Chapter 06 - financial strategy

Business, Customers

CHAPTER 06 - Financial Strategy * Objectives and Goals * Financial — not necessarily profits, but return on investment (ROI) — primary focus * Performance measure by return on assets (ROA) — the profit generated by the assets possessed by the firm. * Societal (more difficult) — helping to improve the world around us * Personal — self-gratification, status, respect * Profit Margin Management Path * Measured by the retailer’s income statement (statement of operations) * Net Sales = Gross Sales + Promotional Allowances - Return * Cost of Goods Sold (COGs) is the amount a retailer pays to vendors for the merchandise the retailer sells. * Gross Margin (GM) or Gross Profit= Net Sales — COGs * Indicates how much profit the retailer is making on merchandise sold, without the considering the expenses associate with operating the store and corporate overhead expenses. * Profit Margin Management Path * Operating Expense * Variable (e. g.. sales commissions) * Fixed (rent, depreciation, staff salaries) * Selling, general, and administrative (SG&A) expenses * Operating profit margin * Operating profit margin = Gross margin - Operating expenses - Extraordinary (recurring) operating expenses * Net profit margin = Operating profit margin - Taxes - Interest - Extraordinary nonrecurring expenses * Gross margin percentage is gross margin divided by net sales * Retailers use this ratio to compare (1) the performance of various type of merchandise and (2) their own performance with the other retailers with higher or lower levels of sales. * Net Operating profit margin percentage is gross margin minus operating expenses divided by net sales * * SG&A percentage is expressed as a percentage of net sales to facilitate comparisons across items, stores, and merchandise categories within and between firms. * * Asset Management

Path * Assets: * Economic Resources (e. g., inventory, buildings, computers, store fixtures) owned or controlled by a firm * Current Asset and Fixed Asset * Current Assets = Cash + Account Receivable + Inventory + Other current assets * Accounts receivable are primarily the monies owed to the retailer by customers that have bought merchandise on credit. * Fixed Assets are assets that require more than a year to convert to cash. (Buildings, Distribution Centers, & Fixture) * Asset Turnover = Sales/Total Assets * Inventory Turnover is COGS during a time period, typically a year, divided by the average level of inventory cost during the time period * Measure the average inventory level, retailers determine the inventory value of each day of the year and divide by 365. * Inventory Turnover = COGS/Avg. Inventory (cost) * Merchandise inventory is a critical asset providing a benefit to customers. It enables customers to get the right merchandise at the right time and place. Stocking more merchandise increases sales because it increases the chances that customers will find something they want. As with accounts receivable, increasing the level of inventory increases the amount that retailers need to invest in this asset. * Inventory Turnover * A Measure of the Productivity of Inventory: * It is used to evaluate how effectively retailers utilize their investment in inventory * Shows how many times, on average, inventory cycles through the store during a specific period of time (usually a year) * Analysis of Financial Strength * Cash-Flow Analysis * Retailers need cash to meet their obligations – i. e., salary, rent, vendors, etc. * Cash flow is calculated by making adjustments to net profit involving adding or subtracting differences in revenue and expenses that occur from one period to the next. * Debt-Equity Ratio * The retailer’s short- and long-term debt divided by the value of the owners' or stockholders' equity. * 40% — 50% Significant financial problems * Current Ratio (best-known and most often used) * The short-term assets divided by short-term liabilities, it evaluates the retailer's ability to pay its short-term debt obligations. * Quick Ratio (" acid-test ratio") * More stringent test because it removes inventory from the short-term assets. * If a retailer needs cash to pay its short-term liabilities, it cannot rely on inventory to provide an immediate source for cash. * Setting and Measuring Performance Objectives * Retailers will be better able to gauge performance if it has specific objectives in mind to compare performance. * Should include: * numerical index of performance desired * time frame for performance * necessary resources to achieve objectives * Setting Objectives in Large Retail Organizations * Top-Down Planning * Goals get set at the top of the organization and passed down to the lower operating levels. Top-down planning involves corporate officer developing an overall retail strategy and assessing broad economic, competitive, and consumer trends. * Corporate Development Strategy Category, Department and Sale Associate Implement Strategy * Bottom-Up Planning * Lower levels in the company developing performance objectives that are aggregated up to develop overall company objectives. * Buyers and Store managers estimate what they can achieve (Operation managers must be involved in objective setting process) Corporate * If the operating managers aren't involved in the objective-setting process, they won't accept the objectives and thus will be less motivated to achieve them. * Financial Performance of Retailers * Outputs — Performance- asses the results of a retailer's investment decisions. * Sales * Profits * Cash flow * Growth in sales, profits *

Same store sales growth * Inputs Used by Retailers — the resources or money allocated by a retailer to achieve outputs, or results. * Inventory ($) * Real Estate (sq. ft.) * Employees (#) * Overhead (Corporate Staff and Expenses) * Advertising * Energy Costs * MIS expenses CHAPTER 07 - Retail Locations * Facts on Retail Space * Currently the U. S. has 20 square feet of retail space in shopping centers for every person. * The highest country in the world * The second-highest country: * Sweden — 3. 1 square feet per person * Why is Store Location Important for a Retailer? * Location is typically prime consideration in customer's store choice. * Location decisions have strategic importance because they can help to develop sustainable competitive advantage. * Location decisions are risky: invest or lease? * Types of Locations * Free Standing Sites * City or Town Locations * Inner City * Main Street * Shopping Centers * Strip Shopping Centers * Shopping Malls * Other Location Opportunities * Selecting a particular location type * Involves evaluating a series of trade-offs between * The size of the trade area (geographic area encompassing most of the customers who would patronize a specific retail site) * The cost of the location * The pedestrian and vehicle customer traffic * The restrictions placed on store operations by the property manager * The convenience of the location for customers * Unplanned Retail Locations * Freestanding Sites — location for individual store unconnected to other retailer * Advantages: * Convenience * High traffic and visibility * Modest occupancy cost * Separation from competition * Few restrictions * Disadvantages: * No foot traffic * No drawing power * City or Town Locations * Gentrification is bringing population back to the cities. The renewal and rebuilding of offices, housing, and retailers in deteriorating areas. * Urban locations have lower occupancy costs than enclosed malls, and locations in central business districts often have high pedestrian traffic during the day, but not at night. * Advantage to Retailers: * Affluence returned * Young professionals * Returned empty-nesters * Incentives to move provided by cities * Jobs! * Low occupancy costs * High pedestrian traffic * Central Business District (CBD) * The traditional downtown business area in a city or town. Due to its daily activity, it draws many people and employees into the area during business hours. * Advantages * Draws people into areas during business hours * Hub for public transportation * Pedestrian traffic * Residents * Disadvantages * High security required * Shoplifting * Parking is poor * Evenings and weekends are slow * Lack of planning (Upscale stores adjacent to low-income housing) * Main Street * The traditional shopping area in smaller towns or to a secondary business district in a suburb or within a larger city. (Doesn’t offer the range of entertainment and recreational activities compared to CBD) * Draw less people than CBD * Inner City * High density urban area that has higher unemployment and lower median income than the surrounding metropolitan area. * Inner city retailers achieve high sales volume, higher margins and higher profits. (lower income levels in inner cities) * Shopping Centers * A group of retail and other commercial establishments that are planned, developed, owned, and managed as a single property * It’s not uncommon, for a store’s sales to increase when a competing store enter the shopping center. * Common area maintenance (CAM) * Anchors — top major retailers that attract traffic * Shopping Center Management Controls: * Parking * Security * Parking lot lighting * Outdoor signage * Advertising * Special events for customers * Types of Shopping

Centers * Neighborhood and Community Centers (Strip Centers) * Attached rows of non-enclosed stores, with on-site parking usually located in front of the stores. * Most common layouts are linear, L-shaped, and inverted U-shape. * Primary advantages are that they offer customers convenient locations and easy parking and they have relatively low occupancy costs. * Primary disadvantage is that small centers have a limited trade are due to their size, and they lack entertainment and restaurants. * Power Centers * Enclosed Malls * Lifestyle Centers * Fashion Specialty Centers * Outlet Centers * Power Centers * Shopping centers that consist primarily of collections of big-box retail stores such as discount stores (Target), off-price stores (Marshall’s), warehouse clubs (Costco), and category specialists (Lowe’s, Best Buy, Dick’s) * Open air set up * Free-standing anchors * Limited small specialty stores * Many located near enclosed malls * Low occupancy costs * Convenient * Modest vehicular and pedestrian traffic * Large trade areas * Shopping Malls * Enclosed, climate-controlled, lighted shopping centers with retail stores on one or both sides of an enclosed walkway. * Regional shopping malls (less than 1 million square feet) * Super regional malls (more than 1 million square feet) * Advantages and Disadvantages of Shopping Malls * Advantages: * Many different types of stores * Many different assortments available * Attracts many shoppers * Main Street for today’s shoppers * Never worry about the weather * Comfortable surrounding to shop * Uniform hours of operation * Disadvantages: * Mall occupy costs are higher than those of strip centers, freestanding sites, and most CBD. * Some retailers may not like mall management’s control of their operations * Competition within shopping centers can be intense * Less convenient * Appear run-down (40 years old) * Lifestyle Centers * Shopping centers that have an open-air configuration of specialty stores, entertainment, and restaurants, with design ambience and amenities such as fountains and street furniture. * Usually located in affluent residential neighborhoods * Includes 50K sq. ft. of upscale chain specialty stores * Open-air configuration * Design ambience and amenities * Upscale stores * Restaurants and often a cinema or other entertainment * Small department store format may be there * Attracted by outdoor attractions (pop-up fountain, ice cream carts, stilt walkers, balloon artists, magicians, face painters, concerts, and other events) * More convenient and lower occupancy cost than enclosed malls * Less retail space, thus attract fewer customers than enclosed malls * Mixed Use Developments (MXDs) * Combine several different uses into one complex, including shopping centers, office tours, hotels, residential complexes, civic centers, and convention centers. * Offer an all-inclusive environment so that consumers can work, live, and play in a proximal area * They appeal to people who have had enough of long commutes to work and the social fragmentation of their neighborhoods and are looking for a lifestyle that gives them more time for things they enjoy and an opportunity to live in a genuine community. * Outlet Centers * These shopping centers contain mostly manufacturers and retail outlet stores. * Primary trade are for outlet center is 50 miles or more. * Theme/Festival Centers * Located in places of historic interests or for tourists * Anchored by restaurants and entertainment facilities * Larger, Multi-format Developments: Omnicenters * Combines enclosed malls, lifestyle center, and power centers * Larger developments are targeted * to generate more pedestrian traffic and longer shopping trips * To capture cross-shopping consumers CHAPTER 08 - Retail Site Locations * 1. Economic Conditions * Retailers often focus their analysis on a Metropolitan statistical area (MSA) because consumer tend to shop within an MSA and media coverage and demographic data for analyzing location opportunities often are organized by MSA * The growth of population and employment * How long the growth will continue, and how it will effect demand for merchandise sold in its stores * Which areas growing quickly and why * 2. Competition * They are discovering that underserved markets are attractive because of the lack of competition, the relatively high level of disposable income of the residents, and the large, untapped labor force. * 3. Strategic Fit * Demographic, lifestyle profile, size and composition of households in an area * 4. Operating Costs * Vary across areas * Affected by proximity of area considered vs. other areas where retailer operates * Local and state legal environment has effect * Evaluating a Site for Locating a Retail Store * When evaluating and selecting a specific site, retailers consider: * The characteristic of the site * Accessibility of the site * Natural barriers (rivers/mountains) * Artificial barriers (railroad tracks/divided or limited access highway) * Good traffic flow and accessibility are more important for car washes and grocery stores than for destination retailers like The Container Store * The characteristic of the trading area * Parking — Standard rule of thumb is 5. 5 parking space: 1000sqft of retail store space) * Visibility * Adjacent Tenant — They want to be able to make their choice easily in the case of convenience shopping, or they want to have a good assortment so they can " shop around" Cumulative attraction * The estimated potential sales that can be generated *

Convenience of Going to Site Accessibility * Road pattern and condition * Natural and artificial barriers * Visibility * Traffic flow * Parking * Congestion * What Should Retailers Consider Regarding Parking? * Observe shopping center at various times * Employee parking availability * Shoppers that use cars * Parking by non-shoppers * Typical length of a shopping trip * Adjacent Tenants * Complementary (also competing) adjacent retailers build traffic * What other retailers would Save-a-Lot want to be located near? * Big Lot, Family Dollar, or even Wal-Mart * All target price-sensitive consumers * In an enclosed mall, what retailers would Abercrombie & Fitch want to be located near? * American Eagle Outfitter, Ann Taylor, Body Shop, Electronic Boutique? * Principle of Cumulative Attractiveness * Restrictions and Costs * Restrictions * Signage * Tenant Mix * Operating hours * Costs * Rent * Common Area Maintenance Fee/Insurance * Advertising Fee * Locations within a Shopping Center * Affects both sales and occupancy costs * In a strip shopping center — closest to the supermarket for impulse buying * In an enclosed shopping mall — retailers who sell comparison shopping goods locate close to the department store anchors * Locate stores that appeal to similar target markets because consumers shop at places with a good assortment of merchandise * Many of the tenants are positioned within the mall into category zones to better math their target market. * Trade Area Definition * A contiguous geographic area that accounts for the majority of a store’s sales and customers * Primary zone (5 minute) * 60 to 65 percent of its customers * Secondary zone (10 minute) * 20 percent of a store’s sales * Tertiary zone (More than 15 minutes away) * customers who occasionally shop at the store or shopping center * Parasite Store is one that does not create its own traffic and whose trade area is determined by the dominant retailer in the shopping center or retail area. (dry cleaners) * Customer Spotting is the process of locating the residences of customers for a store on a map and displaying their positions relative to the store location. * The addresses for locating the customers' residences usually are obtained by asking the customer, recording the information from a check or Internet channel purchase, or collecting the information from customer loyalty programs. * Geographic Information System (GIS) * GIS — a system of hardware and software used to store, retrieve, map and analyze geographic data along with the operating personnel and the data that goes into the system. * Coordinate system (latitude and longitude) * Spacial features (rivers and roads) * GIS — a system of hardware and software used to store, retrieve, map and analyze geographic data along with the operating personnel and the data that goes into the system. * Some firms offer services combine GIS with updated census data, consumer spending patterns and lifestyles * ESRI (www. esri. com) * Claritas (www. Claritas. com) * MapInfo (www. Mapinfo. com) * Huff's Gravity Model * Based on the premise that the probability which a given customer will shop in a particular store or shopping center becomes larger as the size of store or center grows and distance or travel time from customer shrinks * Regression Analysis and Analog Approach * Multiple Regression Analysis = Factors affecting the sales of existing stores in a chain will have the same impact upon the stores located at new sites being considered. * Analog Approach = retailer describes the site and trade area characteristics for its most successful stores and attempts to find a similar site. CHAPTER 11 - Customer

Relationship Management * Customer Relationship Management (CRM) * A business philosophy and set of strategies, programs, and systems that focus on identifying and building loyalty with a retailer’s most valuable customers. * CRM * All customers are not equally profitable, and more or less profitable customers need to be treated differently * Retailers now concentrate on providing more value to their best customers using targeted promotions and services to increase their share of wallet — the percentage of the customers’ purchases made from the retailer * Privacy concerns — The degree of violation depends on……. * Their control over their person information when engaging in marketplace transaction. * Their knowledge about the collection and use of personal information * Customer Loyalty * Committed to purchasing merchandise and services from a retailer * Resist efforts of competitors to attract the loyal customer * Emotional attachment to retailer * Personal attention * Memorable positive experiences * Brand building communications programs * Enhanced by creating an appealing brand image and providing convenient locations, attractive merchandise at compelling prices, and engaging shopping experience * The CRM Process CRM is an iterative process that turns customer data into customer loyalty through four activities: 1. Collecting customer data 2. Analyzing the customer data and identifying target customers 3. Developing CRM programs 4. Implementing CRM programs * Collecting Customer Data: Customer Database * Transactions — a complete history of purchases * Purchase date, price paid, SKUs bought, whether or not the purchase was stimulated by a promotion * Customer contacts by retailer (touch points) --visits to web site, inquires to call center, direct mail sent to customer * Customer preferences *

Descriptive information about customer * Demographic and psychographic data * Customer’s responses to marketing activities * Collecting Customer Data: Identifying Information Approaches that store-based retailers use: * Asking for identifying information * Telephone number, name and address * Offering frequent shopper cards * Loyalty programs that identify and provide rewards to customers who patronize a retailer * Private label credit card (that has the store’s name on it) * Primary benefit is collecting the customer data and using the information to target communication and promotion * Connecting Internet purchasing data with the stores * Protecting Customer Privacy: Differences between U. S. and EU * United States * Limited protection in specific areas * Credit reporting * Video rentals * Banking * Medical records * Opt out: Consumers must explicitly tell retailers not to use their personal information * European Union * Stringent consumer privacy laws * Information only can be collected for specific purposes * Purpose must be disclosed to customer * Information can only be used for specific purpose * Information cannot be exported to countries with less stringent regulations * Opt in: Consumers own their personal information, and retailers must get consumers to explicitly agree to share this personal information * Analyzing Customer Data and Identifying Target Customers Analyze the customer database and convert the data into information that will help retailers develop programs for building customer loyalty Data Mining — technique used to identify patterns in data * Market Basket Analysis * Specific type of retail analytics that focuses on examining the composition of the basket, or bundle, of products purchased by a household during a single occasion. (pg. 283) * Identifying Market Segments * Identifying Best Customers *

Identifying Best Customers * Estimating Lifetime Value (LTV) * The expected contribution from the customer to the retailer’s profits over his or her entire relationship with the retailer * Use past behaviors to forecast future purchases, the gross margin from these purchases, and the costs associated with serving the customers * Classifying Customers by recency, frequency, and monetary value of purchases (RFM Analysis) * Heavy spenders want lots of choice and information * Customer Pyramid * 80-20 rule — 80% of the sales or profits come from 20 percent age of the customer * Platinum segment (25%) — Buy a lot of the merchandise sold by the retailer and often place more value on customer service. * Gold segment - Even though they buy a significant amount of merchandise from the retailer, they are not as loyal as platinum customers and probably patronize some of the retailer’s competitors. * Iron segment — purchase a modest amount of merchandise, but their spending levels, loyalty, and profitability are not substantial enough for special treatment. * Lead segment — They often demand a lot of attention but do not buy much from the retailer, or they buy a lot of merchandise on sale and abuse return privileges. * Customer Retention * Frequent Shopper Programs * Use tiers * Offer choice * Incorporate charitable contribution * Reward all transaction * Feature transparency and simplicity. * Special Customer Services * Personalization * 1-to1 Retailing — They know each of their customers, greet them by their name when they walk into the store, and then recommend merchandise they know the customer will like. * Each segment is composed of a large number of customers who are not identical. Thus, any offering will be most appealing for only the typical customer and not as appealing to the majority of customers in the segment * Community * A retail brand community is a group of customers who are bound together by their loyalty to a retailer and the activates in which the retailer engage * BY participating in such a community, customers become more reluctant to leave the “ family" of other people patronizing the retailer. * Converting good customers to best customers * Customer alchemy — converting iron and gold customers into platinum * This can be achieve through add-on selling, which involves offering and selling more products and services to existing customer to increase the retailer’s share of wallet with these customer * Dealing with unprofitable customers * (1) offering less costly services to satisfy the need of lead customers and (2) charging customers for the service they are abusing. CHAPTER 10 - Information Systems and Supply Chain Management * Supply chain management ….. * Efficient and effective integration of suppliers, manufacturers, warehouses, stores, and transportation intermediaries into a seamless value chain. * Merchandise is produced and distributed in the right quantities; to the right locations; and at the right time. * Minimization of system wide costs, while satisfying the service levels their customers require. * Why is Efficient Supply Chain Management so Important to Retailers? * Strategic advantage * Improved product availability * Higher return on investment * Strategic Importance of Supply Chain Management * Opportunity to Increase Sales by Making the Right Merchandise is in the Right Place at the Right Time * Fewer Stock-outs * Greater Assortment with Less Inventory * Opportunity to Reduce Costs * Transportation Costs * Inventory Holding Costs * Improved ROI * Strategic Advantage : ZARA * Timely information from store managers with handheld devices to the corporate office * Shorter cycle time from design to production to delivery to stores * Shorter lead time — own production, small quantity production in close proximity, efficient logistics, premium transportation, frequent delivery * No discounts necessary * Strategic Advantage : Wal-Mart * Wal-Mart’s success is from its information and supply chain management systems * Why are competitor’s lagging behind? * Made a substantial investment in developing its systems and has the scale economies * Through experience and learning, changes are always made to improve the system * Coordinated effort of employees and functional areas throughout the company * Improved Product Availability * Benefits of Efficient Supply Chain Management to Customers: * Reduced stockouts — merchandise will be available when the customer wants them * Tailoring assortments — the right merchandise is available at the right store * Data Warehousing * The Universal Product Code (UPC) tag is a black and white bar code containing 13-digit code that indicates the manufacture of the item, a description of the item, information about special packaging, and special promotion. * An advance shipping notice (ASN) is a document that tells the distribution center what specifically is being shipped and when it will be delivered. * Data warehousing is the coordinated and periodic copying of data from various sources, both inside and outside the enterprise, into an environment ready for analytical and informational processing * Wal-Mart makes good use of its data warehouse. Experts estimate that it is second in size only to that of the U. S. government * Electronic Data Interchange * EDI is the computer-to-computer exchange of business documents between retailers and vendors * Merchandise sales, Inventory On Hand, Orders *

Advanced shipping notices, * Receipt of merchandise, Invoices for payment * EDI is the computer-to-computer exchange of business documents between retailers and vendors * Standards: * UCS (Uniform Communication Standard) * VICS (Voluntary Interindustry Commerce Solutions) * Transmission system: * Intranet: local area network (LAN) that employs Internet technology * Extranet: collaborative network that uses Internet technology to link businesses with suppliers, customers, etc. * Security Policy (pg. 255) * Authentication * Authorization * Integrity * The Physical Flow of Merchandise - Logistics * Logistics: * The aspect of supply chain that refers to the planning, implementation, and control of the efficient flow and storage of goods, services, and related information from the point of origin to the point of consumption to meet customers’ requirements * Merchandise Flow * Retailers can have merchandise shipped directly to their stores or to their distribution centers * Activities Performed by Distribution Center * Managing inbound transportation * Receiving and checking merchandise * Receiving is the process of recording the receipt of merchandise as it arrives at a distribution center. * Checking is the process of going through the goods on receipt to make sure that they arrived undamaged and that the merchandise ordered was the merchandise received. * Storing or cross docking merchandise * Routed from the unloading dock at which they were received to the loading dock for the truck going to the specific store. * Getting merchandise floor ready * Ticketing and marking * Affixing price and identification labels to the merchandise * Putting on hangers * Preparing to ship merchandise to a store * Pick ticket is a document or display on a screen in a forklift truck that indicate how much of each item to get from specific storage areas. * Break pack area, cartons with too many items to be shipped to a single store are package for the store. * Conveyor system feeds from (1) cross docked cartons directly from the vendors' delivery truck, (2) cartons stored in the distribution center, and (3) cartons from the break area. * Managing outbound transportation * Uses sophisticated routing and scheduling computer systems that consider the locations of the stores, road conditions, and transportation operating constraints to develop the most efficient routes possible. * Advantages of Using a Distribution Center * More accurate sales forecasts are possible when retailers combine forecasts for many stores serviced by one distributor * Enables retailers to carry less merchandise in the store * Easier to avoid running out of stock * Retail store space is more expensive than space at the distribution center * Outsourcing Logistics * Retailers consider outsourcing logistical functions if those functions can be performed better or less expensively by third-party logistics companies * Transportation * Warehousing * Freight Forwarders * Integrated Third-Party Logistics Services * Primary benefit of outsourcing is that the independent firm can perform the activity at a lower cost or more efficiently than the retailer * They can no longer develop a competitive advantage based on the performance of this activity. * Pull and Push Supply Chain * Push supply chain * Merchandise is allocated to store on the basis of forecast demand * Less costly than a pull supply chain * Less sophisticated information needed system to support it * Efficient for merchandise that has steady, predictable demand. * Pull Supply Chain * Orders for merchandise are generated at the store level on the basis of POS sales data. * Less likely to be overstocked or out of stock * Increase inventory turnover * Responsive to changes in customer demand * Efficient when demand is uncertain, and hard to forecast * Collaboration between Retailers and Vendors in Supply Chain Management * Direct store delivery (DSD) is a method of delivering merchandise to store in which vendors distribute merchandise directly to the stores. * Four approaches for coordinating supply chain activities to reduce the level of inventory in the chain and reduce the number of stock-outs. * Use EDI * Share information to reduce need for backup inventory, improve sales forecasts and production efficiency * Vendor manage inventory (VMI) * Collaborative planning, forecasting and replacement (CPFR) * Bullwhip effect — the buildup of inventory in an uncoordinated channel * Delays in transmitting orders and receiving merchandise * Overreacting to shortages * Ordering in batches * Drop-shipping (Consumer direct fulfillment) is a system in which retailers receive orders from customers and relay these orders to vendor and then the vendor ship the merchandise directly to the customer. * Initial Efforts at Coordinating Vendor and Retailer Supply Chain * Efficient Consumer Response (ECR) — Food Retailing * Trade Promotions => Forward Buying => Extremely Uneven Production * Motivation for Packaged Goods Mfrg * Stop Price Promotion, Forward Buying * Level Out Demand * Motivation for Supermarkets * Rise of Warehouse Clubs/Discount Store * Use of EDLP Pricing * Need to Become More Efficient * Excessive Inventory - $30 Billion * Quick Response (QR) - Apparel * Inherently Unpredictable Demand * Old Solution - Over Buying and Markdown * Quick Response (modeled after JIT) * Provide Initial Assortment * Forecast Sales for Intermediate Form * Monitor Early Sales * Make Final Assortment * Vendor Managed Inventory (VMI) * Is an approach for improving supply chain efficiency in which the vendor is responsible for maintaining the retailer’s inventory levels. * Manufacturer access to POS information * Replenishment automatically triggered * Enables demand-based view of replenishment & production planning — reduce bull whip effect * Radio Frequency Identification (RFID) * Radio Frequency Identification (RFID) allows an object or a person to be identified at a distance using radio waves. * Reduces warehouse and distribution labor costs * Reduces point of sale labor costs * Inventory savings by reducing inventory errors * Reduces theft — products can be tracked * Reduces out of stock conditions * Impediments to the Adoption of RFID * RFID is expensive — the return on investment is low * It still only makes sense to put tags on pallets, cartons, expensive merchandise or high theft items * RFID generates more data than what can be currently processed * Consumers worry about privacy invasion CHAPTER 12 - Managing the Merchandise Planning Process * Merchandise Management * Process by which a retailer offers the correct quantity of the right merchandise in the right place at the right time and meets the company’s financial goals. * Sense market trends * Analyze sales data * Make appropriate adjustments in prices and inventory levels * Merchandise Management and Investment Portfolio Management * Dollars to invest in inventory * Invest in “ hot" merchandise * Save a little for opportunities (open to buy) * Monitor portfolio of merchandise (stocks) * Sell losers (markdowns) * Category Management * The process of managing a retail business with the objective of maximizing the sales and profits of a category * Objective is to maximize the sales and profits of the entire category, not just a particular brand * Lowering the price on one dress may increase the sales of that dress but also decrease the sales of other dresses. * Category Captain — Some retailers select a vendor to help them manage a particular category. Works with the retailer to develop a better understanding of shopping behavior, create assortment that satisfy consumer needs, and improve the profitability of the merchandise category. * Evaluating Merchandise Management Performance - GMROI * Merchandise managers have control over * The merchandise they buy * The price at which the merchandise is sold * The cost of the merchandise * Merchandise managers do not have control over * Operating expenses * Human resources * Real estate * Supply chain management * Information systems * SO HOW ARE MERCHANTS EVALUATED? * GMROI - Gross Margin Return on Investment * Measures how many gross margin dollars are earned on every dollar of inventory investment made by the buyer. GMROI = Gross Margin Percent x sales-to-stock ratio = gross margin x net sales net sales avg inventory at cost = gross margin avg inventory at cost * Types of Merchandise Management Planning Processes * Two distinct types of merchandise management systems for managing * Staple (Basic) Merchandise Categories * Continuous demand over an extended time period * Limited number of new product introductions * Hosiery, basic casual apparel * Easy to forecast demand * Continuous replenishment — continuously monitoring merchandise sales and generating replacement orders. * Fashion Merchandise Categories * In demand for a relatively short period of time * Continuous introductions of new products, making existing products obsolete * Athletic shoes, laptop computers, women’s apparel * Merchandise Management Process 1. Forecasting sales 2. Developing an assortment plan

3. Determining the appropriate inventory level * Factors Affecting Sales Projections * Controllable * Promotions * Store Locations * Merchandise Placement * Cannibalization * Uncontrollable * Seasonality * Weather * Competitive Activity * Product Availability * Economic Conditions * Forecasting Fashion Merchandise Categories * Retailers develop fashion forecasts by relying on: * Previous sales data * Many items in a fashion category are often similar to items sold in previous years. * Market research * Activities range from informal, qualitative research about trends affecting the category to more formal experiments and surveys. * Fashion and trend services * There are many services that buyers can subscribe to that forecast the latest fashions, colors, and styles. * Vendors * Vendors have proprietary information about their marketing plans and tend to be very knowledgeable about market trends. * Forecasting Service Retailers * Due to the perishable nature of services, service retailers face more challenges than fashion retailers. * Offerings perishes at the end of the day, not at the end of the season. * Must devised approaches for managing demand so that it meets, but does not exceed capacity. * Physicians overbooking their appointments * Determining Variety and Assortment * Buyers consider * Retail strategy * The number of SKUs to offer in a merchandise category is a strategic decision * GMROI of the merchandise mix * Breaking sizes stocking out of a specific size or clor SKU. * The buyer’s objective is to remove the merchandise type from the assortment altogether so the customers will not be disappointed when they don’t find the size and color they want * Trade-off between too much versus too little assortment * Increasing sales by offering more breadth and depth can potentially reduce inventory turnover and

GMROI by stocking more SKUs * Physical characteristics of the store * Complementary Merchandise * Complementary products and services have high GMROI. Thus, buyers may decide to carry more DVD-player SKU product increase the more profitable accessory sales. * Reasearch shows that customers actually buy more if there are modest reductions of redundant items in assortment * Staple Merchandise Planning * Buyer Determines: * Basic Stock or Assortment Plan * Level of Backup Inventory * System: * Monitors Inventory levels * Automatically reorders when inventory gets below a specified level * Evaluating the Merchandise Budget Plan * Inventory turnover GMROI, sales forecast are used for both planning and control * After the selling season, the actual performance is compared with the plan * Why did performance exceed or fall short of the plan? * Was the deviation from the plan due to something under the buyer's control? * Did the buyer react quickly to changes in demand by either purchasing more or having a sale? * Allocating Merchandise to Stores Allocating merchandise to stores involves three decisions: * how much merchandise to allocate to each store * what type of merchandise to allocate * when to allocate the merchandise to different stores * ABC Analysis * An ABC analysis identifies the performance of individual SKUs in the assortment plan. * Rank - orders merchandise by some performance measure determine which items: * should never be out of stock * should be allowed to be out of stock occasionally * should be deleted from the stock selection. * A items: 5% of SKUs, represent 70% of sales * B items: 10% of SKUs, represent 20% of sales * C items: 65% of SKUs, represent 10% of sales * D items: 20% of SKUs, represent 10% of sales