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DEPARTMENT OF BBA

SYBBA

SEM-III

SUBJECT – RETAIL MANAGEMENT

SPECIALIZATION- MARKETING

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Chapter3. MANAGING THE RETAIL BUSINESS

Unit-3

Managing the Retail Business

Types of Merchandise

There are two basic types of merchandise −

Staple Merchandise Fashion Merchandise

It has predictable demand it has unpredictable demand

History of past sales is available Limited past sales history is available

It provides relatively accurate forecasts it is difficult to forecast sales

Factors Influencing Merchandising

The following factors influence retail merchandising:

Size of the Retail Operations

This includes issues such as how large is the retail business? What is the demographic scope of? Business: local, national, or international? What is the scope of operations: direct, online with Multilingual option, television, telephonic? How large is the storage space? What is the daily? Number of customers the business is required to serve?

Shopping Options

Today's customers have various shopping channels such as in-store, via electronic media such as Internet, television, or telephone, catalogue reference, to name a few. Every option demands Different sets of merchandising tasks and experts.

Separation of Portfolios

Depending on the size of retail business, there are workforces for handling each stage of Merchandising from planning, buying, and selling the product or service. The small retailers Might employ a couple of persons to execute all duties of merchandising.

Functions of a Merchandising Manager

A merchandising manager is typically responsible to −

• Lead the merchandising team.

• Ensure the merchandising process is smooth and timely.

• Coordinate and communicate with suppliers.

• Participate in budgeting, setting and meeting sales goals.

• Train the employees in the team.

Merchandise Planning

Merchandise planning is a strategic process in order to increase profits. This includes long-term Planning of setting sales goals, margin goals, and stocks.

Step 1 - Define merchandise policy. Get a bird's eye view of existing and potential customers, Retail store image, merchandise quality and customer service levels, marketing approach, and Finally desired sales and profits.

Step 2 – Collect historical information. Gather data about any carry-forward inventory, total Merchandise purchases and sales figures.

Step 3 – Identify Components of Planning.

• Customers − Loyal customers, their buying behavior and spending power.

• Departments − what departments are there in the retail business, their subclasses?

• Vendors − who delivered the right product on time? Who gave discounts? Vendors Overall performance with the business.

• Current Trends − Finding trend information from sources including trade publications, Merchandise suppliers, competition, other stores located in foreign lands, and from own Experience.

• Advertising − Pairing buying and advertising activities together, idea about last Successful promotions, budget allocation for Ads.

Step 4 – Create a long-term plan. Analyze historical information, predict forecast of sales, and Create a long-term plan, say for six months.

Merchandise Buying

This activity includes the following −

• Step 1 - Collect Information − Gather information on consumer demand, current trends,

And market requirements. It can be received internally from employees,

Feedback/complaint boxes, demand slips, or externally by vendors, suppliers,

Competitors, or via the Internet.

• Step 2 - Determine Merchandise Sources − Know who all can satisfy the demand:

Vendors, suppliers, and producers. Compare them on the basis of prices, timeliness,

Guarantee/warranty offerings, payment terms, and performance and selecting the best

Feasible resource(s).

• Step 3 - Evaluate the Merchandise Items − by going through sample products, or the complete lot of products, assess the products for quality.

• Step 4 - Negotiate the Prices − Realize a good deal of purchase by negotiating prices for

Bulk purchase.

• Step 5 - Finalize the Purchase − Finalizing the product prices and buying the

Merchandise by executing buying transaction.

• Step 6 - Handle and Store the Merchandise − Deciding on how the vendor will deliver

The products, examining product packing, acquiring the product, and stocking a part of

Products in the storehouse.

• Step 7 - Record the Buying Figures − Recording details of transactions, number of unit

Pieces of products according to product categories and sub-classes, and respective unit

Prices in the inventory management system of the retail business.

Vendor Relations

Cordial relationship with the vendor can be a great asset for the business. A strong rapport with

Vendors can lead to −

• Purchasing products when required and paying the vendor for it later according to credit

Terms.

• Getting the latest new products in the market at discount prices or before other retailers

Can sell them.

• Having a great service of delivery, timeliness of delivery, returning faulty products with Exchange, etc.

Merchandise Performance

The following methods are commonly practiced to analyze merchandise performance −

ABC Analysis

It is a process of inventory classification in which the total inventory is classified into three Categories −

• A – Extremely Important Items − Very crucial inventory control on order scheduling, Safety, prompt inspection, consumption pattern, stock balance, refills demands.

• B – Moderately Important Items − Average attention is paid to them.

• C – Less important Items − Inventory control is completely stress free.

This approach of segregation gives importance to each item in the inventory. For example, the Telescope retailing company might be having small market share but each telescope is an Expensive item in its inventory. This way, a company can decide its investment policy in Particular items.

Sell-Through Analysis

In this method, the actual sales and forecast sales are compared and the difference is analyzed to Determine whether to apply markdown or to place a fresh request for additional merchandise to Satisfy current demand.

This method is very helpful in evaluating fashion merchandise performance.

Multi-Attribute Method

This method is based on the concept that the customers consider a retailer or a product as a set of Features and attributes. It is used to analyze various alternatives available with regard to vendors And select the best one, which satisfies the store requirements.

RETAIL MERCHANDISING MANAGEMENT PROCESS

Retail merchandising management process

Merchandise & merchandising the various types of goods that can be bought and sold for Profit or the wholesale purchase & retail sale of goods for profit or the stock of goods in A store the activity of promoting the sale of goods & services at retail. Merchandising Means "planning involved in marketing the right merchandise or service at the right Place, at the right time, in the right quantities, and at the right price."

Who is a merchant? A wholesaler or retailer who buys goods from various sources for Resale to anyone and everyone for profit. A merchant is held to a higher standard of duty Of care than a non- merchant because he is deemed to have expert knowledge about the Goods he deals in.

Merchandising management merchandising management is the science of evaluating Human behavior and buying habits in order to determine the best way to stock, display, And sell goods at retail stores. It is a process where in you arrange a group of products That highlights those that you want to sell fast or those that you want people to get Noticed.

Merchandising management therefore the increased visibility and appeal of products Leads to increase in sale ability. It includes product packaging, placement, promotion etc.

Example: the ice-filled tubs of soda, next to the cash register at the convenience store on A hot summer's day -- a merchandise manager determined that more products would be Sold by doing it.

Basis of retail merchandising

Retail merchandising mangement process retail merchandising management process involves Analysis, planning, acquisition, handling and control of merchandise investments of a Retail operation retail merchandising mangement process analysis: the retailers must be able to correctly Identify their customers before they can ascertain consumer desires & requirements for Making a good buying decision

Retail merchandising mangement process planning: it is more important

Because merchandise to be sold in future must be bought now. It involves marketing the right

Merchandise at right place at right price in right quantities at right time.

Retail merchandising mangement process acquisition: it is because the

Merchandise needs to be procured from others, either distributors or manufacturers.

Retail merchandising mangement process handling: it involves seeing

Where merchandise is needed and to be sold in a proper condition.

Retail merchandising mangement process controlling: it is required since

The function of merchandising involves spending money. So it is necessary to control the amount

Spent in this process.

Category Management

A category is an assortment of items that a consumer finds as reasonable substitutes for each Other. Goods are categorized on the basis of similarities in consumer tastes, preferences, liking And disliking such as Junk food, Bar-be-Que, Razors, burgers, baked confectionary, sweets, etc. The goods are priced, promoted and targeted to same customer base (target market). For instance Vishal Mega Mart, Gokul Mega Mart and few other domestic and global brands have the Practice of dividing their apparel on the basis of Gents' Apparel, Ladies' Apparel and Kids Apparel.

Two retailers selling similar merchandise may have different definitions and thus different Categories of the same product range. For instance, one retailer divides its 'apparel' under gents, Ladies, kids and infants category, while another (for say) may define categories in terms of Brands like Polo finger are one category and Rivalry is the other. Why it is so? Because a 'Polo' Customer will buy only polo finger not the Rivalry.

In short, whatever may be the base of defining a 'Category', one thing must be remembered that It should suit to customers who ultimately will be affected in terms of time and money spent. Further, supply chain members and suppliers may find it convenient and hassle free.

Category Management is the process of managing retail business that merchandise category

Outputs rather than the contribution of individual brands or models. Under category management

Retailer's efforts (promotional, pricing and display) are grouped into categories with the

Objectives of measuring their financial and marketing performance separately. Consequently, it arranges grouping of products in to strategic business units (SBU) in order to

Better serve the needs and demands of consumers. Most of the emerging retail outlets are

Managing their merchandise on the same pattern.

While on the other side, unorganized Indian retail sector has developed their merchandise items

In the categories that serve their customers requirement and are cost effective and time saving for

Them. Therefore, these categories differ from region to region and outlet to outlet.

1. Definitions:

According to Institute of Grocery Distribution, "Category Management is the strategic

Management of various merchandise groups through trade tie ups and partnerships which aims to

Maximize turnover and profit by satisfying consumer needs and want."

According to Nielsen (1992), Category Management is a process of managing product categories

As separate business units and customizing them to satisfying consumer needs.

Why Category Management?

1. One foremost reason for the introduction of 'category management' is that all the items of

Merchandise is not equally important for a retailer from cost revenue generation point of view.

Some items are very small but of high value, some items are most popular but of low profit

Margin. Therefore need was point to categorized the items in to different sub groups.

2. One reason for introduction of 'category management' was the fact that only a definite amount

Of profit could be obtained from price negotiations and that there was more profit to be made in

For the purpose of increasing the total sales.

3. One reason for introduction of 'category management' was that the collaboration with supplier

Will be helpful in development of categories under three ways:

The ways are:

(I) Part of the work load like development of categories would be assign to the concerned

Supplier.

(ii) Supplier's expertise will be utilized.

ADVERTISEMENTS:

(iii) Supplier will take the venture seriously.

2. Significance of Category Management:

1. Increased sales, goodwill and market share
2. Proper care and devotion to each item of merchandise
3. Increased sales further lead to increased turnover
4. Maximize shelf efficiencies
5. Less inventory shrinkage
6. Recognizes procurement opportunities
7. Enhances customer knowledge level
8. Improves return on investment (ROI)
9. Decreases chances of out-of-stock positions
10. Enhances return on money invested in marketing efforts
11. Classifies the performance of brands as doing well, not doing well, problem brands, etc.
12. Purchasing merchandise exercise becomes easy and cost effective.

Essentials / Prerequisite of Category Management:

1. Category should be divided and arranged as per consumers' ease not because of retailer's

Convenience.

2. CM should be based on differentiation and uniqueness.
3. CM should drive multiple item purchases at the same time.
4. It should result in better customers' relations rather than relations with suppliers.
5. Category division should be based on the basis of product response, space, time and

Profitability.

3. Category Management Process (8 Steps)

Category management is the process of classifying and managing product categories as strategic Business units, rather than simply viewing a retailer's offering as a collection of individual Products. The category management approach delivers enhanced business results by focusing on Delivering consumer value. It is often a shared process between a retailer and its vendors.

A typical category management process is discussed as follows:

1. Category Definition:

Defining a category is the first step in a typical category management process. In this step Retailer classifies the store's products into different categories depending on the usage of the Product by the consumers and its packaging. What should be the best way to define a particular? Category is always debatable issues amongst retailers.

The category management experts opine that whatever the base it should be, category definition Should be based on consumers' buying behavior not on retailer's buying behavior. Before Beginning with the process of category definition, the retailer and vendor should first understand What exactly makes a category? The supplier know-how about a category and its potential Customers become vital in developing the correct definition and segmentation of the category. This basically decides the products that fall under a particular category, sub-category and key Segmentation. Thus a retailer basically assigns products to the different categories depending Upon customers' liking, disliking, quantity size, and packaging. The main objective of defining Category is to know what items to include and what items to exclude.

The definition of category varies from situation to situation and one store to another. In one Circumstance, category may be narrowly defined or very broadly defined, depending upon Several factors. For instance, the category of sandwich may be narrowly defined so as to Comprise only vegetarian sandwich, or it may be broadly defined to include all types of varieties Such as vegetarian, non-vegetarian, chocolate, fried, baked, grilled, cheese spicy/mutton spicy Etc.

The point is to be remembered that it is the customer that gives the profit so its perspective Should be kept at top priority while defining a particular category. The task further should result Into particular product titles with respect to its sizes, color, packaging, sub-categories, variety of Products and variety within the product.

2. Category Role:

Under this step, retailers usually determine the priority level and then assign a role for the Category based on a cross category comparison considering liking and disliking of consumers, And market trends. Basically here retailers develop the base for allocating resources for the entire Business.

While assessing the role played by a category, retailers should thoroughly consider the nature And size of product category. For instance, some categories may represent luxury brands, whilst Others might be denominated by low priced brands. It signifies that if a particular category is denominated by luxury brands, then most of the underlying brands are or will be, lucrative.

On the other hand, category largely composed of low priced brands may not provide any Opportunity to earn profitable margins for both the retailer and the supplier. Hence, it becomes Imperative for a retailer to consider the role played by a category in the store while determining a Particular category.

For example, the ice cream product category has been upgraded in UK marked by introducing Premium luxury ice-cream, ice cream confectionery, mass scale marketing and sales promotion Companies such as Hagen Dazes and the development of premium store brands. Athletic Footwear (trainers), toys and beer are examples of other categories that have shifted from value to Premium (Viswanathan and Mark, 1999).

The role of SKU within a Category:

When a retail product manager is reviewing the choice within a product category, the individual Roles that are played by the different brands or product variations will be acknowledged (McGrath, 1997). In a store, some products within a category are ‘customers’ catchers’, giving High sales and have a large market share. These are the sources of attraction for

Visitors/customers and their non-availability may result in customer loss. Store brands are clearly Concerned with achieving sales targets.

Low-priced goods not only attract customers but motivate customers to buy other goods too kept In store. Some stock keeping units (SKUs) create excitement and theatre in stores while other SKUs depict latest fashion and imported goods under same roof. Some SKUs sometimes have Been observed for latest fashion and known for first arrivals.

3. Category Assessment:

Under category assessment step, the retailer conduct an analysis of the category's sub categories, segments with respect to sales, turnover, profits, return on assets by reviewing consumer, market, retailer and supplier information. Category assessment requires a variety of analytical measures designed to determine the strengths, weaknesses, opportunities and threats of a particular category. It provides the retailer an opportunity to identify future prospects in the category.

The retailer's objective to assess categories is to know (a) whether to continue with the present category categorization, (b) Which categories require additional effort to generate profits, (c) What are the areas of highest turnover, profit, and return on asset improvement opportunities, and lastly to know the gaps existed between the chosen

category and the present performance level of the category. Besides analytical tools, retailer sometimes assesses the categories with the help of data on the customers, suppliers or competitors.

4. Category Performance:

Measuring category performance is the fourth step in the category management process in which the retailer develops bottom-line and benchmark to measure the performance of the categories. It involves setting measurable targets in terms of sales, volume, margins, and gross margin return on investment (GMROI).

Establishing category performance measures are essential for measuring performance of a particular category which later on becomes base for further improvement within the category. Category performance measures basically represent the category score card that result in target objectives that are set by the retailer and supplier for the achievement of the implementation of the category business plan.

5. Category Strategy:

Under this stage of category management business process, retailers develop marketing and product supply strategies that determine the category role and performance objectives. The basic purpose behind developing strategies is the retailer's intention to capitalize on category opportunities through creative and optimum utilization of available resources assigned to a category.

The sub objectives are:

I. How to horizontally position a store's own brand relative to the incumbent national brand and

II. How to price the store and national brands for retail category profit maximization.

Following seven are the widely applied category management strategies:

(i) Traffic Building:

Traffic building strategy is used to draw customers' attention towards store, aisle, and/ or category. This is usually achieved through advertising relatively low priced goods (having enough price difference from the everyday). This strategy typically applies to products that are most price sensitive, have high degree of household penetration, need frequent purchases, frequently promoted, having high sales in the category and generate major portion of sales.

(ii) Turf Protecting:

A turf protecting strategy (also known as super traffic building) basically is applied to defend the category sales and market share against a known competitor through competitive based pricing. This policy is only deployed when absolutely essential because it is generally an expensive strategy in terms of profit impact products with large transaction size that are under intense pressure from a defined competitor are considered under turf protection strategy. Turf protection strategy should be applied carefully as and when required because of the essential margin investment. However, proper use of a turf protection strategy can assist the retailer in creating a positive overall price image. Implementing turf protecting strategy requires that if the competitor reduces prices or prices fall in the market, the retailer will follow with price reductions to maintain turf protection strategy.

(iii) Transaction Building:

This strategy is issued to increase the sales of a particular category by emphasizing larger sales, multi packs, goods with trade-up options, aggressively pricing and promotion large transactions size terms, and goods that are subject to impulse purchase.

(iv) Profit Generating:

This strategy is used to generate profits by focusing on sub-category or parts of the category while keeping prices within competitive ranges. Products generating higher margins usually have a substantial amount of loyalty and which are not like less price sensitive items, with higher than category average gross margins are commonly used in this category. Store's own brands also come under profit generators.

(v) Excitement Generating:

This strategy is used to create excitement to a particular category by communicating a sense of dire need (urgency), or opportunity to the prospect. Seasonal items, latest arrivals, special items, limited edition, rapidly growing segments, fashion trends, and high items with a high incidence of impulse purchasing, come under this category.

(vi) Cash Generating:

This strategy is used to generate cash flow to ensure the retailer a balanced cash flow across the categories in a store to meet operating cash requirements, larger sales volume products, fast turning products, low inventory turnover goods, and goods with favorable payment terms come under this category.

(vii) Image Enhancing:

This strategy is used to enhance retailer's image before customers in one or more of the following aspects:

a. Quality

b. Variety

c. Price

d. Service

e. Presentation

f. Delivery

g. Brands Available

Examples with regard to image enhancing are:, offering live fishes to customers stocked in fish tanks, exclusive product offerings, combo offers, happy meal menus, meal solution suggestions, wide product assortment, luxury brand assortment, competitive pricing, easy loan options, multiple modes of payment, feel of the product, etc.

6. Category Tactics:

Categories tactics are used to determine the optimal category assortment, pricing promotions, and shelf penetration, essential to ensure that strategies put are on right track. Category tactics determine and authenticate the specific actions that are required to implement the category strategies developed earlier.

The areas covered under category tactics vary from retailer to retailer and place to place. But pricing, promotions, assortments and the store's overall presentation are few commonly used areas where tactics are developed.

Therefore, it is expected from a supplier to do proper amount of value addition depending upon the role expected from a category; by assessing this retailers further develop proper strategies. For instance, a SKU may play convenience role for one retailer but a destination role for another. Therefore, while developing the category, category captain (usually supplier) should take an overall view of the category and create a framework suggesting for marketing (traffic building, profit generating, and image enhancing etc.) as well as ensuring product supply. The retailing format (departmental, destination, hypermarkets, etc.) and the product’s stage in a product life cycle should be taken into consideration.

7. Category Implementation:

This step is used to implement the category business plan through a systematic schedule and list of responsibilities. Implementing category plan as per the objectives laid down, is the path to the success of category management.

A typical category plan under implementation stage includes:

I. What specific tasks need to be done?

II. When to do,

III. Where to do, and

IV. Who will do it

Therefore, in a short, implementing category plan on the part of a retailer requires to decide what, where, when a task to accomplish and by whom.

8. Category Revision:

This is the final step in a typical category management business plan. Category review enables a retailer and concerned supplier to gauge the performance of a category and identify key areas of opportunity and threats to overcome by adopting alternate plans.

As today category management is an important strategic plan, it becomes imperative for a supplier to revisit the dynamics of the category and the appropriate strategies and tactics. This will enable a supplier to measure performance against the appropriate strategies and tactics.

In this regard, one thing should be noted that category business plans are subject to change with regard to change in assumptions laid down. For instance, incase of any specific change in business environment, assumptions made earlier may not hold validate. Therefore, business plan must be modified with respect to change in underlying assumptions without any delay.