Study Unit 1 – Retail merchandising Management

1.1 The nature of Retailing Merchandising Management

* Merchandise planning involves the activities used to set objectives and plan how an organisation is going to achieve them- the purpose of planning and control is to maintain a stock balance in a store and between inventory and sales.
* Mechanising plans must be developed to support the Org's overall competitive strategy.
* Merchandising management refers to the process in which a retailer attempts to offer the right quantity to the right merchandise in the right place at the right time and to meet the company's financial goals

1.2 Merchandise Planning and Control

- One of managements main functions, consists of Formulating objectives for the organisation and devising plans to achieve them. **Planning** – Process of laying down performance guidelines for merchandise.
- **Merchandising management can be divided into the Following**
  - The Merchandise Mix (full range/mix of products offered)
  - Merchandise Budget(cost and Financial controls the need to be put in place to provide products)
- Retail merchandising involves activities such as developing a merchandise mix(variety and assortment), turnover, pricing, supporting and communicating the retailers merchandise to consumers.
- Managers concern with the merchandise mix is – what products to stock and how much should eb invested in inventory. Retailer builds necessary logistics systems- this includes buying ordering and handling of incoming merchandise.
- Merchandising functions concern – activities and tasks in making products attractive (packaging, appearance in store layout) to enable the customer to purchase with ease
- Merch. Control- designing the policies and procedures for collecting and analysing merch. Data to determine if stated objectives have been achieved-. Control is the process of Implementation and monitoring how well guidelines are being followed by management.
- Merch. Mix is controlled in terms of units, simpler than monetary/budget control systems as price changed do not effect units. Planning is only valuable if the merchandiser monitors the results to determine if goals are met.

1.3 Merchandise mix Management

Merchandise mix presents "appropriate combinations" of products to meet customers specific needs Unlimited number of appropriate combinations are available, te success of these combinations depends on weather the retailer can identify and operationalise a new and appropriate mix. Today mix may not to appropriate for the future.

1.3.1 The right merchandise blend:

Defined: the set of all product lines and items that a particular seller offers for sale.

It is a mixture of ingredients capable of satisfying the customer who comprise the target market

To develop this mix, buyers nee to sense market trends and anticipate what customers would like to buy. **A well balanced mix should have one or all of the following:**

- Offering the right product
- In the right quantities
- In the right place
- In the right time
- At the right price
- With the right appeal
- With the right service

1.3.2 product lines, product items and product units:

The retailer merchandiser has to make decisions about the ffg:

- A product lien is any grouping of related products in which the relationship is important to the customer
- A product item is a specific product in a product line- its unique and clearly distinguishable from other products in and outside the product line.
- Product units are an expression used to describe the total number of a particular product item that a retailer has in stock

Merchandise mix tries to find the appropriate combo of thes product line, items and units, so that the org can successfully plan and control this combination

To plan and control-the retailer structures the merch mix on the following basis:

- **Merch. variety** – number of diff products stocked in a store –eg variety of shampoo
- **Merch. Assortment-** number of diff product items stocked in a product line- eg diff types of product from one “brand” organic’s shampoo, hair gel, and colour treatment
- **Merch. Support-** planning and control of the number of unts the retailers should have on hand to meet expected sales. Eg. If one product is every popular, ensure its always in stock before thinking of ordering specialised or imported brand.

1.4 Merchandise Budget Management

Is another primary function of planning and controlling the merch mix. Budgets are a useful control mechanism to monitor and evaluate the financial and physical success of a business

A merch budget is a plan of monetary amount of merchandise to buy, its based on sales and profitability goals.

Merch Budget Process:

1. **Retail sales –** starting point- sales are planned according to season then on a monthly basis
2. **Inventory levels** –planning and the controlling appropriate inventory levels for a specific sales period
3. **Retail reductions –** plan and control retail reductions, reductions are anything other than sales that reduce the inventory value .e.g. employee discounts, markdowns and shortages

4. **Retail purchases-** involves planning and controlling the monetary amount of purchases on a monthly basis
5. **Profit margins**- fundamental part. Allow for an acceptable profit and adequate gross margin

1.5 Lifestyle Merchandising- Why is it important?

Lifestyle concepts influence very dimension of retailing, mangers cannot make decisions without understanding consumer needs

Two key terms used in an analysis of consumers for merchandising are:

1. **Lifestyle :** customers pattern of living and self-concept as reflected in their purchase and use of merchandise
2. **Psychographics:** refers to info about customer attitudes, values, motivations and lifestyles as they relate to buying behaviour in a particular product category

Benefits of lifestyle analysis:

* Retailers have better opportunities to develop marketing strategies on the basis of a like life portrait of the consumers they are seeking to serve
* Enables them to partially protect the outlet from direct price competition by developing unique offering that attracts shoppers or reasons other than price
* Afford them the opportunity to better understand consumers shopping behaviour and merchandise preferences

To be successful retailers have to familiarise themselves with the needs of their market, know how the market makes decisions and satisfy the needs of customers by providing the right products at the right time to their target market- and doing it better than competitors.

1.6 building a sustainable advantage

Final element in retail strategy, approach to building a sustainable competitive advantage. Any activity can be a competitive advantage, but only some are sustainable over a long time- some can be duplicated by competitors almost immediately

Establishing competitive advantage means that a retailer, in effect builds a wall around it position in the market- with a high wall it will be difficult for competitors to enter the market.

Over time all advantages erode, due to competitive forces- high thick walls help sustain the advantage and minimizes competitive pressures and boost profits.

Source of advantage	Less sustainable	More sustainable
Customer loyalty	Habitual repeat purchase-due to limited competition in the area	Building a brand image with emotional connection, use database to develop and utilize a deeper understanding of customers
Location		Convenient location
HR management	More employees	Committed, knowledgeable employees
Distribution & information systems	Bigger warehouses, automated warehouse	Shared systems with vendors
Unique merchandise	More merch-assortment, lower price, higher ad budgets and more sales promos	Exclusive merchandise
Vendor relations	Repeat purchase from vendor due to limited alternatives	Co-ordination of procurement efforts, ability to get scarce merchandise
Customer service	Hours of operation	Knowledgeable and helpful salespeople

Loyalty programmes , developing strong relationships with vendors may be used to develop a sustainable advantage

Assessment Q's

1. Meaning of merchandise planning and control
2. Distinguish between product lines, merchandise variety and assortment
3. Identify and explain the 5 stages of developing a merchandise budget
4. Explain the importance of lifestyle merchandising
5. How can a retailer develop a sustainable competitive advantage through merchandising?

Study unit 2: The Merchandising Management Process

2.1 The nature of merchandise management process

Remember: **Merchandising Management** (MNG) is the process whereby a retailer attempts to offer the right quantity of the right merch in the right place at the right time and meet the company's financial goals.

- A retailers primary objective is to sell merch at a profit and meet financial goals, therefore, they have to ensure they stock the right balance of merch that customers require
- Retailers need to understand wants and needs of the customers to be able to plan accurately, and succeed.

2.2 Merch MNG process

The activities and decisions involved in merch mng process:

- Forecasting category sales
- Developing an assortment plan
- Determining the appropriate inventory level and product availability
- Developing a plan for managing inventory
- Allocating merch for the store
- Buying merch
- Monitoring and evaluating performance and making decisions.

2.3 The buying organisation

Retailers need to structure and combine people & other resources and coordinate them to achieve org goals. This forms the 2nd element of management: Organising. **Organising refers to the establishment of a structure within which the organisations activities can be performed.**

The general merchandise classification and organisation: (Example on pg 331 of TB)

- The merch group (Largest group and managed by VP's of merchandise)
- Department (Divisional managers who report to the VP manage the various departments)
- Classification (each divisional manager is responsible for a number of buyers. Each buyer purchases a group of items that targets the same customer. E.g. buyer of girls clothes ages 4-6)
- Category and stock-keeping-unit (Category: here products are grouped together for sale. SKU: keeping record of stock is usually done on basis of size, colour and style, e.g., Girls Levis jeans, size 5, stonewashed blue, straight leg.)

2.4 Merchandise Category: the planning unit

Defn: The Category is the basic unit of analysis for all merchandise decision making.
(E.g. of categories: girls clothing, boys clothing and babies clothing.) Each Category has similar characteristics such as price and promotion.

2.4.1 Category Management

Defn: Category MNG: the process of managing all the SKUs in a product category and involves the mng of price, shelf space, merch strategy, promotional efforts & other elements of the retail mix in the category, based on the firms goals, the changing environ and consumer behaviour.

Retail orgs divide the responsibility for buying merch between a buyer or a category manager and a merch planner. **A category manager is an employee designated by a retailer for each category sold in the store**.
A category mng works with the suppliers to plan promotions.

- The buyer will oversee the merchandising function. (Liaise with vendors, select merch, price merch, & coordinate promos)
- The Planner is responsible for buying the correct quantities, allocating to stores, monitoring sales & suggesting mark downs.
- The buyer and planner form the merchandising team.

The establishment of strategic partnerships with vendors is vital for successful category managers because retailers & vendors share the same goals- sell merch and make profit.

2.4.2 Category Captain (assignment 1 question)

Defn. The term Category Captain is given to the one favoured vendor who assists a retail org in managing a particular category.

The category captain works closely with the retail buyer & ensures that the retailer has the best assortment for each store- to achieve the greatest possible number of sales.

To summarise: Category mng is a joint retailer/ supplier process 4 evaluating & managing categories and separate business units on a item by item basis by focusing on delivering consumer value & developing and monitoring targeted strategies for profitable growth.

Study Unit 3

3.1 Setting Merchandising Objectives

Specific objectives are set which are the goals against the progress towards the overall objective can be measured.
These performance levels are financial criteria such as return on investment, sales or profits.

The objectives have 3 components

- performance sought – incl a numerical index against which progress could be measured
- timeframe within which goals are to be achieved
- Level of investmemt needed to achieve the objective

Eg . fashion retailer set an objective to increase profits by 20% in each of the next 5 years.
To achieve this, additional investment in apparel & other nongift merchandise inventory

Objectives guide the development of the retailers strategy, whereas specific performance goals determine whether the objectives have been achieved. The overall objectives are set by top management & are broken down into specific objectives for each buyer & merchandise category.
The overall strategy determines the merchandise variety, assortment & product availability.

Performance measures can be classified into 3 types:

- **Input measures**

  Assess the amount of resources or money used by thereby the retailer to achieve output eg sales.
  Merchandise inventory is resource (inputs) that is controlled by merchandise managers who negotiate with vendors on price paid for merchandise.
  These managers also have the authority to set initial prices & lower prices when merchandise is not selling.

The input measures for a merchandise category are:
inventory level,
markdowns,
advertising expenses &
cost of merchandise

- **<u>Output measures</u>**: Assess the results of a retailers investment decisions.
  The output measures for merchandise are:
  Net sales,
  gross margin &
  growth in sales

- **<u>Productivity measures :</u>**determines how effectively retailers use their resource
  i.e the return they receive on their investments

Productivity – the ratio of an output to an input – **can be measured by means of :**
inventory turnover,
gross margin return on investment ,
advertising as a percentage of sales &
markdown as a percentage of sales.
Higher inventory turnover means greater inventory management productivity.
Gross margin percentage indicates the performance of merchandise managers in negotiating with vendors.
Buying or sales means is a measure of quality of the merchandise buying decisions.
If the merchandise managers have a high % of markdowns, they may not be buying the right merchandise or the right quantities as they were not able to sell some of it at its original price.

<u>3.2 Evaluating merchandise management performance:</u>
<u>GMROI</u>
Return on investment (ROI) is used to plan & evaluate the performance of the overall retail operations.
Gross margin return on inventory investment (GMROI) is used to evaluate the merchandise managers performance .
ROI is not used for merchandising performance is because it includes performance of other departments eg HR & information systems over which the merchandise manager has no control.

GMROI is used as a return on investment profitability measure to evaluate merchandise departments, classifications, vendor lines & items.
It also evaluates buyers performance as it contains both gross margin ratio & inventory turnover ratio & buyers have control over both components of GMROI.
GMROI is similar to return on assets, except that the buyer & not top management controls its components.
GMROI uses gross margin percentage & sales to stock ratio.
GMROI can be calculated as: GMROI = gross margin / average inventory at cost

Average inventory in GMROI can be expressed at retail or at cost.
Some merchandise managers use retail inventory because it reflects the market price of their goods.
A retailers investment in inventory is the cost of the inventory & not its retail value.

This measure is referred to as the sales-to-stock ratio & can be calculated as follows:
sales - to - stock ratio = net sales/average cost inventory

GMROI & GMROI for selected departments
eg .If a supermarket wishes to evaluate the performance of 2 classifications, namely; bread & prepared foods.
GMROI combines the effects of profit & turnover.
It is NB to use the combined measures that dept's with different margin/ turnover profiles can be compared.

Disadvantages of GMROI:
GMROI cannot accommodate the full complexity of retail cost structures

Advantages of GMROI of using the GMROI as a criterion for retail merchandising decisions:

- GMROI is a meaningful measure of the performance of the buyers or other merchandising executives as it measures how well the major asset under their control (ie merchandising inventories) is being used to generate gross profit.
- At department level, it is possible to set GMROI goals with a clear consistent relationship with the retailer's overall ROI outcomes.
- The merchandising executive can define appropriate combinations of target gross margins & sales – to – inventory ratios to produce the target GMROI for the category dept.
- GMROI offers a composite measure for comparing key performance characteristics between product categories.
- GMROI is easy to calculate from data that are routinely available in most retail companies.

3.3 Measuring Inventory Turnover
The retailer should plan how much stock should be in inventory at the beginning & end of a budget period.
The store should contain inventory to be sold at the beginning of each selling period & at the end of the budget period to ensure a constant supply of merchandise.
It is the buyers responsibility to anticipate the store's inventory needs.

Inventory turnover refers to the no of times per year, on average, a retailer sells its inventory.
Inventory turnover is NB when buyers make decisions about merchandise.

An inventory turnover of 12 times indicates that:
on average, the retailer turnover or sells its average inventory once a month.
The more rapidly goods are delivered to the store, spend minimal time in the storeroom, are placed on the shelves & are sold quickly, the higher the turnover inventory will be.

Since buyers know they are being evaluated on a particular stock turnover performance, they need to plan for satisfactory results.
They have to be aware of the benefits of high turnover & realise that there are potential problems with the approaches used to improve inventory turnover.

3.3.1 The benefits of high turnover

A satisfactory inventory turnover is NB as too much inventory on hand ties up capital & therefore unnecessarily increases the cost of doing business.
Due to the advances in retail information systems (IT) , the majority of merchandise managers use point of sale terminals to capture daily sales made, & can immediately subtract this from the stock on hand. This approach has the advantage of being accurate as it is based on electronic date & average inventory estimates will be accurately determined.

The faster goods are delivered & 'spend time" (placed on the shelves & sold quickly) in store, the more rapid or higher the inventory turnover will be.

The benefits of high turnover can be summarised as follows;

1. **Increased sales volume (fresher merchandise)**
   Owing to the age of the merchandise , the higher the turnover, the more quickly sales are made.
   Fresh merchandise sells better & faster than old merchandise.
2. **Decreased risk of obsolescence & markdowns (less depreciation)**
   Goods lose their value as soon as they are displayed.
   The quicker the turnover, the less chance there is foe goods becoming obsolete.
   There is also less opportunity for the retailer to mark down goods in order to get rid of them.
3. **Improved salesperson morale/spirit.**
   Salespeople like to sell the latest merchandise.
   With rapid turnover, new merchandise is sold, resulting in sales staff feeling confident/ excited , & will try harder to increase the no of sales.
4. **Money availability for market opportunities.**
   With rapid turnover in inventory, money that was previously tied up in inventory is freed to buy more merchandise.
   This also has an increased effect on sales & gross margins.
5. **Lowered operating expenses**
   When turnover increases, a lower level of inventory supports the same level of sales.
   This results in inventory having lower carrying costs (lower insurance, taxes & borrowing costs)
6. **Increased asset turnover (higher returns)**
   Inventory is classified as a current asset.
   If inventory decrease & sales increase, asset turnover increases.

3.3.2 Potential problems with approaches to improving inventory turnover

- **Lower sales volumes**
  To increase turnover, the no of merchandise categories is limited.
  Therefore, customers may not always be able to find the the size or colour they are looking for, which could prevent them from visiting the store.
- **Increased cost of goods sold**
  To keep turnover high, retailers purchase merchandise more often in smaller quantities.
  This results in a lower average inventory & fewer opportunities to take advantages of bulk /trade discounts.
- **Increased operating expenses**
  Whether large or small quantity orders are placed, buyers spend the same amount of time processing orders(invoicing, receiving orders, etc) which tends to increase merchandise costs.
- **The difficulty of predicting or estimating the no of sales of a particular product** .
  Sales forecasting is the main financial objective that retail merchandise managers have to take into account**.**
  Predicting or estimating the no of sales of a particular product can be difficult & has an effect on the profitability of any store.

Learning Assessment

1. Discuss merchandise objectives with specific reference to input measures, output measures & productivity measures
2. Identify & discuss the different merchandise performance ratio's that the merchandise manager can use to set merchandise financial objectives.
3. As the merchandise manager of Markhams, explain how you would measure inventory turnover for your stores.
4. Discuss the advantages & potential problems with the approaches to improving inventory turnover for a retailer such as Game.

Study Unit 4 – Forecasting Sales

4.1 Introduction to Sales Forecasting

Forecasts are of vital NB because they influence the financial well being of retailers.
The main function of forecasts is to provide a basis for planning.

The first step in the merchandise management process requires buyers to forecast category sales.
To be able to estimate the demand for categories, the buyer has to know the methods that have an influence on the retail sales forecast.
These methods are the retail market potential of a sales trade area & the retail sales potential.
The market potential & the sales potential form the basis of the sales forecast.

Retail market potential

is the total rand that can be obtained by all stores selling particular product, product line or group services in a given retail trade area.
The 2 major determinants of the market potential for a trade area are:
the no of potential customers in the area &
the amount of consumers spend on the product or product lines.

Retail sales potential

Is the total rand volume that a particular retailer could expect to obtain in the retail trade area if everything is maximised.
The market potential is a total industry concept, while
sales potential refers to an individual retailer.
Methods of measuring sales potential include the chain ratio method & the standard industrial classification method.

Retail sales forecast

is the specific estimate of sales volume the retailer expects.
The sales forecast is crucial as it will dictate the amount of inventory that will be purchased.
The forecast can be made for an entire product line or for individual items in a line. "
The flow in developing sales forecasts may either be from top down or bottom up.
The top down approach starts with the market potential whereas the
bottom-up approach provides forecasts for various segments first, which are then combined to form a composite.

Sales forecast is the foundation of all budgeting & operational planning in all departments of the company.
Financial planning & purchase of merchandise depend on the sales forecast.
Sales forecast depends upon the retailer's predetermined goals & strategies.

Different sales forecast will result, depending on whether the retailer's goal is to liquidate excess inventory of a product or to expand market share by aggressive advertising.
Sales forecasting is a vital part of the merchandising plan.
Without being able to forecast anticipated or expected sales, it is impossible to estimate & know how the quantities or items that a merchandise manager should plan or buy.

4.2 Category life cycles

A category life cycle describes a merchandise category's sales pattern over time.
It is necessary to know exactly where a category is in its life cycle in developing a sales forecast & a merchandising strategy.
It also helps the merchandise manager to judge the products existing & future sales potential.
All products follow plateau patterns & then ultimately decline.
Category variables such as product category, competition, promotion & customers expectations will affect the category life cycle pattern.

Category life cycle can be divided into 4 stages

1. Introduction stage
2. Growth stage
3. Maturity stage
4. Decline stage

4.2.1 Stage 1: Introduction

A supermarket must review & evaluate approx 3000 new products items every year.
In the introductory stage, categories are characterised by low sales & losses & high risks.

The target market in a newly introduced category is often a high income innovator.
Innovators are usually business professionals.
Companies do not sell a large variety of goods at this stage.
They start with one or 2 assortments until sales increase.
Few outlets carry such a newly introduced product due to the obvious risk that it might not sell.

Either a skimming (high) or penetration (low) pricing strategy is applied in this stage.
eg. A skimming policy is typically used with categories that are in short supply & available only from limited / specialised retailers (eg. cell phones were originally expensive & only available from certain retailers).
However, a new grocery or household item is usually introduced to customers at a low retail price in order to achieve high market penetration.

Merchandise managers spend a lot of time on the promotion strategy of a category in its introductory phase.
They invest heavily in advertising in an effort to inform the customer about the category & gain ultimate customer awareness.
Personal selling & publicity are used to promote the product.

4.2.2 Stage 2: Growth

is regarded as the ultimate stage in which retailers would like to find their categories.
Categories in this stage tend to appeal to middle income customers.
Categories gain popularity here as they are more readily available by retailers, therefore accelerating sales levels.
The distribution intensity increases – more product variety is added to the line & more retailers stock the product.
To satisfy the growing no of customers, retailers thus stock an extensive variety of growth products. In terms of promotion, more persuasive strategies are adopted due to increased competition & availability.

4.2.3 Maturity

During this stage categories appeal to the mass market customers & the variety available tends to grow.
As in the growth stage, distribution intensity increases & the price decreases as it moves through this stage.

Sales increase at slower rate & finally begin to level off.
This stage is similar to the growth stage as categories are persuasively promoted & designed to persuade customers to shop at a particular store.
Categories in a mature stage are placed in a highly competitive market with falling prices & margins, & usually lower profits.
Many a product remain permanently in the maturity stage as their buyers maintain innovative strategies that are consistent with the mature product.
Eg. Coca cola remains popular among customers due to continuous creative advertising policies & competitive pricing.

4.2.4 <u>Decline</u>

Categories eventually approach the decline stage.
Prices decrease as retailers lower prices to get rid of merchandise that may be stuck on shelves.
Low-income customers eventually follow the trend that the categories have introduced.
Fewer retailers want to stock the category due to the decrease in demand.
As a rule, merchandise managers do not include declining products in their merchandise mix.
When cell phones were first introduced, they were targeted at higher-class income earners
& it was deemed prestigious to own such a commodity. Today almost every retailer sells cell phones, & almost everyone in the social class can afford to buy one. There is less variety, fewer outlets lower prices & limited or no promotions for categories in the decline stage.

4.2.5 <u>Variations in category life cycles</u>

The product life cycle can be applied to what is known as a fad, a fashion, or a staple.

<u>Fads :</u> are temporary periods of usually high sales driven by consumer enthusiasm & immediate product or brand popularity.

<u>Fashion</u>: Is a currently accepted or popular style in a given field.
Fashions tend to grow slowly, remain popular for a while & then decline slowly.

<u>Staple</u> : Staple merchandise experience relatively steady sales over an extended period of time.

Retailing fads is a risky business & buyers need to identify when a fad is at its peak , otherwise they may be stuck with a warehouse full of unloaded merchandise.
To distinguish between fads a& more enduring fashions, buyers should ask themselves the following questions:
- Is the trend compatible with the change in consumer life style?
- Does the innovation provide real benefits?
-Who is adopting the trend?

Buyers can use the PLC concept as a useful framework for describing how products & markets work.
However using PLC concept for forecasting product performance & developing strategies poses certain practical problems.
PLC can be a useful tool in forecasting sales.

4.3 <u>Forecasting staple merchandise categories</u>
Staple merchandise experiences relatively steady sales over an extended period of time with sales relatively constant from year to year.
Past unit sales data can be used to forecast sales.
adjusting a category's past sales figures to make projections / predictions for the future is the starting point in developing accurate sales forecasts.
Projections for sales forecast are based on the assumption that the factors affecting sales for the future will be the same & will have the same effect as they have had in the past. Sales are often predictable but controllable, & uncontrollable factors can still impact on them.

<u>Controllable factors include:</u>
the price set for the merchandise,
Promotions for a category &
Placements of the merchandise in the store.

<u>Uncontrollable factors include:</u>
the weather, economic conditions & the availability of product etc

4.4 <u>Forecasting fashion merchandise categories</u>
Although fashion merchandise lasts for several seasons, sales of specific SKU's can vary dramatically from one season & unpopular the next.
Forecasting sales can be challenging as items in the category can be new & differ from units in the previous year.

To be able to forecast, buyers need to conduct research & use a no of resources to make their decisions.

<u>Different sources</u>

<u>1.Previous sales data</u>
Real trends should be identified in order to determine a change in demands of a category.
If there is no real trend in the demand, the forecast can be to use past sales data.
Colours, styles & fabrics may change.
eg denim jeans which has been popular for many years but consumers have swung towards different coloured jeans rather than the classic blue.

2.Personal awareness

Customer information needs to be obtained by measuring customers reactions to merchandise through sales, conducting research (asking customers about the merchandise) or observing them.
Knowing what customers want is an integral part of predicting the future of one's business.
Sales staff have the most direct contact with customers.
Therefore it is NB that staff must pass information they receive on to buyers.
It is sometimes useful to document which kind of stock items customers ask for in a 'stock/want book".
To keep in contact with what customers want buyers can use the following techniques:
They can shop, converse , act, & notice .
The information obtained from these techniques will assist buyers to make informed pricing decisions.

3.Published Sources

Adjustments to sales trends should be based on economic trends in the geographic area for which the forecast is developed.
Gross national product (GNP), interest rates & unemployment rates should also be taken into account.
These statistics are available from trade publications containing survey documents or statistical websites directed at the retailer rather than the consumer.

4.Vendors & resident buying office

Vendors have access to an unlimited amount of information on future sales.
Resident buying offices are often a major source of external information on both new & popular merchandise.
These offices provide buyers with up to date information on:
products & styles,
manufacturer's latest offerings & promotional events.

5.Market Research

can be done in the form of depth interviews in which the interviewer asks an individual to discuss a topic in detail.
Focus groups can also be used in which small groups of respondents discuss specific topics such as their preferences & attitudes.
Focus groups are small groups of people who are guided into informal discussion by a mediator.
Market research can also be conducted by using surveys & experiment methods.
In surveys, customers complete questionnaires wrt their attitudes, buying behaviour & answer questions in detail.
Merchandise experiments are used to determine whether merchandise concepts will produce adequate sales.

6.Competitors

By keeping an eye on competitors &
studying their merchandise sales levels will assist the buyer to forecast future sales & pitch merchandise at the appropriate market segment.

Assessment

1.) Explain the difference between market potential, sales potential & sales forecast

2.) Discuss the different stages of the category life cycle in the context of a retailer such as Incredible Connection, a firm that sells computers

3.) Explain the difference between a fad, a fashion & a staple

4.) Explain the difference between a sales forecast for fashion merchandise & a forecast for staple merchandise

5.) Indentify & explain the different sources of information buyers use to develop a fashion merchandise sales forecast.

Study Unit 5 :The assortment planning process

5.1. The nature of an assortment plan:

Different terms used in assortment planning:
Product – physical object or service
Product Lines – includes all products or services offered
Variety – number of different products lines or merchandise categories stocked
Assortment – the choices offered in a product line
Merchandise depth – number of SKU's within each brand

5.2. Category variety and assortment

An Assortment plan is a list of SKU's that will be offered by the retailer.
Variety/breadth – number of different merchandise categories offered by the retailer.

5.3. Determining variety and assortment

Consider the following factors:

The firm's strategy
GMROI (Gross margin return of investment)
Physical characteristics of the store
The degree that merchandise complete one another
Trade-off between too much versus too little assortment

4 Basic variety/assortment combinations:
Narrow variety/shallow assortment
Wide variety/shallow assortment
Narrow variety/deep assortment
Wide variety/deep assortment

5.4. Setting inventory and product availability levels

Merchandise manager must consider the optimum level of back-up stock to be held for the assortment.

Factors in determining the safety stock to be kept:

1) Calculate safety stock for each SKU
2) Overall inventory investment depends on the product availability the retailer wishes to provide
3) The higher the fluctuation in demand the greater the need to keep safety stock
4) The amount of safety stock depends on product lead-time

5.5. Assortment plan

Merchandise list:

- ✓ **Basic stock list** – planning stable merchandise
- ✓ **Model stock list** - planning fashion merchandise
- ✓ **Never-out list -** planning key items/best sellers

5.6. Internet assortment planning issues

First, determine what will be sold over the internet

Factors which should be consider:

1) Customers
2) Competitors
3) Will the product look good?
4) Will the product sell well?

Secondly; assortment planning dilemma

Internet only retailers:

1) Are not constrained by their investment in stores
2) Do not have to stock every product they sell
3) Can provide a wider variety, deeper assortments and higher level of product availability

Study Unit 6: Allocating merchandise to store and analysing merchandising performance

6.1. Allocating merchandise to a store

6.1.1. Amount of merchandise allocated to a store

Smaller stores require a proportionally higher investment allocation than larger stores.

Depends on

- ✓ The size constrains of the store
- ✓ The physical characteristics of the merchandise
- ✓ The depth of assortment
- ✓ Level of product availability that the retailer wishes to portray for the store

6.1.2. Type of merchandise allocated to a store

Would be done according to store classification – size and sales volume, trading area (Demographics)

6.1.3 Timing merchandise allocated to a store

Push or Pull strategy to replenish stock.

Push strategy – applies the system where merchandise is allocated to the stores based on historical trends of demand.

Pull strategy – orders are generated at store level based on demand data captured at point of sale.

6.2. Analysing merchandise management performance

6.2.1. Sell-thought analysis

Compare actual and planned sales to determine whether more merchandise is needed to satisfy demand or whether markdowns are needed to sell excess stock.

The need for adjustments would depend on:

- Past experience with merchandise
- Plans of featuring the merchandise in advertising
- Availability or markdown money from vendors

6.2.2. ABC analysis

Rank order (A, B, C & D) procedure that groups product lines according to their actual performance and potential – 80/20 principal.

ID the performance of individual SKU's in the assortment plan

It can be used to determine which SKU should be in the plan and how much safety stock should be kept and resulting product availability is provided for each SKU in the plan.

6.2.3. Multi-attribute method for evaluating vendors

5 Step evaluation:

1) Develop a list of issues to consider in evaluation
2) Determine an importance weight of each issue
3) Make judgements about individual brand performance on each issue
4) Develop an overall score by multiplying the importance of each issue by the performance of each brand or its vendor
5) To determine the vendor's overall rating, add the products for each brand for all issues

Study Unit 7 : Branding Strategies in Merchandising

7.1 Introduction to Branding – Answer to Assessment Question (1)Define concept "Brand"

- A brand is essentially an organisation or product's identity in the world of business and helps to distinguish an organisation from its competitors or its products from those of its competitors.
- Brands represent consumers perceptions and feelings about a product and its performance. Brands exist in the minds of consumers and the real value of a strong brand is its power to capture consumer preference and loyalty. In much the same way as humans have faces and names to distinguish them from their friends, families and strangers, so too do products have brand names and/ or symbols to identify them and differentiate them from products

7.2 The Importance of brand names: – Answer to Assessment Q (2)Explain

- Most customers rely on brand names to distinguish certain brands from massive selection of products offered by competing marketers and utilise them to ultimately define their product choices and preferred merchandise mix.
- Buyers depend on brand names to help create merchandise collections that distinguish their stores from those of their competitors. The selection or creation of product brands to be included in the merchandise mix is also vital consideration in building customer loyalty towards both the stores product and retailer.

- Branding strategy adopted needs to be taken into account when retailers develop their merchandise and assortment plans
- The importance of integrating the planning and control functions in retail merchandising should not be underestimated because the success of the store relies on the effective planning and application of strategies, as well as the control mechanisms used by management.
- Assuming the buyers name and brand are associated with positive images created by user satisfaction, the store can position itself according to the consumer's ideal perception of quality.

7.3 Types of brands– Answer to Assessment Q (3)

7.3.1 Manufacturer brands- Q5

- These products are also referred to as "national or vendor brands" and are those products lines that are produces, owned, controlled, designed, and marketed by a vendor(manufacturer) and supply the buyer with their branded labelled merchandise.
- They are often referred to as national brands because they have countrywide recognition created through national advertising schemes responsible for the image and development of the brand and through national distribution systems. Eg ford motor company and Kelloggs corn flakes.
- Retailers often arrange their store by brand. Eg) Edgars has sections exclusively for Estee Lauder,Revlon and Levi Jeans. Selling manufactured brands adds credibility to a retail outlet because they are well known and many people are brand loyal and will ultimately go to stores that are offering the specific brand. The national status of manufacturer brands or labels creates the image of better quality, and to customers they represent a degree of certainty with minimum purchase risk in the sense that the brand is established and its quality consistent.
- An added *advantage* to buyers making use of manufacturer brands is the fact that they do much of the marketing of a product themselves eg. national advertising campaigns etc. Makes retailers life easier and considerably reduces marketing costs.
- *Disadvantage*: Vendors of strong brands dictate to their producers how their products should be displayed, advertised and priced and this may have either a negative or positive impact on store display and assortment. Stores may be well stocked with the same brands which could mean a decrease in customer loyalty towards the retailer
- Best insurance for continued success for manufacturers is to build brand franchise.
- Strong brand recognition makes it more difficult for retailers to replace the branded product with their own private label copy of the product.
- Problem facing retailers is that rely on brand merchandise to differentiate their merchandise mix is the fact that many competitive retailers stock the same items and use the same resources . The result of this approach is that many merchandise mixes are identical and suffer a loss of having a competitive advantage.

7.3.2 Private label brands

- These products are sometimes known as "store brands, "house brand or own brands and are developed, owned, controlled and produced by the retailer. An example here would be Game's "no-name brands" (although it is referred to as a no-name brand, it is clearly a brand in its own right). These are used when a store has established a reputation for itself and when its own name carries considerable marketing clout. Generally, retailers will develop

  specifications for the particular product and then contract a manufacturer to produce the goods in question.

- There are 4 categories of private brand: premium, generic, copycat and exclusive co-brands. Premium brands offer the consumer a private label that is comparable to, or even superior to, or even superior to, a manufacturers brand quality, sometimes with modest price savings. Generic brands target a price sensitive segment offering a no frills discount price.eg)milk and eggs in grocery store. Copycat brands imitate the manufacturer's brand in appearance and packaging, generally are perceived as lower quality and offered at lower price. Exclusive co brands is a brand that is developed by a national brand vendor, often in conjunction with a retailer, and is sold exclusively by retailers.eg)canon digital camera sold at best buy might have a different model number than a canon digital camera with similar features available at circuit city.
- Private brands are not that popular because of the extensive advertising of national/manufacturer brands.eg) of retailers with private brands are Ok Bazaar, which used to own the Pot o' Gold and ladybird brands before Shoprite-Checkers bought them. These products are seen to be superior to national brands.

7.3.3 Licensed brands

- Is a special type of manufacturer brand. A product's greatest asset is often the intangible benefits and psychological symbols associated with its name. Licensed merchandise includes those product lines that are designed and sold through identification with a famous individual or corporate name, logo or fictional character. The owner of the name, logo or character develops a contractual agreement with a retailer or third party, allowing licensees to use that identification on products they make and sell.eg)cartoon characters (mickey mouse)fashion designers(Chanel).Buyers should always be selective when choosing from a vast selection of licensed merchandise.
- Licensed names with widespread media exposure do extremely well in the short run but it is highly recommended that a retailer first evaluate the quality, design, price and compatibility with current store image and customer needs as they would any normal item or potential product. A problem to consider when choosing which licences the store should carry is the accelerated product life cycle of licensed goods. The merchandise manager must note the timing of the introduction and discontinuation of sales of a licensed product line. Many licensed products such as designer clothes remain strong sellers for years but others such as those attached to one-time events(eg Olympic games or the occurrence of Halleys Comet can have sales that peak within months and then fall unexpectedly.
- Licensed brands have grown in popularity in recent years.eg) Walt Disney sold licenses to various manufacturers to produce Mickey mouse t-shirts and accessories. Today there are a huge number of Walt Disney items available worldwide. If a store does not buy the relevant licence allowing it to supply the goods, it will be guilty of counterfeiting.
- The internet affords licensors a huge opportunity to sell merchandise directly to consumers. As a result, some licensors will not allow their licensees to sell to online retailers in an effort to keep more business for them.

7.3.4 Generic brands- Answer to Assessment Q (6)

- Private label options that can be considered are generic or house brands, bargain branding, copycat branding, premium branding and parallel branding.
- Generics are a special category of private brand labels. Some stores sell generic products, which are goods not labelled with tradition brand names. Typically such products come in plain white packages with black lettering giving a basic product description. The perception is that because they are not promoted, these generic product lines are less expensive than similar products. Many people also perceive them as low quality products. Yet generic product lines are in fact very distinct brands. Their unique package design allows customers to recognise them easily. More importantly, they have a certain association and bundle of perceptions that differentiate them from competing and traditional brand name products.

- Generic products are normally found in grocery stores and pharmacies. They became successful because they were priced lower, especially in the pharmaceutical industry. Many medical aids encourage the use of generic medicines as substitutes for brand name medicines. Eg) Brand Name: **Panadol** Jr. **Generic** Drug: Acetaminophen.

7.4.National brands (manufacturer brands)or private label brands(store brands)

- The battle of the brands (manufacturer versus private brands) is ongoing. In each merchandise category and classification, manufacturers and retailers are continuously changing strategies in a attempt to find the right collection of products for their hosen markets.
- Retailers have many advantages. Retailers control what products they stock, where they are placed on the shelf, what prices they charge and which ones they will feature in local marketing material. Retailers also charge manufacturers slotting fees, that is, payments from the manufacturers before the retailers will accept new products and find slots for them on their shelves.
- Private brands can be hard to establish and costly to stock and promote. however they also yield higher profit margins for the retailer. They give retailers exclusive products that cannot be bought from competitions, resulting in greater store traffic and loyalty. Retailers price their store brands lower than comparable manufacturers brands, thereby appealing to the budget-conscious shopper, especially in difficult economic times. Many shoppers believe store brands are often made by one of the larger manufactures anyway.

Answer to Assessment Q (7)- The advantage and disadvantage of private brands

The advantages of private brands:

- They promote store loyalty
- If they are high quality (st Michaels at Woolworths), they enhance the stores image
- If they are successful brands, they can draw new and existing customers to the store.

The disadvantages of private brands:

- Additional investments costs for design, marketing and developing an image are high
- It takes time and money to train staff to sell the products efficiently
- If merchandise does not sell, the retailer cannot return it to the manufacturer.

Question and answer from assignment 3 2011

Discuss alternative branding strategies you could use and evaluate each strategy's suitability as an online branding strategy. Indicate which one of the branding strategies you would select, and justify your choice.Also Relates to Assesment Q4 SG

Answer:

Branding is one of the most important strategic merchandising decisions facing a retailer. The types of brands a retailer chooses to carry will influence the way a customer evaluates a store. Brands influence a customer's loyalty to a store and how he or she perceives it. In fact, it could be the brands a store carries, that attract the customer to the store in the first place.

This is equally true of the internet. It has grown dramatically in recent years as an alternative or additional channel for retailers to use to reach their target markets. In the case of online retail sales, the internet is already generating billions of rand globally in sales revenue. There are few who doubt that the internet will continue to grow as a key retail channel.

The role of branding is just as important in the online world as in the physical marketplace. The next section deals with branding strategies and places them in the context of online retailing.

Typical branding strategies

In this section you would lay the basis for further discussion, by outlining typical branding strategies encountered in the traditional retailing environment. These strategies are covered in some depth in both your study guide and prescribed book.

The strategies include the following:

• **Manufacturer brands**

These products are also referred to as "national brands" and are products designed, produced and marketed by a manufacturer. The manufacturer is responsible for developing the merchandise and establishing an image for the brand. The manufacturer may either own the brand outright, or may license the brand from another brand owner. An example of a manufacturer's brand is Levi jeans. Retailers often rely heavily on manufacturers' brands. Customers tend to look specifically for stores that stock Levi jeans. Some retailers even organise their stores around their most important national brands.

• **Private-label brands**

These products are sometimes known as "store brands" and are developed and marketed by a specific retailer. An example here would be Game's "no-name brands" (although it is referred to as a no-name brand, it is clearly a brand in its own right). These are used when a store has established a reputation for itself and when its own name carries considerable marketing clout. Generally, retailers will develop specifications for the particular product and then contract a manufacturer to produce the goods in question.

• Combining branding strategies

It is not uncommon to find retailers that stock both manufacturer brands and their own private-label brands. The mix of brands is a key strategic decision for retailers to make. If we look at the appliance industry, for example, we will find that Game markets manufacturers' brands from companies such as LG, while also possibly marketing its own house brand.
The next section examines the same branding strategies, but in the context of the internet.

Online branding strategies

The internet is nothing more than another channel to market products or services.
The factors that play a role in the traditional marketplace are generally equally relevant in the online world. There may well be differences in importance, intensity or effect, but branding is just as important (perhaps even more so) for the online retailer as it is for your traditional retail store.
Branding is essential on the internet because consumers are bombarded with hundreds, even thousands, of competing offerings. When purchasing products on the internet it is often difficult to determine who the actual retailer is. It may be a oneperson operation selling goods from his or her lounge at home. If he or she is selling goods that the consumer is unfamiliar with or products that are generic, then returning them could be problematic. The whole idea of a brand is to instil a degree of trust in consumers. Consumers recognise the brand and feel confident that if they buy the product concerned, they will receive what they expect. If something goes wrong, they know they will be able to sort out the problem.
This is particularly true of manufacturers' brands. In the case of a private-label brand, the retailer in fact puts its stamp of approval on the product being sold – if the consumer trusts the retailer, he or she will feel confident buying from it. However, in the physical marketplace, even with less well-known products or retailers, there is a physical entity to turn to – a shop or person that the consumer can return to if he or she needs to complain about the product. This is not the case in an online environment. Everything happens in the virtual realm. Hence branding is possibly even more important here than in the physical

world. It provides online shoppers with a degree of trust in a world of "bits and bytes". If shoppers know the brand (be it a manufacturer's or private-label brand), they will be happy to buy from the online store. They will be confident about the product they are buying and know that it comes with some or other guarantee.

Study Unit 8 : Staple merchandise management systems

Explain what Staple Merchandise is? **Answer to Assessment Q (1)**

Staple merchandise categories also called basic merchandise categories, consist of items that are in continuous demand over an extended time period. The number of new product introductions in these categories is limited. Some eg) of staple product include most categories sold in supermarkets, housewares, white paint, copy paper, hosiery, inexpensive watches, basic casual apparel such as t-shirts, and men's underwear.

8.1 Introducing staple merchandise management system- Answer to Assessment Q (2)

- Staple goods are those items that sell steadily from day to day and sales levels remain relatively constant throughout the year. Because staple merchandise items are continuously sold over a number of years, there is a sales history of each SKU(stock keeping unit) and standard techniques can be used to forecast sales.
- The importance of staple goods should never be underestimated. Customers expect to find certain types of staple merchandise in a store department. Not having the items there when the customer's wants them can mean lost sales, loss of assortments image and damaged goodwill/service to customers. In addition, in the process of looking elsewhere, the customer may decide to switch to a competitor whose stock of staples is always well maintained.
- Inventory for which the level goes up and down due to sales and replenishment process is called **cycle stock or base stock.** The retailer hopes to reduce the base stock inventory to keep its inventory investment low. One approach for reducing the base stock is to reorder and receive merchandise from the vendor more often instead of once every other week
- Buying systems for staple merchandise provide specific information on how much of a particular SKU to purchase. Forecasts are fairly simple for staple merchandise and involve either extending sales trends or using historical data from past to estimate the future. Exponential smoothing is the system used for forecasting staple goods. The new forecast, which the planner calculates using exponential smoothing, is referred to as de-seasonalised demand.
- Staple merchandise buying systems are designed for staple goods that follow an obvious order-receipt-order cycle. Staple merchandise buying systems make use of past sales history to predict future sales. These systems would not be suitable for fashion merchandise because such merchandise does not have a history from previous seasons on specific SKUs.
- **Back –up, buffer or safety stock** is inventory used to guard against running out of stock when demand exceeds the forecasts or when goods deliveries are delayed. The size of back-up stock depends on the factors that could interrupt deliveries. Suitable guidelines can be developed on the basis of experience in the associated industry.

Factors that determine the level of required back-up stock include the ffg:

1. the product availability the retailer wishes to provide
2. the fluctuation in demand–the greater the fluctuation, the more back up stock is needed
3. lead time from the vendor
4. fluctuations in lead time
5. the vendors product availability

Computerised staple merchandise buying systems contain a number of programme modules that show a buyer how much of a specific item to order and when the order should be placed. These **systems assist merchandise planners by performing the following 3 main functions**;

1) monitoring and measuring average current demand for items at the SKU level
2) forecasting future SKU demand, thus making allowances
3) developing ordering decisions rules for optimum restocking

the information needed to perform these functions is obtained from the inventory management report.

8.2 The inventory management report

- provides information on sales velocity, inventory available, the amount on order, inventory turnover, sales forecast and the quantity to order.
- Exhibit 13.2 on page 361 PB is a sample of inventory management report. The length of the schedule predominantly depends on how often the planner wishes to review vendors lines.
- A basic stock list is a schedule (or plan) that includes staple items that should be in the store at all times. The schedule is quiet specific and will identify goods by brand, colour, size, price and other controllable variables. It therefore describes each SKU and summarises the inventory positions of a stock item.
- Eg) a basic stock list for a retailer selling mens boxer shorts will be compiled by detailing a specific brand and style of mens boxer shorts in yellow and a large waist size as one SKU, while the same style and size in blue will be another SKU. Thus the basic stock list defines each SKU in precise rather than general terms.
- Inventory turnover, based on overall financial goals, drives the inventory management system. Actual inventory turnover is not always the same as planned turnover. Regarding product availability, determining the appropriate planned level of product availability for staple merchandise may be difficult and requires considerable managerial skills.
- Eg) could be a product that was forecast to sell 100 units in the past 4 weeks, but only 80 units were sold. A planner will have to study that decrease to forecast the next 4-week period, and must also be careful not to over forecast because the decrease may have been a random occurrence.

8.2.1 Order Point

- The desired inventory level should be regarded as an order point. Whenever stock of an item falls below this point it should be reordered.
- The order point can be defined as:
- Order point =[(sales/day) (lead time + review time)] + (back –up stock)
- Lead time is the length of time between the order placement and receipt of goods. A lea time of two weeks might be sufficient to establish a minimum stock kevel of two week's supply. However, if anything were to go wrong(and in practice, it usually does), a stock-out would occur before the order was received. A strike, shipping delays, manufacturing problems or unforeseen weather conditions could seriously delay the

arrival of the merchandise. This stock-out could continue for several weeks, which explains why most retail organisations keep safety stock to prevent such a situation.

- Eg: Assumes sales are 10 units per day and the lead time is eight days. Review time is two weeks and 15 units of back-up stock are kept.
- Order point = [(10 units) (8 + 14 days)] + (15 units) = 235
- Therefore the buyer orders when the quantity available falls to 235 units or less.

8.2.2 Order quantity

- Order quantity reflects the number of units ordered. Enough of an item should be ordered to prevent depletion of the cycle stock and of sales dipping into back-up stock before the next order arrives. Order quantity is calculated as the difference between the quantity available and the order point. The quantity available is the quantity on hand plus the quantity on order.
- With the above example in mind, if a retailer has 60 units on hand and 100 on order the order quantity will be 75 [235 – (60+100)].

Assesment Q(3) elaborate on the following terms used in the inventory management report:

Product availability: is defined as the percentage of demand for a particular SKU that is satisfied. Eg) if 100 people go into Macys department store to purchase a pair of traditional, light blue, denim jeans and only 90 people can make the purchase before the stock in the store is depleted, product availability for that SKU is percent. Product availability is also referred to as the level of support or service level.

Order point safety stock levels: is the amount of inventory below which the quatity available shouldn't go or the item will be out of stock before the next order arrives.

The order point can be defined as:

Order point =[(sales/day) (lead time + review time)] + (back –up stock).

Lead Time: is the time between the recognition that an order needs to be placed and the receipt of the merchandise in stores, ready for sale. However buyers might not receive each SKU every day.

STUDY UNIT 9 NOTES: Merchandise Budget Plan

- Is a financial plan that specifies how much money will be spent each month to support sales and achieve the desired inventory turnover and GMROI objectives.
- It specifies the planned inventory investment in dollars in a fashion merchandise category over time.
- It answers the inventory question of how much money the retailer should invest in merchandise during any specific period.
- It isn't a complete buying plan because it doesn't indicate the specific assortment of SKUs to buy or the quantities.
- **Purpose:**
  - Is to help the retailer realise the financial objectives of profitability.

- **Items included in it, that affect profit returns:**

1. Retails Sales

➢ Starting point in developing a merchandise budget is a sales plan.

➢ Sales are 1st planned according to season, then on a monthly basis.

2. Inventory levels

➢ Retailer's inventory planning and controlling tactics should:

- Meet the expected sales figures
- Avoid out-of-stock situations
- Prevent the organisation from overstocking items
- Keep inventory investment at an acceptable level

3. Retail Reductions

➢ Anything other than sales that reduce the inventory value:
Example: Markdowns, Shortages and Employee discounts.

4. Retail purchases

➢ Retailer has to plan and control monetary amount of purchases for a given period – because stock amount at beginning of period should equal to amount of stock at the end of period.

5. Profit Margins

➢ A fundamental part of developing the merchandise budget is to allow for an acceptable profit by ensuring an adequate gross margin.

- Gross margin = difference between Cost of sales and Net sales received.

Components and Calculations included in the Merchandise Budget Plan: NB: EXHIBIT 13.3 on Page: 362

1. Monthly sales percent distribution according to season

➢ Indicates the expected percentage of total sales to be sold in each month.
Eg: owing to festive season, sales in a toy store would probably be higher during December than any other month.

2. Monthly Sales

➢ Sales planning by month entails performing the task of dividing planned sales into monthly sales figures.

➢ Use historical records as a starting point to determine the percent distribution by month.

3. Monthly reductions percent distribution according to season

➢ Merchandise budget planners must consider the following factors: - because if they don't the retailer faces a high risk of running out-of-stock:

- Markdowns – reductions in original price, for the purpose of stimulating sales.
- Discounts to employees – reductions in original price, a fringe benefit to employees.
- Shrinkages – reductions in total value of inventory, due to shoplifting or merchandise being damaged.

4. Monthly Reductions

➢ Are expressed in monetary value, and are calculated in the same way as monthly sales.
EG: Monthly reductions = Total reduction * monthly reduction percentage

5. <u>BOM (Beginning-of month) stock-to-sales ratio</u>

- Is the commonly used technique to determine the amount of monthly stock needed to support monthly sales.
- This ratio reflects the relationship between the money needed in inventory at the beginning of a month to support planned sales for that month.

- **STEPS to determine BOM stock-to-sales ratio:**

a) Calculate the sales-to-stock ratio
- GMROI = Gross margin percentage * sales-to-stock ratio

b) Convert the sales-to-stock ratio to inventory turnover
- Inventory turnover – defines both sales + inventory @cost.
- Sales-to-stock – defines sales @retail + inventory @ cost

c) Calculate average stock-to-sales ratio
- STOCK in sales-to-stock = average inventory @cost over all days in the period
- STOCK in stock-to-sales = average BOM inventory @retail

d) Calculate monthly stock-to-sales
- When sales are large, stock-to-sales are smaller and vice versa.
- Planner examines previous stock-to-sales to determine specific monthly stock-to-sales ratios.
- Adjustments are made if there are any major fluctuations or if the current environment has changed.
- **Other techniques that can be used:**
  - basic stock method
  - inventory turnover rate
  - percentage variation method
  - gross @
    margin return on inventory investment method

6. <u>BOM Stock</u>

- Amount of inventory planned for the beginning of the month equals the monthly sales times BOM sales-to-stock ratio

7. <u>EOM (End-of-month) stock</u>

- The BOM stock represents the EOM stock from the previous month.
  EG: April's EOM inventory stock = May's BOM Stock

8. <u>Monthly additions to stock</u>

- Reflects the amount to be ordered for delivery in each month given the turnover and sales objectives.
- It is equal to sales plus reductions plus EOM inventory minus BOM inventory
  EG: "Additions to stock = sales + reductions + EOM inventory – BOM inventory"

<u>Other methods to determine inventory levels:</u>

a) Basic Stock method

- Is designed to meet sales expectations and avoid out-of-stock situations by starting each month with inventory levels that equal the estimated sales for that month plus an additional basic stock amount that serves as safety stock should actual sales exceed estimated sales expectations.
- **<u>Advantage:</u>**
- Of keeping safety stock is that it protects the retailer from stock-out situations if future deliveries of merchandise are delayed or arrive damaged.
- **<u>Disadvantage:</u>**
- The retailer has to make a larger investment in keeping more stock and carrying greater inventory costs.
- It will not work if inventory turnover is greater than 12months.

b) Percentage variation method

- This method attempts to adjust stock levels in accordance with actual variations in sales.
- **<u>Advantage:</u>**
- Buyers use this method with merchandise categories with a high turnover rate because it results in less stock fluctuations than in the case of the Basic stock method.
- **<u>Disadvantage:</u>**
- It has the same disadvantages as the ones for the Basic stock method.

c) Weeks' supply method

- This is a stocking plan that determines inventory levels in direct proportion to sales.
- It uses a desired annual stock turnover rate to establish the amount of stock needed to cover a pre-estimated number of weeks.
- **<u>Advantage:</u>**
- It is appropriate for retailers whose merchandise categories show stable sales and stock turnover rates.
- **<u>Disadvantage:</u>**
- During weeks with slow turnover, there will be an excessive accumulation of stock.

<u>Merchandise Budget Management</u>

- Is a primary function of planning and controlling the merchandise mix.
- **<u>Advantage:</u>**
- It helps to identify any areas that are not performing well against the standards set in the budget.
- Tools used for planning and control: Merchandise Budget Management:
- GMROI
- Inventory turnover
- Sales forecast

The process of preparing and planning merchandise budgets is useless unless the results are monitored closely to determine whether the merchandise objectives are actually met.

STUDY UNIT 10 NOTES OPEN-TO-BUY SYSTEM

- Is a critical component of the retailing merchandising management process because it determines the ultimate use and effectiveness of the merchandise budget plan.
- It begins when the merchandise budget plan nears completion.
- It is used after the merchandise is purchased and is based on the merchandise budget plan.
- It keeps track of merchandise flows as it occurs.
- It keeps a record of how much is actually spent purchasing merchandise each month and how much is left to spend.
- It is the most commonly used approach and involved the allocation of a budget to buyers for a given time.
- It is defined as the figure used to “control” the retailer’s utilisation of the planned purchases figure.
- It’s amount is equal to: planned purchases Less goods already bought.
- It commences with the additions to stock from the merchandise budget plan and keeps track of how much merchandise is purchased for delivery in each month.
- It is the difference between planned EOM inventory and the projected EOM.

- **Methods used to Calculate it:**

➢ Past period [Calculating open-to-buy for past periods]
- Check exhibit 13-4 on page 369
- Projected EOM stock = actual EOM stock and
  Open-to-buy for past period = 0 [zero]

➢ Current period [Calculating open-to-buy for the current period]
- Open-to-buy = Planned EOM inventory – projected EOM inventory

➢ Future period [Calculating open-to-buy for future periods]
- Projected BOM stock + actual on order – planned monthly sales – planned reductions for the month.

Study Unit 11: Buying national and private brand merchandise

1. Buying National Brand Merchandise

Meeting with vendors

- Buyers need to decide what type of merchandise to buy for a category.
- For this decision they can go to wholesale market centres.
- Wholesale markets are a concentration of vendors in a specific geographic location or even on the internet.
- These markets may be permanent wholesale market centres, annual trade shows or trade fairs.

Negotiating with vendors

- Negotiation is a communication process whereby two parties confer with each other to settle some matter and reach a sound conclusion on the basis of their discussions. The following are issues that a retailer has to address when negotiating with a vendor: (Assessment Q 1)
- ✓ **Consider History:** if one is aware of a vendor's past, then one can identify and build on the foundations of mutual trust and communicating each other's goals.
- ✓ **Assess where things are today:** a long term perspective should always be maintained and although vendors have sold and delivered the required merchandise to the retailer, they should still act responsibility by following up the sale and providing added customer service.
- ✓ **Set goals:** besides considering past sale patterns, buyers must set goals such as the following to outline the negotiating strategy:
- Additional mark-up opportunities should be pursued
- The terms of purchase should be renegotiated
- Delivering goods on time and exclusivity in the sense of being the only retailer that carries a certain product helps to a achieve a competitive advantage for the store
- Advertising allowances can be made where vendors and retailers share the advertising costs of the products.
- ✓ **Transportation:** the question about who will pay for the shipping of the merchandise from vendor to retailer will have to be negotiated.

Tips on effective negotiating (Assessment Q2)

- Having as many negotiators as vendors. Since there is power in numbers, there should be as many negotiators as there are vendors.
- Choosing a suitable place to negotiate. Location is a vital consideration in the negotiation meeting. Let the negotiations take place on familiar ground with access to resources such as a secretary and relevant documents.
- Be aware of real deadlines. By recognizing the importance of setting deadlines, vendors will be able to achieve decisive and informed closure of a negotiating session.
- Separate people from the problem. Do not use threats. These do not work and will put the other party on the defensive.
- Insist on objective information. Know exactly what you want and work on a long-term profitable relationship.
- Invent options for mutual gain, but know when and how much to give or give up.
- Let them do the talking. There is a natural tendency for one person to continue talking if the other person involved in the conversation does not respond. In negotiations, the one who breaks the silence first, loses.
- Know how far to go. Do not cross the boundaries of a legal, ethical and profitable relationship.
- Do not burn bridges. You don't want to be known as unfair or rude in a trade.
- Do not assume. Always review the outcomes of the negotiation and confirm them in writing as soon as possible after the meeting.

2. Buying Private Label Merchandise

- **Reverse Auctions**
- Some retailers use reverse auctions to obtain quality private label merchandise.
- These auctions are conducted electronically by retail buyers of private label merchandise.
- They are called reverse auctions because there is one buyer, the retailer, and many potential sellers, the manufacturing firms.
- The retail buyer will provide specifications of the merchandise it needs and ask potential vendors to bid on it.
- Problems with reverse auctions are that the vendors do not always want to participate in a process where price and not the quality of the service are important. Its also difficult to develop strategic relationships electronically.

3. Global sourcing

- **There are many advantages to sourcing merchandise internationally and these include** : (Assessment Q3)
- Foreign markets provide opportunities to discover and obtain unique and distinctive products that will help retailers establish a differentiated advantage in merchandise assortments.
- Cost structures in most product categories are equal to and often better than domestic sources.
- Foreign manufacturers are more willing to adjust their production to a retailer's markets and operating needs.
- Foreign products have a real perceived status of quality and prestige in many product categories compared with similar domestic items.

- **Costs associated with global sourcing decisions** (Assessment Q4)
- **The buyer has to be aware of subtle expenses that may increase costs :**
- **Country-of-origin Effects**: South Africans have become more aware of international brands in the past 5 years. Labels are an integral part of anyone's wardrobe and people like the fact that they own an 'imported well know' brand. The cost of these goods are much higher than local brands (currencies vary).
- **Foreign currency fluctuations:** this is one of the main cost considerations. If the value of ZAR weakens then the price of goods will fluctuate in relation to the various exchange rates. Costs include R - $ exchange rate,shipping costs and export duties.
- **Tariffs:** aka 'a duty', tariffs are a list of taxes levied by a government. These are enforced to protect local manufacturers from foreign competition and to generate money for the government.
- **Cost of carrying inventory:** the cost of inventory is higher when buying from an external country than from local sources. Lead time is longer and more inconsistent because of factors such as increased distances, bad weather, customs. Strikes or bureaucratic problems. Cost of carrying inventory is defined as: the opportunity cost of capital is the rate available on the next best use of the capital invested in the project at hand.
- **Transportation costs:** the further merchandise has to travel the higher the transport cost will be for any mode of transportation used. The cost of transporting goods in SA is fairly high for all modes of transport.

- **Managerial issues associated with global sourcing decisions**
- Buyers need to look at the management function of quality control and building strategic alliances and their effects on international sourcing decisions.
- When sourcing internationally, it is more difficult to maintain and measure quality standards. Distance is a critical part of quality control because the further away the manufacturer is, the more difficult it is to pick up defects or problems.
- Quality controllers check the goods before they go out but sometimes the defect are only detected after the reach the country where they will be sold.= time delays, irritated customers and fewer sales.

Assessment questions

1) Explain the issues a retailer has to address when negotiating with a vendor?
2) What would you tell a person who asks you for tips on effective negotiating?
3) Discuss the advantages that merchandise managers have in sourcing merchandise internationally?
4) As a merchandising manager at incredible connections you are considering sourcing stock from abroad. Identify and explain the different costs involved in global sourcing decisions?
5) Discuss 4 reasons why buyers may choose to source merchandise available locally or made in SA?

STUDY UNIT 12: Support services and strategic relationships

Support services for the buying process

Resident buying offices: (assessment Q1)

When buyers wish to enter an international wholesale market, they can they can use the services of resident buying offices, which are organizations located in major market centres. These organizations provide the buyer with office space, travel advisors and emergency aid. The resident buying office may accompany the buyer to appointments and act as an interpreter, negotiator and accountant. These organizations can also keep the buyer abreast of what is happening in the market through reports and constant communication.

The internet:

Retail exchanges are providers of internet-based solutions and services for retailers. They offer software and services that improve efficiency by streamlining and automating sourcing and supply chain processes. The objectives of the exchanges are to provide a single, central hub that connects trading partners and promote collaboration between retailers and vendors. The philosophy behind the exchanges is that retailers and vendors would have unlimited access to their vendor's production data and vendors would have instant access to retailer's sales projections.

Defining strategic relationships

A strategic relationship aka partnering leadership can be defined as a mutually beneficial investment relationship between a retailer and a vendor over an extended period of time during which value is created and shared between the 2 parties. Since both parties benefit- it's a win win situation.

Retailers and vendors build relationships because of their mutual interest in profit. These relationships are most common when goods are commodities that have little impact on the retailer's performance. This type of arrangement does not have any of the qualities necessary to achieve a competitive advantage. This relationship is typified when one party receives a larger portion of profit sharing, with the other obtaining a smaller part. This is a win-lose relationship. To achieve profitability both the vendor and retailer must enter a partnership that will lead to a competitive advantage and = a win-win relationship. Trust in a partnership is vital.

Maintaining strategic relationships(assessment Q2)

To maintain successful retail-buyer relationships, the following 4 factors need to be considered:

1. **Mutual Trust** – trust is a belief by one party that the other party will fulfill its obligations in a relationship. A vendor, who always delivers goods on time, takes it customers needs into account and provides appropriate service through such actions, earns valuable trust.
2. **Open Communication-** with trust, openness,honesty and the ability to communicate each others needs effectively, the buyer and vendor will have in place the fundamental key to developing a successful long term relationship. They should recognize and identify the need to know what drives each others business, their roles in the relationship, each companys goals and recognize any problems that may arise.
3. **Common Goals-** for a good relationship to develop, vendors and retailers must have common goals. Such goals underline the fact that both parties are for more commited to the relationship than working towards individual separate objectives.
4. **Credible Commitments-** these are tangible long-term investments in an effective strategic relationship. This is where the saying ' put your money where your mouth is' makes sense. Both parties must be willing to make monetary commitments in order to improve the supplier's products and add value to the services provided to the customer.

Building partnering relationships

The development of a strategic partnership tends to go through a series of phases characterized by increasing levels of commitment. The levels are: (assessment Q3)

1) Awareness Stage: the buyer is exposed to new merchandise and may decide to investigate it.
2) Exploration : the buyer and vendor begin to explore the potential benefits and costs of a partnership.
3) Expansion: the buyer and vendor begin to work on joint promotional programmes and the amount of merchandise sold increases.
4) Commitment- both parties find the relationship mutually beneficial. The buyer and vendor make investments in the relationship and develop a long term perspective towards it.

Assessment questions

1) Explain the 2 services that are available for buyers to acquire merchandise
2) Discuss how to maintain successful retail buyer-vendor relationships and the factors the buyer needs to consider
3) The development of strategic partnership tends to go through a series of phases characterized b increasing levels of commitment. Discuss these stages

STUDY UNIT 13: Legal and ethical issues in merchandising

Legal considerations are an integral part of the merchandise manager's daily operations. He/she must consider the legal aspects of retail competition, store operations and retail merchandising in the legal environment.

The retailer should be familiar with regulations of the retail system, and must also understand evolving legal patterns in order to design future retails strategies that are legally defensible.

Many retailers and manufacturers have adopted a professional code of ethics. These professional codes directly affect the vendor-retailer relations:

- 1st - The code attempts to avoid conflict with the law, often by stating and interpreting it.
- 2nd - They serve to maintain relationships between vendors and retailers.

Business activities are governed and restricted by laws and are part of the social process, retailers must have some legal knowledge as they respond to social needs. By regulating competition, government tries to ensure that no one group gains too much economic power and that consumers have a wide variety of choice. **The regulations used by government fall into three categories:**

- Anti-trust laws
- Price competition
- Unfair trade practice laws

<u>Legal and ethical issues that buyers are faced with:</u>

1. Terms and conditions of purchase

- The Robinson-Patman Act [Anti-Chain Store Act]
- It was passed to protect independent retailers from chain-store competition.
- It forbids vendors from offering different terms and conditions to different retailers for the same merchandise and quantity.
- However, vendors can offer different terms to retailers for the same merchanduise and quantities if the costs of manufacturing, selling, or delivery are different.
- Different prices can also be offered if the retailers are providing different functions.
- Lower prices can be offered to meet competition and dispose of perishable merchandise.

2. Resale Price maintenance [RPM]

- Is a requirement imposed by a vendor and states that a retailer cannot sell an item for less than a specific price.
- Is an approach for reducing free riding.
- Has been viewed as a restraint of competition and illegal in the past, it is now legal, as long as it promotes inter-brand competition.
- If retailers violate RPM, the vendor can terminate its relationship with the retailer.
- This gives vendors the right to choose with whom they wish to deal.

3. Commercial bribery

- Occurs when a vendor or its Agent offers or a buyer asks for "something of value" to influence purchase decisions.
- In an effort to prevent this, some companies enforce a rule or standard policy that no gifts from vendors are permitted.
- Other retailers view a corporate lunch or bunch of flowers as harmless, but a good rule would be to accept limited entertainment or token gifts.
- When a gift is large enough to influence a buyer's purchasing behaviour, it is considered to be commercial bribery and therefore illegal.

4. Chargebacks

- Is a practice used by retailers in which they deduct money from the amount they owe a vendor.
- Retailers often chargeback vendors when the vendor did not meet the agreed upon terms, such as improperly applied labels to shipping containers or merchandise, missing items in the shipments, or late shipments.
- Are difficult for vendors because once the money is deducted from an invoice and the invoice is marked as "paid", it is difficult to dispute the claim and get the money back.
- Vendors feel that the chargebacks retailers are not justifiable and thus unethical.

5. Slotting allowances

- Are the fees manufacturers pay retailers for access to the slot or location the retailer must make available in its distribution centre to accommodate the manufacturer's new brand.
- Such allowances are generally found in both the food and music industries.
- Provides the retailer with what effectively amounts to an insurance policy against the prospect that a brand might fail.
- Are legitimate costs of doing business.
- However, some vendors see slotting as a form of bribery.
- The retailer who demands slotting allowances denies the manufacturer shelf space unless the manufacturer is willing to pay the up-front fee to acquire that space for its brand.
- Are not yet regarded as illegal, but to a certain extend could be viewed as unethical.
- While retailers view slotting allowances as a way of controlling shelf space, vendors see it as extortion.

6. Buybacks

- Is similar to Slotting allowance – and is also known as Stocklifts or lift-outs.
- Is an activity engaged in by vendors and retailers to get products into retail stores.
- Here, a retailer allows a vendor to create space for its merchandise by "buying back" a competitors inventory and removing it from the retailers system, or the retailer forces a vendor to buy back slow-moving merchandise.
- This can violate government laws or regulating competition.

7. Exclusives [exclusive dealing agreement]

- Occur when a vendor restricts a retailer to carrying only its products and nothing from competing vendors.
- The advantage of this is that their products are not sold anywhere else in that particular region.
- This promotes vendor quality control and gives the retailer an obvious competition advantage and a monopoly.

8. Counterfeit merchandise

- Can be defined as goods that illegally bear a registered trademark in order to deceive customers into thinking that the original manufacturer produced the merchandise.
- Selling counterfeit merchandise can negatively affect a retailer's image and its relationship with the vendor of the legitimate brand.
- Includes goods made and sold without the permission of the owners trademark or copyright.
- Unauthorised use of trademarks represent an illegal infringement of the trademark.
- It damages the original manufacturer's reputation and retailer's who knowingly or unknowingly distribute and sell unauthorised merchandise are participating in an illegal marketing activity.

9. Gray markets and diverted merchandise

❖ **<u>Gray-market goods</u>**

- Also known as parallel imports
- Refer to the flow of merchandise through distribution channels other than those authorized or intended by the manufacturer or producer.
- Has a registered trademark but has been brought into the country without the necessary permission from the trademark owner.
- It is not counterfeit, but is identical and has the same quality as the trademarked goods brought into the country legally. Eg: They are mostly found in flea markets

❖ **<u>Diverted merchandise</u>**

- Is similar to gray-market merchandise except there need to be distribution across international boundaries.
- Various control measures are in place to prevent vendors carrying such goods.
- Contracts can be drafted and signed between buyer and vendor, and should either be in violation of the terms (such as providing gray market goods). The services between them in terms of the contract may be terminated.

10. **Tying contract**

- Exists when a vendor requires a retailer to take a product it doesn't necessarily desire (the tied product) to ensure that it can buy a product it does desire (the tying product).
- Are conditional selling agreements between retailers and suppliers in which a supplier agrees to sell a retailer a highly sought-after line of products if the retailer will agre to buy additional product line in return.
- Are illegal if they substantially lessen competition or tend to create a monopoly, but the complaining party has the burden of proof.
- It is typically legal for a vendor to require a buyer to buy all items in its product line.

11. **Refusal to deal**

- Both vendors and retailers have the right to deal or refuse to deal with anyone they choose.
- But there are exceptions to this rule, when there's evidence of anti-competitive conduct by one or more firms that wield market power.
- A vendor may refuse to sell to a particular retailer, but it can't do so for the sole purpose of benefiting a competing retailer.
- It is unlawful for one retailer to pressure a supplier into not selling its products to a competitor, and
- It is also unlawful for a supplier to cut off a dealer by refusing to deal without a legitimate business reason.

12. **Dual distribution**

- Is a system in which a manufacturer or wholesaler competes directly with a retailer by selling the same merchandise.
- Dual channels of distribution are legal, provided that both the company-owned store and the independent retail outlet are charged the same price within the same market area.
- If the manufacturer were to injure the independent retailer's business by giving company-owned stores unfair price and service advantages, then the manufacturer could be guilty of injuring competition and restraint of trade.

Study Unit 14: Considerations in setting retail prices

14.1 Customer price sensitivity and cost

- Each price the retailer charges leads to a different level of demand.
- Customers price sensitivity determines how many units will be sold at different price levels. If customers in the target market are not that price sensitive, sales will not decrease significantly if the price are increased. If customers are extremely price sensitive, sales will decrease significantly when prices increase.
- To measure customers price sensitivity, a retailer can conduct research. It is possible to obtain data for demand-oriented pricing through experiments and customer panel data.

Details :-

-Experiments. The retailer will change the prices of goods to test and observe customer reactions. Based on the results, the retailer can then accurately determine successful pricing strategies. This method – high cost if it fails, time consuming. However, this application is becoming far easier with advances in technology because nowadays a no of statistics can be extracted from modern till points and scanner checkouts.

-Consumer panel data . This is a more traditional approach to collecting related info about the customers ‘ sensitivity to and opinion of price changes. Market research companies collect info from panels of households. Retailers can also buy access this info from research companies to determine the demand and proposed future strategies for their specific products and industry trends.

14.2 Price elasticity

- price elasticity is a measure of the sensitivity of demand to changes in prices.
- Price elasticity of demand is defined as the % change in quantity demanded, divided by the % change in price. Suppose the demand falls 10% when a retailer raises its price by 2%. Price elasticity of demand is therefore – 5, which means that demand is elastic. The minus sign confirms the inverse relationship between price and demand. If demand falls by 2% with a 2% increase in the price, the elasticity is -1. In this case, the retailer’s total revenue stays the same. The retailer will sell fewer i
- tems but a higher price, which preserves the same total revenue. If demand falls by 1% when the prices is increased by 2%, then elasticity is –Half
(-1/2) and demand inelastic. The less elastic the demand, the more it pays for the retailer to raise the price.

Factors that affect customers sensitivity to price:-

-**Substitute awareness effect**. This effect is apparent when customers become sensitive to price because there are a number of substitutes for that particular product available elsewhere.

-**Total expenditure effect.** Customers tend to be more price sensitive if the product is highly priced as opposed to the worth in buying in bulk or getting “value for money”.

-**Difficult comparison effect**. Customers are more price sensitive to those products that can be easily compared with the competitors quality and prices. Retailers must attempt to find unique products that cannot be compared with the products competitors are offering

-**Benefits/price effect**. This defines the relationship between what benefits customers perceive they will gain from the products and the price they are prepared to pay for it. Customers are generally price insensitive to some image products because they perceive that the products image will provide the status attached to owning the product, regardless of the price.

-**Situation Effect** Certain situations indicate less price sensitivity. For instance, people will pay large amounts of money to eat at a fancy restaurant, where the same food could cost less than half the amount if they went elsewhere. Since they are celebrating a special occasion, these customers are willing to pay the higher price.

14.3 Competition

- In setting prices, the retailer must also consider competitors’ cost, prices and possible competitive reactions to the company’s own pricing moves. Retailers can choose a price above, below or at parity with the price of competitors. The chosen strategy must be consistent with the retailers overall strategy and its relative market position. If the retailer follows a high-price, high-margin strategy, it may attract

competition. A low-price, low-margin strategy, however, may stop competitors or drive them out of the market. The retailer needs to benchmark cost and value against competitors cost and value. It can then use these benchmarks as a starting point for its own pricing.
-Collecting and using competitive price data. Competitive price data are collected using store personnel or business service providers.

-Reducing price competition. To make it more difficult for customers to make price comparisons and to reduce price completion, retailers can develop lines of private label merchandise. The retailer can negotiate with national brand manufacturers for exclusive distribution rights or have vendors make unique products for them.

14.4 Contrasting cost-,demand- and competition-oriented methods of setting retail prices

- **The ffg 3 methods can be used to retail prices:**

1. ***The cost-oriented method***. Here the selling price is determined by adding a fixed % to the cost price. Its ultimate strength is to achieve target levels of profits.
2. ***The demand-oriented method.*** Here prices are based on what the customer expects or is willing to pay. This method is consistent with the marketing concept of the organisation and is able to determine profit-maximising prices.
3. ***The competition-oriented method***. Here prices are based on those of the organisation and is able to determine profit-maximising prices.

- No single method is more effective than the other 2. All 3 are equally effective, depending on numerous decision-making and retail merchandising factors. However, a combination of the methods should be used to achieve optimum results. The ideal would be to use cost orientation first, followed by demand orientation, according to the retailers findings on the estimated demand for the product.

14.5 Legal and ethical pricing issues

- The retail industry is highly competitive and changes rapidly to meet ever-changing consumer tastes and ever-increasing expectations. Hence retailers often test legal boundaries in an effort to obtain whatever competitive advantage they can. While this may not be a formal policy among such organisation, it is nevertheless an inclination among organisations in the quest for maximised profit.
- Government regulations influence the prices the retailer or merchandise manager pays the supplier, the prices the retailer charges customers, the conditions under which prices are set or adjusted and the impact of the retailer's charges customers, the conditions under which prices are set or adjusted and the impact of the retailers price on the competitive structure of the marketplace.

14.5.1 Price discrimination

- occurs when a retailer charges different prices for the identical products to different customers. This practise is generally legal but customers may feel that they are being treated unfairly and be reluctant to patronise the retailer in the future.
- Also occur when a vendor sells identical products to 2 or more customers at different prices. Price discrimination covers a no of situations involving pricing arrangements under various buying and selling circumstances. When a supplier treats 1 unequally or differently from the way it treats other retailers, that particular becomes a potential victim of price discrimination. Generally, this type of unethical practice is

regarded as illegal, but 3 situations arise where such an approach is acceptable. These are discounts, differential prices and good faith.

1.Discounts. The general principle in discounts is that all competing retailers are entitled to pay the same price for the same quantity of like merchandise. Suppliers offer cumulative discounts which apply to a customers purchases over an extended period of time, and noncumulative quantity discounts which apply to only a single large-volume purchase, in order to discount prices based on the quantity ordered. Cumulative discounts are therefore far lower than noncumulative quantity discounts. Always bear in mind that defensive price discrimination is legal whereas offensive price discrimination is illegal.

2.Different prices. According to the no-price discrimination rule, the price differential is in response to changing conditions affecting the market for or the marketability of the goods concerned. A retailer can, for example, sell last years fashion at a lower price today than last month when these items were still this years fashion.

3. Good faith. When the differing price is made in good faith to meet a competitor's equally low price, it is considered acceptable and not discriminatory towards other retailers. The essential factor in using the good faith defence is whether the discriminatory price was necessary to meet competition rather than an offensive move to beat competition.

14.5.2 Predatory pricing

- Is a pricing tactic in which the retailer charges customers different prices for the same merchandise in different markets in order to eliminate competition in 1 or more of those markets.
- Such pricing practices are illegal except when the firm can show that operating expenses(eg. Rent, security or store maintenance), distribution charges(eg transportation and other handling costs) and selling cost(eg commissions and in-store promotions) are greater in the market that is being charged the higher prices.

14.5.3 Resale price maintenance

- Vendors often encourage retailers to sell their merchandise at a specific price, known as the manufacturers suggested retail price. Although the legality of this practise has changed over time, they are now deemed legal.

14.5.4 Horizontal price fixing

- Horizontal price fixing involves an oral or written agreement between competing retailers to establish and charge a fixed retail price for one or more merchandise lines and items.
- A s a general rule, retailer buyers should not negotiate or discuss related price terms with competitors. Conditions or terms of sale should reflect the policies applied with regard to the pricing. Competitive price audits are necessary to develop observation of price tags and not through information exchanges with the managers of competitive stores. Competitive price checks were previously made a few times each year, but in-store visits by store personnel are currently needed on a daily basis, so that they can keep abreast of the going market price. Websites and competitors advertisements are also used to ascertain competitive prices.

14.5.5 Bait-and-switch tactics

- Bait-and-switch tactics are unlawful and deceptive. This is a retailing practice of advertising a product at an extremely attractive price(bait) to enhance the customers to purchase4 a higher-priced, higher-margin item(switch). Smaller retailers often use this approach, and some legal restraints have been put in place to prevent the large retail chains from using bait-and-switch advertising for a wide selection of products on offer.

14.5.6 Scanned versus posted prices

- Customers are concerned about price scanning accuracy but periodic price audits are an essential component of good pricing practices.

14.5.7 Vertical price fixing

- The collaboration between a retailer and a wholesaler or manufacturer to set retail prices at an agreed-on level is the practice otherwise known as vertical price fixing.
- The most common form of vertical price fixing is resale price maintenance agreements(also known as fair trade laws). These are designed to allow manufacturers and wholesalers to set retailer prices by requiring retailers to sign contracts agreeing to sell their products at the recommended retail prices. Such agreements are put in place primarily to protect the small, independent retailer who cannot compete effectively on a price basis with larger chain stores.

14.5.8 Comparative price advertising

- This strategy compares the price of merchandise offered for sale with a higher regular price or a manufacturer list price. Consumers thus use the higher price as a benchmark for what they believe the real price of the merchandise should be.

Assessment Questions:

1.Explain what is meant by customer price sensitivity- Answer - 14.1

2.Explain why elasticity of demand is such a vital factor when merchandisers set prices.Answer 14.2

3.Discuss the role of competitors in setting prices.- Answer :14.3

4.From your knowledge, what are the legal issues involved in determining the prices of retail goods. Answer 14.5

STUDY UNIT 15 - SETTING RETAIL PRICES & PRICE ADJUSTMENTS

<u>15.1 SETTING RETAIL PRICES</u> – PAGES 408/417

-Many retailers use the most straightforward technique available for price setting, namely mark-up or cost-plus pricing. This technique simply involves adding a standard mark-up to the total fixed & variable costs of the product.

Although commonly used, the technique has little to offer other than its simplicity, since it links prices to the known variable of cost rather than to the uncertainties and realities of demand. It fails to take into account either competitors or the nature of demand and it is unlikely to lead to an optimal price. Another limitation is that when costs rise, prices follow almost regardless of the implication for demand.

<u>15.1.1 Retail price and mark up</u>

The price offered to the customer should normally cover the cost of operating the business, the cost of merchandise and the desired profit. To cover these costs the retailer adds a standard mark up. The mark up is the difference between the retail price and the cost of the item.

<u>15.1.2 Initial mark up and maintained mark up</u>

The initial mark up is the price that was initially set for the merchandise minus the cost of the merchandise. Retailers rarely sell all the items at the initial price and frequently reduce the price of items for special promotion or to dispose of excess inventory at the end of the season.

Maintained mark up is the actual sale that is made on the merchandise minus the cost of goods sold. Maintained mark up reflects the amount of profit a retailer plans to maintain on a particular classification of merchandise.

<u>15.1.3 The profit impact of setting a retail price: the use of break-even analysis</u>

Break-even analysis is a technique used to evaluate the relationship between total revenue and total costs to determine profitability at various sales levels. Break-even is that point where a product is no longer making a loss but not yet making profit, it is the point where total sales equal total revenue.

The break even quantity is equal to the total fixed costs divided by actual units sales price minus unit variable cost. Fixed costs are stable and do not change with the quantity of products produced. Variable costs are the sum of the expenses, which vary directly according to the quantity of goods produced and sold.

<u>15.2 PRICE ADJUSTMENT</u> – PAGES 411/417

Retailers may raise or lower prices after the original pricing decisions have been made. These pricing adjustments may be the result of additional mark-ups or mark downs and variable pricing.

<u>15.2.1 Markdowns</u>

A mark-down can be defined as a downward adjustment in the original selling price of a merchandise item. It represents the difference between what the merchandise was originally valued at and what it actually sells for.

***Reasons for mark-downs**.

-Clearance mark downs are used when merchandise sells at a slower rate than planned. Slow selling merchandise decreases inventory turnover and prevents buyers from acquiring new and better selling merchandise.

-Promotional mark-downs are used to increase customer traffic flow and increase sales. Retailers hope that customers will purchase other products at regular prices while they are in the store.

***Optimising mark-down decisions**
-Experience and professional judgement play a key role in the success of mark downs. An effective merchandise budget plan will ensure that the correct amount of merchandise is on hand and the number of mark-downs needed to move stock is reduced.

***Reducing the number of mark-downs by working with vendors**
-It is preferable to order small quantities at first to test sales and then order more as the demand for the product increases. It is vital that retailers work with vendors who know the market and competition really well.

***Liquidating mark-down merchandise**
-Regardless of pricing strategy, retailers will always have a number of items that simply cannot sell. There are a few methods to move these type of stock:

- # Firm can 'job out' the remaining stock to another retailer.
- # Marked down merchandise can be consolidated. Stock could be moved to a few of the retailers regular locations or another chain store.
- # Stock can be placed on internet auction.
- # Stock can be given to charity.

***When to take mark-downs**
Early mark downs reduce the selling price of a merchandise item when there is either a noticeable slack in the rate of sales for that item or the item has been in stock for a specific time period. Advantages of using early mark downs include :

- #newer merchandise and fresher stock
- #smaller mark downs
- #reduced selling expenses and risks
- #increased customer traffic
- *Late mark-downs maintain the original selling price until late in the selling season, when a major clearance sale is held.
- *****Size and duration of markdown period

- The extent of physical , fashion or seasonal perishability strongly influences the size of the markdown. Highly perishable stock requires a substantial mark down as part of the clearance effort. Fashion and seasonal items require initial mark downs of 25/50% while 10/15% markdown on staple merchandise.

15.2.2 Variable pricing and price discrimination

Retailers use a variety of variable techniques to maximize profits. **These techniques include individualized variable pricing, self selected variable pricing by market segment.**

*__Individual variable pricing__ – Profits would be maximized if the retailer could charge each customer as much as he or she is willing to pay. Charging customers different prices on the basis of their willingness to pay is known as first-degree price discrimination.

***Self – selected variable pricing** – The same price is offered to all customers but the customer has to do something to obtain the lower price. This is known as second degree price discrimination.

#Clearance mark down – Higher prices are charged at the beginning of the season than at the end.

#Coupons- Is a document that entitles the holder to a discount on purchase of a specific product.

#Price bundling- Process of offering two or more different products for one price.

#Multiple-unit pricing- Similar to price bundling but goods sold are identical.

***Variable pricing by market segment.**

-In third degree price discrimination the retailer charges different prices for different demographic,market segments.

- Also retailers charging different prices in different stores, markets, regions or zones. Refered to as zone pricing.

*__ASSESSMENT:__

1. Explain the difference between initial mark-up and maintained mark-up. **15.1.2**
2. Explain the purpose of break even analysis. **15.1.3**
3. What are the reasons for taking mark downs? **15.2.1**
4. Discuss the strategies employed to liquidate unsold merchandise. **15.2.1**
5. Discuss the different techniques to maximize profits by charging different customers different prices. **15.2.2**

STUDY UNIT 16 – PRICING STRATEGIES AND PRACTICES

16.1 PRICING STRATEGIES – PAGES 417/418

The concept of pricing goods in the retail industry may be complex, but the fundamental process of adding a mark-up to the cost of merchandise is always applied. The proper price on merchandise is a price the consumer is willing to pay and also one that allows retailer to meet profit objectives.

16.1.1 High/low pricing

-Regarding this strategy retailers offers goods with prices that are sometimes higher than competitors. To draw customers to the store they use frequent sales promotions and advertising.

16.1.2 EDLP

Many retailers have used this strategy because it emphasizes the continuity of prices being low. It does not mean that goods are priced at their lowest. A sale price at a competing store may be the lowest price. Everyday stable prices are applied because they do not experience significant fluctuations.

16.1.3 The advantages of the pricing strategies

a) Regarding high/low strategy

- It increases profits through price discrimination. The same merchandise appeals to multiple markets. When a new fashion emerges customers are price insensitive and highly fashion conscious. As season progresses mark-downs are introduced and more people buy such items where there are reductions.
- Sales create excitement. Customers enjoy going to sales because they tend to crowds of people, this creates an atmosphere of great excitement and bargain hunting. Some retailers combine sales with demonstrations , give aways, celebrity appearances and short term discounts in order to promote sale items.
- The strategy sells merchandise. It moves merchandise. All merchandise will eventually be sold and sales will move merchandise even though profit margins of the department are decreased.

The emphasis is on quality or service. Initial high prices tell the customer that the quality of the product is good or it is of a high standard. When goods are put on sale, customers still compare the sale price with the original price to level the quality of the goods and savings they will generally make.

b) EDLP benefits

- It assures customers of low prices – Since customers are more aware of shelf prices, they usually buy "value for money" goods. Once they realize that the prices of these products remain consistently low at that particular store, they will shop there more frequently.

-It reduces advertising and operating expenses – The fact that price remains stable indicates that not much advertising needs to be done compared with applying the high/low method. EDLP allows a regular stream of people, means that sales staff can concentrate their efforts on the quality of service they offer customers.

-Reduced stock-out and improved inventory management - EDLP reduces the large variations in the demand caused by sales. Fewer stock-outs emphasise the fact that the store is satisfying more customers, which translates into higher sales and fewer delays in delivering goods to customers.

When deciding on EDLP and high/low pricing strategies, the retailer has to keep in mind that the world of retail is always changing. Merchandise managers have to adapt and adjust to market trends by combining EDLP and high/low pricing strategies.

16.2 PRICING SERVICES – Pages 418/419

Additional challenges that arise when the retailer has to price service include the need to match supply and demand, and the difficulties customers experience in determining service quality.

16.2.1 Matching supply and demand
Services are intangible and cannot be kept as inventory. To maximize sales and profits, many service retailers engage in yield management. This is the practice of adjusting prices up or down in response to demand to control the sales generated.

16.2.2 Determining service quality
Due to intangibility of services, its often hard for customers to assess the quality of services. Customers often use price as an indicator of both service cost and quality. Because customers depend on price as a pointer of quality and price sets expectations of quality, service must be determined carefully. Prices too low can lead to quality issues and too high pricing can set expectations that may be difficult to match in service delivery.

16.3 PRICING TECHNIQUES FOR INCREASING SALES – Pages 420/422
Techniques that retailers can use to take advantage of the way customers process information , include leader pricing, price lining and odd pricing.

16.3.1 Leader Pricing
This tactic involves the pricing of select items (market leaders) at a considerable saving to customers. Items priced below cost are called loss leaders. Leader pricing can also be applied to frequently purchased products.

The idea is to increase the store traffic and overall store sales. Customers attracted to this strategy could be first time or regular shoppers. These customers enjoy the atmosphere, friendly service or product selection.

In order for leader pricing to be successful, need to apply the following:
*Leader items must be popular and frequently purchased by a large number of the retailers customer base.
*Regular price of the product must be well known to customers.
*Difference between the regular price and the leader price must be significant in the eyes of the customer.
* Leader item must relate in some way to other merchandise in the store.
A problem with leader pricing is cherry picking. Customers go store to store only to purchase sale items.

16.3.2 Price lining
-Some retailers whose selection is mainly of shopping goods implement the strategy of price lining. Commonly used when retailer prices groups of products at different levels.
-The choice process for shoppers is made easier because they do not have to weigh the value of two or more products of the same quality, which are priced differently.
-For retailer manager, price lining assists the buying process at central markets because the store buyer has a clear guideline on selection and can plan the quantities needed for each price line.
-The disadvantage of using this price strategy is that the store buyer may become frustrated when attempting to keep within price lines due to inflation and having ro reduce margin between cost and mark-up.

16.3.3 Odd pricing
Aka "bait pricing" , the retailer prices items so that the last digit of the price ends in a number other than zero. Eg R9.99 This appears as a bargain price compared to R10

-Considering grocery stores, it is clear that they use odd pricing strategy to emphasise their "value for money" products. Multiple unit pricing would be a better strategy to implement, it would accommodate moving stock that does not move quickly by combining it with popular brands and items.

16.4 THE INTERNET AND PRICE COMPETITION – Pages 422/423
On first arrival of internet, retailers used low prices to attract customers and make them loyal. Many online retailers invested millions in a low margin pricing strategy and never made any profits.
-The number of customers buying online is increasing. More traditional retailers have a strong internet presence. Some manufacturers are bypassing their retailer partners and selling directly to the customer, this is known as disintermediation.

Customers can search for the lowest prices that are facilitated by shopping bots, which are computer programs that search for and provide a list of all internet sites selling a product category or price of specific brands offered.

Retailers need strategies to make it more difficult for customers to compare prices. They also need strategies to reduce the emphasis on price by providing better services and information.

ASSESSMENT
1. Explain the pricing strategies of a typical retailer.
2. What are the various benefits of EDLP and Hi/Low strategies? **16.1.3**
3. Discuss the challenges faced by service retailers. **16.2**
4. Explain the different pricing techniques for increasing sales **16.3**
5. Why are retailers concerned that the growth of electronic retailing will intensify price competition? **16.4**

Study Unit 17

CONCEPTS

Promotion Mix:
- a combination of advertising, sales promotion and publicity.
- Designed to achieve objectives and or goals.

Co-operative advertising:
- The cost of advertising is shared betw. Vendors
- Retailers working together
- Pricing options

Personal selling
- Sales people assist customers with their expertise in selling a product face to face.

OVERVIEW

- Communication necessary so that customers are informed of the products that are available.
- To influence customer behavior and attitude.
- The communication strategy must be part of its pricing strategy.

For the above to happen, 5 diff. ways are used, 1ST 3 are discussed in this module:

- ADVERTISING
- SALES PROMOTION
- PUBLICITY
- STORE ATMOSPHERE
- VISUAL MERCHANDISING AND PERSONAL SELLING

METHODS OF COMMUNICATION (REF. PG 447)

(assessment Q1)

EXHIBIT 16.1

	IMPERSONAL	PERSONAL
PAID	Advertising Sales Promotion Store atmosphere Website Community building	Personal Selling E-mail Direct mail M-Commerce
UNPAID	Publicity (newspaper)	Word of mouth (communication as one-on-one

Paid / Impersonal

- Customers must be influence. The store image should be catchy.
- The retailer needs to utilize limited advertising budget as efficiently as possible.

Advertising	communication to mass media (eg. newspapers, magazines, radio and TV)
Sales Promotion **(assessment Q4)**	Directed at value incentives to visiting customers. This must be planned in advance through merchandising. The most common is a SALE. Other examples are: Coupons Contests Specials events In-store demonstrations
Store Atmosphere	This refers to the physical appearance including the architecture, layout , signs displays and lighting of the store.
Web Site	Information of the store location, events and where to find certain merchandise could be found on a web site.

Paid / Personal

Personal Selling	Involves the use of sales people who satisfy their customer needs by communicating their expertise on the products. Sales people should have high knowledge of the products, be professional and have a good appearance. Must also be approachable.
E-Mail	Easily resembles advertising if one message is sent out to many recipients.
Direct Mail	This includes brochures, catalogues, advertisements OR any printed material that is sent directly to the consumer by mail and private delivery. Retailers create and keep a database in which the direct mail is transferred A preferred customer list is kept by the sales people as they know their important customers and their needs. Can be an expensive way to communicate, however it is effective as the response to **personal messaging** is high.
M-Commerce	Mobile commerce which involves communication through wireless devices such as PDA, cellular phones, i-phones Coupons, messaging, information can all be sent instantly to customers handheld devices. (eg. ticket sales for concerts) Customers have the option of instant purchasing.

Unpaid / Impersonal

Publicity	This is in the form of : **product release, executive statement release & featured articles.** Retailers do not pay directly, and gets the exposure, newsworthiness and credibility. **Used for communication to potential and current customers, employees and investors. This then:** - Builds employee morale - Helps improve employee performance - This is also done by internal mail, newsletters, bulletin board notice,handbooks, messages on pay envelopes.

Unpaid / personal

Word of Mouth	This can be of great value OR negativity which can cripple the retailer. Effective by social shopping Customers post reviews on web sites, increasing customer loyalty providing competitive advantage for sites that have offers.

STRENGTHS AND WEAKNESSES **Pgs'455-457**

EXHIBIT 16-2 Comparison of Community Methods

	CONTROL	FLEXIBILITY	CREDIBILITY	COST
Paid Impersonal				
Advertising	High	Lowest	Lowest	Modest
Sales Promotion	High	Lowest	N/A	Modest
Store Atmosphere	High	Lowest	N/ A	Modest
Web Site	High	Modest	Low	Modest
Community building	Modest	High	N/A	Moderate
Paid Personal				
Personal Selling	Modest	Highest	Low	Highest
E-mail	Highest	High	Low	Low
Direct mail	Highest	High	Low	Highest
M-Commerce	High	High	Low	Moderate
Unpaid Impersonal				
Publicity	Low	Low	High	Low
Unpaid Personal				
Word of Mouth	Low	Low	High	Low

Control

- More control on paid, as retailers can decide and opt on the type of message that they wish to advertise.
- Difficulties in paid personal communication as retailers cannot control sales people.
- Likewise with unpaid impersonal and unpaid personal.

Flexibility

- The most effective here is personal selling as sales-people communicate with every customer and distinguish their individual needs.
- Other communications are less flexible because all customers receive the same message.

Credibility

- Word of mouth is high due to independent sources.

Cost

- Word of mouth and publicity do not bear direct costs, but retailers incur costs to stimulate them.
- Advertising is very costly but stimulates Word of mouth
- Personal selling is more effective than advertising.

PLANNING THE RETAIL COMMUNICATION PROGRAMME

EXIBIT 16-3(Activity 17.1)

Establish objectives
- Positioning
- Sales goals
- Communication objectives

⇒ **Determine budget**
- Marginal analysis
- Objective & task
- Rules of thumb

⇒ **Allocate budget**

⇒ **Implement & Evaluate programmes**

STEP 1 : SETTING THE OBJECTIVES (assessment Q2)

Questions for the retailer to look at are:

☺ Services – what do we want to offer?
☺ Image – what would we like to portray?
☺ Customers – who & what are their tastes?
☺ Competition – how would we compare?
☺ Customers purchase – why would they buy from us?
☺ Quality merchandise – what type of merchandise?

Communication objectives – the promotion mix has an effect on the customers' decision making process. For implementation, the objectives must be clearly stated in quantitative terms. Target market must be clearly identified. The degree of change must be indicated and the time period over which the change occurs must be noted.

DIFFERENT COMMUNICATION OBJECTIVES BETWEEN RETAILERS AN VENDORS LEADING TO CONFLICT AS FOLLOWS:		
	VENDORS	**RETAILERS**
Long-term vs short-term goals	Builds long term image for products	Promotion announcements and special sales that is usually short-term
Product vs Location	Does not concern themselves with where the customer purchases as long as they buy the product.	Not concerned with the brand but the purchase in *their* store.
Geographic coverage	Uses national media	Uses local newspapers, TV, radio that targets customers close to their store.
Breadth of Merchandise	Small no. of products to promote. Attention paid to communication programmes are evident.	A larger range of products. Needs to develop a communication programme.

SPECIFIC POSTIONING WITH REGARDS TO LONG-TERM GOALS ARE:

Merchandise category	Distinct type of merchandise eg. incredible connection (computer software, hardware services)
Price / Quality	Higher prices are sometimes perceived as higher quality products
Specific attributes / benefits	Link stores to specific benefits above competitors such as convenience.
Lifestyle / Activity	The attractiveness in a specific target market in which a retailer associates themselves

STEP 2: SETTING THE COMMUNICATION BUDGET(assessment Q3)

METHODS TO LOOK AT ARE:

Marginal analysis method

- Based on the economic principle that if the promotion budget is increased, the sales must also increase by the same amount.
- This can prove to be difficult as managers do not know the relationship between the expenses and sales.

Objective task method

- Budget is needed to undertake specific tasks. This follows a series of **steps** as follows:
- **Establish communication objectives**
- **Determine the type and amounts of communication necessary to accomplish the above objectives.**
- **Determine the overall cost of communication method to be used.**
- **Schedule and closely monitor the communication success of attaining the objectives.**

Rule-of-thumb method

This method uses past sales and promotional activity to determine the present promotion budget.

- **Affordable method:**

  - Sales and expenses are forecasted before promotion expenses.
  - Difference between forecast sales and expenses plus the desired profit is the budgeted amount for the promotion mix.
    - Determines the money available after operating costs.
  - The only problem is that this method does not recognize that promotion increases sales figures thus should be included in the budget.

- **Percentage-of Sale Method**

  Widely used. Predetermined percentage of previous sales/estimated sales on what to spend on the forthcoming year.

- **Competitive parity method:**
  - Promotion budget = share of the market
  - Does not estimate change
  - Does not allow retailers to take advantage of opportunities
  - The market share of the product does not grow with this method

Allocating the promotion budget

- Common breakdown when allocating involves the departments, budget calendar periods, media and trading areas.
- Merchandise managers decides on how much to allocate to communication element, merchandise category, geographic regions, long & short-term objectives.
- Easiest to allocate the same amount to each geographic region / merchandise category.
- Does not maximize profit as it ignores the fact that promotion programmes may be more effective for some.

FINAL STAGE: PLANNING, IMPLEMENTING AND EVALUATING THE COMMUNICATION PROGRAMME.

- Comparisons are made between the results of the programme and the set objectives
- Determine whether methods were successful.
- Deviations should be analysed and the cause of the problem determined.
- Corrections and adjustments to the objectives must be done.

Evaluation of the trade promotions must consider:

- Realized margin for the promotion
- Cost of additional inventory carried
- Potential increase in sales from promoted merchandise
- Potential loss suffered
- Additional sales made to customers attracted to the store by promotion.

Study Unit 18IMPLEMENTING THE RETAIL COMMUNICATION PROGRAMME

OVERVIEW

RETAILERS ALL COMPETE AGAINST EACH OTHER FOR CUSTOMERS. MESSAGES THAT ARE SENT OUT SHOULD INFLUENCE CUSTOMER PURCHASE AND DRAW ATTENTION TO THE STORE.

IMPLEMENTING RETAIL ADVERTISING PROGRAMMES

As advertising must be carefully planned in order for it to be effective, specific objectives must be identified.**See strategies in advertising below:**

Developing the advertising message

- The advertisers must develop a message that is creative and that which will be distinctively memorable.
- Assistance by vendors, advertising agencies and the media is evident
- Vendors pay for the advertising which enables retailers to increase their advertising budget.
- Vendors can also pay for advertising material whilst the retailer has the benefit of inserting their store name.
- Advertising agencies have the experience of which retailers do not. The agencies provide advertising contests, direct mail and special promotions.
- **Media companies offer advertising services such as:**

☺ Drawing up and designing the advertisements.
☺ Conduct market research
☺ Feedback on shopping patterns in the local area.

(Study guide pg 122, 18.1.1, Par. 2, last sentence, ADVANTAGES OF CO-OP PROGRAMS)

This is as above…Developing the advertising msg.

The drawback: Refer to communication objectives in s/u 17 (Product vs Location)

- Vendors want the ad to feature their product whilst the retailer wants the store name to feature.
- The ads are used by many competing retailers.
- The vendor places restrictions on the ads that reduces the effectiveness of the retailer.

Choosing the most effective media coverage

- **An analysis of the characteristic of the audience has the following characteristics:**

☺ Media habits of the target audience
☺ Nature of the product. Eg. fashion ☞ colour magazines
☺ Type of message. Eg. major sales for the next day ☞ radio or newspaper.
☺ Cost involved. Television is expensive. Newspaper and radio is not too expensive but has fewer consumers.

ADVANTAGES AND DRAWBACKS OF MAJOR MEDIA TYPES		
TYPE	**ADVANTAGE**	**LIMITATIONS**
Newspaper	Effective medium Specific target audience Advertisements can be placed by the advertiser. Low costs	Poor quality of colour and print Short life span
Magazines	Image building High quality of copy, colour and production	Long lead time Difficulty in co-ordinating special events and sales
Direct mail	Mailing lists are used for 'store happenings' Personalised, although costly	Too many can be regarded as junk mail and is therefore ignored.
Television	National basis Image advertising as is Audio and visual	Extremely expensive Specific people cannot be targeted.
Radio	Targets a specific portion of the market because of its national and regional boundaries. Some stations are targeted at specific audiences that have specific characteristics and interests. Different stations	Advertisements on the broadcast is often ignored by listeners. No retention time as one cannot go back and listen to the advertisement again.
Internet		
Banner Aids	Generates awareness Can be targeted to specific individuals through visitor navigation and IP addresses	
Website	Wide array of information about the merchandise and special events are displayed.	
E-mail	Inform customers of special events and new merchandise	
Outdoor billboards	Fleeting exposure to limited audience	Serves as a reminder of retailers rather than a promotion advertisement.
Shopping guides	Free to local residents Cost effective Assurance of total coverage in specific areas	
Yellow pages	Long life-span Genuine interest is shown by customers in product interest.	

Consideration in selecting the media

Factors to consider:

- **Coverage:** Number of potential customers in the retailers target market.
- **Reach:** Percentage of customers in the target market
- **Cost:** Cost per thousand (CPM). This is divided by the cost of advertisement by its reach.
- **Impact:** Different advertising/media methods and their effect on the audience.

Determining advertisement frequency and timing

- Frequency measure the amount of times an average person is exposed to the message.
- Usually an advertisement must be seen several times before it can influence a customers purchase
- Scheduling the advertising is also important as timing is vital as it influences as to when consumers buy.
- Avoid advertising where little or no demand is seen.
- Advetising is seen more during special seasons.

Implementing sales promotion programmes

Types of promotions in order to boost sales:(Assessment- Q2)

Type	
Special sales	Reduces inventory of older stock
Merchandise demonstration and sampling	Creates excitement of new products encouraging sales.
Premium	Promotes fragrances and cosmetics. Free gifts with purchases to a certain value.
Games, Sweepstakes and competitions	Winners often rely on luck therefore lucky draws encourage people to enter increases sales.
Coupons	Discounts on goods purchased. This is the most common form.
Frequent shopper programme	Reward shoppers eg. clicks clubcard. This maintains customer loyalty.

Implementing publicity programmes

- Creates awareness
- Improve retailer image
- Community help and goodwill.
- Sponsorship of entertainment, educational or community service activities.

Tools employed for the implementation of publicity programmes are: ***(Assessment- Q4 & Q5)***

I could not find disadvantages in the pb or s/guide. Plse help.

Tool	Meaning / Advantage	Disadvantage
Press Release	This is a statement of facts that are published containing relevant information.	
Press Conference	Meetings with representatives of the news media. Used to make a major announcement. Also allows the media to ask questions	
By-lined articles	Articles in magazines and publications that are accepted by experts	
Speeches	Can be backed up by a press release. This is addressed to audiences of a conference, students and business lunches.	

Frequent shopper loyalty programme

(Activity 18.2) (Think of Clicks – Clubcard, Pick 'n Pay – Loyalty card, Checkers- stamps)

- Provides special benefits to most important customers of the retailer.
- Club-cards are issued.
- Customers are rewarded for accumulated points. These points are accumulated by frequent shopping.
- Certain discounts and incentives are allowed on the club cards only.

(Assessment- Q1, 3, 6) These questions require your own discrepencies

Question 1

After briefly scanning this study unit, what further knowledge and understanding do you think you would need to comprehend the promotion mix in retail advertising.

Question 3

Are you in favour of more or fewer sales promotions in a typical year? Give reasons for your answers.

Question 6

Would you consider the internet to be an increasingly effective advertising medium for retailers as we move into the future? Give reasons for your answer