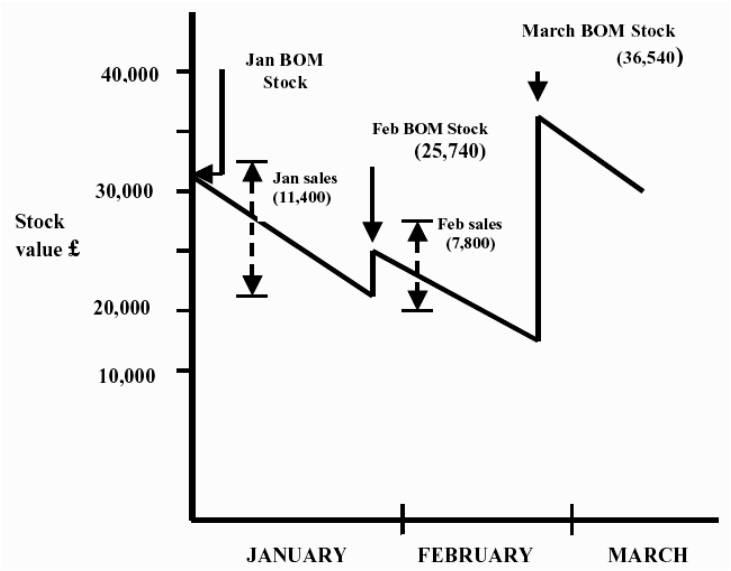
necessary to stockpile in order to cope with subsequent surges in demand; again this is reflected by an increasing stock to sales ratio. In the example of women's toiletries, the average stock ratio is 3:0 and is raised and lowered according to the rates of sales.

The stock required to achieve the sales during the month should ideally be present at the beginning of the month; therefore, the stock position refers to the Beginning of Month (BOM) stock level. As sales progress through the month, the stock level drops, so that by the end of the month the stock position could be expressed as (BOM stock-sales). However, in reality, as well as selling stock, the retailer will also be receiving stock, in order to build required level of stock for the next month, so that the stock position at the end of a preceding month should be the required BOM stock of the next month. The difference between the (BOM stock-sales) figure and the EOM stock figure will be the purchases that have arrived during the month. Figure given below illustrates this process.

**Figure 10.1 : BOM (Stock-sales)**




If the plan started in figure explained above is continued, we can see how this process works through the season (See figure given above seasonal peaks in different product categories). Expressed as an equation it is as follows:

Planned purchases = EOM stock + Sales – BOM stock

The planned purchases for each month represent the value of stock (at retail price) that the buyer needs to bring in from suppliers. Some goods may need to be ordered in advance of the season, whilst others can be topped up immediately; therefore, it is likely that some of the planned purchase figure will have already been committed to pre-ordered goods suppliers. The remaining funds are what are left open for the buyer to spend on fast lead-time stock. In this way, the stock level for the next month is achieved.

### 10.3.1 Monthly Sales Percent Distribution to Season (Line 1)

Line 1 of the plan projects what percentage of the total sales is expected to be sold in each month. Thus, in Table 10.3, 21 percent of the six-month sales is expected to occur in April.

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**Table 10.3: Line 1**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. Sales % Distribution to Season | 100.00% | 21.00% | 12.00% | 12.00% | 19.00% | 21.00% | 15.00% |

The starting point for determining the percent distribution of sales by month is historical records. The percentage of total sales that occurs in a particular month doesn't vary appreciably from year to year. Even so, its helpful to examine each months percentage over a few years to check for any significant changes. For instance, the buyer realizes that the autumn selling season for mens tailored suits continued to be pushed further back into summer. Over time, this general shift toward earlier purchasing will affect the percent distribution of sales by month. The distribution may also vary due to changes made by the buyer or the competitors marketing strategies. The buyer must include special sales that did not occur in the past, for instance, in the percent distribution of sales by month in the same way that they're built into the overall sales forecast.

### 10.3.2 Monthly Sales (Line 2)

Monthly sales equal the forecast total sales for the six-month period (first column = $130,000) multiplied by each sales percentage by month (line 1). In table given below, monthly sales for April = $130,000 × 21% = $27,300.

**Table 10.4: Line 2**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2. Monthly Sales | $130,000 | $27,300 | $15,600 | $15,600 | $27,700 | $27,300 | $19,500 |

### 10.3.3 Monthly Reductions Percent Distribution to Season (Line 3)

To have enough merchandise every month to support the monthly sales forecast, the buyer must consider factors that reduce the inventory level. Although sales are the primary reduction, the value of the inventory is also reduced by markdowns, shrinkage, and discounts to employees. The merchandise budget planning process builds in these additional reductions into the planned purchases. Otherwise, the retailer would always be understocked. Note that in Table 10.5, 40 percent of the seasons total reductions occur in April as a result of end-of-season sales.

**Table 10.5: Line 3**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3. Reduce % Distribution to Season | 100.00% | 40.00% | 14.00% | 16.00% | 12.00% | 10.00% | 8.00% |

Markdowns can be forecast fairly accurately from historical records. Of course, changes in markdown strategies – or changes in the environment, such as competition or general economic activity – must be taken into consideration when forecasting markdowns.

Discounts to employees are like markdowns, except that they're given to employees rather than to customers. Cost of the employee discount is tied fairly closely to the sales level and number of employees. Thus, its percentage of sales and dollar amount can be forecast fairly accurately from historical records.

Shrinkage is an inventory reduction that is caused by shoplifting by employees or customers, by merchandise being misplaced or damaged, or by poor bookkeeping. The buyer measures

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shrinkage by taking the difference between (1) the inventory's recorded value based on merchandise bought and received and (2) the physical inventory in stores and distribution centers. (Physical inventories are typically taken semiannually.) Shrinkage varies by department and season. Typically, shrinkage also varies directly with sales. So if sales of mens tailored suits rise 10 percent, then the buyer can expect a 10 percent increase in shrinkage.

*Task* Visit any retail house and collect information on different methods to reduce shrinkage in inventory

### 10.3.4 Monthly Reductions (Line 4)

The buyer calculates the monthly reductions in the same way as the monthly sales. The total reductions are multiplied by each percentage in line 3.

April reductions = $16,500 × 40% = $6,600

**Table 10.6 : Line 4**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4. Monthly | $16,500 | $6,600 | $2,310 | $2,640 | $1,980 | $1,650 | $1,320 |

### 10.3.5 Analyzing Merchandise Performance

Measuring the performance of merchandise is essential in order to achieve an understanding of the products which have worked well and which have not performed as per the goal. The performance can be according to plan, below the plan or above the plan.

Inventory turnover, which may also be called inventory or merchandise stock turn or just turnover, is a basic to merchandise performance. Inventory turnover evaluates how long inventory is on hand before it is sold. Items that are readily available a short time have a high turnover those that are around longer having a low turnover.

Turnover is a basic to high performance, which means profits in retailing. However, higher turnover will not indefinitely increase profits, and the lowest profits, and the lowest turnover will not necessarily result in the lowest profits.

Rapid turnover enables the retailer to reduce certain expenses. Lower inventories will obviously require less capital, and thus the retailer's interest expenses will be lower. Also associated with lower inventories will be lower levels of insurance coverage required, lower inventory taxes on year end inventories and lower cost of space to store the inventory. On the other hand, rapid turnover can increase expense. With similar average inventories on hand, the retailer must order more frequently and in smaller quantities, resulting in higher clerical costs, lost quantity discounts and higher transportation rates.

Success in retail can be measured by the amount of profit generated in relation to the working capital invested i.e. the return on investment. Certain costs in any business are fixed or at least are not easily flexed. Shop rents and head office costs fall into this category. Merchandise margins and product mix, however, are variable and their management can either enhance or destroy profitability.

Many retailers use the performance indicators of gross margin % (after markdown) and weeks cover to measure performance. These are very commonly available but used in isolation from each other, they are of limited value. Gross margin % gives us a measure of reactive profitability

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without taking into account the costs of stockholding investment. Weeks cover tells us how effectively we turned our stock without informing us about relative profitability.

*Lab Exercise* Go to website www.citeman.com/9078-evaluating-merchandise-performance.html and collect more information on evaluating merchandise performance

## Self Assessment

Fill in the blanks:

11. Merchandise budget plans are concerned with the ..... of merchandise ranges, rather than the control of the physical number of items.
12. For any retailer (of any size) it is vital that a ..... is achieved between the amount of money going out of a business to pay for supplies of stock, and money coming into the business from sales to customers.
13. A merchandise budget plan is ..... to accomplish without the benefit of previous experience and internal records; however, relying on historical data alone can lead a buyer or product manager into repeating previous mistakes, including missed opportunities.
14. The first step of the plan is a realistic .....
15. The time period for the plan may vary according to the ..... of the retail business.

*Case Study*

### Retail Purchasing Solution by ATS

This retail organisation came to Above the Standard Procurement (ATS) Group®, Inc. from a call. On ATS initial visit with the client, we listened to their need, what they wanted to do, their status, they asked us questions, and we asked them about their pain, challenges, and where they wanted to go. From our assessment of their 12-month spend, management style, warehousing, logistics, and probing questions about how they wanted to centralize procurement, we concluded that their need was greater than what they shared with us.

We designed an outlined of needs assessment and submitted this to them sharing some of our potential solutions based on what they shared and what we saw. Some of these areas included:

1. The organization had no centralized purchasing department;
2. Buyers were ordering from vendors with no guidelines at more than 200 locations;
3. Their Purchase Requisitions and Purchase Orders were not integrated with finance and the central office;
4. They did not have any Standard Operating Procedures (SOPs) for finance, procurement, and shipping/receiving;
5. They did not have a proactive department communicating with more than 200 convenience stores about the needed goods and services supply;

*Contd...*

Notes

6. There was no compliance and supplier / vendor evaluation taking place to ensure vendor accountability;
7. There were very little supplier / vendor contracts in place (high risk of supply chain disruption);
8. More than 48% of all deliveries from suppliers / vendors were late;
9. Their licenses and contracts were not properly being managed;
10. No meetings were taking place to progressively improve their procurement and financial systems (finance, purchasing, and shipping/receiving); and
11. A host of many other things.

We proposed solutions to centralize procurement for them so that they could understand how a centralized, compliant, proactive, and engaged procurement department would benefit their organization. This billion-dollar plus client decided to go forward and we went to work.

**Initial Need(s)/Project(s)**

Centralize Procurement and setup awarded supplier / vendor contracts for: lower cost, while maintaining quality, better delivery, less inventory, ability to grow with our client, fresh grocery items, and other specifications as set forth by their needs.

**Items Needing Procurement**

The entire item list needing procured was in the thousands. Below are the general areas that we developed that contained the general idea of each main area.

- ***Eggs and Dairy*** (milk, half and half, shredded cheese, butter, and cottage cheese)
- ***Over the Counter Medications*** (aspirin, cough medicine, lip balm, throat lozenges, and sinus medication)
- ***Meats*** (bologna, ham, pickle loaf, salami, and summer sausage products)
- ***Drinks*** (juices, soda, coffee, energy drinks, alcoholic beverages)
- ***Dry and Canned Foods*** (bread, buns, dinner rolls, soup, vegetables, canned meat, chili, stew, pickles, relish, catsup, mustard, and mayonnaise)
- ***Sweets and Snacks*** (candy, chips, dried meats, canned pudding, nuts, sandwiches, nachos, and fountain drinks)
- ***Additional Items*** (batteries, coolers, flashlights, candles, maps, windshield cleaner, motor oil, and tobacco)

**Additional Project(s) Conducted**

From the initial project conducted, Above the Standard Procurement Group® (ATS) found that the organization was not organized. Some examples were: No meetings for purchase and finance close out, software not licensed properly, purchasing folders were not centralized (they had to be gathered from more than 200 locations and the corporate office departments, all purchasing files were not complete, there was no vendor list besides for payment purposes only in finance, they had no understanding of cost reduction, the purchasing staff did not understand Request for Proposals and bidding processes, and the several million software package contained in the purchasing module which was not being utilized.

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Again, to summarize, the company had very little compliance or best practices in place and they were not conducting any Request for Proposals and bids.

**Important Solutions Step**

As stated above, our client knew they needed help, but after our assessment with them, they realized that so much more could be accomplished through centralized procurement. Consensus was reached by both ATS and our client to observe the company's day-to-day operations and methodologies that were being used to conduct business.

ATS observed the following in the day-to-day operations:

- ATS researched their vendors and began noting different correlations (lack of data, no compliance, evaluation not taking place, supply chain disruption high risk, files and contracts missing, and no centralization);
- Researched company purchasing process from PR through PO;
- Attended director and upper management meetings;
- Started a weekly meeting between finance, those buying, shipping and receiving for proactive solutions and ideas;
- Interacted with users for their software in finance, IT, and HR, and documented what was most important - the companies steps, habits, and ways.

It was from all of this that ATS understood the company's culture, processes, and steps so that a customized solution would be delivered providing the solution that fit their organization.

As a result of the ATS observations of the day-to-day operations, we implemented the following actions immediately:

- Created and implemented Standard Operating Procedures;
- Vendor analysis, which resulted in vendor management and evaluation (we researched their usage of grocery items, over the counter items, and other products sold at each location, and came up with a master list - from this master list, we reviewed what products did well and what were not doing well - then, we worked with our client to design a master list of products that their consumers desired and purchased regularly with higher profit margins);
    - The finance department provided an Excel spreadsheet for all the companies vendors (company name, address, phone, fax, contact person, etc.);
    - ATS updated the entire supplier / vendor list with all needed information (vendor name, address, phone, fax, email address, website, contact / representative, tax number, DUNS number, product / service they provide, and any notes);
    - From the more than 3,400 vendors the company had, ATS was able to reduce the vendor list to cut out almost 800 that were not in business;
    - For those vendors that did not have a phone number, ATS had to research to find a phone number so that the data completion could be conducted;
    - After completing the entire vendor list, we now had a centralized list that the entire company could use by knowing what vendor provides what, be able to get contact information muck quicker;

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- ATS worked with the company on a vendor requirements best practice form - this was faxed or emailed to each contact person at each supplier / vendor - each vendor had to sign off on this and this form was placed in their folder - this form included such things as tax forms, Delivery, Purchase Order requirements, Pricing, Compliance, and many other areas; and
- This centralized list was placed internally so that all authorized company staff could view real time all vendors for their sourcing needs.

- Data retrieval for spend history, needs, and planning was conducted from a tracking spreadsheet - later on this was automated into their procurement software and implemented.
- Provided Staff development and training for procurement and finance. We discussed the methodologies and best practices that would be used in the new centralized purchasing department that would be rolled out throughout the company soon.
- The charter, specifications, methodologies, and goals of the new procurement department were outlined. This strategic plan was routed to all senior leaders, project sponsors, and departments for comments and feedback.
- The associates were empowered to construct a procurement department with the proposed outcomes. The corporate office and each location contributed and as a result, everyone held the new centralized procurement department in high esteem. The strategic plan was implemented. The tactical pieces started falling into place by having procurement staff hired and daily operations started.
- Weekly status and performance meetings were conducted with all department managers and directors. ATS established a standalone best practices and lessons learned from all acquisitions and procurement department projects.
- A manual was created for the procurement department about how to use their procurement software (step by step manual). This reduced the amount of time purchasing staff and all Purchase Request users were taking to create the Purchase Requisitions and Purchase Orders. The impact was felt by more than 200 system users that had to do the ordering of any product and service, which reduced their labor time by more than 64%.
- Then the system was automated for approvals within Outlook for easier management of orders, approvals, disapprovals, compliance, budget control, and forecasting. This system was generated through their procurement software, the forms were routed to Outlook, and the approver could either authorize or reject electronically. This organization had more than 7,000 employees, more than 200 approved requisition staff, many regional directors, several corporate directors, and other authorized staff. This approval system alone reduced labor by more than 9,300 hours per year, increased compliance, greater control resulted in reduce orders of items not approved, and all involved were more engaged and proactive with their department budgets.

At the same time we started implementing cost reduction for the master list. We assembled our master item list of the products under "items needing procurement" (found on page two), and started the procurement process. From the specifications developed with the client, we were able to reduce costs on average for all items by 22% with improved quality, higher average profit margins, and real time ordering with the awarded suppliers.

*Contd...*

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**Outcome(s)**

Over a one year period, the company realized savings in excess of $32M for hard cost, soft cost, cost avoidance, human capital labor, all with sustainable measures. Each year our client initiated the Request for Proposal, best practice, and sustainable measures implemented within a proactive and communicative centralized procurement department.

The ATS approach, as conducted for all clients, resulted in the customized solutions to the company's environment, challenges, and needs. The end result not only stopped after we completed all of these projects, but continued through the education ATS brought, turnkey and automated software systems, data intelligence for vendor sourcing, and up to licenses, contracts, and agreements.

The most significant impact to this company was the teamwork that started occurring as a result of ATS recommendations being implemented within the company. From the involvement, came ideas, which resulted in applied actions and solutions, and actual ownership. This entire change management process helped the teams in this company to sustain the savings, efficiencies, compliance, vendor management and evaluation, continued best practice and SOPs changes as the company continued to excel in growth, more than doubling in revenues, additions of new enterprises, and the train the trainer model.

**Question**

Critically analyse the case study.

***Source:*** http://atsprocurementgroup.com/resources/resourcedocs/casestudies/33.1.012%20Retail%20Grocer%20Case%20Study%20Story.pdf

## 10.4 Summary

- The way to make the preparation process easy, intuitive and less monotonous is to split it in 3 clear defined steps.
- In case of your usual partners, you already know the information, just put it in writing. Don't hurry, think in deep. This gives you the warranty that you leave at the hand of probability only very few variables.
- When you have a new vendor in sight, the number of variables being much higher, documentation work takes a bit more time (also, the strategy and tactics adopted for the first meeting are specific).
- Knowing your supplier is one of the best tools, weapons, instruments – no matter how you want to call it – to control the situation and always have the benefit in discussions, negotiations, day to day purchasing activity.
- "Knowing" the supplier takes a lot of time and work at the beginning. It takes time to dig into the information, to learn all you can about their production capabilities, their partners (basically your competition), their competition; their reputation in the market and the reputation of their sales people and management etc.
- Internationalization of the marketplace, global competition, and changes in the business environment have contributed to the increase in international purchasing.
- The strategic importance of international purchasing, describes procedural and managerial issues of concern in international procurement, and delineates the significant differences between buying from foreign and domestic sources.

Notes

- The importance of the linkage between the purchasing function and the other functions within a firm is becoming more evident with each passing year.
- Merchandise budget plans are concerned with the financial planning of merchandise ranges, rather than the control of the physical number of items.
- For any retailer (of any size) it is vital that a balance is achieved between the amount of money going out of a business to pay for supplies of stock, and money coming into the business from sales to customers.

## 10.5 Keywords

***Classification:*** After determining the broad categories of merchandise the store is to stock (men's clothing, stationary, costume jewelry, etc.), the retailer divides the broad categories into smaller categories called classifications (men's suits, tuxedos, raincoats, etc.).

***Net Sales:*** This figure represents a realistic dollar estimate of your monthly merchandise sales

***Open-to-Buy:*** To arrive at the open-to-buy figure for the month, it is necessary to subtract (from the above planned purchases figure) the dollar value of the commitments already placed for delivery during the same month.

***Purchases:*** This figure represents the dollar value of merchandise the buyer must purchase to replenish the stock likely to be sold to your retail customers.

***Purchasing:*** Purchasing refers to a business or organization attempting to acquiring goods or services to accomplish the goals of its enterprise.

***Reductions:*** Reductions refer to the lowering of retail value of your inventory and is caused by planned markdowns, shrinkage (stock shortage) and discounts to employees or other special groups.

***Stock:*** In order to achieve your estimated (planned) sales figure you must provide sufficient stock to permit a satisfactory selection for your customers. This stock figure can be determined by calculating your inventory turnover rate or your sales-stock ratio, or by estimating the maximum quantity for each item or the stock requirements based on expected weekly sales.

***Unit stock plan:*** A unit stock plan of the number of items to be stocked in each by price, style, color and size is then prepared.

## 10.6 Review Questions

1. Define the term purchasing.
2. What is retail buying means?
3. What are the extent to retail purchasing in the domestic market?
4. What are the extent to retail purchasing in the foreign market?
5. What are the major differences between purchasing in the domestic and in the foreign marketplace?
6. What are the various essential of purchasing?
7. Discuss the importance of the linkage between the purchasing function and the other functions within a firm.
8. ""Knowing" the supplier takes a lot of time and work at the beginning". Elucidate.
9. "Internationalization of the marketplace, global competition, and changes in the business environment have contributed to the increase in international purchasing". Comment.

Notes

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | bit more | 2. | supplier |
| 3. | time, work | 4. | reputation |
| 5. | Actual sales | 6. | False |
| 7. | True | 8. | True |
| 9. | True | 10. | True |
| 11. | financial planning | 12. | balance |
| 13. | difficult | 14. | sales forecast |
| 15. | individual needs | | |

## 10.7 Further Readings


*Books*

Berman, B. and Evans, J., *Retail Management*, 11th edition, Pearson Education.

Diamond, J. Pintel, G., *Retail Buying*, Eight edition, Pearson education.

Sheikh, A. and Fatima, K., *Retail Management*, First edition, Himalaya Publishing House.

*Online links*

http://businesscasestudies.co.uk/amway/reaching-customers-through-direct-selling/the-personal-touch.html#axzz2OAhVcKGK

http://www.questia.com/library/1G1-8877898/purchasing-in-the-international-marketplace-implications

www.accenture.com/us-en/.../service-outsourcing.aspx

www.retailbusinessdevelopment.com/retail-outsourcing.htm

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# Unit 11: Wholesale Purchasing and Negotiation with Vendors

CONTENTS



## Objectives

After studying this unit, you will be able to:

- Understand the Wholesale Purchasing on the Internet
- Explain the Meeting with Vendors
- Discuss the Negotiation with Vendors
- Describe the Negotiation Strategies
- Explain the Negotiation Tactics
- Understand the Negotiating the Purchasing and Writing

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## Introduction

Wholesaler may be defined as the middlemen who operate between the producers (from whom they purchase goods) and the retailers (to whom they sell goods). Wholesaler refers to any individual or business firm selling goods in relatively large quantities to buyers (retailers) other than the ultimate consumers. Thus, the manufacturers who sell their products directly to retailers may also be regarded as wholesalers. The specialised knowledge and skill of wholesalers increases the efficiency of the distribution network. The wholesalers provide important services and solve the problems of both the manufacturers and the retailers. In any large organization, millions of dollars are spent on outsourcing. Most large organizations are outsourcing those activities that are either not cost efficient if done in-house or not core to their businesses. One of the most critical steps in outsourcing is vendor selection, which is a strategic decision. The decision processes surrounding sourcing are complicated by the very nature of uncertainty involved in the sourcing process and by poor vendor management.

The evaluation of vendors is used to strengthen the supply chain processes. Finally, the vendors have to be rated correctly keeping in view the importance of such relationships. Vendors, suppliers, distributors and wholesale buying groups to help find the best products at the best prices for your retail store. Bargaining is an age-old practice that is still common in the marketplace in many countries today. In the India most consumers want to avoid the haggle and will simply accept the price on the tag. It is the successful retailer that has learned how to play the game of give and take with their suppliers. Vendor negotiation preparation also includes setting goals to determine what you want and what you can live with.

## 11.1 Wholesale Purchasing on the Internet

Wholesale purchasing deals with the purchasing of inventory to resell at a profit margin to retail establishments or businesses. Wholesale purchasers purchase goods or commodities directly from manufacturers or suppliers and then, in turn, sell to those who would sell to the general public. Wholesale purchasing generally entails the purchase of large amounts of products to be resold to one or more retailers. Having a successful retail business depends greatly on offering the right product, at the right price, at the right time. Therefore, it is paramount to the success of your business to be able to locate the best sources for those products. Once you know what products or product lines you would like to sell, it's time to find places to buy wholesale merchandise.

Wholesale purchasing involves several distinct business models. Traditionally, wholesale buyers purchased an inventory of a good or commodity for resale and acted as middlemen between the manufacturer and the retailer. In today's economy, however, the line is often blurred between warehouse stores and online suppliers.

*Did u know?* Wholesale buyers can also purchase and resell items directly on online auction sites.

Internet consumers continue to be a well expanding movement, thanks to the early and continuously increasing adoption of Web tools and improving of Internet technology. This concept, used since the origin, by the online e-commerce stores, mainly for retail-detail selling. Notwithstanding, the advantages of using the Internet also for the Online Wholesale (OW) purchasing, are quickly clear to any entrepreneur whom pay the right attention to reduce costs and increase marginality of the own commercial activity. There are several positive reasons to consider for making the choice of using the Online Wholesale stores for improving the standard purchasing procedure:

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(a) ***Availability:*** The convenience of purchasing whenever you want. Online Wholesale stores don't close. If you want to review the catalogues and evaluate a new product for the next PO, i.e. at 4 a.m. you can. So, purchasing from an Online Wholesale store can fit nicely into your schedule.

(b) ***Costs and Time Saving:*** No travelling required. You don't have to arrange travel details, flight, to drive or take public transportation, park, deal with mall traffic, bad weather, etc. The relevant cost saving is clearly understandable. Furthermore the saved time becomes precious, since it can be used for more profitable activities.

*Conventional commercial procedure, improved by the Internet technology*

You can still deal, as usual in the conventional international comer relation, with one on one contact. All correspondence can be made through e-mails and when you get e-mails, you have proof of what you were told in writing, and you have the name of the person who sent it. Regarding the need of a phone call, the use of VOIP (Voice Over IP) technology (e.g. skype), allow you remarkable advantages:

- money saving with regard the applied rate per minute
- easy transfer of files
- recording of the call and chat text

(c) ***Convenience:*** Online Wholesale Stores are really competitive, since the cost for the conventional marketing of products (shows, paper works, etc.) is consistently reduced, and the relevant advantage is reflected on the product prices.

(d) ***Wide Selection choice:*** The online wholesale store has more products/a bigger selection to offer.

(e) ***Safe Transaction:*** Even using the Internet for the pre-order and negotiation phase. You still will be able to safely conclude the contract and payment using the wholesale conventional tools: PO, Letter of Credit, Pay Pal, etc., according to your need and the agreement between the Parties.

### 11.1.1 Buying Wholesale Merchandise

Before you buy wholesale merchandise for your store, try to visit a competitor or a store selling a product line similar to what you plan to sell. Browse the store's product selection, making a mental note of the brands they carry. What products seem to be selling well? Which items are in the clearance bin? If you visit a similar store too far away to be a competitor, that retailer may be willing to share with you the source of his wholesale merchandise.

Retailers can often find products to sell in their stores by searching online, joining buying groups, using library resources and attending trade shows or buyers' markets. A trade show is one of the best places to buy wholesale merchandise for your store. Retailers can find many suppliers, serving the same markets, and their product offerings. Conduct an online search for tradeshows in your industry to find the nearest event.

*Notes* Trade shows aren't open to the general public so be prepared to show proof that you're an established business such as a resale certificate, tax id, business cards or some other form of license or permit.

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### 11.1.2 Pros and Cons of Buying Wholesale

Savings and immediate availability are two advantages of buying wholesale items. In general, buying in bulk is one of the best ways to save money, and purchasing those items when they are in abundance can yield the deepest discounts. Having enough storage space and money are two potential downsides to buying wholesale items, however. These downsides primarily affect small businesses and individuals rather than large corporations who have sufficient cash flow.

The primary advantage of buying wholesale items is the savings one can get for purchasing in bulk. In fact, many companies increase the discount as a customer's order grows. Generally, businesses can afford to give deep discounts because bulk purchases lead to less handling, packaging materials, and spoiled or expired goods.

*Example:* A business might be reluctant to sell one case of canned tomatoes every day for less than a certain amount, but it will gladly sell 100 cases of canned tomatoes for far less. Both the business and its consumers can reap the benefits of such arrangements.

Another advantage of buying wholesale items is acquiring goods that are only available then, or only available at certain prices then.

*Example:* Some vegetables and fruits are only available mid-year, but can be stocked and preserved or frozen for months with little loss in quality.

Clothing can also be purchased at times of the year when it is cheapest, like flip-flops in winter, then resold for the highest profit margins in summer.

A potential downside of buying wholesale items is storage space to put the bulk purchases. If the goods must be refrigerated or frozen, consumers need to adequately judge the space they have available. The same goes for the backroom of storefronts. In addition, these goods sometimes have an expiration date or, in the case of clothing, the items go out of style or season. These are all things consumers must take into account when buying wholesale items.

Lastly, even if a person has enough space, 40% off retail price means nothing if one does not have enough money upfront. In most cases, wholesale items must be paid for in full before the goods can be delivered and put to use. While individually these items are likely affordable, all together the purchase might be very expensive. New businesses in particular are susceptible to not having a lot of cash flow, and therefore cannot make as much profit as a business that has enough money to spend on wholesale items. The same goes for individuals who purchase food wholesale; they sometimes do not have enough money to get the deepest discounts.

### 11.1.3 Types of Wholesalers

Strictly speaking, although a wholesaler may own or control retail operations, wholesalers do not sell to end customers. Indeed, many wholesale operations are themselves owned by retailers or manufacturers. Wholesalers are extremely important in a variety of industries, including automobiles, grocery products, plumbing supplies, electrical supplies, and raw farm produce.

Wholesaling involves that part of the marketing process in which intermediaries, i.e., those between the producer and end consumer, buy and resell goods, making them available to an expanded buyer's market over an expanded geographical market area. As middle agents, wholesalers are only effective when the price they charge for goods and services is less than the value placed by customers. By facilitating the transfer of title of goods, they are involved in the bulking and distributing of goods.

Notes

Although there are a number of ways to classify wholesalers, the categories used by the Census of Wholesale Trade are employed most often. The three types of wholesalers are:

- merchant wholesalers;
- agents, brokers, and commission merchants; and
- manufacturers' sales branches and offices.

### Merchant Wholesalers

Merchant wholesalers are firms engaged primarily in buying, taking title to, storing (usually), and physically handling products in relatively large quantities and reselling the products in smaller quantities to retailers, industrial, commercial, or institutional concerns, and to other wholesalers. They go under many different names, such as wholesaler, jobber, distributor, industrial distributor, supply house, assembler, importer, exporter, and many others.

### Brokers

Agents, brokers, and commission merchants are also independent middlemen who do not (for the most part) take title to the goods in which they deal, but instead are actively involved in negotiatory functions of buying and selling while acting on behalf of their clients. They are usually compensated in the form of commissions on sales or purchases. Some of the more common types go under the names of manufacturers' agents, commission merchants, brokers, selling agents, and import and export agents.

### Manufacturers' Agents

Manufacturers' sales branches and offices are owned and operated by manufacturers but are physically separated from manufacturing plants. They are used primarily for the purpose of distributing the manufacturers' own products at wholesale. Some have warehousing facilities where inventories are maintained, while others are merely sales offices. Some of them also wholesale allied and supplementary products purchased from other manufacturers.

*Caselet*

## Negotiation Problem

One of the biggest stumbling blocks encountered by a negotiator is to clearly understand the real issues as the root cause and basis for the negotiation in the first place. All too many times, negotiators take insufficient time to clearly identify and frame the problem or issues to be resolved and negotiated. This is the crucial first step to any negotiation. If this first phase of the negotiation process is not addressed properly, than it is quite likely that the rest the whole negotiation process will unravel because the core issues were not properly understood at the outset.

Substantial electronics firm face considerable difficulties in one of their subassemblies. The root core of the problem revolved around certain types of fittings and pins that were becoming bent and distorted by the operation of the machinery. Units which were being produced were damaged and had to be rejected because of imperfections. These rejected components were put aside and then reworked later on in the month.

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This duplication of effort resulted in increased costs as workers had to work overtime to meet their quotas. These extra costs for the extra work performed had not been considered in the manufacturing budget. The manager of this subassembly line did not want be charged with these overhead expenses because he felt it was not their responsibility. Likewise, the manager who was the overseer of the final assembly department also refused to accept the increased costs to his budget. He argued that the extra costs were a direct result of the poor work of the personnel in the subassembly department as this was where the problem originated.

The subassembly department manager countered this argument by claiming that the parts were in good condition before they left his department and that the damage must have occurred in the final assembly manager's department instead. Both parties had reached am impasse.

Some time passed before a resolution to the matter was worked out that was agreeable to both parties. What both parties were really seeking was to find a long term solution to this dilemma? It was only when they truly understood the nature of the problem they were able to negotiate a reasonable solution that was acceptable to both of them.

It was ascertained that the subassembly workers had some slack time available during every working month. The damaged parts were returned in small batches form the final assembly plant so that the subassembly personnel could work on them during these slack periods. Also, when they examined the problem in more minute detail, the managers learned that some of the personnel in the final assembly plant may not have been adequately trained and may have also been partially responsible for the damaged incurred. These personnel were identified and were sent to the subassembly plant to further their training and to learn more about what transpired in that department.

The resulting solution addressed the increased cost concerns of both departments on the one hand. On the other hand, overtime was reduced by allocating the personnel where and when they most needed and finally, because of the enhanced training, the number of damaged parts was considerably reduced.

***Source:*** http://www.negotiations.com/case/negotiation-problem/

### Self Assessment

State whether the following statements are true or false:

1. Wholesale purchasing deals with the purchasing of inventory to resell at a loss margin to retail establishments or businesses.
2. Wholesale purchasing involves several distinct business models.
3. The online wholesale store has less products/a bigger selection to offer.

## 11.2 Meeting with Vendors

Once a merchandise order has been planned, the retailer must identify potential vendors to supply merchandise to the retail operation. Many variables need to be assessed during the vendor identification process. The retail buyer should compare the types of merchandise offered by various vendors with the types of products the retail outlet carries. Does the vendor's merchandise align with the retailer's mission statement? Does the merchandise fit with the overall image that will be communicated to customers? The buyer then compares the retailer's current products with potential products offered by vendors, in terms of price points, brand

names, styles, and depth and width of the product lines. The buyer also looks for discounts available for buying larger quantities.

A second variable to look at is the vendor's distribution policies. Does the supplier offer the same merchandise to geographically close competitors? For an e-tailer, does the vendor offer competitors the same products? At what price points? For retailers selling merchandise that has intensive distribution (that is, products that are sold everywhere they can be placed, such as convenience goods), the vendor's distribution policies may not matter. If exclusive or even selective distribution is important to the retailer, however, it may want to go with a vendor that limits sales of products to given geographic areas.

A third consideration is the vendor's IMC. In particular, the retailer should look for vendors who provide promotional assistance such as advertising allowances. Many vendors have product lines that are overruns or are distressed (such as "seconds"). Depending on the retailer's strategy, the retailer may wish to take these vendors into consideration when selecting suppliers. Closeouts, overruns, and distressed merchandise allow the retailer to offer its customers product sales throughout the year. Sales attract a wide range of customers, and suppliers that give the retailer the opportunity to take advantage of these types of products offer the retailer a better margin when sales times roll around.

The retail buyer also needs to be aware of the shipping arrangements the supplier uses. Many suppliers ship only large quantities of product to their retailers, whereas others are willing to ship in smaller quantities. Merchandise buyers decide which of the suppliers provide the "best fit" for their particular organizations. An imperative for retail buyers is to compare various vendors' product prices. Generally, numerous suppliers offer the same products. Product price may end up being the deciding factor in the choice of vendors. Following are some questions the retailer considers when identifying potential vendors:

1. Is the vendor reliable?
2. If the vendor has promised products or services to the retailer, has it fulfilled its promise?
3. Can the supplier expedite orders when needed?
4. Can the supplier handle special orders?
5. What are the vendor's order-processing records?
6. Can the vendor get the products to the store in the shortest time possible?
7. How much risk is the retailer to assume as the buyer? (This is particularly important in food retailing.)
8. What are the rights of the buyer? (Is the retailer being offered exclusive rights to the products?)
9. Will the vendor customize orders and products?
10. How does the vendor provide product and company information to its retailers?
11. Do warranties or guarantees accompany the products' purchase?
12. Does the supplier offer credit? If so, what are the terms?
13. Does the vendor have a reputation for running an ethical business?
14. What is the vendor's return policy?

The answer to these questions will help the retailer to acquire the best merchandise fit at the least cost. In addition, by asking and answering these questions up front, retailers can save themselves a great deal of time and trouble and create a mutually rewarding relationship with

Notes

their suppliers. Retailers have many resources available to assist them in identifying potential vendors. Following is a list of some of these resources:

1. Trade shows
2. Chambers of commerce
3. Resident buying offices
4. Trade organizations
5. Vendor's place of business
6. Wholesale market centers
7. Manufacturers
8. Raw producers (In the case of food marketers, the store can often buy products directly from the producers, such as chicken farms, dairy farms, and so on.)
9. Internet buying services
10. Directories (such as the Thomas Register)

Sometimes vendors seek out retailers and set up appointments to show their products and services.

### Self Assessment

Fill in the blanks:

4. Once a ..... order has been planned, the retailer must identify potential vendors to supply merchandise to the retail operation.
5. The retail buyer also needs to be aware of the ..... arrangements the supplier uses.
6. Retailers have many resources available to assist them in identifying .....

## 11.3 Negotiation with Vendors

The climax of a successful buying plan is the active negotiations, which involves finding mutually satisfying solutions for parties with conflicting objectives, with those suppliers who you have identified as suitable supply sources. The effectiveness of this buyer-vendor relationship depends on the negotiation skills of the buyer and the economic power of the firms, involved. The retail buyer must negotiate price, delivery dates, discounts, and shipping terms and return privileges. All of these factors are significant because they affect both the firm's profitability and cash flow. Manufacturers, as well as retailers, have in recent years become increasingly aware of the cost of carrying excess inventory. Likewise, both parties have also become more concerned with the time value of money and its resulting effect on the firm's cash flow. Because both parties to the negotiation process are aware of these cost factors and are trying to shift these costs to the other party, most negotiations do produce some conflict. However, successful negotiation is usually accomplished when buyers realize that the vendors are really their partners in the upcoming merchandising season. Both the buyer and vendor are seeking to satisfy the retailer's customers better than anybody else.

Therefore, buyers and vendors must resolve their conflicts and differences of opinion, remembering that negotiation is two way street and a long-term profitable relationship is the goal. After all, the vendor wants to develop a long-term relationship with the retailer as much as the retailer does with its customers. What can be negotiated? There are many factors to be negotiated (prices, freight, delivery dates, method of shipment and shipping costs, exclusively,

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guaranteed sales, markdown money, promotional allowances, return privileges, and discounts) and life is simplest when there are not surprises. Therefore, the smart buyer leaves nothing to chance and discusses everything with the vendor before purchase orders are signified. The buyer and seller, together, work out the upcoming merchandising plans using the buyer's merchandise budget and planned turnover. Therefore, the buyer and seller should seek to make negotiations a win-win situation where both sides win and neither feels like a loser, such as P&G and its retailers are doing today. The essence of negotiation is to trade what is cheap to you but valuable to the other party, for what is valuable to you but cheap to the other party.

The smart buyer puts all the upcoming areas of negotiations and previous agreements in letterform and sends it out before going to market. This helps to eliminate any misunderstanding afterward. Price, of course, is probably the first factor to be negotiated. Buyers should attempt to purchase the desired merchandise at the lowest possible net cost. However, although the vendor is the buyer's partner, the buyer should not expect unreasonable discounts or price concessions. The buyer can try to bring about a price concession that is legal under the Robinson - Patman Act.

The buyer must be familiar with the prices and discounts allowed by each vendor. This is why past records are so important. However, the buyer must remember that his or her bargaining power is a result of his or her planned purchases from the vendor. As a result, a large retailer may be able to purchase goods from a vendor at a lower price than a small "mom-and-pop" retailer. Five types of discounts can be negotiated.

### 11.3.1 Trade Discount

A trade discount, sometimes referred to as a functional discount, is a form of compensation that the buyer may receive for performing certain wholesaling or retailing services for the manufacturer. In as much as this discount is given for the performance of some service, the size of the discount will vary with that service. Thus variations in trade discounts are legally justifiable on the basis of the different costs associated with doing business with various buyers.

Trade discounts are often expressed in a chain, or series, such as "list less 40-20-10". Each figure in the chain of discounts represents a percentage reduction from the list price of an item. Assume that the list price of an item is $1,000 and that the chain of discounts is 40-20-10. The buyer who receives all these discounts would actually pay $432 for this item.

The computation would be as follows:

| | |
|---|---|
| Last price | $1,000 |
| Less 40% | –400 |
| | 600 |
| Less 20% | –120 |
| | 480 |
| Less 10% | –48 |
| Purchase price | $432 |

To illustrate how the various chains of discounts permit a vendor to compensate the members of the distribution channel for their marketing activities. Let's look at the preceding example. Assume that the manufacturer sells through a channel system that includes manufacturers' agent who negotiates a sale between the manufacturer and the service wholesaler. The manufacturers' agent then charges the service wholesaler $480 for item, thus realizing $48 for rendering a number of marketing activities. The service wholesaler, in turn, charges a retailer

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$600 for the item, thus making $120. The retailer then sells the item at the suggested list price of $1,000, thus making $400 in gross margin to cover expenses and a profit.

Trade discounts are legal where they correctly reflect the costs of the intermediaries' service. Sometimes, large retailers want to buy directly form the manufacturer and pay only $432, instead of $600. If this action is anti-competitive and enables the large retailer to undercut the competition, it would be illegal.

### 11.3.2 Quantity Discount

A quantity discount is a price reduction offered as an inducement to purchase large quantities of merchandise. Three types of quantity discounts are available:

1. Noncumulative quantity discount: a discount based on a single purchase.
2. Cumulative quantity discount: a discount based on total amount purchased over a period of time.
3. Free merchandise: a discount whereby merchandise is offered in lieu of price concessions.

Non cumulative quantity discounts can be legally justified by the manufacturer if costs are reduced because of the quantity involved or if the manufacturer is meeting a competitor's price in good faith. Cumulative discounts are more difficult to justify, because many small orders may be involved, thereby reducing the manufacturer's savings. For an example of how a quantity discount works, consider the following schedule:

| Order Quantity | Discount from List Price |
|---|---|
| 1 to 999 | 0% |
| 1,000 to 9,900 | 5% |
| 10,000 to 24,999 | 8% |
| 25,000 to 49,999 | 10% |

If a retailer, which had already purchased 500 units, wanted another 800 units, it would have to pay list price if the vendor uses a noncumulative policy. However, the retailer would receive a 5 percent discount on all purchases if the vendor uses a cumulative pricing policy.

Quantity discounts might not always be in the seller's best interest and should always be viewed by the buyer as an invitation for further negotiations. Consider the following price schedule published by IBM for a computer.

| Quantity | Unit Price |
|---|---|
| 1-19 | $5,795 |
| 20-49 | $5,0991 |
| 50-149 | $4,636 |
| 150-249 | $4,486 |

Let's say that as a buyer for a retail chain, you want 18 of these computers and your cost is $104,310 (18 × $5,795). But 20 would only cost $101,980 (20 × $5,099). What do you do?

You actually have four choices:

1. Tell IBM to ship 20 computers at $5,099, and you keep the extra 2.
2. Tell IBM to ship you 18 computers at $5,099 and have IBM keep the other 2.
3. Order 20 but tell IBM to ship you only 18 and to credit you for two computers at $5,099 each.
4. Negotiate a purchase price.

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Whenever quantity discounts are offered, buyers should always check to see if by ordering more, the total purchase price may be lower. Many times, retailers can make a quick profit from utilizing quantity discounts by selling the extra merchandise to a diverter to sell in a gray market. The diverter, which is not an authorized member of the marketing channel but still functions as an intermediary, will be able to purchase these goods cheaper from the retailer than it can from the manufacturer and sell this excess merchandise to other retailers than it can from the manufacturer and sell this excess merchandise to other retailers. However, many authorized retailers are upset when diverters provide other retailers with such merchandise. Some retailers have dropped cosmetic lines Kmart, where most of its cosmetics are diverted, started to carry the line. In addition, Costco has a vice-president of "diverting' who purchases more than $200 million worth of merchandise from unauthorized vendors.

Consider the previous retailer that needed only 18 computers and purchased 20 computers. Here the retailer sold the two computers to a diverter for $3,500 each. As a result, the retailer was better off by $9,330 than it would have been had it bought only 18 computers at $5,795 each (18 × $5,795 = $104,310; 20 × 5,099 = $101,980 – $7,000 = $94,980). The diverter could now profit by selling these two computers to another retailer for $4,000 each. Today diverters are important members of the retailer's channel, especially in the grocery and computer fields. Not all manufacturers or retailers feel the same way about them. Nonetheless, it was the manufacturers' pricing policies that enabled diverters to function economically.

### Seasonal Discounts

Seasonal discounts are given to retailers for making purchases out of season. If the retailer is willing to store and pay for off-season merchandise, the vendor may reduce the cost of the products to the retailers. The benefits to the vendor are that it has a sure order for those products, and it does not have to store all the products, it is manufacturing until the appropriate sales season. The vendor saves money on storage and overrun costs; the retailer, for its part, platforms the storage function for the vendor but gets a reduced price for the merchandise it will sell in season.

*Example:* If a sporting goods retailer purchases baseball bats during the off season, the manufacturer may provide the sporting goods store with a discount.

### Cash Discounts

Cash discounts are sometimes given to retailers to encourage them to pay early or pay with cash. Thus, the terms of a vendor-retailer contract may read "2/10, net 30," indicating that a 2 percent discount will be provided to the retailer if the merchandise is paid for within a ten-day period. If the retailer does not pay within the specified limit, there is no discount. In any case, the total amount due is payable in 30 days. Many retailers take advantage of this type of discount to save money. Even good investments do not return that much money to investors (2 percent for 10 days).

### Allowances

Often suppliers provide retailers with discounts called allowances for retailer cooperation during IMC execution.

*Example:* If a retailer advertises the vendor's products in its retail ads, the vendor may provide the retailer with an advertising allowance.

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Or the vendor may give the retailer a discount for preferred product placement within the retail store. Vendors give retailers slotting allowances to get their products and/or services on the retailer's shelves on in choice locations in its retailer's stores. About $9 billion a year is paid out in slotting fees to supermarket retailers.

In addition, many vendors provide the retailer with display materials for certain products or with other types of promotional materials. Slotting allowances can be extremely expensive for vendors – often costing $25,000 or more to get shelf space for new products - making it difficult for small vendors to introduce their products in larger chains. Slotting allowances have generated some controversy because some view this practice as a bribe paid by suppliers to retailers to get the best shelf position. Retailers support slotting fees as insurance for taking the risk of carrying new products, most of which fail. Vendors sometimes provide retailers with free merchandise in exchange for the performance of some channel function such as advertising or sales promotion.

In addition to the various types of discounts and allowances, the vendor-retailer negotiation process includes coming to agreement about the transportation of merchandise. Who pays for the freight charges – the retailer or the vendor? In addition, the retailer and vendor need to negotiate where the title to the merchandise changes hands, who must file claims on lost or damaged merchandise, and who is responsible for obsolete or damaged merchandise.

In the vendor-buyer relationship, almost everything is negotiable. Good retail negotiators can save their organizations a great deal of money, time, and responsibility if they are practiced at the art of negotiation. Finally, the retail buyer must establish a method for buying the products and for the receiving and handling of all merchandise. This function is often referred to as merchandise logistics. The following section deals with the logistics necessary to get merchandise into the store and out to the customers.

### 11.3.3 Principles of Negotiation

Dealing with conflict and differences is hardly ever an easy task. Barriers to creative negotiation can be numerous and are often the saboteurs of a potential sale. Remember: your goal is to reach win-win-win-win settlements with competent customers. To that end, there are five principles of creative sales negotiation:

#### Attitude First

Creating an optimistic mindset involves basic attitudinal characteristics, which become the building blocks for successful negotiation. Attitudes and skills must work in harmony. Attitudinal characteristics of negotiation include self-awareness, self-belief, and openness to other viewpoints. Salespeople frequently overlook the significance of preparing themselves mentally. Attitude—how we deal with others when negotiating—drives the relationship. Develop a win-win-win-win attitude toward negotiation, and don't be satisfied until all parties are satisfied with the solution.

#### Planning and Preparation

For many of us, planning is boring and monotonous, easily put off in favor of leaping into action quickly. However, devoting insufficient time to planning frequently results in failure to negotiate a mutually beneficial agreement, and raises feelings of antagonism and frustration.

The cornerstone to effective, imaginative negotiation is a carefully designed blueprint outlining specifically desired results for both you and your customer. The first step is to clearly articulate your position—know what your objectives are. Know the issues that are not negotiable and the issues that are negotiable. Must-have issues are predetermined prior to negotiation and are

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essential to a satisfactory agreement. They are simply not negotiable. Your nice-to-have issues are negotiable. Although they would be nice to have, they are not necessary to the agreement. They are issues you are prepared to concede or use as trade-offs in the interest of concluding the agreement or maintaining the relationship.

Your window of flexibility is guided by your prearranged min-max points—min being you're lowest acceptable point and max being your best, most ideal position. So, in the interests of creative negotiation, each of your must-have issues should be accompanied by a window of suppleness—your min-max points.

The second step in negotiation planning is to define the issues commendable of negotiation. Refer to all your notes and assemble all the issues, yours and your customer's, into a comprehensive list. Some issues may have been resolved prior to the negotiation, which is fine, but be sure to identify any outstanding issues. It can be frustrating and expensive—in terms of time and success—if the customer calls you just prior to inking the deal with an unresolved issue. After the issues are assembled, the next step is to prioritize them. By sharing the list with your customer, you continue to build trust and confidence as you work through it together. Extract relevant information from your notes to enhance your position. A comment in your notes from six months ago may be a valuable piece of information. Salespeople frequently compensate for inadequate planning by conceding more than necessary. This shortcut can be very costly.

Sales entrepreneurs cannot manage to pay for quick and clever during the give and take of negotiation. Planning increases your negotiation success substantially and helps you achieve solutions that you never thought possible. Invest the time and energy (during janitorial hours) to prepare a strategy in line with your customer's behavioral style. Your strategy will help you settle down, face fewer unknowns, and reduce stress.

### Know the Lingo

The negotiation arena has a language of its own. Many negotiation sessions fail simply due to not understanding the language of negotiation. The objective here is not to provide you with an in-depth study of all the nuances of negotiation but to generate a mindset, awareness, and an overview of the logistics of creative sales negotiation.

### Negotiate Price, Don't Sell It

Is price the most significant aspect of the sale? No. Never has been, never will be. Customers have never based their buying decisions exclusively on price and they ever will. However, salespeople convince themselves that price is the number one motivator to purchase. Studies show that salespeople bring up price before the customer does 60% of the time. Why? I'm not sure but I suppose salespeople feel obligated to bring it up, or perhaps they have been trained to do so. It could even be lack of self-assurance or corporate self-esteem.

Many salespeople violate the sales process by introducing price too soon. Ideally, price should not be discussed until after your preliminary confirmation. During the call you need to focus on selling value and benefits to the customer. Don't mention price unless the customer asks or you are negotiating. This concept may seem somewhat manipulative and irresponsible, but it isn't. I have confirmed several deals without the customer or me mentioning price. It's part of the rapport and trust issue. If a customer trusts you and feels comfortable with you, price is not an important issue. There is an implied understanding that your price will be competitive, otherwise you wouldn't be in business.

By shifting the conversation to price previous to initial confirmation, the salesperson has invited the customer to openly challenge the price. Some salespeople are convinced the customer's

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mandate is to hammer the salesperson into submission, in conclusion succumbing to a rock-bottom price. Classic tactic of a C account. How to negotiate against price and discount pressure is a common challenge among sales professionals. You've probably heard it before, "Your price is too high. You'll just have to do better," or "It's a competitive market. Your competitors can beat that price," or "You'll have to show more elasticity on your discounting," and so it goes. When salespeople concede too quickly in these situations they not only reduce profitability, but also devalue their customers' perceptions of the product or service. Don't respond by asking, "What's the price they're offering you?" or "What price do I have to beat?" This is a common mistake because it shifts the focus to pure price and discount levels. Experienced negotiators transfer the focus to value comparisons versus price comparisons.

Acknowledge the customer's curiosity about price, but don't get sucked into a price debate prior to preliminary confirmation.

*Example:* When you ask for their business using magic words, your customers may inquire about your price. Simply say, "Yes, I'm sure we both recognize that price is important, but at this point can we agree to do business together based on the benefits discussed, as long as I can give you a competitive price?" If the customer says yes to your initial confirmation, you now have a willing party with whom to negotiate.

Consider the preliminary confirmation as a conditional sale; conditional upon working out terms and conditions supported by a competitive price. What salespeople need to realize is that if a fair price cannot be worked out then there is no deal. Final confirmation is conditional upon victorious negotiation. However, don't negotiate all aspects of the deal and then focus separately on price. Make sure price or discount is part of the whole package, not a divide negotiation.

### Negotiate the Issues, not the Personalities

Often, what causes you to become frustrated or annoyed in a negotiation is not the topic or issue, but your customer's personality traits. By putting emotional distance between yourself and the negotiation you gain a tremendous advantage? Negotiations frequently unleash emotions that short-circuit rational processes. We sometimes abandon our carefully designed strategy and resort to a flight or fight response. The key to effective, win-win negotiation is to act in response unemotionally.

From time to time you may find yourself commerce with an individual you do not particularly care for. Chances are you wouldn't invite him to go camping with you, but he may represent an A account and a sizeable business opportunity. Experienced negotiators understand that professionalism requires the ability to distance oneself from any emotional distractions. These may include biases, perceptions, values, fear of being subjugated, egos, feelings, moods, stress, and so on. Parties can get too caught up in the emotions of negotiation. They become too close to the deal and overlook important facts that may help move the deal forward. In spite of all your efforts to build a personal relationship you may find yourself commerce with just a corporate relationship. You can both still benefits by simply doing business together and nothing else. Don't entangle relationship challenges within the negotiating process.

For most salespeople, the major barrier is simply the fear of negotiation. The very thought sends paralyzing shivers up their spines. The toughest hurdle is learning to be confident enough to stand up to the challenge. This means developing the ability to comfortably express a position without hurting anyone or being hurt. Many people find the straightforward, aggressive, business dialogue of negotiation intimidating. It's the same challenge with confirming: the fear of rejection or perhaps sounding too aggressive. Our natural human tendencies prevail—in our adolescent years we were taught that it was polite not to ask for things and never to be confrontational.

## Self Assessment

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State whether the following statements are true or false:

7. The climax of a successful buying plan is the active negotiations.
8. A trade discount sometimes referred to as a functional discount.
9. Trade discounts are illegal.

## 11.4 Negotiation Strategies

Whether you're negotiating over chores with a spouse or salary with an employer, the way in which you approach the discussion dictates how successful you are. If you're too timid, you may give in too quickly and end up making an unfair deal for yourself. This may also lead the other party — and even onlookers — to consider they can walk all over you. On the other hand, if you're too stubborn and unrelenting, you may provoke the other side to walk away from the negotiation. This causes the deal to fall through, leaving everyone involved permanently bitter.

Nevertheless, depending on the emotions and the parties involved, sometimes it may be more appropriate to lean one way or the other. A soft approach to negotiation refers to being generally more willing to give in, make concessions, trust the other, and stay honest and forthright with one's situation. A hard approach is the conflicting. It means keeping a hard line, being unwilling to make concessions, and keeping one's own situation under wraps. The authors of a book called "Getting to Yes" argue a third option, which is a balanced approach.

In the book, authors Roger Fisher and William Ury advocate principled negotiation, which has four components:

1. ***Insist on using objective criteria:*** As a preventative method of keeping emotions at bay, try whenever possible to use objective criteria. Beforehand, make sure the parties agree on what is "objective," be it legal precedent or scientific studies.
2. ***Separate the people from the problem:*** Try to account for others' emotions and cool your own. Communicate honestly and show that you actively and attentively listen to the other side.
3. ***Invent options for mutual gain:*** This part involves using the integrative approach of enlarging the pie we discussed on the previous page. Inventing new ideas could necessitate brainstorming and thinking of as many options as possible — both ones you can offer the other side or the other side can offer you. Afterward, decide which ideas sound best to bring to the negotiating table.
4. ***Focus on interests, not positions:*** Although the outright demands (positions) of either side might prove incompatible at first, getting to the root of the demands (the underlying interests that motivated them) allows the parties to rethink and adjust demands to make them compatible.

For people who just don't feel comfortable with negotiation, the principled negotiation approach serves as a great alternative to the difficult choice between being conciliatory or aggressive. By minimizing emotions and focusing on objective sense of fairness, people gain more confidence without feeling that they're making enemies or being victimized.

But some negotiation theorists say it isn't quite that simple. The question of strategy typically revolves around predicting the other side's moves. Because we predict you will go to the next page, we'll explain this concept there.

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Critics of principled negotiation say it's too soft. Negotiation, after all, is usually about conflict and competition. Particularly in a zero-sum, distributive situation, someone must come out ahead. For these reasons, some people say that principled negotiation isn't the best strategy in certain situations. Authors Lax and Sebenius came up with one way to think about strategy in what they call the Negotiator's Dilemma, which is comparable to the famous Prisoner's Dilemma.

If you know anything about Game Theory, you've heard of the Prisoner's Dilemma. In this scenario, two prisoners who are isolated from each other must decide whether to confess to their captors or keep quiet. If one prisoner confesses and the other doesn't, the confessor gets freedom and the other gets 20 years imprisonment. On the other hand, if both confess, each of them gets 10 years behind bars. Finally, if both decide to keep quiet, each gets only 5 years of hard time. Each prisoner must choose between two options, but can't create a good decision without knowing what his cohort will do?

Negotiators face such a decision when choosing whether to cooperate or compete. Cooperating in this sense involves staying soft and creating value — enlarging the pie — whereas competing involves staying hard and claiming value. When you apply this theory to the Prisoner's Dilemma scenario, cooperating means to keeping quiet, and competing means to confess.

The Negotiator's Dilemma states four different scenarios:

1. ***Terrible:*** If you decide to cooperate, while the other decides to compete, you will have a terrible outcome while the other gets a great outcome (the worst result for you). In Prisoner's Dilemma, this happens if you keep quiet, but the other person confesses.
2. If you compete and the other cooperates, you will have a great outcome, and the other will have a terrible outcome (the best result for you). In Prisoner's Dilemma, this happens if you confess and the other person keeps quiet.
3. ***Mediocre:*** If both you and your adversary take the offensive and compete, both will receive a mediocre outcome (the third best result for you). In Prisoner's Dilemma, this happens if both of you confess.
4. ***Good:*** If both you and the other side decide to lay all cards on the table and cooperate, both will have a good outcome (the second best result for you). In Prisoner's Dilemma, this happens if both of you keep quiet.

Using this logic, your best strategy is to compete stay hard and claim value so that you end up with either a great or mediocre outcome. On the other hand, if both you and the other party realize that this is the best strategy for yourselves individually, you'll get a mediocre outcome. This way, both of you miss out on the better opportunity the good outcome which you'd get if both of you had cooperated by staying soft and creative value to enlarge the pie. No wonder they call it a dilemma.

Faced with this problem, theorists use computer models to try to come up with the best practical solution. The tit-for-tat strategy proves more steadily successful than others. This process involves starting out with a cooperative approach. As the negotiations go on, the strategy adapts by immediately responding to what the other side does. This means that it responds to competitive moves with a competitive move and responds to a cooperative move with a cooperative move. On the other hand, some people take issue with this strategy, saying it should be used only in the absence of misperceptions and fear.

## Self Assessment

Fill in the blanks:

10. A soft approach to ..... refers to being generally more willing to give in, make concessions, trust the other, and stay honest and forthright with one's situation.

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11. By ..... emotions and focusing on objective sense of fairness, people gain more confidence without feeling that they're making enemies or being victimized.
12. As the negotiations go on, the ..... adapts by immediately responding to what the other side does.

## 11.5 Negotiation Tactics

Negotiation Tactics are a set of skills for life. We are constantly negotiating through life, and we all find ourselves in a negotiation situation at some time. Whether you are negotiating a multimillion dollar deal, negotiating a salary rise, negotiating with the car salesman or just negotiating with your partner or children, we all negotiate through our life. Negotiating is an essential skill set that we pick up at an early age as we are developing, yet how come so many of us lose that skill set as we become older. Negotiation tactics are a set of tools that we can draw on in any negotiation situation. Only when we truly understand the tools in our tool box, and which tools to draw upon to suit the negotiation situation we are in, can we become true negotiators. So what is negotiation? And what are the essential Negotiation Tactics? Through out this blog we will offer advice and tips and explain the various negotiation tactics available, that can be applied to all most any negotiation scenario.

There are many different tactics that are commonly used in the negotiation process. All of them have their place, and many of the methods that have been popularized are specialized for specific types of negotiation. The level of detail the best negotiators put into understanding the human mind and how to use certain tones of voice coupled with specific tactics to lead the other party in the direction that they would like them to head is, to say the least, quite impressive. Just knowing the tactics is only half the battle, but putting them into effective use can be tricky if you do not know how to properly propose them. A few of the more common tactics that are used in negotiations include:

### Nibbling

Nibbling is among the most popular of negotiation tactics. The actual strategy is to continue the negotiations after the deal is supposedly done. This tactic is most effective when a great deal of time has been spending finalizing the negotiation and the other party has invested a great deal of time into it. For instance, if you are buying a piece of property, after the deal is finalized you may ask for other accommodations that were not originally part of the plan for the property that you purchased. This can be a fairly risky tactic although a large majority of individuals will not renege on the deal after so much time has been put into it. If you choose to try the nibbling technique, you may not want to ask for too much as this can break down the entire process.

### Outright Refusal

One popular negotiation tactic that has yielded a great deal of success is the outright refusal method. This method works by outright refusing the original offer made to you, and asking them to do better. Often times the individual who is making the offer will actually negotiate with themselves and provide you with an offer that is much higher than the offer than was originally made. While this tactic might be simplistic in nature, it is a well documented method that has provided many negotiators with positive results for many years.

### Conditioning

Conditioning calls for you to place a starting point in their mind prior to beginning the negotiation. For instance, if someone started to discuss a negotiation for the purchase of a boat

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with you, and you initially responded by saying "You'll be wasting your time unless you are willing to offer $10,000 and haul it after the sale." This allows you to give them a starting figure that is much closer to the end result you are looking for than you would have been otherwise. This is an age old method that has always been an effective negotiation tactic. Keep in mind that this tactic can also cause the individual you use it on to not make an offer on the item at all.

**Calling Bluffs**

Calling the opposing party's bluff is a negotiation tactic that can really be to your advantage. For instance, if you have a house that is for sale for $200,000, and they claim that their bank will only qualify them for a $175,000 loan, you can call their bluff by saying that you can not let it go for less than $190,000. If you would like, you can also make up an excuse as to why you can not go any lower than that amount in order to make it seem as if you too have your limits. For instance, you could say that the money is going to cover your child's college education, and that is as low as you are willing to go. By taking their financing problem and responding with an explanation of why that won't work, you will be able to make them come out of their shell if they are truly interested in the product that you are selling.

### Self Assessment

State whether the following statements are true or false:

13. Negotiation Tactics are a set of skills for life.
14. Negotiating is an essential skill set that we pick up at a diminishing age.
15. Nibbling is among the most popular of negotiation tactics.

## 11.6 Negotiating the Purchasing and Writing

Negotiating a purchase can often be more critical than negotiating an individual sale. Apart from price, you may need to secure strategic essentials such as component quality and continuity of supply. Good preparation, clear objectives and an awareness of common pitfalls are all you need. They will remove the need for inspiration or dazzling technique and provide the basis for purposeful, successful negotiation.

Negotiation in the purchasing process covers the period from when the first communication is made between the purchasing buyer and the supplier through to the final signing of the contract. Negotiation can be as simple as trying to obtain a discount on a case of safety gloves through to the complexities of major capital purchases. A purchasing professional must aim to be successful in their negotiations with suppliers to obtain the best price with the best conditions for every item that is purchased.

### 11.6.1 Smaller Supplier Base and Long-term Contracts

The negotiation process has become a more important sector in the supply chain process as companies look to reduce their expenditure whilst increasing their purchasing power. This means that purchasing professionals have to negotiate increasingly better rates with suppliers whilst maintaining or increasing quality and service. In the past companies had a long list of suppliers who they would purchase different items from which required purchasing resources to spend limited time on negotiating the lowest prices. The best solution available was to compare list prices from catalogs and select the vendor based on that information. The trend over the last decade has been to rationalize the supplier base and enter into long-term agreements

with single-sourcing. This offers companies the ability to negotiate significantly lower prices for items that they were purchasing from a number of separate vendors.

### 11.6.2 Vendors are Partners

The emphasis in negotiation moved away from lowest price scenario to negotiating with fewer vendors to obtain the lowest price with the best service, quality and conditions. The aim for companies were to reduce overall spends rather than negotiate lowest price with a large number of vendors, which did not give the best overall result. The negotiated long-term contracts with a smaller supplier base have produced more of a partner relationship between buyer and supplier. The relationship can become less adversary which benefits buyer and vendor. In a partner type or relationship the buyer will encourage the vendor to increase quality and service and the vendor knows that by doing this the partnership will continue with a renewed contract with guaranteed sales.

### 11.6.3 Negotiation or RFQ

Non-government purchasing departments continue to offer a range of prequalified vendors a Request for Quotation (RFQ) for items or services that it wishes to purchase. The competitive bid process can produce a range of bids and conditions that the purchasing department will evaluate and then award the business. This may or may not involve some form of negotiation. Most negotiated business will involve items or services that are not necessarily definable by an RFQ. The purchasing department and the vendor will negotiate more than a price. The negotiation will usually cover what is to be manufactured or what is the extent of the service to be provided, the warranty, the transportation services, technical assistance, packaging alternative, payment plans, etc. Purchasing items or services of significant cost will require extended negotiations to arrive at a final contract.

Purchasing professionals are required to participate in these types of negotiation to ensure their companies obtain the best price with the most favorable terms, and staff may need to be trained in negotiation methods as it becomes more commonplace in a difficult economic climate.

### 11.6.4 Negotiation Objectives

Purchasing staff should enter all negotiations with clearly defined objectives. Without having objectives the possibility for the purchasing professional to concede on price, quality or service is significantly raised. The negotiator should enter into discussions with the vendor with precise objectives that they wish to achieve for their company. The objective should not be absolute and should allow for some flexibility. However, the negotiator should also ensure that they do not deviate from the objectives and allow themselves to negotiate on areas that were not part of the discussion.

*Example:* A negotiator may have worked with the vendor on their objectives on price and service, but not quality.

When the vendor starts to discuss quality, the negotiator should refrain from any agreement where they are without a set objective. Negotiation is an important part of the role of the purchasing professional. It is a skill that is learnt and training can help purchasing staff in understanding what is needed when negotiating with vendors.

Notes

## Self Assessment

Fill in the blanks:

16. Negotiating a ..... can often be more critical than negotiating an individual sale.
17. The negotiation process has become a more important sector in the ..... process as companies look to reduce their expenditure whilst increasing their purchasing power.
18. Non-government purchasing departments continue to offer a range of prequalified vendors a ..... for items or services that it wishes to purchase.

*Case Study*

### Aisle Redesign

A major North American grocer was evaluating a beverage aisle designed to drive traffic to the center of the store.

1. Initial analysis indicated a slight sales lift but not enough to pay back the cost of the program.
2. APT automated de-averaging revealed that the program caused initial disruption to sales, followed by a larger long-term sales lift than previously observed; in addition, APT identified a shift toward higher-margin premium products.
3. APT segmentation analysis was used to identify the most profitable variation of the program, as well as the types of stores where it would generate the most profit.
4. The optimized rollout generated millions of dollars in incremental profit for the grocery retailer.

**The Company**

A major North American grocer with 500+ stores

**The Challenge**

Preliminary analysis at a major grocer with over 500 locations showed that the aisle feature slightly increased beverage sales, but the results were not compelling enough to drive a clear decision.

The initiative presented two opportunities for optimization. Firstly, the program came in four variations – "Gold," "Silver," "Bronze," and "Simplified Bronze," and the grocer wanted to know which of the four program variants drove the highest sales increase. Secondly, the grocer wanted to identify the demographic segments most likely to respond positively to the feature. The grocer used APT Test & Learn™ software to perform a detailed analysis, and identify winning characteristics to be used in a targeting model.

**The Solution**

Using APT's Merchandise Optimization solution, the grocer was able to automatically track the performance of stores undergoing the redesign and compare it to the performance of well-matched control stores during the five months since the aisles had been changed.

In part, the APT software reinforced the results that the grocer had already seen. Although beverage sales were nominally higher in test stores, the increase was minor compared

*Contd...*

Notes

with historical noise in beverage sales, and statistical confidence was not high enough to drive a management decision.

However, the results were more complex than they initially appeared. The APT software was next used to perform customisable time-period analysis, producing clear findings. This time-series view revealed that the installation caused initial consumer disruption, and this disruption had disguised a long term trend far larger than the lift that had initially been observed. The initial disruption was followed by a spike in sales as consumers restocked, and, after three months sales, reached a stable plateau. On one hand, the grocer was disappointed that the feature was causing sales disruption – but, on the other hand, the long-term impact of the program was much better than previously thought.

Although the sales impact was moderate, it masked a much larger shift in purchasing patterns. Automatic drilldown analysis using APT's software revealed that consumers were moving beverage purchases toward more premium choices. As a result of this shift, improved gross margin rate meant that the program was more profitable than sales analysis alone would suggest.

Next, the APT software was used to evaluate the four aisle configurations. All four variants resulted in initial sales disruption; the "Gold" option drove significantly higher sales, followed closely by the "Silver" option. The "Gold" option was, however, the most expensive, and from an ROI perspective, "Silver" was therefore more profitable.

The software also quickly analyzed a wide range of store characteristics to identify those most correlated with superior store performance. This store-based segmentation analysis showed that the program worked particularly well in stores with trade areas serving a younger demographic.

**The Results**

The results presented an opportunity to move forward with the Aisle Redesign while also improving execution. As a result of APT analysis, the "Silver" design was targeted for primary rollout, additional signage was recommended to reduce initial consumer confusion, and stores in younger trade areas were prioritized for early rollout. The optimized rollout generated millions of dollars in incremental profit.

**Questions**

1. Analyze the case and explain the problem while buying.
2. How can these problems is avoided by the company?

***Source:*** http://www.predictivetechnologies.com/en/index.cfm/solutions/restaurants/business-issues/menu-innovation/menu-innovation-case-study

## 11.7 Summary

- Wholesale purchasing generally entails the purchase of large amounts of products to be resold to one or more retailers.
- Traditionally, wholesale buyers purchased an inventory of a good or commodity for resale and acted as middlemen between the manufacturer and the retailer.
- Wholesale buyers can also purchase and resell items directly on online auction sites.
- Retailers can often find products to sell in their stores by searching online, joining buying groups, using library resources and attending trade shows or buyers' markets.

Notes

- Savings and immediate availability are two advantages of buying wholesale items.
- The primary advantage of buying wholesale items is the savings one can get for purchasing in bulk.
- Wholesaling involves that part of the marketing process in which intermediaries, i.e., those between the producer and end consumer, buy and resell goods, making them available to an expanded buyer's market over an expanded geographical market area.
- Merchant wholesalers are firms engaged primarily in buying, taking title to, storing (usually), and physically handling products in relatively large quantities and reselling the products in smaller quantities to retailers, industrial, commercial, or institutional concerns, and to other wholesalers.
- Manufacturers' sales branches and offices are owned and operated by manufacturers but are physically separated from manufacturing plants.
- The retail buyer also needs to be aware of the shipping arrangements the supplier uses.
- The smart buyer puts all the upcoming areas of negotiations and previous agreements in letterform and sends it out before going to market.
- A trade discount, sometimes referred to as a functional discount, is a form of compensation that the buyer may receive for performing certain wholesaling or retailing services for the manufacturer.
- A quantity discount is a price reduction offered as an inducement to purchase large quantities of merchandise.
- Dealing with conflict and differences is hardly ever an easy task. Barriers to creative negotiation can be numerous and are often the saboteurs of a potential sale.
- Negotiation Tactics are a set of skills for life.
- Nibbling is among the most popular of negotiation tactics.

## 11.8 Keywords

***Allowances:*** The amount of something that is permitted, esp. within a set of regulations or for a specified purpose.

***Brokers:*** A broker is an individual or party (brokerage firm) that arranges transactions between a buyer and a seller, and gets a commission when the deal is executed.

***Cash Discounts:*** Cash discounts are sometimes given to retailers to encourage them to pay early or pay with cash.

***Internet:*** A means of connecting a computer to any other computer anywhere in the world via dedicated routers and servers.

***Manufacturers' Agents:*** Commission agent who carries noncompetitive but complementary products from several manufacturers, for distribution along the same channels or to the same customers.

***Merchandise:*** Household, personal use, or commercial goods, wares, commodities, bought and sold in wholesale and retail.

***Merchant Wholesalers:*** These are firms engaged primarily in buying, taking title to, storing (usually), and physically handling products in relatively large quantities and reselling the products in smaller quantities to retailers, industrial, commercial, or institutional concerns, and to other wholesalers.

Notes

***Negotiation Tactics:*** A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem.

***Negotiation:*** Negotiation is a process where each party involved in negotiating tries to gain an advantage for themselves by the end of the process. Negotiation is intended to aim at compromise.

***Planning:*** Planning is the process of thinking about and organizing the activities required to achieve a desired goal.

***Quantity Discount:*** A quantity discount is a price reduction offered as an inducement to purchase large quantities of merchandise.

***Savings:*** The portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities.

***Seasonal Discounts:*** Seasonal discounts are given to retailers for making purchases out of season.

***Strategy:*** A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem.

***Technology:*** Technology involves the design, engineering and production of innovative and creative products to meet the needs and wants of others.

***Trade Discount:*** A trade discount, sometimes referred to as a functional discount, is a form of compensation that the buyer may receive for performing certain wholesaling or retailing services for the manufacturer.

***Vendors:*** A company which supplies parts or services to another company.

***Wholesale:*** The selling of goods in large quantities to be retailed by others.

***Wholesalers:*** Person or firm that buys large quantity of goods from various producers or vendors, warehouses them, and resells to retailers.

## 11.9 Review Questions

1. Discuss the role of wholesale purchasing in the market.
2. "There are several positive reasons to consider for making the choice of using the Online Wholesale stores for improving the standard purchasing procedure." Explain.
3. Define buying wholesale merchandise.
4. What are the pros and cons of buying wholesale?
5. Elucidate various types of wholesalers.
6. Highlight the variables involved in meeting with vendors.
7. How will you negotiate with vendors?
8. Define trade discount.
9. Explain the types of quantity discounts.
10. Throw some light on the principles of negotiation.
11. Describe negotiation strategies.
12. What are the tactics involved in negotiation?

Notes

## Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | False | 2. | True |
| 3. | False | 4. | Merchandise |
| 5. | Shipping | 6. | Potential Vendors |
| 7. | True | 8. | True |
| 9. | False | 10. | Negotiation |
| 11. | Minimizing | 12. | Strategy |
| 13. | True | 14. | False |
| 15. | True | 16. | Purchase |
| 17. | Supply Chain | 18. | Request for Quotation (RFQ) |

## 11.10 Further Readings

*Books*

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Pradhan, Swapna (2010), *Retail Merchandising,* Tata McGraw-Hill Education.

United States, Small Business Administration, Office of Management Assistance, *Retail buying function,*

Varley, Rosemary (2013*), Retail Product Management: Buying and Merchandising,* Routledge.

*Online links*

http://retail.about.com/od/buyinginventory/Inventory.htm

http://retail.about.com/od/buyinginventory/tp/vendor_negotiations.htm

http://wellx.com/business/how-to-negotiate-with-vendors-to-get-the-best-prices/

http://www.ehow.com/about_6321241_wholesale-buying-vs_-retail-buying.html

http://www.wisegeek.com/what-do-wholesale-distributors-do.htm

Notes

# Unit 12: Merchandise Pricing

CONTENTS



## Objectives

After studying this unit, you will be able to:

- Understand the Merchandising with Planograms
- Explain the New Product Cut-Ins
- Discuss the Marks Ups and Markdowns in Merchandise Management

Notes

## Introduction

Price is a key differentiation and a strategic tool in the hand of retailer. Pricing strategy can be used to capture market share as well as a tool of survival. Retail fixes its retail pricing strategy on the basis of its ROI objectives. But prices are not fixed, they are variable. Prices are elastic and can be stretched to a certain extent depending on the retailer's objectives. In this unit we focus on this price elasticity in depth. We also touch up the price variable and the promotional pricing strategies.

## 12.1 Merchandising with Planograms

In two subsequent articles Martin Lindstrom from Clickz.com discusses the practices of up- and cross-selling used by brick-and-mortar retail stores and the potential in applying their principles to the web. The key is planogramming.

"A planogram is a detailed and thoroughly thought-through map that determines where every product in an establishment should be situated. It illustrates not only in what area every product should be placed but also on which shelf every item should be accommodated. Shelf by shelf, aisle by aisle, the planogram assigns selling potential to every item in a store."

### 12.1.1 Background

A planogram is often received before a product reaches a store, and is useful when a retailer wants multiple store displays to have the same look and feel. Often a consumer packaged goods manufacturer will release a new suggested planogram with their new product, to show how it relates to existing products in said category. Today, planograms are used in a variety of retail areas. A planogram defines which product is placed in which area of a shelving unit and with which quantity. The rules and theories for the creation of a planogram are set under the term of merchandising.

It is primarily used in Retail sector. Fast-moving consumer goods organizations and supermarkets largely use text and box based planograms that optimise shelf space, inventory turns, and profit margins. Apparel brands and retailers are more focused on presentation and use pictorial planograms that illustrate "the look" and also identify each product.

### 12.1.2 Approach

#### Primary Targets

Primary targets which should be achieved with planograms:

1. Creation of an optimal visual product placement
2. Creation of an optimal commercial product placement

In short, the primary targets can be summarised with a turnover and profit increase. The visual product placement is supported from different theories:

1. ***Horizontal product placement:*** To increase the concentration of a customer for a certain article, a multiple horizontal placement side by side of one product is applied. Different researches found that a minimum placement range between 15–30 cm of one single product is necessary to achieve an increase in customer advertence (depending on the customer distance from the unit).

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2. ***Vertical product placement:*** A different stream with its follower is the vertical product placement. Here one product is placed on more than one shelf level to achieve 15–30 cm placement space.

3. ***Block placement:*** Products which have something in common are placed in a block (brands). This can be done side by side, on top of each other, centred, magnetised.

*Caution* One can see the varieties of planogram results by simply visiting a local supermarket. Standing in front of say, a frozen pizza section featuring the products of a single manufacturer, one can see how the variety of products is displayed and how related products (such as pizza rolls) are treated in the overall product display for a particular pizza manufacturer. Similarly, one can visit the boxed cold cereal aisle, which comprises the various planogram strategies by the different cereal manufacturers. The ultimate effectiveness of the planogram of course is always measured by sales volume.

Next to the visual placement the commercial placement is the other important pillar of a planogram. Here, the question has to be answered which products should be placed. Two factors for the decision-making process can be differentiated.

Market share placement – Margin placement

Market share placement means the placement of turnover bringers. Different market research institutes like Nielsen, IMS are collecting turnover data of all kind of products and calculate from this data the market share of a certain product in its market segment. With the help of this data products can be selected which should appear in a shelving unit in a "A" location. A simple calculation of turnover data from a single store is better than nothing for this purpose however it would be better to use data from a group of stores.

*Did u know?* The margin placement is influenced from the margin a product brings. The higher the margin is of a product the better the location should be where it is placed.

### Derivative Targets

1. To communicate how to set the merchandise.
2. To ensure sufficient inventory levels on the shelf or display.
3. To use space effectively whether floor, page or virtual.
4. To facilitate communication of retailer's brand identity.
5. To assist in the process of mapping a store mapping

## 12.1.3 Implementation

The planogram originated with K-Mart. Planograms are created with the help of planograming software and most applications were produced in the last 15 years. Due to hardware and software limitations at that time the software was based on a manual painting of shelving units. This required a high level of human intervention to create the planograms for stores.

Planograming software has greatly evolved and the retail industry utilizes the automated software with the goal of ensuring the right products are in the right place in the right quantities at the right time – on a store-by-store basis. As the retail industry grows increasingly competitive, retailers are turning to planogram software to reflect each store's unique customer desires and

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localized demand, while maintaining centralized control and supply chain efficiencies. During the last few years some software packages focused upon FMCG and hard goods sectors made some enhancements to transfer parts of shelving elements to single store measurements which according to the producers should increase the efficiency. Further, software companies have synchronized both assortment and space into its software, promising concise plans that are executable in store.

Small software packages on a lower price level can be used for a creation / drawing of shelving units with some basic features of planograming. Other software producers are concentrating on improving the rendering of planograms, in 3 dimensional perspectives for example. There are also some new developments which primarily have the task to optimise the creation of planograms and the visualisation possibilities of how the product is placed.

*Example:* In the fashion sector, the approach is somewhat different as the "look" of the store is critical to sales conversions. Many planogramming software created for supermarkets and FMCG are not designed for this type of approach.

Leading retailers are automating the creation of store-specific planograms, through use of corporate level business rules and constraints describing best practice product placements. Such planogramming solutions allow these companies to respond with location and language-specific messaging, pricing, and product placements based on business rules derived from location, campaign, and fixture attributes to create localized assortments.

Recent advances in store virtualisation and collaboration now allow manufacturers, retailers and category management experts from across the globe to work in the same virtual store in real time. By removing the boundaries of distance this enables retailers and manufacturers to have a real choice between black box automated solutions and access to low cost labour pools to perform the same tasks. There are advantages to both approaches, with automation providing near real time results across hundreds of permutations, while low cost labour pools provide the unique human touch that automation so far has failed to deliver.

*Caselet*

## Holiday Merchandise Promotion Boosts Member Engagement

Seasonal fluxes in member engagement had been causing dips in a client's loyalty initiative. The holidays were fast approaching and tend to be a key redemption time. Leveraging these seasonal dynamics, Maritz developed a targeted holiday campaign designed to boost awareness, engagement and merchandise redemption among the client's members. Maritz strategic merchandising experts developed a customized holiday merchandise catalog for a direct mail blitz. The design of the catalog itself featured attention-getting, seasonal graphics with the latest and hottest reward items with a targeted message that promoted holiday gift-giving. Members were encouraged to visit the rewards website for access to hundreds more gift selections. Orders could easily be placed online or via a toll-free number. The holiday catalog was mailed in mid-October to ensure cardholders received it before starting their holiday shopping.

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**Engagement and Cost Savings Bring Holiday Cheer**

To measure the impact of the holiday merchandise promotion, Maritz established a control group that did not receive a catalog. The results showed a striking impact on both redemption and member engagement in the group receiving the catalog:

1. Average impact of the holiday catalog was a 159 percent increase in merchandise redemption for catalog recipients in comparison with the control group's increase of 74 percent during the holiday period.
2. Catalog recipients redeemed for merchandise that was featured in the catalog at a significantly higher rate than other merchandise items.
3. The client realized a reduction in cost per point due to the increase in merchandise redemption.
4. Traffic to the rewards website increased following the catalog mailing, and first time web visits also increased.
5. By leveraging the peak holiday shopping season, the client was able to optimize member engagement via merchandise redemption.

***Source:*** http://www.maritzmotivation.com/~/media/Files/MaritzMotivationSolutions/Case-Studies/Case-Study-Holiday-Merchandise-Promotion-Boosts-Member-Engagement.pdf

### Self Assessment

Fill in the blanks:

1. A ..... is a detailed and thoroughly thought-through map that determines where every product in an establishment should be situated.
2. The rules and theories for the creation of a planogram are set under the term of .....
3. A different stream with its follower is the ..... product placement.
4. Market share placement means the placement of ..... bringers.
5. The ..... placement is influenced from the margin a product brings.

## 12.2 New Product Cut-Ins

Where a retailer is involved in putting together a product offer which is unique to its own company, and where suppliers are not able to provide the required level of input product innovation, it may be necessary for the retailer to set up a development team for a particular product area.

*Example:* Tesco plc has an experimental kitchen whose staffs' works on new food products. Many fashion retailers have a team of designers, pattern cutters and sample machinists who make garment prototypes for their suppliers to copy. Product development is a time consuming and costly process. It takes approximately nine months for Tesco plc to develop a new product.

However, in a business environment where customers react favourably to new product ideas product development is essential if a retailer wishes to offer a wide variety of contemporary products to the customer. In the case of small electronic goods, products can have a lifecycle as short as 6-9 months; therefore the speed at which product innovations are brought to market is crucial to the success of both retailer and supplier.

Notes

### 12.2.1 Corporate Design

If a retailer is own-label active, then establishing a department to manage the corporate brand is essential. This is particularly important in packaged goods retailing, where the graphical representation on the outside of the product is what sells the items. The use of logos, corporate style and colours are all of concerned here, and a retailer may issue a corporate design manual or guidelines to ensure that all own-label suppliers conform to the same graphical standard. People, who work on new packaging designs, whether outside design agencies or internal design studios, will also use these instructions. Computer-aided design, internationally standardized colour systems and internet communications have helped retailers to achieve consistency in corporate design, preventing the need for reworking of original artwork, whilst offering fast and flexible design options for consideration.

### 12.2.2 Logistics

In grocery and fast moving consumer goods, the logistics department play a key role in any buying decision. Factors that have led to the incorporation of logistics into product management include: the need for special transportation and warehousing operations; short shelf lives in some product areas; the need to be very efficient in logistical operations to achieve profitability on low margin products; and the growing importance of product availability as part of a high customer service provision.

A logistics manager would be able to highlight implications of placing orders that might not be apparent to the buyer.

*Example:* A buyer might be offered a price reduction on a product, providing a large quantity is ordered.

The logistics manager would be able to advise on any additional storage, handling or transportation costs incurred by accepting a larger than normal delivery. Such costs could outweigh any price reduction given by the supplier.

### 12.2.3 Buying Committees

The extent to which buyers or category managers have authority to place orders on behalf of their organizations varies from one retailer to another. In some retail businesses, buyers must have orders over a certain value sanctioned by their operational superior. In others, buyers have the autonomy to run the department as they see fit, which allows a more entrepreneurial approach to be taken; however, buyers or product managers ultimately stand or fall according to the performance of their department or category in terms of sales and profit. A balanced approach can be maintained through the use of a buying committee, where both the product itself and the buying plans proposed for that product are scrutinized by a panel of experts within the organization. They can also have a direct bearing on the involvement of buying committee members in the process.

*Notes* In a new-task situation, many product management personnel will be involved either directly or indirectly, whereas straight re-buys may well be carried out by one member of the team. Sometimes referred to as the 'initiator', the user is the person who directly uses the product item.

Notes

In retail buying, the user is a retailer's customer, or potential customer. It is difficult to involve customers directly in retail buying decisions, so a decision making unit must consult market research sources and retail sales personnel to obtain an accurate representation of the customer's viewpoint. Larger retail concerns may use consumer panels as part of their marketing research operations, to provide qualitative feedback on new initiatives.

People who play the role of the influence in the decision process can come from various sources. Technologists, designers, product developers and engineers provide expert opinion on specific product attributes, whilst merchandisers or logistics managers may exert a commercial influence based on the knowledge of previous sales patterns and supply problems of similar products. The buyer is the person who organizes the day-to-day running of the buying process. Buyers themselves, or their assistants, usually carry out this role, which is different to the role of the decider, who makes final decisions regarding the purchase of products. The decider is normally in a position of higher authority in the buying office, such as buying plans; but in a straight re-buys situation, buyers, or even their assistant, may act in both the buyer and the decider roles.

The gatekeeper's role is to control the flow of information into the decision-making unit. The role may be taken by a junior member of the buying team who makes the initial assessment of products and suppliers, and therefore checks the flow of irrelevant information into the group. On the other hand, a buying controller or a merchandise manager, who controls information because of their seniority or experience in product markets, may perform the role.

### 12.2.4 Group Dynamics

The roles fulfilled by buying personnel in their operational day-to-day activities can be generalized to a certain degree. However, each person who contributes to the process is an individual, with his to her own set of characteristics, background and personality. Buyers have often played the role of opinion leader and change agent in the retail organization, and as such may have a form of authority over those with 'higher' status within the organization. Group dynamics, therefore, can often influence the way in which individual retail decision making units operate. In addition, the culture of the organization in which the DMU operates will also have a bearing on the buying process.

*Example:* Some retailers have a highly structured hierarchy in their buying offices, through which product plans have to be dragged in a series of presentations and reviews, whilst others have a flatter, more entrepreneurial, culture, where new ideas are quickly trailed and either supported, or eliminated.

Similarly, the external business environment may impact on the way in which the group works together; for example, in a growing economy, more risks may be allowed, whereas in adverse trading conditions buying organization personnel may be less confident to implement new ideas without a consensus of opinion. Any person entering the field of the retail buying office, whether as an employee or as a potential supplier, should familiarize themselves with the workings, of the various individuals within the buying organization and how the organization works as a whole.

### 12.2.5 Planogram Implementation

Although the step of determining pricing flexibility comes after that of setting price objectives in the Figure 12.1, in practice pricing flexibility for goods and services helps the retailer establish its pricing objectives. Pricing flexibility refers to the best range of prices that the retailer can set. Two factors retailers consider when determining pricing flexibility are the costs associated with running the business and selling the products (both fixed and variable costs) and the demand by the store's existing or potential customers. These factors help the retailer develop the range over

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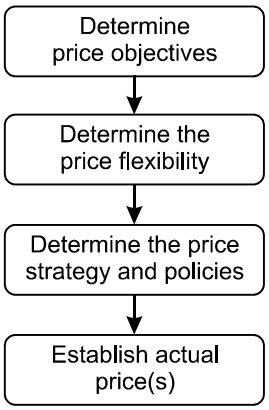
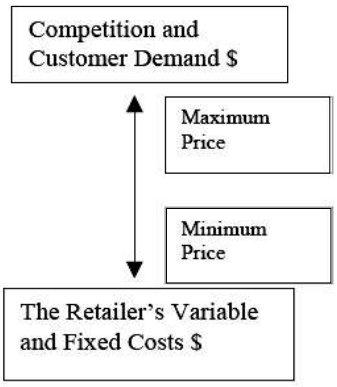
which to set its final retail prices. The costs help set the floor, or lower limits, of this range, whereas the competitors and consumers (product demand) set the upper pricing limits.

**Figure 12.1: A Typical Pricing Decision Flow Chart**




There are three steps in determining pricing flexibility. The first is to determine the costs associated with the retailing operation. Data that will help the retailer determine costs are located in the retailer's financial documents and in the Retail Information System (RIS). The second step is to estimate the demand for the products and services, taking the competition into account. The demand estimate helps set the upper price limits for the products. The greater the difference between the upper and lower limits, the more flexible the price is said to be. Finally, in the third step, the retailer estimates the elasticity of price for its products and product lines.

**Figure 12.2: Pricing Ranges Based on Demand and Cost**




### 12.2.6 Price Elasticity

Price elasticity of demand (also called elasticity) is a measure of the consumer's sensitivity to price. It is important to understand the relationship between price and consumer purchasing habits. Consumers make many decisions based on price; thus, the elasticity of price may change during the course of a given sales period. In addition, there is a high correlation between price and consumer perceptions and, thereby, purchases. Price elasticity of demand measures the responsiveness of quantity demanded to a change in price, with all other factors held constant. In some cases, a decrease in price results in an increase in demand or, conversely, an increase in price results in a decrease in demand. In each case, consumers are price sensitive; put another way, demand is relatively price elastic. When a price reduction or a price increase occurs and demand remains relatively the same, consumers are less sensitive to price changes, and demand

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is said to be price inelastic. When assessing price elasticity of demand, one of three situations can occur: price elasticity, price inelasticity or unitary elasticity of price.

1. ***Price Elasticity:*** In this situation, when the retailer raised price, a relative decrease in total revenue occurs. Conversely, when the retailer lowers price, a relative increase in total revenue results. The elasticity of price and demand coefficient ($E_p$) would be greater the 1($E_p$>1). This situation most often occurs when there is low urgency to purchase products or services and when substitutes for the products or services are available. An example is a shirt that one can buy at several other retailers at a competitive price.

2. ***Price in Elasticity:*** In this situation, when the retailers increases price, a relative increase in total revenue occurs. Conversely, when the retailer decreases price, a relative decrease in total revenue results. Thus, the elasticity of price and demand coefficient is less than 1 ($E_p$ <1). In this situation, consumers are not sensitive to a change in price; they are willing to pay the current price and possibly a higher future price. This situation typically occurs when purchase urgency is high and no acceptable substitutes exist. A life saving drug is an example of a product that would exhibit price inelasticity.

3. ***Unitary Elasticity:*** In a situation of unitary elasticity, the percentage change in price equals the percentage change in quantity demanded. This rarely occurs because the marketplace is extremely dynamic. The retailers can use unitary elasticity to create a midpoint, or mean, for the inelastic and elastic pricing situations. In unitary elastic situations, a price change has no impact on total revenue; thus $E_p$ is equal to 1 ($E_p$ = 1).

When comparing elasticity of price quotients (i.e., $E_p$), the quotients should be compared only for a given store, product, or product line. In other words, there are no benchmarks defining a good or bad elasticity of price quotient. Thus, in the example that follows, the $E_p$ is calculated as 4.0. Is this high or low? On the surface it appears low; however, when compared to the quotient in the second example ($E_p$ = 1.5), it is actually high.

The formula used to calculate the elasticity of price is as follows:

Elasticity of Price = $E_p$

$E_p$ = Percentage change in quantity demanded/Percentage change in price

Or $$E_p = \frac{\text{Absolute change in demand at new price/Demand at old price}}{\text{Absolute change in price/Old price}}$$

Or $$E_p = \frac{\Delta Q / Q}{\Delta P / P}$$

Where Q = quantity sold and P = relative price

As an example, suppose a retailer wants to check on its price elasticity because it is considering a drop in price. The price of the product may be dropped from $20 to $15 (a 25 percent reduction). Research reveals, however, that if the price is dropped from $20 to $15, demand will increase from 100,000 units to 200,000 units (a 100 percent increase). Is this situation price elastic, price inelastic, or unitarily elastic? If you answered price elastic, you are correct. To see this, let's plug in the numbers given in the following formula:

$$E_P = \frac{(2,00,000 - 1,00,000)/1,00,000}{(20-15)/20}$$

$$E_P = \frac{1,00,000/1,00,000}{\$5/\$20} = 4.0 \text{ or } 100\%/25\% = 4.0$$

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This is a highly elastic situation. Let's take another example using some of the same numbers. Suppose the price increases from $15 to $20, thus reducing demand from 200,000 units to 100,000 units. Though the numbers being used are the same, the situation is quite different. Let's see how elastic this situation may be:

$$E_P = \frac{1,00,000/2,00,000}{\$5/\$15} = 1.5 \text{ or } 5/.333333 = 1.5$$

In this example, the price is still elastic, but not quite as elastic as in the prior situation. The coefficient of elasticity of price and demand is 1.5 compared to the coefficient of 4.0 calculated earlier. In this example, the elasticity of price is closer to unitary elasticity and is less elastic than in the previous situation, where the calculation was 4.0. When assessing elasticity of price, it is important to monitor the competition and the legal and ethical constraints placed on retailers in the United States (or other countries, if the retailer does business there). Numerous laws and regulations international, national, regional, or local govern price levels. It is essential that the retailer understand the rules, laws and regulations affecting price. Important laws in the United States are the Sherman Act (1890), the Clayton Act (1914), and the Federal Trade Commission Act (1914).

*Task* Critically examine how Holiday Merchandise Promotion Boosts Member Engagement. Prepare a report on it.

### Self Assessment

State whether the following statements are true or false:

6. In the case of small electronic goods, products can have a lifecycle as short as 7-10 months.
7. If a retailer is own-label active, then establishing a department to manage the corporate brand is essential.
8. A marketing manager would be able to highlight implications of placing orders that might not be apparent to the buyer.
9. The gatekeeper's role is to control the flow of information into the decision-making unit.
10. Group dynamics can often influence the way in which individual retail decision making units operate.

## 12.3 Marks Ups and Markdowns in Merchandise Management

Price discrimination occurs when a vendor sells identical products to two or more customers at different prices. Although the Supreme Court has held that price discrimination can occur between a national brand and an identical private-label product, the Fifth Circuit Court of Appeals has ruled that the normal price difference between these two types of products does not lessen competition, so the price discrimination is not illegal. Price discrimination can occur between vendors and retailers, or between retailers and their customers, although the legal ramifications are different in the two situations. We will first examine price discrimination between vendors and retailers and then between retailers and their customers.

Although price discrimination between vendors and their retailers is generally illegal if it lessens competition (i.e., if the favoured and disfavoured retailers compete with each other), there are three situations where it's acceptable. Firstly, different retailers can be charged different prices when justified by differences in the cost of manufacture, sale, or delivery resulting from

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the differing methods or quantities in which such commodities are sold or delivered. Under what conditions may these differences exist?

*Notes* It's often less expensive per unit to manufacture, sell, or deliver large quantities than small quantities. Manufacturers can achieve economies of scale through the longer production runs achieved with large quantities.

Cost of selling to a customer also decreases as the quantity of goods ordered increases because it costs almost the same for a salesperson to write a small order as a large order. Finally, delivery or transportation expenses decrease on a per unit basis as quantities of goods ordered increase. These exceptions give rise to quantity discounts, the practice of lowering prices to retailers that buy in high quantities.

The differences in methods of sale that allow for differing prices refer specifically to the practice of granting functional discounts, also known as trade discounts. Functional discounts are different prices, or percentages off suggested retail prices, granted to customers in different lines of trade (e.g., wholesalers and retailers). Wholesalers often receive a lower price than retailers for the same quantity purchased. This is legal as long as wholesalers perform more functions in the distribution process than do retailers. For instance, wholesalers store and transport merchandise, and they use salespeople for writing orders and taking care of problems in the stores. Essentially, manufacturers pay wholesalers for servicing retailers by giving the wholesalers a lower price. With the growth of large chain retailers like Home Depot and Wal-Mart, functional discounts become more difficult to justify. Wal-Mart performs virtually all the functions an independent wholesaler provides. Therefore, Wal-Mart demands and should receive the same low prices as wholesalers. These lower prices make it hard for smaller retailers to compete.

The second exception to the no-price-discrimination rule is when the price differential is in response to changing conditions affecting the market for or the marketability of the goods concerned, such as selling last year's fashions at a lower price today than last month when they were still this years fashions.

The third exception is when the differing price is made in good faith to meet a competitor's equally low price. Suppose, for example, that Ben & Jerry's ice cream is experiencing severe price competition with a locally produced ice cream in Wisconsin. Ben & Jerry's are allowed to lower its price in this market below its price in other markets to meet the low price of local competition. In this case, market conditions have changed and Ben & Jerry's have reacted by meeting the competition's price.

Large retailers often benefit from subtle forms of price discrimination. For instance, 25 bookstores across the country have filed an antitrust lawsuit against their large competitors, Barnes & Noble and Borders Group, Inc. They charge that the nation's largest book retailers are in violation of the Robinson-Patman Act because they illegally use their buying clout with publishers to get special discounts and benefits not available to smaller rivals.

Unless a particular situation comes within one of the exceptions just discussed, retailers should never ask a vendor for or accept a net price (after all discounts, allowances, returns, and promotional allowances) that they know, or experience tells them, won't be offered to their competitors on a proportional basis for similar merchandise to be purchased at about the same time.

### 12.3.1 Predatory Pricing

Predatory pricing is a particular form of price discrimination where a market-dominating firm charges below-cost prices for some goods or in some areas in order to drive out or discipline one

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or more rival firms. Eventually, the predator hopes to raise prices and earn back enough profits to compensate for the losses during the period of predation. The firm challenging prices as being predatory bears the burden of proving three things: (1) The predator has significant market power; (2) The predator prices some goods at least below its total costs, including an allocation for overhead costs for a significant period (some courts require prices to be below variable costs, which for retailers would probably be the cost of merchandise without any allocation of overhead); and (3) There is a reasonable likelihood that the predator will be able to recoup its predatory losses. Some states have old statutes that declare it illegal to sell merchandise at unreasonably low prices, usually below their cost. However, a retailer generally may sell merchandise at any price so long as the motive isn't to destroy competition.

*Example:* Independent retailers in small towns have long accused Wal-Mart of selling goods below cost to drive them out of business and then boosting prices after seizing control of the local market.

Wal-Mart maintains that it hasn't violated the law because it didn't intend to hurt competitors. But it admits it has sold some products below cost, as do other retailers. These loss-leader products are intended to attract customers into the store where it is hoped, they will then buy other products that are priced to be profitable. Wal-Mart claims its loss leaders are part of its everyday low price strategy. More competition leads to lower prices, while less competition leads to higher prices. Wal-Mart's so-called predatory pricing strategy has been tested in the courts. After an early conviction in a lower court, the Arkansas Supreme Court ruled that the chain had no intent to destroy competition through its practice of selling a revolving selection of prescription and nonprescription drugs at less than cost. In essence, the Arkansas Supreme Court distinguished loss-leader pricing, even by a firm with market power, as a legitimate competitive tactic from predatory pricing.

### 12.3.2 Vertical Price-fixing

Vertical Price-Fixing involves agreements to fix prices between parties at different levels of the same marketing channel (e.g., retailers and vendors). The agreements are usually to set prices at the Manufacturer's Suggested Retail Price (MSRP). So pricing either above or below MSRP is often a source of conflict.

Resale price maintenance laws, or fair trade laws, were enacted in the early 1900s to promote vertical price-fixing and have had a mixed history ever since. Initially, resale price maintenance laws were primarily designed to help protect small retailers by prohibiting retailers to sell below MSRP. Congress believed that these small, often family-owned, stores couldn't compete with large chain stores like Sears or Woolworth, which could buy in larger quantities and sell at discount prices. By requiring retailers to maintain manufacturers suggested retail prices, however, prices to the consumer may have been higher than they would have been in a freely competitive environment.

Due to strong consumer activism, the Consumer Goods Pricing Act (1975) repealed all resale price maintenance laws and enabled retailers to sell products below suggested retail prices. Congress's attitude was to protect customer's right to buy at the lowest possible free market price even though some small retailers wouldn't be able to compete. For instance, in a 2000 settlement, Nine West, the women's shoe marketer, agreed with the Federal Trade Commission (FTC) not to fix the price at which dealers may advertise, promote, offer of sale or sell any product. The firm also agreed to pay $34 million to state attorneys general. The money is being used to fund women's health, educational, vocational, and safety programs.

Unfortunately, some vendors coerce retailers into maintaining the MSRP by delaying or cancelling shipments. A less risky tactic from a legal perspective is for a vendor to simply announce it will

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only sell to full-price retailers. If any of its retailers violate that policy, the vendor can terminate the discounters without discussion or negotiation. In this way, the vendor exercises its right to choose with whom it will deal but avoids forming an illegal agreement with its dealers to vertically fix prices.

Some retailers, on the other hand, want to be able to price above MSRP. For instance, Harley-Davidson motorcycles are so popular that some dealers have sold them over the manufacturer's suggested retail price. Large manufacturers and franchise companies are generally against pricing above MSRP. They argue that their brand's image can be damaged if retailers price above MSRP. Retailers like the extra profit potential and argue that competitive conditions may vary by locality.

The Supreme Court ruled in 1997 that price ceilings would not necessarily violate federal antitrust laws. This was the first time the Court had carved an exception to the general ban on vertical price-fixing. From now on, each case will be judged on whether it restricts competition.

### 12.3.3 Horizontal Price Fixing

Horizontal price-fix involves agreements between retailers that are in direct competition with each other to have the same prices. As a general rule of thumb, retailers should refrain from discussing prices or terms or conditions of sale with competitors. Terms or conditions of sale may include charges for alterations, delivery, or gift-wrapping, or the store's exchange policies. If a buyer or store manager needs to know a competitor's price on a particular item, he or she can check advertisements or the Internet or send an assistant to the store to check the price. But the buyer or manager shouldn't call the competitor to get the information or personally visit the store for fear that this information would be used against him or her in a price-fixing case. Further, retailers shouldn't respond to any competitor's request to verify those prices. The only exception to the general rule is when a geographically oriented merchants association, such as a downtown area or a shopping center, is planning a special coordinated event. In this situation, a retailer may announce to other merchants that merchandise will be specially priced during the event, but the specific merchandise and prices shouldn't be identified except in advertising or through in-store labeling and promotion.

### 12.3.4 Comparative Price Advertising

A department store in Denver was selling two cutlery sets on sale, reduced from original or regular prices of $40 and $50. The true regular prices were $19.99 and $29.99. The store sold few at the original price for two years. This common retailing practice, known as comparative price advertising, compares the price of merchandise offered for sale with a higher regular price or a manufacturer's list price. Consumers use the higher price, known as the reference price, as a benchmark for what they believe the real price of the merchandise should be.

This practice may be a good strategy, since it gives customers a price comparison point and makes the merchandise appear to be a good deal. Retailers, like the one in Denver, may use comparative price advertising to deceive the consumer, however. To avoid legal problems, particularly with state governments that have been actively prosecuting violators, retailers should check for local rules and guidelines. Generally,

1. The retailer should have the reference price in effect at least one-third of the time the merchandise is one sale.
2. The retailer should disclose both how sale prices are set and how long they will be offered and how the reference price was determined.

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3. The retailer should be careful when using a manufacturer's suggested list price. Don't use it as the reference price unless it is the store's regular price, or is clearly identified only as the manufacturers suggested price.
4. If retailer advertises that it has the lowest prices in town or that it will meet or beat any competitor's price, it should have proof that its prices are, in fact, the lowest in town before the ad is placed.
5. If the retailer advertises that it will meet or beat any competitor's prices, it must have a company policy that enables it to adjust prices to preserve the accuracy of its advertising claims.

### 12.3.5 Bait-and-switch Tactics

Bait-and-switch is an unlawful deceptive practice that lures customers into a store by advertising a product at lower-than-usual price (the bait) and then induces the customer to switch to a higher priced model (the switch). Bait-and-switch can occur in two ways. Suppose customer Smith is in the market for a new refrigerator. Smith checks the ads in the newspaper and finds a particularly attractively priced unit. At the store, however, Smith finds that the retailer has significantly underestimated demand for the advertised product and no longer has any available for sale. The person begins pushing a higher-priced model that's heavily stocked. In the second bait-and-switch method, the retailer has the advertised model in stock but disparages its quality while highlighting the advantages of a higher-priced model. In both cases, the retailer has intentionally misled the customer.

*Caution* To avoid disappointing customers and risking problems with the FTC, the retailer should have sufficient quantities of advertised items. If it runs out of stock on these items, it should offer customers a rain check. Finally, it should caution salespeople that while trying to trade up. Customers to a higher-priced model is legal, they must sell the low-priced item if that is what the customer wants.

### 12.3.6 Scanned versus Posted Prices

Advertising one price but charging another is obviously illegal. Many states and localities have specific laws regarding accurate pricing. FTC-led studies of the accuracy of price scanning versus posted or advertised prices have generally found a high level of accuracy, but mistakes are made in about one out of 30 scans. In many cases, retailers lose money because the scanned price is below the recommended price.

*Notes* Experts recommend that retailers adopt specific practices to ensure accurate pricing. Most basic is the adoption of written procedures for all forms of pricing activity in the store. Adopting procedures for immediate correction of pricing errors is important to reduce exposure to possible law enforcement action and to ensure customer satisfaction. Ongoing training of employees, with an emphasis on the stores commitment to pricing accuracy, ensures that the procedures are properly implemented.

Designating one person as the pricing coordinator, with overall responsibility for pricing accuracy, also is important. An essential component of good pricing practices is periodic price audits. Price audits of a random sample, perhaps 50 items, can be done on a daily basis. Regular price audits of the entire store can be done several times a year. Procedures for regularly

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checking and replacing damaged or missing shelf tags and signs helps ensure that consumers can get the correct price.

In summary, retailers, wholesalers, and manufacturers should be aware that whenever they decide to sell the same merchandise for different prices at different locations, or to sell merchandise at extraordinarily low prices to attract customers, they may be susceptible to federal and state prosecution and to lawsuits from competitors. But as a practical matter, the length of time and the expense of acquiring sufficient data and legal assistance to prove injury by a competitor may be so great that the injured party may still lose its business.

### Manufacturers, Wholesalers, and Other Suppliers – and Retail Pricing

There may be conflicts between manufacturers (and other suppliers) and retailers in setting final prices since each would like some control. Manufacturers usually want a certain image and to let all retailers, even inefficient ones, earn profits. In contrast, most retailers want to set prices based on their own image, goals, and so forth. A supplier can control prices by using an exclusive distribution system, not selling to price-cutting retailers, or being its own retailer. A retailer can gain control by being vital as a customer, threatening to stop carrying suppliers lines, stocking private brands, or selling gray market goods.

Many manufacturers set their prices to retailers by estimating final retail prices and then subtracting required retailer and wholesaler profit margins. In the men apparel industry, the common retail markup is 50 percent of the final price. Thus, a man shirt retailing at $50 can be sold to the retailer for no more than $25. If a wholesaler is involved, the manufacturer wholesale price must be far less than $25.

Retailers sometimes carry manufacturers brands and place high prices on them so rival brands (such as private labels) can be sold more easily. This is called selling against the brand and is disliked by manufacturers since sales of their brands are apt to decline. Some retailers also sell gray market goods, brand-name products bought in foreign markets or goods transshipped from other retailers. Manufacturers object to gray market goods because they are often sold at low prices by unauthorized dealers. Some of them limit gray market goods on the basis of copyright and trademark infringement.

When suppliers are unknown or products are new, retailers may seek price guarantees. For example, to get its radios stocked, a new supplier might have to guarantee the $30 suggested retail price. If the retailers cannot sell the radios for $30, the manufacturer pays a rebate. Should the retailers have to sell the radios at $25, the manufacturer gives back $5. Another guarantee is one in which a supplier tells the retailer that no competitor will buy an item for a lower price. If anyone does, the retailer gets a rebate. The relative power of the retailer and its suppliers determines whether such guarantees are provided.

A retailer also has other suppliers: employees, fixtures manufacturers, landlords, and outside parties (such as ad agencies). Each has an effect on price because of their costs to the retailer.

## 12.3.7 Competition and Retail Pricing

Market pricing occurs when shoppers have a large choice of retailers. In this instance, retailers often price similarly to each other and have less control over price because consumers can easily shop around. Supermarkets, fast-food firms, and gas stations may use market pricing due to their competitive industries. Demand for specific retailers may be weak enough so that some customers would switch to a competitor if prices are raised much. With administered pricing, firms seek to attract consumers on the basis of distinctive retailing mixes. This occurs when people consider image, assortment, service, and so forth to be important and they are willing to pay above-average prices to unique retailers. Upscale department stores, fashion apparel stores,

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and expensive restaurants are among those with unique offerings and solid control over their prices.

Most price-oriented strategies can be quickly copied. Thus, the reaction of competitors is predictable when the leading firm is successful. This means a price strategy should be viewed from both short run and long-run perspectives. If competitor becomes too intense, a price war may erupt whereby various firms continually lower prices below regular amounts and sometimes below their cost to lure consumers from competitors. Price wars are sometimes difficult to end and can lead to low profits, losses, or even bankruptcy for some competitors. This is especially so for Web retailers.

## Self Assessment

Fill in the blanks:

11. …… development is a time consuming and costly process.
12. A …… approach can be maintained through the use of a buying committee.
13. …… have often played the role of opinion leader and change agent in the retail organization.
14. …… between vendors and their retailers is generally illegal if it lessens competition.
15. …… price-fix involves agreements between retailers that are in direct competition with each other to have the same prices.

*Case Study*

### Service Merchandise "A Broad Range of Asset Classes"

Service Merchandise had been a leader in retail and direct response consumer goods sales for a number of years. In fact at one time they were perceived as a threat to what was then the world's largest retailer, Sears Roebuck and Company. Obviously, times have changed dramatically.

The demise of Service Merchandise is a result primarily from the rise of the Internet and the increasing availability of goods through a variety of media and retail outlets. In 2002, the company went from Chapter 11 to a plan to liquidate the assets. Service Merchandise had done an internal inventory and audit of their intangible assets prior to retaining a team of professional intangible asset/intellectual property valuators. While an incidence of bankruptcy, the main lessons we wish to illustrate here concern the large number of diverse assets included in the case.

The principal task was to confirm the results of the internal inventory and analysis done by Service Merchandise management. It was also important to identify other assets to be added to that inventory and to analyze all of the intangible assets as to their value and commercial marketability. The end goal, of course, was to derive maximum potential liquidation value from the Service Merchandise family of intellectual property and intangible assets. Onsite reviews and external research were performed and an investigative audit was organized by asset grouping and ranking of relative value. The assets discovered during the audit consisted of the Service Merchandise information technology assets, trademarks, domain names, databases, and other assets.

*Contd...*

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Examples of the auditing process include the following: In the case of the information technology assets, selected sample contracts and license agreements for those assets were reviewed, and the inventory of assets bundled into logical groupings. For the trademarks and other marketing assets, historical financial statements were reviewed and trademark registrations and status reports were examined in detail to evaluate the past history of use of the trademarks and the revenue generated by each of them. As a result of this work, the assets were grouped into six areas:

- IT software assets;
- Trademarks and associated brand names;
- E-commerce Assets;
- Databases and customer lists;
- Farberware license; and
- 1-800 Jewelry assets.

All of the intangible assets of Service Merchandise were divided amongst these six bundles, valued and readied for sale. The result of that work is summarized below.

***IT software assets and domain names:*** The in-house systems were developed to a high standard, but were considered to be legacy technology at the time. In other words, they were not leading-edge software systems. After detailed analysis of the vendor software contracts to determine which items might be saleable and which were not, a value range was established for these third party IT assets. The IT assets were divided into three groups:

- Integrated systems that were designed for specific purposes within Service Merchandise;
- Major third-party applications consisting of off-the-shelf software and associated licenses for main frame systems; and
- OS and utility third-party applications, which were primarily off-the-shelf operating systems from companies like Microsoft and other PC-based suppliers.

The total value of these assets as a group was determined to be between $210,000 and $420,000.

***Trademarks and associated brand names:*** The Service Merchandise trademarks and house brands were bundled together for sale in whole. The intangible asset team further divided the trademarks and brand assets into three different groups:

- Core brands, which included Service Merchandise, as well as two other closely related trademarks: At Your Service and Service Select;
- Key concept brands including Kids Central, Designed Just for Kids, and the Royal Symphony Diamond Collection; and
- Product-based brand groups, from the company's private label brands including Preferred Stock, Destinations and Regency.

These groupings of trademarks and brand names represented the best opportunities for monetization in the then-current marketplace. The assets appeared to have above-average consumer awareness and some consumer loyalty. The value of the assets was estimated to be between $800,000 and $2.3 million.

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***E-commerce Assets:*** The e-commerce Assets consisted of the core website and the Service Merchandise dot-com domain names. The value attributes were the technology, the website content and the goodwill associated with it. The technology being used was outdated at the time, but still functional. However, there would have been minimal interest in the technology alone. The website was generating sales well into the eight figures and was an attractive asset with an estimated value of between $150,000 and $400,000. The e-commerce assets and website were sold in their entirety including the Service Merchandise dot-com name.

***Database and Customer Lists:*** The Service Merchandise database was composed of approximately 12.5 million names compiled from customer lists and customer contacts over the prior three years. The lists were extremely well managed, clean and usable by a wide variety of retailers. In addition, extensive product purchase history was available with the database, which qualified the asset as one of the higher quality customer lists available at that time in the marketplace.

The value of any customer database or customer list is, of course, directly correlated to the age of the customer data. Therefore, the most current customer data commands a price nearing the upper end of the valuation range. As a result, the team recommended the outright sale of the database should be conducted as quickly as possible. To maximize value, the customer lists were made available for one-time rentals in the immediate near term to take advantage of high volume sales events at that time. In addition, the greatest value was realized in an outright sale of the customer database to other retailers. The estimated value of the customer database was approximately 10 per name for a total of roughly $1.25 million. However, ultimate value depended on a thorough analysis of the aging of the database.

***Farberware License:*** In an unusual twist, it was discovered that Service Merchandise had an apparently transferable license from Farberware (the cookware and kitchen accessories company). If the license was indeed transferable and saleable, value was estimated between $550,000 and $850,000. The license also included rights to certain other names, including Salton and Windermere. It must be remembered, and has been discussed earlier in this handbook at length, that the transferability/sale of licenses is problematic at best in a bankruptcy or reorganization. In the final analysis, however, the Farberware license was ruled not transferable and, therefore, no value was realized and the license reverted to Farberware.

***1-800 Jewelry Assets:*** This bundle of assets was unique in that it cut across several intangible asset types or classes including trademarks, domain names and communication assets such as telephone numbers. Service Merchandise traditionally had a very strong position in jewelry sales and was probably the number one online jewelry sales outlet. In addition to being one of the dominant national players in jewelry retailing, they engaged in online support for their jewelry operations. As a result of management's emphasis on jewelry, the company had assembled a bundle of assets related to its 1-800 Jewelry business and these had a great appeal to regional and national jewelry retailers. The assets were as follows:

- Two federal trademarks for 1-800 Jewelry;
- 10 domain names for 1-800 Jewelry and related domains;
- More than 20 other domain names registered for Jewelry Expert, Jewelry Authority, etc.;
- The rights to the 1-800 telephone numbers; and
- The rights to the customer list of jewelry purchasers.

*Contd...*

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The valuation of the assets had to take into consideration the liquidation context in which the company found itself. In a non-liquidation scenario, disposal of these assets in an orderly manner might have brought a cash sale well in excess of $500,000. However, the deep discounts brought about by liquidation reduced the valuation results to approximately $125,000.

The intangible asset team, after the inventory and valuation was complete, then moved to assist in the disposition of the assets. Over the following year, many of the assets described were sold, and the company was able to generate substantial value from them.

**Questions:**

1. Study and analyze the case.
2. Write down the case facts.
3. What do you infer from it?

***Source:*** http://www.consor.com/intellectual-property-advice/service-merchandise-case-study.html

## 12.4 Summary

- A planogram is often received before a product reaches a store, and is useful when a retailer wants multiple store displays to have the same look and feel. Often a consumer packaged goods manufacturer will release a new suggested planogram with their new product, to show how it relates to existing products in said category.
- Today, planograms are used in a variety of retail areas. A planogram defines which product is placed in which area of a shelving unit and with which quantity. The rules and theories for the creation of a planogram are set under the term of merchandising
- One can see the varieties of planogram results by simply visiting a local supermarket. The ultimate effectiveness of the planogram of course is always measured by sales volume.
- Small software packages on a lower price level can be used for a creation/drawing of shelving units with some basic features of planograming.
- Other software producers are concentrating on improving the rendering of planograms, in 3 dimensional perspectives for example.
- In the fashion sector, the approach is somewhat different as the "look" of the store is critical to sales conversions. Many planogramming software created for supermarkets and FMCG are not designed for this type of approach.
- Product development is a time consuming and costly process, for example it takes approximately nine months for Tesco plc to develop a new product.
- However, in a business environment where customers react favourably to new product ideas product development is essential if a retailer wishes to offer a wide variety of contemporary products to the customer.
- In a new-task situation, many product management personnel will be involved either directly or indirectly, whereas straight re-buys may well be carried out by one member of the team (the assistant buyer, for example).
- In retail buying, the user is a retailer's customer, or potential customer. It is difficult to involve customers directly in retail buying decisions, so a decision making unit must consult market research sources and retail sales personnel to obtain an accurate representation of the customer's viewpoint.

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## 12.5 Keywords

***Buying Committees:*** Group of individuals who represent both wholesalers and the retail chains that act as outlets for the wholesalers' merchandise and who decide by committee upon products to be carried (especially new products), store sales promotions, special offers, and other such matters affecting retail sales in the stores or chains represented.

***Group Dynamics:*** Group dynamics refers to a system of behaviours and psychological processes occurring within a social group (intragroup dynamics), or between social groups (intergroup dynamics).

***Logistics:*** Logistics is the management of the flow of resources between the point of origin and the point of destination in order to meet some requirements.

***Markdowns:*** Planned reduction in the selling price of an item, usually to take effect either within a certain number of days after seasonal merchandise is received or at a specific date.

***Market share:*** The percentage of an industry or market's total sales that is earned by a particular company over a specified time period.

***Markups:*** A percentage added to the cost to get the retail selling price.

***Merchandising:*** Merchandising is any practice which contributes to the sale of products to a retail consumer.

***Planogram:*** A planogram is a detailed and thoroughly thought-through map that determines where every product in an establishment should be situated.

***Price Elasticity:*** Price elasticity of demand (also called elasticity) is a measure of the consumer's sensitivity to price.

***Retailer:*** A business or person that sells goods to the consumer, as opposed to a wholesaler or supplier, who normally sell their goods to another business.

***Software:*** The programs and other operating information used by a computer.

***Unitary Elasticity:*** In a situation of unitary elasticity, the percentage change in price equals the percentage change in quantity demanded.

## 12.6 Review Questions

1. Define planograms.
2. Explain the merchandising with planograms
3. Discuss Market share placement – margin placement.
4. Highlight the evolution of planogram.
5. Write brief note on corporate design.
6. Explain logistics in merchandising.
7. What is buying committees?
8. Highlight the importance of group dynamics.
9. Describe the typical pricing decision flow chart.
10. "When assessing price elasticity of demand, one of three situations can occur." Elucidate those situations.
11. Describe the markups and mark downs in merchandise management.

Notes

## Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Planogram | 2. | Merchandising |
| 3. | Vertical | 4. | Turnover |
| 5. | Margin | 6. | False |
| 7. | True | 8. | False |
| 9. | True | 10. | True |
| 11. | Product | 12. | Balanced |
| 13. | Buyers | 14. | Price Discrimination |
| 15. | Horizontal | | |

## 12.7 Further Readings

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*Online links*

http://online.wsj.com/article/BT-CO-20120109-711221.html

http://retail.about.com/od/buyinginventory/a/receiving_3.htm

http://retail.about.com/od/marketingsalespromotion/a/product_pricing.htm

http://www.icmrindia.org/courseware/Retail%20Management/Merchandise%20Pricing.htm

http://www.pages.drexel.edu/~np44/DSMR432/DSMR432UnitII.pdf

**Notes**

# Unit 13: Private Label Brands

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## Objectives

After studying this unit, you will be able to:

- Determine the Historical Marketplace Dynamics
- Explain the Shift in the Private Label Paradigm
- Elaborate on the New Approach to Private Label Branding
- Discuss the advantages of Private Label Branding

## Introduction

The definition of private label branding has evolved significantly over time. Some would argue the term "private label" is a misnomer of great proportions. There is no question that the words "private label" acknowledges the birth, history and existence of generic and store brands. Yet, the term does not adequately capture the extent to which private label has progressed. Today's retail marketers are managing their proprietary brands with the same combination of care and innovation as manufacturers of national brands.

In recent years, retailers have been liberating themselves from the traditional definition of private label marketing as being the poor relative of national brand consumer goods, and, in doing so, opening up huge opportunities for private label branding. These opportunities require the adoption of a different set of marketing and branding practices to support and propel the retailer's business and marketing ideals for its private label brands.

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The key to successful marketing management for today's retailers is to understand the contribution and role of their proprietary or "own" brands in the long-term business strategy and marketing mix of the retail store and consider both the supply side and the demand side of the equation. Effective category management can enable retailers to solidify and optimize supply-chain relationships. Strategic brand management goes hand in hand with these endeavors to establish sustainable points of difference in each aisle and segment within the store. It also spurs decisions about how to appropriately define the retailer's "own" brand portfolio in order to galvanize consumers to connect and reconnect with its franchise in a compelling manner.

## 13.1 Historical Marketplace Dynamics

Private label brands were traditionally defined as generic product offerings that competed with their national brand counterparts by means of a price-value proposition. Often the lower priced alternative to the "real" thing, private label or store brands carried the stigma of inferior quality and therefore inspired less trust and confidence. Yet, they still grew and prospered by providing consumers lower priced options for what was often a low involvement purchase decision. Retailers continued to push more and more private label products into different categories of the marketplace because they represented high margins and the promise of profitability with little to no marketing effort.

Over the years, this proliferation of private label offerings perpetuated a myopic approach to private label brand management. Previously successful yet, currently flailing private label brands clued today's retailer into some important pitfalls to avoid in proprietary brand portfolio management. Most importantly, these examples underscore a need for private label marketers to be cognizant of how their initiatives play a role in the overall marketing mix and the long-term definition and impact of their portfolio.

Historically, private label retailers appreciated that it was important to tout certain category and product benefits to incite consumers to purchase. Yet, rather than look at the consumer directly to understand his brand and product selection criteria, they took their cues from the national brand competitors that had already identified and manifested some of the category's salient attributes and benefits through advertising, packaging and other brand messaging. The result was often a series of "me-too" private label positioning that strived to emulate the category leader.

This approach to private label management had resounding impacts on a category as a whole as well as the individual product offerings within it. By commoditising their private label products, retailers undermined and commoditised a category's overall potential. They adopted the role of the omnipresent, cheaper choice and often forced branded competition to lower their prices to compete, thereby erasing margins for national products and private label alike. It also created missed opportunities for all category players (manufacturers, suppliers or retailers), since they were not considering latent or untapped consumer needs that their category had the ability to fulfill.

### Self Assessment

State whether the following statements are true or false:

1. Private Brands generally had high quality products.
2. By commoditising their private label products, retailers undermined and commoditised a category's overall potential

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## 13.2 Shift in the Private Label Paradigm

Private label brands have clearly become a more instrumental priority for today's retailers. They are starting to diversify their offering beyond the expected, enabling them to compete more effectively in existing product categories and foray into new and different product categories that have traditionally been dominated by national brand players.

In many instances, private labels have surpassed a national brand's capacity to deliver on visibility, consumer interest, involvement and appeal. Proprietary brand decision makers are often able to command close to parity or parity pricing for their products, without articulating cost as the differentiating factor. This represents a point of departure from the past: there is an acknowledgement that today's proprietary brands have the ability to transcend the negative baggage and problems of traditional store brands, creating unique, resonant benefit propositions for consumers.

Retailers are beginning to recognize that they cannot simply rely on national branded products to draw consumers into their stores and sustain loyalty. This is due to the fact that manufacturers' product brands often have the ability to transcend geographic location, distribution channel or retailer (e.g., Bounty paper towels are available at a wide array of grocery stores, drug stores and mass merchandisers across the United States.) Due to this pervasive presence of national brands, consumers need not have a strong relationship with a particular brick-and-mortar store setting to have access to these products. It is only the proprietary brands, exclusively available at a specific retailer that can be a magnet to draw people into its store versus others and accrue direct meaning and loyalty to the overarching banner.

*Notes* Private label products have driven branded manufacturers to cut down their prices, be innovative, thus, in all sense, private products are today a big influence on the current brands today.

### Self Assessment

Fill in the blanks:

3. Retailers are beginning to recognize that they cannot simply rely on national branded products to draw ..... into their stores and sustain loyalty.
4. Private label brands have clearly become a more instrumental priority for today's .....

## 13.3 Brands Take a New Approach to Private Label Branding

There are certain contemporary brands that have either been placed on a pedestal or carefully noted by retail marketers and consumers alike. Their situations and strategies start to lend insight into a more compelling definition for a retailer's proprietary brand offering and more importantly, a sense of how to optimize success as an exclusive, proprietary brand.

It is worth mentioning that these examples are mostly in grocery and mass, however, they still inform and enlighten the strategic approach of other types of retailers including drugstores and department stores.

Retailers in the United Kingdom have been private label innovators in many respects. Take the supermarket landscape as a case in point. Since, the UK consumer buys a significant proportion of his weekly purchases from one store, the competitive focus is at the store level and this is

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where it has been imperative for retailers to create a persuasive consumer connection. In order to accomplish this objective, retailers have had to elevate themselves above competitive retail outlets by having a comprehensive offer. They would develop their portfolios and provide proprietary products in categories where national brand manufacturers' offerings did not suffice.

Perhaps the strongest success story in this regard was that of the Marks & Spencer brand in the late 1980s and early 1990s. This was a clothing retailer known for good basics that complemented its offering with proprietary branded food products. Quality was the cornerstone of the food product range and the only brand provided was its proprietary label. Mainstream retailers could neither emulate Marks & Spencer's premium quality, nor its price.

*Did u know?* In 1998, Marks & Spencer became the first British retailer to make a pre-tax profit of over £1 billion.

A key learning from this retailer's situation is that it grew its private label brand according to the industry's traditional approach and failed to build proprietary products on the platform of a real consumer need. As a result, it has been forced to look elsewhere to fill these needs. It has reversed its limited value private label strategy to invite Starbucks to run its coffee shop, Yo Sushi (a well-known High Street sushi brand) to provide ready-meal sushi. The retailer has a licensing relationship with popular chef, Jamie Oliver, borrowing from his expertise and charisma in food and cooking to increase sales volume and interest. While this overall strategy is far more consumer driven, it has abdicated the advantage to the competition who, through their successful customer-focused private label brand development, have much more profitable relationships with manufacturers.

It is conceivable that retailers who reached this point were taking private label success for granted and not being fully cognizant of the resounding long-term impact of their private label brand development. The fact that they were providing branded products that emulated manufacturers' product in terms of quality and price and at the same time were delivering much better margins fueled their portfolio expansion. Yet, for some this heralded the beginning of the end of the traditionally branded good. There was, it seemed, nothing that could not be privately labeled. A proprietary branding phenomenon that had started in limited product categories like fresh produce had expanded out to cake mixes, cookies, pet food, pharmacies, coffee shops, and even, financial services.

Meanwhile, Tesco, Sainsbury's nearest rival had been developing its offer using a different tack: carefully segmented private label echelons and ranges. Tesco has a value selection for cheaper commodities categories. Yet, this value brand was not manifested as the generic, store brand of the past. The critical point of difference with these products is that they are defined less by which manufacturer gave the retailer an opportunity in a certain product category and more by what a working class family on a tight budget would need to get by.

Concurrently, Tesco created an organics line, a kid's line and, perhaps most impressively, the Tesco Finest sub-brand. Tesco Finest started in ready meals and chilled foods, where the retailer has a natural advantage (these products are difficult to prepare and distribute). Integral to its success was its very high premiumness. The exceptional price and quality were well received by the higher end consumer. It was also evident that Tesco Finest was an encompassing proposition and could stretch into other categories. But rather than trying to rule the world, Tesco selectively ventured into those specific areas where it could add value.

High-end cookie tins, which are popular Christmas gifts, are a good example. Tesco was smart to recognize that manufacturers were struggling to add value in this seasonal, yet, premium playing field because branded products deemed suitable for everyday consumption dominated the category. Tesco Finest was able to compete here because, as a brand, it had more permission

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to extend into the premium sector. In view of that, its Tesco Finest cookie ranges have been a big success.

Underpinning Tesco's winning private label strategy was spectacular packaging design across the entire range. For instance, Tesco Finest packaging was in silver boxes that were very premium looking with first-rate product photography. There was also a section of the aisle dedicated to the range. It was well marketed and supported from start to finish.

Of course, Tesco's was not baking its own cookies. It was sourcing them from the very manufacturers with who Sainsbury's was looking to compete. However, Tesco was offering to buy at wholesale those products that the branded manufacturers would struggle to sell.

Similar to Tesco in the UK, Canada's largest food retailer, Loblaw's is also a trailblazer in the private label arena. It too perpetuated a segmented strategy for its two proprietary brands. Together, its No Name and President's Choice proprietary portfolios have over 5000 SKUs. The No Name brand is its multiple category, competitively priced, value range of products. President's Choice, on the other hand, is a complementary, higher end private label brand that has premium imagery and a commitment to taste appeal and quality that inspires unquestionable loyalty to its retailer.

Retail marketers often cite President's Choice as a shining example in the area of exceptional private label product quality. This is evidenced by Loblaw's commitment to the innovation and creation of a superior tasting, excessively chocolaty, chocolate chip cookie that fulfilled a marketplace desire for a rich and indulgent consumption experience. By looking at consumers' needs wants and desires rather than manufacturers' existing products for success cues, President's Choice was able to develop its own unique cookie product that carved out a niche in the category by resonating with consumers in a way that its national brand competitors had not considered.

This visible shift to a consumer-centric brand definition gave President's Choice believability and a point of difference that enabled it to stretch to new and different product categories. It is now considered a premium brand that transcends food, paper goods, hair care and even plays credibly in discrete categories like financial services.

In the US, Trader Joe's is a prime example of a retail brand that uses multiple best-practice strategies for its proprietary portfolio offerings. While Trader Joe's may be considered small in reach when compared to other food retailers, it is clear that this brand has been developed around its target audiences because it galvanizes a cult-like following of loyal gourmet food enthusiasts.

The supply side of the coin is as interesting to note as the consumer demand side. Trader Joe's should be admired for its ability to manage and sustain powerful relationships with manufacturers and suppliers. It purchases in bulk from manufacturers whenever possible and does not mandate slotting and promotional allowances from partners.

In addition, a clear commitment to superior product, a store environment that furthers the brand proposition and well defined merchandising strategies round out the strategic direction of this retailer.

*Did u know?* Trader Joe's private label offering contributes powerfully to its brand proposition; approximately 85 or 90% of store offering is private label, there are about 2,000 SKUs in the portfolio, and sales per square foot are more than twice that of supermarkets and three times that of other specialty stores.

One proprietary branding approach that is worthy of note is that of the upwardly mobile Target brand. One of the many reasons Target resonates with its consumers is by borrowing equities

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from design and lifestyle personalities like Michael Graves, Isaac Mizrahi and Cynthia Rowley in various parts of its store. The retailer has lines from each of these individuals and their allure and expertise provide a sense of contemporary relevance for consumers. Like an exclusive or proprietary brand, these brand personalities infuse meaning into the overarching Target promise and experience.

The tactic of exclusive offerings is something that has been apparent in department stores for a long time. If one is browsing through the INC or Alfani racks for work attire in a Federated Department Store like Macy's, there is rarely a concern that the clothes are going to be substandard when compared to other fashion brands offered in adjacent sections of the store. More often than not, consumers engage with these brands in the same way they identify with other fashion brands of the same caliber. The fact that INC and Alfani have crafted a credible and relevant standing in the minds of their consumer following is important. But of greater significance is the knowledge that consumers who are exclusively loyal to INC and Alfani consider Federated Stores the sole outlets that offer them access to these favored work wear brands.

There are also countless brand success stories outside of the immediate industry that can provide insight and inspiration for proprietary brand managers. NBC (the National Broadcasting Company), for instance, embodies Maslow's hierarchy of needs in the way its brand is manifested and expressed for its target audiences. It not only connects with consumers through its varied television programming and celebrity personalities, but it occupies a compelling place in their lifestyles. There are many Americans who religiously start off each morning with coffee, breakfast and the "Today Show" or who rally their regular Thursday night ritual around "Must See TV". Like the NBC brand, proprietary brands have a similar capacity to not only carve a place in consumers' hearts and minds but in their everyday lives as well.

*Task* Go to a nearby Retail Store and finds details about their "Own" brand products.

### 13.3.1 New Approach to Private Label Branding

In order to be truly successful, retailers must advance from the generic or store brand mindset of the past to a new private label paradigm. Many retailers have begun to describe their private label brands as "own" brands because there is recognition that these proprietary, exclusive offerings are tools that represent momentous power and potential for the retail store.

The term "own" brands acknowledges that today's visionary retail marketers have powerful proprietary portfolios that they control and manage and there is potential to reap bigger and better rewards by taking a closer look at the way they orchestrate the role and expression of these brand offerings in the eyes of consumers in each product category. Those retailers who appreciate the magnitude of this brand opportunity have created a new industry standard in their realm of influence and activity.

*Caution* Private labels have not been too keen on innovation. They mostly try to imitate national brand competitors rather than looking at consumer needs directly.

"Own" brands are articulated and developed in a way that they not only fit with the brand promise of the retail store, but if effective, they also give consumer drivers a key point of departure to enhance and celebrate the overall retail brand proposition to keep consumers coming back for more.

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### 13.3.2 Implications for Retail Marketers

1. Collaborative category management is vital. Strategic category management is instrumental for a retailer to realize its "own" brand goals and aspirations. It requires the development of a symbiotic relationship with manufacturers and/or suppliers to elevate relationships and further a mentality of partnership.

   Contrary to the previous mindset of private label management, this approach does not commoditise the manufacturers' brands by offering a comparable product at a significantly lower price point. This would undermine the value inherent in the whole category and lower margins overall.

   In this new way of thinking, the retailer and trade partnership becomes more about cooperation and less about the retailer negotiating with the manufacturer or supplier on price and listings. By working together, the parties involved can solidify trade relationships and ensure that the category as a whole remains profitable and emotionally appealing to the customer so that both private label and branded goods win.

   In the spirit of effective category management, there should be collaboration in understanding and deciding how to optimize the product lines and SKUs that will progress the category definition as a whole and determine planagrams and shelving scenarios to rally the greatest degree of category interest and excitement from consumers.

2. Recognize that a salient consumer need should be the springboard for an "own" brand proposition. The "own" brand promise should be defined as a holistic representation of resonant functional and emotional attributes and benefits. This ensures that it takes into account need states that are important to consumers and offers a credible point of difference from other category players.

   By crystallizing a differentiated value proposition, an effective "own" brand considers the approach that national brands use to arrive at a holistic benefit proposition rather than the specific positioning they use. This furthers an "own" brand promise that has been informed by the competition, but is clearly not a "me-too" expression. It is also successful because it demonstrates a commitment to offer consumers multiple options and varieties with distinct attributes, benefits and price points.

3. Do not underestimate your power to leverage and own the consumer connection. A successful "own" brand literally has the ability to own the consumer connection. If it is broadly defined, it has the capacity to strike a chord with consumers in multiple product categories.

   Unlike national branded products, "own" brands are exclusively available through a specific retailer and can often transcend specific product categories because they use a consumer focus rather than a product focus as their brand foundation.

   They have the potential to be magnets that draw consumers into one specific retail store over another. Take Walmart's success with its exclusive brands like Ol'Roy for dog food or Reli-On for diabetes. These brands inspire such trustworthiness and allegiance from their loyal consumers that Walmart is their premeditated retail source whether they are running low on dog food or diabetes medication.

   The exclusive brands may be the reason that consumers are initially drawn into the store, but once they are there, Wal-Mart also has the opportunity to encourage them to spend more on incidental or impulse purchases.

   Therefore, exclusive or "own" brands not only reinforce enduring loyalty and positive feelings for the overarching retail brand, they often enable the retailer to capture a more

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significant share of the consumers' wallet, heart, mind and lifestyle than a national product brand.

4. Optimize and promote synergies of the points of touch you own and influence. Retail marketers are becoming more cognizant of how various aspects of their "own" brand marketing mix work together to create a strong, consistent brand message.

   By developing store environments, in-store messaging like signage, merchandising systems, and packaging as well as external messaging like circulars, catalogs and advertising in a congruent manner, the retailer is able to create an enduring impression in-store, at shelf, at the time of purchase and during usage.

*Caution* Many of these brand expressions do not require revolutionary change for extended periods of time, so they perpetuate an eloquent branded voice because of strategic integration rather than constant investment and reinvestment.

5. Strike the right balance of similarities and differences with brand messaging and portfolio offerings. Brand architecture is a critical consideration for "own" brand marketing. Once the brand proposition is solidified, the brand architecture strategy enables decision makers to promote this promise at the retail store level in order to engender a sense of familiarity, recognition and trust.

   At the same time, "own" brands tend to straddle a broader set of aisles than national brands. Because of this, it becomes more and more important to differentiate an "own" brand's attributes and benefits on an aisle, category and product basis.

   For instance, when shopping at a drugstore, the consumers' purchase decision pathway in the over-the-counter cough and cold care category is quite distinct from their drivers in the paper goods category. Brand architecture and design expression can help the consumer navigate the breadth of the "own" brand portfolio and understand its depth of expertise in different areas of the store.

6. Calibrate the "own" brand promise and the proof in the product. It is important to consider how package design, nomenclature and product strategy can propel and support the retail marketer's vision for the "own" brand promise.

   Rebranching efforts often go hand in hand with packaging redesign and sub-branding initiatives. These are critical tools that help to visualize and verbalize what the "own" brand stands for and demonstrate its expertise and points of difference in various product categories. These brand executions are the vehicles through which "own" brands deliver on category-mandated functional and emotional virtues, spurring consumers to select the retailer's brand over others.

   However, decorative packaging and product names are not enough for today's sophisticated shopper. The packaging may be the reason that a consumer picks a specific item off the shelf, but if the product does not live up to his anticipations in use, he will be less inclined to repurchase.

   Product quality and innovation are a necessary functional underpinning for an "own" brand offering. This is the reason that re-branding efforts are often synchronized with product portfolio rationalization. By undergoing quality assessments, the retailer is able to ensure that its products live up to consumers' expectations and that negative consumption experiences do not undermine the brand promise that is being developed and executed.

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*Caselet*

## Sainsbury's Brand Relaunch

In June 1999, Sainsbury's unveiled its new corporate identity, which was developed by M&C Saatchi, which consisted of the current company logo (right), new corporate colours of "living orange" and blue, Interstate as the company's new general use lowercase font from the old all uppercase font, the new slogan "Making life taste better", which replaced their old slogan from the 1960s and new staff uniforms. The strapline was dropped in May 2005 and replaced in September of that year by "Try something new today." This new brand statement was created by Abbott Mead Vickers BBDO. While the Interstate font was used almost exclusively for many years, the company introduced another informal font in 2005 which is used in a wide range of advertising and literature.

In 1999, Sainsbury's acquired an 80.1% share of Egyptian Distribution Group SAE, a retailer in Egypt with 100 stores and 2,000 employees. However poor profitability led to the sale of this share in 2001. On 8th October 1999, the CEO Dino Adriano lost control of the core UK supermarket business, instead assuming responsibility for the rest of the group. David Bremner became head of the UK supermarkets. This was "derided" by the city and described as "fudge". On 14th January 2000, Sainsbury's reversed this decision by announcing the replacement of Adriano by Sir Peter Davis effective from March.

***Source:*** http://en.neko.wordview.org/wiki/Sainsbury%27sv

### Self Assessment

Fill in the blanks:

5. For Marks and Spencer, ..... was the cornerstone of the food product range and the only brand provided was its proprietary label.
6. Underpinning Tesco's winning private label ..... was spectacular packaging design across the entire range
7. In order to be truly....., retailers must advance from the generic or store brand mindset of the past to a new private label paradigm.
8. Collaborative ..... management is vital to retail marketers.
9. A successful "own" brand has the capacity to strike a chord with ..... in multiple product categories.
10. Exclusive or "own" brands reinforce enduring ..... and positive feelings for the overarching retail brand.

## 13.4 Advantages of Private Label Branding

According to a 2008 report by the global business advisory firm AlixPartners, from 1997 to 2005, the sales of private label brands grew at twice the rate of national brands. Private label products are on average about 30 percent lower in price than national brands, according to Packaging Digest. Store label merchandise, however, is slowly moving away from being considered solely as a cost savings to consumers over national brands. Once viewed as second-class alternatives, they are now bridging this gap by delivering quality comparable with national brands.

1. ***Control:*** Private labels offer retailers control over product factors such as pricing, size, package design, production and distribution. Retailers can build up and implement

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innovative ideas to gain market share over national brands. This includes the ability to make nippy adjustments to products based on customer's changing preferences. "The food industry is seeing a heated battle for market share," says David Garfield, Managing Director and head of AlixPartners' Consumer Product Practice. According to an AlixPartners 2011 report, this battle will continue as consumers choose value over brand loyalty.

2. ***Branding:*** Successful private label brands will be able to create better sales opportunities for retailers. The customisation of store brand labels, such as to logos and tag lines, can personalize a customer's shopping experience that can lead to higher customer loyalty.

*Example:* Supervalu's Wild Harvest organic food line offers its customers healthy food options at low prices with sophisticated package design that rivals that of more exclusive national brands.

3. ***Structural:*** Unlike national brand labels, retailers with store labels can mould the shopper's in-store experience. This might translate into marketing advantages gained from in-store placement of private label products and signage.

*Example:* Retailers can use horizontal shelf displays techniques, such as brand blocking, and end-cap display fixtures to make private labels stand out from national labels.

4. ***Value:*** While value is not the only reason consumers consider when choosing private label brands, it still remains an important one. "The need for affordable packaged goods solutions is high, and private label products are going a long way toward answering that need," Thom Blischok, Consulting and Innovation president at Information Resources Inc., told Packaging Digest. The most significant advantage of store brand labels during economic downturns is that price gains importance as consumers increasingly turn to money-saving strategies like increasing private label brands to manage budgets.

### Self Assessment

Fill in the blanks:

11. Store label merchandise, however, is slowly moving away from being considered solely as a cost savings to consumers over ..... brands
12. Successful private label brands will be able to create better ..... opportunities for retailers.
13. The most significant advantage of store brand labels during economic ..... is that brand gains importance as consumers increasingly turn to bigger brands.

## 13.5 Buying Private Labels

Private label goods are products sold by retail stores that are also produced by the same retail store. For example, Ralph's supermarket will sell Tropicana orange juice and right next to it will sell its own brand of orange juice. Private label products are always less expensive than brand name products because they need to be able to compete with the big brands. They save money by not having to spend money on distribution channels and advertising since they have their own.

In the past, private label brands have been seen as inferior to brand name products. More recently however, private label brands are growing in popularity most likely due to the economy and growing trust in private labels. One of the first very popular private label brands that I can

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think of is Kirkland. Kirkland is Costco's private brand. They create the products themselves and sell it right next to the national brands in Costco retail stores. Kirkland makes everything from vitamin supplements to apple juice. Kirkland has become extremely popular and consumer trust in private labels has grown and grown.

One of the biggest hurdles private labels had to jump was gaining consumer trust. Generally, they have succeeded in this task. To save money, I have been buying private label brands for a little while now. They are generally 10-20% less than national brands and are almost identical. If you have your favorite item by a national brand that you absolutely love, by all means buy it. However, most products there will be little to no difference in quality. Go ahead and try it out. Buy your favorite national brand product and buy one of the private label products and test the difference. I'm certain you will be pleasantly surprised. Saving 10-20% on half the products you buy at stores will save you a ton of money by the end of the year.

Typically, private label brands are referred to the mass FMCG (Fast Moving Consumer Goods) distributors' labels, for example: Wal-Mart, Tesco, Aldi and Carrefour. However, the category also includes the single-brand retailers, such as the internationally well known IKEA, Zara or H&M. According to Kumar and Steenkamp (2007), there are four types of private labels: generics, copycats, premium store brands and value innovators.

Generic private labels most often cover the basic functional (low involvement) product categories, such as paper towels, soft drinks, pet food, everyday canned foods, etc. They do not carry the name of the manufacturer or retailer and are mainly positioned at the lowest possible price. Generic private labels are low quality, undifferentiated products, usually offered in one size and one variant only, less visible on the shelves, and rarely promoted. Moreover, usually their packaging is created of black letters on a white background. Copycats are of quality close to branded manufacturers' products and sold with a discount of usually 5-25% compared to the brand leader. Very often copycat brands are produced intentionally to be as similar as possible to their branded counterparts (even in their packaging), and that might confuse the customers.

The continued importance of so-called Private Label products to leading retailers is undeniable. Based on the most recent reports, these products are continuing to generate more growth than traditional national brands among major chains for nearly every category. Perhaps more importantly, more than half of all consumers believe that retailer-sponsored products are "at least as good as" nationally branded products and 48 percent say they actually prefer and seek out private brands.

There are three basic reasons for the development and growth of store brands:

1. ***The shift of power from national brand marketers to national retailers:*** Prior to the days of modern distribution capabilities and multi-market promotional capabilities, national brand marketers had the border and the muscle to divide and conquer retailers who were not able to amass large amounts of purchasing power to demand lower prices. In the U.S., Wal-Mart (in fact, following the Sears model) forever altered the landscape by leveraging massive buying power through a single point of purchasing.

2. ***The ready availability of high quality, low priced private label production capacity:*** Most of the early private label sales did not come at the outlay of nationally branded, highly marketed products. Private Label fed on regional or under promoted price brands. As "own brands" increasingly encroached upon these businesses, company owners quickly offered up their manufacturing capacity for private label products (such as Royal Crown Cola switching its capacity to President's Choice). Once retailers found they could usurp the placement of third, fourth and fifth brands – not to mention their production capacity – they became more aggressive about seeking more of these opportunities. As global logistics came to the fore, this added inexpensive and high quality capacity for everything from food to automobiles.

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3. The third key driver for the enlargement of private label is the historical perspective of key retailers that a strong "house brand" that consumers could only purchase at their store would drive loyalty (i.e., the aforementioned Sears and Tesco). Ultimately, any retailer wants to maximize customer loyalty (share of retail visits) and revenue (share of wallet). Brands that can be purchased exclusively at their stores can accomplish both those objectives, many times in tandem with improved profitability.

Retailers develop and market their "own" brands or "private label" as the ultimate guarantee of obtaining customer loyalty in an extremely competitive market, resulting in more trips and an increased share of wallet.

That being said, private label brands are in the middle of a major retail transformation for which the ultimate end-game has not yet been determined. Leading retailers of nearly all but the smallest sizes are investing more of their time and marketing dollars in the development of "private label" brands. The goal of this increased spotlight is both a growth (loyalty building) and survival tactic (owning an equity or line of products that differentiates them from larger competitors). Most retailers are either in the process of refining their "own brand" strategies or focusing on positioning their lines to maximize loyalty, competitive differentiation and share of wallet.

The most that can be said with belief is that the retail and brand landscape, particularly with the exponential growth and purchase influence of the Internet, will continue to be extremely fluid and dynamic and will drive winners and losers. Those without an evidently articulated strategy – supported by the appropriate levels of investment and organizational support – will suffer greatly.

### What to Do About It?

1. ***Eliminate the use of the term "private label":*** It is a frequently irrelevant term increasingly not used or applied by consumers. In place of stating that "Kirkland" is Costco's private label brand, consumers are more likely to state that "Kirkland" is exceptionally good brand that one can only seem to find at Costco.

2. ***No more doing it on the cheap:*** If consumers recognize little or no difference between national and "exclusive" brands, they will hold your retail organization to the same standard as for national brands. This means that in nearly all cases there is no more "doing it on the cheap." A brand recall, inconsistent quality, lack of follow-on product support, poor brand positioning, bloated lines with distracting SKUs have an increasing collision on the image of and loyalty to your chain, not just for your "private label." The two are inextricably linked. The result is that you must manage your "own" brands as if they are truthfully national brands with the same level of expertise and sophistication.

3. ***Develop holistic brand marketing and merchandising strategy:*** It is very important to create a compelling holistic brand strategy that considers current industry trends. Many national brands sell 25 percent or more of their products to just one or two retailers. Will all of them survive in their current format? Consider your options. If the retail world is moving to its own brands, should you believe stronger strategic alliances with national brands that hold high brand equity but which are under significant retail pressure?

4. ***Think Internet and distribution:*** If you have created a brand with well-built individual equities, it may have a larger profit opportunity outside the walls of your stores. Brands are sold in more channels, particularly on Internet sites. Walmart.com, Amazon.com, E-Bay and other internet retailers are the sales agents for more brands than you might think – and that won't change. It's important to comprehend how to take advantage of this fact instead of being a victim of it.

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5. ***Keep in mind that history repeats itself:*** Leading retailers such as A&P, Kroger and Sears have all practiced challenging periods over the past 50 years – some of which was specifically attributed to an overreliance on their "own" brands (primarily due to perceived advantageous profit margins) versus national brands that innovate and, most outstandingly versus customer service. At times they were considered outlets for their own brands more than consumer-centric retailers dedicated to fulfilling customer needs.

In order to get ahead and stay in advance of the "private label" evolutionary curve, it is key to develop a coherent holistic strategy that takes into account the current market fluctuations and as well as the yet-to-be defined outcomes. If you are going to be your own brand marketer, you must adopt the more sophisticated techniques of SKU optimization, line management, brand equity evaluation, consumer expressive and rational feelings and innovation to compete on a parallel basis with the best and most innovative brand marketers – because your customers expect you to. The changing landscape will generate sometimes surprising winners and losers because marketing is a combination of discipline and imaginative innovation – some of which fits within the context of a retail environment and some of which is antithetic to it.

### 13.5.1 New Paradigm of Private Label

In the past, private label was a moniker for consumer products that were lower priced and lower value. Retailers fostered them as they represented a growth engine because of high returns in terms of margins and profitability on a relatively small investment.

As the industry continues to advance, there is increased acknowledgement that this approach to private label management may allow for near-term gain, but can have a detrimental impact on a retailers' long-term success.

There has been a rapid shift in mindset about the role and requirements for today's private label brands. Retailers are evolving to a new definition and greater focus for these proprietary offerings to elevate their stature and influence on the current and future business strategy.

Today's private label brands need to embody the attitude and demeanor of an "own" brand. "Own" brands are relevant to the broadest set of audiences. The trade feels an affinity and desire for the "own" brand to prosper. The consumer is loyal to "own" brands and seeks them out as an integral part of his/her lifestyle. The retailer celebrates and nurtures the "own" brand as a vital embodiment of its brand proposition that will build and sustain a greater degree of loyalty.

This new paradigm of private label thinking requires that retailers consider an arsenal of often-overlooked business and branding tools to further success.

*Notes* Category management and brand management must work together to fuel the marketing strategy. One cannot replace the other. Both product and positioning points of difference set the "own" brand apart in consumers' minds. A consumer-centric approach is at the heart of "own" brand development and elevates above the product-centric thinking of the past.

In order to have a consistent and compelling brand voice, retailers need to understand the contribution and role of proprietary or "own" brands within their business and also within the lives of their consumers. "Own" brand products, branded communication and expressions should all be developed in accordance with this thinking.

When "own" brands are appropriately created and steered, they have the potential to reach their pinnacle of success. In doing so, they create a persuasive connection with consumers, drawing them into a retail store, but more importantly, becoming an essential, experiential and indispensable lifestyle choice that they embrace over the long-term.

## Self Assessment

Notes

State whether the following statements are true or false:

14. In order to have a consistent and compelling brand voice, retailers don't need to understand the contribution and role of proprietary or "own" brands within their business.

15. Private label was considered a moniker for consumer products that were lower priced and lower value.

*Case Study*

### Private Label Strategy

An international multi-line retailer with over 1,000 store locations introduced a new private label product in a limited number of stores in order to evaluate its effectiveness across a number of key dimensions.

1. The APT client decided to evaluate the product within two different in-store merchandising contexts. The retailer wanted to evaluate the effectiveness of different store signage in driving sales and the relative impact of end-caps that varied by format type and store location.

2. Using a rigorous Test & Learn™ process, the client was able to quickly and reliably assess the impact of the new product on the entire store.

3. The difference between the two formats was dramatic and led to immediately actionable recommendations regarding investments in both in-store signage and end-cap displays.

**The Company**

An international multi-line retailer with over 1,000 store locations.

**The Challenge**

To optimize performance, the APT client decided to evaluate the product within two different in-store merchandising contexts. Format A was a much smaller format with a more narrow overall range of SKUs, while Format B carried the company's entire product range. The retailer wanted to evaluate different in-store merchandising approaches at both types of stores in order to determine the best signage and end-cap strategy for the product introduction and whether the strategy should differ by store format. Specifically, the retailer wanted to evaluate the effectiveness of different store signage in driving sales and the relative impact of end-caps that varied by format type and store location.

**The Solution**

To do this, the leading national retailer used APT's Merchandise Optimization solution to set a reliable baseline for comparison – a control group of stores – that enabled data analysts to isolate and quantify the impact of the new private label product on category sales. Using a rigorous Test & Learn™ process, the client was able to quickly and reliably assess the impact of the new product on the entire store.

In this case, the cannibalization impact of the Private Label product was smaller than expected, suggesting an aggressive promotion strategy that might spur additional sales of the new item. The high level of statistical significance reported on each factor provided management with a high level of confidence in the potential of the new product to drive incremental sales and increase margin.

*Contd...*

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With respect to the display's placement within the store, the retailer was again able to identify a clear and measurable difference between the two alternative merchandising strategies. End-caps adjacent to the product aisle were largely ineffective, whereas nonadjacent end-caps performed very well. These combined insights led to a customized and highly-effective strategy for launching the private label product based on differences in store format.

In support of the new product launch, the retailer sought to experiment with a substantially higher level of Internet Search advertising than had been used in the past. Using the APT Suite, the private label product team examined the impact of these search ads, which ran only on certain days and in certain targeted markets, and measured both the absolute impact of the Internet campaign on incremental new product sales, as well as increased consumer awareness maintained during the period of "off advertising."

In addition to understanding overall performance of the Internet campaign, the APT tools provided the client with the ability to break down the overall result and identify specific markets and customer groups that responded most positively to the new private label product message.

The media-driven insights provided the Private Label team with the information necessary to better target their search advertising and achieve a higher ROI than would have otherwise been possible. APT's Customer Subgroup Analysis allowed the company to break down the results and identify the demographic correlates of Internet advertising performance. Specifically, the advertising was demonstrated to be far less effective in areas with low population density, such as non-urban environments. With the demographic data in hand, the private label team had additional options for retargeting Internet content to expand appeal and target spend in communities with greater overall media support ROI.

**The Results**

The difference between the two formats was dramatic and led to immediately actionable recommendations regarding investments in both in-store signage and end-cap displays. Specifically, the test revealed that:

The product performed measurably better in the store format with a more narrow range (Format A).

Format A stores received far less benefit from additional signage when compared to the larger, more extensively ranged (Format B) stores.

Thanks to this ability to quantify the overall returns on the signage investment, the company was able to make a highly informed, strategic decision regarding where to invest in additional signage. Likewise, measuring the impact of the end-cap display provided useful information to inform the roll-out. The end of aisle display was very effective in the narrow range, small format stores, driving significant incremental sales, but end-caps had negligible sales impact in the larger Format B stores.

**Questions**

1. Analyze the case and explain the process for buying the private labels.
2. In your opinion, what are the various support services for buying the private labels.

***Source:*** http://www.predictivetechnologies.com/en/index.cfm/solutions/restaurants/business-issues/menu-innovation/menu-innovation-case-study

## 13.6 Summary

- Private label brands were traditionally defined as generic product offerings that competed with their national brand counterparts by means of a price-value proposition.
- Private label brands have clearly become a more instrumental priority for today's retailers.

Notes

- In many instances, private labels have surpassed a national brand's capacity to deliver on visibility, consumer interest, involvement and appeal.
- Retailers are beginning to recognize that they cannot simply rely on national branded products to draw consumers into their stores and sustain loyalty.
- The visible shift to a consumer-centric brand definition gave Private label brands believability and a point of difference that enabled it to stretch to new and different product categories.
- In order to be truly successful, retailers must advance from the generic or store brand mindset of the past to a new private label paradigm.
- The term "own" brands acknowledges that today's visionary retail marketers have powerful proprietary portfolios that they control and manage and there is potential to reap bigger and better rewards by taking a closer look at the way they orchestrate the role and expression of these brand offerings in the eyes of consumers in each product category.
- Strategic category management is instrumental for a retailer to realize its "own" brand goals and aspirations.
- "Own" brands not only reinforce enduring loyalty and positive feelings for the overarching retail brand, they often enable the retailer to capture a more significant share of the consumers' wallet, heart, mind and lifestyle than a national product brand.
- Product quality and innovation are a necessary functional underpinning for an "own" brand offering.

## 13.7 Keywords

***Brand Portfolio:*** It is the total collection of trademarks that a company applies to its products or services. Each make or brand within a business' brand portfolio might be registered under applicable trademark laws and can represent a valuable asset to a company that is often actively promoted to potential customers.

***Collaboration:*** It is a recursive process where two or more people or organizations work together to realize shared goals.

***Innovation:*** It is the development of new values through solutions that meet new requirements, inarticulate needs, or old customer and market needs in value adding new way.

***Paradigm:*** A set of assumptions, concepts, values, and practices that constitutes a way of viewing reality for the community that shares them, especially in an intellectual discipline.

***Profitability:*** The state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.

***Proprietary:*** This means belonging or controlled as property.

***Quality:*** The standard of something as measured against other things of a similar kind; the degree of excellence of something.

***Rebranding:*** It is a marketing strategy in which a new name, term, symbol, design, or combination thereof is created for an established brand with the intention of developing a new, differentiated identity in the minds of consumers, investors, and competitors.

## 13.8 Review Questions

1. How private label brands were considered in past?
2. How has the approach to the private label brands have changed in recent times?
3. Elaborate on the shift in the private label paradigm.

Notes

4. How Tesco did took advantage of its private label brands?
5. What do you mean by "Own" brands? Explain.
6. What are the implications for the retail marketers?
7. What are the advantages of the private label branding?
8. Are proprietary brands different from private brands? Explain
9. How can "own' brands bring profit to the firms?
10. Does "own" brands ensure quality? If yes, How?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | False | 2. | True |
| 3. | Consumers | 4. | Retailers |
| 5. | Quality | 6. | Strategy |
| 7. | Successful | 8. | Category |
| 9. | Consumers | 10. | Loyalty |
| 11. | National | 12. | Sales |
| 13. | Downturns | 14. | False |
| 15. | True | | |

## 13.9 Further Readings

*Books*

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Diamond, Jay (2012), *Retail Buying,* Prentice Hall.

Field, Clifton Coutard (2010), *Retail Buying; Modern Principles and Practice.,* General Books.

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Varley, Rosemary (2013*), Retail Product Management: Buying and Merchandising,* Routledge.

*Online links*

http://business.inquirer.net/90718/how-should-we-respond-to-the-growth-of-private-label-brands

http://pacificstrategy.com.au/industry/consumer-goods/featured-thinking/private-label-changing-competitive-dynamics.html

http://www.brandingstrategyinsider.com/2012/05/consumers-are-definitely-giving-retailers-permission-to-grow-their-private-brandsthe-real-question-is-will-retailers-grow-p.html#.UUruTiIThzY

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Notes

# Unit 14: Disseminating Product Information to Retail Personnel

CONTENTS



## Objectives

After studying this unit, you will be able to:

- Understand the need for the Dissemination of Product Information
- Explain the Communication Techniques used by Buyers to Reach Retailers
- Discuss the Product Information Quality and Product Quality

## Introduction

Today, it is not uncommon that a retailer has multiple brands and several channels in which they sell their products. Due to changes in social behaviour, consumers are driving the demand for relevant and interactive experiences at every touch point. Because of their proximity to the marketplace, middlemen are often relied on for fast and accurate feedback of information about such things as sales trends, inventory levels, and competitors' actions. A high level of channel feedback is particularly important for firms in highly competitive industries characterized by rapid changes in product technology or customer preferences, such as the computer and fashion industries. Feedback is crucial for firms pursuing prospector business strategies since they depend on the early identification of new product and market development opportunities for their success. In this unit, we focus on the need for the dissemination of product information along with the communication techniques used by buyers to reach retailers and the product information quality and product quality.

## 14.1 Need for the Dissemination of Product Information

Dissemination is about spreading a message (the object of dissemination) to groups of people or organisations (the target groups) via one or more channels in order to achieve a specific impact

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(effect of the dissemination). Although buyers and merchandiser, and the fashion directors in stores that deal primarily with fashion merchandise, are totally knowledgeable in terms of the products they buy, those who interface with consumers do not necessarily have the same understanding. In the various retail outlets all over the world, while those at the store level, in particular, are concerned with managing their outlets or departments, or selling to consumers, their product knowledge is often at a minimum.

*Example:* If you have ever gone shopping and asked a sales associate for information about a product, it is possible that the experience has been less than enlightening. Sales associates are sometimes few in number, and when they are there to serve the shoppers, they often are less knowledgeable than those making the inquiries, not only do the salespeople lack this information, but often so do the store manager and department managers. These managers are more concerned with setting employee schedules, handling customer complaints, helping reassign floor space, and generally managing their particular units. It is the buyer's job to help the sales personnel understand the products on the selling floor.

Information is of utmost importance in the operation of every market, including, recently emerged, online markets for products and services. Market participants utilize available and relevant information to decide upon their actions and improve their welfare by trading and consuming resources. An important component of all information that market participants utilize, is information that pertains directly to the products and services that are traded. Indeed, it has been claimed that the real economic impact of the Internet goes well beyond online sales. The World Wide Web offers an unprecedented opportunity to product manufacturers and service providers to thoroughly and to cost-effectively inform consumers about the details of new service and product offerings, regardless of whether the sales take place over physical or electronic channels.

Buyers of products and services require comprehensive and timely information to decide between multiple options and sellers disseminate product information to attract those buyers that are willing to pay more for their products. Often, market intermediaries exist, whose function is to coordinate the bidirectional transfer of information between sellers and buyers.

The second finding is that today's higher consumer information endowment does not impact all classes of consumers and all types of products in the same way. We shall see that higher consumer information endowment asymmetrically favors consumers that are very "sensitive" about their ideal product or service, over consumers who tend to be more price sensitive.

*Notes* Higher consumer information endowment asymmetrically favors differentiated and "premium" product offerings over their mass-market counterparts.

The latter fact will likely have profound implications for the types of products that will dominate tomorrow's markets. Product information is separated, conceptually, into a horizontal and vertical component. The horizontal component of product information pertains to the product and service features that are especially sensitive to consumer tastes and preferences. The vertical component of product information is related to product and service features on which most buyers would easily agree on what is good and what is not.

*Example:* The departure time of an air-flight is a horizontal product attribute, since a flight that leaves in the afternoon is no better or worse than a flight that leaves in the morning, based only on this attribute; different travellers would prefer the one that better fits their own schedule. The information that airlines disseminate about this attribute is thus characterized as "horizontal".

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On the other hand, the noise level of an air-conditioner, or a microwave "child lock" feature can be characterized as vertical product attributes as buyers are likely to agree that less noise is preferable and that a microwave oven that has a child lock is at least as good as another that does not offer this feature, other things being equal. The information that home appliance manufacturers disseminate about these attributes would be characterized as "vertical".

An Internet system for delivering information about products from the source of those products, typically the manufacturer, to those who need that information, such as product resellers and consumers. The system employs a product code translator, which may be implemented by one or more servers accessed via the Internet. The product code translator stores cross-references between product codes and the address of Internet resources which provide information about the products designated by the codes. Web pages produced by online resellers may display lists of products in response to search requests from customers, and provide the customer with detailed information about any listed product by incorporating links to the product information made available by the participating manufacturers using the cross-referenced addresses provided by the product code translator.

The objectives of dissemination of product information are as follows:

1. A first objective of the dissemination strategy is setting the conditions for improved and enhanced work of spreading the information in order to better meet and satisfy the users' demands and market's real needs for information.
2. The second objective is increased credibility concerning statistical figures and it drives to award a mark of statistics recognition or to give statistics a brand.
3. Improving the image of the product and its organization is the third objective of the dissemination strategy.
4. Defining of the dissemination strategy influences improvement of each dissemination sub-activities (design, editing and presentation of publications on paper and electronic supports, publications at national and local level, dissemination of statistical information on the website, products' promotion and statistical marketing and the actual release), as well as focusing on target segments of users.

*Task* Critically examine the importance of product information in the retail market of any five products. Prepare an assignment on it.

*Caselet*

## Major National Optical Product Company Suffers from Lack of Identity and Sibling Rivalry

A US subsidiary of a high-profile, multinational optical product conglomerate came to us with a serious identity crisis – as one of several sister divisions selling similar optical lab equipment, they suffered from brand confusion, web site cannibalism, and lack of market visibility.

We performed a thorough internal and competitive web site audit and discovered that several sister divisions were, in many cases, competing for the same customers with the same products. All divisions maintained similar-looking web sites with generic, standard keywords, accessed largely through an unwieldy international parent site, resulting in

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confused visitors often being sent to the wrong site. Keywording was minimal, and represented the corporate holding company, NOT the client; specific product keywording was nonexistent. Confusing navigation, conflicting messages, and misappropriated leads all added to the client's woes.

An Audit revealed that virtually all of the other divisions' web sites lacked visitor-friendly navigation, focusing on products and model numbers without regard for what the site visitor's "pain" might be.

In response, we redesigned the client's web site, creating a visitor-friendly, pain-based home page that focused on directing the site visitor to the right optical product based on what their use was. A separate navigation bar enabled visitors to click on buttons highlighting what kind of samples they needed to view.

Existing Application pages contained no helpful how-to application information, just minimal product data. The entire section was revised to improve "stickiness" by adding all of the major industry applications and including helpful tips and techniques for getting the best images, with links to the appropriate product pages for further information.

In addition, all content was rewritten for search engine optimization and the entire site was re-keyworded to include the most popular industry- and product-specific search terms and every page was retitled and given new descriptions to further improve searchability.

As content and navigation changes were implemented, web traffic statistics reflected the overall improvement in traffic:

- The client is showing up in more keyword searches within the first 3 pages compared to previously not showing at all. This trend continued to improve as keyworded content was added.
- In the year prior to redesign, the site didn't go above 10,000 visits per month. When new and revised content began to be added, site traffic began to rise and remained above 10,000 visits per month during the five-month project.
- Unique users increased from 4,759 to 6,465 – an over 30% rise
- The monthly average visit to the site had increased from 11,786 to 14,004 during one quarter. The daily visits had gone from 380 to 451 in the same period.
- The number of people who visited the site more than once had gone from 1,324 to 1,697 – an over 20% increase.

***Source:*** http://www.websitewriters.info/wsw_cs2.html

## Self Assessment

State whether the following statements are true or false:

1. Information is of utmost importance in the operation of every market.
2. Market intermediaries function is not to coordinate the bidirectional transfer of information between sellers and buyers.
3. The noise level of an air-conditioner or a microwave "child lock" feature can be characterized as vertical product attributes.
4. The information that home appliance manufacturers disseminate about these attributes would be characterized as "horizontal".
5. The vertical component of product information pertains to the product and service features that are especially sensitive to consumer tastes and preferences.

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## 14.2 Communication Techniques Used by Buyers to Reach Retailers

In the retailing of yesteryear, brick-and-mortar organizations—the mainstay of selling to shoppers—were considerably smaller than they are today, Except in the huger companies, buyers were able to regularly visit the stores to which they supplied the merchandise was a typical obligation for buyers to make the rounds of department store branches and units in the chain operations. If the company was very large, and the various outlets were not within close proximity to the company's flagship or center of operations, then "key" stores were earmarked for the visits, by concentrating on these particular units, the buyer was able to assess the business at the others.

*Caution* This communication was considered vital to the movement of the merchandise from the store's she and racks to the consumers' homes.

Of course, with the enormity of many retail empires, today this in-person visit is more likely to be the exception rather than the rule.

### 14.2.1 Communication Techniques in Supermarkets

The grocery shopping bill can add up quickly and leave an empty wallet. According to supermarket industry expert Phil Lampert, surveys found that about 40 percent of items bought at the supermarket were impulse buys that were not on the shopping list. Supermarkets use clever communication techniques to encourage customers to spend more money. Shoppers should be aware of the subliminal messages being sent from the time they enter the door.

- ***Buy One, Get One Free:*** The "Buy One, Get One Free" offer is a supermarket technique that has been used for years. This type of sale communicates a message to the customer that they are getting two items for the price of one. The goal is to make customers buy an item that they may not originally have desired because it appears to be a deal. Shoppers should consider whether they wanted the product in the first place and whether they need two of the same item.
- ***Loyalty Cards:*** Many supermarkets have a loyalty card system in which customers sign up and receive special promotions. Loyalty card customers receive coupons in the mail and offers for "special" supermarket sales. These perks are beneficial for saving money. However, in signing up for a card, the customer may be required to include personal household information. With the use of the card, supermarkets can gauge the shopper's choice of products and compile data for marketing strategies.

*Did u know?* When offering the card to new customers, the supermarket is communicating the message that it wants to build a trust system. The goal is to ensure that the customer will come back often and spend money.

- ***Item Placement:*** The placement of items in a supermarket is a skillful communication technique. Many supermarkets place essential items such as milk, eggs, meats and bread at the back of the store. This means that shoppers must walk through many aisles containing other products before reaching the area. Stores move items or rearrange aisles on a frequent basis for the same reason. Likewise, impulse-buy items such as candy bars and magazines are placed in the checkout line, where customers are bored and easily tempted.
- ***Smell and Taste:*** The use of smells is a communication technique used to trigger a hunger response, causing shoppers to purchase the food. The bakery is often placed close to the

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entrance of the store, so that customers are greeted with the aroma of freshly baked cookies. Likewise, the fresh rotisserie chicken may be placed close to the store's entrance. Offering free samples is another technique to entice customers to purchase a product.

### Self Assessment

Fill in the blanks:

6. ..... should considers whether they wanted the product in the first place and whether they need two of the same item.
7. Loyalty card customers receive coupons in the mail and offers for ..... supermarket sales.
8. Many supermarkets have a ..... card system in which customers sign up and receive special promotions.
9. The placement of items in a supermarket is a skillful ..... technique.
10. Offering ..... is another technique to entice customers to purchase a product.

## 14.3 Product Information Quality and Product Quality

The term "better information", or "better quality of information" to describe improvements along three different attributes – thoroughness, accuracy and timeliness – of the information that consumers obtain about products. This section examines how better quality of product information can be viewed as a substitute, albeit imperfect, for higher product quality. It is widely accepted that better information about certain information products and services can be part of the perceived product or service quality. This is especially true for information products or services that are not meant to be used as "black boxes" by the consumers, but rather the customers expect to be able to adjust and customize the products to fit their special needs. A consumer that purchases an educational software package not only wishes to get comprehensive help menus that make the program's features easier to understand and use, but also expects to be able to customize the intensity, focus, difficulty and other parameters of the learning process for which the software is intended. More importantly for our discussion, the consumer expects that this process will be easy to perform, based on the information that either comes with the software package, or is available at the developer's web site.

*Caution* For many such information products and services, product information is indistinguishable from the product itself, and better product information simply means better product quality.

One should be careful not to think of product information as a perfect substitute for product quality, even for highly differentiated products that command price premiums. Indeed the effects of increasing the quality of product information and increasing the quality of the product are different. Whereas the latter increases every consumer's valuation for the product, the former only increases the valuation of those consumers who feel "emotionally close" to the product, and who are furthermore very sensitive about their preferences in this product category. However, we can view product information quality and product quality as substitutes, albeit imperfect, for high profit margin, differentiated products, because their effects on the profitability of the vendor are very similar. A vendor offering such a product, who improved the quality of her product information, would experience an increase in market share and discover a newly presented opportunity to raise her product price. From the vendor's perspective it is as if the quality of her product has improved. Thus, vendors that offer highly differentiated products at

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a price premium should view their product information, as if it were an important attribute of their product. Our advice for vendors of differentiated products is this:

*"Vendors that offer highly differentiated products at a price premium, should view any improvement in the thoroughness, accuracy and timeliness of the information that consumers obtain about their products, as if it were an increase in their product quality."*

Even though product information quality and product quality are not perfect substitutes, this recommendation leads vendors to actively pursue methods to increase consumers' in formation endowment and prevents them from neglecting to manage this important determinant of their product's success. The advice is even more meaningful in situations where the cost of increasing the product's quality is very high, whereas large improvements in the quality of the information about the product can be made at low cost.

### 14.3.1 Guidelines for Product Information Dissemination

Guidelines for ensuring and maximizing the quality, objectivity, utility, and integrity of information disseminated.

1. "objectivity'' involves a focus on ensuring accurate, reliable, and unbiased information.
2. In a scientific or statistical context, the original or supporting data shall be generated, and the analytical results shall be developed, using sound statistical and research methods.
3. If the results have been subject to formal, independent, external peer review, the information can generally be considered of acceptable objectivity.
4. In those situations involving influential scientific or statistical information, the results must be capable of being substantially reproduced, if the original or supporting data are independently analyzed using the same models.

*Notes* Reproducibility does not mean that the original or supporting data have to be capable of being replicated through new experiments, samples or tests.

5. Making the data and models publicly available will assist in determining whether analytical results are capable of being substantially reproduced.
6. These guidelines do not alter the otherwise applicable standards and procedures for determining when and how information is disclosed. Thus, the objectivity standard does not override other compelling interests, such as privacy, trade secret, and other confidentiality protections.
7. "Integrity'' refers to the security of information or protection of the information from unauthorized access or revision, to ensure that the information is not compromised through corruption or falsification.
8. "Information'' means any communication or representation of knowledge, such as facts or data, in any medium or form, including textual, numerical, graphic, cartographic, narrative, or audiovisual forms.

*Notes* This definition includes information that the company's disseminates from a web page, but does not include the provision of hyperlinks to information that others disseminate.

Notes

9. "Information dissemination product'' means any book, paper, map, machine-readable material, audiovisual production, or other documentary material, regardless of physical form or characteristic, that disseminates to the public. This definition includes any electronic document, CD-ROM, or web page.

10. Distribution limited to correspondence with individuals or persons, press releases (unless they contain new substantive information not covered by previous information dissemination subject to the guidelines), archival records, public filings, subpoenas or adjudicative processes.

11. Capable of being substantially reproduced means that independent reanalysis of the original or supporting data using the same methods would generate similar analytical results, subject to an acceptable degree of imprecision.

### 14.3.2 Knowledge Products and Dissemination

Knowledge products can take many different forms depending on the audience and their information needs. For meaningful learning and knowledge sharing, knowledge products should be of high quality with a clearly identified audience and purpose. The characteristics of a good knowledge product are as follows:

- Based on an assessment of needs and demand for the product among targeted users to ensure relevance, effectiveness, usefulness and value of the product
- Designed for a specific audience, taking into consideration functional needs and technical levels
- Relevant to decision-making needs
- Timely
- Written in clear and easily understandable language
- Data is presented in a clear manner
- Based on the evaluation information without any bias
- When appropriate, developed through a participatory process and validated through a quality assurance process with relevant stakeholders
- Easily accessible to the target audience through most effective and efficient means
- Consistency in presentation of products to enhance visibility and learning

The dissemination is as important as the development of knowledge products. Only an efficient system of dissemination will ensure that the target recipients receive the monitoring and evaluation feedback that is relevant to their specific needs. Some of the most commonly applied dissemination methods for monitoring and evaluation products include: printed reports, HTML or PDF copies of the products shared on the internal and external Internet sites and through e-mail message and list-serves, and CD-ROMs.

*Did u know?* The media can be a powerful partner in disseminating findings, recommendations and lessons from evaluation. In many countries, the media has played a critical role in advocating for accountability and addressing sensitive issues.

Those responsible for knowledge sharing and dissemination should assess the information needs of the various groups, including when the information is most needed and is likely to serve as an 'agent of change'.

Notes

*Example:* Government counterparts may find certain information from an evaluation particularly useful in making critical policy decisions. When planning for a monitoring and evaluation exercise, the commissioning unit should be aware when the 'window of opportunity' for decision making arises and make the information available in a manner that is appropriate for the technical and functional needs of the target audience.

## Self Assessment

State whether the following statements are true or false:

11. A consumer that purchases an educational software package only wishes to get comprehensive help menus that make the program's features easier to understand and use.
12. The effects of increasing the quality of product information and increasing the quality of the product are same.
13. Vendors that offer highly differentiated products at a price premium should view their product information, as if it were an important attribute of their product.
14. Objectivity involves a focus on ensuring accurate, reliable, and unbiased information.
15. Objectivity standard does not override other compelling interests, such as privacy, trade secret, and other confidentiality protections.

*Case Study*

### Merchandising Monster Products in the Digital Age

**The Cumulus Solution for Supporting E-Commerce on the Web**

*A Force in the Consumer Electronics Industry*

*From audio/video cables to home entertainment*

Monster Cable Products is a force in the consumer electronics industry. Founded in 1978 and headquartered in Brisbane, California, Monster produces many of the top brands of high-performance cables that are used to connect audio/video components for home, car, and professional use, as well as computers and computer games. Proud of its reputation as a Bay Area success story, Monster bought the naming rights to the San Francisco 49ers' stadium in 2004, and renamed it Monster Park.

Over the years, Monster has expanded its product portfolio beyond cables and connectors. It also manufactures premium power supplies, amplifiers, and speakers, as well as accessories for Apple iPods, MP3 players, and SIRIUS Satellite Radio receivers. Continually seeking to develop new products for new markets, Monster is now introducing a range of home theater furnishings and sound systems, designed to seamlessly integrate the ultimate music, movie, and gaming experiences into the home.

Monster invests heavily in visual communications to capture the essence of the Monster brand. It relies on Cumulus from Canto to manage all of product photographs used to merchandise its products.

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**Focusing on Bricks and Clicks**

In the ever-changing audio/video marketplace, Monster remains at the forefront of product innovation and brand awareness. The company adds 400 to 600 new products annually to its catalog of more than 4,000 items.

A company of more than 800 employees, Monster counts on both bricks and clicks to merchandise its products. It sells to thousands of retailers and distributors worldwide. Monster also has direct relationships with more than fifty (50) authorized e-commerce vendors on the Web, ranging from consumer giants Amazon, BestBuy, and RadioShack to sites such as Crutchfield.com, OneCall.com, Vanns.com, and BHPhotoVideo.com.

**A key Touch Point**

Monster's customers—audiophiles, videophiles, car audio enthusiasts, professional musicians, and recording studio engineers—have a growing need for ever-better product information. Whether they are pulling products from shelves in retail stores or buying online, customers are doing more and more of their research over the Web.

**Photos for Selling**

Customers want to see what they are buying, such as the form factor of cable connectors, the weave of cables, the design of speakers, and the displays of amplifiers and power supplies. Monster maintains a staff of professional photographers and several in-house studios. It produces all of its own product photos, which it then publishes in its own product catalogs and Web site (www. monstercable.com), and also syndicates to its growing network of e-commerce vendors.

Yet customers are becoming more demanding. "We've had to step up our level of photography to meet our customers' desires and to reflect our own need for asset access within the company," Klar reports. "We used to produce one picture per product. Now we need five or six shots, reflecting different backgrounds, angles, and perspectives. Our customers want to see more photos of what they are planning to buy." When they cannot touch and poke the products, customers need to view the product details online.

**Managing the Visual Experience**

***Adopting Cumulus as Part of the e-commerce Initiative***

Fortunately, Monster has developed its e-commerce initiative around the capabilities of a digital asset management system. Monster adopted Cumulus in 1999. Monster has steadily enhanced its digital asset management capabilities with each successive version of Cumulus.

Monster now uses Cumulus Workgroup Edition to manage all of its product photographs, digital videos, and other digital assets for both electronic and hard-copy distribution. Monster relies on Cumulus when developing collateral for its own needs as well as when syndicating photos to its distributors and retailers.

**A Central Repository**

Using Cumulus, Monster employees can easily find product photos when designing Web pages, promotional materials, package designs, and product data sheets. All of the product photos are stored in an online repository and catalogued with a predefined set of product-related terms.

No longer do graphic designers and marketers have to search through one set of directories for product thumbnails, another for low-resolution screen shots, and a third place for high-resolution photos, suitable for print publications. No longer are product photos

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Notes

simply stored in a folder hierarchy on a file server. Rather, Cumulus ensures that company employees can manage and maintain all photos in a consistent manner, organized by product categories and other relevant, descriptive categories.

**Integrating Cumulus with Monster's Product Information Management System**

Working with a systems integrator, Modula, Klar has integrated Cumulus with Monster's product database. (Monster uses FileMaker to maintain the product categories in a relational database.) Specifically, Monster manages its products in a structured manner, first by product families, then by product types, and finally by individual product names and SKU numbers. Monster maintains all of its product-related metadata within the product database.

Monster then relies on the scripting capabilities within Cumulus to synchronize the metadata schema from the product database with the categories for the digital asset management system.

Cumulus is able to automatically replicate the product categories for digital assets from those defined by the product database, and use them to tag product photographs. When adding or removing products in its product database—a frequent occurrence in the consumer electronics industry—Monster can immediately update the categories for digital assets, and ensure that the terms for indexing digital assets match the categories within the product database. Staff photographers, who are responsible for archiving the finished photographs at the end of a photo shoot, launch the script to automatically tag new assets within Cumulus.

**Consistent Browsing and Searching Capabilities**

As a result, whether they are looking for product information in the database or product photos in Cumulus, graphic designers and content creators can browse or search for content using a consistent set of indexing terms and categories. Once they locate a set of photos based on product-related metadata, they can browse through the group to view photos with different background colors, photo styles, packaging, and cutaways.

For instance, Monster Cable, one of the company's product families, produces different types of cables, including audio cables, video cables, computer cables, and mounts, as shown in Illustration 1.

The photos themselves feature different backgrounds, packaging formats, and cable presentations. Graphic designers, Web developers, and others can thus find a range of photos from which to choose when searching for pictures of a specific product.

Monster continues to refine the browsing and searching capabilities of Cumulus. Monster employees can search by product name, product description, model name, and inventory number. Monster also includes the short product descriptions as entries in the keyword field within Cumulus, enabling graphic designers and others to find pictures based on their keywords. "With so many categories and keywords available, it's easy for somebody at Monster to find the product photos they need," Klar says

**The Impact of Cumulus within Monster**

***Reducing Time and Costs for Developing Marketing Materials***

More photos lead to more opportunities for merchandising Monster products more effectively. With Cumulus in place, Monster can centrally manage the more than 12,000 photos that capture its entire product line. Graphic designers and content creators can readily access previously created photos when developing new marketing collateral. They no longer have to request new photos for products that are released and shipping.

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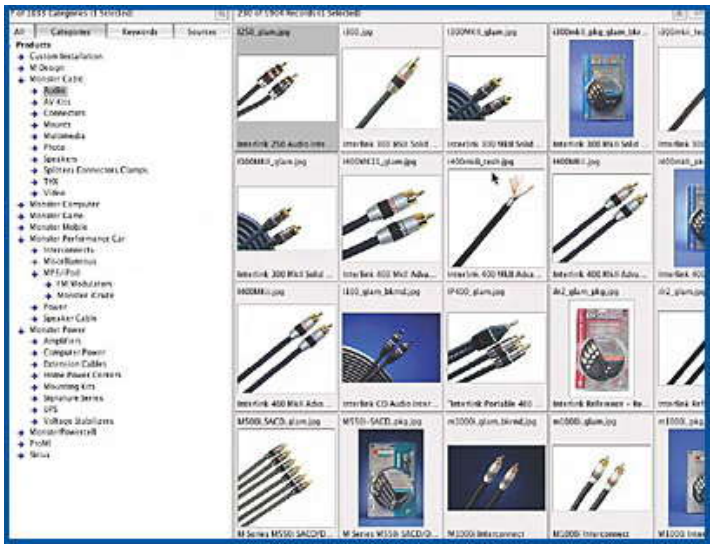

Figure 1

*Illustration 1:* Product photos for audio cables can feature white, light blue, or dark blue backgrounds; glam packages or single wire shots; connectors or wire spread ends.

Relying on Cumulus, Monster is able to reduce the time and costs required to develop marketing materials. Monster can produce the photos for a new product as part of the product release cycle, index and store them within Cumulus, and ensure that they are readily accessible to all employees within the company. Graphic designers and marketers can readily stay abreast of Monster's ever changing product portfolio, and easily have the new product collateral available for Web and print-based distribution when the new product is launched.

**Distributing Training Solutions**

In addition, Monster uses Cumulus to catalog and distribute its training solutions.

Monster develops interactive training materials and other multimedia experiences for its retailers, stores them within the shared repository, and distributes them on demand over the Web.

For example, when Monster needs to train retailers' sales associates about a new family of high-performance video cables, Monster marketers develop interactive training modules using Flash and video clips. They can easily find previous recorded interactive media, stored and catalogued within Cumulus. As a result, they can rapidly produce updated training modules, and enable sales associates to learn about the new features of Monster's latest products over the Web.

**Building Relationships with Distributors and Retailers**

***Making it easy to merchandise Monster products***

As a manufacturer, Monster is only successful when it moves its products through its distribution channels. Monster needs to ensure that its network of distributors and retailers can easily sell its products to the audiophiles, videophiles, and gamers who value them. Monster needs to ensure that distributors and retailers have easy access to Monster product information, so that they can incorporate the photos and product descriptions into their own e-commerce Web sites and publish them as their own marketing collateral.

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Monster's investment in Cumulus has an added business benefit. Now that Monster maintains all of its product photos online, it is able to syndicate them to the retailers and distributors in its distribution channel.

As shown in Illustration 2, here's how the syndication process works.

1. At periodic intervals, Monster uploads all of its new product photos, together with the descriptive information (or metadata tags) used to catalog them, to a third party Web site. Monster is relying on Tentoe (www.tentoe.com) to support syndication services over the Web.
2. The descriptive information is stored in a standardized format as XML-tagged elements, using predefined tag sets.
3. When distributors and retailers need photos and descriptions of Monster products, they connect to the third party site, select the products they want, and download the product information to their own electronic environment.

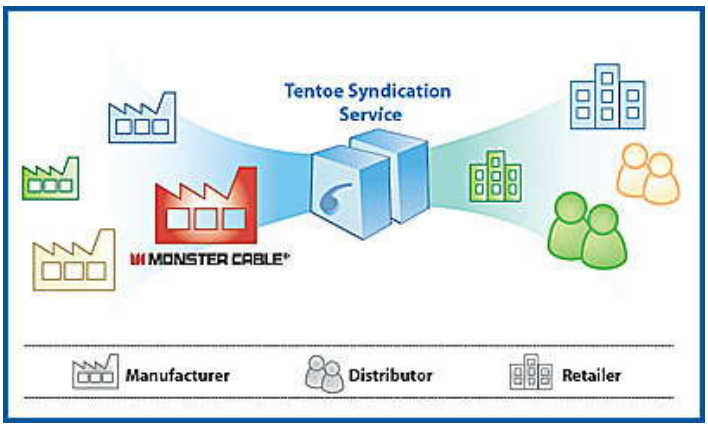


**Figure 2**

***Illustration 2:*** Monster distributes its product photos through a syndication service on the Web. Thus Monster's customers—network-savvy retailers and distributors—can easily access all of Monster's product information and incorporate it into their e-commerce environments.

As a result, Monster is able to ensure that its distributors and retailers quickly receive new product photos and the related product information for their own product promotions, as well as stay abreast of changes. Moreover, Monster only needs to publish to a single destination on the Web. The syndication service then redistributes the photos to others who want them. For example, Radio Shack and Crutchfield can each find just the Monster products they sell on their own Web sites and retail outlets. When Monster produces new photos, Radio Shack and Crutchfield can then incorporate changes into their e-commerce environments on their own production schedules.

As a result, Monster not only produces the product photos for its own internal use. Monster is also able to electronically distribute them via various sales, training, and promotional channels. Monster is able to ensure that these businesses can easily and accurately merchandise Monster products.

**Cumulus as a Competitive Distribution Mechanism**

In the end, Monster relies on Cumulus for merchandising its products in the digital age. "Cumulus is not just an internal organization and archiving tool," Klar concludes. 'It's

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about getting our intellectual property into the hands of the people who need it. Now that we've carefully catalogued our product photos, we're using Cumulus as a distribution mechanism."

In a continually changing industry where value-added content and differentiation is the key to success, Monster and Cumulus are a winning combination. By building its e-commerce initiative on Cumulus, Monster is able to successfully merchandise its product portfolio, gain market share, and stay ahead of its competition.

**Questions**

1. Analyze the case and examine the problem faced by the company while distribution of merchandising.
2. Explain how the company overcomes the problem.

***Source:*** http://www.canto.com/de/resources/case-studies/case_study_monster.php

## 14.4 Summary

- Information is of utmost importance in the operation of every market, including, recently emerged, online markets for products and services.
- Market participants utilize available and relevant information to decide upon their actions and improve their welfare by trading and consuming resources.
- An important component of all information that market participants utilize, is information that pertains directly to the products and services that are traded.
- Indeed, it has been claimed that the real economic impact of the Internet goes well beyond online sales.
- The World Wide Web offers an unprecedented opportunity to product manufacturers and service providers to thoroughly and to cost-effectively inform consumers about the details of new service and product offerings, regardless of whether the sales take place over physical or electronic channels.
- This dissertation focuses on the mechanism by which sellers decide what information about their products to make available, and how, as it is believed to hold the key to understanding product information dissemination in the Internet.
- Buyers of products and services require comprehensive and timely information to decide between multiple options and sellers disseminate product information to attract those buyers that are willing to pay more for their products.
- This communication was considered vital to the movement of the merchandise from the store's she and racks to the consumers' homes.
- A vendor offering such a product, who improved the quality of her product information, would experience an increase in market share and discover a newly presented opportunity to raise her product price.
- Vendors that offer highly differentiated products at a price premium should view any improvement in the thoroughness, accuracy and timeliness of the information that consumers obtain about their products, as if it were an increase in their product quality.
- Knowledge products can take many different forms depending on the audience and their information needs.
- The dissemination is as important as the development of knowledge products.

Notes

## 14.5 Keywords

***Buyers:*** Party which acquires, or agrees to acquire, ownership (in case of goods), or benefit or usage (in case of services), in exchange for money or other consideration under a contract of sale.

***Communication:*** Communication is the act of transferring information through speech, the written word, or more subtle, nonverbal ways.

***Dissemination:*** Broadcast of an idea or message on a large scale to make it reach a wide audience.

***Information:*** Information, in its most restricted technical sense, is a sequence of symbols that can be interpreted as a message.

***Internet:*** The internet in simple terms is a network of the interlinked computer networking worldwide, which is accessible to the general public.

***Loyalty:*** Loyalty is faithfulness or a devotion to a person, country, group, or cause.

***Manufacturer:*** Manufacturing is the production of goods for use or sale using labor and machines, tools, chemical and biological processing, or formulation.

***Merchandise:*** Household, personal use, or commercial goods, wares, commodities, bought and sold in wholesale and retail.

***Product Information:*** Product information refers to processes and technologies focused on centrally managing information about products, with a focus on the data required to market and sell the products through one or more distribution channels.

***Quality:*** The standard of something as measured against other things of a similar kind; the degree of excellence of something

***Strategy:*** A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem.

## 14.6 Review Questions

1. Define dissemination.
2. Highlight the importance of product information.
3. Discuss vertical and horizontal component of product information.
4. Throw some light on the objectives of dissemination of product information.
5. Describe loyalty cards.
6. What is item placement**?**
7. Do you think that smell and taste is regarded as one of the communication technique? If yes, give reasons.
8. Explain better quality of information with reference to improvement.
9. Define vendors.
10. Highlight the guidelines for product information dissemination.
11. What is knowledge products and dissemination?

Notes

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | True | 2. | False |
| 3. | True | 4. | False |
| 5. | False | 6. | Shoppers |
| 7. | Special | 8. | Loyalty |
| 9. | Communication | 10. | Free Samples |
| 11. | False | 12. | False |
| 13. | True | 14. | True |
| 15. | True | | |

## 14.7 Further Readings

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978-93-90243-07-5
9 789390 243075